To Our Shareholders,

Our chairman Prem Watsa started the India section of his letter last year to the shareholders of our parent Fairfax Financial Holdings (Fairfax Financial) as follows: "Mr. Modi continues to focus on improving the quality of life and enhancing the ease of living for the people of India. After he got elected for his second term in May 2019, he said that in the next five years he would ensure clean tap water for the 192 million families – i.e. 980 million population – living in rural India. He put Mr. Bharat Lal, who as it happened was in charge of bringing tap water to every home in Gujarat when Mr. Modi was first elected Chief Minister of that state, in charge of planning and implementing this $51 billion five-year program called Jal Jeevan Mission. When Mr. Lal began this project in August 2019, fewer than 17% – 32 million – of the households had clean tap water. In spite of the COVID-19 pandemic, two and a half years later, now more than 92 million households have assured tap water supply, thus changing the lives of people – particularly women and children. Prime Minister Modi and Mr. Lal are well on their way to accomplishing the impossible." This is only one example of Mr. Modi's unrelenting efforts to improve the lives of India's citizens. We believe this kind of quality of life improvement will contribute to better education levels and therefore employment creation needed for India to take advantage of its demographic dividend. By his policies and actions, Mr. Modi has made it abundantly clear that private enterprise has a huge role to play in this upliftment. It therefore comes as no surprise that many observers are predicting that the coming decade will be one of great economic achievement for India. Morgan Stanley predicts that India's GDP will grow from the current $3.4 trillion to $8.5 trillion over the next decade, making it the third biggest economy in the world.

Our own experience in the building of the absolutely spectacular Terminal 2 of Bangalore International Airport convinces us that India is ready. Speaking at its inauguration, Prem said: "While we were on this journey to build something that would be truly outstanding, we were also supported constantly by the government, particularly a government that welcomes business. And where business is welcomed, more business makes its way."

After a good run from inception to the end of 2021 when Fairfax India's book value per share (BVPS), our key performance measure, grew at a compound annual rate of 10.3%, Fairfax India's BVPS declined by 2.7% from $19.65* at the end of 2021 to $19.11 at the end of 2022, a performance slightly better than the performance of Indian equity indices, and even better than it looks as it was adversely affected by the 10.1% decline in the Indian rupee against the U.S. dollar during 2022 (without the rupee devaluation, Fairfax India's BVPS would have been up by 9.6%). The value of the publicly listed companies in the portfolio was up 8.9%** compared to the US$ S&P BSE Sensex 30 index which was down 5.9%. Common shareholders' equity decreased by 4.8% after increasing by 13.4% the previous year.

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

$ millions except per share amounts:	**2022**	**2021**	**2020**	**2019**	**2018**	**2017**	**2016**	**2015**	**CAGR(1)**
Book value per share	$ 19.11	$ 19.65	$ 16.37	$ 16.89	$ 13.86	$ 14.46	$ 10.25	$ 9.50	8.5%
Income	237.5	693.5	(13.0)	712.7	166.5	609.7	128.6	65.3	
Net earnings (loss)	191.4	494.5	(41.5)	516.3	96.4	452.5	107.8	40.9	
Return on equity	7.1%	18.9%	(1.7)%	22.0%	4.5%	28.2%	10.3%	4.0%	11.7%(2)
$ billions:									
Total assets	3.4	3.6	3.1	3.2	2.7	2.7	1.3	1.0	16.2%
Investments	3.2	3.5	3.0	3.2	2.7	2.6	1.1	1.0	16.2%
Common shareholders' equity	2.6	2.8	2.4	2.6	2.1	2.1	1.1	1.0	12.9%
Shares outstanding (millions)	138.3	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 9.0% annually.*

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

* *Amounts in this letter are in U.S. dollars unless otherwise specified. 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.*

** *Including the impact of purchases and sales during the year.*

With the exception of Singapore, all Asian emerging markets were down in 2022. You will see from the table below (based on the leading US$ equity index in each country named) that India's 5.9% equity index decline was outperformed only by Singapore and Thailand's equity indices:

Singapore	4.8%
Thailand	(3.2)%
India	(5.9)%
Malaysia	(9.9)%
Hong Kong	(15.5)%
China	(27.8)%
Vietnam	(35.1)%
Sri Lanka	(61.7)%

And here is a comparison of Fairfax India's change in BVPS in 2022 with the change in major Indian US$ equity indices:

Fairfax India BVPS	(2.7)%
S&P BSE Sensex 30	(5.9)%
S&P BSE 500	(6.9)%
S&P BSE midcap	(8.7)%
Nifty 50	(6.0)%

As noted in the table above, while our BVPS declined in 2022, it outperformed all the major Indian indices.

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 have come down and are now closer to the 10-year average:

	December 31, 2021	December 31, 2022	10-year average
Price to earnings ratio	30.2	23.1	22.9
Price to book value ratio	3.5	3.4	3.0
Dividend yield	0.9%	1.1%	1.3%
Market cap to GDP ratio	114%	98%	80%

The valuations of our listed portfolio companies, with a price to earnings ratio of 11.1, price to book value ratio of 1.9 and dividend yield of 1.6%, are much better than the 10-year average.

