FAIRFAX INDIA
HOLDINGS CORPORATION

2015 Annual Report

Contents

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HOLDINGS CORPORATION

2015 Annual Report

Fairfax India Holdings Corporation Performance

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

On January 30, 2015 Fairfax India Holdings Corporation subordinate voting shares began trading on the Toronto Stock Exchange under the symbol FIH.U.

	December 31, 2015
Book value per share	9.50
Closing share price[(1)]	10.10
Revenue	65,251
Net earnings	40,939
Total assets	1,025,451
Investments	978,569
Common shareholders' equity	1,013,329
Shares outstanding[(2)]	106,678,879
Earnings per share	0.42

(1) *All share references are to common shares; Closing share price is in US dollars; Per share amounts are in US dollars.*

(2) *Includes 76,678,879 subordinate voting shares and 30,000,000 multiple voting shares.*

Corporate Profile

Fairfax India Holdings Corporation is an investment holding company whose investment objective is to achieve long-term capital appreciation, while preserving capital, by investing in public and private equity securities and debt instruments in India and Indian businesses generally with a view to acquiring control or significant influence positions.

Investee companies

National Collateral Management Services Limited is a private-sector agricultural commodities storage company in India that operates in the agriculture value chain by offering end-to-end solutions in grain procurement, testing, storage and collateral management.

Adi Finechem Limited is a specialty chemical manufacturer. Adi manufactures oleo chemicals used in the paints, inks and adhesives industries, as well as intermediate nutraceutical and health products. It has developed an in-house technology that uses machinery manufactured by leading European companies to convert waste generated during the production of soy, sunflower, corn and cotton oil into valuable chemicals.

IIFL Holdings Limited is a publicly traded, diversified financial services holding company in India with subsidiaries in non-banking finance company (NBFC) business, wealth management, retail broking, institutional equities, investment banking and financial products distribution. IIFL serves over three million customers from 2,500 business locations in 850 cities and towns in India. It also has an international presence, with offices in New York, Singapore, Dubai, Geneva, Hong Kong, London and Mauritius.

To Our Shareholders:

It is with much delight and appreciation that we write our inaugural letter to you, our valued shareholders. Fairfax India Holdings began business in early 2015 when, with your support, it raised $1.1 billion(1) by completing a public offering and a placement to cornerstone investors of 76,678,879 subordinate voting shares and an issue to Fairfax Financial of 30,000,000 multiple voting shares.

Based on Fairfax Financial's successful experience over many years of investing in India and our belief (discussed in more detail below) that India was on the verge of a long period of significant growth, the purpose of Fairfax India was to make long term investments of meaningful size in public and private equity and debt securities with a view to acquiring control or significant influence positions in India and Indian businesses or other businesses with customers, suppliers or business primarily conducted in, or dependent on, India.

The deployment of the initial funds raised into the intended investments was expected to unfold over our first couple of years. Until the funds raised were deployed, they would be kept in interest-bearing securities. It's therefore not surprising that after the first year, there's not much to say about financial results. The company had 2015 net earnings of $40.9 million ($0.42 per basic share), derived from interest income on its investment portfolio and unrealized gains on investments. Book value per share at December 31, 2015 was $9.50, marginally less than the initial book value reflecting the IPO expenses, as a result of unrealized foreign currency translation losses, partially offset by the 2015 net earnings. What is really interesting is to remind you of our background and purpose, to discuss our view of what is happening in India, and to talk about the three investments agreed during 2015 which we have completed (at an aggregate cost of approximately $370 million).

To remind you of the background of Fairfax India, we reproduce for you below the relevant portion of the Chairman's letter to shareholders in Fairfax Financial's annual report for 2014, because it describes the essence of the reasons for the creation of Fairfax India:

> In May 2014, India's political climate changed dramatically for the better with the election of Prime Minister Narendra Modi with a resounding majority. For the first time in 67 years, India has an unabashedly business friendly government. The ineffectiveness of India's previous governments is seen by the fact that Canada's economy at approximately $2 trillion with 35 million people is about the same size as India's economy with 1.2 billion people. Mr. Modi has had great success in Gujarat, a state with 65 million people which he governed as Chief Minister for 13 years (elected three times). Gujarat had real economic growth of over 10% per year during this period while bringing water and electricity and providing child education to virtually every household. We think Mr. Modi can transform India, particularly if he gets re-elected for two more terms, as we think he will. He has an excellent track record, is incorruptible and is business friendly. We expect Mr. Modi to be the Lee Kuan Yew of India!
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> Mr. Modi's election led us to rethink the investment opportunities in India and our ability to fund them. While we have $26 billion in investments at Fairfax, regulatory constraints limit our ability to invest significant amounts in India. Given our excellent long term track record investing in India, our very significant on the ground resources with Harsha Raghavan at Fairbridge, Madhavan Menon at Thomas Cook India, Ajit Isaac at Quess (the new name for IKYA), Ramesh Ramanathan at Sterling Resorts and also S. Gopalakrishnan, the long serving head of investments at ICICI Lombard, we felt it was appropriate to create a new public company, Fairfax India, to invest in India. In early 2015, Fairfax India went public, raising $1.1 billion and listing on the Toronto Stock Exchange. Fairfax provided $300 million of that capital by purchasing multiple voting shares, giving it 28.1% of the equity and 95.1% of the votes. A number of institutional investors, almost all existing long term Fairfax shareholders, invested approximately 90% of the remaining $800 million raised. We are very excited about the long term prospects for Fairfax India under the leadership of Chandran Ratnaswami as CEO and John Varnell as CFO.
>
> Last year we said that Thomas Cook India would be our vehicle for further expansion in India. For the reasons mentioned above, we have now added Fairfax India as an investment vehicle in India. Thomas Cook India's resources may constrain the size of deals it can do, although we expect that deals in its area of expertise will continue to be done in that company. In determining the appropriate vehicle for any investment, we will consider all of the relevant circumstances and we will be fair, as always, in order not to disadvantage one of these vehicles.

(1) All dollar amounts in this letter are in U.S. dollars.

Fairfax India has an investment philosophy and strategy that is very similar to that of Fairfax Financial. We employ a conservative, fundamental value-based approach to identifying and investing in high quality publicly listed and private Indian businesses. We rely primarily on Harsha Raghavan, the CEO of Fairbridge, a wholly-owned Indian subsidiary of Fairfax Financial, his Vice Presidents Sumit Maheshwari and Sarvjit Bedi, and their team to identify potential investments. S. Gopalakrishnan, the long serving head of investment at ICICI Lombard, Fairfax Financial's joint venture insurance operation in India, also assists us in identifying potential investment candidates. Our Mauritius subsidiary, FIH Mauritius Investments, and its CEO Amy Tan are also an integral part of our investment process. In Toronto, Mayur Gadhia in finance and John Tobia as legal counsel provide us with strong support in all our activities, and John Varnell as CFO and Secretary has (as he has done with other Fairfax Financial start-ups) provided strong leadership in setting up Fairfax India and getting it off to a smooth start. In addition, we have the benefit of the advice and wisdom of our independent directors, Deepak Parekh, Tony Griffiths, Chris Hodgson, Alan Horn and Punita Kumar-Sinha.

All of our investing is overseen by our portfolio manager, Hamblin Watsa Investment Counsel (the highly experienced and successful investment management subsidiary of Fairfax Financial), which has an enviable track record of investing in Indian equities starting in 2000.

While we are bottom-up investors looking to buy exceptional Indian companies at reasonable prices, since our investment thesis was predicated on the transformational impact on the Indian economy of Prime Minister Modi, we would like to review how things are tracking in India as compared to our initial expectations.

We are not in the large camp of naysayers who are disappointed because they expected miraculous changes and immediate results. We had no such expectations for an economy that was moribund from 67 years of socialism, a literally unnavigable bureaucracy and endemic corruption, but we see significant progress on many important fronts since the new government took office. Here is a list of measures already enacted by this government (our apologies that the list is so long!):

Crack-down on crony capitalism: Corruption in high places has dramatically declined and there is a crack-down on crony capitalism and the patronizing of well-connected industrialists by public sector banks (although they still have to deal with vested interest lending of the past). The tendering process of government departments and public sector companies is being made transparent and decision-making powers are being responsibly delegated.

Implementation of a biometric-based identity program (Aadhaar scheme): The Aadhaar network of biometrics-based identity now covers 970 million people or 75% of the country's population. Growth in Aadhaar coverage creates a credible base for future direct benefit transfers (DBT) of government subsidies.

Financial inclusion: Almost 200 million new bank accounts have been opened under the Jan Dhan scheme, a program launched by Prime Minister Modi to open zero balance bank accounts for all Indians who did not already have a bank account. 43.2% of these accounts are linked to Aadhaar and they are thus unique. This creates a credible base for expanding the scope of DBT in the future. Only some 32 million of these accounts have zero balances and savings accounts opened under this scheme have aggregate deposits of $4.5 billion. Out of India's 240 million households, 140 million middle and higher income households have already been mapped through another scheme called the LPG scheme, and the Jan Dhan scheme will likely cover the vast majority of the rest.

Subsidies shifting to DBT: The government has started the process of shifting all subsidy payments to a DBT framework. The liquefied petroleum gas (LPG) subsidy has already completely moved to the DBT framework and this has resulted in a substantial elimination of duplicate and fraudulent subsidy claims. Without DBT, it was suspected that 50% of the subsidies ended up in the hands of middlemen and crooked politicians. The government is doing a pilot program to move the food subsidy to DBT. Recently the government also took a decision to move the kerosene subsidy to the DBT framework. A combination of lower crude prices and deregulation of diesel and petrol prices should cut down the fuel subsidy cost from $9 billion in fiscal 2015 to an estimated $4.5 billion in fiscal 2016.

Improvement in national railway infrastructure: The government is focusing on improving railway infrastructure and proposes to invest $130 billion in this area over the next five years. Projects worth $14.5 billion have already been approved for capacity augmentation. Also, Japan has agreed to modernize 400 railway stations that the government has identified for upgrading with private investment.

Corporate tax: In its budget last year, the government announced its intent, over the next few years, to cut the corporate tax rate to 25% from 30% and to eliminate exemptions, in order to simplify the corporate tax structure and to improve the competitiveness of Indian companies. Recently, the government announced a roadmap for implementation, with the process beginning in this year's budget. This should improve the ease of doing business.

Financial turnaround of state power distribution companies (DISCOMs): The government has approved a plan to revive the chronically dysfunctional DISCOMs. The DISCOMs' collective debt is some $65 billion at rates of 14-15% per annum. The government has proposed that the states should take over 75% of DISCOM debt over the next two years and bear 50% of any future DISCOM losses. This proposal should improve the financial health of DISCOMs and, along with other measures to lower costs and improve efficiency, should help achieve the goal of 24/7 power supply.

Auction of coal mines: A total of 31 coal mines have been auctioned so far, including 13 mines that are currently non-producing where production should start in the next 12 months. Another 36 mines have been allotted to public sector companies and 130 non-producing mines are expected to be auctioned or allocated over the next year. This could add, over time, 300-350 million tons to the current annual coal production of about 500 million tons.

Other mineral mines are also to be auctioned: The government will henceforth conduct open auctions for all new mining concessions for bauxite, iron ore, limestone and manganese ore. This should boost India's mining output in the coming years and reduce its dependence on imports. States have identified 108 new and unexplored mineral blocks that can be auctioned in fiscal 2016 and the auction process has commenced.

Higher foreign direct investment (FDI) in insurance, defence and railway infrastructure: The government has increased FDI limits in the insurance, defence and railway sectors. Further, it has allowed composite FDI and foreign portfolio investments (FPI) caps in most sectors, giving companies flexibility in deciding the composition of foreign investment they seek to attract. FDI of $1.8 billion has been announced in the insurance sector due to the increase in FDI limits. India was recently the top ranking destination for FDI, ahead of China and the U.S., with $31 billion of inflows in the first half of 2015.

