
FAIRFAX INDIA
HOLDINGS CORPORATION



INTERIM REPORT

For the nine months ended
September 30, 2021

Consolidated Balance Sheets*as at September 30, 2021 and December 31, 2020**(unaudited - US\$ thousands)*

	Notes	September 30, 2021	December 31, 2020
Assets			
Cash and cash equivalents	6, 14	78,293	22,057
Restricted cash	5, 6, 7	—	16,315
Short term investments	6	6,233	—
Bonds	5, 6	169,143	35,873
Common stocks	5, 6	3,494,709	2,991,775
Total cash and investments		<u>3,748,378</u>	<u>3,066,020</u>
Interest and dividends receivable		7,901	1,911
Income taxes refundable		970	2,803
Other assets		195	2,264
Total assets		<u>3,757,444</u>	<u>3,072,998</u>
Liabilities			
Accounts payable and accrued liabilities		1,068	931
Accrued interest expense	7, 12	2,361	—
Automatic share purchase plan liability	8	10,000	—
Payable to related parties	12	127,517	14,428
Deferred income taxes		97,139	63,477
Borrowings	7, 12	496,654	547,228
Total liabilities		<u>734,739</u>	<u>626,064</u>
Equity			
Common shareholders' equity	8	2,894,869	2,446,934
Non-controlling interests		127,836	—
Total equity		<u>3,022,705</u>	<u>2,446,934</u>
		<u>3,757,444</u>	<u>3,072,998</u>

See accompanying notes.

Consolidated Statements of Earnings (Loss)*for the three and nine months ended September 30, 2021 and 2020**(unaudited - US\$ thousands except per share amounts)*

	Notes	Third quarter		First nine months	
		2021	2020	2021	2020
Income					
Interest	6	1,253	951	3,128	5,148
Dividends	6	10,647	8,644	23,030	15,427
Net realized gains on investments	6	59,076	3,874	193,643	4,706
Net change in unrealized gains (losses) on investments	6	113,177	74,429	625,068	(129,288)
Net foreign exchange gains (losses)	6	1,867	11,550	(5,445)	(19,186)
		<u>186,020</u>	<u>99,448</u>	<u>839,424</u>	<u>(123,193)</u>
Expenses					
Investment and advisory fees	12	10,304	8,503	30,655	24,912
Performance fee (recovery)	12	18,642	—	118,169	(47,134)
General and administration expenses	13	2,134	950	4,532	3,106
Interest expense	7	6,380	7,190	22,134	22,572
		<u>37,460</u>	<u>16,643</u>	<u>175,490</u>	<u>3,456</u>
Earnings (loss) before income taxes		148,560	82,805	663,934	(126,649)
Provision for (recovery of) income taxes	10	16,655	5,153	51,709	(2,876)
Net earnings (loss)		<u>131,905</u>	<u>77,652</u>	<u>612,225</u>	<u>(123,773)</u>
Attributable to:					
Shareholders of Fairfax India		131,910	77,652	612,230	(123,773)
Non-controlling interests		(5)	—	(5)	—
		<u>131,905</u>	<u>77,652</u>	<u>612,225</u>	<u>(123,773)</u>
Net earnings (loss) per share	9	\$ 0.91	\$ 0.52	\$ 4.14	\$ (0.82)
Net earnings (loss) per diluted share	9	\$ 0.85	\$ 0.52	\$ 3.90	\$ (0.82)
Shares outstanding (weighted average)	9	145,457,895	150,419,817	148,057,994	151,370,397

See accompanying notes.

Consolidated Statements of Comprehensive Income (Loss)
for the three and nine months ended September 30, 2021 and 2020
(unaudited - US\$ thousands)

	Third quarter		First nine months	
	2021	2020	2021	2020
Net earnings (loss)	131,905	77,652	612,225	(123,773)
Other comprehensive income (loss), net of income taxes				
Item that may be subsequently reclassified to net earnings (loss)				
Unrealized foreign currency translation gains (losses), net of income taxes of nil (2020 - nil)	2,979	52,133	(45,137)	(84,791)
Other comprehensive income (loss), net of income taxes	2,979	52,133	(45,137)	(84,791)
Comprehensive income (loss)	134,884	129,785	567,088	(208,564)
Attributable to:				
Shareholders of Fairfax India	136,124	129,785	568,328	(208,564)
Non-controlling interests	(1,240)	—	(1,240)	—
	134,884	129,785	567,088	(208,564)

See accompanying notes.

Consolidated Statements of Changes in Equity
for the nine months ended September 30, 2021 and 2020
(unaudited - US\$ thousands)

	Subordinate voting shares	Multiple voting shares	Share- based payments, net	Retained earnings	Accumulated other comprehensive loss	Common shareholders' equity	Non- controlling interests	Total equity
Balance as of January 1, 2021	1,261,734	300,000	(12)	1,163,493	(278,281)	2,446,934	—	2,446,934
Net earnings (loss) for the period	—	—	—	612,230	—	612,230	(5)	612,225
Other comprehensive loss:								
Unrealized foreign currency translation losses	—	—	—	—	(43,902)	(43,902)	(1,235)	(45,137)
Issuance of shares (note 8)	5,217	—	—	—	—	5,217	—	5,217
Sale of subsidiary shares to non-controlling interests (note 8)	—	—	—	145	—	145	129,076	129,221
Purchases for cancellation (note 8)	(83,474)	—	—	(32,293)	—	(115,767)	—	(115,767)
Automatic share purchase plan commitment (note 8)	(7,794)	—	—	(2,206)	—	(10,000)	—	(10,000)
Amortization	—	—	12	—	—	12	—	12
Balance as of September 30, 2021	1,175,683	300,000	—	1,741,369	(322,183)	2,894,869	127,836	3,022,705
Balance as of January 1, 2020	1,295,005	300,000	(82)	1,200,603	(217,675)	2,577,851	—	2,577,851
Net earnings (loss) for the period	—	—	—	(123,773)	—	(123,773)	—	(123,773)
Other comprehensive loss:								
Unrealized foreign currency translation losses	—	—	—	—	(84,791)	(84,791)	—	(84,791)
Purchases for cancellation (note 8)	(26,236)	—	—	3,698	—	(22,538)	—	(22,538)
Amortization	—	—	53	—	—	53	—	53
Balance as of September 30, 2020	1,268,769	300,000	(29)	1,080,528	(302,466)	2,346,802	—	2,346,802

See accompanying notes.

Consolidated Statements of Cash Flows

for the three and nine months ended September 30, 2021 and 2020
(unaudited - US\$ thousands)

	Notes	Third quarter		First nine months	
		2021	2020	2021	2020
Operating activities					
Net earnings (loss)		131,905	77,652	612,225	(123,773)
Items not affecting cash and cash equivalents:					
Net bond premium amortization		484	196	986	730
Performance fee (recovery)	12	18,642	—	118,169	(47,134)
Deferred income taxes	10	1,790	4,133	34,959	(4,299)
Amortization of share-based payment awards		—	17	12	53
Net realized gains on investments	6	(59,076)	(3,874)	(193,643)	(4,706)
Net change in unrealized (gains) losses on investments	6	(113,177)	(74,429)	(625,068)	129,288
Net foreign exchange (gains) losses	6	(1,867)	(11,550)	5,445	19,186
Net decrease (increase) in restricted cash in support of borrowings		—	5,966	16,051	(5,141)
Decrease in restricted cash in support of investments		—	—	264	—
Purchases of short term investments		(6,312)	—	(6,312)	—
Purchases of investments	14	(121,480)	(74,865)	(238,376)	(176,405)
Sales of investments	14	175,750	76,566	366,019	204,678
Changes in operating assets and liabilities:					
Interest and dividends receivable		(5,368)	(1,652)	(6,073)	(54)
Income taxes refundable		(773)	—	1,805	—
Accrued interest expense		(6,347)	—	2,382	—
Payable to related parties		31	470	1,359	7,314
Income taxes payable		—	106	—	(3,687)
Other		1,760	1,191	7,426	4,785
Cash provided by (used in) operating activities		<u>15,962</u>	<u>(73)</u>	<u>97,630</u>	<u>835</u>
Financing activities					
Borrowings:					
Proceeds	7	—	—	500,000	—
Issuance costs	7	—	—	(3,650)	(5,545)
Repayments	7	—	—	(550,000)	—
Subordinate voting shares:					
Purchases for cancellation	8	(107,653)	(2,978)	(115,767)	(22,538)
Subsidiary shares:					
Sales to non-controlling interests	8	129,221	—	129,221	—
Cash provided by (used in) financing activities		<u>21,568</u>	<u>(2,978)</u>	<u>(40,196)</u>	<u>(28,083)</u>
Increase (decrease) in cash and cash equivalents					
Cash and cash equivalents - beginning of period		41,384	21,334	22,057	48,713
Foreign currency translation		(621)	57	(1,198)	(3,125)
Cash and cash equivalents - end of period	14	<u>78,293</u>	<u>18,340</u>	<u>78,293</u>	<u>18,340</u>

See accompanying notes.

Index to Notes to Interim Consolidated Financial Statements

1. Business Operations	7
2. Basis of Presentation	7
3. Summary of Significant Accounting Policies	7
4. Critical Accounting Estimates and Judgments	8
5. Indian Investments	9
6. Cash and Investments	22
7. Borrowings	26
8. Total Equity	27
9. Net Earnings (Loss) per Share	28
10. Income Taxes	29
11. Financial Risk Management	31
12. Related Party Transactions	36
13. General and Administration Expenses	37
14. Supplementary Cash Flow Information	38

Notes to Interim Consolidated Financial Statements

for the three and nine months ended September 30, 2021 and 2020

(unaudited - US\$ thousands except share and per share amounts and as otherwise indicated)

1. Business Operations

Fairfax India Holdings Corporation ("the company" or "Fairfax India") is an investment holding company whose objective is to achieve long term capital appreciation, while preserving capital, by investing in public and private equity securities and debt instruments in India and Indian businesses or other businesses with customers, suppliers or business primarily conducted in, or dependent on, India ("Indian Investments"). The company makes all or substantially all of its investments either directly or through one of its wholly-owned subsidiaries based in Mauritius, FIH Mauritius Investments Ltd ("FIH Mauritius") and FIH Private Investments Ltd ("FIH Private"). In 2019 the company formed Anchorage Infrastructure Investments Holdings Limited ("Anchorage"), a subsidiary of FIH Mauritius based in India.

Fairfax Financial Holdings Limited ("Fairfax") is Fairfax India's ultimate parent and acts as its administrator. Fairfax is a holding company which, through its subsidiaries, is engaged in property and casualty insurance and reinsurance and the associated investment management. Hamblin Watsa Investment Counsel Ltd. (the "Portfolio Advisor"), a wholly-owned subsidiary of Fairfax and registered portfolio manager in the province of Ontario, is the portfolio advisor of the company and its consolidated subsidiaries, responsible to source and advise with respect to all investments. Refer to note 12 for details on Fairfax's voting rights and equity interest in the company.

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

2. Basis of Presentation

The company's interim consolidated financial statements for the three and nine months ended September 30, 2021 have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") applicable to the preparation of interim financial statements, including International Accounting Standard 34 *Interim Financial Reporting*. Accordingly, certain information and disclosures normally included in the annual consolidated financial statements prepared in accordance with IFRS as issued by the IASB have been omitted or condensed. These interim consolidated financial statements should be read in conjunction with the company's annual consolidated financial statements for the year ended December 31, 2020, which have been prepared in accordance with IFRS as issued by the IASB.

These interim consolidated financial statements were approved for issue by the company's Board of Directors on November 4, 2021.

3. Summary of Significant Accounting Policies

The principal accounting policies applied to the preparation of these interim consolidated financial statements are as set out in the company's annual consolidated financial statements for the year ended December 31, 2020, prepared in accordance with IFRS as issued by the IASB. Those policies and methods of computation have been consistently applied to all periods presented except as described below.

