To Our Shareholders,

After a good five-year run from inception when Fairfax India's book value per share (BVPS), our key performance measure, grew at a compound annual rate of 11.2%, Fairfax India's BVPS declined by 3.1% in 2020 (mostly reflecting a 2.3% decline in the Indian rupee during the year) from $16.89* at the end of 2019 to $16.37. Common shareholders' equity declined by 5.1% after increasing by 21.7% the previous year.

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

	2020	2019	2018	2017	2016	2015	CAGR(1)
Book value per share	$ 16.37	$ 16.89	$ 13.86	$ 14.46	$ 10.25	$ 9.50	8.7%
Income	(12,972)	712,689	166,518	609,670	128,604	65,251	
Net earnings (loss)	(41,476)	516,338	96,432	452,509	107,825	40,939	
Return on equity	(1.7)%	22.0%	4.5%	28.2%	10.3%	4.0%	11.2%(2)
Total assets	3,072,998	3,244,937	2,707,057	2,672,221	1,303,497	1,025,451	20.4%
Investments	3,027,648	3,171,332	2,661,347	2,635,726	1,095,569	978,569	21.0%
Common shareholders' equity	2,446,934	2,577,851	2,117,945	2,132,464	1,075,446	1,013,329	16.1%
Shares outstanding (*millions*)	149.5	152.6	152.9	147.4	104.9	106.7	

(1) Since Fairfax India's inception on January 30, 2015, when it raised $1.03 billion at $10 per share. From an initial value of $9.62 (after IPO expenses), book value per share has compounded at 9.4% annually.

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

After a good year in 2019, Asian emerging markets' performance was mixed in 2020. You will see from the table below (based on the leading US$ equity index in each country named) that India grew by 12.8%, outperformed only by China's and Vietnam's equity indices, which grew by 35.7% and 15.2% respectively.

China	35.7%
Vietnam	15.2%
India	12.8%
Sri Lanka	8.0%
Malaysia	4.2%
Hong Kong	(3.0)%
Thailand	(8.3)%
Singapore	(10.2)%

And here is a comparison of Fairfax India's change in BVPS in 2020 with the change in major Indian US$ equity indices:

Fairfax India BVPS	(3.1)%
S&P BSE Sensex 30	12.8%
S&P BSE 500	13.9%
BSE midcap	16.9%
Nifty 50	12.0%

Over the six years since Fairfax India's inception, Fairfax India has outperformed the Indian markets, as demonstrated in the following table showing the annual percentage change over six years:

Fairfax India BVPS(1)	+8.7%
US$ S&P BSE Sensex 30	+5.7%
US$ S&P BSE 500	+5.5%

(1) Fairfax India's 6-year annualized growth in BVPS is calculated based on its January 30, 2015 IPO price of $10 per share.

* *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.*

Please note that Fairfax India's book value is based on publicly traded market values only for the approximately half of its investments which are publicly traded (the rest are based on more restrained internal valuations), whereas the Sensex and BSE 500 are of course based entirely on publicly traded market values.

That said, there is no denying that, in the past year, Fairfax India has underperformed the listed equity markets in India. However, please note that at current levels, the Indian markets are trading at extremely elevated valuations:

	Year-end 2020	**10-year average**
Price to earnings ratio	26.0	20.8
Price to book value	2.8	2.8
Dividend yield	1.3%	1.4%
Market cap to GDP ratio	97.4%	73.7%

Also, similar to the western markets, where technology stocks like Facebook, Amazon, Apple, Netflix and Google are disproportionately driving markets, in India too, the top five companies accounted for 77% of the growth of the SENSEX and 71% of the growth of the Nifty 50.

Fairfax India's net loss in 2020 was $41.5 million versus a profit of $516.3 million in 2019, largely as the result of net unrealized losses on investments of $26.6 million compared to net unrealized gains of $530.4 million in 2019. Net loss also reflects interest income of $6.0 million and net foreign exchange losses of $14.2 million. Fully diluted loss per share was $0.27 in 2020 versus earnings per share of $3.30 in 2019.

The significant contributors and detractors to the changes in BVPS recorded in 2020 were:

	($ millions)
Privi Speciality / Fairchem Organics	65.6
NSE	15.4
NCML	(34.5)
IIFL Finance	(34.5)
Sanmar	(74.3)

Since we began, Fairfax India has completed investments in ten companies (13 currently, as one has split into four listed entities), all sourced and reviewed by Fairbridge, Fairfax Financial Holdings' (Fairfax) wholly-owned sub-advisor in India. Fairbridge does outstanding work under the excellent leadership of CEO Sumit Maheshwari, supported by its Director, Anish Thurthi, Vice President, Sheetal Sancheti, and analysts Jinesh Rambhia and Ramin Irani. Fairfax India's Mauritius subsidiary, FIH Mauritius Investments, ably led by its CEO Amy Tan, supported by its senior manager Vishal Mungur and its independent Board of Directors, is an integral part of the investment process. Also, since we began, Deepak Parekh, both as a trusted advisor and a member of the Board of Directors, has provided us with invaluable advice on almost all of our transactions.

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 Initial Investment	Ownership	Amount Invested ($ millions)	Fair Value at December 31, 2020 ($ millions)	Compound Annualized Return(1)
NCML	August 2015	89.5%	188.3	101.1	(12.4)%
IIFL Finance*	December 2015	22.4%	–	131.5	*
IIFL Wealth*	December 2015	13.8%	191.5	166.7	*
IIFL Securities*	December 2015	26.5%	91.3	55.6	*
5paisa*	December 2015	26.6%	23.5	27.8	*
Fairchem Organics(2)	February 2016	48.8%	19.4	54.6	23.5%
Privi Speciality(2)	August 2016	48.8%	55.0	138.4	24.3%
Sanmar Chemicals Group	April 2016	42.9%	199.0	338.6	16.9%
National Stock Exchange of India	July 2016	1.0%	26.8	72.6	29.0%
Saurashtra Freight	February 2017	51.0%	30.0	32.8	2.3%
Bangalore International Airport	March 2017	54.0%	653.0	1,396.1	23.8%
CSB Bank	October 2018	49.7%	169.5	214.3	13.7%
Seven Islands Shipping	March 2019	48.5%	83.8	103.5	13.2%
Other Indian Investments			131.8	173.1	19.9%
Total			1,862.9	3,006.7	
* *Aggregate: IIFL Finance, IIFL Wealth, IIFL Securities and 5paisa*			*306.3*	*381.6*	*9.2%*

(1) Calculated using the internal rate of return

(2) Presented based on the initial investment before the merger in March 2017

While the BVPS of Fairfax India is $16.37, we believe that the underlying intrinsic value is much higher, since all the companies listed above have characteristics that give them the potential for a significant increase in their value. We have taken the opportunity over the last three years to buy back 5.6 million Fairfax India shares for $64.1 million or an average price of $11.40 per share, including the 3.2 million shares we bought in 2020 for $28.9 million or an average price of $9.14 per share.

We believe that listing some of the private companies that Fairfax India owns will result in better discovery of the true value of these companies. Let us take the example of Bangalore International Airport Limited (BIAL)/Anchorage.

In June 2019, Fairfax India created a 100% owned subsidiary in India named Anchorage Infrastructure Investments Holdings (Anchorage). It is intended that this company will be Fairfax India's flagship investment vehicle for airports and other infrastructure investments in India and that all the shares it owns in BIAL will eventually be transferred to Anchorage.

In 2019, Fairfax India signed definitive agreements with OMERS (the pension plan for municipal employees in the province of Ontario, Canada) whereby it will transfer 43.6% out of the 54% that it owns in BIAL to Anchorage and OMERS will invest about $130 million to acquire from Fairfax India an 11.5% interest on a fully diluted basis in Anchorage. This will result in OMERS indirectly owning approximately 5% of BIAL. The transaction values 100% of BIAL at $2.6 billion. We are awaiting one final approval from the government of India and expect to close this transaction in March 2021.