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

Fairfax India BVPS[(1)]	+8.5%
US$ S&P BSE Sensex 30	+5.8%

(1) Fairfax India's eight-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 about 40% of its investments which are publicly traded (the rest are based on what we consider to be more conservative internal valuations), whereas the Sensex is of course based entirely on publicly traded market values.

Fairfax India's net earnings in 2022 were $191.4 million versus $494.5 million in 2021, largely as the result of net unrealized gains on investments of $153.7 million compared to $438.9 million in 2021 and net realized gains on investments of $95.9 million compared to $227.2 million in 2021. Earnings also reflect a $36.4 million performance fee recovery, dividend and interest income of $35.3 million and net foreign exchange losses of $47.4 million. Fully diluted earnings per share was $1.34 in 2022 versus $3.22 in 2021. The significant contributors to net unrealized and realized gains recorded in 2022 were:

IIFL Finance	$218.5
NSE	62.9
IIFL Wealth (now 360 ONE WAM)	34.4
CSB Bank	19.7
Sanmar	(42.7)
Fairchem Organics	(29.7)
IIFL Securities	(28.3)

Since we began, Fairfax India has completed investments in twelve companies and exited one (14 currently, as one has split into four listed entities), all sourced and reviewed by Fairbridge, Fairfax India's parent Fairfax Financial's 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, Ramin Irani and Chinar Mathur. Fairfax India's Mauritius subsidiary, FIH Mauritius Investments, ably led by its CEO Amy Tan, supported by its Vice President 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, 2022	Compounded Annualized Return(1)
NCML	August 2015	89.5%	$ 188.3	$ 69.4	(13.8)%
IIFL Finance*	December 2015	22.3%	–	493.3	*
IIFL Wealth (now 360 ONE WAM)*	December 2015	2.5%	34.6	46.7	*
IIFL Securities*	December 2015	27.8%	91.3	65.8	*
5paisa*	December 2015	25.0%	29.7	28.4	*
Fairchem Organics(2)	February 2016	52.8%	29.7	111.1	34.1%
Sanmar Chemicals Group	April 2016	42.9%	199.0	337.8	13.2%
National Stock Exchange of India	July 2016	1.0%	26.8	159.6	35.2%
Saurashtra Freight	February 2017	51.0%	30.0	50.7	10.1%
Bangalore International Airport(3)	March 2017	54.0%	653.0	1,233.7	12.2%
CSB Bank	October 2018	49.7%	169.5	223.3	7.5%
Seven Islands Shipping	March 2019	48.5%	83.8	96.9	4.0%
Maxop Engineering	November 2021	67.0%	51.4	51.9	0.8%
Jaynix Engineering	February 2022	70.0%	32.5	32.8	1.0%
Other Indian Investments			34.1	38.4	24.8%
Total			$1,653.7	$3,039.8	13.2%
* *Aggregate: IIFL Finance, IIFL Wealth, IIFL Securities and 5paisa*			*$ 155.6*	*$ 634.2*	*19.8%*

(1) Calculated using the internal rate of return

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

(3) Fairfax India's effective interest in Bangalore International Airport is 49.0% (on a fully diluted basis).

While the BVPS of Fairfax India is $19.11, we believe that the underlying intrinsic value is much higher. We have taken the opportunity over the last four years to buy back 15.1 million shares for $194.4 million or an average price of $12.84 per share, including the 3.0 million shares we bought in 2022 for $35.6 million or an average price of

$12.00 per share. We have continued to buy back shares in 2023 and to date, we have bought back 0.1 million shares for $1.3 million or an average price of $12.66.

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. At that time, this transaction valued 100% of BIAL at $2.6 billion.

Fairfax India intends to complete an IPO of Anchorage, although we did not move forward on this in 2022 as we are awaiting regulatory approvals.

Once Anchorage is listed, the proportion of the publicly listed investments in Fairfax India will increase from the current 39.2% to 79.8% of the overall portfolio.

Financial Position

At December 31, 2022, the financial position of Fairfax India was as follows:

Undeployed cash and investments[1]	$ 333.8
Unsecured senior notes maturing in February 2028	500.0
Common shareholders' equity	2,642.0
Total debt to equity	18.8%

(1) Includes passive investments in publicly traded Indian companies

Performance Fee

You will recall that under the investment advisory agreement with Fairfax Financial, Fairfax Financial is entitled to a performance fee calculated at the end of each three-year period, 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.

At the end of 2022, the second year of the current third three-year period, a performance fee of $41.5 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)

The recently inaugurated Terminal 2 (T2), whose construction continued and was completed notwithstanding the challenges of the pandemic since 2020, is a first-of-its-kind 'Terminal in a Garden' and an extension of Bengaluru city's green aesthetics. The terminal and the area leading up to it are designed to give passengers an experience of walking in a garden. This begins from entry into the BIAL campus at the Main Access Road to entering T2 and then boarding aircraft at the piers.

