FAIRFAX INDIA HOLDINGS CORPORATION

2018 Annual Report

Contents

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HOLDINGS CORPORATION

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Fairfax India Corporate Performance

(in US$ thousands, except as otherwise indicated)[1]

	Book value per share	Closing share price	Income	Net earnings	Total assets	Investments	Common share-holders' equity	Shares out-standing[1]	Earnings per share
As at and for the years ended December 31									
Initial public offering	10.00	10.00[2]							
2015	9.50	10.10	65,251	40,939	1,025,421	978,569	1,013,329	106.7	0.42
2016	10.25	11.55	128,604	107,825	1,303,497	1,095,569	1,075,446	104.9	1.01
2017	14.46	15.00	609,670	452,509	2,672,221	2,635,726	2,132,464	147.4	2.94
2018	13.86	13.13	166,518	96,432	2,705,550	2,661,347	2,117,945	152.9	0.63
Compound annual growth	8.7%[3]	7.2%							

(1) All share references are to common shares; Closing share price and per share amounts are in U.S. dollars; Shares outstanding are in millions.

(2) On January 30, 2015, upon completion of the company's initial public offering price of $10.00 per share, Fairfax India Holdings Corporation's subordinate voting shares began trading on the Toronto Stock Exchange under the symbol FIH.U.

(3) The company's book value per share of $13.86 at December 31, 2018 represented a compound annual growth rate from the initial public offering price of $10.00 per share at January 30, 2015 of 8.7%.

Corporate Profile

Fairfax India Holdings Corporation (''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 (''Indian Investments'').

Indian Investments[(1)]

Fairfax India's *Private Indian Investments* are comprised of various percentages of ownership in the following companies whose shares are listed on both the BSE (formerly known as Bombay Stock Exchange Limited) and the National Stock Exchange of India:

IIFL Holdings Limited (''IIFL'') is a publicly traded, leading financial services provider in India, providing a broad range of products and services to a diversified client base. IIFL was incorporated in 1995 and headquartered in Mumbai, India with principal lines of business in wealth management, capital markets and other activities (comprised of retail investment brokerage, institutional equities, investment banking and financial products distribution) and a non-banking financial company. In October 2017 5paisa Capital Limited (''5paisa''), located in Mumbai, India, was spun-off from IIFL and the company received new common shares of 5paisa. 5paisa is a publicly traded online financial services provider with a do-it-yourself based investment brokerage model where the customer can execute investment transactions for a low brokerage fee. IIFL's revenues for the twelve months ended December 31, 2018 were $1,034 million. At year end, IIFL had shareholders' equity of $1.1 billion and there were approximately 20,000 employees. Additional information can be accessed from IIFL's website www.iifl.com.

Fairchem Speciality Limited (''Fairchem'') is a publicly traded, specialty chemical manufacturer located in Ahmedabad, India. Fairchem manufactures oleochemicals used in the paints, inks and adhesives industries, as well as intermediate nutraceutical and health products. Privi Organics Limited (''Privi''), a wholly-owned subsidiary of Fairchem, is a supplier of aroma chemicals to the fragrance industry and is located in Mumbai, India. Privi's world-class products are the result of its very strong research and development team that has proven expertise in developing new products, customizing aromas per customer specifications, scaling up products from basic research to commercial scale, and designing process improvements to drive quality and cost optimization. Prepared in accordance with International Financial Reporting Standards (''IFRS''), Fairchem's revenues (comprised of Fairchem and Privi) for the twelve months ended December 31, 2018 were $194 million. At year end, Fairchem had shareholders' equity of $74 million and there were approximately 1,400 employees. Additional information can be accessed from Fairchem's and Privi's websites www.fairchem.in and www.privi.com.

Fairfax India's *Private Indian Investments* are comprised of various percentages of ownership in the following companies whose fair values cannot be derived from an active market and accordingly, are valued internally using industry accepted valuation techniques and models:

Bangalore International Airport Limited (''BIAL'') is a private company located in Bengaluru, India. BIAL, under a concession agreement with the Government of India until the year 2038 (with the right to extend the agreement for an additional 30 years), has the exclusive rights to carry out the development, design, financing, construction, commissioning, maintenance, operation and management of the Kempegowda International Airport Bengaluru (''KIAB'') through a public-private partnership. KIAB is the first greenfield airport in India built through a public-private partnership. Based on IFRS, BIAL's revenues for the twelve months ended December 31, 2018 were $234 million. At year end, BIAL had shareholders' equity of $407 million and there were approximately 1,200 employees. Additional information can be accessed from BIAL's website www.bengaluruairport.com.

Sanmar Chemicals Group (''Sanmar''), a private company, is one of the largest suspension polyvinyl chloride (''PVC'') manufacturers in India, headquartered in Chennai, India with an operational presence in India and Egypt. Sanmar also manufactures caustic soda, calcium chloride, chloromethanes, refrigerant gases, industrial salt and specialty chemical intermediates. Based on IFRS, Sanmar's revenues for the twelve months ended December 31, 2018 were $682 million. At year end, Sanmar had a shareholders' deficit of $335 million and there were approximately 2,100 employees. Additional information can be accessed from Sanmar's website www.sanmargroup.com.

(1) All of the Indian Investments' figures are based on Indian Accounting Standards (Ind AS) unless otherwise stated.

National Collateral Management Services Limited (''NCML'') is a private agricultural commodities storage company headquartered in Gurugram, India, operating in the agriculture value chain and offering end-to-end solutions in grain procurement, testing, storage and collateral management. NCML's wholly-owned subsidiary, NCML Finance Private Ltd, focuses on rural and agri-business finance. Based on IFRS, NCML's revenues for the twelve months ended December 31, 2018 were $214 million. At year end, NCML had shareholders' equity of $108 million and there were approximately 2,700 employees. Additional information can be accessed from NCML's website www.ncml.com.

Catholic Syrian Bank Limited (''CSB''), a private company headquartered in Thrissur, India, was established in 1920 and is a full-service bank offering retail banking, non-resident Indian banking services, small-to-medium enterprise and wholesale banking services through 418 branches and 270 automated teller machines across India. Based on IFRS, CSB's revenues for the twelve months ended December 31, 2018 were $90 million. At year end, CSB had shareholders' equity of $171 million and there were approximately 3,100 employees. Additional information can be accessed from CSB's website www.csb.co.in.

Saurashtra Freight Private Limited (''Saurashtra''), a private company headquartered in Mumbai, India, runs one of the largest container freight stations (''CFS'') at Mundra port (Gujarat), the third largest and fastest growing container port in India. Services provided by Saurashtra's CFS includes transportation of containers to and from the port, stuffing/destuffing of containers, cargo storage, transportation of cargo to the end customer, and the storage, maintenance and repair of empty containers. Saurashtra also provides services for container shipping, offering integrated logistic solutions to its customers by providing containers, which are leased by Saurashtra, to importers and exporters to transport cargo. Saurashtra's revenues for the twelve months ended December 31, 2018 were $21 million. At year end, Saurashtra had shareholders' equity of $29 million and there were approximately 100 employees. Additional information can be accessed from Saurashtra's website www.saurashtrafreight.com.

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. NSE's revenues for the nine months ended December 31, 2018 were $368 million. Additional information can be accessed from NSE's website www.nseindia.com.

To Our Shareholders,

After a stellar three-year run from inception when Fairfax India's book value per share (BVPS), our key performance measure, grew at a compound annual rate of 15.0%, Fairfax India's BVPS declined by 4.1% in 2018, from $14.46* at the end of 2017 to $13.86, a performance generally in line with, and in many cases significantly superior to, the performance of Indian equity indices, and reflecting a 9.4% decline in the Indian rupee during 2018. Common shareholders' equity declined by 0.7% after increasing by 98.3% the previous year.

Here is a snapshot of Fairfax India's performance since it began:

	2018	**2017**	**2016**	**2015**	**CAGR(1)**
Income	166,518	609,670	128,604	65,251	
Net earnings	96,432	452,509	107,825	40,939	
Return on equity	4.5%	28.2%	10.3%	4.0%	11.8%(2)
Total assets	2,705,550	2,672,221	1,303,497	1,025,451	28.1%
Investments	2,661,347	2,635,726	1,095,569	978,569	29.1%
Common shareholders' equity	2,117,945	2,132,464	1,075,446	1,013,329	20.7%
Book value per share	$ 13.86	$ 14.46	$ 10.25	$ 9.50	9.8%

(1) Compound annual growth rates are since Fairfax India's inception on January 30, 2015, when it raised net proceeds of $1.03 billion at $10 per share representing an initial book value of $9.62 per share after expenses.

(2) Simple average of the return on equity for each of the four years.

2018 was a very difficult year throughout Asian emerging markets. You will see from the table below (based on the leading US$ equity index in each country named) that India was the shining star among the ruins:

China	(29.3)%
Sri Lanka	(20.3)%
Hong Kong	(13.8)%
Singapore	(12.3)%
Vietnam	(11.2)%
Thailand	(10.8)%
Indonesia	(8.8)%
Malaysia	(7.6)%
India	(3.0)%

And here is a comparison of Fairfax India's change in BVPS in 2018 with the change in major Indian US$ equity indices (unfortunately, India's fiscal 2018 GDP growth of 7.2% did not get reflected in its stock markets):

Fairfax India BVPS	(4.1)%
S&P BSE Sensex 30	(3.0)%
S&P BSE 500	(11.2)%
BSE midcap	(20.5)%
Nifty50	(5.5)%

* *All dollar amounts in this letter are in U.S. dollars unless specified otherwise. Numbers in the tables in this letter are in U.S. dollars and $ thousands except as otherwise indicated.*

The change in Fairfax India's BVPS in 2018 resulted primarily from a drop in the value of its holdings in IIFL Holdings ($1.33/share) and a drop in the value of the Indian rupee ($1.47/share), substantially offset by an increase in the value of Sanmar Chemicals ($2.04/share) and an increase in the value of Bangalore International Airport ($0.55/share). However, over the four years since Fairfax India's inception, Fairfax India has significantly outperformed the markets, as demonstrated in the following table showing the annual percentage change over four years:

Fairfax India BVPS	+8.7%[(1)]
US$ S&P BSE Sensex 30	+2.5%

(1) Fairfax India's 4-year annualized growth in book value per share is calculated based on its January 2015 IPO price of $10 per share.

Please note that Fairfax India's book value is based on publicly traded market values only for the three of its nine investments which are publicly traded (the rest are based on internal valuations), whereas the Sensex is of course based entirely on publicly traded market values.

Fairfax India's net earnings in 2018 were down 79% to $96 million from $453 million in 2017, largely as the result of net unrealized gains on investments being $179 million compared to $592 million in 2017. Earnings also reflect interest income of $22 million and net foreign exchange losses of $35 million. Fully diluted earnings per share declined 79% to $0.63 in 2018 from $2.94 in 2017.

On the investment front during 2018, we acquired an additional 6% of Bangalore International Airport Limited (BIAL) from Siemens Project Ventures GmbH (Siemens) for $67 million. This increases our ownership of BIAL to 54%, with Siemens retaining a 20% ownership.

In addition, we agreed to invest approximately $168 million for a 51% equity ownership in the Catholic Syrian Bank (CSB). We completed an initial closing of the transaction, investing $60 million in equity shares and warrants, resulting in an equity interest of 19.7%. The remaining consideration is payable within 18 months, upon which our ownership will go to 51% on a fully diluted basis.

Also in 2018, we agreed with Sanmar Chemicals Group (Sanmar) to settle our $300 million of 13% bonds for approximately $404 million, of which we would invest approximately half in additional common shares of Sanmar based on an effective equity valuation of approximately $1.0 billion for the whole company, thereby increasing our equity ownership interest from 30% to 43%. This transaction will return 67% of the capital Fairfax India originally invested while increasing our ownership of Sanmar.

Since we began, Fairfax India has completed investments in nine companies (eight currently, as two of them have combined), all sourced and reviewed by Fairbridge, Fairfax Financial Holdings' (Fairfax Financial) wholly-owned sub-advisor in India. During 2018, Harsha Raghavan, who ably led Fairbridge since its inception, decided to start his own company, and we wish him well in his new endeavours. Sumit Maheshwari, who was Harsha's second-in-command, has seamlessly assumed the leadership of Fairbridge as CEO. Under Sumit's leadership Fairbridge does outstanding work, through its senior associate Rajat Mudgal and analysts Jinesh Rambhia and Ramin Irani. Fairfax India's Mauritius subsidiary, FIH Mauritius Investments, ably led by its CEO Amy Tan, and its independent Board of Directors are an integral part of the investment process. Also, since we began, Deepak Parekh has provided us with invaluable advice on almost all of our transactions both as a trusted advisor and a member of the Board of Directors.

All of Fairfax India's investments are in outstanding companies with a history of strong financial performance, led by founders and management who are not only excellent but also adhere to the highest ethical standards. The details of these investments in chronological order of the initial investment are as follows:

	Date of Investment	Ownership	Amount Invested ($ millions)	Fair Value at December 31, 2018 ($ millions)	Return[1]
National Collateral Management Services	Aug. 2015 and Aug. 2017	89.5%	174.3	165.4	(1.7)%
IIFL Holdings (including 5paisa Capital)	Dec. 2015, Feb. and Oct. 2017	26.5%	276.7	625.4	35.8%
Fairchem Speciality (formerly Adi Finechem and Privi Organics)	Feb. and Aug. 2016	48.8%	74.4	96.6	11.5%
Sanmar Chemicals Group	Apr. and Sep. 2016	Debentures and 30.0%[2]	300.0	609.9	31.2%
National Stock Exchange of India	Jul. 2016	1.0%	26.8	60.3	44.4%
Saurashtra Freight	Feb. 2017	51.0%	30.0	24.8	(9.6)%
Bangalore International Airport	Mar. and Jul. 2017 and May 2018	54.0%	653.0	704.1	5.2%
Catholic Syrian Bank	Oct. 2018	19.7%	60.2	63.3	27.3%
Total			1,595.4	2,349.8	

(1) Return calculated using the internal rate of return.

(2) Upon completion of the Sanmar transaction described above, the company will have an approximately 43% interest in Sanmar.

At this time last year, the valuations of the private companies that Fairfax India invested in remained relatively close to the prices it paid for them, while two of the three publicly traded companies in its portfolio, IIFL and Fairchem Speciality, had posted strong mark to market gains since inception (including foreign currency translation changes) of $632 million and $75 million respectively.

The situation changed significantly in 2018, so that at the end of 2018, IIFL and Fairchem Speciality had posted mark to market gains since inception (including foreign currency translation changes) of only $356 million and $22 million respectively. In total, this was a decrease of $329 million in 2018 in the value of these two investments. However, at the end of 2018 the valuation of two of Fairfax India's private companies, Sanmar and Bangalore International Airport, had increased during the year (including foreign currency translation changes) by $276 million and $28 million respectively. In total, this was an increase of $304 million in 2018 in the value of these two investments.

While the BVPS of Fairfax India is $13.86, we believe that the underlying intrinsic value is much higher, since all of the companies listed above have characteristics giving them the potential for a significant increase in their value. As an example, look at IIFL:

	Unit	
Total market capitalisation[(1)]	$ bn	1.7
Total loan book	$ bn	4.7
5 years to December 2018 average annual:		
Return on equity		15.6%
Book value per share growth		19.7%
Diluted earnings per share growth		25.4%
Closing share price on December 1, 2015 (when Fairfax India first acquired an interest in IIFL)	Rs.	212
Closing share price on February 15, 2019	Rs.	380
Increase in share price from December 1, 2015 to February 15, 2019		79.4%
Estimated March 2020:		
Earning per share for the year	Rs.	34.0
Price[(1)] / Earnings		11.2x
Price[(1)] / Book value		1.7x

(1) Closing share price on February 15, 2019.

With the price correction of approximately 55% from its 2018 high of Rs. 854, IIFL was recently selling at a price to estimated March 2020 earnings ratio of only 11 times and a price to estimated March 2020 BVPS of only 1.7 times. With IIFL's strong growth and return on equity metrics, it is possible that IIFL's stock price will go up, particularly given the demerger later this year of its three business groups into three separate companies, with each to be listed on all the major Indian stock exchanges.

Indian Investments[(1)]

IIFL Holdings (IIFL)

2018 was a year of significant changes for IIFL and 2019 will be a year of transition into three separately listed entities.

IIFL shares closed 2018 at a price of 506 rupees, a 132% increase in rupee terms from our blended cost base. In spite of a 16% average annual return on equity, a 20% annual growth in book value per share and an annual 25% earnings per share growth over the past five years, IIFL is currently selling at a price earnings ratio of only 11 times expected earnings.

During 2018, IIFL's share price decreased from 670 rupees to 506 rupees, a decline of 24.5% in rupee terms. This decline was caused by a liquidity scare in the Indian financial markets. Early in September 2018, the market learned that a large heavily indebted quasi-government infrastructure and lending institution had defaulted on some short-term debts. A few days later another non-bank financial company (NBFC) came under distress when a major mutual fund sold some of its debt at a big discount, causing a panic sell-off of shares in all NBFC's, banks and other financial institutions. IIFL did not escape this sell-off.

For the year ended December 31, 2018, IIFL's revenue grew 16% to $1,034 million; profit after tax, after minority interest, grew 22% to $134 million; and shareholders' equity grew 21% to $1.1 billion, generating an ROE of 16%.

IIFL is a leading, well-established national financial services company serving over 4 million customers from 1,900 branches in India. It also has an international presence with offices in New York, Singapore, Dubai, Geneva, Hong Kong, London, Mauritius and Toronto. Through its subsidiaries, it offers a wide array of services including loans and mortgages, asset and wealth management, and capital market related activities such as financial products distribution, investment banking, institutional equities and realty services. In addition to the founding team, IIFL

(1) All of the Indian Investments' figures are based on Indian Accounting Standards (Ind AS) unless otherwise stated.

now has a highly qualified, experienced and motivated management team. Again in 2018, under the exceptional leadership of Nirmal Jain and R. Venkataraman, IIFL achieved outstanding results in each of its three following major business divisions:

Loans and Mortgages: This division, which is an NBFC, has made further progress in diversifying its lending to a more retail-focused loan portfolio. Loan assets under management (AUM), predominantly retail, grew 33% to $5.2 billion, driven by small home loans and loans to small and medium enterprises (SMEs). Retail home loan assets grew 49% to $1.6 billion. Apart from mortgages, IIFL also offers its customers loans for commercial vehicles, gold loans, business loans and loans against shares. Asset quality deteriorated slightly with gross non-performing assets (NPAs) of 3.7% and net NPAs of 1.5%. On December 31, 2018 the total capital adequacy ratio (CAR) was 20.7% while the statutory requirement is 15%.

IIFL's microfinance subsidiary, Samasta Microfinance, through its expansion in the eastern and southern parts of the country, grew its assets over the past nine months by 205% to $251 million and now serves over 800,000 customers with a network of 492 branches. IIFL has made significant progress in its technology platform, having implemented the usage of automatic scorecards for instant credit assessment and enhanced its digitization processes.

In response to the liquidity scare described above which resulted in the extreme tightening of the short-term commercial paper market, IIFL took several measures:

1) it reduced dependence on short-term financing by reducing commercial paper borrowings from 24% to 12% of liabilities;
2) it increased longer term debenture funding and increased bank borrowings;
3) sold some loan assets to banks;
4) it divested its entire commercial vehicle loan business; and
5) it slowed down loan disbursements.

These steps have resulted in further strengthening IIFL NBFC's financial position, ensuring that it has no liquidity issues.

Wealth and Asset Management: In less than a decade since its inception, IIFL Wealth Management has catapulted itself to the position of the largest private wealth management firm in India. Its 396 bankers help manage the assets of more than 10,000 high and ultra-high net worth individuals and families in India and abroad. Headquartered in Mumbai, it has more than 900 employees and a presence in nine major global financial hubs with 26 locations in India and around the world.

Its total AUM grew 25% over the previous year to $23.0 billion. Profit after tax for the year ended December 31, 2018 grew 6% over the previous year to $58 million.

IIFL Wealth Management is also the largest manager of Alternative Investment Funds in India, with AUM of $2.0 billion. The funds launched during the year included the IIFL Income Opportunities Fund – Series 2, IIFL High Growth Companies Fund and the IIFL Multi-Strategy Fund.

IIFL Wealth Finance, its wholly-owned subsidiary that commenced operations in February 2016 to provide loans against securities to its clients, decreased its loan book in 2018 by 19% to $680 million. They did this in response to the market liquidity situation described above, by cutting back on some low margin lending. In 2018, IIFL Wealth acquired two other smaller wealth management firms, Wealth Advisors India and Altiore Advisors.

Over the next several quarters IIFL Wealth's income and profit after tax may reduce from a year ago because it is transitioning its business from transaction-oriented upfront income recognition to annuity-based fees and trailing commission income. However, from a long-term perspective, this is a very positive development for this business.

IIFL Securities: This is a collection of several businesses, including retail and institutional stock broking, financial products distribution and investment banking. The broking business is a leader in its field and provides broking and advisory services to retail and institutional clients. It is well known for its high quality and innovative research which covers over 200 Indian stocks.

IIFL's investment banking franchise has a pre-eminent position in India with a track record of strong execution and a robust pipeline of advisory and capital markets assignments. During the year ended December 31, 2018, it completed 12 transactions, including four initial public offerings. It was ranked #3 and #1 in equity issuances for 2017 and 2018 respectively, covering IPOs, follow-on public offerings, qualified institutional placements and institutional placement programs.

The IIFL Markets app is highly rated and the most downloaded stock trading app in India with over 2,376,000 downloads. With the growth of mobile networks in remote locations, do it yourself (DIY) mobile trading is conducted by over 48% of clients and has reduced the information asymmetry of financial markets in Tier 2 locations in India.

Proposed Reorganization of IIFL Group Companies: In 2018, IIFL announced its intention to divide its three business groups described above into three separate companies, with each to be listed on all the major Indian stock exchanges. IIFL believes that this is the best structure for its business because:

1) Each business now has the critical mass to operate independently.

2) It allows each business to create its own business platform and identity and focus on its own business, thereby achieving even higher growth in a rapidly changing, technology and innovation-driven environment.

3) Each business needs to continue to attract and keep high quality talent to sustain its high growth rate. Each company, listed separately, will be able to attract and motivate its key people with stock options such that their rewards will be strongly correlated with their performance. Currently, stock options granted are on shares of the parent company.

4) It allows greater flexibility for each of the businesses to raise capital according to its needs.

5) It provides investors greater flexibility to invest in the businesses that best suit their strategies and risk appetite.

The reorganization is subject to regulatory approvals and is expected to be completed in 2019.

Bangalore International Airport (BIAL)

Under the strong leadership of Managing Director and CEO Hari Marar and his executive team, BIAL has had an outstanding year. It is the third largest airport in India, but it is the second fastest growing airport in the world and recently was the first airport ever to win best customer service for both arrivals and departures awarded by the Airports Council International.

In May 2018 Fairfax India acquired an incremental 6% of BIAL from Siemens for $67 million, bringing its ownership to 54%. In 2017, Fairfax India had acquired a total of 48% of BIAL for $586 million. In total, Fairfax India has invested $653 million to acquire 54% of BIAL, implying an equity value of approximately $1.2 billion for the whole company. Based on BIAL's March 2018 IFRS financial statements, the blended purchase price valued BIAL at a price earnings ratio of 9.7 times, a price to BVPS ratio of 3.2 times and a price to free cash flow ratio of 8.4 times.

BIAL has three potential sources of revenue:

- **Aero Revenue:** Aero revenue, which has grown at a CAGR of 21% from 2009 to 2018, is the revenue earned for providing services such as landing, parking and other services charged as user development fees (UDF) to airlines and passengers. The aero tariffs for these services are set for five-year periods (called "control periods") and are fixed by the Airport Economic Regulatory Authority (AERA) so as to provide a 16% return on equity deployed in the Regulatory Asset Base. AERA treats 30% of non-aero revenue as aero revenue as a subsidy for the purpose of tariff calculations.

  The tariff order for the second control period (from April 2016 to March 2021) was finalized by AERA in August 2018, well after the control period had begun. Any under or over recovery of tariffs in any control period will be adjusted in the subsequent control period. This is achieved primarily by adjusting downwards or upwards the fee that the airport is allowed to charge for its aero services to passengers and airlines. The tariffs that the airport can charge have a very significant impact on the cash flow generated which, in turn, has a major impact on the financing for the planned expansion of the airport. Additionally, in the tariff order, AERA also approves the projected capital expenditure for the planned expansion of the airport. Given the planned expansions of BIAL, with capital expenditures of almost $2 billion, this tariff order was very critical. Since there are many variables that go in to the determination of the tariff, the process involves consultations between BIAL and AERA. During the process BIAL had made several requests, and while AERA did not decide in its favour in all the matters, BIAL feels that the tariff order was decided favourably on many issues, resulting in:

- increased revenue by about $100 million in the second control period from what was originally proposed by AERA. This was important because it helped secure sufficient cash flow to complete capital projects;
- agreement to subsidize aero revenue by 30% of non-aero revenue for both control periods, whereas the subsidy was originally 40% in the first control period; and
- approval of capital budgets for the planned expansion projects including terminal 2 and related infrastructure.

- **Non-aero Revenue:** All revenue other than aero revenue, such as revenue from cargo handling, ground handling, fuel sales, food and beverage sales and duty-free shops, constitutes non-aero revenue. Non-aero revenue has grown at a CAGR of 17% from 2009 to 2018 and is expected to grow substantially due to an increase in passenger growth rates, the availability of additional space and the increasing propensity of passengers at the airport to make purchases. BIAL has undertaken many innovative projects that engage passengers and enhance their experience at the airport.
- **Real Estate Monetization:** BIAL has approximately 460 acres of land adjoining the airport that can be developed. All of this land is undeveloped except for a small piece on which BIAL has built a hotel, currently operated by the Taj hotel brand under a management contract. Bangalore's historical population areas are getting congested, so the city is expanding in the airport's direction. BIAL anticipates significant upside, over time, from monetization of this real estate.

  After an extensive search that took longer than expected, BIAL has appointed a chief real estate officer who is mandated to complete a real estate master plan and development strategy in the first half of 2019. The aim is to complete at least one real estate project in 2019.

In 2018 passenger traffic grew 29.1% over the previous year to 32 million passengers and cargo handled grew 12.9%. Based on IFRS, BIAL's revenue for 2018 grew 6% to $234 million although, for the reasons described below, profit after tax declined 1% to $99 million and free cash flow after maintenance capex declined 50% to $73 million.

For the remaining period of the second control period, BIAL's aero revenue and total profits will be significantly lower because tariffs have been reduced to compensate for the higher tariff achieved in the first control period and part of the second control period. This situation, which was anticipated in BIAL's financial plans, will persist until the end of the second control period in March 2021. This is the reason for the depressed financial performance described above. Nevertheless, we estimate that BIAL will generate a total ROE of 17.8% for the second control period and an ROE of 17% for the combined control periods 1 and 2.

BIAL has entered a phase of significant investment to expand its currently designed capacity of 20 million passengers to 65 million. The second runway is expected to be completed in 2019, and the contract to construct the second terminal has been awarded, with construction expected to be completed in 2021.

The investment required to complete the expansion projects is approximately $2 billion and will be funded through internally generated funds and debt. The financing plan, based on a debt to equity ratio of 80:20, has been approved by a syndicate of Indian banks at attractive interest rates.

Sanmar Chemicals Group (Sanmar)

In 2016, Fairfax India lent Sanmar the rupee equivalent of $300 million by way of non-convertible debentures (NCDs) for a period of seven years. The NCDs provided for 3% payment-in-kind interest and a redemption premium such that the yield of the NCDs would be 13%. In addition, for $1 million Fairfax India received a 30% equity interest in Sanmar's entire chemicals business.

N. Sankar, the chairman of the Sanmar group, and his son Vijay, the deputy chairman, have grown the group into a large private conglomerate with sales of around $1 billion and an asset base of around $1.5 billion. Founded in the early sixties, its business interests spanned chemicals, engineering technology and shipping, with operations in India, the Middle East and the Americas. Fairfax India's investment is in the chemicals business, which constitutes more than 70% of the group's operations and is housed within three operating companies, two in India, Chemplast Sanmar (Chemplast) and Sanmar Speciality Chemicals, and one in Egypt, TCI Sanmar (TCI). The group is renowned for its high integrity and the highest levels of corporate governance and environmental and social responsibility.

Chemplast is Sanmar's flagship Indian company: it has been in the chemicals business for over 50 years, celebrating its golden anniversary in 2017. N. Sankar is considered a pioneer in the polyvinyl chloride (PVC) industry in India. With his visionary leadership, in 2009 Chemplast commissioned one of the largest greenfield PVC projects in India with an annual capacity of 200,000 tons per annum (ktpa) which has been increased to 300 ktpa, mainly through process improvements and minor debottlenecking, with an additional investment of only around $1 million. The aggregate PVC capacity of Chemplast is 366 ktpa, making it the second largest PVC player in India.

Sanmar acquired TCI in 2007, with the intention of setting up a large greenfield PVC plant in Egypt to cater to the high growth markets of North Africa, the Middle East and parts of Europe. TCI until recently had a 200 ktpa capacity PVC plant but was producing only at the rate of about 130 ktpa per annum. TCI has completed a major expansion as follows:

- **Phase 1**, To increase production levels of the existing PVC plant to 200 ktpa.
- **Phase 2**, To add a new 200 ktpa PVC plant, a 130 ktpa calcium chloride plant and a 75 ktpa caustic soda by-product line. These are ramping up to full production, with full capacity expected to be attained by 2020, and will take advantage of Sanmar's significant investment and infrastructure in Egypt.

In September 2018 Fairfax India entered an agreement with Sanmar pursuant to which Sanmar will settle the $300 million of bonds plus the 13% combined interest and redemption premium payable for approximately $404 million in total. Fairfax India will invest approximately half the consideration into common shares of Sanmar, increasing its equity ownership interest in Sanmar from 30% to approximately 43%. With this transaction, Sanmar will return 67% of the capital Fairfax India originally invested and we will increase our ownership of Sanmar at an effective equity valuation of approximately $1.0 billion for the whole company.

Sanmar was able to refinance and accelerate the repayment of its debt to Fairfax India because its major capital expenditure project – increasing PVC capacity to 400 ktpa in TCI Egypt – was completed on time and on budget in 2018, thereby removing the major perceived risk to Sanmar's growth plans. As a result of this Sanmar was able to:

- refinance $510 million of old loans of TCI Egypt that were repaid and replaced with longer tenor loans with fewer banks;
- refinance working capital limits of $231 million for Chemplast with only five banks instead of the original 11 banks; and
- feel confident about arranging financing for several other efficient, cost effective and accretive capital expenditure projects with a one to two year EBITDA pay back.

The planned capital expenditure projects are all at Chemplast:

- in Cuddalore, an increase of suspension PVC capacity from 300 to 600 ktpa – investment of $86 million; estimated incremental annual EBITDA of $82 million; timing 2022 – 2023
- in Cuddalore, an increase of suspension PVC capacity from 600 to 900 ktpa – investment of $100 million; estimated incremental annual EBITDA of $80 million; timing 2024 – 2025
- in Karaikal, building a second Chloromethane plant of 45 ktpa capacity – investment of $34 million; estimated incremental EBITDA $33 million; timing 2024 – 2025

In addition to the above, Sanmar also plans to set up, in two phases, a 70 ktpa Paste PVC plant in Cuddalore.

Chemplast again had excellent financial results but TCI, due to an unexpected spike in its key raw material (EDC) price and energy costs, did not deliver their expected financial results. As a result, Sanmar's consolidated financial results in 2018 were below expectations. The spike in the raw material price was caused indirectly by an alumina refinery plant shut down in Brazil. It is not clear how long this situation will last and keep EDC prices elevated.

Based on IFRS, for the year ended December 31, 2018 Sanmar's revenue grew by 10% to $682 million. Net loss in 2018 increased to $91 million from a loss of $85 million in 2017. However, earnings before interest, income tax, depreciation and amortization (EBITDA) for 2018 increased 10% to $100 million.

National Collateral Management Services (NCML)

NCML was Fairfax India's very first investment, completed in August 2015. NCML has operated for over 14 years and is now well positioned to further expand and take advantage of the significant market potential in India's underdeveloped agricultural storage industry. NCML operates in the agriculture value chain by offering end-to-end solutions in grain procurement, testing, storage and collateral management.

NCML has more than 1.9 million metric tons (MT) of storage capacity across 717 warehouses in 16 states in India. It has a network of 40 regional offices, more than 500 touch points at agricultural produce markets and thousands of farmers and traders to facilitate procurement of commodities. With AUM of $0.9 billion, NCML has a 33% share of the agricultural commodities' collateral management business in India, offering custodial services to about 76 banks and financial institutions for the management of collateralized agricultural commodities, based on which those institutions advance post-harvest loans to farmers or dealers owning commodities.

In 2015 Fairfax India invested a total of $149 million to acquire an 88% interest in NCML: $31 million was a capital infusion into NCML to fund growth plans, while the remaining $118 million was used to buy out existing shareholders. In August 2017, Fairfax India acquired an additional 1.4% stake through a rights issue for $25 million. Based on discounted cash flows, NCML is now valued at $165 million compared to our investment cost of $174 million.

For the year ended December 31, 2018, NCML had mixed results. While revenue grew 34% to $214.1 million, net earnings declined by 39% to $3.6 million. The increase in revenue was driven by growth in the supply chain business (+45%), the testing and certification division (+46%) and the NBFC business (+41%), partially offset by declines in the collateral management business (−17%), and the commodity and weather intelligence group (−31%). The disappointing net earnings performance was largely as a result of the collateral management business realizing a loss of $0.5 million versus a profit of $3.0 million in 2017, and the higher tax credits in 2017.

Under the leadership of its CEO Sanjay Kaul, assisted by executive director Unupom Kausik, NCML has made significant progress in achieving growth in several of its business verticals while at the same time taking the difficult step of curtailing businesses that exposed NCML to undue risk. NCML continues to focus on expanding and diversifying its client base.

