FAIRFAX INDIA
HOLDINGS CORPORATION

2019 Annual Report

Contents

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Fairfax India Corporate Performance

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

	Book value per share[2]	Closing share price	Income	Net earnings	Total assets	Investments	Common share-holders' equity	Shares out-standing[1]	Earnings per share
As at and for the years ended December 31									
Initial public offering	10.00	10.00[3]							
2015	9.50	10.10	65,251	40,939	1,025,421	978,569	1,013,329	106.7	0.42
2016	10.25	11.55	128,604	107,825	1,303,497	1,095,569	1,075,446	104.9	1.01
2017	14.46	15.00	609,670	452,509	2,672,221	2,635,726	2,132,464	147.4	2.94
2018	13.86	13.13	166,518	96,432	2,707,057	2,661,347	2,117,945	152.9	0.63
2019	16.89	12.80	712,689	516,338	3,244,937	3,171,332	2,577,851	152.6	3.30
Compound annual growth	11.2%[4]	5.1%							

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

(2) Calculated as common shareholders' equity divided by common shares effectively outstanding.

(3) On January 30, 2015, upon completion of the company's initial public offering price of $10.00 per share, Fairfax India Holdings Corporation's subordinate voting shares began trading on the Toronto Stock Exchange under the symbol FIH.U.

(4) The company's book value per share of $16.89 at December 31, 2019 represented a compound annual growth rate from the initial public offering price of $10.00 per share at January 30, 2015 of 11.2%.

Corporate Profile

Fairfax India Holdings Corporation ("Fairfax India") is an investment holding company whose objective is to achieve long term capital appreciation, while preserving capital, by investing in public and private equity securities and debt instruments in India and Indian businesses ("Indian Investments").

Indian Investments(1)

Fairfax India's *Public Indian Investments* are comprised of various percentages of ownership in the following companies whose shares are listed on both the BSE (formerly known as Bombay Stock Exchange Limited) and the National Stock Exchange of India:

IIFL Finance Limited ("IIFL Finance") is a publicly traded diversified financing company located in Mumbai, India that through its subsidiaries offers home loans, gold loans, business loans (including loans against property and small-to-medium enterprise loans, microfinance, developer and construction finance) and capital market finance. IIFL Finance's revenues for the twelve months ended December 31, 2019 were $363 million. At year end, IIFL Finance had shareholders' equity of $678 million and there were approximately 18,000 employees. Additional information can be accessed from IIFL Finance's website www.iifl.com.

IIFL Wealth Management Limited ("IIFL Wealth") is a publicly traded wealth management firm with principal lines of business in wealth management and asset management, located in Mumbai, India. The wealth management business serves the highly specialized needs of high net worth and ultra-high net worth individuals, affluent families, family offices and institutional clients through a comprehensive range of tailored wealth management solutions. The asset management business provides a diversified suite of alternative investment funds, portfolio management services and mutual funds that span public and private equities, fixed income securities and real estate. IIFL Wealth's revenues for the twelve months ended December 31, 2019 were $131 million. At year end, IIFL Wealth had shareholders' equity of $429 million and there were approximately 900 employees. Additional information can be accessed from IIFL Wealth's website www.iiflwealth.com.

IIFL Securities Limited ("IIFL Securities") is a publicly traded leading investment advisory firm providing diversified financial services and products such as financial planning, equity, commodities and currency broking (both cash and derivatives), depository participant services, investment banking, portfolio management as well as distribution of mutual funds, bonds and other products. IIFL Securities is located in Mumbai, India. IIFL Securities' revenues for the twelve months ended December 31, 2019 were $113 million. At year end, IIFL Securities had shareholders' equity of $128 million and there were approximately 2,000 employees. Additional information can be accessed from IIFL Securities' website www.iiflsecurities.com.

CSB Bank Limited ("CSB Bank") is a publicly traded company located in Thrissur, India, established in 1920 and is a full-service bank offering retail banking, non-resident Indian banking services, small-to-medium enterprise and wholesale banking services through 416 branches and 290 automated teller machines across India. Prepared in accordance with International Financial Reporting Standards ("IFRS"), CSB Bank's revenues for the twelve months ended December 31, 2019 were $107 million. At year end, CSB Bank had shareholders' equity of $278 million and there were approximately 3,200 employees. Additional information can be accessed from CSB Bank's website www.csb.co.in.

Fairchem Speciality Limited ("Fairchem") 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 neutraceutical and health products. Privi Organics Limited ("Privi"), a wholly-owned subsidiary of Fairchem, 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. Based on IFRS, Fairchem's revenues (comprised of Fairchem and Privi) for the twelve months ended December 31, 2019 were $242 million. At year end, Fairchem had shareholders' equity of $97 million and there were approximately 1,400 employees. Additional information can be accessed from Fairchem's and Privi's websites www.fairchem.in and www.privi.com.

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

5paisa Capital Limited ("5paisa"), located in Mumbai, India, is a publicly traded online financial services provider with a "do-it-yourself" investment brokerage model that allows customers to execute investment transactions for low brokerage fees. 5paisa is primarily engaged in providing a technology platform through online and mobile applications for trading securities on the BSE and the NSE of India. 5paisa's revenues for the twelve months ended December 31, 2019 were $14 million. At year end, 5paisa had shareholders' equity of $20 million and there were approximately 1,200 employees. Additional information can be accessed from 5paisa's website www.5paisa.com.

Fairfax India's *Private Indian Investments* are comprised of various percentages of ownership in the following companies whose fair values cannot be derived from an active market and accordingly, are valued internally using industry accepted valuation techniques and models:

Bangalore International Airport Limited ("BIAL") is a private company located in Bengaluru, India. BIAL, under a concession agreement with the Government of India until the year 2038 (with the right to extend the agreement for an additional 30 years), has the exclusive rights to carry out the development, design, financing, construction, commissioning, maintenance, operation and management of the Kempegowda International Airport Bengaluru ("KIAB") through a public-private partnership. KIAB is the first greenfield airport in India built through a public-private partnership. Based on IFRS, BIAL's revenues for the twelve months ended December 31, 2019 were $211 million. At year end, BIAL had shareholders' equity of $450 million and there were approximately 1,300 employees. Additional information can be accessed from BIAL's website www.bengaluruairport.com.

Sanmar Chemicals Group ("Sanmar"), a private company located in Chennai, India, is one of the largest suspension polyvinyl chloride ("PVC") manufacturers in India, operating in India and Egypt. Sanmar also manufactures caustic soda, calcium chloride, chloromethanes, refrigerant gases, industrial salt and specialty chemical intermediates. Based on IFRS, Sanmar's revenues for the twelve months ended December 31, 2019 were $719 million. At year end, Sanmar had a shareholders' deficit of $31 million and there were approximately 1,900 employees. Additional information can be accessed from Sanmar's website www.sanmargroup.com.

National Collateral Management Services Limited ("NCML"), located in Gurugram, India, is a private agricultural commodities storage company operating in the agriculture value chain and offering end-to-end solutions in grain procurement, testing, storage and collateral management. NCML's wholly-owned subsidiary, NCML Finance Private Ltd, focuses on rural and agri-business finance. NCML's revenues for the twelve months ended December 31, 2019 were $148 million. At year end, NCML had shareholders' equity of $104 million and there were approximately 2,000 employees. Additional information can be accessed from NCML's website www.ncml.com.

Seven Islands Shipping Limited ("Seven Islands"), a private company located in Mumbai, India, is the second largest private sector tanker shipping company in India and transports liquid cargo along the Indian coast as well as in international waters. Seven Islands owns 19 vessels with a total deadweight capacity of approximately 1.2 million metric tons, and its vessels are registered in India and operate as Indian owned and flagged vessels. Seven Islands' revenues for the twelve months ended December 31, 2019 were $82 million. At year end, Seven Islands had shareholders' equity of $112 million and there were approximately 70 employees. Additional information can be accessed from Seven Islands' website www.sishipping.com.

Saurashtra Freight Private Limited ("Saurashtra"), a private company located in Mumbai, India, operates one of the largest container freight stations ("CFS") at Mundra port (Gujarat). Services provided by Saurashtra's CFS include transportation of containers to and from the port, stuffing and destuffing of containers, cargo storage, transportation of cargo to the end customer, and the storage, maintenance and repair of empty containers. Saurashtra's subsidiary, Fairfreight Lines, focuses on new services for container shipping, offering integrated logistic solutions to its customers by providing containers, which are leased by Saurashtra, to importers and exporters to transport cargo. Saurashtra's revenues for the twelve months ended December 31, 2019 were $21 million. At year end, Saurashtra had shareholders' equity of $29 million and there were approximately 100 employees. Additional information can be accessed from Saurashtra's website www.saurashtrafreight.com.

National Stock Exchange of India Limited ("NSE"), a private company located in Mumbai, India, operates India's largest stock exchange. In addition to providing a platform for 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. NSE's revenues for the twelve months ended December 31, 2019 were $545 million. At year end, NSE had shareholders' equity of $1.2 billion. Additional information can be accessed from NSE's website www.nseindia.com.

To Our Shareholders,

Fairfax India's book value per share (BVPS), our key performance measure, grew again this year at a healthy rate. After declining by 4.1% in 2018 to $13.86*, it bounced back, growing by 21.9% in 2019 to $16.89, a performance significantly superior to the performance of Indian equity indices, and even better than it looks as it was adversely affected by the 2.2% decline in the Indian rupee against the U.S. dollar during 2019.

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

	2019	2018	2017	2016	2015	CAGR(1)
Book value per share	$ 16.89	$ 13.86	$ 14.46	$ 10.25	$ 9.50	11.2%
Income	712,689	166,518	609,670	128,604	65,251	
Net earnings	516,338	96,432	452,509	107,825	40,939	
Return on equity	22.0%	4.5%	28.2%	10.3%	4.0%	13.8%(2)
Total assets	3,244,937	2,707,057	2,672,221	1,303,497	1,025,451	26.4%
Investments	3,171,332	2,661,347	2,635,726	1,095,569	978,569	27.0%
Common shareholders' equity	2,577,851	2,117,945	2,132,464	1,075,446	1,013,329	20.9%
Shares outstanding (millions)	152.6	152.9	147.4	104.9	106.7	

(1) *Since Fairfax India's inception on January 30, 2015, when it raised $1.03 billion at $10 per share. From an initial value of $9.62 (after IPO expenses), BVPS has compounded at 12.1% annually.*

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

After a dismal year in 2018, most Asian emerging markets bounced back in 2019. You will see from the table below (based on the leading US$ equity index in each country named) that India grew by 11.9%, outperformed only by China's equity index, which grew by 34.4%.

China	34.4%
India	11.9%
Hong Kong	9.7%
Thailand	9.7%
Vietnam	7.7%
Singapore	6.5%
Sri Lanka	2.2%
Malaysia	(5.0)%

And here is a comparison of Fairfax India's change in BVPS in 2019 with the change in major Indian US$ equity indices:

Fairfax India BVPS	21.9%
S&P BSE Sensex 30	11.9%
S&P BSE 500	5.4%
BSE midcap	(5.1)%
Nifty 50	9.6%

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

Fairfax India BVPS(1)	+11.2%
US$ S&P BSE Sensex 30	+4.3%

(1) *Fairfax India's 5-year annualized growth in BVPS is calculated based on its January 30, 2015 IPO price of $10 per share.*

* *All dollar amounts in this letter are in U.S. dollars unless specified otherwise. Numbers in the tables in this letter are in U.S. dollars and $ thousands except as otherwise indicated.*

Please note that Fairfax India's book value is based on publicly traded market values only for the six of its twelve investments which are publicly traded (the rest are based on internal valuations), whereas the Sensex is of course based entirely on publicly traded market values.

Fairfax India's net earnings in 2019 were up 435% to $516 million from $96 million in 2018, largely as the result of net unrealized gains on investments being $530 million compared to $179 million in 2018. Earnings also reflect interest income of $4.9 million and net foreign exchange losses of $13.8 million. Fully diluted earnings per share increased 424% to $3.30 in 2019 from $0.63 in 2018.

While the change in Fairfax India's BVPS in 2019 resulted primarily from an increase of $726 million ($4.76 per share) in the value of its holdings in Bangalore International Airport (BIAL), there were other significant contributors and detractors to the change recorded in 2019:

	($ millions)
CSB Bank	55
Fairchem Speciality	31
IIFL Finance	(201)
National Collateral Management Services	(44)

On the investment front during 2019, we completed the acquisition of a 51% equity ownership in Catholic Syrian Bank (now renamed CSB Bank) (CSB) for $169 million. On November 26, 2019, the day on which it celebrated its 99th birthday, CSB completed its spectacularly successful IPO and was listed on the Indian stock exchanges. The IPO, which was oversubscribed 87 times, was completed at a price of 195 rupees per share (our cost is 140 rupees per share) and consisted largely of existing shareholders selling to new ones (Fairfax India did not sell any shares). The IPO price, based on March 2021 projections, implied a pre-money price to earnings ratio of 19 times and price to BVPS of 1.9 times. The stock started trading on the Indian stock markets on December 4, 2019, closing at 300 rupees per share, and is currently trading at about 185 rupees per share. At the end of 2019, with a closing price of about 216 rupees per share, CSB had posted mark-to-market gains (including foreign currency translation changes) of $60 million from our cost of acquisition.

We also acquired a 49% equity ownership in Seven Islands Shipping, India's second largest private sector tanker shipping company, for $84 million.

Also in 2019, we completed a transaction whereby Sanmar Chemicals Group (Sanmar) settled our $300 million of 13% bonds for $434 million, of which we invested $198 million in additional common shares of Sanmar based on an effective equity valuation of approximately $1.0 billion for the whole company, thereby increasing our equity ownership interest from 30% to 43%. This transaction returned approximately 76% of the capital Fairfax India originally invested while increasing our ownership of Sanmar.

Since we began, Fairfax India has completed investments in ten companies (12 currently, as two of them have combined and one has split into four listed entities), all sourced and reviewed by Fairbridge, Fairfax Financial Holdings' (Fairfax Financial) wholly-owned sub-advisor in India. Fairbridge does outstanding work under the excellent leadership of CEO Sumit Maheshwari, supported by its Director, Anish Thurthi, Vice President, Sheetal Sancheti, and analysts Jinesh Rambhia and Ramin Irani. Fairfax India's Mauritius subsidiary, FIH Mauritius Investments, ably led by its CEO Amy Tan, supported by its senior manager Vishal Mungur and its independent Board of Directors, is an integral part of the investment process. Also, since we began, Deepak Parekh, both as a trusted advisor and a member of the Board of Directors, has provided us with invaluable advice on our transactions.

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

	Date of Initial Investment	Ownership	Amount Invested ($ millions)	Fair Value at December 31, 2019 ($ millions)	Compounded Annualized Return[(1)]
NCML	August 2015	89.5%	188.3	135.0	(8.6)%
IIFL Finance*	December 2015	26.5%	–	166.0	*
IIFL Wealth*	December 2015	13.9%	191.5	191.5	*
IIFL Securities*	December 2015	26.5%	91.3	48.8	*
5paisa*	December 2015	26.6%	23.5	18.2	*
Fairchem Speciality	February 2016	48.8%	74.4	127.4	17.2%
Sanmar Chemicals Group	April 2016	42.9%	199.0	412.9	23.9%
National Stock Exchange	July 2016	1.0%	26.8	57.2	29.3%
Saurashtra Freight	February 2017	51.0%	30.0	31.2	1.4%
Bangalore International Airport	March 2017	54.0%	653.0	1,429.9	35.7%
CSB Bank	October 2018	49.7%	169.5	229.3	43.4%
Seven Islands Shipping	March 2019	48.5%	83.8	88.8	8.6%
Other Indian Investments			78.5	111.0	29.5%
Total			1,809.6	3,047.2	
* *Aggregate: IIFL Finance, IIFL Wealth, IIFL Securities and 5paisa*			*306.3*	*424.5*	*13.8%*

(1) Calculated using the internal rate of return.

The increase in the valuation of Fairfax India's investment in BIAL to $1.4 billion (implying a valuation of $2.7 billion for 100%) is supported by future cash flow estimates. In addition, Fairfax India, which acquired its interest in BIAL for $653 million (implying a cost of $1.2 billion for 100%), and which valued that interest at $704 million (implying a value of $1.3 billion for 100%) in December 2018, announced the following in December 2019:

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

Later in 2019, Fairfax India signed definitive agreements with an investor whereby it will transfer 43.6% of BIAL out of the 54% that it owns in BIAL to AIIHL and the investor will pay about $135 million to acquire from Fairfax India an 11.5% interest on a fully diluted basis in AIIHL. This will result in the investor indirectly owning approximately 5% of BIAL. The transaction values 100% of BIAL at $2.7 billion.

Fairfax India intends to complete an IPO of AIIHL, targeted to value 100% of BIAL at $3.0 billion (a targeted valuation of $1.3 billion for 100% of AIIHL). A "ratchet" mechanism has been agreed with the investor whereby if the IPO is completed at a valuation of AIIHL below $1.3 billion, the investor will receive incremental shares of AIIHL to compensate for the difference between that actual valuation and $1.3 billion.

The closing of this transaction is subject to Fairfax India receiving the consent of the other shareholders of BIAL – Siemens (20%), the government of Karnataka (13%) and the government of India (13%) – to the transfer of BIAL shares from itself to AIIHL. We have already received consent from Siemens and are awaiting the consent of the other two shareholders.

BIAL continues to perform extremely well, with annualized passenger traffic of about 34 million and strong financial performance consistent with its plans. A second runway was commissioned in December 2019 and progress towards the opening of a second terminal in 2021 is on plan. When the second terminal (phase one) is completed, BIAL will have a capacity of about 50 million passengers and plans are in place to expand the capacity to over 90 million passengers by 2038 by adding a phase two expansion to the second terminal and a third terminal. Further, considerable progress has been made in the plans to monetize the 460 acres of land that BIAL can utilize for real estate development. The initial parts of the plan will be implemented within the next 12 months. More detail on BIAL later in this letter.

While the BVPS of Fairfax India is $16.89, we believe that the underlying intrinsic value is much higher, since all the companies listed above have characteristics giving them the potential for a significant increase in their value. As an example, look at IIFL Finance:

	Unit	
Total market capitalization(1)	$ mn	1,038
Total assets under management	$ bn	5.0
5 years to March 2019 average annual(2):		
Return on equity		16.0%
BVPS growth		20.5%
Diluted earnings per share growth		28.2%
Closing share price on February 20, 2020	Rs.	188
Estimated March 2021:		
Earnings per share	Rs.	20.5
BVPS	Rs.	138.5
Price(1) / Earnings		9.2x
Price(1) / BVPS		1.4x

(1) Based on the rupee closing share price on February 20, 2020.

(2) March is the fiscal year-end.

IIFL Finance is trading at a price to estimated March 2021 earnings of only 9.2 times and price to BVPS of only 1.4 times. With IIFL Finance's strong historical growth and return on equity metrics, we believe there is potential for significant upside on the value of this investment.

Performance Fee

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

The performance fee accrued as of the end of 2019 complies with the above-described intent, even though the language of the investment advisory agreement, failing to fully recognize performance fees already paid, would have provided for the accrual of a higher performance fee. The language of the investment advisory agreement will be amended to make this correction permanent.

Investment and Advisory Fee

Fairfax Financial is also entitled to an investment and advisory fee, calculated and payable quarterly, of 0.5% of the value of Fairfax India's undeployed capital plus 1.5% of its common shareholders' equity less the value of its undeployed capital. During 2019 we discovered that the interpretation that we had applied to the way we calculated this fee was unfavourable to Fairfax India. We have now rectified this interpretation retroactively to inception, resulting in Fairfax India receiving a credit in 2019 of approximately $6 million.

Indian Investments[1]

Bangalore International Airport

Under the strong leadership of Managing Director and CEO Hari Marar and his executive team, BIAL has had another outstanding year. It is the third largest airport in India and the fastest growing airport in the world, and recently was the first airport ever to win Airports Council International's best customer service award for both arrivals and departures.

In May 2018, Fairfax India acquired an incremental 6% of BIAL from Siemens for $67 million, bringing its ownership to 54%. In 2017, Fairfax India had acquired a total of 48% of BIAL for $586 million. In total, Fairfax India has invested $653 million to acquire 54% of BIAL, implying an equity value of approximately $1.2 billion for the whole company.

The valuation (including foreign currency translation) of Fairfax India's interest in BIAL increased by $726 million in 2019 to $1.4 billion, implying an equity value of $2.7 billion for the whole company. Please refer to the description provided earlier in this letter regarding the change in valuation.

Despite Jet Airways, BIAL's second largest customer, winding up operations during the year, in 2019 passenger traffic grew 4% over the previous year to about 34 million passengers and cargo handled only dropped 1% in the face of an economic slowdown that resulted in a 3% drop in air cargo volume in India. As expected, and for the reasons described below, based on IFRS, BIAL's revenues for 2019 declined by 9% to $211 million, largely due to a 35% drop in aero revenue, partially offset by a 24% increase in non-aero revenue, and profit after tax declined 44% to $54 million. However, free cash flow after maintenance capex increased by 87% to $132 million, mainly because of reduced levels of maintenance capex deployed.

BIAL has three potential sources of revenue:

- **Aero Revenue:** Aero revenue, which has grown at a CAGR of 16% from 2009 to 2019, is the revenue earned for providing services such as landing, parking and other services charged as user development fees (UDF) to airlines and passengers. The aero tariffs for these services are set for five-year periods (called "control periods") and are fixed by the Airport Economic Regulatory Authority (AERA) to provide a 16% return on equity deployed in the Regulatory Asset Base (RAB). AERA treats 30% of non-aero revenue as aero revenue as a subsidy for the purpose of tariff calculations. The tariff order for the second control period (from April 2016 to March 2021) was finalized by AERA in August 2018, well after the control period had begun. Any under or over recovery of tariffs in any control period will be adjusted in the subsequent control period. This is achieved primarily by adjusting downwards or upwards the fee that the airport is allowed to charge passengers and airlines for its aero services. The tariffs that the airport can charge have a very significant impact on the cash flow generated which, in turn, has a major impact on the financing for the planned expansion of the airport.
- **Non-aero Revenue:** All revenue other than aero revenue, such as revenue from cargo handling, ground handling, fuel sales, food and beverage sales and duty-free shops, constitutes non-aero revenue. Non-aero revenue has grown at a CAGR of 17% from 2009 to 2019 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 at the airport to make purchases. BIAL has undertaken many innovative projects that engage passengers and enhance their experience at the airport.
- **Real Estate Monetization:** BIAL has approximately 460 acres of land adjoining the airport that can be developed. All this land is undeveloped except for a small piece on which BIAL has built a hotel, currently operated by the Taj hotel brand under a management contract. Bangalore's historical population areas are getting congested, so the city is expanding in the airport's direction. BIAL anticipates significant upside, over time, from monetization of this real estate. We provide below an update on the significant progress made in the actions to monetize the land available for development.

(1) *The Indian Investments are presented sequentially beginning with the investment with the highest market value. All of the Indian Investments' figures are based on Indian Accounting Standards (Ind AS) unless otherwise stated.*

For the remainder of the second control period, BIAL's aero revenue and total profits will be significantly lower because the tariffs set by AERA have been reduced to compensate for the higher tariff achieved in the first control period and part of the second control period. This situation, which was anticipated in BIAL's financial plans, will persist until March 2021, the end of the second control period. This is the reason for the depressed financial performance described above. Nevertheless, we estimate that BIAL will generate a total ROE of 19.6% for the second control period and an ROE of 19.1% for the combined first and second control periods.

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

Plans have also been adopted for the building of phase two of the second terminal and related infrastructure for an incremental investment of about $1.2 billion to take the capacity to about 70 million passengers by 2028. Most recently, BIAL added a plan for a third terminal and related infrastructure for an incremental investment of approximately $1 billion, taking the capacity of the airport beyond 90 million passengers by 2038. The total investment of about $2.2 billion required to complete the above expansions will be funded through internally generated funds and debt.

2019 featured the following significant achievements by BIAL:

- Three important new international routes were established: KLM flights to Amsterdam, Indigo flights to Phuket, and Ethiopian Airlines flights to Addis Ababa.
- Two new international routes were established to become operational in 2020: Lufthansa flights to Munich, and Japan Airlines flights to Tokyo.
- International freight services by SpiceXpress commenced.
- Renewable energy sources were utilized for 64% of the airport's energy needs.
- The concept design of the Forecourt Multi Modal Transport Hub was completed and the contract for construction was awarded.
- Significant progress was made in the plans to monetize BIAL's approximately 460 acres of land that can be developed, as follows:
  - A 100% owned special purpose vehicle (SPV) subsidiary of BIAL was incorporated to carry on the real estate activities of BIAL.
  - The Board approved the terms and conditions under which the land to be developed will be leased by BIAL to the SPV and the financial plans covering the first phase of developing approximately 176 acres.
  - The first development will be a 775 room 3- and 4-star combination business hotel situated on approximately 5 acres of land. The project has been awarded to the Taj Group of hotels and will be owned 100% by the SPV.
  - The second development will be a retail, dining and entertainment village on approximately 23 acres of land. This project will also be 100% owned by the SPV and will be developed in phases.
  - The third development will be business parks over approximately 130 acres of land that will be jointly developed in phases through a combination of land lease, joint development and own development models.
  - In addition, approximately 12 acres of land will be used for the development of an outlet mall and a 5-star hotel.
  - A first of its kind large concert arena in the region, on approximately 6 acres of land, has been awarded to a consortium and is expected to be completed in 2021. Live Nation, a global entertainment company, will act as the consultant to the consortium on the development of the project.

Sanmar Chemicals Group

In 2016, Fairfax India lent Sanmar the rupee equivalent of $300 million by way of seven-year non-convertible debentures (NCDs). The NCDs provided for 3% payment-in-kind interest and a redemption premium such that the annual yield of the NCDs would be 13%. In addition, for $1 million Fairfax India received a 30% equity interest in Sanmar's entire chemicals business.

As described earlier in this letter, in 2019 Sanmar completed a transaction whereby it settled our $300 million of 13% bonds for $434 million, which also resulted in Fairfax India increasing its equity ownership interest in Sanmar from 30% to 43%.

N. Sankar, the chairman of the Sanmar group, and his son Vijay, the deputy chairman, have grown the group into a large private conglomerate with sales of around $1 billion and an asset base of around $2 billion. Founded in the early sixties, its business interests spanned chemicals, engineering technology and shipping, with operations in India, the Middle East and the Americas. Fairfax India's investment is in the chemicals business, which constitutes more than 70% of the group's operations and is housed within three operating companies, two in India – Chemplast Sanmar Limited (CSL) and Chemplast Cuddalore Vinyls Limited (CCVL) – and one in Egypt – TCI Sanmar (TCI). The group is renowned for its high integrity and the highest levels of corporate governance and environmental and social responsibility.

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

Sanmar acquired TCI in 2007, with the intention of setting up a large greenfield PVC plant in Egypt to cater to the high growth markets of North Africa, the Middle East and parts of Europe. TCI until recently had a 200 ktpa capacity PVC plant. Last year, with help from the financing provided by Fairfax India, TCI completed a major expansion plan and added a new 200 ktpa PVC plant, taking total PVC capacity to 400 ktpa, a 130 ktpa calcium chloride plant and a 75 ktpa caustic soda by-product line. These are ramping up to full production, with full capacity expected to be attained in 2020, and will take advantage of Sanmar's significant investment in infrastructure in Egypt.

In 2019 Sanmar reorganized its highly successful CSL business in India into two separate operating companies, each with products that were more compatible to each other in financial and growth characteristics. The commodity suspension PVC business was demerged from CSL into CCVL, with a capacity of 300 ktpa. After the demerger, CSL manufactures paste PVC, chloromethanes, ethylene dichloride (EDC), and vinyl chloride monomer (VCM) at Mettur and Karaikal. Sanmar Speciality Chemicals, which manufactures custom made chemicals for customers in the agro-chemical, pharmaceutical and fine chemical industries, was merged into CSL, making it a division with high potential for growth and high profit margins.

CCVL is now the second largest suspension PVC player in India and CSL is the largest specialty paste PVC player in India. Following the reorganization, since Sanmar's Indian companies had very low levels of debt, they were able to raise debt financing at the operating companies (approximately $180 million at CSL and $120 million at CCVL), a significant part of which it used to repay its debt to Fairfax India, thereby significantly reducing its holding company debt.

CSL had another successful year in 2019 with consistent growth and improved margins driven by strong paste PVC demand, lower imports and a drop in ethylene prices. This was partially offset by reduced demand for chloromethanes and lower prices due to the commissioning, by a competitor, of a new plant in India. Chloromethane demand and prices are expected to improve in coming quarters. Caustic soda prices dropped sharply across the world, driven by the economic slowdown, and India was no exception. Sanmar Speciality Chemicals, on the other hand, enjoyed significant increases in volumes and profitability. The following growth plans for CSL are on track:

- a second 45 ktpa chloromethane plant in Karaikal
- expansion in the Speciality Chemicals division
- a 70 ktpa paste PVC plant in Cuddalore.

CCVL enjoyed steady growth in 2019, achieving more than 90% capacity utilization. The Indian PVC growth story remains positive, with steady improvement in consumption that stems from the launch of large infrastructure projects. Increase in Indian import duty on PVC from 7.5% to 10% and the reduction in import duty on raw material (EDC) from 2% to 0% will help further improve future performance. Indian suspension PVC anti-dumping duties were also renewed for another 30 months on imports from the U.S. and China, the two largest PVC surplus countries. The following growth plans for CCVL, both in Cuddalore, are progressing well:

- an increase of suspension PVC capacity from 300 to 600 ktpa – investment of $86 million; estimated incremental annual EBITDA of $82 million; timing 2022 – 2023. CCVL has received environmental clearance for this project.
- an increase of suspension PVC capacity from 600 to 900 ktpa – investment of $100 million; estimated incremental annual EBITDA of $80 million; timing 2024 – 2025.

While Sanmar's Indian businesses had a very good year, TCI, its Egyptian business, had another difficult year. After the completion of its expansion in September 2018, in 2019 TCI ramped up production in all its facilities. The new PVC plant commissioned with a capacity of 200 ktpa recorded more than 100% capacity utilization on an annualized basis. Its production cost was about $20 per metric ton lower than the existing plant. However, the spike in EDC prices that began in 2018 did not abate until late in 2019 and this resulted in negative contribution margins for PVC. Calcium chloride granules, a new product launched by TCI, is being accepted well in both domestic and export markets.

The management team has been strengthened with the addition of new people with rich experience in establishing and operating VCM and PVC plants. In order to reduce utility costs, TCI is considering setting up a combined cycle power plant to meet its captive need for both power (132 MW) and steam (236 TPH). TCI is also planning to set up a 50 ktpa chloromethane plant which will enable conversion of captive chlorine into commercial products. It is in the process of obtaining approvals for the above projects.

Based on IFRS, in 2019 Sanmar's revenues grew by 9% to $719 million, but EBITDA declined from $100 million in 2018 to a loss of $9 million in 2019. Net loss in 2019 increased to $187 million from a loss of $91 million in 2018.

CSB Bank (formerly The Catholic Syrian Bank)

In 2019 Fairfax India completed its purchase of a 51% interest in CSB for a consideration of $169 million (140 rupees per share), implying a multiple of 1.1 times the September 30, 2017 BVPS. This was the culmination of an effort that began in December 2016, when the Reserve Bank of India (RBI) gave Fairfax India permission to acquire a 51% stake in CSB. This was the first time in the history of the RBI that anyone was given approval to acquire a majority stake in a bank in India. Our entire investment was infused into CSB as primary capital, thereby increasing its capital adequacy ratio (CAR) to 23% at the end of 2019. The improved CAR will enable the bank to make adequate provisions for loan losses, invest in more branch openings, higher quality people and technology and grow its loan book with well underwritten loans.

Please refer to the description provided earlier in this letter regarding the spectacularly successful IPO of CSB.

CSB is one of the oldest private sector banks in India and has a strong base in Kerala along with a significant presence in the states of Tamil Nadu, Karnataka and Maharashtra. The bank currently operates 416 branches and 290 ATMs across India. With its branches primarily located in south India, it focuses on retail, gold and small and medium enterprise (SME) loans, which together comprise about 75% of total advances. CSB also owns 37 residential and commercial properties and land banks, some purchased several years ago and others acquired by enforcement of security.

Mr. C.V.R. Rajendran, whom we had identified almost four years ago for the CEO role to spearhead the operations of the bank, has been in that position for over three years and is now well in control: he understands the bank and its loan book very well. Prior to Mr. Rajendran's joining, CSB had deviated from its core expertise and built a meaningful corporate lending book, mainly through consortium lending, which resulted in loan losses which have now been fully provided for.

Continuing with the changes he started three years ago, Mr. Rajendran has now completed the implementation of human resource policies and practices that are more performance and productivity oriented. On the management front, he has hired some key executives and is well on his way to rounding out his management team.

Mr. Rajendran has also made a very significant change in the way the bank will be operated in the future. The bank was previously managed on a geographically divided structure, but will now be managed based on business verticals. There will initially be the three following business verticals:

- retail banking (comprised of branch banking; gold loans; two-wheeler loans; micro, small and medium enterprise (MSME) loans; microfinance under financial inclusion (MFI) loans; and agricultural loans);
- SME banking; and
- wholesale banking.

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

Mr. Rajendran has hired senior level personnel to develop branch banking which will primarily focus on retail deposits comprising lower cost current and savings accounts (CASA) and cross selling of products to generate non-interest income. CSB plans to open about 100 new branches over the next six months to drive the growth of gold, MSME and two-wheeler loans and to build a stable CASA franchise.

The important effect of this change is that going forward, the branch network will be more focused on raising deposits and generating leads for the business verticals rather than being mini banks that try to do everything.

In 2019, CSB made excellent progress in its key performance measures compared to the previous year, with loan advances growth of 9% (including gold loans growth of 25%) and deposits growth of 3% (including CASA growth of 6%). Net interest income grew 35% and the credit to deposit ratio improved from 67% to 71% while non-interest income was up 48%. In addition, yield on loans improved to 10.7% from 9.9%, CASA improved to 28.6% from 27.6% of total deposits, net interest margin (NIM) improved to 3.4% from 2.6% and the cost of deposits remained stable at 5.9%.

As a result of these improvements, based on IFRS, CSB's revenues for 2019 increased by 23% to $107 million and net income increased to $8 million compared to a net loss of $7 million in 2018. Gross non-performing assets (NPAs) reduced to 3.2% from 7.5%, net NPAs reduced to 2.0% from 3.7% and the CAR was 23%. As you can see, Mr. Rajendran is making very good progress toward his objective of focusing on profitability, productivity, efficiency and asset quality.

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

IIFL Wealth Management Limited (IIFL Wealth)

IIFL Wealth's strong client franchise in the Indian ultra high net worth individual (UHNI) segment, an innovative, diversified product offering, and superior execution make it the leading player in this niche wealth management market. It is the number one wealth manager in India for UHNIs with consolidated total assets under management (AUM) of $25.1 billion, 29 offices in India and abroad, 900 plus employees and 64 teams consisting of 288 relationship managers serving over 5,600 families.

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

After its listing, because it had other owners at the subsidiary level, its ownership is distributed among the promoters with 24.7%, the U.S. private equity firm General Atlantic with 21.9% and Fairfax Financial and Fairfax India with 19.0%.

You will recall that, as part of the IIFL Holdings group, IIFL Wealth was its fastest growing business, having compounded 5-year growth rates of 32%, 39% and 49% in, respectively, AUM, total revenue and profit after tax.

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

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

IIFL Wealth has two businesses – wealth management (the larger one) and asset management. The wealth management business, which was directly impacted by the above-described change in regulation, had to transform from a distribution and an upfront commission driven business model to a fee-based advisory services and trailing commission-based model. As IIFL Wealth makes this transition, revenue from the former upfront commissions will decline while annual recurring revenues (ARR) will increase. In 2019, the upfront commission and brokerage revenues declined by 106% to $57 million, while ARR grew by 23% to $74 million.

However, AUM continued to grow, albeit at a lower rate of 13%, to $19.8 billion. The wealth management business has embedded in it a non-bank finance company (NBFC) which makes loans to its clients secured by their assets held by IIFL Wealth and has never had a bad loan.

The smaller asset management business is India's leading manager of alternate investment funds (AIF). AUM for this business grew by 46% in 2019 to $3.8 billion while revenues grew by 78% to $18 million. This business was strengthened by the addition of a new CIO, Anup Maheshwari, an experienced fund manager with a proven 25-year track record.

To capitalize on the opportunity created by the fee-based model, IIFL Wealth has launched a new platform called "IIFL-ONE". Backed by strong product creation, deep research, specialist teams and innovative technology and using a portfolio management approach, IIFL-ONE is currently in the process of converting IIFL Wealth's existing customers to this platform and already has AUM of $2.3 billion.

In 2019, as a result of the above changes in the industry, IIFL Wealth's total revenues declined by 17% to $131 million, profit after tax declined by 23% to $41 million and ROE declined from 13% to 9%. At listing, the stock traded at a valuation of 31 times March 2020 expected earnings and its market capitalization was 6% of its AUM, reflecting the market's confidence in its growth prospects.

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

IIFL Finance Limited (IIFL FIN)

Though the predecessor company (IIFL Holdings) had been listed on the Indian stock exchanges since 2005, its demerger into three separate companies has resulted in IIFL FIN getting listed on the Indian stock exchanges in September 2019 as a pure play NBFC. Prior thereto, IIFL Holdings had been a combination of three businesses – an NBFC, a wealth management business and a capital markets business.

For over 50 years, NBFCs in India have been a source of debt financing for individuals and companies. Being relatively less regulated and therefore less bureaucratic than banks, NBFCs are able to meet customer needs on a faster and more flexible, albeit more expensive, basis. Today India has around 9,500 NBFCs of which 81 are permitted to take customer deposits and 278 are considered to be systemically important because they have assets of over $70 million (five billion rupees). With total loans outstanding of $330 billion, NBFCs account for approximately 20% of the $1.6 trillion bank and NBFC loans outstanding in India.

The turmoil that started in September 2018 as a result of the default by a quasi-government lender, Infrastructure Leasing and Financial Services Limited (IL&FS), continues to restrict the operations and performance of most NBFCs including IIFL FIN. Other than a handful, most NBFCs are facing restricted access to longer term funding which they need as they have significantly reduced their dependence on short term commercial paper (CP) financing. As a result, total loan approvals by NBFCs as at June 2019 dropped by 30% from the previous year.

As you can see, IIFL FIN embarked on its journey as a pure play NBFC in a somewhat troubled landscape.

Based on total revenue, IIFL FIN, which is non-deposit taking, is the 22nd largest NBFC in India. In one survey (Banking and Finance Post), it is ranked number two in social engagement and reach (including social media engagement).

Under the able leadership of its CEO, Sumit Bali, IIFL FIN is moving forward aggressively to consolidate its position as one of the major NBFCs in India. It added 504 new branches in 2019, taking its total to over 2,350 branches, with over 18,000 employees and 3 million customers.