The 255,661 square metre (sqm) facility pays homage to the city of Bengaluru and was designed around four pillars: the 'terminal in a garden', sustainability, technology, and art & culture.

The two-level domestic and international retail and lounge areas are structured to provide scenic views of the greenery within and outside the building.

The garden features include 10,235 sqm of green walls around the terminal, hanging gardens that cascade down from the terminal roof on bronze veils and bells suspended from the ceiling, plus green lagoons and an extensive forest belt area between the terminal and the 19 boarding gates.

(1) Indian Accounting Standards (Ind AS) are based on and substantially converged with IFRS as issued by the IASB. As such, all of the Indian Investments' figures are unaudited and based on Ind AS or IFRS, with the exception of CSB Bank, where figures are based on Indian Generally Accepted Accounting Principles (Indian GAAP). Percentage variances over financial figures are based on underlying changes in the investment's Indian rupee functional currency.

A total of 620 endemic plants, 3,600+ plant species, 150 palm species, 7,700 transplanted trees, 100 varieties of lilies, 96 lotus species and 180 rare, endangered and threatened species and ten ecological habitats make up the lush green landscape.

On sustainability, solar panels and daylight harvesting results in 24.9% overall energy savings. Rainwater harvesting and six major rainwater-fed ponds with 413 million litres of water cater to the airport's requirements. The planned integrated solid waste management plant will convert biodegradable waste to fuel and manure, leading the airport towards zero waste to landfill.

On the innovation and technology front, to ensure that the passenger experience is simplified, seamless and effortless, "Digi Yatra" has been implemented. Digi Yatra features 'your face is your boarding pass' technology, meaning travellers can pass through security checks easily. BIAL has been at the forefront of developing this smart security implementation to facilitate more accurate screening and higher passenger throughput.

The focus of the Art Program at T2 is to exhibit the cultural diversity and unique art forms of Karnataka in particular, followed by other South Indian art forms. Art installations are exhibited at strategic locations throughout the airport and serve as beacons in the traveler's journey, allowing them to pause, reflect and enjoy.

T2 is designed to provide the highest level of passenger experience while also making it an unforgettable destination for passengers with its memorable visual impressions, sustainable practices and technology.

Fairfax Financial Chairman and CEO Prem Watsa said: "The opening of Kempegowda International Airport's Terminal 2 is a historic moment for us. The last two years were the most challenging with the pandemic impacting businesses all over the world, but our work on completing T2 was constantly in progress."

BIAL is Fairfax India's largest investment and a very important one as it accounts for 41% 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 being severely impacted by the pandemic in 2020 and 2021, the second half of 2022 brought some stability to passenger numbers at BIAL. Based on the most recent traffic, domestic passenger levels are now at an annual rate of about 24.4 million passengers, and exceeded pre-pandemic levels during December 2022. International traffic levels, despite war-related disruptions and high fuel prices, are at an annual rate of about 3.1 million passengers, and recovered to about 88% of pre-pandemic levels in December 2022.

- **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 2024. Based on current traffic volumes, this looks likely to happen.

- **Growth plans**

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 to the existing terminal (now completed), building a second runway, and building phase 1 of T2 and associated supporting infrastructure. The second runway was commissioned as planned in 2019 and phase 1 of T2 was completed in

2022. A financing plan for this expansion, based on a debt-to-equity ratio of 80:20, was 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 $0.6 billion, taking the capacity of the airport beyond 90 million passengers by 2033. The total investment of about $1.8 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 grew at a CAGR of 17% from 2009 to 2020 (thereby excluding impact of pandemic years): it has currently returned to pre-pandemic levels 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 was 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 came 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, which was a beacon of strength through the entire pandemic because it was not affected by the pandemic-related shutdowns, continues to perform very well. In 2022 BIAL recorded its all-time high cargo volume of 412,668 metric tons, including India's highest (31% of total) export shipments of perishable goods. Many initiatives have been implemented 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 24 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 special purpose vehicle subsidiary of BIAL was incorporated to carry on the real estate activities of BIAL. This entity, Bengaluru Airport City Limited (BACL), is now capitalized and staffed and is expected to be self-funding as it moves forward.

Anchored on the principles of a smart city, BACL is creating a campus that caters to the varied needs of corporate life. During the past 12 months BACL has further refined its plans to monetize the available real estate. It has expanded the list of asset classes by adding high tech manufacturing, venues for corporate retreats and sports facilities, executive skilling organizations, data centres, luxury retail, a hospital complex and high grade warehouses to the already contemplated business parks; a retail, dining and entertainment (RDE) village; hospitality; and convention and exhibition centres. The following projects have been completed or are under development or construction:

- Singapore Airlines Transportation Services central kitchen with product development and production capabilities for 170,000 ready-to-eat meals per day.
- A first of its kind 3D technology printing facility has been operational since August 2022.
- Taj Bangalore that adds 220 rooms to the existing 154 room luxury resort.
- A concert arena with technical collaboration with Live Nation U.S.A.

We are very excited that T2 has become a showpiece for what can be developed and built in India and, combined with the potential early arrival of Metro rail connectivity to the airport, we are extremely optimistic about the opportunity for the development of BIAL's real estate. We are actively evaluating options to accelerate the development plans.