Fairfax India intends to complete an IPO of Anchorage that values the underlying shares for 100% of BIAL at a target valuation of $2.9 billion (a valuation of $1.3 billion for 100% of Anchorage). A ''ratchet'' mechanism has been agreed with OMERS whereby if the IPO is completed at a valuation below $1.3 billion, the investor will receive an incremental share of Anchorage to compensate for the difference between the actual IPO valuation and $1.3 billion.

BIAL is a profitable airport in India and is a highly sought-after asset. The marketability of BIAL to large pension funds and strategic global airport operators, even as an unlisted company, is very high. This is supported by several recent examples of stake sales and privatisation of airport assets in India. A public listing of Anchorage will help in discovering the true value of BIAL. We believe that it could be much higher than $2.9 billion.

Once Anchorage is listed, the proportion of the market value of the publicly listed investments in Fairfax India will increase from the current 31% to about 80% of the overall portfolio. We are also in the process of listing two of our other private investments. Once these companies are listed, the proportion of Fairfax India's public investments will increase to over 90% of the overall portfolio.

Also, while the markets are being driven by a few high-flying names, as described above, there are many excellent companies that are trading at extremely attractive valuations with potential to be rerated by the markets. Take the example of one of our portfolio companies, IIFL Securities:

	Unit	
Total market capitalization(1)	$mn	206
4 years to March 2020(2)		
Return on equity (average)		26.7%
Net worth growth (CAGR)		28.5%
Earnings growth (CAGR)		26.9%
Closing share price on February 18, 2021	Rs	47.15
Estimated March 2021		
Earnings per share	Rs	6.0
Price(1) / Earnings		7.9x
Price(1) / BVPS		1.4x
Dividend yield		4.2%

(1) Based on the rupee closing share price on February 18, 2021

(2) March is the fiscal year-end.

IIFL Securities is trading at a price to estimated March 2021 earnings of only 7.9 times and price to BVPS of only 1.4 times. With IIFL Securities' strong historical growth and return on equity metrics, we believe there is potential for significant upside on the value of this investment.

Performance Fee

You will recall that under the investment advisory agreement with Fairfax Financial Holdings Limited (Fairfax), Fairfax India's sponsor and controlling shareholder, and Fairfax's investment counsel subsidiary Hamblin Watsa, Fairfax is entitled to a performance fee intended to be 20% of any increase in Fairfax India's BVPS (including distributions) above a non-compounded 5% increase each year from the BVPS at inception in 2015. The performance fee will be calculated at the end of each three-year period since inception, and the amount payable as at the end of any three-year period would be reduced by the aggregate of the performance fees paid in respect of all prior three-year periods.

At the end of the second three-year period in 2020, a performance fee of $5.2 million was payable and settled with the issue of 546,263 subordinate voting shares of Fairfax India to Fairfax in compliance with the above-described intent, even though the language of the investment advisory agreement, failing to fully recognize performance fees already paid, would have provided for the payment of a higher performance fee. The language of the investment advisory agreement will be amended to make this correction permanent.

Investment and Advisory Fee

An investment and advisory fee of 0.5% of the value of undeployed capital, plus 1.5% of Fairfax India's common shareholders' equity less the value of undeployed capital, is calculated and payable quarterly.

Indian Investments[1]

Bangalore International Airport (BIAL)

Between March 2017 and May 2018, Fairfax India invested, in 3 tranches, $653.0 million to acquire 54% of BIAL, implying an equity value of approximately $1.2 billion for the whole company. It is the third largest airport in India and in 2019 it was the fastest growing airport in the world and was the first airport ever to win Airports Council International's best customer service award for both arrivals and departures. Bangalore, considered India's Silicon Valley, is the third largest and fastest growing city in India.

My most recent departure from BIAL was on February 4, 2020. On that day, despite the Indian economy growing at its lowest rates in the last 12 quarters, BIAL clocked a total of 80,062 passengers (68,617 domestic and 11,445 international), and was well on its way to handling its planned 36 million passengers in 2020, 7% higher than in 2019 and its highest ever annual passenger count. On March 11, 2020, the WHO announced that COVID-19 was a global pandemic and acting under government orders, the entire airport was shut down for passenger traffic on March 25, 2020.

Despite these extraordinary circumstances, under the exceptional leadership of Managing Director and CEO Hari Marar and his executive team, BIAL has had a commendable year, turning what could have been significant problems into opportunities for changes that addressed both short term needs and longer term operational excellence. They took on the challenge by organizing into action groups that were tasked to address specific issues. During the lockdown, the BIAL team opportunistically brought forward many maintenance projects such that future disruptions will be minimised.

While cargo operations were never suspended during the entire shutdown, passenger operations for domestic passengers recommenced, on a very limited basis, on May 25, and were gradually ramped up to 95% of domestic routes being reopened by year-end, but with much reduced flight schedules. International flights are still limited to "repatriation" flights for returning Indians and for flights between India and countries considered to be in mutual "bubbles".

With passenger traffic down to zero for almost two months and followed by a very gradual recovery, BIAL revenues dropped by 79% in the two quarters ending in September 2020 to $23 million. Managements' first priority was to minimize losses and conserve cash but without resorting to layoffs of the permanent workforce. It did an admirable job by generating annualized savings of $10 million by implementing operational efficiencies. It also optimised the capex schedules to efficiently manage its cash flow. Further, by utilizing loan moratoriums, deferment of dues under the concession, and tax efficiencies, they realized cash savings of $27 million. It is also in the process of securing additional short term credit lines for about $55 million.

In cargo operations BIAL was not affected by the pandemic related shutdowns, other than by the loss of capacity due to reduced belly capacity resulting from fewer passenger flights. Despite this limitation, in October 2020 BIAL recorded all-time high numbers in monthly cargo, outbound tonnage, international cargo and perishable goods (the highest in India).

Given the impact of the pandemic on the travel industry across the world, BIAL's financial performance in 2020 did not come as a surprise. Passenger traffic fell 60% from the previous year to about 14 million and cargo handled dropped 17% primarily because of the reduced belly capacity as described above. Based on IFRS, BIAL's revenue dropped 58% to $83.1 million, resulting in a loss after tax of $66.8 million versus a profit of $53.8 million in 2019. This is only temporary! As discussed in greater detail below, we expect higher user fees in the third five-year control period which will start in April 2021.

Despite the unprecedented events that impacted operations and financial performance in 2020, we estimate that BIAL will generate a total ROE of 16.5% for the second control period and an ROE of 17.7% for the combined first and second control periods.

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

The valuation (including foreign currency translation) of Fairfax India's interest in BIAL remained at $1.4 billion in 2020, the same as in 2019, implying an equity value of approximately $2.6 billion for the whole company. This valuation is supported by future cash flow estimates driven by the growth plans described in the two following paragraphs.

In 2018 BIAL entered a phase of significant investment of about $1.9 billion to expand its designed capacity of 20 million passengers to about 50 million in 2021 by re-configuration and system improvements in the existing terminal (to be completed concurrently with the construction of phase 1 of a second terminal), building a second runway and building phase 1 of a second terminal and associated supporting infrastructure. The second runway was commissioned as planned in 2019, and significant progress has been made in the construction of phase 1 of the second terminal, which is expected to be completed in 2022. A financing plan for this expansion, based on a debt-to-equity ratio of 80:20, has been approved by a syndicate of Indian banks at attractive interest rates.

Then plans were added for the building of phase 2 of the second terminal and related infrastructure for an incremental investment of about $1.2 billion, to take the capacity to about 70 million passengers by 2029. In 2019, BIAL added a plan for a third terminal and related infrastructure for an incremental investment of approximately $1.0 billion, taking the capacity of the airport beyond 90 million passengers by 2034. The total investment of about $2.2 billion required to complete the above expansions will be funded through internally generated funds and debt.

