FAIRFAX INDIA
HOLDINGS CORPORATION

2016 Annual Report

Contents

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Fairfax India Corporate 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, 2016	**December 31, 2015**
Book value per share	10.25	9.50
Closing share price[1]	11.55	10.10
Income	128,604	65,251
Net earnings	107,825	40,939
Total assets	1,303,497	1,025,451
Investments	1,095,569	978,569
Common shareholders' equity	1,075,446	1,013,329
Shares outstanding[2]	104,881,031	106,678,879
Net earnings per share	1.01	0.42

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

(2) At December 31, 2016 includes 74,881,031 subordinate voting shares and 30,000,000 multiple voting shares (2015 – 76,678,879 and 30,000,000, respectively).

Corporate Profile

Fairfax India Holdings Corporation is an investment holding company whose 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 equity securities and debt instruments in India and Indian businesses or other businesses with customers, suppliers or business primarily conducted in, or dependent on, India (''Indian Investments'').

Indian Investments

National Collateral Management Services Limited (''NCML'') is a private agricultural commodities storage company headquartered in Gurgaon, India that operates in the agriculture value chain by offering end-to-end solutions in grain procurement, testing, storage and collateral management. In 2016 NCML launched its wholly-owned subsidiary, NCML Finance Pvt. Ltd (''NFin''). NFin focuses on rural and agri-business finance. Additional information can also be accessed from NCML's website www.ncml.com.

IIFL Holdings Limited (''IIFL'') was incorporated in 1995 and is a publicly traded, diversified financial services holding company located in Mumbai, India with principal lines of business in a non-banking finance company, wealth management, and capital markets and other activities (comprised of retail broking, institutional equities, investment banking and financial products distribution). Additional information can also be accessed from IIFL's website www.iifl.com.

Fairchem Speciality Limited (''Fairchem'', formerly known as Adi Finechem Limited) is a publicly traded, specialty chemical manufacturer located in Ahmedabad, India. Fairchem manufactures oleochemicals used in the paints, inks and adhesives industries, as well as intermediate nutraceutical and health products. It has developed an in-house technology that uses machinery designed and manufactured by leading European companies to separate and convert waste generated during the production of soy, sunflower, corn and cotton oils into valuable nutraceutical and fatty acids. Additional information can also be accessed from Fairchem's website www.fairchem.in.

Sanmar Chemicals Group (''Sanmar''), a private company, is one of the largest suspension Poly Vinyl Chloride (''PVC'') manufacturers in India, headquartered in Chennai, India with operational presence in India and Egypt. Additional information can also be accessed from Sanmar's website www.sanmargroup.com.

Privi Organics Limited (''Privi''), a private company located in Mumbai, India, is a supplier of aroma chemicals to the fragrance industry. Privi's world-class products are the result of its very strong research and development team that has proven expertise in developing new products, customizing aromas per customer specifications, scaling up products from basic research to commercial scale, and designing process improvements to drive quality and cost optimization. A merger arrangement involving Fairchem and Privi is expected to occur by the end of the first quarter of 2017. Additional information can also be accessed from Privi's website www.privi.com.

National Stock Exchange of India Limited (''NSE''), a private company located in Mumbai, India, is India's largest stock exchange covering various cities and towns across the country. In addition to being a platform for all exchange traded financial products in India, NSE's flagship index, Nifty50, is used extensively by investors in India and around the world as a barometer of the Indian capital markets. Additional information can also be accessed from NSE's website www.nseindia.com.

Saurashtra Freight Private Limited (''Saurashtra''), a private company located in Mumbai, India, owns the largest container freight station at Mundra port (Gujarat), the second largest and fastest growing port in India. The container freight station business provides services such as moving of containers to and from the port, stuffing/destuffing of containers, cargo storage and transportation of cargo to the end customer as well as the storage, maintenance and repair of empty containers. Additional information can also be assessed from Saurashtra's website www.saurashtracontainers.com.

To Our Shareholders:

Fairfax India had very good results in 2016, its second full year of operations.

	2016	2015
	($ million, except per share amounts)[(1)]	
Income	128.6	65.3
Net earnings	107.8	40.9
Total assets	1,303.5	1,025.5
Investments	1,095.6	978.6
Common shareholders' equity	1,075.4	1,013.3
Book value per share	$ 10.25	$ 9.50

Fairfax India's increase in common shareholders' equity in 2016 was $62.1 million, which raised book value per share, our key performance measure, by 7.9%, from $9.50 to $10.25. During the same period the USD BSE 30 Index was relatively flat.

Fairfax India had excellent growth in net earnings in 2016, largely the result of net unrealized gains on investments of $105 million versus $14 million in 2015, partially offset by lower interest income of $21 million versus $45 million in 2015 (when a larger portion of its funds were in high yielding Indian bonds, awaiting deployment into Indian investments) and a $7 million loss due to foreign exchange versus a $7 million foreign exchange gain in 2015.

Fairfax India has also made very good progress on investments in 2016. After completing two investments in 2015, it announced its third investment in February 2016. With these three investments it had deployed about $370 million of its investable funds. By the middle of 2016, Fairfax India made two more investment commitments and had essentially fully committed the entire $1 billion that it had raised. Since it was continuing to see excellent new investment opportunities, in September 2016 Fairfax India obtained a $225 million two-year secured term loan from a syndicate of Canadian banks. By year end it made two more investments and committed to a third one. In two years Fairfax India deployed or had commitments for its entire $1.2 billion of investable funds. Given these circumstances, on January 13, 2017 Fairfax India issued 42.6 million shares at $11.75 per share in a public offering and a private placement to OMERS and Fairfax Financial, raising gross proceeds of $500 million. When the term loan is repaid, Fairfax India will be left with about $230 million for new investments, and ongoing expenses.

In all, Fairfax India has now completed or committed to investments in eight companies, working through Fairbridge, its sub-advisor in India (wholly-owned by Fairfax Financial), and through its portfolio advisor Hamblin Watsa in Toronto. Fairbridge operates under the strong leadership of CEO Harsha Raghavan and the excellent work of Vice Presidents Sumit Maheshwari and Sarvjit Bedi. Fairfax India's Mauritius subsidiary, FIH Mauritius Investments, and its CEO Amy Tan are also an integral part of the investment process.

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

	Date of Investment	**Ownership %**	**Amount Invested** *($ million)*
National Collateral Management Services Limited	Aug. 2015	88%	$ 149
IIFL Holdings Limited	Dec. 2015 and Feb. 2017	27%	277
Adi Finechem Limited (renamed Fairchem Speciality Limited)	Feb. 2016	45%	19
Sanmar Chemicals Group	Apr. 2016 and Sep. 2016	Debentures and 30%	300
National Stock Exchange of India Limited	Jul. 2016	1%	27
Privi Organics Limited	Aug. 2016	51%	55
Saurashtra Freight Private Limited	Feb. 2017	51%	30
Bangalore International Airport Limited	Committed	38%	379
Total			$ 1,236

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

While the valuations of the private companies that Fairfax India has invested in remained relatively close to the prices paid for them, the two listed companies in the portfolio, Fairchem and IIFL, have posted strong mark-to-market gains. From the purchase price upon acquisition until the end of 2016, Fairchem's share price appreciated 135% from 212 rupees to 498 rupees, and IIFL's share price appreciated 35% from 195 rupees to 262 rupees, resulting in mark-to-market gains of approximately $26 million and $64 million respectively.

While the book value per share of Fairfax India was $10.25 per share, we believe that the underlying intrinsic value is much higher. For example, in spite of an average 15.4% return on equity and a 26% annual growth in book value per share over the past ten years, IIFL, even at its current stock prices of around 364 rupees per share, is selling at a price/earnings ratio of only 14.0 times expected earnings. And the founder, Nirmal Jain is an outstanding entrepreneur. All of the companies listed above have similar characteristics. The potential for all of them is very significant.

Now we are pleased to report to you on the investments Fairfax India has made.

National Collateral Management Services Limited (NCML)

You will recall that NCML was Fairfax India's very first investment, completed in August 2015. NCML has operated for over 12 years and is 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 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 1.5 million metric tons (MT) of storage capacity across 952 warehouses in 18 states. It has a network of 6 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 at an all-time high of $2.5 billion, NCML commands over a 45% share of the collateral management business in India, offering custodial services to 74 banks and financial institutions for the management of collateralized commodities based on which they advance post-harvest loans to farmers or dealers owning commodities.

Fairfax India invested a total of $149 million to acquire an 88% interest in NCML: $31 million was a capital infusion into NCML to fund growth plans, while the remaining $118 million was used to buy out existing shareholders. Based on discounted cash flow valuation techniques, we now value NCML at 9,948.8 million rupees, or $147 million, reflecting a depreciation of the rupee from the time the transaction was completed. Based on Indian GAAP for the twelve months ended December 31, 2016 NCML's revenue grew by 109% to $118 million and shareholders' equity grew by 4% to $76 million but net earnings fell by 21% to $4 million. The increase in revenue was driven largely by a new government procurement contract in the supply chain business. The reduction in net earnings was as a result of a temporary higher tax expense and a small loss in the supply chain business caused by start up and higher interest costs related to the above mentioned initiative. While the price to book value of 2.2 times and price/earnings ratio of 45 times seem high, we believe that the strong growth rate of NCML more than justifies the valuation.

Under the continued able leadership of its CEO Sanjay Kaul, now assisted by executive director Unupom Kausik, NCML has made significant progress in 2016, achieving growth momentum across each of its business segments with a focus on expanding and diversifying its client base.

NCML undertook four notable business initiatives during 2016. The first was the successful launch of **NCML Finance Pvt. Ltd.** (NFin) as a Reserve Bank of India (RBI)-regulated non-banking finance company (NBFC). NFin received good response from borrowers across the country and a large number of loans were approved for borrowers serving the entire value chain. NFin obtained a credit rating of A+ in its first year of operation.

The second was the launch of a modern warehousing **silo vertical** by successfully bidding for 11 large concession contracts from the Food Corporation of India (FCI). This represents an aggregate capacity of 550,000 MT at an estimated total project cost of about $100 million. This will principally be financed by internal cash flow. The third initiative was the unique and the first of its kind online bulk procurement, trading and sale portal – **MktYard.com** – as an independent company. The fourth was the significant expansion of their **Supply Chain** segment both in terms of revenue and number of clients. Seven very large clients who are market leaders in the agri industry were added and the segment doubled its operations over the previous year with a wider range of commodities and geographical coverage. The division launched structured trade facilities at port locations to participate in international trade opportunities.

The warehousing business enhanced capacity by the addition of 100,000 MT during the year and work on its single largest silo facility of 38,000 MT, for maize is nearing completion. In all, this was an excellent year for NCML.

IIFL Holdings Limited (IIFL)

In December 2015 Fairfax India successfully completed an open offer for IIFL and purchased 21.9% of its shares outstanding at 195 rupees ($2.93) per share for a total consideration of $202 million. At 195 rupees per share, we bought our position at a trailing price/earnings ratio of 12.9 times, price to book value of 2.0 times and dividend yield of 1.5%.

At year end 2016 IIFL shares closed at a price of 262 rupees per share resulting in an unrealized gain of 35% in rupee terms. It is trading at around 364 rupees per share and in spite of a 15.4% return on equity and a 26% annual growth in book value per share over the past 10 years, IIFL is selling at a price/earnings ratio of 14.0 times expected earnings.

Fairfax Financial has known IIFL for over a decade and been a shareholder of IIFL since 2010, owning a direct interest of 8.9% and an indirect interest through P Notes of 5.2%. One of us (Chandran) has been on the Board of IIFL since 2012.

In February 2017 Fairfax India purchased 15,853,000 shares of IIFL while at the same time Fairfax Financial divested its economic interest in an equivalent number of shares that it held as P Notes. This was done for several reasons:

- Over time Fairfax Financial would prefer to have all of its Indian investments (as far as possible) in Fairfax India with the exception of Thomas Cook and its subsidiaries, Quantum Advisors and ICICI Lombard General Insurance Company Limited.
- Even at 319 rupees per share, the price/earnings ratio is 12.3 times expected earnings and represents excellent long term value for Fairfax India.

As a result, Fairfax India now owns 26.7% of IIFL.

Based on Indian GAAP, for the 12 months ended December 31, 2016, IIFL revenues grew 15% to $688 million, net earnings after minority interest grew 26% to $95 million, and shareholders' equity grew 47.6% to $650 million, generating an ROE of 14.6%.

IIFL is a well-established national financial services company serving over 3.5 million customers from 2,250 service locations and over 1,000 branches across India. It has an international presence with offices in New York, London, Geneva, Singapore, Hong Kong, Dubai and Mauritius. In addition to the founding team, IIFL now has a highly qualified and experienced management team driven by pride and reward of ownership. Again in 2016 under the exceptional leadership of Nirmal Jain and R. Venkataraman, IIFL achieved outstanding results in each of its three following major business divisions.

NBFC: This division successfully diversified its lending by adding a retail-focused loan portfolio. Loan assets under management grew 15% over the previous year to approximately $3 billion. The portfolio continued to move towards a superior loan mix by reducing its share of relatively higher risk loans to capital markets and construction finance and increasing its share of lower risk retail mortgage loans. Retail mortgages now constitute 52% of the portfolio at $1.6 billion. Asset quality was maintained with net nonperforming assets at 0.65%.

This division acquired management and control of Samasta Microfinance Limited, a Bangalore based NBFC, a micro finance institution registered with the RBI. This acquisition is consistent with IIFL's strategy of focusing on small ticket retail credit to under-served geographies and segments.

IIFL has made very significant progress on its objective of achieving end-to-end digital interface with the increasing adoption of mobile and tablet technology. All loan products are now live with tablet-based sourcing modules. IIFL is the first mover to offer eSign facilities to customers for end-to-end paperless transactions in all their gold loan branches.

In September 2016 CDC, the UK government-sponsored private equity fund, invested $150 million for approximately a 15% stake in the NBFC, valuing just this division at about $1 billion while the entire company was trading in the public markets at a valuation of $1.3 billion.

Wealth Management: IIFL Wealth has emerged as one of the leading wealth managers in India with assets under management, advice and distribution of about $16 billion, having grown 22% this year. It offers advisory services, wealth structuring solutions, asset management and distribution services to high net worth families. IIFL Wealth NBFC, which commenced operations in February 2016, mostly offers loans against securities to a high net-worth clientele and has a loan book of about $430 million.

Capital markets and other activities: This is a collection of several businesses, including retail and institutional stock broking, financial products distribution, mutual fund management and investment banking. The broking business is a leader in its field and provides broking and advisory services to retail and institutional clients. It is well known for its high quality and innovative research and it covers over 500 Indian companies.

The highlight for the year in this division was the landmark performance of the investment banking division that for the 9 months ended December 31, 2016 completed 16 investment banking transactions including 5 IPOs. IIFL is among the top 5 investment banks in the country in terms of the number of equity IPOs completed.

The IIFL Markets App is highly rated and the most downloaded with over 800,000 downloads on Google Play Store. The app is accessed by retail investors across 1,500 locations in India. With the growth of mobile networks in remote locations, do it yourself (DIY) mobile trading forms over 30% of clients and has reduced the information asymmetry of financial markets in Tier 2 locations in India.

Despite this stellar performance, the folks at IIFL are not resting on their laurels. They have formidable objectives:

- To double IIFL's consolidated revenues by fiscal year 2020 and, driven by margin improvement and scale benefits, to grow net profit after minority interests by 2.5 times. They hope to reduce IIFL's current borrowing costs as a result of improving credit ratings.
- To reduce cyclicality and volatility in IIFL's earnings. IIFL has a healthy mix of steady businesses, namely consumer finance and wealth, overlaid with fee income from the relatively volatile capital markets. On consumer finance, the focus is to serve retail customers digitally as far as possible.
- To de-risk the business model through multiple revenue streams from various businesses catering to various sub-segments of customers. To achieve this, IIFL has diversified its loan book in terms of products and geography, helping to provide insulation against concentration risk. IIFL will continue to work on improving its best in class risk management framework and analytics to monitor risk.

The key challenges faced by IIFL in 2016 were:

- Demonetization announced by the Government in November has affected revenues in the short term. Due to its continued focus on and investments in digitization, IIFL was able to mitigate the impact of demonetization because it had a ready platform to conveniently accept cashless payments from customers, the ability to make collections through tablets and a self-help portal for quick query resolution.
- IIFL faced increased competition, particularly in the housing finance sector which is witnessing the entry of a large number of new entrants, most of them backed by private equity. This might lead to irrational pricing in the short term. Given IIFL's distribution reach and capital adequacy, it believes it can withstand such short term pricing pressures. In any case, IIFL will not take undue risks to increase short term market share.

Overall, 2016 was an outstanding year for IIFL.

Fairchem Speciality Limited (formerly Adi Finechem Limited) (Fairchem)

On February 8, 2016 Fairfax India purchased 45% of Fairchem for 212 rupees ($3.13) per share for a total consideration of $19 million. The price of 212 rupees per share represented a price/earnings ratio of 12.7 times forward earnings for a company with a 20% annual growth in earnings per share over the last 10 years.

At the end of 2016 Fairchem shares closed at a price of 498 rupees per share, an increase of 135%. It is likely that the share price increase is primarily the result of the pending merger between Fairchem and Privi Organics Limited, a company in which Fairfax India invested, in August 2016, $55 million for a 51% interest. We describe the Privi acquisition later in this letter.

Based on Indian GAAP, for the 12 months ended December 31, 2016, Fairchem revenues grew 17% to $26 million, net earnings were flat at $2 million, and shareholders' equity grew 11% to $10 million, generating an ROE of 18.2%.

Fairchem made significant plant upgrades and modifications in 2016 as described below, and is now entering a phase where we expect very significant growth in revenue and profits.

Fairchem is an oleochemicals company. Oleochemicals 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 oleochemicals has been moving from the U.S. and Europe to Asian countries because of the local availability of key raw materials.

Fairchem occupies a unique niche in this large global playing field. It has developed an in-house technology that uses machinery manufactured by leading European companies to convert waste generated during the production of soy, sunflower, corn and cotton oils into valuable chemicals. These chemicals include acids that go into non-edible products like soaps, detergents, personal care products, 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. Fairchem operates out of a single plant in Ahmedabad, the largest city in Gujarat, the home state of Prime Minister Modi. It has one of the largest processing capacities for natural soft oil-based fatty acids in India. Over the last ten years, Fairchem's sales have grown at 23% per year to $26 million, and net earnings have grown at 24% per year to $2 million with a return on equity over 20%.

In 2016, Fairchem developed a strong business relationship with a new U.S. based customer as the customer was emerging as a dominant player in the natural tocopherols, natural vitamin E and sterols markets. To avoid any product rejection, a joint detailed process and equipment audit was completed, which resulted in plant upgrades and modifications. Fairchem successfully started supplying to the U.S. based customer in October 2016, but the plant upgrades and modifications resulted in production losses and increased capital expenditures that negatively impacted Fairchem's net earnings during 2016.

The Indian vegetable oil market is growing at more than 10% per annum, resulting in increased availability of the raw materials required for Fairchem. At the same time, the paints and printing ink industry is also expected to grow at more than 10% per year, enabling it to absorb a higher volume of Fairchem's products. In order to capitalize on this opportunity and to improve plant efficiency and capacity utilization, Fairchem has embarked on a capital expenditure (Capex) project that will achieve energy savings and full capacity utilization by March 2017. The Capex project will also debottleneck the manufacturing facility and achieve a 33% increase in production within two years. The Capex project should help improve both top and bottom lines.

Privi Organics Limited (Privi)

Founded in 1992 by two life-long friends, Mahesh Babani and D.B. Rao, Privi is one of India's leading manufacturers of aroma chemicals such as Amber Fleur, Dihydromyrcenol (citrus character) and Sandal Touch. Privi started manufacturing aroma chemicals with only two products, which it gradually expanded to a range of over 50 products today, with a capacity of over 22,000 tonnes per annum. Its products are used as fragrance additives in perfumes, soaps, shampoos and packaged food. Privi enjoys a dominant position and economies of scale in its product categories. Privi also develops and produces custom-made aroma chemicals to specific requirements of its customers. Privi sources most of its raw materials, gum turpentine oil (GTO) and crude sulfate turpentine (CST) from pulp and paper companies globally and competes primarily with pure play and niche suppliers such as IFF, DRT and Renessenz.

One of Privi's significant strengths is its established research and development (R&D) capabilities in aroma chemicals, with a staff of 60 people, comprised of PhDs in chemistry, chemical engineers and instrumentation engineers. The research specialists continuously strive to develop new products and processes. Importantly, one of the R&D labs is completely focused on developing, through biotechnology, green products and green technologies in technical collaboration with the University Institute of Chemical Technology, Mumbai.

Privi enjoys many advantages in its business:

- It has a formidable presence in the aroma chemicals industry and is one of the leading producers of aroma chemicals in the world, with a sizable global market share in most of the products it manufactures. It is on track to be among the top 10 global players in aroma chemicals by 2018.

- Both Mahesh Babani and D.B. Rao have over two decades of hands-on experience, deep business relationships and a strong vision for the business. They are supported by a talented and professional management team with rich industry experience.
- Privi achieved revenue and net profit CAGR of 18% and 12% respectively over the last 10 years and a return on equity of 9% and expects to double its revenue by 2018 generating 16% EBITDA margins.
- By being based in India, Privi has inherent cost advantages both in terms of cheaper manpower for manufacturing and access to quality R&D talent at competitive costs.
- Privi is less susceptible to competition because it is backward integrated for key raw materials, giving it an edge on product pricing and the ability to enter into long term contracts. Process know-how, developed in-house and continuously refined through R&D initiatives over the years, and cost-efficient manufacturing create a strong competitive advantage over other international or domestic players.

Privi is a trusted supplier to all of the top 10 fragrance companies, which control about 80% of the global fragrance market. Privi enjoys long term relationships with these fragrance companies with increasing customer engagement over the years. Their major customers are Givaudan, Fermenich, Symrise, P&G, Henkel, Aromor, Lluch, SH Kelkar, Ashapura and Drom. In order to strengthen its business model and to drive growth, Privi also has direct relationships with global consumer goods giants that are the end-users of its products.

Privi operates out of two state-of-the-art manufacturing plants located at Mahad (about 175 km south of Mumbai). Both the plants have dedicated facilities enabling continuous processing for all the key products, which ultimately results in cost efficiency for the entire production system. Both the plants also enjoy significant cost and logistics advantages because of consistent and on-time deliveries to customers, resulting from the plants' proximity to the Mumbai port (JNPT). One of the plants also enjoys certain tax benefits because of its 'Export Oriented Unit' status.

Privi overcame some significant issues in 2016 and stands poised for a bright future. Low crude oil prices and a slowdown in China resulted in pricing pressures for the worldwide chemicals industry. Despite this, Privi was able to maintain the previous year's revenue with a nominal increase in EBIDTA and net earnings. The abnormal delay in receiving permissions from the environment ministry restricted current year growth as the permission was received after the yearly contracts for some customers for certain products were closed, but with better control of current assets, particularly inventories, net operating cash flow has improved.

In August 2016 Fairfax India purchased 51% of Privi for $55 million. This was comprised of a 30% secondary stake purchase from selling shareholders for $33 million and a capital injection of $22 million into Privi for a 21% stake. Based on 2017 projections, we value Privi as follows: price/earnings ratio of 21.9 times and price to book value of 1.9 times. At the end of 2016, Fairfax India's investment in Privi was valued at cost, since there were no changes to Privi's business and capital structure from the time of the transaction.