Determination of investment entity status

An entity that meets the IFRS 10 *Consolidated Financial Statements* ("IFRS 10") definition of an investment entity is required to measure its investments in subsidiaries at fair value through profit or loss ("FVTPL") rather than consolidate them (other than those subsidiaries that provide investment related services to the company and are not investment entities themselves).

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

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

The company would exit its private Indian Investments ("Private Indian Investments", as disclosed later in note 5) either through initial public offerings ("IPO") or private sales. For publicly traded Indian Investments ("Public Indian Investments", as disclosed later in note 5), exit strategies may include selling the investments through private placements or in public markets.

Consolidation

Subsidiaries – A subsidiary is an entity that the company controls. The company controls an entity when it has power over the entity, is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. As an investment entity, the company is required to account for its investments in subsidiaries (Fairchem Organics Limited ("Fairchem Organics"), National Commodities Management Services Limited ("NCML", formerly National Collateral Management Services Limited), and Saurashtra Freight Private Limited ("Saurashtra")) at FVTPL in accordance with IFRS 9 *Financial Instruments* ("IFRS 9") rather than by consolidation.

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

Non-controlling interests - Subsequent to initial recognition, the carrying value of non-controlling interests is adjusted for the non-controlling interest's share of changes in the subsidiary's net earnings (loss) and capital. Effects of transactions with non-controlling interests are recorded in common shareholders' equity if there is no change in control.

New accounting pronouncements adopted in 2021

Interest Rate Benchmark Reform — Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)

On August 27, 2020 the IASB issued amendments to IFRS 9, IAS 39 *Financial Instruments: Recognition and Measurement*, IFRS 7 *Financial Instruments: Disclosures*, IFRS 4 *Insurance Contracts* and IFRS 16 *Leases* to address financial statement impacts and practical expedients when an existing interest rate benchmark, such as LIBOR is replaced with an alternative reference rate. Retrospective adoption of these amendments on January 1, 2021 did not have a significant impact on the company's consolidated financial statements.

New accounting pronouncements issued but not yet effective

The IASB issued the following amendments in 2021 and 2020 which the company does not expect to adopt in advance of their respective effective dates: *Onerous Contracts - Cost of Fulfilling a Contract (Amendments to IAS 37)* and *Annual Improvements to IFRS Standards 2018–2020*, effective January 1, 2022; and *Classification of Liabilities as Current or Non-current (Amendments to IAS 1)*, *Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12)*, *Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2)* and *Definition of Accounting Estimates (Amendments to IAS 8)*, effective January 1, 2023. The company is currently evaluating the expected impact of these pronouncements on its consolidated financial statements.

4. Critical Accounting Estimates and Judgments

In the preparation of the company's interim consolidated financial statements, management has made a number of critical estimates and judgments in the preparation of notes 5, 6 and 10 in a manner consistent with those as described in the company's annual consolidated financial statements for the year ended December 31, 2020. The broad effects of the COVID-19 pandemic on the company are described in note 11 and the effects on the company's development of critical estimates during the first nine months of 2021 are described below.

Valuation of Private Indian Investments

While the company's valuation techniques for Private Indian Investments remained primarily unchanged during the first nine months of 2021 the development of unobservable inputs included added uncertainty related to the global economic disruption caused by the ongoing COVID-19 pandemic. Estimates of the amount and timing of future cash flows, discount rates, growth rates and other inputs incorporated into fair value measurements of Private Indian Investments are inherently more difficult to determine due to the unpredictable duration and impacts of the COVID-19 pandemic, including further actions that may be taken by governments to contain it and the timing of the re-opening of the economy in various parts of the world. The company has assumed that the economic impacts of COVID-19 will remain for the duration of government mandated restrictions by jurisdiction as currently known. In particular, these restrictions include the lockdown imposed by the Indian government on March 25, 2020 which was later extended to May 31, 2020 and remains in place for certain containment zones until November 30, 2021 (and may extend further) while lockdown restrictions were being lifted in phases for districts that are deemed safe ("India's lockdown"). The company has included assumptions related to the COVID-19 pandemic into the estimates of the amount and timing of future cash flows based on the information known and knowable at the reporting date, and the uncertainty in those assumptions has been incorporated into the company's valuations of

Private Indian Investments primarily through higher risk premiums. Additional volatility in the fair values of Private Indian Investments may arise in future periods if actual results differ materially from the company's estimates. Refer to notes 5 and 6 for details on the valuation of company's Private Indian Investments at September 30, 2021.

Consolidation of Anchorage

In the third quarter of 2021, the company transferred 43.6% of its 54.0% equity interest in BIAL such that it is held through Anchorage, and subsequently completed the sale of 11.5% of its equity interest in Anchorage to Ontario Municipal Employees Retirement System ("OMERS"). The company exercised significant judgment in determining that Anchorage will continue to provide investment related services to the company on current and potential investments in the infrastructure sector in India and not meet the definition of an investment entity based on the facts and circumstances known or knowable at this time. As a result, the company will continue to consolidate Anchorage. The company's assessment of this position requires an ongoing analysis of Anchorage's strategic objectives and business activities. Accordingly, Anchorage's status in relation to the company as a consolidated subsidiary may change in future reporting periods based on the facts and circumstances at that time.

5. Indian Investments

Throughout the company's interim consolidated financial statements for the three and nine months ended September 30, 2021, the term "Indian Investments" refers to deployed capital invested in Public and Private Indian Investments as disclosed within this note.

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

A summary of changes in the fair value of the company's Public and Private Indian Investments for the third quarter of 2021 is as follows:

	Third quarter					Balance as of September 30
	Balance as of July 1	Sales	Net realized gains on investments	Net change in unrealized gains (losses) on investments ⁽¹⁾	Net unrealized foreign currency translation gains (losses)	
Public Indian Investments:						
Common stocks:						
IIFL Finance	289,692	—	—	34,627	666	324,985
IIFL Wealth	188,784	—	—	66,943	(235)	255,492
IIFL Securities	85,120	—	—	25,429	3	110,552
CSB Bank	335,732	—	—	(28,056)	1,150	308,826
Privi Speciality (formerly Fairchem)	48	—	—	34	—	82
Fairchem Organics	170,664	—	—	45,657	171	216,492
5paisa	42,106	—	—	4,145	62	46,313
Other	167,137	(117,602)	58,942	(38,123)	663	71,017
Total Public Indian Investments	1,279,283	(117,602)	58,942	110,656	2,480	1,333,759
Private Indian Investments:						
Bonds - NCML CCD	14,631	—	—	—	20	14,651
Common stocks:						
BIAL	1,372,411	—	—	(50)	1,896	1,374,257
Sanmar	438,482	—	—	(695)	984	438,771
Seven Islands	105,570	—	—	(900)	168	104,838
NCML	77,610	—	—	(4,245)	119	73,484
Saurashtra	36,810	—	—	(106)	69	36,773
NSE	99,091	—	—	8,754	158	108,003
IH Fund	25,722	(961)	—	14	49	24,824
Total Private Indian Investments	2,170,327	(961)	—	2,772	3,463	2,175,601
Total Indian Investments	3,449,610	(118,563)	58,942	113,428	5,943	3,509,360

(1) All Private Indian Investments and certain common shares of CSB Bank and 5paisa (subject to selling restrictions) were classified as Level 3 in the fair value hierarchy. Net change in unrealized gains (losses) on investments classified as Level 3 in the fair value hierarchy related to unrealized gains (losses) on investments held at the end of the reporting period.

A summary of changes in the fair value of the company's Public and Private Indian Investments for the third quarter of 2020 is as follows:

	Third quarter							Balance as of September 30
	2020							
	Balance as of July 1	Purchases	Fairchem Reorganization	Sales	Net realized gains on investments	Net change in unrealized gains (losses) on investments ⁽¹⁾	Net unrealized foreign currency translation gains	
Public Indian Investments:								
Common stocks:								
IIFL Finance	83,068	—	—	—	—	6,068	1,895	91,031
IIFL Wealth	164,150	—	—	—	—	(9,527)	3,758	158,381
IIFL Securities	48,316	—	—	—	—	(5,248)	1,100	44,168
CSB Bank	177,965	—	—	—	—	39,420	4,356	221,741
Privi Speciality (formerly Fairchem) ⁽²⁾	140,757	—	(34,895)	—	—	34,921	3,276	144,059
5paisa	19,999	—	—	—	—	11,199	539	31,737
Other	110,052	40,023	—	(40,189)	3,274	(5,482)	2,538	110,216
Total Public Indian Investments	744,307	40,023	(34,895)	(40,189)	3,274	71,351	17,462	801,333
Private Indian Investments:								
Bonds - NCML CCD	13,955	—	—	—	—	228	327	14,510
Common stocks:								
BIAL	1,351,712	—	—	—	—	97	31,580	1,383,389
Sanmar	326,004	—	—	—	—	1,547	7,554	335,105
Seven Islands	88,456	—	—	—	—	1,134	2,079	91,669
NCML	104,994	—	—	—	—	(14,666)	2,353	92,681
Fairchem Organics ⁽²⁾	—	—	34,895	—	—	1,655	259	36,809
Saurashtra	26,870	—	—	—	—	757	629	28,256
NSE	53,089	—	—	—	—	12,759	1,316	67,164
IH Fund	14,711	—	—	(70)	—	335	345	15,321
Total Private Indian Investments	1,979,791	—	34,895	(70)	—	3,846	46,442	2,064,904
Total Indian Investments	2,724,098	40,023	—	(40,259)	3,274	75,197	63,904	2,866,237

(1) All Private Indian Investments and CSB Bank common shares (subject to selling restrictions) were classified as Level 3 in the fair value hierarchy. Net change in unrealized gains (losses) on investments classified as Level 3 in the fair value hierarchy related to unrealized gains (losses) on investments held at the end of the reporting period.

(2) On August 12, 2020 as part of the Fairchem Reorganization, Fairchem spun off Fairchem Organics, a private company whose shares were subsequently listed on the BSE and NSE of India on December 24, 2020. Concurrent with the spin off transaction, Privi Organics merged with the remaining Fairchem business and was renamed Privi Speciality Chemicals Limited ("Privi Speciality"). Common shares of Privi Speciality continue to trade on the BSE and NSE of India.

A summary of changes in the fair value of the company's Public and Private Indian Investments for the first nine months of 2021 is as follows:

	First nine months						Balance as of September 30
	Balance as of January 1	Purchases	Sales	Net realized gains (losses) on investments	Net change in unrealized gains (losses) on investments ⁽¹⁾	Net unrealized foreign currency translation losses	
Public Indian Investments:							
Common stocks:							
IIFL Finance	131,478	—	—	—	197,281	(3,774)	324,985
IIFL Wealth	166,702	—	—	—	92,199	(3,409)	255,492
IIFL Securities	55,603	—	—	—	56,309	(1,360)	110,552
CSB Bank	214,341	—	—	—	98,696	(4,211)	308,826
Privi Speciality (formerly Fairchem) ⁽²⁾	138,413	—	(164,812)	132,303	(105,023)	(799)	82
Fairchem Organics ⁽³⁾	54,566	22,919	—	—	141,148	(2,141)	216,492
5paisa ⁽⁴⁾	27,788	6,141	—	(2,587)	15,591	(620)	46,313
Other	147,604	—	(122,013)	58,944	(11,389)	(2,129)	71,017
Derivatives - Fairchem Organics forward purchase derivative ⁽⁵⁾	—	—	(4,800)	4,847	—	(47)	—
Total Public Indian Investments	936,495	29,060	(291,625)	193,507	484,812	(18,490)	1,333,759
Private Indian Investments:							
Bonds - NCML CCD	14,884	—	—	—	—	(233)	14,651
Common stocks:							
BIAL	1,396,117	—	—	—	(42)	(21,818)	1,374,257
Sanmar	338,621	—	—	—	106,370	(6,220)	438,771
Seven Islands	103,543	—	—	—	2,938	(1,643)	104,838
NCML	86,216	—	—	—	(11,485)	(1,247)	73,484
Saurashtra	32,812	—	—	—	4,512	(551)	36,773
NSE	72,617	—	—	—	36,842	(1,456)	108,003
IH Fund	25,354	—	(1,676)	—	1,535	(389)	24,824
Total Private Indian Investments	2,070,164	—	(1,676)	—	140,670	(33,557)	2,175,601
Total Indian Investments	3,006,659	29,060	(293,301)	193,507	625,482	(52,047)	3,509,360

(1) All Private Indian Investments and certain common shares of CSB Bank and 5paisa (subject to selling restrictions) were classified as Level 3 in the fair value hierarchy. Net change in unrealized gains (losses) on investments classified as Level 3 in the fair value hierarchy related to unrealized gains (losses) on investments held at the end of the reporting period.