BIAL has three potential sources of revenue:

- **Aero Revenue:** Aero revenue, which had grown at a CAGR of 12% from 2009 to 2020, 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) to provide a 16% return on equity deployed in the Regulatory Asset Base (RAB). 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.

  Because of the significant underachievement of passenger traffic in the last year of the second control period and the completion, during the third control period (from April 2021 to March 2026), of capital projects, UDFs are expected to increase significantly in the third control period. With the higher UDFs and the ultimate return of passenger volumes to pre-pandemic growth levels, aero revenue is expected to return to normal levels in the fiscal year ending March 2023.

- **Non-aero Revenue:** All revenue other than aero revenue, such as revenue from food and beverage sales and duty-free shops, constitutes non-aero revenue. Non-aero revenue had grown at a CAGR of 17% from 2009 to 2020 and is also expected to resume its growth trajectory from 2023 due to the return to normal 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. Plans are in place to grow non-aero revenue by five times over the next decade.

  During the pandemic, BIAL has been a leader among airports in being flexible and working collaboratively with concessionaires (who also were extremely stressed from the shutdown of their businesses), helping them to survive and resume business as passenger traffic comes back.

- **Real Estate Monetization:** BIAL has approximately 460 acres of land adjoining the airport that can be developed. Most of this land is undeveloped and 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. We provide below an update on the significant progress made in the actions to monetize the land available for development.

  - A 100% owned special purpose vehicle (SPV) subsidiary of BIAL was incorporated to carry on the real estate activities of BIAL. This entity, Bangalore Airport City Limited (BACL), is now capitalized and staffed and is expected to be self-funding as we move forward. Plans to develop the first 176 acres of land have been advanced and several deals are being negotiated. Infrastructure planning and detailed design for this parcel have been completed.

- Anchored on the principles of a smart city, BACL will focus on four asset classes – business parks; a retail, dining and entertainment village (RDE); hospitality; and convention and exhibition centres.
- Despite potential partners' and investors' inability to visit the site because of the pandemic, significant progress has been made in project plans.
  - A land lease for a 3D printing facility has been completed and the first payment received.
  - A land lease for a large central kitchen for the premier airline services company has been agreed, although payment has been delayed because of pandemic related disruptions.
  - A term sheet has been signed for a joint development ''built to suit'' campus for a multinational corporation.
  - A term sheet has been signed for a joint development trade centre.

Despite being tumultuous, 2020 featured the following significant achievements by BIAL:

- Two important new international routes were established to start in 2021: Air India and United Airlines flights to San Francisco and American Airlines flights to Seattle.
- It won the award for the world's best airport experience in arrivals.
- It implemented contactless processing for a passenger's end-to-end journey.
- It has many construction projects underway, including refurbishment of the existing runway; building a new terminal; and constructing utilities, transportation and road infrastructure for the planned growth. Despite the disruptions in the availability of labour and materials caused by the pandemic, all projects have made good progress and expect to be completed no later than 12 months beyond the original target dates.
- BIAL has been at the forefront of designing and implementing its sustainability goals and touching lives of its community. Recent successes of BIAL's sustainability goals include:

  (a) BIAL is a net contributor to the ground water whereby it generates more water from the rainwater harvesting and waste-water treatment than it uses.

  (b) Renewable energy sources were utilized for 95% of the airport's energy needs.

  (c) BIAL actively promotes the use of recyclable material, targeting to achieve zero landfills by the end of 2021.

Anchorage Infrastructure Investments Holdings (Anchorage)

In March 2021, Fairfax India expects to close the transaction whereby it will transfer 43.6% out of the 54% that it owns in BIAL to Anchorage and will sell 11.5%, on a fully diluted basis, of Anchorage to OMERS for cash consideration of $130 million. The transaction values 100% of BIAL at $2.6 billion and will result in OMERS indirectly owning approximately 5% of BIAL.

The expected closing of this transaction has taken much longer than we expected, and we have learned that government approvals in India can take much longer than we might anticipate, though the pandemic might have resulted in some of the delays.

As mentioned earlier, Anchorage is intended to be Fairfax India's flagship investment vehicle for airports and other infrastructure investments in India. Since its inception in June 2019, Anchorage has actively participated in bidding for Indian airports' and railway stations' privatisation processes. It continues to look for unique and value-accretive infrastructure and allied businesses. We have also started the preparation work to list Anchorage on the Indian stock exchanges.

Sanmar Chemicals Group (Sanmar)

Despite considerable disruptions as a result of the pandemic, Sanmar had much improved financial results in 2020. Based on provisional IFRS estimates, for the year ended December 31, 2020, Sanmar's revenue was flat at around

$700 million, but EBITDA increased from a loss of $8.6 million in 2019 to a profit of $123.7 million in 2020. Net loss in 2020 was reduced to $143.2 million from a loss of $187.4 million in 2019.

In 2016, Fairfax India lent Sanmar the rupee equivalent of $300.0 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 annual yield of the NCDs would be 13%. In addition, for $1.0 million Fairfax India received a 30% equity interest in Sanmar's entire chemicals business.

In 2019 Sanmar settled our $300.0 million of 13% bonds for $433.9 million, of which we invested $198.0 million 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 returned approximately 76% of the capital Fairfax India originally invested while increasing our ownership of Sanmar.

N. Sankar, the chairman of the Sanmar group, and his son Vijay Sankar, the deputy chairman, have grown the group into a large private conglomerate with sales of around $1 billion and an asset base of around $2 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 Limited (CSL) and Chemplast Cuddalore Vinyls Limited (CCVL) – 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.

- **CSL** is the largest manufacturer of paste polyvinyl chloride (PVC) in India. It also manufactures chloromethanes, ethylene dichloride (EDC) and vinyl chloride monomer (VCM) at Mettur and Karaikal. Sanmar Speciality Chemicals, which manufactures custom made chemicals for customers in the agro-chemical, pharmaceutical and fine chemical industries, is also a part of this division.
- **CCVL** is the second largest suspension PVC player in India.
- **TCI**, Egypt, after its expansion was completed in 2018, became a balanced integrated manufacturing facility and is the MENA region's largest manufacturer of suspension PVC and caustic soda.

CSL, Sanmar's flagship Indian chemical business, has been in operation for over 50 years, celebrating its golden anniversary in 2017. N. Sankar is considered a pioneer in the PVC industry in India. With his visionary leadership, in 2009 CSL commissioned one of the largest greenfield PVC projects in India, with an annual capacity of 300 metric kilotons per annum (ktpa).

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. In 2018, with help from the financing provided by Fairfax India, TCI completed a major expansion plan and added a new 200 ktpa PVC plant, taking total PVC capacity to 400 ktpa, a 130 ktpa calcium chloride plant and a 75 ktpa caustic soda by-product line. These were ramping up to full production, with full capacity expected to be attained in 2020, to take advantage of Sanmar's significant investment in infrastructure in Egypt.

Then the pandemic hit!

In response to government-imposed lockdowns, CSL's PVC production was shut down from the end of March and only resumed in May. Though paste PVC demand, which is largely driven by the auto sector, leather garments and footwear, was severely reduced from March to July, CSL made the deliberate decision to resume production as soon as the lockdowns were lifted in May and built inventory. This proved to be a good decision because demand picked up from August and has since been very strong. Demand for caustic soda and calcium also fell substantially despite increased demand from the soaps and detergent industry and continues to remain depressed. The specialty chemicals business was not affected because it is considered an essential business and remained open throughout. Industry experts anticipate a very bullish future for paste PVC because of plant closures in South Korea, China, Germany and the United Kingdom due to environmental and other concerns and there is no new capacity coming onstream. CSL, which uses an environmentally friendly process, expects to capitalize on the situation by meeting incremental demand for paste PVC which has grown at a CAGR of 7% over the last 10 years. It is in the process of increasing its paste PVC capacity from 66 ktpa to 101 ktpa for an investment of about $35 million. Industry experts also anticipate that over the medium term, demand for caustic soda will exceed supply and normalcy will return to the commodity.