We summarize below the performance of NCML's five major business groupings:

Supply Chain Management: This division provides end-to-end services to both government and private clients in the procurement, storage, financing and logistics of agricultural commodities. In 2018, it added several new clients, grew revenue by 45% to $177 million and grew profit before tax by 19% to $2.4 million despite being constrained in the second half of 2018 by a general tightening of credit by banks. The innovative program it had developed for port-based services for handling and financing the import of pulses through a credit line from the Export Development Corporation of Canada has still unfortunately not become operational because increased import duties caused the import of pulses to be unviable. This division is well positioned for further high growth in the future.

Storage and Preservation: This division provides warehousing and preservation services for agricultural commodities. Capacity utilization of warehouse space remained high at around 80% and revenue grew 2% over the previous year to $16.0 million, but profit before tax declined to $0.1 million from a profit of $0.6 million in 2017. Several initiatives have been implemented to further drive capacity utilization and improve storage yields. This division continues to provide a secure platform for supply chain trade finance as well as the NCML finance businesses, despite its low profitability levels.

As you may recall, this division launched a modern warehousing silo vertical by successfully bidding for 16 large concession contracts from the Food Corporation of India. This represents an aggregate capacity increase of 800,000 MT at an estimated total project cost of about $151 million. The project is progressing well, land acquisition for the project is nearing completion and construction has commenced for several of the projects.

Collateral Management: It was a year of transition for this division which offers custodial services to about 76 banks and financial institutions for the management of collateralized agricultural commodities, based on which those institutions advance post-harvest loans to farmers or traders owning these commodities. This division remained focused on enhancing risk management and strengthening protocols in 2018, resulting in its exit from some high-risk locations; as a result, revenue declined 17% to $9.6 million, resulting in a loss before tax of $0.5 million.

Testing and certification: This division, which provides food and agri-products testing and certification, successfully completed its expansion plan and secured all planned accreditations. With 15 accredited laboratories, it has now emerged as the country's largest network and has signed on reputed clients like IRCTC, Flipkart, Compass, Yum Foods and Café Coffee Day. In 2018 revenue grew by 46% over the previous year to $4.2 million and profit before tax grew by 443% to $0.6 million.

NCML Finance (Nfin): Nfin, established in 2016, is a Reserve Bank of India (RBI)-registered NBFC that focuses on rural and agri-business lending. In 2018 it grew revenue by 41% to $4.7 million and achieved profit before tax of $1.4 million. While continuing to pursue increased market share in the warehouse receipt finance market, Nfin diversified its service offerings to several other product categories. During the year Nfin opened five new branches.

Beyond the five above major business groupings, in 2018 NCML's commodity and weather intelligence service and newly launched online commerce portal NCML MktYard all continued to make progress.

Fairchem Speciality (Fairchem)

In March 2017, the previously announced merger of Fairchem Speciality and Privi Organics (Privi) was completed, resulting in Fairfax India owning 48.8% of Fairchem. Fairfax India had earlier separately owned controlling interests in both these companies.

Based on IFRS, for the year ended December 31, 2018 the consolidated Fairchem entity grew revenue by 37% to $194 million and net income by 71% to $10 million. Shareholders' equity grew 13% to $74 million, generating an ROE of 13%.

While the two businesses have been merged into one corporate entity, they each continue to be managed independently by their founders and existing management teams. We describe below the performance of the two businesses:

Fairchem (formerly Adi Finechem): Fairchem, led by Nahoosh Jariwala, is an oleochemicals company. Oleochemicals are, broadly, chemicals that are derived from plant or animal fat, which can be used for making both edible and non-edible products. In recent years the production of oleochemicals has been moving from the U.S. and Europe to Asian countries because of the local availability of key raw materials.

Fairchem occupies a unique niche in this large global playing field. It has developed an in-house technology that uses machinery manufactured by leading European companies to convert waste generated during the production of soya, sunflower, corn and cotton oils into valuable chemicals. These chemicals include acids that go into non-edible products like soaps, detergents, personal care products and paints, and other products that are used in the manufacture of health foods and vitamin E. The company's customers include major multinational companies including BASF, Archer Daniels Midland, Cargill, Arkema and Asian Paints. Fairchem operates out of a single plant in Ahmedabad, the largest city in Gujarat, the home state of Prime Minister Modi: the plant has one of the largest processing capacities for natural soft oil-based fatty acids in India. Over the last ten years Fairchem's sales have grown on average 24% per year, net earnings have grown on average 33% per year, and the average annual ROE was around 19%.

Based on IFRS, for the year ended December 31, 2018 Fairchem revenue grew by 4% to $37 million, net earnings grew by 65% to $3 million, and shareholders' equity grew 22% to $14 million, generating an ROE of 24%.

In 2018, Fairchem implemented changes in its plant that further debottlenecked its operation and optimized the production process. These changes have resulted in increasing installed capacity from 45,000 to 72,000 metric tons per annum (MTPA) of raw material that can be processed. In 2018 Fairchem processed 39,000 MTPA implying a capacity utilization to year end capacity of 54%. This provides considerable room to grow since the plant can operate at up to 90% of installed capacity. Fairchem has also initiated two capital expenditure projects: both will be financed by a mix of term borrowings and internal accruals and are expected to enter production in 2020:

- a plant to manufacture sterols and higher concentration tochopherols; and
- a plant to manufacture bio-diesel using three by-products of its manufacturing process: palmitic acid, monomer acid and residue.

It has been a year of significant achievement for Fairchem.

Privi: Founded in 1992, Privi, led by Mahesh Babani and D. B. Rao, is one of India's leading manufacturers of aroma chemicals. Privi started manufacturing aroma chemicals with only two products, which it gradually expanded to a range of over 50 products today, with a capacity of over 27,500 tonnes per annum. Its products are used as fragrance additives in perfumes, soaps, shampoos and packaged food. Privi enjoys a dominant position and economies of scale in its product categories. Privi also develops and produces custom-made aroma chemicals to specific requirements of its customers. Privi sources most of its raw materials from pulp and paper companies globally and competes primarily with pure play and niche suppliers such as IFF, DRT and Renessenz.

One of Privi's significant strengths is its established research and development capabilities in aroma chemicals, with a staff of 81 people comprised of PhDs in chemistry, chemical engineers and instrumentation engineers. The research specialists continuously strive to develop new products and processes. Importantly, one of the R&D labs is completely focused on developing, through biotechnology, green products and green technologies in technical collaboration with the University Institute of Chemical Technology, Mumbai.

Privi has made significant investments in manufacturing facilities that convert a waste product in pulp and paper manufacturing, crude sulphated turpentine (CST), into aroma chemicals. CST, a more cost-effective raw material than the more traditional plant-based gum turpentine oil (GTO), is procured through annual contracts, while GTO has to be purchased on volatile spot markets.

Based on IFRS, for the year ended December 31, 2018 Privi revenue grew 48% to $157 million, net earnings grew 59% to $6 million, and shareholders' equity grew 11% to $60 million, generating an ROE of 10%.

This is quite a remarkable result when you consider that on April 26, 2018 there was a major fire at Privi's main production facility. While it is fortunate that there were no injuries as a result of the fire, the fire completely gutted critical production units that impacted all production, all of the raw material and finished goods warehouses and the administrative offices. The entire plant including the production units that were not affected by the fire had to be temporarily shut down. However, Privi was able to open the facility and start operating the plants not affected by the fire in a record time of 29 days. Using third party production facilities in combination with its own production units unaffected by the fire, Privi was able to start supplying all of its products by June 2018.

Around the same time there were fires in two other plants that produce products similar to Privi's, resulting in an acute shortage of certain aroma chemicals and consequently in much higher prices and margins.

Saurashtra Freight (Saurashtra)

In February 2017 Fairfax India invested $30 million to acquire a 51% interest in Saurashtra. $18 million of the $30 million was used to purchase part of the founder's stake: $10 million of this was infused back into Saurashtra by the founders and used to unwind all previous transactions with Saurashtra group companies. The remaining $12 million was invested directly into Saurashtra. Over the previous five years Saurashtra had grown revenue and EBITDA at 18% and 15% per annum respectively and generated a 25% average ROE. After the completion of the transaction, Saurashtra was left with about $22 million of cash, which it intended to use to pursue its acquisition plans.

Saurashtra's principal business is owning and operating container freight stations (CFSs), which are an important link between transport operators and shipping lines and effectively work as an extension of a port. It is in the port's best interest to focus on maximizing container traffic and not get bogged down handling containers that are waiting to be dispatched. Also, ports lack adequate storage facilities to hold containers for extended periods of time. CFSs provide a facility outside of congested ports for temporary storage of goods pending customs clearance and further distribution. Activities like stuffing and destuffing of containers, which might otherwise have to be done in the port, are done at the CFS.

Launched in 2005, Saurashtra is located five kilometres from Mundra port. With 24/7 operations, Saurashtra has the capacity to handle 180,000 TEUs (twenty-foot equivalent unit cargo containers) per annum and handled about 101,000 TEUs in 2018, implying capacity utilization of about 56%. Under the dynamic leadership of Raghav Agarwalla, it has achieved a market share of about 14% at Mundra port, the highest among all CFSs there.

Saurashtra derives volume and revenue from both import and export containers. While the ideal mix between the two for maximum efficiency is 50:50; the mix is adjusted each year in order to maximize profitability.

India, in its zeal to improve its "ease-of-doing-business" scores, has implemented changes in its customs clearance processes that simplify the steps and improve the speed at which goods clear customs both for exporters and importers. This reduces the "dwell" time of goods in CFSs, reducing their revenues. Also, some exporters have adopted the "self-sealing exports" methodology which enables them to send their goods directly from their factory to the port, completely bypassing CFSs.

In this changing environment, Saurashtra has managed its export:import mix to a 37:63 mix and maximized its revenue and margin potential.

For the year ended December 31, 2017, due to investments in two new ancillary businesses and the losses incurred in one of them, Saurashtra did not have any net earnings, whereas it had net earnings of $2.0 million in the previous year. For the year ended December 31, 2018, Saurashtra was able to turn this situation around, growing revenue by 20% to $21 million and achieving net earnings of $1.1 million.

National Stock Exchange of India (NSE)

In July 2016, Fairfax India acquired a 1% stake in NSE, the largest stock exchange in India with a market share of over 87% in cash equity trading and 100% in equity derivatives trading. With over 200,000 terminals in over 2,000 centres, NSE provides trading facilities with national reach. The exchange uses the latest communications technology for automated screen-based trading. For the year ended March 31, 2018, NSE's revenue grew 13% to $470 million and profit after tax grew 20% to $227 million. The planned initial public offering of NSE has been delayed and is now expected sometime in 2020 or 2021.

Catholic Syrian Bank (CSB)

In February 2018, after a protracted process described below in more detail, we entered an agreement to invest approximately $168 million for a 51% equity ownership in CSB. Subsequently we completed an initial closing of the transaction and invested approximately $60 million in equity shares and warrants (exercisable for equity shares) of CSB resulting in an equity interest of 19.7%. The remaining consideration is payable within 18 months, upon which our ownership will go to 51% on a fully diluted basis.

This was the culmination of an effort that began in December 2016, when the RBI gave Fairfax India permission to acquire a 51% stake in CSB. This was the first time in the history of the RBI that anyone was given approval to acquire a majority stake in a bank in India.

In May 2017, after several months of negotiations, we discontinued our efforts because we could not agree with the Board of CSB on the price and valuation at which we would invest in the bank. CSB pursued, unsuccessfully, several avenues to attract capital at a valuation acceptable to it.

Meanwhile, in anticipation of investing in CSB, we had identified Mr. C.V.R. Rajendran as the individual who would have been our choice for CEO of the bank. He in fact was appointed as CEO about 26 months ago and is now well in control: he understands the bank and its loan book very well.

In late January 2018, Mr. Rajendran reopened the conversation with us on the premise that based on improvements he had made at the bank, including loan recoveries and successful enhancements to its organizational structure, there might have emerged a revised price and valuation that may be acceptable to us. This was indeed the case, and we agreed to invest at 140 rupees per share, implying a multiple of 1.1 times the September 30, 2017 book value per share. While Mr. Rajendran has already implemented several positive changes, much more still needs to be done to improve and modernize CSB and bring it to its full potential. The capital that we are infusing will be used to improve its CAR and drive the necessary changes.

CSB is one of the oldest private sector banks in India and has a strong base in Kerala along with a significant presence in the states of Tamil Nadu, Karnataka and Maharashtra. The bank currently operates 418 branches and

270 ATMs across India. With its branches primarily in south India, it focuses on retail, gold and SME loans. Together, these comprise over 75% of total advances. Over the last few years, CSB had deviated from its core expertise and built a meaningful corporate lending book, mainly through consortium lending. In the last few years, it has had to take significant write-offs on this portfolio. CSB also owns 37 residential and commercial properties and land banks, some purchased several years ago, and others acquired by enforcement of security.

After Fairfax India's investment in CSB, Mr. Rajendran has put together a strategic direction for CSB focussing on profitability, productivity, efficiency and asset quality. He has set the following goals that CSB will strive to achieve over the next five years: return on assets of 1.5%, return on equity of 18%, net interest margin of 3.9%, revenue per employee of 4 million rupees, cost to income ratio of 46% and net NPAs of 1.1%.

To assist in CSB achieving these objective, Fairfax India was extremely fortunate to have been able to retain the services of Mr. Paresh Sukthankar as a senior advisor. Mr. Sukthankar recently retired from his position as deputy managing director and a member of the Board of Directors of India's leading private sector bank, HDFC Bank.

Financial Position

Fairfax India came into being about four years ago on January 30, 2015, when it issued 106.7 million shares, raising gross proceeds of $1.1 billion by completing a public offering, a placement to cornerstone investors and an issue to Fairfax Financial. In September 2016, the company arranged a $225 million two-year secured term loan from a syndicate of Canadian banks. In January 2017 Fairfax India issued 42.6 million shares at $11.75 per share in a public offering and a concurrent private placement to OMERS and Fairfax Financial, raising gross proceeds of $500 million. In March 2017, the company repaid its term loan of $225 million to the syndicate of Canadian banks, and then in July 2017 it arranged a $400 million one-year secured loan from a Canadian bank. In June 2018 Fairfax India arranged a $550 million, one-year secured term loan, with an option to extend for an additional year, with a syndicate of Canadian banks: that loan replaced the above-mentioned $400 million secured term loan. Including the approximately $202 million of the proceeds of the Sanmar loan repayment less current investment commitments, Fairfax India currently has about $372 million for new investments and ongoing expenses.

At December 31, 2018, the financial position of Fairfax India was as follows:

	($ millions)
Undeployed cash and investments[(1)]	303
Secured term loan (from a Canadian bank, maturing in July 2019)	550
Common shareholders' equity	2,117.9
Total debt to equity	26.0%

(1) Includes passive investments in publicly traded Indian companies

Developments in India

In the two years since the end of 2016, India has moved up by 53 places to number 77 in the World Bank Business Report's ''ease-of-doing-business'' measure. This is a testament to the unrelenting economic reforms that Prime Minister Modi has been implementing since he took office almost five years ago.

We summarize below some of the significant developments in India in 2018:

Economic growth: The economy finally recovered from the twin shocks of demonetization (the withdrawal from circulation of 80% of the currency in circulation) and the implementation of a goods and services tax (the GST replaced a myriad of archaic multilevel taxes and domestic excise duties). GDP growth accelerated to 8.0% in the April – June quarter of 2018, led by consumption and investment spending. In the July – September quarter of 2018, while consumption growth decelerated, investment growth continued to be strong, resulting in an overall GDP growth of 7.0%. In the October – December quarter of 2018, while investment growth remained robust, consumption growth decelerated further (with the slowdown being more pronounced in government's share of consumption expenditure), resulting in an overall GDP growth of 6.6%. Due to the slight moderation expected during the six months beginning October 2018, GDP growth for the fiscal year ending March 2019 is projected to be 7.0%, slightly lower than the previous year's growth rate of 7.2%.

Demonetization: We have previously discussed at length the economic and political impact of India's 2016 demonetization – the immediate withdrawal from circulation of all the high denomination currency in circulation (the 500 and 1,000 rupee notes, worth about $7.50 and $15.00) and their replacement with new 500 and 2,000 rupee notes. Two years on, India has recovered fully from any negative economic impact of demonetization and there is general consensus that the level of tax avoidance has declined, as evidenced by the 9.3 million increase in individuals filing income tax returns. Personal income tax collection increased by approximately 20% in 2018 after a robust 20% growth in the previous two years, resulting in additional tax revenues of approximately $18 billion in the last two years.

While currency in circulation has continued to increase and as a percent of GDP is only 10% below the levels prior to demonetization, digital transactions have increased substantially. The digital payment platform UPI, which handled 145 million transactions with a value of $2 billion in December 2017, handled 620 million transactions with a value of $15 billion in December 2018.

Aadhaar: India's biometric-based identity program, generally referred to as the Aadhaar program, now covers 1.2 billion people, 90% of India's population. Growth in Aadhaar coverage creates a credible base for future direct benefit transfers of government subsidies. In 2017 the government passed the Aadhaar Act to enable targeted delivery of government subsidies and services using the Aadhaar identity. The Supreme Court of India, during hearings on privacy concerns pertaining to Aadhaar, approved its use for payment of subsidies and government benefits to individuals. However, private companies would not be able to use the Aadhaar database for complying with know your customer (KYC) purposes. The government is increasingly relying on Aadhaar-based transfers and has so far used Aadhaar to transfer $85 billion under various programs into the accounts of beneficiaries.

Recapitalization of public sector banks: Resolving Indian public sector banks' twin balance sheet problems of high NPAs and high corporate leverage has been one of the key challenges faced by the government. In its efforts to resolve this issue and kick-start the capex cycle, the government announced a bank recapitalization program of $32 billion (1.3% of GDP). Under this program the government would sell, for payment in kind by way of equity shares, 'recapitalization bonds' to the banks worth $21 billion, and the remaining $11 billion would be raised through a combination of direct cash infusion by the government and capital raised from the market. This should provide banks enough capital to recognize and provide for the bad loans on their balance sheets. This, coupled with the new bankruptcy code, is expected to help resolve bank NPAs and support capex recovery in the medium term. The government spent $12.9 billion in bank recapitalization in the year ending March 2018 and budgeted $9.3 billion for the 2019 fiscal year, of which, through November 2018, $3.3 billion had been spent.

Decisive steps to resolve bank NPAs: RBI has directed banks to file insolvency proceedings against the 12 largest NPA accounts and to either resolve a further 28 NPA accounts or file insolvency proceedings against them. Thus, bankruptcy proceedings under the new bankruptcy code have been initiated against 40 accounts that represent almost a third of total NPAs. The proceedings under the new insolvency and bankruptcy codes have produced mixed results. While through December 2018, 1,484 cases have been admitted for resolution, 898 cases remain unresolved, including 275 cases that have exceeded the stipulated time limit of 270 days. Of the 12 largest NPA accounts against which insolvency proceedings had been initiated, only four have been successfully resolved, even after 18 months. In total, though, the National Company Law Tribunal has helped recover approximately $11 billion due from NPA accounts in 2018.

Implementation of Goods and Services Tax (GST): In July 2017, India's complex multi-tiered indirect tax code was replaced by a single GST, culminating a reform process that started over a decade ago. GST was intended to eliminate the cascading of taxes, simplify compliance procedures and unify India into a single market for the sale of goods and services. While there have been teething problems in the transition, the system is now operating well. Medium-term benefits of GST include increased productivity, especially in logistics, the elimination of cascading taxes, easier inter-state trade and higher tax revenues for the government due to improved compliance. The number of taxpayers registered on the GST network and required to file tax returns increased from 6.7 million earlier to 9.8 million in November 2018.

However, GST collections have been below expectation, with a collection run rate of $13.6 billion per month versus a plan of $15.3 billion.

Moderate inflation: Due to unusually low food price inflation, consumer price inflation (CPI) remained benign at 3.7% from April to December 2018. However, despite the recent fall in crude oil prices, core inflation has edged up, reaching 5.7% in December 2018. It is expected that over the next year, inflation will remain in the target range of the Monetary Policy Committee.

Political stability: With victories in state elections in Gujarat and India's largest state of Uttar Pradesh (population of over 200 million) in 2017, Prime Minister Modi's BJP party had appeared to have consolidated its hold over power. However, this position was diluted when the BJP lost elections in three states – Chhattisgarh, Madhya Pradesh and Rajasthan – in 2018. The rise of the opposition parties and a move by them to form coalitions to oppose the BJP in national elections scheduled for April/May 2019 might make for a much closer contest this time.

Mr. Modi is already campaigning hard and in February 2019 he proposed a very stimulative interim budget that is expected to support his party. The budget proposed the following measures:

- income support of 6,000 rupees per year to marginal farmers with fewer than two hectares of land (approximately 120 million farmers would qualify);
- an interest subsidy of 2% for loans to farmers;
- a pension scheme for workers over 60 years old in the unorganized sector with a monthly income below 15,000 rupees (approximately 100 million people would qualify); and
- an interest subsidy of 2% for loans to small and micro enterprises.

The government has also put in place a large-scale national health insurance program that is currently in the early stages of implementation (approximately 500 million of the poorest people would benefit from this program).

As we end our first four years of operation, we would like to acknowledge the strong support and leadership provided by Jennifer Allen, Chief Financial Officer, Keir Hunt, General Counsel and Corporate Secretary, and John Varnell, Vice President of Corporate Affairs. We would like to welcome S. Gopalakrishnan (Gopal), formerly the Head of Investments at ICICI Lombard, to the Hamblin Watsa Toronto team as a Managing Director. Gopal will be a member of the team working on Indian Investments. We would also like to thank our independent directors, Deepak Parekh, Tony Griffiths, Chris Hodgson, Alan Horn and Lauren Templeton, for their wise advice, support and encouragement.

We are looking forward to seeing you at our annual meeting at 2:00 p.m. (Eastern time) on April 11, 2019 at Roy Thomson Hall, 60 Simcoe Street, Toronto, Canada. Once again you will have the opportunity to meet the excellent leaders of many of our companies: Raghav Agarwalla (Saurashtra), Mahesh Babani (Privi), Nirmal Jain (IIFL), Nahoosh Jariwala (Fairchem), Sanjay Kaul (NCML), Hari Marar (BIAL), C.V.R. Rajendran (CSB) and Vijay Sankar (Sanmar).

March 8, 2019

Chandran Ratnaswami
Chief Executive Officer

V. Prem Watsa
Chairman

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Management's Responsibility for the Consolidated Financial Statements

The preparation and presentation of the accompanying consolidated financial statements, Management's Discussion and Analysis of Financial Condition and Results of Operations (''MD&A'') and all financial information are the responsibility of management and have been approved by the Board of Directors.

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board. Financial statements, by nature, are not precise since they include certain amounts based upon estimates and judgments. When alternative methods exist, management has chosen those it deems to be the most appropriate in the circumstances.

Management maintains appropriate systems of internal controls. Policies and procedures are designed to give reasonable assurance that transactions are properly authorized, assets are safeguarded and financial records properly maintained to provide reliable information for the preparation of the consolidated financial statements.

We, as Fairfax India's Chief Executive Officer and Chief Financial Officer, have certified Fairfax India's annual disclosure documents filed with the Canadian Securities Administrators in accordance with Canadian securities legislation.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the consolidated financial statements and MD&A. The Board carries out this responsibility principally through its Audit Committee which is independent from management.

The Audit Committee is appointed by the Board of Directors and reviews the consolidated financial statements and MD&A; considers the report of the independent auditor; assesses the adequacy of the internal controls of the company; examines the fees and expenses for audit services; and recommends to the Board the independent auditor for appointment by the shareholders. The independent auditor has full access to the Audit Committee and meet with it to discuss their audit work, Fairfax India's internal control over financial reporting and financial reporting matters. The Audit Committee reports its findings to the Board for consideration when approving the consolidated financial statements and MD&A for issuance to the shareholders.

March 8, 2019

Chandran Ratnaswami	Jennifer Allen
Chief Executive Officer	*Chief Financial Officer*

Independent Auditor's Report

To the Shareholders of Fairfax India Holdings Corporation

Our Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Fairfax India Holdings Corporation and its subsidiaries (together, the Company) as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

What we have audited

The Company's consolidated financial statements comprise:

- the consolidated balance sheets as at December 31, 2018 and 2017;
- the consolidated statements of earnings for the years then ended;
- the consolidated statements of comprehensive income for the years then ended;
- the consolidated statements of changes in equity for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

Other information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis of Financial Condition and Results of Operations and the information, other than the consolidated financial statements and our auditor's report thereon, included in the annual report. The other information does not include information contained in the websites of the Company's Indian investments as disclosed in the annual report.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Claire Cornwall.

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Ontario
March 8, 2019

Consolidated Financial Statements

Consolidated Balance Sheets

as at December 31, 2018 and December 31, 2017
(US$ thousands)

	Notes	December 31, 2018	December 31, 2017
Assets			
Cash and cash equivalents	6, 15	21,240	13,244
Restricted cash	6, 7	13,833	10,598
Short term investments	6	–	27,481
Bonds	5, 6	576,386	694,252
Common stocks	5, 6	2,084,961	1,913,993
Total cash and investments		2,696,420	2,659,568
Interest receivable		7,039	9,422
Income taxes refundable	10	1,423	3,098
Other assets		668	133
Total assets		2,705,550	2,672,221
Liabilities			
Accounts payable and accrued liabilities		1,034	977
Payable for rights issue	5	–	15,954
Payable for partly paid shares	5	29,827	–
Payable to related parties	12	8,827	122,826
Deferred income taxes	10	689	–
Term loans	7	547,228	400,000
Total liabilities		587,605	539,757
Equity			
Common shareholders' equity	8	2,117,945	2,132,464
		2,705,550	2,672,221

See accompanying notes.

Signed on behalf of the Board

V. P. Watsa
Director

Alan Horn
Director

Consolidated Statements of Earnings
for the years ended December 31, 2018 and 2017
(US$ thousands except per share amounts)

	Notes	2018	2017
Income			
Interest	6	21,659	21,848
Dividends	6	8,699	8,627
Net realized gains (losses) on investments	6	(7,985)	1,195
Net change in unrealized gains on investments and other costs	6	178,998	592,277
Net foreign exchange losses	6	(34,853)	(14,277)
		166,518	609,670
Expenses			
Investment and advisory fees	12	33,908	27,531
Performance fee	12	–	112,218
General and administration expenses	14	4,079	4,166
Interest expense	7	28,898	15,664
		66,885	159,579
Earnings before income taxes		99,633	450,091
Provision for (recovery of) income taxes	10	3,201	(2,418)
Net earnings		96,432	452,509
Net earnings per share	9	$ 0.63	$ 3.10
Net earnings per diluted share	9	$ 0.63	$ 2.94
Shares outstanding (weighted average)	9	153,108,655	146,035,470

See accompanying notes.

Consolidated Statements of Comprehensive Income
for the years ended December 31, 2018 and 2017
(US$ thousands)

	2018	2017
Net earnings	96,432	452,509
Other comprehensive income (loss), net of income taxes		
Item that may be subsequently reclassified to net earnings		
Unrealized foreign currency translation gains (losses), net of income taxes of nil (2017 – nil)	(193,141)	110,910
Other comprehensive income (loss), net of income taxes	(193,141)	110,910
Comprehensive income (loss)	(96,709)	563,419

See accompanying notes.

Consolidated Statements of Changes in Equity

for the years ended December 31, 2018 and 2017
(US$ thousands)

	Subordinate voting shares	Multiple voting shares	Share-based payments, net	Retained earnings	Accumulated other comprehensive income (loss)	Common shareholders' equity
Balance as of January 1, 2018	1,206,512	300,000	(64)	597,105	28,911	2,132,464
Net earnings	–	–	–	96,432	–	96,432
Other comprehensive loss:						
Unrealized foreign currency translation losses	–	–	–	–	(193,141)	(193,141)
Issuance of shares (note 8)	114,437	–	–	–	–	114,437
Purchases for cancellation (note 8)	(23,523)	–	–	(8,695)	–	(32,218)
Purchases and amortization	–	–	(29)	–	–	(29)
Balance as of December 31, 2018	1,297,426	300,000	(93)	684,842	(164,230)	2,117,945
Balance as of January 1, 2017	713,027	300,000	(186)	144,604	(81,999)	1,075,446
Net earnings	–	–	–	452,509	–	452,509
Other comprehensive income:						
Unrealized foreign currency translation gains	–	–	–	–	110,910	110,910
Issuance of shares, net of issuance costs (note 8)	493,504	–	–	–	–	493,504
Purchases for cancellation (note 8)	(19)	–	–	(8)	–	(27)
Purchases and amortization	–	–	122	–	–	122
Balance as of December 31, 2017	1,206,512	300,000	(64)	597,105	28,911	2,132,464

See accompanying notes.

Consolidated Statements of Cash Flows
for the years ended December 31, 2018 and 2017
(US$ thousands)

	Notes	2018	2017
Operating activities			
Net earnings		96,432	452,509
Items not affecting cash and cash equivalents:			
Net bond premium amortization		371	300
Deferred income taxes	10	705	–
Amortization of share-based payment awards		75	122
Net realized losses (gains) on investments	6	7,985	(1,195)
Net change in unrealized gains on investments	6	(178,998)	(666,479)(1)
Net foreign exchange losses	6	34,853	14,277
Net (increase) decrease in restricted cash in support of term loans		(3,235)	8,212
Net sales (purchases) of short term investments classified as FVTPL		27,836	(112)
Purchases of bonds and common stocks classified as FVTPL	15	(240,661)	(812,484)(1)
Sales of bonds and common stocks classified as FVTPL	15	144,213	78,458
Changes in operating assets and liabilities:			
Interest receivable		1,610	(1,426)
Income taxes refundable		1,440	4,601
Payable to related parties		8,770	116,662
Other		5,783	9,199
Cash used in operating activities		(92,821)	(797,356)
Financing activities			
Term loans:			
Proceeds	7	550,000	400,000
Issuance costs	7	(5,545)	(3,022)
Repayments	7	(400,000)	(225,000)
Subordinate voting shares:	8		
Issuances		–	500,004
Issuance costs		–	(6,500)
Purchases for cancellation		(32,218)	(27)
Cash provided by financing activities		112,237	665,455
Increase (decrease) in cash and cash equivalents		19,416	(131,901)
Cash and cash equivalents – beginning of year		13,244	146,960
Foreign currency translation		(11,420)	(1,815)
Cash and cash equivalents – end of year		21,240	13,244

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

See accompanying notes.

Index to Notes to Consolidated Financial Statements

Notes to Consolidated Financial Statements

for the years ended December 31, 2018 and 2017
(in US$ and 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 subsidiaries, FIH Mauritius Investments Ltd (''FIH Mauritius'') and FIH Private Investments Ltd (''FIH Private'').

Fairfax Financial Holdings Limited (''Fairfax'') is Fairfax India's ultimate parent and acts as its administrator. Fairfax is a holding company which, through its subsidiaries, is principally engaged in property and casualty insurance and reinsurance and the associated investment management. Hamblin Watsa Investment Counsel Ltd. (the ''Portfolio Advisor''), a wholly-owned subsidiary of Fairfax and registered portfolio manager in the province of Ontario, is the portfolio advisor of the company and its consolidated subsidiaries, responsible to source and advise with respect to all investments. Refer to note 12 for details on Fairfax's voting rights and equity interest in the company.

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

2. Basis of Presentation

The company's consolidated financial statements for the year ended December 31, 2018 have been prepared in accordance with International Financial Reporting Standards (''IFRS'') as issued by the International Accounting Standards Board (''IASB''). The company has determined that it continues to meet the definition of an investment entity under IFRS (see note 4).

The consolidated balance sheets of the company are presented on a non-classified basis. Except for bonds, common stocks and deferred income taxes, all other assets expected to be realized and liabilities expected to be settled within the company's normal operating cycle of one year are considered current.

The preparation of the company's consolidated financial statements requires management to make a number of estimates and judgments that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements, the reported amounts of income and expenses during the reporting periods covered by the consolidated financial statements and the related note disclosures. Critical accounting estimates and judgments are described in note 4.

These consolidated financial statements were approved for issue by the company's Board of Directors on March 8, 2019.

3. Summary of Significant Accounting Policies

The principal accounting policies applied to the preparation of these consolidated financial statements and the methods of computation have been consistently applied to all periods presented unless otherwise stated, and are as set out below.

Consolidation

Subsidiaries – A subsidiary is an entity over which the company has control. The company controls an entity when the company is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. As an investment entity (see note 4) the company is required to account for its investments in subsidiaries (Fairchem Speciality Limited (''Fairchem'', comprised of Fairchem and Privi Organics Limited (''Privi'')), National Collateral Management Services Limited (''NCML''), and Saurashtra Freight Private Limited (''Saurashtra'')) at fair value through profit or loss (''FVTPL'') rather than by consolidation.

The company has concluded that FIH Mauritius and FIH Private should continue to be consolidated as these entities continue to provide services relating to the company's investment activities. All intercompany balances, profits and transactions with these subsidiaries are eliminated in full.

Investments in associates – An associate is an entity over which the company has the ability to exercise significant influence, but not control, over the financial and operating policies. As an investment entity, the company accounts for its investments in associates (IIFL Holdings Limited (''IIFL''), 5paisa Capital Limited (''5paisa''), Bangalore International Airport Limited (''BIAL''), Sanmar Chemicals Group (''Sanmar''), and The Catholic Syrian Bank Limited (''CSB'')) at FVTPL rather than under the equity method of accounting.

Foreign currency translation

Functional and presentation currency – The consolidated financial statements are presented in U.S. dollars while the Indian rupee is the functional currency of the company and its consolidated subsidiaries.

Although the company's Indian Investments are denominated in Indian rupees, its primary financial reporting objective is to measure long term capital appreciation in U.S. dollars. Accordingly, the company presents its consolidated financial statements in U.S. dollars to provide comparability with other North American investment entities.

Foreign currency transactions – Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in net foreign exchange gains (losses) in the consolidated statements of earnings. Income and expenses are translated at the average rate of exchange for the period.

Translation to the presentation currency – The consolidated balance sheets and consolidated statements of earnings of Fairfax India and its consolidated subsidiaries are translated to the presentation currency as follows:

- assets and liabilities are translated at the rates of exchange prevailing at the balance sheet dates;
- income and expenses are translated at the average rates of exchange for the periods presented (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- the net unrealized gains or losses resulting from this translation are recognized in accumulated other comprehensive income (loss).

