To Our Shareholders,

Fairfax India's book value per share (BVPS), our key performance measure, grew again this year at a healthy rate. After declining by 3.1% in 2020 to $16.37*, it bounced back, growing by 20.0% in 2021 to $19.65, a performance slightly better than the performance of Indian equity indices, and even better than it looks as it was adversely affected by the 1.7% decline in the Indian rupee against the U.S dollar during 2021. The value of the publicly listed companies in the portfolio was up 53.8%** compared to the US$ S&P BSE Sensex 30 index which was up 19.6%. Common shareholders' equity increased by 13.4% after declining by 5.1% the previous year.

Here is a snapshot of Fairfax India's performance since it began *($ millions except per share amounts)*:

	2021	2020	2019	2018	2017	2016	2015	CAGR(1)
Book value per share	$ 19.65	$ 16.37	$ 16.89	$ 13.86	$ 14.46	$ 10.25	$ 9.50	10.3%
Income	693.5	(13.0)	712.7	166.5	609.7	128.6	65.3	
Net earnings (loss)	494.5	(41.5)	516.3	96.4	452.5	107.8	40.9	
Return on equity	18.9%	(1.7)%	22.0%	4.5%	28.2%	10.3%	4.0%	12.3%(2)
Total assets	3,584.3	3,073.0	3,244.9	2,707.1	2,672.2	1,303.5	1,025.5	19.8%
Investments	3,546.3	3,027.6	3,171.3	2,661.3	2,635.7	1,095.6	978.6	20.5%
Common shareholders' equity	2,774.8	2,446.9	2,577.9	2,117.9	2,132.5	1,075.4	1,013.3	15.7%
Shares outstanding *(millions)*	141.2	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 10.9% annually.*

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

Asian emerging markets' performance was mixed in 2021, as in 2020. You will see from the table below (based on the leading US$ equity index in each country named) that India's 19.6% equity index growth was outperformed only by Sri Lanka's and Vietnam's equity indices:

Sri Lanka	65.1%
Vietnam	37.3%
India	19.6%
Singapore	7.7%
Thailand	2.8%
China	(2.6)%
Malaysia	(6.8)%
Hong Kong	(14.6)%

And here is a comparison of Fairfax India's change in BVPS in 2021 with the change in major Indian US$ equity indices:

Fairfax India BVPS	20.0%
S&P BSE Sensex 30	19.6%
S&P BSE 500	27.6%
BSE midcap	36.5%
Nifty 50	21.7%

We are pleased that our BVPS has kept up with the torrid pace at which the Indian markets have grown in 2021.

* *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 $ millions except as otherwise indicated. Certain of the performance measures in this letter do not have a prescribed meaning under IFRS and may not be comparable to similar measures presented by other companies. See the Glossary of Non-GAAP and Other Financial Measures in the MD&A and the Appendix to the Letter to Shareholders for details.*

** *Adjusted for the impact of purchases and sales during the year.*

Last year we mentioned that at the levels then, the Indian markets were trading at extremely elevated valuations, but as you can see from the table below, valuations are even more stretched today:

	Year-end 2020	Year-end 2021	10-year average
Price to earnings ratio	26.0	30.2	22.1
Price to book value ratio	2.8	3.5	2.9
Dividend yield	1.3%	0.9%	1.4%
Market cap to GDP ratio	97%	114%	77%

It is interesting to note that the U.S. S&P 500 index grew 26.9% in 2021 with valuations that are similarly rich (Price to earnings ratio of 24.2; Price to book value ratio of 4.8; Dividend yield of 1.3% and Market cap to GDP ratio of 198%). The valuations of our listed portfolio companies, with a price to earnings ratio of 11.7, price to book value ratio of 2.2 and dividend yield of 1.9%, are certainly not as rich.

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

Fairfax India BVPS(1)	+10.3%
US$ S&P BSE Sensex 30	+7.6%

(1) Fairfax India's 7-year annualized growth in BVPS is calculated based on its January 30, 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 approximately half of its investments which are publicly traded (the rest are based on more restrained internal valuations), whereas the Sensex is of course based entirely on publicly traded market values.

Fairfax India's net earnings in 2021 was $494.5 million versus a loss of $41.5 million in 2020, largely as the result of net unrealized gains on investments of $438.9 million compared to net unrealized losses of $26.6 million in 2020. Earnings also reflect dividend and interest income of $33.0 million and net foreign exchange losses of $5.6 million. Fully diluted earnings per share was $3.22 in 2021 versus a loss per share of $0.27 in 2020.

The significant contributors to the changes in BVPS recorded in 2021 were:

IIFL Finance	$190.0
Fairchem Organics	124.6
Sanmar	88.8
IIFL Wealth	66.6
IIFL Securities	48.8
NSE	40.1

Since we began, Fairfax India has completed investments in eleven companies and exited one (13 currently, as one has split into four listed entities), all sourced and reviewed by Fairbridge, Fairfax India's parent Fairfax Financial Holdings' (Fairfax Financial) 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	Fair Value at December 31, 2021	Compounded Annualized Return(1)
NCML	August 2015	89.5%	$ 188.3	$ 84.2	(13.2)%
IIFL Finance*	December 2015	22.3%	–	318.1	*
IIFL Wealth*	December 2015	13.6%	191.5	230.1	*
IIFL Securities*	December 2015	27.9%	91.3	103.2	*
5paisa*	December 2015	26.1%	29.7	41.2	*
Fairchem Organics(2)	February 2016	52.8%	29.7	155.0	45.9%
Sanmar Chemicals Group	April 2016	42.9%	199.0	421.2	17.7%
National Stock Exchange of India	July 2016	1.0%	26.8	111.2	33.4%
Saurashtra Freight	February 2017	51.0%	30.0	47.2	10.3%
Bangalore International Airport	March 2017	54.0%	653.0	1,372.2	17.7%
CSB Bank	October 2018	49.7%	169.5	227.6	11.0%
Seven Islands Shipping	March 2019	48.5%	83.8	105.9	9.1%
Maxop Engineering	November 2021	51.0%	29.5	29.8	0.0%
Other Indian Investments			72.4	100.9	24.9%
Total			$1,794.5	$3,347.8	17.0%
* *Aggregate: IIFL Finance, IIFL Wealth, IIFL Securities and 5paisa*			*$ 312.5*	*$ 692.6*	*19.3%*

(1) Calculated using the internal rate of return

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

While the BVPS of Fairfax India is $19.65, we believe that the underlying intrinsic value is much higher. We have taken the opportunity over the last four years to buy back 14.4 million shares for $191.0 million or an average price of $13.26 per share, including the 7.0 million shares we bought in 2021 through a substantial issuer bid for $105.0 million or an average price of $14.90 per share. We have continued to buy back shares in 2022 and to date, we have bought back 1.9 million shares for $24.0 million or an average price of $12.65.

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 Bangalore International Airport (BIAL) will eventually be transferred to Anchorage.

In September 2021, Fairfax India, as previously agreed, transferred 43.6% out of the 54% that it owns in BIAL to Anchorage and OMERS (the pension plan for municipal employees in the province of Ontario, Canada) invested $129.2 million to acquire from Fairfax India an 11.5% interest on a fully diluted basis in Anchorage. This resulted in OMERS indirectly owning approximately 5% of BIAL. This transaction values 100% of BIAL at $2.6 billion.