Bankruptcy code: India does not have a proper bankruptcy code to deal with the issue of business distress. The multiple laws in this area, coupled with delays in the judicial process, have resulted in inordinate delays in resolving business distress. The government promised a world-class bankruptcy code in last year's budget, and a draft code has been introduced in Parliament.

Smart cities: The government has unveiled a list of 98 cities in which to promote integrated planning for urban India. Under this scheme, the government intends to improve the quality of urban life and drive economic growth by focusing on the availability of water, electricity, public transport, sanitation, healthcare and education. The central government would provide $15 million annually for five years to each of the named cities and any remaining amount required would be financed by the state governments.

Metro rail (commuter infrastructure): 12 new metro rail projects with a total length of 460 kilometres (km) and a cost of $25 billion are under various stages of approvals and funding arrangements. This is in addition to the 270 km of metro rail already in operation, and 280 km under construction. Projects worth $11 billion exhibit high visibility, since all approvals and funding have been finalized for these projects; the balance should be ready for awards over the next 18 months. Civil contractors, rolling stock suppliers, and transmission and distribution (T&D) equipment manufacturers would be key beneficiaries.

Progress on dedicated freight corridors (DFCs): $12 billion of work on Western and Eastern DFCs commenced in late 2013, and work orders of $3 billion have already been placed. Ongoing work consists of civil, electrical and mechanical jobs for tracks and bridges. With commissioning planned by December 2019, awards of more orders worth at least $3 billion are expected in 2016. Funding for the $6 billion Western corridor has been finalized with the Japanese International Cooperation Agency. Funding for the Eastern corridor has been partially arranged with the World Bank and 90% of land acquisition is complete.

Archaic labour and other laws amended: Legislation to amend the Factories Act, 1948, the Apprentices Act, 1961, and the Labour Laws Act, 1988 have been passed, with the aim of easing bureaucratic interference for manufacturers. The government also intends to further ease labour laws but needs to negotiate and agree changes with labour unions and the opposition parties. Meanwhile it has also given the flexibility to states to amend labour laws to promote industrial growth. States like Rajasthan, Madhya Pradesh and Gujarat have already taken the initiative to amend labour laws and Maharashtra is also likely to change labour laws to encourage manufacturing.

Elimination of obsolete laws: The government has passed legislation repealing 125 statutes. A committee set up by the government to identify obsolete laws has identified 1,741 acts to be repealed. The process of repealing is in progress and the government is seeking views from relevant ministries to eliminate the laws.

Make In India: In September 2014 the government launched the "Make In India" initiative to promote manufacturing in India. With the intent of enhancing workforce skills and generating employment in manufacturing intensive sectors, the program focuses on 25 sectors including automobiles, chemicals, textiles, pharmaceuticals and electronics. The government has liberalized norms for foreign investment in these sectors, with most being open to 100% foreign investment.

Invest India: With dynamic leadership, this national investment promotion and facilitation agency (which is a joint venture among the Government of India, the Federation of Indian Chambers of Commerce and Industry (FICCI) and state governments of India) has been rejuvenated. The agency's team is made up of successful professionals with prior experience working at major global consulting firms and corporate houses in India, all of whom have post-graduate degrees from prestigious foreign and Indian institutions in disciplines such as engineering, economics and business management. The agency's mission is "promoting foreign investments in India in a focused, comprehensive and structured manner while acting as the first reference point to provide quality input and support services to foreign investors."

Involvement of states to improve business environment: Given the federal structure of governance, states also need to be involved in improving the business environment. The central government, with assistance from the World Bank, has ranked states on the ease of doing business. As noted above Rajasthan, Madhya Pradesh, Gujarat and Maharashtra have focussed on labour law amendments; as well, Maharashtra has also simplified procedures to start a business.

National agriculture market: The government has proposed to set up an online trading portal where farmers could sell their produce to buyers anywhere in India. It has allocated $30 million over the next three years to cover 585 regulated markets across the country. This should integrate agriculture markets across India and eliminate the requirement of multiple licences and fees. The integrated market should help improve the supply chain, reduce wastage and provide better pricing to farmers.

Populist decisions avoided: The government has avoided taking populist decisions and instead has tried to cut expenditure by eliminating wasteful subsidies, as follows:

1) It has taken several decisions to reduce the fuel subsidy, and recently announced elimination of the LPG subsidy to households earning more than $15,000 per year.

2) It has announced modest minimum support price (MSP) increases, which in turn has helped contain food inflation.

3) It has focused on executing existing projects to decongest severely congested rail networks rather than announcing new trains and projects. It has also raised passenger fares and freight charges to increase rail revenue.

4) To improve the efficiency and work culture of the bureaucracy, it has launched a biometric-based attendance system that should help cut absenteeism and improve the punctuality of bureaucrats and government officials across the country.

As the government works tirelessly to slash red tape, generate massive job creation through a fast-growing economy and attract increased foreign and infrastructure investment, the Governor of the Reserve Bank of India (RBI), Dr. Raghuram Rajan, has been a crusader for a more competitive and efficient banking system in India. The RBI has granted 23 new banking licences in the last two years, has been instrumental in promoting the new bankruptcy code which is now before Parliament and has introduced measures to reform public sector banks. Since Dr. Rajan took office in September 2013, CPI inflation has decreased from 10.5% to 5.6% and the wholesale price index (WPI) has gone from 7.1% to minus 0.7%.

As always with massive change, there are some obstacles. The politically motivated opposition, which controls the upper house of Parliament, has managed to thwart legislation for the implementation of a national GST and for land acquisition reform. The government has not been forceful in pursuing reforms to the public sector banks. Opposition arises from entrenched vested interests (ironically, the desirable reduction of subsidy-funded consumption growth and crony capitalism-driven investment by the "advantaged" corporate houses results in a short-term drag on the economy). But overall, India is in the throes of making monumental transformational changes for the better.

Before we turn to the investments we have made, a word about the investment of our cash pending its use for purchasing investments. Rather than leave that cash earning virtually no interest in U.S. government securities, we invested the majority of it in rupee-denominated Indian government bonds or bonds of AAA-rated Indian corporations or corporations controlled by the Indian government, yielding better than 8% per annum. We felt the return justified the interest rate and exchange risk. However, the 2015 weakening of the rupee to the U.S. dollar caused unrealized foreign currency losses on our Indian cash and investments which are included as part of the comprehensive income statement.

Now we are pleased to report to you on the investments we have made in India.

National Collateral Management Services Limited (NCML)

In April of 2015, we met Sanjay Kaul, the CEO of NCML, and we were very impressed. Eight years ago, after 28 years in the prestigious Indian Administrative Service (IAS), where his last role was in the agriculture ministry, Sanjay transitioned to the private sector as the CEO of NCML. Since his arrival, Sanjay has shepherded NCML to its current position as the leading private sector agricultural commodities storage company in India.

NCML is a ten year old company now preparing to expand to take advantage of the significant market potential in India's under-developed agricultural storage industry. NCML operates in the agriculture value chain by offering end-to-end solutions in grain procurement, testing, storage and collateral management. As a result of recently announced fiscal and non-fiscal changes in agriculture and food policy, private companies like NCML are enhancing their range of services provided to Indian farmers, traders, food processors, banks, the government and other businesses connected to the agriculture supply chain. This is expected to significantly improve efficiencies to help India achieve its stated national objective of greater food security.

NCML has more than 1.3 million tons of storage capacity across 794 warehouses in 18 states. It has a network of six regional offices, more than 176 touch points at agricultural produce markets and thousands of farmers and traders to facilitate procurement of commodities. With assets under management of $1.4 billion, NCML commands over a 50% share of the collateral management business in India, offering custodial services to more than 50 banks for the management of collateralized commodities based on which banks advance post-harvest loans to the farmers or dealers owning commodities.

Some of you will remember that Fairfax Financial is the largest shareholder in AFGRI, Africa's largest warehouse management company, with over 90 years of history and extensive operations across 14 African nations. In addition to our own due diligence work on NCML prior to investing in it, we availed of AFGRI's expertise in providing post-harvest financing to small farmers, as well as in modern warehouse management techniques such as the maintenance of produce using silos. Chris Venter, the CEO of AFGRI, after his team spent two weeks helping us perform due diligence on NCML, wrote: "After spending time with NCML management, visiting its infrastructure as well as meeting with its competitors, we do believe it is a great investment opportunity supported by good management and a strong growth strategy." AFGRI may work with NCML in some areas and also may assist NCML in implementing its strategy in India.

There were several reasons why we believed that NCML was an excellent investment opportunity:

a) **Massive market potential:** India's agricultural commodity storage requirement is approximately 118 million tons. Of this, 80% is controlled by government agencies and 15% by unorganized players such as private warehouse owners and farmers themselves. Private sector companies account for only 5% of the total capacity. NCML is the largest private sector warehouse and collateral management company in India but currently has only a minuscule share.

b) **Deregulation under the new Modi government will favour established private sector commodities management companies:** For decades, procurement of rice, wheat and several other staple items has been undertaken by a government subsidiary called the Food Corporation of India. These items are then distributed to ration shops under the Public Distribution Systems scheme. Given that corruption, inefficiencies, wastage and theft had reached epic proportions, the new Modi government formed the Shanta Kumar committee to review this area, and that committee has recommended moving towards an outsourced model which will favour private sector players.

c) **Impressive infrastructure:** NCML has impressive infrastructure that includes warehouses with excellent facilities, processes and practices at multiple locations and a food testing laboratory in Hyderabad.

d) **Top notch management team:** Sanjay has been with NCML for eight years as CEO. He has maintained a stable team (the 13 next most senior executives have all been in their roles for at least five years). NCML understands the business extremely well and has robust processes to manage risk.

e) **Limited competition and high barriers to entry:** There are only three other large private warehouse and collateral management companies in India. As NCML is the largest and the only one which combines storage capabilities with a testing laboratory, we think that NCML will be at the forefront of India's journey from the current bag storage of grain to silo storage, as practised in most major agriculture markets in the world.

We invested $148.7 million to acquire an 88% interest in NCML, of which $30.7 million was a capital infusion into the company to fund growth plans while the remaining $118 million was used to purchase shares from existing shareholders.

IIFL Holdings Limited (IIFL)

IIFL came to us as a known commodity! Fairfax Financial has been a satisfied shareholder of the company (originally called India Infoline) since 2010, has had a board representative since 2012 and currently owns a direct equity interest of 9% and an indirect economic interest through participatory notes (P Notes) of 5%.

Fairfax Financial first came to know of IIFL in 2005 in using the services of its newly formed institutional broking business created by H. Nemkumar and Bharat Parajia. That broking company soon established an outstanding research team and outstanding service and quickly became one of the leaders in institutional broking in India. Its client list included major foreign investors and mutual funds from around the world. Through using IIFL's services, Fairfax Financial came to know Nirmal Jain, the dynamic entrepreneur who founded the company and who as CEO had guided it from being a provider of equity research to becoming as well a low cost retail stock broker and later a distributor of financial (mainly insurance) products. Through this entire evolution, Nirmal was supported by his business partner, Managing Director R. Venkatraman.

By the time Fairfax Financial became a shareholder, IIFL had become a diversified financial services holding company with subsidiaries in non-banking finance company (NBFC) business, wealth management, retail and institutional stock broking, investment banking and financial products distribution.

Today IIFL serves over three million customers from 2,500 business locations in 850 cities and towns in India. It also has an international presence, with offices in New York, Singapore, Dubai, Geneva, Hong Kong, London and Mauritius. In addition to the founding team, IIFL has a highly qualified, experienced and committed management team.

