FAIRFAX INDIA
HOLDINGS CORPORATION

2017 Annual Report

Contents

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2017Annual Report

Fairfax India Corporate Performance

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

	Book value per share	Closing share price[1]	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[2]							
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
Compound annual growth	13.5%[3]	14.9%							

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

(2) 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.

(3) The company's book value per share of $14.46 at December 31, 2017 represented a compound annual growth rate from the initial public offering price of $10.00 per share at January 30, 2015 of 13.5%.

Corporate Profile

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

Indian Investments[(1)]

IIFL Holdings Limited ("IIFL") was incorporated in 1995 and is a publicly traded, diversified financial services holding company located in Mumbai, India with principal lines of business in wealth management, capital markets and other activities (comprised of retail investment brokerage, institutional equities, investment banking and financial products distribution) and a non-banking finance company. IIFL's revenues for the twelve months ended December 31, 2017 were $933 million. At year end, IIFL had shareholders' equity of $1 billion and there were 13,595 employees. Additional information can be accessed from IIFL's website www.iifl.com.

Fairchem Speciality Limited ("Fairchem", formerly known as Adi Finechem Limited) is a publicly traded, specialty chemical manufacturer located in Ahmedabad, India. Fairchem manufactures oleochemicals used in the paints, inks and adhesives industries, as well as intermediate nutraceutical and health products. 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. Fairchem's revenues (comprised of Fairchem and Privi) for the twelve months ended December 31, 2017 were $149 million (prepared in accordance with International Financial Reporting Standards ("IFRS")). At year end, Fairchem had shareholders' equity of $72 million (based on IFRS) and there were 1,336 employees. Additional information can be accessed from Fairchem's and Privi's websites www.fairchem.in and www.privi.com.

5paisa Capital Limited ("5paisa"), located in Mumbai, India, is a publicly traded online financial services provider with a do-it-yourself based investment brokerage model where the customer can execute investment transactions for a low brokerage fee. 5paisa is engaged in providing an online technology platform through Internet terminals and mobile applications for trading securities on the BSE (formerly known as Bombay Stock Exchange Limited) and the National Stock Exchange of India. 5paisa's revenues for the twelve months ended December 31, 2017 were $3 million. At year end, 5paisa had shareholders' equity of approximately $9 million and there were 644 employees. Additional information can be accessed from 5paisa's website www.5paisa.com.

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. BIAL's revenues for the twelve months ended December 31, 2017 were $231 million. At year end, BIAL had shareholders' equity of $360 million and there were 903 employees. Additional information can be accessed from BIAL's website www.bengaluruairport.com.

National Collateral Management Services Limited ("NCML") is a private agricultural commodities storage company headquartered in Gurugram, India, operating in the agriculture value chain and offering end-to-end solutions in grain procurement, testing, storage and collateral management. In 2016 NCML launched its wholly-owned subsidiary, NCML Finance Private Ltd, which focuses on rural and agri-business finance. NCML's revenues for the twelve months ended December 31, 2017 were $167 million. At year end, NCML had shareholders' equity of $97 million and there were 3,521 employees. Additional information can be accessed from NCML's website www.ncml.com.

Notes:

(1) *All of the above Indian Investments' revenues and shareholders' equity figures are based on Indian Accounting Standards ("Ind AS") unless otherwise stated.*

Sanmar Chemicals Group (''Sanmar''), a private company, is one of the largest suspension polyvinyl chloride (''PVC'') manufacturers in India, headquartered in Chennai, India with an operational presence in India and Egypt. Sanmar also manufactures caustic soda, chloromethanes, refrigerant gases, industrial salt and specialty chemical intermediates. Sanmar's revenues for the twelve months ended December 31, 2017 were $652 million. At year end, Sanmar had a shareholders' deficit of $286 million and there were 2,252 employees. Additional information can be accessed from Sanmar's website www.sanmargroup.com.

Saurashtra Freight Private Limited (''Saurashtra''), a private company headquartered in Mumbai, India, runs one of the largest container freight stations at Mundra port (Gujarat), the third largest and fastest growing container port in India. Services provided by Saurashtra's container freight station includes transportation of containers to and from the port, stuffing/destuffing of containers, cargo storage, transportation of cargo to the end customer, and the storage, maintenance and repair of empty containers. Saurashtra also provides services for container shipping, offering integrated logistic solutions to its customers by providing Saurashtra's own containers to importers and exporters to transport cargo. Saurashtra's revenues for the twelve months ended December 31, 2017 were $18 million. At year end, Saurashtra had shareholders' equity of $31 million and there were 157 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 nine months ended December 31, 2017 were $341 million. Additional information can be accessed from NSE's website www.nseindia.com.

To Our Shareholders,

Fairfax India turned three years old on January 30, 2018! While that doesn't qualify as the long term, it is certainly a start to what we hope will be the base for true long term performance. Our results over the last three years are as follows*:

	2017	2016	2015	CAGR(1)
Income	609,670	128,604	65,251	
Net earnings	452,509	107,825	40,939	
Return on equity	28.2%	10.3%	4.0%	14.2%(2)
Total assets	2,672,221	1,303,497	1,025,451	38.9%
Investments	2,635,726	1,095,569	978,569	40.5%
Common shareholders' equity	2,132,464	1,075,446	1,013,329	29.1%
Book value per share – before performance fee	$ 15.24	$ 10.25	$ 9.50	17.1%
Book value per share – net of performance fee	$ 14.46	$ 10.25	$ 9.50	15.0%

(1) *Compound annual growth rates are since Fairfax India's inception on January 30, 2015, when it raised net proceeds of $1.03 billion at $10 per share representing an initial book value of $9.62 per share after expenses.*

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

Fairfax India's common shareholders' equity increased $1.1 billion or 98% from the previous year to $2.1 billion in 2017. Book value per share, our key performance measure, increased by 41.1% in 2017, from $10.25 at the end of 2016 to $14.46. During the same period the USD S&P BSE Sensex 30 (Sensex) appreciated by 37.9%. You can see that it was a very successful year for the markets in India!

Looking over three years, however, Fairfax India greatly outperformed the market index, as demonstrated in the following table showing percentage increases:

At December 31, 2017	1-year	3-year Annualized(1)
Fairfax India book value per share:		
– before performance fee	48.7%	15.5%
– after performance fee	41.1%	13.5%
USD S&P BSE Sensex 30	37.9%	5.9%

(1) *Fairfax India's 3-year annualized growth in book value per share is calculated based on its IPO price of $10 per share on January 30, 2015.*

Using its issue price of $10.00 per share as the starting point, over three years, Fairfax India's annual increase outperformed the Sensex by 760 basis points.

Please note that Fairfax India's book value is based on publicly traded market value only for the three of its eight investments which are publicly traded (the rest are based on appraised values not too different from their cost), whereas the Sensex is obviously based entirely on publicly traded market value.

Fairfax India's net earnings had excellent growth in 2017, up 320% from $108 million in 2016 to $453 million in 2017, largely the result of net unrealized gains on investments of $592 million compared to $105 million in 2016. Earnings also reflect interest income of $22 million, a performance fee payable of $114 million and net foreign exchange losses of $14 million. Fully diluted earnings per share grew 191% to $2.94 in 2017 from $1.01 in 2016.

On the investment front, during 2017 we acquired (in two stages), for an aggregate investment of $586 million, 48% of Bangalore International Airport Limited, which included the acquisition from the GVK Group of its entire 43% promoter stake in the airport. We will discuss this exciting investment in more detail later in this letter.

* *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. Except where specified otherwise, all figures in this letter are, where applicable, after provision for the performance fee payable.*

Also in 2017, we made an additional investment in IIFL Holdings (IIFL) and an investment in Saurashtra Freight, and the merger of Fairchem Speciality and Privi Organics (Fairfax India had invested separately in each of them) was completed under the Fairchem name, resulting in Fairfax India owning 48.8% of Fairchem.

Since we began, Fairfax India has completed investments in eight companies, all located and reviewed by Fairbridge, Fairfax Financial Holdings' (Fairfax Financial) wholly-owned sub-advisor in India. Fairbridge does outstanding work under its CEO Harsha Raghavan and its Vice Presidents Sumit Maheshwari, Sarvjit Bedi and Amruta Adukia. Fairfax India's Mauritius subsidiary, FIH Mauritius Investments, ably led by its CEO Amy Tan, and its independent Board of Directors are an integral part of the investment process.

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

	Date of Investment	Ownership	Amount Invested	Fair Value at December 31, 2017	Return(1)
National Collateral Management Services	Aug. 2015 and Aug. 2017	89.5%	174,318	179,054	1.3%
IIFL Holdings (including 5paisa Capital)	Dec. 2015, Feb. 2017 and Oct. 2017	26.6%	276,734	908,443	93.3%
Fairchem Speciality (formerly Adi Finechem and Privi Organics)	Feb. and Aug. 2016	48.8%	74,384	149,200	59.3%
Sanmar Chemicals Group	Apr. and Sep. 2016	Debentures and 30.0%	300,000	333,728	6.9%
National Stock Exchange of India	Jul. 2016	1.0%	26,783	40,452	39.3%
Saurashtra Freight	Feb. 2017	51.0%	30,018	28,000	(7.6)%
Bangalore International Airport	Mar. and Jul. 2017	48.0%	585,591	608,288	6.4%
Total			1,467,828	2,247,165	

(1) Return calculated using the internal rate of return.

While the valuations of the private companies that Fairfax India has invested in remained relatively close to the prices it paid for them, two of the three publicly traded companies in its portfolio (IIFL and Fairchem Speciality) have posted strong mark to market gains. IIFL's share price has appreciated 207% to 670 rupees from our blended cost base of 218 rupees, and Fairchem's share price has appreciated 90% to 500 rupees from our adjusted cost base of 263 rupees, resulting in mark to market gains, since inception, including foreign currency translation gains, of $632 million and $75 million respectively.

While the book value per share of Fairfax India is $14.46, we believe that the underlying intrinsic value is much higher. IIFL, for example, in spite of an average 14% return on equity (ROE) and a 30% annual growth in book value per share over the past ten years, even at its current price of around 700 rupees per share is selling at a price earnings ratio of only 18 times expected earnings and the founder, Nirmal Jain, is an outstanding entrepreneur. All the companies listed above have similar characteristics. The potential for all of them is very significant.

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 India will, at the end of 2017 and every three years thereafter, pay a performance fee (if earned) of 20% of the increase in book value per share (on a rolling basis) in excess of the higher of a hurdle rate of 5% per annum and a high water mark.

As a result of the excellent performance of Fairfax India during the period from the completion of its IPO on January 30, 2015 to December 31, 2017, the performance fee earned for this period was $114.4 million. This performance fee was settled on March 9, 2018 by the issuance of 7.7 million subordinate voting shares valued at

$14.93 per share (the weighted average share trading price over the last ten trading days in 2017). This increased Fairfax Financial's ownership in Fairfax India from 30.2% at the end of 2017 to 33.6%.

Indian Investments[(1)]

IIFL Holdings (IIFL)

2017 was an outstanding year for IIFL and it is now ranked #241 (by revenue) in the Fortune 500-India List, up 42 places from a year ago!

IIFL shares closed 2017 at a price of 670 rupees, a 207% increase in rupee terms from our blended cost base. In spite of a 14% average ROE and 30% annual growth in book value per share over the past ten years, IIFL is selling at a price earnings ratio of only 18 times expected earnings.

For the year ended December 31, 2017, IIFL's revenue grew 33% to $933 million; profit after tax, after minority interest, grew 46% to $166 million; and shareholders' equity grew 17% to $1 billion, generating an ROE of 17%.

IIFL is a leading, well-established national financial services company serving over 4 million customers from 1,300 branches in India. It also has an international presence with offices in New York, Singapore, Dubai, Geneva, Hong Kong, London, Mauritius and Toronto. Through its subsidiaries, it offers a wide array of services including loans and mortgages, asset and wealth management, and capital market related activities such as financial products distribution, investment banking, institutional equities and realty services. In addition to the founding team, IIFL now has a highly qualified, experienced and motivated management team. Again in 2017 under the exceptional leadership of Nirmal Jain and R. Venkataraman, IIFL achieved outstanding results in each of its three following major business divisions:

Loans and Mortgages: This division has made further progress in diversifying its lending to a more retail-focused loan portfolio. Loan assets under management (AUM), predominantly retail, grew 29% to $4.3 billion, driven by small home loans and loans to small and medium enterprises (SMEs). Retail home loan assets grew 61% to $1.2 billion. Apart from mortgages, IIFL also offers its customers loans for commercial vehicles, gold loans, business loans and loans against shares. Asset quality remained stable with gross non-performing assets (NPAs) of 2.1% and net NPAs of 1.2%. On December 31, 2017 the total capital adequacy ratio (CAR) was 18.2% while the statutory requirement is 15%.

During the year, the housing finance arm assisted 6,600 households to acquire homes with the benefit of a government subsidy provided under a government initiative to promote affordable housing.

IIFL's wholly-owned microfinance subsidiary, Samasta Microfinance, through its expansion in the eastern and southern parts of the country, grew its assets over the past nine months by 140% to $90 million and now serves over 300,000 customers.

IIFL has made significant progress in its technology platform, having implemented the usage of automatic scorecards for instant credit assessment and enhanced its digitization processes. About 97% of loans were digitally on-boarded and more than 90% of the loans were booked using an Aadhaar-based electronic Know Your Client (eKYC) system. Aadhaar is India's recently implemented biometric identification system, with over 1.2 billion registrants.

Wealth and Asset Management: In less than a decade since its inception, IIFL Wealth Management has catapulted itself to the position of the largest private wealth management firm in India. Its 300+ bankers help manage the assets of more than 10,000 high and ultra high net worth individuals and families in India and abroad. Headquartered in Mumbai, it has more than 800 employees and a presence in nine major global financial hubs with 23 locations in India and around the world.

Its total AUM grew 58% over the previous year to $20.1 billion. Profit after tax for the year ended December 31, 2017 grew 62% over the previous year to $54 million.

IIFL Wealth Management is also the largest manager of Alternative Investment Funds in India, with AUM of $1.8 billion. The funds launched during the year included the Special Opportunities Fund and the India Housing Fund.

(1) *All of the Indian Investments' figures are based on Indian Accounting Standards (Ind AS) unless otherwise stated. Effective April 1, 2017 all of the company's Indian Investments have adopted Ind AS. Ind AS are based on and substantially correlated with IFRS.*

IIFL Wealth Finance, its wholly-owned subsidiary that commenced operations in February 2016 to provide loans against securities to its clients, increased its loan book in 2017 by 100% to $916 million.

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

IIFL's investment banking franchise has a pre-eminent position in India with a track record of strong execution and a robust pipeline of advisory and capital markets assignments. During the nine months ended December 31, 2017, it completed 21 transactions, including ten initial public offerings. It has been ranked #3 in equity issuances for 2016 and 2017, covering IPOs, follow-on public offerings, qualified institutional placements and institutional placement programs.

The IIFL Markets app is highly rated and the most downloaded app in India with over 1,300,000 downloads on Google Play Store. The app can also be accessed by retail investors at 1,200 locations in India. With the growth of mobile networks in remote locations, do it yourself (DIY) mobile trading constitutes over 40% of clients and has reduced the information asymmetry of financial markets in Tier 2 locations in India.

During the year, IIFL's capital markets business introduced many new features on its 'Markets', 'Mutual Funds' and 'Loans' applications. IIFL Markets was the first in the industry to implement a mobile personal identification number-based login and the Mutual Funds app was the first in the industry to enable instant systematic investment plans through a linkage to Aadhaar.

Proposed Reorganization of IIFL Group Companies: IIFL recently announced its intention to divide its three business groups described above into three separate companies, with each to be listed on the Indian stock exchanges. IIFL believes that this is the best structure for its business because:

1) Each business now has the critical mass to operate independently.
2) It allows each business to create its own business, platform and identity and focus on its own business, thereby achieving even higher growth in a rapidly changing, technology and innovation-driven environment.
3) Each business needs to continue to attract and keep high quality talent to sustain its high growth rate. Each company, listed separately, can attract and motivate its key people with stock options such that their rewards are strongly correlated with their performance. Currently, stock options granted are on shares of the parent company.
4) It allows greater flexibility for each of the businesses to raise capital according to its needs.
5) It provides investors greater flexibility to invest in the businesses that best suit their strategies and risk appetite.

The reorganization is subject to shareholder and regulatory approvals and is expected to be completed later in 2018.

The key challenges faced by IIFL in 2017 and going forward are:

- The Goods and Services Tax (GST), implemented in July 2017, changed the taxation structure of the country, resulting in some amount of disruption in the economy. SMEs were especially impacted due to needed technology investments and increased reporting and regulatory compliance requirements which hampered their growth. However, IIFL is optimistic about the long term benefits of this change in taxation structure.
- IIFL believes that in 2018, interest rates will rise gradually, not only in India but also globally. This will result in some amount of yield compression in high value home loans, loans against property and financing of new commercial vehicles. Also, due to intense competition from new players (many of whom are backed by private equity) who are keen to grow their book size, product yields will remain low. Given its distribution reach and superior CAR, IIFL believes that it can withstand such short term pricing pressures. In any case, IIFL will not take undue risks to increase short term market share.
- Retention of managerial talent will become a challenge, especially for the loans and mortgages business. IIFL is seeing a number of players entering the market and offering very high compensation to lure talent away. This will also result in wage increases.

In summary, IIFL had an outstanding year in 2017!

5paisa Capital (5paisa)

On October 20, 2017, IIFL spun off, and subsequently separately listed on the Indian stock exchanges, 5paisa, a company it had incubated to take advantage of business opportunities in digital trading and distribution services, an emerging new segment with the potential for exponential growth. Its services are targeted at retail investors and high volume traders who actively invest and trade in securities markets and DIY services at a low cost.

5paisa provides financial services through its online technology platform and mobile applications for trading of securities on the Indian stock exchanges. Also, since it is a participant in India's depositories for securities and mutual funds, it is able to hold customers' securities in their accounts.

Bangalore International Airport (BIAL)

In March 2017, Fairfax India acquired 38% of BIAL for $385 million (including 33% from GVK Group, BIAL's promoter), implying an equity value of approximately $1 billion for the whole company. Based on BIAL's March 2017 financial statements, the purchase price valued BIAL at a price earnings ratio of 14.5 times, price to book value of 4.7 times and price to free cash flow of 8.7 times. The value of the extensive real estate that can be monetized was not included in this valuation. In July 2017 Fairfax India acquired the final 10% of BIAL owned by GVK for $200 million, the higher price being justified by this purchase enabling Fairfax India and the other remaining shareholders to reconstitute BIAL's Board, to appoint the best qualified person as BIAL's CEO, and generally to allow it to be managed according to Fairfax India's standards of corporate governance and guiding principles.

Subsequently, three new directors with expertise in airport and airline management and finance were appointed to the Board of BIAL, and Hari Marar, the former COO of BIAL, was appointed as its new Managing Director and CEO. We would like to thank G.V.K. Reddy (Chairman) and Sanjay Reddy (Vice Chairman) of GVK for their leadership in developing BIAL into one of the best airports in India and for seamlessly transferring their ownership interest in it to Fairfax India.

BIAL has three potential sources of revenue:

- **Aero Revenue:** Aero revenue, which has grown at a CAGR of 22% from 2009 to 2017, is the revenue earned for providing services such as landing, take-off, parking, ground handling, ground safety, facilities, amenities and services to airlines and passengers. The tariffs for these services are set for five-year periods and are fixed so as to yield a regulated 16% ROE. The regulatory authority treats 30% of non-aero revenue as aero revenue.

  BIAL is currently operating under tariffs set for the first five-year period. When set for the next five-year period, tariffs will be adjusted for any returns achieved above or below the regulated return in the first period, such that the regulated ROE is maintained over the term of the concession.

- **Non-aero Revenue:** All revenue other than aero revenue, such as revenue from cargo handling, fuel sales, food and beverage sales and duty free shops, constitutes non-aero revenue. Non-aero revenue has grown at a CAGR of 19% from 2009 to 2017 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.

- **Real Estate Monetization:** BIAL also has approximately 460 acres of land adjoining the airport that can be developed. All of 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.

BIAL had an outstanding year in 2017 with passenger traffic growing by 12.9% over the previous year to 25 million passengers and cargo handled growing 8.1%. BIAL's revenue for 2017 grew 16% to $231 million and profit after tax grew 25% to $105 million. Free cash flow after maintenance capex grew 15% to $151 million, implying a free cash flow yield of 12.3% if 100% of BIAL were valued on the basis of the aggregate purchase price of Fairfax India's 48% interest.

BIAL is entering a phase of significant investment to expand its currently designed capacity of 20 million passengers to 65 million in 2028. The land preparation for a second runway has been completed and the contract to construct the second runway, scheduled to be completed in 2019, has been awarded. For the second terminal, scheduled to be completed in 2021, the phase 1 schematic design has been completed and detailed planning has commenced. The investment required to complete the expansion projects is approximately $2 billion and will be funded through internally generated funds and debt. The financing plan, based on a debt to equity ratio of 80:20, and negotiations with banks are well underway.

This is indeed a very exciting investment for Fairfax India.

Sanmar Chemicals Group (Sanmar)

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

Based on discounted cash flows, we believe that the value of our loan to Sanmar is now $333 million and the value of our 30% equity in Sanmar's chemical business is $0.6 million. For the year ended December 31, 2017 Sanmar's revenue grew by 14% to $652 million. Until Sanmar completes its capital projects in Egypt and sales ramp up to full capacity, it will lose money. Net loss in 2017 was reduced to $85 million from a loss of $113 million in 2016. However, earnings before income tax, depreciation and amortization (EBITDA) for 2017 increased 51% to $95 million. We expect over time to make a very rewarding compound annual return on this investment.

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

Chemplast is Sanmar's flagship Indian company and has been in the chemicals business for 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 Chemplast commissioned one of the largest greenfield PVC projects in India with an annual capacity of 200,000 tons per annum (ktpa) which has been enhanced to 300 ktpa, mainly through process improvements and minor debottlenecking, with an additional investment of only around $1 million. The aggregate PVC capacity of Chemplast is 366 ktpa, making it the second largest PVC player in India.

Sanmar acquired TCI in 2007, with the intention of setting up a large greenfield PVC plant in Egypt to cater to the high growth markets of North Africa, the Middle East and parts of Europe. TCI currently has a 200 ktpa capacity PVC plant but until recently produced only at the rate of about 130 ktpa per annum. TCI has undertaken a major expansion as follows:

- Phase 1, already completed, made several improvements to the existing PVC plant, including the replacement of a dryer, which will enable it to eventually increase its production to its full capacity. It is already producing at a rate of about 150 kpta.
- Phase 2, with an investment of $185 million, is the addition of a new 200 ktpa PVC plant, a 130 ktpa calcium chloride plant and a 75 ktpa caustic soda by-product line. This phase is expected to be completed in 2018 and the ramp-up to full production is expected to take two more years, with full capacity expected to be attained by 2020. This will take advantage of Sanmar's significant investment and infrastructure in Egypt.

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

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

There have been some significant developments for Sanmar since our investment. Optimism which returned to the global PVC industry for the first time in a decade in 2016 continued through 2017. This was due to reduced levels of production in China and Europe necessitated by the closure of sub-optimally sized and environmentally unfriendly PVC plants. Limited capacity addition and growing demand led by markets like India and Egypt resulted in very good prospects for the global PVC industry.

Chemplast again had very good financial performance in 2017. Margins were very strong, resulting in high cash generation. Its joint venture to manufacture chlorinated PVC (CPVC) received environmental clearance and project planning has commenced. CPVC is a fast growing commodity and the joint venture will be only the second domestic producer addressing a big opportunity in India.

The previously announced acquisition by Chemplast of a hydrogen peroxide plant has been completed. Plans to move the plant to Sanmar's facilities are under way and the move is expected to be completed in 2018. When completed, this plant will manufacture a value added product that utilizes hydrogen produced by Chemplast, and will provide entry into the market for a new valuable and allied product.

TCI has successfully restructured its balance sheet with a capital injection of $285 million from the parent. Further, it has obtained a $280 million project financing loan from a consortium of Indian banks for its expansion. The key activity for TCI over the last two years was the implementation of the important Phase 2 project described above, and TCI is expecting to complete the project on time and on budget in June 2018.

National Collateral Management Services (NCML)

NCML was Fairfax India's very first investment, completed in August 2015. NCML has operated for over 13 years and is now well positioned to further expand and take advantage of the significant market potential in India's under-developed agricultural storage industry. NCML operates in the agriculture value chain by offering end-to-end solutions in grain procurement, testing, storage and collateral management.

NCML has more than 1.6 million metric tons (MT) of storage capacity across 785 warehouses in 18 states in India. It has a network of 40 regional offices, more than 500 touch points at agricultural produce markets and thousands of farmers and traders to facilitate procurement of commodities. With AUM of $1.7 billion, NCML commands a 36% share of the agricultural commodities collateral management business in India, offering custodial services to about 75 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.