Fairfax India intends to complete an IPO of Anchorage that values 100% of the underlying shares of BIAL at a valuation of at least $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 $1.2 billion, OMERS will receive incremental shares of Anchorage to compensate for the difference between the actual IPO valuation and $1.2 billion.

BIAL is a highly profitable airport in Bangalore, India and is a 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 privatisations of airport assets in India. A public listing of Anchorage will help in bringing to light 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 publicly listed investments in Fairfax India will increase from the current 42.5% to 83.5% of the overall portfolio.

Last year we had cited our portfolio company IIFL Securities as an example of companies in our portfolio that were undervalued as demonstrated in the table below:

IIFL Securities:

	Unit	
Total market capitalization[(1)]	$mn	206
<u>4 years to March 2020</u>[(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
<u>Estimated March 2021</u>		
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.

We are pleased to report that IIFL Securities is now trading at a price 89% higher than last year – more in line with its intrinsic value. We believe there are several other investments in the Fairfax India portfolio with the potential for a significant upside like IIFL Securities.

In addition to the Anchorage transaction described above, Fairfax India achieved two major milestones in 2021.

First, it completed the sale of its investment in Privi Speciality Chemicals to its founder, Mahesh Babani, for proceeds of $164.8 million, realizing a gain of $132.3 million and an internal rate of return of 27.1% over the life of the investment. Mahesh has built a wonderful business and we wish him the very best.

Second, Fairfax India obtained an investment grade rating of BBB (low) from DBRS and completed its inaugural bond issue, selling $500 million of seven-year unsecured senior notes with a coupon of 5%. The net proceeds of the issue were used in repaying its $550 million term loan. Fairfax India further enhanced its financial flexibility by obtaining a $175 million unsecured revolving credit facility with a three-year term with a syndicate of lenders.

Financial Position

At December 31, 2021, the financial position of Fairfax India was as follows:

Undeployed cash and investments[(1)]	$ 298.5
Unsecured senior notes maturing in February 2028	500.0
Common shareholders' equity	2,774.8
Total debt to equity	18.0%

(1) Includes passive investments in publicly traded Indian companies

Performance Fee

You will recall that under the investment advisory agreement with Fairfax Financial, Fairfax India's sponsor and controlling shareholder, and Fairfax Financial's investment counsel subsidiary Hamblin Watsa, Fairfax Financial is entitled to a performance fee of 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 is calculated at the end of each three-year period since inception, and the amount payable as at the end of any three-year period is the total amount calculated minus the aggregate of the performance fees paid in respect of all prior three-year periods. The performance fee has been calculated on this basis for the first two three-year periods.

The original language of the investment advisory agreement, which had inadvertently failed to fully recognize performance fees already paid and would have provided for the accrual of a higher performance fee, has now been amended to make this correction.

At the end of 2021, the first year of the current third three-year period, a performance fee of $84.7 million has been accrued but will only be finalized and paid as at the end of the three-year period ending 2023, based on performance at that time.

Indian Investments[1]

Bangalore International Airport (BIAL)

BIAL is Fairfax India's largest investment and a very important one that accounts for 42.3% of the market value of its investments.

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. Bangalore, considered India's Silicon Valley, is the third largest and fastest growing city in India.

After a difficult year in 2020 caused by the COVID-19 pandemic, we were optimistic when 2021 started that the worst of the impact of the pandemic was behind BIAL and that there was a good chance that 2021 would augur well for domestic and international air travel and normalcy would return to the industry by the end of the year. We were in for a rude surprise.

As hoped, by February 2021 domestic passenger traffic recovered to about 61% of pre-pandemic levels and appeared to be headed to normal levels. That is when the virulent second wave of the pandemic struck India and by April 2021 daily cases had skyrocketed to about 400,000 cases (previous highs were about 100,000). Again, governments implemented stringent lockdowns and by May 2021 passenger levels collapsed back to about 14% of pre-pandemic levels. Fortunately, by November 2021 daily cases were down to below 10,000 and by the middle of December 2021 traffic had recovered to about 80% of pre-pandemic levels. BIAL is now bracing for the impact of the Omicron variant which has already dropped domestic traffic back to 43% of pre-pandemic levels in January 2022.

In addition to the unpredictable traffic situation, this was the year BIAL dealt with the periodic tariff determination process that occurs every five years.

- **Aero revenue and tariff order for third control period**

Aero revenue 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 reasonable return on equity deployed in the Regulatory Asset Base (RAB). AERA treats 30% of non-aero revenue (described below) 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 intended completion of capital projects during the third control period (from April 2021 to March 2026), UDFs were 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 was expected to return to normal levels at some point during the fiscal year ending March 2023.

However, AERA, taking into consideration the pandemic-related hardships faced by the airline industry, was highly motivated to keep UDFs low. In the final tariff order for the third control period, BIAL's well justified revenue request for $1.2 billion was arbitrarily cut back by around $125 million and this sum was moved to the fourth control period. To our knowledge there is no precedent for this kind of action. The tariff order for the third control period went into effect in October 2021. Since the lost revenue will be recouped, with interest, in the fourth control period, there is no impact on the valuation of BIAL. However, the short term impact of the reduced cash flow will cause BIAL to rebalance its capital expenditure and capacity expansion plans (described below) and to refinance some of its debt. As a result, about $130 million of existing bank debt has already been refinanced with longer term non-convertible debentures (NCDs) and BIAL is in the process of negotiating existing loan covenants with banks

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

to ensure compliance. Some non-essential construction projects have been postponed to future control periods. BIAL is in the process of challenging this tariff order with the appellate authority.

- **Growth plans**

You may recall that 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 (now completed), building a second runway, and building phase 1 of a second terminal (T2) 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 T2, 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 T2 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 $0.7 billion, taking the capacity of the airport beyond 90 million passengers by 2033.The total investment of about $1.9 billion required to complete the above expansions is expected to be funded through internally generated funds and debt.

- **Non-aero revenue**

Non-aero revenue is all revenue other than aero revenue, such as revenue from food and beverage sales and duty-free shops. Non-aero revenue had grown at a CAGR of 17% from 2009 to 2020 and is 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.

To accelerate non-aero revenue growth, BIAL has undertaken many innovative projects that engage passengers and enhance their experience at the airport. 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. Remarkably, through a combination of the rollout of new concepts, digital initiatives and loyalty programs, BIAL achieved per passenger non-aero sales levels that are higher than pre-pandemic levels. The process to improve lounge experience and increase lounge capacity in the existing terminal and the new terminal are well underway. BIAL is also seeing an overwhelming interest from global bidders for non-aero space in T2. These achievements lay the foundation for BIAL's plans to grow non-aero revenue by five times over the next decade.

- **Cargo business**

The cargo operation of BIAL has been a beacon of strength through the entire pandemic because it was not affected by the pandemic-related shutdowns. In 2021 BIAL recorded its all-time high cargo volume since the opening of the airport, including India's highest (31% of total) export shipments of perishable goods. Many initiatives are underway in the cargo business, including increasing capacity to 980,000 metric tons, building India's largest express cargo facility, building a dedicated truck management facility, implementing a system for paperless cargo processing and putting in place new concession agreements with operators at significantly better terms for BIAL.