It has made further progress in diversifying its lending to a retail-focused loan portfolio which accounts for 87% of its loans. Loan AUM grew 11% to $5 billion, driven by small home loans, gold loans and microfinance loans which grew by 10%, 41% and 70% respectively. Developer and construction finance loans declined by 6% and now represent 13% of its AUM. IIFL FIN has no exposure now to short term CP financing. Its liquidity profile remained robust, with a surplus across all maturities and undrawn credit lines of over $400 million. Its total CAR was 21.4%, including a Tier 1 CAR of 17.9%, compared to the statutory requirement of 15% and 10% respectively.

Driven by the divestiture of its commercial vehicle loan portfolio, asset quality improved from this time last year, with net NPAs improving from 1.5% to 1.0%.

In 2019, IIFL FIN's revenues increased 15% to $363 million and profit after tax excluding extraordinary items increased by 17% to $103 million, generating an ROE of 15%. Despite these good results, IIFL FIN is trading at a deeply discounted valuation of only 9.2 times price to estimated March 2021 earnings and price to estimated March 2021 BVPS of 1.4 times. We believe there is potential for significant upside on the value of this investment.

National Collateral Management Services (NCML)

NCML was Fairfax India's very first investment, completed in August 2015. NCML has operated for over 15 years in the agriculture value chain by offering end-to-end solutions in grain procurement, testing, storage and collateral management and is now well positioned to further expand and take advantage of the significant market potential in India's underdeveloped agricultural storage industry.

NCML has more than 1.6 million metric tons of storage capacity across 700 warehouses in 16 states in India. It has a network of 28 regional offices, more than 800 touch points at agricultural produce markets and thousands of farmers and traders to facilitate procurement of commodities. With AUM of $700 million, NCML has a 30% share of the agricultural commodities' collateral management business in India, offering custodial services to about 67 banks and financial institutions for the management of collateralized agricultural commodities, based on which those institutions advance post-harvest loans to farmers or dealers owning commodities. Beyond its major business segments, NCML offers a commodity and weather intelligence service and an online commerce portal (NCML MktYard), both of which continued to make progress in 2019.

In 2015, Fairfax India invested a total of $149 million to acquire an 88% interest in NCML: $31 million in primary infusion to fund growth plans and the remaining $118 million to buy out existing shareholders. In August 2017, Fairfax India acquired an additional 1.4% stake through a rights issue for $25 million. In September 2019, Fairfax India infused $14 million as compulsorily convertible debentures to meet equity requirements for construction of silos. Based on discounted cash flows, NCML is now valued at $135 million compared to our investment cost of $188 million.

NCML's performance in its various business verticals is primarily linked to the underlying economic activities in two areas: the post-harvest agriculture value chain and the financing of agricultural produce by banks and financial institutions. Most other industries have successfully overcome the disruption caused by demonetization (in November 2016) and Goods and Services Tax (GST) implementation (in July 2017), but the agriculture sector has been the most impacted and activity has yet to recover to previous levels. In addition, the credit crisis in India has had a profound negative impact on the post-harvest agri value chain. The Union Budget of 2020 of the Government of India acknowledged this disruption and the Finance Minister has announced several budgetary measures to support the agriculture sector.

The above factors have had an impact on the business environment for NCML, and 2019 was a particularly difficult year for it. Revenues declined by 29% to $148 million and net income declined from $3.6 million in 2018 to a net loss of $0.8 million in 2019. The decline in revenues was largely due to opportunity loss from unavailability of short term credit to undertake supply chain contracts, management's intention to reduce collateral management business and locations to mitigate potential risks in a credit constrained environment and losses incurred in the supply chain segment due to an extraordinary decline in the price of castor seeds. These factors, combined with the inability to reduce overheads in line with the decline in revenues resulted in NCML incurring a loss for the year.

We also had a change of guard at NCML – Sanjay Kaul expressed his desire to retire from his executive role. He assumed the role of Chair of the Board and will continue to provide guidance to NCML going forward. We thank Sanjay for his leadership in developing the organization to its strong market position.

We identified Siraj Chaudhry to take over from Sanjay as the CEO of NCML. Siraj spent 24 years at Cargill India, including 12 years as its CEO/Chairman. Siraj not only brings with him a deep understanding of the agriculture sector in India but is also strongly networked within the domestic and international market participants in this sector. Under Siraj's leadership, NCML is taking steps to achieve growth in several of its business verticals while at the same time curtailing certain businesses to reduce the risks presented by a tight credit environment, prioritizing construction of silos and reducing overheads to sustain profitability in a difficult macro environment.

Fairchem Speciality

In March 2017, the merger of Fairchem Speciality and Privi Organics (Privi) was completed, resulting in Fairfax India owning 48.8% of the merged entity. Fairfax India had earlier separately owned controlling interests in both these companies.

Based on IFRS, in 2019 Fairchem Speciality grew consolidated revenues by 38% to $242 million and net income by 182% to $27 million. Shareholders' equity grew 34% to $97 million, generating an ROE of 27%.

While the two businesses have been merged into one corporate entity, they each continue to be managed independently by their founders and existing management teams. We describe below the performance of the two businesses:

The **Fairchem** business, led by Nahoosh Jariwala, is an oleochemicals business. Oleochemicals are, broadly, chemicals that are derived from plant or animal fat, which can be used for making both edible and non-edible products. In recent years the production of oleochemicals has been moving from the U.S. and Europe to Asian countries because of the local availability of key raw materials.

Fairchem occupies a unique niche in this large global playing field. It has developed an in-house technology that uses machinery manufactured by leading European companies to convert waste generated during the production of soya, sunflower, corn and cotton oils into valuable chemicals. These chemicals include acids that go into non-edible products like soaps, detergents, personal care products and paints, and other products that are used in the manufacture of health foods and vitamin E. The company's customers include major multinational companies including BASF, Archer Daniels Midland, Cargill, Arkema and Asian Paints. Fairchem operates out of a single plant in Ahmedabad, the largest city in Gujarat, the home state of Prime Minister Modi: the plant has one of the largest processing capacities for natural soft oil-based fatty acids in India. Over the last ten years Fairchem's sales have grown on average 22% per year, net earnings have grown on average 47% per year, and the average annual ROE was around 21%.

Based on IFRS, in 2019 Fairchem's revenues grew by 10% to $39 million, net earnings grew by 15% to $4 million and shareholders' equity grew 17% to $16 million, generating an ROE of 23%.

In 2019, Fairchem ran into a shortage for its key raw material, which is waste from Indian soft oil refineries. The shortage was caused by demand from China, where customers are able to pay higher prices because their products have better margins, and from a new competitor in India that manufactures the same product as Fairchem. Fairchem has identified three potential substitute raw materials of which one is currently being used in production while the other two are in laboratory testing. Fairchem is hopeful that these alternatives will enable it to mitigate the impact of the reduced availability of its original raw material and to supply the incremental demand for its products.

In 2018 Fairchem completed the implementation of changes in its plants that increased its installed capacity from 45 to 72 ktpa of raw material that can be processed. Fairchem has also initiated two capital expenditure projects – both will be financed by a mix of term borrowings and internal accruals and are expected to enter production in 2020:

- a plant to manufacture sterols and higher concentration tocopherols, and
- a plant to manufacture bio-diesel using three by-products of its manufacturing process: palmitic acid, monomer acid and residue.

The **Privi** business, founded in 1992 and led by Mahesh Babani and D. B. Rao, had a spectacularly successful year in 2019. Based on IFRS, in 2019 Privi's revenues grew 33% to $203 million, net earnings grew 272% to $23 million and shareholders' equity grew 37% to $81 million, generating an ROE of 28%. The increase in revenue and net earnings resulted from higher volumes, higher unit prices, lower raw material costs and a drop in tax rates from about 35% to 25% because of the lower tax rates implemented by the government.

Privi is one of India's leading manufacturers of aroma chemicals. Privi started manufacturing aroma chemicals with only two products, which it gradually expanded to a range of over 50 products today, with a capacity of over 31 ktpa. Its products are used as fragrance additives in perfumes, soaps, shampoos and packaged food. Privi enjoys a dominant position and economies of scale in its product categories. Privi also develops and produces custom-made aroma chemicals to specific requirements of its customers. Privi sources most of its raw materials from pulp and paper companies globally and competes primarily with pure play and niche suppliers such as IFF, 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 81 people comprised of PhDs in chemistry, chemical engineers and instrumentation engineers. The research specialists continuously strive to develop new products and processes. Importantly, one of the R&D labs is completely focused on developing, through biotechnology, green products and green technologies in technical collaboration with the University Institute of Chemical Technology, Mumbai.

Privi has made significant investments in manufacturing facilities that convert a waste product in pulp and paper manufacturing, crude sulphated turpentine (CST), into aroma chemicals. CST, a more cost-effective raw material than the more traditional plant-based gum turpentine oil (GTO), is procured through annual contracts, while GTO has to be purchased on volatile spot markets.

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

It was an outstanding year for Privi.

Reorganization of the Fairchem Speciality companies: In 2019 Fairchem Speciality announced its intention to divide its two businesses described above, currently functioning independently but under one listed corporate entity, into two separate companies, with each to be listed on the Indian stock exchanges. Fairchem Speciality believes that this is now the best structure for its operations because:

- Each business now has the critical mass to operate independently.
- Each business will be able to create its own business platform and identity and focus on its own business, thereby achieving even greater growth.
- The equity participation offered by each business, listed separately, will better incentivize key people as rewards will be more closely correlated to performance.
- Each business will have greater flexibility to raise and invest capital according to its own needs.

The reorganization is subject to regulatory approvals and is expected to be completed in 2020.

Seven Islands Shipping (SISL)

Founded in 2004 by Captain Thomas Wilfred Pinto, SISL owns and operates tanker shipping vessels that sail primarily along the Indian coast as well as in international waters. SISL is the second largest private tanker shipping company in India.

In March 2019 Fairfax India acquired a 41.4% equity interest in SISL for $72 million through a direct subscription of $29 million and a secondary acquisition from existing shareholders of $43 million. In September and October 2019, Fairfax India acquired an additional 7.1% from existing shareholders for $12 million, bringing our total ownership interest to 48.5%. At this price, SISL is valued, based on year ended March 31, 2019 numbers, at an EV/EBITDA multiple of 8.9 times, a price to earnings multiple of 32 times and a price to BVPS multiple of 1.7 times.

Captain Pinto is a passionate entrepreneur and operator. We first met Captain Pinto in August 2018 and over the course of the next few months developed a deeper appreciation of the business and his aspirations for the company. He started his career in 1979 as a sailor with India Steamship Company and sailed for about 20 years, with about 10 years as the captain. In 1998, he joined Mercator Lines Limited as a marine superintendent. In 2003, Captain

Pinto acquired his first vessel for about $650,000 and incorporated SISL as a public limited company in 2004 to avail of various government incentives. Under his leadership, SISL has successfully navigated shipping cycles by opportunistically acquiring vessels at deep discounts during the down-cycles and deploying them immediately on a time charter basis (guaranteed revenue model) to achieve a 4-5 year pay-back. At all times, the company has managed its capital structure prudently and has relied extensively on internal accruals as well as bank debt to expand its fleet.

At the time of our initial transaction, SISL owned 14 vessels with a total deadweight capacity of about 1 million metric tons. Today SISL owns 19 vessels with a capacity of about 1.2 million metric tons. All of SISL's vessels are registered in India and operate as Indian-owned and flagged vessels.

SISL focuses on the pre-owned vessel market. It identifies good quality vessels (generally manufactured in Japan or South Korea and owned by European companies) and acquires them opportunistically at significantly lower valuations during periods of distress in the industry. Typically, the opportunity to acquire vessels at deep discounts arise during downturns or times of significant overcapacity in the industry or due to a case-specific distress sale.

Historically, SISL bought vessels that were 20-21 years old and operated them till they reached about 29-30 years of age. For operations along the Indian coast, the freight rates are based purely on bids and there is no distinction between old and new vessels. SISL benefits from lower upfront capital investment and enjoys the same charter rates as those of the younger ships. The operating and maintenance costs for its fleet are not significantly different from those of the younger ships. The average age of the current fleet is about 19 years and SISL aims to bring this down to about 16 years over the next few years.

SISL enters into two types of arrangements for the deployment of its vessels: time charter contracts that are entered into for a specific duration of time, wherein the charterer uses the vessel for a fixed charter rate expressed in U.S. dollars per day; and voyage charter contracts, wherein the charterer uses the vessel for a specific voyage and the charges are fixed in U.S. dollars.

SISL originally deployed vessels only on a time charter basis, diversifying into voyage charters more recently. Over the past three years, revenues from time charter contracts accounted for about 70% of SISL's total revenues.

SISL typically does not buy vessels until it has visibility of deployment. At any given time, a newly acquired vessel does not stay idle for more than 20 days. This leads to consistently strong cash flow generation for each vessel. Leveraging its strong cash flow profile, SISL has undertaken prudent external borrowing to fund its fleet expansion. SISL's average debt to equity ratio for the past ten years has been about 1.2:1.

Indian Oil Corporation, Hindustan Petroleum Corporation and Bharat Petroleum Corporation, all majority owned by the Government of India, are SISL's top three customers. Strategically, SISL does not deal with corporate groups that are slow payers.

For the oil companies, the overall logistics costs to transport oil are less than 2% of their revenues. However, service quality and service timelines are critical. Hence, these oil companies run transparent bidding competitions to award the logistics contracts and always pay on time, resulting in predictable working capital management for the fleet operators.

SISL has a small and efficient operations team consisting of about 70 core employees at the head office who manage the entire business. Crew scheduling, contracting, repair and maintenance operations are all managed by the company staff. In-house maintenance provides direct visibility to the actual condition of the vessels and helps maintain quality at a lower cost while reducing repair-related downtime. SISL engages, on contract, an approximate 25-member crew for the operation of each vessel.

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

In order to assist Indian shipping companies to compete with their global counterparts, the government has implemented tax provisions that have resulted in SISL enjoying effective tax rates of 2.4% for the past five years, resulting in higher cash flow. SISL has obtained a ruling from the Indian tax authorities that it is entitled to the beneficial tax regime until the year ending March 31, 2026, so the lower tax rate is applicable at least until that time.

In 2019, SISL's revenues grew by 26% to $82 million, net income grew by 57% to $12 million and shareholders' equity, including our capital injection, grew 52% to $112 million, generating an ROE of 11%.

We are very excited about the prospects for SISL.

National Stock Exchange of India (NSE)

In July 2016, Fairfax India acquired a 1% stake in NSE for $26.8 million. NSE is the largest stock exchange in India with a market share of over 93% in cash equity trading and 100% in equity derivatives trading. With approximately 200,000 terminals in over 2,000 centres, NSE provides trading facilities with national reach. The exchange uses the latest communications technology for automated screen-based trading. In 2019, NSE's revenues grew 13% to $545 million, net income grew 8% to $261 million and shareholders' equity grew 11% to $1.2 billion, generating an ROE of 22%. Our investment is currently valued at $57.2 million. The planned IPO of NSE has been delayed and is now expected sometime in 2020 or 2021.

IIFL Securities (IIFL SEC)

IIFL SEC is one of the major capital market players in Indian financial services. It offers advisory and broking services (both retail and institutional), financial products distribution, institutional research and investment banking services. It operates in over 2,500 locations across India, comprised of a wide branch and sub-broker network providing unparalleled research coverage on over 200 companies. It serves over 800,000 customers and has a strong online presence. Mobile trading has significantly aided in increasing the number of customers: mobile trading clients in 2019 accounted for 54% of trading.

IIFL SEC was founded in 1996 and became a member of the Indian stock exchanges in 2000. Since its founding it has housed all the businesses of IIFL Holdings, the company that Fairfax India originally invested in, except for the NBFC and wealth management. However, in September 2019 with the demerger of IIFL Holdings into three separate companies, IIFL SEC became a separate company listed on the Indian stock exchanges and Fairfax India became a direct shareholder with a 26.5% ownership interest. It is serendipitous that one of IIFL SEC's most senior executives is H. Nemkumar, as it is through him that we first got to know of the IIFL group; he is a very trusted advisor to us and has been a key resource for us in all of Fairfax Financial and Fairfax India's capital markets dealings in India.

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

- Retail broking and financial products distribution (70% of revenue) – in retail broking it has established itself as a leading institution through a combination of leading-edge technology, diverse product offerings, management expertise, and a wide network of branches across India. IIFL Securities' mobile trading app, IIFL Markets, targeting retail clients continues to be the highest rated amongst peers with over 3.3 million downloads. Mobile brokerage constituted about 43% of total broking revenue. IIFL Securities' mutual fund app had over 890,000 downloads in 2019 and is steadily building on its customer base. In financial products distribution, it offers retail clients a wide range of products including mutual funds, insurance, IPOs and debt instruments.

- Institutional broking (21% of revenue) – it is a leading independent (not associated with any international bank) broker, with a highly acclaimed, pedigreed 80-member strong sales and research team that covers over 200 Indian companies accounting for about 80% of India's market capitalization. It is a market leader in block sales placements, placing over $15 billion in blocks over the past five years. It has more than 600 domestic and foreign clients and has developed trusted long-term relationships with them through sustained high-quality performance.

- Investment banking (5% of revenue) – it is a highly regarded category 1 merchant banker in India and despite volatile markets, completed 21 transactions in 2019, including 6 IPOs. It continues to have a substantial pipeline of transactions which are at various stages of execution.

IIFL SEC also owns a portfolio of commercial properties, rented mostly to group companies, with a current market value of about $100 million (amounting to about 50% of its market capitalization), that generates rental income of approximately $7.5 million. These assets may be monetized in the future.

In 2019, due to weak sentiment among investors as a result of a slowing economy, IIFL SEC's revenues declined 14% to $113 million and profit before tax (before exceptional items) declined 30% to $30 million. The stock started trading at listing at about 42 rupees per share, subsequently declined to about 22 rupees per share, and has since recovered to about 60 rupees per share, implying a price to earnings ratio of 8.1 times 2019 earnings and a price to BVPS ratio of 2.1 times. Over the last four years IIFL SEC has generated an average ROE of 29%.

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

Saurashtra Freight (Saurashtra)

In February 2017 Fairfax India invested $30 million to acquire a 51% interest in Saurashtra. $18 million of the $30 million was used to purchase part of the founder's stake; the remaining $12 million was invested directly into Saurashtra. After the completion of the transaction, Saurashtra was left with about $22 million of cash, which it intended to use to pursue its acquisition plans.

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

Launched in 2005, Saurashtra is located five kilometers from Mundra port. With 24/7 operations, Saurashtra has the capacity to handle 180,000 TEUs (twenty-foot equivalent unit shipping containers) per annum and handled about 100,000 TEUs in 2019, implying capacity utilization of about 54%. It has achieved a market share of about 14% at Mundra port, the highest among all CFSs there.

Despite the significant headwinds and challenges described below, Saurashtra, under the able leadership of Raghav Agarwalla and Ashutosh Maheshwari, produced reasonable financial results in 2019. Volume of containers handled dropped 4% to about 100, 000 TEUs and while revenues declined by 1.7% to $21 million, net profit from a depressed level the previous year grew by 323% to $3.9 million. Saurashtra generated $5 million of free cash in 2019, and at year end had a cash balance of $18 million and no debt. In the five years prior to our acquisition of Saurashtra in 2017, revenue and EBITDA had grown at 17% and 18% per annum respectively, generating a 17% average ROE. However, as of 2019, performance has eroded significantly from the time of our investment. Based on three-year compounded numbers to 2019, revenue grew by 13% and EBITDA declined by 5%, generating an average ROE of 3%. Raghav's efforts to grow the business inorganically through acquisitions have not been successful because he has been unable to find good businesses at reasonable valuations. We are working with Raghav on alternatives to remedy this situation.

The headwinds faced by the industry are due to reduced export volumes in Mundra port as a result of the temporarily depressed economic conditions and larger volumes of import cargo being routed through captive CFSs of shipping lines. This situation is exacerbated by additional CFS capacity that has been created at Mundra port resulting in significant pricing and margin pressure for all CFS operators.

Further, India, in its zeal to improve its "ease-of-doing-business" scores, has implemented changes in its customs clearance processes that simplify the steps and improve the speed at which goods clear customs both for exporters and importers. This reduces the "dwell" time of goods in CFSs, reducing their revenues. Also, some exporters have adopted the "self-sealing exports" methodology which enables them to send their goods directly from their factory to the port, completely bypassing CFSs.

Fairfreight Lines, the non-vessel operating common carrier (NVOCC) business that Saurashtra launched in 2017, has made good progress, though it also faced headwinds as the result of reduced trade volume between India and the Arab Gulf region. It now accounts for about 19% of Saurashtra's sales and 7% of net income.

5paisa Capital (5paisa)

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

5paisa has sustained a strong pace of client acquisition since inception in 2016, taking its total client base to 424,000 in 2019. The 5paisa mobile app has been hugely popular, in 2019 recording over 3,600,000 downloads and sustaining a rating of 4.2 on Playstore.

IIFL Holdings spun off 5paisa in 2017 and Fairfax India owns a 26.6% equity interest in it. While it is a small startup, it is growing at about 100% a year and will continue to make losses until it reaches a critical mass of users. However, it has the potential to be a major player in digital discount broking and financial products distribution.

Financial Position

Fairfax India came into being about five years ago on January 30, 2015, when it issued 106.7 million shares at $10.00 per share, raising gross proceeds of $1.03 billion by completing a public offering, a placement to cornerstone investors and an issue to Fairfax Financial. In September 2016, the company arranged a $225 million two-year secured loan from a syndicate of Canadian banks. In January 2017 Fairfax India issued 42.6 million shares at $11.75 per share in a public offering and a concurrent private placement to OMERS and Fairfax Financial, raising gross proceeds of $500 million. In March 2017, the company repaid its $225 million term loan to the syndicate of Canadian banks, and then in July 2017 it arranged a $400 million one-year secured loan from a Canadian bank. In June 2018 Fairfax India replaced its expiring secured loan with a $550 million, one-year secured loan, with an option to extend for an additional year, with a syndicate of Canadian banks. Including the approximately $227 million of the proceeds of the Sanmar loan repayment less current investment commitments, Fairfax India currently has about $286 million plus an unused credit line of $50 million for new investments and ongoing expenses.

At December 31, 2019, the financial position of Fairfax India was as follows:

	($ millions)
Undeployed cash and investments(1)	286
Unused line of credit	50
Secured term loan (from a syndicate of Canadian banks, maturing in June 2021)	550
Common shareholders' equity	2,571.8
Total debt to equity	21.3%

(1) Includes passive investments in publicly traded Indian companies

Developments in India

In the three years since the end of 2016, India has moved up by 67 places to number 63 in the World Bank Business Report's ''ease of doing business'' measure. According to a World Bank director, this is the third year in a row that India has made it to the top 10 ''improvers'' in doing business, a success that very few countries have achieved over the 20 years since the project was started. At this rate India could in the not too distant future be among the top 50 countries in which to do business. This is a testament to the unrelenting economic reforms that Prime Minister Modi has been implementing since he took office almost five years ago.

However, 2019 has been a year of opposites in India.

In the national elections held in May 2019, Prime Minister Modi won a massive and decisive mandate to lead the country for another five-year term. Beating all predictions, his BJP party again won an absolute majority in the parliament, taking 303 out of the 542 seats. In the previous election the party had won 282 seats, also an absolute majority. This will give him the needed majority to implement reforms that will drive the economy with his business-friendly policies. On the other hand, his party lost elections in many states, among them Rajasthan, Madhya Pradesh, Maharashtra, Jharkhand and Delhi, both before and after the national elections.

The Indian stock markets performed well in 2019 with a return of 11.9% for the large cap US$ S&P BSE Sensex. On the other hand, economic growth decelerated sharply, with the July to September 2019 quarter growth declining to a 26 quarter low of 4.5%, and with the economy now forecast to grow by only 5.0% for the year ending March 31, 2020. The economy in the previous year had returned to a growth level of 6.8% after it had overcome the twin shocks of demonetization and implementation of the GST. The economic slowdown appears to have started with the withdrawal of easy credit for consumers, SMEs and real estate developers when, after the September 2018 default of IL&FS, funding became difficult for NBFCs that were providing the easy credit. This appeared to fuel a downward spiral: consumer spending growth slowed and sales in many consumer sectors like automobiles cratered, resulting in production cuts and plant shutdowns that led to job losses which then led to further depressed consumer spending.

The Monetary Policy Committee (MPC) cut policy rates by 135 basis points (bps) over five consecutive meetings, starting from February 2019. However, bank lending rates moderated by only about 45bps during this period due to bank deposit rates that did not fall in tandem with the policy rates, tight liquidity conditions and poor lender and business confidence. The RBI through its Open Market Operations is trying to flatten the yield curve (defined as the spread between the 10-year government bond yield and the 3-month Treasury Bill yield) in order to pressure bank lending rates lower. These transactions have so far had only a modest impact on long term bond yields.

India received above normal rainfall in the recent monsoon season and several regions were flooded due to excessive rains. Successive weather disruptions – drought in the October to March 2018/19 crop season (called Rabi) and floods in the July to October 2019 crop season (called Kharif) – resulted in poor crops and drove a sharp acceleration in food price inflation, especially for vegetables. Food price inflation climbed to a six-year high of 12.2% in December 2019 as a result of higher inflation in categories like vegetables (about 60%) and pulses (about 15%). This pushed the headline CPI inflation rate to 7.4% in December 2019, a level of inflation which is outside MPC's mandated inflation target range of 2% to 6% and caused it to suspend the monetary easing cycle. The MPC is now balancing policy to try and address high inflation and weak economic growth.

However, good news seems to be on the horizon. High reservoir levels and soil moisture levels point to a good Rabi harvest that could cool inflation and revive consumer demand. A fall in the CPI could enable and encourage the MPC to initiate one more policy rate cut. Therefore, while 2019 was a tough year for the Indian economy, recent early data indicates that the downward trend in some key economic indicators have bottomed and there are some early signs of a turnaround. The worst may be behind us, and we may see a gradual consumption driven recovery.

During 2019 the government announced several measures to reverse slowing growth momentum:

- Corporate tax rate cut – In September 2019 the government announced corporate tax cuts, reducing tax rates from about 35% to about 25%. Companies could either claim exemptions and tax benefits and continue with existing tax rates or switch to new lower tax rates but forego exemptions and other tax benefits.
- Roll back of surcharge on capital gains tax of alternate investment funds (AIF) and foreign portfolio investors (FPI) – In August 2019 the government rolled back the unintended increase in surcharges on capital gains tax of AIFs and FPIs.
- AIF to assist completion of stalled real estate projects – The government announced that it would set up an AIF, with initial funding of about $1.4 billion, for providing last mile funding for the completion of construction of stalled residential apartment projects. Government-owned financial institutions, like the Life Insurance Corporation of India (LIC) and the State Bank of India (SBI), and other financial institutions were expected to provide additional funding of about $2.1 billion by participating in the AIF.
- Merger of public sector unit (PSU) banks – The government merged ten relatively small PSU banks into four large PSU banks. It also announced the release of about $10 billion for the recapitalization of PSU banks.

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

We are looking forward to seeing you at our annual meeting at 2:00 p.m. (Eastern time) on April 16, 2020 at Roy Thomson Hall, 60 Simcoe Street, Toronto, Canada. Once again you will have the opportunity to meet the excellent leaders of many of our companies: Raghav Agarwalla (Saurashtra Freight), Mahesh Babani (Privi), Sumit Bali (IIFL Finance), Karan Bhagat (IIFL Wealth), Siraj Chaudhry (NCML), Nirmal Jain (IIFL Group), Nahoosh Jariwala (Fairchem Speciality), Hari Marar (Bangalore International Airport), Captain Pinto (Seven Islands Shipping), C.V.R. Rajendran (CSB Bank), Vijay Sankar (Sanmar Chemicals Group), and R. Venkataraman (IIFL Group).

March 6, 2020

Chandran Ratnaswami
Chief Executive Officer

V. P. Watsa

V. Prem Watsa
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 of Financial Condition and Results of Operations (''MD&A'') and all financial information are the responsibility of management and have been approved by the Board of Directors (the ''Board'').

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 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 and reviews the consolidated financial statements and MD&A; considers the report of the independent auditor; 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 auditor for appointment by the shareholders. The independent auditor has full 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 6, 2020

Chandran Ratnaswami
Chief Executive Officer

Amy Sherk
Chief Financial Officer

Independent Auditor's Report

To the Shareholders of Fairfax India Holdings Corporation

Our opinion
In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Fairfax India Holdings Corporation and its subsidiaries (together, the Company) as at December 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

What we have audited

The Company's consolidated financial statements comprise:

- the consolidated balance sheets as at December 31, 2019 and 2018;
- the consolidated statements of earnings for the years then ended;
- the consolidated statements of comprehensive income for the years then ended;
- the consolidated statements of changes in equity for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion
We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

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

Independence

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

Other information
Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis of Financial Condition and Results of Operations and the information, other than the consolidated financial statements and our auditor's report thereon, included in the annual report. The other information does not include information contained in the websites of the Company's Indian investments as disclosed in the annual report.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated financial statements
Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with 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.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements
Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Steven Wilson.

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Ontario
March 6, 2020

Consolidated Financial Statements

Consolidated Balance Sheets
as at December 31, 2019 and December 31, 2018
(US$ thousands)

	Notes	December 31, 2019	December 31, 2018
Assets			
Cash and cash equivalents	6, 15	48,713	21,240
Restricted cash	6, 7	16,915	13,833
Bonds	5, 6	138,425	576,386
Common stocks	5, 6	3,032,907	2,084,961
Total cash and investments		3,236,960	2,696,420
Interest receivable		3,453	7,039
Income taxes refundable	10	2,866	2,930
Other assets		1,658	668
Total assets		3,244,937	2,707,057
Liabilities			
Accounts payable and accrued liabilities		1,174	1,034
Payable for partly paid securities	5	–	29,827
Payable to related parties	12	50,519	8,827
Deferred income taxes	10	64,477	689
Income taxes payable	10	3,688	1,507
Borrowings	7	547,228	547,228
Total liabilities		667,086	589,112
Equity			
Common shareholders' equity	8	2,577,851	2,117,945
		3,244,937	2,707,057

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, 2019 and 2018
(US$ thousands except per share amounts)

	Notes	2019	2018
Income			
Interest	6	4,859	21,659
Dividends	6	10,141	8,699
Net realized gains (losses) on investments	6	181,123	(7,985)
Net change in unrealized gains on investments	6	530,372	178,998
Net foreign exchange losses	6	(13,806)	(34,853)
		712,689	166,518
Expenses			
Investment and advisory fees	12	27,473	33,908
Performance fee	12	48,514	–
General and administration expenses	14	5,300	4,079
Interest expense	7	38,781	28,898
		120,068	66,885
Earnings before income taxes		592,621	99,633
Provision for income taxes	10	76,283	3,201
Net earnings		516,338	96,432
Net earnings per share	9	$ 3.38	$ 0.63
Net earnings per diluted share	9	$ 3.30	$ 0.63
Shares outstanding (weighted average)	9	152,654,875	153,108,655

See accompanying notes.

Consolidated Statements of Comprehensive Income

for the years ended December 31, 2019 and 2018
(US$ thousands)

	2019	2018
Net earnings	516,338	96,432
Other comprehensive loss, net of income taxes		
Item that may be subsequently reclassified to net earnings		
Unrealized foreign currency translation losses, net of income taxes of nil (2018 – nil)	(53,445)	(193,141)
Other comprehensive loss, net of income taxes	(53,445)	(193,141)
Comprehensive income (loss)	462,893	(96,709)

See accompanying notes.

Consolidated Statements of Changes in Equity

for the years ended December 31, 2019 and 2018
(US$ thousands)

	Subordinate voting shares	Multiple voting shares	Share-based payments, net	Retained earnings	Accumulated other comprehensive income (loss)	Common shareholders' equity
Balance as of January 1, 2019	1,297,426	300,000	(93)	684,842	(164,230)	2,117,945
Net earnings for the year	–	–	–	516,338	–	516,338
Other comprehensive loss:						
Unrealized foreign currency translation losses	–	–	–	–	(53,445)	(53,445)
Purchases for cancellation (note 8)	(2,421)	–	–	(577)	–	(2,998)
Purchases and amortization	–	–	11	–	–	11
Balance as of December 31, 2019	1,295,005	300,000	(82)	1,200,603	(217,675)	2,577,851
Balance as of January 1, 2018	1,206,512	300,000	(64)	597,105	28,911	2,132,464
Net earnings for the year	–	–	–	96,432	–	96,432
Other comprehensive loss:						
Unrealized foreign currency translation losses	–	–	–	–	(193,141)	(193,141)
Issuance of shares (note 8)	114,437	–	–	–	–	114,437
Purchases for cancellation (note 8)	(23,523)	–	–	(8,695)	–	(32,218)
Purchases and amortization	–	–	(29)	–	–	(29)
Balance as of December 31, 2018	1,297,426	300,000	(93)	684,842	(164,230)	2,117,945

See accompanying notes.

Consolidated Statements of Cash Flows

for the years ended December 31, 2019 and 2018
(US$ thousands)

	Notes	2019	2018
Operating activities			
Net earnings		516,338	96,432
Items not affecting cash and cash equivalents:			
Net bond premium amortization		68	371
Deferred income taxes	10	64,689	705
Amortization of share-based payment awards		96	75
Net realized (gains) losses on investments	6	(181,123)	7,985
Net change in unrealized gains on investments	6	(530,372)	(178,998)
Net foreign exchange losses	6	13,806	34,853
Net increase in restricted cash in support of borrowings		(3,082)	(3,235)
Net (purchases) sales of short term investments		(30)	27,836
Purchases of investments	15	(563,952)	(240,661)
Sales of investments	15	666,407	144,213
Changes in operating assets and liabilities:			
Interest receivable		3,480	1,610
Payable to related parties		42,314	8,770
Income taxes payable		2,220	1,440
Other		5,739	5,783
Cash provided by (used in) operating activities		36,598	(92,821)
Financing activities			
Borrowings:			
Proceeds	7	50,000	550,000
Issuance costs	7	(5,545)	(5,545)
Repayments	7	(50,000)	(400,000)
Subordinate voting shares:			
Purchases for cancellation	8	(2,998)	(32,218)
Cash provided by (used in) financing activities		(8,543)	112,237
Increase in cash and cash equivalents		28,055	19,416
Cash and cash equivalents – beginning of year		21,240	13,244
Foreign currency translation		(582)	(11,420)
Cash and cash equivalents – end of year		48,713	21,240

See accompanying notes.

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Notes to Consolidated Financial Statements

for the years ended December 31, 2019 and 2018
(in US$ and thousands except share and 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 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 based in Mauritius, FIH Mauritius Investments Ltd (''FIH Mauritius'') and FIH Private Investments Ltd (''FIH Private''). In June 2019 the company formed Anchorage Infrastructure Investments Holdings Limited (''Anchorage''), a wholly-owned subsidiary of FIH Mauritius based in India.

Fairfax Financial Holdings Limited (''Fairfax'') is Fairfax India's ultimate parent and acts as its administrator. Fairfax is a holding company which, through its subsidiaries, is engaged in property and casualty insurance and reinsurance and the associated investment management. 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. Refer to note 12 for details on Fairfax's voting rights and equity interest in the company.

The company is federally incorporated 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, 2019 have been prepared in accordance with International Financial Reporting Standards (''IFRS'') as issued by the International Accounting Standards Board (''IASB''). The company has determined that it continues to meet the definition of an investment entity under IFRS (see note 3).

The consolidated balance sheets of the company are presented on a non-classified basis. Except for bonds, common stocks, deferred income taxes, and the performance fee accrual within payable to related parties (see note 12 for further details on the performance fee accrual), all other assets expected to be realized and liabilities expected to be settled within the company's normal operating cycle of one year are considered current.

The preparation of the company's consolidated financial statements requires management to make a number of estimates and judgments 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 6, 2020.

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 as set out below.

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 fair value through profit or loss (''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 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 Indian Investments (''Private Indian Investments'', as disclosed later in note 5) either through initial public offerings (''IPO'') or private sales. For publicly traded Indian Investments (''Public Indian Investments'', as disclosed later in note 5), exit strategies may include selling the investments through private placements or in public markets.

Consolidation

Subsidiaries – A subsidiary is an entity that the company controls. The company controls an entity when it has power over the entity, 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. As an investment entity the company is required to account for its investments in subsidiaries (Fairchem Speciality Limited (''Fairchem'', comprised of Fairchem and Privi Organics Limited (''Privi'')), National Collateral Management Services Limited (''NCML''), and Saurashtra Freight Private Limited (''Saurashtra'')) at FVTPL in accordance with IFRS 9 *Financial Instruments* (''IFRS 9'') rather than by consolidation.

As FIH Mauritius and FIH Private continue to be consolidated all intercompany balances, profits and transactions with these subsidiaries are eliminated in full.

Investments in associates

An associate is an entity over which the company has the ability to exercise significant influence, but not control. As an investment entity, the company accounts for its investments in associates (IIFL Finance Limited (''IIFL Finance'', formerly known as IIFL Holdings Limited), IIFL Securities Limited (''IIFL Securities''), CSB Bank Limited (''CSB Bank'', formerly known as The Catholic Syrian Bank Limited), 5paisa Capital Limited (''5paisa''), Bangalore International Airport Limited (''BIAL''), Sanmar Chemicals Group (''Sanmar'') and Seven Islands Shipping Limited (''Seven Islands'')) at FVTPL in accordance with IFRS 9 rather than under the equity method of accounting.

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's Indian Investments 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. Non-monetary items carried at cost are translated using the exchange rate at the date of the transaction. Non-monetary items carried at fair value are translated using the exchange rate at the date the fair value is determined.

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 using exchange rates at the balance sheet dates;
- income and expenses are translated at average exchange rates for the periods presented; and
- 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 common shareholders' 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 taxes, 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) is included in the consolidated balance sheets as a component of common shareholders' equity.

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 consist 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 that is 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 Canadian banks to support the borrowings (see note 7). The carrying value of restricted cash approximates fair value.

Total Cash and Investments

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

Classification – Short term investments, derivatives, bonds and common stocks are classified as FVTPL. The company manages these investments on a fair value basis, using fair value information to assess investment performance and to make investment decisions.

Recognition and measurement – The company recognizes purchases and sales of investments on the trade date, the date on which the company commits to purchase or sell the investment. Transactions pending settlement are reflected on the consolidated balance sheets as payable for partly paid securities. Transaction costs related to investments classified as FVTPL are expensed as incurred in the consolidated statements of earnings. The company recognizes cash and investments at fair value upon initial recognition.

Subsequent to initial recognition, investments classified as FVTPL are measured at fair value with changes in fair value reported in the consolidated statements of earnings as income comprised of interest, dividends, net realized gains (losses) on investments and net change in unrealized gains (losses) on investments. Interest represents interest income on short term investments and bonds (except for Sanmar bonds where estimated interest income was included in its fair value measurement (see note 5)) calculated using the effective interest method, net of investment expenses and includes bank interest. Calculation of a debt instrument's effective interest rate does not consider expected credit losses and requires estimates of future cash flows considering all contractual terms of the financial instrument including the stated interest rate, discount or premium, and any origination or structuring fees. Interest receivable is shown separately on the consolidated balance sheets based on the debt instruments' stated rates of interest. Dividends represent dividends received on holdings of common stocks and are recognized when the company's right to receive payment is established. All other changes in fair value are reported in net realized gains (losses) on investments and net change in unrealized gains (losses) on investments in the consolidated statements of earnings. For short term investments and bonds, the sum of interest income, net realized gains (losses) on investments and net change in unrealized gains (losses) on investments is equal to their total change in fair value for the reporting period.