Upon disposal or partial disposal of FIH Mauritius or FIH Private, a proportionate share of the cumulative amount of exchange differences recognized in accumulated other comprehensive income (loss) and accumulated in a separate component in equity would be recycled to the consolidated statement of earnings as part of the determination of the gain or loss on disposal of these consolidated subsidiaries.

Comprehensive income (loss)

Comprehensive income (loss) consists of net earnings (loss) and other comprehensive income (loss) and includes all changes in common shareholders' equity during a period, except for those resulting from investments by owners and distributions to owners. Unrealized foreign currency translation gains (losses), net of income taxes, arising from the translation of the company's Indian rupee functional currency consolidated financial statements to the U.S. dollar presentation currency are recognized in other comprehensive income (loss) and included in accumulated other comprehensive income (loss) until recycled to the consolidated statements of earnings in the future. Accumulated other comprehensive income (loss) is included on the consolidated balance sheets as a component of common shareholders' equity.

Consolidated statements of cash flows

The company's consolidated statements of cash flows are prepared in accordance with the indirect method, classifying cash flows by operating, investing and financing activities.

Cash and cash equivalents – Cash and cash equivalents consists of cash on hand, demand deposits with banks and other short term highly liquid investments with maturities of three months or less when purchased, and excludes cash that is restricted. The carrying value of cash and cash equivalents approximates fair value.

Restricted cash – Restricted cash primarily consists of amounts required to be maintained on deposit with Canadian banks to support the term loans (see note 7). The carrying value of restricted cash approximates fair value.

Total Cash and Investments

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

Classification – Short term investments, bonds and common stocks are classified as FVTPL. The company manages these investments on a fair value basis, using fair value information to assess investment performance and to make investment decisions.

Recognition and measurement – The company recognizes purchases and sales of investments on the trade date, which is the date on which the company commits to purchase or sell the asset. Transactions pending settlement are reflected on the consolidated balance sheets in other assets, payable for partly paid shares, or in payable for rights issue. Transaction costs related to investments classified as FVTPL are expensed as incurred in the consolidated statement of earnings. The company recognizes cash and investments at fair value upon initial recognition.

Subsequent to initial recognition, investments classified as FVTPL are measured at fair value with changes in fair value reported in the consolidated statements of earnings as income comprised of interest, dividends, net realized gains (losses) on investments and net change in unrealized gains (losses) on investments and other costs. Interest represents interest income on short term investments and bonds (except for Sanmar bonds where estimated interest income is included in its fair value measurement (see note 5)) calculated using the effective interest method, net of investment expenses and includes bank interest. Calculation of a debt instrument's effective interest rate does not consider expected credit losses and requires estimates of future cash flows considering all contractual terms of the financial instrument including the stated interest rate, discount or premium, and any origination or structuring fees. Interest receivable is shown separately on the consolidated balance sheets based on the debt instruments' stated rates of interest. Dividends represents dividends received on holdings of common stocks and are recognized when the company's right to receive payment is established. All other changes in fair value are reported in net realized gains (losses) on investments and net change in unrealized gains (losses) on investments and other costs in the consolidated statements of earnings. For short term investments and bonds, the sum of interest income, net realized gains (losses) on investments and net change in unrealized gains (losses) on investments and other costs is equal to their total change in fair value for the reporting period.

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

Derecognition – An investment is derecognized when the rights to receive cash flows from the investment have expired or have been transferred and when the company has transferred substantially all the risks and rewards of ownership.

Short term investments – Highly liquid debt instruments with maturity dates between three months and twelve months when purchased are classified as short term investments.

Bonds – Debt instruments with maturity dates greater than twelve months when purchased, or illiquid debt instruments with maturity dates of less than twelve months when purchased, are classified as bonds. The carrying value of bonds excludes the debt instrument's accrued interest receivable at the stated rate of interest (except for Sanmar bonds where estimated interest receivable is included in its fair value measurement (see note 5)).

Derivatives – Derivatives represent warrants, which derive their value primarily from changes in underlying equity instruments. The fair value of derivatives in a gain position are presented on the consolidated balance sheets within total cash and investments, as derivatives. The fair value of derivatives in a loss position are presented on the consolidated balance sheets in derivative obligation. The initial premium paid for a derivative contract, if any, would be recorded as a derivative asset and subsequently adjusted for changes in the fair value of the contract at each reporting date. Changes in the fair value of derivatives are recorded within net change in unrealized gains (losses) on investments in the consolidated statement of earnings.

Determination of fair value – Fair values for substantially all of the company's investments are measured using market or income approaches. Considerable judgment may be required in interpreting market data used to develop estimates of fair value. Accordingly, actual values realized in future market transactions may differ from the estimates presented in these consolidated financial statements. The use of different market assumptions and/or valuation methodologies may have a material effect on the estimated fair values. The fair values of investments are based on bid prices for financial assets and ask prices for financial liabilities. The company categorizes its fair value measurements using a three level hierarchy in accordance with IFRS (''fair value hierarchy'') as described below:

Level 1 – Inputs represent unadjusted quoted prices for identical instruments exchanged in active markets.

Level 2 – Inputs include directly or indirectly observable inputs (other than Level 1 inputs) such as quoted prices for similar financial instruments exchanged in active markets, quoted prices for identical or similar financial instruments exchanged in inactive markets and other market observable inputs.

Level 3 – Inputs include unobservable inputs used in the measurement of financial instruments. Management is required to use its own assumptions regarding unobservable inputs as there is little, if any, market activity in these instruments or related observable inputs that can be corroborated at the measurement date.

Transfers between fair value hierarchy categories are considered effective from the beginning of the reporting period in which the transfer is identified.

Valuation techniques used by the company's independent pricing service providers and third party broker-dealers include use of prices from similar instruments where observable market prices exist, discounted cash flow analysis, option pricing models, and other valuation techniques commonly used by market participants. The company assesses the reasonableness of pricing received from these third party sources by comparing the fair values received to recent transaction prices for similar assets where available, to industry accepted discounted cash flow models (that incorporate estimates of the amount and timing of future cash flows and market observable inputs such as credit spreads and discount rates) and to option pricing models (that incorporate market observable inputs including the quoted price, volatility and dividend yield of the underlying security and the risk free rate).

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

Where a financial instrument continues to be held by the company at the end of a reporting period, changes in the fair value of that instrument during the reporting period, excluding those changes reported as interest and dividends, are presented in net change in unrealized gains (losses) on investments. On disposition of that financial instrument, its inception-to-date net gain (loss), excluding those changes previously reported as interest and dividends, is presented as net realized gains (losses) on investments in the consolidated statements of earnings. The cumulative unrealized net gain (loss) recognized in prior periods on that financial instrument is then reversed in net change in unrealized gains (losses) on investments in the consolidated statements of earnings. In 2017 net change in unrealized gains on investments and other costs in the consolidated statement of earnings included costs incurred to purchase the additional 10.0% equity interest in BIAL (see note 5).

Income taxes

The provision for (recovery of) income taxes for the period comprises current and deferred income tax. Income taxes are recognized in the consolidated statements of earnings, except to the extent that they relate to items recognized in other comprehensive income (loss) or directly in equity. In those cases, the related taxes are also recognized in other comprehensive income (loss) or directly in equity, respectively.

Current income tax is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the company and its subsidiaries operate and generate taxable income.

Deferred income tax is calculated under the liability method whereby deferred income tax assets and liabilities are recognized for temporary differences between the financial statement carrying amounts of assets and liabilities and their respective income tax bases at the current substantively enacted tax rates. Changes in deferred income tax associated with components of other comprehensive income (loss) are recognized directly in other comprehensive income (loss) while all other changes in deferred income tax are included in the provision for (recovery of) income taxes in the consolidated statements of earnings.

Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. Carry forwards of unused losses or unused tax credits are tax effected and recognized as deferred tax assets when it is probable that future taxable profits will be available against which these losses or tax credits can be utilized.

A deferred income tax liability has not been recognized on unremitted earnings of the company's subsidiaries holdings of Indian Investments where the company has determined it is not probable that those unremitted earnings will be repatriated in the foreseeable future.

Current and deferred income tax assets and liabilities are offset when the income taxes are levied by the same taxation authority and there is a legally enforceable right of offset.

Term loans

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

Equity

Common stock issued by the company is classified as equity when there is no contractual obligation to transfer cash or other financial assets to the holder of the shares. Incremental costs directly attributable to the issue or purchase for cancellation of equity instruments are recognized in equity, net of tax.

Dividends and other distributions to holders of the company's equity instruments are recognized directly in equity.

Share-based payments

The company has restricted share plans or equivalent for its directors with vesting periods of up to ten years from the date of grant. The fair value of restricted share awards on the grant date is amortized to compensation expense, included in general and administration expenses in the consolidated statements of earnings, over the vesting period, with a corresponding increase in share-based payments, net, in the consolidated statements of changes in equity. At each balance sheet date, the company reviews its estimates of the number of restricted share awards expected to vest.

Net earnings (loss) per share

Basic net earnings (loss) per share is calculated by dividing the net earnings (loss) by the weighted average number of subordinate and multiple voting shares issued and outstanding during the period.

Net earnings (loss) per diluted share

Diluted net earnings (loss) per share is calculated by adjusting the weighted average number of subordinate and multiple voting shares outstanding during the period for the dilutive effect, if any, of the contingently issuable subordinate voting shares relating to the performance fee payable to Fairfax (see note 12) that would have been outstanding during the period had all potential subordinate voting shares been issued at the beginning of the period.

New accounting pronouncement adopted in 2018

The company adopted the following amendment, effective January 1, 2018 in accordance with the applicable transitional provisions.

IFRS 9 Financial Instruments (''IFRS 9'')

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

New accounting pronouncements issued but not yet effective

The following new standards and amendments have been issued by the IASB and were not yet effective for the fiscal year beginning January 1, 2018. The company does not expect to adopt any of them in advance of their respective effective dates.

IFRIC Interpretation 23 Uncertainty over Income Tax Treatments (''IFRIC 23'')

In June 2017 the IASB issued IFRIC 23 to clarify how the requirements of IAS 12 *Income Taxes* should be applied when there is uncertainty over income tax treatments. The interpretation is effective for annual periods beginning on or after January 1, 2019, with modified retrospective or retrospective application. Adoption of IFRIC 23 is not expected to have a significant impact on the company's consolidated financial statements.

IFRS Annual Improvements 2015-2017

In December 2017 the IASB issued amendments to clarify the requirements of four IFRS standards. The amendments are effective for annual periods beginning on or after January 1, 2019, primarily with prospective application. Adoption of the amendments is not expected to have a significant impact on the company's consolidated financial statements.

Conceptual Framework for Financial Reporting (''Conceptual Framework'')

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

Definition of Material (Amendments to IAS 1 and IAS 8)

On October 31, 2018 the IASB issued amendments to IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* to clarify the definition of ''material''. The amendments are applied prospectively on or after January 1, 2020, and are not expected to have a significant impact on the company's consolidated financial statements.

4. Critical Accounting Estimates and Judgments

In the preparation of the company's consolidated financial statements, management has made a number of critical accounting estimates and judgments which are discussed below. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Where estimates were made, the reported amounts of assets, liabilities, income and expenses may differ from the amounts that would otherwise be reflected if the ultimate outcome of all uncertainties and future earnings were known at the time the consolidated financial statements were prepared.

Determination of investment entity status

An entity that meets the IFRS 10 *Consolidated Financial Statements* (''IFRS 10'') definition of an investment entity is required to measure its investments in subsidiaries at FVTPL rather than consolidate them (other than those subsidiaries that provide services to the company).

An investment entity is an entity that obtains funds from one or more investors for the purpose of providing them with investment management services, commits to its investors that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both, and measures and evaluates the performance of substantially all of its investments on a fair value basis. The company exercised judgment that it continues to meet the definition of an investment entity, as its strategic objective of investing in Indian Investments and providing investment management services to investors for the purpose of generating returns in the form of long term capital appreciation, remains unchanged. The company has also determined that FIH Mauritius and FIH Private continue to provide investment related services to the company and should continue to be consolidated.

The company may from time to time seek to realize on any of its Indian Investments. The circumstances under which the company may sell some or all of its investments include: (i) where the company believes that the Indian Investments are fully valued or that the original investment thesis has played out; or (ii) where the company has identified other investment opportunities which it believes present more attractive risk-adjusted return opportunities and additional capital is needed to make such alternative investments.

The company would exit its private Indian Investments (''Private Indian Investments'', as disclosed later in note 5) either through initial public offerings or private sales. For publicly traded Indian Investments (''Public Indian Investments'', as disclosed later in note 5), exit strategies may include selling the investments through private placements or in public markets.

Valuation of Private Indian Investments

The valuation of the company's Private Indian Investments are assessed at the end of each reporting period.

For each Private Indian Investment acquired during the reporting period, the transaction price is generally considered to be representative of fair value, subject to changes in market conditions and factors specific to the investee. The company monitors various factors impacting the businesses of its investees and the transaction price of a Private Indian Investment may no longer be an appropriate estimate of fair value upon occurrence of certain events such as significant variances from budgeted earnings; changes in market conditions; changes to the regulatory environment; movements in interest rates, foreign exchange rates and other market variables; and the passage of time.

Estimates and judgments for Private Indian Investments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The company utilizes Fairfax's valuation personnel to assist with the valuation of its investment portfolio. Detailed valuations are performed for those financial instruments that are priced internally, while external pricing received from independent pricing service providers and third party broker-dealers are evaluated by the company for reasonableness. The company does not use independent valuation experts to determine the fair value of its Private Indian Investments. The company's Chief Financial Officer oversees the valuation function and regularly reviews valuation processes and results, including at each quarterly reporting period. Significant valuation matters, particularly those requiring extensive judgment, are communicated to the company's Audit Committee.

Notwithstanding the rigour of the company's valuation processes, the valuation of Private Indian Investments inherently has estimation uncertainty and different assumptions could lead to significantly different fair values. Refer to notes 5 and 6 for additional disclosure related to the valuation of the company's Private Indian Investments.

Income taxes

The company is subject to income taxes in Canada, Mauritius and India, and the company's determination of its tax liability or receivable is subject to review by those applicable tax authorities. The company exercised judgment in assessing that unremitted earnings related to its subsidiaries holdings of Indian Investments, as disclosed in note 10, are not expected to result in taxable amounts as the company has determined it is not probable that those unremitted earnings will be repatriated in the foreseeable future; as a consequence no tax has been recorded in the consolidated financial statements on these unremitted earnings. While the company believes its tax positions to be reasonable, where the company's interpretations differ from those of tax authorities or the timing of realization is not as expected, the provision for income taxes may increase or decrease in future periods to reflect actual experience. The company has Fairfax tax specialist personnel responsible for assessing the income tax consequences of planned transactions and events, and undertaking the appropriate tax planning.

Realization of deferred income tax assets is dependent upon the generation of taxable income in those jurisdictions where the relevant tax losses and temporary differences exist. Tax legislation of each jurisdiction in which the company operates is interpreted to determine the provision for (recovery of) income taxes and expected timing of the reversal of deferred income tax assets and liabilities. The company exercised judgment that certain carryforwards of unused losses or unused tax credits and timing differences disclosed in note 10 should not be recognized as an asset as it was considered not probable that those losses could be utilized by the company.

5. Indian Investments

Throughout the company's consolidated financial statements for the year ended December 31, 2018, the term "Indian Investments" refers to deployed capital invested in Public and Private Indian Investments as disclosed within this note.

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

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

	2018				
	Balance as of January 1, 2018	Purchases	Net change in unrealized gains (losses) on investments[(1)]	Net unrealized foreign currency translation gains (losses)	Balance as of December 31, 2018[(1)]
Public Indian Investments:					
Common stocks:					
IIFL	888,485	–	(203,226)	(71,801)	613,458
Fairchem	149,200	–	(40,711)	(11,915)	96,574
5paisa	19,958	–	(6,474)	(1,571)	11,913
Other	–	94,090	4,032	58	98,180
Total Public Indian Investments	1,057,643	94,090	(246,379)	(85,229)	820,125
Private Indian Investments:					
Sanmar bonds	333,172	–	90,128	(30,524)	392,776
Common stocks:					
BIAL	608,288	67,391	84,311	(55,913)	704,077
Sanmar	556	–	221,454	(4,840)	217,170
NCML	179,054	–	1,719	(15,393)	165,380
CSB	–	88,524[(2)]	–	4,557	93,081
Saurashtra	28,000	–	(772)	(2,385)	24,843
NSE	40,452	–	24,245	(4,412)	60,285
Total Private Indian Investments	1,189,522	155,915	421,085	(108,910)	1,657,612
Total Indian Investments	2,247,165	250,005	174,706	(194,139)	2,477,737

(1) *At December 31, 2018 all Private Indian Investments were classified as Level 3 in the fair value hierarchy. Net change in unrealized gains (losses) on investments related to unrealized gains (losses) on investments held at the end of the reporting period.*

(2) *Comprised of: (i) 100.0% of the partly paid shares ($37,823); and (ii) 40.0% of the warrants that have been paid for as they had features of in-substance equity ($50,701). Excluded from the table is the payable for partly paid shares of CSB of $29,827 on the consolidated balance sheet which represents the 75.0% remaining consideration to be paid on the partly paid shares.*

	2017					
	Balance as of January 1, 2017	Purchases	Transfer due to Merger / Spin-off	Net change in unrealized gains (losses) on investments and other costs(1)	Net unrealized foreign currency translation gains	Balance as of December 31, 2017(1)
Public Indian Investments:						
Common stocks:						
IIFL	265,951	75,175	(19,758)(2)	536,121	30,996	888,485
Fairchem	45,488	–	54,315(3)	42,241	7,156	149,200
5paisa	–	–	19,758(2)	(195)	395	19,958
Total Public Indian Investments	311,439	75,175	54,315	578,167	38,547	1,057,643
Private Indian Investments:						
Sanmar bonds	299,093	–	–	14,843	19,236	333,172
Common stocks:						
BIAL	–	585,591(4)	–	10,902(4)	11,795	608,288
Sanmar	440	–	–	86	30	556
NCML	146,586	25,602	–	(2,298)	9,164	179,054
Saurashtra	–	30,018	–	(3,423)	1,405	28,000
NSE	26,504	–	–	12,032	1,916	40,452
Privi	54,315	–	(54,315)(3)	–	–	–
Total Private Indian Investments	526,938	641,211	(54,315)	32,142	43,546	1,189,522
Total Indian Investments	838,377	716,386	–	610,309	82,093	2,247,165

(1) At December 31, 2017 all Private Indian Investments were classified as Level 3 in the fair value hierarchy. Net change in unrealized gains (losses) on investments related to unrealized gains (losses) on investments held at the end of the reporting period.

(2) The spin-off of 5paisa from IIFL resulted in the reallocation of the fair value of 5paisa out of the cost of IIFL to form the initial cost of 5paisa.

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

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

Public Indian Investments

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

Investment in IIFL Holdings Limited

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

In February 2017 and December 2015 the company acquired 84,641,445 common shares of IIFL (representing a 26.9% equity interest) for aggregate cash consideration of $276,734 (approximately 18.5 billion Indian rupees). In connection with the transaction in February 2017, Fairfax, through its subsidiaries, partially disposed of derivative financial instruments representing an economic interest of 4.99% in IIFL. In accordance with regulations of the Securities and Exchange Board of India (''SEBI'') and the NSE of India, the transaction was subject to certain sale and purchase pricing guidelines and, as a result, the total consideration paid per share approximated fair market value of the equity interest acquired. Contemporaneously with the initial purchase of IIFL common shares by the company in December 2015, Fairfax India and Fairfax provided undertakings to SEBI that they would not take certain actions that could result in the acquisition of control of IIFL. In particular, Fairfax India and Fairfax agreed to limit their voting rights on IIFL shareholder resolutions to 25% of the issued and outstanding common shares of IIFL at the time of voting, even in circumstances when their actual voting rights may exceed 25%. Fairfax India and Fairfax also agreed to limit any additional purchases of IIFL shares such that their collective shareholding in IIFL would not exceed 36% of the issued and outstanding common shares of IIFL unless Fairfax India and Fairfax made an open offer to all IIFL shareholders or SEBI provided its prior consent for such an acquisition.

On October 20, 2017 IIFL spun-off its wholly-owned subsidiary 5Paisa Digital Undertaking through the formation of a new public company, 5paisa Capital Limited (''5paisa'') in a non-cash transaction. The distribution of new common shares of 5paisa to IIFL shareholders was characterized as a return of capital which resulted in Fairfax India recording the initial cost of its investment in 5paisa at its fair value at that date of $19,758, with a corresponding amount recorded as a reduction to the company's cost of its investment in IIFL. Additional details on the 5paisa spin-off transaction are disclosed later in note 5.

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

At December 31, 2018 the fair value of the company's investment in IIFL was $613,458 (December 31, 2017 – $888,485) comprised of 84,641,445 common shares representing a 26.5% equity interest (December 31, 2017 – 26.6%). The changes in fair value of the company's investment in IIFL in 2018 and 2017 are presented in the tables disclosed earlier in note 5.

Investment in Fairchem Speciality Limited

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

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

In February 2016 Fairfax India acquired a 44.7% equity interest in Fairchem for cash consideration of $19,409 (approximately 1.3 billion Indian rupees) and in August 2016 acquired a 50.8% equity interest in Privi for cash consideration of $54,975 (approximately 3.7 billion Indian rupees). On March 14, 2017 Fairchem and Privi were merged with the surviving entity continuing as Fairchem (the ''Merger'') and with no changes to management of the underlying companies. Upon completion of the Merger, Fairfax India had acquired a 48.8% equity interest in the merged company Fairchem for aggregate cash consideration of $74,384 (approximately 5.0 billion Indian rupees).

At December 31, 2018 the fair value of the company's investment in Fairchem was $96,574 comprised of 19,046,078 common shares representing a 48.8% equity interest. At December 31, 2017 the fair value of the company's investment in Fairchem was $149,200 comprised of 18,307,318 common shares ($143,413) and 738,760 compulsorily convertible preference shares (''CCPS'') ($5,787) representing a 48.8% equity interest on a fully diluted basis (or a 48.7% equity interest excluding the impact of the CCPS). The changes in fair value of the company's investment in Fairchem in 2018 and 2017 are presented in the tables disclosed earlier in note 5.

Investment in 5paisa Capital Limited

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

On October 20, 2017 IIFL spun-off its wholly-owned subsidiary 5Paisa Digital Undertaking through the formation of a new public company, 5paisa Capital Limited, listed on the BSE and the NSE of India effective November 16, 2017. This non-cash transaction resulted in Fairfax India receiving one new common share of 5paisa for every 25 common shares of IIFL held for a total of 3,385,657 common shares of 5paisa with a fair value of $19,758. The distribution of new common shares of 5paisa to IIFL shareholders was characterized as a return of capital which resulted in Fairfax

India recording the initial cost of its investment in 5paisa at its fair value at that date of $19,758, with a corresponding amount recorded as a reduction to the company's cost of its investment in IIFL.

Fairfax India and Fairfax provided undertakings to SEBI that were identical to those in respect of its investment in IIFL, specifically they agreed that they would not take certain actions that could result in the acquisition of control of 5paisa.

At December 31, 2018 the fair value of the company's investment in 5paisa was $11,913 (December 31, 2017 – $19,958) comprised of 3,385,657 common shares representing a 26.6% equity interest (December 31, 2017 – 26.6%). The changes in fair value of the company's investment in 5paisa in 2018 and 2017 are presented in the tables disclosed earlier in note 5.

Investment in Other Public Indian Investments

During 2018 the company acquired common shares of public companies in the financial services sector, listed on both the BSE and the NSE of India (investment in ''Other Public Indian Investments'') for aggregate cash consideration of $94,090. At December 31, 2018 the fair value of the company's investment in Other Public Indian Investments was $98,180 (December 31, 2017 – nil) 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 in 2018 are presented in the table disclosed earlier in note 5.

Private Indian Investments

The fair values of Fairfax India's Private Indian Investments cannot be derived from an active market and accordingly, are determined using industry accepted valuation techniques and models, excluding National Stock Exchange of India Limited (''NSE'') where the fair value at December 31, 2018 was based on recent third party transactions. Market observable inputs are used where possible, with unobservable inputs used where necessary. Use of unobservable inputs can involve significant judgment and may materially affect the reported fair value of these investments.

Investment in Bangalore International Airport Limited

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

On March 24, 2017 Fairfax India acquired a 38.0% equity interest in BIAL for cash consideration of $385,498 (approximately 25.2 billion Indian rupees). A portion of that equity interest (33.0%) was purchased from a wholly-owned subsidiary of GVK Power and Infrastructure Limited (''GVK'') where Fairfax issued a put option to GVK which gave GVK the right to sell some or all of its remaining 10.0% equity interest in BIAL to Fairfax or Fairfax India until April 8, 2019 (the ''Put Option''). Fairfax India acquired the remaining 5.0% equity interest from Flughafen Zürich AG (''Zürich'').

On July 13, 2017 Fairfax India acquired the additional 10.0% equity interest in BIAL from GVK for cash consideration of $200,093 (12.9 billion Indian rupees) which the company determined included $74,202 (approximately 4.8 billion Indian rupees) of consideration in excess of the fair value of those additional shares acquired. In 2017 the costs incurred of $74,202 were recorded in net change in unrealized gains on investments and other costs in the consolidated statement of earnings. The Put Option was terminated upon completion of the company's acquisition of the additional 10.0% equity interest in BIAL from GVK.

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

At December 31, 2018 the company estimated the fair value of its investment in BIAL using a discounted cash flow analysis for its two business units based on multi-year free cash flow projections with assumed after-tax discount rates ranging from 11.3% to 12.8% and a long term growth rate of 3.5% (December 31, 2017 – 10.4% to 11.7%, and 3.0%, respectively), and the estimated fair value of the monetizable leasehold land (approximately 460 acres) based on third party valuations with an assumed 20.0% discount factor (December 31, 2017 – 20.0%) for the leasehold nature of the asset. At December 31, 2018 free cash flow projections were based on EBITDA estimates derived from financial information for BIAL's two business units prepared in the third quarter of 2018 (December 31, 2017 – fourth quarter of 2017) by BIAL's management. Discount rates were based on the company's assessment of risk premiums to the appropriate risk-free rate of the economic environment in which BIAL operates. At December 31, 2018 the company's internal valuation model indicated that the fair value of the company's investment in BIAL was $704,077 (December 31, 2017 – $608,288). The changes in fair value of the company's investment in BIAL in 2018 and 2017 are presented in the tables disclosed earlier in note 5.

Investment in Sanmar Chemicals Group

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

In April 2016 Fairfax India invested $250,000 in Sanmar comprised of $1,000 in common shares (representing a 30.0% equity interest) and $249,000 in bonds, and in September 2016 invested an additional $50,000 in Sanmar bonds. Both tranches of Sanmar bonds mature on April 22, 2023 (7 years from the date of issuance of the first tranche), subject to earlier redemption at the option of Sanmar under certain circumstances. In lieu of cash, the coupon payment on the bond is payable in kind in the form of additional Sanmar bonds over the life of the financial instrument. A redemption premium may also be payable in kind to the company resulting in an effective annual interest rate of 13.0%.

On September 17, 2018 the company announced that it had entered into an agreement with Sanmar pursuant to which the $299,000 in Sanmar bonds will be settled for proceeds equal to, at the date of cancellation, the bonds' principal amount plus an effective annual interest rate of 13.0%. The company will invest $201,733 at period end exchange rates (approximately 14.1 billion Indian rupees) of the net proceeds received from the settlement of the Sanmar bonds into 171,710 newly issued common shares of Sanmar, increasing the company's equity interest in Sanmar to 42.9% from 30.0% at December 31, 2018. The company will receive the remaining net proceeds in cash that had a value of approximately $191 million at December 31, 2018 based on the fair value of the Sanmar bonds at that date of $392,776. This transaction is subject to customary closing conditions and third party consents, and is expected to be completed in the first half of 2019.

Sanmar Common Shares

At December 31, 2018 the company estimated the fair value of its investment in Sanmar common shares using a discounted cash flow analysis based on multi-year free cash flow projections with assumed after-tax discount rates ranging from 13.5% to 16.6% and long term growth rates ranging from 3.0% to 4.0% (December 31, 2017 – 15.2% to 19.5%, and 2.0% to 3.6%, respectively). At December 31, 2018 free cash flow projections were based on EBITDA estimates derived from financial information for Sanmar's four business units (with additional financial information and analysis completed for Chemplast's underlying business units involved in new capital projects) prepared in the third quarter of 2018 (December 31, 2017 – fourth quarter of 2017) by Sanmar's management. Discount rates were based on the company's assessment of risk premiums to the appropriate risk-free rate of the economic environment in which Sanmar operates. In 2018 Fairfax India recorded a net change in unrealized gains on investments of $221,454 on its investment in Sanmar common shares primarily as a result of: (i) positive operational developments at Sanmar Egypt (successful completion of its increased capacities in Egypt) and Chemplast (will benefit from the completion of new capital projects); (ii) continued strong demand for PVC and related products in India, Europe, the Middle East and North Africa; and, (iii) the decrease in the after-tax discount rates (principally related to the decreased risk at Sanmar Egypt as a result of the completion of its capital expenditure project to increase capacity). At December 31, 2018 the company's internal valuation model indicated that the fair value of the company's investment in Sanmar common shares was $217,170 (December 31, 2017 – $556). The changes in fair value of the company's investment in Sanmar common shares in 2018 and 2017 are presented in the tables disclosed earlier in note 5.

Sanmar Bonds

At December 31, 2018 the company estimated the fair value of its investment in Sanmar bonds using an industry accepted discounted cash flow and option pricing model that incorporated Sanmar's estimated credit spread of 5.6% (December 31, 2017 – 8.2%) and assumptions related to certain redemption options embedded in the bonds. The estimated credit spread was based on the credit spreads of a peer group of comparable companies adjusted for credit risk specific to Sanmar. In 2018 Fairfax India recorded a net change in unrealized gains on investments of $90,128 on its investment in Sanmar bonds primarily relating to a decrease in the estimated credit spread used in the internal valuation model as a result of factors disclosed earlier under the Sanmar Common Shares heading which increased the company's estimated enterprise value for Sanmar. At December 31, 2018 the company's internal valuation model indicated that the fair value of Sanmar bonds was $392,776 (December 31, 2017 – $333,172). The changes in fair value of the company's investment in Sanmar bonds in 2018 and 2017 are presented in the tables disclosed earlier in note 5.

Investment in National Collateral Management Services Limited

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

On February 3, 2017 NCML entered into a 30 year concession agreement with the Food Corporation of India to construct 11 silo locations with an expected substantial completion date in late 2019, that were financed by NCML through debt and common equity. On August 8, 2017 Fairfax India participated in an NCML rights issue through which the company acquired its pro-rata share of 18,945,840 common shares of NCML at 86.00 Indian rupees per share for total cash consideration of $25,602 (approximately 1.6 billion Indian rupees), comprised of: (i) cash consideration ($9,601 (approximately 611 million Indian rupees)) settled on the closing date; and, (ii) a payable for rights issue recorded on the consolidated balance sheet at December 31, 2017 ($16,001 (approximately 1.0 billion Indian rupees)), which was settled in January 2018. NCML issued 19,071,602 common shares to the participating shareholders as part of the rights issue and will use the proceeds to supplement its funding requirements for its silo projects. Upon completion of this transaction, Fairfax India held an 89.5% equity interest (since its initial investment in 2015) in NCML for aggregate cash consideration of $174,318 (approximately 11.3 billion Indian rupees).

At December 31, 2018 the company estimated the fair value of its investment in NCML using a discounted cash flow analysis based on multi-year free cash flow projections with assumed after-tax discount rates ranging from 12.0% to 21.8% and long term growth rates ranging from 2.4% to 6.0% (December 31, 2017 – 12.0% to 19.9%, and 2.4% to 6.0%, respectively). At December 31, 2018 free cash flow projections were based on EBITDA estimates derived from financial information for NCML's business units prepared in the third quarter of 2018 (December 31, 2017 – fourth quarter of 2017) by NCML's management. Discount rates were based on the company's assessment of risk premiums to the appropriate risk-free rate of the economic environment in which NCML operates. At December 31, 2018 the company's internal valuation model indicated that the fair value of the company's investment in NCML was $165,380 (December 31, 2017 – $179,054). The changes in fair value of the company's investment in NCML in 2018 and 2017 are presented in the tables disclosed earlier in note 5.

Investment in The Catholic Syrian Bank Limited

The Catholic Syrian Bank Limited (''CSB''), a private company headquartered in Thrissur, India, was established in 1920 and is a full-service bank offering retail banking, non-resident Indian banking services, small-to-medium enterprise and wholesale banking services through 418 branches and 270 automated teller machines across India.

On February 20, 2018 the company entered into an agreement to acquire a 51.0% equity interest, on a fully diluted basis, in CSB for $168,492 (approximately 12.1 billion Indian rupees). The company's investment in securities of CSB, comprised of common shares and warrants (to purchase 66.5 million common shares), were payable as follows: (i) consideration payable on initial closing for 25.0% of the common shares and 40.0% of the warrants; and, (ii) remaining 75.0% of the common shares payable within 12 months of the initial closing, upon request by CSB, and 60.0% of the warrants payable within 18 months of the initial closing, in one or more tranches, either upon request by CSB or at the option of Fairfax India.

CSB Common Shares

On October 19, 2018 the company completed the initial investment in CSB and recorded $88,524 (approximately 6.5 billion Indian rupees) and $28,367 (approximately 2.1 billion Indian rupees) within common stocks and payable for partly paid shares on the consolidated balance sheet (''Tranche 1''). The CSB common shares of $88,524 were comprised of: (i) 19.8 million common shares that represented 100.0% of the common shares received for $37,823 (approximately 2.8 billion Indian rupees) representing a 19.7% equity interest; and, (ii) 40.0% of the warrants to purchase 26.6 million common shares for $50,701 (approximately 3.7 billion Indian rupees) reflected as common shares as they had features of in-substance equity.

The cash consideration paid by the company upon closing Tranche 1 of $60,157 (approximately 4.4 billion Indian rupees) represented 25.0% of the consideration payable for the common shares for $9,456 ($37,823 net of the payable for partly paid shares of $28,367) and 40.0% of the warrants for $50,701.