CCVL's production was also severely constrained from the end of March to the middle of May, but since then the plant has been running nearly to full capacity. Global demand for suspension PVC has been strong, driven by infrastructure investment in China, housing starts in the U.S. and agriculture-related infrastructure investment in India. At the same time global supply has been constrained because of a myriad of technical and other issues at producing companies in the U.S., Europe, Mexico and South Korea. As a result, there is extreme tightness in the market and prices for suspension PVC are near all-time highs. Since May 2020, CCVL has been able to realize 18 price increases. As positive as the global situation is for the manufacturers, the outlook is even better in India. With consumption projected to grow at a CAGR of 7.5% to 8.0% over the next few years, demand is expected to grow significantly, resulting in a large deficit, which will need to be imported. Because CCVL has the advantages of an existing plant, land and infrastructure; the logistic advantage of supplying the South Indian market; long term strategic relationships with feedstock suppliers; and strong customer relationships, it will be the ideal time for it to implement its plan to expand its capacity from 300 ktpa. The timing of the expansion will be determined based on completion of the balance sheet changes that Sanmar is in the process of making as described below.

In 2020, TCI had a better year financially, but pandemic-related issues slowed its progress to full and efficient operation of its plant. EBITDA was nearly at breakeven versus a loss of $74.1 million in 2019, and pretax loss improved from $215.2 million to $106.6 million. Curfews in Egypt resulting in limited availability of workers, reduced demand in target markets, supply chain disruptions and travel restrictions preventing expert resources from visiting the plant to make planned adjustments to ramp up to 100% capacity utilization, all due to the pandemic, resulted in capacity utilization reaching only 80%.

However, the biggest impact of the pandemic on all the Sanmar companies has been the squeeze on their liquidity position. In order to rectify this and to reduce the overall debt of the company, Sanmar is actively pursuing opportunities to raise additional equity capital to repay and restructure debt. Only after this is accomplished, Sanmar will make investments in projects that exploit excellent growth and cost saving opportunities.

CSB Bank (formerly The Catholic Syrian Bank) (CSB)(1)

During the pandemic lockdown, banks were allowed to operate since they were considered to be an essential service. Also, the government and the Reserve Bank of India (RBI), in order to mitigate the impact of business interruptions, directed banks and NBFCs to extend loan moratoriums to their customers until August 2020. During this moratorium period, borrowers could choose to stop making interest and principal payments and banks were allowed to disregard these delinquencies in calculating their regulatory capital adequacy. Fortunately for CSB, while 15% of the total loan book had opted for moratoriums, only 0.5% of the loan book had not serviced their accounts at all during the moratorium period. All the other borrowers serviced their accounts to the extent possible. Banks were expecting to find the extent of the distress among its borrowers 90 days after the end of the moratorium, when they would have had to recognise delinquencies and make loan loss provisions, as required by banking regulations. However, the Supreme Court of India made a ruling in September 2020 that no loans were to be classified as non-performing, in effect extending the moratorium indefinitely. Therefore, the banks will have to wait to determine the extent of their loan losses and make provisions. Because of this uncertainty, in addition to its general loan loss provisions for its loan book of $1.8 billion, CSB has made extra provisions of about $7 million towards NPAs of about $28 million that may arise as a result of the pandemic.

CSB also proactively took steps to ring fence the bank during these uncertain times. Employees were encouraged to use up vacation time and branches and offices were told to work with 50% of staff. As per guidelines, branch timing was reduced, and services restricted to essential ones. Other services were rendered on a best effort basis. Given an uncertain economic outlook, credit sanctions were temporarily put on hold.

In 2019 Fairfax India completed its purchase of a 51% interest in CSB for consideration of $169.5 million (140 rupees per share), implying a multiple of 1.1 times the September 30, 2017 BVPS. 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. Our entire investment was infused into CSB as primary capital, thereby increasing its capital adequacy ratio (CAR) to 21.0% at the end of 2020. The improved CAR enabled the bank to make adequate provisions for loan losses, invest in more branch openings, higher quality people and technology and grow its loan book with well underwritten loans.

(1) *All of the CSB figures are based on Indian Generally Accepted Accounting Principles (Indian GAAP) unless otherwise stated.*

In November 2019 CSB completed its successful IPO and was listed on the Indian stock exchanges. The IPO, which was oversubscribed 87 times, was completed at a price of 195 rupees per share (our cost is 140 rupees per share) and consisted largely of existing shareholders selling to new ones (Fairfax India did not sell any shares).

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 454 branches and 319 ATMs across India. With its branches primarily located in south India, it focuses on retail, gold and small and medium enterprise (SME) loans, which together comprise about 77% of total advances. CSB also owns 38 residential and commercial properties and land banks, some purchased several years ago, and others acquired by enforcement of security.

Mr. C.V.R. Rajendran, who has been the CEO of the bank for the last four years, has now completed most of the changes that he wanted to implement in the management of the bank, including:

- Performance and productivity oriented human resource policies
- Rounding out his management team by filling all the key senior management positions
- Appointment of Pralay Mondal, a very senior banker, as the President of the bank
- Reorganization of the operations of the bank into three verticals-
    - retail banking (comprised of branch banking, gold loans, two-wheeler loans, micro, small and medium enterprise (MSME) loans, microfinance under financial inclusion (MFI) loans and agricultural loans);
    - SME banking; and
    - wholesale banking.

CSB for its internal purposes classifies loan assets of up to five million rupees as MSME and monitors these under the retail banking vertical. Loan assets between five million and 250 million rupees are monitored and serviced separately by the SME banking vertical. Any amount higher than 250 million rupees is managed by the wholesale banking vertical.

Pralay will lead the effort to develop branch banking which will primarily focus on retail deposits comprising lower cost current and savings accounts (CASA) and cross selling of products to generate non-interest income.

Despite a weak economy, as a result of the pandemic, and high levels of system liquidity which constrained opportunities for lending, CSB made excellent progress in its key performance measures in 2020, with loan advances growth of 22% (including gold loans growth of 61%) and deposits growth of 16% (including CASA growth of 24%). Net interest income grew 48% and the credit to deposit ratio improved from 71% to 74%, while non-interest income was up 107%. In addition, the yield on loans improved to 10.9% from 10.7%, CASA improved to 30.4% from 28.6% of total deposits, net interest margin (NIM) improved to an industry leading 5.2% from 3.9% and the cost of deposits decreased to 4.9% from 5.9%. It is likely that NIM will moderate to around the 4% level.

As a result of these improvements, gross non-performing assets (NPA) reduced to 1.8% from 3.2%, net NPAs reduced to 0.7% from 2.0%, the provision coverage ratio (PCR) improved from 80.3% in December 2019 to 91.0% in December 2020 and the CAR was 21.0%. Based on IFRS, CSB's revenues for 2020 increased by 56% to $158.9 million and net income increased to $40.2 million from $7.5 million in 2019. As you can see, Mr. Rajendran is making very good progress toward his objective of focusing on profitability, productivity, efficiency and asset quality.

We are pleased that Mr. Paresh Sukthankar, former deputy managing director and a member of the Board of Directors of India's leading private sector bank, HDFC Bank, continues to guide us as an advisor.

IIFL Wealth Management Limited (IIFL Wealth)

Upon the advent of the pandemic, IIFL Wealth, keeping in mind the health and safety of its clients and employees, converted almost its entire workforce to working from home. However, backed by strong digital tools and technological interventions, it was able to make the transition with virtually no disruption. Despite the significant contraction of the Indian economy during 2020 and consequent poor investment sentiment, IIFL Wealth was able to achieve reasonable financial performance. Consolidated assets under management (AUM), including custody assets, grew 18% to $28.8 billion, total revenue increased by 3% to $127.2 million, profit after tax declined by 8% to $35.5 million and ROE declined from 9.4% to 8.9%.