- **Real estate monetization**

Plans for real estate monetization, which is another major source of future revenue for BIAL, have been delayed by about 18 months as a result of the pandemic. 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 SPV (special purpose vehicle) 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 it moves 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 (RDE) village; hospitality; and convention and exhibition centres. Despite potential partners' and investors' inability to visit the site because of the pandemic, some progress has been made in project plans:

- A letter of intent for a business hotel of 775 rooms under the brands of Vivanta and Ginger (Taj Group) was agreed with developers from Dubai.
- An agreement was signed with a premier airline services company to build a large central kitchen.
- A 3D technology printing facility is under construction and expected to be completed this year.
- Architects and planners have been appointed for the design of the RDE village.

Despite the extraordinary circumstances, under the exceptional leadership of Managing Director and CEO Hari Marar and his executive team, BIAL has had a commendable year.

Given the impact of the pandemic on the travel industry across the world, BIAL's financial performance in 2021 did not come as a surprise. Passenger traffic grew 18.9% over the previous year to 16.1 million but was still only about 50% of pre-pandemic levels. Based on IFRS, BIAL's revenue increased by 26% over the previous year to $105.4 million but was still only about 50% of pre-pandemic levels. EBITDA increased by 72% over the previous year to $40.8 million but was only 33% of pre-pandemic levels. Loss after tax reduced to $61.5 million from $66.8 million but was down from a profit of $54 million in 2019. This is only temporary!

Despite the unprecedented events that impacted operations and financial performance in 2020 and 2021, we estimate that BIAL will generate a total ROE of 13.7% for the second control period and an ROE of 16.3% for the combined first and second control periods.

The valuation (including foreign currency translation) of Fairfax India's interest in BIAL remained at $1.4 billion in 2021, the same as in 2020, 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 and real estate monetization plans described above.

Despite being tumultuous, 2021 featured the following significant achievements by BIAL:

- While implementation has been delayed, three important new direct international routes were established to San Francisco, Seattle and Tokyo.
- It again won the award for the world's best airport experience in arrivals.
- Despite the disruptions in the availability of labour and materials caused by the pandemic, all projects, including completion of the second runway; refurbishment of the existing runway; building a new terminal; and constructing utilities, transportation and road infrastructure for the planned growth have made good progress and are expected to be completed by the target dates.
- BIAL's digital transformation is continuing to make excellent progress. A new global service provider has been engaged on a ten-year turnkey project implementation contract.
- BIAL maintained its credit ratings of AA+ with India Rating and AA with CRISIL Rating.
- BIAL has been at the forefront in designing and implementing its sustainability goals and touching the lives of its community. Some recent successes in achieving BIAL's sustainability goals are the following:
  - BIAL is a net contributor to the ground water by generating more water from its rainwater harvesting and waste-water treatment than it uses.
  - Renewable energy sources were utilized for 100% of the airport's energy needs.
  - BIAL actively promotes the use of recyclable material and will achieve zero landfills by the end of 2022.

Anchorage Infrastructure Investments Holdings (Anchorage)

In September 2021, Fairfax India closed the transaction whereby it transferred 43.6% out of the 54% that it owned in BIAL to Anchorage and sold 11.5%, on a fully diluted basis, of Anchorage to OMERS for cash consideration of $129.2 million. The transaction valued 100% of BIAL at $2.6 billion and resulted in OMERS indirectly owning approximately 5% of BIAL.

The closing of this transaction took much longer than we expected, and in the process we learned that government approvals in India can take much longer than we anticipated, 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 in 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)

Overall, 2021 was an outstanding year for Sanmar.

Based on IFRS, for the year ended December 31, 2021, Sanmar's revenue grew by 88% over the previous year to $1.3 billion, EBITDA grew by 123% to $276 million and profit before tax (PBT) turned around from a loss of $150.7 million to a profit of $92.1 million (current year EBITDA and PBT exclude an accounting debt restructuring gain of $67.6 million).

These extraordinary results were, among other factors, driven by:

- high capacity utilization and excellent operating performance across all divisions
- strong PVC demand and record prices for PVC in India
- overall global tightness in PVC and caustic soda supplies due to the lack of new capacity coming on stream, and
- reduced interest costs as a result of balance sheet restructuring.

In 2016, Fairfax India lent Sanmar the rupee equivalent of $300.0 million by way of 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, the deputy chairman, have grown the group into a large private conglomerate with sales well over $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 (CSL) and Chemplast Cuddalore Vinyls (CCVL) – and one in Egypt – TCI Sanmar (TCI).

- CSL is the largest manufacturer of paste polyvinyl chloride (PVC) in India. It also manufactures caustic soda, chloromethanes, hydrogen peroxide, EDC (ethylene dichloride) and VCM (vinyl chloride monomer) 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, calcium chloride and caustic soda.

The group is renowned for its high integrity and the highest levels of corporate governance and environmental and social responsibility. Long before ESG investing became the clarion call for investors, it was ingrained in Sanmar's DNA.

In 2020, the biggest impact of the pandemic on all the Sanmar companies was the squeeze on their liquidity position. To rectify this and to reduce the overall debt of the company, Sanmar committed to actively pursue opportunities to raise additional equity capital to repay and restructure debt. It also decided to postpone investments in projects that exploit excellent growth and cost saving opportunities until after its balance sheet was deleveraged. We are pleased that, in addition to its stellar operating performance, Sanmar has also made significant progress in deleveraging its balance sheet.

- **CSL**

In 2021, CCVL was made a 100% subsidiary of CSL, thereby consolidating all of Sanmar's Indian chemical businesses under CSL. Sanmar then listed CSL on the Indian stock exchanges through an IPO raising $519 million, comprised of a primary issuance of equity shares of $175 million and a secondary sale of equity shares by the holding company, in which Fairfax India has its 43% ownership, of $344 million. Following the IPO, which valued 100% of CSL at $1.15 billion, the holding company's ownership of CSL is 55.0%, so Fairfax India's indirect ownership is 23.6%. The net proceeds were used largely to repay debt of about $165 million in CSL and about $300 million in the holding company. As a result, debt at CSL and the holding company has been fully paid.

The former CSL business which comprised the higher margin paste PVC and specialty chemicals businesses had an excellent year in 2021. Revenue grew by 47% over the previous year to $239.6 million, EBITDA grew by 85% to

$82.6 million and PBT turned around from a loss of $2.2 million to a profit of $44.5 million. This impressive performance was the result of strong demand for paste PVC and record prices and margins as a result of the global tightness in the supply of this product, especially from China as a result of energy shortages there.

CSL continues to anticipate a very bullish future for paste PVC because there were permanent plant closures in South Korea, China, Germany, the U.S. and the United Kingdom due to environmental and other concerns and there is no new large 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 in India of 7% over the last 10 years. Given that CSL is debt free, it is again considering a capital project to increase its paste PVC capacity from 66 ktpa to 101 ktpa. Industry experts also anticipate that over the medium term, demand for caustic soda will exceed supply, strengthening the price for this commodity.