The initial transaction price for Tranche 1 was considered to approximate fair value at December 31, 2018 as there has been no significant changes to CSB's business, capital structure and operating environment and the key assumptions in the company's acquisition valuation model continued to be valid. At December 31, 2018 the fair value of the company's investment in CSB (comprised of 100.0% of the common shares and 40.0% of the warrants) was $93,081 representing a 36.4% effective equity interest in CSB which included the warrants that are in-substance equity. In 2018 the change in fair value of the company's investment in CSB related to unrealized foreign currency translation gains as presented in the table disclosed earlier in note 5.

Payable for partly paid shares of CSB

The remaining consideration payable for 75.0% of the common shares of $29,827 at period end exchange rates (approximately 2.1 billion Indian rupees) is payable within 12 months of Tranche 1, upon request by CSB, and recorded within payable for partly paid shares on the consolidated balance sheet at December 31, 2018.

CSB Warrants – Derivative

The remaining consideration payable for 60.0% of the warrants of $79,968 at period end exchange rates (approximately 5.6 billion Indian rupees) is payable within 18 months of Tranche 1, in one or more tranches, either upon request by CSB or at the option of Fairfax India, and represents a derivative instrument. At December 31, 2018 the company estimated the fair value of the derivative to be nil calculated as the difference between the CSB common shares' fair value (transaction price of 140 Indian rupees per share) and the effective exercise price of the CSB warrants (140 Indian rupees).

Investment in Saurashtra Freight Private Limited

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

On February 14, 2017 Fairfax India acquired a 51.0% equity interest in Saurashtra for cash consideration of $30,018 (approximately 2.0 billion Indian rupees).

At December 31, 2018 the company estimated the fair value of its investment in Saurashtra using a discounted cash flow analysis based on multi-year free cash flow projections with assumed after-tax discount rates ranging from 15.6% to 16.0% and long term growth rates ranging from 4.0% to 5.0% (December 31, 2017 – 14.6% to 14.7%, and 4.0% to 5.0%, respectively). At December 31, 2018 free cash flow projections were based on EBITDA estimates derived from financial information for Saurashtra's two business units prepared in the fourth quarter of 2018 (December 31, 2017 – fourth quarter of 2017) by Saurashtra's management. The discount rates were based on the company's assessment of risk premiums to the appropriate risk-free rate of the economic environment in which Saurashtra operates. At December 31, 2018 the company's internal valuation model indicated that the fair value of the company's investment in Saurashtra was $24,843 (December 31, 2017 – $28,000). The changes in fair value of the company's investment in Saurashtra in 2018 and 2017 are presented in the tables disclosed earlier in note 5.

Investment in National Stock Exchange of India Limited

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

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

At December 31, 2018 the company's estimated fair value of its investment in NSE of $60,285 was based on recent third party transactions completed in the fourth quarter of 2018, and corroborated by the company through direct confirmation. At December 31, 2017 the estimated fair value of the company's investment in NSE was based on an internal market approach valuation model. The model referenced the earnings multiple of a peer group of comparable companies that had a median earnings multiple of 26.2 times, that when applied to NSE's earnings implied an estimated fair value at December 31, 2017 of $40,452. The changes in fair value of the company's investment in NSE in 2018 and 2017 are presented in the tables disclosed earlier in note 5.

Investment in India Housing Fund

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

Subsequent to December 31, 2018

On January 7, 2019 the company invested 25.0% or $6,250 (approximately 437 million Indian rupees) of the committed investment amount in IH Fund, with the remaining 75.0% or $18,750 to be drawn down within a 2 year period.

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:

	December 31, 2018					December 31, 2017				
	Quoted prices (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total fair value of assets	Total fair value of assets in Indian rupees (in millions)	Quoted prices (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total fair value of assets	Total fair value of assets in Indian rupees (in millions)
Cash and cash equivalents	21,240	–	–	21,240	1,483	13,244	–	–	13,244	845
Restricted cash[1]	13,833	–	–	13,833	966	10,598	–	–	10,598	676
	35,073	–	–	35,073	2,449	23,842	–	–	23,842	1,521
Short term investments – U.S. treasury bills	–	–	–	–	–	27,481	–	–	27,481	1,754
Bonds:										
Government of India[2]	–	88,997	–	88,997	6,213	–	259,356	–	259,356	16,554
Indian corporate[2]	–	94,613	–	94,613	6,605	–	101,724	–	101,724	6,493
Sanmar	–	–	392,776	392,776	27,422	–	–	333,172	333,172	21,266
	–	183,610	392,776	576,386	40,240	–	361,080	333,172	694,252	44,313
Common stocks:										
IIFL	613,458	–	–	613,458	42,829	888,485	–	–	888,485	56,710
Fairchem	96,574	–	–	96,574	6,742	149,200	–	–	149,200	9,523
5paisa	11,913	–	–	11,913	832	19,958	–	–	19,958	1,274
Other	98,180	–	–	98,180	6,855	–	–	–	–	–
BIAL	–	–	704,077	704,077	49,155	–	–	608,288	608,288	38,825
Sanmar	–	–	217,170	217,170	15,162	–	–	556	556	36
NCML	–	–	165,380	165,380	11,546	–	–	179,054	179,054	11,429
CSB	–	–	93,081	93,081	6,498	–	–	–	–	–
Saurashtra	–	–	24,843	24,843	1,734	–	–	28,000	28,000	1,787
NSE	–	–	60,285	60,285	4,209	–	–	40,452	40,452	2,582
	820,125	–	1,264,836	2,084,961	145,562	1,057,643	–	856,350	1,913,993	122,166
Total cash and investments	855,198	183,610	1,657,612	2,696,420	188,251	1,108,966	361,080	1,189,522	2,659,568	169,754
	31.7%	6.8%	61.5%	100.0%	100.0%	41.7%	13.6%	44.7%	100.0%	100.0%

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

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

Transfers between fair value hierarchy levels are considered effective from the beginning of the reporting period in which the transfer is identified. During 2018 and 2017 there were no transfers of financial instruments between Level 1 and Level 2. During 2017 as a result of the Merger of Fairchem and Privi, described in note 5, the investment in Privi was transferred out of Level 3 and aggregated with the Level 1 investment in Fairchem.

A summary of changes in fair value of the company's Private Indian Investments (classified as Level 3) denominated in the company's functional currency of the Indian rupee for the years ended December 31 was as follows:

Indian rupees *(in millions)*	**Bonds**	**Common stocks**							
	Sanmar	**BIAL**	**Sanmar**	**NCML**	**CSB**	**Saurashtra**	**NSE**	**Privi**	**Total**
Balance as of January 1, 2018	21,266	38,825	36	11,429	–	1,787	2,582	–	75,925
Purchases	–	4,571	–	–	6,498	–	–	–	11,069
Net change in unrealized gains (losses) on investments	6,156	5,759	15,126	117	–	(53)	1,627	–	28,732
Balance as of December 31, 2018	27,422	49,155	15,162	11,546	6,498	1,734	4,209	–	115,726
Balance as of January 1, 2017	20,299	–	30	9,949	–	–	1,799	3,686	35,763
Purchases	–	38,116(1)	–	1,629	–	2,010	–	–	41,755
Transfer out of category	–	–	–	–	–	–	–	(3,686)	(3,686)
Net change in unrealized gains (losses) on investments and other costs	967	709(1)	6	(149)	–	(223)	783	–	2,093
Balance as of December 31, 2017	21,266	38,825	36	11,429	–	1,787	2,582	–	75,925

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

The changes in fair value of the company's Private Indian Investments (classified as Level 3) in the company's presentation currency of U.S. dollars is disclosed in note 5. For all Private Indian Investments classified as Level 3 in the fair value hierarchy, net change in unrealized gains (losses) on investments related to unrealized gains (losses) on investments held at the end of the reporting periods.

The table that follows illustrates the potential impact on net earnings of various combinations of changes in unobservable inputs in the company's internal valuation models for its Private Indian Investments classified as Level 3 in the fair value hierarchy at December 31, 2018. The analysis assumes variations within a reasonably possible range determined by the company based on an analysis of the return on various equity indexes, management's knowledge of the Indian equity markets and the potential impact of changes in interest rates. This sensitivity analysis excludes the company's investments in CSB and NSE as the company determined that there were no significant unobservable inputs suited for a sensitivity analysis.

Investments	**Fair value of investment**	**Valuation technique**	**Significant unobservable inputs**	**Significant unobservable inputs used in the internal valuation models**	**Hypothetical $ change effect on fair value measurement(1)**	**Hypothetical $ change effect on net earnings(1)**
Bonds: Sanmar	$392,776	Discounted cash flow and option pricing model	Credit spread	5.6%	(15,715) / 16,294	(11,551) / 11,976
Common Stocks:						
BIAL	$704,077	Discounted cash flow	After-tax discount rate	11.3% to 12.8%	(81,776) / 121,053	(70,941) / 105,013
			Long term growth rate	3.5%	10,517 / (9,865)	9,123 / (8,558)
Sanmar	$217,170	Discounted cash flow	After-tax discount rate	13.5% to 16.6%	(32,962) / 36,177	(28,595) / 31,384
			Long term growth rate	3.0% to 4.0%	8,865 / (8,467)	7,690 / (7,345)
NCML	$165,380	Discounted cash flow	After-tax discount rate	12.0% to 21.8%	(23,953) / 27,540	(20,779) / 23,891
			Long term growth rate	2.4% to 6.0%	8,874 / (8,270)	7,698 / (7,174)
Saurashtra	$24,843	Discounted cash flow	After-tax discount rate	15.6% to 16.0%	(706) / 767	(612) / 665
			Long term growth rate	4.0% to 5.0%	248 / (238)	215 / (206)

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

Fixed Income Maturity Profile

Bonds are summarized by their earliest contractual maturity date in the table that follows. Actual maturities may differ from maturities shown below due to the existence of call and put features. At December 31, 2018 bonds containing call features represented $392,776 (December 31, 2017 – $333,172) of the total fair value of bonds. At December 31, 2018 and 2017 there were no bonds containing put features.

	December 31, 2018		December 31, 2017	
	Amortized cost	**Fair value**	**Amortized cost**	**Fair value**
Due in 1 year or less	284,114	392,776	310,767	333,172
Due after 1 year through 5 years	2,830	2,803	–	–
Due after 5 years through 10 years	155,035	156,262	337,414	334,457
Due after 10 years	25,965	24,545	28,498	26,623
	467,944	576,386	676,679	694,252
Effective interest rate(1)		7.9%		7.4%

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

Investment Income

An analysis of investment income for the years ended December 31 is summarized in the table that follows:

Interest and dividends

	2018	**2017**
Interest:		
Cash and cash equivalents	408	349
Short term investments	177	144
Bonds(1)	21,074	21,355
	21,659	21,848
Dividends: Common stocks	8,699	8,627

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

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

	2018			2017		
	Net realized gains (losses)	Net change in unrealized gains (losses)	Net gains (losses)	Net realized gains (losses)	Net change in unrealized gains (losses) and other costs	Net gains (losses)
Net gains (losses) on investments:						
Short term investments	(3)	–	(3)	–	–	–
Bonds	(7,982)	94,420[(1)]	86,438	1,195	(3,189)[(1)]	(1,994)
Common stocks	–	84,578[(2)]	84,578	–	595,466[(2)]	595,466
	(7,985)	178,998	171,013	1,195	592,277	593,472
Net foreign exchange gains (losses) on:						
Cash and cash equivalents	3,651	–	3,651	(27,531)[(4)]	–	(27,531)
Investments	1,489	465	1,954	(1,244)	(664)	(1,908)
Term loans	(25,407)[(3)]	(13,131)[(3)]	(38,538)	9,812[(3)]	4,764	14,576
Other	(1,920)	–	(1,920)	586	–	586
	(22,187)	(12,666)	(34,853)	(18,377)	4,100	(14,277)

(1) In 2018, comprised of unrealized gains from Sanmar bonds ($90,128) and Government of India bonds ($5,536), partially offset by unrealized losses from Indian corporate bonds ($1,244). In 2017, comprised of unrealized losses from Government of India bonds ($14,086) and Indian corporate bonds ($3,946), partially offset by unrealized gains from Sanmar bonds ($14,843).

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

(3) In 2018 net realized foreign exchange loss of $25,407 related to the extinguishment of the $400.0 million term loan, and the net change in unrealized loss of $13,131 was comprised of the reversal of the prior year unrealized foreign exchange gain of $4,527 on the $400.0 million term loan and unrealized foreign exchange loss of $8,604 on the $550.0 million term loan. In 2017 net realized foreign exchange gain of $9,812 related to the early settlement of a 2 year secured term loan with a principal amount of $225,000 on March 31, 2017.

(4) Primarily related to the U.S. dollar net proceeds received from the secondary Offerings (see note 8) that were held in U.S. dollar denominated cash equivalents until the funds were partially deployed to acquire the 38.0% equity interest in BIAL.

7. Term Loans

	December 31, 2018			December 31, 2017		
	Principal	Carrying value[(1)]	Fair value[(2)]	Principal	Carrying value	Fair value[(2)]
Secured Term Loans:						
1 Year Term Loan, floating rate due June 28, 2019	550,000	547,228	550,000	–	–	–
1 Year Term Loan, floating rate due July 10, 2018	–	–	–	400,000	400,000	400,000
	550,000	547,228	550,000	400,000	400,000	400,000

(1) Principal net of unamortized issue costs.

(2) Principal approximated fair value at December 31, 2018 and 2017.

On June 28, 2018 the company completed a $550,000 principal amount, 1 year secured term loan, with an option to extend for an additional year (‘‘$550.0 million term loan’’), with a syndicate led by a Canadian bank, which amended and restated the existing 1 year secured term loan with a principal amount of $400,000 (‘‘$400.0 million term loan’’). The $550.0 million term loan bears interest at a rate of LIBOR plus 350 basis points. At December 31, 2018 the $550.0 million term loan was recognized net of unamortized issuance costs of $2,772 (issuance costs of $5,545 less amortization of $2,773) (December 31, 2017 – nil) and recorded in term loans on the consolidated balance sheet. The issuance costs are amortized over one year and recorded in interest expense in the consolidated statement of earnings. During 2018 the company used a portion of the incremental net proceeds received from the $550.0 million term loan to acquire common shares in an Other Public Indian Investment ($89,114) (see note 5).

On July 11, 2017 the company entered into an agreement with a Canadian bank for the $400.0 million term loan bearing interest at a rate of LIBOR plus 325 to 375 basis points. On July 13, 2017 the company used a portion of the net proceeds from the $400.0 million term loan to complete the additional 10.0% investment in BIAL of $200,093 and participate in the NCML rights issue (see note 5). Upon completion of the $550.0 million term loan, the $400.0 million term loan was accounted for as an extinguishment of debt with no unamortized issuance costs released to the consolidated statement of earnings in 2018.

Under the terms of the $550.0 million term loan, the company is required to maintain a debt service reserve account to fund the term loan interest payments. The cash held in the debt service reserve account is classified as restricted cash on the consolidated balance sheets. The $550.0 million term loan includes a financial covenant that requires the company to maintain common shareholders' equity of not less than $1.5 billion, increased from a $1.3 billion financial covenant in the $400.0 million term loan. At December 31, 2018 the company was in compliance with the $550.0 million term loan financial covenant.

Interest Expense

In 2018 interest expense of $28,898 (2017 – $15,664) was comprised of interest expense of $26,125 (2017 – $11,414) and the amortization of the issuance costs of $2,773 (2017 – issuance costs of $3,022 on the $400.0 million term loan and the release of unamortized issuance costs on a 2 year secured term loan with a principal amount of $225,000 of $1,228 on extinguishment of that term loan).

8. Common Shareholders' Equity

Authorized Capital

The company's authorized share capital consists of: (i) an unlimited number of multiple voting shares that may only be issued to Fairfax or its affiliates; (ii) an unlimited number of subordinate voting shares; and, (iii) an unlimited number of preference shares, issuable in series. Except as provided in any special rights or restrictions attaching to any series of preference shares issued from time to time, the preference shares will not be entitled to vote at any meeting of the shareholders of the company.

Issued Capital

Issued capital at December 31, 2018 included 30,000,000 (December 31, 2017 – 30,000,000) multiple voting shares and 122,861,534 (December 31, 2017 – 117,432,631) subordinate voting shares without par value. Each subordinate voting share carries one vote per share at all meetings of shareholders except for separate meetings of holders of another class of shares. Fairfax India's subordinate voting shares trade on the Toronto Stock Exchange ("TSX") under the symbol FIH.U. Each multiple voting share carries fifty votes per share at all meetings of shareholders except for separate meetings of holders of another class of shares. Fairfax, through its subsidiaries, owns all the issued and outstanding multiple voting shares, which are not publicly traded. At December 31, 2018 there were no preference shares outstanding.

Common stock

The number of shares outstanding was as follows:

	2018	**2017**
Subordinate voting shares – January 1	117,432,631	74,881,031
Issuances of shares	7,663,685	42,553,500
Purchases for cancellation	(2,234,782)	(1,900)
Subordinate voting shares – December 31	122,861,534	117,432,631
Multiple voting shares – beginning and end of year	30,000,000	30,000,000
Common shares effectively outstanding – December 31	152,861,534	147,432,631

Capital transactions

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

On January 13, 2017 the company completed an underwritten public offering of 12,766,000 subordinate voting shares at a price of $11.75 per share. Concurrent with the public offering, Fairfax and Ontario Municipal Employees Retirement System (''OMERS'') acquired 12,766,000 and 17,021,500 subordinate voting shares, respectively, at a price of $11.75 per subordinate voting share in a private placement (the ''Concurrent Private Placement'' and, together with the public offering, collectively the ''secondary Offerings''), resulting in net proceeds of $493,504, after commissions and expenses of $6,500. Net proceeds from the secondary Offerings were used to acquire additional Indian Investments, for general corporate purposes, and to repay a 2 year secured term loan with a principal amount of $225,000.

Purchase of Shares

During 2018, under the terms of the normal course issuer bid, the company purchased for cancellation 2,234,782 subordinate voting shares (2017 – 1,900) for a net cost of $32,218 (2017 – $27), of which $8,695 was charged to retained earnings (2017 – $8).

Dividends

The company did not pay any dividends on its outstanding multiple and subordinate voting shares during 2018 and 2017.

9. Net Earnings per Share

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

	2018	2017
Net earnings – basic and diluted	96,432	452,509
Weighted average common shares outstanding – basic	153,108,655	146,035,470
Contingently issuable subordinate voting shares	–	7,663,685
Weighted average common shares outstanding – diluted	153,108,655	153,699,155
Net earnings per common share – basic	$ 0.63	$ 3.10
Net earnings per common share – diluted	$ 0.63	$ 2.94

At December 31, 2018 there were no contingently issuable subordinate voting shares to Fairfax relating to the performance fee payable for the second calculation period (December 31, 2017 – 7,663,685 related to the first calculation period). The performance fee for the second calculation period is assessed quarterly and relates to the three-year period from January 1, 2018 to December 31, 2020 (for the first calculation period, three-year period from January 30, 2015 to December 31, 2017). Under the terms of the Investment Advisory Agreement (defined in note 12), if a performance fee is payable for period ending on December 31, 2020, settlement of the performance fee will take place in subordinate voting shares of the company if the market price per share is less than two times the then book value per share. The number of subordinate voting shares issued would be calculated based on the VWAP. Refer to note 12 for further details on the contingently issuable subordinate voting shares in the event that a performance fee is determined to be payable.

10. Income Taxes

The company's provision for (recovery of) income taxes for the years ended December 31 are summarized in the following table:

	2018	2017
Current income tax:		
Current year expense (recovery)	2,001	(1,768)
Adjustment to prior years' income taxes	495	(650)
	2,496	(2,418)
Deferred income tax:		
Origination and reversal of temporary differences	622	–
Adjustments to prior years' deferred income taxes	83	–
	705	–
Provision for (recovery of) income taxes	3,201	(2,418)

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

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

On March 29, 2018 India enacted the Finance Act 2018 which repealed, with effect from April 1, 2018, the long term capital gains tax exemption which was available in respect of transfers of equity shares of Indian companies on which Securities Transaction Tax was paid at the time of acquisition and transfer of such shares. As a result, long term capital gains realized on such transfers will generally be taxed at a rate of 10.0%. However, grandfathering of the long term capital gains exemption in respect of any accrued gain on such shares held as of January 31, 2018 will generally be available to the extent of the accrued gain as of January 31, 2018. Capital gains realized by a tax resident of Mauritius on a transfer of equity shares of an Indian company which were acquired prior to April 1, 2017 will continue to be exempt from capital gains tax in India by virtue of the India-Mauritius tax treaty, notwithstanding the repeal of the long term capital gains tax exemption under Indian domestic law. In addition, a long term capital gain realized by a Mauritius tax resident on shares acquired on or after April 1, 2017, and sold prior to March 31, 2019, will continue to be taxed at the rate of 50.0% of the prevailing domestic Indian capital gains tax rate by virtue of the India-Mauritius tax treaty.

At December 31, 2018 the company evaluated the potential impact of the application of capital gains tax in India on any future dispositions of investments in equity shares held by FIH Mauritius and FIH Private and recorded deferred income taxes of $705 (primarily related to unrealized gains in Other Public Indian Investments acquired during 2018). The company will continue to evaluate the potential impact of the Indian capital gains tax as it relates to any future dispositions of investments in equity shares of its Indian Investments.

On July 31, 2018 Mauritius enacted the Finance (Miscellaneous Provision) Act (the ''Mauritius Finance Act'') which abolishes, with effect from January 1, 2019, the deemed Foreign Tax Credit (''FTC'') regime available to Global Business License companies. For entities holding a Category 1 Global Business License issued before October 16, 2017 (held by both FIH Mauritius and FIH Private) the deemed FTC regime will continue to apply until June 30, 2021. In place of the deemed FTC, the Mauritius Finance Act introduces an 80% exemption regime on foreign source income including certain foreign dividends and foreign source interest. The 80% exemption is available upon meeting predefined substance requirements issued by the Financial Services Commission. The company evaluated the potential impact of the Mauritius Finance Act and concluded that it will not have a material impact to the company.

The company's earnings (loss) before income taxes by jurisdiction and the associated provision for (recovery of) income taxes for 2018 and 2017 is summarized in the following table:

	2018			2017		
	Canada	**Mauritius**	**Total**	**Canada**	**Mauritius**	**Total**
Earnings (loss) before income taxes	(61,135)	160,768	99,633	(28,300)	478,391	450,091
Provision for (recovery of) income taxes	–	3,201	3,201	(2,886)	468	(2,418)
Net earnings (loss)	(61,135)	157,567	96,432	(25,414)	477,923	452,509

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

A reconciliation of the provision for income taxes calculated at the Canadian statutory income tax rate to the provision for (recovery of) income taxes at the effective tax rate in the consolidated financial statements for the years ended December 31 are summarized in the following table:

	2018	**2017**
Canadian statutory income tax rate	26.5%	26.5%
Provision for income taxes at the Canadian statutory income tax rate	26,403	119,274
Tax rate differential on income earned outside of Canada	(39,250)	(154,425)
Provision (recovery) relating to prior years	578	(650)
Change in unrecorded tax benefit of losses and temporary differences	6,760	28,670
Foreign exchange effect	8,690	4,713
Other including permanent differences	20	–
Provision for (recovery of) income taxes	3,201	(2,418)

The tax rate differential on income earned outside of Canada of $39,250 in 2018 (2017 – $154,425) principally reflected the impact of net investment income taxed in India and Mauritius at lower rates.

The change in unrecorded tax benefit of losses and temporary differences of $6,760 in 2018 principally reflected changes in unrecorded deferred tax assets incurred related to net operating loss carryforwards in Canada of $7,448 that were not recorded by the company as the related pre-tax losses did not meet the recognition criteria under IFRS, partially offset by foreign accrual property losses of $648 with respect to the company's wholly-owned subsidiaries that were not recorded consistent with the net operating loss carryforwards. The change in unrecorded tax benefit of losses and temporary differences of $28,670 in 2017 principally reflected changes in unrecorded deferred tax assets incurred related to foreign accrual property losses of $25,884 with respect to the company's wholly-owned subsidiaries and net operating loss carryforwards in Canada of $2,786 that were not recorded by the company as the related pre-tax losses did not meet the recognition criteria under IFRS. At December 31, 2018 deferred tax assets in Canada of $45,620 (December 31, 2017 – $38,860) were not recorded as it was considered not probable that those losses could be utilized by the company.

Foreign exchange effect of $8,690 in 2018 (2017 – $4,713) principally reflected the impact of fluctuations in the value of the Canadian dollar relative to the U.S. dollar and the Indian rupee as the company computes its corporate tax liability in Canadian dollars pursuant to the requirements of Canadian tax authorities, whereas the functional currency of the company and its Mauritius subsidiaries is the Indian rupee.

Changes in income taxes refundable for the years ended December 31 were as follows:

	2018	2017
Balance – January 1	3,098	7,326
Amounts recorded in the consolidated statements of earnings	(2,496)	2,418
Payments made (refunds received) during the year	1,056	(7,019)
Foreign currency translation	(235)	373
Balance – December 31	1,423	3,098

Management reviews the recoverability of potential deferred tax assets on an ongoing basis and adjusts, as necessary, to reflect their anticipated realization. Deferred income tax liability of $689 at December 31, 2018 (December 31, 2017 – nil) principally related to the potential impact of the application of capital gains tax in India on any future dispositions of investments in equity shares as noted above. At December 31, 2018 deferred tax assets not recorded by the company of $45,620 (December 31, 2017 – $38,860) were comprised of: (i) foreign accrual property losses of $27,126 (December 31, 2017 – $27,775); (ii) net operating loss carryforwards of $15,164 (December 31, 2017 – $5,254); and, (iii) $3,330 (December 31, 2017 – $5,831) related to the costs of the initial public offering and secondary Offerings. The net operating loss carryforwards and foreign accrual property losses expire between 2037 and 2038, and between 2035 and 2038, respectively.

At December 31, 2018 a deferred income tax liability of approximately $89,000 (December 31, 2017 – approximately $93,000) has not been recognized on unremitted earnings related to the company's Indian Investments of approximately $674,000 (2017 – approximately $703,000) as the company determined it is not probable that those unremitted earnings will be repatriated in the foreseeable future.

11. Financial Risk Management

Overview

The primary goals of the company's financial risk management 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 sheet from events that have the potential to materially impair its financial strength. The company's activities expose it to certain financial risks during or at the end of the reporting period. 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 December 31, 2018 compared to those identified at December 31, 2017, except as described below.

Market Risk

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

Foreign Currency Risk

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

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

	December 31, 2018				December 31, 2017				
	Cash and cash equivalents	Term loans	Payable to related parties	Net exposure	Cash and cash equivalents	Short term investments	Term loans	Payable to related parties	Net exposure
U.S. dollars	32,909[(1)]	(547,228)	(8,796)	(523,115)	19,389[(1)]	27,481	(400,000)	(122,791)	(475,921)
All other currencies	2,015	–	(31)	1,984	4,453	–	–	(35)	4,418
Total	34,924	(547,228)	(8,827)	(521,131)	23,842	27,481	(400,000)	(122,826)	(471,503)

(1) *At December 31, 2018 cash and cash equivalents included restricted cash of $13,833 (December 31, 2017 – $10,598) to fund the term loan interest payments.*

The table above shows the company's net exposure to the U.S. dollar and all other currencies, other than the Indian rupee. The company's net liability exposure to the U.S. dollar increased at December 31, 2018 compared to December 31, 2017 primarily as a result of increase in term loans, partially offset by the settlement of the performance fee of $114,437 on March 9, 2018.

The following table illustrates the potential impact on pre-tax earnings (loss) and net earnings (loss) of a hypothetical appreciation or depreciation of the Indian rupee against the U.S dollar and all other currencies.

	December 31, 2018			December 31, 2017		
	Net foreign currency exposure	Hypothetical $ change effect on pre-tax earnings	Hypothetical $ change effect on net earnings	Net foreign currency exposure	Hypothetical $ change effect on pre-tax earnings	Hypothetical $ change effect on net earnings
Change in Indian rupee exchange rate						
10.0% appreciation	(469,018)	52,113	38,303	(424,353)	47,150	34,655
5.0% appreciation	(495,074)	26,057	19,152	(447,928)	23,575	17,328
No change	(521,131)	–	–	(471,503)	–	–
5.0% depreciation	(547,188)	(26,057)	(19,152)	(495,078)	(23,575)	(17,328)
10.0% depreciation	(573,244)	(52,113)	(38,303)	(518,653)	(47,150)	(34,655)

Certain shortcomings are inherent in the method of analysis presented, including the assumption that the hypothetical appreciation or depreciation of the Indian rupee against the U.S. dollar and all other currencies occurred with all other variables held constant.

Interest Rate Risk

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

The company's exposure to interest rate risk decreased in 2018 primarily reflecting the sale of Government of India bonds to finance the additional 6.0% equity interest acquired in BIAL and Tranche 1 of the investment in CSB, and unrealized foreign currency translation losses, partially offset by unrealized gains on the Sanmar bonds. The table that follows displays the potential impact of changes in interest rates on the company's fixed income portfolio based on parallel 200 basis point shifts up and down, in 100 basis point increments. This analysis was performed on each individual security, with the hypothetical effect on net earnings.

	December 31, 2018			December 31, 2017		
	Fair value of fixed income portfolio	**Hypothetical $ change effect on net earnings**	**Hypothetical % change in fair value**	**Fair value of fixed income portfolio**	**Hypothetical $ change effect on net earnings**	**Hypothetical % change in fair value**
Change in interest rates						
200 basis point increase	527,897	(35,639)	(8.4)%	625,972	(50,186)	(9.8)%
100 basis point increase	551,843	(18,039)	(4.3)%	659,444	(25,584)	(5.0)%
No change	576,386	–	–	694,252	–	–
100 basis point decrease	603,940	20,252	4.8 %	733,247	28,661	5.6 %
200 basis point decrease	632,299	41,096	9.7 %	773,950	58,578	11.5 %

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

Market Price Fluctuations

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

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

The company's exposure to market price risk increased to $2,084,961 at December 31, 2018 from $1,913,993 at December 31, 2017 primarily as a result of the additional 6.0% equity interest in BIAL and Tranche 1 of the investment in CSB (Level 3 investments in the fair value hierarchy), investments in Other Public Indian Investments, and unrealized gains on the Private Indian Investments (principally Sanmar, BIAL and NSE, Level 3 investments in the fair value hierarchy), partially offset by unrealized losses on the Public Indian Investments (principally IIFL and Fairchem, Level 1 investments in the fair value hierarchy). Refer to note 6 for the potential impact on net earnings of various combinations of changes in significant unobservable inputs in the company's internal valuation models for the company's investments classified as Level 3 in the fair value hierarchy.

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

	December 31, 2018		December 31, 2017	
Change in Indian equity markets	+10.0%	−10.0%	+10.0%	−10.0%
Level 1 equity investments, fair value at December 31	820,125	820,125	1,057,643	1,057,643
Hypothetical $ change effect on pre-tax earnings (loss)	82,013	(82,013)	105,764	(105,764)
Hypothetical $ change effect on net earnings (loss)	69,845	(69,845)	91,750	(91,750)

Credit Risk

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

Cash and Cash Equivalents, and Short Term Investments

At December 31, 2018 the company's cash and cash equivalents of $21,240 (December 31, 2017 – $13,244) were primarily held at the holding company in major financial institutions (principally in high credit-quality Canadian financial institutions). The company monitors risks associated with cash and cash equivalents, and short term investments by regularly reviewing the financial strength and creditworthiness of these financial institutions. From these reviews, the company may transfer balances from financial institutions where it perceives heightened credit risk to others considered to be more stable.

At December 31, 2017 the company's short term investments in U.S. treasury bills of $27,481 were rated Aaa by Moody's Investors Service, Inc. ("Moody's") and AA+ by Standard & Poor's Financial Services LLC ("S&P"). At December 31, 2018 there were no short term investments in U.S. treasury bills.

Investments in Debt Instruments

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

At December 31, 2018 the company's debt instruments were all considered to be subject to credit risk with a fair value of $576,386 (December 31, 2017 – $694,252), representing 21.4% (December 31, 2017 – 26.1%) of the total cash and investments portfolio.

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

	December 31, 2018		**December 31, 2017**	
	Fair value	**Rating**	**Fair value**	**Rating**
Government of India bonds(1)	88,997	Baa2/BBB–	259,356	Baa2/BBB–
Indian corporate bonds(2)	94,613	AAA	101,724	AAA
Sanmar bonds(3)	392,776	BBB–	333,172	BBB–
Total bonds	576,386		694,252	

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

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

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

The company's exposure to credit risk from its investment in fixed income securities decreased at December 31, 2018 compared to December 31, 2017 primarily reflecting the sale of Government of India bonds to finance the additional 6.0% equity interest acquired in BIAL and Tranche 1 of the investment in CSB, and unrealized foreign currency translation losses, partially offset by unrealized gains on the Sanmar bonds. Except as described above, there were no other significant changes to the composition of the company's fixed income portfolio classified according to each security's respective issuer credit rating at December 31, 2018 compared to December 31, 2017.

Income Taxes Refundable

At December 31, 2018 income taxes refundable of $1,423 (December 31, 2017 – $3,098) primarily related to income taxes owed from Canadian tax authorities and are considered to have nominal credit risk.

Liquidity Risk

Liquidity risk is the risk that the company will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. The company manages liquidity risk by maintaining sufficient liquid assets to enable settlement of financial commitments on their respective due dates. All accounts payable and accrued liabilities are due within three months, and income taxes payable, if any, must be remitted to the respective tax jurisdictions as they fall due.

The undeployed cash and investments at December 31, 2018 provides adequate liquidity to meet the company's known significant commitments in 2019, which are principally comprised of the remaining investment in securities of CSB (inclusive of the payable for partly paid shares), the investment in IH Fund, investment and advisory fees, general and administration expenses and potentially corporate income taxes. The company has the ability to sell a portion of its Indian Investments to supplement the liquidity requirements. The company has a principal repayment of $550.0 million on the term loan coming due in June 2019 that can be extended for an additional year, or settled through a combination of refinancing and cash flows from the disposition of investments. The company expects to continue to receive investment income on its holdings of fixed income securities and dividends from its equity investments to supplement its cash and cash equivalents. Accordingly, the company has adequate working capital to support its operations.