In 2015 Fairfax India invested a total of $149 million to acquire an 88% interest in NCML: $31 million was a capital infusion into NCML to fund growth plans, while the remaining $118 million was used to buy out existing shareholders. In August 2017, Fairfax India acquired an additional 1.4% stake through a rights issue for $25 million. Based on discounted cash flows, NCML is now valued at $179 million compared to our investment cost of $174 million.

For the year ended December 31, 2017 NCML's revenue grew by 36% to $167 million, shareholders' equity grew by 20% to $97 million and net earnings grew by 67% to $6 million. The increase in revenue was driven by robust percentage growth across all business segments, but in absolute numbers was driven disproportionately by the supply chain business which accounted for over 70% of the increase. Based on 2017 results, Fairfax India's investment cost of $174 million represents a price to book ratio of 1.8 times and a price earnings ratio of 25 times, multiples we believe are justified by the strong growth rate of NCML.

Under the continued able leadership of its CEO Sanjay Kaul, assisted by executive director Unupom Kausik, NCML has made significant progress in 2017, achieving growth momentum across each of its business segments, with a focus on expanding and diversifying its client base.

We summarize below the performance of NCML's four major business groupings:

Supply Chain Management: This division provides end-to-end services to both government and private clients in the procurement, storage, financing and logistics of agricultural commodities. In 2017, it added several new clients, grew revenue by 32% to $131 million and grew profit before tax by 75% to $2.1 million. It had developed an innovative program for port-based services for handling and financing the import of pulses through a credit line from the Export Development Corporation of Canada. Unfortunately this could not become operational in 2017 because increased import duties caused the import of pulses to be unviable. This division is well positioned for further high growth in the future.

Storage and Preservation: This division provides warehousing and preservation services for agricultural commodities. With the waning impact of demonetization, capacity utilization of warehouse space increased to over 80%, returning this division to profitability in 2017. Revenue grew 23% over the previous year to $15.1 million and profit before tax grew to $0.6 million from a loss of $0.4 million in 2016. Several initiatives have been implemented to further drive capacity utilization and improve storage yields. This division will also benefit from the recent addition of 100,000 MT of owned storage capacity.

As you may recall, this division launched a modern warehousing silo vertical by successfully bidding for 13 large concession contracts from the Food Corporation of India. This represents an aggregate capacity increase of 650,000 MT at an estimated total project cost of about $122 million. The project is progressing well and land acquisition for the project has been completed.

Collateral Management: This division offers custodial services to about 75 banks and financial institutions for the management of collateralized agricultural commodities, based on which those institutions advance post-harvest loans to farmers or traders owning these commodities. While this division remained focused on strengthening protocols in 2017, revenue grew 19% to $12.2 million and profit before tax grew 15% to $3.2 million.

NCML Finance (Nfin): Nfin, established in 2016, is a Reserve Bank of India (RBI)-registered NBFC that focuses on rural and agri-business lending. In 2017 it grew revenue by 482% to $3.5 million and achieved profit before tax of $1.1 million. While continuing to pursue increased market share in the warehouse receipt finance market, Nfin plans to diversify its service offerings to several other product categories.

Beyond the four above major business groupings, in 2017 NCML's testing and certification service, commodity and weather intelligence service and newly launched online commerce portal NCML MktYard all continued to make excellent progress.

Fairchem Speciality (Fairchem)

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

Based on IFRS, for the year ended December 31, 2017 the consolidated Fairchem entity grew revenue by 25% to $149 million and net income by 16% to $6 million. Shareholders' equity grew 8% to $72 million, generating an ROE of 8.5%.

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

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

Fairchem occupies a unique niche in this large global playing field. It has developed an in-house technology that uses machinery manufactured by leading European companies to convert waste generated during the production of soy, sunflower, corn and cotton oils into valuable chemicals. These chemicals include acids that go into non-edible products like soaps, detergents, personal care products and paints, and other products that are used in the manufacture of health foods and vitamin E. The company's customers include major multinational companies including BASF, Archer Daniels Midland, Cargill, Advanced Organic Materials, IFFCO Chemicals and Asian Paints. 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 at 22% per year, net earnings have grown on average at 23% per year, and the average annual ROE was over 17%.

Based on IFRS, for the year ended December 31, 2017 Fairchem revenue grew by 28% to $38 million, net earnings grew by 12% to $2 million, and shareholders' equity grew 15% to $13 million, generating an ROE of 17.5%. The capacity increase implemented in 2016 paid dividends in 2017 as the volume of raw material processed grew 31% to 38,906 tons.

Privi: Founded in 1992, Privi, led by Mahesh Babani and D. B. Rao, 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 24,500 tonnes per annum. Its products are used as fragrance additives in perfumes, soaps, shampoos and packaged food. Privi enjoys a dominant position and economies of scale in its product categories. Privi also develops and produces custom-made aroma chemicals to specific requirements of its customers. Privi sources most of its raw materials 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 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.

Based on IFRS, for the year ended December 31, 2017 Privi revenue grew 24% to $111 million, net earnings grew 30% to $4 million, and shareholders' equity grew 7% to $59 million, generating an ROE of 7%.

Pinene-based products constitute about 60% of Privi's revenue and net earnings. Prices for Pinene-based products, which were depressed for the last three years, started to turn around toward the end of 2017. About 75% of Privi's Pinene-based products business is based on annual contracts, and contracts for 2018 are being set at prices about 20% higher than the prior year's price.

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. This positions Privi for more profitable operations in the future.

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 the founder's stake: $10 million of this was infused back into Saurashtra by the founders and used to unwind all previous transactions with Saurashtra group companies. The remaining $12 million was invested directly into Saurashtra. Based on Saurashtra's March 31, 2017 annual financial statements, this implies a price earnings ratio of 17.7 times and price to book value of 1.0 times for a business that has over the past five years grown revenue and EBITDA at 18% and 15% per annum respectively and generated a 25% average ROE. 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 (CFSs), 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 cargo containers) per annum and handled about 90,000 TEUs in 2017, implying capacity utilization of about 50%. Under the dynamic leadership of Raghav Agarwalla, it has achieved a market share of about 14% at Mundra port, the highest among all CFSs there. Saurashtra derives volume and revenue from both the import and export of containers.

For the year ended December 31, 2017 Saurashtra's revenue grew 15% to $18 million. Due to investments in new businesses described below and the losses incurred in one of them, Sauashtra did not have any net earnings in this period whereas it had net earnings of $2.0 million in the previous year.

In 2017 Saurashtra embarked on an aggressive cost optimization program. The entire purchasing process and team was revamped, and Saurashtra introduced online auctioning for all high value and bulk purchases. It believes that these efforts will bear fruit in 2018.

In order to stay ahead of its competition, Saurashtra implemented several major technology initiatives in 2017. It also more than doubled its fleet size from 51 to 111 trucks to cater to the growing transportation needs of its customers, and achieved average capacity utilization of 85% of its fleet.

Saurashtra also launched two small ancillary businesses in 2017. In August, it launched Fairfreight Lines (Fairfreight), a non-vessel operating common carrier (NVOCC). Fairfreight has a container fleet of over 1,000 TEUs with its own branding. Many existing customers of Saurashtra have started using Fairfreight as their preferred carrier for the Gulf region. This initiative has had a good beginning and is expected to be profitable from the first quarter of 2018.

The second business, Fairwind Shipping, a feeder shipping service to several Gulf ports, was not as successful and was shut down after it sustained losses. Increased competition rendered this business unviable.

Saurashtra continues to pursue other growth opportunities. In order to take advantage of the robust growth in its export business, it is evaluating a proposal to increase its capacity. This would allow it to handle incremental cargo of existing customers who are currently using other CFSs. Saurashtra also continues to seek and evaluate opportunities to acquire CFSs at other major container ports.

National Stock Exchange of India (NSE)

In July 2016, Fairfax India acquired a 1% stake in NSE, the largest stock exchange in India with a market share of over 88% in cash equity trading and 100% in equity derivatives trading. With over 200,000 terminals in over 2,000 centres, NSE provides trading facilities with national reach. The exchange uses the latest communications technology for automated screen-based trading. For the year ended March 31, 2017, NSE's revenue grew 14% to $413 million and profit after tax grew 93% to $188 million. The planned initial public offering of NSE has been delayed and is now expected sometime in 2018 or 2019.

Catholic Syrian Bank (CSB)

On February 20, 2018 Fairfax India agreed, subject to various conditions precedent including regulatory approval, to buy a 51% stake in CSB for consideration of 12.1 billion rupees (approximately $186 million). This was the culmination of an effort that began in December 2016, when the RBI gave Fairfax India permission to acquire a 51% stake in CSB. 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.

However, after several months of negotiations, in May 2017 we discontinued our efforts because we could not agree with the Board of CSB on the price and valuation at which we would invest in the bank. Since that time CSB has pursued, unsuccessfully, several avenues to attract capital at a valuation acceptable to it.

Meanwhile, in anticipation of investing in CSB, we had identified Mr. C.V.R. Rajendran as the individual who would have been our choice for CEO of the bank. He in fact was appointed as CEO about 14 months ago and is now well in control: he understands the bank and its loan book very well.

In late January 2018, Mr. Rajendran reopened the conversation with us on the premise that based on improvements he had made at the bank, including loan recoveries and successful enhancements to its organizational structure, there might have emerged a new price and valuation that may be acceptable to us. This was indeed the case, and we have now agreed to invest at 140 rupees per share, implying a multiple of 1.1 times the September 30, 2017 book value per share. While Mr. Rajendran has already implemented several positive changes, much more still needs to be done to improve and modernize CSB and bring it to its full potential. The capital that we are infusing will be used to improve its CAR and drive the necessary changes.

Christianity in India dates back to 52 A.D. when, according to legend, Saint Thomas, one of the disciples of Jesus, arrived in what is present day Kodungallur, Kerala, barely a few miles from Thrissur where CSB is headquartered. The Christians of the area were called Syrian, which comes from 'Syrio' which is the language of one of the forms of Catholic liturgy called Syrio-Catholic. Today Syrian Catholics are a large Christian sect from Kerala with a world-wide membership of over 5 million.

On the initiative of influential members of the local Christian community, CSB was founded in 1920 in Thrissur in what is now the Indian state of Kerala. During that time, Thrissur was the centre of vast agricultural production in the surrounding areas and was thriving as a centre for trade and banking, and many other banks were founded there during that time.

Today 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 421 branches and 251 ATMs across India. With its branches primarily in south India, it focuses on retail, gold and SME loans. Together, these comprise over 80% of total advances. Over the last few years, CSB had deviated from its core expertise and built a meaningful corporate lending book, mainly through consortium lending. In the last two years, it has had to take significant write-offs on this portfolio. CSB also owns 38 residential and commercial properties and land banks, some purchased several years ago and others acquired by enforcement of security.

Financial Position

Fairfax India came into being about three years ago on January 30, 2015, when it issued 106.7 million shares, raising gross proceeds of $1.1 billion by completing a public offering, a placement to cornerstone investors and an issue to Fairfax Financial. In September 2016, the company completed a $225 million two-year secured term loan with 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 term loan of $225 million to the syndicate of Canadian banks, and then in July 2017 it completed a $400 million one-year secured loan from a Canadian bank. Fairfax India currently has about $412 million for new investments and ongoing expenses.

At December 31, 2017, the financial position of Fairfax India was as follows:

	($ millions)
Undeployed cash and investments	412.4
Secured term loan (from a Canadian bank, maturing in July 2018)	400.0
Common shareholders' equity	2,132.5
Total debt to equity	18.8%

Developments in India

One of the signals that the unrelenting economic reforms that Prime Minister Modi has been implementing, since he took office almost four years ago, are working, is that India has moved up by 30 places, and broken into the top 100 for the first time, in the 2018 World Bank Business Report's 'Ease of doing business' measure. While there is still a long way to go, this indicates that India is moving in the right direction.

We summarize below some of the significant developments in India in 2017:

Recovery in economic growth: Economic growth decelerated sharply after demonetization (the withdrawal from circulation of all the high denomination currency that represented 80% of the currency in circulation, described in last year's letter) and during the transition to the new GST that replaced an archaic tax regime that had a myriad of multilevel taxes and domestic excise duties for the movement of goods from one state to another. GDP growth in the second quarter of 2017 dropped to just 5.7%, the lowest in more than three years. However, recent data releases suggest that growth is finally recovering. Manufacturing PMI in December 2017 was the highest in more than five years, while industrial production growth in November was the highest in two years. GDP growth recovered to the 7% level in the fourth quarter of 2017.

Demonetization: Last year we discussed at length the economic and political impact of India's 2016 demonetization – the immediate withdrawal from circulation of all the high denomination currency in circulation (the 500 and 1,000 rupee notes, worth about $7.50 and $15.00) and their replacement with new 500 and 2,000 rupee notes. One year on, India has recovered fully from any negative economic impact of demonetization and there is general consensus that the level of tax avoidance has declined, as evidenced by the 1.8 million increase in individuals filing income tax returns. Personal income tax collection has increased by approximately 20% over the previous year in each of the years ending March 2017 (actual) and 2018 (estimate), resulting in additional tax revenues of approximately $18 billion in the two years. The increase in each of the two years before demonetization was only approximately 9%. While currency in circulation has continued to increase and as a percent of GDP is only 10%

below the levels prior to demonetization, digital transactions have increased substantially and non-cash retail payments in 2017 increased over the previous year by 65% in volume terms and 34% in value terms.

Aadhaar: India's recently implemented biometric-based identity program, generally referred to as the Aadhaar program, now covers 1.2 billion people, 90% of India's population. Growth in Aadhaar coverage creates a credible base for future direct benefit transfers of government subsidies. Last year the government passed the Aadhaar Act to enable targeted delivery of government subsidies and services using the Aadhaar identity. Aadhaar has now been used to authenticate a staggering 17 billion transactions and is currently being used to authenticate almost 30 million transactions a day. Since the April 1, 2017 start of India's current fiscal year, almost $15 billion of benefits have been transferred directly into the bank accounts of about 320 million individual intended recipients.

Recapitalization of banks: Resolving Indian banks' twin balance sheet problems of high NPAs and high corporate leverage has been one of the key challenges faced by the government. In its efforts to resolve this issue and kick-start the capex cycle, the government announced a bank recapitalization program of $32 billion (1.3% of GDP). Under this program the government would sell, for payment in kind by way of equity shares, 'recapitalization bonds' to the banks worth $21 billion, and the remaining $11 billion would be raised through a combination of direct cash infusion by the government and capital raised from the market. The first tranche of $12.5 billion of recapitalization bonds will be issued before the end of March 2018. This should provide banks enough capital to fully recognize and provide for the bad loans on their balance sheets. This, coupled with the new bankruptcy code, is expected to help resolve bank NPAs and support capex recovery in the medium term.

Decisive steps to resolve bank NPAs: RBI has directed banks to file insolvency proceedings against the 12 largest NPA accounts and to either resolve a further 28 NPA accounts or file insolvency proceedings against them. Thus, bankruptcy proceedings under the new bankruptcy code will be initiated against up to 40 accounts that represent almost a third of total NPAs. Since the new code requires that the proceedings must be completed in 270 days, these accounts either would be subject to a credible resolution plan or would be liquidated in less than a year. Thus, the end game in the battle against NPAs has begun and 2018 should result in the banks crystallizing (not just setting up provisions for) their actual losses on the major NPAs. They can then start lending again, as the recapitalization program for banks described above will allow them to take the write-offs needed under this process.

Implementation of Goods and Services Tax (GST): In July 2017, India's complex multi-tiered indirect tax code was replaced by a single GST, culminating a reform process that started over a decade ago. GST intends to eliminate the cascading of taxes, simplify compliance procedures and unify India into a single market for the sale of goods and services. While there have been teething problems in the transition, the system is likely to settle over the next couple of quarters. Medium-term benefits of GST include increased productivity, especially in logistics, the elimination of cascading taxes, easier inter-state trade and higher tax revenues for the government due to improved compliance.

Moderate inflation: Due to low commodity prices and modest Minimum Support Price increases for agricultural products, inflation continued to be benign for most of the year. Although inflation has edged up to an annualized 5.2% over the last couple of months, driven by a rise in house rents and vegetable prices, it remains within the target range of the Monetary Policy Committee. Inflation in 2018 is expected to be around 3.5%, significantly lower than the double-digit inflation of the past.

Political stability: The ruling BJP party continued to consolidate its hold over Indian politics. The BJP won a landslide majority in the largest Indian state of Uttar Pradesh and retained its bastion of Gujarat. It also wrested power from the opposition Congress party in the small northern Indian state of Himachal Pradesh. The BJP is now in power in 19 of the 29 Indian states and this could help it gain control of the upper house (Rajya Sabha). If, as widely expected, it comes back to power in 2019, the BJP would thus not face any significant legislative headwinds in implementing reforms.

Continued macro stability and consequent sovereign rating upgrade: India has achieved remarkable macro stability over the last few years. The current account deficit has declined to less than 1% of GDP in the fiscal year ended March 31, 2017 and is likely to remain below 2% in the 2018 fiscal year (FY). As noted above, inflation has moderated to less than 4%, the lowest in more than a decade. The government has continued to reduce its fiscal deficit, achieving a level of 3.5% of GDP in FY17, and is budgeting for a further reduction to around 3.2% in FY18. As a result of this, in the past few years the rupee has remained one of the most stable emerging market currencies, outperforming a basket of 12 emerging market currencies for four consecutive years from 2014 to 2017. In 2017, Moody's upgraded India's sovereign credit rating by a notch to Baa2 from Baa3.

As we end our first three years of operation, we would like to acknowledge the strong support and leadership provided by John Varnell, Vice President of Corporate Affairs, Jennifer Allen, Chief Financial Officer, and Keir Hunt, General Counsel and Corporate Secretary. We would also like to thank our independent directors, Deepak Parekh, Tony Griffiths, Chris Hodgson and Alan Horn, 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 26, 2018 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), Mahesh Babani (Privi), Nirmal Jain (IIFL), Nahoosh Jariwala (Fairchem), Sanjay Kaul (NCML), Hari Marar (BIAL), C.V.R. Rajendran (CSB) and Vijay Sankar (Sanmar).

March 9, 2018

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

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

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

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

The Audit Committee is appointed by the Board of Directors and reviews the consolidated financial statements and MD&A; considers the report of the 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 9, 2018

Chandran Ratnaswami
Chief Executive Officer

Jennifer Allen
Chief Financial Officer

Independent Auditor's Report

To the Shareholders of Fairfax India Holdings Corporation

We have audited the accompanying consolidated financial statements of Fairfax India Holdings Corporation and its subsidiaries, which comprise the consolidated balance sheets as at December 31, 2017 and 2016 and the consolidated statements of earnings, comprehensive income, changes in equity and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditor's responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Fairfax India Holdings Corporation and its subsidiaries as at December 31, 2017 and 2016 and their financial performance and their cash flows for the years then ended in accordance with IFRS.

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants
Toronto, Ontario

March 9, 2018

Consolidated Financial Statements

Consolidated Balance Sheets
as at December 31, 2017 and December 31, 2016
(US$ thousands)

	Notes	December 31, 2017	December 31, 2016
Assets			
Cash and cash equivalents	6, 15	13,244	146,960
Restricted cash	6, 7	10,598	18,810
Short term investments	6	27,481	27,428
Bonds	5, 6	694,252	528,857
Common stocks	5, 6	1,913,993	539,284
Total cash and investments		2,659,568	1,261,339
Interest receivable		9,422	7,493
Income taxes refundable		3,098	7,326
Other assets	6	133	27,339
Total assets		2,672,221	1,303,497
Liabilities			
Accounts payable and accrued liabilities		977	606
Payable for rights issue	5	15,954	–
Payable to related parties	12	122,826	3,673
Term loans	7	400,000	223,772
Total liabilities		539,757	228,051
Equity			
Common shareholders' equity	8	2,132,464	1,075,446
		2,672,221	1,303,497

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, 2017 and 2016
(US$ thousands except share and per share amounts)

	Notes	2017	2016
Income			
Interest	6	21,848	21,343
Dividends	6	8,627	5,611
Net realized gains on investments	6	1,195	3,392
Net change in unrealized gains on investments and other costs	6	592,277	104,995
Net foreign exchange losses	6	(14,277)	(6,737)
		609,670	128,604
Expenses			
Investment and advisory fees	12	27,531	12,552
Performance fee	12	112,218	–
General and administration expenses	14	4,166	4,937
Interest expense	7	15,664	4,171
		159,579	21,660
Earnings before income taxes		450,091	106,944
Recovery of income taxes	10	(2,418)	(881)
Net earnings		452,509	107,825
Net earnings per share	9	$ 3.10	$ 1.01
Net earnings per diluted share	9	$ 2.94	$ 1.01
Shares outstanding (weighted average)	9	146,035,470	106,517,213

See accompanying notes.

Consolidated Statements of Comprehensive Income
for the years ended December 31, 2017 and 2016
(US$ thousands)

	2017	2016
Net earnings	452,509	107,825
Other comprehensive income (loss), net of income taxes		
Item that may be subsequently reclassified to net earnings		
Unrealized foreign currency translation gains (losses), net of income taxes of nil (2016 – nil)	110,910	(26,736)
Other comprehensive income (loss), net of income taxes	110,910	(26,736)
Comprehensive income	563,419	81,089

See accompanying notes.

Consolidated Statements of Changes in Equity

for the years ended December 31, 2017 and 2016
(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, 2017	713,027	300,000	(186)	144,604	(81,999)	1,075,446
Net earnings	–	–	–	452,509	–	452,509
Other comprehensive income:						
Unrealized foreign currency translation gains	–	–	–	–	110,910	110,910
Issuance of shares, net of issuance costs (note 8)	493,504	–	–	–	–	493,504
Repurchases (note 8)	(19)	–	–	(8)	–	(27)
Amortization of share-based payment awards	–	–	122	–	–	122
Balance as of December 31, 2017	1,206,512	300,000	(64)	597,105	28,911	2,132,464
Balance as of January 1, 2016	727,972	300,000	(319)	40,939	(55,263)	1,013,329
Net earnings	–	–	–	107,825	–	107,825
Other comprehensive loss:						
Unrealized foreign currency translation losses	–	–	–	–	(26,736)	(26,736)
Repurchases (note 8)	(17,018)	–	–	(4,160)	–	(21,178)
Amortization of share-based payment awards	–	–	133	–	–	133
Tax benefit on share issuance costs	2,073	–	–	–	–	2,073
Balance as of December 31, 2016	713,027	300,000	(186)	144,604	(81,999)	1,075,446

See accompanying notes.

Consolidated Statements of Cash Flows
for the years ended December 31, 2017 and 2016
(US$ thousands)

	Notes	2017	2016
Operating activities			
Net earnings		452,509	107,825
Items not affecting cash and cash equivalents:			
Net bond premium (discount) amortization		300	(100)
Deferred income taxes	10	–	2,071
Amortization of share-based payment awards		122	133
Net realized gains on investments	6	(1,195)	(3,392)
Net change in unrealized gains on investments	6	(666,479)[1]	(104,995)
Net foreign exchange losses	6	14,277	6,737
Net (purchases) sales of short term investments classified as FVTPL		(112)	22,590
Purchases of bonds and common stocks classified as FVTPL	15	(812,484)[1]	(423,639)
Sales of bonds and common stocks classified as FVTPL	15	78,458	333,591
Decrease in restricted cash in support of investments		–	6,457
Changes in operating assets and liabilities:			
Interest receivable		(1,426)	19,306
Income taxes payable (refundable)		4,601	(16,902)
Payable to related parties		116,662	1,760
Other		9,199	5,065
Cash used in operating activities		(805,568)	(43,493)
Investing activities			
Purchases of premises and equipment		–	(128)
Cash used in investing activities		–	(128)
Financing activities			
Term loans:	7		
Proceeds		400,000	225,000
Issuance costs		(3,022)	(2,752)
Repayment of term loan		(225,000)	–
Net decrease (increase) in restricted cash in support of term loans		8,212	(18,810)
Subordinate voting shares:	8		
Issuances		500,004	–
Issuance costs		(6,500)	–
Repurchases		(27)	(21,178)
Cash provided by financing activities		673,667	182,260
Increase (decrease) in cash and cash equivalents		(131,901)	138,639
Cash and cash equivalents – beginning of year		146,960	12,464
Foreign currency translation		(1,815)	(4,143)
Cash and cash equivalents – end of year		13,244	146,960

(1) Excludes $74,202 cash consideration paid attributable to the costs incurred to purchase the additional 10.0% equity interest in Bangalore International Airport Limited (see note 5).

See accompanying notes.