- **Summary**

Despite the extraordinary pandemic-related difficulties of the last few years, under the exceptional leadership of Managing Director and CEO Hari Marar and his executive team, BIAL had very commendable financial performance in 2022.

Passenger traffic grew 71% over the previous year to 27.5 million and during December, domestic passenger traffic had fully recovered, and international passenger traffic had recovered to 88% of pre-pandemic levels. BIAL's revenue increased by 102% over the previous year to $200.5 million. EBITDA increased by 212% over the previous year to $119.9 million and was 101% of pre-pandemic levels. Loss after tax significantly reduced to $6.0 million as compared to a loss after tax of $61.5 million in the previous year and a profit of $53.8 million in 2019.

Despite the unprecedented events that impacted operations and financial performance in 2020, 2021 and 2022, BIAL generated a total ROE of 14% for the second control period and an ROE of 17% for the combined first and second control periods.

The valuation of Fairfax India's interest in BIAL decreased to $1.2 billion in 2022 from $1.4 billion in 2021 due to unrealized foreign currency translation losses, implying an equity value of approximately $2.3 billion for the whole company. This valuation, which we consider to be conservative, is supported by future cash flow estimates driven by the growth and real estate monetization plans described above, but does not reflect apparent market interest.

2022 featured the following significant achievements by BIAL:

- Successful completion of T2 and related infrastructure.
- Commencement of passenger operations by Qantas with 4 flights a week to Sydney, thereby offering direct connectivity between south India and Australia.
- Commencement of passenger operations by Saudi Arabian Airline with 3 flights a week to Riyadh.
- Maintenance of its credit ratings of AA+ with India Rating and AA with CRISIL Rating.
- Continuing to be 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 March 2023.

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.

In 2021 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.

Since then, 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 future. It added over 800 new branches to its existing 3,119 and over 6,700 new employees to its existing 25,900 and continues to move forward aggressively to consolidate its position as one of the major NBFCs in India, serving about 8 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.

In 2022 IIFL FIN progressed further in its strategy to grow its business by growing its assets under management (AUM) by co-lending with or assigning assets to other lenders and thereby utilizing less of its own capital. These assets now account for 37% of its AUM and 34% of its income.

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 2022. Its AUM, which have grown at a CAGR of 16% over the last 5 years, grew by 24% over the previous year to $7.0 billion in 2022. The growth was driven by home loans (+24%) and gold loans (+25%). In 2022, IIFL FIN's revenue increased by 29% to $630.7 million and profit after tax increased by 32% to $187.3 million, generating an ROE of 15%. The below average ROE resulted partly from higher than normal capital levels at IIFL Home Finance (HFC) from a capital infusion into it of $275 million by ADIA, the Middle Eastern sovereign fund that valued HFC at $1.4 billion.

Asset quality continues to be amongst the best in their peer group, with gross non-performing assets (NPA) and net NPAs at 2.1% and 1.1% respectively, compared to 2.8% and 1.5% respectively in the previous year. The provision coverage ratio was 164% versus 133% the previous year.

Loan to value is very conservative, at 72% for home loans, 67% for gold loans and 49% for business loans (loans against property). With a well-diversified asset portfolio of which 95% is retail in nature, a capital adequacy ratio (CAR) of 21.5% for IIFL Finance and 49.3% for HFC, net interest margins at 8.3%, and even though the cost to income ratio increased from 39% to 42% (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 2023.

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

Sanmar Chemicals Group (Sanmar)

It is with much regret that we inform you that Sanmar's founder, leader and chairman, Mr. N. Shankar, passed away in 2022. He was a great visionary leader in Indian business, our partner and our friend.

Sanmar's performance in 2022 was very good, though it did not match the outstanding results it produced in 2021. For the year ended December 31, 2022 Sanmar's revenue grew by 11% over the previous year to $1.4 billion, EBITDA declined by 14% to $223.5 million and profit before tax (PBT) grew by 5% to $91.0 million (EBITDA and PBT described here and below exclude accounting debt restructuring gains in 2021 and 2022 and a non-cash inventory write-down in 2022).

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

- High-capacity utilization and excellent operating performance across most divisions.
- Strong PVC demand and record prices for PVC in the first three months of 2022 offset by steep price declines over the remainder of the year, and
- Overall global tightness in caustic soda supplies due to the lack of new capacity coming on stream.

In 2016, Fairfax India lent Sanmar the rupee equivalent of $300.0 million by way of non-convertible debentures (NCD) 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.

The late N. Shankar, as 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 in 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 (ESG). Long before ESG investing became a factor 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 good 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 repaid.

The former CSL business which comprised the higher margin paste PVC and specialty chemicals businesses had a good year in 2022. Revenue grew by 36% over the previous year to $307.7 million, although EBITDA decreased by 23% to $59.4 million and PBT increased from $44.5 million to $47.5 million. This performance was the result of strong demand for paste PVC and record prices and margins in the first three months of 2022, although those declined significantly in the last nine months of 2022.