Interest, dividends, net realized gains (losses) on investments and net change in unrealized gains (losses) on investments are reported as operating activities in the consolidated statements of cash flows.

Derecognition – 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 – Highly liquid debt instruments with maturity dates between three and twelve months when purchased are classified as short term investments.

Bonds – Debt instruments with maturity dates greater than twelve months when purchased, or illiquid debt instruments with maturity dates of less than twelve months when purchased, are classified as bonds. The carrying value of bonds excludes the debt instrument's accrued interest receivable at the stated rate of interest (except for Sanmar bonds where estimated interest receivable is included in its fair value measurement (see note 5)).

Derivatives – Derivatives represent forward contracts and warrants, which derive their value primarily from changes in underlying equity instruments. The fair value of derivatives in a gain position are presented on the consolidated balance sheets within total cash and investments, as derivatives. The fair value of derivatives with no upfront cost and in a loss position are presented on the consolidated balance sheets in derivative obligations. The initial premium paid for a derivative contract, if any, would be recorded as a derivative asset and subsequently adjusted for changes in the fair value of the contract at each reporting date. Changes in the fair value of derivatives are recorded within net change in unrealized gains (losses) on investments in the consolidated statements of earnings.

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

Level 1 – Inputs represent unadjusted quoted prices for identical instruments exchanged in active markets. The fair values of the company's Public Indian Investments that are not subject to selling restrictions are based on published quotes 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. The fair values of the company's investments in Government of India and Indian corporate bonds are based on information provided by independent pricing service providers.

Level 3 – Inputs include unobservable inputs that require management 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. The fair values of the company's Public Indian Investments subject to selling restrictions are based on published quotes in active markets, net of a discount for lack of marketability, which is not a market observable input. The majority of the company's Private Indian Investments are based on discounted cash flow models and recent third party transactions which utilize inputs that are not market observable such as after-tax discount rates, long term growth rates, and third party transaction prices.

Transfers between fair value hierarchy levels are considered effective from the beginning of the annual 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).

Net realized gains (losses) on investments, and Net change in unrealized gains (losses) on investments

Where a financial instrument continues to be held by the company at the end of a reporting period, changes in the fair value of that instrument during the reporting period, excluding those changes reported as interest and dividends, are presented in net change in unrealized gains (losses) on investments. On disposition of that financial instrument, its inception-to-date net gain (loss), excluding those changes previously reported as interest and dividends, is presented as net realized gains (losses) on investments in the consolidated statements of earnings. The cumulative unrealized net gain (loss) recognized in prior periods on that financial instrument is then reversed in net change in unrealized gains (losses) on investments in the consolidated statements of earnings. The sum of the net realized gain (loss) and the cumulative reversal of prior period unrealized gains (losses) equals that financial instrument's net gain (loss) on investment for the current reporting period.

Performance fees

Performance fees are estimated and accrued at the end of each reporting period within the calculation period. An estimate is also made for the number of shares to be issued, if any, on settlement for the purposes of the calculation of diluted earnings per share based on the volume-weighted average trading price of the company's subordinate voting shares for the 10 trading days prior to and including the last day of the reporting period. The amount of the performance fee payable and the subordinate voting shares to be issued which are determined at the end of each calculation period, if any, may differ when performance fee is settled in accordance with the terms as disclosed in note 12.

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 when related to items recognized in other comprehensive income (loss) or directly in equity. In those cases, income taxes are also recognized in other comprehensive income (loss) 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 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 (loss) are recognized in other comprehensive income (loss) 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 on unremitted earnings from the company's subsidiaries' holdings of Indian Investments where the company has determined it is not probable that those earnings will be repatriated in the foreseeable future.

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

Borrowings

Borrowings are initially recognized at fair value, net of incremental and directly attributable transaction costs, and subsequently measured at amortized cost. Interest expense on borrowings is recognized in the consolidated statements of earnings using the effective interest method. Borrowings are derecognized when extinguished, with any gain or loss on extinguishment recognized in other expenses in the consolidated statements of earnings.

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 purchase for cancellation of equity instruments are recognized in equity, net of tax.

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 salaries and employee benefit expenses, included in general and administration expenses in the consolidated statements of earnings, 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.

Net earnings (loss) per diluted share

Diluted net earnings (loss) per share is calculated in the same manner as basic net earnings (loss) per share except that the weighted average number of subordinate and multiple voting shares outstanding during the period is adjusted for the dilutive effect, if any, of the contingently issuable subordinate voting shares relating to the performance fee payable to Fairfax (see note 12) that would have been outstanding during the period had all potential subordinate voting shares been issued at the beginning of the period.

New accounting pronouncement adopted in 2019

The company adopted the following amendments, effective January 1, 2019. 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.

IFRIC Interpretation 23 Uncertainty over Income Tax Treatments ("IFRIC 23")

IFRIC 23 clarifies how IAS 12 *Income Taxes* should be applied when there is uncertainty over income tax treatments.

IFRS Annual Improvements 2015-2017

The Annual Improvements amended IAS 12 *Income Taxes* to clarify that the income tax consequences, if any, of dividend distributions are recognized at the same time as the liability to pay those dividends, and that the income tax consequences are recorded in earnings, other comprehensive income, or in equity, according to where the past transactions or events that generated those distributable profits were recorded.

New accounting pronouncements issued but not yet effective

The following new amendments have been issued by the IASB and were not yet effective for the fiscal year beginning January 1, 2019. The company does not expect to adopt any of them in advance of their respective effective dates.

Conceptual Framework for Financial Reporting (''Conceptual Framework'')

On March 29, 2018 the IASB published a revised Conceptual Framework that includes revised definitions of an asset and a liability as well as new guidance on measurement, derecognition, presentation and disclosure. The revised Conceptual Framework does not constitute an accounting pronouncement and will not result in any immediate change to IFRS, but the IASB and IFRS Interpretations Committee will use it in setting future standards. The revised Conceptual Framework is effective for the company beginning on January 1, 2020 and will apply when developing an accounting policy for an issue not addressed by IFRS.

Definition of Material (Amendments to IAS 1 and IAS 8)

On October 31, 2018 the IASB issued amendments to IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* to clarify the definition of ''material''. The amendments are applied prospectively on or after January 1, 2020 and are not expected to have a significant impact on the company's consolidated financial statements.

Classification of Liabilities as Current or Non-current (Amendments to IAS 1)

On January 23, 2020 the IASB issued amendments to IAS 1 *Presentation of Financial Statements* to clarify the criteria for classifying a liability as non-current. The amendments are applied retrospectively on or after January 1, 2022 and are not expected to have a significant impact on the company's consolidated financial statements.

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.

Valuation of Private Indian Investments

The valuation of the company's Private Indian Investments are assessed at the end of each reporting period.

For each Private Indian Investment acquired during the reporting period, the transaction price is generally considered to be representative of fair value, subject to changes in market conditions and factors specific to the investee. The company monitors various factors impacting the businesses of its investees and the transaction price of a Private Indian Investment may no longer be an appropriate estimate of fair value upon occurrence of certain events such as significant variances from budgeted earnings; changes in market conditions; changes to the regulatory environment; movements in interest rates, foreign exchange rates and other market variables; and the passage of time.

Estimates and judgments for Private Indian 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 Private Indian 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 Indian Investments, including the company's valuation of BIAL, which increased significantly in 2019, inherently has estimation uncertainty and different assumptions could lead to materially different fair values. Significant judgments and assumptions are required to determine the discounted cash flow, including after-tax discount rates, long term growth rates and working capital requirements. Discounted cash flows are subject to a sensitivity analysis given the variability of future-oriented financial information. Refer to notes 5 and 6 for additional disclosure related to the valuation of the company's Private Indian 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 exercised judgment in assessing that unremitted earnings related to its subsidiaries' holdings of Indian Investments, as disclosed in note 10, are not expected to result in taxable amounts as the company has determined it is not probable that those unremitted earnings will be repatriated in the foreseeable future; as a consequence no tax has been recorded in the 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 Fairfax 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 exercised judgment that certain carryforwards of unused losses or unused tax credits and timing differences disclosed in note 10 should not be recognized as a deferred income tax asset as it was considered not probable that those losses could be utilized by the company.

5. Indian Investments

Throughout the company's consolidated financial statements for the year ended December 31, 2019, the term ''Indian Investments'' refers to deployed capital invested in Public and Private Indian Investments as disclosed within this note.

Summary of Changes in the Fair Value of the Company's Indian Investments

A summary of changes in the fair value of the company's Public and Private Indian Investments during 2019 and 2018 were as follows:

	2019								
	Balance as of January 1	Purchases	IIFL Holdings Reorganization	Transfer	Sales / Redemptions	Net realized gains (losses) on investments	Net change in unrealized gains (losses) on investments[1]	Net unrealized foreign currency translation gains (losses)	Balance as of December 31[1]
Public Indian Investments:									
Common stocks:									
IIFL Finance / IIFL Holdings[2]	613,458	–	(282,753)	–	–	36,112	(196,040)	(4,763)	166,014
IIFL Wealth[2]	–	–	191,443	–	–	–	4,620	(4,587)	191,476
IIFL Securities[2]	–	–	91,310	–	–	–	(40,916)	(1,598)	48,796
CSB Bank[3]	93,081	80,987	–	–	(19)	(45)	60,901	(5,643)	229,262
Fairchem	96,574	–	–	–	–	–	33,412	(2,573)	127,413
5paisa[4]	11,913	6,483	–	–	–	–	12	(232)	18,176
Other	98,180	–	–	–	(36,907)	7,115	30,182	(2,678)	95,892
Total Public Indian Investments	913,206	87,470	–	–	(36,926)	43,182	(107,829)	(22,074)	877,029
Private Indian Investments:									
Loan – NCML Loan	–	13,970	–	(13,970)	–	–	–	–	–
Bonds:									
NCML CCD	–	–	–	13,970	–	–	241	75	14,286
Sanmar bonds	392,776	–	–	–	(433,873)	156,540	(107,758)	(7,685)	–
Common stocks:									
BIAL	704,077	–	–	–	–	–	751,487	(25,710)	1,429,854
Sanmar[5]	217,170	178,422	–	–	–	–	23,062	(5,724)	412,930
NCML	165,380	–	–	–	–	–	(41,594)	(3,052)	120,734
Seven Islands	–	83,846	–	–	–	–	7,119	(2,165)	88,800
Saurashtra	24,843	–	–	–	–	–	7,001	(640)	31,204
NSE	60,285	–	–	–	–	–	(1,779)	(1,296)	57,210
IH Fund	–	14,893	–	–	(24)	–	482	(205)	15,146
Derivatives:									
5paisa forward derivative[4]	–	–	–	–	(2,706)	2,767	–	(61)	–
Sanmar forward derivative[5]	–	19,617	–	–	–	(19,816)	–	199	–
Total Private Indian Investments	1,564,531	310,748	–	–	(436,603)	139,491	638,261	(46,264)	2,170,164
Total Indian Investments	2,477,737	398,218	–	–	(473,529)	182,673	530,432	(68,338)	3,047,193

(1) *At December 31, 2019 all Private Indian Investments, and CSB Bank common shares (subject to certain selling restrictions), were classified as Level 3 in the fair value hierarchy. Net change in unrealized gains (losses) on investments classified as Level 3 in the fair value hierarchy related to unrealized gains (losses) on investments held at the end of the reporting period, with the exception of $107,758 of net change in unrealized losses recorded in 2019, related to the reversal of prior period unrealized gains recorded on Sanmar bonds.*

(2) *On May 31, 2019 IIFL Holdings spun off IIFL Wealth and IIFL Securities in the IIFL Holdings Reorganization. The amount recorded in net realized gains on investments was $36,112 (all of which was recognized as unrealized gains on investments in prior periods).*

(3) *On December 4, 2019 CSB Bank closed its IPO and commenced trading on both the BSE and NSE of India.*

(4) *On August 20, 2019 Fairfax India participated in a 5paisa rights offer and acquired additional 5paisa common shares for cash consideration of $3,777. As a result the company derecognized the 5paisa forward derivative asset with a carrying value of $2,706, recorded a realized gain of $2,767 and recorded its investment in 5paisa common shares at a fair value at that date of $6,483.*

(5) *On December 21, 2019 Fairfax India acquired additional Sanmar common shares for cash consideration of $198,039. As a result the company derecognized the Sanmar forward derivative obligation with a carrying value of $19,617, recorded a realized loss of $19,816 and recorded its investment in Sanmar common shares at a fair value at that date of $178,422.*

	2018				
	Balance as of January 1	**Purchases**	**Net change in unrealized gains (losses) on investments[(1)]**	**Net unrealized foreign currency translation gains (losses)**	**Balance as of December 31[(1)]**
Public Indian Investments:					
Common stocks:					
IIFL Holdings	888,485	–	(203,226)	(71,801)	613,458
Fairchem	149,200	–	(40,711)	(11,915)	96,574
5paisa	19,958	–	(6,474)	(1,571)	11,913
Other	–	94,090	4,032	58	98,180
Total Public Indian Investments	1,057,643	94,090	(246,379)	(85,229)	820,125
Private Indian Investments:					
Bonds – Sanmar bonds	333,172	–	90,128	(30,524)	392,776
Common stocks:					
BIAL	608,288	67,391	84,311	(55,913)	704,077
Sanmar	556	–	221,454	(4,840)	217,170
NCML	179,054	–	1,719	(15,393)	165,380
CSB Bank	–	88,524[(2)]	–	4,557	93,081
Saurashtra	28,000	–	(772)	(2,385)	24,843
NSE	40,452	–	24,245	(4,412)	60,285
Total Private Indian Investments	1,189,522	155,915	421,085	(108,910)	1,657,612
Total Indian Investments	2,247,165	250,005	174,706	(194,139)	2,477,737

(1) *At December 31, 2018 all Private Indian Investments were classified as Level 3 in the fair value hierarchy. Net change in unrealized gains (losses) on investments classified as Level 3 in the fair value hierarchy related to unrealized gains (losses) on investments held at the end of the reporting period.*

(2) *Comprised of: (i) 100.0% of the partly paid shares ($37,823); and (ii) 40.0% of the warrants that have been paid for as they had features of in-substance equity ($50,701). Excluded from the table is the payable for partly paid securities of CSB Bank of $29,827 on the consolidated balance sheet which represents the 75.0% remaining consideration to be paid on the partly paid shares.*

Public Indian Investments

The fair values of Fairfax India's Public Indian Investments with shares listed on both the BSE (formerly known as Bombay Stock Exchange Limited) and the National Stock Exchange of India (''NSE of India''), are determined using the bid prices of those investments (without adjustments or discounts) at the balance sheet date, with the exception of CSB Bank common shares which are subject to certain selling restrictions.

Investment in IIFL Holdings Limited / IIFL Finance Limited

IIFL Holdings Limited

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

In December 2015 and February 2017 the company acquired 84,641,445 common shares of IIFL Holdings (representing a 26.9% equity interest) for aggregate cash consideration of $276,734 (approximately 18.5 billion Indian rupees). In October 2017 IIFL Holdings spun off its wholly-owned subsidiary 5paisa Capital Limited (''5paisa'') which resulted in a reduction to the company's cost of its investment in IIFL Holdings by $19,758. Upon closing of this transaction the company had invested $256,976 for a 26.9% equity interest in IIFL Holdings.

On January 31, 2018 IIFL Holdings' board of directors approved a draft plan to reorganize IIFL Holdings into three listed entities. On May 31, 2019 IIFL Holdings spun off its wholly-owned subsidiary IIFL Securities Limited (''IIFL Securities'', comprised of investment brokerage, distribution and investment banking businesses) and its 53.3% equity interest in its subsidiary IIFL Wealth Management Limited (''IIFL Wealth'', comprised of the wealth management and asset management businesses) in a non-cash transaction (the ''IIFL Holdings Reorganization''). Shareholders of IIFL Holdings received seven common shares of IIFL Securities and one common share of IIFL Wealth for every seven IIFL Holdings common shares held. The distribution of new common shares to IIFL Holdings shareholders was characterized as a return of capital which resulted in the company recording the initial cost of its investments in IIFL Securities and IIFL Wealth at their estimated fair values at that date of $91,310 (approximately 6.4 billion Indian rupees) and $191,443 (approximately 13.3 billion Indian rupees) respectively. The fair values of IIFL Securities and IIFL Wealth exceeded Fairfax India's cost basis in IIFL Holdings resulting in the company recording $36,112 in net realized gains on investments (all of which was recognized as unrealized gains on investments in prior periods). The company had recorded unrealized losses on its investment in IIFL Holdings of $132,300 from January 1, 2019 up to the date of the IIFL Holdings Reorganization. Upon completion of the spin off transactions, IIFL Holdings Limited was renamed IIFL Finance Limited (''IIFL Finance'') and continued to trade on the BSE and NSE of India. The shares of IIFL Wealth and IIFL Securities were listed on the BSE and NSE of India in September 2019. Additional details on the IIFL Holdings Reorganization, specific to IIFL Wealth and IIFL Securities, are disclosed later in note 5.

IIFL Finance Limited

IIFL Finance, comprised of a holding company and an 84.5% equity interest in India Infoline Finance Limited (''India Infoline'', an NBFC), is a publicly traded diversified financing company located in Mumbai, India that through its subsidiaries offers home loans, gold loans, business loans (including loans against property and small-to-medium enterprise loans, microfinance, developer and construction finance) and capital market finance.

IIFL Finance has applied for an NBFC license with the Reserve Bank of India (''RBI'') and once obtained it will merge with its subsidiary, India Infoline. Concurrent with the merger, IIFL Finance will issue approximately 75 million common shares of IIFL Finance to the minority shareholders of India Infoline in a share exchange. The merger transaction is expected to close in 2020, at which time Fairfax India's equity interest in IIFL Finance will be diluted to approximately 22%.

At December 31, 2019 the fair value of the company's investment in IIFL Finance was $166,014 comprised of 84,641,445 common shares representing a 26.5% equity interest (December 31, 2018 – 84,641,445 common shares representing a 26.5% equity interest in IIFL Holdings). The changes in fair value of the company's investment in IIFL Finance in 2019 and 2018 aggregated with IIFL Holdings are presented in the tables disclosed earlier in note 5.

Investment in IIFL Wealth Management Limited

IIFL Wealth is a publicly traded wealth management firm with principal lines of business in wealth management and asset management, located in Mumbai, India. The wealth management business serves the highly specialized needs of high net worth and ultra-high net worth individuals, affluent families, family offices and institutional clients through a comprehensive range of tailored wealth management solutions. The asset management business provides a diversified suite of alternative investment funds, portfolio management services and mutual funds that span public and private equities, fixed income securities and real estate.

On May 31, 2019 IIFL Holdings spun off its 53.3% equity interest in its subsidiary IIFL Wealth in a non-cash transaction that resulted in Fairfax India receiving one new common share of IIFL Wealth for every seven common shares of IIFL Holdings held. Upon completion of the IIFL Holdings Reorganization Fairfax India received 12,091,635 common shares of IIFL Wealth representing a 14.2% equity interest with an estimated fair value at May 31, 2019 of $191,443 (approximately 13.3 billion Indian rupees), which was determined based on a third party valuation.

The shares of IIFL Wealth were listed on the BSE and NSE of India on September 19, 2019.

At December 31, 2019 the fair value of the company's investment in IIFL Wealth was $191,476 (December 31, 2018 – nil) comprised of 12,091,635 common shares representing a 13.9% equity interest with the changes in fair value in 2019 presented in the table disclosed earlier in note 5.

Investment in IIFL Securities Limited

IIFL Securities is a publicly traded leading investment advisory firm providing diversified financial services and products such as financial planning, equity, commodities and currency broking (both cash and derivatives), depository participant services, investment banking, portfolio management as well as distribution of mutual funds, bonds and other products. IIFL Securities is located in Mumbai, India.

On May 31, 2019 IIFL Holdings spun off its wholly-owned subsidiary IIFL Securities in a non-cash transaction that resulted in Fairfax India receiving one new common share of IIFL Securities for every one common share of IIFL Holdings held. Upon closing of the IIFL Holdings Reorganization Fairfax India received 84,641,445 common shares of IIFL Securities representing a 26.5% equity interest with an estimated fair value at that date of $91,310 (approximately 6.4 billion Indian rupees). At May 31, 2019 the fair value of IIFL Securities was estimated based on the company's internal valuation model.

The shares of IIFL Securities were listed on the BSE and NSE of India on September 20, 2019.

At December 31, 2019 the fair value of the company's investment in IIFL Securities was $48,796 (December 31, 2018 – nil) comprised of 84,641,445 common shares representing a 26.5% equity interest with the changes in fair value in 2019 presented in the table disclosed earlier in note 5.

Investment in CSB Bank Limited

CSB Bank Limited ("CSB Bank", formerly known as The Catholic Syrian Bank Limited) is a publicly traded company located in Thrissur, India, established in 1920 and is a full-service bank offering retail banking, non-resident Indian banking services, small-to-medium enterprise and wholesale banking services through 416 branches and 290 automated teller machines across India.

On February 20, 2018 the company entered into an agreement to acquire a 51.0% equity interest, on a fully-diluted basis, in CSB Bank for $169,511 (approximately 12.1 billion Indian rupees). The company's investment in CSB Bank comprised of common shares and warrants (to purchase approximately 66.5 million common shares). Consideration was payable: (i) on initial closing for 25.0% of the common shares and 40.0% of the warrants; and (ii) within 12 months and 18 months of initial closing, upon request by CSB Bank, for the remaining 75.0% of the common shares and 60.0% of the warrants.

On October 19, 2018 the company completed the initial investment in CSB Bank and on closing recorded $88,524 (approximately 6.5 billion Indian rupees) in common stocks within the consolidated balance sheet relating to 100.0% of the common shares and 40.0% of the warrants, and on that date recorded $28,367 (approximately 2.1 billion Indian rupees) in payable for partly paid securities within the consolidated balance sheet relating to 75.0% of the consideration payable on the common shares ("Tranche 1").

On March 20, 2019 the company invested in an additional 30.0% of the warrants of CSB Bank and recorded $40,547 (approximately 2.8 billion Indian rupees) in common stocks ("Tranche 2") within the consolidated balance sheet.

On June 29, 2019 CSB Bank issued a capital call for the remaining consideration payable for 30.0% of the warrants ($40,440) ("Final Tranche") and 75.0% of the common shares ($30,167). The company recorded $40,440 (approximately 2.8 billion Indian rupees) in common stocks within the consolidated balance sheet, representing the Final Tranche of CSB Bank warrants, which were considered in-substance equity. On July 8, 2019 the company funded the capital call.

On August 7, 2019 the company exercised its CSB Bank warrants to acquire 66,430,846 common shares. No CSB Bank warrants remain outstanding.

On December 4, 2019 CSB Bank closed its IPO, issuing 1,230,769 shares and commenced trading on both the BSE and NSE of India. In 2019 CSB Bank also issued 5,000,000 shares to CSB Bank's employee stock option trust which together decreased Fairfax India's ownership slightly from 51.0% to 49.7%.

The company is restricted from selling its common shares of CSB Bank for a specified period ranging from less than one year to five years due to restrictions imposed by the RBI and the Securities and Exchange Board of India ("SEBI"). At December 31, 2019 the company estimated the fair value of its investment in CSB Bank based on the bid price less a discount for lack of marketability of 12.0%. At December 31, 2019 the company's internal valuation model indicated that the fair value of the company's investment in CSB Bank was $229,262 comprised of 86,262,976 common shares representing a 49.7% equity interest in CSB Bank.

At December 31, 2018 the initial transaction price for Tranche 1 was considered to approximate fair value as there had been no significant changes to CSB Bank's business, capital structure and operating environment and the key assumptions in the company's acquisition valuation model continued to be valid. At December 31, 2018 the fair value of the company's investment in CSB Bank was $93,081 (comprised of 100.0% of the common shares and 40.0% of the warrants).

The changes in fair value in 2019 and 2018 are presented in the tables disclosed earlier in note 5.

Investment in Fairchem Speciality Limited

Fairchem Speciality Limited (''Fairchem'') 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 neutraceutical and health products. Privi Organics Limited (''Privi''), a wholly-owned subsidiary of Fairchem, is a supplier of aroma chemicals to the fragrance industry and is located in Mumbai, India.

In March 2017, upon closing of the merger of Fairchem and Privi, the company acquired a 48.8% equity interest in Fairchem for aggregate cash consideration of $74,384 (approximately 5.0 billion Indian rupees).

On May 22, 2019 Fairchem's board of directors approved a draft plan to reorganize Fairchem into two listed entities (the ''Fairchem Reorganization''). As part of the Fairchem Reorganization, the existing oleochemicals and neutraceuticals businesses will spin out into a newly formed wholly-owned subsidiary, Fairchem Organics Limited (''Fairchem Organics''), which was incorporated on March 27, 2019 in anticipation of the Fairchem Reorganization. Privi will be amalgamated with the remaining Fairchem business and subsequently be renamed Privi Speciality Chemicals Limited (''Privi Speciality''). Existing shareholders of Fairchem will receive one new common share of Fairchem Organics for every three common shares held in Fairchem. Upon completion of this transaction, the shares of Privi Speciality will continue to trade on the BSE and NSE of India, and the shares of Fairchem Organics will be listed on the BSE and NSE of India. The Fairchem Reorganization is anticipated to be completed in the second quarter of 2020 and shares of Fairchem Organics listed by the third quarter of 2020, subject to applicable regulatory approvals and customary closing conditions. Subsequent to the anticipated listing of Fairchem Organics, it is expected that the company will decrease its equity interest in Privi Speciality to 38.9% from its current 48.8% and increase its equity interest in Fairchem Organics to 66.7% from its current 48.8% through a series of transactions with Privi's founders.

At December 31, 2019 the fair value of the company's investment in Fairchem was $127,413 (December 31, 2018 – $96,574) comprised of 19,046,078 common shares representing a 48.8% equity interest (December 31, 2018 – 48.8%) with the changes in fair value in 2019 and 2018 presented in the tables disclosed earlier in note 5.

Investment in 5paisa Capital Limited

5paisa Capital Limited (''5paisa'') is a publicly traded online financial services provider with a ''do-it-yourself'' investment brokerage model that allows customers to execute investment transactions for low brokerage fees. 5paisa is primarily engaged in providing a technology platform through online and mobile applications for trading securities on the BSE and the NSE of India. 5paisa is located in Mumbai, India.

In October 2017 IIFL Holdings spun off its wholly-owned subsidiary 5Paisa Digital Undertaking, through the formation of a new public company, 5paisa Capital Limited, listed on the BSE and the NSE of India. This non-cash transaction resulted in Fairfax India receiving one new common share of 5paisa for every 25 common shares of IIFL Holdings held for a total of 3,385,657 common shares of 5paisa with a fair value of $19,758.

On May 29, 2019 5paisa announced a rights offer to existing shareholders whereby shareholders were given the right to participate on a pro rata basis in a common share issuance at a price of 80.00 Indian rupees per share (''5paisa Rights Offer''). In connection with the 5paisa Rights Offer, Fairfax India committed to participate and acquire 3,385,657 common shares of 5paisa and as a result the company recorded a forward derivative asset (''5paisa forward derivative''). On August 20, 2019 Fairfax India participated in the 5paisa rights offer and acquired 3,385,657 5paisa common shares for cash consideration of $3,777. As a result the company derecognized the 5paisa forward derivative with a carrying value of $2,706, recorded a realized gain of $2,767 and recorded its investment in 5paisa common shares at a fair value at that date of $6,483.

At December 31, 2019 the fair value of the company's investment in 5paisa was $18,176 (December 31, 2018 – $11,913) comprised of 6,771,314 common shares representing a 26.6% equity interest (December 31, 2018 – 3,385,657 common shares representing a 26.6% equity interest) with the changes in fair value in 2019 and 2018 presented in the tables disclosed earlier in note 5.

Investment in Other Public Indian Investments

During 2018 the company acquired common shares of public companies in India's financial services sector, listed on both the BSE and NSE of India (investment in "Other Public Indian Investments") for aggregate cash consideration of $94,090. In 2019 the company partially sold an investment in Other Public Indian Investments for total net proceeds of $36,907, resulting in a realized gain of $7,115.

At December 31, 2019 the fair value of the company's investment in Other Public Indian Investments was $95,892 (December 31, 2018 – $98,180) and represents less than 1.0% equity interest in each of the public Indian companies. The changes in fair value of the company's investment in Other Public Indian Investments in 2019 and 2018 are presented in the tables disclosed earlier in note 5.

Private Indian Investments

The fair values of Fairfax India's Private Indian 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 these investments.

Investment in Bangalore International Airport Limited

Bangalore International Airport Limited ("BIAL") is a private company located in Bengaluru, India. BIAL, under a concession agreement with the Government of India until the year 2038 (with the right to extend the agreement for an additional 30 years), has the exclusive rights to carry out the development, design, financing, construction, commissioning, maintenance, operation and management of the Kempegowda International Airport Bengaluru ("KIAB") through a public-private partnership. KIAB is the first greenfield airport in India built through a public-private partnership.

During 2017 and 2018 Fairfax India had invested an aggregate cash consideration of $652,982 (approximately 42.7 billion Indian rupees) (inclusive of $74,202 of costs incurred, approximately 4.8 billion Indian rupees) for a 54.0% equity interest in BIAL through the following transactions: (i) in March 2017 the company acquired a 38.0% equity interest in BIAL for cash consideration of $385,498 (approximately 25.2 billion Indian rupees); (ii) in July 2017 the company acquired an additional 10.0% equity interest in BIAL for cash consideration of $200,093 (12.9 billion Indian rupees) which the company determined included $74,202 of consideration in excess of the fair value of those additional shares acquired; and (iii) in May 2018 the company acquired an additional 6.0% equity interest in BIAL for cash consideration of $67,391 (approximately 4.6 billion Indian rupees).

On December 16, 2019 the company entered into an agreement to sell an interest in Anchorage of approximately 11.5% on a fully-diluted basis for gross proceeds of approximately 9.5 billion Indian rupees (approximately $133 million at period end exchange rates). Anchorage was formed in 2019 and is a wholly-owned subsidiary of FIH Mauritius, intended to be its flagship company for investing in companies, businesses and opportunities in the airport and infrastructure sectors of India as well as its platform for bidding on airport privatization projects in India. As part of the transaction, the company will restructure approximately 43.6% equity interest in BIAL of its 54.0% equity interest such that it will be held through Anchorage, implying an equity valuation of BIAL of approximately $2.7 billion for 100%. Upon closing of the transaction, the company's effective ownership interest in BIAL will decrease to approximately 49.0% on a fully-diluted basis. The transaction is subject to customary closing conditions, including various third party consents, and is expected to close in the first half of 2020.

At December 31, 2019 the company estimated the fair value of its investment in BIAL using a discounted cash flow analysis for its three business units based on multi-year free cash flow projections with assumed after-tax discount rates ranging from 12.9% to 13.4% and a long term growth rate of 3.5% (December 31, 2018 – 11.3% to 12.8%, and 3.5%, respectively). Discount rates were based on the company's assessment of risk premiums to the appropriate risk-free rate of the economic environment in which BIAL operates. At December 31, 2019 free cash flow projections were based on EBITDA estimates derived from financial information for BIAL's three business units prepared in the fourth quarter of 2019 (December 31, 2018 – two business units prepared in the third quarter of 2018) by BIAL's management.

At December 31, 2019 the company's internal valuation model indicated that the fair value of the company's investment in BIAL was $1,429,854 (December 31, 2018 – $704,077), which approximates the equity valuation of BIAL implied by the Anchorage transaction discussed above. The changes in fair value in 2019 and 2018 are presented in the tables disclosed earlier in note 5. In 2019 net change in unrealized gains of $751,487 was primarily driven by BIAL management's finalization of plans for a Terminal 3 expansion (''master plan update'') and the development of its monetizable leasehold land (approximately 460 acres) (''real estate master plan''), discussed in further detail below.

In the third quarter of 2019 the company recorded an increase in the valuation of its investment in BIAL primarily due to an increase in the valuation of KIAB. BIAL's management finalized the master plan update, which reflects an increase in expected growth in passenger traffic, resulting in higher projected earnings, partially offset by increased planned capital expenditures related to the development of Terminal 3.

In the fourth quarter of 2019 BIAL's management finalized its real estate master plan, which includes detailed multi-year cash flow projections relating to the planned real estate development. Accordingly, in the fourth quarter of 2019 the company changed its valuation technique for BIAL's monetizable leasehold land to a discounted cash flow analysis based on multi-year free cash flow projections with an assumed after-tax discount rate and a long term growth rate. At December 31, 2018, the estimated fair value of the monetizable leasehold land (approximately 460 acres) was based on third party valuations with an assumed 20.0% discount factor for the leasehold nature of the asset.

Investment in Sanmar Chemicals Group

Sanmar Chemicals Group (''Sanmar''), a private company located in Chennai, India, is one of the largest suspension polyvinyl chloride (''PVC'') manufacturers in India, operating in India and Egypt. Sanmar also manufactures caustic soda, calcium chloride, chloromethanes, refrigerant gases, industrial salt and specialty chemical intermediates.

In April 2016 Fairfax India invested $250,000 in Sanmar comprised of $1,000 in common shares (representing a 30.0% equity interest) and $249,000 in Sanmar bonds, and in September 2016 invested an additional $50,000 in Sanmar bonds. Both tranches of Sanmar bonds had a maturity date of April 22, 2023 (7 years from the date of issuance of the first tranche), subject to earlier redemption at the option of Sanmar under certain circumstances. In lieu of cash, the coupon payment on the bond was payable in kind in the form of additional Sanmar bonds over the life of the bond. A redemption premium was also payable in kind to the company resulting in an effective annual interest rate of 13.0%.

On December 21, 2019 the company completed its previously announced transaction with Sanmar, resulting in the settlement of Sanmar bonds with a principal amount of $300,000 for net cash proceeds of $425,472 (30.3 billion Indian rupees) ($433,873 net of withholding tax of $8,401), which was equal to the bonds' principal amount plus an effective annual interest rate of 13.0%. The company recorded a net gain on investment of $48,782 (realized gains of $156,540, of which $107,758 was recorded as unrealized gains in prior periods). The company reinvested cash of $198,039 (approximately 14.1 billion Indian rupees) into 171,710 newly issued common shares of Sanmar, increasing the company's equity interest from 30.0% to 42.9%.

Upon closing of the transaction the company settled a forward derivative obligation at a fair value of $19,617 (approximately 1.4 billion Indian rupees), which was a result of the agreed upon transaction price for Sanmar common shares exceeding the transaction date fair value. The company recorded its additional investment in Sanmar common shares at a fair value of $178,422 (approximately 12.7 billion Indian rupees).

Sanmar Bonds

At December 31, 2018 the company estimated the fair value of its investment in Sanmar bonds using an industry accepted discounted cash flow and option pricing model that incorporated Sanmar's estimated credit spread of 5.6% and assumptions related to certain redemption options embedded in the bonds. The estimated credit spread was based on the credit spreads of a peer group of comparable companies adjusted for company-specific credit risk. At December 31, 2018 the company's internal valuation model indicated that the fair value of the company's investment in Sanmar bonds was $392,776.

The changes in fair value of the company's investment in Sanmar bonds in 2019 and 2018 are presented in the tables disclosed earlier in note 5.

Sanmar Common Shares

At December 31, 2019 the company estimated the fair value of its investment in Sanmar common shares using a discounted cash flow analysis for its four business units based on multi-year free cash flow projections with assumed after-tax discount rates ranging from 12.9% to 19.0% and long term growth rates ranging from 3.0% to 4.0% (December 31, 2018 – 13.5% to 16.6%, and 3.0% to 4.0%, respectively). At December 31, 2019 free cash flow projections were based on EBITDA estimates derived from financial information for Sanmar's four business units (with additional financial information and analysis completed for Chemplast's underlying business units involved in new capital projects) prepared in the fourth quarter of 2019 (December 31, 2018 – third quarter of 2018) 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, 2019 the company's internal valuation model indicated that the fair value of the company's investment in Sanmar common shares was $412,930 (December 31, 2018 – $217,170) with the changes in fair value in 2019 and 2018 presented in the tables disclosed earlier in note 5.

Investment in National Collateral Management Services Limited

National Collateral Management Services Limited ("NCML"), located in Gurugram, India, is a private agricultural commodities storage company operating in the agriculture value chain and offering end-to-end solutions in grain procurement, testing, storage and collateral management. NCML's wholly-owned subsidiary, NCML Finance Private Ltd, focuses on rural and agri-business finance.

NCML Common Shares

In August 2015 and August 2017 Fairfax India acquired an 89.5% equity interest in NCML for cash consideration of $174,318 (approximately 11.3 billion Indian rupees).

At December 31, 2019 the company estimated the fair value of its investment in NCML common shares using a discounted cash flow analysis based on multi-year free cash flow projections with assumed after-tax discount rates ranging from 12.7% to 23.5% and long term growth rates ranging from 2.4% to 6.0% (December 31, 2018 – 12.0% to 21.8%, and 2.4% to 6.0%, respectively). At December 31, 2019 free cash flow projections were based on EBITDA estimates derived from financial information for NCML's business units prepared in the second quarter of 2019 (December 31, 2018 – third quarter of 2018) 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, 2019 the company's internal valuation model indicated that the fair value of the company's investment in NCML common shares was $120,734 (December 31, 2018 – $165,380) with the changes in fair value in 2019 and 2018 presented in the tables disclosed earlier in note 5.

NCML Compulsorily Convertible Debentures

On September 17, 2019 the company invested an additional $13,970 (approximately 1.0 billion Indian rupees) in NCML to pre-fund an allotment of compulsorily convertible debentures ("NCML CCD") of which proceeds were used to repay short term borrowings. On October 1, 2019 the company was issued 12.5% unsecured NCML CCD, due September 30, 2029. The company has the option to convert the NCML CCD into common shares of NCML at any time prior to the maturity date, at which time the conversion is compulsory, at a conversion price of 68.00 Indian rupees per common share.

At December 31, 2019 the fair value of the company's investment in NCML CCD was $14,286 (December 31, 2018 – nil) with the changes in fair value in 2019 presented in the table disclosed earlier in note 5.

Investment in Seven Islands Shipping Limited

Seven Islands Shipping Limited ("Seven Islands"), a private company located in Mumbai, India, is the second largest private sector tanker shipping company in India and transports liquid cargo along the Indian coast as well as in international waters. Seven Islands owns 19 vessels with a total deadweight capacity of approximately 1.2 million metric tons, and its vessels are registered in India and operate as Indian owned and flagged vessels.