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

Concentration Risk

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

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

	December 31, 2018				December 31, 2017				
	India	**Canada**	**Other**	**Total**	**India**	**U.S.**	**Canada**	**Other**	**Total**
Cash and cash equivalents	149	18,766	2,325	21,240	–	–	9,934	3,310	13,244
Restricted cash	–	13,833	–	13,833	–	–	10,598	–	10,598
Short term investments – U.S. treasury bills	–	–	–	–	–	27,481	–	–	27,481
Bonds:									
Government of India	88,997	–	–	88,997	259,356	–	–	–	259,356
Indian corporate	94,613	–	–	94,613	101,724	–	–	–	101,724
Sanmar	392,776	–	–	392,776	333,172	–	–	–	333,172
	576,386	–	–	576,386	694,252	–	–	–	694,252
Common stocks:									
IIFL	613,458	–	–	613,458	888,485	–	–	–	888,485
Fairchem	96,574	–	–	96,574	149,200	–	–	–	149,200
5paisa	11,913	–	–	11,913	19,958	–	–	–	19,958
Other	98,180	–	–	98,180	–	–	–	–	–
BIAL	704,077	–	–	704,077	608,288	–	–	–	608,288
Sanmar	217,170	–	–	217,170	556	–	–	–	556
NCML	165,380	–	–	165,380	179,054	–	–	–	179,054
CSB	93,081	–	–	93,081	–	–	–	–	–
Saurashtra	24,843	–	–	24,843	28,000	–	–	–	28,000
NSE	60,285	–	–	60,285	40,452	–	–	–	40,452
	2,084,961	–	–	2,084,961	1,913,993	–	–	–	1,913,993
Total cash and investments	2,661,496	32,599	2,325	2,696,420	2,608,245	27,481	20,532	3,310	2,659,568

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

	December 31, 2018	December 31, 2017
Commercial and industrial	896,743	689,982
Financial services	876,917	948,895
Infrastructure	704,077	608,288
	2,477,737	2,247,165

During 2018 the company's concentration risk in the commercial and industrial sector increased principally due to unrealized gains on the investment in Sanmar (both common shares and bonds), partially offset by unrealized losses on Fairchem, while the company's concentration risk in the financial services sector decreased primarily due to unrealized losses on IIFL and 5paisa, partially offset by investments in CSB and Other Public Indian Investments, and unrealized gains on NSE. The company's concentration risk in the infrastructure sector increased due to unrealized gains and the additional 6.0% equity interest acquired in BIAL.

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

Capital Management

The company's objectives when managing capital are to protect its lenders, to safeguard its ability to continue as a going concern, 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 the term loans and common shareholders' equity) increased from $2,532,464 at December 31, 2017 to $2,665,173 at December 31, 2018 principally reflecting a net increase in term loans, partially offset by a decrease in common shareholders' equity, as described below.

On June 28, 2018 the company amended and restated the existing $400.0 million term loan with the $550.0 million term loan bearing interest at a rate of LIBOR plus 350 basis points, which includes an option for the company to extend the $550.0 million term loan for an additional year. On July 11, 2017 the company had entered into an agreement with a Canadian bank for the $400.0 million term loan. On July 13, 2017 the company used a portion of the net proceeds from the $400.0 million term loan to complete the additional 10.0% investment in BIAL of $200,093 and participate in the NCML rights issue. During 2018 the company used a portion of the incremental net proceeds received from the $550.0 million term loan to acquire common shares in an Other Public Indian Investment ($89,114). The $550.0 million term loan includes a financial covenant that requires the company to maintain common shareholders' equity of not less than $1.5 billion, increased from a $1.3 billion financial covenant in the $400.0 million term loan. At December 31, 2018 the company was in compliance with the $550.0 million term loan financial covenant.

Common shareholders' equity decreased to $2,117,945 at December 31, 2018 from $2,132,464 at December 31, 2017 primarily reflecting unrealized foreign currency translation losses ($193,141), partially offset by the issuance of subordinate voting shares to Fairfax to settle the December 31, 2017 performance fee payable ($114,437) and net earnings ($96,432).

12. Related Party Transactions

Payable to Related Parties

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

	December 31, 2018	December 31, 2017
Performance fee	–	114,437
Investment and advisory fees	8,796	8,293
Other	31	96
	8,827	122,826

Investment Advisory Agreement

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

Performance Fee

First Calculation Period

The performance fee is accrued quarterly and paid for the first three-year period from January 30, 2015 to December 31, 2017 (the ''first calculation period'') and is calculated, on a cumulative basis, as 20% of any increase in common shareholders' equity per share (including distributions) above a 5% per annum increase. The amount of common shareholders' equity per share at any time which must be achieved before any performance fee would be payable is sometimes referred to as the ''hurdle per share''.

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

Second Calculation Period

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

At December 31, 2018 the company determined that there was no performance fee accrual, related to the second calculation period (December 31, 2017 – $114,437 related to the first calculation period) as the book value per share of $13.86 at December 31, 2018 was lower than the high water mark per share at that date of $14.49. In 2018 the performance fee recorded in the consolidated statements of earnings was nil (2017 – $112,218, representing the performance fee accrual translated at the average exchange rate for 2017). At December 31, 2018 there were no contingently issuable subordinate voting shares relating to the second calculation period performance fee payable to Fairfax. At December 31, 2017 there were 7,663,685 contingently issuable subordinate voting shares relating to the first calculation period performance fee of $114,437 that was settled with Fairfax on March 9, 2018.

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. In 2018 the company determined that the majority of its assets were invested in Indian Investments, which are considered deployed capital. In 2018 the investment and advisory fees recorded in the consolidated statements of earnings was $33,908 (2017 – $27,531).

Fairfax's Voting Rights and Equity Interest

At December 31, 2018 Fairfax, through its subsidiaries, owned 30,000,000 multiple voting shares (December 31, 2017 – 30,000,000) and 21,558,422 subordinate voting shares (December 31, 2017 – 14,514,737) of Fairfax India. At December 31, 2018 Fairfax's holdings of multiple and subordinate voting share represented 93.8% of the voting rights and 33.7% of the equity interest in Fairfax India (December 31, 2017 – 93.6% and 30.2%).

Management Compensation

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

Director Compensation

Compensation for the company's Board of Directors for the years ended December 31, determined in accordance with the company's IFRS accounting policies, was recognized in general and administration expenses in the consolidated statements of earnings and was as follows:

	2018	**2017**
Retainers and fees	133	150
Share-based payments	75	122
Other	50	50
	258	322

Other

On February 8, 2017 the company acquired an additional 15,853,000 common shares of IIFL (representing a 4.99% equity interest) for cash consideration of $75,175 (approximately 5.1 billion Indian rupees) (see note 5).

On July 13, 2017 upon the company's acquisition of the additional 10.0% equity interest in BIAL from GVK, Fairfax's obligation on behalf of Fairfax India under the Put Option was terminated (see note 5).

13. Segment Reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that is subject to risks and returns, that are different from those of segments operating in other economic environments.

The company has concluded that Fairfax India is engaged in a single geographic and business segment, that of investing in India and Indian Investments.

14. General and Administration Expenses

General and administration expenses for the years ended December 31 were comprised as follows:

	2018	2017
Audit, legal and tax professional fees	1,797	2,072
Salaries and employee benefit expenses	1,025	888
Administrative expenses	640	701
Other	617	505
	4,079	4,166

15. Supplementary Cash Flow Information

Cash and cash equivalents of $21,240 (December 31, 2017 – $13,244) included in the consolidated balance sheets and statements of cash flows were comprised of cash and term deposits with banks.

Details of certain cash flows included in the consolidated statements of cash flows for the years ended December 31 were as follows:

	2018	2017
(a) Purchases of investments classified as FVTPL		
Bonds	(3,022)	(186,301)
Common stocks	(237,639)	(626,183)
	(240,661)	(812,484)
(b) Sales of investments classified as FVTPL		
Bonds	144,213	51,933
Common stocks	–	26,525
	144,213	78,458
(c) Net interest and dividends received		
Interest received	23,676	20,796
Dividends received	8,699	8,627
Interest paid on term loans	(26,125)	(10,871)
	6,250	18,552
(d) Income taxes (paid) received	(1,056)	7,019

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

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

(1) Readers of the Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") should review the entire Annual Report for additional commentary and information. Additional information relating to the company, including its annual information form, can be found on SEDAR at www.sedar.com. Additional information can also be accessed from the company's website www.fairfaxindia.ca.

(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"), and is presented in U.S. dollars with the Indian rupee as the functional currency of the company and its consolidated subsidiaries.

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

(4) Throughout this MD&A, the term "Indian Investments" refers to deployed capital invested in Public and Private Indian Investments as disclosed in note 5 (Indian Investments) to the consolidated financial statements for the year ended December 31, 2018.

Business Developments

Overview

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

The book value per share at December 31, 2018 was $13.86 compared to $14.46 at December 31, 2017 representing a decrease in 2018 of 4.1%, primarily reflecting unrealized foreign currency translation losses of $193,141, partially offset by net earnings of $96,432 (principally related to net change in unrealized gains on investments, partially offset by net foreign exchange losses, investment and advisory fees and interest expense).

The following narrative sets out the company's key business developments in 2018 and 2017.

Capital Transactions

On June 28, 2018 the company completed a $550,000 principal amount, 1 year secured term loan, with an option to extend for an additional year ("$550.0 million term loan"), with a syndicate led by a Canadian bank, which amended and restated the existing 1 year secured term loan with a principal amount of $400,000 ("$400.0 million term loan"). The $550.0 million term loan bears interest at a rate of LIBOR plus 350 basis points. During 2018 the company used a portion of the incremental net proceeds received from the $550.0 million term loan to acquire common shares in an Other Public Indian Investment ($89,114).

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

On July 11, 2017 the company entered into an agreement with a Canadian bank for the $400.0 million term loan bearing interest at a rate of LIBOR plus 325 to 375 basis points. On July 13, 2017 the company used a portion of the net proceeds from the $400.0 million term loan to complete the additional 10.0% investment in BIAL of $200,093 and participate in the NCML rights issue.

On January 13, 2017 the company completed an underwritten public offering of 12,766,000 subordinate voting shares at a price of $11.75 per share. Concurrent with the public offering, Fairfax and Ontario Municipal Employees Retirement System (''OMERS'') acquired 12,766,000 and 17,021,500 subordinate voting shares, respectively, at a price of $11.75 per subordinate voting share in a private placement (the ''Concurrent Private Placement'' and, together with the public offering, collectively the ''secondary Offerings''), resulting in net proceeds of $493,504, after commissions and expenses of $6,500. Net proceeds from the secondary Offerings were used to acquire additional Indian Investments, for general corporate purposes, and to repay a 2 year secured term loan with a principal amount of $225,000.

For additional details on the term loans refer to note 7 (Term Loans) to the consolidated financial statements for the year ended December 31, 2018.

Indian Investments

Full descriptions of the Indian Investments committed to and acquired in 2018 and 2017 are provided in the Indian Investments section of this MD&A.

Operating Environment

Overview

India has emerged as the fastest growing major economy in the world according to the Central Statistics Organization (''CSO'') and the International Monetary Fund (''IMF''), recovering from the impacts of demonetization and implementation of the Goods and Services Tax. According to the CSO and IMF, the Indian economy will continue to grow at 7.0% in the financial year 2018-19 and 7.5% in the financial year 2019-20. The improvement in India's economic fundamentals has accelerated in the recent years with the combined impact of strong government reforms, higher government spending on infrastructure development and the Reserve Bank of India's (''RBI'') inflation focus supported by favourable global commodity prices.

Indian Market Indices and Foreign Exchange Rate

India experienced a significant decline in its market indices during the third quarter of 2018 due to the sell-off of Indian equities. The Indian rupee, which until the end of 2017 remained strong while other emerging market currencies weakened, has also declined to a historical low foreign exchange rate against the U.S. dollar. The key events that triggered the equity market and currency decline were: (i) rising oil prices which drove India's account deficit; (ii) rising interest rates that resulted in a global bond sell-off; and (iii) a domestic liquidity scare from foreign investor sell-off and default by a large non-banking financial company (''NBFC''). The market indices and foreign exchange rate partially recovered during the fourth quarter of 2018, largely due to: (i) a decrease in oil prices from their peak which provided some relief to India's account deficit; (ii) intervention by the RBI that increased liquidity resources to NBFCs; and (iii) continued government spending in public sector banks recapitalization. The events of the third quarter of 2018 did not spill over into broader systemic challenges.

The overall impact during 2018 can be seen through the decline in the fair values of some of the company's Public Indian Investments, and unrealized foreign currency translation losses as the majority of the company's net assets and net earnings are denominated in the Indian rupee, a currency other than the company's U.S. dollar presentation currency. During 2018 the Indian rupee depreciated 9.4% against the U.S. dollar and continues to be volatile driven by energy and oil prices.

Union Budget for Fiscal Year 2018-19

On March 29, 2018 India enacted the Finance Act 2018 which repealed, with effect from April 1, 2018, the long term capital gains tax exemption which was available in respect of transfers of equity shares of Indian companies on which Securities Transaction Tax was paid at the time of acquisition and transfer of such shares. As a result, long term capital gains realized on such transfers will generally be taxed at a rate of 10.0%. However, grandfathering of the long term capital gains exemption in respect of any accrued gain on such shares held as of January 31, 2018 will generally be available to the extent of the accrued gain as of January 31, 2018. Capital gains realized by a tax resident of Mauritius on a transfer of equity shares of an Indian company which were acquired prior to April 1, 2017 will continue to be exempt from capital gains tax in India by virtue of the India-Mauritius tax treaty, notwithstanding the repeal of the long term capital gains tax exemption under Indian domestic law. In addition, a long term capital gain realized by a Mauritius tax resident on shares acquired on or after April 1, 2017, and sold prior to March 31, 2019, will continue to be taxed at the rate of 50.0% of the prevailing domestic Indian capital gains tax rate by virtue of the India-Mauritius tax treaty. At December 31, 2018 the company evaluated the potential impact of the application of capital gains tax in India on any future dispositions of investments in equity shares held by FIH Mauritius Investments Ltd (''FIH Mauritius'') and FIH Private Investments Ltd (''FIH Private'') and recorded deferred income taxes primarily related to unrealized gains in Other Public Indian Investments acquired during 2018. For additional details on income taxes refer to note 10 (Income Taxes) to the consolidated financial statements for the year ended December 31, 2018. The company will continue to evaluate the potential impact of the Indian capital gains tax as it relates to any future dispositions of investments in equity shares of its Indian Investments.

The Mauritius Finance Act 2018

On July 31, 2018 Mauritius enacted the Finance (Miscellaneous Provision) Act (the ''Mauritius Finance Act'') which abolishes, with effect from January 1, 2019, the deemed Foreign Tax Credit (''FTC'') regime available to Global Business License companies. For entities holding a Category 1 Global Business License issued before October 16, 2017 (held by both FIH Mauritius and FIH Private) the deemed FTC regime will continue to apply until June 30, 2021. In place of the deemed FTC, the Mauritius Finance Act introduces an 80% exemption regime on foreign source income including certain foreign dividends and foreign source interest. The 80% exemption is available upon meeting predefined substance requirements issued by the Financial Services Commission. The company evaluated the potential impact of the Mauritius Finance Act and concluded that it will not have a material impact to the company.

Business Objectives

Investment Objective

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

Investment Strategy

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

The company utilizes, and expects to benefit significantly from, the experience and expertise of Fairfax and the Portfolio Advisor, and their respective networks in India, to source and evaluate investment opportunities for the company.

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

The company intends to make Indian Investments with a view to be a strategic partner to grow the business and as a result optimize investment returns for the shareholders of Fairfax India. The level and nature of this strategic relationship will vary by investment. It may include one or more of the following, as deemed appropriate by the company: (i) board appointment or nomination rights; (ii) board observer rights; (iii) input on management selection; (iv) the provision of managerial assistance; and (v) ongoing monitoring and cooperation with the board and management of the portfolio business to ensure that its strategy is being implemented in a manner that is consistent with the investment objectives of the company and with the company's and Fairfax's fundamental values (as set forth in Fairfax's guiding principles which are included in Fairfax's publicly available annual reports).

Fairfax India's involvement with the Indian Investments may include providing specialized guidance or expertise in limited circumstances or on a temporary basis and does not extend to any involvement in the day-to-day operations of those Indian Investments. Activities are expected to be ancillary and undertaken to maximize returns from investments. Board representation is sought only to maintain protective rights and to maximize the value of the company's investment for its shareholders.

The company may from time to time seek to realize on any of its Indian Investments. The circumstances under which the company may sell some or all of its investments include: (i) where the company believes that the Indian Investments are fully valued or that the original investment thesis has played out; or (ii) where the company has identified other investment opportunities which it believes present more attractive risk-adjusted return opportunities and additional capital is needed to make such alternative investments.

The company would exit its private Indian Investments (''Private Indian Investments'' as disclosed in the Indian Investments section of this MD&A) either through initial public offerings or private sales. For publicly traded Indian Investments (''Public Indian Investments'' as disclosed in the Indian Investments section of this MD&A), exit strategies may include selling the investments through private placements or in public markets.

Investment Selection

To identify potential investments, the company principally relies on the experience and expertise of Fairfax and the Portfolio Advisor, and their respective networks in India.

The following is an illustrative list of criteria that the company, Fairfax and the Portfolio Advisor believe to be paramount when identifying and investing in Indian Investments:

Attractive valuation – The company's conservative fundamental value approach leads it to focus on businesses that have positive, stable cash flows that can be purchased at discounted multiples. The company does not invest in start-up businesses or businesses that have speculative business plans.

Experienced and aligned management – The company focuses on businesses with experienced, entrepreneurial management teams with strong, long term track records. The company generally requires the portfolio businesses to have in place, either prior to or immediately following investment by the company, proper incentives to drive the businesses' profitability and maintain effective governance structures.

Strong competitive position in industry – The company seeks to invest in businesses that hold leading and defendable market positions, possess strong brand power and are well-positioned to capitalize on the growth opportunities in the Indian economy. The company also seeks to invest in businesses that demonstrate significant competitive advantages as compared to their peers, such that they are in a position to protect their market position and profitability.

Alignment of the management team with the values of the company – The company, Fairfax and the Portfolio Advisor all seek to adhere to the highest standards of business practices and ethics. The company requires that the management teams at each of its portfolio businesses adhere to a similar standard of business practices and ethics and adhere to the company's fundamental values, as described above.

The Portfolio Advisor, the company and their affiliates conduct thorough due diligence investigations when evaluating any Indian Investment prior to making a recommendation to the company and its subsidiaries to invest. This generally includes consultations with Fairfax's network of current and former management teams, consultants, competitors, investment bankers and senior executives to assess, among other things, the industry dynamics, the character of the management team and the viability of the business plan.

More specifically, due diligence in respect of a particular investment opportunity typically includes, among other items as deemed necessary from time to time: (i) review of historical and projected financial information; (ii) on-site visits; (iii) interviews with management, employees, customers and vendors; (iv) review of material agreements; (v) background checks; and (vi) research relating to the businesses' management, industry, markets, products and services, and competitors.

Investment Restrictions

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

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 December 31, 2018 the company determined that it was in compliance with the Investment Concentration Restriction.

Indian Investments

Cautionary Statement Regarding Financial Information of Significant Indian Investments

Fairfax India has agreed to voluntarily provide within the MD&A, summarized financial information prepared in accordance with IFRS for all of its Indian Investments for which it had previously filed a business acquisition report in accordance with section 8.2 of *National Instrument 51-102 Continuous Disclosure Obligations*. National Collateral Management Services Limited, IIFL Holdings Limited, Sanmar Chemicals Group, Bangalore International Airport Limited and The Catholic Syrian Bank Limited (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 The Catholic Syrian Bank Limited 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 until April 1, 2019 for scheduled commercial banks. Ind AS are based on and substantially converged with IFRS as issued by the IASB. Fairfax India is limited with respect to the amount of independent verification it is able to perform on the Significant Indian Investments' financial statements. The unaudited summarized financial information contained in this MD&A was prepared exclusively for Fairfax India. Such unaudited financial information is the responsibility of the respective managements and has been prepared by them using recognition, measurement and presentation principles consistent with IFRS as issued by the IASB, and provided to the company in Indian rupees.

The company's Significant Indian Investments' fiscal years each end on March 31. Summarized financial information of the company's Significant Indian Investments has generally been provided for the periods subsequent to the company's investment and to the extent that the most recent interim financial information is available to the company's management. Significant Indian Investments' summarized financial information should be read in conjunction with Fairfax India's historical consolidated financial statements including the notes thereto and the related MD&A as well as Fairfax India's other public filings.

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

Summary of Indian Investments

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

	Date Acquired	December 31, 2018 Ownership %	Cost	Fair value	Net change	December 31, 2017 Ownership %	Cost	Fair value	Net change
Public Indian Investments:									
IIFL	December 2015 and February 2017	26.5%	256,976	613,458	356,482	26.6%	256,976	888,485	631,509
Fairchem	February and August 2016	48.8%	74,384	96,574	22,190	48.8%	74,384	149,200	74,816
5paisa	October 2017	26.6%	19,758	11,913	(7,845)	26.6%	19,758	19,958	200
Other[(1)]	March 2018 and August 2018	< 1.0%	94,090	98,180	4,090	–	–	–	–
			445,208	820,125	374,917		351,118	1,057,643	706,525
Private Indian Investments:									
BIAL[(2)]	March 2017, July 2017 and May 2018	54.0%	652,982	704,077	51,095	48.0%	585,591	608,288	22,697
Sanmar	April 2016	30.0%	1,000	217,170	216,170	30.0%	1,000	556	(444)
Sanmar bonds	April and September 2016	–	299,000	392,776	93,776	–	299,000	333,172	34,172
NCML	August 2015 and August 2017	89.5%	174,318	165,380	(8,938)	89.5%	174,318	179,054	4,736
CSB[(3)]	October 2018	36.4%	88,524	93,081	4,557	–	–	–	–
Saurashtra	February 2017	51.0%	30,018	24,843	(5,175)	51.0%	30,018	28,000	(2,018)
NSE	July 2016	1.0%	26,783	60,285	33,502	1.0%	26,783	40,452	13,669
			1,272,625	1,657,612	384,987		1,116,710	1,189,522	72,812
Total Indian Investments			1,717,833	2,477,737	759,904		1,467,828	2,247,165	779,337

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

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

(3) Cost is comprised of: (i) 100.0% of the partly paid shares ($37,823); and (ii) 40.0% of the warrants that have been paid for as it had features of in-substance equity ($50,701). Excluded from the table is the payable for partly paid shares of CSB of $29,827 on the consolidated balance sheet in the consolidated financial statements for the year ended December 31, 2018 which represents the 75.0% remaining consideration to be paid on the partly paid shares.

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 during 2018 and 2017 were as follows:

2018	Balance as of January 1, 2018	Purchases	Net change in unrealized gains (losses) on investments	Net unrealized foreign currency translation gains (losses)	Balance as of December 31, 2018
Public Indian Investments:					
Common stocks:					
IIFL	888,485	–	(203,226)	(71,801)	613,458
Fairchem	149,200	–	(40,711)	(11,915)	96,574
5paisa	19,958	–	(6,474)	(1,571)	11,913
Other	–	94,090	4,032	58	98,180
Total Public Indian Investments	1,057,643	94,090	(246,379)	(85,229)	820,125
Private Indian Investments:					
Sanmar bonds	333,172	–	90,128	(30,524)	392,776
Common stocks:					
BIAL	608,288	67,391	84,311	(55,913)	704,077
Sanmar	556	–	221,454	(4,840)	217,170
NCML	179,054	–	1,719	(15,393)	165,380
CSB	–	88,524[(1)]	–	4,557	93,081
Saurashtra	28,000	–	(772)	(2,385)	24,843
NSE	40,452	–	24,245	(4,412)	60,285
Total Private Indian Investments	1,189,522	155,915	421,085	(108,910)	1,657,612
Total Indian Investments	2,247,165	250,005	174,706	(194,139)	2,477,737

(1) Comprised of: (i) 100.0% of the partly paid shares ($37,823); and (ii) 40.0% of the warrants that have been paid for as they had features of in-substance equity ($50,701). Excluded from the table is the payable for partly paid shares of CSB of $29,827 on the consolidated balance sheet in the consolidated financial statements for the year ended December 31, 2018 which represents the 75.0% remaining consideration to be paid on the partly paid shares.

	2017					
	Balance as of January 1, 2017	Purchases	Transfer due to Merger / Spin-off	Net change in unrealized gains (losses) on investments and other costs	Net unrealized foreign currency translation gains	Balance as of December 31, 2017
Public Indian Investments:						
Common stocks:						
IIFL	265,951	75,175	(19,758)[(1)]	536,121	30,996	888,485
Fairchem	45,488	–	54,315[(2)]	42,241	7,156	149,200
5paisa	–	–	19,758[(1)]	(195)	395	19,958
Total Public Indian Investments	311,439	75,175	54,315	578,167	38,547	1,057,643
Private Indian Investments:						
Sanmar bonds	299,093	–	–	14,843	19,236	333,172
Common stocks:						
BIAL	–	585,591[(3)]	–	10,902[(3)]	11,795	608,288
Sanmar	440	–	–	86	30	556
NCML	146,586	25,602	–	(2,298)	9,164	179,054
Saurashtra	–	30,018	–	(3,423)	1,405	28,000
NSE	26,504	–	–	12,032	1,916	40,452
Privi	54,315	–	(54,315)[(2)]	–	–	–
Total Private Indian Investments	526,938	641,211	(54,315)	32,142	43,546	1,189,522
Total Indian Investments	838,377	716,386	–	610,309	82,093	2,247,165

(1) *The spin-off of 5paisa from IIFL resulted in the reallocation of the fair value of 5paisa out of the cost of IIFL to form the initial cost of 5paisa.*

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

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

Public Indian Investments

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

Investment in IIFL Holdings Limited

Business Overview

IIFL Holdings Limited (''IIFL'') is a publicly traded, leading financial services provider in India, providing a broad range of products and services to a diversified client base. IIFL was incorporated in 1995 and headquartered in Mumbai, India with principal lines of business as described below. Over the past two decades, IIFL has created a brand that is known for its informed research and cutting-edge technology, extensive global footprint and high service standards. IIFL serves over 4 million customers from 1,400 service locations and over 1,900 branches across India. It also has an international presence, with offices in Toronto, New York, London, Geneva, Singapore, Hong Kong, Dubai and Mauritius.

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

IIFL's principal lines of business are as follows:

IIFL Finance

IIFL Finance, operating under India Infoline Finance Limited as a non-banking financial company (''NBFC''), is a diversified financing company that through its subsidiaries IIFL Home Finance Limited (''IIFL Home Finance'') and Samasta Microfinance Ltd. (''Samasta Microfinance''), offers secured loans (secured against collaterals of home, property, gold, commercial vehicles, shares and other securities) and small-to-medium enterprise loans (''SME loans''). IIFL Home Finance offers affordable financing solutions, retail home loans, and loans secured against property. At December 31, 2018 IIFL's NBFC managed assets worth approximately $5 billion (364 billion Indian rupees) (December 31, 2017 – approximately $4 billion (273 billion Indian rupees)) where home and property loans, gold and SME loans, and construction and real estate loans represented approximately 46%, 22%, and 14% of the managed assets respectively.

IIFL Wealth

IIFL Wealth is one of the leading wealth managers in India and has a presence in nine major global financial hubs across 26 locations throughout India and around the world. At December 31, 2018 IIFL Wealth had assets under advice, distribution and management of approximately $23 billion (1,606 billion Indian rupees) (December 31, 2017 – approximately $20 billion (1,282 billion Indian rupees)). This IIFL division was a pioneer in launching alternate investment funds (''AIF'') across equity, real estate and high yield debt securities, and continues to be the largest fund manager of AIFs in India. IIFL Wealth's strong growth is driven by offering a broad range of products and services such as: financial products distribution, advisory, brokerage, asset management, credit solutions, and estate planning. In February 2016 IIFL launched the Wealth NBFC that primarily offers secured loans to high net worth clientele where investment securities are held as loan collateral. At December 31, 2018 IIFL's Wealth NBFC had a loan book of approximately $680 million (47 billion Indian rupees) (December 31, 2017 – approximately $916 million (58 billion Indian rupees)).

IIFL Securities

IIFL Securities is a leading financial advisory and brokerage service company that offers equity, commodities, and currency securities to retail and institutional clients, as well as investment banking services. IIFL Securities is well known for its high quality research of over 500 companies and offers the service of a mobile trading platform that compliments its financial product distribution.

Additional information can be accessed from IIFL's website www.iifl.com.

Transaction Description

In February 2017 and December 2015 the company acquired 84,641,445 common shares of IIFL (representing a 26.9% equity interest) for aggregate cash consideration of $276,734 (approximately 18.5 billion Indian rupees). In connection with the transaction in February 2017, Fairfax, through its subsidiaries, partially disposed of derivative financial instruments representing an economic interest of 4.99% in IIFL. In accordance with regulations of the Securities and Exchange Board of India (''SEBI'') and the NSE of India, the transaction was subject to certain sale and purchase pricing guidelines and, as a result, the total consideration paid per share approximated fair market value of the equity interest acquired. Contemporaneously with the initial purchase of IIFL common shares by the company in December 2015, Fairfax India and Fairfax provided undertakings to SEBI that they would not take certain actions that could result in the acquisition of control of IIFL. In particular, Fairfax India and Fairfax agreed to limit their voting rights on IIFL shareholder resolutions to 25% of the issued and outstanding common shares of IIFL at the time of voting, even in circumstances when their actual voting rights may exceed 25%. Fairfax India and Fairfax also agreed to limit any additional purchases of IIFL shares such that their collective shareholding in IIFL would not exceed 36% of the issued and outstanding common shares of IIFL unless Fairfax India and Fairfax made an open offer to all IIFL shareholders or SEBI provided its prior consent for such an acquisition.

On October 20, 2017 IIFL spun-off its wholly-owned subsidiary 5Paisa Digital Undertaking through the formation of a new public company, 5paisa Capital Limited (''5paisa'') in a non-cash transaction. The distribution of new common shares of 5paisa to IIFL shareholders was characterized as a return of capital which resulted in Fairfax India recording the initial cost of its investment in 5paisa at its fair value at that date of $19,758, with a corresponding amount recorded as a reduction to the company's cost of its investment in IIFL. Additional details on the 5paisa spin-off transaction are disclosed under sub-heading 5paisa Capital Limited within the Public Indian Investments section of this MD&A.

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

Fairfax had made an investment in IIFL prior to any investment completed by Fairfax India and in that capacity was able to recommend the appointment of one board representative out of the eight-member board of directors. At December 31, 2018 the company did not have any representation on the board of IIFL other than the board member appointed by Fairfax.

Key Business Drivers, Events and Risks

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

IIFL Finance

IIFL Finance continues to achieve volume and profit growth, driven primarily by small-ticket home loans, SME loans and microfinance loans. Despite the pressures from increased funding costs in the current interest rate environment, net interest margin has been protected through achieving increased yields from the NBFC's asset under management by repricing current outstanding loans and raising interest rates on new loans. Asset quality remains stable with gross and net non-performing assets maintaining its historical low levels compared to the overall loan portfolio. During the nine months ended December 31, 2018 IIFL Finance raised funds of approximately $586 million (approximately 41 billion Indian rupees) from various financial institutions through the issuance of a mix of debt securities where the funds raised will be used for financing activities of the NBFC.

IIFL Wealth

In June 2018 IIFL Wealth raised approximately $103 million (approximately 7.5 billion Indian rupees) through equity issuances to institutional investors, and intends to use the additional capital to fund business operations and for continued expansion. During fourth quarter of 2018 IIFL Wealth acquired Wealth Advisors (India) Private Limited, a Chennai based wealth management firm, as well as Altiore Advisors Private Limited, a Bengaluru based fintech company, and launched IIFL One. IIFL One will follow more of an advisory model as opposed to operating a broker dealer/distribution model, whereby commissions are earned on the whole portfolio as opposed to on a transaction by transaction basis. As IIFL Wealth's clients change how they want their portfolios managed, the revenue mix from commissions and increased costs to support the technology will impact the divisions' financial results in the short term.

IIFL Securities

IIFL Securities has benefited from digitization with the IIFL Markets and IIFL Mutual Fund mobile applications reaching approximately 2.4 million and 430,000 downloads at December 31, 2018 (approximately 48% of brokerage services are provided through the mobile platform). The investment banking business has continued its strong performance, closing twelve transactions within the nine months ended December 31, 2018 with a number of transactions in the pipeline.

Impact of Operating Environment

The market price decline of the NBFC sector in India during 2018 was caused by the headwinds as discussed in the Business Developments section under the heading Operating Environment of this MD&A. The impact on the NBFC sector was more prevalent than in other sectors due to the default on debt obligations by a large NBFC, Infrastructure Leasing & Financial Services Limited, which owed significant amounts to banks and mutual funds. As a result of this default, banks and mutual funds have been resistant to lend to other NBFCs, causing an asset-liability mismatch for companies and tighter liquidity throughout the sector.

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

Despite the tightening liquidity in the operating environment, IIFL's NBFC continues to demonstrate its ability to raise funds during the fiscal year as discussed earlier.

Valuation and Consolidated Financial Statement Impact

At December 31, 2018 the fair value of the company's investment in IIFL was $613,458 (December 31, 2017 – $888,485) with the changes in fair value in 2018 and 2017 presented in the tables at the outset of the Indian Investments section of this MD&A. IIFL's share price decreased by 24.5% from 670.00 Indian rupees per share at December 31, 2017 to 506.00 Indian rupees per share at December 31, 2018.

In 2018 the consolidated statements of earnings included dividend income earned from the investment in IIFL of $6,575 (2017 – $4,625).