- **CCVL**

CCVL (now a 100% subsidiary of CSL), which manufactures the more commoditized, high volume and lower margin suspension PVC, also had outstanding results in 2021. Revenue grew by 81% to $493.9 million over the previous year, EBITDA grew by 122% to $86.6 million and PBT grew 6-fold to $54.9 million. Again, as in the case of paste PVC, strong demand in India and global supply constraints that drove price levels up sharply compared to earlier in the year resulted in the strong performance. Lower debt levels and reduced interest rates on the remaining debt resulted in lower interest costs, resulting in higher PBT.

CCVL's plant has been running at almost 100% 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. 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 about 8% over the next several years, demand is expected to grow significantly, resulting in a large deficit, which will need to be imported. Because CCVL has the logistic advantage of supplying the South Indian market and the further advantages of an existing plant, land and infrastructure; long term strategic relationships with feedstock suppliers; strong customer relationships; and significantly lowered debt levels, it will resume evaluating its plan to expand its capacity from 300 to 600 ktpa. CCVL already has environmental approvals to proceed with this expansion.

- **TCI**

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, added a 130 ktpa calcium chloride plant and a 75 ktpa caustic soda by-product line. In 2021 it was able to fully operationalize these assets and reached about 90% capacity utilization. With the 100% capacity utilization and certain expected process refinements expected in 2022, Sanmar will be able to take advantage of its significant investment in Egypt.

In 2021 TCI completed the restructuring of its balance sheet by dealing with its term debt of $785.4 million as follows:

- converting $117.8 million of debt to 13.9% of its equity: this transaction implies a post-money valuation of $848 million for 100% of TCI
- restructuring $117.8 million of debt as NCDs with an interest rate of 0.01% per annum with no principal repayments until 2036
- extending the maturity of the remaining $549.8 million of debt by two years with back-ended principal repayments.

TCI also had excellent operating results in 2021. Revenue grew by 120% over the previous year to $565.0 million, EBITDA grew from $3.5 million to $110.4 million, and PBT turned around from a loss of $106.6 million to a profit of $19.3 million (current year EBITDA and PBT exclude an accounting debt restructuring gain of $67.6 million). This performance was driven by the favourable global demand supply dynamics for PVC and caustic soda described above, improved capacity utilization, reduced interest costs due to the balance sheet restructuring described above, and changes in trade regulations such as the introduction of anti-dumping and import duties on PVC, the removal of import duties on a key raw material and the introduction of export incentives. While impressive progress has been made on many fronts, TCI continues to look for further improvements to its balance sheet through an external capital raise and longer-term solutions to its problems of high-cost energy and raw materials.

Altogether, the future is very promising for Sanmar.

IIFL Finance (IIFL FIN)

Based on total revenue, IIFL FIN, which is non-deposit taking, is one of the larger non-bank finance companies (NBFC) in India.

2021 was the year IIFL FIN emerged from the malaise that afflicted most NBFCs in India from 2018 when their access to long term debt funding was severely constrained as confidence in NBFCs eroded as a result of the continuation of the credit market turmoil caused by the high-profile default that year by a quasi-government lender, IL & FS (Infrastructure Leasing and Financial Services). Since then, most NBFCs faced restricted access to longer term funding which they needed as they had significantly reduced their dependence on short term commercial paper financing. IIFL FIN capitalized on the changing sentiment and built up all-time high cash and undrawn bank lines totaling $1.2 billion, sufficient both to meet short term liabilities and to fund the growth momentum described below. In reaching this position, IIFL FIN raised $292 million in 2021 through debentures sold to retail investors.

Under the able leadership of CEO Nirmal Jain, who is also the founder and a significant shareholder of all the IIFL Holdings group companies, IIFL FIN invested aggressively to prepare for the lending growth it intends to drive in the immediate future. It added over 650 new branches to its existing 2,400 and over 7,800 new employees to its existing 18,000 and is moving forward aggressively to consolidate its position as one of the major NBFCs in India, serving about 7 million customers. IIFL FIN is also investing heavily in brand building and in technology to support its growth in physical infrastructure. It has implemented industry leading fintech innovations, like "WhatsApp" loans, which are seeing high customer acceptance.

With the resolution of many of the challenges it faced due to the pandemic, including obtaining better clarity on the non-performing status of loans that were affected by the government, the cessation of Reserve Bank of India (RBI) and court-mandated moratoriums and the resumption of in-person collection activity, IIFL FIN had excellent results in 2021. Its assets under management (AUM), which have grown at a CAGR of 17% over the last 5 years, grew by 11% over the previous year to $6.3 billion in 2021. In 2021, IIFL FIN's revenue increased by 22% to $519.3 million and profit after tax increased by 95% to $150.9 million, generating an ROE of 18%. Asset quality continues to be amongst the best in the peer group, with gross non-performing assets (NPA) and net NPAs at 2.8% and 1.5% respectively, compared to 1.6% and 0.8% respectively in the previous year due to the impact of the recent RBI circular on NPA classification norms. The provision coverage ratio was 133% versus 170% the previous year.

Loan to value is very conservative, at 72% for home loans, 73% for gold loans, 47% for business loans and 42% for construction and real estate loans. With a well-diversified asset portfolio of which 92% is retail in nature, a total capital adequacy ratio (CAR) of 25.4% and net interest margins at 7.0%, then even though the cost to income ratio increased from 33% to 39% (due to the growth in the number of branches and employees), IIFL FIN is well positioned to take advantage of the post-pandemic economic recovery expected from 2022.

The stock market has recognized the strong performance of IIFL FIN and its growth prospects, with the stock price more than doubling from its deeply discounted levels at the same time last year. Despite the move in the stock price, IIFL FIN, at a valuation of only 9.2 times price to estimated March 2022 earnings and price to estimated March 2022 BVPS of 1.6 times, is still trading at a discount to its peers.

We believe there is potential for further significant upside in the value of this investment.

IIFL Wealth Management (IIFL Wealth)

Founded in 2008 by Karan Bhagat and Yatin Shah, with the leadership of 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. In September 2019 with the demerger of IIFL Holdings, the original company that Fairfax India had invested in, into four 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.

IIFL Wealth's strong client franchise in the Indian ultra-high net-worth individual (UHNI) segment, its innovative and diversified product offering and its 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 consolidated AUM of $35.4 billion, 27 offices in India and abroad, over 850 employees and 59 teams consisting of over 240 relationship managers serving over 10,700 families.

IIFL Wealth has two businesses – wealth management (the larger one) and asset management. The wealth management business, because of a major change in regulation (described below), had to transform from a transactional upfront commission-driven business model to a client fee and distribution services based recurring revenue model.

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. This change has resulted in commissions being paid over the life of the investment, reducing upfront revenue but creating a stream of recurring revenue in the future.

We are pleased to report that IIFL Wealth has made this transformation seamlessly and has resumed its fast growth, achieving excellent financial results in 2021. Consolidated AUM, including custody assets, grew by 41% to $44.2 billion, total revenue increased by 46% to $185.8 million, profit after tax increased by 96% to $69.6 million and ROE increased from 9% to 18%.