(2) On April 29, 2021 the company completed the sale of its 48.8% equity interest in Privi Speciality for proceeds of \$164,812 resulting in a realized gain since inception of \$132,303. Net change in unrealized gains on investments includes a reversal of prior period unrealized gains on Privi Speciality.

(3) On April 29, 2021 the company acquired additional Fairchem Organics common shares for cash consideration of \$18,117. As a result the company derecognized the Fairchem Organics forward purchase derivative asset with a carrying value of \$4,800, recorded a realized gain of \$4,847 and recorded its investment in Fairchem Organics common shares at a fair value at that date of \$22,917.

(4) On May 19, 2021 the company acquired additional 5paisa common shares for cash consideration of \$6,141 pursuant to a preferential share rights offering. The newly issued 5paisa common shares had a fair value of \$3,554 at that date based on bid price less a discount for lack of marketability due to certain selling restrictions, and as a result the company recorded a realized loss of \$2,587.

A summary of changes in the fair value of the company's Public and Private Indian Investments for the first nine months of 2020 is as follows:

	First nine months							Balance as of September 30
	Balance as of January 1	Purchases	Fairchem Reorganization	Sales	Net realized gains on investments	Net change in unrealized gains (losses) on investments ⁽¹⁾	Net unrealized foreign currency translation gains (losses)	
Public Indian Investments:								
Common stocks:								
IIFL Finance	166,014	—	—	—	—	(69,155)	(5,828)	91,031
IIFL Wealth	191,476	—	—	—	—	(26,698)	(6,397)	158,381
IIFL Securities	48,796	—	—	—	—	(3,022)	(1,606)	44,168
CSB Bank	229,262	—	—	—	—	(57)	(7,464)	221,741
Privi Speciality (formerly Fairchem) ⁽²⁾	127,413	—	(34,895)	—	—	55,598	(4,057)	144,059
5paisa	18,176	—	—	—	—	14,066	(505)	31,737
Other	95,892	84,672	—	(40,189)	3,274	(31,061)	(2,372)	110,216
Total Public Indian Investments	877,029	84,672	(34,895)	(40,189)	3,274	(60,329)	(28,229)	801,333
Private Indian Investments:								
Bonds - NCML CCD	14,286	—	—	—	—	685	(461)	14,510
Common stocks:								
BIAL	1,429,854	—	—	—	—	83	(46,548)	1,383,389
Sanmar	412,930	—	—	—	—	(63,991)	(13,834)	335,105
Seven Islands	88,800	—	—	—	—	5,725	(2,856)	91,669
NCML	120,734	—	—	—	—	(23,976)	(4,077)	92,681
Fairchem Organics ⁽²⁾	—	—	34,895	—	—	1,655	259	36,809
Saurashtra	31,204	—	—	—	—	(1,920)	(1,028)	28,256
NSE	57,210	—	—	—	—	11,745	(1,791)	67,164
IH Fund	15,146	—	—	(130)	—	793	(488)	15,321
Total Private Indian Investments	2,170,164	—	34,895	(130)	—	(69,201)	(70,824)	2,064,904
Total Indian Investments	3,047,193	84,672	—	(40,319)	3,274	(129,530)	(99,053)	2,866,237

(1) All Private Indian Investments and CSB Bank common shares (subject to selling restrictions) were classified as Level 3 in the fair value hierarchy. Net change in unrealized gains (losses) on investments classified as Level 3 in the fair value hierarchy related to unrealized gains (losses) on investments held at the end of the reporting period.

(2) On August 12, 2020 as part of the Fairchem Reorganization, Fairchem spun off Fairchem Organics, a private company whose shares were subsequently listed on the BSE and NSE of India on December 24, 2020. Concurrent with the spin off transaction, Privi Organics merged with the remaining Fairchem business and was renamed Privi Speciality Chemicals Limited. Common shares of Privi Speciality continue to trade on the BSE and NSE of India.

Public Indian Investments

The fair values of Fairfax India's Public Indian Investments with shares listed on both the BSE (formerly known as Bombay Stock Exchange Limited) and the National Stock Exchange of India ("NSE of India"), are determined using the bid prices of those investments (without adjustments or discounts) at the balance sheet date, with the exception of certain CSB Bank and 5paisa common shares subject to selling restrictions.

Investment in IIFL Finance Limited

IIFL Finance Limited ("IIFL Finance") is a publicly traded retail-focused diversified financing company located in Mumbai, India that offers home loans, gold loans, business loans (including loans against property and small-to-medium enterprise loans), microfinance, construction and real estate finance, and capital market finance.

In December 2015 and February 2017 the company acquired 84,641,445 common shares of IIFL Holdings Limited ("IIFL Holdings") (representing a 26.9% equity interest) for aggregate cash consideration of \$276,734 (approximately 18.5 billion Indian rupees).

In October 2017 and May 2019 IIFL Holdings spun-off its subsidiaries 5paisa, IIFL Wealth and IIFL Securities in non-cash transactions. In aggregate, the transactions resulted in a return of capital which exceeded Fairfax India's cost basis in IIFL Holdings based on the estimated fair values of the spun off subsidiaries at the date of the transactions. Upon completion of the spin off of IIFL Wealth and IIFL Securities in May 2019, IIFL Holdings Limited was renamed IIFL Finance Limited and continued to trade on the BSE and NSE of India.

In March 2020 IIFL Finance was granted an NBFC license by the Reserve Bank of India ("RBI") and on March 30, 2020 completed the merger with its subsidiary, India Infoline Finance Limited ("India Infoline") through the issuance of 58,654,556 common shares of IIFL Finance to India Infoline's minority shareholders. Minority shareholders of India Infoline received 135 common shares of IIFL Finance for every 100 common shares of India Infoline held. As a result of the merger Fairfax India's equity interest in IIFL Finance was decreased to 22.4% at March 30, 2020.

At September 30, 2021 the fair value of the company's investment in IIFL Finance was \$324,985 (December 31, 2020 - \$131,478) comprised of 84,641,445 common shares representing a 22.3% equity interest (December 31, 2020 - 22.4%) with the changes in fair value for the third quarters and first nine months of 2021 and 2020 presented in the tables disclosed earlier in note 5.

Investment in IIFL Wealth Management Limited

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

In May 2019 the company received 12,091,635 common shares of IIFL Wealth, representing a 14.2% equity interest with an estimated fair value on the date of the transaction of \$191,443 (approximately 13.3 billion Indian rupees), pursuant to a non-cash spin off transaction from the former IIFL Holdings. The common shares of IIFL Wealth were listed on the BSE and NSE of India on September 19, 2019.

At September 30, 2021 the fair value of the company's investment in IIFL Wealth was \$255,492 (December 31, 2020 - \$166,702) comprised of 12,091,635 common shares representing a 13.7% equity interest (December 31, 2020 - 13.8%) with the changes in fair value for the third quarters and first nine months of 2021 and 2020 presented in the tables disclosed earlier in note 5.

Investment in IIFL Securities Limited

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

In May 2019 the company received 84,641,445 common shares of IIFL Securities representing a 26.5% equity interest with an estimated fair value on the date of the transaction of \$91,310 (approximately 6.4 billion Indian rupees), pursuant to a non-cash spin off transaction from the former IIFL Holdings. The common shares of IIFL Securities were listed on the BSE and NSE of India on September 20, 2019.

At September 30, 2021 the fair value of the company's investment in IIFL Securities was \$110,552 (December 31, 2020 - \$55,603) comprised of 84,641,445 common shares representing a 27.9% equity interest (December 31, 2020 - 26.5%) with the changes in fair value for the third quarters and first nine months of 2021 and 2020 presented in the tables disclosed earlier in note 5. The increase in the company's equity interest in IIFL Securities during the period was the result of the purchase and cancellation of common shares by IIFL Securities, for which the company did not tender any shares.

Investment in CSB Bank Limited

CSB Bank Limited ("CSB Bank") is a publicly traded company located in Thrissur, India, established in 1920 and is a full-service bank offering retail banking, non-resident Indian banking services, small-to-medium enterprise and wholesale banking services through 542 branches and 368 automated teller machines across India.

During 2018 and 2019 Fairfax India invested aggregate cash consideration of \$169,511 (approximately 12.1 billion Indian rupees) for a 51.0% equity interest in CSB Bank. On December 4, 2019 CSB Bank closed its IPO, issuing 1,230,769 shares and commenced trading on both the BSE and NSE of India. In 2019 CSB Bank also issued 5,000,000 shares to CSB Bank's employee stock option trust which together with the IPO decreased Fairfax India's ownership slightly from 51.0% to 49.7%.

On March 30, 2021 CSB Bank issued an additional 30,000 shares to CSB Bank's employee stock option trust and Fairfax India's ownership remained at 49.7%.

The company is restricted from selling a certain percentage of its common shares of CSB Bank for a specified period up to August 7, 2024 due to restrictions imposed by the RBI and the Securities and Exchange Board of India ("SEBI").

As a result of CSB Bank's IPO the company was restricted from selling 17,372,952 of its shares of CSB Bank for one year from the IPO closing. On December 2, 2020 the selling restriction on 16,880,645 of the common shares was released. On April 7, 2021 an additional 12,000 common shares became restricted as a result of the share issuance on March 30, 2021 discussed above. At September 30, 2021 the company held 69,394,331 common shares of CSB Bank that continue to be restricted until August 7, 2024.

At September 30, 2021 the company estimated the fair value of its investment in CSB Bank based on the bid price less a discount for lack of marketability of 20.4% on the common shares subject to selling restrictions (December 31, 2020 - 20.9%). At September 30, 2021 the fair value of the company's investment in CSB Bank was \$308,826 (December 31, 2020 - \$214,341) comprised of 86,262,976 common shares representing a 49.7% equity interest (December 31, 2020 - 49.7%) with the changes in fair value for the third quarters and first nine months of 2021 and 2020 presented in the tables disclosed earlier in note 5.

Investment in Fairchem Speciality Limited / Privi Speciality Chemicals Limited

Fairchem Speciality Limited

Fairchem Speciality Limited ("Fairchem") was a publicly traded specialty chemical manufacturer located in Ahmedabad, India. Fairchem manufactured oleochemicals used in the paints, inks and adhesives industries, as well as intermediate neutraceutical and health products. Privi Organics Limited ("Privi"), previously a wholly-owned subsidiary of Fairchem located in Mumbai was a supplier of aroma chemicals to the fragrance industry.

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

On August 12, 2020 Fairchem spun off its wholly-owned subsidiary Fairchem Organics (comprised of the oleochemicals and neutraceuticals businesses) in a non-cash transaction ("Fairchem Reorganization"). Shareholders of Fairchem received one common share of Fairchem Organics for every three Fairchem common shares held. The distribution of new common shares to Fairchem shareholders was characterized as a return of capital and resulted in the company recording the initial cost of its investment in Fairchem Organics at its estimated fair value at that date of \$34,895 (approximately 2.6 billion Indian rupees). Concurrent with the spin off transaction, Privi amalgamated with the remaining Fairchem business and was renamed Privi Speciality Chemicals Limited ("Privi Speciality"). Common shares of Privi Speciality continue to trade on the BSE and NSE of India. Common shares of Fairchem Organics listed on the BSE and NSE of India on December 24, 2020. Additional details on the Fairchem Reorganization, specific to Fairchem Organics, are disclosed later in note 5.