IIFL Wealth's strong client franchise in the Indian ultra-high net-worth individual (UHNI) segment, an innovative, diversified product offering, and superior execution make it the leading player in this niche wealth management market. It is the number one wealth manager in India for UHNIs with AUM of $23.0 billion, 29 offices in India and abroad, 800 plus employees and 64 teams consisting of 269 relationship managers serving over 6,700 families.

Since it was founded in 2008 under the IIFL brand umbrella by Karan Bhagat and Yatin Shah, with the leadership of IIFL Holdings Limited (IIFL Holdings) founder Nirmal Jain and his partner R. Venkataraman, IIFL Wealth has been an independently managed company in the stable of IIFL Holdings businesses. However, in September 2019 with the demerger of IIFL Holdings, the original company that Fairfax India had invested in, into three separate companies, IIFL Wealth became a separate company listed on the Indian stock exchanges and became the only listed pure play wealth management company in India.

After its listing, because it had other owners at the subsidiary level, its ownership is now distributed among the promoters with 22.9%, the U.S. private equity firm General Atlantic with 21.3%, Fairfax and Fairfax India with 18.4%, with the remaining distributed between employees, institutional and retail investors.

You will recall that IIFL Wealth began its journey as an independently listed company at a time when the wealth management business in India had undergone a very significant change. Effective in October 2018, the Indian capital markets regulator (SEBI) banned the long-established practice of mutual funds paying distributors and investment advisors upfront commissions or upfronting trailing commissions that were not disclosed to investors, requiring instead that mutual funds, except in certain very limited situations, pay only trailing commissions that are fully disclosed as part of the funds' management expense ratios.

While this was a very positive and investor-friendly change in regulation that in the long run would benefit the industry, in the short term, it caused the industry to adjust to the new reality by transforming its business models. The change has resulted in the upfront commissions being paid over the life of the investment – reducing upfront revenue but creating a stream of recurring revenue in the future.

IIFL Wealth has two businesses – wealth management (the larger one) and asset management. The wealth management business, which was directly impacted by the above-described change in regulation, had to transform from a transactional upfront commission-driven business model to a client fee and distribution services based recurring revenue model. As IIFL Wealth makes this transition, revenue from the former upfront commissions will decline while annual recurring revenues (ARR) will increase. In 2020, the upfront commission and brokerage revenue declined by 12% to $46.2 million, while ARR grew by 9% to $76.1 million, and ARR assets accounted for 43% of AUM. The wealth management business has embedded in it a non-bank finance company (NBFC) which makes loans to its clients secured by their assets held by IIFL Wealth, and has never had a bad loan.

The smaller asset management business is India's leading manager of alternate investment funds (AIF). AUM for this business grew by 20% in 2020 to $4.4 billion while revenues grew by 41% to $24.4 million. This business was strengthened by the addition of a new CIO, Anup Maheshwari, an experienced fund manager with a proven 25-year track record, and he has been successful in attracting more institutional asset management mandates.

To capitalize on the opportunity created by the fee-based model, IIFL Wealth has launched a new platform called "IIFL-ONE". Backed by strong product creation, deep research, specialist teams and innovative technology and using a portfolio management approach, IIFL-ONE is currently in the process of converting IIFL Wealth's existing customers to this platform and already has AUM of $3.6 billion.

Over the last five years, IIFL Wealth has generated an internal rate of return of about 10% and is now relatively overcapitalized for its level of earnings, resulting in ROEs dropping from about 16% to 9%. In order to address this, in addition to its policy of paying out about 70% of its earnings in dividends, IIFL Wealth paid a special dividend of 40 rupees per share in 2020 and will continue to look for avenues to maintain its ROEs sustainably in the 20% range.

Given the low penetration of wealth management in India and the high rate of wealth creation and growth in dollar millionaires, we believe that IIFL Wealth has a very bright future.

IIFL Finance Limited (IIFL FIN)

For over 50 years, NBFCs in India have been a source of debt financing for individuals and companies. Being relatively less regulated and therefore less bureaucratic than banks, NBFCs are able to meet customer needs on a faster and more flexible, albeit more expensive, basis. Today India has around 9,500 NBFCs of which 58 are permitted to take customer deposits and 292 are considered to be systemically important because they have assets of over

$70 million (five billion rupees). With total loans outstanding of $330 billion, NBFCs account for approximately 19% of the $1.7 trillion bank and NBFC loans outstanding in India.

Based on total revenue, IIFL FIN, which is non-deposit taking, is one of the larger NBFCs in India.

Under the able leadership of its CEO, Nirmal Jain, who is also the founder and significant shareholder of all the IIFL group companies, IIFL FIN is moving forward aggressively to consolidate its position as one of the major NBFCs in India. With over 2,400 branches and over 18,000 employees, it services over 6 million customers. Despite some of the challenges it faced due to the pandemic, described in more detail below, its AUM, which has grown at a CAGR of 18% over the past 5 years, grew 17% over the previous year to $5.8 billion in 2020. Loan to value is very conservative, at 71% for home loans, 72% for gold loans, 47% for business loans and 47% for construction and real estate loans. With a well-diversified asset portfolio of which 90% is retail in nature, a CAR of 21.4%, net interest margins at an all-time high of 7.4% and cost to income ratio down from 53% to 33%, IIFL FIN is well positioned to take advantage of the post-pandemic economic recovery expected to commence in 2021. In 2020, IIFL FIN's revenue increased 21% to $422.9 million and profit after tax excluding extraordinary items decreased by 30% to $70.5 million (mostly as a result of conservative provisions for NPAs), generating an ROE of 10%.

In spite of this good operational performance, IIFL FIN continues to have trouble accessing long term debt capital, which appears to be as a result of the continuation of the turmoil that started in late 2018 as a result of the default by a quasi-government lender, Infrastructure Leasing and Financial Services Limited (IL & FS). Other than a handful, most NBFCs are facing restricted access to longer term funding which they need as they have significantly reduced their dependence on short term commercial paper (CP) financing.

Another factor that appears to be adversely affecting IIFL FIN's access to long term funding is its construction and real estate loan book which amounts to about $591.1 million (10% of loans). Though gross NPAs in this category of loans are only 2.7% and net NPAs are 1.3% and well provided for, potential providers of financing to IIFL FIN are concerned because of the distressed state of the real estate market in India, which was further exacerbated by the pandemic.

During the pandemic, NBFCs were allowed to remain open during the government-imposed lockdown. However, in-person collection activity, which is an important part of their operations, to a large extent was not possible. Similar to the banks, NBFCs were also required by the government and the RBI to provide moratoriums to their borrowers. The extent of the NPAs that will result due to the moratoriums will only be known later in 2021. IIFL FIN has made provisions of about $177.2 million (including provisions of about $62.8 million to cover real estate loans) and it is expected that this will adequately cover pandemic-related delinquencies as well.

Despite these good results, IIFL FIN is trading at a deeply discounted valuation of only 12.6 times price to estimated March 2021 earnings and price to estimated March 2021 BVPS of 1.6 times. We believe there is potential for significant upside on the value of this investment.

IIFL Securities (IIFL SEC)

IIFL SEC is one of the major capital market players in Indian financial services. It offers advisory and broking services (both retail and institutional), financial products distribution, institutional research and investment banking services. It operates in over 2,500 locations across India, comprised of a wide branch and sub-broker network providing unparalleled research coverage on over 225 companies. It serves over 1 million customers and has a strong online presence. Mobile trading has significantly aided in increasing the number of customers: mobile trading clients in 2020 accounted for 61% of trading.