Index to Notes to Consolidated Financial Statements

Notes to Consolidated Financial Statements

for the years ended December 31, 2017 and 2016
(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, FIH Mauritius Investments Ltd (''FIH Mauritius'') and FIH Private Investments Ltd (''FIH Private'').

In late 2014, Fairfax Financial Holdings Limited (''Fairfax'') took the initiative in creating the company and is Fairfax India's ultimate parent and acts as its administrator. Fairfax is a holding company which, through its subsidiaries, is principally engaged in property and casualty insurance and reinsurance and the associated investment management. Fairfax is a Canadian reporting issuer with securities listed on the Toronto Stock Exchange (''TSX'') and trading in Canadian dollars under the symbol FFH for over 30 years and in U.S. dollars under the symbol FFH.U. Fairfax, through its subsidiaries, owns 30,000,000 multiple voting shares of Fairfax India. On January 30, 2015, upon completion of the company's initial public offering, the company's subordinate voting shares commenced trading on the TSX under the symbol FIH.U. The multiple voting shares are not traded.

During 2017, Fairfax acquired 13,717,873 subordinate voting shares from the company by way of a private placement (see note 8) and open market transactions. At December 31, 2017 Fairfax's holding of multiple and subordinate voting shares represented 93.6% of the voting rights and 30.2% of the equity interest in Fairfax India (December 31, 2016 – 95.3% and 29.4% respectively).

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

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

Subsequent to December 31, 2017

In accordance with the Investment Advisory Agreement (defined in note 12), the performance fee payable 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% (see note 12 for additional details on the performance fee).

2. Basis of Presentation

The company's consolidated financial statements for the year ended December 31, 2017 have been prepared in accordance with International Financial Reporting Standards (''IFRS'') as issued by the International Accounting Standards Board (''IASB'') effective as at December 31, 2017, except IFRS 9 (2010) *Financial Instruments* which was adopted early. The company has determined that it meets the definition of an investment entity under IFRS (see note 4).

The consolidated balance sheets of the company are presented on a non-classified basis. Except for bonds and common stocks, 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 estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements, the reported amounts of income and expenses during the reporting periods covered by the consolidated financial statements and the related note disclosures. Critical accounting estimates and judgments are described in note 4.

These consolidated financial statements were approved for issue by the company's Board of Directors on March 9, 2018.

3. Summary of Significant Accounting Policies

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

Consolidation

Subsidiaries – A subsidiary is an entity over which the company has control. The company controls an entity when the company is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. As an investment entity (see note 4), the company is required to account for its investments in subsidiaries (Fairchem Speciality Limited (''Fairchem'', comprised of Fairchem, formerly known as Adi Finechem Limited, and Privi Organics Limited (''Privi'')), National Collateral Management Services Limited (''NCML''), and Saurashtra Freight Private Limited (''Saurashtra'')) at fair value through profit or loss (''FVTPL'') rather than by consolidation.

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

Investments in associates – An associate is an entity over which the company has significant influence, but not control, over the financial and operating policies. As an investment entity, the company accounts for its investments in associates (IIFL Holdings Limited (''IIFL''), 5paisa Capital Limited (''5paisa''), Bangalore International Airport Limited (''BIAL''), and Sanmar Chemicals Group (''Sanmar'')) at FVTPL rather than by the equity method.

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 period end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in net foreign exchange gains (losses) in the consolidated statements of earnings. Income and expenses are translated at the average rate of exchange for the period.

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

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

Upon disposal or partial disposal of FIH Mauritius or FIH Private, a proportionate share of the cumulative amount of exchange differences recognized in accumulated other comprehensive income (loss) and accumulated in a separate component in equity would be recycled to the consolidated statement 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 on 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 consists of cash on hand, demand deposits with banks and other short term highly liquid investments with maturities of three months or less when purchased, and excludes 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 term loans (see note 7).

Cash and Investments

Cash and investments include cash and cash equivalents, restricted cash, short term investments, bonds and common stocks. The appropriate classifications of investments are determined at their acquisition date.

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

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

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

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

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

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

The company categorizes its fair value measurements according to a three level hierarchy described below:

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

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

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

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

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

All other financial assets and liabilities, primarily comprised of interest receivable, income taxes refundable, other assets, accounts payable and accrued liabilities, payable for rights issue, payable to related parties, and term loans, are measured at amortized cost which approximates fair value. Under the amortized cost method, financial assets and liabilities reflect the amount required to be received or paid and discounted when appropriate, at the contract's effective interest rate.

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

Net realized gains (losses) arising on the disposition of investments and net change in unrealized gains (losses) arising on the re-measurement of investments at fair value are included in net realized gains (losses) on investments and net change in unrealized gains (losses) on investments and other costs in the consolidated statements of earnings, respectively. In 2017 net change in unrealized gains (losses) on investments and other costs in the consolidated statement of earnings included costs incurred to purchase the additional 10.0% equity interest in BIAL (see note 5).

Interest and dividend income

Interest income is recognized on an accrual basis using the effective interest method and includes bank interest and interest from investments in debt instruments, except for Sanmar bonds where interest income is included in its fair value measurement (see note 5). Interest receivable is shown separately on the consolidated balance sheets based on the debt instruments' stated rates of interest. Dividends from equity investments are recognized when the company's right to receive payment is established.

Income taxes

The provision for (recovery of) income taxes for the period comprises current and deferred income tax. Income taxes are recognized in the consolidated statements of earnings, except to the extent that they relate to items recognized in other comprehensive income (loss) or directly in equity. In those cases, the related 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 and its associates operate and generate taxable income.

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

A deferred income tax liability is not recognized on unremitted earnings related to the company's Indian Investments where the company has determined that the unremitted earnings do not constitute a taxable temporary difference.

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

Term loans

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

Equity

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

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

Share-based payments

The company has restricted share plans or equivalent for its directors with vesting periods of up to ten years from the date of grant. The fair value of restricted share awards on the grant date is amortized to compensation expense, 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 by adjusting the weighted average number of subordinate and multiple voting shares outstanding during the period for the dilutive effect 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 and multiple voting shares been issued at the beginning of the period.

New accounting pronouncements adopted in 2017

The company adopted the following amendments, effective January 1, 2017. 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.

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

In January 2016 the IASB issued amendments to IAS 12 *Income Taxes* to clarify the requirements on recognition of deferred tax assets for unrealized losses.

Disclosure Initiative (Amendments to IAS 7)

In January 2016 the IASB issued amendments to IAS 7 *Statement of Cash Flows* that require additional disclosures around changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes.

New accounting pronouncements issued but not yet effective

The following new standards have been issued by the IASB and were not yet effective for the fiscal year beginning January 1, 2017. The company is currently evaluating their impact on its consolidated financial statements and does not expect to adopt any of them in advance of their respective effective dates.

IFRS 9 Financial Instruments ("IFRS 9")

In July 2014 the IASB issued the complete version of IFRS 9 which will supersede the 2010 version of IFRS 9 currently applied by the company. This complete version is effective for annual periods beginning on or after January 1, 2018, with retrospective application, and includes: requirements for the classification and measurement of financial assets and liabilities; an expected credit loss model that replaces the existing incurred loss impairment model; and new hedge accounting guidance. The company is nearing completion of its analysis of the accounting requirements under IFRS 9 and has determined that its current classifications of equity investments and financial liabilities will remain substantially unchanged compared to the 2010 version of IFRS 9. The company continues to monitor and consider evolving guidance and interpretations related to IFRS 9 as it works through the classification analysis for its investments in debt instruments.

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

In June 2017 the IASB issued IFRIC 23 to clarify how the requirements of IAS 12 *Income Taxes* should be applied when there is uncertainty over income tax treatments. The interpretation is effective for annual periods beginning on or after January 1, 2019, with modified retrospective or retrospective application. Adoption of IFRIC 23 is 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.

Determination of investment entity status

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

An investment entity is an entity that obtains funds from one or more investors for the purpose of providing them with investment management services, commits to its investors that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both, and measures and evaluates the performance of substantially all of its investments on a fair value basis. The company exercised judgment that it continues to meet the definition of an investment entity, as its strategic objective of investing in Indian Investments and providing investment management services to investors for the purpose of generating returns in the form of long term capital appreciation, remains unchanged. The company has also determined that FIH Mauritius and FIH Private continue to provide investment related services to the company and should continue to be consolidated.

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

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

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 the background of the investment, changes in market conditions and factors specific to the investee. The company monitors various factors impacting the businesses of its investees and 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 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 inherently has estimation uncertainty and different assumptions could lead to significantly different fair values. Refer to note 5 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 Indian Investments, as disclosed in note 10, are not expected to result in taxable amounts 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 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 an asset because it is not probable that they will be realized.

5. Indian Investments

Public Indian Investments

The fair values of Fairfax India's Public Indian Investments, whose shares are 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.

Investment in IIFL Holdings Limited

IIFL Holdings Limited (''IIFL'') is 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 finance company.

On December 1, 2015 Fairfax India acquired 68,788,445 common shares of IIFL (representing a 21.9% equity interest) for $2.93 per share (195 Indian rupees per share) for cash consideration of $201,559 (approximately 13.4 billion Indian rupees).

Prior to the formation of Fairfax India, Fairfax, through its subsidiaries, had acquired an 8.9% equity interest and an additional 5.2% economic interest in IIFL through derivative financial instruments.

On February 8, 2017 Fairfax India acquired an additional 15,853,000 common shares of IIFL (representing a 4.99% equity interest) for cash consideration of $75,175 (approximately 5.1 billion Indian rupees). In connection with the Fairfax India transaction, Fairfax, through its subsidiaries, partially disposed of the derivative financial instruments representing an economic interest of 4.99% in IIFL. In accordance with regulations of the Securities and Exchange Board of India (''SEBI'') and the NSE of India, the transaction was subject to certain sale and purchase pricing guidelines and, as a result, the total consideration paid per share approximated fair market value of the equity interest acquired.

Contemporaneously with the initial purchase of IIFL common shares by the company, Fairfax India and Fairfax provided undertakings to SEBI that they would not take certain actions that could result in the acquisition of control of IIFL. In particular, Fairfax India and Fairfax agreed to limit their voting rights on IIFL shareholder resolutions to 25% of the issued and outstanding common shares of IIFL at the time of voting, even in circumstances when their actual voting rights may exceed 25%. Fairfax India and Fairfax also agreed to limit any additional purchases of IIFL shares such that their collective shareholding in IIFL would not exceed 36% of the issued and outstanding common shares of IIFL unless Fairfax India and Fairfax made an open offer to all IIFL shareholders or SEBI provided its prior consent for such an acquisition.

At December 31, 2017 the fair value of the company's investment in IIFL was $888,485 comprised of 84,641,445 common shares representing a 26.6% equity interest (fair value of $265,951 at December 31, 2016 representing a 21.7% equity interest). The changes in fair value of the company's investment in IIFL during 2017 and 2016 are presented in the table disclosed later in note 5.

On October 20, 2017 IIFL spun-off its wholly-owned subsidiary 5Paisa Digital Undertaking through the formation of a new public company, 5paisa Capital Limited (''5paisa'') in a non-cash transaction. The distribution of 5paisa to IIFL shareholders was characterized as a return of capital which resulted in Fairfax India recording the initial cost of its investment in 5paisa at its fair value of $19,758 with a corresponding amount recorded as a reduction of the cost of its investment in IIFL. Additional details on the 5paisa spin-off transaction are disclosed later in note 5.

Subsequent to December 31, 2017

Reorganization of IIFL Holdings Limited

On January 31, 2018 IIFL's board of directors approved a draft plan to reorganize IIFL into three listed entities (the ''reorganization'') consisting of IIFL Finance (currently known as IIFL Holdings Limited comprised of the loans and mortgages businesses), IIFL Wealth (comprised of the wealth, asset management and alternative investment fund businesses) and IIFL Securities (comprised of all other IIFL businesses including investment brokerage, distribution and investment banking). Shares of IIFL Finance, IIFL Wealth and IIFL Securities will be traded on the BSE and NSE of India as listed public companies. Shareholders of IIFL will receive seven common shares of IIFL

Securities and one common share of IIFL Wealth for every seven IIFL shares held. Completion of the reorganization is anticipated in late 2018 or early 2019, subject to customary closing conditions and applicable regulatory approvals.

Investment in Fairchem Speciality Limited

Fairchem Speciality Limited (''Fairchem'', formerly known as Adi Finechem Limited) is a publicly traded, specialty chemical manufacturer located in Ahmedabad, India. Fairchem manufactures oleochemicals used in the paints, inks and adhesives industries, as well as intermediate nutraceutical and health products.

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.

On February 8, 2016 Fairfax India acquired a 44.7% equity interest in Fairchem for $3.13 per share (212 Indian rupees per share) for cash consideration of $19,409 (approximately 1.3 billion Indian rupees).

On August 26, 2016 Fairfax India acquired a 50.8% equity interest in Privi for cash consideration of $54,975 (approximately 3.7 billion Indian rupees).

On March 14, 2017 Fairchem and Privi were merged with the surviving entity continuing as Fairchem (the ''Merger'') and with no changes to management of the underlying companies. The Merger should improve diversification and increase synergies between the two companies. Under the terms of the Merger, Privi shareholders received 27 common shares and 27 compulsorily convertible preference shares (''CCPS'') of Fairchem for every 40 Privi shares exchanged. Concurrent with the Merger, 88.5% of the CCPS received by the Privi shareholders were converted into common shares of Fairchem.

At December 31, 2017 the fair value of the company's investment in Fairchem was $149,200 comprised of 18,307,318 common shares (fair value of $143,413) and 738,760 CCPS (fair value of $5,787) representing a 48.8% equity interest on a fully diluted basis (or a 48.7% equity interest excluding the impact of the CCPS). The fair value of the company's investment in Fairchem at December 31, 2017 was determined by multiplying the bid price of the publicly traded Fairchem shares by the number of Fairchem shares owned by the company (inclusive of the common shares and CCPS). The changes in fair value of the company's investment in Fairchem during 2017 and 2016 are presented in the table disclosed later in note 5.

At December 31, 2016, prior to giving effect to the Merger, the fair value of the company's investment in Fairchem and Privi was $45,488 (determined using the bid price of the shares) and $54,315 (determined using the initial transaction price) respectively. Privi's initial transaction price approximated fair value at December 31, 2016 as there were no significant changes to its business, capital structure or operating environment and there were no significant changes to any key assumptions in the company's acquisition valuation model for Privi due to the proximity of the closing date of the transaction to December 31, 2016.

Investment in 5paisa Capital Limited

5paisa Capital Limited (''5paisa''), located in Mumbai, India, is a publicly traded, online financial services provider with a do-it-yourself based investment brokerage model where the customer can execute investment transactions for a low brokerage fee. 5paisa is engaged in providing an online technology platform through Internet terminals and mobile applications for trading securities on the BSE and the NSE of India.

On October 20, 2017 IIFL 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 effective November 16, 2017. This non-cash transaction resulted in Fairfax India receiving one new common share of 5paisa for every 25 common shares of IIFL held for a total of 3,385,657 common shares of 5paisa with a fair value of $19,758. The distribution of 5paisa to IIFL shareholders was characterized as a return of capital which resulted in Fairfax India recording the initial cost of its investment in 5paisa at its fair value of $19,758 with a corresponding amount recorded as a reduction of the cost of its investment in IIFL.

Fairfax India and Fairfax provided undertakings to SEBI that were identical to those in respect of its investment in IIFL, specifically they agreed that they would not take certain actions that could result in the acquisition of control of 5paisa.

At December 31, 2017 the fair value of the company's investment in 5paisa was $19,958 comprised of 3,385,657 common shares representing a 26.6% equity interest. The changes in fair value of the company's investment in 5paisa during 2017 are presented in the table disclosed later 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.

On March 24, 2017 Fairfax India acquired a 38.0% equity interest in BIAL for cash consideration of $385,498 (approximately 25.2 billion Indian rupees). A portion of that equity interest (33.0%) was purchased from a wholly-owned subsidiary of GVK Power and Infrastructure Limited ("GVK") where Fairfax issued a put option to GVK which gave GVK the right to sell some or all of its remaining 10.0% equity interest in BIAL to Fairfax or Fairfax India until April 8, 2019 (the "Put Option"). The remaining equity interest of 5.0% was purchased from Flughafen Zürich AG ("Zürich").

On July 13, 2017 Fairfax India acquired the additional 10.0% equity interest in BIAL from GVK for cash consideration of $200,093 (12.9 billion Indian rupees) which the company determined included $74,202 (approximately 4.8 billion Indian rupees) of consideration in excess of the fair value of those additional shares acquired. The additional consideration of $74,202 paid to GVK reflected costs attributed by management to: (i) motivate GVK to sell its remaining 10.0% equity interest in BIAL; (ii) increase the company's holdings in BIAL to enhance the company's investment returns; and, (iii) accelerate the development of a second runway and terminal, and make improvements to the existing runway. In 2017, the costs incurred of $74,202 were recorded in net change in unrealized gains on investments and other costs in the consolidated statement of earnings. The Put Option was terminated upon the company's acquisition of the additional 10.0% equity interest in BIAL from GVK.

Upon completion of the additional 10.0% investment in BIAL, the company had invested aggregate cash consideration of $585,591 (inclusive of the $74,202 of costs incurred) for a 48.0% equity interest in BIAL.

During the second quarter of 2017 the company refined its internal valuation model used in the determination of the fair value of BIAL. At December 31, 2017 the company estimated the fair value of its investment in BIAL using a discounted cash flow analysis based on multi-year free cash flow projections with assumed after-tax discount rates ranging from 10.4% to 11.7% and a long term growth rate of 3.0%. Free cash flow projections were based on EBITDA estimates derived from financial information for BIAL's business units prepared in the fourth quarter of 2017 by BIAL'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 BIAL operates. At December 31, 2017 the company's internal valuation model indicated that the fair value of the company's investment in BIAL was $608,288. The changes in fair value of the company's investment in BIAL during 2017 are presented in the table disclosed later in note 5.

Investment in National Collateral Management Services Limited

National Collateral Management Services Limited ("NCML") is a private agricultural commodities storage company headquartered in Gurugram, India, operating in the agriculture value chain and offering end-to-end solutions in grain procurement, testing, storage and collateral management. In 2016 NCML launched its wholly-owned subsidiary, NCML Finance Private Ltd, which focuses on rural and agri-business finance.

In the third quarter of 2015 Fairfax India acquired an 88.1% equity interest in NCML for cash consideration of $148,716 (approximately 9.7 billion Indian rupees).

On February 3, 2017 NCML entered into a 30 year concession agreement with the Food Corporation of India to construct 11 silo locations that are expected to be completed in early 2019 and financed through debt and common equity.

On August 8, 2017 Fairfax India participated in NCML's rights issue through which it acquired its pro-rata share of 18,945,840 common shares of NCML at 86.00 Indian rupees per share for total consideration of $25,602 (approximately 1.6 billion Indian rupees) comprised of cash consideration of $9,601 (approximately 611 million Indian rupees) settled on the closing date and the remaining $16,001 (approximately 1.0 billion Indian rupees) reflected in payable for rights issue on the consolidated balance sheet at December 31, 2017. The payable for rights issue was settled in January 2018. NCML issued 19,071,602 common shares to the participating shareholders as part of the rights issue and will use the proceeds to supplement its funding requirements for its silo projects.

At December 31, 2017 the company held an aggregate of 131,941,286 common shares of NCML representing an 89.5% equity interest (December 31, 2016 – 88.1%).

At December 31, 2017 the company estimated the fair value of its investment in NCML using a discounted cash flow analysis based on multi-year free cash flow projections with assumed after-tax discount rates ranging from 12.0% to 19.9% and long term growth rates ranging from 2.4% to 6.0% (December 31, 2016 – 11.9% to 15.8%, and 6.0%, respectively). Free cash flow projections were based on EBITDA estimates derived from financial information for NCML's business units prepared in the fourth quarter of 2017 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, 2017 the company's internal valuation model indicated that the fair value of the company's investment in NCML was $179,054 (December 31, 2016 – $146,586). The changes in fair value of the company's investment in NCML during 2017 and 2016 are presented in the table disclosed later in note 5.

Investment in Sanmar Chemicals Group

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

On April 28, 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 bonds. On September 26, 2016 Fairfax India invested an additional $50,000 in Sanmar bonds. Both tranches of Sanmar bonds mature on 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 is payable in kind in the form of additional Sanmar bonds over the life of the financial instrument. A redemption premium may also be payable in kind to the company.

Sanmar Common Shares

At December 31, 2017 the company estimated the fair value of its investment in Sanmar common shares based on an internal valuation model which consisted of a discounted cash flow analysis based on multi-year free cash flow projections with assumed after-tax discount rates ranging from 15.2% to 19.5% and long term growth rates ranging from 2.0% to 3.6% (December 31, 2016 – 15.5% to 22.5% and 2.0% to 3.6%, respectively). Free cash flow projections were based on EBITDA estimates derived from financial information for Sanmar's three main business units prepared in the fourth quarter of 2017 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, 2017 the company's internal valuation model indicated that the fair value of the common shares was $556 (December 31, 2016 – $440). The changes in fair value of the company's investment in Sanmar common shares during 2017 and 2016 are presented in the table disclosed later in note 5.

Sanmar Bonds

At December 31, 2017 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 8.2% (December 31, 2016 – 7.1%) 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 credit risk specific to Sanmar. At December 31, 2017 the company's internal valuation model indicated that the fair value of

Sanmar bonds was $333,172 (December 31, 2016 – $299,093). The changes in fair value of the company's investment in Sanmar bonds during 2017 and 2016 are presented in the table disclosed later in note 5.

Investment in Saurashtra Freight Private Limited

Saurashtra Freight Private Limited (''Saurashtra''), a private company headquartered in Mumbai, India, runs one of the largest container freight stations at Mundra port (Gujarat). Services provided by Saurashtra's container freight station includes transportation of containers to and from the port, stuffing/destuffing of containers, cargo storage, transportation of cargo to the end customer, and the storage, maintenance and repair of empty containers. During the third quarter of 2017, Saurashtra commenced operations in a new line of business that focuses on new services for container shipping, offering integrated logistic solutions to its customers by providing Saurashtra's own containers to importers and exporters to transport cargo.

On February 14, 2017 Fairfax India acquired a 51.0% equity interest in Saurashtra for cash consideration of $30,018 (approximately 2.0 billion Indian rupees).

The company refined its internal valuation model used in the determination of the fair value of Saurashtra to incorporate the impact of the decision made by management in the fourth quarter of 2017 to exit the niche shipping line voyages between India and select countries in the Gulf region (Fairwind Shipping) due to competitive factors and demand not materializing as expected. At December 31, 2017 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 14.6% to 14.7% and long term growth rates ranging from 4.0% to 5.0%. Free cash flow projections were based on EBITDA estimates derived from financial information for Saurashtra's two business units prepared in the fourth quarter of 2017 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, 2017 the company's internal valuation model indicated that the fair value of the company's investment in Saurashtra was $28,000. The changes in fair value of the company's investment in Saurashtra during 2017 are presented in the table disclosed later 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). The initial transaction price was considered to approximate fair value at December 31, 2016 due to the proximity of the transaction closing date to year end and the absence of changes in factors impacting the fair value since the closing date.

During the first quarter of 2017 the company refined its internal valuation model used in the determination of the fair value of NSE. At December 31, 2017 the fair value of the company's investment in NSE was based on an internal market approach valuation model. The model references the earnings multiple of a peer group of comparable companies that had a median earnings multiple of 26.2 times, that when applied to NSE's earnings resulted in a fair value of $40,452 (December 31, 2016 – $26,504). The changes in fair value of the company's investment in NSE during 2017 and 2016 are presented in the table that disclosed later in note 5.

Subsequent to December 31, 2017

Investment in The Catholic Syrian Bank Ltd.

On February 20, 2018 the company entered into an agreement to acquire a 51.0% equity interest in The Catholic Syrian Bank Ltd. (''CSB'') for approximately $186,000 at the exchange rate at that date (approximately 12.1 billion Indian rupees). The transaction is expected to close in the first half of 2018, subject to customary closing conditions. CSB, a private company, was established in 1920 and is a full-service bank offering neighborhood banking, non-resident Indian services, small-to-medium-enterprise and wholesale banking services through 421 branches and 251 automated teller machines across India. CSB is headquartered in Thrissur, India.