A brief description of each of IIFL's businesses follows:

a) **NBFC business:** This is a business that makes loans to a well-diversified mix of customer segments, including capital markets, commercial vehicles, corporate, gold, home mortgage, property and medical equipment loans. Over the last four years, the loan book has grown at 30% per year to $2.3 billion, while income has grown at 38% per year to $394 million. Gross and net non-performing assets are 1.6% and 0.8% respectively of total assets. The business enjoys a net interest margin of about 7% and a return on equity of about 15%. The cost to income ratio has dropped to about 40% from 65% four years ago.

b) **Wealth management:** This is the fastest growing business in IIFL. This division was a pioneer in launching alternate investment funds across equity, real estate and high yield debt. The division's strong growth is driven by all of its varied business segments – distribution services, asset management, advisory and wealth structuring solutions. It has created a niche by providing unique solutions for its clients in the areas of succession planning, asset protection and administration services. Over the last four years, assets under management have grown at 46% per year to $11.1 billion, income has grown at 61% per year to $72.2 million and profit after tax has grown at 92% per year to $17.5 million. In October 2015 General

Atlantic, a U.S. private equity fund, agreed to buy a 22% interest in IIFL's wealth management business for approximately $173 million, thus valuing just this business at some $800 million.

c) **Agency business:** This category is a collection of retail and institutional stock broking and advising, financial products distribution, mutual fund management and investment banking. The broking business, which is well known for its high quality and innovative research covering over 500 Indian stocks, is a leader in its field, with internet broking accounting for 48% of its retail trade, compared to an industry average in India of 11%. The distribution business is the leading non-bank distributor of life insurance products in India and among the top four in the distribution of mutual funds. The investment banking arm is a growing enterprise, having led or participated in several IPOs, with several others in the pipeline.

For its fiscal year ended March 31, 2015, IIFL had total revenue of $576 million (up 29% from the previous year), profit after tax of $70 million (up 61%), total assets of $3.1 billion (up 33%) and shareholders' equity of $409 million (up 19%), resulting in a return on equity of 19%.

In December 2015, pursuant to an open offer at rupees 195 ($2.93) per share, we purchased 22% of the IIFL shares outstanding for a total consideration of $202 million. The price of rupees 195 per share represented a trailing price/earnings ratio of 12.9 times, a price to book ratio of 2.0 times and a dividend yield of 1.5%.

Adi Finechem Limited (Adi)

In 2010 Nahoosh Jariwala and three childhood friends and their families were holidaying together at a tiger reserve in Central India. Nahoosh and his older cousin Rajan had founded Adi in 1985 and listed it on the Bombay Stock Exchange in 1995. While Nahoosh had big dreams for the business, Rajan was not so keen, so while still on the holiday Nahoosh's three friends decided they would buy out Rajan and support Nahoosh's aggressive growth plans. Over the following five years until we came to hear of Adi, Nahoosh had exponentially grown Adi's manufacturing capacity from 8,000 to 45,000 metric tons per annum.

Adi is an oleo chemicals company. Oleo chemicals are, broadly, chemicals that are derived from plant or animal fat, which can be used for making both edible products and non-edible products. In recent years the production of oleo chemicals has been moving from the U.S., Europe and Japan to Asian countries because of the local availability of key raw materials.

Adi occupies a unique niche in this large global playing field. It has developed an in-house technology that uses machinery manufactured by leading European companies to convert waste generated during the production of soy, sunflower, corn and cotton oil into valuable chemicals. Those chemicals include acids that go into non-edible products like soap, 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, Advanced Organic Materials, IFFCO Chemicals and Asian Paints.

Adi operates out of a single plant in Ahmedabad, the largest city in Gujarat, the home state of Prime Minister Modi. It has the largest processing capacity for natural soft oil-based fatty acids in India. Over the last ten years, Adi's sales have grown at 23% per year to $27 million, and profit after tax has grown at 30% per year to $2.3 million.

On February 8, 2016 we purchased 45% of Adi from the three friends of Nahoosh and other shareholders at rupees 212 ($3.12) per share for a total consideration of $19 million. The price of rupees 212 per share represented a trailing price/earnings ratio of 33.9 times, a price to book ratio of 5.0 times and a dividend yield of 1.2%.

So it has been a productive first year for Fairfax India and we are excited about our initial investments. We are now looking forward to seeing you at our first annual meeting, which will be held on April 14, 2016 at 2:00 p.m. (Toronto time) at Roy Thomson Hall in Toronto. You will have the opportunity to meet with Sanjay Kaul, Nirmal Jain and Nahoosh Jariwala, the excellent leaders of NCML, IIFL and Adi. We are truly appreciative of your support as shareholders, and we do hope to see you on April 14.

March 11, 2016

Chandran Ratnaswami
Chief Executive Officer

V. P. Watsa

V. Prem Watsa
Chairman

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Management's Responsibility for the Financial Statements

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

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

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

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

The Audit Committee is appointed by the Board of Directors and reviews the consolidated financial statements and MD&A; considers the report of the external auditors; assesses the adequacy of the internal controls of the company, including management's assessment described below; examines the fees and expenses for audit services; and recommends to the Board the independent auditors for appointment by the shareholders. The Audit Committee reports its findings to the Board for consideration when approving the consolidated financial statements and MD&A for issuance to the shareholders.

PricewaterhouseCoopers LLP performed an independent audit of the consolidated financial statements, as outlined in the auditor's report contained herein. PricewaterhouseCoopers LLP had, and has, full and unrestricted access to management of Fairfax India, the Audit Committee and the Board of Directors to discuss their audit and related findings and have the right to request a meeting in the absence of management at any time.

March 11, 2016

Chandran Ratnaswami
Chief Executive Officer

John Varnell
Chief Financial Officer and Corporate Secretary

Independent Auditor's Report

To the Shareholders of Fairfax India Holdings Corporation

We have audited the accompanying consolidated financial statements of Fairfax India Holdings Corporation and its subsidiaries, which comprise the consolidated balance sheets as at December 31, 2015 and December 31, 2014 and the consolidated statements of earnings, comprehensive income, changes in equity and cash flows for the year ended December 31, 2015 and the period November 25, 2014 (date of incorporation) to December 31, 2014, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Fairfax India Holdings Corporation and its subsidiaries as at December 31, 2015 and December 31, 2014 and their financial performance and their cash flows for the year ended December 31, 2015 and the period November 25, 2014 (date of incorporation) to December 31, 2014 in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants
Toronto, Ontario

March 11, 2016

Consolidated Balance Sheets

as at December 31, 2015 and December 31, 2014

	Notes	December 31, 2015	December 31, 2014
		(US$ thousands)	
Assets			
Cash and cash equivalents	6	12,464	235
Restricted cash	6	6,457	–
Interest receivable		27,680	–
Investments	6, 10	978,569	–
Other assets		281	–
Total assets		1,025,451	235
Liabilities			
Accrued expenses		743	–
Payable to related parties	11	1,993	235
Income taxes payable	9	9,386	–
Total liabilities		12,122	235
Equity			
Common shareholders' equity		1,013,329	–
Total equity		1,013,329	–
		1,025,451	235

See accompanying notes.

Signed on behalf of the Board

V. P. Watsa
Director

Alan Horn
Director

Consolidated Statements of Earnings

for the year ended December 31, 2015 and for the period November 25, 2014 (date of incorporation) to December 31, 2014

	Notes	2015	2014
		(US$ thousands except per share amounts)	
Income			
Interest income		44,699	–
Net realized gains on investments		83	–
Net unrealized gains on investments		17,675	–
Net foreign exchange gains		2,794	–
		65,251	–
Expenses			
Investment and advisory fees	11	5,393	–
General and administration expenses	13	5,515	
		10,908	–
Earnings before income taxes		54,343	–
Provision for income taxes	9	13,404	–
Net earnings attributable to common shareholders		40,939	–
Net earnings per share	8	$ 0.42	$ –
Shares outstanding (weighted average)	8	98,019,189	1

See accompanying notes.

Consolidated Statements of Comprehensive Income

for the year ended December 31, 2015 and for the period November 25, 2014 (date of incorporation) to December 31, 2014

	2015	2014
	(US$ thousands)	
Net earnings	40,939	–
Other comprehensive loss		
Item that may be subsequently reclassified to net earnings		
Unrealized foreign currency translation losses, net of income taxes of nil	(55,263)	–
Comprehensive loss attributable to common shareholders	(14,324)	–

See accompanying notes.

Consolidated Statement of Changes in Equity

for the year ended December 31, 2015 and for the period November 25, 2014 (date of incorporation) to December 31, 2014
(US$ thousands)

	Subordinate voting shares	Multiple voting shares	Share-based payments, net	Retained earnings	Accumulated other comprehensive loss	Equity attributable to common shareholders
Balance as of November 25, 2014 and December 31, 2014	–	–	–	–	–	–
Net earnings for the year	–	–	–	40,939	–	40,939
Unrealized foreign currency translation losses	–	–	–	–	(55,263)	(55,263)
Issuance of shares, net of issuance costs and taxes	727,972	300,000	–	–	–	1,027,972
Purchases and amortization	–	–	(319)	–	–	(319)
Balance as of December 31, 2015	727,972	300,000	(319)	40,939	(55,263)	1,013,329

See accompanying notes.

Consolidated Statements of Cash Flows
for the year ended December 31, 2015 and for the period November 25, 2014 (date of incorporation) to December 31, 2014

	Notes	2015	2014
		(US$ thousands)	
Operating activities			
Net earnings		40,939	–
Net bond discount amortization		(302)	–
Net realized gains on investments		(83)	–
Net foreign exchange gains		(2,794)	–
Net unrealized gains on investments		(17,675)	–
Purchases of investments		(1,544,198)	–
Sales of investments		533,061	–
Increase in restricted cash in support of acquisitions	6	(6,457)	–
Changes in operating assets and liabilities:			
Interest receivable		(36,637)	–
Income taxes payable		9,255	–
Other		9,467	235
Cash provided by (used in) operating activities		(1,015,424)	235
Financing activities			
Subordinate voting shares:			
Issuances		766,788	–
Issuance costs, net of taxes		(38,816)	–
Share-based payments, net		(319)	–
Multiple voting share issuances		300,000	–
Cash provided by financing activities		1,027,653	–
Increase in cash and cash equivalents		12,229	235
Cash – beginning of year		235	–
Cash and cash equivalents – end of year		12,464	235
Interest (paid) received on securities			
Interest received		11,794	–
Net interest paid on purchases and sales of securities		(4,035)	–
Taxes paid		(1,573)	–

See accompanying notes.

Index to Notes to Annual Consolidated Financial Statements

Notes to Annual Consolidated Financial Statements

for the year ended December 31, 2015 and for the period November 25, 2014 (date of incorporation) to December 31, 2014
(in US$ and $ thousands except per share amounts and as otherwise indicated)

1. Business Operations

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

In early 2015, Fairfax India completed its initial public offering (''IPO'') concurrent with two private placements followed by the exercise of an over-allotment option by the underwriters (collectively ''the offerings'') and raised gross proceeds of approximately $1.06 billion (net proceeds of $1.02 billion) by issuance of subordinate voting shares (''SVS'') and multiple voting shares (''MVS''). The company's SVS commenced trading on January 30, 2015 on the Toronto Stock Exchange (''TSX'') under the symbol ''FIH.U''. The MVS are not publicly traded.

Fairfax Financial Holdings Limited (''Fairfax'') has taken the initiative in creating the company and is Fairfax India's ultimate parent and acts as its administrator. Fairfax is a holding company which, through its subsidiaries, is engaged in property and casualty insurance and reinsurance and investment management. Fairfax has been listed on the TSX under the symbol ''FFH'' for 30 years. Fairfax, through its subsidiaries, owns 30 million MVS. These MVS represented 95.1% of the voting rights and 28.1% of the equity interest in Fairfax India at December 31, 2015.