IIFL's Summarized Financial Information

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

Balance Sheets
(unaudited – US$ thousands)

	September 30, 2018(1)	**March 31, 2018(1)(2)**
Financial assets	6,453,437	6,569,068
Non-financial assets	238,744	249,213
Financial liabilities	5,621,688	5,855,226
Non-financial liabilities	26,619	21,003
Shareholders' equity	1,043,874	942,052

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

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

Financial assets decreased primarily as a result of the weakening of the Indian rupee relative to the U.S. dollar during the six months ended September 30, 2018, partially offset by growth in IIFL Finance reflecting increased small-ticket home loans, SME loans, and microfinance loans as described earlier in the Key Business Drivers, Events and Risks section. IIFL's asset quality remains stable with gross and net non-performing assets at 2.2% and 1.0% of IIFL Finance's loans at September 30, 2018. Non-financial assets decreased primarily as a result of the weakening of the Indian rupee relative to the U.S. dollar during the six months ended September 30, 2018. Financial liabilities decreased primarily as a result of the weakening of the Indian rupee relative to the U.S. dollar during the six months ended September 30, 2018, partially offset by the debt issuance by IIFL Finance. Non-financial liabilities increased primarily due to current tax liabilities.

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

Statements of Earnings
(unaudited – US$ thousands)

	Six months ended September 30, 2018[(1)]	Six months ended September 30, 2017[(1)]
Revenue	536,429	494,348
Earnings before income taxes	141,308	119,577
Net earnings	94,661	84,454

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

IIFL's revenue and net earnings increased primarily due to growth in IIFL Finance reflecting growth in volume and profit margins from high quality assets. Net earnings improved in the six months ended September 30, 2018 despite the rising interest rate environment in India, as a large portion of IIFL's portfolio is debt securities with floating interest rates. IIFL Wealth contributed to the increased net earnings through its growth in its assets under management, while IIFL Securities' contributed to net earnings as a result of increased daily market turnover in its brokerage business.

Investment in Fairchem Speciality Limited

Business Overview

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

Fairchem

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

Privi

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

Additional information can be accessed from Fairchem's and Privi's websites www.fairchem.in and www.privi.com.

Transaction Description

In February 2016 Fairfax India acquired a 44.7% equity interest in Fairchem for cash consideration of $19,409 (approximately 1.3 billion Indian rupees) and in August 2016 acquired a 50.8% equity interest in Privi for cash consideration of $54,975 (approximately 3.7 billion Indian rupees). On March 14, 2017 Fairchem and Privi were merged with the surviving entity continuing as Fairchem. Upon completion of the Merger, Fairfax India had acquired a 48.8% equity interest in the merged company Fairchem for aggregate cash consideration of $74,384 (approximately 5.0 billion Indian rupees).

At December 31, 2018 the company held 19,046,078 common shares, representing a 48.8% equity interest in Fairchem (December 31, 2017 – 48.8%).

At December 31, 2018 the company had appointed one of the eleven Fairchem board members.

Key Business Drivers, Events and Risks

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

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

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

On April 26, 2018 a fire broke out at one of Privi's aromatic manufacturing chemical plants located in Mahad, India. The fire was serious in nature but was isolated to one section of the plant and resulted in no casualties. On May 25, 2018 Privi was able to commence operations in the unaffected portion of the plant and began to refurbish the operations impacted by the fire, anticipating they will reach full capacity by the third quarter of 2019. Privi continues to work with its insurance company as they undertake an assessment of the damages and work on finalizing the insurance claim that is in progress. At December 31, 2018 Privi has received partial settlement on their insurance claim of approximately $8.9 million (618 million Indian rupees). On January 15, 2019 Privi received an additional partial settlement on their insurance claim of approximately $2.9 million (200 million Indian rupees).

Valuation and Consolidated Financial Statement Impact

At December 31, 2018 the fair value of the company's investment in Fairchem common shares was $96,574. At December 31, 2017 the fair value of the company's investment in Fairchem was $149,200 comprised of common shares ($143,413) and CCPS ($5,787). The fair value of the company's investment in Fairchem at December 31, 2018 and 2017 was determined by multiplying the bid price of the publicly traded Fairchem shares by the number of Fairchem shares owned by the company (inclusive of the common shares and CCPS converted on September 5, 2018). The changes in fair value of the company's investment in Fairchem in 2018 and 2017 are presented in the tables at the outset of the Indian Investments section of this MD&A. Fairchem's share price decreased by 29.2% from 500.00 Indian rupees per share at December 31, 2017 to 354.00 Indian rupees per share at December 31, 2018.

In 2018 the consolidated statements of earnings included dividend income earned from the company's investment in Fairchem of $409 (2017 – $281).

Investment in 5paisa Capital Limited

Business Overview

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

Additional information can be accessed from 5paisa's website www.5paisa.com.

Transaction Description

On October 20, 2017 IIFL spun-off its wholly-owned subsidiary 5Paisa Digital Undertaking through the formation of a new public company, 5paisa Capital Limited, listed on the BSE and the NSE of India effective November 16, 2017. This non-cash transaction resulted in Fairfax India receiving one new common share of 5paisa for every 25 common shares of IIFL held for a total of 3,385,657 common shares of 5paisa with a fair value of $19,758. The distribution of new common shares of 5paisa to IIFL shareholders was characterized as a return of capital which resulted in Fairfax

India recording the initial cost of its investment in 5paisa at its fair value at that date of $19,758, with a corresponding amount recorded as a reduction to the company's cost of its investment in IIFL.

At December 31, 2018 the company held an aggregate of 3,385,657 common shares of 5paisa representing a 26.6% equity interest (December 31, 2017 – 26.6%). Fairfax India and Fairfax provided undertakings to SEBI that were identical to those in respect of its investment in IIFL, specifically they agreed that they would not take certain actions that could result in the acquisition of control of 5paisa.

At December 31, 2018 the company did not have any board representation in 5paisa.

Key Business Drivers, Events and Risks

5paisa's key business driver relates to its ability to provide a digital method of trading in securities, which is emerging as a new segment with the potential to achieve critical mass and grow in the near future with the spread of the Internet, mobile penetration, telecommunication and data services throughout India. 5paisa's ability to acquire, service and grow the new emerging do-it-yourself customer segment provides its customers with lower costs for various financial products, enabling investors to invest seamlessly, on their own, from anywhere in the world. As the only listed broker in India to offer low cost flat fee trades (operating under a flat fee of 10 Indian rupees per transaction model) within the last two years 5paisa has become the second largest discount broker in India in terms of an active client base.

At December 31, 2018 the 5paisa mobile application had exceeded 2 million downloads and sustained a 4 star rating on Google Playstore (March 31, 2018 – over 900 thousand downloads).

Valuation and Consolidated Financial Statement Impact

At December 31, 2018 the fair value of the company's investment in 5paisa was $11,913 (December 31, 2017 – $19,958) with the changes in fair value in 2018 and 2017 presented in the tables at the outset of the Indian Investments section of this MD&A.5paisa's share price decreased by 34.7% from 376.25 Indian rupees per share at December 31, 2017 to 245.65 Indian rupees per share at December 31, 2018.

Investment in Other Public Indian Investments

During 2018 the company acquired common shares of public companies in the financial services sector, listed on both the BSE and the NSE of India (investment in "Other Public Indian Investments") for aggregate cash consideration of $94,090. At December 31, 2018 the fair value of the company's investment in Other Public Indian Investments was $98,180 (December 31, 2017 – nil) 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 in 2018 are presented in the table at the outset of the Indian Investments section of this MD&A.

In 2018 the consolidated statements of earnings included dividend income earned from the investment in Other Public Indian Investments of $457 (2017 – nil).

At December 31, 2018 the company did not have any board representation in Other Public Indian Investments.

Private Indian Investments

Cautionary Statement Regarding the Valuation of Private Indian Investments

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

Investment in Bangalore International Airport Limited

Business Overview

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

BIAL's principal lines of business are as follows:

Aeronautical revenue from the airport

Aeronautical revenue is revenue earned from airlines for providing services such as landing, parking, housing and user development fees (''aeronautical services''). Tariffs for these aeronautical services, as determined by Airports Economic Regulatory Authority of India (the ''regulator''), are fixed in a manner to generate a 16.0% per annum regulated return on invested equity (the ''Regulatory Asset Base'') for the airport operator. Under the current regulatory approach applicable to BIAL, aviation concessions (which includes cargo, ground handling, fuel throughput, and into-plane services) are treated as aeronautical services. In addition, the regulator also attributes 30.0% of non-aeronautical revenue (described below) as a part of aeronautical revenue when computing the regulated return.

Non-aeronautical revenue from the airport

All revenue sources from the airport other than aeronautical revenue (which includes aviation concessions, as described earlier) are treated as non-aeronautical revenue. This includes revenue from activities such as catering services, vehicle parking, advertising, retail and duty free shops, and food and beverages. BIAL earns its non-aeronautical revenue from concession arrangements that reflect a percentage of revenue sharing, with a minimum guaranteed revenue each year. Non-aeronautical revenue is expected to grow substantially due to the increase in the number of passengers using the airport, the availability of additional space for development and the increasing propensity of passengers to spend money.

Other non-airport related revenue, including real estate monetization

The airport is located on 4,000 acres of land and the concession agreement provides for development of 1,000 acres of this land for commercial purposes such as hotels, retail establishments, offices and industrial or entertainment parks. This will permit BIAL to monetize approximately 460 acres after providing for the land required to build roads, utilities, landscaping and other services. With the exception of the five-star Taj hotel, located next to the airport and operated under a management contract with Indian Hotels Company Limited, all other land remains undeveloped. Over time, there is potential for significant upside from monetization of this real estate.

Additional information can be accessed from BIAL's website www.bengaluruairport.com.

Transaction Description

On March 24, 2017 Fairfax India acquired a 38.0% equity interest in BIAL for cash consideration of $385,498 (approximately 25.2 billion Indian rupees). A portion of that equity interest (33.0%) was purchased from a wholly-owned subsidiary of GVK Power and Infrastructure Limited (''GVK'') where Fairfax issued a put option to GVK which gave GVK the right to sell some or all of its remaining 10.0% equity interest in BIAL to Fairfax or Fairfax India until April 8, 2019 (the ''Put Option''). Fairfax India acquired the remaining 5.0% equity interest from Flughafen Zürich AG (''Zürich'').

On July 13, 2017 Fairfax India acquired the additional 10.0% equity interest in BIAL from GVK for cash consideration of $200,093 (12.9 billion Indian rupees) which the company determined included $74,202 (approximately 4.8 billion Indian rupees) of consideration in excess of the fair value of those additional shares acquired. In 2017 the costs incurred of $74,202 were recorded in net change in unrealized gains on investments and other costs in the 2017 consolidated statement of earnings. The Put Option was terminated upon completion of the company's acquisition of the additional 10.0% equity interest in BIAL from GVK.

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

At December 31, 2018 the company had appointed five of the fifteen BIAL board members.

Key Business Drivers, Events and Risks

KIAB is the busiest airport in South India, the third largest in the country, and was awarded the 'Best Regional Airport in India and Central Asia' during 2018 by Skytrax, a UK-based consulting firm, who conducts a global airport customer satisfaction survey. The airport handled approximately 32.3 million passengers in 2018 representing growth in overall traffic of 29.1% compared to 2017.

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

On August 31, 2018 the regulator issued the Final Tariff order for the 2nd Control Period (''2nd CP Final Order'') which ends on March 31, 2021. The 2nd CP Final Order included several favourable positions for BIAL, but most notably were the justification of the capital expenditures plan and securing the regulator's approval prior to awarding construction contracts, which puts BIAL in a confident position to undertake their capacity expansion program as previously mentioned. Aeronautical revenue for BIAL will also increase in the future control periods due to favourable ruling over the calculation of certain tariffs, including user development fees.

On January 20, 2005, subsequently amended on June 20, 2006, BIAL and the Government of Karnataka had entered into a State Support Agreement for the development, construction, operation and maintenance of the airport, whereby the Government of Karnataka, subject to other terms, would make available to BIAL over the project period, approximately $46 million (approximately 3.3 billion Indian rupees) in the form of an interest free loan. The proceeds from the interest free loan were to be used exclusively to finance the existing airport infrastructure and were due for repayment in twenty equal half-yearly installments commencing on April 30, 2018. On June 29, 2018 the Government of Karnataka approved a 10 year deferral on repayment of the interest free loan, and amended the loan to enable BIAL to utilize the funds towards the airport capacity expansion projects, as described earlier.

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

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

Valuation and Consolidated Financial Statement Impact

At December 31, 2018 the company estimated the fair value of its investment in BIAL using a discounted cash flow analysis for its two business units based on multi-year free cash flow projections with assumed after-tax discount rates ranging from 11.3% to 12.8% and a long term growth rate of 3.5% (December 31, 2017 – 10.4% to 11.7%, and 3.0%, respectively), and the estimated fair value of the monetizable leasehold land (approximately 460 acres) based on third party valuations with an assumed 20.0% discount factor (December 31, 2017 – 20.0%) for the leasehold nature of the asset. At December 31, 2018 free cash flow projections were based on EBITDA estimates derived from financial information for BIAL's two business units prepared in the third quarter of 2018 (December 31, 2017 – fourth quarter of 2017) by BIAL's management. Discount rates were based on the company's assessment of risk premiums to the appropriate risk-free rate of the economic environment in which BIAL operates. At December 31, 2018 the company's internal valuation model indicated that the fair value of the company's investment in BIAL was $704,077 (December 31, 2017 – $608,288) with the changes in fair value in 2018 and 2017 presented in the tables at the outset of the Indian Investments section of this MD&A. In 2018 the net change in unrealized gains on investments of $84,311 from the company's investment in BIAL was primarily driven by a decrease in projected capital expenditures in the discounted cash flow analysis relating to the justification of capital expenditures in line with the 2nd CP Final Order and an increase in aeronautical revenue projected in future periods. In 2017 net change in unrealized gains on investments and other costs of $10,902 included the costs incurred of $74,202 (approximately 4.8 billion Indian rupees) related to the additional 10.0% equity interest acquired in BIAL, as described earlier.

In 2018 the consolidated statements of earnings included dividend income earned from the investment in BIAL of nil (2017 – $2,241).

BIAL's Summarized Financial Information

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

Balance Sheets
(unaudited – US$ thousands)

	September 30, 2018(1)	**March 31, 2018(1)**
Current assets	199,076	147,942
Non-current assets	648,765	718,517
Current liabilities	65,719	73,195
Non-current liabilities	404,318	417,315
Shareholders' equity	377,804	375,949

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

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

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

Statements of Earnings
(unaudited – US$ thousands)

	Six months ended September 30, 2018(1)	**Six months ended September 30, 2017(1)**
Revenue	127,156	116,543
Earnings before income taxes	41,091	48,183
Net earnings	41,471	48,400

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

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

Investment in Sanmar Chemicals Group

Business Overview

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

Sanmar's principal lines of business are as follows:

Chemplast

Beginning as Chemicals and Plastics India Limited in 1962, Chemplast is currently the second largest suspension PVC manufacturer and the largest specialty PVC manufacturer in India, with the top three players capturing approximately 90% of India's domestic manufacturing capacity. A significant portion of Chemplast's revenues are derived from integrated operations. Chemplast's product range falls into four distinct groups: PVC resins, caustic soda / chlorine, chlorinated solvents and refrigerant gases. PVC is primarily used in pipes and fittings, window and door profiles, shoes, flooring and cable industries. Caustic soda is primarily used in the manufacturing of paper and pulp, textiles, alumina, petroleum products, soaps and detergents, and is also the basic feedstock for various chemicals. Chlorinated solvents are primarily used in pharmaceutical sectors. The majority of Chemplast's revenues are generated through direct sales to end customers.

TCI Sanmar Chemicals S.A.E. (''Sanmar Egypt'')

Sanmar Egypt is the largest Indian investor in Egypt's chemical business and the largest caustic soda and PVC manufacturer in Egypt. Sanmar has invested approximately $1.2 billion during Phase 1 of its Egypt project and has created world-class manufacturing facilities for caustic soda and PVC in Port Said, Egypt. Phase 1 projects were completed in April 2012 at which time PVC production commenced. In September 2018 Phase 2 expansion projects were completed with Sanmar investing an additional $280 million, for an aggregate investment of approximately $1.5 billion. A new calcium chloride facility was also commissioned upon completion of the Phase 2 PVC projects. Calcium chloride granules are used worldwide for dust control, de-icing, drilling operations and as a food additive. Sanmar Egypt sells directly to end customers and also through distributors. PVC is mainly sold in key target markets like Egypt, Turkey and parts of western Europe.

Specialty Chemicals

Sanmar's Specialty Chemicals business is primarily engaged in the manufacturing and marketing of advanced organic intermediates for the pharmaceutical, agro chemical, flavours and fragrances, and other fine chemical applications.

Kem One Chemplast

Chemplast and Kem One (the second largest producer of PVC in Europe) have entered into an agreement to establish Kem One Chemplast, an equal joint venture that will manufacture chlorinated polyvinyl chloride (''CPVC''). The joint venture and new facility will be established at a coastal location in Karaikal, Puducherry, India. The project will utilize the technology of Kem One and have a capacity to manufacture 20,000 tonnes per annum of CPVC resins and will also manufacture CPVC compounds.

Additional information can be accessed from Sanmar's website www.sanmargroup.com.

Transaction Description

In April 2016 Fairfax India invested $250,000 in Sanmar comprised of $1,000 in common shares (representing a 30.0% equity interest) and $249,000 in bonds, and in September 2016 invested an additional $50,000 in Sanmar bonds. Both tranches of Sanmar bonds mature on April 22, 2023 (7 years from the date of issuance of the first tranche), subject to earlier redemption at the option of Sanmar under certain circumstances. In lieu of cash, the coupon payment on the bond is payable in kind in the form of additional Sanmar bonds over the life of the financial instrument. A redemption premium may also be payable in kind to the company resulting in an effective annual interest rate of 13.0%.

On September 17, 2018 the company announced that it had entered into an agreement with Sanmar pursuant to which the $299,000 in Sanmar bonds will be settled for proceeds equal to, at the date of cancellation, the bonds' principal amount plus an effective annual interest rate of 13.0%. The company will invest $201,733 at period end exchange rates (approximately 14.1 billion Indian rupees) of the net proceeds received from the settlement of the Sanmar bonds into 171,710 newly issued common shares of Sanmar, increasing the company's equity interest in Sanmar to 42.9% from 30.0% at December 31, 2018. The company will receive the remaining net proceeds in cash that had a value of approximately $191 million at December 31, 2018 based on the fair value of the Sanmar bonds at that date of $392,776. This transaction is subject to customary closing conditions and third party consents, and is expected to be completed in the first half of 2019.

At December 31, 2018 the company had appointed one of the five Sanmar board members.

Key Business Drivers, Events and Risks

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

On May 2, 2017 approval from the Government of India's Ministry of Environment, Forest and Climate Change was received, allowing the Kem One Chemplast joint venture to commence construction of the new facility. The new facility is projected to be operational by 2022 and it is anticipated that it will reach full operational capacity in 2024.

CPVC is a raw material used to produce pipes and fittings for water supply systems that are required to have a high resistance to heat, pressure and chemicals. Overall there has been an increase in demand for CPVC pipes from the growth in the construction sector in India and also more recently in India by the switch from metal to CPVC pipes in the building construction process. The Kem One Chemplast joint venture is well positioned to benefit from the rapidly growing demand for CPVC in India that is currently being met through imports.

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

Valuation and Consolidated Financial Statement Impact

Sanmar Common Shares

At December 31, 2018 the company estimated the fair value of its investment in Sanmar common shares using a discounted cash flow analysis based on multi-year free cash flow projections with assumed after-tax discount rates ranging from 13.5% to 16.6% and long term growth rates ranging from 3.0% to 4.0% (December 31, 2017 – 15.2% to 19.5%, and 2.0% to 3.6%, respectively). At December 31, 2018 free cash flow projections were based on EBITDA estimates derived from financial information for Sanmar's four business units (with additional financial information and analysis completed for Chemplast's underlying business units involved in new capital projects) prepared in the third quarter of 2018 (December 31, 2017 – fourth quarter of 2017) by Sanmar's management. Discount rates were based on the company's assessment of risk premiums to the appropriate risk-free rate of the economic environment in which Sanmar operates. In 2018 Fairfax India recorded a net change in unrealized gains on investments of $221,454 on its investment in Sanmar common shares primarily as a result of: (i) positive operational developments at Sanmar Egypt (successful completion of its increased capacities in Egypt) and Chemplast (will benefit from the completion of new capital projects); (ii) continued strong demand for PVC and related products in India, Europe, the Middle East and North Africa; and, (iii) the decrease in the after-tax discount rates (principally related to the decreased risk at Sanmar Egypt as a result of the completion of its capital expenditure project to increase capacity). At December 31, 2018 the company's internal valuation model indicated that the fair value of the company's investment in Sanmar common shares was $217,170 (December 31, 2017 – $556) with the changes in fair value in 2018 and 2017 presented in the tables at the outset of the Indian Investments section of this MD&A. In 2018 the net change in unrealized gains on investments of $221,454 from the company's investment in Sanmar common shares was primarily driven by increased projected cash flows used in the discounted cash flow analysis and decreases in the after-tax discount rates from factors disclosed earlier.

Sanmar Bonds

At December 31, 2018 the company estimated the fair value of its investment in Sanmar bonds using an industry accepted discounted cash flow and option pricing model that incorporated Sanmar's estimated credit spread of 5.6% (December 31, 2017 – 8.2%) and assumptions related to certain redemption options embedded in the bonds. The estimated credit spread was based on the credit spreads of a peer group of comparable companies adjusted for credit risk specific to Sanmar. In 2018 Fairfax India recorded a net change in unrealized gains on investments of $90,128 on its investment in Sanmar bonds primarily relating to a decrease in the estimated credit spread used in the internal valuation model as a result of factors disclosed earlier under the Sanmar Common Shares heading which increased the company's estimated enterprise value for Sanmar. At December 31, 2018 the company's internal valuation model indicated that the fair value of Sanmar bonds was $392,776 (December 31, 2017 – $333,172) with the changes in fair value in 2018 and 2017 presented in the tables at the outset of the Indian Investments section of this MD&A. At December 31, 2018 and 2017 Sanmar bonds were rated BBB− with a stable outlook by Brickwork Ratings, an Indian rating agency. In 2018 the net change in unrealized gains on investments of $90,128 was primarily driven by the decrease in Sanmar's estimated credit spread from factors disclosed earlier.

Sanmar's Summarized Financial Information

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

Balance Sheets

(unaudited – US$ thousands)

	September 30, 2018[(1)]	**March 31, 2018[(1)]**
Current assets	253,828	247,396
Non-current assets	1,400,221	1,386,776
Current liabilities	594,730	516,316
Non-current liabilities	1,318,196	1,386,152
Shareholders' equity (deficit)	(258,877)	(268,296)

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

Current assets increased primarily reflecting increases in inventory levels from higher production levels at Chemplast. Non-current assets increased primarily attributable to the capital expenditures made in connection with the Phase 2 expansion at Sanmar Egypt. Current liabilities increased primarily reflecting higher funding of working capital. Non-current liabilities decreased primarily as a result of the weakening of the Indian rupee relative to the U.S. dollar during the six months ended September 30, 2018, partially offset by increase in long term loans and borrowings to fund the Phase 2 expansion at Sanmar Egypt.

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

Statements of Earnings
(unaudited – US$ thousands)

	Six months ended September 30, 2018(1)	Six months ended September 30, 2017(1)
Revenue	327,823	315,845
Loss before income taxes	(25,545)	(33,427)
Net loss	(37,091)	(46,350)

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

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

Investment in National Collateral Management Services Limited

Business Overview

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

NCML's principal lines of business are as follows:

Warehousing and Collateral Management

NCML's warehousing line of business is comprised of over 1.9 million metric tons of storage capacity across 717 warehouses throughout 16 states in India and is a market leader in India. NCML's collateral management line of business manages capacity of over 1.9 million metric tons, has assets under management in excess of $0.9 billion and a market share of 33.0%.

Supply Chain Management

NCML's supply chain management line of business provides end-to-end procurement, testing and certification, logistics, trading and disposal services, throughout the entire post-harvest agriculture value chain. NCML's clients include bulk consumers, large end users and farmers.

Non-banking Financial Company

NCML Finance Private Ltd ("NFin"), NCML's wholly-owned subsidiary, is an RBI registered NBFC with a focus on rural and agri-business financing. With its extensive reach and over a decade of experience, NCML has realized that despite the presence of numerous financial entities in the rural and agriculture value chain, the farmer and aggregator segments remains underpenetrated. NFin provides a seamless facility for NCML's customers to receive post-harvest financing.

While NFin intends to offer a complete suite of financial products in the agriculture and rural domain going forward, it initially started its operations by offering loans secured by warehouse receipts for commodities kept in the custody of NCML to bulk consumers, farmer producer organizations and aggregators.

Silo Projects

The Food Corporation of India ("FCI") is a government agency responsible for procurement and distribution of food grains throughout India. The majority of commodity storage in India is in facilities owned or leased directly by the government with only about 5% stored in organized private warehouses owned by companies that provide warehousing, storage and preservation services similar to NCML. The current storage capacity in India is approximately 125 million metric tons, of which 75% is government owned. The Government of India reviewed the process of acquiring, storing and distributing food grains resulting in a new distribution model that is focused on a public-private partnership. There are a few large national players (similar to NCML) which own and/or run high quality infrastructure and provide diverse ancillary services to warehousing customers who have the potential to benefit from changes in the industry.

In 2016 the FCI had called for bids for building 27 additional silos which will be located in the states of Punjab, Haryana, Uttar Pradesh, West Bengal, Bihar and Gujarat, and have an estimated combined grain storage capacity of 1.35 million metric tons. On February 3, 2017 NCML was awarded a 30 year concession agreement to build 11 of the locations with a 550,000 metric ton capacity which will require capital expenditure of an estimated $107 million (approximately 7.5 billion Indian rupees). NCML was awarded two additional silo locations with a 100,000 metric ton capacity and three additional silo locations with a 150,000 metric ton capacity in 2017 and 2018 respectively, bringing the total capacity for all 16 silo locations to 800,000 metric tons. The silo projects, which are expected to be substantially completed by late 2019, will be financed through debt and common equity.

Additional information can be accessed from NCML's website www.ncml.com.

Transaction Description

On August 8, 2017 Fairfax India participated in an NCML rights issue through which the company acquired its pro-rata share of 18,945,840 common shares of NCML at 86.00 Indian rupees per share for total cash consideration of $25,602 (approximately 1.6 billion Indian rupees), comprised of: (i) cash consideration ($9,601 (approximately 611 million Indian rupees)) settled on the closing date; and, (ii) a payable for rights issue recorded on the consolidated balance sheet at December 31, 2017 ($16,001 (approximately 1.0 billion Indian rupees)), which was settled in January 2018. NCML issued 19,071,602 common shares to the participating shareholders as part of the rights issue and will use the proceeds to supplement its funding requirements for its silo projects. Upon completion of this transaction, Fairfax India held an 89.5% equity interest (since its initial investment in 2015) in NCML for aggregate cash consideration of $174,318 (approximately 11.3 billion Indian rupees).

At December 31, 2018 the company held an aggregate of 131,941,286 common shares of NCML representing an 89.5% equity interest (December 31, 2017 – 89.5%).

At December 31, 2018 the company had appointed two of the seven NCML board members.

Key Business Drivers, Events and Risks

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

The silo projects are comprised of 14 silos that will be constructed under a design, build, finance, own and operate model and 2 silos that will be constructed under a design, build, finance, operate and transfer model, with all 16 silos being constructed for the exclusive use by the FCI. The silo projects are expected to be substantially completed by late 2019.

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

Valuation and Consolidated Financial Statement Impact

At December 31, 2018 the company estimated the fair value of its investment in NCML using a discounted cash flow analysis based on multi-year free cash flow projections with assumed after-tax discount rates ranging from 12.0% to 21.8% and long term growth rates ranging from 2.4% to 6.0% (December 31, 2017 – 12.0% to 19.9%, and 2.4% to 6.0%, respectively). At December 31, 2018 free cash flow projections were based on EBITDA estimates derived from financial information for NCML's business units prepared in the third quarter of 2018 (December 31, 2017 – fourth quarter of 2017) by NCML's management. Discount rates were based on the company's assessment of risk premiums to the appropriate risk-free rate of the economic environment in which NCML operates. At December 31, 2018 the company's internal valuation model indicated that the fair value of the company's investment in NCML was

$165,380 (December 31, 2017 – $179,054) with the changes in fair value in 2018 and 2017 presented in the tables at the outset of the Indian Investments section of this MD&A. In 2018 the net change in unrealized gains on investments of $1,719 from the company's investment in NCML was primarily related to increased growth in the NCML's supply chain management line of business, partially offset by reduced free cash flows projections used in the discounted cash flow analysis by the collateral management line of business that related to a risk reduction strategy taken by NCML's management to exit higher risk segments that had been negatively impacted by the quality of the commodities.

NCML's Summarized Financial Information

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

Balance Sheets
(unaudited – US$ thousands)

	December 31, 2018(1)	**March 31, 2018(1)(2)**
Current assets	145,155	199,657
Non-current assets	103,381	93,057
Current liabilities	116,759	149,840
Non-current liabilities	24,281	29,845
Shareholders' equity	107,496	113,029

(1) *The net assets of NCML were translated at December 31, 2018 at $1 U.S. dollar = 69.82 Indian rupees and at March 31, 2018 at $1 U.S. dollar = 65.22 Indian rupees. The exchange rates used were the spot rates prevailing on those respective dates.*

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

Current assets decreased primarily reflecting lower advances at NFin and decreased trade receivables as a result of improved collection processes. Non-current assets increased principally related to land acquisitions for the silo projects. Current liabilities decreased primarily reflecting decreases in short term loans and borrowings at NFin as a result of the market liquidity tightening. Non-current liabilities decreased as a result of scheduled repayments on loans and borrowings.

Summarized below are NCML's statements of earnings for the nine months ended December 31, 2018 and 2017.

Statements of Earnings
(unaudited – US$ thousands)

	Nine months ended December 31, 2018(1)	**Nine months ended December 31, 2017(1)**
Revenue	157,010	126,756
Earnings before income taxes	1,638	1,624
Net earnings	1,598	3,351

(1) *Amounts for the nine months ended December 31, 2018 and 2017 were translated into US$ using the average exchange rates of $1 U.S. dollar = 69.68 Indian rupees and $1 U.S. dollar = 64.50 Indian rupees prevailing during those periods.*

Revenue increased primarily reflecting growth in the supply chain management and warehousing lines of business as a result of a strong monsoon season, partially offset by a decrease in the collateral management line of business due to NCML's management risk reduction strategy, as noted above. Earnings before income taxes increased principally as a result of decreased interest expense from short term borrowings at NFin as a result of the market liquidity tightening and a one-time charge for impairment of certain receivables in the comparable period. Net earnings decreased primarily as a result of a deferred income tax recovery in the comparable period, partially offset by the increase in earnings before income taxes as noted above.

Investment in The Catholic Syrian Bank Limited

Business Overview

The Catholic Syrian Bank Limited ("CSB"), a private company headquartered in Thrissur, India, was established in 1920 and is a full-service bank offering retail banking, non-resident Indian banking services, small-to-medium enterprise and wholesale banking services through 418 branches and 270 automated teller machines across India.

Additional information can be accessed from CSB's website www.csb.co.in.

Transaction Description

On February 20, 2018 the company entered into an agreement to acquire a 51.0% equity interest, on a fully diluted basis, in CSB for $168,492 (approximately 12.1 billion Indian rupees). The company's investment in securities of CSB, comprised of common shares and warrants (to purchase 66.5 million common shares), were payable as follows: (i) consideration payable on initial closing for 25.0% of the common shares and 40.0% of the warrants; and, (ii) remaining 75.0% of the common shares payable within 12 months of the initial closing, upon request by CSB, and 60.0% of the warrants payable within 18 months of the initial closing, in one or more tranches, either upon request by CSB or at the option of Fairfax India.

On October 19, 2018 the company completed the initial investment in CSB and recorded $88,524 (approximately 6.5 billion Indian rupees) and $28,367 (approximately 2.1 billion Indian rupees) within common stocks and payable for partly paid shares on the consolidated balance sheet in the consolidated financial statements for the year ended December 31, 2018 ("Tranche 1"). The CSB common shares of $88,524 were comprised of: (i) 19.8 million common shares that represented 100.0% of the common shares received for $37,823 (approximately 2.8 billion Indian rupees) representing a 19.7% equity interest; and, (ii) 40.0% of the warrants to purchase 26.6 million common shares for $50,701 (approximately 3.7 billion Indian rupees) reflected as common shares as they had features of in-substance equity.

The cash consideration paid by the company upon closing Tranche 1 of $60,157 (approximately 4.4 billion Indian rupees) represented 25.0% of the consideration payable for the common shares for $9,456 ($37,823 net of the payable for partly paid shares of $28,367) and 40.0% of the warrants for $50,701.

At December 31, 2018 the company had appointed two of the nine CSB board members. Fairfax India is limited to 15.0% of the available voting rights of CSB, as stipulated by RBI regulations discussed below.

Key Business Drivers, Events and Risks

According to the RBI, India's banking sector is sufficiently capitalized and well-regulated. The increase in India's working population and growth in disposable income is anticipated to increase the demand for banking related services, particularly in rural banking locations. In addition, the Indian banking industry has evolved through technology innovations in digital payments systems, mobile and online banking. Despite this, during fiscal 2017 to 2018 the banking system in India as a whole has seen balance sheet stress, with deterioration in asset quality. RBI has implemented asset quality reviews ensuring adequate provisioning of stressed assets and implemented a new framework for resolution of stressed assets. As a result, asset quality of the banking sector in India has began to show marginal improvements in first half of financial year 2018-19.

CSB'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 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, SMEs, and wholesale banking. Non-performing assets ("NPA") are being addressed by CSB through the creation of asset recovery branches to accelerate delinquent loan recovery, with the goal of effectively minimizing losses by improving the credit monitoring and risk management practices. In addition, CSB continues to strive for increases in employee productivity and will invest in technology across its banking platforms, providing more efficient and cost effective services for its customers.

Banks in India are highly regulated by the RBI including specific regulations on shareholder voting rights, shareholdings and board representation. The voting rights of any one shareholder of banks in India are currently limited to 15.0% of available voting rights or as notified by the RBI from time to time. In addition, the RBI stipulates ownership limits for shareholders of banks in India in the long run. Fairfax India is required to follow a dilution schedule for its ownership in CSB whereby: (i) the company must acquire a minimum of 40.0% of the voting equity shares in CSB within 5 years from closing Tranche 1; (ii) the company's shareholding in CSB must be brought down to 30.0% of the voting equity shares within 10 years after closing Tranche 1; and (iii) the company's shareholding in CSB must be brought down to 15.0% of the voting equity shares within 15 years after closing Tranche 1. In addition, the RBI has mandated that CSB must list its shares on the BSE and NSE through an initial public offering (''IPO'') by September 30, 2019.