IIFL Wealth made this transition by growing AUM generating annual recurring revenues (ARR AUM) by 54% over the previous year to $18.7 billion. ARR AUM now accounts for 53% of AUM, up from 41% in 2019. Revenue from ARR AUM grew by 45% to $111.0 million. Revenue from distribution transactions and brokerage also grew over the previous year, but at a lower rate of 23%, to $56.9 million. The wealth management business has embedded in it an NBFC which makes loans to its clients secured by their assets held by IIFL Wealth.

The smaller asset management business is India's leading manager of alternate investment funds (AIF). AUM for this business grew by 73% in 2021 to $7.5 billion while revenue grew by 75% to $42.7 million. This business was strengthened by the addition, under the supervision of chief investment officer Anup Maheshwari, of strong fund managers specializing in areas such as private equity, credit, real estate and long/short portfolios.

These outstanding results are due to IIFL Wealth's relentlessly focusing on its core drivers of growing business that provides recurring revenue, enhancing client experience by providing state-of-the-art digital tools and engaging with clients on a regular basis through seminars and special events. Despite facing considerable competition from private equity fund-backed new entrants and established banks and brokers trying to enter the UHNI niche of wealth management, IIFL Wealth has maintained its lead by capitalizing on the positive investment sentiment of domestic clients. It believes that it can maintain its growth levels by taking advantage of new regulations such as the concept of "accredited investors", introduced for the first time in India, a segment into which it has superior access.

Over the last five years, IIFL Wealth has grown its shareholders' equity at a CAGR of about 15%, so that it is now relatively overcapitalized for its level of earnings. To address this, in addition to its policy of paying out about 70% of its earnings in dividends, IIFL Wealth has paid regular and special dividends totaling 135 rupees per share in 2020 and 2021, resulting in an ROE of 18%, and it will continue to look for avenues to maintain its ROE 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.

CSB Bank (CSB)[1]

Under the leadership of C.V.R. Rajendran, who has been the CEO of CSB for the last five years, CSB continues to make excellent progress on its transformative journey that began with the recapitalization of the bank that was enabled by our investment. 2021 was the best year ever for CSB.

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, which 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 invested into CSB as primary capital, thereby increasing its CAR to 23% at the end of 2019. The improved CAR enabled the bank to make adequate provisions for loan losses, invest in more branch openings, invest in people and technology and grow its loan book with well underwritten loans.

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 and consisted largely of existing shareholders (but not Fairfax India) selling to new ones.

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 559 branches (up from 454 last year) and 410 ATMs (up from 319 last year) across India. With its branches primarily located in south

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

India, it focuses on retail, gold and small and medium enterprise (SME) loans, which together comprise about 75% of total advances. CSB also owns 35 residential and commercial properties and land banks, some purchased several years ago, and others acquired by enforcement of security.

Despite the pandemic-driven volatility in business sentiment and activity and high levels of system liquidity which constrained opportunities for lending, CSB made excellent progress in its key performance measures in 2021, with loan advances growth of 11% and deposits growth of 7% (including lower cost current and savings accounts (CASA) growth of 22%). Net interest income grew by 37% and the credit to deposit ratio improved from 74% to 77%. In addition, the yield on loans improved to 11.2% from 10.9%, CASA improved to 34.6% from 30.4% of total deposits, net interest margin (NIM) improved to an industry leading 5.3% from 4.4% and the cost of deposits reduced to 4.4% from 5.4%. It is likely that NIM will moderate to around the 4% level.

In spite of these improvements, gross NPAs increased to 2.6% from 1.8%, net NPAs increased to 1.4% from 0.7% and the provision coverage ratio decreased from 91.0% in December 2020 to 83.0% in December 2021. Based on IFRS, CSB's revenue for 2021 increased by 22% to $195.1 million from $158.9 million in 2020, net income increased by 63% to $65.8 million from $40.2 million in 2020 and its CAR was 20.6%.

These exceptional results are the result of Mr. Rajendran's relentless pursuit of his objective of transforming CSB by focusing on profitability, productivity, efficiency and asset quality. He has accomplished this by implementing changes that include:

- performance and productivity-oriented human resource policies
- rounding out his management team by filling all the key senior management positions
- appointing Pralay Mondal, a very senior banker, as the President of the bank
- reorganizing 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 loans and agricultural loans);
    - SME banking; and
    - wholesale banking.

CSB 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.

The success that CSB has achieved is demonstrated in the table below. On virtually every metric, CSB is right at the top when compared to banks of comparable size (peer group) and all banks.

Position at the year ended 30 September 2021 *(all numbers are %s)*[(1)]

	CSB	**Peer Group**	**All Banks**
Growth in Net Interest Income	47.5	5.1	12.3
Growth in Advances	12.2	3.4	7.2
Growth in Deposits	9.1	8.6	9.2
Credit Deposit Ratio	73.8	73.7	70.3
Return on Equity	11.7	5.5	8.1
Return on Total Assets	1.2	0.5	0.7
Net Interest Margin	4.6	3.1	2.8
Efficiency (Cost to Income) Ratio	53.3	54.6	55.4
Gross Non-Performing Advances	4.2	5.7	7.4

(1) Source: Capital IQ

For health reasons, Mr. Rajendran is retiring in March 2022. We wish him and his family well in his retirement. We owe him a huge debt of gratitude. Pralay Mondal is now the Deputy Managing Director of CSB and will take charge as the interim CEO. We are very excited about the long term prospects of CSB.

Fairchem Organics (Fairchem)

Fairchem, led by its founder 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 designed 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 24% per year, and the average annual ROE was around 24%.

In 2021 Fairchem had its best year ever! Based on IFRS, for the year ended December 31, 2021, its revenue grew by 92% to $84.6 million, net earnings grew by 108% to $9.9 million and shareholders' equity grew by 45% to $29.7 million, generating an ROE of 33%.

These strong results were due to the concerted effort Fairchem has made over the last three years to expand its production capacity in a very cost-effective manner, funded entirely by cash generated from the business. It has taken its raw material throughput capacity from 72,000 metric tons per annum to 90,000 and expects to take it up to 120,000 by March 2022. Fairchem has also built a plant to manufacture two new products that will be launched later in 2022 and is also working on a forward integration project to achieve value addition and to manufacture bio-fuels.

After Fairchem's demerger from Privi Speciality Chemicals, Fairfax India owned a 67% stake in Fairchem for an investment since inception of $37.5 million. In November 2021, Fairfax India sold 14% of Fairchem for $45.6 million, recouping more than its entire investment while still owning 53% of Fairchem, valued at $155.0 million on December 31, 2021.

We believe that Fairchem is poised to have another record-breaking year 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 93% 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. In 2021, NSE's revenue grew by 61% to $1.1 billion, net income grew by 11% to $541.1 million and shareholders' equity grew by 24% to $1.9 billion, generating an ROE of 29%. The planned initial public offering of NSE has been delayed and is now expected sometime in 2022 or 2023. Fairfax India's investment in NSE is currently valued at $111.2 million.

Seven Islands Shipping (SISL)

Founded in 2002 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 its total ownership interest to 48.5%. In December 2021, this investment is valued at $105.9 million.

At the time of Fairfax India's initial transaction, SISL owned 14 vessels with a total deadweight capacity of 0.9 million metric tons. Today SISL owns 22 vessels with a capacity of about 1.3 million metric tons. All SISL's vessels are registered in India and operate as Indian-owned and flagged vessels.