Hamblin Watsa Investment Counsel Ltd. (the ''Portfolio Advisor''), a wholly-owned subsidiary of Fairfax and registered portfolio manager in the province of Ontario, is the portfolio advisor of the company and its consolidated subsidiaries, responsible to source and advise with respect to all investments.

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

2. Basis of Presentation

These annual consolidated financial statements of the company for the year ended December 31, 2015 have been prepared in accordance with International Financial Reporting Standards (''IFRS'') as issued by the International Accounting Standards Board (''IASB'').

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

These annual consolidated financial statements were approved for issue by the company's Board of Directors on March 11, 2016.

3. Summary of Significant Accounting Policies

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

Principles of consolidation

Subsidiaries – The company's subsidiaries are all entities (including structured entities) over which the company has control. The company controls an entity when the company is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The company meets the definition of an investment entity and as such, investments in subsidiaries (other than FIH

Mauritius and FIH Private) are accounted for at fair value through profit or loss ("FVTPL"), rather than by consolidating them.

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

Investments in associates – Associates are those entities in which the company has significant influence, but not control, over the financial and operating policies. Investments that are held as part of the company's investment portfolio are carried in the consolidated balance sheet at fair value even though the company may have significant influence over those entities.

Functional and presentation currency

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

Although the company invests in Indian rupee assets, its primary objective is to achieve long term capital appreciation in U.S. dollars. Accordingly, the company presents its consolidated financial statements in U.S. dollars to make them comparable with other North American investment entities.

Transactions and balances in foreign currencies – Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transaction or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rate of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated statements of earnings within net foreign exchange gains (losses). Income and expenses are translated at the average rate of exchange for the period.

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

- assets and liabilities are translated at the closing rate at the balance sheet date;
- income and expenses are translated at the average exchange rate for the period presented (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and,
- all resulting exchange differences are recognized in other comprehensive income ("OCI") as unrealized foreign currency translation gains or losses.

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

Cash and cash equivalents

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

Financial instruments

The company recognizes financial instruments at fair value upon initial recognition, plus transaction costs in the case of financial instruments measured at amortized cost. Purchases and sales are recognized on the trade date, which is the date on which the company commits to purchase or sell the investments.

Transactions pending settlement are reflected on the consolidated balance sheet in other assets or in accounts payable and accrued expenses. Financial assets and liabilities are offset and the net amount reported on the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. A financial asset is derecognized when the rights to receive cash flows from the investment have expired or have been transferred and when the company has transferred substantially the risks and rewards of ownership of the asset.

The company's investments are measured at FVTPL. All other financial assets and liabilities are measured at amortized cost which approximates fair value. Under the amortized cost method, financial assets and liabilities reflect the amount required to be received or paid and discounted when appropriate, at the contract's effective interest rate.

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

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

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

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

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

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

Realized and unrealized gains and losses on investments

Realized and unrealized gains and losses arising on the disposition and re-measurement of investments at fair value are included in net realized gains (losses) on investments and net unrealized gains (losses) on investments respectively.

Interest income and dividends

Interest income is recognized on an accrual basis using the effective interest method and includes bank interest and interest from investments in debt instruments. Interest receivable is shown separately on the consolidated balance sheet based on the debt instruments' stated rates of interest. Dividends from equity investments are recognized when the company's right to receive payment is established.

Income taxes

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

Current income tax is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the company's subsidiaries, associates and joint ventures operate and generate taxable income.

Deferred income tax is calculated under the liability method whereby deferred income tax assets and liabilities are recognized for temporary differences between the financial statement carrying amounts of assets and liabilities and their respective income tax bases at the current substantively enacted tax rates. With the exception of initial recognition of deferred income tax arising from business combinations, changes in deferred income tax associated with components of other comprehensive income are recognized directly in other comprehensive income while all other changes in deferred income tax are included in the provision for income taxes in the consolidated statements of earnings.

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

Deferred income tax is not recognized on unremitted consolidated subsidiary earnings where the company has determined it is not probable those earnings will be repatriated in the foreseeable future.

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

Contingencies and commitments

A provision is recognized for a contingent liability, commitment or financial guarantee when the company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are discounted when the effect of the time value of money is considered significant.

Capital stock

Common shares are classified as equity. Incremental costs directly attributable to the issuance of new shares are shown as a deduction, net of tax, from the proceeds. Where the company purchases its equity share capital for cancellation, the consideration paid, including any directly attributable incremental costs, is deducted from equity attributable to the company's equity holders.

Share-based payments

The company has restricted share plans or equivalent for management and directors with vesting periods of up to ten years from the date of grant. The fair value of restricted share awards is estimated on the date of grant based on the market price of the company's stock and is amortized to compensation expense over the related vesting period, with a corresponding increase in the share-based payments equity reserve. When a restricted share award vests in instalments over the vesting period (graded vesting), each instalment is accounted for as a separate award and amortized to compensation expense accordingly. At each balance sheet date, the company reviews its estimates of the number of restricted share awards expected to vest.

Net earnings (loss) per share attributable to common shareholders

Basic net earnings (loss) per share is calculated by dividing the net earnings (loss) attributable to common shareholders of the company, by the weighted average number of subordinate and multiple voting shares issued and outstanding during the period excluding subordinate voting shares purchased by the company and held as treasury shares.

New accounting pronouncements issued but not yet effective

The following new standards have been issued by the IASB and were not yet effective for the fiscal year beginning January 1, 2015. The company is currently evaluating their impact on its consolidated financial statements:

IFRS Annual Improvements 2012-2014

In September 2014 the IASB issued a limited number of amendments to clarify the requirements of four IFRS standards. The amendments are effective for annual periods beginning on or after January 1, 2016, with retrospective application.

IFRS 9 Financial Instruments ("IFRS 9")

In July 2014 the IASB published the complete version of IFRS 9 which supersedes the 2010 version of IFRS 9 currently applied by the company. This complete version is effective for annual periods beginning on or after January 1, 2018, with retrospective application, and includes: requirements for the classification and measurement of financial assets and liabilities; an expected credit loss model that replaces the existing incurred loss impairment model; and new hedge accounting guidance.

4. Critical Accounting Estimates and Judgments

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

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

Determination of investment entity status

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

The company has concluded that it continues to meet the definition of an investment entity as its strategic objective of investing in Indian Investments and providing investment management services to investors for the purpose of generating returns in the form of long-term capital appreciation remains unchanged. The company has also determined that FIH Mauritius and FIH Private provide investment related services to the company and should be consolidated.

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

The company would exit its private investments either through initial public offering or private sale. For publicly traded investments, exit strategies may include selling the investments through private placements or in public markets.

Income taxes

The company is subject to income taxes in Canada, Mauritius and India, and the company's determination of its tax liability or receivable is subject to review by those applicable tax authorities. The company has made a critical judgment that it is able to control the timing of the repatriation of subsidiaries' unremitted earnings disclosed in note 9 and has no plans to repatriate these earnings in the foreseeable future; as a consequence no tax has been recorded in these financial statements on these unremitted earnings. While the company believes its tax positions to be reasonable, where the company's interpretations differ from those of tax authorities or the timing of realization is not as expected, the provision for income taxes may increase or decrease in future periods to reflect actual experience. The company has specialist tax personnel responsible for assessing the income tax consequences of planned transactions and events and undertaking the appropriate tax planning.

Realization of deferred income tax assets is dependent upon the generation of taxable income in those jurisdictions where the relevant tax losses and temporary differences exist. Tax legislation of each jurisdiction in which the company operates is interpreted to determine the provision for (recovery of) income taxes and expected timing of the reversal of deferred income tax assets and liabilities. The company has made a critical judgment that certain deferred taxes disclosed in note 9 should not be recorded as an asset because it is not presently likely that they will be realized.

Functional currency

At the time of its incorporation on November 25, 2014, the company had determined the currency of its primary economic environment was the U.S. dollar as the offerings were denominated in U.S. dollars. The deployment of proceeds raised was subject to market conditions and the availability of attractive investment opportunities.

During the third quarter of 2015, the majority of the proceeds raised through the offerings (a substantial portion of which had initially been invested in U.S. dollar denominated treasury bills) were reinvested in Indian rupee denominated Indian Investments with the acquisition of National Collateral Management Services Limited (''NCML'') in August and the announcement of the open offer to acquire shares of IIFL Holdings Limited, formerly known as India Infoline Limited (''IIFL''). Accordingly, the company reassessed its functional currency and effective October 1, 2015, adopted Indian rupees as its functional currency on a prospective basis. All balances in the consolidated financial statements were translated into Indian rupees using the exchange rate prevailing at the date of the change.

There was no change to the functional currency of the two consolidated subsidiaries, FIH Mauritius and FIH Private, which is Indian rupees.

Valuation of National Collateral Management Services Limited

The company has determined there are no changes to NCML's business, its capital structure and its operating environment since closing of the acquisition on August 19, 2015. Accordingly, the acquisition price paid in Indian rupees is considered to approximate fair value as at December 31, 2015.

5. Significant Acquisitions

Acquisition of National Collateral Management Services Limited

On August 19, 2015 the company, through its wholly-owned subsidiary, FIH Mauritius, acquired a 73.56% ownership interest in NCML by purchasing 23,326,335 newly issued shares and 71,050,691 shares from certain shareholders for 2.0 billion Indian rupees ($30.7 million) and 6.1 billion Indian rupees ($93.5 million) respectively for an aggregate investment of 8.1 billion Indian rupees ($124.2 million) (collectively, the ''NCML Acquisition'').

Subsequently, the company, through FIH Mauritius, acquired an additional 14.51% ownership interest in NCML by purchasing 18,618,420 shares from minority shareholders for 1.6 billion Indian rupees ($24.5 million). As of December 31, 2015, the company held 88.07% of the outstanding shares of NCML.

NCML is a private-sector agricultural commodities storage company in India that operates in the agriculture value chain by offering end-to-end solutions in grain procurement, testing, storage and collateral management.

Acquisition of IIFL Holdings Limited

On July 13, 2015, the company announced an offer (the ''IIFL Open Offer'') to acquire up to approximately 83,128,852 equity shares of IIFL at a price of 195 Indian rupees per share (approximately $3 per share), other than those shares already owned by Fairfax and its affiliates, in accordance with regulations of the Securities and Exchange Board of India (''SEBI'') for substantial acquisitions of shares and takeovers.

On December 1, 2015 Fairfax India acquired 68,788,445 shares of IIFL pursuant to the IIFL Open Offer representing a 21.85% ownership interest at a price of 195 Indian rupees per share (approximately $3 per share at exchange rates as at the date of the announcement) for an aggregate investment of 13.4 billion Indian rupees (approximately $202 million at exchange rates at close). In accordance with SEBI regulation, the company placed 237.1 million Indian rupees ($3.6 million) in escrow to fund any contingencies in relation to the IIFL Open Offer. The full amount of the escrow was released subsequent to December 31, 2015.

Prior to the company's investment in IIFL, Fairfax, through its subsidiaries, owned 8.88% of the issued and outstanding IIFL shares, and had an economic interest in another approximately 5.19% of IIFL shares through derivative instruments (all acquired prior to the establishment of Fairfax India).

FIH Mauritius and certain Fairfax affiliates provided undertakings to SEBI pursuant to which they agreed not to undertake certain activities so as to avoid acquiring control of IIFL subsequent to completion of the IIFL Open Offer. In particular, FIH Mauritius and the Fairfax affiliates have undertaken not to exercise voting rights on IIFL shareholder resolutions for any IIFL shares exceeding 25% of the issued and outstanding IIFL shares at the time of voting, effectively limiting voting to 25% even in cases where FIH Mauritius and the Fairfax affiliates own more than 25% of the IIFL shares. FIH Mauritius and the Fairfax affiliates have also undertaken not to purchase additional IIFL shares if the total IIFL shares owned by FIH Mauritius and the Fairfax affiliates would exceed approximately 36% of the issued and outstanding IIFL shares unless FIH Mauritius and the Fairfax affiliates make an open offer or obtain the prior consent of SEBI for such acquisition.