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 2017 and 2016 were as follows:

	Public Indian Investments				Private Indian Investments								
	Common stocks				Bonds	Common stocks							
	IIFL	**Fairchem**	**5paisa**	**Total**	**Sanmar**	**BIAL**	**NCML**	**Sanmar**	**Saurashtra**	**NSE**	**Privi**	**Total**	**Total Indian Investments**
Balance as of January 1, 2017	265,951	45,488	–	311,439	299,093	–	146,586	440	–	26,504	54,315	526,938	838,377
Purchases	75,175	–	–	75,175	–	585,591[1]	25,602	–	30,018	–	–	641,211	716,386
Transfer due to Merger[2] / Spin-off[3]	(19,758)	54,315	19,758	54,315	–	–	–	–	–	–	(54,315)	(54,315)	–
Net change in unrealized gains (losses) on investments and other costs	536,121	42,241	(195)	578,167	14,843	10,902[1]	(2,298)	86	(3,423)	12,032	–	32,142	610,309
Net unrealized foreign currency translation gains	30,996	7,156	395	38,547	19,236	11,795	9,164	30	1,405	1,916	–	43,546	82,093
Balance as of December 31, 2017	888,485	149,200	19,958	1,057,643	333,172	608,288	179,054	556	28,000	40,452	–	1,189,522	2,247,165
Balance as of January 1, 2016	220,747	–	–	220,747	–	–	146,445	–	–	–	–	146,445	367,192
Purchases	–	19,409	–	19,409	299,000	–	–	1,000	–	26,783	54,975	381,758	401,167
Net change in unrealized gains (losses) on investments	51,305	26,399	–	77,704	6,907	–	3,879	(545)	–	–	–	10,241	87,945
Net unrealized foreign currency translation losses	(6,101)	(320)	–	(6,421)	(6,814)	–	(3,738)	(15)	–	(279)	(660)	(11,506)	(17,927)
Balance as of December 31, 2016	265,951	45,488	–	311,439	299,093	–	146,586	440	–	26,504	54,315	526,938	838,377

(1) *On July 13, 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 (approximately 4.8 billion Indian rupees) of consideration in excess of the fair value of those additional shares acquired. The excess cash consideration paid was attributable to the costs incurred and included in the table above in purchases, and was recorded in net change in unrealized gains on investments and other costs included in the consolidated statement of earnings.*

(2) *The merger of Fairchem and Privi resulted in the reallocation of the investment in Privi from Private Indian Investments to the Public Indian Investment in Fairchem.*

(3) *The spin-off of 5paisa from IIFL resulted in the reallocation of the fair value of 5paisa out of the cost of IIFL to form the initial cost of 5paisa.*

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, 2017					December 31, 2016				
	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	13,244	–	–	13,244	845	146,960	–	–	146,960	9,974
Restricted cash[1]	10,598	–	–	10,598	676	18,810	–	–	18,810	1,277
	23,842	–	–	23,842	1,521	165,770	–	–	165,770	11,251
Short term investments – U.S. treasury bills	27,481	–	–	27,481	1,754	27,428	–	–	27,428	1,861
Bonds:										
Government of India[2]	–	259,356	–	259,356	16,554	–	130,317	–	130,317	8,845
Indian corporate[2]	–	101,724	–	101,724	6,493	–	99,447	–	99,447	6,750
Sanmar	–	–	333,172	333,172	21,266	–	–	299,093	299,093	20,299
	–	361,080	333,172	694,252	44,313	–	229,764	299,093	528,857	35,894
Common stocks:										
IIFL	888,485	–	–	888,485	56,710	265,951	–	–	265,951	18,050
Fairchem[3]	149,200	–	–	149,200	9,523	45,488	–	–	45,488	3,087
5paisa	19,958	–	–	19,958	1,274	–	–	–	–	–
BIAL	–	–	608,288	608,288	38,825	–	–	–	–	–
NCML	–	–	179,054	179,054	11,429	–	–	146,586	146,586	9,949
Sanmar	–	–	556	556	36	–	–	440	440	30
Saurashtra	–	–	28,000	28,000	1,787	–	–	–	–	–
NSE	–	–	40,452	40,452	2,582	–	–	26,504	26,504	1,799
Privi	–	–	–	–	–	–	–	54,315	54,315	3,686
	1,057,643	–	856,350	1,913,993	122,166	311,439	–	227,845	539,284	36,601
Total cash and investments	1,108,966	361,080	1,189,522	2,659,568	169,754	504,637	229,764	526,938	1,261,339	85,607
	41.7%	13.6%	44.7%	100.0%	100.0%	40.0%	18.2%	41.8%	100.0%	100.0%

(1) Comprised of funds set aside as restricted cash to fund term loan interest payments.

(2) Priced based on information provided by independent pricing service providers at December 31, 2017 and 2016. There were no changes in valuation techniques for these securities during 2017.

(3) Includes the fair value of 738,760 CCPS that were priced based on the bid of Fairchem's share price at December 31, 2017.

The consolidated balance sheet at December 31, 2016 included a receivable of $26,525 related to the pending settlement of sales on investments from the disposition of investment funds presented as a component of other assets.

Transfers between fair value hierarchy levels are considered effective from the beginning of the reporting period in which the transfer is identified. During 2017 and 2016 there were no transfers of financial instruments between Level 1 and Level 2 and there were no transfers of financial instruments in or out of Level 3 as a result of changes in the observability of valuation inputs. During 2017 as a result of the Merger of Fairchem and Privi, described in note 5, the investment in Privi was transferred out of Level 3 and aggregated with the Level 1 investment in Fairchem.

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

Indian rupees *(in millions)*	**Bonds**	**Common stocks**						
	Sanmar	**BIAL**	**NCML**	**Sanmar**	**Saurashtra**	**NSE**	**Privi**	**Total**
Balance as of January 1, 2017	20,299	–	9,949	30	–	1,799	3,686	35,763
Purchases	–	38,116[1]	1,629	–	2,010	–	–	41,755
Transfer out of category due to Merger	–	–	–	–	–	–	(3,686)	(3,686)
Net change in unrealized gains (losses) on investments and other costs	967	709[1]	(149)	6	(223)	783	–	2,093
Balance as of December 31, 2017	21,266	38,825	11,429	36	1,787	2,582	–	75,925
Balance as of January 1, 2016	–	–	9,688	–	–	–	–	9,688
Purchases	19,835	–	–	66	–	1,799	3,686	25,386
Net change in unrealized gains (losses) on investments	464	–	261	(36)	–	–	–	689
Balance as of December 31, 2016	20,299	–	9,949	30	–	1,799	3,686	35,763

(1) On July 13, 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 (approximately 4.8 billion Indian rupees) of consideration in excess of the fair value of those additional shares acquired. The excess cash consideration paid was attributable to the costs incurred and included in the table above in purchases, and was recorded in net change in unrealized gains on investments and other costs included in the consolidated statement of earnings.

The change in fair value of the company's Private Indian Investments (classified as Level 3) in the company's presentation currency of U.S. dollars is disclosed in note 5.

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 Private Indian Investments classified as Level 3 at December 31, 2017. The analysis assumes variations within a reasonably possible range determined by the company based on an analysis of the return on various equity indexes, management's knowledge of the Indian equity markets and the potential impact of changes in interest rates.

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]**
Bonds: Sanmar	$333,172	Discounted cash flow	Credit spread	8.2%	17,067 / (16,176)	12,554 / (11,889)
Common Stocks:						
BIAL	$608,288	Discounted cash flow	After-tax discount rate	10.4% to 11.7%	103,126 / (89,674)	89,462 / (77,792)
			Long term growth rate	3.0%	12,600 / (11,781)	10,931 / (10,220)
NCML	$179,054	Discounted cash flow	After-tax discount rate	12.0% to 19.9%	33,098 / (28,360)	28,713 / (24,602)
			Long term growth rate	2.4% to 6.0%	10,589 / (9,799)	9,186 / (8,501)
Sanmar	$556	Discounted cash flow	After-tax discount rate	15.2% to 19.5%	17,812 / (556)	15,452 / (482)
			Long term growth rate	2.0% to 3.6%	5,279 / (556)	4,580 / (482)
Saurashtra	$28,000	Discounted cash flow	After-tax discount rate	14.6% to 14.7%	947 / (1,067)	822 / (926)
			Long term growth rate	4.0% to 5.0%	250 / (448)	217 / (389)
NSE	$40,452	Market approach	Price to earnings ratio	26.2 times	4,045 / (4,045)	2,973 / (2,973)

(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), price to earnings ratio (15.0%), and credit spreads (100 basis points), each in isolation, would hypothetically change the fair value of the company's investments as noted in the table above. Generally, an increase (decrease) in long term growth rates or price to earnings ratio, or a decrease (increase) in after-tax discount rates or credit spreads, would result in a higher (lower) fair value of the company's Private Indian Investments.

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, 2017 bonds containing call features represented $333,172 (December 31, 2016 – $299,093) of the total fair value of bonds. At December 31, 2017 and 2016, there were no bonds containing put features.

	December 31, 2017		December 31, 2016	
	Amortized cost	Fair value	Amortized cost	Fair value
Due in 1 year or less	310,767	333,172	292,257	299,093
Due after 5 years through 10 years	337,414	334,457	181,097	191,613
Due after 10 years	28,498	26,623	35,919	38,151
	676,679	694,252	509,273	528,857
Effective interest rate(1)		7.4%		8.1%

(1) Excludes Sanmar bonds.

Investment Income

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

Interest and dividends

	2017	2016
Interest:		
Cash and cash equivalents	349	175
Short term investments	144	135
Bonds	21,355	21,033
	21,848	21,343
Dividends: Common stocks	8,627	5,611

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

	2017			2016		
	Net realized gains (losses)	Net change in unrealized gains (losses) and other costs	Net gains (losses)	Net realized gains (losses)	Net change in unrealized gains (losses)	Net gains (losses)
Net gains (losses) on investments:						
Short term investments	–	–	–	(17)	–	(17)
Bonds	1,195	(3,189)(1)	(1,994)	(3,327)	22,318(1)	18,991
Common stocks	–	595,466(2)	595,466	4,688	81,038(2)	85,726
Common stocks – Investment funds	–	–	–	2,048	1,639	3,687
	1,195	592,277	593,472	3,392	104,995	108,387
Net foreign exchange gains (losses) on:						
Cash and cash equivalents	(27,531)(3)	–	(27,531)	(3,624)	–	(3,624)
Investments	(1,244)	(664)	(1,908)	3,005	(3,155)	(150)
Term loans	9,812	4,764	14,576	–	(2,963)	(2,963)
Other	586	–	586	–	–	–
	(18,377)	4,100	(14,277)	(619)	(6,118)	(6,737)

(1) In 2017, comprised of Government of India bonds (unrealized loss of $14,086) and Indian corporate bonds (unrealized loss of $3,946), partially offset by Sanmar bonds (unrealized gain of $14,843). In 2016, comprised of unrealized gains from Government of India bonds ($9,419), Sanmar bonds ($6,907) and Indian corporate bonds ($5,992).

(2) Refer to note 5 for a summary of changes in the fair value of the company's Public and Private Indian Investments during 2017 and 2016.

(3) Primarily related to the U.S. dollar net proceeds received from the secondary Offerings (see note 8) that were held in U.S. dollar denominated cash equivalents until the funds were partially deployed to acquire the 38.0% equity interest in BIAL.

7. Term Loans

	December 31, 2017			December 31, 2016		
	Principal	Carrying value	Fair value(1)	Principal	Carrying value(2)	Fair value(1)
Secured Term Loans:						
1 Year Term Loan, floating rate due July 11, 2018	400,000	400,000	400,000	–	–	–
2 Year Term Loan, floating rate due September 17, 2018	–	–	–	225,000	223,772	223,772
	400,000	400,000	400,000	225,000	223,772	223,772

(1) *Carrying value approximated fair value at December 31, 2017 and 2016.*

(2) *Principal net of unamortized issue costs.*

On July 11, 2017 the company entered into an agreement with a Canadian bank for a 1 year secured term loan with a principal amount of $400,000 bearing interest at a rate of LIBOR plus 325 to 375 basis points (the ''1 year term loan''). On July 13, 2017 the company used a portion of the net proceeds from the 1 year term loan to complete the additional 10.0% investment in BIAL of $200,093 and participate in the NCML rights issue (see note 5).

Under the terms of the 1 year 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 on the consolidated balance sheet. The company is also required to use the term loan proceeds solely for the purposes of funding: (i) investments in Specified Portfolio Companies (comprised of the company's Indian Investments); (ii) investments in cash equivalents, inclusive of permitted investments; (iii) transaction costs, fees and expenses related to such investments; and (iv) the debt service reserve account. The 1 year term loan includes a financial covenant that requires the company to maintain common shareholders' equity of not less than $1.3 billion. At December 31, 2017 the company was in compliance with the 1 year term loan financial covenant.

On September 16, 2016 the company entered into an agreement with a syndicate of Canadian banks for a 2 year secured term loan with a principal amount of $225,000 bearing interest at a rate of LIBOR plus 350 to 500 basis points (the ''2 year term loan''). Under the terms of the 2 year term loan, the company was required to set aside funds as restricted cash to fund the term loan interest payments. The 2 year term loan was repaid on March 31, 2017 pursuant to a mandatory prepayment clause that required the company to repay the $225,000 principal amount from the net proceeds of the secondary Offerings (see note 8).

Interest Expense

In 2017 interest expense of $15,664 (2016 – $4,171) was comprised of interest expense of $11,414 (2016 – $2,647), issue costs on the 1 year term loan of $3,022 (2016 – nil), and the release of unamortized issue costs on the 2 year term loan of $1,228 (2016 – amortization of issue costs of $1,524).

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, 2017 included 30,000,000 (December 31, 2016 – 30,000,000) multiple voting shares and 117,432,631 (December 31, 2016 – 74,881,031) 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. Each multiple voting share carries fifty votes per share at all meetings of shareholders except for separate meetings of holders of another class of shares. Fairfax, through its subsidiaries, owns all the issued and outstanding multiple voting shares, which are not traded. At December 31, 2017 there were no preference shares issued.

Common stock

The number of shares outstanding was as follows:

	2017	**2016**
Subordinate voting shares – January 1	74,881,031	76,678,879
Issuances of shares	42,553,500	–
Purchases for cancellation	(1,900)	(1,797,848)
Subordinate voting shares – December 31	117,432,631	74,881,031
Multiple voting shares – beginning and end of year	30,000,000	30,000,000
Common shares effectively outstanding – December 31	147,432,631	104,881,031

Capital transactions

Year ended December 31, 2017

On January 13, 2017 the company completed an underwritten public offering of 12,766,000 subordinate voting shares at a price of $11.75 per share. Concurrent with the public offering, Fairfax and Ontario Municipal Employees Retirement System (''OMERS'') acquired 12,766,000 and 17,021,500 subordinate voting shares, respectively, at a price of $11.75 per subordinate voting share in a private placement (the ''Concurrent Private Placement'' and, together with the public offering, collectively the ''secondary Offerings''), resulting in net proceeds of $493,504, after commissions and expenses of $6,500. Net proceeds from the secondary Offerings were used to acquire additional Indian Investments, for general corporate purposes, and to repay the 2 year term loan (see note 7).

Subsequent to December 31, 2017

In accordance with the Investment Advisory Agreement (defined in note 12), the performance fee payable 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% (see note 12 for additional details on the performance fee).

Repurchase of Shares

During 2017, under the terms of the normal course issuer bid, the company repurchased for cancellation 1,900 subordinate voting shares (2016 – 1,797,848) for a net cost of $27 (2016 – $21,178), of which $8 was charged to retained earnings (2016 – $4,160).

Dividends

The company did not pay any dividends on its total outstanding common shares during 2017 and 2016.

9. Net Earnings per Share

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

	2017	**2016**
Net earnings – basic and diluted	452,509	107,825
Weighted average common shares outstanding – basic	146,035,470	106,517,213
Contingently issuable subordinate voting shares	7,663,685	–
Weighted average common shares outstanding – diluted	153,699,155	106,517,213
Net earnings per common share – basic	$ 3.10	$ 1.01
Net earnings per common share – diluted	$ 2.94	$ 1.01

At December 31, 2017 there were 7,663,685 (December 31, 2016 – nil) contingently issuable subordinate voting shares relating to the performance fee payable to Fairfax. The performance fee is accrued quarterly and relates to the three-year period from January 30, 2015 to December 31, 2017. The performance fee payable 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. Under the terms of the Investment Advisory Agreement, 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. The number of subordinate voting shares issued was calculated based on the volume-weighted average trading price of the company's subordinate voting shares for the 10 trading days prior to and including December 31, 2017 (''VWAP''). Refer to note 12 for additional details on the performance fee payable.

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

10. Income Taxes

The company's recovery of income taxes for the years ended December 31 was as follows:

	2017	2016
Current income tax:		
Current year recovery	(1,768)	(4,878)
Adjustment to prior years' income taxes	(650)	1,926
	(2,418)	(2,952)
Deferred income tax:		
Origination and reversal of temporary differences	–	2,070
Adjustments to prior years' deferred income taxes	–	1
	–	2,071
Recovery of income taxes	(2,418)	(881)

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).

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

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

	2017			2016		
	Canada	Mauritius	Total	Canada	Mauritius	Total
Earnings (loss) before income taxes	(28,300)	478,391	450,091	(4,105)	111,049	106,944
Provision for (recovery of) income taxes	(2,886)	468	(2,418)	(4,090)	3,209	(881)
Net earnings (loss)	(25,414)	477,923	452,509	(15)	107,840	107,825

The increase in pre-tax profitability in Mauritius during 2017 compared to 2016 primarily reflected increased net change in unrealized gains on investments and other costs (principally from the company's Public Indian Investments) and increased dividend income, partially offset by the performance fee and increased investment and advisory fees. The increase in pre-tax losses in Canada during 2017 compared to 2016 principally related to the performance fee and increased investment and advisory fees, interest expense on the term loans, and net realized foreign exchange losses (primarily on cash equivalents, partially offset by net realized foreign exchange gains on the term loans).

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

	2017	**2016**
Canadian statutory income tax rate	26.5%	26.5%
Provision for income taxes at the Canadian statutory income tax rate	119,274	28,340
Tax rate differential on income earned outside of Canada	(154,425)	(27,934)
Provision (recovery) relating to prior years	(650)	1,926
Change in unrecorded tax benefit of losses and temporary differences	28,670	1,685
Foreign exchange effect	4,713	(4,898)
Recovery of income taxes	(2,418)	(881)

The tax rate differential on income earned outside of Canada of $154,425 in 2017 and $27,934 in 2016 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 $28,670 in 2017 (2016 – $1,685) principally reflected changes in unrecorded deferred tax assets incurred related to foreign accrual property losses of $25,884 (2016 – $1,685) with respect to the company's wholly-owned subsidiaries. At December 31, 2017 deferred tax assets in Canada of $38,860 (December 31, 2016 – $8,420) were not recorded as it was considered not probable that those losses could be utilized by the company.

Foreign exchange effect of $4,713 in 2017 (2016 – $4,898) principally reflected the impact of fluctuations in the value of the Canadian dollar relative to the U.S. dollar and the Indian rupee as the company computes its corporate tax liability in Canadian dollars pursuant to the requirements of Canadian tax authorities, whereas the functional currency of the company and its Mauritius subsidiaries is the Indian rupee.

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

	2017	**2016**
Balance – January 1	7,326	(9,386)
Amounts recorded in the consolidated statements of earnings	2,418	2,952
Payments made (refunds received) during the year	(7,019)	13,500
Foreign currency translation	373	260
Balance – December 31	3,098	7,326

Management reviews the recoverability of potential deferred tax assets on an ongoing basis and adjusts, as necessary, to reflect their anticipated realization. Deferred income tax balances were nil at December 31, 2017 and 2016 as the company has not recorded deferred tax assets of $5,831 (December 31, 2016 – $6,529) related to the costs of the initial public offering and secondary Offerings, net operating loss carryforwards of $5,254 (December 31, 2016 – nil) and foreign accrual property losses of $27,775 (December 31, 2016 – $1,891). The net operating loss carryforwards and foreign accrual property losses expire in 2037, and between 2035 and 2037, respectively.

At December 31, 2017 a deferred income tax liability of approximately $93,000 (December 31, 2016 – approximately $13,000) has not been recognized on unremitted earnings related to the company's Indian Investments of approximately $703,000 (2016 – approximately $100,000) that are not likely to be repatriated in the foreseeable future.

Subsequent to December 31, 2017

On February 1, 2018 the Government of India released its Union Budget proposals for fiscal year 2018-19 (the "Budget"). The Budget proposes to repeal, with effect from April 1, 2018, the long term capital gains tax exemption in India that is available in respect of certain transfers of listed equity shares of Indian companies on which Securities Transaction Tax is paid at the time of acquisition and transfer of such shares. Long term capital gains realized on such transfers are generally proposed to 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 (as noted above), 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 after April 1, 2017, and sold prior to March 31, 2019, will continue to be taxed at the rate of 50.0% of the prevailing domestic Indian capital gains tax rate by virtue of the India-Mauritius tax treaty. The company is currently evaluating the potential impact of the Budget and the potential application of capital gains tax in India on any future dispositions of investments in equity shares held by FIH Mauritius.

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. These risks, and the company's management thereof, are described below.

Market Risk

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

Foreign Currency Risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument or another asset or liability will fluctuate because of changes in exchange rates and as a result, could produce an adverse effect on net earnings and 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.

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

	December 31, 2017					December 31, 2016					
	Cash and cash equivalents	Short term investments	1 Year term loan	Payable to related parties	Net exposure	Cash and cash equivalents	Short term investments	Receivable from sale of investment funds	2 Year term loan	Payable to related parties	Net exposure
U.S. dollars	19,389[(1)]	27,481	(400,000)	(122,791)	(475,921)	165,051[(1)]	27,428	26,525	(223,772)	(3,659)	(8,427)
All other currencies	4,453	–	–	(35)	4,418	716	–	–	–	(14)	702
Total	23,842	27,481	(400,000)	(122,826)	(471,503)	165,767	27,428	26,525	(223,772)	(3,673)	(7,725)

(1) At December 31, 2017 cash and cash equivalents included restricted cash of $10,598 to fund the 1 year term loan interest payments (December 31, 2016 – restricted cash of $18,810 to fund the 2 year term loan interest payments).

The table above shows the company's net exposure to the U.S. dollar and all other currencies, other than the Indian rupee. If the Indian rupee appreciated by 5.0% against the U.S. dollar and all other currencies, the effect on pre-tax earnings and net earnings would be a hypothetical increase of $23,575 and $17,328 (December 31, 2016 – $386 and $284). Certain shortcomings are inherent in the method of analysis presented, including the assumption that the 5.0% appreciation of the Indian rupee occurred with all other variables held constant.

The company's net liability exposure to the U.S. dollar increased at December 31, 2017 compared to December 31, 2016 primarily as a result of the 1 year term loan completed on July 11, 2017 (see note 7) and the performance fee accrual, partially offset by the impact of the repayment of the 2 year term loan on March 31, 2017 (see note 7).

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, 2017 compared to December 31, 2016.

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, 2017			**December 31, 2016**		
	Fair value of fixed income portfolio	**Hypothetical $ change effect on net earnings**	**Hypothetical % change in fair value**	**Fair value of fixed income portfolio**	**Hypothetical $ change effect on net earnings**	**Hypothetical % change in fair value**
Change in interest rates						
200 basis point rise	625,972	(50,186)	(9.8)%	468,666	(44,238)	(11.4)%
100 basis point rise	659,444	(25,584)	(5.0)%	498,029	(22,656)	(5.8)%
No change	694,252	–	–	528,857	–	–
100 basis point decline	733,247	28,661	5.6 %	563,826	25,705	6.6 %
200 basis point decline	773,950	58,578	11.5 %	592,543	46,812	12.0 %

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

Market Price Fluctuations

Market price fluctuation is the risk that the fair value or future cash flows of an equity investment will fluctuate because of changes in market prices (other than those arising from interest rate risk or foreign currency risk), whether those changes are caused by factors specific to the individual investment or its issuer, or other factors affecting all similar investments in the market. Changes to the company's exposure to equity price risk through its equity instruments at December 31, 2017 compared to December 31, 2016 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 during 2017 as a result of the investments in BIAL and Saurashtra (Level 3 investments in the fair value hierarchy), and the additional investments in IIFL (Level 1 investment in the fair value hierarchy) and NCML (Level 3 investment in the fair value hierarchy). 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 equity investments classified as Level 1 in the fair value hierarchy (IIFL, Fairchem and 5paisa).

	December 31, 2017		December 31, 2016	
Change in Indian equity markets	+10.0%	− 10.0%	+10.0%	− 10.0%
Level 1 equity investments, fair value at December 31	1,057,643	1,057,643	311,439	311,439
Hypothetical $ change effect on pre-tax earnings (loss)	105,764	(105,764)	31,144	(31,144)
Hypothetical $ change effect on net earnings (loss)	91,750	(91,750)	27,017	(27,017)

Credit Risk

Credit risk is the risk of loss resulting from the failure of a counterparty to honour its financial obligations to the company and arises predominantly with respect to cash and cash equivalents, short term investments and investments in debt instruments. 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, 2017 compared to December 31, 2016.

Cash and Cash Equivalents, and Short Term Investments

At December 31, 2017 the company's cash and cash equivalents of $13,244 (December 31, 2016 – $146,960) were primarily held at the holding company in major financial institutions (principally in high credit-quality Canadian financial institutions). The company monitors risks associated with cash and cash equivalents, and short term investments by regularly reviewing the financial strength and creditworthiness of these financial institutions.