Historically, SISL bought vessels that were 20-21 years old and operated them till they reached about 29-30 years of age. 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 charter rates as those of the younger ships. The operating and maintenance costs for its fleet are not significantly different from those of the younger ships. In keeping with its stated objective of reducing the average age of its fleet from about 19 to 15 years over the next few years, SISL sold two older ships and acquired four younger ships. Over the next five years, SISL is aiming to grow its fleet from the current 22 to about 28 ships.

Until recently, SISL had only owned and operated tankers that transported liquid cargo. In 2021 it made a significant change in its strategy and entered the gas carrier container ship segment of the market. Based on current ship prices and charter rates, it is seeing potential for better returns from gas carrier containers. SISL purchased one Very Large Gas Carrier and one Medium Gas Carrier in 2021.

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 (because of its lower cost base) 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 benefitted from the general rate arbitrage in domestic versus international deployment.

SISL has a small and efficient operations team consisting of about 100 core employees at the head office who manage the entire business. It has significantly strengthened its organization with the addition of several senior resources from the industry. It has also completely revamped its information technology system in order to enable it to implement robust operational, safety, security and financial procedures.

You may recall that in 2020 SISL had its best results ever, with revenues and net income growing over the prior year by 57% and 87% respectively and SISL generating an ROE of 17%. This extraordinary performance was made possible by very high freight rates and favourable foreign currency movements. In 2021, freight rates returned to normal levels, and with it SISL's performance. In 2021, SISL's revenue decreased by 24% to $93.3 million, net income decreased by 63% to $8.0 million and shareholders' equity grew by 6% to $131.7 million, generating an ROE of 6%. Despite this volatility SISL has mostly demonstrated stable and consistent revenue and EBITDA CAGR of over 25% in the last 10 years. Since the time we acquired our interest in SISL, it has generated free cash flow of $78 million (our share $38 million).

SISL's plans to get listed on the Indian stock exchanges in 2021 through an IPO were deferred because of muted investor interest then in investing in the shipping sector in India.

IIFL Securities (IIFL SEC)

IIFL SEC, one of the major capital market players in Indian financial services, offers advisory and broking services (both retail and institutional), financial products distribution, institutional research and investment banking services.

It had an outstanding year in 2021. Its revenue increased by 47% to $163.8 million and profit before tax increased by 59% to $52.5 million, generating an ROE of 25%. These results were driven by the strong performance of the retail broking and investment banking divisions that benefitted from the buoyant equity and IPO markets in India in 2021.

The growth in the financial markets has attracted a great deal of competition too. Several established full-service brokers have recently launched their own discount brokerages and the growth in fintech innovations has resulted in a plethora of new products, like algo trading, which are based on investment strategies using new technologies like artificial intelligence.

IIFL SEC has done a commendable job in protecting and growing its long established traditional "legacy" businesses comprised of retail broking and financial products distribution while also growing in the newer areas. It has achieved this by focusing on low-cost new customer acquisition strategies, investing heavily in technology and making entries into new areas like discount broking and algo trading.

IIFL SEC operates in over 2,500 locations across India, comprised of a wide branch and sub-broker network providing unparalleled research coverage on over 250 companies. It serves about 1.7 million customers and has a strong online presence, and mobile trading has significantly aided in increasing the number of customers: online trading clients in 2021 accounted for 70% 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 (68% 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 SEC's mobile trading app, IIFL Markets, targeting retail clients continues to be the highest rated amongst peers with over 8.6 million downloads. Mobile brokerage constituted about 46% of total broking revenue. In financial products distribution, it offers retail clients a wide range of products including mutual funds, insurance, IPOs and debt instruments.

- Institutional broking (13% 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 250 Indian companies accounting for about 80% of India's market capitalization. It is a market leader in block sales placements, placing over $13 billion in blocks over the past five years. It has more than 770 domestic and foreign clients and has developed trusted long term relationships with them through sustained high-quality performance.
- Investment banking (10% of revenue) – it is a highly regarded category 1 merchant banker in India and despite volatile markets, completed 41 transactions in 2021, including 23 IPOs. It continues to have a substantial pipeline of transactions which are at various stages of execution.

The stock market appears to have recognized the strong performance of IIFL SEC, as its stock price has almost doubled from its deeply discounted levels at the same time last year. Despite the move in the stock price, IIFL SEC, at a valuation of only 9.1 times price to estimated March 2022 earnings and price to estimated March 2022 BVPS of 2.2 times, is still trading at a discount to its peers.

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

National Commodities Management Services (NCML)

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 1.9 million metric tons of storage capacity (up 39% over last year) in over 700 warehouses in 16 states in India. It has a network of 21 regional offices, more than 330 touch points at agricultural produce markets and thousands of farmers and traders to facilitate procurement of commodities. Beyond its major business segments, NCML offers a commodity and weather intelligence service, financing and an online commerce portal (NCML MktYard).

In 2016 and 2017, NCML won 16 concessions from Food Corporation of India (FCI) 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. Of these, two locations have been completed and commissioned and five others are expected to be completed in 2022. FCI has publicly applauded NCML for its successful completion of silos. Silo projects have been delayed due to pandemic-related construction delays, farmer protests, land acquisition challenges and difficulty in obtaining long term project financing. NCML surrendered projects at 3 locations that were unviable.

Three years ago, NCML decided to reorient its business and redirect capital into businesses with a better risk reward profile. 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 2021, while the storage and preservation segment (the most important segment of the business) stabilized and performed well, management intentionally shrunk two formerly large business segments – supply chain management and collateral management – to align risks and rewards. Despite the drag from these two segments, NCML reported lower operating losses compared to the previous year.

As a result, 2021 was another difficult year and revenue declined by 42% to $44.2 million and net loss increased to $10.6 million (including a one-time provision of $4.7 million) from a loss of $9.4 million in 2020. NCML proactively made provisions for losses from contracts signed in previous years to strengthen its balance sheet.

NCML continues to work on business strategies to achieve good profitability.

5paisa Capital (5paisa)

5paisa, which literally means "5 cents", is one of India's fast-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, gold investments, commodity trading, research and distribution of mutual funds and other financial products, 5paisa successfully fulfils its customers' diverse needs. 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 2.4 million in 2021, more than double the level a year ago. The 5paisa mobile app has been hugely popular, in 2021 recording over 10 million downloads and sustaining a rating of 4.2 on Playstore.

While it had its best year ever in 2021 – total revenue grew by 44% to $35.1 million and it made a small profit after tax of $2.1 million – because of the intense competition from established and new discount brokers, its market share in retail cash broking fell from 5.6% to 3.1% despite adding customers at an average rate of 100,000 per month, up from about 60,000 a year ago. To combat this intense competitive pressure, 5paisa is deemphasizing profit in the short term and investing heavily in advertising to drive customer acquisition, state of the art technology and acquisition and retention of technical and business talent.

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

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, effectively working as an extension of a port. CFS provide a facility outside of congested ports for temporary storage of goods pending customs clearance and further distribution.

Launched in 2005, Saurashtra is located five kilometers from Mundra port. With 24/7 operations, Saurashtra has the capacity to handle about 190,000 TEU (twenty-foot equivalent unit shipping containers) per annum and handled about 120,000 TEU in 2021, implying capacity utilization of about 63%. It has achieved a market share of about 15% at Mundra port, the highest among all CFS there.