IIFL is a publicly traded, diversified financial services holding company in India with subsidiaries in non-banking finance company (NBFC) business, wealth management, retail broking, institutional equities, investment banking and financial products distribution.

6. Cash and Investments

Fixed Income Maturity Profile

Bonds are summarized by their earliest contractual maturity date in the table below. Actual maturities may differ from maturities shown below due to the existence of put features. At December 31, 2015, bonds containing put features represented $137.4 million of the total fair value of bonds in the table below.

	December 31, 2015	
	Amortized cost	**Fair value**
Due after 1 year through 5 years	190,458	190,409
Due after 5 years through 10 years	237,348	235,867
Due after 10 years	87,553	86,513
	515,359	512,789

Fair Value Disclosures

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

	December 31, 2015				
	Quoted prices (Level 1)	**Significant other observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**Total fair value of assets**	**Total fair value of assets in Indian rupees (in thousands)**
Cash and cash equivalents(1)	12,464	–	–	12,464	824,597
Restricted cash(2)	6,457	–	–	6,457	427,191
	18,921	–	–	18,921	1,251,788
Investments					
Short term U.S. treasury bills	50,143	–	–	50,143	3,317,267
Government of India bonds	–	123,448	–	123,448	8,166,876
Indian corporate bonds	–	389,341	–	389,341	25,757,320
NCML(3)	–	–	146,445	146,445	9,688,230
IIFL(4)	220,747	–	–	220,747	14,603,787
Investment funds(5)	–	48,445	–	48,445	3,204,956
	270,890	561,234	146,445	978,569	64,738,436
	289,811	561,234	146,445	997,490	65,990,224
	29%	56%	15%	100.0%	100.0%

(1) *Includes a fixed deposit of $4,501 with weekly redemption.*

(2) *Restricted cash is comprised of cash in escrow at December 31, 2015 arising from the IIFL acquisition ($3.6 million – note 5) and the Adi Finechem Limited acquisition ($2.9 million – note 14).*

(3) *The company has determined the acquisition price of NCML is the most relevant representation of fair value as at December 31, 2015 (see note 4).*

(4) *IIFL is a publicly traded company on the Bombay Stock Exchange ("BSE") and the National Stock Exchange of India ("NSE").*

(5) *These investment funds are primarily valued based on net asset value statements provided by third party fund managers. The units of the funds are redeemable and priced daily.*

Transfers between fair value hierarchy levels are considered effective from the beginning of the reporting period in which the transfer is identified. During the year, there were no transfers of securities between Level 1 and Level 2 and in and out of Level 3 as a result of changes in observable or unobservable valuation inputs.

The company had cash and cash equivalents of $235 (14.8 million Indian rupees) and no other assets at December 31, 2014.

A summary of changes in the fair value of NCML common shares for the year ended December 31, 2015 is as follows:

	2015	
	U.S. dollars	**Indian rupees**
	(in thousands)	
Balance – January 1	–	–
Purchases	148,716	9,688,230
Loss on translation to the presentation currency[1]	(2,271)	–
Sales	–	–
Balance – December 31	146,445	9,688,230

(1) Included in other comprehensive income.

7. Total Equity

Equity attributable to common shareholders

Authorized Capital

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

Issued Capital

The number of shares outstanding was as follows:

	2015		
	Subordinate voting shares	**Multiple voting shares**	**Common stock outstanding**
Balance – January 1	–	1	1
Issuances	76,678,879	29,999,999	106,678,878
Balance – December 31	76,678,879	30,000,000	106,678,879

8. Earnings per Share

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

	2015	**2014**
Net earnings attributable to common shareholders – basic	40,939	–
Weighted average common shares outstanding – basic	98,019,189	1
Net earnings per common share	$ 0.42	$ –

9. Income Taxes

The company's provision for income taxes for the year ended December 31, 2015 is summarized in the following table:

	2015
Current income tax:	
Current year expenses	11,257
Deferred income tax:	
Origination and reversal of temporary differences	2,147
Provision for income taxes	13,404

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

The company's earnings (loss) before income taxes by jurisdiction and the associated provision for income taxes for the year ended December 31, 2015 is summarized in the following table:

	2015		
	Canada	Mauritius	Total
Earnings (loss) before income taxes	(858)	55,201	54,343
Provision for income taxes	11,559	1,845	13,404
Net earnings (loss)	(12,417)	53,356	40,939

Management reviews the recoverability of the deferred income tax asset on an ongoing basis and adjusts, as necessary, to reflect its anticipated realization. Deferred income taxes at December 31, 2015 were nil as the company has not recorded deferred tax assets of $8.6 million primarily related to costs of the offerings and foreign accrual property losses of $0.2 million.

A reconciliation of the provision for income taxes calculated at the Canadian statutory income tax rate to the provision of income taxes at the effective tax rate in the consolidated financial statements for the year ended December 31, 2015 is summarized in the following table:

	2015
Canadian statutory income tax rate	26.5%
Provision for income taxes at the Canadian statutory income tax rate	14,401
Income earned outside of Canada	313
Change in unrecorded tax benefit of losses and temporary differences	206
Foreign exchange	(1,542)
Other including permanent differences	26
Provision for income taxes	13,404

The tax rate differential on income earned outside of Canada principally reflects the net investment income earned in India and Mauritius.

The change in unrecorded tax benefit of losses and temporary differences is primarily comprised of deferred tax assets in Canada of $0.2 million that were not recorded by the company because the related pre-tax losses do not meet the applicable recognition criteria under IFRS.

Foreign exchange principally reflects the impact of fluctuations in the value of the Canadian dollar relative to the U.S. dollar and the Indian rupee as the company computes its corporate tax liability in Canadian dollars pursuant to the requirements of Canadian tax authorities whereas the functional currency of the company and its Mauritius based subsidiaries is Indian rupees.

Changes in net income taxes payable during the year ended December 31 were as follows:

	2015
Balance – January 1	–
Amounts recorded in the consolidated statement of earnings	11,257
Payments made during the year	(1,573)
Gain on translation to the functional currency	(298)
Balance – December 31	9,386

Deferred income tax has not been recognized for the withholding tax and other taxes that could be payable on the unremitted earnings of certain subsidiaries. The unremitted earnings amounted to approximately $9.3 million and the tax on unremitted earnings amounted to approximately $2.5 million at December 31, 2015 and are not likely to be repatriated in the foreseeable future.

10. Financial Risk Management

The company's activities expose it to certain financial risks during or at the end of the reporting period. These risks, and the company's management thereof, are described below.

Market Risk

Foreign Currency Risk

The company's net assets and net earnings may be significantly affected by foreign currency translation movements as the majority of assets and income are denominated in a currency other than the U.S. dollar, which is the company's presentation currency. The company has not hedged its foreign currency risk.

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

	December 31, 2015			
	Cash	Investments	Interest receivable	Total
Canadian dollars	42	–	–	42
U.S. dollars	12,367	98,588	–	110,955
Mauritius rupees	55	–	–	55
Total	12,464	98,588	–	111,052

Interest Rate Risk

Interest rate movements in India could significantly affect the company's net assets and profitability. The Portfolio Advisor and Fairfax actively monitor interest rates in India and the potential impact changes in interest rates may have on the company's investment portfolio.

The table below displays the potential impact of changes in interest rates on the company's fixed income portfolio based on parallel 200 basis point shifts up and down, in 100 basis point increments. This analysis was performed on each individual security, with the hypothetical effect on net earnings calculated on an after-tax basis. The company is also exposed to indirect interest rate risk through investment funds with a fair value of $48.4 million at December 31, 2015 to the extent the funds are invested in fixed income securities.

	December 31, 2015		
	Fair value of fixed income portfolio	**Hypothetical $ change effect on net earnings**	**Hypothetical % change in fair value**
Change in interest rates			
200 basis point rise	467,293	(33,439)	(8.9)%
100 basis point rise	490,481	(16,396)	(4.4)%
No change	512,789	–	–
100 basis point decline	546,766	24,973	6.6%
200 basis point decline	580,625	49,860	13.2%

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

Market Price Fluctuations

Market price fluctuation is the risk that the fair value or future cash flows of an equity investment will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual investment or its issuer, or other factors affecting all similar investments in the market.

The following table illustrates the potential impact of a 10% change in fair value of the company's publicly traded equity investment on net earnings.

	December 31, 2015	
Change in the company's publicly traded equity investment	+10%	-10%
Publicly traded equity investment	220,747	220,747
Pre-tax impact on net earnings	22,075	(22,075)
After-tax impact on net earnings	19,150	(19,150)

Credit Risk

Credit risk arises on investments and cash balances. Cash balances are held in high credit-quality financial institutions. As at December 31, 2015 the company had invested in securities rated as investment grade or higher by a Designated Rating Organization (''DRO''), being DBRS Limited, Standard & Poor's Ratings Service (''S&P''), Fitch Inc. and Moody's Investors Service, Inc. (''Moody's''), or subsidiaries or affiliates of a DRO. The company's investment portfolio includes short term U.S. treasury bills rated Aaa by Moody's and AA+ by S&P, Government of India bonds rated Baa3 by Moody's and BBB by S&P, and Indian corporate bonds rated AAA by subsidiaries of a DRO. The company is exposed to indirect credit risk through its holdings in investment funds.

The table below sets out the fair value of each of these categories of investments (excluding investments in private and public company shares):

	December 31, 2015
Cash	12,464
Restricted cash	6,457
Short term U.S. treasury bills	50,143
Government of India bonds	123,448
Indian corporate bonds	389,341
Investment funds	48,445
Total	630,298

Liquidity Risk

Liquidity risk is the risk that the company will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. The company manages liquidity risk by maintaining sufficient cash and cash equivalents to enable settlement of transactions on the due date. All liabilities are due in less than three months.

Concentration Risk

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

The company's investment portfolio composition between Indian and U.S. investments was as follows:

	December 31, 2015		
	India	U.S.	Total
Short term U.S. treasury bills	–	50,143	50,143
Government of India bonds	123,448	–	123,448
Indian corporate bonds	389,341	–	389,341
Investment funds	48,445	–	48,445
NCML	146,445	–	146,445
IIFL	220,747	–	220,747
Total	928,426	50,143	978,569

Capital Management

The company's capital is comprised of its shareholders' equity. The company's objectives when managing capital are to safeguard its ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital. The company will seek attractive risk adjusted returns, but will at all times emphasize downside protection and minimize the loss of capital.

11. Related Party Transactions

Payables to Related Parties

Payables to related parties at December 31, 2015 included $181 for certain expenses paid by Fairfax on behalf of Fairfax India and $9 due to an affiliate of Fairfax for information technology support services as well as investment management fees of $1,803 (as discussed below).

Investment Advisory Agreement

On January 30, 2015 the company and its subsidiaries entered into an agreement with Fairfax and the Portfolio Advisor to provide administration and investment advisory services to the company (the "Investment Advisory Agreement"). As compensation for the provision of these services, the company pays an investment and advisory fee, and if applicable, a performance fee. Such fees are determined with reference to the company's net asset value. In accordance with the Investment Advisory Agreement, on any date, the net asset value is calculated by subtracting the aggregate carrying value of the liabilities of the company from the aggregate fair value of the assets of the company on that date.

Investment and Advisory Fee

The per annum investment and advisory fee is calculated as 0.5% of the value of undeployed capital and 1.5% of net asset value less the value of undeployed capital.