At December 31, 2017, the company's short term investments in U.S. treasury bills of $27,481 (December 31, 2016 – $27,428) were rated Aaa by Moody's Investors Service, Inc. ("Moody's") and AA+ by Standard & Poor's Financial Services LLC ("S&P").

Investments in Debt Instruments

The company's risk management strategy for debt instruments is to invest primarily in high credit quality issuers and to limit the amount of credit exposure with respect to any one corporate issuer. 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, 2017 and 2016 the company's debt instruments were all considered to be subject to credit risk with a fair value of $694,252 (December 31, 2016 – $528,857), representing 26.1% (December 31, 2016 – 41.9%) of the total cash and investments portfolio.

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

	December 31, 2017		December 31, 2016	
	Fair value	**Rating**	**Fair value**	**Rating**
Government of India bonds(1)	259,356	Baa2/BBB −	130,317	Baa3/BBB −
Indian corporate bonds(2)	101,724	AAA	99,447	AAA
Sanmar bonds(3)	333,172	BBB −	299,093	BBB −
Total bonds	694,252		528,857	

(1) Rated BBB – by S&P. On November 16, 2017 Moody's upgraded the Government of India bonds rating from Baa3 to Baa2.

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

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

The company's exposure to credit risk from its investment in fixed income securities increased at December 31, 2017 compared to December 31, 2016 reflecting net purchases in 2017 of Government of India bonds from the net proceeds received from the 1 year term loan. 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, 2017 compared to December 31, 2016.

Income Taxes Refundable

The company had income taxes refundable of $3,098 at December 31, 2017 (December 31, 2016 – $7,326).

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 fall due.

The company believes that cash and cash equivalents at December 31, 2017 provides adequate liquidity to meet the company's known significant commitments in 2018, which are principally comprised of the investment in CSB, investment and advisory fees, payable for rights issue (settled January 2018), general and administration expenses and potentially corporate income taxes. The company has the ability to sell a portion of its portfolio investments to supplement the liquidity requirement to repay the principal amount of the 1 year term loan that matures in July 2018. The company expects to continue to receive investment income on its holdings of fixed income securities and dividends from its equity investments to supplement its cash and cash equivalents. The company has adequate working capital to support its operations.

The performance fee payable 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. Refer to note 12 for additional details on the performance fee payable.

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.

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

	December 31, 2017				December 31, 2016			
	India	**U.S.**	**Other**	**Total**	**India**	**U.S.**	**Other**	**Total**
Cash and cash equivalents	–	19,389[(1)]	4,453[(2)]	23,842	3	165,051[(1)]	716[(2)]	165,770
Short term investments – U.S. treasury bills	–	27,481	–	27,481	–	27,428	–	27,428
Bonds:								
Government of India	259,356	–	–	259,356	130,317	–	–	130,317
Indian corporate	101,724	–	–	101,724	99,447	–	–	99,447
Sanmar	333,172	–	–	333,172	299,093	–	–	299,093
	694,252	–	–	694,252	528,857	–	–	528,857
Common stocks:								
IIFL	888,485	–	–	888,485	265,951	–	–	265,951
Fairchem	149,200	–	–	149,200	45,488	–	–	45,488
5paisa	19,958	–	–	19,958	–	–	–	–
BIAL	608,288	–	–	608,288	–	–	–	–
NCML	179,054	–	–	179,054	146,586	–	–	146,586
Sanmar	556	–	–	556	440	–	–	440
Saurashtra	28,000	–	–	28,000	–	–	–	–
NSE	40,452	–	–	40,452	26,504	–	–	26,504
Privi	–	–	–	–	54,315	–	–	54,315
	1,913,993	–	–	1,913,993	539,284	–	–	539,284
Total cash and investments	2,608,245	46,870	4,453	2,659,568	1,068,144	192,479	716	1,261,339

(1) Included restricted cash of $10,598 at December 31, 2017 (December 31, 2016 – $18,810).

(2) Included cash principally held in Canadian financial institutions.

The company's holdings of Public and Private Indian Investments (see note 5) at December 31, 2017 and 2016 are summarized by the issuer's primary sector in the table below:

	December 31, 2017	**December 31, 2016**
Financial services	948,895	292,455
Commercial and industrial	689,982	545,922
Infrastructure	608,288	–
	2,247,165	838,377

During 2017 the company's concentration risk in the financial services sector increased primarily due to the additional investment in IIFL ($75,175) and unrealized appreciation in IIFL and NSE, while the company's concentration risk in the commercial and industrial sector increased principally due to the investment in Saurashtra ($30,018), the additional investment in NCML ($25,602) and unrealized appreciation primarily in Fairchem and Sanmar bonds, and the company's concentration risk in the infrastructure sector increased due to the investment in BIAL ($585,591).

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; 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 Concentration Restriction increased at December 31, 2017 from December 31, 2016 principally as a result of net proceeds received from the secondary Offerings (see note 8), net change in unrealized gains on investments and other costs (primarily related to the company's Public Indian Investments) recorded in the consolidated statements of earnings in 2017, and net proceeds received from the 1 year term loan, partially offset by the repayment of the 2 year term loan (see note 7). 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, 2017 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 in order to provide returns for common shareholders, and to maintain an optimal capital structure to reduce the cost of capital. The company will seek attractive risk-adjusted returns, but will at all times seek downside protection and attempt to minimize the loss of capital. Total capital increased from $1,299,218 at December 31, 2016 (comprised of the 2 year term loan and common shareholders' equity) to $2,532,464 at December 31, 2017 (comprised of the 1 year term loan and common shareholders' equity), principally reflecting net proceeds received from the secondary Offerings and the 1 year term loan, and net earnings and other comprehensive income in 2017, partially offset by the repayment of the 2 year term loan.

On July 11, 2017 the company entered into an agreement with a Canadian bank for a 1 year secured term loan with a principal amount of $400,000 bearing interest at a rate of LIBOR plus 325 to 375 basis points. On July 13, 2017 the company used a portion of the net proceeds from the 1 year term loan to complete the additional 10.0% investment in BIAL of $200,093 and participate in the NCML rights issue. The 1 year term loan includes a financial covenant that requires the company to maintain common shareholders' equity of not less than $1.3 billion. At December 31, 2017 the company was in compliance with the 1 year term loan financial covenant.

On January 13, 2017 the company completed an underwritten public offering and concurrent with the public offering, Fairfax and OMERS acquired additional subordinate voting shares resulting in net proceeds of $493,504. Net proceeds from the secondary Offerings were used to acquire additional Indian Investments, for general corporate purposes, and to repay the 2 year term loan.

On September 16, 2016 the company entered into an agreement with a syndicate of Canadian banks for a 2 year secured term loan with a principal amount of $225,000. The 2 year term loan was repaid on March 31, 2017.

Common shareholders' equity increased to $2,132,464 at December 31, 2017 from $1,075,446 at December 31, 2016 primarily reflecting net proceeds received from the secondary Offerings ($493,504), net earnings ($452,509) and unrealized foreign currency translation gains ($110,910).

12. Related Party Transactions

Payable to Related Parties

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

	December 31, 2017	December 31, 2016
Performance fee	114,437	–
Investment and advisory fees	8,293	3,611
Other	96	62
	122,826	3,673

Investment Advisory Agreement

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

Performance Fee

The performance fee is accrued quarterly and paid for the first three-year period from January 30, 2015 to December 31, 2017 (the "first calculation period") and is calculated, on a cumulative basis, as 20% of any increase in common shareholders' equity per share (including distributions) above a 5% per annum increase. The amount of common shareholders' equity 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". The company determined that a performance fee of $114,437 was payable at December 31, 2017 (December 31, 2016 – nil) as the book value per share of $15.24 (before factoring in the impact of the performance fee) at December 31, 2017 was greater than the hurdle per share of $11.36 at that date.

In 2017 the performance fee recorded in the consolidated statements of earnings was $112,218 (2016 – nil), representing the performance fee accrual translated at the average exchange rate for 2017.

Subsequent to December 31, 2017

On March 9, 2018 the company issued 7,663,685 subordinate voting shares to Fairfax calculated as the performance fee payable at December 31, 2017 of $114,437 divided by the VWAP of $14.93. Under the terms of the Investment Advisory Agreement, 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. In accordance with the Investment Advisory Agreement, the number of subordinate voting shares issued was calculated based on 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%.

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 quarterly. The performance fee for the second calculation period will be calculated as 20% of any increase in the book value per share at the end of period (before factoring in the impact of the performance fee for the second calculation period) over the higher of: (i) the hurdle per share as described above; or, (ii) the then book value per share at the end of the first calculation period (December 31, 2017), adjusted to reflect the issuance of subordinate voting shares on March 9, 2018 to settle the first calculation period performance fee, referred to as the ''high water mark per share''. 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.

Investment and Advisory Fee

The investment and advisory fee is 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 2017 the company determined that the majority of its assets were invested in Indian Investments, which are considered deployed capital. In 2017 the investment and advisory fee recorded in the consolidated statements of earnings was $27,531 (2016 – $12,552).

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.

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 as follows:

	2017	**2016**
Retainers and fees	150	150
Share-based payments	122	133
Other	50	50
	322	333

Other

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

On July 13, 2017 upon the company's acquisition of the additional 10.0% equity interest in BIAL from GVK, Fairfax's obligation on behalf of Fairfax India under the Put Option was terminated (see note 5).

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:

	2017	**2016**
Audit, legal and tax professional fees	2,072	2,646
Salaries and employee benefit expenses	888	737
Administrative expenses	701	811
Brokerage fees	36	153
Other	469	590
	4,166	4,937

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, 2017	**December 31, 2016**
Cash and balances with banks	13,244	20,019
U.S. treasury bills	–	126,941
	13,244	146,960

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

	2017	**2016**
(a) Purchases of investments classified as FVTPL		
Bonds	(186,301)	(299,642)
Common stocks	(626,183)	(123,997)
	(812,484)	(423,639)
(b) Sales of investments classified as FVTPL		
Bonds	51,933	280,960
Common stocks	26,525	52,631
	78,458	333,591
(c) Net interest and dividends received		
Interest received	20,796	31,803
Dividends received	8,627	5,611
Interest paid on term loans	(10,871)	(3,190)
	18,552	34,224
(d) Income taxes received (paid)	7,019	(13,500)

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

(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 period, determined in accordance with IFRS, divided by the total number of common shares of the company outstanding on that date. Book value per share is a key performance measure of the company and is closely monitored as it is used to calculate the performance fee payable, if any, to Fairfax Financial Holdings Limited ("Fairfax").

Business Developments

Overview

In late 2014, Fairfax took the initiative in creating the company and is Fairfax India's ultimate parent and acts as its administrator. Fairfax is a holding company which, through its subsidiaries, is principally engaged in property and casualty insurance and reinsurance and the associated investment management. Fairfax is a Canadian reporting issuer with securities listed on the Toronto Stock Exchange ("TSX") and trading in Canadian dollars under the symbol FFH for over 30 years and in U.S. dollars under the symbol FFH.U. On January 30, 2015, upon completion of the company's initial public offering, the company's subordinate voting shares commenced trading on the TSX under the symbol FIH.U.

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

The following narrative sets out the company's key business developments in 2017 and 2016.

Capital Transactions

On January 13, 2017 the company completed an underwritten public offering of 12,766,000 subordinate voting shares at a price of $11.75 per share. Concurrent with the public offering, Fairfax and Ontario Municipal Employees Retirement System ("OMERS") acquired 12,766,000 and 17,021,500 subordinate voting shares, respectively, at a price of $11.75 per subordinate voting share in a private placement (the "Concurrent Private Placement" and, together with the public offering, collectively the "secondary Offerings"), resulting in net proceeds of $493,504, after commissions and expenses of $6,500. Net proceeds from the secondary Offerings were used to acquire additional Indian Investments, as defined in the Business Objectives section of this MD&A, for general corporate purposes, and to repay the 2 year secured term loan with a principal amount of $225,000 (the "2 year term loan").

On July 11, 2017 the company entered into an agreement with a Canadian bank for a 1 year secured term loan with a principal amount of $400,000 bearing interest at a rate of LIBOR plus 325 to 375 basis points (the "1 year term loan"). On July 13, 2017 the company used a portion of the net proceeds from the 1 year term loan to complete the additional 10.0% investment in BIAL of $200,093 and participate in the NCML rights issue.

On September 16, 2016 the company entered into an agreement with a syndicate of Canadian banks for the 2 year term loan. The 2 year term loan was repaid on March 31, 2017.

For additional details on the term loans refer to note 7 (Term Loans) to the consolidated financial statements for the year ended December 31, 2017.

Indian Investments

Full descriptions of the Indian Investments committed to subsequent to December 31, 2017 and, acquired in 2017 and 2016 are provided in the Indian Investments section of this MD&A.

Operating Environment

Overview

India has emerged as the fastest growing major economy in the world according to the Central Statistics Organization and the International Monetary Fund. According to the International Monetary Fund, the Indian economy will continue to grow more than 7% in the financial year 2018-19. The improvement in India's economic fundamentals has accelerated in the recent years with the combined impact of strong government reforms and the Reserve Bank of India's (''RBI'') inflation focus supported by favourable global commodity prices.

Government Initiatives

Numerous foreign companies are setting up their facilities in India on account of various government initiatives like ''Make in India'' and ''Digital India''. Mr. Narendra Modi, Prime Minister of India, has launched the Make in India initiative with an aim to boost the manufacturing sector of the Indian economy. This initiative is expected to increase the purchasing power of an average Indian consumer, which would further boost demand, and hence spur development, in addition to benefiting investors. Currently, the manufacturing sector contributes over 16% of India's GDP. The Government of India, under the Make in India initiative, is providing incentives across various sectors to achieve a higher percentage of GDP from the manufacturing sector. The Digital India initiative focuses on three core components: creation of digital infrastructure, delivering services digitally and increasing digital literacy.

Goods and Services Tax

On July 1, 2017 the Government of India implemented the Goods and Services Tax (''GST'') which replaced multiple taxes levied by the Central and State Governments of India. Under the GST, goods and services are taxed at rates ranging from 0% to 28%. The GST is considered to be transformational for the Indian economy in the medium to long term, simplifying an indirect tax structure, unifying all states into a single tax market, broadening the tax base and increasing the potential growth rate of the Indian economy. The impact of the implementation of the GST on the company's Indian Investments is discussed, if applicable to a particular Indian Investment, in the Indian Investments section of this MD&A.

Union Budget for Fiscal Year 2018-19

On February 1, 2018 the Government of India released its Union Budget proposals for fiscal year 2018-19 (the ''Budget''). The Budget proposes to repeal, with effect from April 1, 2018, the long term capital gains tax exemption in India that is available in respect of certain transfers of listed equity shares of Indian companies on which Securities Transaction Tax is paid at the time of acquisition and transfer of such shares. Long term capital gains realized on such transfers are generally proposed to 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 after April 1, 2017, and sold prior to March 31, 2019, will continue to be taxed at the rate of 50.0% of the prevailing domestic Indian capital gains tax rate by virtue of the India-Mauritius tax treaty. The company is currently evaluating the potential impact of the Budget and the potential application of capital gains tax in India on any future dispositions of investments in equity shares held by FIH Mauritius Investments Ltd (''FIH Mauritius''), a wholly-owned subsidiary of the company.

Demonetization

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

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, FIH Mauritius and FIH Private Investments Ltd (''FIH Private'').

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 underpin strong growth for several years. Sectors of the Indian economy that the company believes will benefit most from such trends include infrastructure, financial institutions, consumer services, retail and exports. The company is not limited to investing solely in these sectors and intends to invest in other sectors as and when opportunities arise.

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

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

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

Fairfax India's involvement with the Indian Investments may include providing specialized guidance or expertise in limited circumstances or on a temporary basis and does not extend to any involvement in the day-to-day operations of those 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 either through initial public offerings or private sales. For publicly traded Indian Investments, 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 expertise of the Portfolio Advisor and its affiliates.

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

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

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

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

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

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

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

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; 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 Concentration Restriction increased at December 31, 2017 from December 31, 2016 principally as a result of net proceeds received from the secondary Offerings (see note 8 (Common Shareholders' Equity) to the consolidated financial statements for the year ended December 31, 2017), net change in unrealized gains on investments and other costs (primarily related to the company's Public Indian Investments) recorded in the consolidated statements of earnings in 2017, and net proceeds received from the 1 year term loan, partially offset by the repayment of the 2 year term loan (see note 7 (Term Loans) to the consolidated financial statements for the year ended December 31, 2017). 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.

The company intends to make multiple different investments as part of its prudent investment strategy. At December 31, 2017 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 Holdings Limited, Sanmar Chemicals Group and Bangalore International Airport Limited (collectively, ''Significant Indian Investments''), the company's Significant Indian Investments for which it had previously filed business acquisition reports, previously prepared their financial statements in accordance with Indian Generally Accepted Accounting Principles (''Indian GAAP''). Effective April 1, 2017 the company's Significant Indian Investments have adopted Indian Accounting Standards (''Ind AS''). 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 year ends 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 the 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, 2017				December 31, 2016			
	Date Acquired	Ownership %	Cost	Fair value at December 31, 2017	Net change	Ownership %	Cost	Fair value at December 31, 2016	Net change
Public Indian Investments:									
IIFL[1]	December 2015 and February 2017	26.6%	256,976	888,485	631,509	21.7%	201,559	265,951	64,392
Fairchem[2]	February and August 2016	48.8%	74,384	149,200	74,816	44.9%	74,384	99,803	25,419
5paisa[1]	October 2017	26.6%	19,758	19,958	200	–	–	–	–
			351,118	1,057,643	706,525		275,943	365,754	89,811
Private Indian Investments:									
BIAL[3]	March and July 2017	48.0%	585,591	608,288	22,697	–	–	–	–
NCML	August 2015 and August 2017	89.5%	174,318	179,054	4,736	88.1%	148,716	146,586	(2,130)
Sanmar	April 2016	30.0%	1,000	556	(444)	30.0%	1,000	440	(560)
Sanmar Bonds	April and September 2016	–	299,000	333,172	34,172	–	299,000	299,093	93
Saurashtra	February 2017	51.0%	30,018	28,000	(2,018)	–	–	–	–
NSE	July 2016	1.0%	26,783	40,452	13,669	1.0%	26,783	26,504	(279)
			1,116,710	1,189,522	72,812		475,499	472,623	(2,876)
			1,467,828	2,247,165	779,337		751,442	838,377	86,935

(1) *On October 20, 2017 IIFL spun-off its wholly-owned subsidiary 5Paisa Digital Undertaking through the formation of a new public company, 5paisa Capital Limited (''5paisa''). The spin-off of 5paisa from IIFL resulted in the reallocation of the fair value of 5paisa out of the cost of IIFL to form the initial cost of 5paisa.*

(2) *Effective March 14, 2017 the company's original investments in Fairchem and Privi merged to form Fairchem Speciality Limited. In 2016 for comparative purposes Privi has been presented with Fairchem.*

(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% in BIAL.*

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 2017 and 2016 were as follows:

	Public Indian Investments				Private Indian Investments								
	Common stocks				Bonds	Common stocks							Total Indian
	IIFL	Fairchem	5paisa	Total	Sanmar	BIAL	NCML	Sanmar	Saurashtra	NSE	Privi	Total	Investments
Balance as of January 1, 2017	265,951	45,488	–	311,439	299,093	–	146,586	440	–	26,504	54,315	526,938	838,377
Purchases	75,175	–	–	75,175	–	585,591[(1)]	25,602	–	30,018	–	–	641,211	716,386
Transfer due to Merger[(2)] / Spin-off[(3)]	(19,758)	54,315	19,758	54,315	–	–	–	–	–	–	(54,315)	(54,315)	–
Net change in unrealized gains (losses) on investments and other costs	536,121	42,241	(195)	578,167	14,843	10,902[(1)]	(2,298)	86	(3,423)	12,032	–	32,142	610,309
Net unrealized foreign currency translation gains	30,996	7,156	395	38,547	19,236	11,795	9,164	30	1,405	1,916	–	43,546	82,093
Balance as of December 31, 2017	888,485	149,200	19,958	1,057,643	333,172	608,288	179,054	556	28,000	40,452	–	1,189,522	2,247,165
Balance as of January 1, 2016	220,747	–	–	220,747	–	–	146,445	–	–	–	–	146,445	367,192
Purchases	–	19,409	–	19,409	299,000	–	–	1,000	–	26,783	54,975	381,758	401,167
Net change in unrealized gains (losses) on investments	51,305	26,399	–	77,704	6,907	–	3,879	(545)	–	–	–	10,241	87,945
Net unrealized foreign currency translation losses	(6,101)	(320)	–	(6,421)	(6,814)	–	(3,738)	(15)	–	(279)	(660)	(11,506)	(17,927)
Balance as of December 31, 2016	265,951	45,488	–	311,439	299,093	–	146,586	440	–	26,504	54,315	526,938	838,377

(1) *On July 13, 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 (approximately 4.8 billion Indian rupees) of consideration in excess of the fair value of those additional shares acquired. The excess cash consideration paid was attributable to the costs incurred and included in the table above in purchases, and was recorded in net change in unrealized gains on investments and other costs included in the consolidated statement of earnings. For additional details, see note 5 (Indian Investments) to the consolidated financial statements for the year ended December 31, 2017.*

(2) *The merger of Fairchem and Privi resulted in the reallocation of the investment in Privi from Private Indian Investments to the Public Indian Investment in Fairchem.*

(3) *The spin-off of 5paisa from IIFL resulted in the reallocation of the fair value of 5paisa out of the cost of IIFL to form the initial cost of 5paisa.*

Public Indian Investments

The fair values of Fairfax India's Public Indian Investments, whose shares are 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.

IIFL Holdings Limited

Business Overview

IIFL Holdings Limited ("IIFL") was incorporated in 1995 and is a publicly traded, diversified financial services holding company located in Mumbai, India with principal lines of business in wealth management, capital markets and other activities (comprised of retail investment brokerage, institutional equities, investment banking and financial products distribution) and a non-banking finance company. IIFL serves over 4 million customers from 2,500 service locations and over 1,300 branches across India. It also has an international presence, with offices in Toronto, New York, London, Geneva, Singapore, Hong Kong, Dubai and Mauritius.

IIFL's principal lines of business are as follows:

Non-Banking Finance Company

IIFL's non-banking finance company ("NBFC") and housing finance company are diversified financing companies, offering loans secured against collaterals of home, property, gold, commercial vehicles, shares and other securities as well as offering loans to small and medium sized businesses. At December 31, 2017 IIFL's NBFC managed assets worth approximately $4 billion (273 billion Indian rupees) (December 31, 2016 – approximately $3 billion (211 billion Indian rupees)) where home and property loans, and construction and real estate loans represented approximately 47% and 14%, respectively, of the managed assets. The housing financing company offers home loans in the affordable housing segment and focuses on mortgage loans to small and medium sized businesses.

Wealth Management

Wealth management is the fastest growing line of business of IIFL and is one of the leading wealth managers in India. At December 31, 2017 IIFL's wealth management division was one of the top ten mutual fund distributors in India with approximately \$20 billion (1,282 billion Indian rupees) (December 31, 2016 – approximately \$16 billion (1,070 billion Indian rupees)) of assets under advice, distribution and management. This division was a pioneer in launching alternate investment funds across equity, real estate and high yield debt. The division's strong growth is driven by all of its varied business segments: distribution services, asset management, credit, advisory and wealth structuring solutions. It has created a niche by providing unique solutions for its clients in the areas of succession planning, asset protection and administration services. In February 2016 IIFL launched Wealth NBFC that primarily offers loans to high net worth clientele secured by investment securities as loan collateral. At December 31, 2017 IIFL's Wealth NBFC had a loan book of approximately \$916,000 (58 billion Indian rupees) (December 31, 2016 – approximately \$430,000 (29 billion Indian rupees)).

Capital Markets and Other Activities

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

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

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

Transaction Description

On December 1, 2015 Fairfax India acquired 68,788,445 common shares of IIFL (representing a 21.9% equity interest) for \$2.93 per share (195 Indian rupees per share) for cash consideration of \$201,559 (approximately 13.4 billion Indian rupees).

Prior to the formation of Fairfax India, Fairfax, through its subsidiaries, had acquired an 8.9% equity interest and an additional 5.2% economic interest in IIFL through derivative financial instruments.

On February 8, 2017 Fairfax India acquired an additional 15,853,000 common shares of IIFL (representing a 4.99% equity interest) for cash consideration of \$75,175 (approximately 5.1 billion Indian rupees). In connection with the Fairfax India transaction, Fairfax, through its subsidiaries, partially disposed of the derivative financial instruments representing an economic interest of 4.99% in IIFL. In accordance with regulations of the Securities and Exchange Board of India (''SEBI'') and the NSE of India, the transaction was subject to certain sale and purchase pricing guidelines and, as a result, the total consideration paid per share approximated fair market value of the equity interest acquired.