Privi Speciality Chemicals Limited

Privi Speciality is a publicly traded specialty chemical manufacturer located in Mumbai, India. Privi Speciality is a supplier of aroma chemicals to the fragrance industry.

On April 29, 2021 the company completed the sale of its 48.8% equity interest in Privi Speciality for cash consideration of \$164,812 (approximately 12.2 billion Indian rupees). Subsequent to the sale, the company holds 3,250 Privi Speciality common shares.

At September 30, 2021 the fair value of the company's investment in Privi Speciality was \$82 (December 31, 2020 - \$138,413) comprised of 3,250 common shares representing less than 1% equity interest (December 31, 2020 - 19,046,078 common shares representing a 48.8% equity interest) with the changes in fair value for the third quarters and first nine months of 2021 and 2020 presented in the tables disclosed earlier in note 5.

The company intends to invest up to 550.0 million Indian rupees (approximately \$7 million at current exchange rates) in non-convertible debentures with an effective yield of 10.0% compounded annually to be issued by entities affiliated with Mahesh P Babani, chairman and managing director of Privi Speciality, subject to customary closing conditions and approvals.

Investment in Fairchem Organics Limited

Fairchem Organics is a publicly traded specialty chemical manufacturer located in Ahmedabad, India. Fairchem Organics manufactures oleochemicals used in the paints, inks and adhesives industries, as well as intermediate neutraceutical and health products.

On August 12, 2020 Fairchem spun off its wholly-owned subsidiary Fairchem Organics in a non-cash transaction that resulted in Fairfax India receiving one common share of Fairchem Organics for every three Fairchem common shares held. Upon completion of the Fairchem Reorganization, Fairfax India received 6,348,692 common shares of Fairchem Organics representing 48.8% equity interest with an estimated fair value at that date of \$34,895 (approximately 2.6 billion Indian rupees). The distribution of new common shares of Fairchem Organics to Fairchem shareholders was characterized as a return of capital.

The common shares of Fairchem Organics were listed on the BSE and NSE of India on December 24, 2020. At the time of listing and in accordance with Indian regulations, as a result of the anticipated changes in ownership of Fairchem Organics, the company announced an open offer for the acquisition of up to 3,377,953 common shares, representing the entire public float or 25.9% of the issued and outstanding shares, at a price of 575.53 Indian rupee per common share ("Fairchem Open Offer"). In support of the Fairchem Open Offer, the company was required to place on deposit, cash of approximately 19.5 million Indian rupees (\$267) and a bank guarantee for approximately 486.1 million Indian rupees (\$6,648) which expired in April 2021. The cash deposit was recorded in restricted cash within the consolidated balance sheet at December 31, 2020.

The tender period related to the Fairchem Open Offer commenced on February 9, 2021 and closed on February 23, 2021 with a total of 290 common shares of Fairchem Organics tendered. On March 2, 2021 the company completed the settlement of the common shares tendered for \$2. The remaining cash deposit of \$264 was returned on April 8, 2021.

On April 29, 2021 the company completed the purchase of an additional 17.9% equity interest in Fairchem Organics for cash consideration of \$18,117 (approximately 1.3 billion Indian rupees). Upon closing of the transaction the company settled a forward purchase derivative asset at a fair value of \$4,800 (approximately 355 million Indian rupees), which was a result of the transaction date fair value exceeding the agreed upon transaction price for Fairchem Organics common shares. The company recorded its additional investment in Fairchem Organics at a fair value of \$22,917 (approximately 1.7 billion Indian rupees).

At September 30, 2021 the fair value of the company's investment in Fairchem Organics was \$216,492 (December 31, 2020 - \$54,566) comprised of 8,679,739 common shares representing a 66.7% equity interest (December 31, 2020 - 6,348,692 common shares representing a 48.8% equity interest) with the changes in fair value for the third quarters and first nine months of 2021 and 2020 presented in the tables disclosed earlier in note 5.

Investment in Spaisa Capital Limited

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

In October 2017 the company received 3,385,657 common shares of Spaisa representing a 26.6% equity interest with a fair value on the date of the transaction of \$19,758, pursuant to a non-cash spin off transaction from the former IIFL Holdings. In August 2019 the company participated in a rights offer to existing shareholders of Spaisa and acquired an additional 3,385,657 common shares of Spaisa for cash consideration of \$3,777, maintaining an equity interest of 26.6%.

On April 13, 2021 5paisa announced that its board of directors approved a rights offering for the issuance of equity shares to existing shareholders at a price of 500.00 Indian rupees per share ("5paisa Preferential Share Rights Offer"). On May 19, 2021 the company participated in the offering and acquired 898,816 equity shares of 5paisa on a preferential basis for cash consideration of \$6,141 (449.4 million Indian rupees). The company is restricted from selling the 898,816 common shares of 5paisa acquired through the 5paisa Preferential Share Rights Offer until May 28, 2022 due to restrictions imposed by SEBI. As a result, the company recorded its investment in the newly issued 5paisa common shares at a fair value at that date of \$3,554 (260.1 million Indian rupees) based on bid price less a discount for lack of marketability of 22.2% resulting in the company recording a realized loss of \$2,587 on the date of acquisition.

The company is also restricted from selling the 6,771,314 common shares of 5paisa held prior to participating in the 5paisa Preferential Share Rights Offer until November 29, 2021. As a result of the 5paisa Preferential Share Rights Offer and common shares issued by 5paisa under an employee stock option plan during the period, the company's ownership interest decreased from 26.6% to 26.1%.

At September 30, 2021 the company estimated the fair value of its investment in 5paisa based on the bid price less a discount for lack of marketability of 15.7% for the 5paisa common shares acquired through the 5paisa Preferential Share Rights Offer. At September 30, 2021 the fair value of the company's investment in 5paisa was \$46,313 (December 31, 2020 - \$27,788) comprised of 7,670,130 common shares representing a 26.1% equity interest (December 31, 2020 - 6,771,314 common shares representing a 26.6% equity interest) with the changes in fair value for the third quarters and first nine months of 2021 and 2020 presented in the tables disclosed earlier in note 5.

Investment in Other Public Indian Investments

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

In 2020 the company acquired common shares of public companies in India's utilities and financial services sectors, listed on both the BSE and NSE of India, for aggregate consideration of \$84,672. In 2020 the company partially sold investments in Other Public Indian Investments for total net proceeds of \$41,913, resulting in a realized gain of \$3,782.

In the third quarter and first nine months of 2021 the company sold investments in Other Public Indian Investments for total net proceeds of \$117,602 and \$122,013 and as a result the company recorded realized gains of \$58,942 and \$58,944.

At September 30, 2021 the fair value of the company's investment in Other Public Indian Investments was \$71,017 (December 31, 2020 - \$147,604) and represents less than 1.0% equity interest in each of the public Indian companies. The changes in fair value of the company's investment in Other Public Indian Investments for the third quarters and first nine months of 2021 and 2020 are presented in the tables disclosed earlier in note 5.

Private Indian Investments

The fair values of Fairfax India's Private Indian Investments cannot be derived from an active market and accordingly, are determined using industry accepted valuation techniques and models. Market observable inputs are used where possible, with unobservable inputs used where necessary. Use of unobservable inputs can involve significant judgment and may materially affect the reported fair value of these investments.

Investment in Bangalore International Airport Limited

Bangalore International Airport Limited ("BIAL") is a private company located in Bengaluru, India. BIAL, under a concession agreement with the Government of India until the year 2068, has the exclusive rights to carry out the development, design, financing, construction, commissioning, maintenance, operation and management of the Kempegowda International Airport Bengaluru ("KIAB") through a public-private partnership. KIAB is the first greenfield airport in India built through a public-private partnership.

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

On September 16, 2021 the company transferred 43.6% of its 54.0% equity interest in BIAL such that it is held through Anchorage and subsequently sold 11.5% (on a fully-diluted basis) of its interest in Anchorage to OMERS for gross proceeds of 9.5 billion Indian rupees (\$129,221), implying an equity valuation for 100% of BIAL of approximately 189.7 billion Indian rupees (approximately \$2.6 billion at exchange rates on that date). Upon closing of the transaction, the company's effective ownership interest in BIAL decreased to approximately 49.0% on a fully-diluted basis, while its actual ownership remained unchanged. Refer to note 8 (Total Equity, under the heading Non-controlling interests) for further discussion on Anchorage.

The COVID-19 pandemic has significantly impacted BIAL's airport business which faced reduced passenger traffic starting in February 2020. Effective March 23, 2020 and March 25, 2020 all scheduled international and domestic commercial airlines ceased operations as a result of India's lockdown. Domestic flights resumed on May 25, 2020, while international flights will remain suspended until at least November 30, 2021 with the exception of certain countries with which India has established air bubble arrangements. The suspension may be extended further as the COVID-19 pandemic continues to evolve. Cargo flights and flights catering to medical emergencies and other essential requirements remain operational. Construction activities for BIAL's capital projects and real estate development were slowed down and have since resumed as lockdown restrictions were gradually lifted. The airport is expected to commence regular operations upon lifting of the present restrictions with a gradual recovery in domestic and international passenger traffic by BIAL's fiscal year 2024 to levels witnessed before the pandemic.

At September 30, 2021 the company estimated the fair value of its investment in BIAL using a discounted cash flow analysis for its three business units based on multi-year free cash flow forecasts with assumed after-tax discount rates ranging from 12.0% to 15.6% and a long term growth rate of 3.5% (December 31, 2020 - 12.8% to 15.0%, and 3.5%, respectively). At September 30, 2021 free cash flow forecasts were based on EBITDA estimates derived from financial information for BIAL's three business units prepared in the third quarter of 2021 (December 31, 2020 - fourth quarter of 2020) by BIAL's management and adjusted for lower airport tariffs for the third control period commencing in BIAL's fiscal year 2022 and the ongoing impact of the COVID-19 pandemic on airport operations.

Free Cash Flow Forecast Inputs

The primary drivers of the free cash flow estimates are future domestic and international passenger traffic, airport tariff assumptions for future control periods and plans to monetize and develop leasehold land. In the event that forecasted passenger traffic or expected airport tariff levels are not met in future periods, this may result in a negative impact on the fair value of the company's investment in BIAL.

Current Model Assumptions

As a result of the continued business disruptions caused by the COVID-19 pandemic free cash flow forecasts were revised by BIAL's management in 2021 to primarily reflect (i) a temporary reduction, including a halt during the lockdown period, in passenger traffic as a result of travel restrictions imposed by the Indian government; (ii) a gradual recovery in passenger traffic over two years to levels expected before the pandemic; (iii) lower airport tariff rates for the third control period commencing in BIAL's fiscal year 2022; and (iv) delays in BIAL's capital projects and real estate development plans.

The COVID-19 pandemic did not have a significant impact on BIAL's fair value at September 30, 2021 as BIAL is an infrastructure investment that is currently in a period of capital expansion and as a result a significant amount of its fair value is driven by expected growth in passenger traffic in the later years of the forecasting period once various capital projects are complete. As a result of the COVID-19 pandemic, BIAL's forecast reflected reduced domestic and international passenger traffic forecasts for its fiscal year 2022 due to the resurgence of COVID-19 cases in India, a delay in expected discretionary capital expenditures, an increase in the expected total cost for Terminal 2 and a revised timeline for its real estate development plans. Additionally, BIAL's aeronautical revenues are primarily driven by user development fees ("UDF") charged to airlines and passengers, which are set by the Airports Economic Regulatory Authority of India ("AERA") in five-year control periods and are fixed in a manner to generate a 16.0% per annum return on invested equity for the airport operator. As the tariff setting mechanism adjusts for periods of underperformance, it is expected that underachievement in aeronautical revenues due to the COVID-19 pandemic in the second control period, which ended on March 31, 2021, will be substantially recovered through, among other factors, higher UDFs in future control periods. It should be noted that UDFs set by AERA for the third control period are not sufficient to recover losses sustained in the second control period due to India's lockdown.