At December 31, 2019 Fairfax India had invested aggregate cash consideration of $83,846 (approximately 5.8 billion Indian rupees) for a 48.5% equity interest in Seven Islands through the following transactions: (i) on March 29, 2019 the company acquired a 41.4% equity interest in Seven Islands for cash consideration of $71,767 (approximately 4,972.0 million Indian rupees) through a direct subscription and secondary acquisition; (ii) on September 11, 2019 the company acquired an additional 7.1% equity interest in Seven Islands in a secondary acquisition for cash consideration of $12,056 (approximately 863.9 million Indian rupees); and (iii) on October 24, 2019 the company acquired an additional 0.01% equity interest in Seven Islands for cash consideration of $23 (approximately 1.7 million Indian rupees).

At December 31, 2019 the company estimated the fair value of its investment in Seven Islands using a discounted cash flow analysis based on multi-year free cash flow projections with an assumed after-tax discount rate of 11.5% and a long term growth rate of 3.0%. At December 31, 2019 free cash flow projections were based on EBITDA estimates derived from financial information for Seven Islands prepared in the fourth quarter of 2019 by Seven Islands' 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 Seven Islands operates. At December 31, 2019 the company's internal valuation model indicated that the fair value of the company's investment in Seven Islands was $88,800 (December 31, 2018 – nil) with the changes in fair value in 2019 presented in the table disclosed earlier in note 5.

Investment in Saurashtra Freight Private Limited

Saurashtra Freight Private Limited (''Saurashtra''), a private company located in Mumbai, India, operates one of the largest container freight stations (''CFS'') at Mundra port (Gujarat). Services provided by Saurashtra's CFS include transportation of containers to and from the port, stuffing and destuffing of containers, cargo storage, transportation of cargo to the end customer, and the storage, maintenance and repair of empty containers. Saurashtra's subsidiary, Fairfreight Lines, focuses on new services for container shipping, offering integrated logistic solutions to its customers by providing containers, which are leased by Saurashtra, to importers and exporters to transport cargo.

In February 2017 Fairfax India acquired a 51.0% equity interest in Saurashtra for cash consideration of $30,018 (approximately 2.0 billion Indian rupees).

At December 31, 2019 the company estimated the fair value of its investment in Saurashtra using a discounted cash flow analysis based on multi-year free cash flow projections with assumed after-tax discount rates ranging from 13.4% to 14.4% and long term growth rates ranging from 4.0% to 5.0% (December 31, 2018 – 15.6% to 16.0%, and 4.0% to 5.0%, respectively). At December 31, 2019 free cash flow projections were based on EBITDA estimates derived from financial information for Saurashtra's two business units prepared in the second quarter of 2019 (December 31, 2018 – fourth quarter of 2018) by Saurashtra's management. The discount rates were based on the company's assessment of risk premiums to the appropriate risk-free rate of the economic environment in which Saurashtra operates. At December 31, 2019 the company's internal valuation model indicated that the fair value of the company's investment in Saurashtra was $31,204 (December 31, 2018 – $24,843) with the changes in fair value in 2019 and 2018 presented in the tables disclosed earlier in note 5.

Investment in National Stock Exchange of India Limited

National Stock Exchange of India Limited (''NSE''), a private company located in Mumbai, India, operates India's largest stock exchange. In addition to providing a platform for 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.

In the third quarter of 2016 Fairfax India acquired a 1.0% equity interest in NSE for cash consideration of $26,783 (approximately 1.8 billion Indian rupees).

At December 31, 2019 the company's estimated fair value of its investment in NSE of $57,210 (December 31, 2018 – $60,285) was based on recent third party transactions completed in the fourth quarter of 2019 (December 31, 2018 – fourth quarter of 2018). The changes in fair value of the company's investment in NSE in 2019 and 2018 are presented in the tables disclosed earlier in note 5.

Investment in India Housing Fund

On December 24, 2018 the company entered into an agreement whereby it committed to invest 1.7 billion Indian rupees (approximately $25,000 at the date of the agreement) in the India Housing Fund (''IH Fund''). IH Fund is a closed-ended fund of IIFL Private Equity Fund (the ''Trust'') registered as a Category II Alternative Investment Fund (''AIF'') under SEBI AIF Regulations. IH Fund is a fund incorporated to focus on investing in the real estate sector in India by investing in equity, debt and equity-linked instruments of real estate and construction companies involved in projects or ventures with expected growth potential.

At December 31, 2019 Fairfax India had invested aggregate cash consideration of $14,893 (approximately 1.0 billion Indian rupees) in IH Fund through the following transactions: (i) on January 7, 2019 the company invested 25.0% or 437.0 million Indian rupees ($6,272) of the committed investment amount in IH Fund and (ii) on November 7, 2019 the company invested an additional 35.0% or 611.8 million Indian rupees ($8,621) of the committed investment amount in IH Fund. The remaining 40.0% or 699.3 million Indian rupees ($9,796 at period end exchange rates) is to be drawn down by November 30, 2020.

At December 31, 2019 the company estimated the fair value of its investment in IH Fund of $15,146 (December 31, 2018 – nil) based on the net asset value provided by the third party fund manager. The fair values of the underlying assets are determined using quoted prices for short term investments, and industry accepted valuation models for debt and equity instruments. The changes in fair value of the company's investment in IH Fund in 2019 are presented in the table disclosed earlier in note 5.

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, 2019					December 31, 2018				
	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 millions)	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 millions)
Cash and cash equivalents	48,713	–	–	48,713	3,477	21,240	–	–	21,240	1,483
Restricted cash[(1)]	16,915	–	–	16,915	1,207	13,833	–	–	13,833	966
	65,628	–	–	65,628	4,684	35,073	–	–	35,073	2,449
Bonds:										
Government of India[(2)]	–	88,775	–	88,775	6,337	–	88,997	–	88,997	6,213
Indian corporate[(2)]	–	35,364	–	35,364	2,524	–	94,613	–	94,613	6,605
NCML CCD	–	–	14,286	14,286	1,020	–	–	–	–	–
Sanmar bonds	–	–	–	–	–	–	–	392,776	392,776	27,422
	–	124,139	14,286	138,425	9,881	–	183,610	392,776	576,386	40,240
Common stocks:										
IIFL Finance / IIFL Holdings[(3)]	166,014	–	–	166,014	11,850	613,458	–	–	613,458	42,829
IIFL Wealth[(3)]	191,476	–	–	191,476	13,667	–	–	–	–	–
IIFL Securities[(3)]	48,796	–	–	48,796	3,483	–	–	–	–	–
Fairchem	127,413	–	–	127,413	9,095	96,574	–	–	96,574	6,742
5paisa	18,176	–	–	18,176	1,297	11,913	–	–	11,913	832
Other	95,892	–	–	95,892	6,845	98,180	–	–	98,180	6,855
BIAL	–	–	1,429,854	1,429,854	102,060	–	–	704,077	704,077	49,155
Sanmar	–	–	412,930	412,930	29,474	–	–	217,170	217,170	15,162
CSB Bank[(4)]	–	–	229,262	229,262	16,364	–	–	93,081	93,081	6,498
NCML	–	–	120,734	120,734	8,618	–	–	165,380	165,380	11,546
Seven Islands	–	–	88,800	88,800	6,338	–	–	–	–	–
Saurashtra	–	–	31,204	31,204	2,227	–	–	24,843	24,843	1,734
NSE	–	–	57,210	57,210	4,084	–	–	60,285	60,285	4,209
IH Fund	–	–	15,146	15,146	1,081	–	–	–	–	–
	647,767	–	2,385,140	3,032,907	216,483	820,125	–	1,264,836	2,084,961	145,562
Total cash and investments	713,395	124,139	2,399,426	3,236,960	231,048	855,198	183,610	1,657,612	2,696,420	188,251
	22.0%	3.8%	74.2%	100.0%	100.0%	31.7%	6.8%	61.5%	100.0%	100.0%

(1) *Comprised of funds set aside as restricted cash to fund the borrowings interest payments.*

(2) *Priced based on information provided by independent pricing service providers at December 31, 2019 and 2018.*

(3) *On May 31, 2019 IIFL Holdings spun off IIFL Wealth and IIFL Securities in the IIFL Holdings Reorganization.*

(4) *The company is restricted from selling its investment in CSB Bank for a specified period ranging from less than one year to five years and has applied a discount for lack of marketability (a significant unobservable valuation input) to the quoted price.*

Transfers between fair value hierarchy levels are considered effective from the beginning of the annual reporting period in which the transfer is identified. During 2019 and 2018 there were no transfers of financial instruments between Level 1 and Level 2.

During 2019 as a result of the IIFL Holdings Reorganization and the subsequent listing of the shares of IIFL Wealth and IIFL Securities on the BSE and NSE of India, described in note 5, the investments in IIFL Wealth and IIFL Securities were transferred out of Level 3 and into Level 1 in the fair value hierarchy.

A summary of changes in the fair value of the company's Indian Investments classified as Level 3 in the fair value hierarchy, denominated in the company's functional currency of the Indian rupee for the years ended December 31 was as follows:

	Year ended										
	2019							2018			
Indian rupees *(in millions)*	**Balance as of January 1**	**Purchases**	**Sales / Redemptions**	**Transfers**	**Net realized gains (losses) on investments**	**Net change in unrealized gains (losses) on investments**	**Balance as of December 31**	**Balance as of January 1**	**Purchases**	**Net change in unrealized gains (losses) on investments**	**Balance as of December 31**
Loan – NCML Loan	–	1,003	–	(1,003)	–	–	–	–	–	–	–
Bonds:											
NCML CCD	–	–	–	1,003	–	17	1,020	–	–	–	–
Sanmar bonds	27,422	–	(30,856)	–	11,020	(7,586)	–	21,266	–	6,156	27,422
Common stocks:											
BIAL	49,155	–	–	–	–	52,905	102,060	38,825	4,571	5,759	49,155
Sanmar	15,162	12,689	–	–	–	1,623	29,474	36	–	15,126	15,162
CSB Bank	6,498	5,583	(1)	–	(3)	4,287	16,364	–	6,498	–	6,498
NCML	11,546	–	–	–	–	(2,928)	8,618	11,429	–	117	11,546
Seven Islands	–	5,837	–	–	–	501	6,338	–	–	–	–
Saurashtra	1,734	–	–	–	–	493	2,227	1,787	–	(53)	1,734
NSE	4,209	–	–	–	–	(125)	4,084	2,582	–	1,627	4,209
IH Fund	–	1,049	(2)	–	–	34	1,081	–	–	–	–
Derivatives:											
5paisa forward derivative	–	–	(194)	–	194	–	–	–	–	–	–
Sanmar forward derivative	–	1,395	–	–	(1,395)	–	–	–	–	–	–
Total	115,726	27,556	(31,053)	–	9,816	49,221	171,266	75,925	11,069	28,732	115,726

The changes in fair value of the company's Indian Investments classified as Level 3 in the fair value hierarchy in the company's presentation currency of U.S. dollars is disclosed in note 5. For all Indian Investments classified as Level 3 in the fair value hierarchy, net change in unrealized gains (losses) on investments related to unrealized gains (losses) on investments held at the end of the reporting periods, with the exception of net change in unrealized losses of 7,586 million Indian rupees recorded in 2019, which related to the reversal of prior period unrealized gains recorded on the Sanmar bonds.

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 its Indian Investments classified as Level 3 in the fair value hierarchy at December 31, 2019. The analysis assumes quarterly variations within a reasonably possible range determined by the company based on an analysis of the return on various equity indices, management's knowledge of the Indian equity markets and the potential impact of changes in interest rates. This sensitivity analysis excludes the company's investments in NCML CCD, NSE and IH Fund as the company determined that there were no significant unobservable inputs suited for a sensitivity analysis.

Investments	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)(2)
Common stocks:						
BIAL(3)	$1,429,854	Discounted cash flow	After-tax discount rate	12.9% to 13.4%	(184,436) / 209,811	(159,998) / 182,011
			Long term growth rate	3.5%	15,422 / (15,951)	13,379 / (13,837)
Sanmar	$412,930	Discounted cash flow	After-tax discount rate	12.9% to 19.0%	(44,867) / 48,837	(38,922) / 42,366
			Long term growth rate	3.0% to 4.0%	12,477 / (11,960)	10,824 / (10,375)
CSB Bank(4)	$229,262	Bid price, net of discount	Discount for lack of marketability	12.0%	(3,463) / 3,462	(3,004) / 3,003
NCML	$120,734	Discounted cash flow	After-tax discount rate	12.7% to 23.5%	(15,524) / 17,336	(13,467) / 15,039
			Long term growth rate	2.4% to 6.0%	4,827 / (4,564)	4,187 / (3,959)
Seven Islands	$88,800	Discounted cash flow	After-tax discount rate	11.5%	(12,324) / 13,977	(10,691) / 12,125
			Long term growth rate	3.0%	5,286 / (4,982)	4,586 / (4,322)
Saurashtra	$31,204	Discounted cash flow	After-tax discount rate	13.4% to 14.4%	(978) / 1,087	(848) / 943
			Long term growth rate	4.0% to 5.0%	515 / (391)	447 / (339)

(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 table above shows the hypothetical increase (decrease) in net earnings. Changes in the after-tax discount rates (50 basis points), long term growth rates (25 basis points), credit spreads (100 basis points), discount for lack of marketability (10.7% and 13.3%) and share price (5.0%), 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 and share price, or a decrease (increase) in after-tax discount rates, credit spreads, and discount for lack of marketability would result in a higher (lower) fair value of the company's Indian Investments classified as Level 3 in the fair value hierarchy.

(2) For the purpose of this sensitivity analysis, the hypothetical $ change effect on net earnings includes an income tax impact that is calculated using the company's marginal tax rate. Actual income tax expense (recovery) may differ significantly when earnings (losses) are realized.

(3) In the fourth quarter of 2019 BIAL's management finalized its real estate master plan, which includes detailed multi-year cash flow projections relating to the planned real estate development. Accordingly, in the fourth quarter of 2019 the company changed its valuation technique for BIAL's monetizable leasehold land to a discounted cash flow analysis based on multi-year free cash flow projections with an assumed after-tax discount rate and a long term growth rate.

(4) A discount for lack of marketability is applied to the quoted price of common shares that the company is restricted from selling for a specified period, and is determined using an industry accepted option pricing model that incorporates market unobservable long-dated historical share price volatility. A higher (lower) historical share price volatility generally results in a higher (lower) option value and a lower (higher) fair value of the common shares.

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 call and put features. At December 31, 2019 there were no bonds containing call or put features (December 31, 2018 – $392,776 and nil). The decrease in bonds due in 1 year or less reflects the redemption of Sanmar bonds for net proceeds of $425,472 (30.3 billion Indian rupees) which were partially reinvested in Government of India and Indian corporate bonds primarily due after 1 year through 5 years.

	December 31, 2019		December 31, 2018	
	Amortized cost	**Fair value**	**Amortized cost**	**Fair value**
Due in 1 year or less	7,054	6,983	284,114	392,776
Due after 1 year through 5 years	117,360	117,156	2,830	2,803
Due after 5 years through 10 years	14,286	14,286	155,035	156,262
Due after 10 years	–	–	25,965	24,545
	138,700	138,425	467,944	576,386
Effective interest rate(1)		6.7%		7.9%

(1) At December 31, 2018 excluded Sanmar bonds as the estimated interest income was included in its fair value measurement.

Investment Income

An analysis of investment income for the years ended December 31 is summarized in the table that follows:

Interest and dividends

	2019	2018
Interest:		
Cash and cash equivalents	670	408
Short term investments	54	177
Bonds[1]	4,135	21,074
	4,859	21,659
Dividends: Common stocks	10,141	8,699

(1) Excludes Sanmar bonds as the estimated interest income is included in its fair value measurement.

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

	2019			2018		
	Net realized gains (losses)	Net change in unrealized gains (losses)	Net gains (losses)	Net realized gains (losses)	Net change in unrealized gains (losses)	Net gains (losses)
Net gains (losses) on investments:						
Short term investments	71	–	71	(3)	–	(3)
Bonds	154,919[1]	(107,577)[1]	47,342[1]	(7,982)	94,420[1]	86,438[1]
Common stocks	43,182[2][3]	637,949[2][3]	681,131	–	84,578[2]	84,578
Derivatives	(17,049)[2]	–	(17,049)	–	–	–
	181,123	530,372	711,495	(7,985)	178,998	171,013
Net foreign exchange gains (losses) on:						
Cash and cash equivalents	549	–	549	3,651	–	3,651
Investments	(102)	–	(102)	1,489	465	1,954
Borrowings	(1,669)[4]	(12,051)[4]	(13,720)[4]	(25,407)[4]	(13,131)[4]	(38,538)[4]
Other	(533)	–	(533)	(1,920)	–	(1,920)
	(1,755)	(12,051)	(13,806)	(22,187)	(12,666)	(34,853)

(1) In 2019, net gains on bonds primarily comprised of realized gains from Sanmar bonds ($156,540), partially offset by net change in unrealized losses, primarily related to the reversal of prior period unrealized gains recorded on Sanmar bonds ($107,758). In 2018, net gains on bonds primarily comprised of unrealized gains from Sanmar bonds ($90,128).

(2) Refer to note 5 for a summary of changes in the fair value of the company's Public and Private Indian Investments during 2019 and 2018.

(3) On May 31, 2019 IIFL Holdings spun off IIFL Wealth and IIFL Securities in the IIFL Holdings Reorganization. The amount recorded in net realized gains on investments was $36,112 (all of which was recorded as unrealized gains on investments in prior periods).

(4) In 2019 foreign exchange losses on borrowings of $13,720 primarily comprised of net change in unrealized losses of $12,051 related to unrealized foreign exchange losses on the $550.0 million term loan and realized losses of $1,669 related to the Revolving Credit Facility (repaid on December 31, 2019). In 2018 foreign exchange losses on borrowings of $38,538 primarily comprised of realized foreign exchange losses of $25,407 related to the extinguishment of the $400.0 million term loan. Net change in unrealized foreign exchange losses of $13,131 in 2018 was comprised of a reversal of the prior year unrealized foreign exchange gain of $4,527 on the $400.0 million term loan and unrealized foreign exchange losses of $8,604 on the $550.0 million term loan.

7. Borrowings

	December 31, 2019			December 31, 2018		
	Principal	Carrying value[1]	Fair value[2]	Principal	Carrying value[1]	Fair value[2]
1 Year Secured Term Loan, floating rate due June 26, 2020	550,000	547,228	550,000	550,000	547,228	550,000

(1) Principal net of unamortized issue costs.

(2) Principal approximated fair value at December 31, 2019 and 2018.

Secured Term Loan

On June 28, 2018 the company completed a $550,000 principal amount, 1 year secured term loan, with an option to extend for an additional year (''$550.0 million term loan''), with a syndicate led by a Canadian bank, which amended and restated the existing 1 year secured term loan with a principal amount of $400,000 (''$400.0 million term loan''). The $550.0 million term loan is secured by way of a general lien on the holding company's assets and bears interest at a rate of LIBOR plus 350 basis points. On June 28, 2019 the company amended and restated the existing $550.0 million term loan by extending the maturity to June 26, 2020 while maintaining the option to extend for an additional year.

At December 31, 2019 the amended $550.0 million term loan was recognized net of unamortized issuance costs of $2,772 (issuance costs of $5,545 less amortization of $2,773) (December 31, 2018 – $2,772 (issuance costs of $5,545 less amortization of $2,773)) and recorded in borrowings within the consolidated balance sheets. The issuance costs are amortized over the remaining life of the $550.0 million term loan and recorded in interest expense in the consolidated statements of earnings.

Under the terms of the $550.0 million 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 is classified as restricted cash within the consolidated balance sheets. The $550.0 million term loan includes a financial covenant requiring the company to maintain common shareholders' equity of not less than $1.5 billion. At December 31, 2019 the company was in compliance with the $550.0 million term loan financial covenant.

Revolving Credit Facility

Concurrent with amending and restating the $550.0 million term loan, the company entered into a $50.0 million, 1 year secured revolving credit facility with a Canadian bank bearing interest at a rate of LIBOR plus 350 basis points, with an option to extend for an additional year (''Revolving Credit Facility''). The Revolving Credit Facility is secured by way of a general lien on the holding company's assets. The Revolving Credit Facility was fully drawn on June 28, 2019 and the proceeds were used to partially finance the settlement of the payable for partly paid securities on July 8, 2019 relating to the company's investment in CSB Bank and to fund the debt service reserve account. On December 31, 2019 the company repaid the Revolving Credit Facility using a portion of the proceeds received from the redemption of the Sanmar bonds.

Interest Expense

In 2019 interest expense of $38,781 (2018 – $28,898) was comprised of coupon payments of $33,236 (2018 – $26,125) and the amortization of issuance costs of $5,545 (2018 – $2,773).

8. 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, 2019 included 30,000,000 (December 31, 2018 – 30,000,000) multiple voting shares and 122,631,481 (December 31, 2018 – 122,861,534) subordinate voting shares without par value. 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. Fairfax India's subordinate voting shares trade on the Toronto Stock Exchange (''TSX'') under the symbol FIH.U. 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 publicly traded. At December 31, 2019 there were no preference shares outstanding.

Common Stock

The number of shares outstanding was as follows:

	2019	**2018**
Subordinate voting shares – January 1	122,861,534	117,432,631
Issuances of shares	–	7,663,685
Purchases for cancellation	(230,053)	(2,234,782)
Subordinate voting shares – December 31	122,631,481	122,861,534
Multiple voting shares – beginning and end of year	30,000,000	30,000,000
Common shares effectively outstanding – December 31	152,631,481	152,861,534

Capital Transactions

On March 9, 2018 the company issued 7,663,685 subordinate voting shares to Fairfax to settle the performance fee payable of $114,437 for the first calculation period (three-year period ending on December 31, 2017). Under the terms of the Investment Advisory Agreement (defined in note 12), settlement of the performance fee was through the issuance of subordinate voting shares, calculated based on the performance fee payable at December 31, 2017 of $114,437 divided by the volume-weighted average trading price of the company's subordinate voting shares for the 10 trading days prior to and including the last day of the calculation period (''VWAP'') of $14.93. Refer to note 12 for additional details on the settlement of the December 31, 2017 performance fee payable.

Purchase of Shares

During 2019, under the terms of the normal course issuer bid, the company purchased for cancellation 230,053 subordinate voting shares (2018 – 2,234,782) for a net cost of $2,998 (2018 – $32,218), and $577 was charged to retained earnings (2018 – $8,695).

Subsequent to December 31, 2019

Subsequent to December 31, 2019, under the terms of the normal course issuer bid, the company purchased for cancellation 593,736 subordinate voting shares for a net cost of $7,491.

Dividends

The company did not pay any dividends on its outstanding multiple and subordinate voting shares during 2019 and 2018.

9. Net Earnings per Share

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

	2019	**2018**
Net earnings – basic and diluted	516,338	96,432
Weighted average common shares outstanding – basic	152,654,875	153,108,655
Contingently issuable subordinate voting shares	3,748,129	–
Weighted average common shares outstanding – diluted	156,403,004	153,108,655
Net earnings per common share – basic	$ 3.38	$ 0.63
Net earnings per common share – diluted	$ 3.30	$ 0.63

At December 31, 2019 there were an estimated 3,748,129 contingently issuable subordinate voting shares to Fairfax relating to the performance fee payable for the second calculation period (December 31, 2018 – nil). The performance fee for the second calculation period is assessed quarterly and relates to the three-year period from January 1, 2018 to December 31, 2020. Under the terms of the Investment Advisory Agreement (defined in note 12), if a performance fee is payable for the period ending on December 31, 2020, settlement of the performance fee will take place in subordinate voting shares of the company if the market price per share is less than two times the then book value per share (defined in note 12). The number of subordinate voting shares issued would be calculated based on the VWAP. Refer to note 12 for further details on the contingently issuable subordinate voting shares in the event that a performance fee is determined to be payable.

10. Income Taxes

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

	2019	2018
Current income tax:		
Current year expense	11,594	2,001
Adjustment to prior years' income taxes	–	495
	11,594	2,496
Deferred income tax:		
Origination and reversal of temporary differences	64,689	622
Adjustments to prior years' deferred income taxes	–	83
	64,689	705
Provision for income taxes	76,283	3,201

A significant portion of the company's earnings before income taxes is earned 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).

On March 29, 2018 India enacted the Finance Act 2018 which repealed, with effect from April 1, 2018, the long term capital gains tax exemption which was available in respect of transfers of equity shares of Indian companies on which Securities Transaction Tax was paid at the time of acquisition and transfer of such shares. As a result, long term capital gains realized on such transfers will generally be taxed at a rate of 10.0%. However, grandfathering of the long term capital gains exemption in respect of any accrued gain on such shares held as of January 31, 2018 will generally be available to the extent of the accrued gain as of January 31, 2018. Capital gains realized by a tax resident of Mauritius on a transfer of equity shares of an Indian company which were acquired prior to April 1, 2017 will continue to be exempt from capital gains tax in India by virtue of the India-Mauritius tax treaty, notwithstanding the repeal of the long term capital gains tax exemption under Indian domestic law. In addition, a long term capital gain realized by a Mauritius tax resident on shares acquired on or after April 1, 2017, and sold prior to March 31, 2019, will continue to be taxed at a rate of 50.0% of the prevailing domestic Indian capital gains tax rate by virtue of the India-Mauritius tax treaty.

At December 31, 2019 the company evaluated the potential impact of the application of capital gains tax in India on any future dispositions of investments in equity shares held by FIH Mauritius and FIH Private and recorded deferred income taxes of $64,689 in 2019 (2018 – $705) attributable to unrealized gains on the company's investment in equity shares acquired subsequent to April 1, 2017 as follows: (i) BIAL of $29,934 (2018 – nil); (ii) IIFL Wealth, as a result of the IIFL Holdings Reorganization, of $20,637 (2018 – nil); (iii) CSB Bank of $6,650 (2018 – nil); (iv) Saurashtra of $3,351 (2018 – nil); (v) Other Public Indian Investments of $3,165 (2018 – $662); (vi) Seven Islands of $777 (2018 – nil); (vii) Fairchem of $218 (2018 – nil); and (viii) unrealized losses on company's investment in NCML resulting in deferred income tax recovery of $43 in 2019 (2018 – unrealized gains on the company's investment in NCML resulting in deferred income taxes of $43). The company will continue to evaluate the potential impact of the Indian capital gains tax as it relates to any future dispositions of investments in equity shares of its Indian Investments.

On July 31, 2018 Mauritius enacted the Finance (Miscellaneous Provision) Act (the ''Mauritius Finance Act'') which abolishes, with effect from January 1, 2019, the deemed Foreign Tax Credit (''FTC'') regime available to Global Business License companies. For entities holding a Category 1 Global Business License issued before October 16, 2017 (held by both FIH Mauritius and FIH Private) the deemed FTC regime will continue to apply until June 30, 2021. In place of the deemed FTC, the Mauritius Finance Act introduces an 80% exemption regime on foreign source income including certain foreign dividends and foreign source interest. The 80% exemption is available upon meeting predefined substance requirements issued by the Financial Services Commission. The company evaluated the potential impact of the Mauritius Finance Act and concluded that it will not have a material impact to the company.

The company's earnings (loss) before income taxes by jurisdiction and the associated provision for income taxes for 2019 and 2018 are summarized in the following table:

	2019			2018		
	Canada	**Mauritius**	**Total**	**Canada**	**Mauritius**	**Total**
Earnings (loss) before income taxes	(51,759)	644,380	592,621	(61,135)	160,768	99,633
Provision for income taxes	–	76,283[(1)]	76,283	–	3,201	3,201
Net earnings (loss)	(51,759)	568,097	516,338	(61,135)	157,567	96,432

(1) Includes $64,689 of potential capital gains tax in India (primarily related to unrealized gains on BIAL, IIFL Wealth resulting from the IIFL Holdings Reorganization, and CSB Bank) and $7,788 of Indian withholding taxes (primarily related to the redemption of Sanmar bonds).

The decrease in loss before income taxes in Canada during 2019 compared to 2018 principally related to decreased realized foreign exchange losses related to borrowings, partially offset by increased interest expense, decreased income from short term investments, and a performance fee accrual in 2019. The increase in earnings before income taxes in Mauritius during 2019 compared to 2018 primarily reflected increased net realized and unrealized gains on investments and decreased investment and advisory fees, partially offset by a performance fee accrual in 2019 and decreased interest income on Government of India and Indian corporate bonds.

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

	2019	**2018**
Canadian statutory income tax rate	26.5%	26.5%
Provision for income taxes at the Canadian statutory income tax rate	157,044	26,403
Tax rate differential on income earned outside of Canada	(110,966)	(39,250)
Provision relating to prior years	–	578
Change in unrecorded tax benefit of losses and temporary differences	27,658	6,760
Foreign exchange effect	2,521	8,690
Other including permanent differences	26	20
Provision for income taxes	76,283	3,201

The tax rate differential on income earned outside of Canada of $110,966 in 2019 (2018 – $39,250) principally reflected the impact of net investment income taxed in India and Mauritius at lower rates.

The change in unrecorded tax benefit of losses and temporary differences of $27,658 in 2019 principally reflected changes in unrecorded deferred tax assets related to foreign accrual property losses of $16,283 with respect to the company's wholly-owned subsidiaries, net operating loss carryforwards in Canada of $7,258, potential impact of the application of capital loss benefit in India on future dispositions of investments in equity shares of $3,531, and temporary timing differences of issuance costs on borrowings of $586 that were not recorded by the company as the related pre-tax losses did not meet the recognition criteria under IFRS. The change in unrecorded tax benefit of losses and temporary differences of $6,760 in 2018 principally reflected changes in unrecorded deferred tax assets incurred related to net operating loss carryforwards in Canada of $7,448 that were not recorded by the company as the related pre-tax losses did not meet the recognition criteria under IFRS, partially offset by foreign accrual property losses of $648 with respect to the company's wholly-owned subsidiaries that were not recorded consistent with the net operating loss carryforwards. At December 31, 2019 deferred tax assets of $69,747 in Canada and $5,069 in India (December 31, 2018 – $45,620 in Canada and nil in India) were not recorded as it was considered not probable that those losses could be utilized by the company.

Foreign exchange effect of $2,521 in 2019 (2018 – $8,690) 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.

Income taxes refundable and payable were as follows:

	December 31, 2019	December 31, 2018
Income taxes refundable	2,866	2,930
Income taxes payable	(3,688)	(1,507)
Net income taxes refundable (payable)	(822)	1,423

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

	2019	2018
Balance – January 1	1,423	3,098
Amounts recorded in the consolidated statements of earnings	(11,594)	(2,496)
Payments made during the year	9,349	1,056
Foreign currency translation	–	(235)
Balance – December 31	(822)	1,423

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 liability of $64,477 at December 31, 2019 (December 31, 2018 – $689) principally related to the potential impact of the application of capital gains tax in India on any future dispositions of investments in equity shares as noted above. At December 31, 2019 deferred tax assets not recorded by the company of $74,816 (December 31, 2018 – $45,620) were comprised of: (i) foreign accrual property losses of $43,409 (December 31, 2018 – $27,126); (ii) net operating loss carryforwards of $24,786 (December 31, 2018 – $15,164); (iii) potential impact of the application of capital loss benefit in India on future dispositions of investments in equity shares of $5,069 (December 31, 2018 – nil); and (iv) $1,552 (December 31, 2018 – $3,330) related to the costs of the initial public offering, secondary offerings, and issuance costs on borrowings. The net operating loss carryforwards and foreign accrual property losses expire between 2037 and 2039, and between 2035 and 2039, respectively.

Deferred income tax has not been recognized for the withholding tax and other taxes that could be payable on the unremitted earnings of certain subsidiaries. Unremitted earnings amounted to approximately $1,263,217 at December 31, 2019 (December 31, 2018 – $674,000).

11. Financial Risk Management

Overview

The primary goals of the company's financial risk management 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 sheet from events that have the potential to materially impair its financial strength. The company's activities expose it to certain financial risks during or at the end of the reporting period. 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, 2019 compared to those identified at December 31, 2018, except as 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 future cash flows of a financial instrument or another asset or liability will fluctuate due to changes in foreign exchange rates and produce an adverse effect on net earnings and common shareholders' equity when measured in Indian rupees, the company's functional currency. The company's net earnings and common shareholders' equity may also be significantly affected by foreign currency translation movements as the majority of its net 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. There were no significant changes to the company's framework used to monitor, evaluate and manage foreign currency risk at December 31, 2019 compared to December 31, 2018.

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

	December 31, 2019				December 31, 2018			
	Cash and cash equivalents	Borrowings	Payable to related parties	Net exposure	Cash and cash equivalents	Borrowings	Payable to related parties	Net exposure
U.S. dollars	25,082[1]	(547,228)	(50,495)	(572,641)	32,909[1]	(547,228)	(8,796)	(523,115)
All other currencies	482	–	(24)	458	2,015	–	(31)	1,984
Total	25,564	(547,228)	(50,519)	(572,183)	34,924	(547,228)	(8,827)	(521,131)

(1) At December 31, 2019 cash and cash equivalents included restricted cash of $16,915 (December 31, 2018 – $13,833) to fund the interest payments on borrowings.

The table above shows the company's net exposure to the U.S. dollar and all other currencies, other than the Indian rupee. The company's net liability exposure to the U.S. dollar increased at December 31, 2019 compared to December 31, 2018 primarily due to an increase in payable to related parties as a result of a performance fee accrual and a decrease in cash and cash equivalents denominated in U.S. dollars.

The following table illustrates the potential impact on pre-tax earnings (loss) and net earnings (loss) of a hypothetical appreciation or depreciation of the Indian rupee against the U.S dollar and all other currencies.

	December 31, 2019			December 31, 2018		
	Net foreign currency exposure	Hypothetical $ change effect on pre-tax earnings	Hypothetical $ change effect on net earnings[1]	Net foreign currency exposure	Hypothetical $ change effect on pre-tax earnings	Hypothetical $ change effect on net earnings[1]
Change in Indian rupee exchange rate						
10.0% appreciation	(514,965)	57,218	42,055	(469,018)	52,113	38,303
5.0% appreciation	(543,574)	28,609	21,028	(495,074)	26,057	19,152
No change	(572,183)	–	–	(521,131)	–	–
5.0% depreciation	(600,792)	(28,609)	(21,028)	(547,188)	(26,057)	(19,152)
10.0% depreciation	(629,401)	(57,218)	(42,055)	(573,244)	(52,113)	(38,303)

(1) For the purpose of this sensitivity analysis, the hypothetical $ change effect on net earnings includes an income tax impact that is calculated using the company's marginal tax rate. Actual income tax expense (recovery) may differ significantly when earnings (losses) are realized.

Certain shortcomings are inherent in the method of analysis presented, including the assumption that the hypothetical appreciation or depreciation of the Indian rupee against the U.S. dollar and all other currencies occurred with all other variables held constant.

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. Typically, as interest rates rise, the fair value of fixed income investments decline and, conversely, as interest rates decline, the fair value of fixed income investments rise. In each case, the longer the maturity of the financial instrument, the greater the consequence of a change in interest rates. The company's interest rate risk management strategy is to position its fixed income portfolio based on its view of future interest rates and the yield curve, balanced with liquidity requirements. General economic conditions, political conditions and many other factors can also adversely affect the bond markets and, consequently, the value of fixed income securities held. Interest rate movements in India may affect the company's common shareholders' 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, 2019 compared to December 31, 2018.

The company's exposure to interest rate risk decreased in 2019 primarily reflecting the redemption of Sanmar bonds, the net proceeds of which were partially used to fund the company's investment in Sanmar common shares ($198,039) and to repay the company's Revolving Credit Facility ($50,000). The decrease also reflects net sales of Indian corporate bonds, partially offset by an investment in the NCML CCD. 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.

	December 31, 2019			December 31, 2018		
	Fair value of fixed income portfolio	Hypothetical $ change effect on net earnings(1)	Hypothetical % change in fair value	Fair value of fixed income portfolio	Hypothetical $ change effect on net earnings(1)	Hypothetical % change in fair value
Change in interest rates						
200 basis point increase	135,224	(2,353)	(2.3)%	527,897	(39,695)	(8.4)%
100 basis point increase	136,837	(1,168)	(1.1)%	551,843	(20,112)	(4.3)%
No change	138,425	–	–	576,386	–	–
100 basis point decrease	140,160	1,275	1.3 %	603,940	22,421	4.8 %
200 basis point decrease	141,872	2,533	2.5 %	632,299	45,534	9.7 %

(1) *For the purpose of this sensitivity analysis, the hypothetical $ change effect on net earnings includes an income tax impact that is calculated using the company's marginal tax rate. Actual income tax expense (recovery) may differ significantly when earnings (losses) are realized.*

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. The company's exposure to equity price risk through its equity investments at December 31, 2019 compared to December 31, 2018 are described below.

The company holds significant equity investments. The market value and the liquidity of these investments are volatile and may vary dramatically either up or down in short periods, and their ultimate value will therefore only be known over a period of time or on disposition.

The company's exposure to market price risk increased to $3,032,907 at December 31, 2019 from $2,084,961 at December 31, 2018 primarily as a result of unrealized gains on Private Indian Investments (principally BIAL and Sanmar common shares), unrealized gains on Public Indian Investments (principally CSB Bank, Fairchem, and Other Public Indian Investments) and the company's investments in the common shares of Sanmar, Seven Islands, CSB Bank, IH Fund and 5paisa, partially offset by the unrealized losses on Public Indian Investments (principally IIFL Finance and IIFL Securities), and unrealized losses on Private Indian Investments (principally NCML). 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 in the fair value hierarchy.

The following table illustrates the potential impact on pre-tax earnings (loss) and net earnings (loss) of a 10.0% change in the fair value of the company's Public Indian Investments.

	December 31, 2019		December 31, 2018	
Change in Indian equity markets	+10.0%	−10.0%	+10.0%	−10.0%
Public Indian Investments, fair value at December 31	877,029	877,029	820,125	820,125
Hypothetical $ change effect on pre-tax earnings (loss)	87,703	(87,703)	82,013	(82,013)
Hypothetical $ change effect on net earnings (loss)(1)	74,812	(74,812)	69,845	(69,845)

(1) For the purpose of this sensitivity analysis, the hypothetical $ change effect on net earnings includes an income tax impact that is calculated using the company's marginal tax rate. Actual income tax expense (recovery) may differ significantly when earnings (losses) are realized.

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 from cash and cash equivalents and investments in debt instruments. 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, 2019 compared to December 31, 2018.

Cash and Cash Equivalents

At December 31, 2019 the company's cash and cash equivalents of $48,713 (December 31, 2018 – $21,240) were primarily held by its wholly-owned subsidiaries at major financial institutions. The company monitors risks associated with cash and cash equivalents by regularly reviewing the financial strength and creditworthiness of these financial institutions. From these reviews, the company may transfer balances from financial institutions where it perceives heightened credit risk to others considered to be more stable.

Investments in Debt Instruments

The company's risk management strategy for debt instruments is to invest primarily in high credit quality issuers. Management considers high quality debt instruments to be those with a S&P or Moody's issuer credit rating of BBB/Baa or higher. While the company reviews third party credit ratings, it also carries out its own analysis and does not delegate the credit decision to rating agencies. The company endeavours to limit credit exposure by monitoring fixed income portfolio limits on individual corporate issuers and limits based on credit quality.