IIFL SEC operates in three broad areas within the capital markets and financial services sector in India:

- Retail broking and financial products distribution (76% of revenue) – in retail broking it has established itself as a leading institution through a combination of leading-edge technology, diverse product offerings, management expertise, and a wide network of branches across India. IIFL Securities' mobile trading app, IIFL Markets, targeting retail clients, continues to be the highest rated among its peers with over 5.4 million downloads. Mobile brokerage constituted about 48% of total broking revenue in 2020. IIFL Securities' mutual fund app had over 909,000 downloads and is steadily building on its customer base. In financial products distribution, it offers retail clients a wide range of products including mutual funds, insurance, IPOs and debt instruments.

- Institutional broking (16% of revenue) – it is a leading independent (not associated with any international bank) broker, with a highly acclaimed, pedigreed 80-member strong sales and research team that covers over

225 Indian companies accounting for about 80% of India's market capitalization. It is a market leader in block sales placements, placing over $14 billion in blocks over the past five years. It has more than 700 domestic and foreign clients and has developed trusted long-term relationships with them through sustained high-quality performance.

- Investment banking (5% of revenue) – it is a highly regarded category 1 merchant banker in India and, despite volatile markets, completed 19 transactions in 2020, including 3 IPOs. It continues to have a substantial pipeline of transactions which are at various stages of execution.

IIFL SEC also owns a portfolio of commercial properties, rented mostly to group companies. In 2020, IIFL SEC monetized one of the properties and realized close to $10 million. With a current market value of about $89 million (amounting to about 42% of its market capitalization), this portfolio generates annual rental income of approximately $6 million. These assets may be monetized in the future.

IIFL SEC is one of the companies in our portfolio that appears to have benefited from the consequences of the pandemic:

- After the initial fall, Indian stock markets have boomed, ending the year up about 13%. The resultant stock market volumes have been very positive for both the retail and institutional broking businesses.
- Implementation of online processes in order to be able work remotely has resulted in short and long-term cost savings, leading to better margins.

In 2020 IIFL SEC's revenue increased 3% to $110.8 million and profit before tax (before exceptional items) increased 17% to $32.9 million and the dividend was increased by over 80% to 2 rupees per share. IIFL SEC also recently completed a buy back of about 5.3% of its shares outstanding. Despite these strong results, the stock is trading at a price to earnings ratio of 8.5 times 2020 earnings and a price to BVPS ratio of 1.5 times. Over the last four years IIFL SEC has generated an average ROE of 27%.

Based on its strong business franchise, growth potential and attractive ROE, we expect that IIFL SEC will be another successful investment for Fairfax India.

5paisa Capital Limited (5paisa)

5paisa, which literally means "5 cents", was spun off from IIFL Holdings in 2017 and Fairfax India owns a 26.6% equity interest in it. It is one of India's fastest growing technology-led financial services companies and offers an array of financial products and services through a digital platform and mobile application. Its services are targeted at retail investors and high-volume traders who actively invest and trade in securities markets and seek DIY (do-it-yourself) services at a low cost. With its diverse services and products encompassing online discounted stock broking, depository services, research and distribution of mutual funds and other financial products, 5paisa successfully fulfils its customers' diverse needs. Recently, 5paisa launched its digital peer-to-peer lending platform which is registered as an NBFC. 5paisa remains focused on innovation based on understanding customer behaviour, and constantly strives to achieve technological superiority, as it has done through the development of its robust trading platform, its advanced mobile app, an artificial-intelligence powered robo-advisory platform, and its paperless account opening process.

5paisa has sustained a strong pace of client acquisition since inception, taking its total client base to over 1 million in 2020. The 5paisa mobile app has been hugely popular, in 2020 recording over 6,000,000 downloads and has a rating of 4.0+ on Playstore.

This is another business in the Fairfax India portfolio that seems to have benefited from the situation caused by the pandemic. It had its best year ever in 2020 – total revenue grew 92% to $24.3 million and for the first time ever it made a small profit after tax.

While it is still a small startup, 5paisa has the potential to be a major player in digital discount broking and financial products distribution.

Privi Speciality Chemicals Limited (Privi)

In August 2020 Privi, the aroma chemicals business, was separated as planned from Fairchem Speciality Limited, the former combined oleochemicals and aroma chemicals listed entity, and started trading as an independent company on the Indian stock exchanges.

Privi, founded in 1992 and 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 65 products today, with a capacity of over 32 ktpa. 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 and DRT.

One of Privi's significant strengths is its established research and development (R&D) capabilities in aroma chemicals, with a staff of 98 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.

On April 26, 2018 there was a major fire at Privi's main production facility. In subsequently rebuilding its facilities, it has created a world class manufacturing plant, with the highest safety standards.

After an outstanding year in 2019, Privi faced many challenges in 2020, including pandemic – related disruptions. Privi's sales to customers who sell high-end products (fragrances) fell sharply because the customers' sales, which are primarily at duty-free stores at international airports, fell sharply. The loss of sales in this segment was only partially offset by increased sales to customers who had increased sales due to higher demand for soaps, detergents and handwash. Privi also had lower margins in some of its products due to higher raw material costs. In addition, it lost some volumes as production had to be shut down due to demerger related administrative requirements.

As a result, in 2020 Privi's revenue decreased 12% to $166.4 million and its net earnings decreased 44% to $12.3 million, although its shareholders' equity grew 15% to $90.6 million, generating an ROE of 14%.

Despite the above results, Privi's stock price has performed well, resulting in a 2020 investment value of our investment in Privi of $138.4 million versus our cost of $55.0 million.

Fairchem Organics Limited (Fairchem)

In August 2020, following the separation of the Privi business from the former combined listed entity, Fairchem Speciality Limited, as noted above, Fairchem became an independent oleochemical company. In December 2020, after the completion of certain regulatory requirements, it started trading as an independent company on the Indian stock exchanges.

Fairchem is led by its founder Nahoosh Jariwala. 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 and corn 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 20% per year, net earnings have grown on average 22% per year, and the average annual ROE was around 24%.

Fairchem had a very strong start in 2020 and was on track to achieve annual sales of over $45 million when the pandemic caused the plant to be shut down on March 24, 2020, resulting in significant disruptions to the operations of Fairchem. In addition to the lockdowns imposed nationally, Fairchem was subject to further disruptions because it was located in a part of Ahmedabad which had an extremely high level of COVID-19 infections. This, combined with poor demand from customers, caused it to resume production only after a 58-day shutdown of the plant. Fairchem utilized this prolonged shutdown period to undertake a thorough clean-up of the plant that would not have been possible under normal circumstances. Since the plant re-started production, sales have been very strong.

Despite the above-mentioned disruptions, based on IFRS, for the year ended December 31, 2020 Fairchem's revenue grew by 18% to $44.1 million, net earnings grew by 30% to $4.8 million, and shareholders' equity grew 30% to $20.8 million, generating an ROE of 23%. In December 2020, Fairfax India's investment in Fairchem was valued at $54.6 million versus our cost of $19.4 million.

We believe that Fairchem is poised to have another record-breaking year in 2021.

Seven Islands Shipping (SISL)

SISL, Fairfax India's most recent investment, had one of its best years ever in 2020!

While as a result of the pandemic it faced some operational difficulties and increased expenses, it was able to manage these issues while remaining fully operational through the entire lockdown and the subsequent gradual reopening of the economy.

In 2020, SISL's revenues grew by 57% to $121.7 million, net income grew by 87% to $21.6 million and shareholders' equity grew by 16% to $125.9 million, generating an ROE of 17%. SISL has demonstrated stable and consistent revenue and EBITDA CAGR of over 30% in the last 10 years.

Founded by Captain Thomas Wilfred Pinto, a passionate entrepreneur and operator, SISL owns and operates tanker shipping vessels that sail primarily along the Indian coast as well as in international waters. SISL is the second largest private tanker shipping company in India.