A gradual recovery in passenger traffic over a two year time horizon to levels expected before the pandemic is supported by significant efforts by BIAL's management and the Indian government to support a return to normal patterns of travel and the recovery of airport operations, including the implementation of contactless passenger experiences, the easing of capacity limits for airlines, the reconnection of several domestic city pairs and the resumption of certain international flights.

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. These risk premiums were reflective of the increased uncertainty of the revised free cash flow forecasts as a result of the economic and social impacts of the COVID-19 pandemic. Long term growth rates were based on the expected long term sustainable growth rate of the economic environment and sectors in which BIAL operates and were not adjusted downward for the short term impacts of COVID-19.

At September 30, 2021 the company's internal valuation model indicated that the fair value of the company's investment in BIAL was \$1,374,257 (December 31, 2020 - \$1,396,117) which approximates the equity valuation of BIAL implied by the Anchorage transaction discussed above. The changes in fair value of the company's investment in BIAL for the third quarters and first nine months of 2021 and 2020 are presented in the tables disclosed earlier in note 5.

Investment in Sanmar Chemicals Group

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

During 2016 and 2019 Fairfax India invested aggregate cash consideration of \$199,039 (approximately 14.2 billion Indian rupees) for a 42.9% equity interest in Sanmar.

The COVID-19 pandemic resulted in a temporary closure of Sanmar's plants in India due to India's lockdown in 2020. The Sanmar plant in Egypt was temporarily closed on March 18, 2020 and re-opened its operations on April 3, 2020. The operations at the suspension PVC plant in India were constrained until May 15, 2020. The remaining plants in India, including the specialty PVC plant, gradually re-opened operations in May 2020. Specialty Chemicals has not been significantly impacted by the COVID-19 pandemic.

On August 24, 2021 Chemplast Sanmar Limited ("Chemplast"), a subsidiary within Sanmar completed an IPO, issuing 24,029,574 common shares to the public for proceeds of 13.0 billion Indian rupees (approximately \$175 million at exchange rates on that date). The IPO also included a secondary offering, whereby Sanmar sold 47,134,935 common shares of Chemplast to the public for proceeds of 25.5 billion Indian rupees (approximately \$344 million at exchange rates on that date). As a result of the IPO, Sanmar's ownership interest in Chemplast was diluted from 100.0% to 55.0%. The proceeds from the IPO were used to repay Chemplast's debt and Sanmar's holding company debt. Chemplast is engaged in specialty PVC manufacturing, suspension PVC manufacturing and the production of specialty chemicals for pharmaceutical, agro-chemical and fine chemical sectors, in India. Chemplast is listed on both the BSE and NSE of India.

At September 30, 2021 the company estimated the fair value of its investment in Sanmar common shares using: (i) a discounted cash flow analysis for Sanmar Egypt, based on multi-year free cash flow forecasts with an assumed after-tax discount rate of 15.9% and a long term growth rate of 3.0%; and (ii) the unadjusted bid price of Chemplast's common shares. At September 30, 2021 free cash flow forecasts were based on EBITDA estimates derived from financial information for Sanmar Egypt prepared in the second quarter of 2021 by Sanmar's management.

At December 31, 2020 the company estimated the fair value of its investment in Sanmar common shares using a discounted cash flow analysis for Sanmar Egypt and Chemplast, based on multi-year free cash flow forecasts with assumed after-tax discount rates ranging from 15.0% to 20.5% and long term growth rates ranging from 3.0% to 4.0%. At December 31, 2020 free cash flow forecasts were based on EBITDA estimates derived from financial information for Sanmar Egypt and Chemplast prepared in the fourth quarter of 2020 by Sanmar's management.

As a result of Chemplast completing its IPO during the third quarter of 2021, the company changed its valuation technique as explained above.

Free Cash Flow Forecast Inputs

The primary driver of the free cash flow estimates is the future commodity price of petrochemical products. In the event that the commodity price of petrochemical products does not develop favourably in future periods, this may result in a negative impact on the fair value of the company's investment in Sanmar.

Current Model Assumptions

Free cash flow forecasts for Sanmar Egypt were revised by Sanmar's management in the second quarter of 2021 primarily to reflect lower sales volume for certain product lines and higher input costs due to supply shortages, resulting in lower forecasted margins. The revised forecasts negatively impacted the valuation of Sanmar which was more than offset by a decrease in Sanmar Egypt's after-tax discount rate and a reduction in net debt as a result of its debt restructuring, discussed below.

During the second quarter of 2021 Sanmar Egypt received approval from its lenders to restructure \$785.4 million of its borrowings. The restructuring plan will result in an extended tenor, reduced borrowing rates and the conversion of a portion of term loans to a 13.9% equity interest in Sanmar Egypt. Certain implementation steps of the restructuring plan are subject to regulatory approval. The debt restructuring implied a decrease in Sanmar Egypt's after-tax cost of borrowing and a decrease in Sanmar's net debt, which increased the valuation.

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. These risk premiums were reflective of the increased uncertainty of the free cash flow forecasts due to the economic and social impacts of the COVID-19 pandemic as well as the resulting liquidity pressures and were partially offset by a reduced cost of debt at Sanmar Egypt due to its debt restructuring. Long term growth rates were based on the expected long term sustainable growth rate of the economic environment and sectors in which Sanmar operates and were not adjusted downward for the short term impacts of COVID-19.

At September 30, 2021 the company's internal valuation model indicated that the fair value of the company's investment in Sanmar was \$438,771 (December 31, 2020 - \$338,621) with the changes in fair value for the third quarters and first nine months of 2021 and 2020 presented in the tables disclosed earlier in note 5.

Investment in Seven Islands Shipping Limited

Seven Islands Shipping Limited ("Seven Islands"), a private company located in Mumbai, India, is the second largest private sector tanker shipping company in India and transports liquid and gas cargo along the Indian coast as well as in international waters. At September 30, 2021 Seven Islands owned 22 vessels, including two gas carriers, with a total deadweight capacity of approximately 1.2 million metric tons. Its vessels are registered in India and operate as Indian owned and flagged vessels.

During 2019 Fairfax India invested aggregate cash consideration of \$83,846 (approximately 5.8 billion Indian rupees) for a 48.5% equity interest in Seven Islands.

At September 30, 2021 the company estimated the fair value of its investment in Seven Islands using a discounted cash flow analysis based on multi-year free cash flow forecasts with an assumed after-tax discount rate of 10.7% and a long term growth rate of 3.0% (December 31, 2020 - 13.5% and 3.0%, respectively). At September 30, 2021 free cash flow forecasts were based on EBITDA estimates derived from financial information for Seven Islands prepared in the third quarter of 2021 (December 31, 2020 - fourth quarter of 2020) by Seven Islands' management.

Free Cash Flow Forecast Inputs

The primary driver of the free cash flow estimates is the vessel profile composition, including planned vessel acquisitions and charter rates.

Current Model Assumptions

Free cash flows were revised by Seven Islands' management in the third quarter of 2021 primarily to reflect market conditions of the shipping industry in the near term, including the timing and composition of its planned vessel acquisitions, including acquisitions of gas carriers, which are expected to have robust demand. Discount rates were based on the company's assessment of risk premiums to the appropriate risk-free rate of the economic environment in which Seven Islands operates. These risk premiums were reflective of the increased uncertainty of the free cash flow forecasts due to the economic and social impacts of the COVID-19 pandemic. Long term growth rates were based on the expected long term sustainable growth rate of the economic environment and sectors in which Seven Islands operates.

At September 30, 2021 the company's internal valuation model indicated that the fair value of the company's investment in Seven Islands was \$104,838 (December 31, 2020 - \$103,543) with the changes in fair value for the third quarters and first nine months of 2021 and 2020 presented in the tables disclosed earlier in note 5.

Investment in National Commodities Management Services Limited

National Commodities Management Services Limited ("NCML") (formerly National Collateral Management Services Limited), a private company located in Gurugram, India, offers end-to-end solutions in grain procurement, storage and preservation, testing and certification, collateral management, market and weather intelligence, and logistics services. NCML's wholly-owned subsidiary, NCML Finance Private Ltd, focuses on rural and agri-business finance.

NCML Common Shares

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

At September 30, 2021 the company estimated the fair value of its investment in NCML common shares using a discounted cash flow analysis based on multi-year free cash flow forecasts with assumed after-tax discount rates ranging from 10.8% to 11.4% and long term growth rates ranging from 2.4% to 6.0% for two business units, and an adjusted net book value approach for its NBFC business unit (December 31, 2020 - 11.3% to 11.7%, 2.4% to 6.0%, respectively and an adjusted net book value approach for its NBFC business unit). At September 30, 2021 free cash flow forecasts were based on EBITDA estimates derived from financial information for two business units prepared in the third quarter of 2021 (December 31, 2020 - fourth quarter of 2020) by NCML's management.

Free Cash Flow Forecast Inputs

The primary drivers of the free cash flow estimates are warehouse capacity and future EBITDA growth of NCML's commodity management solutions business.

Current Model Assumptions

Free cash flow forecasts were revised by NCML's management in the third quarter of 2021 to primarily reflect changes to its composition of owned, leased and franchisee warehouse capacity, and to adjust EBITDA growth based on expected business volumes more towards franchisee warehouse capacity and away from leased capacity. 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. These risk premiums were reflective of the increased uncertainty of the free cash flow forecasts due to the economic and social impacts of the COVID-19 pandemic. Long term growth rates were based on the expected long term sustainable growth rate of the economic environment and sectors in which NCML operates and were not adjusted downward for the short term impacts of COVID-19.

During the third quarter of 2020, NCML's NBFC business unit experienced decreased funding from public sector banks which limited its ability to advance loans, in addition to a decline in the demand for lending as a result of the continued business disruptions in agri-businesses caused by the COVID-19 pandemic and India's lockdown. As a result, NCML's management commenced a process of scaling down its loan book. Accordingly, the company determined growth rates would not be relevant and it was more appropriate to value NCML's NBFC business unit using an asset-based approach rather than performing a discounted cash flow analysis as it had done previously.

At September 30, 2021 the company's internal valuation model indicated that the fair value of the company's equity investment in NCML was \$73,484 (December 31, 2020 - \$86,216) with the changes in fair value for the third quarters and first nine months of 2021 and 2020 presented in the tables disclosed earlier in note 5.

NCML Compulsorily Convertible Debentures

In 2019 the company was issued 12.5% unsecured compulsorily convertible debentures ("NCML CCD"), due September 30, 2029, at a cost of \$13,970 (approximately 1.0 billion Indian rupees). The company has the option to convert the NCML CCD into common shares of NCML at any time prior to the maturity date, at which time the conversion is compulsory, at a conversion price of 68.00 Indian rupees per common share.

At September 30, 2021 the fair value of the company's investment in NCML CCD was \$14,651 (December 31, 2020 - \$14,884) with the changes in fair value for the third quarters and first nine months of 2021 and 2020 presented in the tables disclosed earlier in note 5.

Investment in Saurashtra Freight Private Limited

Saurashtra Freight Private Limited ("Saurashtra"), a private company located in Mumbai, India, operates one of the largest container freight stations ("CFS") at Mundra port (Gujarat). Services provided by Saurashtra's CFS include transportation of containers to and from the port, stuffing and destuffing of containers, cargo storage, transportation of cargo to the end customer, and the storage, maintenance and repair of empty containers. Saurashtra's subsidiary, Fairfreight Lines, focuses on services for container shipping,

offering integrated logistics solutions to its customers by providing containers, which are leased by Saurashtra, to importers and exporters to transport cargo.

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

At September 30, 2021 the company estimated the fair value of its investment in Saurashtra using a discounted cash flow analysis based on multi-year free cash flow forecasts with assumed after-tax discount rates ranging from 18.8% to 21.3% and long term growth rates ranging from 4.0% to 5.0% (December 31, 2020 - 14.3% to 17.7%, and 4.0% to 5.0%, respectively). At September 30, 2021 free cash flow forecasts were based on EBITDA estimates derived from financial information for Saurashtra's two business units prepared in the second quarter of 2021 (December 31, 2020 - fourth quarter of 2020) by Saurashtra's management.