On October 20, 2017 IIFL spun-off its wholly-owned subsidiary 5Paisa Digital Undertaking through the formation of a new public company, 5paisa in a non-cash transaction. The distribution of 5paisa to IIFL shareholders was characterized as a return of capital which resulted in Fairfax India recording the initial cost of its investment in 5paisa at its fair value of \$19,758 with a corresponding amount recorded as a reduction of the cost of its investment in IIFL. Additional details on the 5paisa spin-off transaction are disclosed under the sub-heading 5paisa Capital Limited within the Public Indian Investments section of this MD&A.

Fairfax India and Fairfax agreed to limit their voting rights on IIFL shareholder resolutions to 25% of the issued and outstanding common shares of IIFL at the time of voting, even in circumstances when their actual voting rights may exceed 25%. Refer to note 5 (Indian Investments) to the consolidated financial statements for the year ended December 31, 2017 for additional details.

At December 31, 2017 the company held an aggregate of 84,641,445 common shares of IIFL representing a 26.6% equity interest (December 31, 2016 – 21.7%).

Fairfax had made an investment in IIFL prior to any investment by the company 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, 2017 the company did not have any representation on the board of IIFL other than the board member appointed by Fairfax.

Key Business Drivers, Events and Risks

IIFL's key business drivers relate to its ability to grow and penetrate the financial services industry in India, particularly in the areas of lending and wealth management.

The demonetization of the Indian rupee in November 2016 had a negative impact on IIFL's revenues in the short term. Following the announcement of the demonetization, IIFL experienced an initial slowdown in the disbursement of gold loans, commercial vehicle financing, and home loans in its NBFC. However, IIFL's continuous focus on the digitization of its platforms enabled it to benefit from demonetization with its ability to accept cashless payments from customers, collections through tablets and a self-help portal for quick issue resolution. IIFL's NBFC experienced a significant increase in the number of mobile banking and website users in November and December 2016. Commencing in January 2017, IIFL experienced improvements across all its lines of business. IIFL's capital markets and wealth management lines of business were not significantly impacted by demonetization.

Prior to the implementation of the GST on July 1, 2017, a tax of 15% was levied on services provided by IIFL to its customers. That tax was replaced by the GST of 18% for financial service transactions. The implementation of the GST has had a positive impact on IIFL as they are now able to claim the full input tax credit for GST paid on purchases.

Subsequent to December 31, 2017

On January 31, 2018 IIFL's board of directors approved a draft plan to reorganize IIFL into three listed entities (the ''reorganization'') consisting of IIFL Finance (currently known as IIFL Holdings Limited comprised of the loans and mortgages businesses), IIFL Wealth (comprised of the wealth, asset management and alternative investment fund businesses) and IIFL Securities (comprised of all other IIFL businesses including investment brokerage, distribution and investment banking). Shares of IIFL Finance, IIFL Wealth and IIFL Securities will be traded on the BSE and NSE of India as listed public companies. Shareholders of IIFL will receive seven common shares of IIFL Securities and one common share of IIFL Wealth for every seven IIFL shares held. Completion of the reorganization is anticipated in late 2018 or early 2019, subject to customary closing conditions and applicable regulatory approvals.

Valuation and Consolidated Financial Statement Impact

At December 31, 2017 the fair value of the company's investment in IIFL was $888,485 (December 31, 2016 – $265,951) with the change in fair value in 2017 and 2016 presented in the table at the outset of the Indian Investments section of this MD&A. IIFL's share price increased by 155.3% from 262.40 Indian rupees per share at December 31, 2016 to 670.00 Indian rupees per share at December 31, 2017 with the increase appearing to reflect the robust performance in all three lines of businesses, led by its NBFC and wealth management lines of businesses.

In 2017 the consolidated statements of earnings included dividend income earned from the investment in IIFL of $4,625 (2016 – $4,352).

IIFL's Summarized Financial Information

The company's fiscal year ends on December 31 and IIFL's fiscal year ends on March 31. Summarized below are IIFL's balance sheets at September 30, 2017 and March 31, 2017.

Balance Sheets
(unaudited – US$ thousands)

	September 30, 2017(1)	**March 31, 2017(1)**
Current assets	2,028,075	2,824,628
Non-current assets	4,339,898	2,422,752
Current liabilities	3,144,825	2,332,577
Non-current liabilities	2,274,640	2,039,377
Shareholders' equity	948,508	875,426

(1) The net assets of IIFL were translated at September 30, 2017 at $1 U.S. dollar = 65.32 Indian rupees and at March 31, 2017 at $1 U.S. dollar = 64.94 Indian rupees. The exchange rates used were the spot rates prevailing on those respective dates.

Current assets decreased primarily due to decreased trade and other receivables and other current assets. Non-current assets increased as a result of the growth in IIFL's NBFC line of business reflecting increased home loans, loans against property and construction and real estate loans.

Current liabilities increased primarily due to an increase in short term interest bearing loans and borrowings to support the growth in the NBFC line of business. Non-current liabilities increased primarily due to an increase in other long term financial liabilities.

Summarized below are IIFL's statements of earnings for the six months ended September 30, 2017 and 2016.

Statements of Earnings
(unaudited – US$ thousands)

	Six months ended September 30, 2017[(1)]	Six months ended September 30, 2016[(1)]
Revenue	494,348	333,009
Earnings before income taxes	119,577	77,587
Net earnings	84,454	52,260

(1) *Amounts for the six months ended September 30, 2017 and 2016 were translated into US$ using the average exchange rates of $1 U.S. dollar = 64.38 Indian rupees and $1 U.S. dollar = 66.93 Indian rupees prevailing during those periods.*

IIFL's revenue and net earnings increased primarily due to growth in IIFL's NBFC line of business reflecting increased home loans, loans against property and construction and real estate loans. The wealth management and capital markets lines of business have also contributed to the growth in revenue. IIFL's management continues to focus on reducing operating costs to achieve better economies of scale and leveraging existing infrastructure to offer complementary products across multiple line of business.

Fairchem Speciality Limited

Business Overview

On March 14, 2017 Fairchem Speciality Limited ("Fairchem", formerly known as Adi Finechem Limited) 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. The Merger should improve diversification and increase synergies between the two 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 nutraceutical 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 nutraceutical and fatty acids.

Privi

Privi, founded in 1992, is a supplier of aroma chemicals to the fragrance industry and is located in Mumbai, India. Privi's world-class products are the result of its very strong research and development team that has proven expertise in developing new products, customizing aromas per customer specifications, scaling up products from basic research to commercial scale, and designing process improvements to drive quality and cost optimization.

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

Transaction Description

On February 8, 2016 Fairfax India acquired a 44.7% equity interest in Fairchem for $3.13 per share (212 Indian rupees per share) for cash consideration of $19,409 (approximately 1.3 billion Indian rupees).

On August 26, 2016 Fairfax India acquired a 50.8% equity interest in Privi for cash consideration of $54,975 (approximately 3.7 billion Indian rupees).

On March 14, 2017 Fairchem and Privi completed the Merger. Under the terms of the Merger, Privi shareholders received 27 common shares and 27 compulsorily convertible preference shares (''CCPS'') of Fairchem for every 40 Privi shares exchanged. Concurrent with the Merger, 88.5% of the CCPS received by the Privi shareholders were converted into common shares of Fairchem. At December 31, 2017 the company held 18,307,318 common shares and 738,760 CCPS representing a 48.8% equity interest in Fairchem on a fully diluted basis (or a 48.7% equity interest excluding the impact of the CCPS).

At December 31, 2017 the company had appointed two of the twelve 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 the 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 global 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 oils) which are used in its manufacturing processes which may impact its ability to meet higher demand.

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; and (iii) strengthen margins by increasing vertical integration capacities.

The merger of Fairchem and Privi has resulted in the following advantages: access to greater breadth in research and development, range of applications, scope for growth and business networks; stability and enhancement in net earnings and cash flows; operational effectiveness and cost optimization; improved allocation of capital; and broader access to capital markets.

The implementation of the GST on July 1, 2017 has had a positive impact on Fairchem as they are now able to claim the full input tax credit for GST paid on purchases. In certain cases where historical purchases of raw materials were made on a tax-exempt basis, Privi is now required to make the GST payment prior to claiming the input tax credit, potentially resulting in additional financing costs for the upfront cash flows required. The implementation of the GST has had a nominal impact on Fairchem's customers as the tax levied previously was at approximately the same rate of 18% applicable under the GST.

Valuation and Consolidated Financial Statement Impact

At December 31, 2017 the fair value of the company's investment in the merged entity Fairchem was $149,200, comprised of common shares ($143,413) and CCPS ($5,787), with the change in fair value in 2017 and 2016 presented in the table at the outset of the Indian Investments section of this MD&A. While Fairchem's share price remained relatively stable, with a modest 0.4% increase to 500.00 Indian rupees per share at December 31, 2017 from 498.10 Indian rupees per share at December 31, 2016, the increase in fair value of the company's investment in Fairchem was primarily attributable to the change in valuation techniques for the company's investment in Privi. At December 31, 2017 the company's investment in Privi was determined by multiplying the bid price of the publicly traded Fairchem shares by the number of common shares and CCPS received in the Merger relating to the Privi shares exchanged compared to December 31, 2016 where Privi's initial transaction price was determined to approximate fair value.

At December 31, 2016, prior to giving effect to the Merger, the fair value of the company's investment in Fairchem and Privi was $45,488 (determined using the bid price of the shares) and $54,315 (determined using the initial transaction price) respectively. Privi's initial transaction price approximated fair value at December 31, 2016 as there were no significant changes to its business, capital structure or operating environment and there were no significant changes to any key assumptions in the company's acquisition valuation model for Privi due to the proximity of the closing date of the transaction to December 31, 2016.

In 2017 the company's consolidated statements of earnings included dividend income earned from the company's investment in Fairchem of $281 (2016 – $231).

5paisa Capital Limited

Business Overview

5paisa Capital Limited ("5paisa") is a publicly traded online financial services provider with a do-it-yourself based investment brokerage model where the customer can execute investment transactions for a low brokerage fee. 5paisa is engaged in providing an online technology platform through Internet terminals and mobile applications for trading securities on the BSE and the NSE of India.

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

Transaction Description

On October 20, 2017 IIFL 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 effective November 16, 2017. This non-cash transaction resulted in Fairfax India receiving one new common share of 5paisa for every 25 common shares of IIFL held for a total of 3,385,657 common shares of 5paisa with a fair value of $19,758. The distribution of 5paisa to IIFL shareholders was characterized as a return of capital which resulted in Fairfax India recording the initial cost of its investment in 5paisa at its fair value of $19,758 with a corresponding amount recorded as a reduction of the cost of its investment in IIFL.

At December 31, 2017 the company held an aggregate of 3,385,657 common shares of 5paisa representing a 26.6% equity interest. Fairfax India and Fairfax provided undertakings to SEBI that were identical to those in respect of its investment in IIFL, specifically they agreed that they would not take certain actions that could result in the acquisition of control of 5paisa.

At December 31, 2017 the company did not have any board representation in 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, from anywhere in the world.

The demonetization of the Indian rupee in November 2016 had a short term negative impact on 5paisa's revenues due to the decrease in liquidity and consequently, spending in India. 5paisa has continued to focus on digitization through its online technology platform and mobile applications for the trading of securities which has enabled it to benefit from the impact of demonetization. As more money enters India's formal banking system and capital markets, 5paisa will likely benefit over the long term as the demand for its investment services increases.

Valuation and Consolidated Financial Statement Impact

At December 31, 2017 the fair value of the company's investment in 5paisa was $19,958 with the change in fair value in 2017 presented in the table disclosed at the outset of the Indian Investments section of this MD&A.

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.

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 above) 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.

Other non-airport related revenue, including 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 land to build roads, utilities, landscaping and other services. With the exception of the five-star Taj hotel next to the airport and operated under a management contract with Indian Hotels Company Limited, all other land remains undeveloped. Over time, there is potential for significant upside from monetization of this real estate.

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

Transaction Description

On March 24, 2017 Fairfax India acquired a 38.0% equity interest in BIAL for cash consideration of $385,498 (approximately 25.2 billion Indian rupees). A portion of that equity interest (33.0%) was purchased from a wholly-owned subsidiary of GVK Power and Infrastructure Limited (''GVK'') where Fairfax issued a put option to GVK which gave GVK the right to sell some or all of its remaining 10.0% equity interest in BIAL to Fairfax or Fairfax India until April 8, 2019 (the ''Put Option''). The remaining equity interest of 5.0% was purchased from Flughafen Zürich AG (''Zürich'').

On July 13, 2017 Fairfax India acquired the additional 10.0% equity interest in BIAL from GVK for cash consideration of $200,093 (12.9 billion Indian rupees) which the company determined included $74,202 (approximately 4.8 billion Indian rupees) of consideration in excess of the fair value of those additional shares acquired. The additional consideration of $74,202 paid to GVK reflected costs attributed by management to: (i) motivate GVK to sell its remaining 10.0% equity interest in BIAL; (ii) increase the company's holdings in BIAL to enhance the company's investment returns; and, (iii) accelerate the development of a second runway and terminal, and make improvements to the existing runway. In 2017, the costs incurred of $74,202 were recorded in net change in unrealized gains on investments and other costs in the consolidated statement of earnings. The Put Option was terminated upon the company's acquisition of the additional 10.0% equity interest in BIAL from GVK.

Upon completion of the additional 10.0% investment in BIAL, the company had invested aggregate cash consideration of $585,591 (inclusive of the $74,202 of costs incurred) for a 48.0% equity interest in BIAL.

At December 31, 2017 the company had appointed six of the sixteen 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 rated the fastest growing airport globally during 2017 by FlightGlobal, an international aviation data and analytics company. The airport handled over 25 million passengers during the year ended December 31, 2017 representing growth in overall traffic of 12.9% compared to the year ended December 31, 2016.

Plans are in place to expand the capacity of the airport, which include constructing a second runway and an additional terminal building, and expanding the related infrastructure. Land preparation for the second runway is underway, with construction scheduled to begin during the middle of 2018, estimated to be completed by September 2019. Design approvals for the additional terminal building commenced in 2017 and will be constructed in two phases; the first phase will have the capacity to handle 25 million passengers per annum (estimated to be completed by 2021), while the second phase of the project will add capacity for another 20 million passengers per annum. The combined capacity of the existing and additional terminal will be approximately 65 million passengers per annum.

On March 14, 2017 the KIAB was awarded the SKYTRAX Award for 'Best Regional Airport in India and Central Asia' by air travelers at the World Airport Awards, held at the Passenger Terminal EXPO in Amsterdam, the Netherlands. The SKYTRAX World Airport Awards is the largest passenger satisfaction assessment and the most prestigious amongst all the surveys measuring airport service excellence and quality. KIAB was previously recognized as the Best Airport in India by SKYTRAX in 2011 and Best Regional Airport in Central Asia in 2015.

On August 4, 2017 BIAL announced that KIAB will become the first airport in the country to have a helicopter taxi service. Services commenced in early March 2018, initially operating between KIAB and Electronics City (one of India's largest electronic industrial parks and an information technology hub in Bengaluru, India).

On August 16, 2017 BIAL completed the expansion of the existing terminal to support the immediate growth in passenger traffic, which included two new Rapid Exit Taxiways (''RET'') that increased runway capacity. With the addition of the two RETs, the Air Traffic Movements (''ATM'') per hour capacity immediately increased from 34 ATMs per hour to 38 ATMs per hour and will progressively increase to 44 ATMs per hour.

Effective October 28, 2017, as a result of continued business development with Jet Airways, daily non-stop flights between Bengaluru, India and Amsterdam, the Netherlands became available.

Valuation and Consolidated Financial Statement Impact

During the second quarter of 2017 the company refined its internal valuation model used in the determination of the fair value of BIAL. At December 31, 2017 the company estimated the fair value of its investment in BIAL using a discounted cash flow analysis based on multi-year free cash flow projections with assumed after-tax discount rates ranging from 10.4% to 11.7% and a long term growth rate of 3.0%. Free cash flow projections were based on EBITDA estimates derived from financial information for BIAL's business units prepared in the fourth quarter of 2017 by BIAL'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 BIAL operates. At December 31, 2017 the company's internal valuation model indicated that the fair value of the company's investment in BIAL was $608,288 with the change in fair value in 2017 presented in the table at the outset of the Indian Investments section of this MD&A. The net change in unrealized gains on investments and other costs of $10,902 from the company's investment in BIAL during 2017 was primarily driven by increases in the projected cash flows in the discounted cash flow analysis (higher projected aeronautical revenue from the first phase of Terminal 2 expected to result in increased passenger capacities), partially offset by the $74,202 of cash consideration paid attributable to the costs incurred to acquire the additional 10.0% in BIAL, higher related capital expenditure, and an acceleration of the second phase of Terminal 2.

In 2017 the consolidated statements of earnings included dividend income earned from the investment in BIAL of $2,241.

BIAL's Summarized Financial Information

The company's fiscal year ends on December 31 and BIAL's fiscal year ends on March 31. Summarized below are BIAL's balance sheets at September 30, 2017 and March 31, 2017.

Balance Sheets
(unaudited – US$ thousands)

	September 30, 2017(1)	**March 31, 2017(1)**
Current assets	121,311	113,252
Non-current assets	670,988	643,520
Current liabilities	64,375	59,752
Non-current liabilities	427,450	435,743
Shareholders' equity	300,474	261,277

(1) The net assets of BIAL were translated at September 30, 2017 at $1 U.S. dollar = 65.32 Indian rupees and at March 31, 2017 at $1 U.S. dollar = 64.94 Indian rupees. The exchange rates used were the spot rates prevailing on those respective dates.

Current assets increased primarily due to increased trade receivables and bank deposits (original maturities greater than three months) as a result of passenger growth, partially offset by decreased cash and cash equivalents. Non-current assets increased as a result of ongoing capital expenditures required to expand the capacity of the airport as described in the Key Business Drivers, Events and Risks section. Current liabilities increased primarily due to increases in payables to creditors for the capital expenditures. Non-current liabilities decreased as a result of scheduled repayments on loans and borrowings.

Summarized below are BIAL's statements of earnings for the six months ended September 30, 2017 and 2016.

Statements of Earnings
(unaudited – US$ thousands)

	Six months ended September 30, 2017(1)	**Six months ended September 30, 2016(1)**
Revenue	116,543	97,457
Earnings before income taxes	48,183	40,325
Net earnings	48,400	39,055

(1) Amounts for the six months ended September 30, 2017 and 2016 were translated into US$ using the average exchange rates of $1 U.S. dollar = 64.38 Indian rupees and $1 U.S. dollar = 66.93 Indian rupees prevailing during those periods.

The increase in revenue (primarily comprised of aeronautical and non-aeronautical revenue) principally reflected increased domestic passenger traffic. Revenues also reflect non-airport revenue contribution following the opening of the Taj hotel on September 30, 2016. Earnings before income taxes and net earnings increased primarily due to increased revenues as noted above, partially offset by increased employee costs, increased depreciation on capital asset additions, and expenses related to the operations of the Taj hotel.

National Collateral Management Services Limited

Business Overview

National Collateral Management Services Limited ("NCML"), a private company, is a leading private agricultural commodities company located in Gurugram, India, operating for over 13 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 785 warehouses in 18 states in India and is a market leader in India. NCML's collateral management line of business manages capacity of over 3.4 million metric tons, has assets under management in excess of $1.7 billion and a market share of 36%.

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 agriculture value chain. NCML's clients include bulk consumers, large end users and farmers.

Non-banking Finance Company ("NBFC")

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 small and marginal farmer segment remains underpenetrated. NFin provides a seamless facility for NCML's customers to receive post-harvest financing.

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

Silo Projects

The Food Corporation of India ("FCI") is a government agency responsible for distribution of food grains throughout India. The majority of commodity storage in India is in facilities owned or leased directly by the government with only about 5% stored in organized private warehouses owned by companies that provide warehousing, storage and preservation services like NCML. The current storage capacity in India is approximately 125 million metric tons, of which 75% is government owned. The Government of India 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 which will 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 expenditure of an estimated $110,000 at current exchange rates (approximately 7.0 billion Indian rupees). In late 2017 NCML was awarded a bid for two additional silo locations with a 100,000 metric ton capacity. The silo projects, which are expected to be completed by early 2019, will be financed through debt and common equity.

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

Transaction Description

In the third quarter of 2015 Fairfax India acquired an 88.1% equity interest in NCML for cash consideration of $148,716 (approximately 9.7 billion Indian rupees).

On August 8, 2017 Fairfax India participated in NCML's rights issue through which it acquired its pro-rata share of 18,945,840 common shares of NCML at 86.00 Indian rupees per share for total consideration of $25,602 (approximately 1.6 billion Indian rupees) comprised of cash consideration of $9,601 (approximately 611 million Indian rupees) settled on the closing date and the remaining $16,001 (approximately 1.0 billion Indian rupees) reflected in payable for rights issue on the consolidated balance sheet at December 31, 2017. The payable for rights issue was settled in January 2018. NCML issued 19,071,602 common shares to the participating shareholders as part of the rights issue and will use the proceeds to supplement its funding requirements for its silo projects, as described above.

At December 31, 2017 the company held an aggregate of 131,941,286 common shares of NCML representing an 89.5% equity interest (December 31, 2016 – 88.1%).

At December 31, 2017 the company had appointed three 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.

During 2017 the Indian agriculture business environment showed positive signs of recovery from the temporary disruption in the wake of the demonetization decision taken by the Government of India on November 8, 2016. Storage demand increased as the summer crop harvest, which was held back by large farmers and intermediaries, made its way back into the market, improving NCML's performance in 2017.

The silo projects, which are expected to be completed by early 2019, will be financed through debt and common equity. In September 2017 NCML launched its subsidiary NCML KB Private Limited that will be used for the construction of the silos on a Build, Operate and Transfer (''BOT'') basis for the exclusive use by the FCI at two locations in Bihar, India.

In February 2017 NCML launched its subsidiary NCML MktYard Private Limited which will deal with procurement, trading and disposal of commodities for banks, government organizations and other market participants, enhancing NCML's supply chain management line of business.

Valuation and Consolidated Financial Statement Impact

At December 31, 2017 the company estimated the fair value of its investment in NCML using a discounted cash flow analysis based on multi-year free cash flow projections with assumed after-tax discount rates ranging from 12.0% to 19.9% and long term growth rates ranging from 2.4% to 6.0% (December 31, 2016 – 11.9% to 15.8%, and 6.0%, respectively). Free cash flow projections were based on EBITDA estimates derived from financial information for NCML's business units prepared in the fourth quarter of 2017 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, 2017 the company's internal valuation model indicated that the fair value of the company's investment in NCML was $179,054 (December 31, 2016 – $146,586) with the change in fair value in 2017 and 2016 presented in the table at the outset of the Indian Investments section of this MD&A. The net change in unrealized loss of $2,298 from the company's investment in NCML during 2017 was primarily driven by lower projected growth in NCML's supply chain management line of business and the impact of demonetization on its NBFC. In 2016 the net change in unrealized gain of $3,879 from the company's investment in NCML primarily related to the growth in NCML's supply chain management line of business and the success of the new NBFC.

NCML's Summarized Financial Information

The company's fiscal year ends on December 31 and NCML's fiscal year ends on March 31. Summarized below are NCML's balance sheets at December 31, 2017 and March 31, 2017.

Balance Sheets
(unaudited – US$ thousands)

	December 31, 2017(1)	March 31, 2017(1)
Current assets	184,831	132,680
Non-current assets	86,765	67,628
Current liabilities	126,947	88,835
Non-current liabilities	31,087	29,276
Shareholders' equity	113,562	82,197

(1) The net assets of NCML were translated at December 31, 2017 at $1 U.S. dollar = 63.83 Indian rupees and at March 31, 2017 at $1 U.S. dollar = 64.94 Indian rupees. The exchange rates used were the spot rates prevailing on those respective dates.

The increase in current assets primarily reflected an increase in inventory due to increased working capital levels in the supply chain management line of business, increased other current assets as a result of larger advances in NCML's NBFC and receivables relating to the rights issue (subsequently called by NCML and settled by participating shareholders by January 29, 2018) and increased short term investments. The increase in non-current assets primarily related to increases in property, plant and equipment from the addition of warehouses and acquisition of land for the silo projects, as well as increases in deferred and current income tax assets. The increase in current liabilities primarily reflected increases in short term loans and borrowings by NCML's NBFC and increased working capital levels in the supply chain management line of business. Non-current liabilities comprised long term loans and borrowings relating to the financing obtained for the ongoing warehouse project.

Summarized below are NCML's statements of earnings for the nine months ended December 31, 2017 and 2016.