At December 31, 2019 the company's debt instruments were all considered to be subject to credit risk with a fair value of $138,425 (December 31, 2018 – $576,386), representing 4.3% (December 31, 2018 – 21.4%) of the total cash and investments portfolio.

The composition of the company's fixed income portfolio is presented in the table below:

	December 31, 2019		December 31, 2018	
	Fair value	Rating	Fair value	Rating
Government of India bonds(1)	88,775	Baa2/BBB−	88,997	Baa2/BBB−
Indian corporate bonds(2)	14,046	Baa3	33,361	Baa3
Indian corporate bonds	21,318	Not rated	61,252	Not rated
NCML CCD	14,286	Not rated	–	–
Sanmar bonds(3)	–	–	392,776	BBB−
Total bonds	138,425		576,386	

(1) Rated Baa2 by Moody's and BBB− by S&P.

(2) Rated Baa3 by Moody's.

(3) Rated BBB− by Brickwork Ratings, an Indian rating agency.

The company's exposure to credit risk from its investments in fixed income securities decreased at December 31, 2019 compared to December 31, 2018 primarily reflecting the redemption of Sanmar bonds, the net proceeds of which were partially used to fund the company's investment in Sanmar common shares ($198,039) and to repay the company's Revolving Credit Facility ($50,000). The decrease also reflects net sales of Indian corporate bonds, partially offset by an investment in the NCML CCD. Except as described above, there were no other significant changes to the composition of the company's fixed income portfolio classified according to each security's respective issuer credit rating at December 31, 2019 compared to December 31, 2018.

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 liquid assets 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, if any, must be remitted to the respective tax jurisdictions as they are due. There were no significant changes to the company's exposure to liquidity risk (except as set out in the discussion below) or the framework used to monitor, evaluate and manage liquidity risk at December 31, 2019 compared to December 31, 2018.

The undeployed cash and investments at December 31, 2019 provide adequate liquidity to meet the company's known significant commitments in 2020, which are principally comprised of the remaining investment commitments for IH Fund, interest expense, investment and advisory fees, general and administration expenses and potentially corporate income taxes. The company has a principal repayment on the $550.0 million term loan coming due in June 2020 that can be extended for an additional year. The company has the ability to sell a portion of its Indian Investments to supplement the liquidity requirements. 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. Accordingly, the company has adequate working capital to support its operations.

Refer to note 12 for details on the settlement of the performance fees, if any, at the end of the second calculation period, December 31, 2020.

At December 31, 2019 the company had an outstanding letter of credit of $14,010 (1.0 billion Indian rupees) in connection with an unsuccessful greenfield airport bid, which concluded on November 29, 2019. The letter of credit will expire on April 30, 2020 with no financial impact to the company.

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 in 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. At December 31, 2019 and 2018 the company's total cash and investments composition by the issuer's country of domicile was primarily India, and at December 31, 2019 represented 99.2% (December 31, 2018 – 98.7%) of the total cash and investments portfolio.

The company's holdings of Public and Private Indian Investments (see note 5) at December 31, 2019 and 2018 are summarized by the issuer's primary industry sector in the table below:

	December 31, 2019	**December 31, 2018**
Infrastructure	1,429,854	704,077
Financial services	821,972	876,917
Commercial and industrial	675,363	871,900
Ports and shipping	120,004	24,843
	3,047,193	2,477,737

During 2019 the company's concentration risk in the infrastructure sector increased primarily due to unrealized gains on the company's investment in BIAL. The company's concentration risk in the financial services sector decreased primarily due to unrealized losses on the company's investments in IIFL Finance and IIFL Securities, and partial sale of an investment in Other Public Indian Investments, partially offset by investments in CSB Bank, IH Fund and 5paisa, unrealized gains on the company's investments in CSB Bank, Other Public Indian Investments and IIFL Wealth, and the impact of the IIFL Holdings Reorganization. The company's concentration risk in the commercial and industrial sector decreased primarily due to the redemption of Sanmar bonds and unrealized losses on the company's investment in NCML common shares, partially offset by the company's investments in Sanmar common shares and the NCML CCD, and unrealized gains on the company's investments in Fairchem and Sanmar common shares. The company's concentration risk in the ports and shipping sector increased primarily due to the company's investment in Seven Islands as well as unrealized gains on the company's investments in Seven Islands and Saurashtra.

The company will not make an Indian Investment if, after giving effect to such investment, the total invested amount of such investment would exceed 20.0% 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 25.0% of the company's total assets (the "Investment Concentration Restriction"). The company's investment limit for an Indian Investment in accordance with the Investment Concentration Restriction increased at December 31, 2019 from December 31, 2018 principally as a result of net gains on investments, and dividend and interest income, partially offset by unrealized foreign currency translation losses, interest expense and investment and advisory fees. 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. At December 31, 2019 the company determined that it was in compliance with the Investment Concentration Restriction.

Capital Management

The company's objectives when managing capital are to protect its lenders, to safeguard its ability to continue as a going concern, and to maintain an optimal capital structure to reduce the cost of capital in order to optimize returns for common shareholders. 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 (comprised of borrowings and common shareholders' equity) increased from $2,665,173 at December 31, 2018 to $3,125,079 at December 31, 2019 principally reflecting an increase in common shareholders' equity, as described below.

Common shareholders' equity increased from $2,117,945 at December 31, 2018 to $2,577,851 at December 31, 2019 primarily reflecting net earnings ($516,338), partially offset by unrealized foreign currency translation losses ($53,445) during 2019.

On June 28, 2019 the company amended and restated the existing $550.0 million term loan by extending the maturity to June 26, 2020 while maintaining the option to extend for an additional year. The $550.0 million term loan includes a financial covenant requiring the company to maintain common shareholders' equity of not less than $1.5 billion. At December 31, 2019 the company was in compliance with the $550.0 million term loan financial covenant.

Concurrent with amending and restating the $550.0 million term loan, the company entered into a 1 year Revolving Credit Facility with a Canadian bank bearing interest at a rate of LIBOR plus 350 basis points, with an option to extend for an additional year. The Revolving Credit Facility was fully drawn on June 28, 2019 and the proceeds were used to partially finance the settlement of the payable for partly paid securities on July 8, 2019 relating to the company's investment in CSB Bank and to fund the debt service reserve account. On December 31, 2019 the company repaid the Revolving Credit Facility using a portion of the proceeds received from the redemption of the Sanmar bonds.

12. Related Party Transactions

Payable to Related Parties

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

		December 31, 2019		**December 31, 2018**
Performance fee		47,850		–
Investment and advisory fees	8,704		8,796	
Investment and advisory fees – recovery	(6,064)		–	
Investment and advisory fees		2,640		8,796
Other		29		31
		50,519		**8,827**

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 and its subsidiaries (the ''Investment Advisory Agreement''). As compensation for the provision of these services, the company and its subsidiaries pay an investment and advisory fee, and if applicable, a performance fee. Such fees are determined with reference to the company's common shareholders' equity.

Performance Fee

The performance fee is accrued quarterly and is calculated, on a cumulative basis, as 20% of any increase (including distributions) in book value per share above a 5% per annum increase less any performance fees settled in prior calculation periods. On any date, book value per share is calculated as common shareholders' equity at the end of the reporting period, divided by the total number of common shares of the company effectively outstanding on that date. The amount of book value per share at any time which must be achieved before any performance fee would be payable is sometimes referred to as the ''hurdle per share''.

First Calculation Period

On March 9, 2018 the company issued 7,663,685 subordinate voting shares to Fairfax related to the first three-year period from January 30, 2015 to December 31, 2017 (the ''first calculation period''). Under the terms of the Investment Advisory Agreement, settlement of the performance fee took place in subordinate voting shares of the company as the market price per share was less than two times the then book value per share. The number of subordinate voting shares issued was calculated as the performance fee payable at December 31, 2017 of $114,437 divided by the VWAP of $14.93. The issuance of these subordinate voting shares increased Fairfax's equity interest in Fairfax India from 30.2% at December 31, 2017 to 33.6% at March 9, 2018.

Second Calculation Period

The period from January 1, 2018 to December 31, 2020 (the ''second calculation period'') will be the next consecutive three-year period after December 31, 2017 for which a performance fee, if applicable, will be accrued. The calculation of the performance fee was reassessed and adjusted during 2019 and will be calculated on a cumulative basis as 20% of any increase in the book value per share (before factoring in the impact of the performance fee for the second calculation period) above a 5% per annum increase less the performance fee of $114,437 previously settled in the first calculation period. Under the Investment Advisory Agreement, the performance fee, if applicable, will be paid within 30 days after the company issues its annual audited consolidated financial statements for the year ended December 31, 2020, in subordinate voting shares of the company unless the market prices per share of those shares is more than two times the then book value per share, in which event Fairfax may elect to receive that fee in cash. The number of subordinate voting shares to be issued will be calculated based on the VWAP in respect of which the performance fee is paid. The company and Fairfax have agreed to review the performance fee calculation prior to December 31, 2020 to ensure the calculation reflects the original intentions of the parties.

At December 31, 2019 the company determined that there was a $47,850 performance fee accrual (December 31, 2018 – nil). In 2019 the performance fee recorded in the consolidated statements of earnings was $48,514 representing the performance fee accrual translated at the average exchange rate for 2019 (2018 – nil). At December 31, 2019 there were an estimated 3,748,129 contingently issuable subordinate voting shares relating to the performance fee accrual of $47,850 (December 31, 2018 – nil).

Investment and Advisory Fees

The investment and advisory fees are calculated and payable quarterly as 0.5% of the value of undeployed capital and 1.5% of the company's common shareholders' equity less the value of undeployed capital. In 2019 the company and Fairfax retroactively revised the interpretation of the Investment Advisory Agreement to clarify that deployed capital should exclude any Indian Investments financed by debt, resulting in a recovery of investment and advisory fees from Fairfax of $6,064. In 2019 the investment and advisory fees recorded in the consolidated statements of earnings was $27,473 (2018 – $33,908).

Fairfax's Voting Rights and Equity Interest

At December 31, 2019 Fairfax, through its subsidiaries, owned 30,000,000 multiple voting shares (December 31, 2018 – 30,000,000) and 21,558,422 subordinate voting shares (December 31, 2018 – 21,558,422) of Fairfax India. At December 31, 2019 Fairfax's holdings of multiple and subordinate voting shares represented 93.8% of the voting rights and 33.8% of the equity interest in Fairfax India (December 31, 2018 – 93.8% and 33.7%).

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 the Corporate Secretary of the company will be borne by Fairfax. In addition, all compensation payable to the Vice President and Vice President, Corporate Affairs is borne by Fairfax.

Director Compensation

Compensation for the company's Board of Directors for the years ended December 31, determined in accordance with the company's IFRS accounting policies, was recognized in general and administration expenses in the consolidated statements of earnings and was as follows:

	2019	**2018**
Retainers and fees	150	133
Share-based payments	96	75
Other	50	50
	296	258

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:

	2019	**2018**
Audit, legal and tax professional fees	2,673	1,797
Administrative expenses	1,123	640
Salaries and employee benefit expenses	1,083	1,025
Other	421	617
	5,300	4,079

15. Supplementary Cash Flow Information

Cash and cash equivalents were included in the consolidated balance sheets and statements of cash flows as follows:

	December 31, 2019	**December 31, 2018**
Cash and term deposits with banks	46,642	21,240
U.S. treasury bills	2,071	–
	48,713	21,240

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

	2019	2018
Purchases of investments		
Bonds	(152,178)	(3,022)
Common stocks	(411,774)	(237,639)
	(563,952)	(240,661)
Sales of investments		
Bonds	629,457	144,213
Common stocks	36,950	–
	666,407	144,213
Net interest and dividends received (paid)		
Net interest income received	8,434	23,676
Dividends received	10,141	8,699
Interest paid on borrowings	(34,746)	(26,125)
	(16,171)	6,250
Income taxes paid	9,349	1,056

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 6, 2020)

(Figures and amounts are in US$ and $ thousands except share and 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) 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.

(3) The MD&A contains references to book value per share. On any date, book value per share is calculated as common shareholders' equity at the end of the reporting period, determined in accordance with IFRS, divided by the total number of common shares of the company effectively outstanding on that date. Those amounts are presented in the consolidated balance sheet and note 8 (Common Shareholders' Equity under the heading Common Stock) respectively within the consolidated financial statements for the year ended December 31, 2019. 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, if any, to Fairfax Financial Holdings Limited ("Fairfax").

(4) Throughout this MD&A, the term "Indian Investments" refers to deployed capital invested in Public and Private Indian Investments as disclosed in note 5 (Indian Investments) to the consolidated financial statements for the year ended December 31, 2019.

Business Developments

Overview

Fairfax is Fairfax India's ultimate parent and acts as its administrator. Fairfax is a holding company which, through its subsidiaries, is engaged in property and casualty insurance and reinsurance and the associated investment management. 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. Fairfax India's subordinate voting shares trade on the Toronto Stock Exchange ("TSX") under the symbol FIH.U. The multiple voting shares of the company are not publicly traded.

The book value per share at December 31, 2019 was $16.89 compared to $13.86 at December 31, 2018 representing an increase in 2019 of 21.9%, primarily reflecting net earnings of $516,338 (primarily related to net change in unrealized gains on investments and net realized gains on investments, partially offset by provision for income taxes, performance fees and interest expense), partially offset by unrealized foreign currency translation losses of $53,445.

The following narrative sets out the company's key business developments in 2019 and 2018.

Capital Transactions

On June 28, 2018 the company completed a $550,000 principal amount, 1 year secured term loan, with an option to extend for an additional year ("$550.0 million term loan"), with a syndicate led by a Canadian bank, which amended and restated the existing 1 year secured term loan with a principal amount of $400,000 ("$400.0 million term loan"). The $550.0 million term loan bears interest at a rate of LIBOR plus 350 basis points. On June 28, 2019 the company amended and restated the existing $550.0 million term loan by extending the maturity to June 26, 2020 while maintaining the option to extend for an additional year.

Concurrent with the $550.0 million term loan, the company entered into a $50.0 million, 1 year secured revolving credit facility with a Canadian bank bearing interest at a rate of LIBOR plus 350 basis points, with an option to extend for an additional year (''Revolving Credit Facility''). The Revolving Credit Facility was fully drawn on June 28, 2019 and the proceeds were used to partially finance the settlement of the payable for partly paid securities on July 8, 2019 relating to the company's investment in CSB Bank Limited (''CSB Bank'', formerly known as The Catholic Syrian Bank Limited) and to fund the debt service reserve account. On December 31, 2019 the company repaid the Revolving Credit Facility using a portion of the proceeds received from the redemption of Sanmar bonds.

On March 9, 2018 the company issued 7,663,685 subordinate voting shares to Fairfax to settle the performance fee payable of $114,437 for the first calculation period (three-year period ending on December 31, 2017). Under the terms of the Investment Advisory Agreement (defined in note 12 (Related Party Transactions) to the consolidated financial statements for the year ended December 31, 2019), settlement of the performance fee was through the issuance of subordinate voting shares, calculated based on the performance fee payable at December 31, 2017 of $114,437 divided by the volume-weighted average trading price of the company's subordinate voting shares for the 10 trading days prior to and including the last day of the calculation period (''VWAP'') of $14.93. The issuance of these subordinate voting shares increased Fairfax's equity interest in Fairfax India from 30.2% at December 31, 2017 to 33.6% at March 9, 2018.

For further details refer to notes 7 (Borrowings) and 8 (Common Shareholders' Equity) to the consolidated financial statements for the year ended December 31, 2019.

Indian Investments

Full descriptions of the Indian Investments committed to and acquired in 2019 and 2018 are provided in the Indian Investments section of this MD&A.

Operating Environment

Overview

India continues to be one of the fastest growing major economies in the world having recovered from the significant decline in its market indices during the third quarter of 2018 on the back of political stability and strong economic and tax reforms. According to the World Economic Outlook Update (January 2020) published by the International Monetary Fund (''IMF''), the Indian economy will continue to grow at 5.8% in the financial year 2019-20 and 6.5% in the financial year 2020-21. The improvement in India's economic fundamentals has accelerated in recent years with the combined impact of strong government reforms, higher government spending on infrastructure development and the Reserve Bank of India's (''RBI'') inflation focus supported by favourable global commodity prices.

Political Stability

The 2019 Indian general election was held in seven phases from April 11, 2019 to May 19, 2019, with the results declared on May 23, 2019. The National Democratic Alliance (''NDA''), led by Prime Minister Modi's Bharatiya Janata Party (''BJP''), swept to victory and Prime Minister Modi became the first Indian Prime Minister in history whose government was re-elected with both an increase in total percentage of votes and a full majority. Prime Minister Modi's first term saw significant progress in terms of economic reforms that increased foreign direct investments (''FDI'') and several key reforms including the implementation of a unified national tax system on goods and services tax, diesel price deregulation, increased sectoral foreign investment limits and certain labour reforms.

A second term for the NDA will likely imply: (i) broad policy continuity; (ii) a focus on improving national security; and (iii) further progress in terms of economic reform. It is expected that the Indian economy will continue to make headway in liberalizing and opening it to more FDI. In addition, labour reforms are expected to address inflexible labour markets and rising unemployment. Negotiations to resolve the trade dispute with the U.S. has commenced and will form an important role in further liberalizing the Indian economy. Overall, Prime Minister Modi's win is considered to be positive for the Indian economy and signals political stability for the next five years.

Tax Reform

On September 20, 2019 Finance Minister Nirmala Sitharaman announced significant cuts to domestic corporate tax rates, along with certain other tax relief measures. Key measures included a decrease in the base corporate tax rate from 30.0% to 22.0%, with the effective tax rate (after surcharges and cess) of 34.9% falling to 25.2% effective April 1, 2019. Indian firms that do not receive incentives or exemptions will see their effective tax rate cut from 34.9% to 25.2%. Companies with incentives or exemptions can elect to fully utilize available tax credits first, before electing to transition to the new lower corporate tax rate.

Overall, a broad positive impact is expected in stimulating economic growth by improving investor sentiment, encouraging more FDI as a result of increased tax competitiveness, and increasing corporate profits.

Union Budget for Fiscal Year 2019-20

On February 1, 2020 Finance Minister Nirmala Sitharaman presented the 2020 Union Budget of India, introducing several additional tax reform measures to stimulate growth, simplify the tax code and bring ease of compliance. Once enacted the revised tax code will eliminate the dividend distribution tax currently levied on companies paying dividends to either foreign or domestic shareholders after April 1, 2020. Under the current tax regime, dividend income is exempt from tax in the hands of the recipient if companies pay the dividend distribution tax at an effective rate (after surcharge and cess) of 20.6%. After April 1, 2020, dividends will be taxed in the hands of the shareholders at applicable rates under domestic tax laws and treaties. Under the double income tax treaty between India and Mauritius (''India-Mauritius tax treaty''), this will result in dividends being taxable in the hands of the shareholder at the rate of 5.0% if the shareholder directly holds at least 10.0% of the capital of the Indian company paying the dividend or 15.0% in any other case. The revised tax code also provides significant relief and simplification to India's middle class by lowering tax rates by 5.0% to 10.0% for the middle income tax brackets for individuals who elect to forego certain deductions and exemptions, effectively eliminating approximately 70 deductions and exemptions.

The removal of the dividend distribution tax and the simplification of the tax code for individuals are among several other tax reform measures introduced in the 2020 Union Budget which are expected to set a long term framework in stimulating economic growth by increasing the attractiveness of Indian equity markets and boosting domestic consumer confidence.

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 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 based in Mauritius, FIH Mauritius Investments Ltd (''FIH Mauritius'') and FIH Private Investments Ltd (''FIH Private''). In June 2019 the company formed Anchorage Infrastructure Investments Holdings Limited (''Anchorage''), a wholly-owned subsidiary of FIH Mauritius based in India.

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 likely to drive 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, and their respective networks in India, to source and evaluate investment opportunities for the company.

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 Indian Investments. 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.

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 Indian Investments (''Private Indian Investments'' as disclosed in the Indian Investments section of this MD&A) either through initial public offerings (''IPO'') or private sales. For publicly traded Indian Investments (''Public Indian Investments'' as disclosed in the Indian Investments section of this MD&A), exit strategies may include selling the investments through private placements or in public markets.

Investment Selection

To identify potential investments, the company principally relies on the experience and expertise of Fairfax and the Portfolio Advisor, and their respective networks in India.

The following is an illustrative list of criteria that the company, Fairfax 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 and maintain effective governance structures.

Strong competitive position in industry – The company seeks to invest in businesses that hold leading and defendable 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, such that they are in a position 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, the company and their affiliates conduct thorough due diligence investigations when evaluating any Indian Investment prior to making a recommendation to the company and its subsidiaries to invest. This generally includes consultations with Fairfax's network of current and former management teams, consultants, competitors, investment bankers and senior executives to assess, among other things, the industry dynamics, the character of the management team and the viability of the business plan.

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

Investment Restrictions

The company will not make an Indian Investment if, after giving effect to such investment, the total invested amount of such investment would exceed 20.0% 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 25.0% of the company's total assets (the ''Investment Concentration Restriction''). The company's investment limit for an Indian Investment in accordance with the Investment Concentration Restriction increased at December 31, 2019 from December 31, 2018 principally as a result of net gains on investments, and dividend and interest income, partially offset by unrealized foreign currency translation losses, interest expense and investment and advisory fees.

The company intends to make multiple different investments as part of its prudent investment strategy. 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. At December 31, 2019 the company determined that it was in compliance with the Investment Concentration Restriction.

Indian Investments

Cautionary Statement Regarding Financial Information of Significant Indian Investments

Fairfax India has agreed to voluntarily provide within the MD&A, summarized financial information prepared in accordance with IFRS for all of its Indian Investments for which it had previously filed a business acquisition report in accordance with section 8.2 of *National Instrument 51-102 Continuous Disclosure Obligations*. National Collateral Management Services Limited, IIFL Finance Limited (formerly IIFL Holdings Limited), Sanmar Chemicals Group, Bangalore International Airport Limited and CSB Bank (collectively, ''Significant Indian Investments''), for which the company had previously filed business acquisition reports, prepared their financial statements in accordance with Indian Accounting Standards (''Ind AS''), with the exception of the financial statements of CSB Bank prepared in accordance with Indian Generally Accepted Accounting Principles (''Indian GAAP'') as a result of the RBI's decision to defer implementation of Ind AS for scheduled commercial banks until further notice. Ind AS are based on and substantially converged with IFRS as issued by the IASB. Fairfax India is limited with respect to the amount of independent verification it is able to perform on 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 each end on March 31. Summarized financial information of the company's Significant Indian Investments has generally been provided for the periods subsequent to the company's investment and to the extent that the most recent 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 this MD&A may not be appropriate for their purposes.

Summary of Indian Investments

The table below provides a summary of the company's Indian Investments:

		December 31, 2019				December 31, 2018			
	Date Acquired	Ownership %	Cost	Fair value	Net change	Ownership %	Cost	Fair value	Net change
Public Indian Investments:									
Common stocks:									
IIFL Finance / IIFL Holdings(1)	December 2015 and February 2017	26.5%	–	166,014	166,014	26.5%	256,976	613,458	356,482
IIFL Wealth(1)	May 2019	13.9%	191,443	191,476	33	–	–	–	–
IIFL Securities(1)	May 2019	26.5%	91,310	48,796	(42,514)	–	–	–	–
CSB Bank(2)	October 2018, March and June 2019	49.7%	169,447	229,262	59,815	36.4%	88,524	93,081	4,557
Fairchem	February and August 2016	48.8%	74,384	127,413	53,029	48.8%	74,384	96,574	22,190
5paisa	October 2017 and August 2019	26.6%	23,535	18,176	(5,359)	26.6%	19,758	11,913	(7,845)
Other	March and August 2018	< 1.0%	63,674	95,892	32,218	< 1.0%	94,090	98,180	4,090
			613,793	877,029	263,236		533,732	913,206	379,474
Private Indian Investments:									
Bonds:									
NCML CCD	October 2019	–	13,970	14,286	316	–	–	–	–
Sanmar bonds	April and September 2016	–	–	–	–	–	299,000	392,776	93,776
Common stocks:									
BIAL(3)	March and July 2017, May 2018	54.0%	652,982	1,429,854	776,872	54.0%	652,982	704,077	51,095
Sanmar	April 2016 and December 2019	42.9%	199,039	412,930	213,891	30.0%	1,000	217,170	216,170
NCML	August 2015 and August 2017	89.5%	174,318	120,734	(53,584)	89.5%	174,318	165,380	(8,938)
Seven Islands	March, September and October 2019	48.5%	83,846	88,800	4,954	–	–	–	–
Saurashtra	February 2017	51.0%	30,018	31,204	1,186	51.0%	30,018	24,843	(5,175)
NSE	July 2016	1.0%	26,783	57,210	30,427	1.0%	26,783	60,285	33,502
IH Fund	January and November 2019	–	14,869	15,146	277	–	–	–	–
			1,195,825	2,170,164	974,339		1,184,101	1,564,531	380,430
Total Indian Investments			1,809,618	3,047,193	1,237,575		1,717,833	2,477,737	759,904

(1) On May 31, 2019 IIFL Holdings spun off IIFL Wealth and IIFL Securities in the IIFL Holdings Reorganization. At December 31, 2018 the fair value of $613,458 represented the fair value of the company's investment in IIFL Holdings, prior to the IIFL Holdings Reorganization.

(2) On December 4, 2019 CSB Bank closed its IPO and commenced trading on both the BSE and NSE of India.

(3) Cost and net change includes $74,202 (approximately 4.8 billion Indian rupees) of cash consideration paid attributable to the costs incurred to acquire the additional 10.0% equity interest in BIAL in July 2017.

Summary of Changes in the Fair Value of the Company's Indian Investments

A summary of changes in the fair value of the company's Public and Private Indian Investments during 2019 and 2018 were as follows:

	2019								
	Balance as of January 1	Purchases	IIFL Holdings Reorganization	Transfer	Sales / Redemptions	Net realized gains (losses) on investments	Net change in unrealized gains (losses) on investments	Net unrealized foreign currency translation gains (losses)	Balance as of December 31
Public Indian Investments:									
Common stocks:									
IIFL Finance / IIFL Holdings[1]	613,458	–	(282,753)	–	–	36,112	(196,040)	(4,763)	166,014
IIFL Wealth[1]	–	–	191,443	–	–	–	4,620	(4,587)	191,476
IIFL Securities[1]	–	–	91,310	–	–	–	(40,916)	(1,598)	48,796
CSB Bank[2]	93,081	80,987	–	–	(19)	(45)	60,901	(5,643)	229,262
Fairchem	96,574	–	–	–	–	–	33,412	(2,573)	127,413
5paisa[3]	11,913	6,483	–	–	–	–	12	(232)	18,176
Other	98,180	–	–	–	(36,907)	7,115	30,182	(2,678)	95,892
Total Public Indian Investments	913,206	87,470	–	–	(36,926)	43,182	(107,829)	(22,074)	877,029
Private Indian Investments:									
Loan – NCML Loan	–	13,970	–	(13,970)	–	–	–	–	–
Bonds:									
NCML CCD	–	–	–	13,970	–	–	241	75	14,286
Sanmar bonds	392,776	–	–	–	(433,873)	156,540	(107,758)	(7,685)	–
Common stocks:									
BIAL	704,077	–	–	–	–	–	751,487	(25,710)	1,429,854
Sanmar[4]	217,170	178,422	–	–	–	–	23,062	(5,724)	412,930
NCML	165,380	–	–	–	–	–	(41,594)	(3,052)	120,734
Seven Islands	–	83,846	–	–	–	–	7,119	(2,165)	88,800
Saurashtra	24,843	–	–	–	–	–	7,001	(640)	31,204
NSE	60,285	–	–	–	–	–	(1,779)	(1,296)	57,210
IH Fund	–	14,893	–	–	(24)	–	482	(205)	15,146
Derivatives:									
5paisa forward derivative[3]	–	–	–	–	(2,706)	2,767	–	(61)	–
Sanmar forward derivative[4]	–	19,617	–	–	–	(19,816)	–	199	–
Total Private Indian Investments	1,564,531	310,748	–	–	(436,603)	139,491	638,261	(46,264)	2,170,164
Total Indian Investments	2,477,737	398,218	–	–	(473,529)	182,673	530,432	(68,338)	3,047,193

(1) *On May 31, 2019 IIFL Holdings spun off IIFL Wealth and IIFL Securities in the IIFL Holdings Reorganization. The amount recorded in net realized gains on investments was $36,112 (all of which was recognized as unrealized gains on investments in prior periods).*

(2) *On December 4, 2019 CSB Bank closed its IPO and commenced trading on both the BSE and NSE of India.*

(3) *On August 20, 2019 Fairfax India participated in a 5paisa rights offer and acquired additional 5paisa common shares for cash consideration of $3,777. As a result the company derecognized the 5paisa forward derivative asset with a carrying value of $2,706, recorded a realized gain of $2,767 and recorded its investment in 5paisa common shares at a fair value at that date of $6,483.*

(4) *On December 21, 2019 Fairfax India acquired additional Sanmar common shares for cash consideration of $198,039. As a result the company derecognized the Sanmar forward derivative obligation with a carrying value of $19,617, recorded a realized loss of $19,816 and recorded its investment in Sanmar common shares at a fair value at that date of $178,422.*

	2018				
	Balance as of January 1	Purchases	Net change in unrealized gains (losses) on investments	Net unrealized foreign currency translation gains (losses)	Balance as of December 31
Public Indian Investments:					
Common stocks:					
IIFL Holdings	888,485	–	(203,226)	(71,801)	613,458
Fairchem	149,200	–	(40,711)	(11,915)	96,574
5paisa	19,958	–	(6,474)	(1,571)	11,913
Other	–	94,090	4,032	58	98,180
Total Public Indian Investments	1,057,643	94,090	(246,379)	(85,229)	820,125
Private Indian Investments:					
Bonds – Sanmar bonds	333,172	–	90,128	(30,524)	392,776
Common stocks:					
BIAL	608,288	67,391	84,311	(55,913)	704,077
Sanmar	556	–	221,454	(4,840)	217,170
NCML	179,054	–	1,719	(15,393)	165,380
CSB Bank	–	88,524(1)	–	4,557	93,081
Saurashtra	28,000	–	(772)	(2,385)	24,843
NSE	40,452	–	24,245	(4,412)	60,285
Total Private Indian Investments	1,189,522	155,915	421,085	(108,910)	1,657,612
Total Indian Investments	2,247,165	250,005	174,706	(194,139)	2,477,737

(1) *Comprised of: (i) 100.0% of the partly paid shares ($37,823); and (ii) 40.0% of the warrants that have been paid for as they had features of in-substance equity ($50,701). Excluded from the table is the payable for partly paid securities of CSB Bank of $29,827 on the consolidated balance sheet as at December 31, 2018 which represents the 75.0% remaining consideration to be paid on the partly paid shares.*

Public Indian Investments

The fair values of Fairfax India's Public Indian Investments with shares listed on both the BSE (formerly known as Bombay Stock Exchange Limited) and the National Stock Exchange of India ("NSE of India"), are determined using the bid prices of those investments (without adjustments or discounts) at the balance sheet date, with the exception of CSB Bank common shares which are subject to certain selling restrictions.

Investment in IIFL Holdings Limited / IIFL Finance Limited

IIFL Holdings Limited

Business Overview

IIFL Holdings Limited ("IIFL Holdings") was a publicly traded diversified financial services holding company located in Mumbai, India with principal lines of business in wealth management, capital markets and other activities (comprised of retail investment brokerage, institutional equities, investment banking and financial product distribution) and a non-banking financial company ("NBFC"). Over the past two decades, IIFL Holdings has created a brand that is known for its informed research and cutting-edge technology, extensive domestic and global footprint and high service standards.

Transaction Description

In December 2015 and February 2017 the company acquired 84,641,445 common shares of IIFL Holdings (representing a 26.9% equity interest) for aggregate cash consideration of $276,734 (approximately 18.5 billion Indian rupees). In October 2017 IIFL Holdings spun off its wholly-owned subsidiary 5paisa Capital Limited ("5paisa") which resulted in a reduction to the company's cost of its investment in IIFL Holdings by $19,758. Upon closing of this transaction the company had invested $256,976 for a 26.9% equity interest in IIFL Holdings.

On January 31, 2018 IIFL Holdings' board of directors approved a draft plan to reorganize IIFL Holdings into three listed entities. On May 31, 2019 IIFL Holdings spun off its wholly-owned subsidiary IIFL Securities Limited (''IIFL Securities'', comprised of investment brokerage, distribution and investment banking businesses) and its 53.3% equity interest in its subsidiary IIFL Wealth Management Limited (''IIFL Wealth'', comprised of the wealth management and asset management businesses) in a non-cash transaction (the ''IIFL Holdings Reorganization''). Shareholders of IIFL Holdings received seven common shares of IIFL Securities and one common share of IIFL Wealth for every seven IIFL Holdings common shares held. The distribution of new common shares to IIFL Holdings shareholders was characterized as a return of capital which resulted in the company recording the initial cost of its investments in IIFL Securities and IIFL Wealth at their estimated fair values at that date of $91,310 (approximately 6.4 billion Indian rupees) and $191,443 (approximately 13.3 billion Indian rupees) respectively. The fair values of IIFL Securities and IIFL Wealth exceeded Fairfax India's cost basis in IIFL Holdings resulting in the company recording $36,112 in net realized gains on investments (all of which was recognized as unrealized gains on investments in prior periods). The company had recorded unrealized losses on its investment in IIFL Holdings of $132,300 from January 1, 2019 up to the date of the IIFL Holdings Reorganization. Upon completion of the spin off transactions, IIFL Holdings Limited was renamed IIFL Finance Limited (''IIFL Finance'') and continued to trade on the BSE and NSE of India. The shares of IIFL Wealth and IIFL Securities were listed on the BSE and NSE of India in September 2019.

IIFL Finance Limited

Business Overview

IIFL Finance, comprised of a holding company and an 84.5% equity interest in India Infoline Finance Limited (''India Infoline'', an NBFC), is a publicly traded diversified financing company located in Mumbai, India that through its subsidiaries offers home loans, gold loans, business loans (including loans against property and small-to-medium enterprise loans, microfinance, developer and construction finance) and capital market finance.

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

Transaction Description

At December 31, 2019 the company held 84,641,445 common shares of IIFL Finance representing a 26.5% equity interest (December 31, 2018 – 84,641,445 common shares and a 26.5% equity interest in IIFL Holdings). Fairfax had made an investment in IIFL Holdings prior to Fairfax India's investment and in that capacity was able to recommend the appointment of one board representative out of the eight-member board of directors. At December 31, 2019 the company did not have any representation on the board of IIFL Finance other than the board member appointed by Fairfax.

IIFL Finance has applied for an NBFC license with the RBI and once obtained it will merge with its subsidiary, India Infoline. Concurrent with the merger, IIFL Finance will issue approximately 75 million common shares of IIFL Finance to the minority shareholders of India Infoline in a share exchange. The merger transaction is expected to close in 2020, at which time Fairfax India's equity interest in IIFL Finance will be diluted to approximately 22%.

Key Business Drivers, Events and Risks

IIFL Finance's key business drivers include its access to well-diversified sources of funds, a diversified asset portfolio with a strategic focus on households, and its vast physical network to provide a one-stop shop for financial products to its customers. At December 31, 2019 IIFL Finance had the largest presence amongst retail focused NBFCs with 2,366 branches across 25 states in India.

IIFL Finance is a pioneer in the adoption of end-to-end digitization across processes with demonstrated ability to leverage technology to streamline processes, reduce turnaround times and use data-driven analytical models to help manage delinquencies.

IIFL Finance continues to achieve growth in volume and profit, driven primarily by core growth segments of affordable home loans, small business loans, gold loans and microfinance. Despite pressures from increased funding costs in the current interest rate environment, net interest margin has been protected by achieving increased yields from the NBFC's assets under management through the repricing of new and existing loans at higher interest rates. Asset quality remains stable with gross and net non-performing assets at historic lows compared to the overall loan portfolio.

At December 31, 2019 IIFL Finance managed assets worth approximately $5 billion (360 billion Indian rupees) (December 31, 2018 – approximately $5 billion (364 billion Indian rupees)) comprised of home loans (34%), business loans (23%), gold loans (21%), developer and construction finance (13%), microfinance (8%) and capital market finance (1%).

Valuation and Consolidated Financial Statement Impact

At December 31, 2019 the fair value of the company's investment in IIFL Finance was $166,014 with the changes in fair value in 2019 and 2018 aggregated with IIFL Holdings and presented in the tables at the outset of the Indian Investments section of this MD&A.

Prior to the IIFL Holdings Reorganization, IIFL Holdings' share price decreased by 21.6% from 506.00 Indian rupees per share at December 31, 2018 to 396.50 Indian rupees per share at May 30, 2019. Following the IIFL Holdings Reorganization, IIFL Finance's share price decreased by 28.2% from 195.00 Indian rupees per share at May 31, 2019 to 140.00 Indian rupees per share at December 31, 2019.

In 2019 the consolidated statements of earnings included dividend income earned from the company's investment in IIFL Finance of $6,006 (2018 – $6,575).

Summarized Financial Information of IIFL Finance (formerly IIFL Holdings)

IIFL Finance's fiscal year ends on March 31. Summarized below are IIFL Finance's balance sheets at September 30, 2019 and March 31, 2019.

Balance Sheets
(unaudited – US$ thousands)

	September 30, 2019(1)	**March 31, 2019(1)(2)**
Financial assets	4,093,805	4,673,444
Non-financial assets	152,759	125,558
Financial liabilities	3,569,079	4,141,621
Non-financial liabilities	24,818	26,920
Shareholders' equity	652,667	630,461

(1) The net assets of IIFL Finance were translated at September 30, 2019 at $1 U.S. dollar = 70.87 Indian rupees and at March 31, 2019 at $1 U.S. dollar = 69.28 Indian rupees. The exchange rates used were the spot rates prevailing on those respective dates.

(2) The summarized financial information has been presented for IIFL Finance, the remaining company after the IIFL Holdings Reorganization.

Financial assets decreased primarily as a result of a decrease in receivables, developer and construction finance, business loans and capital market loans, partially offset by growth in small retail home and gold loans and microfinance. IIFL Finance's asset quality remains stable with gross and net non-performing assets at 2.5% and 1.5% of IIFL Finance's loans at September 30, 2019. Non-financial assets increased primarily as a result of implementation of *IFRS 16 Leases* ("IFRS 16"). IFRS 16 removes the distinction between finance and operating leases and recognizes substantially all leases on the balance sheet. Financial liabilities decreased primarily due to repayments of debt securities, partially offset by an increase in other borrowings. Non-financial liabilities modestly decreased primarily due to a decrease in current tax liabilities.

Summarized below are IIFL Finance's statements of earnings for the six months ended September 30, 2019 and 2018.