Free Cash Flow Forecast Inputs

The primary drivers of the free cash flow estimates are the import and export handling capacity and utilization.

Current Model Assumptions

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. These risk premiums were reflective of the increased uncertainty of the free cash flow forecasts due to the economic and social impacts of the COVID-19 pandemic. Long term growth rates were based on the expected long term sustainable growth rate of the economic environment and sectors in which Saurashtra operates.

At September 30, 2021 the company's internal valuation model indicated that the fair value of the company's investment in Saurashtra was \$36,773 (December 31, 2020 - \$32,812) with the changes in fair value for the third quarters and first nine months of 2021 and 2020 presented in the tables disclosed earlier in note 5.

Investment in National Stock Exchange of India Limited

National Stock Exchange of India Limited ("NSE"), a private company located in Mumbai, India, operates India's largest stock exchange. In addition to providing a platform for exchange-traded financial products in India, NSE's flagship index, Nifty50, is used extensively by investors in India and around the world as a barometer of the Indian capital markets.

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

At September 30, 2021 the company's estimated fair value of its investment in NSE of \$108,003 (December 31, 2020 - \$72,617) was based on recent third party transactions completed in the third quarter of 2021 (December 31, 2020 - fourth quarter of 2020). The changes in fair value of the company's investment in NSE for the third quarters and first nine months of 2021 and 2020 are presented in the tables disclosed earlier in note 5.

Investment in India Housing Fund

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

Fairfax India had invested aggregate cash consideration of \$24,399 (approximately 1.7 billion Indian rupees) in IH Fund through the following transactions: (i) on January 7, 2019 the company invested 25.0% or 437.0 million Indian rupees (\$6,272) of the committed investment amount in IH Fund; (ii) on November 7, 2019 the company invested an additional 35.0% or 611.8 million Indian rupees (\$8,621) of the committed investment amount in IH Fund; and, (iii) on December 24, 2020 the company invested the remaining 40.0% or 699.2 million Indian rupees (\$9,506) of the committed investment amount in IH Fund.

At September 30, 2021 the company estimated the fair value of its investment in IH Fund of \$24,824 (December 31, 2020 - \$25,354) based on the net asset value provided by the third party fund manager. The fair values of the underlying assets are determined using quoted prices for short term investments, and industry accepted valuation models for debt and equity instruments. The changes in fair value of the company's investment in IH Fund for the third quarters and first nine months of 2021 and 2020 are presented in the tables disclosed earlier in note 5.

Investment in Maxop Engineering Company Private Limited

Maxop Engineering Company Private Limited ("Maxop"), a private company located in New Delhi, India, is a precision aluminum die casting and machining solution provider for customers in the automotive and industrial sectors.

On September 16, 2021 Fairfax India entered into an agreement to acquire, in aggregate, a 67.0% equity interest in Maxop in two transactions. In the initial transaction, Fairfax India will invest approximately 2.2 billion Indian rupees (approximately \$30 million at the date of the agreement) for a 51.0% equity interest in Maxop and, in the second transaction, will invest up to approximately 2.7 billion Indian rupees (approximately \$36 million at the date of the agreement) for an additional 16.0% equity interest. The initial transaction is expected to close in the fourth quarter of 2021 and the second transaction is expected to close in the second half of 2022. The transaction is subject to customary closing conditions.

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:

	September 30, 2021					December 31, 2020				
	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	78,293	—	—	78,293	5,812	22,057	—	—	22,057	1,612
Restricted cash ⁽¹⁾	—	—	—	—	—	16,315	—	—	16,315	1,192
	<u>78,293</u>	<u>—</u>	<u>—</u>	<u>78,293</u>	<u>5,812</u>	<u>38,372</u>	<u>—</u>	<u>—</u>	<u>38,372</u>	<u>2,804</u>
Short term investments:										
Government of India ⁽²⁾	—	6,233	—	6,233	463	—	—	—	—	—
Bonds:										
Government of India ⁽²⁾	—	154,492	—	154,492	11,467	—	20,989	—	20,989	1,533
NCML CCD	—	—	14,651	14,651	1,088	—	—	14,884	14,884	1,088
	<u>—</u>	<u>154,492</u>	<u>14,651</u>	<u>169,143</u>	<u>12,555</u>	<u>—</u>	<u>20,989</u>	<u>14,884</u>	<u>35,873</u>	<u>2,621</u>
Common stocks:										
IIFL Finance	324,985	—	—	324,985	24,123	131,478	—	—	131,478	9,607
IIFL Wealth	255,492	—	—	255,492	18,964	166,702	—	—	166,702	12,180
IIFL Securities	110,552	—	—	110,552	8,206	55,603	—	—	55,603	4,063
Privi Speciality	82	—	—	82	6	138,413	—	—	138,413	10,113
Fairchem Organics	216,492	—	—	216,492	16,070	54,566	—	—	54,566	3,987
5paise ⁽³⁾	41,653	—	4,660	46,313	3,438	27,788	—	—	27,788	2,030
Other	71,017	—	—	71,017	5,271	147,604	—	—	147,604	10,785
BIAL	—	—	1,374,257	1,374,257	102,008	—	—	1,396,117	1,396,117	102,011
Sanmar	—	—	438,771	438,771	32,569	—	—	338,621	338,621	24,742
CSB Bank ⁽⁴⁾	72,267	—	236,559	308,826	22,923	50,410	—	163,931	214,341	15,661
Seven Islands	—	—	104,838	104,838	7,782	—	—	103,543	103,543	7,566
NCML	—	—	73,484	73,484	5,454	—	—	86,216	86,216	6,300
Saurashtra	—	—	36,773	36,773	2,730	—	—	32,812	32,812	2,398
NSE	—	—	108,003	108,003	8,017	—	—	72,617	72,617	5,306
IH Fund	—	—	24,824	24,824	1,843	—	—	25,354	25,354	1,853
	<u>1,092,540</u>	<u>—</u>	<u>2,402,169</u>	<u>3,494,709</u>	<u>259,404</u>	<u>772,564</u>	<u>—</u>	<u>2,219,211</u>	<u>2,991,775</u>	<u>218,602</u>
Total cash and investments	<u>1,170,833</u>	<u>160,725</u>	<u>2,416,820</u>	<u>3,748,378</u>	<u>278,234</u>	<u>810,936</u>	<u>20,989</u>	<u>2,234,095</u>	<u>3,066,020</u>	<u>224,027</u>
	<u>31.2 %</u>	<u>4.3 %</u>	<u>64.5 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>26.4 %</u>	<u>0.7 %</u>	<u>72.9 %</u>	<u>100.0 %</u>	<u>100.0 %</u>

- (1) At December 31, 2020 primarily comprised of funds set aside as restricted cash to fund interest payments on the company's borrowings.
- (2) Priced based on information provided by independent pricing service providers at September 30, 2021 and December 31, 2020. Short term investments relate to Government of India bonds maturing between three and twelve months from the date of purchase.
- (3) The company is restricted from selling its common shares of 5paise issued through the 5paise Preferential Share Rights Offer until May 28, 2022 and has applied a discount for lack of marketability (a significant unobservable valuation input) to the quoted price for the restricted common shares of 5paise held by the company at September 30, 2021.
- (4) The company is restricted from selling certain of its common shares of CSB Bank for a specified period up to August 7, 2024 and has applied a discount for lack of marketability (a significant unobservable valuation input) to the quoted price for the remaining restricted common shares of CSB Bank held by the company at September 30, 2021 and December 31 2020.

Transfers between fair value hierarchy levels are considered effective from the beginning of the reporting period in which the transfer is identified. During the first nine months of 2021 and 2020 there were no transfers of financial instruments between Level 1 and Level 2. During the first nine months of 2021, as a result of an increase in total common shares outstanding of CSB Bank arising from shares issued to an employee stock option trust, additional common shares of CSB Bank held by the company were subject to selling restrictions and were transferred from Level 1 to Level 3. During the third quarter of 2020 as a result of the Fairchem Reorganization, described in note 5, the company's investment in Fairchem Organics was classified as Level 3 in the fair value hierarchy at September 30, 2020.

A summary of changes in the fair value of the company's Indian Investments classified as Level 3 in the fair value hierarchy, denominated in the company's functional currency of the Indian rupee for the first nine months of 2021 and 2020 was as follows:

Indian rupees (in millions)	First nine months											
	2021						2020					
	Balance as of January 1	Purchases	Sales	Transfers	Net realized losses on investments	Net change in unrealized gains (losses) on investments	Balance as of September 30	Balance as of January 1	Fairchem Reorganization	Sales	Net change in unrealized gains (losses) on investments	Balance as of September 30
Bonds - NCML CCD	1,088	—	—	—	—	—	1,088	1,020	—	—	51	1,071
Common stocks:												
BIAL	102,011	—	—	—	—	(3)	102,008	102,060	—	—	6	102,066
Sanmar	24,742	—	—	—	—	7,827	32,569	29,474	—	—	(4,750)	24,724
CSB Bank	11,978	—	—	2	—	5,579	17,559	16,364	—	—	(4)	16,360
Seven Islands	7,566	—	—	—	—	216	7,782	6,338	—	—	425	6,763
NCML	6,300	—	—	—	—	(846)	5,454	8,618	—	—	(1,780)	6,838
Fairchem Organics	—	—	—	—	—	—	—	—	2,593	—	123	2,716
Saurashtra	2,398	—	—	—	—	332	2,730	2,227	—	—	(142)	2,085
NSE	5,306	—	—	—	—	2,711	8,017	4,084	—	—	871	4,955
IH Fund	1,853	—	(123)	—	—	113	1,843	1,081	—	(10)	59	1,130
Spaisa	—	449	—	—	(189)	86	346	—	—	—	—	—
Total	163,242	449	(123)	2	(189)	16,015	179,396	171,266	2,593	(10)	(5,141)	168,708

The changes in fair values of the company's Indian Investments classified as Level 3 in the fair value hierarchy in the company's presentation currency of U.S. dollars are disclosed in note 5. For all Indian Investments classified as Level 3 in the fair value hierarchy, net change in unrealized gains (losses) on investments related to unrealized gains (losses) on investments held at the end of the reporting periods.

The table that follows illustrates the potential impact on net earnings (loss) of various combinations of changes in unobservable inputs in the company's internal valuation models for its Indian Investments classified as Level 3 in the fair value hierarchy at September 30, 2021. The analysis assumes quarterly variations within a reasonably possible range determined by the company based on an analysis of the return on various equity indices, management's knowledge of the Indian equity markets and the potential impact of changes in interest rates. To reflect increased market volatility due to the economic and social impacts of the COVID-19 pandemic, management widened its reasonably possible range of after-tax discount rates to changes within 100 basis points from changes within 50 basis points previously applied by management prior to the COVID-19 pandemic. The change reflects the additional uncertainty in determining the discounted cash flows for assessing the fair values of Private Indian Investments. This sensitivity analysis excludes the company's investments in NCML CCD, NSE and IH Fund as the company determined that there were no significant unobservable inputs suited for a sensitivity analysis.