Statements of Earnings
(unaudited – US$ thousands)

	Nine months ended December 31, 2017(1)	Nine months ended December 31, 2016(1)
Revenue	126,756	75,718
Earnings before income taxes	1,624	2,915
Net earnings	3,351	315

(1) Amounts for the nine months ended December 31, 2017 and 2016 were translated into US$ using the average exchange rates of $1 U.S. dollar = 64.50 Indian rupees and $1 U.S. dollar = 67.07 Indian rupees prevailing during those periods, respectively.

NCML's revenue for the nine months ended December 31, 2017 and 2016 primarily reflected contributions from the supply chain management, warehousing and collateral management and NBFC lines of business. The increase in revenue was principally as a result of growth in the supply chain management and warehousing lines of business as well as NCML's NBFC. Earnings before income taxes decreased primarily relating to a one-time charge for impairment of certain receivables. The increase in NCML's reported net earnings primarily reflected increased profitability in the supply chain management and warehousing lines of business and the benefit of deferred income tax recovery.

Sanmar Chemicals Group

Business Overview

Sanmar Chemicals Group ("Sanmar"), a private company, is one of the largest suspension polyvinyl chloride ("PVC") manufacturers in India, headquartered in Chennai, India with an operational presence in India and Egypt. Sanmar has an installed capacity of approximately 366,000 metric tons per annum in India and is in the process of expanding its PVC capacity in Egypt from 200,000 metric tons per annum to 400,000 metric tons per annum. Once the expansion is completed, Sanmar will have a total PVC capacity of over 766,000 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 second largest suspension PVC manufacturer and the largest specialty PVC manufacturer in India, with the top three players capturing approximately 90% of India's domestic manufacturing capacity. A significant portion of Chemplast's revenues are derived from integrated operations. Chemplast's product range falls into four distinct groups: PVC resins, caustic soda / chlorine, chlorinated solvents and refrigerant gases. PVC is primarily used in pipes and fittings, window and door profiles, 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.

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

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

Specialty Chemicals

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

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

Transaction Description

On April 28, 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 bonds. On September 26, 2016 Fairfax India invested an additional $50,000 in Sanmar bonds. Both tranches of Sanmar bonds mature on 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 is payable in kind in the form of additional Sanmar bonds over the life of the financial instrument. A redemption premium may also be payable in kind to the company.

At December 31, 2017 the company had appointed two of the six Sanmar board members.

Key Business Drivers, Events and Risks

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

Sanmar's key business drivers relate to its ability to execute its plan to increase PVC manufacturing capacity in Egypt and India that should 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. It is very likely that Sanmar will incur losses until it can complete its manufacturing capacity expansion project in Egypt and sales of PVC grow to match the increase in capacity.

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, estimated to cost approximately $55,000 (approximately 3.5 billion Indian rupees), 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. On May 2, 2017 approval from the Government of India's Ministry of Environment, Forest and Climate Change was received, allowing the joint venture to commence construction of the new facility.

CPVC is used as a raw material to produce pipes and fittings for supplying water that are required to have a high resistance to heat, pressure and chemicals. More recently in India, there has been a switch from metal pipes to CPVC pipes in building construction combined with an overall increase in construction demand. The Kem One Chemplast joint venture is well positioned to benefit from the rapidly growing demand for CPVC in India that is currently being met through imports.

Valuation and Consolidated Financial Statement Impact

Sanmar Common Shares

At December 31, 2017 the company estimated the fair value of its investment in Sanmar common shares based on an internal valuation model which consisted of a discounted cash flow analysis based on multi-year free cash flow projections with assumed after-tax discount rates ranging from 15.2% to 19.5% and long term growth rates ranging from 2.0% to 3.6% (December 31, 2016 – 15.5% to 22.5% and 2.0% to 3.6%, respectively). Free cash flow projections were based on EBITDA estimates derived from financial information for Sanmar's three main business units prepared in the fourth quarter of 2017 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, 2017 the company's internal valuation model indicated that the fair value of the common shares was $556 (December 31, 2016 – $440) with the change in fair value in 2017 and 2016 presented in the table at the outset of the Indian Investments section of this MD&A.

Sanmar Bonds

At December 31, 2017 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 8.2% (December 31, 2016 – 7.1%) 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 credit risk specific to Sanmar. At December 31, 2017 the company's internal valuation model indicated that the fair value of Sanmar bonds was $333,172 (December 31, 2016 – $299,093) with the change in fair value in 2017 and 2016 presented in the table at the outset of the Indian Investments section of this MD&A. In 2017 and 2016, the net change in unrealized gains of $14,843 and $6,907 related to the company's investment in Sanmar bonds primarily reflecting the impact of the accretion of the cost of Sanmar bonds to their redemption value after giving consideration to the issuer's credit risk and the redemption option held by the issuer prior to maturity. At December 31, 2017 and 2016, Sanmar bonds were rated BBB – with a stable outlook by Brickwork Ratings, an Indian rating agency.

Sanmar's Summarized Financial Information

The company's fiscal year ends on December 31 and Sanmar's fiscal year ends on March 31. Summarized below are Sanmar's balance sheets at September 30, 2017 and March 31, 2017.

Balance Sheets
(unaudited – US$ thousands)

	September 30, 2017(1)	March 31, 2017(1)
Current assets	236,712	188,559
Non-current assets	1,317,315	1,277,153
Current liabilities	454,363	385,253
Non-current liabilities	1,359,508	1,296,795
Shareholders' equity	(259,844)	(216,336)

(1) *The net assets of Sanmar were translated at September 30, 2017 at $1 U.S. dollar = 65.32 Indian rupees and at March 31, 2017 at $1 U.S. dollar = 64.94 Indian rupees. The exchange rates used were the spot rates prevailing on those respective dates.*

The increase in current assets primarily reflected increases in cash and cash equivalents related to proceeds received from a $99,000 bank loan drawn by Sanmar Egypt to finance the second phase of its expansion project in Egypt that has not yet been utilized, as well as positive cash flow generated by Chemplast. The increase in non-current assets was primarily attributable to the capital expenditures made in connection with the Phase 2 expansion at Sanmar Egypt. The increase in current liabilities primarily reflected increased funding from working capital loans. The increase in non-current liabilities primarily reflected an increase in long term loans and borrowings related to the $99,000 bank loan drawn by Sanmar Egypt.

Summarized below are Sanmar's statements of earnings for the six months ended September 30, 2017 and 2016.

Statements of Earnings
(unaudited – US$ thousands)

	Six months ended September 30, 2017(1)	Six months ended September 30, 2016(1)
Revenue	315,845	289,204
Loss before income taxes	(33,427)	(35,394)
Net loss	(46,350)	(57,775)

(1) *Amounts for the six months ended September 30, 2017 and 2016 were translated into US$ using the average exchange rates of $1 U.S. dollar = 64.38 Indian rupees and $1 U.S. dollar = 66.93 Indian rupees prevailing during those periods.*

The increase in revenue primarily reflected improvements at Chemplast and Sanmar Egypt where sales of PVC exceeded expectations. The decrease in net loss primarily reflected improved margins at Sanmar Egypt and lower interest expense as a result of the refinancing of higher interest short term loans with long term loans at lower interest rates, partially offset by temporary pressures on margins as a result of higher production costs at Chemplast.

Saurashtra Freight Private Limited

Business Overview

Saurashtra Freight Private Limited (''Saurashtra''), a private company headquartered in Mumbai, India, runs one of the largest container freight stations at Mundra port (Gujarat), the third largest and fastest growing container port in India. Services provided by Saurashtra's container freight station includes transportation of containers to and from the port, stuffing/destuffing of containers, cargo storage, transportation of cargo to the end customer, and the storage, maintenance and repair of empty containers. During the third quarter of 2017, Saurashtra commenced operations in a new line of business that focuses on new services for container shipping, offering integrated logistic solutions to its customers by providing Saurashtra's own containers to importers and exporters to transport cargo.

Saurashtra's principal lines of business are as follows:

Container Freight Station

Saurashtra's container freight station services include transportation of containers to and from the port, stuffing/destuffing of containers, cargo storage, transportation of cargo to the end customer, and the storage, maintenance and repair of empty containers.

Fairfreight Lines

During the third quarter of 2017 Saurashtra commenced operations of its newly formed wholly-owned subsidiary Fairfreight Lines. Fairfreight Lines owns its own branded shipping containers which will enable importers and exporters to transport cargo globally, offering an integrated logistic solution to its customers.

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

Transaction Description

On February 14, 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, 2017 the company had appointed two of the six 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 2017 handled 90,554 TEUs, implying capacity utilization of approximately 50%. Saurashtra's market share at Mundra port in India is approximately 14% which is the highest amongst all container freight stations (''CFS'') at that port. Mundra port is in the process of expanding its capacity from 3.5 million to 6.6 million TEUs.

The CFS industry is correlated with growth in container traffic, which during the last 15 years has increased at a rate of 1.3 to 1.4 times the growth rate of India's GDP due to increasing containerization of cargo. The CFS industry is highly fragmented with 13 CFS at Mundra port. Many of these CFS are inefficient and operating below capacity providing Saurashtra with the opportunity to benefit from industry consolidation.

India has witnessed considerable growth in exports during 2017, primarily due to increased global demand for agricultural products which has directly benefited Mundra port and as a result Saurashtra. During the second quarter of 2017 two new CFS launched their services which has led to increased competition in the container import market, a market that is experiencing short term declines primarily as a result of the effects of demonetization and uncertainty around implications of the GST which has led to conservative buying patterns throughout India.

Saurashtra's new business initiative in Fairfreight Lines enables Saurashtra to offer integrated logistic solutions to its customers. Saurashtra also completed a project during the third quarter of 2017 which was instrumental in enhancing its warehouse capacity and increased the safety of cargo it holds in custody.

During the fourth quarter of 2017 Saurashtra's management exited the niche shipping line voyages between India and select countries in the Gulf region as a result of the business unit, Fairwind Shipping, experiencing increased competition and the demand for the niche service route not materializing.

The implementation of the GST on July 1, 2017 has resulted in an overall benefit to various sectors of the logistics industry including transportation, freight forwarding, warehousing, container services and express cargo delivery. The standardization of tax rates will enable businesses to discontinue their current practice of having warehouses in multiple states (to minimize taxes) and instead keep larger and more consolidated warehouses in one location. As a result the demand for inland container depots and container freight stations has increased, enabling Saurashtra to generate higher revenues from value added activities such as special purpose warehousing and inventory management. In addition, the implementation of the GST allows Saurashtra to claim the full input tax credit for GST paid on purchases.

Valuation and Consolidated Financial Statement Impact

The company refined its internal valuation model used in the determination of the fair value of Saurashtra to incorporate the impact of the decision made by management in the fourth quarter of 2017 to exit the niche shipping line voyages between India and select countries in the Gulf region (Fairwind Shipping) due to competitive factors and demand not materializing as expected. At December 31, 2017 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 14.6% to 14.7% and long term growth rates ranging from 4.0% to 5.0%. Free cash flow projections were based on EBITDA estimates derived from financial information for Saurashtra's two business units prepared in the fourth quarter of 2017 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, 2017 the company's internal valuation model indicated that the fair value of the company's investment in Saurashtra was $28,000 with the change in fair value in 2017 presented in the table at the outset of the Indian Investments section of this MD&A. In 2017 the net change in unrealized loss of $3,423 from the company's investment in Saurashtra was primarily driven by the impact of Saurashtra discontinuing its Fairwind Shipping operations.

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, 2017 the company did not have any board representation in NSE.

Key Business Drivers, Events and Risks

India has two main stock exchanges where the majority of its trading takes place, the BSE and the NSE of India. Although most significant firms in India are listed on both the BSE and the NSE of India, NSE enjoys a dominant market share position including an 88% market share in the equity trading segment, a 100% market share in the equity derivatives trading segment and a 58% and 63% market share in the foreign exchange futures and options markets, respectively.

On December 28, 2016 NSE filed a draft prospectus with SEBI in connection with its proposed initial public offering (''IPO''). Notwithstanding that certain matters requiring resolution have delayed the process, completion of the IPO is anticipated in the fourth quarter of 2018. 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.

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

Valuation and Consolidated Financial Statement Impact

During the first quarter of 2017 the company refined its internal valuation model used in the determination of the fair value of NSE. At December 31, 2017 the fair value of the company's investment in NSE was based on an internal market approach valuation model. The model references the earnings multiple of a peer group of comparable companies that had a median earnings multiple of 26.2 times, that when applied to NSE's earnings resulted in a fair value of $40,452 (December 31, 2016 – $26,504) with the change in fair value in 2017 and 2016 presented in the table at the outset of the Indian Investments section of this MD&A. In 2017 the net change in unrealized gain of $12,032 related to company's investment in NSE reflected increased net earnings at NSE, and strong growth in the equity markets and other products such as commodities, bonds, currencies and interest rate futures, which are traded extensively on global exchanges but are only in their infancy in India and are therefore providing strong growth opportunities.

In 2017 the consolidated statements of earnings included dividend income earned from the investment in NSE of $1,480 (2016 – $1,028).

Subsequent to December 31, 2017

The Catholic Syrian Bank Limited

On February 20, 2018 the company entered into an agreement to acquire a 51.0% equity interest in The Catholic Syrian Bank Ltd. ("CSB") for approximately $186,000 at the exchange rate at that date (approximately 12.1 billion Indian rupees). The transaction is expected to close in the first half of 2018, subject to customary closing conditions. CSB, a private company, was established in 1920 and is a full-service bank offering neighborhood banking, non-resident Indian services, small-to-medium-enterprise and wholesale banking services through 421 branches and 251 automated teller machines across India. CSB is headquartered in Thrissur, India.

Results of Operations

Fairfax India's consolidated statements of earnings for the years ended December 31, 2017, 2016 and 2015 are shown in the following table:

	2017	2016	2015
Income			
Interest	21,848	21,343	44,699
Dividends	8,627	5,611	–
Net realized gains (losses) on investments	1,195	3,392	(209)
Net change in unrealized gains on investments and other costs	592,277	104,995	14,190
Net foreign exchange gains (losses)	(14,277)	(6,737)	6,571
	609,670	128,604	65,251
Expenses			
Investment and advisory fees	27,531	12,552	5,393
Performance fee	112,218	–	–
General and administration expenses	4,166	4,937	5,515
Interest expense	15,664	4,171	–
	159,579	21,660	10,908
Earnings before income taxes	450,091	106,944	54,343
Provision for (recovery of) income taxes	(2,418)	(881)	13,404
Net earnings	452,509	107,825	40,939
Net earnings per share	$ 3.10	$ 1.01	$ 0.42
Net earnings per diluted share	$ 2.94	$ 1.01	$ 0.42

Total income of $609,670 in 2017 increased from $128,604 in 2016 principally as a result of increased net change in unrealized gains on investments and other costs, partially offset by increased net foreign exchange losses (primarily as a result of the strengthening of the Indian rupee relative to the U.S. dollar during 2017) and decreased net realized gains on investments. In 2017, the net change in unrealized gains on investments and other costs of $592,277 was principally comprised of appreciation in the company's common stock investments related to IIFL ($536,121), Fairchem ($42,241), NSE ($12,032), BIAL ($10,902, net of $74,202 costs incurred to acquire the additional 10.0% equity interest in BIAL) and Sanmar bonds ($14,843), partially offset by the depreciation of Government of India bonds ($14,086) and common stock investments Saurashtra ($3,423) and NCML ($2,298). In 2016, the net change in unrealized gains on investments of $104,995 was principally comprised of appreciation in the company's common stock investments related to IIFL ($51,305), Fairchem ($26,399 as a standalone investment) and NCML ($3,879), and Indian corporate bonds (inclusive of unrealized gains on Sanmar bonds ($6,907)). Interest income of $21,848 in 2017 and $21,343 in 2016 primarily related to interest earned on investments in Government of India bonds and Indian corporate bonds which were not yet deployed into Indian Investments. Dividend income of $8,627 in 2017 primarily related to dividends received from the company's investments in IIFL, BIAL and NSE compared to dividend income of $5,611 in 2016 which was principally received from the company's investments in IIFL and NSE.

Net gains (losses) on investments and net foreign exchange gains (losses) in 2017 and 2016 were comprised as follows:

	2017			2016		
	Net realized gains (losses)	Net change in unrealized gains (losses) and other costs	Net gains (losses)	Net realized gains (losses)	Net change in unrealized gains (losses)	Net gains (losses)
Net gains (losses) on investments:						
Short term investments	–	–	–	(17)	–	(17)
Bonds	1,195	(3,189)(1)	(1,994)	(3,327)	22,318(1)	18,991
Common stocks	–	595,466(2)	595,466	4,688	81,038(2)	85,726
Common stocks – Investment funds	–	–	–	2,048	1,639	3,687
	1,195	592,277	593,472	3,392	104,995	108,387
Net foreign exchange gains (losses) on:						
Cash and cash equivalents	(27,531)(3)	–	(27,531)	(3,624)	–	(3,624)
Investments	(1,244)	(664)	(1,908)	3,005	(3,155)	(150)
Term loans	9,812	4,764	14,576	–	(2,963)	(2,963)
Other	586	–	586	–	–	–
	(18,377)	4,100	(14,277)	(619)	(6,118)	(6,737)

(1) *In 2017, comprised of Government of India bonds (unrealized loss of $14,086) and Indian corporate bonds (unrealized loss of $3,946), partially offset by Sanmar bonds (unrealized gain of $14,843). In 2016, comprised of unrealized gains from Government of India bonds ($9,419), Sanmar bonds ($6,907) and Indian corporate bonds ($5,992).*

(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 2017 and 2016.*

(3) *Primarily related to the U.S. dollar net proceeds received from the secondary Offerings (see note 8 (Common Shareholders' Equity) to the consolidated financial statements for the year ended December 31, 2017) that were held in U.S. dollar denominated cash equivalents until the funds were partially deployed to acquire the 38.0% equity interest in BIAL.*

The increase in total expenses from $21,660 in 2016 to $159,579 in 2017 primarily related to the performance fee as a result of common shareholders' equity increasing to $2,132,464 at December 31, 2017 from $1,075,446 at December 31, 2016 (there was no performance fee accrued in 2016), increased investment and advisory fees (principally as a result of increased holdings of Indian Investments) and the impact of increased interest expense and issuance costs incurred on the term loans.

In 2017 the performance fee recorded in the consolidated statements of earnings was $112,218 (2016 – nil), representing the performance fee accrual translated at the average exchange rate for 2017. The performance fee is accrued quarterly and paid for the first three-year period from January 30, 2015 to December 31, 2017 (the "first calculation period") and is calculated, on a cumulative basis, as 20% of any increase in common shareholders' equity per share (including distributions) above a 5% per annum increase. The amount of common shareholders' equity 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". The company determined that a performance fee of $114,437 should be accrued at December 31, 2017 as the book value per share of $15.24 (before factoring in the impact of the performance fee) at December 31, 2017 was greater than the hurdle per share of $11.36 at that date. Refer to the Related Party Transactions section of this MD&A for additional discussion on the performance fee accrued at December 31, 2017 and settled on March 9, 2018.

The investment and advisory fee is 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 2017, the company determined that the majority of its assets were invested in Indian Investments, which are considered deployed capital. In 2017, the investment and advisory fee recorded in the consolidated statements of earnings was $27,531 (2016 – $12,552).

The recovery of income taxes of $2,418 in 2017 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, the unrecorded benefit of losses in Canada and foreign exchange fluctuations.

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

The company reported net earnings of $452,509 (net earnings of $3.10 per basic share and $2.94 per diluted share) in 2017 compared to net earnings of $107,825 (net earnings of $1.01 per basic and diluted share) in 2016. The year-over-year increase in profitability in 2017 primarily reflected increased net change in unrealized gains on investments and other costs, partially offset by the performance fee and increased investment and advisory fees (principally as a result of increased holdings of Indian Investments) and interest expense.

Consolidated Balance Sheet Summary

The assets and liabilities reflected on the company's consolidated balance sheet at December 31, 2017 were impacted by the acquisitions of the Indian Investments (BIAL and Saurashtra), additional investments in IIFL and NCML, net proceeds from the secondary Offerings and the 1 year term loan, net purchases of Government of India bonds, repayment of the 2 year term loan and the accrual of the performance fee.

Total Assets

Total assets at December 31, 2017 of $2,672,221 (December 31, 2016 – $1,303,497) were principally comprised as follows:

Total cash and investments increased to $2,659,568 at December 31, 2017 from $1,261,339 at December 31, 2016. The company's cash and investments composition by the issuer's country of domicile was as follows:

	December 31, 2017				December 31, 2016			
	India	**U.S.**	**Other**	**Total**	**India**	**U.S.**	**Other**	**Total**
Cash and cash equivalents	–	19,389(1)	4,453(2)	23,842	3	165,051(1)	716(2)	165,770
Short term investments – U.S. treasury bills	–	27,481	–	27,481	–	27,428	–	27,428
Bonds:								
Government of India	259,356	–	–	259,356	130,317	–	–	130,317
Indian corporate	101,724	–	–	101,724	99,447	–	–	99,447
Sanmar	333,172	–	–	333,172	299,093	–	–	299,093
	694,252	–	–	694,252	528,857	–	–	528,857
Common stocks:								
IIFL	888,485	–	–	888,485	265,951	–	–	265,951
Fairchem	149,200	–	–	149,200	45,488	–	–	45,488
5paisa	19,958	–	–	19,958	–	–	–	–
BIAL	608,288	–	–	608,288	–	–	–	–
NCML	179,054	–	–	179,054	146,586	–	–	146,586
Sanmar	556	–	–	556	440	–	–	440
Saurashtra	28,000	–	–	28,000	–	–	–	–
NSE	40,452	–	–	40,452	26,504	–	–	26,504
Privi	–	–	–	–	54,315	–	–	54,315
	1,913,993	–	–	1,913,993	539,284	–	–	539,284
Total cash and investments	2,608,245	46,870	4,453	2,659,568	1,068,144	192,479	716	1,261,339

(1) Included restricted cash of $10,598 at December 31, 2017 (December 31, 2016 – $18,810).

(2) Included cash principally held in a Canadian financial institution.

Cash and cash equivalents decreased to $23,842 at December 31, 2017 from $165,770 at December 31, 2016 principally reflecting the acquisitions of Indian Investments. Restricted cash of $10,598 and $18,810 at December 31, 2017 and December 31, 2016 related to requirements under the term loans for the company to set aside cash to fund term loan interest payments. The 2 year term loan was repaid on March 31, 2017 and the restricted cash was used to partially fund the repayment.

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, short term investments 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 investment holdings of $2,659,568 at December 31, 2017 (December 31, 2016 – $1,261,339) see note 6 (Cash and Investments) to the consolidated financial statements for the year ended December 31, 2017.

Interest receivable increased to $9,422 at December 31, 2017 from $7,493 at December 31, 2016 primarily reflecting increased interest receivable related to holdings of Government of India bonds purchased during 2017.

Income taxes refundable decreased to $3,098 at December 31, 2017 from $7,326 at December 31, 2016 primarily reflecting an income tax refund received in the third quarter of 2017 relating to the company's 2016 Canadian corporate tax return filing.

Other assets decreased to $133 at December 31, 2017 from $27,339 at December 31, 2016 primarily reflecting the receipt of proceeds in January 2017 of $26,525 on the sale of the company's investment in investment funds recorded as a receivable at December 31, 2016.

Total Liabilities

Total liabilities at December 31, 2017 of $539,757 (December 31, 2016 – $228,051) were comprised as follows:

Payable to related parties increased to $122,826 at December 31, 2017 from $3,673 at December 31, 2016 principally relating to the performance fee accrued at December 31, 2017 of $114,437 (December 31, 2016 – nil) and higher investment and advisory fees payable to Fairfax.

Payable for rights issue of $15,954 at December 31, 2017 (December 31, 2016 – nil) related to the remaining 62.5% of the NCML rights issue that was called by NCML and settled by the company in January 2018.

Term loans increased to $400,000 at December 31, 2017 from $223,772 at December 31, 2016 relating to the 1 year term loan completed on July 11, 2017, partially offset by the repayment on March 31, 2017 of the 2 year term loan (pursuant to a mandatory prepayment clause that required the company to repay the principal amount from the net proceeds of the secondary Offerings (see note 7 (Term Loans) to the consolidated financial statements for the year ended December 31, 2017)).

Comparison of 2016 to 2015 – Total assets of $1,025,451 at December 31, 2015 increased to $1,303,497 at December 31, 2016 primarily due to the net proceeds received from the 2 year term loan and appreciation in the company's Indian Investments related to IIFL and Fairchem (as a stand alone investment). During 2016 the company redirected capital from its cash and cash equivalents, short term investments and bond portfolio into Indian Investments. During 2016 the company sold its investment funds and a portion of the Indian corporate bonds, and used those net proceeds and the net proceeds received from the 2 year term loan to acquire additional Indian Investments (Sanmar (including Sanmar bonds), Privi, Fairchem and NSE). Refer to note 5 (Indian Investments) to the consolidated financial statements for the year ended December 31, 2017 for details on the Indian Investments acquired during 2016.