For the year ended December 31, 2015, the company has determined that the majority of its assets (with the exception of its investments in NCML and IIFL, which is considered deployed capital) represent undeployed capital and that the 0.5% per annum fee is payable on the net asset value for the period from January 30, 2015 (the date of the offerings) to December 31, 2015, less the fair value of NCML and IIFL. A fee of 1.5% per annum based on the fair values of NCML and IIFL as at December 31, 2015 is accrued from the closing date of each transaction to December 31, 2015. The investment and advisory fee for the year ended December 31, 2015 was $5,393.

At December 31, 2015 payables to related parties included $1,803 of investment and advisory fee.

Performance Fee

The performance fee is paid for the period from January 30, 2015 to December 31, 2017 and for each consecutive three-year period thereafter, and is calculated, on a cumulative basis, as 20% of any increase in net asset value (including distributions) above a 5% per annum increase. The company has determined that the performance fee is not applicable for the year ended December 31, 2015.

Management Compensation

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

Director Compensation

Compensation for the company's Board of Directors for the years ended December 31, 2015 and 2014 was as follows:

	2015	**2014**
Retainers and fees	131	–
Share-based payments	301	–
Other	50	–
	482	–

The compensation presented above is determined in accordance with the company's IFRS accounting policies and may differ from the compensation presented in the company's Management Proxy Circular.

12. Segment Reporting

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

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

13. General and Administration Expenses

General and administration expenses for the year ended December 31, 2015 were comprised as follows:

	2015
Brokerage fees	978
Audit, legal and tax professional fees	2,899
Salaries and employee benefit expenses	580
Administrative expenses	665
Other	393
	5,515

14. Subsequent Events

Acquisition of Adi Finechem Limited

On November 4, 2015, Fairfax India, through its wholly-owned subsidiary, FIH Mauritius, entered into an agreement with existing shareholders of Adi Finechem Limited (''Adi'') to acquire approximately 45% of the outstanding shares of Adi at a price per share of 212 Indian rupees (collectively the ''Adi Shareholder Transaction'') for total consideration of approximately 1.3 billion Indian rupees (approximately $20 million at exchange rates on the announcement date).

Adi's shares are listed on the Bombay Stock Exchange and the National Stock Exchange of India. As a result of such listings, Fairfax India was also required to make an open offer (the ''Adi Open Offer'') for an additional 26% of the shares outstanding of Adi in accordance with applicable regulations of SEBI. The company therefore deposited approximately 190.1 million Indian rupees ($2.9 million) in escrow to partially fund the Adi Open Offer as required by SEBI.

On February 8, 2016, the company closed the Adi Shareholder Transaction and the Adi Open Offer. Upon closing, the company acquired 45% of the outstanding shares of Adi for an aggregate consideration of approximately 1.3 billion Indian rupees (approximately $19 million based on the exchange rate on the date of close).

Adi is a specialty chemical manufacturer located near Ahmedabad, Gujarat, India. Adi manufactures oleo chemicals used in the paints, inks and adhesives industries, as well as intermediate nutraceutical and health products.

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

Management's Discussion and Analysis of Financial Condition and Results of Operations (as of March 11, 2016)

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

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

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

(2) The MD&A contains references to Net Asset Value (''NAV'') and NAV per share, which are non-IFRS measures. On any date, NAV is calculated by subtracting the aggregate carrying value of the liabilities of the company from the aggregate fair value of the assets of the company on that date. NAV per share is calculated by dividing NAV by the total number of common shares of the company outstanding on that date. The NAV per share is equal to book value per share.

Cautionary Statement Regarding the Valuation of Investments in Private Indian Entities

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

Cautionary Statement Regarding Financial Information of IIFL Holdings Limited, formerly known as India Infoline Limited

IIFL Holdings Limited, formerly known as India Infoline Limited (''IIFL''), prepares its financial statements in accordance with Indian Generally Accepted Accounting Principles (''Indian GAAP''). Fairfax India, as a non-controlling shareholder of IIFL, is limited in respect to the amount of independent verification it is able to perform with respect to IIFL's financial information. The financial information contained in this MD&A was prepared by IIFL exclusively for Fairfax India by the management and the board of directors of IIFL. Such statements are the responsibility of the management of IIFL, have been prepared by them in accordance with IFRS as issued by the IASB and are presented in Indian rupees.

IIFL's financial information should be read in conjunction with Fairfax India's historical financial statements including the notes thereto and the related MD&A as well as Fairfax India's other public filings.

Fairfax India has no knowledge that would indicate that any of IIFL's financial information contained herein requires material modifications. However, readers are cautioned that IIFL's financial information contained in the MD&A may not be appropriate for their purposes.

Business Developments

Fairfax Financial Holdings Limited (''Fairfax'') has taken the initiative in creating the company and is Fairfax India's ultimate parent and acts as its administrator. Fairfax is a holding company which, through its subsidiaries, is engaged in property and casualty insurance and reinsurance and investment management. Fairfax has been listed on the TSX under the symbol ''FFH'' for 30 years.

Hamblin Watsa Investment Counsel Ltd. (the ''Portfolio Advisor''), a wholly-owned subsidiary of Fairfax and registered portfolio manager in the province of Ontario, is the portfolio advisor of the company and its consolidated subsidiaries, responsible to source and advise with respect to all investments for the company and its consolidated subsidiaries.

During early 2015, the company completed its Initial Public Offering (''IPO'') of 50,000,000 subordinate voting shares at a price of $10.00 per share for gross proceeds of $500 million. The company's subordinate voting shares began trading on the TSX under the symbol ''FIH.U'' on January 30, 2015. Concurrent with the IPO, the company issued to Fairfax and its affiliates 30,000,000 multiple voting shares of the company on a private placement basis, for gross proceeds of approximately $300 million. Also, concurrent with the closing of the IPO, the company issued 20,578,947 subordinate voting shares, on a private placement basis, for gross proceeds of approximately $200 million. The combined gross proceeds of the IPO and private placements were approximately $1.0 billion.

On February 10, 2015, a syndicate of underwriters exercised the IPO over-allotment option and the company issued an additional 6,099,932 subordinate voting shares at a price of $10.00 per share for total gross proceeds of approximately $61 million. The exercise of the over-allotment option increased the combined total gross proceeds from the IPO and private placements (''the offerings'') to approximately $1.06 billion (net proceeds of $1.02 billion after issuance costs and expenses).

Acquisitions

National Collateral Management Services Limited (''NCML'')

On August 19, 2015 the company, through its wholly-owned subsidiary, FIH Mauritius, acquired a 73.56% ownership interest in NCML by purchasing 23,326,335 newly issued shares and 71,050,691 shares from certain shareholders for 2.0 billion Indian rupees ($30.7 million) and 6.1 billion Indian rupees ($93.5 million) respectively for an aggregate investment of 8.1 billion Indian rupees ($124.2 million) (collectively, the ''NCML Acquisition'').

Subsequently, the company, through FIH Mauritius, acquired an additional 14.51% ownership interest in NCML by purchasing 18,618,420 shares from minority shareholders for 1.6 billion Indian rupees ($24.5 million). As of December 31, 2015, the company held 88.07% of the outstanding shares of NCML.

NCML is a ten year old company now preparing to expand to take advantage of the significant market potential in India's under-developed agricultural storage industry. NCML operates in the agriculture value chain by offering end-to-end solutions in grain procurement, testing, storage and collateral management. As a result of recently announced fiscal and non-fiscal changes in agriculture and food policy, private companies like NCML are enhancing their range of services provided to Indian farmers, traders, food processors, banks, the government and other businesses connected to the agriculture supply chain. This is expected to significantly improve efficiencies to help India achieve its stated national objective of greater food security.

The company has determined there are no changes to NCML's business, its capital structure and its operating environment since closing of the acquisition on August 19, 2015. Accordingly, the acquisition price paid in Indian rupees is considered to approximate fair value as at December 31, 2015.

The company's fiscal year ends on December 31 and NCML's fiscal year ends on March 31. Summarized below is NCML's financial information for the fiscal years ended March 31, 2015 and March 31, 2014 and financial information for the most recent period available.

Balance Sheet
(in US$ and $ thousands – unaudited)

	At September 30, 2015(1)	**At March 31, 2015(1)**	**At March 31, 2014(1)**
Current assets	57,390	43,671	43,561
Non-current assets	49,122	45,411	30,697
Current liabilities	16,871	30,091	22,729
Non-current liabilities	13,706	13,512	8,726
Shareholders' equity	75,935	45,479	42,803

Income Statement
(in US$ and $ thousands – unaudited)

	Six months ended September 30, 2015[(2)]	Year ended March 31, 2015[(2)]	Year ended March 31, 2014[(2)]
Sales	26,922	62,629	53,807
Net earnings before taxes	3,321	4,279	3,419
Net earnings	2,923	4,722	2,637

(1) The net assets of NCML were translated at September 30, 2015 at US$1 = 65.64 Indian rupees, at March 31, 2015 at US$1 = 62.58 Indian rupees and at March 31, 2014 at US$1 = 59.72 Indian rupees. The exchange rates used were the spot rates prevailing on those respective dates.

(2) Amounts for the six months ended September 30, 2015 and years ended March 31, 2015 and March 31, 2014 were translated into US$ using the average exchange rates of US$1 = 64.17 Indian rupees, US$1 = 61.12 Indian rupees and US$1 = 60.26 Indian rupees prevailing during those respective periods.

IIFL Holdings Limited

On December 1, 2015, Fairfax India upon closing of the IIFL open offer, acquired 68,788,445 IIFL shares (representing 21.85% of the issued and outstanding IIFL shares) at a price of 195 Indian rupees per share (approximately $3 per share at exchange rates as at the date of the announcement) for an aggregate consideration of 13.4 billion Indian rupees (approximately $202 million at exchange rates at close). In accordance with regulations of the Securities and Exchange Board of India (''SEBI''), the company has 237.1 million Indian rupees ($3.6 million) in escrow to fund any contingencies in relation to the IIFL open offer. The full amount of the escrow was released subsequent to December 31, 2015.

Prior to the company's investment in IIFL, Fairfax, through its subsidiaries, owned 8.88% of the issued and outstanding IIFL shares, and had an economic interest in another approximately 5.19% of IIFL shares through derivative instruments (all acquired prior to the establishment of Fairfax India).

FIH Mauritius and certain Fairfax affiliates provided undertakings to SEBI pursuant to which they agreed not to undertake certain activities so as to avoid acquiring control of IIFL post completion of the IIFL open offer. In particular, FIH Mauritius and the Fairfax affiliates have undertaken not to exercise voting rights on IIFL shareholder resolutions for any IIFL shares exceeding 25% of the issued and outstanding IIFL shares at the time of voting, effectively limiting voting to 25% even in cases where FIH Mauritius and the Fairfax affiliates own more than 25% of the IIFL shares. FIH Mauritius and the Fairfax affiliates have also undertaken not to purchase additional IIFL shares if the total IIFL shares owned by FIH Mauritius and the Fairfax affiliates would exceed approximately 36% of the issued and outstanding IIFL shares unless FIH Mauritius and the Fairfax affiliates make an open offer or obtain the prior consent of SEBI for such acquisition.

IIFL is a publicly traded, diversified financial services holding company in India with subsidiaries in non-banking finance company (NBFC) business, wealth management, retail broking, institutional equities, investment banking and financial products distribution. IIFL serves over three million customers from 2,500 business locations in 850 cities and towns in India. It also has an international presence, with offices in New York, Singapore, Dubai, Geneva, Hong Kong, London and Mauritius.

The company's fiscal year ends on December 31 and IIFL's fiscal year ends on March 31. Summarized below is IIFL's financial information for the fiscal years ended March 31, 2015 and March 31, 2014 and financial information for the most recent period available.