Additionally, the Boards of Directors of Fairchem and Privi approved a merger of the two companies to build an Indian specialty chemicals enterprise, with both companies converting renewable waste feed-stocks into value-added specialty chemicals. The merger will bring significant diversification and synergies to both partners, with Fairchem gaining access to high quality R&D facilities, and Privi benefiting from Fairchem's focus on cost optimization and capital efficiency. Fairfax India had acquired a 45% equity ownership in Fairchem in the first quarter of 2016. Under the terms of the merger, the Privi shareholders will receive 27 common equity shares and 27 compulsorily convertible preference shares of the merged entity for every 40 Privi shares exchanged (swap ratio of 1.35:1). The swap ratio was as recommended in a valuation report issued by M/s. Walker Chandiok & Co. LLP, independent chartered accountants (a member firm of Grant Thornton in India). ICICI Securities Limited issued a fairness opinion on the swap ratio. After the merger, Fairfax India will own approximately 49% in the merged business. The merger has been approved by shareholders of Fairchem and Privi and the Mumbai High Court and will be effective by March 31, 2017. After the merger, Fairchem and Privi will continue to operate as distinct and independent business units, run by Nahoosh Jariwala and Mahesh Babani respectively.

We prepared a valuation for Privi based on the year-end closing price of Fairchem and the swap ratio. This indicated that Privi's value would be $94 million, resulting in an unrealized gain of $40 million or 73%. However, since the merger was still pending at the end of 2016, the unrealized gain was not recognized in our financial statements. Starting in the first quarter of 2017, our investment in the merged entity Fairchem (Fairchem and Privi) will be valued based on the quarter end closing price of the public company, Fairchem.

Sanmar Chemicals Group (Sanmar)

Fifty years ago, when we arrived in Madras (now Chennai) to start our college education at IIT Madras, cricket, while popular, was not the lucrative business it is today. Players were not paid to play and had to depend on the benevolence of business houses and government companies for their livelihood. Sanmar and its owners were big supporters of the sport and the players fifty years ago even as they are today. They are a highly ethical and exemplary corporate citizen today as they were then.

In August 2015 when we met N. Sankar, the chairman, and his son Vijay, the deputy chairman, Sanmar had grown into a large private conglomerate with sales of around $1 billion and an asset base of around $1.5 billion. Founded in the early sixties, its business interests spanned chemicals, engineering technology and shipping, with operations in India, the Middle East and the Americas. Fairfax India's investment is in the chemicals business, which constitutes more than 80% of the group's operations and is housed within three operating companies, two in India, Chemplast Sanmar (Chemplast) and Sanmar Specialty Chemicals (SSCL), and one in Egypt, TCI Sanmar (TCI).

Chemplast is Sanmar's flagship Indian company and has been in the chemicals business for 40 years. N. Sankar is considered a pioneer in the poly vinyl chloride (PVC) industry in India. With his visionary leadership, in 2009 Chemplast commissioned one of the largest greenfield PVC projects in India with an annual capacity of 200 thousand tons per annum (ktpa) which has been enhanced to 300 ktpa, mainly through process improvements and minor debottlenecking, with an additional investment of only around $1 million. The aggregate PVC capacity of Chemplast is 360 ktpa, making it the second largest PVC player in India. Chemplast is also the only specialty PVC company in India.

Sanmar acquired TCI in 2007, with the intention of setting up a large greenfield PVC plant in Egypt to cater to the high growth markets of North Africa, the Middle East and parts of Europe. TCI currently operates a 200 ktpa plant but only produces about 130 ktpa. TCI plans to undertake a $200 million expansion as follows:

- Phase 1 ($20 million): Debottlenecking of the existing PVC plant by replacing the PVC dryer which will increase production from 130 ktpa to 200 ktpa. Replacement of the dryer has been completed and the capacity is being ramped up gradually.
- Phase 2 ($180 million): Addition of a new 200 ktpa PVC plant and a 130 ktpa calcium chloride plant. In addition, a 75 ktpa caustic soda by-product line will also be commissioned. This is expected to be completed in 2018 and the ramp-up to full production is expected to take two years thereafter. Thus, full capacity is expected to be attained by 2020. This will take advantage of Sanmar's significant investment and infrastructure in Egypt.

Our analysis of the PVC industry going back about 25 years indicates that:

1. PVC sales are highly correlated with GDP growth. The auto, housing and construction sectors (key products: pipes and windows) are key drivers of this demand. TCI Sanmar's key market areas of India, Egypt and Turkey are expected to see strong GDP growth and Sanmar has significant cost advantages supplying these countries.
2. PVC margins are not correlated to the price of crude oil or most other commodities.

In 2016 Fairfax India agreed to lend to Sanmar the rupee equivalent of $300 million by way of non-convertible-debentures (NCDs) for a period of 7 years. The NCDs pay a 3% payment-in-kind (PIK) interest and pay a redemption premium such that the yield of the NCD is 13%. In addition, for $1 million Fairfax India received a 30% equity interest in Sanmar's chemicals business. Fairfax India funded the initial tranche of $250 million in April 2016 and the second tranche of $50 million in September 2016.

From the proceeds of the NCDs, Sanmar plans to utilize $80 million for capital expenditures at Chemplast (India), $111 million to repay a loan from private equity firm, KKR and $109 million to repay other Indian bank loans. At the same time, TCI is entering into an agreement with these Indian banks for a term loan for $280 million to fund its expansion.

Based on conservative discounted cash flow and option pricing model valuation techniques, we believe that the value of our loan to Sanmar is now $299 million and the value of our 30% equity in Sanmar's chemical business is $0.4 million. Based on Indian GAAP for the twelve months ended March 31, 2016 Sanmar's revenues grew by 1% to $545 million. Until Sanmar completes its capital projects in Egypt and sales ramp up to full capacity, it will lose money. Net loss in 2016 was $90 million, the same as in 2015. However, earnings before income tax, depreciation and amortization (EBITDA) for 2016 increased 98% to $65 million. We expect over time to make a compound annual return on this investment in excess of 20%.

There have been some significant developments for Sanmar since our investment. For the first time in a decade, optimism returned to the global PVC industry. This was due to reduced levels of production in China and Europe necessitated by the closure of sub-optimally sized and environmentally unfriendly PVC plants. Limited capacity addition and growing demand led by markets like India and Egypt resulted in very good prospects for the global PVC industry.

Chemplast, driven by strong demand, had very good financial performance in 2016. Margins were very strong, resulting in high cash generation. Chemplast is in the process of setting up a joint venture to manufacture chlorinated PVC (CPVC). CPVC is a fast growing commodity and the joint venture will be only the second domestic producer addressing a big opportunity in India. Chemplast is also in the process of acquiring a hydrogen peroxide plant that gives them the ability to manufacture a value added product that utilizes hydrogen produced by Chemplast, and provides entry into the market for a new valuable and allied product.

TCI has successfully restructured its balance sheet with a capital injection of $207 million from the parent with a further injection of $78 million to come in March 2017. Further, as noted above, it has obtained a $280 million project financing loan from a consortium of Indian banks for its expansion. The key activity for TCI in the next two years will be implementation of the important Phase 2 project described above, on time and on budget. The project implementation activity is on track, orders for long lead time items have been placed and all technology tie-ups are in place.

National Stock Exchange of India Limited (NSE)

Founded in 1992, NSE is the largest stock exchange in India with a market share of over 86% in cash equity trading and 99% in derivatives equity trading. With over 200,000 terminals in over 2,000 centres, NSE provides trading facilities with national reach. The exchange uses the latest communications technology for automated screen-based trading.

Fairfax India decided to invest in NSE for the following reasons:

- It is the leading stock exchange in a fast-growing market.
- Exchange volumes are strongly linked to economic activity and growth.
- NSE has a long track record of developing innovative products and strong risk management protocols.
- At a price/earnings ratio of 14.5 times forward earnings and price to book ratio of 2.6 times, valuations were attractive for a near-monopoly business. Over the last 10 years they generated a return on equity of 19% and grew book value per share annually by 21%.

Since Indian regulations mandated that no single shareholder (other than the two founding shareholders who each own about 10%) could own more than 5%, Fairfax India decided to buy a 5% position in NSE. The position had to be accumulated from several institutional shareholders who were interested in selling. After accumulating about 1% by July 2016 and while in the process of negotiating the purchase of another 3% block, strong rumours broke again that the much-anticipated public listing of NSE was about to be announced. As a result of the rumours, the potential sellers walked away. Fairfax India therefore decided to suspend its efforts to purchase the remainder of the 5% position.

The rumours in fact turned out to be true and NSE has begun the process of launching its initial public offering. Listing is expected to be completed by September 2017.

This was indeed a case of one that got away! However, Fairfax India does have a 1% position bought for $27 million, and we expect it to make excellent returns on that small investment.

Saurashtra Freight Private Limited (Saurashtra)

Raghav Agarwalla's is a wonderful story! He has transformed a struggling business into a real powerhouse since he took over management eight years ago when he was barely 21. Upon his return from the University of Southern California (USC) in Los Angeles he went straight to live in a dusty little port town called Mundra. You really need to see Mundra town to understand its contrast from Los Angeles!

Saurashtra is part of the privately-held Saurashtra group of companies, which has been in operation for over 30 years and was jointly founded by Surendra Kumar Sinha and Raghav's father, Dipak Agarwalla. The group comprises four companies – Saurashtra Infra and Power (which runs Saurashtra), Saurashtra Fuels, Saurashtra Ferrous and Magnum Shipping Services. All group companies are held equally by the Agarwalla and Sinha families.

Since 2008, Saurashtra has been managed by newly minted USC graduate Raghav Agarwalla. The family asked him to build the nascent container freight service (CFS) business which was struggling since nobody within the family was paying attention to it. Raghav has done a great job in growing the business to its current level.

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

Launched in 2005, Saurashtra is located 5 km from Mundra port. With 24/7 operations, Saurashtra has the capacity to handle 180,000 TEUs (twenty-foot equivalent units) per annum and handled about 88,000 TEUs in 2016, implying capacity utilization of about 50%. It has a market share of about 20% at Mundra port, the highest among all CFSs there. Saurashtra derives volume and revenue from both import and export of containers. While the ideal mix between the two for maximum efficiency is 50:50, the mix is adjusted each year in order to maximize profitability. On exports Saurashtra has relationships with more than 100 customs house agents (CHAs), who select the CFS to use. CHAs, a very fragmented industry, act on behalf of importers and exporters and are licensed by the Indian customs department to perform services related to documentation, packaging, insurance and customs clearance. On imports Saurashtra has relationships with 48 of the approximately 60 shipping lines that call at Mundra port. CHAs and importers utilizing any of the 48 shipping lines are obliged to use and pay for the services of CFSs. In return for directing import traffic to it, Saurashtra pays the shipping line a commission. Shipping lines can have agreements with multiple CFSs, but tend to use 4 to 5 at a port and normally split the cargo evenly among them.

We decided to invest in Saurashtra because:

- We admired Raghav Agarwalla's impressive leadership and track record.
- The growth in the CFS and Inland Container Depots (ICD) industry is correlated to container traffic growth, which during the last 15 years has grown at a rate of 1.3-1.4 times GDP growth, aided by increasing containerization of cargo.
- The CFS industry is highly fragmented: there are 15 in Mundra port and 34 in Mumbai port (JNPT). Since many of these are inefficient and operating below capacity, Saurashtra could serve as a platform for consolidation.
- Saurashtra is located in Mundra port, the second largest and fastest growing container port in India. Also Mundra port is modern and efficient and is in the process of expanding from 3.2 to 6.6 million TEUs.
- Raghav has assembled a management team of experienced professionals, several of whom have come from other large CFSs and shipping lines. Key senior executives have been in their roles for a minimum of four years.
- Saurashtra has a paved container yard, which reduces damage to containers and large warehousing space, and is investing in cold storage, a first for CFSs at Mundra.

- Saurashtra has leased a 30-acre container yard for storing empty containers for shipping lines and has the largest inventory of empty containers which serve as a magnet for export business as empty containers are available on demand.
- Saurashtra plans to increase its geographical footprint by acquiring an existing CFS at JNPT, followed in due course by the acquisition of an ICD in the national capital region.

On February 14, 2017 Fairfax India invested $30 million to acquire a 51% interest in Saurashtra. $18 million of the $30 million will be used to purchase the founder's stake: $10 million of this will be infused back in to Saurashtra by the founders and used to unwind all previous transactions with Saurashtra group companies. The remaining $12 million will be invested directly into Saurashtra. Based on projected Indian GAAP financials ending March 31, 2017, this implies a price/earnings ratio of 13.9 times, price/free cash flow ratio of 8.3 times and price to book value of 3.6 times for a business that has over the past eight years grown revenue and EBITDA at 30% and 41% per annum respectively and generated a 20% average return on equity. After the completion of the transaction, Saurashtra will be left with about $22 million of cash, which it plans to use to pursue its acquisition plans. The Agarwalla and Sinha families own equally the remaining 49% of Saurashtra. It is our pleasure to welcome the Agarwalla and Sinha families to the Fairfax India family.

Bangalore International Airport Limited (BIAL)

In 1991, a panel formed by the national airports authority of India (NAAI) selected the site for a new airport. It was Devanahalli, a village about 40 km north of Bangalore. The impetus for the decision was that the existing airport located 10 km from the city centre, was unable to cope with its fast growing air passenger traffic as Bangalore was beginning to turn into the Silicon Valley of India. There was no room for expansion and the apron could only park six aircraft! It then took another ten years of planning and delays until BIAL was formed as a public-private partnership, with the central and state governments owning 26% and the rest owned by Unique Zürich Airport, Siemens Project Ventures and Larsen & Toubro, a large Indian conglomerate. The agreement between the state government, the central government and BIAL, which was signed in July 2004, awarded a 30-year (extendable by another 30 years at BIAL's option) concession agreement to build a new large and modern airport in Devanahalli, the site that was originally chosen. Under the concession agreement, for 25 years no other airport will be allowed to be built or operate within a radius of 150 km of BIAL. After a 32-month construction period, the airport was inaugurated on May 23, 2008.

The airport is located on 4,000 acres of land and the concession agreement provides for development of 1,000 acres of this land for commercial purposes such as hotels, retail establishments, offices and industrial or entertainment parks. This will permit BIAL to monetize approximately 460 acres after providing land to build roads, utilities, landscaping and other services. This is very valuable real estate because Bangalore, given its congestion, is expanding fast in the direction of the new airport.

From a sleepy and relatively small town in the sixties, Bangalore has truly flourished to become a vibrant and growing metropolis that is now India's third largest and fastest growing city with a population of approximately 12 million. Not only is it considered the Silicon Valley of India, but virtually every major international technology company, social media company, software and software services company, investment bank, consulting company and accounting firm has a major presence in the city. It is estimated that half of the Fortune 500 companies have significant back office operations in Bangalore.

BIAL has tremendous growth potential. While its current capacity is about 20 million passengers per annum, it handled over 22 million passengers in 2016! Plans are already in place to gradually expand the capacity of the airport to 60 million passengers by 2030. This will include building a second runway, an additional terminal building and related infrastructure. Land preparation for the second runway is already underway and about half completed.

Fairfax India's team has done a great deal of work in evaluating the investment potential of all of the four private airports in India (Mumbai, Delhi, Hyderabad and Bangalore). Having considered all of the variables, including the concession agreement, revenue sharing formula with the government and the method for calculating the 16% regulated return, it was Fairfax India's firm conclusion that BIAL was the most profitable and offered the best investment opportunity.

BIAL has three potential sources of revenues:

- **Aero revenue:** Aero revenue, which has grown at 25% per year over the last 8 years, is the revenue earned from airlines for providing services such as navigation, landing, take-off, parking, ground handling and ground safety. Rates for these individual services are fixed in a manner to get the airport operator a fixed 16% per annum regulated return on invested equity. Under the hybrid till approach, applicable to BIAL, 40% of non-aero revenue is considered as a part of aero revenue to compute the regulated return.
- **Non-aero revenue:** All the revenue sources other than from aero revenue are accounted for as non-aero revenue. This includes income from activities such as cargo handling, fuel sales, food and beverage sales and duty free shops. BIAL takes an interest free deposit from all the concessionaires and earns annual revenue on a minimum guarantee, revenue share or fixed rental basis. Non-aero revenue has grown at a CAGR of 16% from 2009 to 2016 and is expected to grow substantially due to an increase in passenger growth rates, the availability of additional space and the increasing propensity of passengers to spend money.
- **Real estate monetization:** BIAL also comes with 460 acres of excess land that can be monetized by the operator. So far, aside from building a hotel next to the airport and leasing it to the Taj Hotels Resorts and Palaces on a management contract, all other land is undeveloped. Bangalore's historical population areas are getting congested, hence, the city is expanding in BIAL's direction. There will be significant upside, over time, from monetization of this real estate, a view strongly validated by Ashwin Ramesh, Fairfax's real estate expert in India.

Prior to Fairfax India's anticipated investment, the ownership of BIAL was:

	% Ownership
GVK Group	43%
Siemens Germany	26%
Zurich Airports	5%
Airports Authorities of India	13%
Government of Karnataka	13%
Total	**100%**

The GVK Group (GVK) is an Indian conglomerate with interests in energy, resources, airports, transportation, hospitality and life sciences. As part of an effort to reduce its debt, GVK offered to sell a 33% interest in BIAL.

Fairfax India agreed to purchase 33% of BIAL from GVK for $330 million, implying an equity value for 100% of approximately $1 billion for the whole company. Concurrently, Fairfax India will also purchase Zurich Airports' 5% interest in BIAL for $49 million. Based on Indian GAAP 2017 projections, the purchase price values BIAL at a price/earnings ratio of 14.4 times and price to book value of 3.5 times and price/free cash flow ratio of 9.8 times. The value of the real estate that can be monetized is not included in these projections.

We are very excited about this investment.

Financial Position

Fairfax India came into being on January 30, 2015, when it issued 106.7 million shares raising gross proceeds of $1.1 billion by completing a public offering, a placement to cornerstone investors and an issue to Fairfax Financial. In September 2016 it completed a $225 million 2-year secured term loan from a syndicate of Canadian banks, led by Scotiabank.

At December 2016, the financial position of Fairfax India was as follows:

	$ million
Undeployed cash and investments	430.7
Term loan	223.8
Common shareholders' equity	1,075.4
Total debt to equity	20.8%

On January 13, 2017 Fairfax India issued 42.6 million shares at $11.75 per share in a public offering and a private placement to OMERS and Fairfax Financial, raising gross proceeds of $500 million. When the announced investments are completed and the term loan is repaid, Fairfax India will be left with about $230 million for new investments, and ongoing expenses.

Developments in India

On November 8, 2016, Prime Minister Modi stunned India and the rest of the world by announcing his most radical frontal assault on corruption and the scourge of the undeclared and hence non-tax paying ''black'' economy of the country, which by some accounts represents about half of India's economic activity. He announced the historic decision to immediately withdraw all of the high denomination currency notes in circulation, the 500 and 1,000 rupee notes (worth about $7.50 and $15), and replace them with new 500 and 2,000 rupee notes. Remarkably, the plan was kept secret except to a handful of his closest confidantes even though the printing of the replacement notes had been well underway. People that had the withdrawn notes had until the end of the year to deposit them into banks, but they could immediately withdraw, in new notes, only a fraction of what was deposited. The objectives of what now has been universally referred to as ''demonetization'' was to tackle the menace of counterfeit currency, terror financing, illicit political funding, bribery, tax avoidance and the black market where cash serves as the medium for undisclosed transactions. This, coupled with the many measures taken to encourage use of electronic payments should over time result in more formalization of the economy, increased tax collections and a reduced hoarding of illicit cash.

In order to understand the gravity and boldness of this decision, you need to understand that it is reliably estimated that about 80% of all transactions in India, both legitimate and black are conducted in cash and that the withdrawn notes represented 85% in value of all currency in circulation.

The reaction was immediate and severe:

- The people attempted to use loop holes to legitimize their undeclared cash. The government moved fast to block the loop holes, resulting in confusion for those just trying to comply with the new regime.
- There were huge line-ups at banks and ATMs as the supply of usable new cash ran low and many ATMs became non-operational.
- People used to doing legitimate business in cash were severely constrained.

The expressed reactions to the move were highly partisan. Those in opposition and generally predisposed to oppose the Prime Minister characterized the move as one of the dumbest of all time, while Mr. Modi's supporters cheered and said they would take the short term hardships as long as the move helped take away the fruits of illegal activity and bribery from the powerful and rich and resulted, in the future, in more transparent transactions within the official framework.

While the controversy rages on, we believe that Mr. Modi's motive was focused on reducing corruption, terrorist financing, counterfeiting and tax avoidance that is endemic in India. We believe that there are more actions like this to come!

Based on the latest economic numbers, it appears as though the negative impact of demonetization on the economy was not as severe as those predicted by the nay-sayers. Also, results from some state and municipal elections indicate that the majority of the electorate, despite some hardships, is firmly behind Mr. Modi's demonetization decision.

Prime Minister Modi continues to aggressively pursue the implementation of all the reform measures that we wrote about in last year's letter. Many of these reforms required legislative changes. The government successfully passed the following bills by building a consensus:

- The constitutional amendment bill to enable the introduction of a single goods and services tax in place of the current myriad number of indirect taxes.
- The Aadhaar (targeted delivery of financial and other subsidies, benefits and services) act to enable targeted delivery of government subsidies and services using the biometric Aadhaar identity.
- An insolvency and bankruptcy code to help resolve business stress in a timely manner so that the value of underlying assets can be maximized. This is important given the backdrop of large non-performing assets in the banking system.

- The real estate regulation and development act to establish a real estate regulator in every state so that the interests of consumers, and in some cases developers too, can be protected. Bargaining power in the sector which hitherto was overwhelmingly in the hands of the developer should now be more balanced.
- An amendment of the RBI act, introducing a new monetary policy framework. Monetary policy setting has now been entrusted to an independent monetary policy committee (MPC) which has an explicit inflation targeting mandate. The RBI will have a majority on the MPC, ensuring its independence.

India continued to build on the macro-economic stability achieved over the last couple of years with the fiscal deficit, inflation and the current account deficit all projected to fall in fiscal 2017 (FY17).

- The government continued on its path to fiscal consolidation by committing to reduce the fiscal deficit to 3.5% of GDP in FY17. Data for the first 9 months of the financial year suggests the government is on track to achieve this.
- Inflation continued to moderate and in FY17 should average less than 5% for the second consecutive year. While this is partly due to the fall in global commodity prices, the government should be given credit for continuing its tight fiscal policy and allowing only modest increases in support prices for farm products.
- India's current account deficit has continued its declining trend with the deficit likely to fall below 1% in FY17, the lowest in over a decade. Further, the RBI successfully managed the redemption of high cost foreign currency deposits raised from non-resident Indians during the 'taper-tantrum' of late 2013 without creating any volatility in either the currency market or money market.
- As a consequence of continued macro stability, the Indian rupee, compared to other emerging market currencies, remained relatively stable through the course of 2016 despite bouts of global volatility after the Brexit vote and the U.S. elections. In the last three years, the Indian rupee has outperformed a basket of emerging market currencies by a wide margin.
- Continued moderation in inflation, which is now well within the target band of 2-6%, allowed the RBI/MPC to cut interest rates by 50 basis points in 2016. Consequently, interest rates across the spectrum fell. The yield on the benchmark 10-year government security fell by 125 basis points through the year while those on the benchmark 3-month treasury bill fell by about 100 basis points.

The government continues to focus on increasing the enrolment in Aadhaar and using it for efficient targeting of government subsidies and programs. As of January 2017, over 1.1 billion people had been issued the biometric Aadhaar identification number, covering over 90% of the adult population. The government's effort to open bank accounts for those under served by the formal financial system has also continued to yield good results. By the end of January 2017, a total of 270 million bank accounts had been opened. Of these, more than half are linked to the unique Aadhaar number and are thus ready for direct transfer of government subsidies. The government has already shifted the cooking gas subsidy to direct benefit transfer (DBT), whereby the subsidy is directly credited to the intended recipient's bank account. The government is currently doing a pilot study to shift other subsidies such as those for kerosene, food grains and fertilizers to the DBT mechanism. Aggregate subsidies have already fallen due to the decline in oil prices and deregulation of petrol and diesel prices. After the shift to DBT, subsidies are likely to fall further.