Statements of Earnings
(unaudited – US$ thousands)

	Six months ended September 30, 2019(1)	Six months ended September 30, 2018(1)(2)
Revenue	335,016	347,617
Earnings before income taxes	67,769	77,890
Net earnings	37,265	51,980

(1) Amounts for the six months ended September 30, 2019 and 2018 were translated into US$ using the average exchange rates of $1 U.S. dollar = 69.96 Indian rupees and $1 U.S. dollar = 68.51 Indian rupees prevailing during those periods.

(2) The summarized financial information has been presented for IIFL Finance, the remaining company after the IIFL Holdings Reorganization.

IIFL Finance's revenue decreased primarily due to a decrease in interest and other income. Earnings before income taxes and net earnings decreased as a result of net losses on the derecognition of financial instruments. The decrease in net earnings is also impacted by a reversal of previously recognized deferred tax assets, partially offset by a recovery of previously written-off financial instruments, and lower finance costs.

Investment in IIFL Wealth Management Limited

Business Overview

IIFL Wealth is a publicly traded wealth management firm with principal lines of business in wealth management and asset management, located in Mumbai, India. The wealth management business serves the highly specialized needs of high net worth and ultra-high net worth individuals, affluent families, family offices and institutional clients through a comprehensive range of tailored wealth management solutions. The asset management business provides a diversified suite of alternative investment funds, portfolio management services and mutual funds that span public and private equities, fixed income securities and real estate.

Additional information can be accessed from IIFL Wealth's website www.iiflwealth.com.

Transaction Description

On May 31, 2019 IIFL Holdings spun off its 53.3% equity interest in its subsidiary IIFL Wealth in a non-cash transaction that resulted in Fairfax India receiving one new common share of IIFL Wealth for every seven common shares of IIFL Holdings held. Upon completion of the IIFL Holdings Reorganization Fairfax India received 12,091,635 common shares of IIFL Wealth representing a 14.2% equity interest with an estimated fair value at May 31, 2019 of $191,443 (approximately 13.3 billion Indian rupees), which was determined based on a third party valuation.

The shares of IIFL Wealth were listed on the BSE and NSE of India on September 19, 2019.

At December 31, 2019 the company held 12,091,635 common shares of IIFL Wealth representing a 13.9% equity interest. At December 31, 2019 the company did not have any representation on the board of IIFL Wealth.

Key Business Drivers, Events and Risks

IIFL Wealth provides its clients with investment management services with the aim to preserve capital while generating steady inflation-adjusted returns from a diversified portfolio with low volatility, along with additional services such as trust and estate planning, credit solutions and corporate advisory. IIFL Wealth has a presence in 29 locations across 6 countries and continues to be India's largest fund manager of alternative investment funds.

India's wealthy are expected to increase their net assets through organic growth of existing assets or from the sale of businesses (unlocking potential value through secondary sales). In fiscal 2017 it was estimated that there were 160,600 ultra high and high net worth households, which is projected to increase to approximately 330,400 households by fiscal 2022.

IIFL Wealth recently launched a pure fee-for-advice model called 'IIFL One' that institutionalizes a range of investment options for clients under a competitive and transparent fee structure. The model redefines client engagement in India's wealth management industry in terms of its approach to transparent conduct, open disclosures and fiduciary advice. IIFL Wealth will endeavour, over the course of the next few years, to grow this model where fees are charged on the entire portfolio, to be the primary model over the current broker/dealer distribution model where commissions are earned on a transaction by transaction basis. They aim to evolve into a predictable, revenue-led, asset under management-driven organization, different from an industry dominated by product promotion and distribution.

In August 2019 IIFL Wealth entered into an agreement to acquire 100% of L&T Capital Markets Limited for approximately 2.3 billion Indian rupees (approximately $32 million at period end exchange rates), which provides wealth management services for individual and institutional clients. Closing of this transaction is subject to regulatory approvals.

In its 2020 fiscal year, IIFL Wealth changed its income model to recognize the majority of its distribution income on an annuity basis, moving away from the upfront income model that was previously followed. While this change will lead to a more stable annual recurring revenue model in the coming years, it will impact IIFL Wealth's financial results in the short term.

At December 31, 2019 the wealth management business had assets under advice, distribution and management ("AUM") of approximately $20 billion (1,412 billion Indian rupees) (December 31, 2018 – approximately $18 billion (1,254 billion Indian rupees)) and the asset management business had AUM of approximately $4 billion (269 billion Indian rupees) (December 31, 2018 – approximately $5 billion (352 billion Indian rupees)).

Valuation and Consolidated Financial Statement Impact

At December 31, 2019 the fair value of the company's investment in IIFL Wealth was $191,476 (December 31, 2018 – nil) with the changes in fair value in 2019 presented in the table at the outset of the Indian Investments section of this MD&A. Upon completion of the IIFL Holdings Reorganization on May 31, 2019 the shares of IIFL Wealth were valued at 1,103.40 Indian rupees per share based on a third party valuation. Following the listing of the shares of IIFL Wealth the share price decreased by 11.0% from 1,270.50 Indian rupees per share at September 19, 2019 to 1,130.30 Indian rupees per share at December 31, 2019.

In 2019 the consolidated statements of earnings included dividend income earned from the company's investment in IIFL Wealth of $1,718 (2018 – nil).

Subsequent to December 31, 2019

On February 3, 2020 the company received dividend income from the company's investment in IIFL Wealth of approximately $1.7 million (120.9 million Indian rupees).

Investment in IIFL Securities Limited

Business Overview

IIFL Securities is a publicly traded leading investment advisory firm providing diversified financial services and products such as financial planning, equity, commodities and currency broking (both cash and derivatives), depository participant services, investment banking, portfolio management as well as distribution of mutual funds, bonds and other products. IIFL Securities is located in Mumbai, India.

Additional information can be accessed from IIFL Securities' website www.iiflsecurities.com.

Transaction Description

On May 31, 2019 IIFL Holdings spun off its wholly-owned subsidiary IIFL Securities in a non-cash transaction that resulted in Fairfax India receiving one new common share of IIFL Securities for every one common share of IIFL Holdings held. Upon closing of the IIFL Holdings Reorganization Fairfax India received 84,641,445 common shares of IIFL Securities representing a 26.5% equity interest with an estimated fair value at that date of $91,310 (approximately 6.4 billion Indian rupees). At May 31, 2019 the fair value of IIFL Securities was estimated based on the company's internal valuation model.

The shares of IIFL Securities were listed on the BSE and NSE of India on September 20, 2019.

At December 31, 2019 the company held 84,641,445 common shares of IIFL Securities representing a 26.5% equity interest. At December 31, 2019 the company did not have any representation on the board of IIFL Securities.

Key Business Drivers, Events and Risks

IIFL Securities' key business drivers relate to its ability to identify emerging trends in the capital markets sector in India and provide a comprehensive range of financial products and services that cater to a diverse customer base. IIFL Securities is a key player in both retail and institutional segments.

IIFL Securities has a presence in approximately 2,500 locations, covering branches and business partners in over 500 cities in India along with a strong digital presence backed by cutting-edge technology. IIFL Securities' mobile applications, IIFL Markets and IIFL Mutual Funds, are widely used and highly rated. Mobile trading constitutes approximately 54% of the total number of retail trading clients and contributes to 43% of brokerage revenue. IIFL Securities recently launched a mobile office solution called Advisor Anytime Anywhere which empowers aspiring entrepreneurs in the capital markets and enhances their ability to reach investors in smaller towns and cities. The investment banking business closed 21 transactions, including 6 IPOs, in 2019 across the capital markets and advisory business segments, despite volatile market conditions, and has a number of transactions in the pipeline.

Valuation and Consolidated Financial Statement Impact

At December 31, 2019 the fair value of the company's investment in IIFL Securities was $48,796 (December 31, 2018 – nil) with the changes in fair value in 2019 presented in the table at the outset of the Indian Investments section of this MD&A. Upon completion of the IIFL Holdings Reorganization on May 31, 2019 the shares of IIFL Securities were valued at 75.18 Indian rupees per share based on the company's internal valuation model. Following the listing of shares of IIFL Securities the share price modestly decreased by 3.2% from 42.50 Indian rupees per share at September 20, 2019 to 41.15 Indian rupees per share at December 31, 2019.

Subsequent to December 31, 2019

On February 24, 2020 the company received dividend income from the company's investment in IIFL Securities of approximately $2.4 million (169.3 million Indian rupees).

Investment in CSB Bank Limited

Business Overview

CSB Bank is a publicly traded company located in Thrissur, India, established in 1920 and is a full-service bank offering retail banking, non-resident Indian banking services, small-to-medium enterprise and wholesale banking services through 416 branches and 290 automated teller machines across India.

Additional information can be accessed from CSB Bank's website www.csb.co.in.

Transaction Description

On February 20, 2018 the company entered into an agreement to acquire a 51.0% equity interest, on a fully-diluted basis, in CSB Bank for $169,511 (approximately 12.1 billion Indian rupees). The company's investment in CSB Bank comprised of common shares and warrants (to purchase approximately 66.5 million common shares). Consideration was payable: (i) on initial closing for 25.0% of the common shares and 40.0% of the warrants; and (ii) within 12 months and 18 months of initial closing, upon request by CSB Bank, for the remaining 75.0% of the common shares and 60.0% of the warrants.

On October 19, 2018 the company completed the initial investment in CSB Bank and on closing recorded $88,524 (approximately 6.5 billion Indian rupees) in common stocks within the consolidated balance sheet relating to 100.0% of the common shares and 40.0% of the warrants, and recorded $28,367 (approximately 2.1 billion Indian rupees) in payable for partly paid securities within the consolidated balance sheet as at December 31, 2018 relating to 75.0% of the consideration payable on the common shares ("Tranche 1").

On March 20, 2019 the company invested in an additional 30.0% of the warrants of CSB Bank and recorded $40,547 (approximately 2.8 billion Indian rupees) in common stocks (''Tranche 2'') within the consolidated balance sheet.

On June 29, 2019 CSB Bank issued a capital call for the remaining consideration payable for 30.0% of the warrants ($40,440) (''Final Tranche'') and 75.0% of the common shares ($30,167). The company recorded $40,440 (approximately 2.8 billion Indian rupees) in common stocks within the consolidated balance sheet, representing the Final Tranche of CSB Bank warrants, which were considered in-substance equity. On July 8, 2019 the company funded the capital call.

On August 7, 2019 the company exercised its CSB Bank warrants to acquire 66,430,846 common shares. No CSB Bank warrants remain outstanding.

On December 4, 2019 CSB Bank closed its IPO, issuing 1,230,769 shares and commenced trading on both the BSE and NSE of India. In 2019 CSB Bank also issued 5,000,000 shares to CSB Bank's employee stock option trust which together diluted Fairfax India's ownership slightly from 51.0% to 49.7%.

The company is restricted from selling its common shares of CSB Bank for a specified period ranging from less than one year to five years due to restrictions imposed by the RBI and the Securities and Exchange Board of India (''SEBI''). At December 31, 2019 the company held 86,262,976 common shares of CSB Bank representing a 49.7% equity interest. At December 31, 2019 the company had appointed two of the seven CSB Bank board members. Fairfax India is limited to 26.0% of the available voting rights of CSB Bank, as stipulated by RBI regulations discussed below.

Key Business Drivers, Events and Risks

According to the RBI, India's banking sector is sufficiently capitalized and well-regulated. The increase in India's working population and growth in disposable income is anticipated to increase the demand for banking related services, particularly in rural banking locations. In addition, the Indian banking industry has evolved through technology innovations in digital payments systems, mobile and online banking. In its December 2019 Financial Stability Report, the RBI reported that India's financial system remained stable following the recapitalization of public sector banks. Private sector banks registered year over year double-digit credit growth of 16.5% in September 2019. Recent performance of the banking sector has shown resiliency amid the slowdown in domestic aggregate demand and uncertainties arising from the global economy as a result of the impending recession, disruptions in the oil market and geopolitical risks.

CSB Bank's key business drivers relate to its ability to provide financial services in India, particularly in the area of retail, SMEs, gold and corporate lending, and mobilize low cost deposits in the form of current accounts, savings accounts and non-resident Indian deposits. CSB Bank has recently taken various strategic initiatives, including attracting talent to its sales and marketing team, as well as creating specialized banking verticals in gold, two-wheeler vehicles, small-to-medium enterprise and wholesale banking. Non-performing assets (''NPA'') are being addressed by CSB Bank through the creation of asset recovery branches to accelerate delinquent loan recovery, with the goal of effectively minimizing losses by improving credit monitoring and risk management practices. In addition, CSB Bank continues to strive for increases in employee productivity and will invest in technology across its banking platforms, providing more efficient and cost effective services for its customers.

Banks in India are highly regulated by the RBI including specific regulations on shareholder voting rights, shareholdings and board representation. The voting rights of any one shareholder of banks in India are limited to 26.0% of available voting rights subject to change as notified by the RBI from time to time. In addition, the RBI stipulates ownership limits for shareholders of banks in India in the long run. Fairfax India is required to follow a dilution schedule for its ownership in CSB Bank whereby: (i) the company was required to purchase a minimum of 40.0% of the voting equity shares in CSB Bank within 5 years which was completed; (ii) the company's shareholding in CSB Bank must be brought down to 30.0% of the voting equity shares within 10 years; and (iii) the company's shareholding in CSB Bank must be brought down to 15.0% of the voting equity shares within 15 years. In addition, the RBI mandated that CSB Bank list its shares on the BSE and NSE of India through an IPO.

On December 4, 2019 CSB Bank closed its IPO at a price of 195.00 Indian rupees per share.

CSB Bank is currently in the process of evaluating the potential impacts of the Tax Reform as discussed in the Business Developments section under the heading Operating Environment of this MD&A.

Valuation and Consolidated Financial Statement Impact

At December 31, 2019 the company estimated the fair value of its investment in CSB Bank based on the bid price less a discount for lack of marketability of 12.0%. At December 31, 2019 the bid price less the discount for marketability indicated that the fair value of the company's investment in CSB Bank was $229,262.

At December 31, 2018, the initial transaction price for Tranche 1 was considered to approximate fair value as there had been no significant changes to CSB Bank's business, capital structure and operating environment and the key assumptions in the company's acquisition valuation model continued to be valid. At December 31, 2018 the fair value of the company's investment in CSB Bank was $93,081 (comprised of 100.0% of the common shares and 40.0% of the warrants).

The changes in fair value of the company's investment in CSB Bank in 2019 and 2018 are presented in the tables at the outset of the Indian Investments section of this MD&A. Following the listing of shares of CSB Bank the share price increased by 10.5% from 195.00 Indian rupees per share at December 4, 2019 to 215.55 Indian rupees per share at December 31, 2019.

CSB Bank's Summarized Financial Information

CSB Bank's fiscal year ends on March 31. Summarized below are CSB Bank's balance sheets at September 30, 2019 and March 31, 2019.

Balance Sheets
(unaudited – US$ thousands)

	September 30, 2019(1)	March 31, 2019(1)
Financial assets	2,327,760	2,261,730
Non-financial assets	185,761	172,668
Financial liabilities	2,199,277	2,193,729
Non-financial liabilities	41,996	41,019
Shareholders' equity	272,248	199,650

(1) The net assets of CSB Bank were translated at September 30, 2019 at $1 U.S. dollar = 70.87 Indian rupees and at March 31, 2019 at $1 U.S. dollar = 69.28 Indian rupees. The exchange rates used were the spot rates prevailing on those respective dates.

Financial assets increased primarily as a result of an increase in net advances from the equity capital received from Fairfax India. Non-financial assets and liabilities increased primarily as a result of the implementation of IFRS 16. Financial liabilities increased primarily as a result of increased savings deposits and term deposits from customers.

Summarized below are CSB Bank's statements of earnings for the six months ended September 30, 2019 and 2018.

Statements of Earnings
(unaudited – US$ thousands)

	Six months ended September 30, 2019(1)	Six months ended September 30, 2018(1)
Revenue	53,681	40,611
Earnings (loss) before income taxes	16,151	(8,949)
Net earnings (loss)	10,461	(5,892)

(1) Amounts for the six months ended September 30, 2019 and 2018 were translated into US$ using the average exchange rates of $1 U.S. dollar = 69.96 Indian rupees and $1 U.S. dollar = 68.51 Indian rupees prevailing during those periods.

Revenue increased primarily as a result of an increase in net interest income due to additional deployed capital from the equity capital received from Fairfax India. Earnings before income taxes and net earnings for the six months ended September 30, 2019 increased compared to losses for the six months ended September 30, 2018 primarily as a result of an increase in the loan-deposit ratio (72.4% at September 30, 2019 compared to 61.4% at September 30, 2018) and an increase in recovery of previously written-off accounts.

Investment in Fairchem Speciality Limited

Business Overview

In March 2017 Fairchem Speciality Limited (''Fairchem'') and Privi Organics Limited (''Privi'') were merged with the surviving entity continuing as Fairchem (the ''Merger'') and with no changes to management of the underlying companies.

Fairchem

Fairchem was incorporated in 1985 and publicly listed its shares on the BSE in 1995 and NSE of India 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 neutraceutical and health products. It has developed an in-house technology that uses machinery designed and manufactured by leading European companies to physically separate and convert waste generated during the production of soya, sunflower, corn and cotton oils into valuable neutraceutical and fatty acids.

Privi

Privi, a wholly-owned subsidiary of Fairchem, was founded in 1992 and located in Mumbai, India. Privi 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. Privi has four manufacturing facilities located in Mahad, Maharashtra and a manufacturing facility located in Jhagadia, Gujarat.

Additional information can be accessed from Fairchem's and Privi's websites www.fairchem.in and www.privi.com.

Transaction Description

In March 2017, upon closing of the merger of Fairchem and Privi, the company acquired a 48.8% equity interest in Fairchem for aggregate cash consideration of $74,384 (approximately 5.0 billion Indian rupees).

At December 31, 2019 the company held 19,046,078 common shares, representing a 48.8% equity interest in Fairchem (December 31, 2018 – 48.8%).

At December 31, 2019 the company had appointed one of the eleven Fairchem board members.

Key Business Drivers, Events and Risks

Fairchem's key business drivers relate to the success of its oleochemicals business and vertical integration into value added products, such as fatty alcohols and natural vitamin E. As environmental concerns increase, the demand for sustainable and biodegradable oleochemicals used in lubricants, paper printing, paints and coatings, and animals feed industries has been experiencing strong growth in recent years.

India is one of the largest consumers of soft oils which provides Fairchem with a competitive advantage by having easy access to the raw materials that it uses in its manufacturing processes. The close proximity to raw materials available in Asia (India, Malaysia and Indonesia) has resulted in a shift of oleochemical production away from the U.S. and Europe. Lower cost of raw materials and efficient manufacturing processes have provided Fairchem with certain competitive advantages in comparison to its international peers. Fairchem has a strong market presence for some of its products, with little or no direct competition, and is considered to produce a superior quality product in comparison to its competitors in China. Fairchem faces some exposure to limited availability of raw materials (primarily soya acid oils) used in its manufacturing processes which may impact its ability to meet the higher demand for linoleic and soya fatty acids.

Privi's key business drivers relate to its ability to: (i) develop, manufacture and supply additional (newer) aroma chemicals to existing customers; (ii) create value added products from the by-products of manufacturing aroma chemicals; (iii) strengthen margins by increasing vertical integration capacities; and (iv) offer a variety of aroma chemical products to sustain being recognized as a preferred supplier to the global fragrance market.

At December 31, 2019 Privi has received partial settlement on their insurance claim of approximately $15 million (1,068.0 million Indian rupees) in relation to its April 2018 manufacturing facilities fire. In January 2020 Privi received an additional partial settlement on their insurance claim of approximately $2 million (150.0 million Indian rupees). Privi continues to work with its insurance company as they undertake an assessment of the damages and finalize the insurance claim of which the balance is expected to be received by March 2020. Privi has now fully reinstated its manufacturing facilities affected by the fire.

On May 22, 2019 Fairchem's board of directors approved a draft plan to reorganize Fairchem into two listed entities (''Fairchem Reorganization''). As part of the Fairchem Reorganization, the existing oleochemicals and neutraceuticals businesses will spin out into a new wholly-owned subsidiary, Fairchem Organics Limited (''Fairchem Organics''), which was incorporated on March 27, 2019 in anticipation of the Fairchem Reorganization. Privi will be amalgamated with the remaining Fairchem business and subsequently be renamed Privi Speciality Chemicals Limited (''Privi Speciality''). Existing shareholders of Fairchem will receive one new common share of Fairchem Organics for every three common shares held in Fairchem. Upon completion of this transaction, the shares of Privi Speciality will continue to trade on the BSE and NSE of India, and the shares of Fairchem Organics will be listed on the BSE and NSE of India. The Fairchem Reorganization is anticipated to be completed in the second quarter of 2020 and shares of Fairchem Organics listed by the third quarter of 2020, subject to applicable regulatory approvals and customary closing conditions. Subsequent to the anticipated listing of Fairchem Organics, it is expected that the company will decrease its equity interest in Privi Speciality to 38.9% from its current 48.8% and increase its equity interest in Fairchem Organics to 66.7% from its current 48.8% through a series of transactions with Privi's founders.

Valuation and Consolidated Financial Statement Impact

At December 31, 2019 the fair value of the company's investment in Fairchem was $127,413 (December 31, 2018 – $96,574) with the changes in fair value in 2019 and 2018 presented in the tables at the outset of the Indian Investments section of this MD&A. Fairchem's share price increased by 34.9% to 477.50 Indian rupees per share at December 31, 2019 from 354.00 Indian rupees per share at December 31, 2018.

In 2019 the consolidated statements of earnings included dividend income earned from the company's investment in Fairchem of $679 (2018 – $409).

Investment in 5paisa Capital Limited

Business Overview

5paisa Capital Limited (''5paisa'') is a publicly traded online financial services provider with a ''do-it-yourself'' investment brokerage model that allows customers to execute investment transactions for low brokerage fees. 5paisa is primarily engaged in providing a technology platform through online and mobile applications for trading securities on the BSE and the NSE of India. 5paisa is located in Mumbai, India.

Additional information can be accessed from 5paisa's website www.5paisa.com.

Transaction Description

In October 2017 IIFL Holdings spun off its wholly-owned subsidiary 5Paisa Digital Undertaking, through the formation of a new public company, 5paisa Capital Limited, listed on the BSE and the NSE of India. This non-cash transaction resulted in Fairfax India receiving one new common share of 5paisa for every 25 common shares of IIFL Holdings held for a total of 3,385,657 common shares of 5paisa with a fair value of $19,758.

On May 29, 2019 5paisa announced a rights offer to existing shareholders whereby shareholders were given the right to participate on a pro rata basis in a common share issuance at a price of 80.00 Indian rupees per share (''5paisa Rights Offer''). In connection with the 5paisa Rights Offer, Fairfax India committed to participate and acquire 3,385,657 common shares of 5paisa and as a result the company recorded a forward derivative asset (''5paisa forward derivative''). On August 20, 2019 Fairfax India participated in the 5paisa rights offer and acquired 3,385,657 5paisa common shares for cash consideration of $3,777. As a result the company derecognized the 5paisa forward derivative with a carrying value of $2,706, recorded a realized gain of $2,767 and recorded its investment in 5paisa common shares at a fair value at that date of $6,483.

At December 31, 2019 the company held 6,771,314 common shares of 5paisa representing a 26.6% equity interest (December 31, 2018 – 3,385,657 common shares representing a 26.6% equity interest). At December 31, 2019 the company did not have any representation on the board of 5paisa.

Key Business Drivers, Events and Risks

5paisa's key business driver relates to its ability to provide a digital method of trading in securities, which is emerging as a new segment with the potential to achieve critical mass and grow in the near future with the spread of the Internet, mobile penetration, telecommunication and data services throughout India. 5paisa's ability to acquire, service and grow the new emerging do-it-yourself customer segment provides its customers with lower costs for various financial products, enabling investors to invest seamlessly, on their own and from anywhere.

In December 2019 5paisa received its Peer-To-Peer lending license which will allow 5paisa's wholly-owned subsidiary, 5paisa P2P Limited, to provide a common platform to investors who intend to lend and individual borrowers who intend to borrow in India. Commercial operations are expected to launch in the first calendar quarter of 2020.

At December 31, 2019 the 5paisa mobile application has reached over 3.6 million downloads (December 31, 2018 – over 2 million downloads) and sustained a 4.2 star rating on Google Playstore. The total customer base exceeded 400,000 with a swift pace of client acquisitions throughout the year.

Valuation and Consolidated Financial Statement Impact

At December 31, 2019 the fair value of the company's investment in 5paisa was $18,176 (December 31, 2018 – $11,913) with the changes in fair value in 2019 and 2018 presented in the tables at the outset of the Indian Investments section of this MD&A. Upon closing of the 5paisa Rights Offer the company purchased 3,385,657 common shares of 5paisa at a fair value of 137.30 Indian rupees per share. 5paisa's share price decreased by 22.0% from 245.65 Indian rupees per share at December 31, 2018 to 191.60 Indian rupees per share at December 31, 2019.

Investment in Other Public Indian Investments

During 2018 the company acquired common shares of public companies in India's financial services sector, listed on both the BSE and NSE of India (investment in "Other Public Indian Investments") for aggregate cash consideration of $94,090. In 2019 the company partially sold an investment in Other Public Indian Investments for total net proceeds of $36,907, resulting in a realized gain of $7,115.

At December 31, 2019 the fair value of the company's investment in Other Public Indian Investments was $95,892 (December 31, 2018 – $98,180) and represents less than 1.0% equity interest in each of the public Indian companies. At December 31, 2019 the company did not have any board representation in Other Public Indian Investments.

The changes in fair value of the company's investment in Other Public Indian Investments in 2019 and 2018 are presented in the tables at the outset of the Indian Investments section of this MD&A.

In 2019 the consolidated statements of earnings included dividend income earned from the investment in Other Public Indian Investments of $353 (2018 – $457).

Private Indian Investments

Cautionary Statement Regarding the Valuation of Private Indian Investments

In the absence of an active market for the company's 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.

Investment in Bangalore International Airport Limited

Business Overview

Bangalore International Airport Limited (''BIAL'') is a private company located in Bengaluru, India. BIAL, under a concession agreement with the Government of India until the year 2038 (with the right to extend the agreement for an additional 30 years), has the exclusive rights to carry out the development, design, financing, construction, commissioning, maintenance, operation and management of the Kempegowda International Airport Bengaluru (''KIAB'') through a public-private partnership (the ''concession agreement''). KIAB is the first greenfield airport in India built to the highest level of international standards through a public-private partnership.

BIAL's principal lines of business are as follows:

Aeronautical revenue from the airport

Aeronautical revenue is revenue earned from airlines for providing services such as landing, parking, housing and user development fees (''aeronautical services''). Tariffs for these aeronautical services, as determined by Airports Economic Regulatory Authority of India (the ''regulator''), are fixed in a manner to generate a 16.0% per annum regulated return on invested equity (the ''Regulatory Asset Base'') for the airport operator. Under the current regulatory approach applicable to BIAL, aviation concessions (which includes cargo, ground handling, fuel throughput, and into-plane services) are treated as aeronautical services. In addition, the regulator also attributes 30.0% of non-aeronautical revenue (described below) as a part of aeronautical revenue when computing the regulated return.

Non-aeronautical revenue from the airport

All revenue sources from the airport other than aeronautical revenue (which includes aviation concessions, as described earlier) are treated as non-aeronautical revenue. This includes revenue from activities such as catering services, vehicle parking, advertising, retail and duty free shops, and food and beverages. BIAL earns its non-aeronautical revenue from concession arrangements that reflect a percentage of revenue sharing, with a minimum guaranteed revenue each year. Non-aeronautical revenue is expected to grow substantially due to the increase in the number of passengers using the airport, the availability of additional space for development and the increasing propensity of passengers to spend money.

Real estate monetization

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 for the land required to build roads, utilities, landscaping and other services. Over time, there is potential for significant upside from monetization of this real estate.

Other non-airport related revenue

Taj Bangalore is a five-star hotel operated under a management contract with Indian Hotels Company Limited. The hotel is conveniently located next to the airport, includes 154 guest rooms and 13 conference rooms, and currently undergoing expansion of 220 additional guest rooms.

Additional information can be accessed from BIAL's website www.bengaluruairport.com.

Transaction Description

During 2017 and 2018 Fairfax India had invested aggregate cash consideration of $652,982 (approximately 42.7 billion Indian rupees) (inclusive of $74,202 of costs incurred, approximately 4.8 billion Indian rupees) for a 54.0% equity interest in BIAL through the following transactions: (i) in March 2017 the company acquired a 38.0% equity interest in BIAL for cash consideration of $385,498 (approximately 25.2 billion Indian rupees); (ii) in July 2017 the company acquired an additional 10.0% equity interest in BIAL for cash consideration of $200,093 (12.9 billion Indian rupees) which the company determined included $74,202 of consideration in excess of the fair value of those additional shares acquired; and (iii) in May 2018 the company acquired an additional 6.0% equity interest in BIAL for cash consideration of $67,391 (approximately 4.6 billion Indian rupees).

On December 16, 2019 the company entered into an agreement to sell an interest in Anchorage of approximately 11.5% on a fully-diluted basis for gross proceeds of approximately 9.5 billion Indian rupees (approximately $133 million at period end exchange rates). Anchorage was formed in 2019 and is a wholly-owned subsidiary of FIH Mauritius, intended to be its flagship company for investing in companies, businesses and opportunities in the airport and infrastructure sectors of India as well as its platform for bidding on airport privatization projects in India. As part of the transaction, the company will restructure approximately 43.6% equity interest in BIAL of its 54.0% equity interest such that it will be held through Anchorage, implying an equity valuation of BIAL of approximately $2.7 billion for 100%. Upon closing of the transaction, the company's effective ownership interest in BIAL will decrease to approximately 49.0% on a fully-diluted basis. The transaction is subject to customary closing conditions, including various third party consents, and is expected to close in the first half of 2020.

It is intended that Anchorage will be listed by way of IPO in India by December 2021 using commercially reasonable efforts, subject to regulatory approvals and market conditions. The third party investor will receive incremental shares of Anchorage to compensate for the amount by which the valuation of Anchorage upon closing of the IPO is below approximately 91.6 billion Indian rupees (approximately $1.3 billion at period end exchange rates). For any IPO valuation lower than approximately 70.3 billion Indian rupees (approximately $1.0 billion at period end exchange rates), the third party investor will receive no additional incremental shares of Anchorage.

At December 31, 2019 the company had appointed five of the fifteen BIAL board members.

Key Business Drivers, Events and Risks

KIAB is the busiest airport in South India, the third largest in the country, and was awarded the 'Best Regional Airport in India and Central Asia' during 2018 by Skytrax, a UK-based consultancy who conducts a global airport customer satisfaction survey. The airport handled approximately 33.7 million passengers in 2019 representing growth in overall traffic of 4.1% compared to 2018.

On March 6, 2019 BIAL became the first airport in the world to win both a departures and an arrivals Airport Service Quality ("ASQ") award from Airports Council International ("ACI"). The ASQ recognizes those airports around the world that deliver the best customer experience in the opinion of their own passengers. The annual ASQ awards recognize and reward the best airports globally according to ACI's ASQ Passenger Satisfaction Survey, the world's benchmark that measures airport excellence, representing the highest possible accolade for an airport operator. ACI is the only global trade representative of international airports.

On April 17, 2019 Jet Airways, one of India's leading airlines based in Mumbai, suspended all flight operations for domestic and international flights as a result of the airline facing liquidity concerns pending potential investments from shareholders or debtors. Jet Airways was previously the second largest airline in India in terms of passenger market share. The suspension, along with recent Boeing 737 Max groundings, resulted in a significant capacity shortfall in the domestic Indian market in terms of available seats. The Ministry of Civil Aviation decided to allocate Jet Airways' domestic flight slots to other airlines effective May 1, 2019 to March 28, 2020, allowing domestic airlines time to review their schedule and increase capacity. At December 31, 2019 approximately 52% of the domestic flight slots at KIAB previously operated by Jet Airways have been allocated to major domestic airlines of which 94% has been utilized.

Plans to expand the capacity of the airport are underway, include the following projects:

- ***Second Runway:*** On December 6, 2019 BIAL commenced operating the second runway, making the airport the first in India to operate independent parallel runways, enabling aircraft to land or take-off simultaneously on both runways.

- ***Terminal 2:*** Construction of an additional terminal building ("Terminal 2") and expansion of the related infrastructure. In 2017 design approvals for Terminal 2 commenced and it will be constructed in two phases; the first phase will have the capacity to handle 25 million passengers per annum (estimated to be operational by March 31, 2021), while the second phase will add capacity for another 20 million passengers per annum. The combined capacity of the existing terminal and Terminal 2 will be approximately 73 million passengers per annum.

  On August 6, 2019 in connection with the construction of Terminal 2 and expansion of the related infrastructure, BIAL raised approximately $1.4 billion (approximately 102.1 billion Indian rupees) through a syndicate of banks, including State Bank of India and Axis Bank. Amounts are to be drawn down based on funding requirements throughout the project and are to be repaid over 10 years, with payments starting one year subsequent to completion of the project.

- ***Terminal 3:*** In September 2019 BIAL finalized and adopted a strategy to further expand capacity to meet expected growth in passenger traffic over the next 20 years, including the construction of a third terminal building (''Terminal 3'') and related infrastructure (''master plan update''). BIAL has secured adequate space for this expansion. Total capacity for Terminal 3 is expected to be greater than 20 million passengers per annum. The combined capacity of the existing terminal, Terminal 2 and Terminal 3 is expected to be between 90 million to 100 million passengers per annum.

- ***Real Estate:*** In 2019 BIAL's management finalized its plans for the development of its monetizable leasehold land (''real estate master plan'') which includes the development of 176 acres of land by 2025, including: (i) a business hotel comprised of a combination of three-star to four-star hotel rooms (for a total of 775 rooms) on approximately 5 acres of land; (ii) a retail, dining and entertainment village on approximately 23 acres of land; (iii) business parks on approximately 130 acres of land; (iv) a multipurpose concert arena on approximately 6 acres of land; and (v) the remainder to be leased for an outlet mall (approximately 7 acres) and a five-star hotel (approximately 5 acres). BIAL has entered into an agreement with Phase 1 Events and Embassy Group to manage and operate the multipurpose concert arena, scheduled to be ready during 2021. BIAL's real estate development plans will be carried out by a new subsidiary, Bangalore Airport City Limited (''BACL''), which was formed in January 2020.

BIAL is currently in the process of evaluating the potential impacts of the Tax Reform as discussed in the Business Developments section under the heading Operating Environment of this MD&A.

Valuation and Consolidated Financial Statement Impact

At December 31, 2019 the company estimated the fair value of its investment in BIAL using a discounted cash flow analysis for its three business units based on multi-year free cash flow projections with assumed after-tax discount rates ranging from 12.9% to 13.4% and a long term growth rate of 3.5% (December 31, 2018 – 11.3% to 12.8%, and 3.5%, respectively). Discount rates were based on the company's assessment of risk premiums to the appropriate risk-free rate of the economic environment in which BIAL operates. At December 31, 2019 free cash flow projections were based on EBITDA estimates derived from financial information for BIAL's three business units prepared in the fourth quarter of 2019 (December 31, 2018 – two business units prepared in the third quarter of 2018) by BIAL's management.

At December 31, 2019 the company's internal valuation model indicated that the fair value of the company's investment in BIAL was $1,429,854 (December 31, 2018 – $704,077), which approximates the equity valuation of BIAL implied by the Anchorage transaction discussed above in the Transaction Description section. The changes in fair value in 2019 and 2018 are presented in the tables at the outset of the Indian Investments section of this MD&A. In 2019 net change in unrealized gains of $751,487 were primarily driven by BIAL management's master plan update and real estate master plan, discussed in further detail below.

In the third quarter of 2019 the company recorded an increase in the valuation of its investment in BIAL primarily due to an increase in the valuation of KIAB. BIAL's management finalized the master plan update, which reflects an increase in expected growth in passenger traffic, resulting in higher projected earnings, partially offset by increased planned capital expenditures related to the development of Terminal 3.

In the fourth quarter of 2019 BIAL's management finalized its real estate master plan, which includes detailed multi-year cash flow projections relating to the planned real estate development. Accordingly, in the fourth quarter of 2019 the company changed its valuation technique for BIAL's monetizable leasehold land to a discounted cash flow analysis based on multi-year free cash flow projections with an assumed after-tax discount rate and a long term growth rate. At December 31, 2018, the estimated fair value of the monetizable leasehold land (approximately 460 acres) was based on third party valuations with an assumed 20.0% discount factor for the leasehold nature of the asset.

BIAL's Summarized Financial Information

BIAL's fiscal year ends on March 31. Summarized below are BIAL's balance sheets at September 30, 2019 and March 31, 2019.

Balance Sheets
(unaudited – US$ thousands)

	September 30, 2019[(1)]	**March 31, 2019[(1)]**
Current assets	124,145	115,655
Non-current assets	971,288	834,588
Current liabilities	116,525	93,497
Non-current liabilities	526,805	433,982
Shareholders' equity	452,103	422,764

(1) The net assets of BIAL were translated at September 30, 2019 at $1 U.S. dollar = 70.87 Indian rupees and at March 31, 2019 at $1 U.S. dollar = 69.28 Indian rupees. The exchange rates used were the spot rates prevailing on those respective dates.

Current assets increased primarily due to increased bank deposits from proceeds from borrowings not yet utilized. Non-current assets increased principally as a result ongoing capital expenditures for BIAL's expansion projects. Current liabilities increased primarily as a result of increased accounts payable to vendors for capital assets. Non-current liabilities increased primarily as a result of additional borrowings for BIAL's expansion projects.

Summarized below are BIAL's statements of earnings for the six months ended September 30, 2019 and 2018.

Statements of Earnings
(unaudited – US$ thousands)

	Six months ended September 30, 2019[(1)]	**Six months ended September 30, 2018[(1)]**
Revenue	111,195	127,156
Earnings before income taxes	41,439	41,091
Net earnings	40,067	41,471

(1) Amounts for the six months ended September 30, 2019 and 2018 were translated into US$ using the average exchange rates of $1 U.S. dollar = 69.96 Indian rupees and $1 U.S. dollar = 68.51 Indian rupees prevailing during those periods.

The decrease in revenue is primarily a result of a decrease in aeronautical revenue based on the final tariff order for the second control period issued by the regulator effective September 16, 2018, partially offset by increased aeronautical and non-aeronautical revenue as a result of growth in domestic and international passenger traffic. Earnings before income taxes and net earnings for the six months ended September 30, 2018 were impacted by the revision of the useful lives of property, plant, and equipment, which was effective on April 1, 2018 resulting in an incremental depreciation expense of approximately $22.2 million (1.5 billion Indian rupees), while earnings before income taxes and net earnings for the six months ended September 30, 2019 were impacted by the decrease in revenue as noted above, as well as an increase in employee costs.