- **CCVL**

CCVL (now a 100% subsidiary of CSL), which manufactures the more commoditized, high volume and lower margin suspension PVC, had a difficult year in 2022. Revenue decreased by 6% to $438.1 million over the previous year, EBITDA decreased by 59% to $32.3 million and PBT declined by 76% to $12.2 million. The lacklustre results were driven by a more than 50% drop in suspension PVC prices, precipitated by oversupply from China, where production in the north was not affected by COVID-related shutdowns, while consumption dropped sharply in the south causing producers to flood global markets with PVC. Poor demand in the U.S. due to poor housing construction activity further exacerbated the situation. Sanmar expects the situation to normalize in 2023 and enable it to take advantage of the resurgent housing market in India where PVC consumption is projected to grow at a CAGR of 8% over the next several years.

- **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, and 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 90% capacity utilization and certain expected process refinements completed in 2022, Sanmar will be able to take advantage of its significant investment in Egypt.

TCI had excellent operating results in 2022. Revenue grew by 22% over the previous year to $646.6 million, EBITDA grew from $110.4 million to $146.5 million and PBT increased from $19.3 million to $44.6 million. This performance was driven by the favourable global demand supply dynamics for caustic soda, partially offset by dropping PVC prices as described earlier. While impressive progress has been made on many fronts, including the restructuring of $785.4 million of TCI's debt in 2021, TCI continues to look for further improvements to its balance sheet.

CSB Bank (CSB)

The leadership transition from Mr. C.V.R. Rajendran, who had been the CEO for the last five years before retiring in 2022, to new CEO Pralay Mondal has gone smoothly and Pralay is well in control of CSB which continues to make excellent progress on its transformative journey that began with the recapitalization of the bank that was enabled by our investment. 2022 was the best year ever for CSB.

Fairfax India's investment into CSB during 2019 increased the bank's CAR to 23% at the end of 2019. The improved CAR enabled CSB 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.

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 649 branches (up from 559 last year) and 512 ATMs (up from 410 last year) 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 70% 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.

Despite the pandemic-driven volatility in business sentiment and activity and high levels of system liquidity which constrained opportunities for lending that affected part of the year, CSB made excellent progress in its key performance measures in 2022, with loan advances growth of 26% and deposits growth of 19% (including lower cost current and savings accounts (CASA) growth of 9%). Net interest income grew by 15% and the credit to deposit ratio improved from 77% to 81%. Although net interest margin (NIM) decreased from 5.3%, it remained at an industry leading 5.0%. Cost of deposits decreased to 4.2% from 4.4%, though CASA declined to 31.7% from 34.6% of total deposits.

Credit quality also improved considerably – gross NPAs decreased to 1.5% from 2.6%, net NPAs decreased to 0.4% from 1.4% and the provision coverage ratio increased from 83.0% in December 2021 to 91.9% in December 2022. CSB's revenue for 2022 increased by 12% to $196.4 million from $185.6 million in 2021, net income increased by 41% to $66.4 million from $50.2 million in 2021 and its CAR increased from 20.7% to 25.8%.

These exceptional results derive from the continued relentless pursuit of the objective of transforming CSB by focusing on profitability, productivity, efficiency and asset quality. CSB is accomplishing this by implementing changes that include:

- Performance and productivity-oriented human resource policies.
- Reorganizing 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.

Loan assets with turnover of up to 100 million rupees are monitored and serviced separately by the retail banking vertical. Loan assets with turnover of up to 2.5 billion rupees are monitored and serviced by the SME vertical. Loan assets with turnover above 2.5 billion rupees, and all NBFC and infrastructure funding, 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 year ended September 30, 2022 *(all numbers are %s)*[(1)]

	CSB	**Peer Group**	**All Banks**
Growth in Net Interest Income	15.8	14.1	16.1
Growth in Advances	24.2	15.7	20.3
Growth in Deposits	10.1	8.2	10.7
Credit Deposit Ratio	83.2	78.8	76.2
Return on Equity	17.8	10.1	11.3
Return on Total Assets	2.0	0.9	1.0
Net Interest Margin	4.8	3.2	2.9
Efficiency (Cost to Income) Ratio	58.7	58.8	56.7
Gross Non-Performing Advances	1.7	4.2	5.2

(1) Source: Capital IQ

We are very excited about the long term prospects of CSB.

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 2022, NSE's revenue grew by 49% to $1.6 billion, net income grew by 72% to $874.5 million and shareholders' equity grew by 33% to $2.2 billion, generating an ROE of 37%. The planned initial public offering of NSE has been delayed again and it is not clear when it might happen. Fairfax India's investment in NSE is currently valued at $159.6 million, significantly higher than the value of $111.2 million last year. The valuation implies a price to 2022 earnings multiple of about 19 times and is based on private share transactions by foreign investors disclosed quarterly by NSE.

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 and 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 25% per year, and the average annual ROE was around 23%.