Investments	Fair value of Level 3 investment	Valuation technique	Significant unobservable inputs	Significant unobservable inputs used in the internal valuation models	Hypothetical \$ change effect on fair value measurement ⁽¹⁾	Hypothetical \$ change effect on net earnings ⁽¹⁾⁽²⁾
Common stocks:						
BIAL	1,374,257	Discounted cash flow	After-tax discount rate	12.0% to 15.6%	(354,266) / 465,570	(307,326) / 403,882
			Long term growth rate	3.5%	25,165 / (23,740)	21,831 / (20,595)
Sanmar ⁽³⁾	438,771	Discounted cash flow	After-tax discount rate	15.9%	(36,219) / 42,219	(31,420) / 36,625
			Long term growth rate	3.0%	4,645 / (4,468)	4,030 / (3,876)
CSB Bank ⁽⁴⁾	236,559	Bid price, net of discount	Discount for lack of marketability	20.4%	(4,297) / 4,322	(3,728) / 3,749
Seven Islands	104,838	Discounted cash flow	After-tax discount rate	10.7%	(28,079) / 36,693	(24,358) / 31,831
			Long term growth rate	3.0%	6,706 / (6,286)	5,818 / (5,453)
NCML ⁽⁵⁾	73,484	Discounted cash flow and adjusted net book value	After-tax discount rate	10.8% to 11.4%	(21,952) / 31,114	(19,043) / 26,991
			Long term growth rate	2.4% to 6.0%	3,888 / (3,532)	3,373 / (3,064)
Saurashtra	36,773	Discounted cash flow	After-tax discount rate	18.8% to 21.3%	(1,782) / 2,042	(1,546) / 1,771
			Long term growth rate	4.0% to 5.0%	293 / (284)	254 / (246)
Spaisa ⁽⁴⁾	4,660	Bid price, net of discount	Discount for lack of marketability	15.7%	(43) / 43	(37) / 37

- (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 (100 basis points), long term growth rates (25 basis points) and discount for lack of marketability (changes of 250 basis points to underlying historical share price volatility), 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 a decrease (increase) in after-tax discount rates and discount for lack of marketability would result in a higher (lower) fair value of the company's Indian Investments classified as Level 3 in the fair value hierarchy. After-tax discount rates are subject to a mitigating factor: increases (decreases) in after-tax discount rates tend to be accompanied by increases (decreases) in free cash flows, and the resulting changes in the fair value of an investment may offset each other.
- (2) For the purpose of this sensitivity analysis, the hypothetical \$ change effect on net earnings includes an income tax impact that is calculated using the company's marginal tax rate. Actual income tax expense (recovery) may differ significantly when earnings (losses) are realized.
- (3) Significant unobservable inputs relate only to the Sanmar Egypt business unit as Chemplast became publicly traded on the BSE and NSE of India during the third quarter of 2021. The hypothetical \$ change effect from a 10% increase or decrease in Chemplast's traded share price would be an increase or decrease in fair value of Sanmar of \$30,805, and an increase or decrease in net earnings of \$26,723.
- (4) A discount for lack of marketability is applied to the quoted price of common shares that the company is restricted from selling for a specified period, and is determined using an industry accepted option pricing model that incorporates unobservable long-dated historical share price volatility. A higher (lower) historical share price volatility generally results in a higher (lower) option value and a lower (higher) fair value of the common shares.
- (5) Adjusted net book value approach was applied only for NCML's NBFC business unit. The company determined that there were no significant unobservable inputs suited for a sensitivity analysis for this business unit.

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 September 30, 2021 and December 31, 2020 there were no bonds containing call or put features. The increase in bonds due after 1 year through 5 years primarily reflects the partial reinvestment of net proceeds received from the sales of Privi Speciality, an 11.5% minority interest in Anchorage and Other Public Indian Investments into Government of India bonds.

	September 30, 2021		December 31, 2020	
	Amortized cost	Fair value	Amortized cost	Fair value
Due after 1 year through 5 years	154,847	154,492	20,936	20,989
Due after 5 years through 10 years	13,509	14,651	13,724	14,884
	168,356	169,143	34,660	35,873

Investment Income

An analysis of investment income for the three and nine months ended September 30 is summarized in the table that follows:

Interest and dividends

	Third quarter		First nine months	
	2021	2020	2021	2020
Interest:				
Cash and cash equivalents	15	13	142	85
Short term investments	19	—	19	—
Bonds	1,219	938	2,967	5,063
	<u>1,253</u>	<u>951</u>	<u>3,128</u>	<u>5,148</u>
Dividends: Common stocks	<u>10,647</u>	<u>8,644</u>	<u>23,030</u>	<u>15,427</u>

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

	Third quarter					
	2021			2020		
	Net realized gains	Net change in unrealized gains (losses)	Net gains (losses)	Net realized gains (losses)	Net change in unrealized gains (losses)	Net gains (losses)
Net gains (losses) on investments:						
Short term investments	—	(3)	(3)	—	—	—
Bonds	134	(248)	(114)	600	(540)	60
Common stocks	58,942 ⁽¹⁾	113,428 ⁽¹⁾	172,370	3,274 ⁽¹⁾	74,969 ⁽¹⁾	78,243
	<u>59,076</u>	<u>113,177</u>	<u>172,253</u>	<u>3,874</u>	<u>74,429</u>	<u>78,303</u>
Net foreign exchange gains (losses) on:						
Cash and cash equivalents	786	—	786	(1,101)	—	(1,101)
Borrowings	—	711 ⁽²⁾	711	—	12,667 ⁽²⁾	12,667
Other	370	—	370	(16)	—	(16)
	<u>1,156</u>	<u>711</u>	<u>1,867</u>	<u>(1,117)</u>	<u>12,667</u>	<u>11,550</u>

(1) Refer to note 5 for a summary of changes in the fair value of the company's Public and Private Indian Investments during the third quarters of 2021 and 2020.

(2) In the third quarter of 2021 net change in unrealized gain on borrowings of \$711 related to the \$500.0 million unsecured senior notes. In the third quarter of 2020 unrealized foreign exchange gain on borrowings related to the \$550.0 million term loan.

	First nine months					
	2021			2020		
	Net realized gains (losses)	Net change in unrealized gains (losses)	Net gains (losses)	Net realized gains (losses)	Net change in unrealized gains (losses)	Net gains (losses)
Net gains (losses) on investments:						
Short term investments	—	(3)	(3)	—	—	—
Bonds	136	(411)	(275)	1,432	927	2,359
Common stocks	188,660 ⁽¹⁾	625,482 ⁽¹⁾	814,142	3,274 ⁽¹⁾	(130,215) ⁽¹⁾	(126,941)
Derivatives	4,847 ⁽¹⁾	—	4,847	—	—	—
	<u>193,643</u>	<u>625,068</u>	<u>818,711</u>	<u>4,706</u>	<u>(129,288)</u>	<u>(124,582)</u>
Net foreign exchange gains (losses) on:						
Cash and cash equivalents	1,357	—	1,357	(206)	—	(206)
Borrowings	(36,032) ⁽²⁾	27,524 ⁽²⁾	(8,508)	—	(17,736) ⁽²⁾	(17,736)
Other	1,706	—	1,706	(1,244)	—	(1,244)
	<u>(32,969)</u>	<u>27,524</u>	<u>(5,445)</u>	<u>(1,450)</u>	<u>(17,736)</u>	<u>(19,186)</u>

(1) Refer to note 5 for a summary of changes in the fair value of the company's Public and Private Indian Investments during the first nine months of 2021 and 2020.

(2) In the first nine months of 2021 net realized foreign exchange loss of \$36,032 related to the extinguishment of the \$550.0 million term loan. The net change in unrealized gain of \$27,524 was primarily comprised of the reversal of unrealized foreign exchange losses in prior years of \$32,546 on the extinguishment of the \$550.0 million term loan, partially offset by unrealized foreign exchange losses of \$5,022 primarily related to the new \$500.0 million unsecured senior notes issued in February 2021. In the first nine months of 2020 unrealized foreign exchange loss on borrowings related to the \$550.0 million term loan.

7. Borrowings

	September 30, 2021			December 31, 2020		
	Principal	Carrying value ⁽¹⁾	Fair value ⁽²⁾	Principal	Carrying value ⁽¹⁾	Fair value ⁽²⁾
<i>Secured Term Loan:</i>						
1 Year Secured Term Loan, floating rate due June 28, 2021	—	—	—	550,000	547,228	550,000
<i>Unsecured Senior Notes:</i>						
5.0% Unsecured Senior Notes due February 26, 2028	500,000	496,654	500,800	—	—	—
Total borrowings	<u>500,000</u>	<u>496,654</u>	<u>500,800</u>	<u>550,000</u>	<u>547,228</u>	<u>550,000</u>

(1) Principal net of unamortized issue costs.

(2) Principal for the Secured Term Loan approximated fair value at December 31, 2020. Fair value of the Unsecured Senior Notes was based principally on quoted market prices.

Unsecured Senior Notes

On February 26, 2021 the company completed an offering of \$500.0 million principal amount of 5.0% unsecured senior notes due February 26, 2028 ("500.0 million unsecured senior notes") at par for net proceeds after commissions and expenses of \$496,350. Commissions and expenses of \$3,650 were included in the carrying value of the notes. Fairfax, through its subsidiaries, purchased \$58,400 of the \$500.0 million principal amount under the same terms as the other participants. Refer to note 12 for further details of amounts due to related parties.

At September 30, 2021 the \$500.0 million unsecured senior notes were recognized net of unamortized issuance costs of \$3,346 (issuance costs of \$3,650 less amortization of \$304) and recorded in borrowings within the consolidated balance sheets. The issuance costs are amortized over the remaining life of the \$500.0 million unsecured senior notes and recorded in interest expense in the consolidated statements of earnings (loss).

Secured Term Loan

On June 28, 2018 the company completed a \$550,000 principal amount, 1 year secured term loan, with an option to extend for an additional year ("550.0 million term loan"), with a syndicate led by a Canadian bank. The \$550.0 million term loan was secured by way of a general lien on the company's assets and had an interest rate of LIBOR plus 350 basis points. On June 28, 2019 the company amended and restated the existing \$550.0 million term loan and extended the maturity to June 26, 2020 while maintaining the interest rate and option to extend for an additional year. On June 26, 2020 the company amended the \$550.0 million term loan to extend the maturity to June 28, 2021 at an interest rate of LIBOR plus 400 basis points while maintaining the option to extend for an additional year.

On March 1, 2021 the company used the net proceeds of the \$500.0 million unsecured senior notes and cash to repay \$500,000 of the \$550.0 million term loan, which permanently reduced the term loan principal to \$50,000 (the remaining term loan hereinafter referred to as the "\$50.0 million term loan"). With the consent of the lenders, the cash amount previously held in the debt service reserve account to fund term loan interest payments was released to the company. At December 31, 2020 the cash held in the debt service reserve account was classified as restricted cash within the consolidated balance sheets. The terms of the \$50.0 million term loan were unchanged.

On May 11, 2021 the company used a portion of the proceeds received from the sale of Privi Speciality common shares to repay the remaining \$50.0 million term loan. The repayments in the first nine months of 2021 resulted in the extinguishment of the \$550.0 million term loan and release of unamortized issuance costs of \$1,749 recorded in interest expense in the consolidated statements of earnings (loss). At December 31, 2020 the \$550.0 million term loan was recognized net of unamortized issuance costs of \$2,772 (issuance costs of \$5,545 less amortization of \$2,773) and recorded in borrowings within the consolidated balance sheets.

Interest Expense

In the third quarter and first nine months of 2021 interest expense of \$6,380 and \$22,134 (2020 - \$7,190 and \$22,572) was comprised of interest expense related to stated interest of \$6,250 and \$19,058 (2020 - \$5,803 and \$18,413), the amortization of issuance costs of \$130 and \$1,327 (2020 - \$1,387 and \$4,159) and the release of unamortized issuance costs of nil and \$1,749 (2020 - nil both periods). At September 30, 2021 the company recognized accrued interest expense of \$2,361 (December 31, 2020 - nil) within the consolidated balance sheets.

8. Total Equity

Common shareholders' equity

Common Stock

The number of shares outstanding was as follows:

	First nine months	
	2021	2020
Subordinate voting shares - January 1	119,470,571	122,631,481
Issuances of shares	546,263	—
Purchases for cancellation	(7,933,707)	(2,492,546)
Subordinate voting shares - September 30	112,083,127	120,138,935
Multiple voting shares - beginning and end of period	30,000,000	30,000,000
Common shares effectively outstanding - September 30	142,083,127	150,138,935

Issuance of Shares

On March 5, 2021 the company issued 546,263 subordinate voting shares to Fairfax to settle the performance fee payable of \$5,217 for the second calculation period (three year period ending on December 31, 2020). Under the terms of the Investment Advisory Agreement (defined in note 12), settlement of the performance fee was through the issuance of subordinate voting shares, calculated based on the performance fee payable at December 31, 2020 of \$5,217 divided by the volume-weighted average trading price of the company's subordinate voting shares for the 10 trading days prior to and including the last day of the calculation period ("VWAP") of \$9.55. Refer to note 12 for additional details on the settlement of the December 31, 2020 performance fee payable.