Financial Risk Management

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 in order to provide returns for common shareholders, and to maintain an optimal capital structure to reduce the cost of capital. The company will seek attractive risk-adjusted returns, but will at all times seek downside protection and attempt to minimize the loss of capital. Total capital increased from $1,299,218 at December 31, 2016 (comprised of the 2 year term loan and common shareholders' equity) to $2,532,464 at December 31, 2017 (comprised of the 1 year term loan and common shareholders' equity), principally reflecting net proceeds received from the secondary Offerings and the 1 year term loan, and net earnings and other comprehensive income in 2017, partially offset by the repayment of the 2 year term loan.

On July 11, 2017 the company entered into an agreement with a Canadian bank for a 1 year secured term loan with a principal amount of $400,000 bearing interest at a rate of LIBOR plus 325 to 375 basis points. On July 13, 2017 the company used a portion of the net proceeds from the 1 year term loan to complete the additional 10.0% investment in BIAL of $200,093 and participate in the NCML rights issue. The 1 year term loan includes a financial covenant that requires the company to maintain common shareholders' equity of not less than $1.3 billion. At December 31, 2017 the company was in compliance with the 1 year term loan financial covenant.

On January 13, 2017 the company completed an underwritten public offering and concurrent with the public offering, Fairfax and OMERS acquired additional subordinate voting shares resulting in net proceeds of $493,504. Net proceeds from the secondary Offerings were used to acquire additional Indian Investments, for general corporate purposes, and to repay the 2 year term loan.

On September 16, 2016 the company entered into an agreement with a syndicate of Canadian banks for a 2 year secured term loan with a principal amount of $225,000. The 2 year term loan was repaid on March 31, 2017.

Common shareholders' equity at December 31, 2017 increased to $2,132,464 from $1,075,446 at December 31, 2016 primarily reflecting the net proceeds received from the secondary Offerings ($493,504), net earnings ($452,509) and unrealized foreign currency translation gains ($110,910) during 2017.

Book Value per Share

Common shareholders' equity at December 31, 2017 was $2,132,464 (December 31, 2016 – $1,075,446). The book value per share at December 31, 2017 was $14.46 compared to $10.25 at December 31, 2016 representing an increase in 2017 of 41.1%, primarily reflecting net earnings of $452,509 and unrealized foreign currency translation gains of $110,910.

The table below presents the book value per share before and after the performance fee for the period from the company's IPO date of January 30, 2015 to December 31, 2017 (the first three-year calculation period for the performance fee in accordance with the Investment Advisory Agreement), and the annual growth rate and the compound annual growth rate in book value per share before and after the performance fee.

	Book value per share after Performance Fee	**Annual growth in book value per share after Performance Fee**	**Book value per share before Performance Fee**	**Annual growth in book value per share before Performance Fee**
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%
Compound annual growth in book value per share[2]		13.5%		15.5%

(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 $14.46 at December 31, 2017 represented a compound annual growth rate from the initial public offering price of $10.00 per share of 13.5% (15.5% prior to accounting for the performance fee).

The company has had excellent performance during the period from the closing of its initial public offering in January 2015 to December 31, 2017. As a result of that excellent performance, the company's book value per share of $14.46 at December 31, 2017 represented a compound annual growth rate during that period of 13.5% (15.5% prior to the performance fee described in the Related Party Transactions section of this MD&A) from the initial public offering price of $10.00 per share, outperforming the compound annual growth rate of the S&P USD BSE Sensex index of 5.9% during the same period.

During 2017 the total number of shares increased primarily as a result of 42,553,500 subordinate voting shares issued in the January 13, 2017 secondary Offerings, partially offset by repurchases of 1,900 subordinate voting shares for cancellation under the normal course issuer bid. At December 31, 2017 there were 147,432,631 common shares effectively outstanding.

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

Date	**Number of subordinate voting shares**	**Number of multiple voting shares**(1)	**Total number of shares**	**Average issue/ repurchase price per share**	**Net proceeds/ (repurchase cost)**
2014 – issuance of shares	–	1	1	10.00	–
2015 – issuance of shares	76,678,879	29,999,999	106,678,878	9.62	1,025,825
2016 – repurchase of shares	(1,797,848)	–	(1,797,848)	11.78	(21,178)
2017 – issuance of shares	42,553,500	–	42,553,500	11.60	493,504
2017 – repurchase of shares	(1,900)	–	(1,900)	14.21	(27)
	117,432,631	30,000,000	147,432,631		
March 9, 2018 – issuance of shares(2)	7,663,685	–	7,663,685	14.93	114,437
	125,096,316	30,000,000	155,096,316		

(1) Multiple voting shares that may only be issued to Fairfax or its affiliates and are not 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 4, 2017 the company announced that the TSX accepted a notice filed by Fairfax India of its intention to commence a normal course issuer bid for its subordinate voting shares by which it is authorized, until expiry of the bid on October 5, 2018, to acquire up to 3,500,000 subordinate voting shares representing at that date approximately 4.3% of the public float in respect of the subordinate voting shares. Decisions regarding any future repurchases will be based on market conditions, share price and other factors including opportunities to invest capital for growth. The Notice of Intention to Make a Normal Course Issuer Bid is available, without charge, by contacting the Corporate Secretary of the company.

During 2017 and 2016 the company repurchased for cancellation 1,900 and 1,797,848 subordinate voting shares under the terms of normal course issuer bids.

Liquidity

The company believes that cash and cash equivalents at December 31, 2017 provides adequate liquidity to meet the company's known significant commitments in 2018, which are principally comprised of the investment in CSB, investment and advisory fees, payable for rights issue (settled January 2018), general and administration expenses and potentially corporate income taxes. The company has the ability to sell a portion of its portfolio investments to supplement the liquidity requirement to repay the principal amount of the 1 year term loan that matures in July 2018. The company expects to continue to receive investment income on its holdings of fixed income securities and dividends from its equity investments to supplement its cash and cash equivalents. The company has adequate working capital to support its operations.

Refer to the Related Party Transactions section of this MD&A for details on the March 9, 2018 settlement of the performance fee through the issuance of subordinate voting shares to Fairfax.

Highlights in 2017 (with comparisons to 2016 except as otherwise noted) of major components of the statements of cash flows are presented in the following table:

	2017	2016
Operating activities		
Cash provided by (used in) operating activities before the undernoted	(71,430)	17,508
Net (purchases) sales of short term investments classified as FVTPL	(112)	22,590
Purchases of bonds and common stocks classified as FVTPL	(812,484)[(1)]	(423,639)
Sales of bonds and common stocks classified as FVTPL	78,458	333,591
Decrease in restricted cash in support of investments	–	6,457
Investing activities		
Purchases of premises and equipment	–	(128)
Financing activities		
Net proceeds from 1 year term loan	396,978	–
Net proceeds from 2 year term loan	–	222,248
Repayment of 2 year term loan	(225,000)	–
Net decrease (increase) in restricted cash in support of term loans	8,212	(18,810)
Issuance of subordinate voting shares, net of issuance costs	493,504	–
Repurchases of subordinate voting shares	(27)	(21,178)
Increase (decrease) in cash and cash equivalents during the year	(131,901)	138,639

(1) Excludes $74,202 cash consideration paid attributable to the costs incurred to purchase the additional 10.0% equity interest in BIAL (see note 5 to the consolidated financial statements for the year ended December 31, 2017).

Cash provided by (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 $71,430 in 2017 compared to cash provided by operating activities before the undernoted of $17,508 in 2016, with the change principally reflecting $74,202 of costs incurred to purchase the additional 10.0% equity interest in BIAL, higher investment and advisory fees paid to Fairfax, increased interest paid on the term loans and lower interest income received on Government of India and Indian Corporate bonds, partially offset by lower income taxes paid and higher dividend income received.

Net sales of short term investments classified as FVTPL of $22,590 in 2016 primarily related to net sales of U.S. treasury bills to support the company's purchases of Indian Investments. Purchases of bonds and common stocks classified as FVTPL of $812,484 in 2017 primarily related to investments in BIAL and Saurashtra, additional investments in IIFL and NCML, and purchases of Government of India bonds. Purchases of bonds and common stocks classified as FVTPL of $423,639 in 2016 primarily related to the investments in Sanmar, Privi, NSE and Fairchem. Sales of bonds and common stocks classified as FVTPL of $78,458 and $333,591 in 2017 and 2016 were principally related to the sale of Government of India bonds in 2017 and sale of Indian corporate bonds and investment funds in 2016 to partially finance the acquisitions of the Indian Investments noted above. Decrease in restricted cash in support of investments of $6,457 in 2016 reflected the release of cash in escrow related to the investments in IIFL ($3,600) and Fairchem ($2,857). Refer to note 15 (Supplementary Cash Flow Information) to the consolidated financial statements for the year ended December 31, 2017 for details of purchases and sales of investments classified as FVTPL.

Net proceeds from 1 year term loan of $396,978 in 2017 related to the term loan gross proceeds of $400,000 net of $3,022 in issue costs, where the company used a portion of the net proceeds from the term loan to complete the additional 10.0% investment in BIAL and participate in the NCML rights issue. Net proceeds from the 2 year term loan of $222,248 in 2016 related to the term loan gross proceeds of $225,000 net of $2,752 in issue costs, where the company used a portion of the net proceeds from the term loan to complete the investment in the second tranche of Sanmar bonds ($50,000). Repayment of 2 year term loan of $225,000 in 2017 related to the early settlement of the term loan on March 31, 2017 upon completion of the secondary Offerings. Net decrease in restricted cash in support of term loans of $8,212 in 2017 and the net increase in restricted cash in support of term loans of $18,810 in 2016 related to the changes in the restricted cash accounts required to be maintained to fund the term loans interest payments. Refer to note 7 (Term Loans) to the consolidated financial statements for the year ended December 31, 2017 for additional details. Issuance of subordinate voting shares, net of issuance costs of $493,504 in 2017 reflected net proceeds received from the secondary Offerings. Issuance costs were primarily comprised of fees paid to underwriters of the subordinate voting shares. Refer to note 8 (Common Shareholders' Equity) to the consolidated financial statements for the year ended December 31, 2017 for details. Repurchases of subordinate voting shares of $27 in 2017 and $21,178 in 2016 related to the company's repurchases for cancellation of 1,900 and 1,797,848 subordinate voting shares in the respective periods.

Contractual Obligations

On February 20, 2018 the company entered into an agreement to acquire a 51.0% equity interest in CSB for approximately $186,000 at the exchange rate at that date (approximately 12.1 billion Indian rupees). The transaction is expected to close in the first half of 2018, subject to customary closing conditions.

On August 8, 2017 Fairfax India participated in NCML's rights issue on a pro-rata basis for total consideration of $25,602 (approximately 1.6 billion Indian rupees). In January 2018 the remaining 62.5% of the rights issue was called by NCML, resulting in the payable for rights issue recorded on the consolidated balance sheet at December 31, 2017 to be fully settled by the company.

On July 11, 2017 the company entered into an agreement with a Canadian bank for a 1 year secured term loan with a principal amount of $400,000 bearing interest at a rate of LIBOR plus 325 to 375 basis points. The company has the ability to sell a portion of its portfolio investments to supplement the liquidity requirement to repay the principal amount of the 1 year term loan that matures in July 2018.

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

The investment and advisory fee recorded in the consolidated statements of earnings during 2017 was $27,531 (2016 – $12,552).

Refer to the Related Party Transactions section of this MD&A that follows for discussion on the performance fee accrued at December 31, 2017 and settled on March 9, 2018.

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

Performance Fee

The performance fee is accrued quarterly and paid for the first three-year period from January 30, 2015 to December 31, 2017 (the "first calculation period") and is calculated, on a cumulative basis, as 20% of any increase in common shareholders' equity per share (including distributions) above a 5% per annum increase. The amount of common shareholders' equity 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". The company determined that a performance fee of $114,437 was payable at December 31, 2017 (December 31, 2016 – nil) as the book value per share of $15.24 (before factoring in the impact of the performance fee) at December 31, 2017 was greater than the hurdle per share of $11.36 at that date.

Subsequent to December 31, 2017

On March 9, 2018 the company issued 7,663,685 subordinate voting shares to Fairfax calculated as 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 December 31, 2017 ("VWAP") of $14.93 (in accordance with the Investment Advisory Agreement). Under the terms of the Investment Advisory Agreement, 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. After issuance of the subordinate voting shares, Fairfax's equity interest in Fairfax India increased to 33.6% from 30.2% at December 31, 2017.

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 quarterly. The performance fee for the second calculation period will be calculated as 20% of any increase in the book value per share at the end of period (before factoring in the impact of the performance fee for the second calculation period) over the higher of: (i) the hurdle per share as described above; or, (ii) the then book value per share at the end of the first calculation period (December 31, 2017), adjusted to reflect the issuance of subordinate voting shares on March 9, 2018 to settle the first calculation period performance fee, referred to as the ''high water mark per share''. 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.

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, 2017.

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, 2017, as required by the Canadian securities legislation. Disclosure controls and procedures are designed to ensure that the information required to be disclosed by the company in the reports it files or submits under securities legislation is recorded, processed, summarized and reported on a timely basis and that such information is accumulated and reported to management, including the company's CEO and CFO, as appropriate, to allow required disclosures to be made in a timely fashion. Based on their evaluation, the CEO and CFO have concluded that as of December 31, 2017, 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 and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the consolidated financial statements.

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

The company's management assessed the effectiveness of the company's internal control over financial reporting as of December 31, 2017. In making this assessment, the company's management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (''COSO'') in *Internal Control – Integrated Framework (2013)*. The company's management, including the CEO and CFO, concluded that, as of December 31, 2017, 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, 2017.

Significant Accounting Policy Changes

There were no significant accounting policy changes during 2017. Please refer to note 3 (Summary of Significant Accounting Policies) to the consolidated financial statements for the year ended December 31, 2017 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 within the next year as described below. The company does not expect to adopt any of these new standards in advance of their respective effective dates. New IFRS standards and amendments that have been issued but are not yet effective are also described in note 3 (Summary of Significant Accounting Policies) to the consolidated financial statements for the year ended December 31, 2017.

IFRS 9 Financial Instruments ("IFRS 9")

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

The company evaluated the impact of IFRS 9 by assessing its business models and the cash flow characteristics of its financial assets to determine their appropriate classifications under the new standard, and is nearing completion of that analysis. The company expects equity investments held within the company's investment portfolio to continue to be classified as FVTPL under IFRS 9, and the classification of financial liabilities to also remain substantially unchanged compared to the 2010 version of IFRS 9. The company continues to monitor and consider evolving guidance and interpretations related to IFRS 9 as it works through the classification analysis for its investments in debt instruments. Upon adopting IFRS 9 on January 1, 2018 the company does not expect to restate comparative periods, and will record any necessary adjustments to opening retained earnings as permitted by the standard.

Risk Management

Overview

The primary goals of the company's financial risk management program are to ensure that the outcomes of activities involving elements of risk are consistent with the company's objectives and risk tolerance, while maintaining an appropriate balance between risk and reward and protecting the company's consolidated balance sheets from events that have the potential to materially impair its financial strength. There were no significant changes in the types of the company's risk exposures or the processes used by the company for managing those risk exposures at December 31, 2017 compared to those identified at December 31, 2016 and disclosed in the company's 2016 Annual Report, other than as outlined in note 11 (Financial Risk Management) to the consolidated financial statements for the year ended December 31, 2017.

Risks

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

Weather Risk

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

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

India imports a majority of its requirements of petroleum oil and petroleum products. The Government of India has deregulated prices and has been reducing the subsidy in respect of certain oil products, resulting in international crude prices having a greater effect on domestic oil prices. 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. Government of India announced plans to increase its crude oil refining capacity, with the increase happening gradually over the next 12 years as India seeks to satisfy its growing demand for fuel, which may result in reducing the affect of global oil prices on the Indian economy.

Geographic Concentration of Investments

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

Foreign Currency Fluctuation

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

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

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

Volatility of the Indian Securities Markets

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

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

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

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

Valuation Methodologies Involve Subjective Judgments

For purposes of IFRS-compliant financial reporting, the company's 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.

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

The company may be unable to duplicate the quality and depth of management from the Portfolio Advisor if the company were to source and manage its own investments or if it were to hire another investment advisor. If the Portfolio Advisor should cease, for whatever reason, to be the investment advisor of the company or 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 operates in Canada, Mauritius and India and may, from time to time, become party to a variety of legal claims and regulatory proceedings. The existence of such claims against the company and its consolidated subsidiaries, directors or officers could have adverse effects, including the incurrence of significant legal expenses defending claims, even those without merit.

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

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 Shareholder

Fairfax, through its subsidiaries, own 30,000,000 multiple voting shares. During 2016, certain Fairfax subsidiaries purchased 796,864 subordinate voting shares through open market transactions. During 2017, Fairfax acquired an additional 13,717,873 subordinate voting shares from the company by way of a private placement (see note 8 (Common Shareholders' Equity) to the consolidated financial statements for the year ended December 31, 2017) and open market transactions. At December 31, 2017 Fairfax's multiple and subordinate voting share holdings represented 93.6% of the voting rights and 30.2% of the equity interest in Fairfax India (December 31, 2016 – 95.3% and 29.4% respectively). In accordance with the Investment Advisory Agreement, the performance fee payable 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% (see note 12 (Related Party Transactions) to the consolidated financial statements for the year ended December 31, 2017). Fairfax has the ability to substantially influence certain actions requiring shareholder approval, including approving an Indian Investment, liquidation or sale of assets, electing members of the Board of Directors and adopting amendments to articles of incorporation and by-laws.

Taxation Risks

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

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

On February 1, 2018 the Government of India released its Union Budget proposals for fiscal year 2018-19 (the ''Budget''). The Budget proposes to repeal, with effect from April 1, 2018, the long term capital gains tax exemption in India that is available in respect of certain transfers of listed equity shares of Indian companies on which Securities Transaction Tax is paid at the time of acquisition and transfer of such shares. Long term capital gains realized on such transfers are generally proposed to 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 after April 1, 2017, and sold prior to March 31, 2019, will continue to be taxed at the rate of 50.0% of the prevailing domestic Indian capital gains tax rate by virtue of the India-Mauritius tax treaty. The company is currently evaluating the potential impact of the Budget and the potential application of capital gains tax in India on any future dispositions of investments in equity shares held by FIH Mauritius.

Emerging Markets

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

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

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

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

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

Economic Risk

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

Trading Price of Common Shares Relative to Book Value per Share

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

Other

Quarterly Data (unaudited)

US$ thousands, except per share amounts	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year
2017					
Income (loss)	208,108	337,980	(66,455)	130,037	609,670
Expenses (recovery)	54,117	73,067	(9,190)	41,585	159,579
Provision for (recovery of) income taxes	4,988	(3,682)	(4,111)	387	(2,418)
Net earnings (loss)	149,003	268,595	(53,154)	88,065	452,509
Net earnings (loss) per share	$ 1.05	$ 1.82	$ (0.36)	$ 0.60	$ 3.10
Net earnings (loss) per diluted share	$ 1.03	$ 1.74	$ (0.36)	$ 0.57	$ 2.94
2016					
Income	7,775	33,917	75,346	11,566	128,604
Expenses	3,897	3,967	5,760	8,036	21,660
Provision for (recovery of) income taxes	3,136	(8,309)	3,186	1,106	(881)
Net earnings	742	38,259	66,400	2,424	107,825
Net earnings per share	$ 0.01	$ 0.36	$ 0.62	$ 0.02	$ 1.01
Net earnings per diluted share	$ 0.01	$ 0.36	$ 0.62	$ 0.02	$ 1.01

Indian rupees and in millions, except per share amounts[(1)]	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year
2017					
Income (loss)	13,929	21,937	(4,599)	8,416	39,683
Expenses (recovery)	3,622	4,731	(661)	2,695	10,387
Provision for (recovery of) income taxes	334	(248)	(269)	25	(158)
Net earnings (loss)	9,973	17,454	(3,669)	5,696	29,454
Net earnings (loss) per share	70.35	118.38	(24.89)	38.63	201.69
Net earnings (loss) per diluted share	68.64	113.21	(24.89)	36.73	191.63
2016					
Income	525	2,276	5,041	784	8,626
Expenses	263	265	384	541	1,453
Provision for (recovery of) income taxes	212	(559)	216	74	(57)
Net earnings	50	2,570	4,441	169	7,230
Net earnings per share	0.47	24.10	41.63	1.60	68.00
Net earnings per diluted share	0.47	24.10	41.63	1.60	68.00

(1) Presented in the company's functional currency.

Total income of $130,037 in the fourth quarter of 2017 increased from $11,566 in the fourth quarter of 2016 primarily as a result of increased net change in unrealized gains on investments and other costs. Net change in unrealized gains on investments of $113,773 in the fourth quarter 2017 included net unrealized gains on common stock of $121,274 (principally related to unrealized gains on IIFL and Fairchem, partially offset by unrealized losses on NCML and Saurashtra), partially offset by unrealized losses on bonds of $7,501 (principally related to Government of India and Indian corporate bonds, partially offset by unrealized gains on Sanmar bonds). Net change in unrealized gains on investments of $4,765 in the fourth quarter of 2016 included net unrealized gains on bonds of $5,702 (primarily unrealized gains on Sanmar and Government of India bonds).

In addition, total income increased in the fourth quarter of 2017 compared to the fourth quarter of 2016 as a result of increased net foreign exchange gains (principally as a result of the strengthening of the Indian rupee relative to the U.S. dollar during 2017), and increased interest income (primarily due to increased holdings of Government of India bonds), partially offset by decreased net realized gains on investments (principally related the disposition of the remaining investment in investment funds in the fourth quarter of 2016).

Total expenses of $41,585 in the fourth quarter of 2017 increased from $8,036 in the fourth quarter of 2016, primarily related to the performance fee (principally from increased net unrealized gains on investments described above) and higher investment and advisory fees (reflecting the increased holdings of Indian Investments). Total expenses in the fourth quarter of 2017 also included interest expense related to the 1 year term loan, compared to the fourth quarter of 2016 which included interest expense on the 2 year term loan.

The company reported net earnings of $88,065 (net earnings of $0.60 per basic share) in the fourth quarter of 2017 compared to net earnings of $2,424 (net earnings of $0.02 per basic share) in the fourth quarter of 2016. The increase in profitability in the fourth quarter of 2017 primarily reflected increased net unrealized gains on investments and net foreign exchange gains, partially offset by the performance fee and increased investment and advisory fees and interest expense.

Individual quarterly results have been (and are expected to continue to be) significantly impacted by net unrealized gains or losses on investments, the timing of which is not predictable.

Stock Prices and Share Information

At March 9, 2018 the company had 125,096,316 subordinate voting shares and 30,000,000 multiple voting shares outstanding (an aggregate of 155,096,316 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. The multiple voting shares are not 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 2017 and 2016.

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
		(US$)		
2017				
High	13.89	17.22	18.99	18.94
Low	11.10	13.01	15.51	14.55
Close	13.20	15.99	17.65	15.00
2016				
High	10.98	12.00	11.36	12.00
Low	9.25	10.00	9.97	10.73
Close	10.85	10.50	11.00	11.55

Compliance with Corporate Governance Rules

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

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

Forward-Looking Statements

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

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

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

Directors of the Company

Anthony F. Griffiths
Corporate Director

Christopher D. Hodgson
President
Ontario Mining Association

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

Deepak Parekh
Chairman
Housing Development Finance Corporation Limited

Harsha Raghavan
Managing Director and Chief Executive Officer
Fairbridge Capital Private Limited

Chandran Ratnaswami
Chief Executive Officer of the Company

V. Prem Watsa
Chairman of the Company

Operating Management

FIH Mauritius Investments Ltd.

Amy Tan
Chief Executive Officer

Officers of the Company

Jennifer Allen
Chief Financial Officer

Keir Hunt
General Counsel and Corporate Secretary

Chandran Ratnaswami
Chief Executive Officer

John Varnell
Vice President, Corporate Affairs

V. Prem Watsa
Chairman

Head Office

95 Wellington Street West
Suite 800
Toronto, Ontario, Canada M5J 2N7
Telephone: (416) 367-4755
Website: www.fairfaxindia.ca

Auditor

PricewaterhouseCoopers LLP

Transfer Agents and Registrars

Computershare Trust Company of Canada, Toronto

Share Listing

Toronto Stock Exchange
Stock Symbol: FIH.U

Annual Meeting

The annual meeting of the shareholders of Fairfax India Holdings Corporation will be held on Thursday, April 26, 2018 at 2:00 p.m. (Toronto time) at Roy Thomson Hall, 60 Simcoe Street, Toronto, Canada