India continued to be the fastest growing large economy in the world. GDP growth improved by 40 bps to 7.3% during the first three quarters of 2016, largely due to improvement in agriculture growth to 2.4% from 0.7% last year. Both industry and services growth was broadly stable at 6.4% and 9.1% respectively. Given the normal monsoon rainfall after two consecutive droughts and salary revisions for government employees, consumption demand showed signs of revival in the second half of the year.

On the not so positive side of the ledger, the government has projected GDP growth of 7.1% for FY17, which is lower than the growth of 7.5% in FY16. Further, this estimate may not have fully accounted for the impact of demonetization, so growth could slip below 7%.

Capex activity continues to remain weak due to low capacity utilization levels in many sectors. On the one hand, new capex project announcements grew about 17% in 2016 to $120 billion, and execution also picked up sharply. On the other hand, stalled projects continue to rise, now totaling about $180 billion of projects that are stalled due to policy or commercial reasons.

Indian equity markets were relatively flat for a second consecutive year in 2016 as the benchmark rupee Sensex index rose by just about 2%. While total initial public offerings more than doubled in value terms to about $4 billion, equity capital raised declined 40% to $10 billion. Inflow from foreign portfolio investors (FPI) was one of the lowest in recent years, with net inflow of $2.9 billion in equities and net outflow of $6.5 billion from debt markets. However, domestic flows held up well as domestic equity mutual funds collected more than $10 billion in net inflows.

Despite these minor negatives, you can see that the government is focused on economic development and inclusive growth. In this environment, the companies that Fairfax India has invested in continue to make significant progress.

Fairfax India has now completed over two years of operations. We would like to acknowledge the leadership provided by John Varnell, who took on the role of founding CFO and shepherded the company through its formation. John has now handed over CFO duties to Jennifer Allen, who has done an outstanding job during the transition and is now fully in charge. We also welcome Keir Hunt, who has taken over as General Counsel and has performed admirably in this role. John will continue as Vice President of Corporate Affairs.

We would like to thank our independent director, Dr. Punita Kumar-Sinha, who has decided not to stand for re-election, for her excellent contribution and wish her well in her future endeavours. We also thank our independent directors, Deepak Parekh, Tony Griffiths, Chris Hodgson and Alan Horn for their wise advice, support and encouragement.

So Fairfax India has ended a very exciting and productive year. We are looking forward to seeing you at the annual meeting to be held on April 20, 2017 at 2:00 p.m., Toronto time at Roy Thomson Hall, 60 Simcoe Street, Toronto, Canada, where you will have the opportunity to meet with Sanjay Kaul, Nirmal Jain, Nahoosh Jariwala, Vijay Sankar, Mahesh Babani and Raghav Agarwalla, the excellent leaders of NCML, IIFL, Fairchem, Sanmar, Privi and Saurashtra. Again, we are truly appreciative of your support as shareholders, and we hope to see you on April 20.

March 10, 2017

Chandran Ratnaswami	V. Prem Watsa
Chief Executive Officer	*Chairman*

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Management's Responsibility for the Consolidated Financial Statements

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

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

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

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

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

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

March 10, 2017

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

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, 2016 and 2015 and the consolidated statements of earnings, comprehensive income, changes in equity and cash flows for the years then ended, 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 (IFRS), and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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, 2016 and 2015 and their financial performance and their cash flows for the years then ended in accordance with IFRS.

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants
Toronto, Ontario

March 10, 2017

Consolidated Financial Statements

Consolidated Balance Sheets

as at December 31, 2016 and December 31, 2015
(US$ thousands)

	Notes	December 31, 2016	December 31, 2015
Assets			
Cash and cash equivalents		146,960	12,464
Restricted cash	7	18,810	6,457
Short term investments		27,428	50,143
Bonds		528,857	512,789
Common stocks		539,284	415,637
Total cash and investments	6	1,261,339	997,490
Interest receivable		7,493	27,680
Income taxes refundable	10	7,326	–
Other assets	6	27,339	281
Total assets		1,303,497	1,025,451
Liabilities			
Accounts payable and accrued liabilities		606	743
Payable to related parties	12	3,673	1,993
Income taxes payable	10	–	9,386
Term loan	7	223,772	–
Total liabilities		228,051	12,122
Equity			
Total common shareholders' equity	8	1,075,446	1,013,329
		1,303,497	1,025,451

See accompanying notes.

Signed on behalf of the Board

V. P. Watsa
Director

Alan Horn
Director

Consolidated Statements of Earnings
for the years ended December 31, 2016 and 2015
(US$ thousands except per share amounts)

	Notes	2016	2015
Income			
Interest	6	21,343	44,699
Dividends	6	5,611	–
Net realized gains (losses) on investments	6	3,392	(209)
Net unrealized gains on investments	6	104,995	14,190
Net foreign exchange gains (losses)	6	(6,737)	6,571
		128,604	65,251
Expenses			
Investment and advisory fees	12	12,552	5,393
General and administration expenses	14	4,937	5,515
Interest expense	7	4,171	–
		21,660	10,908
Earnings before income taxes		106,944	54,343
Provision for (recovery of) income taxes	10	(881)	13,404
Net earnings		107,825	40,939
Net earnings per share (basic and diluted)	9	$ 1.01	$ 0.42
Shares outstanding (weighted average – basic and diluted)	9	106,517,213	98,019,189

See accompanying notes.

Consolidated Statements of Comprehensive Income
for the years ended December 31, 2016 and 2015
(US$ thousands)

	2016	2015
Net earnings	107,825	40,939
Other comprehensive loss, net of income taxes		
Items that may be subsequently reclassified to net earnings		
Unrealized foreign currency translation losses, net of income taxes of nil (2015 – nil)	(26,736)	(55,263)
Other comprehensive loss, net of income taxes	(26,736)	(55,263)
Comprehensive income (loss)	81,089	(14,324)

See accompanying notes.

Consolidated Statements of Changes in Equity

for the years ended December 31, 2016 and 2015
(US$ thousands)

	Subordinate voting shares	Multiple voting shares	Share-based payments, net	Retained earnings	Accumulated other comprehensive loss	Total common shareholders' equity
Balance as of January 1, 2016	727,972	300,000	(319)	40,939	(55,263)	1,013,329
Net earnings for the year	–	–	–	107,825	–	107,825
Other comprehensive loss:						
Unrealized foreign currency translation losses	–	–	–	–	(26,736)	(26,736)
Repurchases (note 8)	(17,018)	–	–	(4,160)	–	(21,178)
Amortization	–	–	133	–	–	133
Tax benefit on IPO issuance costs	2,073	–	–	–	–	2,073
Balance as of December 31, 2016	713,027	300,000	(186)	144,604	(81,999)	1,075,446
Balance as of January 1, 2015	–	–	–	–	–	–
Net earnings for the year	–	–	–	40,939	–	40,939
Other comprehensive loss:						
Unrealized foreign currency translation losses	–	–	–	–	(55,263)	(55,263)
Purchases and amortization	–	–	(319)	–	–	(319)
Issuance of shares, net of issuance costs (note 8)	725,825	300,000	–	–	–	1,025,825
Tax benefit on IPO issuance costs	2,147	–	–	–	–	2,147
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 years ended December 31, 2016 and 2015
(US$ thousands)

	Notes	2016	2015
Operating activities			
Net earnings		107,825	40,939
Items not affecting cash and cash equivalents:			
Net bond discount amortization		(100)	(302)
Deferred income taxes	10	2,071	2,147
Amortization of share-based payment awards		133	132
Net realized (gains) losses on investments	6	(3,392)	209
Net unrealized gains on investments	6	(104,995)	(14,190)
Net foreign exchange (gains) losses	6	6,737	(6,571)
Net sales (purchases) of short term investments classified as FVTPL		22,590	(49,660)
Purchases of bonds and common stocks classified as FVTPL	15	(423,639)	(1,228,072)
Sales of bonds and common stocks classified as FVTPL	15	333,591	264,361
Decrease (increase) in restricted cash in support of investments	6	6,457	(6,457)
Changes in operating assets and liabilities:			
Interest receivable		19,306	(36,637)
Income taxes (refundable) payable		(16,902)	9,255
Payable to related parties	12	1,760	1,610
Other		5,065	5,868
Cash used in operating activities		(43,493)	(1,017,368)
Investing activities			
Purchases of premises and equipment		(128)	–
Cash used in investing activities		(128)	–
Financing activities			
Term loan:	7		
Issuance		225,000	–
Issuance costs		(2,752)	–
Increase in restricted cash in support of term loan		(18,810)	–
Subordinate voting shares:	8		
Issuances		–	766,788
Issuance costs		–	(38,816)
Repurchases		(21,178)	–
Purchases for share-based payment awards		–	(451)
Multiple voting shares:	8		
Issuances		–	300,000
Cash provided by financing activities		182,260	1,027,521
Increase in cash and cash equivalents		138,639	10,153
Cash and cash equivalents – beginning of year		12,464	235
Foreign currency translation		(4,143)	2,076
Cash and cash equivalents – end of year		146,960	12,464

See accompanying notes.

Index to Notes to Consolidated Financial Statements

Notes to Consolidated Financial Statements

for the years ended December 31, 2016 and 2015
(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 whose 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 equity securities and debt instruments in India and Indian businesses or other businesses with customers, suppliers or business primarily conducted in, or dependent on, India (''Indian Investments''). The company makes all or substantially all of its investments either directly or through one of its wholly-owned subsidiaries, which currently include FIH Mauritius Investments Ltd (''FIH Mauritius'') and FIH Private Investments Ltd (''FIH Private'').

In the first quarter of 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 IPO Offerings'') and raised gross proceeds of approximately $1.06 billion (net proceeds of $1.02 billion) by issuance of subordinate voting shares and multiple voting shares. The company's subordinate voting shares commenced trading on January 30, 2015 on the Toronto Stock Exchange (''TSX'') under the symbol FIH.U. The multiple voting shares are not listed.

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 principally engaged in property and casualty insurance and reinsurance and the associated investment management. Fairfax is a Canadian reporting issuer with securities listed on the TSX and trading in Canadian dollars under the symbol FFH for over 30 years and in U.S. dollars under the symbol FFH.U. Fairfax, through its subsidiaries, owns 30,000,000 multiple voting shares. During 2016, certain Fairfax subsidiaries purchased 796,864 subordinate voting shares through open market transactions. At December 31, 2016 Fairfax's multiple and subordinate voting share holdings represented 95.3% of the voting rights and 29.4% of the equity interest in Fairfax India (December 31, 2015 – 95.1% and 28.1% respectively). Subsequent to December 31, 2016, Fairfax acquired an additional 13,717,873 subordinate voting shares from the company by way of a private placement (see note 8) and open market transactions. After giving effect to those transactions Fairfax's holdings represented 93.6% of the voting rights and 30.2% of the equity interest in Fairfax India.

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 was federally incorporated on November 25, 2014 and is domiciled in Ontario, Canada. The principal office of the company, Fairfax and the Portfolio Advisor is located at 95 Wellington Street West, Suite 800, Toronto, Ontario M5J 2N7.

2. Basis of Presentation

The company's consolidated financial statements for the year ended December 31, 2016 have been prepared in accordance with International Financial Reporting Standards (''IFRS'') as issued by the International Accounting Standards Board (''IASB'').

The consolidated balance sheets of the company are presented on a non-classified basis. Assets expected to be realized and liabilities expected to be settled within the company's normal operating cycle of one year would typically be considered as current, including the following balances: cash and cash equivalents, restricted cash, short term investments, interest receivable, income taxes refundable (payable), other assets, accounts payable and accrued liabilities, and payable to related parties. All other balances are generally considered as non-current.

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 income and expenses during the reporting periods covered by the consolidated financial statements and the related note disclosures. Critical accounting estimates and judgments are described in note 4.

These consolidated financial statements were approved for issue by the company's Board of Directors on March 10, 2017.

3. Summary of Significant Accounting Policies

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

Consolidation

Subsidiaries – A subsidiary is an entity over which the company has control. The company controls an entity when the company is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The company has determined that it meets the definition of an investment entity (see note 4) and as such, is required to apply the exception to consolidation and instead account for its investments in subsidiaries (National Collateral Management Services Limited (''NCML'') and Privi Organics Limited (''Privi'')) at fair value through profit or loss (''FVTPL'').

The company has determined that 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 – An associate is an entity over which the company has significant influence, but not control, over the financial and operating policies. As discussed above, the company has determined that it meets the definition of an investment entity and as such, investments in associates (IIFL Holdings Limited (''IIFL''), Fairchem Speciality Limited (''Fairchem'', formerly known as Adi Finechem Limited) and Sanmar Chemicals Group (''Sanmar'')) are accounted for at FVTPL.

Foreign currency translation

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

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

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

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

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

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

Comprehensive income (loss)

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

Consolidated statements of cash flows

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

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

Restricted cash – Restricted cash primarily consists of amounts required to be maintained on deposit with a syndicate of Canadian banks to support the term loan (see note 7) and for regulatory requirements related to the acquisition of certain Indian Investments.

Cash and Investments

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

Classification – Short term investments, equity instruments and debt instruments are classified as FVTPL.

Recognition and measurement – The company recognizes cash and investments at fair value upon initial recognition. Purchases and sales are recognized on the trade date, which is the date on which the company commits to purchase or sell the investments.

Investments classified as FVTPL are carried at fair value on the consolidated balance sheets with realized gains and losses and unrealized gains and losses recorded in net realized gains (losses) on investments and net unrealized gains (losses) on investments, respectively, in the consolidated statements of earnings and as operating activities in the consolidated statements of cash flows. Interest and dividends earned on investments are included in the consolidated statements of earnings in interest and dividends, respectively, and as operating activities in the consolidated statements of cash flows.

Transactions pending settlement are reflected on the consolidated balance sheets in other assets or in accounts payable and accrued liabilities. Transaction costs related to investments classified as FVTPL are expensed as incurred. An investment is derecognized when the rights to receive cash flows from the investment have expired or have been transferred and when the company has transferred substantially all the risks and rewards of ownership.

Short term investments – Short term investments are investments with maturity dates between three months and twelve months when purchased.

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

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

All other financial assets and liabilities, primarily comprised of interest receivable, income taxes refundable (payable), other assets, accounts payable and accrued liabilities, payable to related parties, and term loan, 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.

Net realized and unrealized gains (losses) on investments

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

Interest and dividend income

Interest income is recognized on an accrual basis using the effective interest method and includes bank interest and interest from investments in debt instruments, with the exception of the Sanmar bonds where interest income is included in its fair value measurement (see note 5). Interest receivable is shown separately on the consolidated balance sheets 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 (recovery of) income taxes for the period comprises current and deferred income tax. Income taxes are recognized in the consolidated statements of earnings, except to the extent that they relate to items recognized in other comprehensive income 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 and its subsidiaries and its associates operate and generate taxable income.

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

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

Deferred income tax is not recognized for withholding tax and other taxes that may be payable on unremitted earnings for those Indian Investments that would otherwise be considered a subsidiary or an investment in associate (''certain Indian Investments'') if not for the application of investment entity accounting, 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.

Other assets

Other assets primarily consist of pending settlement of sales of investments and prepaid expenses.

Term loan

Borrowings are recognized initially at fair value, net of transaction costs incurred, and subsequently carried at amortized cost. Interest expense on borrowings is recognized in the consolidated statements of earnings using the effective interest method.

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.

Equity

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

Treasury shares are equity instruments reacquired by the company which have not been canceled and are deducted from equity on the consolidated balance sheets, regardless of the objective of the transaction. The company acquires its own subordinate voting shares on the open market for share-based payment awards. No gain or loss is recognized in the consolidated statements of earnings on the purchase, sale, issue or cancellation of treasury shares. Consideration paid or received is recognized directly in equity.

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

Share-based payments

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

Net earnings (loss) per share

Basic net earnings (loss) per share is calculated by dividing the net earnings (loss) by the weighted average number of subordinate and multiple voting shares issued and outstanding during the period, excluding subordinate voting shares purchased by the company and held as treasury shares. Diluted net earnings (loss) per share is calculated using the weighted average number of subordinate and multiple voting shares that would have been outstanding during the period had all potential subordinate and multiple voting shares been issued at the beginning of the period, or when other potential dilutive instruments were granted or issued, if later.

Comparative figures

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

New accounting pronouncements adopted in 2016

The company adopted the following amendments, effective January 1, 2016. These changes were adopted in accordance with the applicable transitional provisions of each amendment, and did not have a significant impact on the 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.

Disclosure Initiative (Amendments to IAS 1)

In December 2014 the IASB issued certain narrow-focus amendments to IAS 1 *Presentation of Financial Statements* to clarify existing presentation and disclosure requirements.

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, 2016. The company is currently evaluating their impact on its consolidated financial statements and does not expect to adopt any of them in advance of their respective effective dates.

Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12)

In January 2016 the IASB issued amendments to IAS 12 *Income Taxes* to clarify the requirements on recognition of deferred tax assets for unrealized losses. The amendments are effective for annual periods beginning on or after January 1, 2017, with retrospective application.

Disclosure Initiative (Amendments to IAS 7)

In January 2016 the IASB issued amendments to IAS 7 *Statement of Cash Flows* that require additional disclosures around changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. These amendments are effective for annual periods beginning on or after January 1, 2017, with prospective application.

Foreign Currency Transactions and Advance Consideration (''IFRIC 22'')

In December 2016 the IASB issued an interpretation by the IFRS Interpretations Committee to clarify the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. IFRIC 22 is effective for annual periods beginning on or after January 1, 2018, with a choice of prospective or retrospective application.

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

In July 2014 the IASB issued 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 consolidated financial statements, management has made a number of critical accounting estimates and judgments which are discussed below. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

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

Determination of investment entity status

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

An investment entity is an entity that obtains funds from one or more investors for the purpose of providing them with investment management services, commits to its investors that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both, and measures and evaluates the performance of substantially all of its investments on a fair value basis. The company 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 continue to provide investment related services to the company and should continue to be consolidated.

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

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

Valuation of Private Investments

The valuation of the company's private investments are assessed at the end of each reporting period.

For each private investment completed during the reporting period, the transaction price is generally considered to be representative of fair value, subject to the background of the investment, changes in market conditions and factors specific to the investee. The company monitors various factors impacting the businesses of its investees and believes the transaction price of a private investment may no longer be an appropriate estimate of fair value upon occurrence of events such as significant under or over achievement of budgeted earnings; changes to the market sector; regulatory revisions; movements in interest rates, foreign exchange rates and other market variables; and the passage of time.

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

Notwithstanding the rigour of the company's valuation processes, the valuation of private investments inherently has estimation uncertainty and different assumptions could lead to significantly different fair values. Refer to note 5 for disclosure on the valuation of the company's private investments.

Income taxes

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

Realization of deferred income tax assets is dependent upon the generation of taxable income in those jurisdictions where the relevant tax losses and temporary differences exist. Tax legislation of each jurisdiction in which the company operates is interpreted to determine the provision for (recovery of) income taxes and expected timing of the reversal of deferred income tax assets and liabilities. The company has made a critical judgment that certain deferred taxes disclosed in note 10 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 proceeds from the IPO Offerings were denominated in U.S. dollars. The deployment of the IPO proceeds into Indian Investments, denominated in Indian rupees, were subject to market conditions and the availability of attractive investment opportunities.

During the third quarter of 2015 a substantial portion of the proceeds raised through the IPO Offerings (initially invested in U.S. dollar denominated treasury bills) were reinvested into Indian Investments. Accordingly, the company reassessed its functional currency and adopted the Indian rupee as its functional currency on a prospective basis effective October 1, 2015. 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 the Indian rupee.

5. Indian Investments

Public Indian Investments

Investment in Fairchem Speciality Limited

On February 8, 2016 Fairfax India, through its wholly-owned subsidiary, acquired 44.7% of the common shares of Fairchem Speciality Limited (''Fairchem'', formerly known as Adi Finechem Limited) at a price per share of $3.13 (212 Indian rupees) for total consideration of $19,409 (approximately 1.3 billion Indian rupees). See 'Private Indian Investments' under the heading of 'Investment in Privi Organics Limited' within this note for details on a merger arrangement involving Fairchem and Privi Organics Limited.

At December 31, 2016 the company held 44.9% of the outstanding common shares of Fairchem.

Fairchem's shares are listed on both the Bombay Stock Exchange and the National Stock Exchange of India.

Fairchem is a specialty chemical manufacturer located in Ahmedabad, India. Fairchem manufactures oleochemicals used in the paints, inks and adhesives industries, as well as intermediate nutraceutical and health products. It has developed an in-house technology that uses machinery designed and manufactured by leading European companies to separate and convert waste generated during the production of soy, sunflower, corn and cotton oils into valuable nutraceutical and fatty acids.

Investment in IIFL Holdings Limited

On December 1, 2015 Fairfax India acquired 68,788,445 common shares of IIFL Holdings Limited (''IIFL'') representing a 21.9% ownership interest at a price of $2.93 per share (195 Indian rupees) for total consideration of $201,559 (approximately 13.4 billion Indian rupees). In accordance with regulations of the Securities and Exchange Board of India (''SEBI''), the company placed $3,600 (237.1 million Indian rupees) in escrow to fund any contingencies. The full amount of the funds in escrow were released in the first quarter of 2016.

Prior to the company's investment in IIFL, Fairfax, through its subsidiaries, owned 8.9% of the issued and outstanding IIFL common shares, and had an economic interest in another 5.2% of IIFL common 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 purchases made by the company. 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 common 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 common shares unless FIH Mauritius and the Fairfax affiliates make an open offer or obtain the prior consent of SEBI for such an acquisition.

At December 31, 2016 the company held 21.7% of the outstanding common shares of IIFL. On February 8, 2017 the company acquired a 4.99% common share equity interest in IIFL, see 'Subsequent to December 31, 2016' under the heading of 'Investment in IIFL Holdings Limited' within this note for further details.

IIFL's shares are listed on both the Bombay Stock Exchange and the National Stock Exchange of India.

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

Private Indian Investments

Investment in National Stock Exchange of India Limited

In the third quarter of 2016 the company, through its wholly-owned subsidiaries, acquired a 1.0% common share equity interest in the National Stock Exchange of India Limited (''NSE'') for total consideration of $26,783 (approximately 1.8 billion Indian rupees). The initial transaction price was considered to approximate fair value at year end due to the proximity of the transaction closing date to December 31, 2016 and the absence of changes in factors impacting fair value since the closing date.

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

Investment in Privi Organics Limited

On August 26, 2016 the company, through its wholly-owned subsidiaries, acquired a 50.8% common share equity interest in Privi Organics Limited (''Privi'') for total consideration of $54,975 (approximately 3.7 billion Indian rupees).

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

On July 12, 2016 the boards of directors of Fairchem and Privi approved a merger arrangement (the ''Merger'') involving the two companies, which is expected to bring significant diversification and synergies to both. In December 2016 and February 2017 shareholder and regulatory approvals were received, respectively, for the Merger. Under the terms of the Merger, Privi shareholders will receive 27 common equity shares and 27 compulsorily convertible preference shares (''CCPS'') of the merged entity for every 40 Privi shares exchanged (''swap ratio''). Final closing of the Merger is subject to customary closing conditions, which involve the share exchange, and is expected to occur by the end of the first quarter of 2017. Fairfax India will own approximately 49% of the merged entity, after factoring in the conversion of the CCPS. The swap ratio was recommended in a valuation report dated July 12, 2016 issued by M/s. Walker Chandiok & Co. LLP, Independent Chartered Accountants (a member firm of Grant Thornton in India). ICICI Securities Limited issued a fairness opinion on the swap ratio. Fairchem and Privi Board of Director approval was received on the swap ratio.