Valuation and Consolidated Financial Statement Impact

CSB Common Shares

The initial transaction price for Tranche 1 was considered to approximate fair value at December 31, 2018 as there has been no significant changes to CSB's business, capital structure and operating environment and the key assumptions in the company's acquisition valuation model continued to be valid. At December 31, 2018 the fair value of the company's investment in CSB (comprised of 100.0% of the common shares and 40.0% of the warrants) was $93,081 representing a 36.4% effective equity interest in CSB which included the warrants that are in-substance equity. In 2018 the change in fair value of the company's investment in CSB related to unrealized foreign currency translation gains and is presented in the table at the outset of the Indian Investments section of this MD&A.

Payable for partly paid shares of CSB

The remaining consideration payable for 75.0% of the common shares of $29,827 at period end exchange rates (approximately 2.1 billion Indian rupees) is payable within 12 months of Tranche 1, upon request by CSB, and recorded within payable for partly paid shares on the consolidated balance sheet in the consolidated financial statements for the year ended December 31, 2018.

CSB Warrants – Derivative

The remaining consideration payable for 60.0% of the warrants of $79,968 at period end exchange rates (approximately 5.6 billion Indian rupees) is payable within 18 months of Tranche 1, in one or more tranches, either upon request by CSB or at the option of Fairfax India, and represents a derivative instrument. At December 31, 2018 the company estimated the fair value of the derivative to be nil calculated as the difference between the CSB common shares' fair value (transaction price of 140 Indian rupees per share) and the effective exercise price of the CSB warrants (140 Indian rupees).

CSB's Summarized Financial Information

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

Balance Sheets
(unaudited – US$ thousands)

	September 30, 2018[(1)]	**March 31, 2018[(1)]**
Financial assets	2,140,946	2,238,653
Non-financial assets	163,637	178,067
Financial liabilities	2,181,643	2,269,308
Non-financial liabilities	23,225	29,281
Shareholders' equity	99,715	118,131

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

Financial and non-financial assets decreased primarily as a result of the weakening of the Indian rupee relative to the U.S. dollar during the six months ended September 30, 2018, partially offset by an increase in investment securities. Financial and non-financial liabilities decreased primarily as a result of the weakening of the Indian rupee relative to the U.S. dollar during the six months ended September 30, 2018, partially offset by increased borrowings from RBI and other financial institutions to fund the investment securities as noted above.

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

Statements of Earnings
(unaudited – US$ thousands)

	Six months ended September 30, 2018[(1)]	Six months ended September 30, 2017[(1)]
Revenue	40,611	46,990
Loss before income taxes	(8,949)	(3,950)
Net loss	(5,892)	(2,583)

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

Revenue decreased primarily as a result of reduction in net interest income due to a decline in the interest yields earned on the loan portfolio. Loss before income taxes and net loss increased primarily as a result of an increase in the provision for credit losses due to increased NPA and increases in other operating expenses.

Investment in Saurashtra Freight Private Limited

Business Overview

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

Additional information can be accessed from Saurashtra's website www.saurashtrafreight.com.

Transaction Description

On February 14, 2017 Fairfax India acquired a 51.0% equity interest in Saurashtra for cash consideration of $30,018 (approximately 2.0 billion Indian rupees).

At December 31, 2018 the company had appointed one of the three Saurashtra board members.

Key Business Drivers, Events and Risks

Saurashtra has the annual capacity to handle 180,000 standard twenty-foot (shipping container) equivalent units ("TEUs") and in 2018 handled 100,988 TEUs, implying a capacity utilization of approximately 56% and growth of approximately 12% over 2017. At December 31, 2018 Saurashtra had the highest market share for imports at approximately 15% (increased from 14% at December 31, 2017), was fourth in exports at approximately 12% (modest decline from 15% at December 31, 2017) at Mundra port in India, and remains the largest CFS at that port in terms of total throughput achieved in the fourth quarter of 2018.

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

Rising oil prices as discussed in the Business Developments section under the heading Operating Environment of this MD&A negatively impacted Saurashtra's operating margins during 2018, with the increase in diesel prices being the largest contributor to the increase in operating expenses from 2017.

Valuation and Consolidated Financial Statement Impact

At December 31, 2018 the company estimated the fair value of its investment in Saurashtra using a discounted cash flow analysis based on multi-year free cash flow projections with assumed after-tax discount rates ranging from 15.6% to 16.0% and long term growth rates ranging from 4.0% to 5.0% (December 31, 2017 – 14.6% to 14.7%, and 4.0% to 5.0%, respectively). At December 31, 2018 free cash flow projections were based on EBITDA estimates derived from financial information for Saurashtra's two business units prepared in the fourth quarter of 2018 (December 31, 2017 – fourth quarter of 2017) by Saurashtra's management. The discount rates were based on the company's assessment of risk premiums to the appropriate risk-free rate of the economic environment in which Saurashtra operates. At December 31, 2018 the company's internal valuation model indicated that the fair value of the company's investment in Saurashtra was $24,843 (December 31, 2017 – $28,000) with the changes in fair value in 2018 and 2017 presented in the tables at the outset of the Indian Investments section of this MD&A. In 2018 the net change in unrealized losses on investments of $772 from the company's investment in Saurashtra primarily related to lower than projected growth in Saurashtra's CFS line of business as a result of increased pricing competition on services relating to imports, partially offset by decreased capital expenditures in the projected periods for Fairfreight Lines, as the business unit plans to continue its leasing model for containers.

Investment in National Stock Exchange of India Limited

Business Overview

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

Additional information can be accessed from NSE's website www.nseindia.com.

Transaction Description

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

At December 31, 2018 the company did not have any board representation in NSE.

Key Business Drivers, Events and Risks

India has two main stock exchanges where the majority of its trading takes place, the BSE and the NSE of India. Although most significant firms in India are listed on both the BSE and the NSE of India, NSE enjoys dominant market share positions in the equity trading segment (91%), the equity derivatives trading segment (100%), the foreign exchange futures (58%) and options markets (46%).

On December 28, 2016 NSE filed a draft prospectus with SEBI in connection with its proposed IPO. Certain matters requiring resolution have delayed the IPO process, and as a result completion of the IPO is now expected sometime in 2020 or 2021. Upon completion of the IPO, NSE will also seek to file for an overseas listing. NSE has appointed Citibank, JM Financial, Kotak Mahindra and Morgan Stanley as lead investment banks to manage the IPO.

On October 12, 2018, subsequent to receiving approval from SEBI, NSE launched a new commodities derivatives trading segment.

Valuation and Consolidated Financial Statement Impact

At December 31, 2018 the company's estimated fair value of its investment in NSE of $60,285 was based on recent third party transactions completed in the fourth quarter of 2018, and corroborated by the company through direct confirmation. At December 31, 2017 the estimated fair value of the company's investment in NSE was based on an internal market approach valuation model. The model referenced the earnings multiple of a peer group of comparable companies that had a median earnings multiple of 26.2 times, that when applied to NSE's earnings implied an estimated fair value at December 31, 2017 of $40,452. The changes in fair value of the company's investment in NSE in 2018 and 2017 are presented in the tables at the outset of the Indian Investments section of this MD&A. In 2018 the net change in unrealized gains on investments of $24,245 reflected the increase in fair value in the company's investment in NSE based on the recent third party transaction completed at a fair value of 840.00 Indian rupees per share compared to 515.31 Indian rupees per share at December 31, 2017 based on the internal market approach valuation model.

In 2018 the consolidated statements of earnings included dividend income earned from the investment in NSE of $1,258 (2017 – $1,480).

Investment in India Housing Fund

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

Subsequent to December 31, 2018

On January 7, 2019 the company invested 25.0% or $6,250 (approximately 437 million Indian rupees) of the committed investment amount in IH Fund, with the remaining 75.0% or $18,750 to be drawn down within a 2 year period.

Results of Operations

Fairfax India's consolidated statements of earnings for the years ended December 31, 2018, 2017 and 2016 are shown in the following table:

	2018	2017	2016
Income			
Interest	21,659	21,848	21,343
Dividends	8,699	8,627	5,611
Net realized gains (losses) on investments	(7,985)	1,195	3,392
Net change in unrealized gains on investments and other costs	178,998	592,277	104,995
Net foreign exchange losses	(34,853)	(14,277)	(6,737)
	166,518	609,670	128,604
Expenses			
Investment and advisory fees	33,908	27,531	12,552
Performance fee	–	112,218	–
General and administration expenses	4,079	4,166	4,937
Interest expense	28,898	15,664	4,171
	66,885	159,579	21,660
Earnings before income taxes	99,633	450,091	106,944
Provision for (recovery of) income taxes	3,201	(2,418)	(881)
Net earnings	96,432	452,509	107,825
Net earnings per share	$ 0.63	$ 3.10	$ 1.01
Net earnings per diluted share	$ 0.63	$ 2.94	$ 1.01

Income of $166,518 in 2018 decreased from $609,670 in 2017 principally as a result of decreased net change in unrealized gains on investments and other costs, decreased net realized gains on investments and increased net foreign exchange losses (primarily as a result of the weakening of the Indian rupee relative to the U.S. dollar during 2018). In 2018, the net change in unrealized gains on investments of $178,998 was principally comprised of unrealized gains on the company's common stock investments Sanmar ($221,454), BIAL ($84,311) and NSE ($24,245), and Sanmar bonds ($90,128), partially offset by unrealized losses on common stock investments IIFL ($203,226), Fairchem ($40,711), and 5paisa ($6,474). In 2017, the net change in unrealized gains on investments and other costs of $592,277 was principally comprised of unrealized gains on the company's common stock investments IIFL ($536,121), Fairchem ($42,241), NSE ($12,032) and BIAL ($10,902, net of $74,202 costs incurred to acquire the additional 10.0% equity interest in BIAL), and Sanmar bonds ($14,843), partially offset by unrealized losses on Government of India bonds ($14,086) and common stock investments Saurashtra ($3,423) and NCML ($2,298). Interest of $21,659 in 2018 and $21,848 in 2017 primarily related to interest earned on investments in Government of India bonds and Indian corporate bonds which were not yet deployed into Indian Investments. Dividend income of $8,699 in 2018 primarily related to dividends received from the company's investments in IIFL, NSE, Fairchem, and Other Public Indian Investments compared to dividend income of $8,627 in 2017 which was principally received from the company's investments in IIFL, BIAL, NSE and Fairchem.

Net gains (losses) on investments and net foreign exchange gains (losses) in 2018 and 2017 were comprised as follows:

	2018			2017		
	Net realized gains (losses)	**Net change in unrealized gains (losses)**	**Net gains (losses)**	**Net realized gains (losses)**	**Net change in unrealized gains (losses) and other costs**	**Net gains (losses)**
Net gains (losses) on investments:						
Short term investments	(3)	–	(3)	–	–	–
Bonds	(7,982)	94,420(1)	86,438	1,195	(3,189)(1)	(1,994)
Common stocks	–	84,578(2)	84,578	–	595,466(2)	595,466
	(7,985)	178,998	171,013	1,195	592,277	593,472
Net foreign exchange gains (losses) on:						
Cash and cash equivalents	3,651	–	3,651	(27,531)(4)	–	(27,531)
Investments	1,489	465	1,954	(1,244)	(664)	(1,908)
Term loans	(25,407)(3)	(13,131)(3)	(38,538)	9,812(3)	4,764	14,576
Other	(1,920)	–	(1,920)	586	–	586
	(22,187)	(12,666)	(34,853)	(18,377)	4,100	(14,277)

(1) In 2018, comprised of unrealized gains from Sanmar bonds ($90,128) and Government of India bonds ($5,536), partially offset by unrealized losses from Indian corporate bonds ($1,244). In 2017, comprised of unrealized losses from Government of India bonds ($14,086) and Indian corporate bonds ($3,946), partially offset by unrealized gains from Sanmar bonds ($14,843).

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

(3) In 2018 net realized foreign exchange loss of $25,407 related to the extinguishment of the $400.0 million term loan, and the net change in unrealized loss of $13,131 was comprised of the reversal of the prior year unrealized foreign exchange gain of $4,527 on the $400.0 million term loan and unrealized foreign exchange loss of $8,604 on the $550.0 million term loan. In 2017 net realized foreign exchange gain of $9,812 related to the early settlement of a 2 year secured term loan with a principal amount of $225,000 on March 31, 2017.

(4) Primarily related to the U.S. dollar net proceeds received from the secondary Offerings (see note 8 (Common Shareholders' Equity) to the consolidated financial statements for the year ended December 31, 2018) that were held in U.S. dollar denominated cash equivalents until the funds were partially deployed to acquire the 38.0% equity interest in BIAL.

The decrease in expenses from $159,579 in 2017 to $66,885 in 2018 principally related to the company determining that there was no performance fee accrual at December 31, 2018, partially offset by increased investment and advisory fees (reflecting increased holdings of Indian Investments) and interest expense on the term loans.

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. In 2018 the company determined that the majority of its assets were invested in Indian Investments, which are considered deployed capital. In 2018 the investment and advisory fees recorded in the consolidated statements of earnings was $33,908 (2017 – $27,531).

At December 31, 2018 the company determined that there was no performance fee accrual, related to the second calculation period (December 31, 2017 – $114,437 related to the first calculation period) as the book value per share of $13.86 at December 31, 2018 was lower than the high water mark per share at that date of $14.49. In 2018 the performance fee recorded in the consolidated statements of earnings was nil (2017 – $112,218, representing the performance fee accrual translated at the average exchange rate for 2017). Refer to the Related Party Transactions section of this MD&A for additional discussion on the performance fee accrued at December 31, 2017 and settled on March 9, 2018.

The provision of income taxes of $3,201 in 2018 differed from the provision for income taxes that would be determined by applying the company's Canadian statutory income tax rate of 26.5% to the company's earnings before income taxes primarily as a result of foreign exchange fluctuations and the change in unrecorded tax benefit of losses and temporary differences, partially offset by the tax rate differential on income earned outside of Canada.

The recovery of income taxes of $2,418 in 2017 differed from the provision for income taxes that would be determined by applying the company's Canadian statutory income tax rate of 26.5% to the company's earnings before income taxes primarily as a result of the tax rate differential on income earned outside of Canada, partially offset by the change in unrecorded tax benefit of losses and temporary differences, and foreign exchange fluctuations.

The company reported net earnings of $96,432 (net earnings of $0.63 per basic and diluted share) in 2018 compared to net earnings of $452,509 (net earnings of $3.10 per basic share and $2.94 per diluted share) in 2017. The year-over-year decrease in profitability in 2018 primarily reflected decreased net unrealized gains on investments, partially offset by no performance fee recorded in 2018.

Consolidated Balance Sheet Summary

The assets and liabilities reflected on the company's consolidated balance sheet at December 31, 2018 were impacted by the acquisitions of the Indian Investments (Other Public Indian Investments and Tranche 1 of the investment in CSB), additional investment in BIAL, the incremental net proceeds from the $550.0 million term loan, and the settlement of the performance fee.

Total Assets

Total assets at December 31, 2018 of $2,705,550 (December 31, 2017 – $2,672,221) were principally comprised as follows:

Total cash and investments increased to $2,696,420 at December 31, 2018 from $2,659,568 at December 31, 2017. The company's total cash and investments composition by the issuer's country of domicile was as follows:

	December 31, 2018				December 31, 2017				
	India	**Canada**	**Other**	**Total**	**India**	**U.S.**	**Canada**	**Other**	**Total**
Cash and cash equivalents	149	18,766	2,325	21,240	–	–	9,934	3,310	13,244
Restricted cash	–	13,833	–	13,833	–	–	10,598	–	10,598
Short term investments – U.S. treasury bills	–	–	–	–	–	27,481	–	–	27,481
Bonds:									
Government of India	88,997	–	–	88,997	259,356	–	–	–	259,356
Indian corporate	94,613	–	–	94,613	101,724	–	–	–	101,724
Sanmar	392,776	–	–	392,776	333,172	–	–	–	333,172
	576,386	–	–	576,386	694,252	–	–	–	694,252
Common stocks:									
IIFL	613,458	–	–	613,458	888,485	–	–	–	888,485
Fairchem	96,574	–	–	96,574	149,200	–	–	–	149,200
5paisa	11,913	–	–	11,913	19,958	–	–	–	19,958
Other	98,180	–	–	98,180	–	–	–	–	–
BIAL	704,077	–	–	704,077	608,288	–	–	–	608,288
Sanmar	217,170	–	–	217,170	556	–	–	–	556
NCML	165,380	–	–	165,380	179,054	–	–	–	179,054
CSB	93,081	–	–	93,081	–	–	–	–	–
Saurashtra	24,843	–	–	24,843	28,000	–	–	–	28,000
NSE	60,285	–	–	60,285	40,452	–	–	–	40,452
	2,084,961	–	–	2,084,961	1,913,993	–	–	–	1,913,993
Total cash and investments	2,661,496	32,599	2,325	2,696,420	2,608,245	27,481	20,532	3,310	2,659,568

Cash and cash equivalents increased to $21,240 at December 31, 2018 from $13,244 at December 31, 2017 principally reflecting the incremental net proceeds received from the $550.0 million term loan and the sale of short term investments, partially offset by the use of those funds primarily to finance an additional 6.0% investment in BIAL, and investments in Other Public Indian Investments and Tranche 1 of the investment in CSB.

Restricted cash of $13,833 and $10,598 at December 31, 2018 and 2017 related to requirements under the $550.0 million and $400.0 million term loans respectively, for the company to set aside cash to fund interest payments.

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

Bonds and Common stocks – The company is actively seeking investment opportunities in India and will continue to redirect capital from its cash and cash equivalents, and bond portfolio into Indian Investments as and when those opportunities are identified. For more information about recent Indian Investments, see the Indian Investments section of this MD&A. For more information on the company's total cash and investment holdings of $2,696,420 at December 31, 2018 (December 31, 2017 – $2,659,568) see note 6 (Cash and Investments) to the consolidated financial statements for the year ended December 31, 2018.

Interest receivable decreased to $7,039 at December 31, 2018 from $9,422 at December 31, 2017 primarily reflecting decreased interest receivable from Indian corporate bonds and Government of India bonds as a result of partial sale of Government of India bonds and the weakening of the Indian rupee relative to the U.S. dollar during 2018.

Total Liabilities

Total liabilities at December 31, 2018 of $587,605 (December 31, 2017 – $539,757) were principally comprised as follows:

Payable for rights issue of nil at December 31, 2018 due to settlement of the remaining payable on the NCML rights issue in January 2018.

Payable for partly paid shares of $29,827 at December 31, 2018 represents the 75.0% remaining consideration to be paid on the partly paid shares of CSB.

Payable to related parties decreased to $8,827 at December 31, 2018 from $122,826 at December 31, 2017 principally reflecting the settlement of the performance fee payable (relating to the first calculation period ending on December 31, 2017) to Fairfax through the issuance of subordinate voting shares of the company.

Deferred income taxes of $689 at December 31, 2018 related to a deferred tax liability recorded on the increase in the fair value of company's investment in an Other Public Indian Investment which was acquired during 2018.

Term loans increased to $547,228 at December 31, 2018 from $400,000 at December 31, 2017 related to the incremental net proceeds received from the $550.0 million term loan, net of unamortized issue costs of $2,772 (issue costs of $5,545 less amortization of $2,773). Refer to note 7 (Term Loans) to the consolidated financial statements for the year ended December 31, 2018.

Comparison of 2017 to 2016 – Total assets of $1,303,497 at December 31, 2016 increased to $2,672,221 at December 31, 2017 primarily due to net proceeds received from the $400.0 million term loan and the secondary Offerings, and unrealized gains on the company's Indian Investments (primarily related to IIFL), partially offset by the repayment of a 2 year secured term loan with a principal amount of $225,000 and the accrual of the performance fee at December 31, 2017 of $114,437. During 2017 the company used net proceeds received from the $400.0 million term loan and the secondary Offerings and redirected capital from its cash and cash equivalents, short term investments and bond portfolio into acquisitions of Indian Investments (BIAL and Saurashtra) and additional investments in IIFL and NCML. Refer to note 5 (Indian Investments) to the consolidated financial statements for the year ended December 31, 2018 for details on the Indian Investments acquired during 2017.

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 sheet 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 December 31, 2018 compared to those identified at December 31, 2017, other than as outlined in note 11 (Financial Risk Management) to the consolidated financial statements for the year ended December 31, 2018.

Capital Resources and 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 the term loans and common shareholders' equity) increased from $2,532,464 at December 31, 2017 to $2,665,173 at December 31, 2018 principally reflecting a net increase in term loans, partially offset by a decrease in common shareholders' equity, as described below.

On June 28, 2018 the company amended and restated the existing $400.0 million term loan with the $550.0 million term loan bearing interest at a rate of LIBOR plus 350 basis points, which includes an option for the company to extend the $550.0 million term loan for an additional year. On July 11, 2017 the company had entered into an agreement with a Canadian bank for the $400.0 million term loan. On July 13, 2017 the company used a portion of the net proceeds from the $400.0 million term loan to complete the additional 10.0% investment in BIAL of $200,093 and participate in the NCML rights issue. During 2018 the company used a portion of the incremental net proceeds received from the $550.0 million term loan to acquire common shares in an Other Public Indian Investment ($89,114). The $550.0 million term loan includes a financial covenant that requires the company to maintain common shareholders' equity of not less than $1.5 billion, increased from a $1.3 billion financial covenant in the $400.0 million term loan. At December 31, 2018 the company was in compliance with the $550.0 million term loan financial covenant.

Common shareholders' equity decreased to $2,117,945 at December 31, 2018 from $2,132,464 at December 31, 2017 primarily reflecting unrealized foreign currency translation losses ($193,141), partially offset by the issuance of subordinate voting shares to Fairfax to settle the December 31, 2017 performance fee payable ($114,437) and net earnings ($96,432).

Book Value per Share

Common shareholders' equity at December 31, 2018 was $2,117,945 (December 31, 2017 – $2,132,464). The book value per share at December 31, 2018 was $13.86 compared to $14.46 at December 31, 2017 representing a decrease in 2018 of 4.1%, primarily reflecting unrealized foreign currency translation losses of $193,141, partially offset by net earnings of $96,432.

The table below presents the book value per share before and after the performance fee, if any, for the period from the company's IPO date of January 30, 2015 to December 31, 2018, and the annual growth rate and the compound annual growth rate in book value per share before and after the performance fee paid in the first calculation period ending on December 31, 2017 (in accordance with the Investment Advisory Agreement).

	Book value per share after Performance Fee	Annual growth in book value per share after Performance Fee	Book value per share before Performance Fee	Annual growth in book value per share before Performance Fee
January 30, 2015[1]	$10.00	–	$10.00	–
December 31, 2015	$ 9.50	(5.0)%	$ 9.50	(5.0)%
December 31, 2016	$10.25	7.9%	$10.25	7.9%
December 31, 2017	$14.46	41.1%	$15.24	48.7%
December 31, 2018	$13.86	(4.1)%	$14.59	(4.3)%
Compound annual growth in book value per share[2]		8.7%		10.1%

(1) On January 30, 2015 Fairfax India completed its IPO at an offering price of $10.00 per share.

(2) The company's book value per share of $13.86 at December 31, 2018 represented a compound annual growth rate from the initial public offering price of $10.00 per share of 8.7% (a growth of 10.1% prior to accounting for the performance fee paid in the first calculation period).

The company has had strong performance during the period from the closing of its initial public offering in January 2015 to December 31, 2018. As a result of that strong performance, the company's book value per share of $13.86 at December 31, 2018 represented a compound annual growth rate during that period of 8.7% (10.1% prior to the performance fee described in the Related Party Transactions section of this MD&A) from the initial public offering price of $10.00 per share, outperforming the compound annual growth rate of the S&P USD BSE Sensex Index of 2.5% during the same period.

During 2018 the total number of shares effectively outstanding increased primarily as a result of the issuance of 7,663,685 subordinate voting shares to Fairfax to settle the performance fee payable of $114,437 for the first calculation period (three year period ending on December 31, 2017), partially offset by purchases of 2,234,782 subordinate voting shares for cancellation under the normal course issuer bid. At December 31, 2018 there were 152,861,534 common shares effectively outstanding.

The company has issued and purchased common shares since it was federally incorporated on November 25, 2014 as follows:

Date	Number of subordinate voting shares	Number of multiple voting shares(1)	Total number of shares	Average issue/ purchase price per share	Net proceeds/ (purchase cost)
2014 – issuance of shares	–	1	1	$10.00	–
2015 – issuance of shares	76,678,879	29,999,999	106,678,878	$ 9.62	1,025,825
2016 – purchase of shares	(1,797,848)	–	(1,797,848)	$11.78	(21,178)
2017 – issuance of shares	42,553,500	–	42,553,500	$11.60	493,504
2017 – purchase of shares	(1,900)	–	(1,900)	$14.21	(27)
	117,432,631	30,000,000	147,432,631		
2018 – issuance of shares(2)	7,663,685	–	7,663,685	$14.93	114,437
2018 – purchase of shares	(2,234,782)	–	(2,234,782)	$14.42	(32,218)
	122,861,534	30,000,000	152,861,534		

(1) Multiple voting shares that may only be issued to Fairfax or its affiliates and are not publicly traded.

(2) Subordinate voting shares issued to Fairfax on March 9, 2018 for settlement of the performance fee accrued at December 31, 2017 of $114,437. Issuance of the subordinate voting shares was a non-cash transaction and were issued at the VWAP of $14.93 in accordance with the Investment Advisory Agreement.

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

During 2018, under the terms of the normal course issuer bid, the company purchased for cancellation 2,234,782 subordinate voting shares (2017 – 1,900) for a net cost of $32,218 (2017 – $27), of which $8,695 was charged to retained earnings (2017 – $8).

Liquidity

The undeployed cash and investments at December 31, 2018 provides adequate liquidity to meet the company's known significant commitments in 2019, which are principally comprised of the remaining investment in securities of CSB (inclusive of the payable for partly paid shares), the investment in IH Fund, investment and advisory fees, general and administration expenses and potentially corporate income taxes. The company has the ability to sell a portion of its Indian Investments to supplement the liquidity requirements. The company has a principal repayment of $550.0 million on the term loan coming due in June 2019 that can be extended for an additional year, or settled through a combination of refinancing and cash flows from the disposition of investments. The company expects to continue to receive investment income on its holdings of fixed income securities and dividends from its equity investments to supplement its cash and cash equivalents. Accordingly, the company has adequate working capital to support its operations.

The performance fee payable to Fairfax for the first calculation period (ending on December 31, 2017) was settled on March 9, 2018 by the company issuing 7,663,685 subordinate voting shares to Fairfax. Refer to the Related Party Transactions section of this MD&A for additional details on the settlement of the December 31, 2017 performance fee payable.

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

	2018	2017
Operating activities		
Cash used in operating activities before the undernoted	(20,974)	(71,430)
Net (increase) decrease in restricted cash in support of term loans	(3,235)	8,212
Net sales (purchases) of short term investments classified as FVTPL	27,836	(112)
Purchases of bonds and common stocks classified as FVTPL	(240,661)	(812,484)[1]
Sales of bonds and common stocks classified as FVTPL	144,213	78,458
Financing activities		
Net proceeds from $550.0 million term loan	544,455	–
Net proceeds from $400.0 million term loan	–	396,978
Repayment of the term loans	(400,000)	(225,000)
Issuance of subordinate voting shares, net of issuance costs	–	493,504
Purchases of subordinate voting shares for cancellation	(32,218)	(27)
Increase (decrease) in cash and cash equivalents during the year	19,416	(131,901)

(1) Excludes $74,202 cash consideration paid attributable to the costs incurred to purchase the additional 10.0% equity interest in BIAL (see note 5 to the consolidated financial statements for the year ended December 31, 2018).

Cash used in operating activities before the undernoted is comprised of net earnings adjusted for items not affecting cash and cash equivalents and changes in operating assets and liabilities. Cash used in operating activities before the undernoted of $20,974 in 2018 decreased from cash used in operating activities before the undernoted of $71,430 in 2017, with the change principally reflecting costs incurred to purchase the additional 10.0% equity interest in BIAL in 2017, partially offset by increased investment and advisory fees paid to Fairfax and increased interest paid on the term loans, and lower income taxes received.

Net increase in restricted cash in support of term loans of $3,235 in 2018 and net decrease in restricted cash in support of term loans of $8,212 related to the changes in the restricted cash accounts required to be maintained to fund interest payments on term loans. Refer to note 7 (Term Loans) to the consolidated financial statements for the year ended December 31, 2018 for additional details. Net sales of short term investments classified as FVTPL of $27,836 in 2018 primarily related to net sales of U.S. treasury bills to settle the remaining payable on NCML's rights issue in January 2018 and to fund the purchases for cancellation subordinate voting shares of the company. Purchases of bonds and common stocks classified as FVTPL of $240,661 in 2018 primarily related to investments in Other Public Indian Investments, an additional 6.0% investment in BIAL, investment in CSB (Tranche 1 closed October 19, 2018), and purchases of Indian corporate bonds. Purchases of bonds and common stocks classified as FVTPL of $812,484 in 2017 primarily related to the investments in BIAL and Saurashtra, additional investments in IIFL and NCML, and purchases of Government of India bonds. Sales of bonds and common stocks classified as FVTPL of $144,213 and $78,458 in 2018 and 2017 related to the sales of Government of India bonds to partially finance the acquisitions of the Indian Investments noted above, and in 2017 included the settlement of a receivable related to the pending settlement of sales of investment funds. Refer to note 15 (Supplementary Cash Flow Information) to the consolidated financial statements for the year ended December 31, 2018 for details of purchases and sales of investments classified as FVTPL.

Net proceeds from the term loan of $544,455 and repayment of the term loan of $400,000 in 2018 related to the completion on June 28, 2018 of the $550.0 million term loan, net of issuance costs of $5,545, and the extinguishment of the $400.0 million term loan, where the company used a portion of the incremental net proceeds received from the $550.0 million term loan to acquire common shares in an Other Public Indian Investment ($89,114) (see note 5 (Indian Investments) to the consolidated financial statements for the year ended December 31, 2018). Net proceeds from the term loan of $396,978 in 2017 related to the completion on July 11, 2017 of the $400.0 million term loan, net of issuance costs of $3,022, where the company used a portion of the net proceeds from the $400.0 million term loan to complete the additional 10.0% investment in BIAL and participate in the NCML rights issue. Repayment of the term loan of $225,000 in 2017 related to the early settlement of a 2 year secured term loan with a principal amount of $225,000 on March 31, 2017 upon completion of the secondary Offerings. Issuance of subordinate voting shares, net of issuance costs, of $493,504 in 2017 reflected net proceeds received from the secondary Offerings completed in January 2017. Purchases of subordinate voting shares for cancellation of $32,218 in 2018 and $27 in 2017 related to the company's purchases of 2,234,782 and 1,900 subordinate voting shares under the terms of the normal course issuer bids in the respective periods. Refer to note 8 (Common Shareholders' Equity) to the consolidated financial statements for the year ended December 31, 2018 for additional details.

Contractual Obligations

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

On October 19, 2018 the company completed the Tranche 1 of its investment in CSB. The cash consideration paid by the company upon closing Tranche 1 of $60,157 (approximately 4.4 billion Indian rupees) represented 25.0% of the consideration payable for the common shares for $9,456 ($37,823 net of the payable for partly paid shares of $28,367) and 40.0% of the warrants for $50,701. The remaining consideration payable for 75.0% of the common shares of $29,827 at period end exchange rates (approximately 2.1 billion Indian rupees) is payable within 12 months of Tranche 1, upon request by CSB. The remaining consideration payable for 60.0% of the warrants of $79,968 at period end exchange rates (approximately 5.6 billion Indian rupees) is payable within 18 months of Tranche 1, in one or more tranches, either upon request by CSB or at the option of Fairfax India.

The company entered into an agreement on December 24, 2018 and committed to invest $25,000 into the IH Fund. On January 7, 2019 the company invested 25.0% or $6,250 (approximately 437 million Indian rupees) of the committed investment amount in IH Fund, with the remaining 75.0% or $18,750 to be drawn down within a 2 year period.

Under the terms of the Investment Advisory Agreement, the company and its subsidiaries are contractually obligated to pay Fairfax an investment and advisory fee and, if applicable, a performance fee. These fees will vary based on the company's common shareholders' equity and book value per share.

The investment and advisory fees recorded in the consolidated statements of earnings for 2018 was $33,908 (2017 – $27,531).

Refer to the Related Party Transactions section of this MD&A that follows for a discussion on the performance fee accrued at December 31, 2017 (related to the first calculation period) and settled on March 9, 2018. At December 31, 2018 the company determined that there was no performance fee accrual, related to the second calculation period as the book value per share of $13.86 at December 31, 2018 was lower than the high water mark per share at that date of $14.49.

Related Party Transactions

Investment Advisory Agreement

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

Performance Fee

First Calculation Period

The performance fee is accrued quarterly and paid for the first three-year period from January 30, 2015 to December 31, 2017 (the ''first calculation period'') and is calculated, on a cumulative basis, as 20% of any increase in common shareholders' equity per share (including distributions) above a 5% per annum increase. The amount of common shareholders' equity per share at any time which must be achieved before any performance fee would be payable is sometimes referred to as the ''hurdle per share''.

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

Second Calculation Period

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

At December 31, 2018 the company determined that there was no performance fee accrual, related to the second calculation period (December 31, 2017 – $114,437 related to the first calculation period) as the book value per share of $13.86 at December 31, 2018 was lower than the high water mark per share at that date of $14.49. In 2018 the performance fee recorded in the consolidated statements of earnings was nil (2017 – $112,218, representing the performance fee accrual translated at the average exchange rate for 2017). At December 31, 2018 there were no contingently issuable subordinate voting shares relating to the second calculation period performance fee payable to Fairfax. At December 31, 2017 there were 7,663,685 contingently issuable subordinate voting shares relating to the first calculation period performance fee of $114,437 that was settled with Fairfax on March 9, 2018.