For the year ended December 31, 2022, its revenue grew by 8% to $85.8 million, net earnings decreased by 42% to $5.4 million and shareholders' equity grew by 12% to $29.8 million, generating an ROE of 17%. The decline in profits was due to higher raw material costs and weak end-product demand and prices: the high cost of raw materials was precipitated by the war in Ukraine – Ukraine is one of the world's largest producers of sunflower oil and its supply was disrupted resulting in higher prices for other alternative oils which are key raw materials for Fairchem – and there was poor product demand in Europe due to recessionary conditions.

Fairchem has made a concerted effort over the last four years to expand its production capacity in a very cost-effective manner, funded entirely by cash generated from the business and at the end of the year was virtually debt free. It has taken its raw material throughput capacity from 72,000 metric tons per annum to 120,000 in June 2022. Fairchem has also built a plant to manufacture two new products that will be launched later in 2023.

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 $111.1 million on December 31, 2022, down significantly from the $155.0 a year earlier. However, we believe this is temporary because the stock fell sharply after one quarter of disappointing results.

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 2022, this investment was valued at $96.9 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 24 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 three younger ships during 2022. Over the next five years, SISL is aiming to grow its fleet from the current 24 to about 33 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 110 core employees at the head office who manage the entire business. It has significantly strengthened its organization with the addition of several senior executives 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 2022, SISL's revenue increased by 47% to $129.1 million, net income increased by 214% to $23.6 million and shareholders' equity grew by 19% to $140.7 million, generating an ROE of 16%. Despite this volatility, SISL has mostly demonstrated stable and consistent revenue and EBITDA CAGR of about 25% in the last 10 years. Since the time we acquired our interest in SISL, it has generated free cash flow of $120 million, an average annual free cash flow on investment of about 19%.

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 a good year in 2022: its revenue increased by 10% to $169.0 million and although profit before tax decreased by 16% to $41.7 million, it still generated an ROE of 18%. 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 2022.

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. It serves about 3 million customers and has a strong online presence, and mobile trading has significantly aided in increasing the number of customers.

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

- Retail broking and financial products distribution (72% 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, which targets retail clients, continues to be one of the highest rated amongst its peers. In financial products distribution, it offers retail clients a wide range of products including mutual funds, insurance, IPOs and debt instruments.

- Institutional broking (12% 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 over 75% of India's market capitalization. It is a market leader in block sales placements, placing over $10 billion in blocks over the past five years. It has more than 800 domestic and foreign clients and has developed trusted long term relationships with them through sustained high-quality performance.
- Investment banking (12% of revenue) – it is a highly regarded category 1 merchant banker in India and despite volatile markets, it completed 29 transactions in 2022, including 13 equity IPOs. It continues to have a substantial pipeline of transactions which are at various stages of execution.

IIFL SEC, at a valuation of only 9.0 times price to estimated March 2023 earnings and price to estimated March 2023 BVPS of 1.4 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 18 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 in over 690 warehouses in 16 states in India. It has a network of 23 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 multiple agrarian states of India. Of these, two locations have been completed and commissioned and five others are expected to be completed in 2023. 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 6 locations that were unviable and is evaluating termination at 3 other locations.

Three years ago, NCML decided to reorient its business and redirect capital into businesses with a better risk reward profile. In 2022, Sanjay Gupta was appointed as the CEO 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 2022, NCML continued to intentionally shrink its two formerly large business segments – supply chain management and collateral management – to align risks and rewards. In addition, during 2022 higher commodity prices and a SEBI ban on futures trading in agri commodities adversely impacted NCML's storage and preservation segment (the most important segment of its business).

As a result, 2022 was another difficult year: revenue declined by 22% to $32.3 million and net loss increased to $12.3 million (including a one-time provision of $2.6 million) from a loss of $10.6 million in 2021. NCML proactively made provisions for losses from contracts signed in previous years to strengthen its balance sheet.

Under Sanjay's leadership, NCML continues to work on business strategies to achieve excellent profitability.

Maxop Engineering Company (Maxop)

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 Arora, its founder and owner, 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%, was completed in September 2022 for a further payment of $22 million.

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 who 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.

Maxop's revenue increased in 2022 to $70.5 million from $65.7 million in the previous year and EBITDA remained at similar levels as 2021 at about $15 million, but net income decreased from $8.8 million to $6.0 million resulting in a price to earnings ratio of 13.5 and a price to book value ratio of 2.5.

Maxop demonstrated resilient revenue growth in a market impacted by reduced exports (due to the energy crisis in Europe as the Ukraine war impacted export volumes to Europe) through higher volumes to domestic customers, but the change in export-domestic mix negatively impacted margins for the year. To partly mitigate cost pressures, Maxop has set up a new alloy plant (backward integration) in Manesar, Haryana. Growth outlook for the coming year remains strong through volumes from a significant potential new customer and new part nominations from other existing customers. Maxop is evaluating expanding capacities to meet the increased demand.

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 197,200 TEU (twenty-foot equivalent unit shipping containers) per annum and handled about 125,700 TEU in 2022, implying capacity utilization of about 64%. It has achieved a market share of about 14% at Mundra port, the highest among all CFS there.