At December 31, 2016 the company prepared a valuation model to determine the value of its 9,517,042 Privi common shares using the quoted bid price of Fairchem and the swap ratio. The company's internal valuation model indicated a value of $94,292 and an unrealized gain of $40,392, which was not recorded in the consolidated statements of earnings as the Merger still required regulatory approval at December 31, 2016. The initial transaction price was considered to approximate fair value as there had been no significant changes to Privi's business, capital structure and operating environment and the key assumptions in the company's acquisition valuation model continued to be valid due to the proximity of the transaction closing date to December 31, 2016.

Investment in Sanmar Chemicals Group

On April 8, 2016 the company announced that, through its wholly-owned subsidiaries, it had agreed to invest $300 million into Sanmar through a combination of equity and debt securities resulting in a 30% common share equity interest in Sanmar. On April 28, 2016 the company acquired the first tranche of $250 million, comprised of

$1 million in equity and $249 million in bonds. On September 26, 2016 the company acquired the second tranche of $50 million in bonds.

Sanmar is one of the largest suspension Poly Vinyl Chloride (''PVC'') manufacturers in India and is in the process of expanding its PVC capacity in Egypt. Sanmar also manufactures caustic soda, chloromethanes, refrigerant gases, industrial salt and specialty chemical intermediates.

During 2016 management undertook a valuation study to formalize valuation models and determine the appropriate separate fair values for its bond and common share investments in Sanmar. The fair value of the Sanmar investments cannot be derived from an active market and accordingly, are determined using industry accepted valuation techniques and models. Market observable inputs are used where possible, with unobservable inputs used where necessary. Use of unobservable inputs can involve significant judgment and may materially affect the reported fair value of the Sanmar investments.

Sanmar Common Stock

At December 31, 2016 the company estimated fair value using a discounted cash flow analysis based on multi-year free cash flow projections with assumed after-tax discount rates ranging from 15.5% to 22.5% and long term growth rates ranging from 2.0% to 3.6%. Free cash flow projections were based on EBITDA projections from financial information for Sanmar's three main business operations that had been prepared in the fourth quarter of 2016 by Sanmar's management. Discount rates were based on the company's assessment of risk premiums to the appropriate risk-free rate of the economic environment in which Sanmar operates. At December 31, 2016 the company's internal valuation model indicated that the fair value of the common shares was $440, resulting in an unrealized loss of $545 which was recorded in net unrealized gains on investments in the consolidated statements of earnings.

Sanmar Bonds

At December 31, 2016 the company estimated fair value using an industry accepted discounted cash flow and option pricing model that incorporated Sanmar's assumed credit spread of 7.1% and certain redemption options embedded in the bonds. The assumed credit spread was based on credit spreads of industry comparables with company specific adjustments for credit risk premium. At December 31, 2016 the company's internal valuation model indicated that the fair value of the bonds was $299,093, resulting in an unrealized gain of $6,907 which was recorded in net unrealized gains on investments in the consolidated statements of earnings.

Investment in National Collateral Management Services Limited

On August 19, 2015 the company, through its wholly-owned subsidiary, acquired a 73.6% ownership interest in National Collateral Management Services Limited (''NCML'') by acquiring 23,326,335 newly issued common shares and 71,050,691 common shares from certain existing shareholders for an aggregate investment of $124,244 (approximately 8.1 billion Indian rupees).

Subsequently, the company acquired an additional 14.5% ownership interest in NCML by acquiring 18,618,420 common shares from minority shareholders for $24,472 (approximately 1.6 billion Indian rupees). At December 31, 2016 the company held 88.1% of the outstanding common shares of NCML.

At December 31, 2015 the initial transaction price was considered to approximate fair value as there had been no significant changes to NCML's business, capital structure and operating environment and the key assumptions in the company's acquisition valuation model continued to be valid due to the proximity of the transaction closing date to the year end. During 2016 the company refined its internal valuation model used in the determination of NCML's fair value. The fair value of NCML cannot be derived from an active market and accordingly, is determined using industry accepted valuation techniques and models. Market observable inputs are used where possible, with unobservable inputs used where necessary. Use of unobservable inputs can involve significant judgment and may materially affect the reported fair value of NCML.

At December 31, 2016 the company estimated fair value using a discounted cash flow analysis based on multi-year free cash flow projections with assumed after-tax discount rates ranging from 11.9% to 15.8% and a long term growth rate of 6.0%. Free cash flow projections were based on EBITDA projections from financial information for NCML's business units that had been prepared in the fourth quarter of 2016 by NCML's management. Discount rates were based on the company's assessment of risk premiums to the appropriate risk-free rate of the economic environment in which NCML operates. At December 31, 2016 the company's internal valuation model indicated that the fair value of the common shares was $146,586, resulting in an unrealized gain of $3,879 which was recorded in net unrealized gains on investments in the consolidated statements of earnings.

NCML is a private agricultural commodities storage company headquartered in Gurgaon, India that operates in the agriculture value chain by offering end-to-end solutions in grain procurement, testing, storage and collateral management. In 2016 NCML launched its wholly-owned subsidiary, NCML Finance Pvt. Ltd, which focuses on rural and agri-business finance.

Subsequent to December 31, 2016

Public Indian Investments

Investment in IIFL Holdings Limited

On February 8, 2017 the company, through its wholly-owned subsidiaries, acquired 15,853,000 common shares representing a 4.99% equity interest in IIFL for total consideration of $75,175 (5.1 billion Indian rupees). In connection with the transaction, Fairfax, through its subsidiaries, disposed of derivative instruments representing an economic interest of 4.99% in IIFL.

In accordance with regulations of the SEBI and the National Stock Exchange of India, the transaction was subject to certain sale and purchase pricing guidelines and, as a result, the total consideration paid per share approximated the fair market value of the common share equity interest acquired. After giving effect to the shares acquired, the company held 26.7% of the outstanding common shares of IIFL.

Private Indian Investments

Investment in Saurashtra Freight Private Limited

On February 14, 2017 the company, through its wholly-owned subsidiaries, acquired a 51.0% common share equity interest in Saurashtra Freight Private Limited (''Saurashtra''), a private company, for cash consideration of $30,018 (2.0 billion Indian rupees).

Saurashtra runs the largest container freight station at Mundra port (Gujarat), the second largest and fastest growing port in India. Saurashtra's container freight station business provides services such as moving of containers to and from the port, stuffing/destuffing of containers, cargo storage and transportation of cargo to the end customer as well as the storage, maintenance and repair of empty containers.

Investment in Bangalore International Airport Limited

On March 28, 2016 the company and Fairfax, through their wholly-owned subsidiaries, announced that they will collectively acquire 33.0% of the common shares of Bangalore International Airport Limited (''BIAL''), a private company, from Bangalore Airport & Infrastructure Developers Private Limited, a wholly-owned subsidiary of GVK Power and Infrastructure Limited (''GVK'') for an aggregate investment of approximately $330 million at current exchange rates (approximately 22 billion Indian rupees). Fairfax, through a wholly-owned subsidiary, entered into a separate share purchase agreement to acquire an additional 5.0% common share equity interest from Flughafen Zurich AG (''Zurich'') for approximately $49 million. The acquisition of the additional 5.0% common share equity interest from Zurich in BIAL can be acquired by Fairfax or the company and is conditional upon the company acquiring the 33.0% common share equity interest from GVK.

Fairfax India is permitted to complete up to two Indian Investments where such investment would be less than or equal to 25% of the company's total assets (see note 11 under the heading 'Concentration Risk'). On January 13, 2017 the company received net proceeds of $493,504 from an underwritten public offering and private placements (see note 8) that resulted in an increase in the company's total assets and investment concentration restriction limit. After giving effect to this transaction, the investment concentration restriction limit increased providing the company with the ability to acquire the total 38.0% investment in BIAL. The anticipated cost for the 38.0% common share equity interest in BIAL is approximately $379 million (approximately 25 billion Indian rupees).

As of March 10, 2017 certain conditions to closing remain outstanding and there is no certainty as to if or when such conditions, consents and approvals will be satisfied or waived. Such conditions, consents and approvals that remain outstanding primarily include finalizing certain lending arrangements between GVK and its lenders, approval from certain government authorities and receipt of a no-objection certificate from a relevant authorized dealer under the Foreign Exchange Management Act, 1999, with respect to permitting a pledge of shares in connection with the BIAL Transaction.

BIAL owns and operates the Kempegowda International Airport Bengaluru (''KIAB''), under a 30+30 year concession agreement from the Government of India. KIAB has the distinction of being the first airport in India that was built to the highest international standards by the private sector under a public-private partnership.

6. Cash and Investments

Fair Value Disclosures

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

	December 31, 2016					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)	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]	146,960	–	–	146,960	9,974,168	12,464	–	–	12,464	824,597
Restricted cash[2]	18,810	–	–	18,810	1,276,632	6,457	–	–	6,457	427,191
	165,770	–	–	165,770	11,250,800	18,921	–	–	18,921	1,251,788
Short term investments – U.S. treasury bills[3]	27,428	–	–	27,428	1,861,558	50,143	–	–	50,143	3,317,267
Bonds:										
Government of India[4]	–	130,317	–	130,317	8,844,600	–	123,448	–	123,448	8,166,876
Indian corporate[4]	–	99,447	–	99,447	6,749,515	–	389,341	–	389,341	25,757,320
Sanmar	–	–	299,093	299,093	20,299,423	–	–	–	–	–
	–	229,764	299,093	528,857	35,893,538	–	512,789	–	512,789	33,924,196
Common stocks:										
IIFL	265,951	–	–	265,951	18,050,088	220,747	–	–	220,747	14,603,787
NCML	–	–	146,586	146,586	9,948,814	–	–	146,445	146,445	9,688,230
Privi[5]	–	–	54,315	54,315	3,686,331	–	–	–	–	–
Fairchem	45,488	–	–	45,488	3,087,261	–	–	–	–	–
NSE[5]	–	–	26,504	26,504	1,798,824	–	–	–	–	–
Sanmar	–	–	440	440	29,871	–	–	–	–	–
Investment funds[6]	–	–	–	–	–	–	48,445	–	48,445	3,204,956
	311,439	–	227,845	539,284	36,601,189	220,747	48,445	146,445	415,637	27,496,973
Total cash and investments	504,637	229,764	526,938	1,261,339	85,607,085	289,811	561,234	146,445	997,490	65,990,224
	40.0%	18.2%	41.8%	100.0%	100.0%	29.1%	56.2%	14.7%	100.0%	100.0%

(1) Included U.S. treasury bills with maturity dates of less than three months of $126,941 at December 31, 2016 (December 31, 2015 – nil and $4,501 of fixed deposits).

(2) Comprised of a debt service reserve account used to fund term loan interest payments (December 31, 2015 – cash in escrow arising from investments in IIFL ($3,600) and Fairchem ($2,857)).

(3) Short term U.S. treasury bills have a maturity date of June 22, 2017 (December 31, 2015 – maturity dates of June 23, 2016 and March 3, 2016).

(4) Priced based on information provided by independent pricing service providers as at December 31, 2016 and December 31, 2015. There was no change in valuation techniques for these securities during 2016.

(5) Initial transaction price was considered to approximate fair value due to the proximity of the transaction closing date to December 31, 2016 and the absence of changes in factors impacting fair value since the closing date.

(6) These investment funds were primarily valued based on net asset value statements provided by third party fund managers that were compared to published quotes for the underlying investments. The units of the funds are redeemable and priced daily. There was no change in the valuation technique for investment funds during 2016. At December 31, 2016 all investment funds were sold and proceeds pending settlement of sales on investments of $26,525 were included on the consolidated balance sheets as a component of other assets.

Transfers between fair value hierarchy levels are considered effective from the beginning of the reporting period in which the transfer is identified. During 2016 and 2015 there were no transfers of financial instruments between Level 1 and Level 2 and there were no transfers of financial instruments in or out of Level 3 as a result of changes in the observability of valuation inputs.

A summary of changes in the fair value of Level 3 investments for the years ended December 31 was as follows:

	2016						2015	
	Bonds	Common stocks					Common stocks	
	Sanmar	NCML	Sanmar	Privi	NSE	Total	NCML	Total
Balance as of January 1	–	146,445	–	–	–	146,445	–	–
Purchases	299,000	–	1,000	54,975	26,783	381,758	148,716	148,716
Net unrealized gains (losses) included in the consolidated statements of earnings	6,907	3,879	(545)	–	–	10,241	–	–
Net unrealized foreign currency translation losses included in the consolidated statements of comprehensive income	(6,814)	(3,738)	(15)	(660)	(279)	(11,506)	(2,271)	(2,271)
Balance – December 31	299,093	146,586	440	54,315	26,504	526,938	146,445	146,445

Indian rupees *(in thousands)*	2016						2015	
	Bonds	Common stocks					Common stocks	
	Sanmar	NCML	Sanmar	Privi	NSE	Total	NCML	Total
Balance as of January 1	–	9,688,230	–	–	–	9,688,230	–	–
Purchases	19,835,450	–	66,496	3,686,331	1,798,824	25,387,101	9,688,230	9,688,230
Net unrealized gains (losses) included in the consolidated statements of earnings	463,973	260,584	(36,625)	–	–	687,932	–	–
Balance – December 31	20,299,423	9,948,814	29,871	3,686,331	1,798,824	35,763,263	9,688,230	9,688,230

The table that follows illustrates the potential impact on net earnings of various combinations of changes in unobservable inputs in the company's internal valuation models for the level 3 investments at December 31, 2016. The analysis assumes variations within a reasonably possible range determined by the company based on analysis of the return on various equity indexes, management's knowledge of the Indian equity markets and the potential impact of changes in interest rates.

Indian Investment	Fair Value of Investment	Valuation Technique	Significant unobservable Inputs	Significant unobservable inputs used in the internal valuation models	Hypothetical $ change effect on fair value measurement(1)	Hypothetical $ change effect on net earnings(1)
NCML common shares	$146,586	Discounted cash flow	After-tax discount rate Long term growth rate	11.9% to 15.8% 6.0%	24,035 / (20,425) 8,295 / (7,657)	20,850 / (17,719) 7,196 / (6,642)
Sanmar bonds(2)	$299,093	Discounted cash flow	Credit spread	7.1%	18,311 / (17,182)	13,459 / (12,629)
Sanmar common shares	$440	Discounted cash flow	After-tax discount rate Long term growth rate	15.5% to 22.5% 2.0% to 3.6%	14,088 / (440) 3,894 / (440)	12,221 / (382) 3,378 / (382)

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

(2) *Based on parallel basis point shifts upward and downward in the term structure of interest rates.*

Fixed Income Maturity Profile

Bonds are summarized by their earliest contractual maturity date in the table that follows. Actual maturities may differ from maturities shown below due to the existence of put features. At December 31, 2016, there were no bonds containing put features (December 31, 2015 – $137,400).

	December 31, 2016		December 31, 2015	
	Amortized cost	Fair value	Amortized cost	Fair value
Due after 1 year through 5 years	–	–	190,458	190,409
Due after 5 years through 10 years	474,334	490,706	237,348	235,867
Due after 10 years	35,919	38,151	87,553	86,513
	510,253	528,857	515,359	512,789
Effective interest rate		5.1%		8.2%

Investment Income

An analysis of investment income for the years ended December 31 is summarized in the following tables:

Interest and dividends

	2016	2015
Interest income:		
Cash and cash equivalents	175	–
Short term investments	135	302
Bonds	21,033	44,397
	21,343	44,699
Dividends: common stocks	5,611	–

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

	2016			2015		
	Net realized gains (losses)	Net change in unrealized gains (losses)	Net gains (losses) on investments	Net realized gains (losses)	Net change in unrealized gains (losses)	Net gains (losses) on investments
Net gains (losses) on investments:						
Short term investments	(17)	–	(17)	48	–	48
Bonds	(3,327)	22,318	18,991	(257)	(2,651)	(2,908)
Common stocks	4,688	81,038[(1)]	85,726	–	18,559	18,559
Common stocks – Investment funds	2,048	1,639	3,687	–	(1,718)	(1,718)
	3,392	104,995	108,387	(209)	14,190	13,981
Net foreign currency gains (losses) on:						
Cash and cash equivalents	(3,624)	–	(3,624)	2,794	–	2,794
Investments	3,005	(3,155)	(150)	292	3,485	3,777
Term loan	–	(2,963)	(2,963)	–	–	–
	(619)	(6,118)	(6,737)	3,086	3,485	6,571

(1) Principally comprised of net unrealized gains on the Indian Investments, IIFL ($51,305) and Fairchem ($26,399), in 2016.

7. Term Loan

	December 31, 2016			December 31, 2015		
	Principal	Carrying value[1]	Fair value[2]	Principal	Carrying value	Fair value
Secured Term Loan[3]	225,000	223,772	223,772	–	–	–

(1) Principal net of unamortized issue costs.

(2) Carrying value approximated fair value at December 31, 2016.

(3) Interest bearing at LIBOR plus 350 bps for the first six months, increasing to LIBOR plus 500 bps thereafter.

On September 16, 2016 the company completed a 2-year secured term loan (the ''term loan'') bearing an interest rate of LIBOR plus 350 to 500 basis points with a syndicate of Canadian banks for $225,000. At December 31, 2016 the company used a portion of the net proceeds to complete the second tranche of Sanmar bonds ($50,000, see note 5). The term loan contained a mandatory prepayment clause that became effective when the company received the net proceeds from the Offerings (see note 8), requiring repayment of the $225,000 principal amount of the term loan by March 31, 2017.

Under the terms of the term loan, the company is required to maintain a debt service reserve account to fund the term loan interest payments. The cash held in the debt service reserve account was classified as restricted cash on the consolidated balance sheets (December 31, 2016 – $18,810). The company is also required to use the term loan proceeds solely for the purposes of funding: (i) investments in Specified Portfolio Companies (comprised of NCML, IIFL, Fairchem, Sanmar, Privi or BIAL); (ii) investments in cash equivalents; (iii) transaction costs, fees and expenses related to Specified Portfolio Companies; and (iv) the debt service reserve account. The term loan includes a financial covenant that requires the company to maintain total common shareholders' equity of not less than $750,000.

At December 31, 2016 the company was in compliance with the term loan covenants.

In 2016 term loan interest expense of $2,647 and amortization of issue costs of $1,524 (2015 – nil) were included in interest expense in the consolidated statements of earnings. At December 31, 2016 prepaid interest expense of $543 (2015 – nil) was recorded in other assets on the consolidated balance sheets.

8. Total Equity

Total common shareholders' equity

Authorized Capital

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

Issued Capital

Issued capital at December 31, 2016 included 30,000,000 (December 31, 2015 – 30,000,000) multiple voting shares and 74,881,031 (December 31, 2015 – 76,678,879) subordinate voting shares without par value prior to deducting 52,728 (December 31, 2015 – 43,520) subordinate voting shares reserved in treasury for share-based payment awards. Each subordinate voting share carries one vote per share at all meetings of shareholders except for separate meetings of holders of another class of shares. Each multiple voting share carries fifty votes per share at all meetings of shareholders except for separate meetings of holders of another class of shares. Fairfax, through its subsidiaries, owns all the issued and outstanding multiple voting shares, which are not traded. At December 31, 2016 there were no preference shares issued.

Common stock

The number of shares outstanding was as follows:

	2016	2015
Subordinate voting shares – January 1	76,678,879	–
Issuances of shares	–	76,678,879
Purchases for cancellation	(1,797,848)	–
Subordinate voting shares – December 31	74,881,031	76,678,879
Multiple voting shares – January 1	30,000,000	1
Issuances of shares	–	29,999,999
Multiple voting shares – December 31	30,000,000	30,000,000
Common shares effectively outstanding – December 31	104,881,031	106,678,879

Capital transactions

Subsequent to December 31, 2016

On January 13, 2017 the company completed an underwritten public offering of 12,766,000 subordinate voting shares at a price of $11.75 per share. Concurrent with the public offering, Fairfax and Ontario Municipal Employees Retirement System (''OMERS'') acquired 12,766,000 and 17,021,500 subordinate voting shares, respectively, at a price of $11.75 per subordinate voting share in a concurrent private placement (the ''Concurrent Private Placement'' and, together with the public offering, the ''Offerings''), resulting in net proceeds of $493,504, after commissions and expenses of $6,500. Net proceeds from the Offerings will provide financing to acquire additional Indian Investments and will be used for general corporate purposes. Receipt of the proceeds from the Offerings triggered a mandatory prepayment clause in the term loan requiring repayment of the $225,000 principal amount of the term loan by March 31, 2017 (see note 7).

Year ended December 31, 2016

Repurchase of Shares

During 2016, under the terms of the normal course issuer bid, the company repurchased for cancellation 1,797,848 subordinate voting shares for a net cost of $21,178, of which $4,160 was charged to retained earnings. There were no repurchases for cancellation during 2015.

Dividends

The company did not pay any dividends on its total outstanding common shares during 2016 and 2015.

Year ended December 31, 2015

On January 30, 2015 the company completed its IPO of 50,000,000 subordinate voting shares at a price of $10.00 per share for gross proceeds of $500,000. The company's subordinate voting shares began trading on the TSX under the symbol FIH.U. 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 $300,000. Also, concurrent with the closing of the IPO, the company issued to certain cornerstone investors 20,578,947 subordinate voting shares, on a private placement basis, for gross proceeds of $205,789. The combined gross proceeds of the IPO and private placements were $1,005,789.

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 $60,999. The exercise of the over-allotment option increased the combined total gross proceeds from the IPO and private placements to $1,066,788 (net proceeds of $1,025,825 after commissions and expenses of $40,963).

9. Earnings per Share

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

	2016	2015
Net earnings – basic and diluted	107,825	40,939
Weighted average shares outstanding – basic and diluted	106,517,213	98,019,189
Net earnings per share – basic and diluted	$ 1.01	$ 0.42

At December 31, 2016 and 2015 there were no instruments outstanding that could potentially dilute earnings per share.

10. Income Taxes

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

	2016	2015
Current income tax:		
Current year expense (recovery)	(4,878)	11,257
Adjustment to prior years' income taxes	1,926	–
	(2,952)	11,257
Deferred income tax:		
Origination and reversal of temporary differences	2,070	2,147
Adjustments to prior years' deferred income taxes	1	–
	2,071	2,147
Provision for (recovery of) income taxes	(881)	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).

During the second quarter of 2016, India and Mauritius amended their double income tax treaty. As a result, investments acquired up to April 1, 2017 will not be assessed by India for tax on their future disposition. After April 1, 2017, India will levy capital gains tax at half the India domestic rate on equity investments purchased or sold through Mauritius until March 31, 2019 and at the full rate from April 1, 2019 onward.

The company's earnings (loss) before income taxes by jurisdiction and the associated provision for (recovery of) income taxes for the years ended December 31 are summarized in the following table:

	2016			2015		
	Canada	Mauritius	Total	Canada	Mauritius	Total
Earnings (loss) before income taxes	(4,105)	111,049	106,944	(858)	55,201	54,343
Provision for (recovery of) income taxes	(4,090)	3,209	(881)	11,559	1,845	13,404
Net earnings (loss)	(15)	107,840	107,825	(12,417)	53,356	40,939

The increase in pre-tax profitability in Mauritius during 2016 compared to 2015 primarily reflected increased net unrealized gains on investments, partially offset by increased investment and advisory fees. The increase in pre-tax losses in Canada during 2016 compared to 2015 principally related to interest expense on the term loan, partially offset by net realized gains on short term investments and common stocks.