Balance Sheet
(in US$ and $ thousands – unaudited)

	At September 30, 2015[(1)]	At March 31, 2015[(1)]	At March 31, 2014[(1)]
Current assets	1,790,683	2,029,446	1,582,091
Non-current assets	1,284,306	1,059,447	856,405
Current liabilities	1,214,290	1,096,818	1,046,318
Non-current liabilities	1,421,046	1,575,121	1,030,311
Shareholders' equity	439,653	416,954	361,867

Income Statement
(in US$ and $ thousands – unaudited)

	Six months ended September 30, 2015(2)	Year ended March 31, 2015(2)	Year ended March 31, 2014(2)
Sales	310,129	598,148	470,708
Net earnings before taxes	63,422	116,948	66,788
Net earnings	42,440	75,514	46,319

(1) *The net assets of IIFL were translated at September 30, 2015 at US$1 = 65.64 Indian rupees, at March 31, 2015 at US$1 = 62.58 Indian rupees and at March 31, 2014 at US$1 = 59.72 Indian rupees. The exchange rates used were the spot rates prevailing on those respective dates.*

(2) *Amounts for the six months ended September 30, 2015 and years ended March 31, 2015 and March 31, 2014 were translated into US$ using the average exchange rates of US$1 = 64.17 Indian rupees, US$1 = 61.12 Indian rupees and US$1 = 60.26 Indian rupees prevailing during those respective periods.*

Subsequent to December 31, 2015

Acquisition of Adi Finechem Limited

On February 8, 2016 the company acquired a 45% ownership interest in Adi Finechem Limited (''Adi'') from existing shareholders for an aggregate investment of approximately 1.3 billion Indian rupees (approximately $19 million based on the exchange rate on the date of close) which represented a purchase price of 212 Indian rupees per share (approximately $3.12 per share based on the exchange rate on the date of close). Pursuant to the requirements of SEBI, Fairfax India was required to make an open offer for an additional 26% of the shares outstanding of Adi. At December 31, 2015 the company had deposited 190.1 million Indian rupees ($2.9 million) in escrow to partially fund this open offer. There were no shares tendered pursuant to the open offer and the funds held in escrow were subsequently released.

Adi is a specialty chemical manufacturer located near Ahmedabad, Gujarat, India. Adi manufactures oleo chemicals used in the paints, inks and adhesives industries, as well as intermediate nutraceutical and health products. It has developed an in-house technology that uses machinery manufactured by leading European companies to convert waste generated during the production of soy, sunflower, corn and cotton oil into valuable chemicals. Those chemicals include acids that go into non-edible products like soap, 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, Advanced Organic Materials, IFFCO Chemicals and Asian Paints.

Business Objectives

Investment Objective

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

Investment Strategy

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

The company utilizes, and expects to benefit significantly from, the experience and expertise of Fairfax and the Portfolio Advisor.

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

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

Investment Selection

To identify potential investments, the company principally relies on the expertise of the Portfolio Advisor and its affiliates.

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

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

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

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

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

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

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

Investment Restrictions

The company will not make an Indian Investment if, after giving effect to such investment, the total invested amount of such investment would exceed 20% of the company's total assets; provided, however, that the company is nonetheless permitted to complete up to two Indian Investments where, after giving effect to each such investment, the total invested amount of each such investment would be less than or equal to 25% of the company's total assets (the ''Investment Concentration Restriction''). The company intends to make multiple different investments as part of its prudent investment strategy, and, accordingly, will invest the net proceeds of the offerings in at least six different Indian Investments that satisfy the Investment Concentration Restriction. As at December 31, 2015 the company is in compliance with these investment restrictions.

Ongoing Monitoring of Indian Investments

The company will take an active role in overseeing its Indian Investments to ensure that its investment thesis is properly executed and that the fundamental values of the company are being upheld on an ongoing basis. The company will monitor, among other things, the financial trends of each of its portfolio businesses to determine if it is meeting its business plan and objectives. The company will also assess, from time to time, the appropriate course of action for each such portfolio investment.

The company will have several methods of evaluating and assessing the performance and fair value of its Indian Investments, including:

- assessment of success in adhering to the portfolio investment's business plan, objectives and compliance with covenants;
- periodic and regular contact with management of the portfolio business and, if appropriate, the financial or strategic sponsor, to discuss financial position, requirements and accomplishments;
- comparisons to other portfolio businesses in the industry in which the company or its affiliates are involved;
- attendance at, and participation in, board meetings; and
- review of monthly and quarterly financial statements and financial projections for the portfolio businesses.

The company may from time to time seek to realize on any of its portfolio investments. The circumstances under which the company may sell some or all of its investments include: (i) where the company believes that the investments are fully valued or that the original investment thesis has played out; or (ii) where the company has identified other investment opportunities which it believes present more attractive risk-adjusted return opportunities and additional capital is needed to make such alternative investments. The company would exit its private investments either through initial public offering or private sale. For publicly traded investments, exit strategies may include selling the investments through private placements or in public markets.

Results of Operations

For the year ended December 31, 2015

	U.S. dollars	**Indian rupees**
	(in thousands)	
Interest income	44,699	2,866,197
Net unrealized gains on investments	17,675	1,133,354
Other gains	2,877	184,524
Total expenses	(10,908)	(699,456)
Earnings before income taxes	54,343	3,484,619
Provision for income taxes	(13,404)	(859,477)
Net earnings	40,939	2,625,142

The company reported net earnings of $40.9 million in the year ended December 31, 2015. In 2015, the company earned interest income of $44.7 million on its bond portfolio which is principally denominated in Indian rupees. Net unrealized gains on investments of $17.7 million in the year were primarily related to a mark-to-market gain on IIFL. Other gains of $2.9 million in 2015 were primarily related to foreign exchange gains.

Total expenses in 2015 of $10.9 million were primarily comprised of $5.4 million of investment and advisory fees calculated on the NAV of the company and transaction expenses of $2.7 million.

The provision for income taxes of $13.4 million in 2015 differed from the provision for income taxes that would be determined by applying the company's Canadian statutory income tax rate of 26.5% to the company's earnings before income taxes primarily due to foreign exchange fluctuations and the unrecorded benefit of losses and temporary differences.

For the three months ended December 31, 2015

	U.S. dollars	Indian rupees
	(in thousands)	
Interest income	11,983	768,360
Net unrealized gains on investments	16,619	1,065,644
Other gains	1,065	68,286
Total expenses	(2,559)	(164,092)
Earnings before income taxes	27,108	1,738,198
Provision for income taxes	(6,317)	(405,088)
Net earnings	20,791	1,333,110

The company reported net earnings of $20.8 million for the three months ended December 31, 2015. Income for the three months ended December 31, 2015 of $29.7 million consisted primarily of interest income earned on investments in the Indian corporate and government bond portfolio of $11.9 million and a mark-to-market gain of $18.6 million on IIFL partially offset by an unrealized loss of $2.0 million on the bond portfolio.

Total expenses for the three months ended December 31, 2015 primarily related to investment advisory fees of $1.9 million.

Consolidated Balance Sheet Summary

	December 31, 2015	
	U.S. dollars	Indian rupees
	(in thousands)	
Total assets	1,025,451	67,840,013
Total liabilities	12,122	801,981
Common shareholders' equity	1,013,329	67,038,032

Assets

Cash and cash equivalents of $12.5 million and restricted cash of $6.4 million at December 31, 2015 included a combination of U.S. dollars and foreign currencies (expressed in U.S. dollars and Indian rupees) as shown below:

	December 31, 2015	
	U.S. dollars	Indian rupees
	(in thousands)	
Canadian dollars	42	2,753
Indian rupees(1)	6,457	427,191
Mauritius rupees	55	3,667
U.S. dollars(2)	12,367	818,178
Total	18,921	1,251,789

(1) In escrow for IIFL and Adi (see the Business Developments section of this MD&A).

(2) Includes a fixed deposit of $4,501 with weekly redemption.

The company's investments totaled $978.6 million at December 31, 2015, and were comprised of short term U.S. treasury bills of $50.1 million, Indian corporate bonds of $389.3 million (25.8 billion Indian rupees), Government of India bonds of $123.4 million (8.2 billion Indian rupees), NCML at fair value of $146.4 million (9.7 billion Indian rupees), IIFL at fair value of $220.7 million (14.6 billion Indian rupees) and investment funds of $48.4 million.

Interest receivable of $27.7 million at December 31, 2015 principally related to accrued interest on the company's Indian corporate and government bond portfolio.

Liabilities

Payable to related parties of $2.0 million at December 31, 2015 was primarily comprised of investment and advisory fees payable to Fairfax.

Net Asset Value or Book Value Per Share

	December 31, 2015
Net assets	$ 1,013,329
Number of common shares outstanding	106,678,879
NAV per share	$ 9.50

Investments

The company's investment portfolio composition between Indian and U.S. investments was as follows:

	December 31, 2015		
	India	U.S.	Total
Short term U.S. treasury bills	–	50,143	50,143
Government of India bonds	123,448	–	123,448
Indian corporate bonds	389,341	–	389,341
Investment funds	48,445	–	48,445
NCML	146,445	–	146,445
IIFL	220,747	–	220,747
Total	928,426	50,143	978,569

As at December 31, 2015 the company had invested in securities rated as investment grade or higher by a Designated Rating Organization (''DRO''), being DBRS Limited, Standard & Poor's Ratings Service (''S&P''), Fitch Inc. and Moody's Investors Service, Inc. (''Moody's''), or subsidiaries or affiliates of a DRO. The company's investment portfolio includes short term U.S. treasury bills rated Aaa by Moody's and AA+ by S&P, Government of India bonds rated Baa3 by Moody's and BBB by S&P, and Indian corporate bonds rated AAA by subsidiaries of a DRO. The company is exposed to indirect credit risk through its holdings in investment funds.

The company is actively seeking investment opportunities in India and will continue to re-direct capital from its bond portfolio into Indian Investments as and when those opportunities are identified. For more information about recent acquisitions, see the Business Developments section of this MD&A.

Liquidity and Capital Resources

In 2015 the company raised gross proceeds of $1.06 billion through the offerings. Issuance costs of $38.8 million (net of taxes) were primarily comprised of fees paid to underwriters of the subordinate voting shares. For a discussion of purchases of investments, refer to the Consolidated Balance Sheet Summary section of this MD&A.

	2015
Operating activities	
Cash used in operating activities before the undernoted	(4,287)
Net purchases of investments	(1,011,137)
Financing activities	
Issuance of subordinate voting shares	766,788
Issuance of multiple voting shares	300,000
Issuance costs, net of taxes	(38,816)
Share-based payments, net	(319)
Increase in cash and cash equivalents	12,229

The company believes it has adequate working capital to support its operations. The company's primary uses of cash are to make investments and to pay related expenses.

Related Party Transactions

The company's related party transactions are disclosed in note 10 (Related Party Transactions) to the consolidated financial statements for the year ended December 31, 2015.

Contractual Obligations

Under the terms of the Investment Advisory Agreement, the company and its subsidiaries are contractually obligated to pay an investment and advisory fee and, if applicable, a performance fee. These fees will vary based on the NAV of the company.

For the year ended December 31, 2015, the company incurred investment and advisory fees of $5,393.

The performance fee is paid for the period from January 30, 2015 to December 31, 2017 and for each consecutive three-year period thereafter, and is calculated, on a cumulative basis, as 20% of any increase in NAV (including distributions) above a 5% per annum increase. The company has determined that the performance fee is not applicable for the year ended December 31, 2015.

Accounting and Disclosure Matters

Management's Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of the company's management, including the company's CEO and CFO, the company conducted an evaluation of the effectiveness of its disclosure controls and procedures as of December 31, 2015, as required by the Canadian securities legislation. Disclosure controls and procedures are designed to ensure that the information required to be disclosed by Fairfax India in the reports it files or submits under securities legislation is recorded, processed, summarized and reported on a timely basis and that such information is accumulated and reported to management, including the company's CEO and CFO, as appropriate, to allow required disclosures to be made in a timely fashion. Based on their evaluation, the CEO and CFO have concluded that as of December 31, 2015, the company's disclosure controls and procedures were effective.