Under the able leadership of Raghav Agarwalla, Saurashtra produced good financial results in 2022. Volume of containers handled increased by 5% to about 125,700 TEU, revenue increased by 24% to $42.2 million and EBITDA increased by 15% to $10.5 million but net income was lower by 11% at $5.5 million due to foreign exchange losses and higher depreciation on the additional tanks purchased during the year. Saurashtra generated an ROE of 13% versus 17% the previous year, generated $8.8 million of free cash in 2022 and at year-end had a cash balance of $24.5 million and debt of $8.3 million.

Fairfreight Lines, the NVOCC (non-vessel operating common carrier) business that Saurashtra launched in 2017, made excellent progress in 2022. It added a seven-person office in Singapore and a three-person team in Dubai to help drive this business. While its dry box inventory has remained relatively flat around 1,200, its tank inventory has increased 29% from about 1,320 to over 1,700 tanks. As a result, in 2022 this business accounted for 47% of Saurashtra's revenue and 39% of its net profit.

In 2017 Fairfax India invested $30.0 million to acquire a 51% interest in Saurashtra. At the end of 2022, this investment was valued at $50.7 million.

IIFL Wealth Management (now 360 ONE WAM) (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.

In November 2022 Fairfax India sold a 9.8% (of 13.6% held) shareholding in IIFL Wealth to Bain Capital for gross proceeds of $171.8 million, realizing a net gain of $54.0 million. Fairfax India sold an additional 1.3% shareholding in IIFL Wealth during December 2022 for additional proceeds of approximately $25.6 million, resulting in a realized gain of $9.8 million. At year-end Fairfax India's share ownership in IIFL Wealth was 2.5%.

Our decision to sell a large portion of our holding and eventually our entire holding was because we generated an 12% return on the investment and the majority shareholder, General Atlantic, with whom we were comfortable partnering, was also exiting.

By way of background, in December 2015 and February 2017, we acquired 84.6 million common shares of IIFL Holdings Limited, representing a 26.9% equity interest therein, for aggregate cash consideration of $276.7 million. In October 2017 and May 2019, IIFL Holdings (now IIFL Finance) spun off 5paisa, IIFL Wealth and IIFL Securities. At spin-off, our then 14.2% shareholding in IIFL Wealth (later diluted to 13.6%) was recorded at its estimated fair value of $191.4 million. At the end of 2022, including proceeds on sales and the fair value of our remaining shareholding in IIFL Wealth, the aggregate value of Fairfax India's position was $244.2 million (representing a $52.8 million increase from IIFL Wealth's estimated fair value at the time of spin-off).

At December 31, 2022, the other three IIFL companies (excluding IIFL Wealth) were valued at $587.5 million and the proceeds from IIFL Wealth alone will recover substantially all of the original cost of IIFL Holdings.

We wish Karan and Yatin the very best in the future.

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 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 Ninad on engineering and production. They will continue to drive the business and stay invested with a significant minority stake.

In 2022 Jaynix's revenue increased from $26.3 million to $35.1 million, EBITDA increased from $7.7 million to $11.7 million and net income increased from $5.3 million to $7.7 million, generating an ROE of 42% and resulting in a price to earnings ratio of 6.4 and a price to book value ratio of 2.7.

Jaynix continues to see strong demand growth for its electrical neutral bars, lugs and connectors from its existing customers, and it has expanded its product suite to provide higher value assemblies (in which its components are used) to a new large customer it won in 2022.

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 3.4 million in 2022. The 5paisa mobile app has been hugely popular, recording over 14 million downloads and sustaining a rating of 4.3 on Playstore.

While it had its best year ever in 2022 – total revenue grew by 30% to $42.8 million and it made a small profit after tax of $4.3 million – because of the intense competition from established and new discount brokers, its market share in retail cash broking fell from 3.1% to 2.8%, even while adding customers at an average rate of about 81,000 per month. 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.

Developments in India

India's tectonic economic rise is one of the most compelling narratives of the last few years. The strength of the Indian economy has come to the global forefront. In the last eight years since Prime Minister Narendra Modi came to power, per capita income has doubled. In a world beset by tepid growth caused by the pandemic, inflationary pressures and geopolitical tension, India is a large bright spot. Its underlying strengths will be a conspicuous feature of the global economy in the coming years.

India will represent almost one-fifth of global economic growth in the coming years. In 2022, India became the world's fifth largest economy, surpassing the United Kingdom, and it will become the world's most populous country in 2023 with a population exceeding 1.4 billion, supplanting China. India is a 'young' country with half of its population under the age of 30. This demographic dividend will mean that over the next quarter century, one-sixth of the world's working age population (15-64) will be from India. India is undergoing an energy transition and while its dependence on fossil fuels will continue, most of the incremental energy supply will come from renewable sources.

One of the most remarkable transformations taking place in India is the accessibility to basic banking services, especially at the bottom of the pyramid. In the last eight years, over 478 million new bank accounts have been opened under the government's financial inclusion initiative, principally in rural and semi-urban locations, and with women accounting for over half of the account holders.