A reconciliation of the provision for (recovery of) 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 years ended December 31 are summarized in the following table:

	2016	**2015**
Canadian statutory income tax rate	26.5%	26.5%
Provision for income taxes at the Canadian statutory income tax rate	28,340	14,401
Tax rate differential on income earned and losses incurred outside of Canada	(27,934)	313
Provision relating to prior years	1,926	–
Change in unrecorded tax benefit of losses and temporary differences	1,685	206
Foreign exchange effect	(4,898)	(1,542)
Other including permanent differences	–	26
Provision for (recovery of) income taxes	(881)	13,404

The tax rate differential on income earned and losses incurred outside of Canada of $27,934 in 2016 principally reflected the impact of net investment income taxed in India and Mauritius at lower rates. The tax rate differential on income earned and losses incurred outside of Canada of $313 in 2015 principally reflected the impact of net investment income taxed in India and Mauritius at higher rates.

The provision relating to prior years of $1,926 in 2016 (2015 – nil) primarily related to a refinement of the company's computation of the foreign exchange component of net realized gains and losses on investments.

The change in unrecorded tax benefit of losses and temporary differences of $1,685 in 2016 (2015 – $206) principally reflected foreign accrual property losses incurred by FIH Mauritius. Deferred tax assets in Canada of $8,420 (2015 – $8,807) were not recorded by the company because the related pre-tax losses did not meet the applicable recognition criteria under IFRS.

Foreign exchange effect of $4,898 in 2016 (2015 – $1,542) principally reflected the impact of fluctuations in the value of the Canadian dollar relative to the U.S. dollar and the Indian rupee as the company computes its corporate tax liability in Canadian dollars pursuant to the requirements of Canadian tax authorities, whereas the functional currency of the company and its Mauritius subsidiaries is the Indian rupee.

Changes in net income taxes refundable (payable) for the years ended December 31 was as follows:

	2016	**2015**
Balance – January 1	(9,386)	–
Amounts recorded in the consolidated statements of earnings	2,952	(11,257)
Payments made during the year	13,500	1,573
Foreign currency translation	260	298
Balance – December 31	7,326	(9,386)

Management reviews the recoverability of potential deferred tax assets on an ongoing basis and adjusts, as necessary, to reflect their anticipated realization. Deferred income tax balances at December 31, 2016 were nil (December 31, 2015 – nil) as the company has not recorded deferred tax assets of $6,529 (December 31, 2015 – $8,602) related to costs of the IPO Offerings, and net operating losses and foreign accrual property losses of $1,891 (December 31, 2015 – $205).

Deferred income tax has not been recognized for withholding tax and other taxes that may be payable on unremitted earnings of certain Indian Investments. At December 31, 2016 deferred income tax of approximately $13.2 million has not been recognized on unremitted earnings of approximately $49.8 million that are not likely to be repatriated in the foreseeable future.

11. Financial Risk Management

Overview

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

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

Foreign Currency Risk

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

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

	December 31, 2016						December 31, 2015			
	Cash and cash equivalents	Investments	Receivable from sale of investment funds	Term loan	Payable to related parties	Net exposure	Cash and cash equivalents	Investments	Payable to related parties	Net exposure
U.S. dollars	165,051[(1)]	27,428	26,525	(223,772)	(3,659)	(8,427)	12,367[(1)]	98,588	(1,984)	108,971
All other currencies	716	–	–	–	(14)	702	97	–	(9)	88
Total	165,767	27,428	26,525	(223,772)	(3,673)	(7,725)	12,464	98,588	(1,993)	109,059

(1) At December 31, 2016 cash and cash equivalents included restricted cash of $18,810 to fund term loan interest payments (December 31, 2015 – nil).

The table above shows the company's net exposure to the U.S. dollar and all other currencies. If the Indian rupee appreciated by 5% against the U.S. dollar and all other currencies, the effect on pre-tax earnings and net earnings would be a hypothetical increase of $386 and $284 respectively (December 31, 2015 – a decrease of $5,453 and $4,008). Certain shortcomings are inherent in the method of analysis presented, including the assumption that the 5% appreciation of the Indian rupee occurred with all other variables held constant.

The company's net exposure to the U.S. dollar decreased at December 31, 2016 compared to December 31, 2015 primarily as a result of the term loan completed in the third quarter of 2016 for $225,000 and the sale of U.S. dollar denominated investments (primarily U.S. treasury bills) to fund purchases of Indian Investments, partially offset by increased holdings of cash and cash equivalents received from the term loan proceeds that were not invested into Indian Investments. A portion of the net proceeds from the term loan were used to invest in the second tranche of Sanmar bonds. The term loan contained a mandatory prepayment clause that became effective when the company received the net proceeds from the Offerings (see note 8), requiring repayment of the $225,000 principal amount of the term loan by March 31, 2017.

Interest Rate Risk

Interest rate risk is the risk that the fair values or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Interest rate movements in India may affect the company's equity and net earnings. The Portfolio Advisor and Fairfax actively monitor interest rates in India and the potential impact changes in interest rates may have on the company's investment portfolio. There were no significant changes to the company's framework used to monitor, evaluate and manage interest rate risk at December 31, 2016 compared to December 31, 2015.

The table that follows displays the potential impact of changes in interest rates on the company's fixed income portfolio based on parallel 200 basis point shifts up and down, in 100 basis point increments. This analysis was performed on each individual security, with the hypothetical effect on net earnings calculated on an after-tax basis. At December 31, 2015 the company was also exposed to indirect interest rate risk through investment funds with a fair value of $48,445 to the extent the funds were invested in fixed income securities. The company's exposure to interest rate risk increased during 2016 due to the Sanmar bond investment (see note 5 for details on the valuation of Sanmar bonds).

	December 31, 2016			December 31, 2015		
	Fair value of fixed income portfolio	**Hypothetical $ change effect on net earnings**	**Hypothetical % change in fair value**	**Fair value of fixed income portfolio**	**Hypothetical $ change effect on net earnings**	**Hypothetical % change in fair value**
Change in interest rates						
200 basis point rise	468,666	(44,238)	(11.4)%	467,293	(33,439)	(8.9)%
100 basis point rise	498,029	(22,656)	(5.8)%	490,481	(16,396)	(4.4)%
No change	528,857	–	–	512,789	–	–
100 basis point decline	563,826	25,705	6.6 %	546,766	24,973	6.6 %
200 basis point decline	592,543	46,812	12.0 %	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 foreign currency risk), whether those changes are caused by factors specific to the individual investment or its issuer, or other factors affecting all similar investments in the market. Changes to the company's exposure to equity price risk through its equity instruments at December 31, 2016 compared to December 31, 2015 are described below.

At December 31, 2015 the company was exposed to market price risk for its investments classified as Level 1 in the fair value hierarchy solely through its investment in IIFL. The company's exposure to market price risk for its Level 1 investments increased during 2016 as a result of its investment in Fairchem (see note 5). Refer to note 6 for the potential impact on net earnings of various combinations of changes in significant unobservable inputs in the company's internal valuation models for the company's investments classified as Level 3.

The following table illustrates the potential impact on pre-tax and after-tax net earnings of a 10% change in the fair value of the company's Level 1 equity investments at December 31, 2016 and 2015.

	December 31, 2016		**December 31, 2015**	
Change in fair value of the company's Level 1 equity investments	+10%	− 10%	+10%	− 10%
Level 1 equity investments	311,439	311,439	220,747	220,747
Pre-tax impact on net earnings (loss)	31,144	(31,144)	22,075	(22,075)
After-tax impact on net earnings (loss)	27,017	(27,017)	19,150	(19,150)

Credit Risk

Credit risk is the risk of loss resulting from the failure of a counterparty to honour its financial obligations to the company and arises predominantly with respect to cash and cash equivalents, short term investments and investments in debt instruments. The company's cash and cash equivalents, and short term investments are primarily held at the holding company in major financial institutions (principally in high credit-quality Canadian financial institutions). There were no significant changes to the company's exposure to credit risk (except as set out in the discussion which follows) or the framework used to monitor, evaluate and manage credit risk at December 31, 2016 compared to December 31, 2015.

The company's aggregate gross credit risk exposure was comprised as follows:

	December 31, 2016	December 31, 2015
Cash and cash equivalents	146,960	12,464
Restricted cash	18,810	6,457
Short term investments – U.S. treasury bills	27,428	50,143
Bonds:		
Government of India	130,317	123,448
Indian corporate	99,447	389,341
Sanmar	299,093	–
Common stocks – Investment funds(1)	–	48,445
Interest receivable	7,493	27,680
Other assets:		
Receivable from sale of investment funds	26,525	–
Prepaid interest on term loan	582	–
Total gross credit risk exposure	756,655	657,978

(1) The company was exposed to indirect credit risk through its holdings of investment funds, which were primarily invested in Indian fixed income securities.

At December 31, 2016 the company had income taxes refundable of $7,326 (December 31, 2015 – income taxes payable of $9,386).

The company's short term investments in U.S. treasury bills are rated Aaa by Moody's Investors Service, Inc. ("Moody's") and AA+ by Standard & Poor's Financial Services LLC ("S&P"). The composition of the company's fixed income portfolio is presented in the table below:

	December 31, 2016		December 31, 2015	
	Fair value	Rating	Fair value	Rating
Government of India bonds(1)	130,317	Baa3/BBB–	123,448	Baa3/BBB–
Indian corporate bonds(2)	99,447	AAA	389,341	AAA
Sanmar bonds(3)	299,093	BBB–	–	–
Total bonds	528,857		512,789	

(1) Rated Baa3 by Moody's and BBB– by S&P.

(2) Rated AAA by subsidiaries of a Designated Rating Organization ("DRO"), being DBRS Limited, S&P, Fitch Inc. and Moody's, or subsidiaries or affiliates of a DRO.

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

The company's exposure to credit risk from its investment in fixed income securities increased at December 31, 2016 compared to December 31, 2015 reflecting the company's sale of Indian corporate bonds rated as AAA to fund the purchase of Sanmar bonds ($299,093) which are rated BBB–.

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 financial commitments on their respective due dates. All accounts payable and accrued liabilities are due within three months, and income taxes payable must be remitted to the respective tax jurisdictions within six months.

The company believes that cash and cash equivalents at December 31, 2016, excluding the undeployed net proceeds received from the term loan, provides adequate liquidity to meet the company's known significant expenses in 2017, which are principally comprised of investment and advisory fees, corporate income taxes and general and administration expenses. The company expects to continue to receive investment income on its holdings of fixed income securities and dividends from its equity investments to supplement its cash and cash equivalents. The net proceeds from the Offerings (see note 8), together with net proceeds from the sale of a portion of the company's U.S. treasury bills, Government of India bonds or Indian corporate bonds will be sufficient to fund the anticipated investment in BIAL, the 4.99% investment in IIFL (February 8, 2017) and the investment in Saurashtra (February 14, 2017), and will provide the residual funding required to repay the term loan by March 31, 2017. The company has adequate working capital to support its operations.

Concentration Risk

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

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

	December 31, 2016			**December 31, 2015**		
	India	**U.S.**	**Total**	**India**	**U.S.**	**Total**
Cash and cash equivalents	719[1]	165,051[2]	165,770	6,554[1]	12,367	18,921
Short term investments – U.S. treasury bills	–	27,428	27,428	–	50,143	50,143
Bonds:						
Government of India	130,317	–	130,317	123,448	–	123,448
Indian corporate	99,447	–	99,447	389,341	–	389,341
Sanmar	299,093	–	299,093	–	–	–
	528,857	–	528,857	512,789	–	512,789
Common stocks:						
IIFL	265,951	–	265,951	220,747	–	220,747
NCML	146,586	–	146,586	146,445	–	146,445
Privi	54,315	–	54,315	–	–	–
Fairchem	45,488	–	45,488	–	–	–
NSE	26,504	–	26,504	–	–	–
Sanmar	440	–	440	–	–	–
Investment funds	–	–	–	48,445	–	48,445
	539,284	–	539,284	415,637	–	415,637
Total cash and investments	1,068,860	192,479	1,261,339	934,980	62,510	997,490

(1) *Included cash and cash equivalents invested in Mauritius and Canada of $716 at December 31, 2016 (December 31, 2015 – $97 and restricted cash of $6,457).*

(2) *Included restricted cash of $18,810 at December 31, 2016 (December 31, 2015 – nil).*

The company's holdings of common stocks and Sanmar bonds at December 31, 2016 and December 31, 2015 are summarized by the issuer's primary sector in the table below.

	December 31, 2016	**December 31, 2015**
Financial and investment funds	292,455	269,192
Commercial and industrial	545,922	146,445
	838,377	415,637

During 2016 the company's concentration risk in the financial and investments funds sector increased primarily due to the investment in NSE ($26,504) and the increase in fair value of IIFL, partially offset by the sale of investment funds, while the company's concentration risk in the commercial and industrial sector increased primarily due to the investments in Sanmar (common stock – $440 and bonds – $299,093), Privi ($54,315) and Fairchem ($45,488).

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 at the time of the investment; provided, however, that the company is permitted to complete up to two Indian Investments where, after giving effect to each such investment, the total invested amount of each such investment would be less than or equal to 25% of the company's total assets (the ''Investment Concentration Restriction''). The company's Investment Concentration Restriction limit increased to approximately $325 million at December 31, 2016 from approximately $250 million at December 31, 2015 principally as a result of the net proceeds received from the term loan and net unrealized gains on the company's Indian Investments. Indian Investments may be financed through equity or debt offerings as part of the company's objective to reduce its cost of capital and provide returns to common shareholders.

On January 13, 2017 the company completed the Offerings (see note 8) and received net proceeds of $493,504, increasing the Investment Concentration Restriction limit which would enable the company to complete the anticipated investment in BIAL (see note 5).

Capital Management

The company's objectives when managing capital are to safeguard its ability to continue as a going concern in order to provide returns for common 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 seek downside protection and attempt to minimize the loss of capital. Total capital at December 31, 2016, comprising the term loan and total common shareholders' equity, was $1,299,218 compared to $1,013,329 at December 31, 2015.

On September 16, 2016 the company completed a 2-year secured term loan (see note 7). The term loan includes a financial covenant that requires the company to maintain total common shareholders' equity of not less than $750,000. At December 31, 2016 the company was in compliance with the term loan covenants.

On January 13, 2017 the company completed an underwritten public offering and concurrent with the public offering, Fairfax and OMERS acquired additional subordinate voting shares resulting in net proceeds of $493,504. Net proceeds from the Offerings will provide financing to acquire additional Indian Investments and will be used for general corporate purposes. Receipt of the proceeds from the Offerings triggered a mandatory prepayment clause in the term loan requiring repayment of the $225,000 principal amount of the term loan by March 31, 2017 (see note 7).

12. Related Party Transactions

Payables to Related Parties

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

	December 31, 2016	December 31, 2015
Investment and advisory fees	3,611	1,803
Other	62	190
	3,673	1,993

Investment Advisory Agreement

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

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 the company's total common shareholders' equity less the value of undeployed capital.

For 2016, the company determined that the majority of its assets were invested in Indian Investments, which are considered deployed capital. In 2016 the investment and advisory fee recorded in the consolidated statements of earnings was $12,552 (2015 – $5,393).

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 total common shareholders' equity (including distributions) above a 5% per annum increase. The company determined that the performance fee was not applicable for 2016 and 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 was as follows:

	2016	**2015**
Retainers and fees	150	131
Share-based payments	133	132
Other	50	50
	333	313

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.

Other

On February 8, 2017 the company acquired 15,853,000 common shares representing a 4.99% equity interest in IIFL (see note 5 for details).

13. Segment Reporting

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

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

14. General and Administration Expenses

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

	2016	**2015**
Brokerage fees	153	978
Audit, legal and tax professional fees	2,646	2,899
Salaries and employee benefit expenses	737	580
Administrative expenses	811	665
Other	590	393
	4,937	5,515

15. Supplementary Cash Flow Information

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

	2016	**2015**
(a) Purchases of investments classified as FVTPL		
Bonds	(299,642)	(819,118)
Common stocks	(123,997)	(408,954)
	(423,639)	(1,228,072)
(b) Sales of investments classified as FVTPL		
Bonds	280,960	264,361
Common stocks	52,631	–
	333,591	264,361
(c) Net interest and dividends		
Interest received	31,803	11,794
Dividends received	5,611	–
Interest paid on term loan	(3,190)	–
	34,224	11,794
(d) Income taxes paid	(13,500)	(1,573)

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 10, 2017)

(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 www.fairfaxindia.ca.

(2) The MD&A contains references to book value per share. On any date, book value per share is calculated as total common shareholders' equity divided by the total number of common shares of the company outstanding on that date. Book value per share is a key performance measure of the company and is closely monitored as it is used to calculate the performance fee payable, if any, to Fairfax Financial Holdings Limited ("Fairfax"). 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 total common shareholders' equity (including distributions) above a 5% per annum increase.

(3) Unless otherwise noted, consolidated financial information of the company within this MD&A is derived from the consolidated financial statements of the company prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"), and is presented in U.S. dollars with the Indian rupee as the functional currency of the company and its consolidated subsidiaries.

Business Developments

Overview

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 principally engaged in property and casualty insurance and reinsurance and the associated investment management. Fairfax is a Canadian reporting issuer with securities listed on the Toronto Stock Exchange ("TSX") and trading in Canadian dollars under the symbol FFH for over 30 years and in U.S. dollars under the symbol FFH.U.

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.

In the first quarter of 2015 Fairfax India 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 $500,000. The company's subordinate voting shares commenced trading on January 30, 2015 on the TSX under the symbol FIH.U.

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 $300,000. The multiple voting shares are not listed. Also, concurrent with the closing of the IPO, the company issued to certain cornerstone investors 20,578,947 subordinate voting shares, on a private placement basis, for gross proceeds of $205,789. The combined gross proceeds of the IPO and private placements were $1,005,789.

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 $60,999. The exercise of the over-allotment option increased the combined total gross proceeds from the IPO and private placements to $1,066,788 (net proceeds of $1,025,825 after commissions and expenses of $40,963).

On January 13, 2017 the company completed an underwritten public offering of 12,766,000 subordinate voting shares at a price of $11.75 per share. Concurrent with the public offering, Fairfax and Ontario Municipal Employees Retirement System ("OMERS") acquired 12,766,000 and 17,021,500 subordinate voting shares, respectively, at a price of $11.75 per subordinate voting share in a concurrent private placement (the "Concurrent Private Placement" and, together with the public offering, the "Offerings"), resulting in net proceeds of $493,504, after commissions and expenses of $6,500. Net proceeds from the Offerings will provide financing to acquire additional Indian Investments and will be used for general corporate purposes. Receipt of the proceeds from the Offerings triggered a mandatory prepayment clause in the term loan requiring repayment of the $225,000 principal amount of the term loan by March 31, 2017 (see note 7 (Term Loan) to the consolidated financial statements for the year ended December 31, 2016).

Indian Investments

Subsequent to December 31, 2016

Public Indian Investments

Investment in IIFL Holdings Limited

On February 8, 2017 the company, through its wholly-owned subsidiaries, acquired 15,853,000 common shares representing a 4.99% equity interest in IIFL Holdings Limited (''IIFL'') for total consideration of $75,175 (5.1 billion Indian rupees). In connection with the transaction, Fairfax, through its subsidiaries, disposed of derivative instruments representing an economic interest of 4.99% in IIFL.

In accordance with regulations of the Securities and Exchange Board of India (''SEBI'') and the National Stock Exchange of India, the transaction was subject to certain sale and purchase pricing guidelines and, as a result, the total consideration paid per share approximated the fair market value of the common share equity interest acquired. After giving effect to the shares acquired, the company held 26.7% of the outstanding common shares of IIFL.

Private Indian Investments

Investment in Saurashtra Freight Private Limited

On February 14, 2017 the company, through its wholly-owned subsidiaries, acquired a 51.0% common share equity interest in Saurashtra Freight Private Limited (''Saurashtra''), a private company, for cash consideration of $30,018 (2.0 billion Indian rupees).

Saurashtra runs the largest container freight station at Mundra port (Gujarat), the second largest and fastest growing port in India. Saurashtra's container freight station business provides services such as moving of containers to and from the port, stuffing/destuffing of containers, cargo storage and transportation of cargo to the end customer as well as the storage, maintenance and repair of empty containers.

Investment in Bangalore International Airport Limited

On March 28, 2016 the company and Fairfax, through their wholly-owned subsidiaries, announced that they will collectively acquire 33.0% of the common shares of Bangalore International Airport Limited (''BIAL''), a private company, from Bangalore Airport & Infrastructure Developers Private Limited, a wholly-owned subsidiary of GVK Power and Infrastructure Limited (''GVK'') for an aggregate investment of approximately $330 million at current exchange rates (approximately 22 billion Indian rupees). Fairfax, through a wholly-owned subsidiary, entered into a separate share purchase agreement to acquire an additional 5.0% common share equity interest from Flughafen Zurich AG (''Zurich'') for approximately $49 million. The acquisition of the additional 5.0% common share equity interest from Zurich in BIAL can be acquired by Fairfax or the company and is conditional upon the company acquiring the 33.0% common share equity interest from GVK.

Fairfax India is permitted to complete up to two Indian Investments where such investment would be less than or equal to 25% of the company's total assets (see note 11 (Financial Risk Management) under the heading 'Concentration Risk' to the consolidated financial statements for the year ended December 31, 2016). On January 13, 2017 the company received net proceeds of $493,504 from an underwritten public offering and private placements (see note 8 (Total Equity) to the consolidated financial statements for the year ended December 31, 2016) that resulted in an increase in the company's total assets and investment concentration restriction limit. After giving effect to this transaction, the investment concentration restriction limit increased providing the company with the ability to acquire the total 38.0% investment in BIAL. The anticipated cost for the 38.0% common share equity interest in BIAL is approximately $379 million (approximately 25 billion Indian rupees).

As of March 10, 2017 certain conditions to closing remain outstanding and there is no certainty as to if or when such conditions, consents and approvals will be satisfied or waived. Such conditions, consents and approvals that remain outstanding primarily include finalizing certain lending arrangements between GVK and its lenders, approval from certain government authorities and receipt of a no-objection certificate from a relevant authorized dealer under the Foreign Exchange Management Act, 1999, with respect to permitting a pledge of shares in connection with the BIAL Transaction.

BIAL owns and operates the Kempegowda International Airport Bengaluru (''KIAB''), under a 30+30 year concession agreement from the Government of India. KIAB has the distinction of being the first airport in India that was built to the highest international standards by the private sector under a public-private partnership.

Operating Environment

Overview

India has emerged as the fastest growing major economy in the world according to the Central Statistics Organization and the International Monetary Fund. According to the International Monetary Fund, the Indian economy will continue to grow more than 7% in the financial year 2017-18. The improvement in India's economic fundamentals has accelerated in recent years with the combined impact of strong government reforms and the Reserve Bank of India's (''RBI'') inflation focus supported by favourable global commodity prices.

Government Initiatives

Numerous foreign companies are setting up their facilities in India on account of various government initiatives like ''Make in India'' and ''Digital India''. Mr. Narendra Modi, Prime Minister of India, has launched the Make in India initiative with an aim to boost the manufacturing sector of the Indian economy. This initiative is expected to increase the purchasing power of an average Indian consumer, which would further boost demand, and hence spur development, in addition to benefiting investors. Currently, the manufacturing sector contributes over 15% of India's GDP. The Government of India, under the Make in India initiative, is providing incentives across various sectors to achieve a higher percentage of GDP from the manufacturing sector. The Digital India initiative focuses on three core components: creation of digital infrastructure, delivering services digitally and increasing digital literacy.

Demonetization

On November 8, 2016 the Government of India announced the demonetization of all Indian rupee 500 (approximately $7.50) and 1,000 (approximately $15) banknotes. The Government of India claimed that the action would curtail the shadow economy and suppress on the use of illicit and counterfeit cash to fund illegal activity and terrorism. The sudden nature of the announcement and the prolonged cash shortages in the weeks that followed, created significant disruption throughout the economy, threatening economic output. The action was considered to have reduced India's GDP and industrial production over the short term but it is anticipated that these effects will disappear in 2017 as the currency circulation normalizes.