Under the able leadership of Raghav Agarwalla, Saurashtra produced excellent financial results in 2021. Volume of containers handled increased by 23% to about 120,000 TEU, revenue increased by 46% to $36.2 million and net profit grew by 41% to $6.6 million, generating an ROE of 17% versus 13% the previous year. Saurashtra generated $8.2 million of free cash in 2021, and at year end had a cash balance of $25.4 million and debt of $6.0 million.

Fairfreight Lines, the NVOCC (non-vessel operating common carrier) business that Saurashtra launched in 2017, made excellent progress in 2021. It added an eight-person office in Singapore to help drive this business and has plans to expand operations to Dubai. While its dry box inventory has remained relatively flat around 1,200, its tank inventory has grown more than three-fold from about 365 to over 1,320 tanks. As a result, in 2021 this business accounted for 41% of Saurashtra's revenue and 30% of its net profit, up from 25% and 15% respectively in 2020.

In 2017 Fairfax India invested $30.0 million to acquire a 51% interest in Saurashtra. At the end of 2021, this investment was valued at $47.2 million.

Maxop Engineering Company (Maxop)

In 2003, a young Shailesh Arora, the founder and owner of Maxop, was looking to start a new business. He remembers that while driving to his job every day, he passed a busy factory on the highway and asked some of its employees what business the company was in, and they told him it was an aluminum diecasting business. He then called a few diecasting equipment suppliers to find out more. The local sales distributor for a Taiwanese diecasting machine manufacturer showed interest and came to meet with him. When they asked him about the specifications of the machine he was looking to buy, he told them he knew nothing about the business or products. Yet he not only convinced them to sell him a machine, they also pointed him to his first diecasting customer – General Electric. And thus, Maxop came into being!

Maxop is a precision aluminum diecasting and machining solution provider for aluminum die cast components used by the automotive and industrial sectors, with customers in India, Asia, North America and Europe. Based in New Delhi, it operates four plants in Manesar and two plants in Jaipur.

In Fairfax India's first significant acquisition since the start of the pandemic, it agreed to acquire a 67% equity interest in Maxop from Shailesh for a potential maximum consideration of $66 million. It completed the first step of this transaction in November 2021 by acquiring a 51% stake for a payment of approximately $30 million. The second step, the purchase of an additional 16%, will be completed in September 2022 for a further payment of between $9 and $36 million, depending on the EBITDA, net earnings, free cash flow and financial leverage Maxop achieves in its fiscal year ending March 31, 2022.

Shailesh, who is a passionate first-generation entrepreneur and hands-on operator, chose to enter into this transaction because he recognized Fairfax India as a long term partner with an excellent reputation which would let him run the business independently, allowing him to take advantage of the long runway for growth that lies ahead for this business, especially with customers in North America and Europe.

Shailesh has a strong customer orientation and has crafted Maxop as a single source supplier to most of its customers for the products it sells to them. He has focused on growing customer wallet share by adding one new part to a customer bouquet each year. He has built a strong organization catering to a wide array of customers around the world and is poised, with Fairfax India's support, to build Maxop into a world class leader in the precision engineered components manufacturing industry.

Jaynix Engineering (Jaynix)

In February 2022 Fairfax India acquired 70% of Jaynix Engineering for $32.5 million. Jaynix is a manufacturer of non-ferrous (primarily aluminum) electrical neutral bars, lugs, connectors and assemblies and is a Tier 1 supplier to major electrical original equipment manufacturers such as Schneider, Eaton and Siemens in North America and Europe.

Jaynix was founded in 2008 by two brothers and engineering graduates, Nikhil Diwakar and Ninad Diwakar, in Nashik, Maharashtra. Jaynix is now headquartered in Vadodara, Gujarat and operates with three manufacturing plants (one in Vadodara and two in Nashik).

Nikhil and Ninad are passionate hands-on operators, with Nikhil focused on commercial business development efforts and Nikhil on engineering and production. They will continue to drive the business and stay invested with a significant minority stake.

Developments in India

Like the rest of the world, India is facing the challenges of Omicron and its expected impact on the country's economy. India has made impressive progress in its vaccination drive, with over 1.7 billion total doses given and over 75% of the adult population fully vaccinated. India's vaccination program is the largest in the world with a goal of attaining 80-90% coverage. Despite a fluid global economic environment, India has had notable successes in the past year and continues to be an attractive investment destination. In 2021, foreign direct investment (FDI) inflow was $73.8 billion. As well, India has rapidly emerged as a top ranked start-up location, next only to the U.S. and China in the creation of unicorns. It was a banner year, with over 40 start-ups achieving billion-dollar valuations. This is part of a transformation in which the emergence of fintech has been conspicuous, and the use of digital products and services is forecast to increase significantly in the coming years. As well, the expansion of technological platforms such as the UPI (Unified Payments Interface), and the rapid ascent in internet users, now over 825 million, are contributing factors in the rise of "Digital India". Important initiatives were also implemented at the bottom of the pyramid, with over 400 million bank accounts opened as part of the government's financial inclusion drive and 8 million cooking gas connections distributed last year.

The Indian economy is displaying significant strength. The Indian residential real estate sector is showing signs of a turnaround with increased housing activity both in the established urban centers and in emerging cities. The manufacturing sector has been a driver in the rise of exports and the auto industry is improving. The Indian corporate earnings estimates are increasingly positive and while there is a broad sectoral improvement, the financial sector is expected to play a significant role in the earnings growth.

The agricultural sector has displayed resilience throughout the pandemic and successively good monsoons have resulted in record levels of grain production. The annualized growth rate in this sector is 3.9%. Towards the end of 2021, in a surprising move, the government repealed its three farm laws, delaying indefinitely the needed reforms. These new laws were initially passed in the Indian parliament in September 2020 seeking to reduce the role of government subsidies and to increase the scope for private investment. The market-friendly thrust of these new laws received sustained opposition over the course of the year, particularly in northern India, and with impending state elections, the Modi government withdrew these laws. These laws might be reinstated in a more benign political environment.

While inflationary pressures exist, the RBI reaffirmed its commitment to maintaining its inflationary targets, 2% on the lower end and 6% on the higher end. While India has experienced economic recovery in 2021 and GDP growth projections range between 8-9% for this year, the evolving nature of the pandemic is a key variable in any such forecasts.

The Indian budget of 2021 and other reforms during the year included privatization initiatives, an increased FDI limit of 74% in the insurance sector, the formation of a “bad bank”, the removal of the “retrospective” tax and the phasing-in of the PLI (Production-Linked Incentive) to attract investment across multiple sectors. The buoyancy in tax revenues has helped maintain the country’s fiscal deficit situation, with GST collections increasing by 30.2% from the previous year and an improvement in the finances at the state level as well. Overall gross tax revenues are projected to rise for the 2022-23 fiscal year and the next one.