Investment in Sanmar Chemicals Group

Business Overview

Sanmar Chemicals Group (''Sanmar''), a private company located in Chennai, India, is one of the largest suspension polyvinyl chloride (''PVC'') manufacturers in India with an operational presence in India and Egypt. Sanmar has an aggregate installed capacity of over 766,000 metric tons per annum, comprised of approximately 366,000 metric tons per annum in India and 400,000 metric tons per annum in Egypt (Sanmar completed expansion of its PVC capacity in Egypt in September 2018, resulting in increased capacity from 200,000 metric tons per annum to 400,000 metric tons per annum). As part of its expansion project in Egypt, Sanmar commissioned a calcium chloride facility with capacity of approximately 130,000 metric tons 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 largest specialty PVC manufacturer in India, with the top two players capturing substantially all 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. PVC is primarily used in shoes, flooring and cable industries. Caustic soda is primarily used in the manufacturing of paper and pulp, textiles, alumina, petroleum products, soaps and detergents, and is also the basic feedstock for various chemicals. Chlorinated solvents are primarily used in pharmaceutical sectors. The majority of Chemplast's revenues are generated through direct sales to end customers.

Speciality Chemicals

Sanmar's Speciality Chemicals business is primarily engaged in the manufacturing and marketing of advanced organic intermediates for the pharmaceutical, agro chemical, flavours and fragrances, and other fine chemical applications.

Chemplast Cuddalore Vinyls Limited (''CCVL'')

CCVL is currently the second largest suspension PVC manufacturer in India. Suspension PVC is primarily used in pipes and fittings, window and door profiles. The majority of CCVL's revenues are generated through direct sales to end customers.

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, calcium chloride and PVC manufacturer in Egypt. Sanmar 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. In September 2018 Phase 2 expansion projects were completed with Sanmar investing an additional $280 million, for an aggregate investment of approximately $1.5 billion. A new calcium chloride facility was also commissioned upon completion of the Phase 2 PVC projects. Calcium chloride granules are used worldwide for dust control, de-icing, drilling operations and as a food additive. Sanmar Egypt sells directly to end customers and also through distributors. PVC is mainly sold in key target markets like Egypt, Turkey and parts of western Europe.

Kem One Chemplast

Chemplast and Kem One (the second largest producer of PVC in Europe) have entered into an agreement to establish Kem One Chemplast, an equal joint venture that will manufacture chlorinated polyvinyl chloride (''CPVC''). The joint venture and new facility will be established at a coastal location in Karaikal, Puducherry, India. The project will utilize the technology of Kem One and have a capacity to manufacture 20,000 metric tons per annum of CPVC resins and will also manufacture CPVC compounds. CPVC is a raw material used to produce pipes and fittings for water supply systems that are required to have a high resistance to heat, pressure and chemicals.

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

Transaction Description

In April 2016 Fairfax India invested $250,000 in Sanmar comprised of $1,000 in common shares (representing a 30.0% equity interest) and $249,000 in Sanmar bonds, and in September 2016 invested an additional $50,000 in Sanmar bonds. Both tranches of Sanmar bonds had a maturity date of April 22, 2023 (7 years from the date of issuance of the first tranche), subject to earlier redemption at the option of Sanmar under certain circumstances. In lieu of cash, the coupon payment on the bond was payable in kind in the form of additional Sanmar bonds over the life of the bond. A redemption premium was also payable in kind to the company resulting in an effective annual interest rate of 13.0%.

On December 21, 2019 the company completed its previously announced transaction with Sanmar, resulting in the settlement of Sanmar bonds with a principal amount of $300,000 for net cash proceeds of $425,472 (30.3 billion

Indian rupees) ($433,873 net of withholding tax of $8,401), which was equal to the bonds' principal amount plus an effective annual interest rate of 13.0%. The company recorded a net gain on investment of $48,782 (realized gains of $156,540, of which $107,758 was recorded as unrealized gains in prior periods). The company reinvested cash of $198,039 (approximately 14.1 billion Indian rupees) into 171,710 newly issued common shares of Sanmar, increasing the company's equity interest from 30.0% to 42.9%.

Upon closing of the transaction the company settled a forward derivative obligation at a fair value of $19,617 (approximately 1.4 billion Indian rupees), which was a result of the agreed upon transaction price for Sanmar common shares exceeding the transaction date fair value. The company recorded its additional investment in Sanmar common shares at a fair value of $178,422 (approximately 12.7 billion Indian rupees).

At December 31, 2019 the company had appointed one of the five Sanmar board members.

Key Business Drivers, Events and Risks

India continues to be a PVC deficit market with more than 50% of the demand being met through imports. Egypt and Turkey, which are manufacturing hubs for exports to Europe, currently have a demand gap for PVC of approximately 1,000,000 metric tons per annum which is currently met by imports from the U.S. and Asia. Global PVC demand is projected to grow at a compound annual growth rate between 3.5% to 4.0% outpacing the growth of supply over the next 10 years and India is expected to become a bigger market than North America by 2025. In addition due to environmental regulations, China is expected to decrease production capacity of PVC thereby increasing demand and improving prices globally.

Sanmar's key business drivers relate to the execution of its plan to increase PVC manufacturing capacity in Egypt and India to align with the growing demand for PVC in North Africa, Middle East and India, and to improve the overall capacity utilization at all of its PVC production facilities. The implementation risk associated with its expansion projects at Sanmar Egypt significantly decreased with the successful implementation and commissioning of the expansion projects in September 2018. Profitability is expected to improve significantly with the commissioning of the new capacity at Sanmar Egypt. Sanmar has realized increased demand for its products and has plans to add several new expansion capital projects in Chemplast which will result in additional capacity for various products of approximately 420,000 metric tons per annum, with commissioning dates projected prior to 2024.

Sanmar's profitability during the year ended March 31, 2019 and the six months ended September 30, 2019 was negatively impacted by lower PVC margins as a result of recent unexpected spikes in the price of Ethylene Dichloride ("EDC"), a key raw material used in the production of PVC, caused by an alumina refinery plant shut down in Brazil that significantly decreased the supply of EDC in the international market. EDC prices have since reverted back to normal levels. In addition, Sanmar Egypt experienced increased power and energy expenses as a result of new tariffs introduced by the Egyptian government effective July 2018. Sanmar's management has commenced a review of certain aspects of its operations in an effort to reduce energy consumption.

As part of the Union Budget of India (2019-20) presented on July 5, 2019, import duties for PVC will increase from 7.5% to 10.0%, deterring foreign competition in India, and for EDC will decrease from 2.0% to nil, resulting in lower costs of raw materials. Indian anti-dumping duties on suspension PVC were also renewed for another 30 months on imports from the U.S. and China, the two largest PVC surplus countries. These changes, as well as the Tax Reform as discussed in the Business Developments section under the heading Operating Environment of this MD&A, will positively impact Sanmar's profitability going forward.

Valuation and Consolidated Financial Statement Impact

Sanmar Bonds

On December 21, 2019 the Sanmar bonds were fully redeemed as disclosed earlier in the Transaction Description section.

At December 31, 2018 the company estimated the fair value of its investment in Sanmar bonds using an industry accepted discounted cash flow and option pricing model that incorporated Sanmar's estimated credit spread of 5.6% and assumptions related to certain redemption options embedded in the bonds. The estimated credit spread was based on the credit spreads of a peer group of comparable companies adjusted for company-specific credit risk. At December 31, 2018 the company's internal valuation model indicated that the fair value of the company's investment in Sanmar bonds was $392,776.

The changes in fair value of the company's investment in Sanmar bonds in 2019 and 2018 are presented in the tables at the outset of the Indian Investments section of this MD&A.

Sanmar Common Shares

At December 31, 2019 the company estimated the fair value of its investment in Sanmar common shares using a discounted cash flow analysis for its four business units based on multi-year free cash flow projections with assumed after-tax discount rates ranging from 12.9% to 19.0% and long term growth rates ranging from 3.0% to 4.0% (December 31, 2018 – 13.5% to 16.6%, and 3.0% to 4.0%, respectively). At December 31, 2019 free cash flow projections were based on EBITDA estimates derived from financial information for Sanmar's four business units (with additional financial information and analysis completed for Chemplast's underlying business units involved in new capital projects) prepared in the fourth quarter of 2019 (December 31, 2018 – third quarter of 2018) 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, 2019 the company's internal valuation model indicated that the fair value of the company's investment in Sanmar common shares was $412,930 (December 31, 2018 – $217,170) with the changes in fair value in 2019 and 2018 presented in the tables at the outset of the Indian Investments section of this MD&A.

Sanmar's Summarized Financial Information

Sanmar's fiscal year ends on March 31. Summarized below are Sanmar's balance sheets at September 30, 2019 and March 31, 2019.

Balance Sheets
(unaudited – US$ thousands)

	September 30, 2019(1)	**March 31, 2019(1)**
Current assets	199,241	201,707
Non-current assets	1,858,660	1,884,763
Current liabilities	576,290	542,389
Non-current liabilities	1,534,653	1,545,159
Shareholders' deficit	(53,042)	(1,078)

(1) *The net assets of Sanmar were translated at September 30, 2019 at $1 U.S. dollar = 70.87 Indian rupees and at March 31, 2019 at $1 U.S. dollar = 69.28 Indian rupees. The exchange rates used were the spot rates prevailing on those respective dates.*

Current assets and non-current assets in U.S. dollars decreased primarily attributable to the weakening of the Indian rupee relative to the U.S. dollar during the six months ended September 30, 2019. The decrease in current assets was partially offset by an increase in inventory levels from higher production levels at Sanmar Egypt. The decrease in non-current assets was attributable to an increase in depreciation of property, plant and equipment. Current liabilities increased primarily reflecting increased trade payables at Sanmar Egypt as a result of higher production levels and increased raw material prices as described in the Key Business Drivers, Events and Risks section. Non-current liabilities in U.S. dollars decreased primarily attributable to the weakening of the Indian rupee relative to the U.S. dollar during the six months ended September 30, 2019, partially offset by an increase in interest accrued on long term loans and borrowings. Shareholders' deficit increased primarily attributable to net loss during the six months ended September 30, 2019, partially offset by an investment in a subsidiary of Sanmar from a minority shareholder resulting in an increase in non-controlling interest.

On December 21, 2019 the Sanmar bonds were fully redeemed for $433,873 of which Fairfax India reinvested $198,039 into newly issued common shares of Sanmar, as disclosed earlier in the Transaction Description section. The redemption was partially funded by newly issued debt of approximately $295 million (approximately 21 billion Indian rupees). As a result, subsequent to September 30, 2019, non-current liabilities and shareholders' deficit decreased.

Summarized below are Sanmar's statements of earnings for the six months ended September 30, 2019 and 2018.

Statements of Earnings
(unaudited – US$ thousands)

	Six months ended September 30, 2019(1)	Six months ended September 30, 2018(1)
Revenue	355,042	327,823
Loss before income taxes	(118,185)	(25,545)
Net loss	(129,506)	(37,091)

(1) Amounts for the six months ended September 30, 2019 and 2018 were translated into US$ using the average exchange rates of $1 U.S. dollar = 69.96 Indian rupees and $1 U.S. dollar = 68.51 Indian rupees prevailing during those periods.

Revenue increased primarily reflecting increased sales volumes at Chemplast as a result of improved demand for PVC favourably impacting prices and the commencement of operations under the Phase 2 expansion at Sanmar Egypt. Loss before income taxes and net loss increased primarily reflecting increases in key raw material prices (EDC) and tariffs on power at Sanmar Egypt as described in the Key Business Drivers, Events and Risks section, as well as higher interest expense as a result of increased borrowings at Sanmar Egypt, partially offset by increased revenue as noted above.

Investment in National Collateral Management Services Limited

Business Overview

National Collateral Management Services Limited ("NCML"), a private company located in Gurugram, India, is a leading agricultural commodities storage company operating for over 15 years in the agriculture value chain and offering end-to-end solutions in grain procurement, testing, storage 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 line of business is comprised of over 1.6 million metric tons of storage capacity across 700 warehouses throughout 16 states in India and is a market leader in India. NCML's collateral management line of business manages capacity of over 1.9 million metric tons, has assets under management in excess of $0.7 billion and a market share of 30.0%.

Supply Chain Management

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

Non-banking Financial Company

NCML Finance Private Ltd ("NFin"), NCML's wholly-owned subsidiary, 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 farmer and aggregator segments remain under-penetrated. 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 producer organizations and aggregators.

Silo Projects

The Food Corporation of India (''FCI'') is a government agency responsible for procurement and 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 10% stored in organized private warehouses owned by companies that provide warehousing, storage and preservation services similar to NCML. The current storage capacity in India is approximately 125 million metric tons, of which 75% is government owned. The Government of India reviewed the process of acquiring, storing and distributing food grains resulting in a new distribution model that is focused on a public-private partnership. There are a few large national players (similar to NCML) which own and/or run high quality infrastructure and provide diverse ancillary services to warehousing customers who have the potential to benefit from changes in the industry.

In 2016 the FCI had called for bids for building 27 additional silos to be located in the states of Punjab, Haryana, Uttar Pradesh, West Bengal, Bihar and Gujarat, and have an estimated combined grain storage capacity of 1.35 million metric tons. On February 3, 2017 NCML was awarded a 30 year concession agreement to build 11 of the locations with a 550,000 metric ton capacity which will require capital expenditures of an estimated $107 million (approximately 7.5 billion Indian rupees). NCML was awarded two additional silo locations with a 100,000 metric ton capacity and three additional silo locations with a 150,000 metric ton capacity in 2017 and 2018 respectively, bringing the total capacity for all 16 silo locations to 800,000 metric tons. The silo projects, which are expected to be substantially completed by the second half of 2021, will be financed through debt and common equity.

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

Transaction Description

In August 2015 and August 2017 Fairfax India acquired an 89.5% equity interest in NCML for cash consideration of $174,318 (approximately 11.3 billion Indian rupees).

On September 17, 2019 the company invested an additional $13,970 (approximately 1.0 billion Indian rupees) in NCML to pre-fund an allotment of compulsorily convertible debentures (''NCML CCD'') of which proceeds were used to repay short term borrowings. On October 1, 2019 the company was issued 12.5% unsecured NCML CCD, due September 30, 2029. The company has the option to convert the NCML CCD into common shares of NCML at any time prior to the maturity date, at which time the conversion is compulsory, at a conversion price of 68.00 Indian rupees per common share.

At December 31, 2019 the company had appointed two of the eight NCML board members.

Key Business Drivers, Events and Risks

NCML's key business drivers relate to its ability to achieve long term modernization of its grain storage facilities, the development of its NBFC, the expansion of its supply chain management line of business, and the successful construction of the silos under the concession agreement with the FCI.

The silo projects are comprised of 14 silos that will be constructed under a design, build, finance, own and operate model and 2 silos that will be constructed under a design, build, finance, operate and transfer model, with all 16 silos being constructed for the exclusive use by the FCI. The silo projects are expected to be substantially completed by the second half of 2021.

Valuation and Consolidated Financial Statement Impact

NCML Common Shares

At December 31, 2019 the company estimated the fair value of its investment in NCML common shares using a discounted cash flow analysis based on multi-year free cash flow projections with assumed after-tax discount rates ranging from 12.7% to 23.5% and long term growth rates ranging from 2.4% to 6.0% (December 31, 2018 – 12.0% to 21.8%, and 2.4% to 6.0%, respectively). At December 31, 2019 free cash flow projections were based on EBITDA estimates derived from financial information for NCML's business units prepared in the second quarter of 2019 (December 31, 2018 – third quarter of 2018) 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, 2019 the company's internal valuation model indicated that the fair value of the company's equity investment in NCML was $120,734 (December 31, 2018 – $165,380) with the changes in fair value in 2019 and 2018 presented in the tables at the outset of the Indian Investments section of this MD&A. In 2019 the net change in unrealized losses on investments of $41,594 primarily related to increased net debt to support working capital requirements and lower projected growth in NCML's free cash flow projections used in the discounted cash flow analysis from the collateral management line of business related to the risk reduction strategy taken by NCML's management to exit higher risk segments that have been negatively performing.

NCML Compulsorily Convertible Debentures

At December 31, 2019 the fair value of the company's investment in NCML CCD was $14,286 (December 31, 2018 – nil) with the changes in fair value in 2019 presented in the table at the outset of the Indian Investments section of this MD&A.

NCML's Summarized Financial Information

NCML's fiscal year ends on March 31. Summarized below are NCML's balance sheets at December 31, 2019 and March 31, 2019.

Balance Sheets
(unaudited – US$ thousands)

	December 31, 2019(1)	March 31, 2019(1)
Current assets	88,066	145,965
Non-current assets	123,209	110,789
Current liabilities	70,796	124,477
Non-current liabilities	36,892	22,636
Shareholders' equity	103,587	109,641

(1) The net assets of NCML were translated at December 31, 2019 at $1 U.S. dollar = 71.38 Indian rupees and at March 31, 2019 at $1 U.S. dollar = 69.28 Indian rupees. The exchange rates used were the spot rates prevailing on those respective dates.

Current assets decreased primarily reflecting lower inventory in the supply chain management line of business and a decrease in advances at NCML's NBFC due to a tighter credit environment in India. Non-current assets increased principally due to land acquisitions for the silo projects. Current liabilities decreased primarily due to decreases in short term loans and borrowings at NCML's NBFC and other payables. Non-current liabilities increased primarily due to the NCML CCD issued to Fairfax India.

Summarized below are NCML's statements of earnings for the nine months ended December 31, 2019 and 2018.

Statements of Earnings
(unaudited – US$ thousands)

	Nine months ended December 31, 2019(1)	Nine months ended December 31, 2018(1)
Revenue	100,328	157,010
Earnings (loss) before income taxes	(3,424)	1,638
Net earnings (loss)	(2,160)	1,598

(1) Amounts for the nine months ended December 31, 2019 and 2018 were translated into US$ using the average exchange rates of $1 U.S. dollar = 70.38 Indian rupees and $1 U.S. dollar = 69.68 Indian rupees prevailing during those periods.

Revenue decreased primarily reflecting declines in the collateral management and supply chain management lines of businesses, which encountered challenges in obtaining credit as a result of tightening liquidity in the market. Earnings before income taxes and net earnings decreased principally as a result of increased borrowing costs, mark-to-market losses in castor seeds in the supply chain management line of business, and the decrease in revenue mentioned above.

Investment in Seven Islands Shipping Limited

Business Overview

Seven Islands Shipping Limited (''Seven Islands''), a private company located in Mumbai, India, is the second largest private sector tanker shipping company in India and transports liquid cargo along the Indian coast as well as in international waters. Seven Islands owns 19 vessels with a total deadweight capacity of approximately 1.2 million metric tons, and its vessels are registered in India and operate as Indian owned and flagged vessels.

Additional information can be accessed from Seven Islands' website www.sishipping.com.

Transaction Description

At December 31, 2019 Fairfax India had invested aggregate cash consideration of $83,846 (approximately 5.8 billion Indian rupees) for a 48.5% equity interest in Seven Islands through the following transactions: (i) on March 29, 2019 the company acquired a 41.4% equity interest in Seven Islands for cash consideration of $71,767 (approximately 4,972.0 million Indian rupees) through a direct subscription and secondary acquisition; (ii) on September 11, 2019 the company acquired an additional 7.1% equity interest in Seven Islands in a secondary acquisition for cash consideration of $12,056 (approximately 863.9 million Indian rupees); and (iii) on October 24, 2019 the company acquired an additional 0.01% equity interest in Seven Islands for cash consideration of $23 (approximately 1.7 million Indian rupees).

At December 31, 2019 the company had appointed one of the eight Seven Islands board members.

Key Business Drivers, Events and Risks

Seven Islands' key business drivers relate to its ability to acquire vessels from reputable vessel owners within the international market and to quickly deploy those vessels through charter contracts with India's largest oil companies. Seven Islands' business model is susceptible to overall shipping cycles and could be impacted by industry downturns in terms of lower rates and increased competition. However, Seven Islands operates primarily in the crude oil and oil products segment wherein India has one of the fastest growing oil consumption rates. The demand for oil tanker vessels to import and transport crude oil and oil products has been steadily increasing, mitigating business deployment risk for oil tankers in India in comparison with other countries. In addition, India has witnessed a decline in the fleet of other shipping companies, due to lower operational efficiencies, forming a gap that Seven Islands is currently positioned to fill.

India has experienced rising demand for crude oil as a result of increased energy consumption that is required to sustain its growth. According to the International Energy Agency, India's oil demand is expected to grow at 5% every year until 2024.

Seven Islands' revenues are denominated in U.S. dollars, whereas a majority of expenses incurred are denominated in the Indian rupee. Seven Islands is also exposed to the fluctuations in the Indian rupee to the extent they acquire new vessels as the asset purchases are negotiated and settled in U.S. dollars.

The proceeds received from Fairfax India in the direct subscription transaction will be used by Seven Islands to expand its ocean-going fleet by acquiring additional vessels and for general corporate purposes.

Valuation and Consolidated Financial Statement Impact

At December 31, 2019 the company estimated the fair value of its investment in Seven Islands using a discounted cash flow analysis based on multi-year free cash flow projections with an assumed after-tax discount rate of 11.5% and a long term growth rate of 3.0%. At December 31, 2019 free cash flow projections were based on EBITDA estimates derived from financial information for Seven Islands prepared in the fourth quarter of 2019 by Seven Islands' 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 Seven Islands operates. At December 31, 2019 the company's internal valuation model indicated that the fair value of the company's investment in Seven Islands was $88,800 (December 31, 2018 – nil) with the changes in fair value in 2019 presented in the table at the outset of the Indian Investments section of this MD&A.

Investment in Saurashtra Freight Private Limited

Business Overview

Saurashtra Freight Private Limited (''Saurashtra''), a private company located in Mumbai, India, operates one of the largest container freight stations (''CFS'') at Mundra port (Gujarat). Services provided by Saurashtra's CFS include transportation of containers to and from the port, stuffing and destuffing of containers, cargo storage, transportation of cargo to the end customer, and the storage, maintenance and repair of empty containers. Saurashtra's subsidiary, Fairfreight Lines, focuses on new services for container shipping, offering integrated logistic solutions to its customers by providing containers, which are leased by Saurashtra, to importers and exporters to transport cargo.

Additional information can be accessed from Saurashtra's website www.saurashtrafreight.com.

Transaction Description

In February 2017 Fairfax India acquired a 51.0% equity interest in Saurashtra for cash consideration of $30,018 (approximately 2.0 billion Indian rupees).

At December 31, 2019 the company had appointed one of the three Saurashtra board members.

Key Business Drivers, Events and Risks

Saurashtra has the annual capacity to handle 180,000 standard twenty-foot (shipping container) equivalent units (''TEUs'') and in 2019 handled 96,917 TEUs, implying a capacity utilization of approximately 54% (2018 – 100,988 TEUs, implying a capacity utilization of approximately 56%). At December 31, 2019 Saurashtra had the highest market share of imports at approximately 15% (December 31, 2018 – approximately 15%) and was second in exports at approximately 14% (December 31, 2018 – approximately 12%) at Mundra port in India. Saurashtra remains the largest CFS at that port in terms of total throughput achieved with a 14% market share for their third quarter ended December 31, 2019.

The CFS industry is highly fragmented with 14 CFS at Mundra port. Many of these CFS are inefficient and operating below capacity, providing Saurashtra with the opportunity to benefit from industry consolidation.

In its third quarter of 2019, Saurashtra experienced an 8% growth in year-over-year export volumes and a 5% growth in year-over-year import volumes. Saurashtra is continuing to actively pursue additional volumes through offering comprehensive packages to shipping lines, including providing value added storage services.

Saurashtra has been granted the status of Authorized Economic Operator (''AEO'') under the World Customs Organization. As an AEO, Saurashtra is approved by customs as compliant with supply chain security standards and is eligible for certain benefits such as being a preferred CFS for customs and that bank guarantees are no longer required for customs.

Valuation and Consolidated Financial Statement Impact

At December 31, 2019 the company estimated the fair value of its investment in Saurashtra using a discounted cash flow analysis based on multi-year free cash flow projections with assumed after-tax discount rates ranging from 13.4% to 14.4% and long term growth rates ranging from 4.0% to 5.0% (December 31, 2018 – 15.6% to 16.0%, and 4.0% to 5.0%, respectively). At December 31, 2019 free cash flow projections were based on EBITDA estimates derived from financial information for Saurashtra's two business units prepared in the second quarter of 2019 (December 31, 2018 – fourth quarter of 2018) by Saurashtra's management. The discount rates were based on the company's assessment of risk premiums to the appropriate risk-free rate of the economic environment in which Saurashtra operates. At December 31, 2019 the company's internal valuation model indicated that the fair value of the company's investment in Saurashtra was $31,204 (December 31, 2018 – $24,843) with the changes in fair value in 2019 and 2018 presented in the tables at the outset of the Indian Investments section of this MD&A.

Investment in National Stock Exchange of India Limited

Business Overview

National Stock Exchange of India Limited (''NSE''), a private company located in Mumbai, India, operates India's largest stock exchange. In addition to providing a platform for 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 be accessed from NSE's website www.nseindia.com.

Transaction Description

In the third quarter of 2016 Fairfax India acquired a 1.0% equity interest in NSE for cash consideration of $26,783 (approximately 1.8 billion Indian rupees).

At December 31, 2019 the company did not have any representation on the board of NSE.

Key Business Drivers, Events and Risks

India has two main stock exchanges where the majority of its trading takes place, the BSE and NSE of India. Although most significant firms in India are listed on both the BSE and NSE of India, NSE enjoys dominant market share positions including a 93% market share in the equity trading segment, a 100% market share in the equity derivatives trading segment and a 62% and 52% market share in the foreign exchange futures and options markets, respectively. NSE of India emerged as the world's largest exchange in derivatives trading volumes in 2019.

On December 28, 2016 NSE filed a draft prospectus with SEBI in connection with its proposed IPO. In May 2017, SEBI issued show-cause notices to NSE prompting responses on inquiries over certain broker members having access to co-location facilities at NSE thereby potentially gaining unfair trading advantages. On April 30, 2019 SEBI directed NSE to pay approximately $160 million (approximately 11 billion Indian rupees) in penalties and interest after finding that it had failed to provide equal access to all trading members. In May 2019 NSE filed an appeal with the Securities Appellate Tribunal (''SAT'') with ruling expected by the third quarter of 2020. As a result, completion of the IPO is anticipated by 2021 upon completion of the SAT ruling and subject to regulatory approval from SEBI. NSE will also seek to file for an overseas listing subsequent to closing of the IPO. NSE has appointed Citibank, JM Financial, Kotak Mahindra and Morgan Stanley as lead investment banks to manage the IPO.

Valuation and Consolidated Financial Statement Impact

At December 31, 2019 the company's estimated fair value of its investment in NSE of $57,210 (December 31, 2018 – $60,285) was based on recent third party transactions completed in the fourth quarter of 2019 (December 31, 2018 – fourth quarter of 2018). The changes in fair value of the company's investment in NSE in 2019 and 2018 are presented in the tables at the outset of the Indian Investments section of this MD&A.

In 2019 the consolidated statements of earnings included dividend income earned from the investment in NSE of $1,269 (2018 – $1,258).

Investment in India Housing Fund

Business Overview

India Housing Fund (''IH Fund'') is a closed-ended fund of IIFL Private Equity Fund (the ''Trust'') registered as a Category II Alternative Investment Fund (''AIF'') under SEBI AIF Regulations. IH Fund is a fund incorporated to focus on investing in the real estate sector in India by investing in equity, debt and equity-linked instruments of real estate and construction companies involved in projects or ventures with expected growth potential.

At December 31, 2019 IH Fund had raised capital commitments of approximately $300 million and had invested approximately $118 million in nine real estate sector investments.

Transaction Description

On December 24, 2018 the company entered into an agreement whereby it committed to invest 1.7 billion Indian rupees (approximately $25,000 at the date of the agreement) in the IH Fund. At December 31, 2019 Fairfax India had invested aggregate cash consideration of $14,893 (approximately 1.0 billion Indian rupees) in IH Fund through the following transactions: (i) on January 7, 2019 the company invested 25.0% or 437.0 million Indian rupees ($6,272) of the committed investment amount in IH Fund and (ii) on November 7, 2019 the company invested an additional 35.0% or 611.8 million Indian rupees ($8,621) of the committed investment amount in IH Fund. The remaining 40.0% or 699.3 million Indian rupees ($9,796 at period end exchange rates) is to be drawn down by November 30, 2020.

At December 31, 2019 the company had appointed one of the five members of IH Fund's Investment Committee.

Key Business Drivers, Events and Risks

The Indian real estate industry is a key growth driver of the country's economy, with an expected value of approximately $180 billion by 2020. The industry is growing steadily and encompasses growth in both commercial and residential markets, contributing approximately 5% to 6% to India's GDP. It is estimated that the current state of the housing shortage is approximately 60 million housing units, and by 2022 India will need to develop approximately 110 million housing units. Cumulative investment of over $2 trillion (approximately 139 trillion Indian rupees) is required until 2022 to meet this growth.

The Government of India developed a host of initiatives to boost the housing sector and the government continues to undertake various reforms to highlight its focus on affordable housing, such as: (i) interest rate subsidy on housing loans; (ii) 100% deduction in taxable income for qualified developers; (iii) ease of entry and exit for foreign direct investments; (iv) digitization of land records; and (v) establishment of the Real Estate (Regulation and Development Act), 2016 which seeks to protect home-buyers as well as help boost investments in the real estate industry.

The inherent demand and structural reforms initiated by the Government of India have laid the foundation for a healthier, growing industry. As real estate is a state subject in India's federal structure, regulations and approval regimes in place can be very dynamic and may impact the Indian real estate industry. As discussed in the Operating Environment section under heading Political Stability earlier in this MD&A, on May 23, 2019 the BJP, led by Prime Minister Modi, swept to victory with a full majority. As a result, it is anticipated that investors can look forward to a stable government and policy continuity for the next five years.

Valuation and Consolidated Financial Statement Impact

At December 31, 2019 the company estimated the fair value of its investment in IH Fund of $15,146 (December 31, 2018 – nil) based on the net asset value provided by the third party fund manager. The fair values of the underlying assets are determined using quoted prices for short term investments, and industry accepted valuation models for debt and equity instruments. The changes in fair value of the company's investment in IH Fund in 2019 are presented in the table at the outset of the Indian Investments section of this MD&A.

Results of Operations

Fairfax India's consolidated statements of earnings for the years ended December 31, 2019, 2018 and 2017 are shown in the following table:

	2019	2018	2017
Income			
Interest	4,859	21,659	21,848
Dividends	10,141	8,699	8,627
Net realized gains (losses) on investments	181,123	(7,985)	1,195
Net change in unrealized gains on investments and other costs	530,372	178,998	592,277
Net foreign exchange losses	(13,806)	(34,853)	(14,277)
	712,689	166,518	609,670
Expenses			
Investment and advisory fees	27,473	33,908	27,531
Performance fee	48,514	–	112,218
General and administration expenses	5,300	4,079	4,166
Interest expense	38,781	28,898	15,664
	120,068	66,885	159,579
Earnings before income taxes	592,621	99,633	450,091
Provision for (recovery of) income taxes	76,283	3,201	(2,418)
Net earnings	516,338	96,432	452,509
Net earnings per share	$ 3.38	$ 0.63	$ 3.10
Net earnings per diluted share	$ 3.30	$ 0.63	$ 2.94

Total income of $712,689 in 2019 increased from $166,518 in 2018 principally due to increased net change in unrealized gains on investments (discussed below), increased net realized gains on investments (primarily related to the redemption of Sanmar bonds, the IIFL Holdings Reorganization, and partial sales of an investment in Other Public Indian Investments) and decreased net foreign exchange losses. In 2019, the net change in unrealized gains on investments of $530,372 was principally comprised of unrealized gains on the company's investments in BIAL ($751,487), CSB Bank ($60,901), Fairchem ($33,412), Other Public Indian Investments ($30,182) and Sanmar common shares ($23,062), partially offset by unrealized losses on the company's investments in IIFL Finance ($196,040), NCML common shares ($41,594), IIFL Securities ($40,916) and the reversal of prior period unrealized gains on Sanmar bonds ($107,758). In 2018, the net change in unrealized gains on investments of $178,998 was principally comprised of unrealized gains on the company's investments in Sanmar common shares ($221,454), BIAL ($84,311), NSE ($24,245) and Sanmar bonds ($90,128), partially offset by unrealized losses on the company's investments in IIFL Holdings ($203,226), Fairchem ($40,711) and 5paisa ($6,474). Interest income of $4,859 in 2019 decreased from $21,659 in 2018 principally as a result of the sale of Government of India and Indian corporate bonds to fund the company's investments in Seven Islands, CSB Bank, IH Fund, NCML CCD and 5paisa. Dividend income of $10,141 in 2019 related to dividends received from the company's investments in IIFL Finance, IIFL Wealth, NSE, Fairchem, IH Fund and Other Public Indian Investments compared to dividend income of $8,699 in 2018 related to dividends received from the company's investments in IIFL Holdings, NSE, Fairchem and Other Public Indian Investments.

Net gains (losses) on investments and net foreign exchange gains (losses) in 2019 and 2018 were comprised as follows:

	2019			2018		
	Net realized gains (losses)	Net change in unrealized gains (losses)	Net gains (losses)	Net realized gains (losses)	Net change in unrealized gains (losses)	Net gains (losses)
Net gains (losses) on investments:						
Short term investments	71	–	71	(3)	–	(3)
Bonds	154,919[(1)]	(107,577)[(1)]	47,342[(1)]	(7,982)	94,420[(1)]	86,438[(1)]
Common stocks	43,182[(2)(3)]	637,949[(2)(3)]	681,131	–	84,578[(2)]	84,578
Derivatives	(17,049)[(2)]	–	(17,049)	–	–	–
	181,123	530,372	711,495	(7,985)	178,998	171,013
Net foreign exchange gains (losses) on:						
Cash and cash equivalents	549	–	549	3,651	–	3,651
Investments	(102)	–	(102)	1,489	465	1,954
Borrowings	(1,669)[(4)]	(12,051)[(4)]	(13,720)[(4)]	(25,407)[(4)]	(13,131)[(4)]	(38,538)[(4)]
Other	(533)	–	(533)	(1,920)	–	(1,920)
	(1,755)	(12,051)	(13,806)	(22,187)	(12,666)	(34,853)

(1) In 2019, net gains on bonds primarily comprised of realized gains from Sanmar bonds ($156,540), partially offset by net change in unrealized losses, primarily related to the reversal of prior period unrealized gains recorded on Sanmar bonds ($107,758). In 2018, net gains on bonds primarily comprised of unrealized gains from Sanmar bonds ($90,128).

(2) Refer to the Indian Investments section of this MD&A for a summary of changes in the fair value of the company's Public and Private Indian Investments during 2019 and 2018.

(3) On May 31, 2019 IIFL Holdings spun off IIFL Wealth and IIFL Securities in the IIFL Holdings Reorganization. The amount recorded in net realized gains on investments was $36,112 (all of which was recorded as unrealized gains on investments in prior periods).

(4) In 2019 foreign exchange losses on borrowings of $13,720 primarily comprised of net change in unrealized losses of $12,051 related to unrealized foreign exchange losses on the $550.0 million term loan and realized losses of $1,669 related to the Revolving Credit Facility (repaid on December 31, 2019). In 2018 foreign exchange losses on borrowings of $38,538 primarily comprised of realized foreign exchange losses of $25,407 related to the extinguishment of the $400.0 million term loan. Net change in unrealized foreign exchange losses of $13,131 in 2018 was comprised of a reversal of the prior year unrealized foreign exchange gain of $4,527 on the $400.0 million term loan and unrealized foreign exchange losses of $8,604 on the $550.0 million term loan.

Total expenses of $66,885 in 2018 increased to $120,068 in 2019 primarily related to a $47,850 performance fee accrual recorded by the company at December 31, 2019 and increased interest expense (including amortization of issuance costs) related to the borrowings, partially offset by decreased investment and advisory fees.

The investment and advisory fees are calculated and payable quarterly as 0.5% of the value of undeployed capital and 1.5% of the company's common shareholders' equity less the value of undeployed capital. In 2019 the company and Fairfax retroactively revised the interpretation of the Investment Advisory Agreement to clarify that deployed capital should exclude any Indian Investments financed by debt, resulting in a recovery of investment and advisory fees from Fairfax of $6,064. In 2019 the investment and advisory fees recorded in the consolidated statements of earnings was $27,473 (2018 – $33,908).

At December 31, 2019 the company determined that there was a $47,850 performance fee accrual (December 31, 2018 – nil). In 2019 the performance fee recorded in the consolidated statements of earnings was $48,514 representing the performance fee accrual translated at the average exchange rate for 2019 (2018 – nil). Refer to the Related Party Transactions section of this MD&A for additional discussion on the performance fee accrued at December 31, 2019.

The provision for income taxes of $76,283 in 2019 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 (including the deferred income taxes recorded on BIAL, the IIFL Holdings Reorganization (related to the spin off of IIFL Wealth), CSB Bank, Saurashtra, and an investment in Other Public Indian Investments), partially offset by the change in unrecorded tax benefit of losses and temporary differences, and foreign exchange fluctuations.

The provision for income taxes of $3,201 in 2018 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 foreign exchange fluctuations and the change in unrecorded tax benefit of losses and temporary differences, partially offset by the tax rate differential on income earned outside of Canada.

The company reported net earnings of $516,338 (net earnings of $3.38 per basic share and $3.30 per diluted share) in 2019 compared to net earnings of $96,432 (net earnings of $0.63 per basic and diluted share) in 2018. The year-over-year increase in profitability in 2019 primarily reflected increased net change in unrealized gains and net realized gains on investments, partially offset by increased provision for income taxes and a performance fee accrual recorded in 2019.

Consolidated Balance Sheet Summary

The assets and liabilities reflected on the company's consolidated balance sheet at December 31, 2019 were primarily impacted by net unrealized gains on investments and the redemption of Sanmar bonds, the net proceeds of which were partially used to fund the company's investment in Sanmar common shares and to repay the company's Revolving Credit Facility. In addition the company had net sales of Indian corporate bonds and investments in Seven Islands, CSB Bank, IH Fund, NCML CCD and 5paisa. As a result of increased changes in unrealized gains the company recorded deferred tax liabilities primarily as a result of potential capital gains tax in India on any future dispositions of investments in equity shares and performance fees.