Business Objectives

Investment Objective

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

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, financial institutions, consumer services, retail and exports. The company is not limited to investing solely in these sectors and intends to invest in other sectors as and when opportunities arise.

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

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

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

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

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 Investment prior to a recommendation to the company and its subsidiaries to make the 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.

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 offerings or private sales. For publicly traded investments, exit strategies may include selling the investments through private placements or in public markets.

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 at the time of the investment; provided, however, that the company is permitted to complete up to two Indian Investments where, after giving effect to each such investment, the total invested amount of each such investment would be less than or equal to 25% of the company's total assets (the ''Investment Concentration Restriction''). The company's Investment Concentration Restriction limit increased to approximately $325 million at December 31, 2016 from approximately $250 million at December 31, 2015 principally as a result of the net proceeds received from the term loan and net unrealized gains on the company's Indian Investments. Indian Investments may be financed through equity or debt offerings as part of the company's objective to reduce its cost of capital and provide returns to common shareholders.

On January 13, 2017 the company completed the Offerings and received net proceeds of $493,504, increasing the Investment Concentration Restriction limit which would enable the company to complete the anticipated investment in BIAL.

The company intends to make multiple different investments as part of its prudent investment strategy. The company will invest the net proceeds from the Offerings that comply with the Investment Concentration Restriction. At December 31, 2016 the company determined that it was in compliance with these investment restrictions. With the completion of the investments in the National Stock Exchange of India Limited and Privi Organics Limited in the third quarter of 2016, the company satisfied the voluntarily-adopted measure (set forth in the IPO prospectus) that it would invest the net proceeds from the IPO in at least six different Indian Investments.

Indian Investments

Cautionary Statement Regarding Financial Information of Significant Indian Investments

Fairfax India has agreed to voluntarily provide within the MD&A, summary financial information prepared in accordance with IFRS for all of its Indian Investments in which it had previously filed a business acquisition report in accordance with section 8.2 of *National Instrument 51-102 Continuous Disclosure Obligations (''NI 51-102'')*. National Collateral Management Services Limited (''NCML''), IIFL and Sanmar Chemicals Group (''Sanmar'') (collectively, ''Significant Indian Investments'') prepare their financial statements in accordance with Indian Generally Accepted Accounting Principles (''Indian GAAP''). Fairfax India is limited in respect to the amount of independent verification it is able to perform with respect to the Significant Indian Investments financial statements. The unaudited summarized financial information contained in this MD&A was prepared exclusively for Fairfax India. Such unaudited financial information is the responsibility of the respective managements and has been prepared by them using recognition, measurement and presentation principles consistent with IFRS as issued by the IASB, and provided to the company in Indian rupees.

The company's Significant Indian Investments fiscal years end on March 31. Summary financial information of the company's Significant Indian Investments has been provided primarily relating to the periods subsequent to the company's investment and to the extent that the latest interim financial information is available to the company's management.

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

Fairfax India has no knowledge that would indicate that the Significant Indian Investments summarized financial information contained herein requires material modifications. However, readers are cautioned that the Significant

Indian Investments summarized financial information contained in the MD&A may not be appropriate for their purposes.

The table below provides a summary of the company's Indian Investments completed at December 31, 2016, and the additional Indian Investments completed and/or committed to subsequent to December 31, 2016:

	Date Acquired	Ownership %	Initial transaction price	Fair value at December 31, 2016	Net change
At December 31, 2016					
Public Indian Investments:					
IIFL	December 2015	21.7%	201,559	265,951	64,392
Fairchem	February 2016	44.9%	19,409	45,488	26,079
			220,968	311,439	90,471
Private Indian Investments:					
NCML	August 2015	88.1%	148,716	146,586	(2,130)
Sanmar	April 2016	30.0%	1,000	440	(560)
Sanmar Bonds	April and September 2016	–	299,000	299,093	93
Privi	August 2016	50.8%	54,975	54,315	(660)
NSE	July 2016	1.0%	26,783	26,504	(279)
			530,474	526,938	(3,536)
Total Indian Investments completed at December 31, 2016			751,442	838,377	86,935
Subsequent to December 31, 2016					
Public Indian Investments:					
IIFL	February 2017	4.99%	75,175		
Private Indian Investments:					
Saurashtra	February 2017	51.0%	30,018		
BIAL	Committed	38.0%	379,000		
			409,018		
Total additional Indian Investments completed and/or committed to subsequent to December 31, 2016			484,193		
			1,235,635		

Public Indian Investments

Set out and discussed below are the public Indian Investments held by the company at December 31, 2016 whose shares are listed on both the Bombay Stock Exchange (''BSE'') and the National Stock Exchange (''NSE'') of India.

IIFL Holdings Limited

Business Overview

IIFL Holdings Limited (''IIFL'') was incorporated in 1995 and is a publicly traded, diversified financial services holding company located in Mumbai, India with principal lines of business in a non-banking finance company, wealth management, and capital markets and other activities (comprised of retail broking, institutional equities, investment banking and financial products distribution). IIFL serves over 3.5 million customers from 2,250 service locations and over 1,000 branches across India. It also has an international presence, with offices in New York, London, Geneva, Singapore, Hong Kong, Dubai and Mauritius.

IIFL's principal lines of business are as follows:

Non-Banking Finance Company

IIFL's non-banking finance company (''NBFC'') and housing finance company are diversified financing companies, offering loans secured against collaterals of home, property, gold, commercial vehicles, shares and other securities as well as offering loans to small and medium sized businesses. At December 31, 2016 IIFL's NBFC managed assets worth approximately $3 billion (211 billion Indian rupees) where retail mortgage and gold loans represented approximately 52% and 14%, respectively, of the managed assets. The housing financing company offers home loans in the affordable housing segment and focuses on mortgage loans to small and medium sized businesses.

Wealth Management

Wealth management is the fastest growing business in IIFL and is one of the leading wealth managers in India. At December 31, 2016 IIFL's wealth management division was amongst the top six mutual fund distributors in India and had approximately $16 billion (1,070 billion Indian rupees) of assets under advice, distribution and management. 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, credit, 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. In February 2016 IIFL launched Wealth NBFC that primarily offers loans to high net worth clientele, where investment securities are received as loan collateral. At December 31, 2016 IIFL's Wealth NBFC had a loan book of approximately $430 million (29 billion Indian rupees).

Capital Markets and Other Activities

IIFL is a leading online and offline broking and financial advisory services provider to retail and institutional clients and is well known for high quality research in India.

IIFL is one of the largest non-bank retail broking houses in India offering trading and advisory services to retail clients via its website, mobile application and branch network. Over the past two decades, IIFL has created a brand, powered by informed research and cutting-edge technology, extensive footprint, high service standards and competitive brokerage. IIFL also offers currency and commodities broking and the distribution of financial service products such as mutual funds and life insurance to retail clients.

IIFL's shares are listed on both the BSE and the NSE of India.

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

Transaction Description

On December 1, 2015 Fairfax India acquired 68,788,445 common shares of IIFL representing a 21.9% ownership interest at a price of $2.93 per share (195 Indian rupees) for total consideration of $201,559 (approximately 13.4 billion Indian rupees). Prior to the company's investment in IIFL, Fairfax, through its subsidiaries, owned 8.9% of the issued and outstanding IIFL common shares, and had an economic interest in another 5.2% of IIFL common shares through derivative instruments (all acquired prior to the establishment of Fairfax India).

At December 31, 2016 the company held 21.7% of the outstanding common shares of IIFL. 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 common 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.

Fairfax had invested in IIFL prior to the company's December 1, 2015 investment and was able to recommend for appointment one board representative, out of the eight board members, which Fairfax has maintained since 2012. At December 31, 2016 the company did not have any additional board representation in IIFL, but is considered to have board representation through the original Fairfax board representative.

On February 8, 2017, as noted in the 'Business Developments' section of this MD&A under the heading 'Indian Investments', the company acquired 15,853,000 common shares representing a 4.99% equity interest in IIFL for total consideration of $75,175 (5.1 billion Indian rupees). In connection with the transaction, Fairfax, through its subsidiaries, disposed of derivative instruments representing an economic interest of 4.99% in IIFL. After giving effect to the shares acquired, the company held 26.7% of the outstanding common shares of IIFL.

Key business drivers, events and risks

IIFL's key business drivers will be the growth and penetration of their financial services products, particularly in the areas of lending and wealth management.

Demonetization announced by the Government of India in November 2016 negatively impacted IIFL's revenues in the short term. IIFL's continued focus on and investments in digitization enabled them to mitigate the impact of demonetization as they had a ready platform to conveniently accept cashless payments from customers, the ability to make collections through tablets and a self-help portal for quick query resolution.

During the quarter ended September 30, 2016 IIFL's NBFC subsidiary issued 43,334,409 compulsorily convertible preference shares ("CCPS") and 100 equity shares to CDC Group PLC ("CDC") for approximately a 15% ownership on a fully diluted basis in IIFL's wholly-owned NBFC subsidiary and received total consideration of approximately $150 million (approximately 10.1 billion Indian rupees). The investment by CDC will help IIFL's NBFC subsidiary in expanding the lending business and address the capital needs of the under-served segments.

During the quarter ended September 30, 2016 CRISIL, India's top rating agency (controlled by S&P), upgraded the rating for India Infoline Finance Ltd, the non-banking finance arm of IIFL, and its subsidiary India Infoline Housing Finance Ltd, to CRISIL AA/Stable from CRISIL AA-/Stable. The rating is applicable on the long term debt instruments of the above noted IIFL subsidiaries. The upgrade in rating primarily reflected the improved capital position of IIFL's subsidiaries, a well diversified business risk profile, and a presence across the financial services space with an increasing focus towards retail lending. The rating upgrade by CRISIL will decrease IIFL's cost of funding in future reporting periods.

Valuation and Consolidated Financial Statement Impact

IIFL's shares are publicly traded in India. Accordingly, the company determined the fair value of its investment in IIFL using the bid prices at December 31, 2016 and 2015, without adjustments or discounts.

In 2016 the consolidated statements of earnings included unrealized gains on investments of $51,305 (2015 – $18,559) related to the company's investment in IIFL. IIFL's share price increased from 212.30 Indian rupees per share at December 31, 2015 to 262.40 Indian rupees per share at December 31, 2016 which the company believes was primarily related to the robust performance of the NBFC subsidiary and the Wealth Management division of the company.

In 2016 the consolidated statements of earnings included dividend income earned from the investment in IIFL of $4,352 (2015 – nil).

IIFL's Summarized Financial Information

The company's fiscal year ends on December 31 and IIFL's fiscal year ends on March 31. Summarized below are IIFL's balance sheets at September 30, 2016 and March 31, 2016.

Balance Sheets
(unaudited – US$ thousands)

	September 30, 2016(1)	**March 31, 2016(1)**
Current assets	2,509,396	1,846,590
Non-current assets	2,006,664	1,630,821
Current liabilities	2,147,269	1,456,112
Non-current liabilities	1,574,213	1,429,520
Shareholders' equity	794,578	591,779

(1) *The net assets of IIFL were translated at September 30, 2016 at $1 U.S. dollar = 66.58 Indian rupees and at March 31, 2016 at $1 U.S. dollar = 66.22 Indian rupees. The exchange rates used were the spot rates prevailing on those respective dates.*

Current assets increased by $662,806 to $2,509,396 at September 30, 2016 from $1,846,590 at March 31, 2016 primarily due to increased investments in fixed deposits, short term investments, mutual funds, and loans and receivables as a result of the growth in IIFL's NBFC segment. The growth within the NBFC segment primarily related to retail (low risk retail mortgage loans) and commercial vehicle financing, partially offset by declines in large mortgages.

Non-current assets increased by $375,843 to $2,006,664 at September 30, 2016 from $1,630,821 at March 31, 2016 primarily due to increased holdings of long term investments and loans and advances (primarily growth in the NBFC segment, as noted above). The increases in long term investments principally related to investing part of the short term and long term loans entered into during the period into long term investments, and investing into long term investments the proceeds received from CDC on the CCPS and equity issuance of approximately $150 million (approximately 10.1 billion Indian rupees) for approximately a 15% ownership on a fully diluted basis in IIFL's wholly-owned NBFC subsidiary.

Current liabilities increased by $691,157 to $2,147,269 at September 30, 2016 from $1,456,112 at March 31, 2016 primarily due to an increase in short term interest bearing loans and borrowings to support the growth in the NBFC segment.

Non-current liabilities increased by $144,693 to $1,574,213 at September 30, 2016 from $1,429,520 at March 31, 2016 primarily due to an increase in long term interest bearing loans and borrowings to support the growth in the NBFC segment.

Summarized below is IIFL's statement of earnings for six months ended September 30, 2016.

Statement of Earnings
(unaudited – US$ thousands)

	Six months ended September 30, 2016[(1)]
Revenue	333,009
Net earnings before taxes	77,587
Net earnings	52,260

(1) Amounts for the six months ended September 30, 2016 were translated into US$ using the average exchange rates of $1 U.S. dollar = 66.93 Indian rupees prevailing during that period.

For the six months ended September 30, 2016, IIFL's revenue and net earnings of $333,009 and $52,260 respectively, were primarily driven by activities of the NBFC segment, primarily related to retail (low risk retail mortgage loans) and commercial vehicle financing, partially offset by declines in large mortgages. IIFL's management continues to focus on reducing operating costs to achieve better economies of scale and leverage existing infrastructure to offer complementary products across multiple segments. The rating upgrade by CRISIL will decrease IIFL's cost of funding in future reporting periods.

Fairchem Speciality Limited

Business Overview

Fairchem Speciality Limited ("Fairchem", formerly known as Adi Finechem Limited) was incorporated in 1985 and publicly listed its shares on the BSE in 1995 and NSE in 2015. Fairchem is a specialty chemical manufacturer located in Ahmedabad, India. Fairchem manufactures oleochemicals used in the paints, inks and adhesives industries, as well as intermediate nutraceutical and health products. It has developed an in-house technology that uses machinery designed and manufactured by leading European companies to separate and convert waste generated during the production of soy, sunflower, corn and cotton oils into valuable nutraceutical and fatty acids. Fatty acids go into non-edible products like soaps, personal care products, paints, and nutraceutical products that are used in the manufacturing of natural vitamin E and corticosteroids.

Fairchem has expanded its capacity from 8,000 tonnes per annum in 2010 to 45,000 tonnes per annum as at December 31, 2016, making it one of the largest processing capacity companies of natural soft oil based fatty acids in India. Fairchem's business is a single business segment which is specialty chemicals and they have customers that include major domestic inks and paint manufacturers, and multinational natural vitamin E and sterol manufacturers.

Fairchem's shares are listed on both the BSE and the NSE of India.

Additional information can also be accessed from Fairchem's website www.fairchem.in.

Transaction Description

On February 8, 2016 Fairfax India, through its wholly-owned subsidiary, acquired 44.7% of the common shares of Fairchem at a price per share of $3.13 (212 Indian rupees) for total consideration of $19,409 (approximately 1.3 billion Indian rupees). Refer to the Private Indian Investments heading under the sub-heading Privi Organics Limited within this Indian Investments section of this MD&A for a discussion of a merger arrangement involving Fairchem and Privi Organics Limited.

At December 31, 2016 the company held 44.9% of the outstanding common shares of Fairchem.

At December 31, 2016 the company had appointed two of the twelve Fairchem board members.

Key business drivers, events and risks

Fairchem's key business drivers will be the growth of its oleochemicals business and forward integration into value added products, such as fatty alcohols and natural vitamin streams. With rising environmental concerns, the use of oleochemicals is growing in lubricants, paper printing, paints and coatings, and animals feed industries. As a result of the increasing demands for sustainable and biodegradable chemicals, oleochemicals markets have been experiencing strong growth in recent years.

India is the one of the largest consumers of soft oils, providing Fairchem with a competitive advantage of having good access to raw materials used in their manufacturing processes. Given the close proximity to raw materials, oleochemicals production has shifted from developed countries (U.S. and Europe) to Asia (India, Malaysia and Indonesia). The lower cost of raw materials and their efficient manufacturing processes enable Fairchem to benefit from its competitive advantages in comparison to its global peers. Fairchem has a strong market presence for some of its products, with little or no competition, and is viewed to produce a superior quality product compared to its competitors from China. Fairchem is exposed to limited availability of raw materials (primarily soya oils) which are used in its manufacturing processes and as a result may impact its ability to meet higher demand.

Fairchem needed to develop a strong business relationship with a new U.S. based customer as the customer was emerging as a dominant player in the natural tocopherols, natural vitamin E and sterols markets. To avoid any product rejection, a joint detailed process and equipment audit was completed, which resulted in plant upgrades and modifications. Fairchem successfully started supplying to the U.S. based customer in October 2016, but the plant upgrades and modifications resulted in production losses and increased capital expenditures that negatively impacted Fairchem's net earnings during the period.

Valuation and Consolidated Financial Statement Impact

Fairchem's shares are publicly traded in India. Accordingly, the company determined the fair value of its investment in Fairchem using the bid price at December 31, 2016, without adjustments or discounts.

In 2016 the company's consolidated statements of earnings included unrealized gains on investments of $26,399 (2015 – nil) related to its investment in Fairchem. The company believes the increase in Fairchem's trading price from 212.00 Indian rupees per share at the transaction date (February 8, 2016) to 498.10 Indian rupees per share at December 31, 2016 was primarily a result of the announced merger of Fairchem and Privi and the growth of Fairchem's revenues.

Private Indian Investments

Cautionary Statement Regarding the Valuation of Private Indian Investments

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

National Collateral Management Services Limited

Business Overview

National Collateral Management Services Limited (''NCML'') is a leading private agricultural commodities company in India that has operated for over 12 years and is now preparing to expand to take advantage of the significant market potential in India's under-developed agricultural storage industry with the support of and investment from Fairfax India. NCML has a network of over 6 regional offices and operates in the mid-stream post-harvest agriculture value chain by offering end-to-end solutions in grain procurement, testing, storage and preservation, and collateral management. NCML was promoted by a consortium of banks, cooperatives and the National Commodity and Derivatives Exchange Limited (''NCDEX'') in 2004 as a warehousing and collateral management company to support commodity trading on NCDEX and has since evolved into a significant player in India.

NCML's principal lines of business are as follows:

Warehousing and Collateral Management

NCML's warehousing segment is comprised of over 1.5 million metric tons of storage capacity across 952 warehouses in 18 states in India and is a market leader with over a 45% market share within its collateral management segment.

Supply Chain Management

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

Non-banking Finance Company (''NBFC'')

During 2016 NCML launched its wholly-owned subsidiary, NCML Finance Pvt. Ltd (''NFin''). NFin is an RBI registered NBFC with a focus on rural and agri-business financing. With its extensive reach and over a decade of experience, NCML has realized that despite the presence of numerous financial entities in the rural and agriculture value chain, the small and marginal farmer segment remains underpenetrated. NFin provides a seamless facility for NCML's customers to receive post-harvest financing.

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

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

Transaction Description

On August 19, 2015 the company, through its wholly-owned subsidiary, acquired a 73.6% ownership interest in NCML by acquiring 23,326,335 newly issued common shares and 71,050,691 common shares from certain existing shareholders for an aggregate investment of $124,244 (approximately 8.1 billion Indian rupees).

Subsequently, the company acquired an additional 14.5% ownership interest in NCML by acquiring 18,618,420 common shares from minority shareholders for $24,472 (approximately 1.6 billion Indian rupees). At December 31, 2016 the company held 88.1% of the outstanding common shares of NCML.

At December 31, 2016 the company had appointed three of the seven NCML board members.

Key business drivers, events and risks

NCML's key business drivers will be the long term modernization of its grain storage facilities, the development of its new financing subsidiary, and the expansion of its supply chain management segment.

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

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.

During the fourth quarter of 2016 the Indian agriculture commodity landscape showed mixed results in the wake of the demonetization decision taken by the Government of India on November 8, 2016. In the first eight weeks post demonetization, arrivals of the summer crop harvest dropped considerably as farmers and aggregators transact largely in cash due to the limited banking infrastructure and the increased operational ease of transacting in cash. This negatively impacted the deposits into NCML's warehouses. In addition, the collateral management segment of NCML saw closures of a large number of accounts as clients used the old currency to repay and close their loan accounts, and the banks faced a lower credit demand, partly on account of the demonetization decision as well as the non-availability of cash withdrawal facilities from banks that constrained the purchase of fresh produce from farmers. In view of the above developments, the warehousing and collateral management segments were negatively impacted and the company's revenue and profitability decreased during this period. The other divisions of the company (Supply Chain, Testing and Certification and Weather Intelligence), however, performed reasonably well and partially offset the lower profitability in the warehousing and collateral management segment. The impact of the demonetization started to ease towards the end of December 2016 and NCML anticipates a strong performance in the first quarter of 2017.

After receiving encouraging responses from private players for the construction of six silos with a 250,000 tonne capacity, the FCI had called for bids for building 27 additional silos which will be located in the states of Punjab, Haryana, Uttar Pradesh, West Bengal, Bihar and Gujarat, and will have an estimated combined grain storage capacity of 1.35 million metric tons. NCML submitted bids for all 27 locations and was awarded a 30 year concession agreement to build 11 of the locations with a 550,000 metric ton capacity which will require capital expenditure of an estimated $100 million (approximately 7.0 billion Indian rupees). NCML anticipates that most of the capital expenditure requirements will be able to be financed internally.

Valuation and Consolidated Financial Statement Impact

At December 31, 2015 the initial transaction price was considered to approximate fair value as there had been no significant changes to NCML's business, capital structure and operating environment and the key assumptions in the company's acquisition valuation model continued to be valid due to the proximity of the transaction closing date to the year end. During 2016 the company refined its internal valuation model used in the determination of NCML's fair value. The fair value of NCML cannot be derived from an active market and accordingly, is determined using industry accepted valuation techniques and models. Market observable inputs are used where possible, with unobservable inputs used where necessary. Use of unobservable inputs can involve significant judgment and may materially affect the reported fair value of NCML.

At December 31, 2016 the company estimated fair value using a discounted cash flow analysis based on multi-year free cash flow projections with assumed after-tax discount rates ranging from 11.9% to 15.8% and a long term growth rate of 6.0%. Free cash flow projections were based on EBITDA projections from financial information for NCML's business units that had been prepared in the fourth quarter of 2016 by NCML's management. Discount rates were based on the company's assessment of risk premiums to the appropriate risk-free rate of the economic environment in which NCML operates. At December 31, 2016 the company's internal valuation model indicated that the fair value of the common shares was $146,586 (2015 – $146,445), resulting in an unrealized gain of $3,879 (2015 – nil), largely offset by an unrealized foreign currency translation loss of $3,738 (2015 – loss of $2,271) which were recorded in net unrealized gains on investments in the consolidated statements of earnings and in the consolidated statements of comprehensive income, respectively, in 2016. The net unrealized gain of $3,879 was primarily driven by the growth in NCML's supply chain business and the success of the new NBFC segment.

NCML's Summarized Financial Information

The company's fiscal year ends on December 31 and NCML's fiscal year ends on March 31. Summarized below are NCML's balance sheets at December 31, 2016 and March 31, 2016.

Balance Sheets
(unaudited – US$ thousands)

	December 31, 2016[(1)]	March 31, 2016[(1)]
Current assets	84,825	80,531
Non-current assets	58,915	54,582
Current liabilities	45,281	36,599
Non-current liabilities	22,614	21,342
Shareholders' equity	75,845	77,172

(1) *The net assets of NCML were translated at December 31, 2016 at $1 U.S. dollar = 67.87 Indian rupees and at March 31, 2016 at $1 U.S. dollar = 66.22 Indian rupees. The exchange rates used were the spot rates prevailing on those respective dates.*

Current assets increased by $4,294 to $84,825 at December 31, 2016 from $80,531 at March 31, 2016 primarily reflecting an increase in inventory with the commencement of Kharif season (typically crops planted and harvested June through October and relate primarily to rice and corn) resulting in increased grain procurement, partially offset by a decrease in trade receivables.