In March 2019 Fairfax India acquired a 41.4% equity interest in SISL for $71.8 million through a direct subscription of $28.9 million and a secondary acquisition from existing shareholders of $42.9 million. In September and October 2019, Fairfax India acquired an additional 7.1% from existing shareholders for $12.1 million, bringing our total ownership interest to 48.5%. At December 2020 our investment was valued at $103.5 million.

At the time of our initial transaction, SISL owned 14 vessels with a total deadweight capacity of about 1 million metric tons. Today, SISL owns 20 vessels with a capacity of about 1.1 million metric tons. All SISL's vessels are registered in India and operate as Indian-owned and flagged vessels.

SISL focuses on the pre-owned vessel market. It identifies good quality vessels (generally manufactured in Japan or South Korea, which are well maintained and are subject to stringent inspections) and acquires them opportunistically.

For operations along the Indian coast, the freight rates are based purely on bids and there is no distinction between old and new vessels. SISL benefits from lower upfront capital investment and enjoys the same status as those of the younger ships in bidding for customer contracts. The operating and maintenance costs for its fleet are not significantly different from those of the younger ships. SISL's current vessels range in age from 14 to 25 years, with an average age of around 18 years, and it will endeavour to reduce the average age of its vessel fleet over the next few years. Consistent with this objective, in 2020 SISL sold four older ships, and acquired four younger ships.

Until now SISL had only owned and operated tankers that transported liquid cargo. But based on the current ship prices and charter rates, it is seeing potential for better growth from gas carrier containers. They are in the process of assessing this opportunity in greater detail.

Under the current Indian regulatory framework, Indian owned and flagged vessels are given preference over foreign vessels for transporting any cargo that originates from India. This is implemented by giving the Indian owned vessels a 'right of first refusal' (also known as ''cabotage'') before a contract can be awarded to a foreign vessel owner. It is our understanding that, because of cabotage protection, foreign vessel owners typically refrain from bidding for contracts for movement of goods along the Indian coast. Hence, the charter rates in domestic shipping are apparently about 30-40% higher than the rates quoted in international shipping markets. SISL bids competitively and does not rely on cabotage protection to win contracts. Strategically, SISL operates a majority of its vessels in the domestic cargo oil market and has benefited from the general rate arbitrage in domestic vs. international deployment.

In order to assist Indian shipping companies to compete with their global counterparts, the government has implemented tax provisions that have resulted in SISL historically enjoying lower tax rates, resulting in higher cash flow. SISL has obtained a ruling from the Indian tax authorities that it is entitled to the beneficial tax regime until the year ending March 31, 2026, so the lower tax rate is applicable at least until that time.

SISL has a small and efficient operations team consisting of about 80 permanent employees at the head office who manage the entire business. It has significantly strengthened this organization with the addition of experienced senior executives from the industry. It has also completely revamped its information technology system, which has enabled the implementation of robust operational, safety and security procedures.

SISL plans to become listed through an IPO on the Indian stock exchanges in 2021. Regulatory documentation has been filed, and the IPO will be launched once SISL gets regulatory approval.

National Collateral Management Services (NCML)

NCML was Fairfax India's very first investment, completed in August 2015. NCML has operated for over 15 years in the agriculture value chain by offering end-to-end solutions in grain procurement, testing, storage and collateral management. NCML has about 1.4 million metric tons of storage capacity across 624 warehouses in 16 states in India. It has a network of 22 regional offices, more than 800 touch points at agricultural produce markets and thousands of farmers and traders to facilitate procurement of commodities. With AUM of $555.1 million, NCML has a 20% share of the agricultural commodities' collateral management business in India, offering custodial services to about 65 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. Beyond its major business segments, NCML offers a commodity and weather intelligence service and an online commerce portal (NCML MktYard)

In 2016 and 2017, NCML won 16 concessions from Food Corporation of India to build, own and operate (and in some instances transfer) modern grain storage silo projects across the agrarian states of Punjab, Haryana, Uttar Pradesh and Bihar. These projects will significantly improve India's grain quality and reduce storage losses.

In 2015, Fairfax India invested a total of $148.7 million to acquire an 88% interest in NCML: $30.7 million in primary infusion to fund growth plans and the remaining $118.0 million to buy out existing shareholders. In August 2017, Fairfax India acquired an additional 1.4% stake through a rights issue for $25.6 million. In September 2019, Fairfax India infused $14.0 million as compulsorily convertible debentures to meet equity requirements for construction of silos. At December 2020, NCML is valued at $101.1 million compared to our investment cost of $188.3 million.

NCML's performance in its various business verticals is linked to the underlying economic activities in two areas: the post-harvest agriculture value chain and the financing of agricultural produce by banks and financial institutions. The agriculture sector has been in a negative business cycle since 2016 and activity has yet to recover to previous levels. In addition, the credit crisis in India has had a continuing negative impact on the post-harvest agri value chain. These conditions have resulted in poor results for NCML.

Siraj Chaudhry, the new CEO appointed in 2019, and his management team have been working diligently to turn the business around by:

- restructuring and right-sizing NCML's balance sheet
- focusing on completion of silo construction
- redirecting capital to businesses with better return potential
- downsizing businesses with poor risk-reward characteristics, and
- reducing overheads to better align with the size of the business.

In addition to the many challenges they faced in trying to achieve the above objectives, they also had to navigate extremely tight financial liquidity conditions.

The arrival of the pandemic turned the situation into a perfect storm for NCML. Among all the Fairfax India portfolio companies, NCML was probably the business most seriously impacted by the pandemic. The four key business segments of storage and preservation, testing, supply chain management and collateral management all had steep declines in the April to September quarters as agri product deliveries fell sharply. Pandemic-related construction shutdowns also impacted timelines for silo construction. In 2020, NCML surrendered projects at 3 locations that were unviable. The business has since recovered but still not to pre-pandemic levels.

As a result, 2020 was a particularly difficult year: revenue declined 46% to $75.9 million and net loss increased to $9.4 million (including one-time charges of $4.4 million related to losses incurred on silos as discussed above and $3.0 million in other provisions) from $0.8 million in 2019.

With the easing of the pandemic, business is improving, and with the implementation of the initiatives described above, we expect the NCML business to stabilize in 2021 and return to profitability in 2022.

National Stock Exchange of India (NSE)

In July 2016, Fairfax India acquired a 1% stake in NSE for $26.8 million. NSE is the largest stock exchange in India with a market share of over 94% in cash equity trading and 100% in equity derivatives trading. With approximately 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. Our investment is currently valued at $72.6 million. In 2020, NSE's revenue grew 37% to $708.1 million, net income before exceptional items grew 53% to $380.5 million and shareholders' equity grew 31% to $1.5 billion, generating an ROE of 25%. The planned initial public offering of NSE is now expected sometime in 2021 or 2022.

Saurashtra Freight (Saurashtra)

Saurashtra's principal business is owning and operating container freight stations (CFS), 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 kilometers from Mundra port. With 24/7 operations, Saurashtra has the capacity to handle 180,000 TEUs (twenty-foot-equivalent unit shipping containers) per annum and handled about 100,000 TEUs in 2020, implying capacity utilization of about 54%. It has achieved a market share of about 14% at Mundra port, the highest among all CFSs there.

Despite the restricted capacity utilization described below, Saurashtra, under the able leadership of Raghav Agarwalla and Ashutosh Maheshwari, produced excellent financial results in 2020. Volume of containers handled remained stable at about 100,000 TEUs but revenues increased by 24% to $25.1 million and net profit grew by 26% to $4.7 million. Saurashtra generated $4.9 million of free cash in 2020, and at year-end had a cash balance of $22.2 million and no debt.

In the five years prior to our acquisition of Saurashtra in 2017, it generated an average ROE of 17%. However, as of 2020, performance has eroded significantly from the time of our investment and ROEs have dropped to an average of 9% over the last three years. Also, Raghav's efforts to grow the business inorganically through acquisitions have not been successful because he has been unable to find good businesses at reasonable valuations.