Total Assets

Total assets at December 31, 2019 of $3,244,937 (December 31, 2018 – $2,707,057) were principally comprised as follows:

Total cash and investments increased to $3,236,960 at December 31, 2019 from $2,696,420 at December 31, 2018. The company's total cash and investments composition by the issuer's country of domicile was as follows:

	December 31, 2019				December 31, 2018			
	India	Canada	Other	Total	India	Canada	Other	Total
Cash and cash equivalents	40,064	3,300	5,349	48,713	149	18,766	2,325	21,240
Restricted cash	–	16,915	–	16,915	–	13,833	–	13,833
Bonds:								
Government of India	88,775	–	–	88,775	88,997	–	–	88,997
Indian corporate	35,364	–	–	35,364	94,613	–	–	94,613
NCML CCD	14,286	–	–	14,286	–	–	–	–
Sanmar bonds	–	–	–	–	392,776	–	–	392,776
	138,425	–	–	138,425	576,386	–	–	576,386
Common stocks:								
IIFL Finance / IIFL Holdings(1)	166,014	–	–	166,014	613,458	–	–	613,458
IIFL Wealth(1)	191,476	–	–	191,476	–	–	–	–
IIFL Securities(1)	48,796	–	–	48,796	–	–	–	–
CSB Bank	229,262	–	–	229,262	93,081	–	–	93,081
Fairchem	127,413	–	–	127,413	96,574	–	–	96,574
5paisa	18,176	–	–	18,176	11,913	–	–	11,913
Other	95,892	–	–	95,892	98,180	–	–	98,180
BIAL	1,429,854	–	–	1,429,854	704,077	–	–	704,077
Sanmar	412,930	–	–	412,930	217,170	–	–	217,170
NCML	120,734	–	–	120,734	165,380	–	–	165,380
Seven Islands	88,800	–	–	88,800	–	–	–	–
Saurashtra	31,204	–	–	31,204	24,843	–	–	24,843
NSE	57,210	–	–	57,210	60,285	–	–	60,285
IH Fund	15,146	–	–	15,146	–	–	–	–
	3,032,907	–	–	3,032,907	2,084,961	–	–	2,084,961
Total cash and investments	3,211,396	20,215	5,349	3,236,960	2,661,496	32,599	2,325	2,696,420

(1) On May 31, 2019 IIFL Holdings spun off IIFL Wealth and IIFL Securities in the IIFL Holdings Reorganization.

Cash and cash equivalents increased to $48,713 at December 31, 2019 from $21,240 at December 31, 2018 principally reflecting proceeds received from the redemption of Sanmar bonds, partially offset by the settlement of partly paid securities of CSB Bank and the company's investments in Sanmar common shares, Seven Islands, CSB Bank, IH Fund, NCML CCD and 5paisa.

Restricted cash of $16,915 at December 31, 2019 (December 31, 2018 – $13,833) related to requirements under the borrowings for the company to set aside cash to fund interest payments.

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 Indian Investments section of this MD&A. For more information on the company's total cash and investments holdings of $3,236,960 at December 31, 2019 (December 31, 2018 – $2,696,420) see note 6 (Cash and Investments) to the consolidated financial statements for the year ended December 31, 2019.

Interest receivable decreased to $3,453 at December 31, 2019 from $7,039 at December 31, 2018 primarily reflecting decreased interest receivable from Indian corporate bonds as a result of net sales of Indian corporate bonds, partially offset by interest receivable from the investment in NCML CCD.

Other assets increased to $1,658 at December 31, 2019 from $668 at December 31, 2018 primarily reflecting prepaid interest of $1,510 related to the borrowings.

Total Liabilities

Total liabilities at December 31, 2019 of $667,086 (December 31, 2018 – $589,112) were principally comprised as follows:

Payable for partly paid securities of CSB Bank was settled on July 8, 2019.

Payable to related parties increased to $50,519 at December 31, 2019 from $8,827 at December 31, 2018 principally reflecting the accrual of the performance fee payable (relating to the second calculation period ending on December 31, 2020) to Fairfax, partially offset by decreased investment and advisory fees.

Deferred income taxes increased to $64,477 at December 31, 2019 from $689 at December 31, 2018 primarily as a result of deferred tax liabilities recorded on unrealized gains from BIAL, IIFL Wealth, CSB Bank, Saurashtra and an investment in Other Public Indian Investments, partially offset by withholding taxes paid on settlement of Sanmar bonds.

Borrowings remained consistent at $547,228 at December 31, 2019 and December 31, 2018. The $50.0 million Revolving Credit Facility was fully drawn on June 28, 2019 and the proceeds were used to partially finance the settlement of the payable for partly paid securities on July 8, 2019 relating to the company's investment in CSB Bank and to fund the debt service reserve account. On December 31, 2019 the company repaid the Revolving Credit Facility using a portion of the proceeds received from the redemption of Sanmar bonds. Refer to note 7 (Borrowings) to the consolidated financial statements for the year ended December 31, 2019.

Comparison of 2018 to 2017 – Total assets of $2,672,221 at December 31, 2017 increased to $2,707,057 at December 31, 2018 primarily due to incremental net proceeds received from the $550.0 million term loan, which amended and restated an existing secured $400.0 million term loan, and net unrealized gains on investments, partially offset by unrealized foreign currency translation losses and the settlement of a payable for rights issue related to NCML. Refer to note 5 (Indian Investments) to the consolidated financial statements for the year ended December 31, 2019 for details on the Indian Investments acquired during 2018.

Financial Risk Management

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 process used by the company for managing those risk exposures at December 31, 2019 compared to those identified at December 31, 2018, other than as outlined in note 11 (Financial Risk Management) to the consolidated financial statements for the year ended December 31, 2019.

Capital Resources and Management

The company's objectives when managing capital are to protect its lenders, to safeguard its ability to continue as a going concern, and to maintain an optimal capital structure to reduce the cost of capital in order to optimize returns for common shareholders. 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 (comprised of borrowings and common shareholders' equity) increased from $2,665,173 at December 31, 2018 to $3,125,079 at December 31, 2019 principally reflecting an increase in common shareholders' equity, as described below.

Common shareholders' equity increased from $2,117,945 at December 31, 2018 to $2,577,851 at December 31, 2019 primarily reflecting net earnings ($516,338), partially offset by unrealized foreign currency translation losses ($53,445) during 2019.

On June 28, 2019 the company amended and restated the existing $550.0 million term loan by extending the maturity to June 26, 2020 while maintaining the option to extend for an additional year. Concurrent with amending and restating the $550.0 million term loan, the company entered into a $50.0 million Revolving Credit Facility with a Canadian bank bearing interest at a rate of LIBOR plus 350 basis points, with an option to extend for an additional year. The Revolving Credit Facility was fully drawn on June 28, 2019 and the proceeds were used to partially finance the settlement of the payable for partly paid securities on July 8, 2019 relating to the company's investment in CSB Bank and to fund the debt service reserve account. On December 31, 2019 the company repaid the Revolving Credit Facility using a portion of the proceeds received from the redemption of the Sanmar bonds. At December 31, 2019 the company was in compliance with the $550.0 million term loan financial covenant.

Book Value per Share

Common shareholders' equity at December 31, 2019 was $2,577,851 (December 31, 2018 – $2,117,945). The book value per share at December 31, 2019 was $16.89 compared to $13.86 at December 31, 2018 representing an increase in 2019 of 21.9%, primarily reflecting net earnings of $516,338 (primarily related to net change in unrealized gains on investments and net realized gains on investments, partially offset by provision for income taxes, performance fees and interest expense), partially offset by unrealized foreign currency translation losses of $53,445.

The table below presents the book value per share before and after performance fees, if any, for the period from the company's IPO date of January 30, 2015 to December 31, 2019, and the annual growth rate and the compound annual growth rate in book value per share before and after performance fees.

	Book value per share after Performance Fees	Annual growth in book value per share after Performance Fees	Book value per share before Performance Fees	Annual growth in book value per share before Performance Fees
January 30, 2015[(1)]	$10.00	–	$10.00	–
December 31, 2015	$ 9.50	(5.0)%	$ 9.50	(5.0)%
December 31, 2016	$10.25	7.9%	$10.25	7.9%
December 31, 2017	$14.46	41.1%	$15.24	48.7%
December 31, 2018	$13.86	(4.1)%	$14.59	(4.3)%
December 31, 2019	$16.89	21.9%	$18.11	24.1%
Compound annual growth in book value per share[(2)]		11.2%		12.8%

(1) On January 30, 2015 Fairfax India completed its IPO at an offering price of $10.00 per share.

(2) The company's book value per share of $16.89 at December 31, 2019 represented a compound annual growth rate from the IPO price of $10.00 per share of 11.2% (a growth of 12.8% prior to accounting for performance fees).

The company has had strong performance during the period from the closing of its IPO in January 2015 to December 31, 2019. As a result of that strong performance, the company's book value per share of $16.89 at December 31, 2019 represented a compound annual growth rate during that period of 11.2% (12.8% prior to the performance fees described in the Related Party Transactions section of this MD&A) from the IPO price of $10.00 per share, outperforming the compound annual growth rate of the S&P USD BSE Sensex Index of 4.3% during the same period.

During 2018 the total number of shares effectively outstanding increased as a result of the issuance of 7,663,685 subordinate voting shares to Fairfax to settle the performance fee payable of $114,437 for the first calculation period (three-year period ending on December 31, 2017), partially offset by purchases of 2,234,782 subordinate voting shares for cancellation under the normal course issuer bid. During 2019 the total number of shares effectively outstanding decreased as a result of purchases of 230,053 subordinate voting shares for cancellation under the normal course issuer bid. At December 31, 2019 there were 152,631,481 common shares effectively outstanding.

The company has issued and purchased 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/ purchase price per share	Net proceeds/ (purchase 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 – purchase of shares	(1,797,848)	–	(1,797,848)	$11.78	(21,178)
2017 – issuance of shares	42,553,500	–	42,553,500	$11.60	493,504
2017 – purchase of shares	(1,900)	–	(1,900)	$14.21	(27)
2018 – issuance of shares(2)	7,663,685	–	7,663,685	$14.93	114,437
2018 – purchase of shares	(2,234,782)	–	(2,234,782)	$14.42	(32,218)
	122,861,534	30,000,000	152,861,534		
2019 – purchase of shares	(230,053)	–	(230,053)	$13.03	(2,998)
	122,631,481	30,000,000	152,631,481		

(1) Multiple voting shares that may only be issued to Fairfax or its affiliates and are not publicly traded.

(2) Subordinate voting shares issued to Fairfax on March 9, 2018 for settlement of the performance fee accrued at December 31, 2017 of $114,437. Issuance of the subordinate voting shares was a non-cash transaction and were issued at the VWAP of $14.93 in accordance with the Investment Advisory Agreement.

On October 3, 2018 the company announced that the TSX accepted its intention to commence a normal course issuer bid to purchase up to 3,500,000 subordinate voting shares, representing approximately 4.3% of the public float of its subordinate voting shares, over a twelve month period from October 9, 2018 to October 8, 2019. On September 26, 2019 the company announced that the TSX accepted its intention to commence a normal course issuer bid to purchase up to 3,500,000 subordinate voting shares, representing approximately 4.5% of the public float of its subordinate voting shares, over a twelve month period from September 30, 2019 to September 29, 2020. Decisions regarding any future purchases 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.

During 2019, under the terms of the normal course issuer bid, the company purchased for cancellation 230,053 subordinate voting shares (2018 – 2,234,782) for a net cost of $2,998 (2018 – $32,218), and $577 was charged to retained earnings (2018 – $8,695).

Liquidity

The undeployed cash and investments at December 31, 2019 provide adequate liquidity to meet the company's known significant commitments in 2020, which are principally comprised of the remaining investment commitments for IH Fund, interest expense, investment and advisory fees, general and administration expenses and potentially corporate income taxes. The company has a principal repayment on the $550.0 million term loan coming due in June 2020 that can be extended for an additional year. The company has the ability to sell a portion of its Indian Investments to supplement the liquidity requirements. 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. Accordingly, the company has adequate working capital to support its operations.

Highlights in 2019 (with comparisons to 2018) of major components of the statements of cash flows are presented in the following table:

	2019	2018
Operating activities		
Cash used in operating activities before the undernoted	(62,745)	(20,974)
Increase in restricted cash in support of borrowings	(3,082)	(3,235)
Net (purchases) sales of short term investments	(30)	27,836
Purchases of investments	(563,952)	(240,661)
Sales of investments	666,407	144,213
Financing activities		
Net proceeds from borrowings	44,455	544,455
Repayment of borrowings	(50,000)	(400,000)
Purchases of subordinate voting shares for cancellation	(2,998)	(32,218)
Increase in cash and cash equivalents during the year	28,055	19,416

Cash used in 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 used in operating activities before the undernoted of $62,745 in 2019 increased from cash used in operating activities before the undernoted of $20,974 in 2018, with the change principally reflecting decreased interest income, increased interest paid on borrowings and income taxes paid.

Increase in restricted cash in support of borrowings of $3,082 and $3,235 in 2019 and 2018 related to the changes in the restricted cash accounts required to be maintained to fund interest payments on borrowings. Refer to note 7 (Borrowings) to the consolidated financial statements for the year ended December 31, 2019 for additional details. Net sales of short term investments of $27,836 in 2018 primarily related to net sales of U.S. treasury bills to settle the remaining payable on NCML's rights issue in January 2018 and to fund the purchases for cancellation subordinate voting shares of the company. Purchases of investments of $563,952 in 2019 primarily related to the company's investments in Sanmar common shares, Seven Islands, CSB Bank, IH Fund, NCML CCD, 5paisa and purchases of Government of India and Indian corporate bonds. Purchases of investments of $240,661 in 2018 primarily related to the investments in Other Public Indian Investments, an additional 6.0% investment in BIAL, investment in CSB Bank (Tranche 1 closed October 19, 2018), and purchases of Indian corporate bonds. Sales of investments of $666,407 and $144,213 in 2019 and 2018 related to the sales of Government of India and Indian corporate bonds to partially finance the acquisitions of the Indian Investments noted above, and in 2019 also included the redemption of Sanmar bonds, sales of Indian corporate bonds and the partial sale of an investment in Other Public Indian Investments. Refer to note 15 (Supplementary Cash Flow Information) to the consolidated financial statements for the year ended December 31, 2019 for details of purchases and sales of investments.

Net proceeds from borrowings of $44,455 and repayment of borrowings of $50,000 in 2019 related to the net proceeds borrowed from the Revolving Credit Facility on June 28, 2019 (net of issuance costs of $5,545 on the amended $550.0 million term loan) and full repayment on December 31, 2019 with a portion of the net proceeds received from the redemption of Sanmar bonds. Net proceeds from borrowings of $544,455 and repayment of the $400.0 million term loan in 2018 related to the completion on June 28, 2018 of the $550.0 million term loan (net of issuance costs of $5,545), and the extinguishment of the $400.0 million term loan. Purchases of subordinate voting shares for cancellation of $2,998 in 2019 (2018 – $32,218) related to the company's purchases of 230,053 subordinate voting shares (2018 – 2,234,782) under the terms of the normal course issuer bids. Refer to note 8 (Common Shareholders' Equity) to the consolidated financial statements for the year ended December 31, 2019 for additional details.

Contractual Obligations

On June 28, 2019 the company amended and restated the existing $550.0 million term loan by extending the maturity to June 26, 2020 while maintaining the option to extend for an additional year. Concurrent with amending and restating the $550.0 million term loan, the company entered into a $50.0 million Revolving Credit Facility with a Canadian bank bearing interest at a rate of LIBOR plus 350 basis points, with an option to extend for an additional year. The Revolving Credit Facility was fully drawn on June 28, 2019 and the proceeds were used to partially finance the settlement of the payable for partly paid securities on July 8, 2019 relating to the company's investment in CSB

Bank and to fund the debt service reserve account. On December 31, 2019 the company repaid the Revolving Credit Facility using a portion of the proceeds received from the redemption of the Sanmar bonds.

On December 24, 2018 the company entered into an agreement whereby it committed to invest 1.7 billion Indian rupees (approximately $25,000 at the date of the agreement) in the IH Fund. At December 31, 2019 Fairfax India had invested aggregate cash consideration of $14,893 (approximately 1.0 billion Indian rupees) in IH Fund through the following transactions: (i) on January 7, 2019 the company invested 25.0% or 437.0 million Indian rupees ($6,272) of the committed investment amount in IH Fund and (ii) on November 7, 2019 the company invested an additional 35.0% or 611.8 million Indian rupees ($8,621) of the committed investment amount in IH Fund. The remaining 40.0% or 699.3 million Indian rupees ($9,796 at period end exchange rates) is to be drawn down by November 30, 2020.

Under the terms of the Investment Advisory Agreement (defined in note 12 (Related Party Transactions) to the consolidated financial statements for the year ended December 31, 2019), 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 company's common shareholders' equity and book value per share.

The investment and advisory fees recorded in the consolidated statements of earnings for 2019 were $27,473 (2018 – $33,908).

Refer to the Related Party Transactions section of this MD&A that follows for a discussion on the performance fee accrued at December 31, 2017 (related to the first calculation period) and settled on March 9, 2018, and at December 31, 2019 (related to the second calculation period).

At December 31, 2019 the company had an outstanding letter of credit of $14,010 (1.0 billion Indian rupees) in connection with an unsuccessful greenfield airport bid, which concluded on November 29, 2019. The letter of credit will expire on April 30, 2020 with no financial impact to the company.

Related Party Transactions

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 and its subsidiaries (the ''Investment Advisory Agreement''). As compensation for the provision of these services, the company and its subsidiaries pay an investment and advisory fee, and if applicable, a performance fee. Such fees are determined with reference to the company's common shareholders' equity.

Performance Fee

The performance fee is accrued quarterly and is calculated, on a cumulative basis, as 20% of any increase (including distributions) in book value per share above a 5% per annum increase less any performance fees settled in prior calculation periods. The amount of book value per share at any time which must be achieved before any performance fee would be payable is sometimes referred to as the ''hurdle per share''.

First Calculation Period

On March 9, 2018 the company issued 7,663,685 subordinate voting shares to Fairfax related to the first three-year period from January 30, 2015 to December 31, 2017 (the ''first calculation period''). Under the terms of the Investment Advisory Agreement, settlement of the performance fee took place in subordinate voting shares of the company as the market price per share was less than two times the then book value per share. The number of subordinate voting shares issued was calculated as the performance fee payable at December 31, 2017 of $114,437 divided by the VWAP of $14.93. The issuance of these subordinate voting shares increased Fairfax's equity interest in Fairfax India from 30.2% at December 31, 2017 to 33.6% at March 9, 2018.

Second Calculation Period

The period from January 1, 2018 to December 31, 2020 (the ''second calculation period'') will be the next consecutive three-year period after December 31, 2017 for which a performance fee, if applicable, will be accrued. The calculation of the performance fee was reassessed and adjusted during 2019 and will be calculated on a cumulative basis as 20% of any increase in the book value per share (before factoring in the impact of the performance fee for the second calculation period) above a 5% per annum increase less the performance fee of $114,437 previously settled in the first calculation period. Under the Investment Advisory Agreement, the performance fee, if applicable, will be paid within 30 days after the company issues its annual audited consolidated financial statements for the year ended December 31, 2020, in subordinate voting shares of the company unless the market prices per share of those shares is more than two times the then book value per share, in which event Fairfax may elect to receive that fee in cash. The number of subordinate voting shares to be issued will be calculated based on the VWAP in respect of which the performance fee is paid.

At December 31, 2019 the company determined that there was a $47,850 performance fee accrual (December 31, 2018 – nil). In 2019 the performance fee recorded in the consolidated statements of earnings was $48,514 representing the performance fee accrual translated at the average exchange rate for 2019 (2018 – nil). At December 31, 2019 there were an estimated 3,748,129 contingently issuable subordinate voting shares relating to the performance fee accrual of $47,850 (December 31, 2018 – nil).

Investment and Advisory Fees

The investment and advisory fees are calculated and payable quarterly as 0.5% of the value of undeployed capital and 1.5% of the company's common shareholders' equity less the value of undeployed capital. In 2019 the company and Fairfax retroactively revised the interpretation of the Investment Advisory Agreement to clarify that deployed capital should exclude any Indian Investments financed by debt, resulting in a recovery of investment and advisory fees from Fairfax of $6,064. In 2019 the investment and advisory fees recorded in the consolidated statements of earnings was $27,473 (2018 – $33,908).

Fairfax's Voting Rights and Equity Interest

At December 31, 2019 Fairfax, through its subsidiaries, owned 30,000,000 multiple voting shares (December 31, 2018 – 30,000,000) and 21,558,422 subordinate voting shares (December 31, 2018 – 21,558,422) of Fairfax India. At December 31, 2019 Fairfax's holdings of multiple and subordinate voting share represented 93.8% of the voting rights and 33.8% of the equity interest in Fairfax India (December 31, 2018 – 93.8% and 33.7%).

For additional details on the company's related party transactions, see note 12 (Related Party Transactions) to the consolidated financial statements for the year ended December 31, 2019.

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, 2019, as required by 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, 2019, 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 ("IFRS") as issued by the International Accounting Standards Board ("IASB"). 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 IFRS as issued by the IASB, 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 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, 2019. 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)*. Based on this assessment, the company's management, including the CEO and CFO, concluded that, as of December 31, 2019, 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, 2019.

Significant Accounting Policy Changes

There were no significant accounting policy changes during 2019. Please refer to note 3 (Summary of Significant Accounting Policies) to the consolidated financial statements for the year ended December 31, 2019 for a detailed discussion of the company's accounting policies.

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. The company does not expect to adopt any of these new standards in advance of their respective effective dates. New standards and amendments that have been issued but are not yet effective are described in note 3 (Summary of Significant Accounting Policies) to the consolidated financial statements for the year ended December 31, 2019.

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 process used by the company for managing those risk exposures at December 31, 2019 compared to those identified at December 31, 2018, other than as outlined in note 11 (Financial Risk Management) to the consolidated financial statements for the year ended December 31, 2019.

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. For further detail about the risks relating to the company, please see Risk Factors in Fairfax India's most recent annual information form, which is available on SEDAR at www.sedar.com.

Oil Price Risk

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. Global oil prices continue to be volatile, 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

Substantially 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 is 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 is 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 portfolio investments have been and 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 have been and are expected to be principally denominated in Indian rupees. The functional currency of the company and its consolidated subsidiaries 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 Foreign 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 disclosed in note 5 (Indian Investments) to the consolidated financial statements for the year ended December 31, 2019. 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 suspected, 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

The company's financial 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 financial 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 investment 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.

Financial Market Fluctuations

The company invests in both private businesses and publicly traded businesses. With respect to publicly traded businesses, as disclosed in note 5 (Indian Investments) to the consolidated financial statements for the year ended December 31, 2019, fluctuations in the market prices of such securities may negatively affect the value of such investments. In addition, general instability in the public debt market and other securities markets may impede the ability of businesses to refinance their debt through selling new securities, thereby limiting the company's investment options with regard to a particular portfolio investment.

Global capital markets have experienced extreme volatility and disruption in recent years as evidenced by the failure of major financial institutions, significant write-offs suffered by the financial services sector, the re-pricing of credit risk, the unavailability of credit or the downgrading and the possibility of default by sovereign issuers, forced exit or voluntary withdrawal of countries from a common currency and/or devaluation. Despite actions of government authorities, these events have contributed to a worsening of general economic conditions, high levels of unemployment in certain Western economies and the introduction of austerity measures by certain governments.

Such worsening of financial market and economic conditions may have a negative effect on the valuations of, and the ability of the company to exit or partially divest from, investment positions. Adverse economic conditions may also decrease the value of collateral securing some of its positions, and could require the company to contribute additional collateral.

Depending on market conditions, the company may incur substantial realized and unrealized losses in future periods, all of which may materially adversely affect its results of operations and the value of any investment in the company.

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, short term U.S. treasury bills or Government of India or Indian corporate bonds. 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, day-to-day operations will primarily be the responsibility of each business' management team and the company may not have the right to influence such operations.

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 relies on the Portfolio Advisor and any of its sub-advisors, from time to time, including Fairbridge, with respect to the sourcing and advising with respect to their 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 if 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 may, from time to time, become party to a variety of legal claims and regulatory proceedings in Canada, India, Mauritius or elsewhere. The existence of such claims against the company or its affiliates, directors or officers could have various adverse effects, including the incurrence of significant legal expenses defending such claims, even those claims 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 legal counsel also work closely with the company and its consolidated subsidiaries to identify and mitigate areas of potential regulatory and legal risk.

Use of Leverage

The company may rely on the use of leverage when making its investments. As such, the ability to achieve attractive rates of return on such investments will significantly depend on the company's continued ability to access sources of debt financing on attractive terms. An increase in either market interest rates or in the risk spreads demanded by lenders would make it more expensive for the company to finance its investments and, in turn, would reduce net returns therein. Increases in interest rates could also make it more difficult for the company to locate and consummate investments because other potential buyers, including operating companies acting as strategic buyers, may be able to bid for an asset at a higher price due to a lower overall cost of capital. Availability of capital from debt capital markets is subject to significant volatility and the company may not be able to access those markets on attractive terms, or at all, when completing an investment. Any of the foregoing circumstances could have a material adverse effect on the financial condition and results of operations of the company.

Significant Ownership by Fairfax May Adversely Affect the Market Price of the Subordinate Voting Shares

At December 31, 2019 Fairfax, through its subsidiaries, owned 30,000,000 multiple voting shares (December 31, 2018 – 30,000,000) and 21,558,422 subordinate voting shares (December 31, 2018 – 21,558,422) of Fairfax India. At December 31, 2019 Fairfax's holdings of multiple and subordinate voting shares represented 93.8% of the voting rights and 33.8% of the equity interest in Fairfax India (December 31, 2018 – 93.8% and 33.7%). In accordance with the Investment Advisory Agreement, the performance fee payable of $114,437 to Fairfax for the first calculation period (ending on December 31, 2017) was settled on March 9, 2018 by the company issuing 7,663,685 subordinate voting shares to Fairfax. The issuance of these subordinate voting shares increased Fairfax's equity interest in Fairfax India from 30.2% at December 31, 2017 to 33.6% at March 9, 2018 (see note 12 (Related Party Transactions) to the consolidated financial statements for the year ended December 31, 2019).

As of March 5, 2020, Fairfax and its affiliates hold 93.8% and 33.9% voting and equity interests respectively, in the company through ownership of all of the 30,000,000 multiple voting shares and 21,558,422 subordinate voting shares.

For so long as Fairfax, either directly or through one or more subsidiaries, maintains a significant voting interest in the company, Fairfax will have the ability to exercise substantial influence with respect to the company's affairs and significantly affect the outcome of shareholder votes, and may have the ability to prevent certain fundamental transactions.

Accordingly, the subordinate voting shares may be less liquid and trade at a relative discount compared to such subordinate voting shares in circumstances where Fairfax did not have the ability to significantly influence or determine matters affecting the company. Additionally, Fairfax's significant voting interest in the company may discourage transactions involving a change of control of the company, including transactions in which an investor, as a holder of subordinate voting shares, might otherwise receive a premium for its subordinate voting shares over the then-current market price.

Weather Risk

Certain Indian Investments 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.

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 utilizes Fairfax's 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 India-Mauritius tax treaty. As a result, capital gains realized by Mauritius residents on dispositions of shares of Indian companies acquired on or after April 1, 2017 and disposed of on or before March 31, 2019 will be subject to tax in India at half of the India domestic tax rate. Capital gains realized by Mauritius residents on dispositions of shares of Indian companies acquired on or after April 1, 2017 and disposed of after March 31, 2019 will be subject to tax in India at the full India domestic tax rate. Capital gains realized by Mauritius residents on dispositions of shares of Indian companies acquired prior to April 1, 2017 remain exempt from capital gains tax in India.

On March 29, 2018 India enacted the Finance Act 2018 which repealed, with effect from April 1, 2018, the long term capital gains tax exemption which was available in respect of transfers of equity shares of Indian companies on which Securities Transaction Tax was paid at the time of acquisition and transfer of such shares. As a result, long term capital gains realized on such transfers will generally be taxed at a rate of 10.0%. However, grandfathering of the long term capital gains exemption in respect of any accrued gain on such shares held as of January 31, 2018 will generally be available to the extent of the accrued gain as of January 31, 2018. Capital gains realized by a tax resident of Mauritius on a transfer of equity shares of an Indian company which were acquired prior to April 1, 2017 will continue to be exempt from capital gains tax in India by virtue of the India-Mauritius tax treaty, notwithstanding the repeal of the long term capital gains tax exemption under Indian domestic law. In addition, a long term capital gain realized by a Mauritius tax resident on shares acquired on or after April 1, 2017, and sold prior to March 31, 2019, will continue to be taxed at a rate of 50.0% of the prevailing domestic Indian capital gains tax rate by virtue of the India-Mauritius tax treaty.

At December 31, 2019 the company evaluated the potential impact of the application of capital gains tax in India on any future dispositions of investments in equity shares held by FIH Mauritius and FIH Private and recorded deferred income taxes primarily related to unrealized gains on the company's investment in equity shares acquired subsequent to April 1, 2017 (see note 10 (Income Taxes) to the consolidated financial statements for the year ended December 31, 2019). The company will continue to evaluate the potential impact of the Indian capital gains tax as it relates to any future dispositions of investments in equity shares of its Indian Investments.

On July 31, 2018 Mauritius enacted the Finance (Miscellaneous Provision) Act (the ''Mauritius Finance Act'') which abolishes, with effect from January 1, 2019, the deemed Foreign Tax Credit (''FTC'') regime available to Global Business License companies. For entities holding a Category 1 Global Business License issued before October 16, 2017 (held by both FIH Mauritius and FIH Private) the deemed FTC regime will continue to apply until June 30, 2021. In place of the deemed FTC, the Mauritius Finance Act introduces an 80% exemption regime on foreign source income including certain foreign dividends and foreign source interest. The 80% exemption is available upon meeting predefined substance requirements issued by the Financial Services Commission. The company evaluated the potential impact of the Mauritius Finance Act and concluded that it will not have a material impact to the company.

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. In addition, custodial services and other investment-related costs may be more expensive in emerging markets than in developed markets, which could reduce the company's income from securities or debt instruments of emerging market country issuers.

There is a heightened possibility of imposition of withholding taxes on interest or dividend income generated from emerging market securities. Governments of emerging market countries may engage in confiscatory taxation or expropriation of income and/or assets to raise revenues or to pursue a domestic political agenda. In the past, emerging market countries have nationalized assets, companies and even entire sectors, including the assets of foreign investors, with inadequate or no compensation to the prior owners. There can be no assurance that the company will not suffer a loss of any or all of its investments or, interest or dividends thereon, due to adverse fiscal or other policy changes in emerging market countries.

Governments of many emerging market countries have exercised and continue to exercise substantial influence over many aspects of the private sector. In some cases, the government owns or controls many companies, including some of the largest in the country. Accordingly, government actions could have a significant effect on economic conditions in an emerging country and on market conditions, prices and yields of securities in the company's portfolio.

Bankruptcy law and creditor reorganization processes may differ substantially from those in Canada, resulting in greater uncertainty as to the rights of creditors, the enforceability of such rights, reorganization timing and the classification, seniority and treatment of claims. In certain emerging market countries, although bankruptcy laws have been enacted, the process for reorganization remains highly uncertain. In addition, it may be impossible to seek legal redress against an issuer that is a sovereign state.

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. Also, investing in emerging market countries may entail purchases of securities of issuers that are insolvent, bankrupt or otherwise of questionable ability to satisfy their payment obligations as they become due, subjecting the company to a greater amount of credit risk and/or high yield 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.

MLI

Under a mandate given by G20 nations to address global tax avoidance, in 2015, the Organization for Economic Co-operation and Development (''OECD'') developed 15 action plans aimed at tackling Base Erosion and Profits Shifting (''BEPS'') strategies. Action Plan 15 of the BEPS project envisaged a multilateral instrument (''MLI'') for modifying the global tax treaty network in a timely and synchronized manner.

On June 2017, India proposed to modify its existing 93 comprehensive tax treaties when it joined 66 other countries (including Canada and Mauritius) in signing the MLI. On June 25, 2019, the Government of India deposited its instrument of ratification of the MLI with the OECD. Mauritius deposited its instrument of ratification of the MLI with the OECD on October 18, 2019, but has excluded India from its covered tax agreements. Accordingly, the MLI currently does not apply in respect of the India-Mauritius tax treaty. This position could, however, change in the future based on inter-government negotiations. If Mauritius includes India as one of its covered tax agreements, the effect of the inclusion would need to be assessed. A loss of treaty benefits could have a material adverse effect on the company's business and financial conditions and results of operations.

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 Subordinate Voting 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 the subordinate voting 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 subordinate voting shares may decrease.

Other

Quarterly Data (unaudited)

Years ended December 31

US$ thousands, except per share amounts	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year
2019					
Income (loss)	(28,487)	(5,480)	112,788	633,868	712,689
Expenses	19,767	19,064	19,038	62,199	120,068
Provision for income taxes	4,331	30,940	4,567	36,445	76,283
Net earnings (loss)	(52,585)	(55,484)	89,183	535,224	516,338
Net earnings (loss) per share	$ (0.34)	$ (0.36)	$ 0.58	$ 3.51	$ 3.38
Net earnings (loss) per diluted share	$ (0.34)	$ (0.36)	$ 0.58	$ 3.42	$ 3.30
2018					
Income (loss)	44,125	(55,589)	117,052	60,930	166,518
Expenses	14,898	13,647	19,368	18,972	66,885
Provision for (recovery of) income taxes	402	411	3,504	(1,116)	3,201
Net earnings (loss)	28,825	(69,647)	94,180	43,074	96,432
Net earnings (loss) per share	$ 0.19	$ (0.45)	$ 0.61	$ 0.28	$ 0.63
Net earnings (loss) per diluted share	$ 0.19	$ (0.45)	$ 0.61	$ 0.28	$ 0.63

Years ended December 31

Indian rupees and in millions, except per share amounts[1]	**First Quarter**	**Second Quarter**	**Third Quarter**	**Fourth Quarter**	**Full Year**
2019					
Income (loss)	(2,007)	(370)	7,905	44,646	50,174
Expenses	1,393	1,325	1,340	4,395	8,453
Provision for income taxes	305	2,164	324	2,577	5,370
Net earnings (loss)	(3,705)	(3,859)	6,241	37,674	36,351
Net earnings (loss) per share	(24.27)	(25.29)	40.89	246.84	238.12
Net earnings (loss) per diluted share	(24.27)	(25.29)	40.89	240.92	232.41
2018					
Income (loss)	2,840	(3,593)	7,838	4,289	11,374
Expenses	959	916	1,340	1,354	4,569
Provision for (recovery of) income taxes	26	27	236	(71)	218
Net earnings (loss)	1,855	(4,536)	6,262	3,006	6,587
Net earnings (loss) per share	12.42	(29.25)	40.50	19.61	43.02
Net earnings (loss) per diluted share	12.42	(29.25)	40.50	19.61	43.02

(1) Presented in the company's functional currency.

Income of $633,868 in the fourth quarter of 2019 increased from $60,930 in the fourth quarter of 2018 primarily as a result of increased net change in unrealized gains on investments. Net change in unrealized gains on investments of $495,582 in the fourth quarter 2019 included net unrealized gains on common stock of $640,088 (principally related to unrealized gains on BIAL, CSB Bank, Sanmar, IIFL Finance, IIFL Securities and Other Public Indian Investments, partially offset by unrealized losses on IIFL Wealth, Fairchem and NCML) and net unrealized losses on bonds of $144,506 (principally related to the reversal of prior period unrealized gains recorded on Sanmar bonds). Net change in unrealized gains on investments of $40,883 in the fourth quarter of 2018 included unrealized gains on bonds of $22,315 (principally related to Sanmar bonds, Government of India bonds and Indian corporate bonds), and net unrealized gains on common stocks of $18,568 (principally related to unrealized gains on an Other Public Indian Investment and IIFL Holdings, partially offset by unrealized losses on Fairchem and Sanmar).

In addition, income increased in the fourth quarter of 2019 compared to the fourth quarter of 2018 as a result of increased net realized gains on investments (primarily due to the redemption of Sanmar bonds, the IIFL Holdings Reorganization, and partial sales of an investment in Other Public Indian Investments) and increased dividend income (primarily due to dividend income from IIFL Wealth), partially offset by increased net foreign exchange losses (principally as a result of the weakening of the Indian rupee relative to the U.S. dollar in the fourth quarter of 2019) and decreased interest income (primarily due to decreased holdings of Indian corporate bonds).

Expenses of $18,972 in the fourth quarter of 2018 increased to $62,199 in the fourth quarter of 2019 primarily as a result of $48,514 in performance fees recorded in the fourth quarter of 2019 (fourth quarter of 2018 – nil), partially offset by decreased investment and advisory fees. For additional details, see note 12 (Related Party Transactions) to the consolidated financial statements for the year ended December 31, 2019.

The company reported net earnings of $535,224 (net earnings of $3.51 per basic share and $3.42 per diluted share) in the fourth quarter of 2019 compared to net earnings of $43,074 (net earnings of $0.28 per basic and diluted share) in the fourth quarter of 2018. The increase in profitability in the fourth quarter of 2019 primarily reflected increased net unrealized gains on investments and net realized gains on investments, partially offset by provision for income taxes and a performance fee accrual recorded in the fourth quarter of 2019.

Individual quarterly results have been (and are expected to continue to be) significantly impacted by net unrealized gains (losses) on the company's Indian Investments and net foreign exchange gains (losses), the timing of which is not predictable. Individual quarterly results have been (and may in the future be) affected by increased expenses impacted by the change in fair value of the company's Indian Investments which would result in a higher performance fee, if applicable, and investment and advisory fees.

Stock Prices and Share Information

At March 5, 2020 the company had 122,037,745 subordinate voting shares and 30,000,000 multiple voting shares outstanding (an aggregate of 152,037,745 common 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. Fairfax, through its subsidiaries, owns all the issued and outstanding multiple voting shares, which 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 2019 and 2018.

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
		(US$)		
2019				
High	14.26	14.48	13.80	13.89
Low	12.67	12.56	11.01	11.05
Close	14.00	12.70	12.00	12.80
2018				
High	18.49	17.93	17.19	15.25
Low	15.02	16.26	14.68	12.12
Close	17.40	16.46	14.99	13.13

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 statements 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 our opinions and estimates 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 that are described in greater detail elsewhere in this annual report: oil price risk; geographic concentration of investments; foreign currency fluctuation; volatility of the Indian securities markets; investments may be made in foreign private businesses where information is unreliable or unavailable; valuation methodologies involve subjective judgments; financial market fluctuations;

pace of completing investments; minority investments; reliance on key personnel and risks associated with the Investment Advisory Agreement; lawsuits; use of leverage; significant ownership by Fairfax may adversely affect the market price of the subordinate voting shares; weather risk; taxation risks; emerging markets; MLI; economic risk; and trading price of subordinate voting shares relative to book value per share 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

Sumit Maheshwari
Managing Director and Chief Executive Officer
Fairbridge Capital Private Limited

Deepak Parekh
Chairman
Housing Development Finance Corporation Limited

Chandran Ratnaswami
Chief Executive Officer of the Company

Gopalakrishnan Soundarajan
Managing Director, India
Hamblin Watsa Investment Counsel Ltd.

Lauren C. Templeton
President
Templeton and Phillips Capital Management, LLC

V. Prem Watsa
Chairman of the Company

Operating Management

FIH Mauritius Investments Ltd.

Amy Tan
Chief Executive Officer

Officers of the Company

Jennifer Allen
Vice President (as of Aug. 2019)

Keir Hunt
General Counsel and Corporate Secretary

Chandran Ratnaswami
Chief Executive Officer

Amy Sherk
Chief Financial Officer (as of Aug. 2019)

John Varnell
Vice President, Corporate Affairs

V. Prem Watsa
Chairman

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Website: www.fairfaxindia.ca

Auditor

PricewaterhouseCoopers LLP

Transfer Agent and Registrar

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 16, 2020 at 2:00 p.m. (Toronto time) at Roy Thomson Hall, 60 Simcoe Street, Toronto, Canada M5J 2H5