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. In 2018 the company determined that the majority of its assets were invested in Indian Investments, which are considered deployed capital. In 2018 the investment and advisory fees recorded in the consolidated statements of earnings was $33,908 (2017 – $27,531).

Fairfax's Voting Rights and Equity Interest

At December 31, 2018 Fairfax, through its subsidiaries, owned 30,000,000 multiple voting shares (December 31, 2017 – 30,000,000) and 21,558,422 subordinate voting shares (December 31, 2017 – 14,514,737) of Fairfax India. At December 31, 2018 Fairfax's holdings of multiple and subordinate voting share represented 93.8% of the voting rights and 33.7% of the equity interest in Fairfax India (December 31, 2017 – 93.6% and 30.2%).

For additional details on the company's related party transactions, see note 12 (Related Party Transactions) to the consolidated financial statements for the year ended December 31, 2018.

Accounting and Disclosure Matters

Management's Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of the company's management, including the company's CEO and CFO, the company conducted an evaluation of the effectiveness of its disclosure controls and procedures as of December 31, 2018, as required by Canadian securities legislation. Disclosure controls and procedures are designed to ensure that the information required to be disclosed by the company in the reports it files or submits under securities legislation is recorded, processed, summarized and reported on a timely basis and that such information is accumulated and reported to management, including the company's CEO and CFO, as appropriate, to allow required disclosures to be made in a timely fashion. Based on their evaluation, the CEO and CFO have concluded that as of December 31, 2018, the company's disclosure controls and procedures were effective.

Management's Report on Internal Control Over Financial Reporting

The company's management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined under National Instrument 52-109). The company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with International Financial Reporting Standards (''IFRS'') as issued by the International Accounting Standards Board (''IASB''). A company's internal control over financial reporting includes those policies and procedures that: (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with IFRS as issued by the IASB, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The company's management assessed the effectiveness of the company's internal control over financial reporting as of December 31, 2018. In making this assessment, the company's management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (''COSO'') in *Internal Control – Integrated Framework (2013)*. Based on this assessment, the company's management, including the CEO and CFO, concluded that, as of December 31, 2018, the company's internal control over financial reporting was effective based on the criteria in *Internal Control – Integrated Framework (2013)* issued by COSO.

Critical Accounting Estimates and Judgments

Please refer to note 4 (Critical Accounting Estimates and Judgments) to the consolidated financial statements for the year ended December 31, 2018.

Significant Accounting Policy Changes

There were no significant accounting policy changes during 2018. Please refer to note 3 (Summary of Significant Accounting Policies) to the consolidated financial statements for the year ended December 31, 2018 for a detailed discussion of the company's accounting policies.

Future Accounting Changes

Certain new IFRS may have a significant impact on the company's consolidated financial reporting in the future. Each of those standards will require a moderate degree of implementation effort. The company does not expect to adopt any of these new standards in advance of their respective effective dates. New standards and amendments that have been issued but are not yet effective are described in note 3 (Summary of Significant Accounting Policies) to the consolidated financial statements for the year ended December 31, 2018.

Risk Management

Overview

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 sheet 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 December 31, 2018 compared to those identified at December 31, 2017, other than as outlined in note 11 (Financial Risk Management) to the consolidated financial statements for the year ended December 31, 2018.

Risks

The following risks, among others, should be considered in evaluating the outlook for the company. Additional risks not currently known to the company or that are currently deemed immaterial may also impair business operations. The company, its consolidated subsidiaries, Fairfax and the Portfolio Advisor monitor these risks on an on-going basis and take actions as needed to mitigate their impact. For further detail about the risks relating to the company, please see Risk Factors in Fairfax India's most recent annual information form, which is available on SEDAR at www.sedar.com.

Oil Price Risk

India imports a majority of its requirements of petroleum oil and petroleum products. The Government of India has deregulated prices and has been reducing the subsidy in respect of certain oil products, resulting in international crude prices having a greater effect on domestic oil prices. Global oil prices continue to be volatile, any increase or volatility in oil prices, as well as the impact of Indian rupee depreciation, which makes imports more expensive, and the pass-through of such increases to Indian consumers could have a material adverse impact on the Indian economy, including a rise in inflation and market interest rates resulting in a significant impact on the profitability of certain Indian Investments.

Geographic Concentration of Investments

Substantially all of the company's investments will be made in India and in Indian businesses or other businesses with customers, suppliers or business primarily conducted in, or dependent on, India. As a result, the company's performance will be particularly sensitive to economic changes in 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 and regulatory environment in India. Adverse changes in the economic condition or regulatory environment of India may have a material adverse effect on the company's business, cash flows, financial condition and net earnings.

Foreign Currency Fluctuation

All of the company's portfolio investments will be made in India and Indian businesses or other businesses with customers, suppliers or business primarily conducted in, or dependent on, India, and the financial position and results for these investments are principally denominated in Indian rupees. The functional currency of the company and its consolidated subsidiaries (FIH Mauritius and FIH Private) is the Indian rupee and the company's presentation currency is the U.S. dollar.

The company presents its consolidated financial statements in U.S. dollars to provide comparability with other North American investment entities.

Accordingly, the income and expenses are translated at the average rates of exchange in effect during the applicable reporting period. Assets and liabilities are translated at the exchange rates in effect at the balance sheet date. As a result, the company's consolidated financial position is subject to foreign currency fluctuation risk, which could materially adversely impact its operating results and cash flows. Although the company may enter into currency hedging arrangements in respect of its foreign currency cash flows, there can be no assurance that the company will do so or, if it does, that the full amount of the foreign currency exposure will be hedged at any time.

Volatility of the Indian Securities Markets

Stock exchanges in India have, in the past, experienced substantial fluctuations in the prices of listed securities. The stock exchanges in India have also experienced temporary exchange closures, broker defaults, settlement delays and strikes by brokerage firm employees. In addition, the governing bodies of the stock exchanges in India have, from time to time, imposed restrictions on trading in certain securities, limitations on price movements and margin requirements. Furthermore, from time to time, disputes have occurred between listed businesses and stock exchanges and other regulatory bodies, which in some cases may have had a negative effect on market sentiment.

Investments May Be Made In Foreign Private Businesses Where Information Is Unreliable or Unavailable

In pursuing the company's investment strategy, the company may seek to make investments in privately-held businesses as disclosed in note 5 (Indian Investments) to the consolidated financial statements for the year ended December 31, 2018. As minimal public information exists about private businesses, the company could be required to make investment decisions on whether to pursue a potential investment in a private business on the basis of limited information, which may result in an investment in a business that is not as profitable as the company initially suspected, if at all. Investments in private businesses pose certain incremental risks as compared to investments in public businesses, including that they:

- have reduced access to the capital markets, resulting in diminished capital resources and ability to withstand financial distress;
- may have limited financial resources and may be unable to meet their obligations under their debt securities that the company may hold, which may be accompanied by a deterioration in the value of any collateral and a reduction in the likelihood of the company realizing any guarantees that it may have obtained in connection with its investment;
- may have shorter operating histories, narrower product lines and smaller market shares than larger businesses, which tend to render them more vulnerable to competitors' actions and changing market conditions, as well as general economic downturns;
- are more likely to depend on the management talents and efforts of a small group of persons; therefore, the death, disability, resignation or termination of one or more of these persons could have a material adverse impact on an investment and, as a result, the company; and
- generally have less predictable operating results, may from time to time be parties to litigation, may be engaged in rapidly changing businesses with products subject to a substantial risk of obsolescence, and may require substantial additional capital to support their operations, finance expansion or maintain their competitive position.

Valuation Methodologies Involve Subjective Judgments

The company's financial assets and liabilities are valued in accordance with IFRS. Accordingly, the company is required to follow a specific framework for measuring the fair value of its investments and, in its audited consolidated financial statements, to provide certain disclosures regarding the use of fair value measurements.

The fair value measurement accounting guidance establishes a hierarchal disclosure framework that ranks the observability of market inputs used in measuring financial instruments at fair value. The observability of inputs depends on a number of factors, including the type of financial instrument, the characteristics specific to the financial instrument and the state of the marketplace, including the existence and transparency of transactions between market participants. Financial instruments with readily quoted prices, or for which fair value can be measured from quoted prices in active markets, generally will have a high degree of market price observability and less judgment applied in determining fair value.

A portion of the company's portfolio investments may be in the form of securities that are not publicly traded. The fair value of securities and other investments that are not publicly traded may not be readily determinable. The company will value these securities quarterly at fair value as determined in good faith by the company and in accordance with the valuation policies and procedures under IFRS. The company may utilize the services of an independent valuation firm to aid it in determining the fair value of these securities. The types of factors that may be considered in fair value pricing of the company's investments include the nature and realizable value of any collateral, the portfolio business' ability to make payments and its earnings, the markets in which the portfolio investment does business, comparisons to publicly traded companies, discounted cash flows and other relevant factors. Because such valuations, and particularly valuations of private securities and private companies, are inherently uncertain, such valuations may fluctuate over short periods of time and may be based on estimates, and the company's determinations of fair value may differ materially from the values that would have been used if a ready market for these securities existed. The value of the company's total assets could be materially adversely affected if the company's determinations regarding the fair value of its investments were materially higher than the values that it ultimately realizes upon the disposition of such securities.

The value of the company's investment portfolio may also be affected by changes in accounting standards, policies or practices. From time to time, the company will be required to adopt new or revised accounting standards or guidance. It is possible that future accounting standards that the company is required to adopt could change the valuation of the company's investments.

Due to a wide variety of market factors and the nature of certain securities to be held by the company, there is no guarantee that the value determined by the company or any third-party valuation agents will represent the value that will be realized by the company on the eventual disposition of the investment or that would, in fact, be realized upon an immediate disposition of the investment. Moreover, the valuations to be performed by the company or any third-party valuation agents are inherently different from the valuation of the company's securities that would be performed if the company were forced to liquidate all or a significant portion of its securities, as liquidation valuation could be materially lower.

Financial Market Fluctuations

The company invests in both private businesses and publicly traded businesses. With respect to publicly traded businesses, as disclosed in note 5 (Indian Investments) to the consolidated financial statements for the year ended December 31, 2018, fluctuations in the market prices of such securities may negatively affect the value of such investments. In addition, general instability in the public debt market and other securities markets may impede the ability of businesses to refinance their debt through selling new securities, thereby limiting the company's investment options with regard to a particular portfolio investment.

Global capital markets have experienced extreme volatility and disruption in recent years as evidenced by the failure of major financial institutions, significant write-offs suffered by the financial services sector, the re-pricing of credit risk, the unavailability of credit or the downgrading and the possibility of default by sovereign issuers, forced exit or voluntary withdrawal of countries from a common currency and/or devaluation. Despite actions of government authorities, these events have contributed to a worsening of general economic conditions, high levels of unemployment in certain Western economies and the introduction of austerity measures by certain governments.

Such worsening of financial market and economic conditions may have a negative effect on the valuations of, and the ability of the company to exit or partially divest from, investment positions. Adverse economic conditions may also decrease the value of collateral securing some of its positions, and could require the company to contribute additional collateral.

Depending on market conditions, the company may incur substantial realized and unrealized losses in future periods, all of which may materially adversely affect its results of operations and the value of any investment in the company.

Pace of Completing Investments

The company's business is to identify, with the assistance of the Portfolio Advisor, suitable investment opportunities, pursuing such opportunities and consummating such investment opportunities. If the company is unable to source and manage its investments effectively, it would adversely impact the company's financial position and net earnings. There can be no assurance as to the pace of finding and implementing investment opportunities. Conversely, there may only be a limited number of suitable investment opportunities at any given time. This may cause the company, while it deploys cash proceeds not yet invested, to hold significant levels of cash, cash equivalents, short term U.S. treasury bills or Government of India or Indian corporate bonds. A lengthy period prior to which capital is deployed may adversely affect the company's overall performance.

Minority Investments

The company may make minority equity investments in businesses in which the company does not participate in the management or otherwise influence the business or affairs of such businesses. The company will monitor the performance of each investment and maintain an ongoing dialogue with each business' management team. However, day-to-day operations will primarily be the responsibility of each business' management team and the company may not have the right to influence such operations.

Reliance on Key Personnel and Risks Associated with the Investment Advisory Agreement

The management and governance of the company depends on the services of certain key personnel, including the Portfolio Advisor, Fairfax, as administrator, and certain executive officers of the company. The loss of the services of any key personnel, particularly V. Prem Watsa and Chandran Ratnaswami, could have a material adverse effect on the company and materially adversely affect the company's financial condition and net earnings.

The company relies on the Portfolio Advisor and any of its sub-advisors, from time to time, including Fairbridge, with respect to the sourcing and advising with respect to their investments. Consequently, the company's ability to achieve its investment objectives depends in large part on the Portfolio Advisor and its ability to identify and advise the company on attractive investment opportunities. This means that the company's investments are dependent upon the Portfolio Advisor's business contacts, its ability to successfully hire, train, supervise and manage its personnel and its ability to maintain its operating systems. If the company were to lose the services provided by the Portfolio Advisor or its key personnel or if the Portfolio Advisor fails to satisfactorily perform its obligations under the Investment Advisory Agreement, the company's investments and growth prospects may decline.

The company may be unable to duplicate the quality and depth of management from the Portfolio Advisor if the company were to source and manage its own investments or if it were to hire another investment advisor. If the Portfolio Advisor should cease, for whatever reason, to be the investment advisor of the company or if Fairfax should cease to provide investment administration services to the company, the cost of obtaining substitute services may be greater than the fees the company will pay the Portfolio Advisor and Fairfax under the Investment Advisory Agreement, and this may adversely affect the company's ability to meet its objectives and execute its strategy which could materially and adversely affect the company's cash flows, net earnings and financial condition.

Lawsuits

The company may, from time to time, become party to a variety of legal claims and regulatory proceedings in Canada, India, Mauritius or elsewhere. The existence of such claims against the company or its affiliates, directors or officers could have various adverse effects, including the incurrence of significant legal expenses defending such claims, even those claims without merit.

The company and its consolidated subsidiaries manage day-to-day regulatory and legal risk primarily by implementing appropriate policies, procedures and controls. Internal and external legal counsel also work closely with the company and its consolidated subsidiaries to identify and mitigate areas of potential regulatory and legal risk.

Use of Leverage

The company may rely on the use of leverage when making its investments. As such, the ability to achieve attractive rates of return on such investments will significantly depend on the company's continued ability to access sources of debt financing on attractive terms. An increase in either market interest rates or in the risk spreads demanded by lenders would make it more expensive for the company to finance its investments and, in turn, would reduce net returns therein. Increases in interest rates could also make it more difficult for the company to locate and consummate investments because other potential buyers, including operating companies acting as strategic buyers, may be able to bid for an asset at a higher price due to a lower overall cost of capital. Availability of capital from debt capital markets is subject to significant volatility and the company may not be able to access those markets on attractive terms, or at all, when completing an investment. Any of the foregoing circumstances could have a material adverse effect on the financial condition and results of operations of the company.

Significant Ownership by Fairfax May Adversely Affect the Market Price of the Subordinate Voting Shares

At December 31, 2018 Fairfax, through its subsidiaries, owned 30,000,000 multiple voting shares (December 31, 2017 – 30,000,000) and 21,558,422 subordinate voting shares (December 31, 2017 – 14,514,737) of Fairfax India. At December 31, 2018 Fairfax's holdings of multiple and subordinate voting share represented 93.8% of the voting rights and 33.7% of the equity interest in Fairfax India (December 31, 2017 – 93.6% and 30.2%). In accordance with the Investment Advisory Agreement, the performance fee payable of $114,437 to Fairfax for the first calculation period (ending on December 31, 2017) was settled on March 9, 2018 by the company issuing 7,663,685 subordinate voting shares to Fairfax. The issuance of these subordinate voting shares increased Fairfax's equity interest in Fairfax

India from 30.2% at December 31, 2017 to 33.6% at March 9, 2018 (see note 12 (Related Party Transactions) to the consolidated financial statements for the year ended December 31, 2018).

As of March 8, 2019, Fairfax and its affiliates hold 93.8% and 33.8% voting and equity interests respectively, in the company through ownership of all of the 30,000,000 multiple voting shares and 21,558,422 subordinate voting shares.

For so long as Fairfax, either directly or through one or more subsidiaries, maintains a significant voting interest in the company, Fairfax will have the ability to exercise substantial influence with respect to the company's affairs and significantly affect the outcome of shareholder votes, and may have the ability to prevent certain fundamental transactions.

Accordingly, the subordinate voting shares may be less liquid and trade at a relative discount compared to such subordinate voting shares in circumstances where Fairfax did not have the ability to significantly influence or determine matters affecting the company. Additionally, Fairfax's significant voting interest in the company may discourage transactions involving a change of control of the company, including transactions in which an investor, as a holder of subordinate voting shares, might otherwise receive a premium for its subordinate voting shares over the then-current market price.

Weather Risk

Certain Indian Investments are operating in industries exposed to weather risk. The revenues of these portfolio companies may be adversely affected during a period of severe weather conditions in India. Because weather events are unpredictable by nature, historical results of operations of certain Indian Investments may not be indicative of their future results of operations. As a result of the occurrence of one or more major weather catastrophes in any given period, the expected returns from Indian Investments impacted by weather risk may fall short of the company's expectations.

Taxation Risks

The company structures its business according to prevailing taxation law and practice in Canada, Mauritius and India. Any change in tax policy, tax legislation (including in relation to taxation rates), the interpretation of tax policy or legislation or practice could adversely affect the company's return earned on investments and on the capital available to be invested. Further, taxes and other constraints that would apply to the company and its consolidated subsidiaries in such jurisdictions may not apply to other parties, and such parties may therefore have a significantly lower effective cost of capital and a corresponding competitive advantage in pursuing investments. A number of other factors may increase the effective tax rates, which would have a negative impact on net earnings. These include, but are not limited to, changes in the valuation of our deferred tax assets and liabilities, and any reassessment of taxes by a taxation authority.

The company utilizes Fairfax's tax specialist personnel for assessing the income tax consequences of planned transactions and events and undertaking the appropriate tax planning. The company also consults with external tax professionals as needed. Tax legislation of each jurisdiction in which the company operates is interpreted to determine income taxes and expected timing of the reversal of deferred income tax assets and liabilities.

Any amendments to the capital gains and permanent establishment articles in the India-Mauritius Double Taxation Avoidance Agreement may result in capital gains derived from the company or its investments in India becoming subject to tax in India, which could have a material adverse effect on the company's business, financial condition and net earnings. During the second quarter of 2016, India and Mauritius amended their double income tax treaty (''India-Mauritius tax treaty''). As a result, capital gains realized by Mauritius residents on dispositions of shares of Indian companies acquired on or after April 1, 2017 and disposed of on or before March 31, 2019 will be subject to tax in India at half of the India domestic tax rate. Capital gains realized by Mauritius residents on dispositions of shares of Indian companies acquired on or after April 1, 2017 and disposed of after March 31, 2019 will be subject to tax in India at the full India domestic tax rate. Capital gains realized by Mauritius residents on dispositions of shares of Indian companies acquired prior to April 1, 2017 remain exempt from capital gains tax in India.

On March 29, 2018 India enacted the Finance Act 2018 which repealed, with effect from April 1, 2018, the long term capital gains tax exemption which was available in respect of transfers of equity shares of Indian companies on which Securities Transaction Tax was paid at the time of acquisition and transfer of such shares. As a result, long term capital gains realized on such transfers will generally be taxed at a rate of 10.0%. However, grandfathering of the long term capital gains exemption in respect of any accrued gain on such shares held as of January 31, 2018 will generally be available to the extent of the accrued gain as of January 31, 2018. Capital gains realized by a tax resident of Mauritius on a transfer of equity shares of an Indian company which were acquired prior to April 1, 2017 will continue to be exempt from capital gains tax in India by virtue of the India-Mauritius tax treaty, notwithstanding the repeal of the long term capital gains tax exemption under Indian domestic law. In addition, a long term capital gain realized by a Mauritius tax resident on shares acquired on or after April 1, 2017, and sold prior to March 31, 2019, will continue to be taxed at the rate of 50.0% of the prevailing domestic Indian capital gains tax rate by virtue of the India-Mauritius tax treaty.

At December 31, 2018 the company evaluated the potential impact of the application of capital gains tax in India on any future dispositions of investments in equity shares held by FIH Mauritius and FIH Private and recorded deferred income taxes primarily related to unrealized gains in Other Public Indian Investments acquired during 2018 (see note 10 (Income Taxes) to the consolidated financial statements for the year ended December 31, 2018). The company will continue to evaluate the potential impact of the Indian capital gains tax as it relates to any future dispositions of investments in equity shares of its Indian Investments.

On July 31, 2018 Mauritius enacted the Finance (Miscellaneous Provision) Act (the ''Mauritius Finance Act'') which abolishes, with effect from January 1, 2019, the deemed Foreign Tax Credit (''FTC'') regime available to Global Business License companies. For entities holding a Category 1 Global Business License issued before October 16, 2017 (held by both FIH Mauritius and FIH Private) the deemed FTC regime will continue to apply until June 30, 2021. In place of the deemed FTC, the Mauritius Finance Act introduces an 80% exemption regime on foreign source income including certain foreign dividends and foreign source interest. The 80% exemption is available upon meeting predefined substance requirements issued by the Financial Services Commission. The company evaluated the potential impact of the Mauritius Finance Act and concluded that it will not have a material impact to the company.

Emerging Markets

The company's investment objective is to achieve long term capital appreciation, while preserving capital, by investing in Indian Investments. Foreign investment risk is particularly high given that the company invests in securities of issuers based in or doing business in an emerging market country.

The economies of emerging market countries have been and may continue to be adversely affected by economic conditions in the countries with which they trade. The economies of emerging market countries may also be predominantly based on only a few industries or dependent on revenues from particular commodities. In addition, custodial services and other investment-related costs may be more expensive in emerging markets than in developed markets, which could reduce the company's income from securities or debt instruments of emerging market country issuers.

There is a heightened possibility of imposition of withholding taxes on interest or dividend income generated from emerging market securities. Governments of emerging market countries may engage in confiscatory taxation or expropriation of income and/or assets to raise revenues or to pursue a domestic political agenda. In the past, emerging market countries have nationalized assets, companies and even entire sectors, including the assets of foreign investors, with inadequate or no compensation to the prior owners. There can be no assurance that the company will not suffer a loss of any or all of its investments or, interest or dividends thereon, due to adverse fiscal or other policy changes in emerging market countries.

Governments of many emerging market countries have exercised and continue to exercise substantial influence over many aspects of the private sector. In some cases, the government owns or controls many companies, including some of the largest in the country. Accordingly, government actions could have a significant effect on economic conditions in an emerging country and on market conditions, prices and yields of securities in the company's portfolio.

Bankruptcy law and creditor reorganization processes may differ substantially from those in Canada, resulting in greater uncertainty as to the rights of creditors, the enforceability of such rights, reorganization timing and the classification, seniority and treatment of claims. In certain emerging market countries, although bankruptcy laws have been enacted, the process for reorganization remains highly uncertain. In addition, it may be impossible to seek legal redress against an issuer that is a sovereign state.

Also, because publicly traded debt instruments of emerging market issuers represent a relatively recent innovation in the world debt markets, there is little historical data or related market experience concerning the attributes of such instruments under all economic, market and political conditions.

Other heightened risks associated with emerging markets investments include without limitation: (i) risks due to less social, political and economic stability, including the risk of war, terrorism, nationalization, limitations on the removal of funds or other assets, or diplomatic developments that affect investments in these countries; (ii) the smaller size of the market for such securities and a lower volume of trading, resulting in a lack of liquidity and in price volatility; (iii) certain national policies which may restrict the company's investment opportunities, including restrictions on investing in issuers or industries deemed sensitive to relevant national interests and requirements that government approval be obtained prior to investment by foreign persons; (iv) certain national policies that may restrict the company's repatriation of investment income, capital or the proceeds of sales of securities, including temporary restrictions on foreign capital remittances; (v) the lack of uniform accounting and auditing standards and/or standards that may be significantly different from the standards required in Canada; (vi) less publicly available financial and other information regarding issuers; (vii) potential difficulties in enforcing contractual obligations; and (viii) higher rates of inflation, higher interest rates and other economic concerns. The company may invest to a substantial extent in emerging market securities that are denominated in Indian rupees, subjecting the company to a greater degree of foreign currency risk. Also, investing in emerging market countries may entail purchases of securities of issuers that are insolvent, bankrupt or otherwise of questionable ability to satisfy their payment obligations as they become due, subjecting the company to a greater amount of credit risk and/or high yield risk.

As reflected in the above discussion, investments in emerging market securities involve a greater degree of risk than, and special risks in addition to the risks associated with, investments in domestic securities or in securities of foreign developed countries.

Economic Risk

The Indian economy has grown rapidly during the past several years and there is no assurance that this growth rate will be maintained. India may experience substantial (and, in some cases, extremely high) rates of inflation or economic recessions causing a negative effect on the Indian economy. India may also impose restrictions on the exchange or export of currency, institute adverse currency exchange rates or experience a lack of available currency hedging instruments. Any of these events could have a material adverse effect on the Indian economy.

Trading Price of Common Shares Relative to Book Value per Share

The company is neither a mutual fund nor an investment fund, and due to the nature of its business and investment strategy, and the composition of its investment portfolio, the market price of its common shares, at any time, may vary significantly from its book value per share. This risk is separate and distinct from the risk that the market price of the common shares may decrease.

Other

Quarterly Data (unaudited)

Years ended December 31

US$ thousands, except per share amounts	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year
2018					
Income (loss)	44,125	(55,589)	117,052	60,930	166,518
Expenses	14,898	13,647	19,368	18,972	66,885
Provision for (recovery of) income taxes	402	411	3,504	(1,116)	3,201
Net earnings (loss)	28,825	(69,647)	94,180	43,074	96,432
Net earnings (loss) per share	$ 0.19	$ (0.45)	$ 0.61	$ 0.28	$ 0.63
Net earnings (loss) per diluted share	$ 0.19	$ (0.45)	$ 0.61	$ 0.28	$ 0.63
2017					
Income (loss)	208,108	337,980	(66,455)	130,037	609,670
Expenses (recovery)	54,117	73,067	(9,190)	41,585	159,579
Provision for (recovery of) income taxes	4,988	(3,682)	(4,111)	387	(2,418)
Net earnings (loss)	149,003	268,595	(53,154)	88,065	452,509
Net earnings (loss) per share	$ 1.05	$ 1.82	$ (0.36)	$ 0.60	$ 3.10
Net earnings (loss) per diluted share	$ 1.03	$ 1.74	$ (0.36)	$ 0.57	$ 2.94

Years ended December 31

Indian rupees and in millions, except per share amounts(1)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year
2018					
Income (loss)	2,840	(3,593)	7,838	4,289	11,374
Expenses	959	916	1,340	1,354	4,569
Provision for (recovery of) income taxes	26	27	236	(71)	218
Net earnings (loss)	1,855	(4,536)	6,262	3,006	6,587
Net earnings (loss) per share	12.42	(29.25)	40.50	19.61	43.02
Net earnings (loss) per diluted share	12.42	(29.25)	40.50	19.61	43.02
2017					
Income (loss)	13,929	21,937	(4,599)	8,416	39,683
Expenses (recovery)	3,622	4,731	(661)	2,695	10,387
Provision for (recovery of) income taxes	334	(248)	(269)	25	(158)
Net earnings (loss)	9,973	17,454	(3,669)	5,696	29,454
Net earnings (loss) per share	70.35	118.38	(24.89)	38.63	201.69
Net earnings (loss) per diluted share	68.64	113.21	(24.89)	36.73	191.63

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

Income of $60,930 in the fourth quarter of 2018 decreased from $130,037 in the fourth quarter of 2017 primarily as a result of decreased net change in unrealized gains on investments. Net change in unrealized gains on investments of $40,883 in the fourth quarter 2018 included unrealized gains on bonds of $22,315 (principally related to Sanmar bonds, Government of India bonds, and Indian corporate bonds), and net unrealized gains on common stock of $18,568 (principally related to unrealized gains on an Other Public Indian Investment and IIFL, partially offset by unrealized losses on Fairchem and Sanmar). Net change in unrealized gains on investments of $113,773 in the fourth quarter of 2017 included net unrealized gains on common stocks of $121,274 (principally related to unrealized gains on IIFL and Fairchem, partially offset by unrealized losses on NCML and Saurashtra), partially offset by net unrealized losses on bonds of $7,501 (principally related to unrealized losses on Government of India bonds and Indian corporate bonds, partially offset by unrealized gains on Sanmar bonds).

In addition, income decreased in the fourth quarter of 2018 compared to the fourth quarter of 2017 as a result of decreased interest income (primarily due to decreased holdings of Government of India bonds), realized losses on investments in the fourth quarter of 2018 (principally related to the disposition of the Government of India bonds), partially offset by increased net foreign exchange gains (principally as a result of the strengthening of the Indian rupee relative to the U.S. dollar in the fourth quarter of 2018).

Expenses of $18,972 in the fourth quarter of 2018 decreased from $41,585 in the fourth quarter of 2017 primarily as a result of no performance fee recorded in the fourth quarter of 2018 (fourth quarter of 2017 – $27,884), partially offset by increased investment and advisory fees (reflecting the increased holdings of Indian Investments). For additional details, see note 12 (Related Party Transactions) to the consolidated financial statements for the year ended December 31, 2018. Expenses in the fourth quarter of 2018 also included interest expense related to the $550.0 million term loan, compared to the fourth quarter of 2017 which included interest expense on the $400.0 million term loan. For additional details, refer to note 7 (Term Loans) to the consolidated financial statements for the year ended December 31, 2018.

The company reported net earnings of $43,074 (net earnings of $0.28 per basic and diluted share) in the fourth quarter of 2018 compared to net earnings of $88,065 (net earnings of $0.60 per basic share and $0.57 per diluted share) in the fourth quarter of 2017. The decrease in profitability in the fourth quarter of 2018 primarily reflected decreased net unrealized gains on investments, partially offset by no performance fee recorded in the fourth quarter of 2018.

Individual quarterly results have been (and are expected to continue to be) significantly impacted by net unrealized gains (losses) on the company's Indian Investments and net foreign exchange gains (losses), the timing of which is not predictable. Individual quarterly results have been (and may in the future be) affected by increased expenses impacted by the change in fair value of the company's Indian Investments which would result in higher performance fee, if applicable, and investment and advisory fees.

Stock Prices and Share Information

At March 8, 2019 the company had 122,631,481 subordinate voting shares and 30,000,000 multiple voting shares outstanding (an aggregate of 152,631,481 common shares effectively outstanding). Each subordinate voting share carries one vote per share at all meetings of shareholders except for separate meetings of holders of another class of shares. Each multiple voting share carries fifty votes per share at all meetings of shareholders except for separate meetings of holders of another class of shares. Fairfax, through its subsidiaries, owns all the issued and outstanding multiple voting shares, which are not publicly traded.

The table that follows presents the TSX high, low and closing U.S. dollar prices of the subordinate voting shares of Fairfax India, trading under the symbol FIH.U, for each quarter of 2018 and 2017.

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
		(US$)		
2018				
High	18.49	17.93	17.19	15.25
Low	15.02	16.26	14.68	12.12
Close	17.40	16.46	14.99	13.13
2017				
High	13.89	17.22	18.99	18.94
Low	11.10	13.01	15.51	14.55
Close	13.20	15.99	17.65	15.00

Compliance with Corporate Governance Rules

Fairfax India is a Canadian reporting issuer with securities listed on the TSX and trading in U.S. dollars under the symbol FIH.U. It has in place corporate governance practices that comply with all applicable rules and substantially comply with all applicable guidelines and policies of the Canadian Securities Administrators and the practices set out therein.

The company's Board of Directors has adopted a set of Corporate Governance Guidelines (which include a written mandate of the Board), established an Audit Committee and Governance, Compensation and Nominating Committee, approved written charters for all of its committees, approved a Code of Business Conduct and Ethics applicable to all directors, officers and employees of the company and established, in conjunction with the Audit Committee, a Whistleblower Policy. The company continues to monitor developments in the area of corporate governance as well as its own procedures.

Forward-Looking Statements

This annual 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 annual 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 that are described in greater detail elsewhere in this annual report: oil price risk; geographic concentration of investments; foreign currency fluctuation; volatility of the Indian securities markets; investments may be made in foreign private businesses where information is unreliable or unavailable; valuation methodologies involve subjective judgments; financial market fluctuations; pace of completing investments; minority investments; reliance on key personnel and risks associated with the Investment Advisory Agreement; lawsuits; use of leverage; significant ownership by Fairfax may adversely affect the market price of the subordinate voting shares; weather risk; taxation risks; emerging markets; economic risk; and trading price of common shares relative to book value per share risk. Additional risks and uncertainties are described in the company's annual information form 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.

Directors of the Company

Anthony F. Griffiths
Corporate Director

Christopher D. Hodgson
President
Ontario Mining Association

Alan D. Horn
President and Chief Executive Officer
Rogers Telecommunications Limited

Sumit Maheshwari
Managing Director and Chief Executive Officer
Fairbridge Capital Private Limited

Deepak Parekh
Chairman
Housing Development Finance Corporation Limited

Chandran Ratnaswami
Chief Executive Officer of the Company

Gopalakrishnan Soundarajan
Managing Director
Hamblin Watsa Investment Counsel Ltd.

Lauren C. Templeton
President
Templeton and Phillips Capital Management, LLC

V. Prem Watsa
Chairman of the Company

Operating Management

FIH Mauritius Investments Ltd.

Amy Tan
Chief Executive Officer

Officers of the Company

Jennifer Allen
Chief Financial Officer

Keir Hunt
General Counsel and Corporate Secretary

Chandran Ratnaswami
Chief Executive Officer

John Varnell
Vice President, Corporate Affairs

V. Prem Watsa
Chairman

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Auditor

PricewaterhouseCoopers LLP

Transfer Agent and Registrar

Computershare Trust Company of Canada, Toronto

Share Listing

Toronto Stock Exchange
Stock Symbol: FIH.U

Annual Meeting

The annual meeting of the shareholders of Fairfax India Holdings Corporation will be held on Thursday, April 11, 2019 at 2:00 p.m. (Toronto time) at Roy Thomson Hall, 60 Simcoe Street, Toronto, Canada M5J 2H5