Since Saurashtra has been unable to find good acquisition targets, it has focused more on organic opportunities for growth. Fairfreight Lines, the non-vessel operating common carrier (NVOCC) business that Saurashtra launched in 2017, has made excellent progress in 2020. It has increased its dry box inventory from about 1,069 to 1,172 and its tank inventory from about 200 to 365. As a result, in 2020 this business accounted for 25% of Saurashtra's revenues and 15% of its net profit, up from 19% and 7% respectively in 2019.

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 response, Saurashtra is making a small investment in building a five-acre logistics park in Mundra that will provide storage capacity to exporters and importers who don't need the full services offered by a CFS.

In February 2017 Fairfax India invested $30.0 million to acquire a 51% interest in Saurashtra. At the end of 2020, this investment was valued at $32.8 million.

Financial Position

Fairfax India came into being on January 30, 2015, when it issued 106.7 million shares at $10.00 per share, raising gross proceeds of $1.03 billion by completing a public offering, a placement to cornerstone investors and an issue to Fairfax. In September 2016, the company arranged a $225 million two-year secured 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, 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 replaced its expiring secured loan with a $550 million secured loan with a syndicate of Canadian banks; the original one-year term of the loan has since been extended until June 2021. Fairfax India currently has about $207 million in cash and liquid marketable securities for new investments and ongoing expenses. This amount will increase by about $130 million to about $337 million when the sale of 11.5% of Anchorage to OMERS is completed, expected to take place later this month.

At December 31, 2020, the financial position of Fairfax India was as follows:

	($ millions)
Undeployed cash and investments(1)	207.0
Secured term loan (from a syndicate of Canadian banks, maturing in June 2021)	550.0
Common shareholders' equity	2,446.9
Total debt to equity	22.5%

(1) Includes passive investments in publicly traded Indian companies

We are pleased to report that on February 26, 2021 Fairfax India completed its maiden bond issue, selling $500 million of seven-year unsecured senior notes with a coupon of 5%. The net proceeds of the issue were used to repay most of Fairfax India's above-described $550 million secured term loan.

Developments in India

India is currently rolling out its vaccination plan to deal with COVID-19, aiming to immunize 300 million people by August. It is the world's largest such program. On many important measures, India is showing progress: declining positivity rates, lower fatality rates than the world average and a sharp decline in the overall number of cases. Even before the pandemic hit India in spring of 2020, the country's economy was already experiencing slower growth. The pandemic intensified the challenges faced by India. The Modi government ordered a country-wide lockdown from the end of March to the end of May. Since then, COVID-19 cases have declined and the economy began to recover towards the end of 2020, with business activity ramping up across many sectors.

Despite significant economic challenges, India had important accomplishments in 2020. While foreign direct investments (FDI) declined in many Asian countries, India witnessed an increase of 13%, mainly in the digital sector. Similarly, India's continued progress on a number of measures, including its ranking in the World Bank's ''Ease of Doing Business Measure'' (#63 in 2019 from #130 in 2016) and the Global Innovation Index (#48 in 2020 from #66 in 2013), and its becoming a Top 10 FDI destination, attracting over $70 billion between January 2019 and August 2020. India's foreign exchange reserves reached an all-time high, surpassing $500 billion by mid-2020. Significantly, a number of business-friendly policy reforms were undertaken by the Modi government in the last calendar year.

India benefited from a good monsoon season, the second year in a row, resulting in increased agricultural production in the two crop seasons, Kharif, which is from July to October, and Rabi, which is from October to March. As well, a significant drop in food prices mitigated the inflationary effects. Agricultural output increased a healthy 3.4% on an annualized basis. The central bank, RBI, was able to maintain its inflation target of 2% – 6%.

Upcoming state elections in key jurisdictions like West Bengal and the southern states of Tamil Nadu and Kerala will have national implications, as will the ongoing farmer protests on the recently passed farm liberalization laws. Nevertheless, Prime Minister Narendra Modi is in a commanding position with broad support for his policies. In a recent national poll, almost three-fourths of respondents expressed satisfaction with Prime Minister Modi's handling of the pandemic and his overall performance. In addition, a fractured opposition party has given the ruling BJP a stronger hand in promoting reform-oriented policies.

Prime Minister Modi's government is a majority government, with the next national elections in 2024. This political stability has facilitated important policy initiatives in 2020. Modi's goal of becoming a $5 trillion economy in the next few years can become a reality with continued liberalization. The policy changes initiated during the pandemic are significant measures targeted to attract foreign capital. Notable policies include:

- Production Linked Incentives (PLI): The aim of this program is to position India as an investment destination. The focus is to increase domestic manufacturing by providing incentives to large foreign companies to locate in India, especially those seeking to diversify their global value chains. As companies seek to build more resilience and shorten their supply chains, India's aim is to be one of the main alternatives to China. Over ten sectors have been identified for PLI: electronics/technology, textile products, automobiles and auto components, pharmaceuticals, advance chemistry cell batteries, telecom and networking products, specialty steel, food products, white goods (air conditioners and light emitting diodes), and high frequency solar photovoltaic modules. These sectors are expected to advance the stated goal of becoming more self-reliant (Atmanirbhar).
- Farm Trade Reforms: In September 2020, the government passed three farm laws designed to modernize the agricultural sector. These three laws seek to promote freer inter-state trade including e-trade, facilitate contract farming, and greater deregulation in production and storage aspects of the sector. These new laws provide for a greater role for the private sector, enhance bulk procurement, reduce the role of middlemen and improve storage infrastructure. Adverse reaction from farmers' organizations has centered principally on the reduction of government procurement and a stronger guarantee for the minimum support price. The government and the farmer organizations have been in a series of discussions to resolve the outstanding concerns.
- Labour Law Reforms: These reforms represent a consolidation of 29 existing laws into four legislative areas: the Wage Code, the Industrial Relations Code, social security and occupational health, safety and working conditions. These four codes provide flexibility for employers and represent an important update from previous disparate pieces of legislation. Important areas of autonomy pertain to retrenchment of the workforce, inclusion of workers in the key service sectors and reducing compliance costs for companies.
- Rise of e-commerce & Start-ups: COVID-19 accelerated the pace of adoption of e-commerce and the Indian e-commerce market is expected to grow from $120 billion to $200 billion by 2026. Internet connections are now at 760 million, with three-fifths of it in urban areas. India is emerging as a vibrant hub for innovation and start-ups, now with 35 unicorn start-ups, 11 of them in 2020 alone.

These developments represent a welcome signal to the global investor community. The combination of a reform-oriented government, a large population with rising consumer demand and the accelerated rate of technological adoption mean that India is in a unique position to capitalize on the opportunities in a post-pandemic world.

India recently announced a strong growth-oriented, yet fiscally responsible, budget that is very business-friendly. The key initiatives in the budget include privatization of several government owned companies, increased spending on infrastructure, increased FDI limit in insurance to 74% and creation of a bad bank to ease the bad loan crisis. As well, the government did not raise personal or corporate taxes. These measures, combined with a healthy level of foreign exchange reserves and stable inflation levels, make this one of the strongest pro-growth budgets in recent memory.

As we end our first six years of operations, we would like to acknowledge the strong support and leadership provided by Amy Sherk, Chief Financial Officer, Keir Hunt, General Counsel and Corporate Secretary, Gopalakrishnan Soundarajan (Gopal), Hamblin Watsa Managing Director for Indian Investments, John Varnell, Vice President of Corporate Affairs, and Jennifer Allen, Vice President. We would also like to thank our independent directors – Tony Griffiths, Chris Hodgson, Alan Horn, Deepak Parekh and Lauren Templeton – for their wise advice, support and encouragement.

We are looking forward to connecting with you at our online annual meeting at 2:00 p.m. (Eastern time) on April 15, 2021.

March 5, 2021

V. P. Watsa

Chandran Ratnaswami
Chief Executive Officer

V. Prem Watsa
Chairman