Non-current assets increased by $4,333 to $58,915 at December 31, 2016 from $54,582 at March 31, 2016 primarily driven by an increase in property, plant and equipment relating to the capitalization of the ongoing warehousing projects.

Current liabilities increased by $8,682 to $45,281 at December 31, 2016 from $36,599 at March 31, 2016 primarily due to increases in short term loans and borrowings and other payables relating to customer advances for grain procurement during Kharif season.

Non-current liabilities increased by $1,272 to $22,614 at December 31, 2016 from $21,342 at March 31, 2016 primarily due to an increase in long term loans and borrowings relating to the financing obtained for the ongoing warehousing projects.

Summarized below are NCML's statements of earnings for the nine months ended December 31, 2016 and 2015.

Statements of Earnings
(unaudited – US$ thousands)

	Nine months ended December 31, 2016[(1)]	Nine months ended December 31, 2015[(1)]
Revenue	73,153	34,062
Net earnings before taxes	2,916	3,866
Net earnings	2,420	3,448

(1) *Amounts for the nine months ended December 31, 2016 and 2015 were translated into US$ using the average exchange rates of $1 U.S. dollar = 67.07 Indian rupees and $1 U.S. dollar = 64.74 Indian rupees prevailing during those periods, respectively.*

NCML's revenue for the nine months ended December 31, 2016 and 2015 were primarily driven by supply chain services, storage and preservation services and collateral management segments. Revenue of $73,153 for the nine months ended December 31, 2016 increased from $34,062 for the nine months ended December 31, 2015 principally as a result of a significant increase in the supply chain services segment, partially offset by a reduction in the storage and preservation services segment as a result of the impact of demonetization and two consecutive drought years. NCML's reported net earnings of $2,420 for the nine months ended December 31, 2016 compared to net earnings of $3,448 for the nine months ended December 31, 2015 with a year-over-year decrease of $1,028 primarily resulting from lower margins in the storage and preservation services segment.

A normal cycle of commodities would be to receive deposits during the first quarter of a fiscal year (April to June) and then experience a withdrawal of those commodities during the second quarter (July to September). For the nine months ended December 31, 2016 NCML experienced lower deposits of commodities in the first quarter and significantly higher withdrawals in the second quarter as a result of two consecutive droughts and the impact of rainfall deficits resulting in depleted commodities. The drought conditions adversely affected the quality of the crops (principally cotton, coriander, mustard and turmeric) resulting in higher commodity prices and lower storage demand. By the end of December 2016 NCML started to experience new crop deposits primarily as a result of a normal monsoon season throughout India that is improving the harvesting season.

Sanmar Chemicals Group

Business Overview

Sanmar Chemicals Group (''Sanmar''), a private company, is one of the largest suspension Poly Vinyl Chloride (''PVC'') manufacturers in India, headquartered in Chennai, India with operational presence in India and Egypt. Sanmar has an installed capacity of approximately 366,000 tonnes per annum in India and is in the process of expanding its PVC capacity in Egypt from 200,000 tonnes per annum to 400,000 tonnes per annum. Once the expansion is completed, Sanmar will have a total PVC capacity of over 766,000 tonnes per annum.

Sanmar's principal lines of business are as follows:

Chemplast

Beginning as Chemicals and Plastics India Limited in 1962, Chemplast is currently the second largest suspension PVC manufacturer and the largest specialty PVC manufacturer in India, with the top three players capturing approximately 90% of India's domestic manufacturing capacity. A significant portion of Chemplast's revenues are derived from integrated operations. Chemplast's product range falls into four distinct groups: PVC resins, caustic soda / chlorine, chlorinated solvents and refrigerant gases. Caustic soda is mainly used in the manufacture of paper and pulp, alumina, petroleum products, soaps and detergents, and is also the basic feedstock for various chemicals. The majority of its revenues are generated through sales to end customers (rather than through distributors).

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

Sanmar Egypt is the largest Indian investor in Egypt's chemical business and the largest caustic soda and PVC manufacturer in Egypt. Sanmar has invested approximately $1.2 billion during Phase 1 of its Egypt project and has created world-class manufacturing facilities for caustic soda and PVC in Port Said, Egypt. Phase 1 projects were completed in April 2012 at which time PVC production commenced. Phase 2 is underway with an additional investment of approximately $300 million, for an aggregate investment of approximately $1.5 billion. Phase 2 expansion is expected to be completed by April 2018. On completion of Phase 2, the PVC capacity will double to 400,000 metric tons per annum. A new plant to produce calcium chloride granules with a capacity of 130,000 metric tons will also be established under Phase 2. Calcium chloride granules are used worldwide for dust control, de-icing, drilling operations and in bakery products.

Sanmar Egypt sells directly to end-user customers and also through distributors. PVC is mainly sold in the key target markets like Egypt, Turkey and parts of western Europe. PVC is primarily used in pipes and fittings, window and door profiles, shoes, film, sheet, flooring and cable industries. Caustic soda is primarily used in textiles, alumina, pulp and paper, and soaps.

Specialty Chemicals

Sanmar's Specialty Chemicals business is engaged in the manufacturing and marketing of phytochemicals and organic chemicals. The phytochemicals division manufactures an active pharmaceutical ingredient called colchicine (treatment of gout) from plant based raw material. The organic chemical division is involved in the manufacturing of advanced organic intermediates for the pharmaceutical, agro chemical, flavours and fragrances, and other fine chemical applications.

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

Transaction Description

On April 8, 2016 the company announced that, through its wholly-owned subsidiaries, it had agreed to invest $300 million into Sanmar through a combination of equity and debt securities resulting in a 30% common share equity interest in Sanmar. On April 28, 2016 the company acquired the first tranche of $250 million, comprised of $1 million in equity and $249 million in bonds. On September 26, 2016 the company acquired the second tranche of $50 million in bonds.

At December 31, 2016 the company had appointed two of the six Sanmar board members.

Key business drivers, events and risks

India continues to be a PVC deficit market with approximately 50% of the demand being met through imports. Egypt and Turkey, which are manufacturing hubs for exports to Europe, currently have a demand gap of 1,000 kilotons per annum which is being met by imports from the U.S. and Asia.

Sanmar's key business drivers will be its planned increased PVC manufacturing capacity in Egypt and India to cater to the growing demand of PVC in North Africa, Middle East and India, as well as an overall improvement in the capacity utilization of all of its PVC production facilities.

Valuation and Consolidated Financial Statement Impact

During 2016 management undertook a valuation study to formalize valuation models and determine the appropriate separate fair values for its bond and common share investments in Sanmar. The fair value of the Sanmar investments cannot be derived from an active market and accordingly, are determined using industry accepted valuation techniques and models. Market observable inputs are used where possible, with unobservable inputs used where necessary. Use of unobservable inputs can involve significant judgment and may materially affect the reported fair value of the Sanmar investments.

Sanmar Common Stock

At December 31, 2016 the company estimated fair value using a discounted cash flow analysis based on multi-year free cash flow projections with assumed after-tax discount rates ranging from 15.5% to 22.5% and long term growth rates ranging from 2.0% to 3.6%. Free cash flow projections were based on EBITDA projections from financial information for Sanmar's three main business operations that had been prepared in the fourth quarter of 2016 by Sanmar's management. Discount rates were based on the company's assessment of risk premiums to the appropriate risk-free rate of the economic environment in which Sanmar operates. At December 31, 2016 the company's internal valuation model indicated that the fair value of the common shares was $440, resulting in an unrealized loss of $545 in 2016 which was recorded in net unrealized gains on investments in the consolidated statements of earnings.

Sanmar Bonds

The debt securities mature 7 years from the date of issuance of the first tranche, subject to earlier redemption by Sanmar under certain circumstances. The company is entitled to a coupon payment payable in kind and capitalized in lieu of payment of such amount in cash on an annual basis. A redemption premium may also be payable in kind to the company. The Sanmar debt securities are currently rated BBB− with a stable outlook by Brickworks Ratings, an Indian rating agency.

At December 31, 2016 the company estimated fair value using an industry accepted discounted cash flow and option pricing model that incorporated Sanmar's assumed credit spread of 7.1% and certain redemption options embedded in the bonds. The assumed credit spread was based on credit spreads of industry comparables with company specific adjustments for credit risk premium. At December 31, 2016 the company's internal valuation model indicated that the fair value of the bonds was $299,093, resulting in an unrealized gain of $6,907 in 2016 which was recorded in net unrealized gains on investments in the consolidated statements of earnings, largely offset by an unrealized foreign currency translation loss of $6,814 which was recorded in the consolidated statements of comprehensive income in 2016. The net unrealized gain of $6,907 was primarily related to the accretion of the security to the company's redemption value after incorporating both the issue's credit risk and the redemption option held by the issuer prior to maturity.

Sanmar's Summarized Financial Information

On April 18, 2016 Sanmar acquired 100% of SHL Securities Alpha Limited (''SHL Alpha'') and as a result of this transaction SHL Alpha became a wholly-owned subsidiary of Sanmar. The historical audited and interim financial statements of Sanmar do not include the consolidated financial information of SHL Alpha and its subsidiaries. Accordingly, the balance sheets of Sanmar and SHL Alpha at March 31, 2016 were combined (''Sanmar Combined'') to give effect to the acquisition.

The company's fiscal year ends on December 31 and Sanmar's fiscal year ends on March 31. Summarized below are Sanmar's balance sheets at September 30, 2016 and March 31, 2016.

Balance Sheets
(unaudited – US$ thousands)

	September 30, 2016(1)	March 31, 2016(1)
	Sanmar	Sanmar Combined
Current assets	283,674	148,892
Non-current assets	1,254,160	1,285,258
Current liabilities	383,133	463,725
Non-current liabilities	1,308,636	1,062,992
Shareholders' equity	(153,935)	(92,567)

(1) The net assets of Sanmar were translated at September 30, 2016 at $1 U.S. dollar = 66.58 Indian rupees and at March 31, 2016 at $1 U.S. dollar = 66.22 Indian rupees. The exchange rates used were the spot rates prevailing on those respective dates.

Current assets increased by $134,782 to $283,674 at September 30, 2016 from $148,892 at March 31, 2016 primarily due to increases in cash and cash equivalents relating to the September 26, 2016 investment from Fairfax India and bank loans received by Sanmar Egypt to finance the Phase 2 expansion project in Egypt.

Non-current assets decreased by $31,098 to $1,254,160 at September 30, 2016 from $1,285,258 at March 31, 2016 primarily due to a decrease in property, plant and equipment due to depreciation for the period.

Current liabilities decreased by $80,592 to $383,133 at September 30, 2016 from $463,725 at March 31, 2016 primarily due to a reduction in short term loans and borrowings relating to repayment of certain high interest bearing loans. The high interest bearing loans were repaid and new long term loans and borrowings with lower interest rates were entered into during the period, as noted below.

Non-current liabilities increased by $245,644 to $1,308,636 at September 30, 2016 from $1,062,992 at March 31, 2016 primarily due to an increase in long term loans and borrowings principally relating to the $299,000 bond investment by Fairfax India and bank loans received by the Sanmar Egypt segment to finance the Phase 2 expansion project in Egypt, partially offset by repayment of a portion of long term debt in Chemplast.

Summarized below is Sanmar's statement of earnings for six months ended September 30, 2016.

Statement of Earnings
(unaudited – US$ thousands)

	Six months ended September 30, 2016(1)
	Sanmar
Revenue	289,204
Net loss before taxes	(35,394)
Net loss	(57,775)

(1) Amounts for the six months ended September 30, 2016 were translated into US$ using the average exchange rates of $1 U.S. dollar = 66.93 Indian rupees prevailing during that period.

Sanmar's revenue of $289,204 for the six months ended September 30, 2016 was principally comprised of revenues from its Chemplast division with higher than budgeted volumes achieved in the PVC business, which was negatively impacted by lower revenues from the Sanmar Egypt business as a result lower production volumes stemming from short term plant shutdowns to address maintenance issues. Sanmar's net loss of $57,775 for the six months ended September 30, 2016 principally related to net losses in the Sanmar Egypt business as a result of lower production volumes as described above. Sanmar Egypt's maintenance issues at the plant were subsequently resolved.

Privi Organics Limited

Business Overview

Privi Organics Limited (''Privi''), a private company founded in 1992, is a supplier of aroma chemicals to the fragrance industry and is located in Mumbai, India. Privi's world-class products are the result of its very strong research and development team that has proven expertise in developing new products, customizing aromas per customer specifications, scaling up products from basic research to commercial scale, and designing process improvements to drive quality and cost optimization. With an installed capacity of 22,000 tonnes per annum of aroma chemicals, Privi enjoys a dominant position and economies of scale in its product categories.

Privi converts waste product from paper mills into specialty aromas used as fragrance additives. The research efforts are facilitated with an advanced research infrastructure comprising two labs, both recognized by the Department of Scientific and Industrial Research. Privi has also dedicated one of these labs to focus on the development of green products and technology, in an effort to help preserve the environment.

Additional information can also be accessed from Privi's website www.privi.com.

Transaction Description

On August 26, 2016 the company, through its wholly-owned subsidiaries, acquired a 50.8% common share equity interest in Privi for total consideration of $54,975 (approximately 3.7 billion Indian rupees).

Additionally, on July 12, 2016 the boards of directors of Fairchem and Privi approved a merger arrangement (the ''Merger'') involving the two companies, which is expected to bring significant diversification and synergies to both. In December 2016 and February 2017 shareholder and regulatory approvals were received, respectively, for the Merger. Under the terms of the Merger, Privi shareholders will receive 27 common equity shares and 27 compulsorily convertible preference shares (''CCPS'') of the merged entity for every 40 Privi shares exchanged (''swap ratio''). Final closing of the Merger is subject to customary closing conditions, which involve the share exchange, and is expected to occur by the end of the first quarter of 2017. Fairfax India will own approximately 49% of the merged entity, after factoring in the conversion of the CCPS. The swap ratio was recommended in a valuation report dated July 12, 2016 issued by M/s. Walker Chandiok & Co. LLP, Independent Chartered Accountants (a member firm of Grant Thornton in India). ICICI Securities Limited issued a fairness opinion on the swap ratio. Fairchem and Privi Board of Director approval was received on the swap ratio.

At December 31, 2016 the company had appointed one of the ten Privi board members.

Key business drivers, events and risks

Privi's business drivers for growth are comprised of: (i) developing, manufacturing and supplying additional (newer) aroma chemicals to existing customers; (ii) making value added products from by-products made in manufacturing of aroma chemicals; and (iii) strengthening margins by increasing backward integration capacities.

Valuation and Consolidated Financial Statement Impact

The initial transaction price was considered to approximate fair value at December 31, 2016 as there had been no significant changes to Privi's business, capital structure and operating environment and the key assumptions in the company's acquisition valuation model continued to be valid due to the proximity of the transaction closing date to December 31, 2016. As a result, in 2016 the consolidated statements of earnings included nil in net unrealized gains on investments (2015 – nil) related to the investment in Privi.

At December 31, 2016 the company prepared a valuation model to determine the value of its 9,517,042 Privi common shares using the quoted bid price of Fairchem (498.10 Indian rupees per share) and the swap ratio. The company's internal valuation model indicated a value of $94,292 and an unrealized gain of $40,392, which was not recorded in the consolidated statements of earnings as the Merger still required regulatory approval at December 31, 2016.

National Stock Exchange of India Limited

Business Overview

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

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

Transaction Description

In the third quarter of 2016 the company, through its wholly-owned subsidiaries, acquired a 1.0% common share equity interest in NSE for total consideration of $26,783 (approximately 1.8 billion Indian rupees).

At December 31, 2016 the company did not have any NSE board representation.

Key business drivers, events and risks

India has two main stock exchanges where most of its trading takes place, the BSE and the NSE. BSE has been in existence since 1875, while the NSE is relatively new, with trading beginning in 1994. NSE has approximately 1,300 listed firms available for trading on the exchange, while the BSE has approximately 5,500 listed firms available for trading. NSE's major product categories are equities, derivatives and debentures. Almost all significant firms in India are listed on both the BSE and the NSE exchange but NSE enjoys a dominant market share position that represents a significant portion of the exchange market with the NSE representing an 86% market share in the equity trading cash segment, a 99% market share in the equity derivatives trading segment and a 56% market share in the foreign exchange derivatives market. With an annual GDP growth percentage between 5% and 10% per year since 2010, India can expect to have a large number of businesses added to the list of exchange traded securities during this time of economic expansion.

On June 23, 2016 NSE announced that they will be filing for an IPO in early 2017 (anticipated to be completed by September 2017) and will also look to file for an overseas listing in 2017. They have appointed Citibank, JM Financial, Kotak Mahindra and Morgan Stanley as lead investment banks to manage the IPO. The IPO was is in response to their dominance in the domestic equity market and will enable existing shareholders of the NSE to dilute their ownership in the exchange through an open offer.

On February 3, 2017 the NSE appointed Vikram Limaye (formerly the CEO of infrastructure lender IDFC Limited ''IDFC'') as CEO. Mr. Limaye will be the first head of the NSE to come from outside the ranks of the NSE's founding team since it was set up in 1992. Mr. Limaye had been with IDFC since 2005 and has served more than 25 years with financial institutions, global investment banks, international commercial banks, and global accounting firms.

Valuation and Consolidated Financial Statement Impact

The initial transaction price was considered to approximate fair value at year end due to the proximity of the transaction closing date to December 31, 2016 and the absence of changes in factors impacting fair value since the closing date. As a result, in 2016 the consolidated statements of earnings included nil in net unrealized gains on investments (2015 – nil) related to the investment in NSE.

In 2016 the consolidated statements of earnings included dividend income earned from the investment in NSE of $1,028 (2015 – nil).

Results of Operations

Fairfax India's consolidated statements of earnings for the years ended December 31, 2016 and 2015 are shown in the following table:

	2016	2015
Income		
Interest	21,343	44,699
Dividends	5,611	–
Net realized gains (losses) on investments	3,392	(209)
Net unrealized gains on investments	104,995	14,190
Net foreign exchange gains (losses)	(6,737)	6,571
	128,604	65,251
Expenses		
Investment and advisory fees	12,552	5,393
General and administration expenses	4,937	5,515
Interest expense	4,171	–
	21,660	10,908
Earnings before income taxes	106,944	54,343
Provision for (recovery of) income taxes	(881)	13,404
Net earnings	107,825	40,939
Net earnings per share (basic and diluted)	$ 1.01	$ 0.42

Total income of $128,604 in 2016 increased from $65,251 in 2015 principally as a result of increased net unrealized gains on investments (primarily related to net unrealized gains in 2016 on the Indian Investments IIFL ($51,305) and Fairchem ($26,399) and net unrealized gains on Indian corporate bonds (inclusive of unrealized gains on Sanmar bonds)) and increased dividend income, partially offset by decreased interest income (primarily due to decreased holdings of Indian corporate bonds) and decreased net foreign exchange gains (principally as a result of the weakening of the Indian rupee relative to the U.S. dollar during 2016). Dividend income in 2016 of $5,611 (2015 – nil) was primarily comprised of dividends received from the company's investments in IIFL and NSE. In addition total income in 2016 increased as a result of increased net realized gains on investments of $3,392 in 2016 (principally related realized gains on the sale of common stocks and investment funds, partially offset by realized losses on the sale of Indian corporate bonds) from net realized losses on investments of $209 in 2015.

Net gains (losses) on investments and net foreign currency gains (losses) in 2016 and 2015 were comprised as follows:

	2016			2015		
	Net realized gains (losses)	Net change in unrealized gains (losses)	Net gains (losses) on investments	Net realized gains (losses)	Net change in unrealized gains (losses)	Net gains (losses) on investments
Net gains (losses) on investments:						
Short term investments	(17)	–	(17)	48	–	48
Bonds	(3,327)	22,318	18,991	(257)	(2,651)	(2,908)
Common stocks	4,688	81,038(1)	85,726	–	18,559	18,559
Common stocks – Investment funds	2,048	1,639	3,687	–	(1,718)	(1,718)
	3,392	104,995	108,387	(209)	14,190	13,981
Net foreign currency gains (losses) on:						
Cash and cash equivalents	(3,624)	–	(3,624)	2,794	–	2,794
Investments	3,005	(3,155)	(150)	292	3,485	3,777
Term loan	–	(2,963)	(2,963)	–	–	–
	(619)	(6,118)	(6,737)	3,086	3,485	6,571

(1) Principally comprised of net unrealized gains on the Indian Investments, IIFL ($51,305) and Fairchem ($26,399), in 2016.

Total expenses increased from $10,908 in 2015 to $21,660 in 2016 primarily as a result of increased investment and advisory fees (principally as a result of increased holdings of Indian Investments) and interest expense incurred on the 2-year secured term loan. The per annum investment and advisory fee is calculated as 0.5% of the value of undeployed capital and 1.5% of the company's total common shareholders' equity less the value of undeployed capital. For 2016, the company determined that the majority of its assets were invested in Indian Investments, which are considered deployed capital.

The recovery of income taxes of $881 in 2016 differed from the provision for income taxes that would be determined by applying the company's Canadian statutory income tax rate of 26.5% to the company's earnings before income taxes primarily as a result of the tax rate differential on income earned outside of Canada and foreign exchange fluctuations, partially offset by unrecorded deferred taxes in Canada.

The provision for income taxes of $13,404 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.

The company reported net earnings of $107,825 ($1.01 net earnings per basic and diluted share) in 2016 compared to net earnings of $40,939 ($0.42 net earnings per basic and diluted share) in 2015. The year-over-year increase in profitability in 2016 reflected increased net unrealized gains on investments, partially offset by increased investment and advisory fees (principally as a result of increased holdings of Indian Investments) and interest expense.

Consolidated Balance Sheet Summary

The assets and liabilities reflected on the company's consolidated balance sheet at December 31, 2016 were impacted by the acquisitions of the Indian Investments (Sanmar, Privi, Fairchem and NSE), the sale of Indian corporate bonds and investment funds to finance those Indian Investments, and the 2-year secured $225,000 term loan.

Total Assets

Total assets at December 31, 2016 of $1,303,497 (December 31, 2015 – $1,025,451) were comprised as follows:

Total cash and investments increased to $1,261,339 at December 31, 2016 from $997,490 at December 31, 2015. The company's cash and investments composition by the issuer's country of domicile was as follows:

	December 31, 2016			December 31, 2015		
	India	U.S.	Total	India	U.S.	Total
Cash and cash equivalents	719(1)	165,051(2)	165,770	6,554(1)	12,367	18,921
Short term investments – U.S. treasury bills	–	27,428	27,428	–	50,143	50,143
Bonds:						
Government of India	130,317	–	130,317	123,448	–	123,448
Indian corporate	99,447	–	99,447	389,341	–	389,341
Sanmar	299,093	–	299,093	–	–	–
	528,857	–	528,857	512,789	–	512,789
Common stocks:						
IIFL	265,951	–	265,951	220,747	–	220,747
NCML	146,586	–	146,586	146,445	–	146,445
Privi	54,315	–	54,315	–	–	–
Fairchem	45,488	–	45,488	–	–	–
NSE	26,504	–	26,504	–	–	–
Sanmar	440	–	440	–	–	–
Investment funds	–	–	–	48,445	–	48,445
	539,284	–	539,284	415,637	–	415,637
Total cash and investments	1,068,860	192,479	1,261,339	934,980	62,510	997,490

(1) *Included cash and cash equivalents invested in Mauritius and Canada of $716 at December 31, 2016 (December 31, 2015 – $97 and restricted cash of $6,457).*

(2) *Included restricted cash of $18,810 at December 31, 2016 (December 31, 2015 – nil).*

Cash and cash equivalents increased to $165,770 at December 31, 2016 from $18,921 at December 31, 2015 principally reflecting the net proceeds received from the term loan that had not yet been invested into Indian Investments. Restricted cash of $18,810 at December 31, 2016 related to requirements under the term loan for the company to establish a debt service reserve account to fund the term loan interest payments compared to restricted cash of $6,457 at December 31, 2015 that related to cash in escrow arising from investments in IIFL ($3,600) and Fairchem ($2,857).