By many important measures the Indian economy has shown multipronged strengths. These include well-controlled inflation, increased foreign direct investment to become the eighth largest global recipient, healthy foreign exchange reserves that are the fifth largest in the world, an emerging global presence in its exports of goods and services, a vibrant start-up system to become the world's third largest source for unicorns, record levels of foodgrain production, and a massive adoption of technological platforms that have led to the robust rise in digital payments, an increase of 63%, year-over-year.

The coming of age of capitalism in India was demonstrated by the way it handled the recent high-profile controversy caused by a short-seller investor research firm that issued a critical report on one of India's major industrial groups. In the aftermath, the market value of the group's companies experienced substantial declines and caused them to withdraw a public stock offering. The international publicity of the matter led to questions about the wider implications on the Indian economy and investor sentiments. Senior government officials including the Finance Minister, the Reserve Bank of India and the regulator SEBI have all reiterated their confidence in the solid reputation of their regulatory institutions and were confident that it is the markets that will deal with such fluctuations, not the government. Significantly, the initial volatility in Indian markets subsided and there was no systemic impact. The Indian growth story is underpinned by strong fundamental factors and its underlying strengths will allow it to effectively deal with perturbations, such as the one emanating around this affair.

The national government's commitment to physical infrastructure is evident in transformative budgetary allocations and in the implementation of large-scale projects across the country. A renewed focus to increase the share of the manufacturing sector, which currently is one-sixth of the economy, is the government's Production Linked Incentive (PLI) program. This program has been set up to attract foreign capital towards domestic manufacturing. In a global environment that seeks to diversify supply chains, India has emerged as a crucial alternative. The agricultural sector continued to show stability, with growth of over 3% in 2022. The strength of the Indian economy is also evident in the collection of GST at the national and state level, representing record levels of revenue. Its December 2022 level was over 15% higher than in December 2021.

In the national budget tabled in February, the government continued its commitment to infrastructure development with an increase of 33% in its capital expenditure. Similarly, the railways sector received the largest ever capital allocation. The budget also adhered to its previous stated goal of keeping the fiscal deficit at 6.4% of GDP. Significantly, personal tax rates have been reduced, benefiting the middle class. Additionally, the improvement in public services is evident in the average processing period for income taxes being reduced from 93 days to 16 days in the last eight-year span.

The changes taking place in Indian society are striking. Per-capita GDP has crossed US$2,000, an important threshold that will unleash the Indian household's discretionary spending. The relevance of this threshold is evident from the previous experience in growth patterns of other emerging markets, especially in their major urban centers. As they approach the benchmark of per-capita GDP of US$10,000, the impact becomes transformational. In the case of India, its major cities are leading the way, with significant economic growth already underway. Mumbai, Bengaluru, Chennai and Delhi have either crossed this threshold of US$10,000 or are very close to reaching it. This pace of rapid urbanization combined with a real estate boom, will markedly increase private consumption. India's consumption-led economy is a key feature of its ongoing growth, mitigating international pressures.

Optimism on India is reflected in the positive views held by private sector leaders in India and abroad. Multinational companies are more interested in investing in India. Over the last eight years FDI has exceeded $500 billion and is set to grow significantly. The race to attract foreign capital is taking place at the sub-national level as well, with states implementing pro-business policy reforms. Increasingly, the economic and geopolitical prominence of India is coming into sharper focus. India assumed the Presidency of the G-20 in 2023 and its influence continues to grow globally. The country's upward economic trajectory, combined with a stable majority government under Prime Minister Modi, presage the 2020's to be "India's decade".

As we end our first eight 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 Jennifer Li, Judy Chow, Victor Ma, Brad Van Hoffen, Kasi Rao and Nadir Patel. We would also like to thank our independent directors – Chris Hodgson, Deepak Parekh, Satish Rai, Sharmila Karve and Lauren Templeton – for their wise advice, support and encouragement. We acknowledge with much gratitude the role that Tony Griffiths, who retired this year, played as our lead director from inception.

We regret to announce the passing of Alan Horn, who served as an independent Board Member on Fairfax India's Board of the Directors and the Chair of the Audit Committee. We benefitted greatly from Alan's business acumen, strategic guidance and commitment to excellence.

We are pleased to welcome Bill McFarland (Fairfax Financial's lead director) as an independent director.

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 20, 2023.

March 10, 2023

Chandran Ratnaswami
Chief Executive Officer

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, 2022.

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, 2022, and is a key performance measure.

Book value per share before cumulative performance fees – This measure adjusts the common shareholders' 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, 2022.

Cash and marketable securities – The company uses this measure to monitor short term liquidity risk. This measure is calculated by the company as the sum of cash, cash equivalents, short term investments, Government of India bonds and Other Public Indian Investments. Those amounts are presented in note 6 (Cash and Investments) within the consolidated financial statements for the year ended December 31, 2022.

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 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 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' 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, 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 $206.9 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, interest or 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

Book value per share without the rupee devaluation – This measure adjusts common shareholders' equity in the book value per share calculation to add back unrealized foreign currency translation losses attributable to shareholders and net foreign exchange losses recorded in the current period. The company uses this measure to evaluate its performance, excluding the impact of the depreciation of the Indian rupee in the current period.

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.