Critical Accounting Estimates and Judgments

Please refer to note 4 (Critical Accounting Estimates and Judgments) to the consolidated financial statements for the year ended December 31, 2015.

Significant Accounting Changes

The company completed its initial public offering on January 30, 2015 and commenced its investment activities shortly thereafter. Please refer to note 3 (Summary of Significant Accounting Policies) to the consolidated financial statements for the year ended December 31, 2015 for a detailed discussion of the company's accounting policies.

Future Accounting Changes

Certain IFRS standards are currently undergoing modification or are yet to be issued for the first time. New standards and amendments that have been issued but are not yet effective are described in note 3 (Summary of Significant Accounting Policies) to the consolidated financial statements for the year ended December 31, 2015.

Comparative Quarterly Data (unaudited)

(in thousands)

	December 31, 2015 *(U.S. dollars)*	December 31, 2015 *(Indian rupees)*	September 30, 2015 *(U.S. dollars)*	June 30, 2015 *(U.S. dollars)*	March 31, 2015 *(U.S. dollars)*	December 31, 2014 *(U.S. dollars)*
Income	29,667	1,902,290	30,114	1,267	4,203	–
Expenses	2,559	164,092	4,418	2,487	1,444	–
Provision for (recovery of) income taxes	6,317	405,088	7,378	965	(1,256)	–
Net earnings (loss)	20,791	1,333,110	18,318	(2,185)	4,015	–
Net earnings (loss) per share	0.20	12.50	0.17	(0.02)	0.06	–

Income primarily consisted of interest income on the bond portfolio and net realized and unrealized gains on investments. Expenses primarily related to investment management fees, transaction and related costs and professional fees.

Outstanding Share Data

At March 11, 2016 the company had 76,678,879 subordinate voting shares and 30,000,000 multiple voting shares outstanding (an aggregate of 106,678,879 shares effectively outstanding). Each subordinate voting share carries one (1) vote per share at all meetings of shareholders except for separate meetings of holders of another class of shares. Each multiple voting share carries fifty (50) votes per share at all meetings of shareholders except for separate meetings of holders of another class of shares. The multiple voting shares are not publicly traded.

The table that follows presents the Toronto Stock Exchange high, low and closing U.S. dollar prices of the subordinate voting shares of Fairfax India for each quarter of 2015.

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
		(US$)		
2015				
High	11.59	12.74	12.10	11.15
Low	9.80	11.19	10.60	10.02
Close	11.50	11.35	11.00	10.10

Risk Management

The risks described below are not the only ones facing the company and its shareholders. Additional risks not currently known to us or that we currently deem immaterial may also impair our business operations. The company, its consolidated subsidiaries, Fairfax and the Portfolio Advisor monitor these risks on an on-going basis and take actions as needed to mitigate their impact.

Geographic Concentration of Investments

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

Foreign Currency Fluctuation

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

The company presents its consolidated financial statements in U.S. dollars to accommodate requests from investors and to make the statements comparable with other North American investment entities.

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

Volatility of the Indian Securities Markets

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

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

In pursuing the company's investment strategy, the company may seek to make one or more investments in privately-held businesses. As minimal public information exists about private businesses, the company could be required to make investment decisions on whether to pursue a potential investment in a private business on the basis of limited information, which may result in an investment in a business that is not as profitable as the company initially believed, if at all. Investments in private businesses pose certain incremental risks as compared to investments in public businesses, including that they:

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

- generally have less predictable operating results, may from time to time be parties to litigation, may be engaged in rapidly changing businesses with products subject to a substantial risk of obsolescence, and may require substantial additional capital to support their operations, finance expansion or maintain their competitive position.

Valuation Methodologies Involve Subjective Judgments

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

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

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

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

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

Pace of Completing Investments

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

Minority Investments

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

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

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

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

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

Lawsuits

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

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

Significant Shareholder

Fairfax, through its subsidiaries, owns 30 million multiple voting shares of the company. These shares represent 95.1% of the voting rights and 28.1% of the equity interest in Fairfax India at December 31, 2015. Fairfax has the ability to substantially influence certain actions requiring shareholder approval, including approving a business combination or consolidation, liquidation or sale of assets, electing members of the Board of Directors and adopting amendments to articles of incorporation and by-laws.

Taxation Risks

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

The company has specialist tax personnel for assessing the income tax consequences of planned transactions and events and undertaking the appropriate tax planning. The company also consults with external tax professionals as needed. Tax legislation of each jurisdiction in which the company operates is interpreted to determine income taxes and expected timing of the reversal of deferred income tax assets and liabilities. Any amendments to the capital gains and permanent establishment articles in the India-Mauritius Double Taxation Avoidance Agreement may result in capital gains derived from the company or its investments in India becoming subject to tax in India, which could have a material adverse effect on the company's business, financial condition and net earnings.

Emerging Markets

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

The economies of emerging market countries have been and may continue to be adversely affected by economic conditions in the countries with which they trade. The economies of emerging market countries may also be predominantly based on only a few industries or dependent on revenues from particular commodities.

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

Other heightened risks associated with emerging markets investments include without limitation: (i) risks due to less social, political and economic stability, including the risk of war, terrorism, nationalization, limitations on the removal of funds or other assets, or diplomatic developments that affect investments in these countries; (ii) the smaller size of the market for such securities and a lower volume of trading, resulting in a lack of liquidity and in price volatility; (iii) certain national policies which may restrict the company's investment opportunities, including restrictions on investing in issuers or industries deemed sensitive to relevant national interests and requirements that government approval be obtained prior to investment by foreign persons; (iv) certain national policies that may restrict the company's repatriation of investment income, capital or the proceeds of sales of securities, including temporary restrictions on foreign capital remittances; (v) the lack of uniform accounting and auditing standards and/or standards that may be significantly different from the standards required in Canada; (vi) less publicly available financial and other information regarding issuers; (vii) potential difficulties in enforcing contractual obligations; and (viii) higher rates of inflation, higher interest rates and other economic concerns. The company may invest to a substantial extent in emerging market securities that are denominated in Indian rupees, subjecting the company to a greater degree of foreign currency risk.

As reflected in the above discussion, investments in emerging market securities involve a greater degree of risk than, and special risks in addition to the risks associated with, investments in domestic securities or in securities of foreign developed countries.

Economic Risk

The Indian economy has grown rapidly during the past several years and there is no assurance that this growth rate will be maintained. India may experience substantial (and, in some cases, extremely high) rates of inflation or economic recessions causing a negative effect on the Indian economy. India may also impose restrictions on the exchange or export of currency, institute adverse currency exchange rates or experience a lack of available currency hedging instruments. Any of these events could have a material adverse effect on the Indian economy.

Compliance with Corporate Governance Rules

Fairfax India is a Canadian reporting issuer with securities listed on the Toronto Stock Exchange and trading in U.S. dollars under the symbol FIH.U. It has in place corporate governance practices that comply with all applicable rules and substantially comply with all applicable guidelines and policies of the Canadian Securities Administrators and the practices set out therein.

The company's Board of Directors has adopted a set of Corporate Governance Guidelines (which include a written mandate of the Board), established an Audit Committee and Governance, Compensation and Nominating Committee, approved written charters for all of its committees, approved a Code of Business Conduct and Ethics applicable to all directors, officers and employees of the company and established, in conjunction with the Audit Committee, a Whistleblower Policy. The company continues to monitor developments in the area of corporate governance as well as its own procedures.

Forward-Looking Statements

This annual report may contain forward-looking information within the meaning of applicable securities legislation. Forward-looking statements may relate to the company's future outlook and anticipated events or results and may include statements regarding the financial position, business strategy, growth strategy, budgets, operations, financial results, taxes, dividends, plans and objectives of the company. Particularly, statements regarding future results, performance, achievements, prospects or opportunities of the company or the Indian market are forward-looking statements. In some cases, forward-looking statements can be identified by the use of forward-looking terminology such as "plans", "expects" or "does not expect", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates" or "does not anticipate" or "believes", or variations of such words and phrases or state that certain actions, events or results "may", "could", "would", "might", "will" or "will be taken", "occur" or "be achieved".

Forward-looking statements are based on the opinions and estimates of the company as of the date of this annual report, and they are subject to known and unknown risks, uncertainties, assumptions and other factors that may cause the actual results, level of activity, performance or achievements to be materially different from those expressed or implied by such forward-looking statements, including but not limited to the following factors: taxation of the company and its subsidiaries; substantial loss of capital; long-term nature of investment; limited number of investments; geographic concentration of investments; potential lack of diversification; financial market fluctuations; pace of completing investments; control or significant influence position risk; minority investments; ranking of company investments and structural subordination; follow-on investments; prepayments of debt investments; risks upon dispositions of investments; bridge financings; reliance on key personnel; effect of fees; performance fee could induce Fairfax to make speculative investments; operating and financial risks of investments; allocation of personnel; potential conflicts of interest; employee misconduct at the portfolio advisor could harm the company; valuation methodologies involve subjective judgments; lawsuits; foreign currency fluctuation; derivative risks; unknown merits and risks of future investments; resources could be wasted in researching investment opportunities that are not ultimately completed; investments may be made in foreign private businesses where information is unreliable or unavailable; illiquidity of investments; competitive market for investment opportunities; use of leverage; investing in leveraged businesses; regulation; investment and repatriation restrictions; aggregation restrictions; restrictions relating to debt securities; pricing guidelines; emerging markets; corporate disclosure, governance and regulatory requirements; legal and regulatory risks; volatility of the Indian securities markets; political, economic, social and other factors; governance issues risk; Indian tax law; changes in law; exposure to permanent establishment, etc.; enforcement of rights; smaller company risk; due diligence and conduct of potential investment entities; Asian economic risk; reliance on trading partners risk; natural disaster risks; government debt risk; and economic risk. Additional risks and uncertainties are described in the company's annual information form which is available on SEDAR at www.sedar.com and on the company's website at www.fairfaxindia.ca. These factors and assumptions are not intended to represent a complete list of the factors and assumptions that could affect the company. These factors and assumptions, however, should be considered carefully.

Although the company has attempted to identify important factors that could cause actual results to differ materially from those contained in forward-looking statements, there may be other factors that cause results not to be as anticipated, estimated or intended. There can be no assurance that such statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements. The company does not undertake to update any forward-looking statements contained herein, except as required by applicable securities laws.

Directors of the Company

Anthony F. Griffiths
Corporate Director

Christopher D. Hodgson
President
Ontario Mining Association

Alan D. Horn
President and Chief Executive Officer
Rogers Telecommunications Limited

Deepak Parekh
Chairman
Housing Development Finance Corporation Limited

Harsha Raghavan
Managing Director
Fairbridge Capital Private Limited

Chandran Ratnaswami
Chief Executive Officer of the Company

Dr. Punita Kumar-Sinha
Managing Partner
Pacific Paradigm Advisors LLC

V. Prem Watsa
Chairman of the Company

Operating Management

FIH Mauritius Investments Ltd.

Amy Tan
Chief Executive Officer

Officers of the Company

Chandran Ratnaswami
Chief Executive Officer

John Varnell
Chief Financial Officer and Corporate Secretary

V. Prem Watsa
Chairman

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Auditor

PricewaterhouseCoopers LLP

Transfer Agents and Registrars

Computershare Trust Company of Canada, Toronto

Share Listing

Toronto Stock Exchange
Stock Symbol: FIH.U

Annual Meeting

The annual meeting of the shareholders of Fairfax India Holdings Corporation will be held on Thursday, April 14, 2016 at 2:00 p.m. (Toronto time) at Roy Thomson Hall, 60 Simcoe Street, Toronto, Canada