Short term investments – U.S. treasury bills decreased to $27,428 at December 31, 2016 from $50,143 at December 31, 2015 principally reflecting the sale of short term investments to finance the investment in Privi.

Bonds and Common stocks – The company is actively seeking investment opportunities in India and will continue to redirect capital from its cash and cash equivalents and bond portfolio into Indian Investments as and when those opportunities are identified. For more information about recent Indian Investments, see the Business Developments and Indian Investments sections of this MD&A. For more information on the company's total cash and investment holdings of $1,261,339 at December 31, 2016 (December 31, 2015 – $997,490) see note 6 (Cash and Investments) to the consolidated financial statements for the year ended December 31, 2016.

Interest receivable decreased by $20,187 to $7,493 at December 31, 2016 from $27,680 at December 31, 2015 primarily reflecting decreased interest receivable from Indian corporate bonds as a result of sales of Indian corporate bonds in 2016 where the proceeds were used to finance the Indian Investments (Sanmar, Fairchem and NSE).

Income taxes refundable was $7,326 at December 31, 2016 compared to income taxes payable of $9,386 at December 31, 2015, primarily reflecting income tax payments made during 2016 relating to the company's 2015 Canadian corporate tax return filing. The current income tax refundable in 2016 differed from the current income tax liability in 2015 primarily due to the impact of foreign accrual property losses (''FAPL'') and grossed up foreign tax deduction in Canada in 2016 whereas in 2015 the company generated significant foreign accrual property income (''FAPI'') in Canada.

Other assets increased to $27,339 at December 31, 2016 from $281 at December 31, 2015 primarily relating to the receivable of $26,525 on the sale of the company's investment in investment funds where the sale proceeds were not received until January 2017.

Total Liabilities

Total liabilities at December 31, 2016 of $228,051 (December 31, 2015 – $12,122) were comprised as follows:

Payable to related parties increased to $3,673 at December 31, 2016 from $1,993 at December 31, 2015 principally reflecting higher investment and advisory fees as a result of increased total common shareholders' equity (primarily as a result of net earnings in 2016 (principally from net unrealized gains on the Indian Investments IIFL and Fairchem), partially offset by net unrealized foreign currency translation losses of $26,736).

Term loan – On September 16, 2016 the company completed a 2-year secured term loan (the ''term loan'') bearing an interest rate of LIBOR plus 350 to 500 basis points with a syndicate of Canadian banks for $225,000. At December 31, 2016 the company used a portion of the net proceeds to complete the second tranche of Sanmar bonds ($50,000) (see note 5 (Indian Investments) to the consolidated financial statements for the year ended December 31, 2016). The term loan contained a mandatory prepayment clause that became effective when the company received the net proceeds from the Offerings (see note 8 (Total Equity) to the consolidated financial statements for the year ended December 31, 2016), requiring repayment of the $225,000 principal amount of the term loan by March 31, 2017.

Comparison of 2015 to 2014 – Fairfax India was federally incorporated on November 25, 2014 and completed its IPO in the first quarter of 2015, as a result there were no significant balances on the consolidated balance sheet at December 31, 2014 to which discussions of comparisons would apply.

Financial Condition

Capital Resources and Management

The company's objectives when managing capital are to safeguard its ability to continue as a going concern in order to provide returns for common 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 seek downside protection and attempt to minimize the loss of capital. Total capital at December 31, 2016, comprising the term loan and total common shareholders' equity, was $1,299,218 compared to $1,013,329 at December 31, 2015.

On September 16, 2016 the company completed a $225,000 term loan with a syndicate of Canadian banks. At December 31, 2016 the company used a portion of the net proceeds to complete the second tranche of Sanmar bonds ($50,000) (see note 5 (Indian Investments) to the consolidated financial statements for the year ended December 31, 2016). As noted above, the term loan contained a mandatory prepayment clause requiring repayment by March 31, 2017.

On January 13, 2017 the company completed an underwritten public offering and concurrent with the public offering, Fairfax and OMERS acquired additional subordinate voting shares resulting in net proceeds of $493,504. Net proceeds from the Offerings will provide financing to acquire additional Indian Investments and will be used for general corporate purposes.

Total common shareholders' equity at December 31, 2016 increased to $1,075,446 from $1,013,329 at December 31, 2015 primarily reflecting net earnings of $107,825, partially offset by unrealized foreign currency translation losses of $26,736 in 2016.

Book Value per Share

Total common shareholders' equity at December 31, 2016 was $1,075,446 (December 31, 2015 – $1,013,329). The book value per share at December 31, 2016 was $10.25 compared to $9.50 at December 31, 2015 representing an increase in 2016 of 7.9%, primarily reflecting net earnings of $107,825, partially offset by unrealized foreign currency translation losses of $26,736.

	December 31, 2016	December 31, 2015
Total common shareholders' equity	1,075,446	1,013,329
Number of common shares effectively outstanding	104,881,031	106,678,879
Book value per share	$ 10.25	$ 9.50

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

Date	Number of subordinate voting shares	Number of multiple voting shares[1]	Total number of shares	Average issue/ repurchase price per share	Net proceeds/ (repurchase cost)
2014 – issuance of shares	–	1	1	10.00	–
2015 – issuance of shares	76,678,879	29,999,999	106,678,878	9.62	1,025,825
2016 – repurchase of shares	(1,797,848)	–	(1,797,848)	11.78	(21,178)
	74,881,031	30,000,000	104,881,031		

(1) Multiple voting shares that may only be issued to Fairfax or its affiliates.

On October 4, 2016 the company announced that the TSX accepted a notice filed by Fairfax India of its intention to commence a normal course issuer bid for its subordinate voting shares by which it is authorized, until expiry of the bid on October 5, 2017, to acquire up to 3,500,000 subordinate voting shares representing approximately 6.4% of the public float in respect of the subordinate voting shares. Decisions regarding any future repurchases will be based on market conditions, share price and other factors including opportunities to invest capital for growth. The Notice of Intention to Make a Normal Course Issuer Bid is available, without charge, by contacting the Corporate Secretary of the company.

All of the share issuances in 2015 were pursuant to the IPO. During 2016 the company repurchased 1,797,848 subordinate voting shares for cancellation under the terms of its normal course issuer bid.

Liquidity

The company believes that cash and cash equivalents at December 31, 2016, excluding the undeployed net proceeds received from the term loan, provides adequate liquidity to meet the company's known significant expenses in 2017, which are principally comprised of investment and advisory fees, corporate income taxes and general and administration expenses. The company expects to continue to receive investment income on its holdings of fixed income securities and dividends from its equity investments to supplement its cash and cash equivalents.

The net proceeds from the Offerings (refer to note 8 (Total Equity) to the consolidated financial statements for the year ended December 31, 2016), together with net proceeds from the sale of a portion of the company's U.S. treasury bills, Government of India bonds or Indian corporate bonds will be sufficient to fund the anticipated investment in BIAL, the 4.99% investment in IIFL (February 8, 2017) and the investment in Saurashtra (February 14, 2017), and will provide the residual funding required to repay the term loan by March 31, 2017. The company has adequate working capital to support its operations.

Highlights in 2016 (with comparisons to 2015 except as otherwise noted) of major components of cash flow are presented in the following table:

	2016	2015
Operating activities		
Cash provided by operating activities before the undernoted	17,508	2,460
Net sales (purchases) of short term investments classified as FVTPL	22,590	(49,660)
Purchases of bonds and common stocks classified as FVTPL	(423,639)	(1,228,072)
Sales of bonds and common stocks classified as FVTPL	333,591	264,361
Decrease (increase) in restricted cash in support of investments	6,457	(6,457)
Investing activities		
Purchases of premises and equipment	(128)	–
Financing activities		
Issuance of term loan, net of issuance costs	222,248	–
Increase in restricted cash in support of term loan	(18,810)	–
Issuance of subordinate voting shares, net of issuance costs	–	727,972
Issuance of multiple voting shares	–	300,000
Repurchases of subordinate voting shares	(21,178)	–
Purchases for share-based payment awards	–	(451)
Increase in cash and cash equivalents during the year	138,639	10,153

Cash provided by operating activities before the undernoted is comprised of net earnings adjusted for items not affecting cash and cash equivalents and changes in operating assets and liabilities. Cash provided by operating activities before the undernoted of $17,508 in 2016 increased from $2,460 in 2015, principally reflecting higher interest and dividends received on securities, partially offset by higher income taxes paid and interest paid on the term loan.

Net sales of short term investments classified as FVTPL of $22,590 in 2016 principally related to the sale of U.S. treasury bills to finance the investment in Privi compared to net purchases of short term investments classified as FVTPL of $49,660 in 2015 that primarily related to investing the undeployed capital received from the IPO into U.S. treasury bills. Purchases of bonds and common stock classified as FVTPL decreased from $1,228,072 in 2015 to $423,639 in 2016 primarily reflecting lower purchases of both bonds and common stocks. In 2015 the company used the IPO net proceeds to purchase Indian corporate bonds and Government of India bonds, and started to deploy the capital into Indian Investments (IIFL and NCML). In 2016 purchases of bonds and common stocks classified as FVTPL related to purchases of Indian Investments (Sanmar, Privi, Fairchem and NSE). Sales of bonds and common stocks classified as FVTPL of $333,591 and $264,361 in 2016 and 2015, respectively, principally related to the sale of Indian corporate bonds to partially finance the deployment of capital into Indian Investments. Decrease (increase) in restricted cash in support of investments in 2016 and 2015 related to cash in escrow arising from investments in IIFL ($3,600) and Fairchem ($2,857). Refer to note 15 (Supplementary Cash Flow Information) to the consolidated financial statements for the year ended December 31, 2016 for details of purchases and sales of investments classified as FVTPL.

Issuance of term loan, net of issuance costs, of $222,248 and increase in restricted cash in support of term loan of $18,810 in 2016 related to the 2-year secured term loan where the company used a portion of the net proceeds to invest in the second tranche of Sanmar bonds ($50,000). Repurchases of subordinate voting shares of $21,178 in 2016 related to the company's repurchases for cancellation of 1,797,848 subordinate voting shares. Issuance of subordinate voting shares, net of issuance costs, of $727,972 and issuance of multiple voting shares of $300,000 in 2015 reflected net proceeds received from the IPO and private placement offerings. Issuance costs were primarily comprised of fees paid to underwriters of the subordinate voting shares. Refer to note 8 (Total Equity) to the consolidated financial statements for the year ended December 31, 2016 for details.

Contractual Obligations

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

In 2016 the investment and advisory fee recorded in the consolidated statements of earnings was $12,552 (2015 – $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 total common shareholders' equity (including distributions) above a 5% per annum increase. The amount of common shareholders' equity at any time which must be achieved before any performance fee would be payable is sometimes referred to as the ''hurdle per share''. The company determined that no performance fee should be accrued for 2016 (2015 – nil) as the book value per share of $10.25 at that date was less than the hurdle per share at that date of $10.75.

On September 16, 2016, the company completed a $225,000 term loan with a syndicate of Canadian banks. At December 31, 2016 the company used a portion of the net proceeds to complete the second tranche of Sanmar bonds ($50,000) (see note 5 (Indian Investments) to the consolidated financial statements for the year ended December 31, 2016). The term loan contained a mandatory prepayment clause that became effective when the company received the net proceeds from the Offerings (see note 8 (Total Equity) to the consolidated financial statements for the year ended December 31, 2016), requiring repayment of the $225,000 principal amount of the term loan by March 31, 2017.

Related Party Transactions

For details on the company's related party transactions, please see note 12 (Related Party Transactions) to the consolidated financial statements for the year ended December 31, 2016.

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, 2016, as required by the Canadian securities legislation. Disclosure controls and procedures are designed to ensure that the information required to be disclosed by the company in the reports it files or submits under securities legislation is recorded, processed, summarized and reported on a timely basis and that such information is accumulated and reported to management, including the company's CEO and CFO, as appropriate, to allow required disclosures to be made in a timely fashion. Based on their evaluation, the CEO and CFO have concluded that as of December 31, 2016, the company's disclosure controls and procedures were effective.

Management's Report on Internal Control Over Financial Reporting

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

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

The company's management assessed the effectiveness of the company's internal control over financial reporting as of December 31, 2016. In making this assessment, the company's management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (''COSO'') in *Internal Control – Integrated Framework (2013)*. The company's management, including the CEO and CFO, concluded that, as of December 31, 2016, the company's internal control over financial reporting was effective based on the criteria in *Internal Control – Integrated Framework (2013)* issued by COSO.

Critical Accounting Estimates and Judgments

Please refer to note 4 (Critical Accounting Estimates and Judgments) to the consolidated financial statements for the year ended December 31, 2016.

Significant Accounting Policy Changes

The company completed its IPO 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, 2016 for a detailed discussion of the company's accounting policies. There were no significant accounting policy changes during 2016.

Future Accounting Changes

Certain new IFRS may have a significant impact on the company's consolidated financial reporting in the future. Each of those standards will require a moderate degree of implementation effort within the next year as described below. The company does not expect to adopt any of these new standards in advance of their respective effective dates. New IFRS standards and amendments that have been issued but are not yet effective are also described in note 3 (Summary of Significant Accounting Policies) to the consolidated financial statements for the year ended December 31, 2016.

IFRS 9 Financial Instruments (2014) (''IFRS 9'')

In July 2014 the IASB issued a complete version of IFRS 9 which supersedes the 2010 version currently applied by the company (''IFRS 9 (2010)''). IFRS 9 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.

The company has commenced evaluating the impact of IFRS 9 by assessing its business models and the cash flow characteristics of its financial assets to determine their appropriate classifications under the new standard. The company expects equity securities held within the company's investment portfolio to continue to be classified as FVTPL under IFRS 9, and the classification of financial liabilities to also remain largely unchanged from IFRS 9 (2010). Upon adopting IFRS 9 on January 1, 2018 the company does not expect to restate comparative periods, and will record any necessary adjustments to opening retained earnings as permitted by the standard.

Risk Management

Overview

The primary goals of the company's financial risk management program are to ensure that the outcomes of activities involving elements of risk are consistent with the company's objectives and risk tolerance, while maintaining an appropriate balance between risk and reward and protecting the company's consolidated balance sheets from events that have the potential to materially impair its financial strength. There were no significant changes in the types of the company's risk exposures or the processes used by the company for managing those risk exposures at December 31, 2016 compared to those identified at December 31, 2015 and disclosed in the company's 2015 Annual Report, other than as outlined in note 11 (Financial Risk Management) to the consolidated financial statements for the year ended December 31, 2016.

Risks

The following risks, among others, should be considered in evaluating the outlook for the company. Additional risks not currently known to the company or that are currently deemed immaterial may also impair business operations. The company, its consolidated subsidiaries, Fairfax and the Portfolio Advisor monitor these risks on an on-going basis and take actions as needed to mitigate their impact.

Weather Risk

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

A significant increase in the price of crude oil could adversely affect the Indian economy which could adversely affect Indian Investments

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

Geographic Concentration of Investments

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

Foreign Currency Fluctuation

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

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

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

Volatility of the Indian Securities Markets

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

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

In pursuing the company's investment strategy, the company may seek to make investments in privately-held businesses. As 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 investments and, in its audited consolidated financial statements, to provide certain disclosures regarding the use of fair value measurements.

The fair value measurement accounting guidance establishes a hierarchal disclosure framework that ranks the observability of market inputs used in measuring 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 investments.

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

Pace of Completing Investments

The company's business is to identify, with the assistance of the Portfolio Advisor, suitable investment opportunities, pursuing such opportunities and consummating such investment opportunities. If the company is unable to source and manage its investments effectively, it would adversely impact the company's financial position and net earnings. There can be no assurance as to the pace of finding and implementing investment opportunities. Conversely, there may only be a limited number of suitable investment opportunities at any given time. This may cause the company, while it deploys cash proceeds not yet invested, to hold significant levels of cash, cash equivalents, bonds or short term U.S. 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 influence the business or affairs of such businesses. The company will monitor the performance of each investment and maintain an ongoing dialogue with each business' management team. However, 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 influence 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 30,000,000 multiple voting shares. During 2016, certain Fairfax subsidiaries purchased 796,864 subordinate voting shares through open market transactions. At December 31, 2016 Fairfax's multiple and subordinate voting share holdings represented 95.3% of the voting rights and 29.4% of the equity interest in Fairfax India (December 31, 2015 – 95.1% and 28.1% respectively). Subsequent to December 31, 2016, Fairfax acquired an additional 13,717,873 subordinate voting shares from the company by way of a private placement (see note 8 (Total Equity) to the consolidated financial statements for the year ended December 31, 2016) and open market transactions. After giving effect to those transactions, Fairfax's holdings represented 93.6% of the voting rights and 30.2% of the equity interest in Fairfax India. Fairfax has the ability to substantially influence certain actions requiring shareholder approval, including approving an Indian Investment, 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 according to prevailing taxation law and practice in Canada, Mauritius and India. Any change in tax policy, tax legislation (including in relation to taxation rates), the interpretation of tax policy or legislation or practice could adversely affect the company's return earned on investments and on the capital available to be invested. Further, taxes and other constraints that would apply to the company and its consolidated subsidiaries in such jurisdictions may not apply to other parties, and such parties may therefore have a significantly lower effective cost of capital and a corresponding competitive advantage in pursuing investments. A number of other factors may increase the effective tax rates, which would have a negative impact on net earnings. These include, but are not limited to, changes in the valuation of our deferred tax assets and liabilities, and any reassessment of taxes by a taxation authority.

The company has tax specialist personnel for assessing the income tax consequences of planned transactions and events and undertaking the appropriate tax planning. The company also consults with external tax professionals as needed. Tax legislation of each jurisdiction in which the company operates is interpreted to determine income taxes and expected timing of the reversal of deferred income tax assets and liabilities. Any amendments to the capital gains and permanent establishment articles in the India-Mauritius Double Taxation Avoidance Agreement may result in capital gains derived from the company or its investments in India becoming subject to tax in India, which could have a material adverse effect on the company's business, financial condition and net earnings. During the second quarter of 2016, India and Mauritius amended their double income tax treaty. As a result, investments acquired up to April 1, 2017 will not be assessed by India for tax on their future disposition. After April 1, 2017, India will levy capital gains tax at half the India domestic rate on equity investments purchased or sold through Mauritius until March 31, 2019 and at the full rate from April 1, 2019 onward.

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.

Trading Price of Common Shares Relative to Book Value per Share

The company is neither a mutual fund nor an investment fund, and due to the nature of its business and investment strategy, and the composition of its investment portfolio, the market price of its common shares, at any time, may vary significantly from its book value per share. This risk is separate and distinct from the risk that the market price of the common shares may decrease.

Other

Quarterly Data (unaudited)

	December 31, 2016	September 30, 2016	June 30, 2016	March 31, 2016	December 31, 2015	September 30, 2015	June 30, 2015	March 31, 2015
Income	11,566	75,346	33,917	7,775	29,668	30,114	1,267	4,202
Expenses	8,036	5,760	3,967	3,897	2,559	4,418	2,487	1,444
Provision for (recovery of) income taxes	1,106	3,186	(8,309)	3,136	6,318	7,378	964	(1,256)
Net earnings (loss)	2,424	66,400	38,259	742	20,791	18,318	(2,184)	4,014
Net earnings (loss) per share	$ 0.02	$ 0.62	$ 0.36	$ 0.01	$ 0.19	$ 0.17	$ (0.02)	$ 0.06

(in Indian rupees and in thousands)[(1)]	December 31, 2016	September 30, 2016	June 30, 2016	March 31, 2016	December 31, 2015
Income	784,002	5,040,596	2,276,566	524,810	1,902,290
Expenses	540,632	383,530	265,351	263,045	164,092
Provision for (recovery of) income taxes	74,174	215,826	(559,268)	211,699	405,088
Net earnings	169,196	4,441,240	2,570,483	50,066	1,333,110
Net earnings per share	1.60	41.63	24.10	0.47	12.50

(1) Presented for the quarters starting October 1, 2015, the date upon which the company's functional currency changed from the U.S. dollar to the Indian rupee.

Total income of $11,566 in the fourth quarter of 2016 decreased from $29,668 in the fourth quarter of 2015 primarily as a result of decreased net unrealized gains on investments. Net unrealized gains on investments of $4,765 in the fourth quarter of 2016 included net unrealized gains on bonds of $5,702 (primarily unrealized gains on Sanmar and Government of India bonds) and common stock of $199 (principally related to unrealized gains on Fairchem and NCML, partially offset by unrealized losses on IIFL), while the net unrealized gains on investments of $15,776 in the fourth quarter of 2015 included net unrealized gains on common stock of $18,559 (principally related to unrealized gains on IIFL), partially offset by net unrealized losses on bonds of $2,268 (primarily related to unrealized losses on Indian corporate bonds).

Total income also decreased in the fourth quarter of 2016 compared to the fourth quarter of 2015 as a result of decreased net foreign exchange gains (principally as a result of the weakening of the Indian rupee relative to the U.S. dollar during 2016), and decreased interest income (primarily due to decreased holdings of Indian corporate bonds) consistent with the company investing its capital into public and private Indian Investments commencing in the fourth quarter of 2015, partially offset by increased net realized gains on investments (principally related the disposition of the remaining investment in investment funds in the fourth quarter of 2016).

Total expenses of $8,036 in the fourth quarter of 2016 increased from $2,559 in the fourth quarter of 2015, which is consistent with the increased holdings of Indian Investments that resulted in higher investment and advisory fees. Total expenses in the fourth quarter of 2016 also reflected the interest expense related to the 2-year secured term loan.

The company reported net earnings of $2,424 (net earnings of $0.02 per share) in the fourth quarter of 2016 compared to net earnings of $20,791 (net earnings of $0.19 per share) in the fourth quarter of 2015. The decrease in profitability in the fourth quarter of 2016 primarily reflected decreased net unrealized gains on investments and interest income, increased investment and advisory fees and increased interest expense.

Stock Prices and Share Information

At March 10, 2017 the company had 117,434,531 subordinate voting shares and 30,000,000 multiple voting shares outstanding (an aggregate of 147,434,531 shares effectively outstanding). Each subordinate voting share carries one vote per share at all meetings of shareholders except for separate meetings of holders of another class of shares. Each multiple voting share carries fifty votes per share at all meetings of shareholders except for separate meetings of holders of another class of shares. The multiple voting shares are not publicly traded.

The table that follows presents the TSX high, low and closing U.S. dollar prices of the subordinate voting shares of Fairfax India, trading under the symbol FIH.U, for each quarter of 2016 and 2015.

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
		(US$)		
2016				
High	10.89	11.95	11.25	12.00
Low	9.30	10.25	10.06	10.90
Close	10.85	10.50	11.00	11.55
2015				
High	11.59	12.74	12.10	11.15
Low	9.80	11.05	10.60	10.02
Close	11.50	11.35	11.10	10.10

Compliance with Corporate Governance Rules

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

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

Forward-Looking Statements

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

Forward-looking statements are based on 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; 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

V. Prem Watsa
Chairman of the Company

Operating Management

FIH Mauritius Investments Ltd.

Amy Tan
Chief Executive Officer

Officers of the Company

Jennifer Allen
Chief Financial Officer

Chandran Ratnaswami
Chief Executive Officer

John Varnell
Vice President, Corporate Affairs and Corporate Secretary

V. Prem Watsa
Chairman

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Telephone: (416) 367-4755
Website: www.fairfaxindia.ca

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 20, 2017 at 2:00 p.m. (Toronto time) at Roy Thomson Hall, 60 Simcoe Street, Toronto, Canada