In its most recently tabled budget on February 1, 2022, amongst the notable initiatives is the 35% increase from the previous year for public capital investment. The commitment to physical infrastructure extends to roads, railways, airports, ports, mass transport, waterways and logistics. In the case of highways, the budget states that the national network will be expanded by 25,000 kilometres in the upcoming fiscal year. As well, other initiatives included the upcoming disinvestment of LIC (Life Insurance Corporation), facilitating 5G rollout in the telecom sector and plans to introduce a Central Bank Digital Currency (the “digital rupee”) through the RBI. There is also an undertaking to provide a more stable tax regime, ease the tax filing process and streamline the process for tax disputes.

India will be one of Asia’s main leaders in the ongoing global economic recovery. The strength of the Indian economy is multi-pronged, with key indicators pointing to sustained growth. A confluence of forces is in play: emergence of a strong housing cycle, increase in export earnings, rise in corporate profitability, continued ascendance in FDI, improving manufacturing activity, a dynamic technology sector and a healthier state of government finances. In addition, India has substantial foreign exchange reserves which now exceed $600 billion. India’s current level of foreign exchange reserves will allow the RBI to stabilize potential currency fluctuations.

There are state level elections in seven jurisdictions in 2022, including India’s most populous state of Uttar Pradesh. The outcome of these elections will have national implications and affect the pace of policy reforms. Still, with national elections two years away, Prime Minister Modi is in a commanding position to retain his parliamentary majority.

As we end our first seven years of operations, we would like to acknowledge the strong leadership provided by Amy Sherk, Chief Financial Officer, Jennifer Pankratz, General Counsel and Corporate Secretary, Gopalakrishnan Soundarajan, Chief Operating Officer, John Varnell, Vice President of Corporate Affairs, and Jennifer Allen, Vice President. Fairfax India is supported by a very small head office in Toronto, and we are grateful for the contributions of Antony Lai, Jennifer Li, Jung Lee, Victor Ma and Brad Van Hoffen. We would also like to thank our independent directors – Tony Griffiths, Chris Hodgson, Alan Horn, Deepak Parekh, Satish Rai and Lauren Templeton – for their wise advice, support and encouragement.

We are looking forward to connecting with you at our in-person and virtual annual meeting at 2:00 p.m. (Eastern time) on April 21, 2022.

March 4, 2022

Chandran Ratnaswami
Chief Executive Officer

V. P. Watsa

V. Prem Watsa
Chairman

Glossary of Non-GAAP and Other Financial Measures

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

Supplementary Financial Measures

Book value per share – The company considers book value per share a key performance measure in evaluating its objective of long term capital appreciation, while preserving capital. This measure is also closely monitored as it is used to calculate the performance fee, if any, to Fairfax. This measure is calculated by the company as common shareholders' equity divided by the number of common shares outstanding. Those amounts are presented in the consolidated balance sheet and note 8 (Total Equity under the heading *Common Stock*) respectively within the consolidated financial statements for the year ended December 31, 2021.

Non-GAAP Financial Measures

Book value per share prior to the performance fee – This measure adjusts common shareholders' equity in the book value per share calculation to remove the performance fee accrued at the end of the current reporting period as presented in note 12 (Related Party Transactions) within the consolidated financial statements for the year ended December 31, 2021, and is a key performance measure.

Book value per share before cumulative performance fees – This measure adjusts the common shareholder's equity in the book value per share calculation to add the performance fee accrued or payable at the end of the reporting period and adjusts the common shares outstanding at the end of the reporting period to remove the subordinate voting shares issued to settle performance fees in prior periods. The company issued 7,663,685 and 546,263 subordinate voting shares in connection with the first and second calculation periods, respectively. The company uses this measure to monitor the company's performance had it not been impacted by any performance fees.

Cash used in operating activities excluding the impact of changes in restricted cash and net sales (purchases) of investments – The company uses this measure to monitor the cash generated by (used in) the company's head office operations, primarily comprised of cash inflows (outflows) from interest and dividend income, interest expense, investment and advisory fees, current income taxes and general and administration expenses, and excludes the impact of changes to restricted cash and purchases and sales of investments. This measure is a component of cash provided by (used in) operating activities as presented in the consolidated statement of cash flows within the consolidated financial statements for the year ended December 31, 2021.

Cash and marketable securities – The company uses this measure to monitor short term liquidity risk. This measure is calculated by the company as the sum of cash, cash equivalents, short term investments, Government of India bonds and Other Public Indian Investments. Those amounts are presented in note 6 (Cash and Investments) within the consolidated financial statements for the year ended December 31, 2021.

Compound annual growth rate ("CAGR") – The company uses the CAGR to measure performance of certain of the above-noted metrics over a specified period of time. CAGR is calculated using the formula: (ending value / beginning value) ^ (1 / number of years) – 1.

Other Financial Measures related to Indian Investments

The Annual Report contains certain unaudited financial information related to Indian Investments (and related financial measures derived therefrom) which are prepared under Indian Accounting Standards (Ind AS), with the exception of the financial statements of CSB Bank prepared in accordance with Indian Generally Accepted Accounting Principles (Indian GAAP), unless otherwise noted. Such unaudited financial information is prepared by and is the responsibility of the respective Indian Investments' management teams. Fairfax India is limited with respect to the amount of independent verification it is able to perform on the Indian Investments' unaudited financial information.

Certain financial measures related to Indian Investments included in the Annual Report do not have a prescribed meaning under IFRS as issued by the IASB and may not be comparable to similar measures presented by the company or other companies.

Appendix to the Letter to Shareholders

Management analyzes and assesses the financial position of the consolidated company in various ways. Certain of the measures included in its letter to shareholders do not have a prescribed meaning under IFRS as issued by the IASB and may not be comparable to similar measures presented by other companies. Those measures are described below.

Supplementary Financial Measures

Return on equity – The company uses this measure to assess profitability for shareholders. This measure is calculated based on net earnings attributable to the company's shareholders divided by the average common shareholders' equity for the period. These amounts are presented on the consolidated balance sheet and consolidated statements of earnings (loss), respectively, within the consolidated financial statements.

Proportion of the publicly listed investments in Fairfax India – The company uses this measure to determine the proportion of the company's Indian Investments with fair values based on published quotes in active markets, an important risk measure. This measure is calculated as the total fair value of the company's Public Indian Investments plus the fair value of the company's share of Chemplast Sanmar Limited (a publicly listed subsidiary of Sanmar, approximately $277.5 million), divided by the total fair value of the company's Indian Investments.

Internal rate of return – The company uses this measure to assess the performance of its investments. This measure represents the U.S. dollar annualized rate of return and is calculated for each of the company's Indian Investments based on its fair value at a point of time, taking into account the timing of cash flows (including cost of purchases, proceeds on sales, dividends received and returns of capital) over the period of the company's investment.

Total debt to equity – The company uses this measure to monitor and manage its capital. This measure is calculated as total principal of Borrowings outstanding divided by common shareholders' equity at a point in time. These amounts are presented in note 7 (Borrowings) and the consolidated balance sheet, respectively, within the consolidated statements.

Non-GAAP Financial Measures

Undeployed cash and investments – The company uses this measure to monitor short term liquidity risk. This measure is calculated by the company as the sum of cash, cash equivalents, restricted cash, short term investments, Government of India bonds and Other Public Indian Investments. These amounts are presented in note 6 (Cash and Investments) within the consolidated financial statements.