Purchase of Shares

The company has the ability to purchase for cancellation subordinate voting shares at prevailing market prices under the terms of its normal course issuer bid and in accordance with the rules and policies of the TSX. The company renewed its normal course issuer bid with effect from September 30, 2021. During the first nine months of 2021, under the terms of the normal course issuer bid, the company purchased for cancellation 886,728 subordinate voting shares (2020 - 2,492,546) for a net cost of \$10,767 (2020 - \$22,538), of which \$1,436 was charged to retained earnings (2020 - \$3,698 was recorded as a benefit in retained earnings).

On June 15, 2021 the company commenced a substantial issuer bid, pursuant to which the company offered to purchase for cancellation up to \$105,000 of its subordinate voting shares from shareholders for cash. In accordance with the terms and conditions of the substantial issuer bid, it was completed on August 11, 2021 and Fairfax India purchased for cancellation 7,046,979 subordinate voting shares at a purchase price of \$14.90 per share, for aggregate consideration of \$105,000, of which \$30,857 was charged to retained earnings. Fairfax did not tender any shares to the substantial issuer bid.

Automatic Share Purchase Plan

In connection with the renewal of the normal course issuer bid, the company entered into an automatic share purchase plan with its designated broker to allow for the purchase of subordinate voting shares under its normal course issuer bid at times when the company normally would not be active in the market. Such purchases are determined by the broker in its sole discretion based on parameters established by the company prior to commencement of the applicable trading black-out period. At September 30, 2021 the automatic share purchase plan gave rise to an obligation to repurchase shares of \$10,000 (December 31, 2020 - nil) which was recorded as an automatic share purchase plan liability within the consolidated balance sheets.

Subsequent to September 30, 2021

Subsequent to September 30, 2021, under the terms of the automatic share purchase plan, 757,869 subordinate voting shares were purchased for cancellation on behalf of the company for a net cost of \$10,000 and the automatic share purchase plan liability of \$10,000 recognized at September 30, 2021 was reversed.

Non-controlling interests

Subsidiary	Domicile	September 30, 2021		December 31, 2020		Net earnings (loss) attributable to non-controlling interests			
		Non-controlling interest	Carrying value	Non-controlling interest	Carrying value	Third quarter		First nine months	
						2021	2020	2021	2020
Anchorage	India	11.5 %	127,836	— %	—	(5)	—	(5)	—

In 2019 the company formed Anchorage as a wholly-owned subsidiary of FIH Mauritius, intended to provide investment related services to support the company in investing in companies, businesses and opportunities in the airport and infrastructure sectors in India as well as its platform for bidding on airport privatization projects in India. On September 16, 2021 the company transferred 43.6% of its 54.0% equity interest in BIAL such that it is held through Anchorage and subsequently sold 11.5% (on a fully-diluted basis) of its interest in Anchorage to OMERS for gross proceeds of 9.5 billion Indian rupees (\$129,221), implying an equity valuation for 100% of BIAL of approximately 189.7 billion Indian rupees (approximately \$2.6 billion at exchange rates on that date). Upon closing of the transaction, the company's effective ownership interest in BIAL decreased to approximately 49.0% on a fully-diluted basis, while its actual ownership remained unchanged. As a result of the transaction, the company recorded non-controlling interests of \$129,076 and a benefit to retained earnings of \$145.

The company shall use commercially reasonable efforts to list Anchorage by way of an IPO in India, subject to regulatory approvals and market conditions on or before September 2025. If the valuation of Anchorage upon closing of the IPO is below 91.6 billion Indian rupees (approximately \$1.2 billion at period end exchange rates), then OMERS' ownership in Anchorage will increase to a maximum of 15.0% and the company's effective ownership interest in BIAL will decrease to maximum of 47.5% on a fully-diluted basis. Management has assessed the possibility of the company listing Anchorage during unfavourable market conditions to be remote and therefore no value has been attributed to this feature.

9. Net Earnings (Loss) per Share

Net earnings (loss) per common share is calculated as follows using the weighted average common shares outstanding:

	Third quarter		First nine months	
	2021	2020	2021	2020
Net earnings (loss) attributable to shareholders of Fairfax India – basic and diluted	131,910	77,652	612,230	(123,773)
Weighted average common shares outstanding – basic	145,457,895	150,419,817	148,057,994	151,370,397
Contingently issuable subordinate voting shares	8,824,474	—	8,824,474	—
Weighted average common shares outstanding – diluted	154,282,369	150,419,817	156,882,468	151,370,397
Net earnings (loss) per common share – basic	\$ 0.91	\$ 0.52	\$ 4.14	\$ (0.82)
Net earnings (loss) per common share – diluted	\$ 0.85	\$ 0.52	\$ 3.90	\$ (0.82)

At September 30, 2021 there were an estimated 8,824,474 contingently issuable subordinate voting shares to Fairfax relating to the performance fee payable for the third calculation period (September 30, 2020 - nil related to the second calculation period). The performance fee for the third calculation period is assessed quarterly and relates to the three-year period from January 1, 2021 to December 31, 2023 (for the second calculation period - three-year period from January 1, 2018 to December 31, 2020). Under the terms of the Investment Advisory Agreement (defined in note 12), if a performance fee is payable for the period ending on December 31, 2023, the performance fee will be payable in cash, or at Fairfax's option, in subordinate voting shares. The number of subordinate voting shares issued will be calculated based on the VWAP. Refer to note 12 for further details on performance fee.

10. Income Taxes

The company's provision for (recovery of) income taxes for the three and nine months ended September 30 are summarized in the following table:

	Third quarter		First nine months	
	2021	2020	2021	2020
Current income tax:				
Current year expense	14,865	1,019	16,839	1,408
Adjustment to prior years' income taxes	—	1	(89)	15
	<u>14,865</u>	<u>1,020</u>	<u>16,750</u>	<u>1,423</u>
Deferred income tax:				
Origination and reversal of temporary differences	1,790	4,133	34,959	(4,299)
Provision for (recovery of) income taxes	<u>16,655</u>	<u>5,153</u>	<u>51,709</u>	<u>(2,876)</u>

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

On March 27, 2020 India enacted the Finance Act 2020 which amended the regulations pertaining to dividend income. Dividend income which was received by the company from an Indian company on or before March 31, 2020 was exempt from tax in India, while dividend income received by the company from an Indian company subsequent to March 31, 2020 will be taxable. The Indian company is liable to withhold the appropriate tax.

At September 30, 2021 the company evaluated the potential impact of the application of capital gains tax in India on any future dispositions of investments in equity shares held by FIH Mauritius, FIH Private and Anchorage. In the third quarter of 2021 the company recorded deferred income taxes of \$1,790 attributable to unrealized gains on the company's investments in equity shares acquired subsequent to April 1, 2017, primarily IIFL Wealth, Fairchem Organics, and IIFL Securities, partially offset by a reversal of prior period deferred taxes recognized on the company's investments in BIAL, Other Public Indian Investments, and CSB Bank. In the first nine months of 2021 the company recorded deferred income taxes of \$34,959 attributable to unrealized gains on the company's investments in equity shares acquired subsequent to April 1, 2017, primarily Fairchem Organics, CSB Bank, IIFL Wealth, and IIFL Securities, partially offset by a reversal of prior period deferred taxes recognized on the company's investment in BIAL. In the third quarter of 2020 the company recorded deferred income tax of \$4,133 attributable to unrealized gains on the company's investments in equity shares acquired subsequent to April 1, 2017, primarily CSB Bank. In the first nine months of 2020 the company recorded deferred income tax recovery of \$4,299 attributable to unrealized losses recorded on the company's investment in equity shares acquired subsequent to April 1, 2017, primarily Other Public Indian Investments and IIFL Wealth. The company will continue to evaluate the potential impact of the Indian capital gains tax as it relates to any future dispositions of investments in equity shares of its Indian Investments.

The company's earnings (loss) before income taxes by jurisdiction and the associated provision for (recovery of) income taxes for the three and nine months ended September 30 are summarized in the following tables:

	Third quarter					
	2021			2020		
	Canada	Mauritius	Total	Canada	Mauritius	Total
Earnings (loss) before income taxes	(5,930)	154,490	148,560	4,153	78,652	82,805
Provision for income taxes	—	16,655 ⁽¹⁾	16,655	—	5,153 ⁽³⁾	5,153
Net earnings (loss)	(5,930)	137,835	131,905	4,153	73,499	77,652

	First nine months					
	2021			2020		
	Canada	Mauritius	Total	Canada	Mauritius	Total
Earnings (loss) before income taxes	(31,488)	695,422	663,934	(41,009)	(85,640)	(126,649)
Provision for (recovery of) income taxes	—	51,709 ⁽²⁾	51,709	—	(2,876) ⁽⁴⁾	(2,876)
Net earnings (loss)	(31,488)	643,713	612,225	(41,009)	(82,764)	(123,773)

(1) Includes \$1,790 deferred income taxes in India (primarily related to unrealized gains recorded in the third quarter of 2021 on IIFL Wealth, Fairchem Organics and IIFL Securities, partially offset by a reversal of prior period deferred taxes recognized on the company's investments in BIAL, Other Public Indian Investments, and CSB Bank) and \$14,707 of Indian withholding taxes, including capital gains taxes paid on the sale of an investment in Other Public Indian Investments and on the transfer of BIAL shares to Anchorage.

(2) Includes \$34,959 deferred income taxes in India (primarily related to unrealized gains recorded in the first nine months of 2021 on Fairchem Organics, CSB Bank, IIFL Wealth, and IIFL Securities, partially offset by a reversal of prior period deferred taxes recognized on the company's investment in BIAL) and \$16,592 of Indian withholding taxes, including capital gains taxes paid on the sale of an investment in Other Public Indian Investments and on the transfer of BIAL shares to Anchorage.

(3) Includes \$4,133 deferred income taxes in India (primarily related to unrealized gains recorded in the third quarter of 2020 on CSB Bank).

(4) Includes \$4,299 deferred income tax recovery in India (primarily related to unrealized losses recorded in the first nine months of 2020 on Other Public Indian Investments and IIFL Wealth).

Loss before income taxes in Canada in the third quarter of 2021 compared to earnings before income taxes in the third quarter of 2020 primarily reflected decreased net foreign exchange gains on borrowings, partially offset by decreased interest expense. The decrease in loss before income taxes in Canada in the first nine months of 2021 compared to the first nine months of 2020 is primarily related to decreased net foreign exchange losses on borrowings. The increase in earnings before income taxes in Mauritius third quarter of 2021 compared to the third quarter of 2020 is primarily related to increased net gains on investments and increased dividend income, partially offset by increased performance fee and investment and advisory fees. Earnings before income taxes in Mauritius in the first nine months of 2021 compared to loss before income taxes in Mauritius the first nine months of 2020 primarily reflected increased net gains on investments and increased dividend income, partially offset by a performance fee accrual in the first nine months of 2021 compared to a performance fee recovery the first nine months of 2020, increased investment and advisory fees and decreased interest income.

A reconciliation of the provision for (recovery of) income taxes calculated at the Canadian statutory income tax rate to the provision for (recovery of) income taxes at the effective tax rate in the interim consolidated financial statements for the three and nine months ended September 30 are summarized in the following table:

	Third quarter		First nine months	
	2021	2020	2021	2020
Canadian statutory income tax rate	26.5 %	26.5 %	26.5 %	26.5 %
Provision for (recovery of) income taxes at the Canadian statutory income tax rate	39,369	21,943	175,943	(33,562)
Tax rate differential on income earned and losses incurred outside of Canada	(29,523)	(18,493)	(151,369)	15,243
Provision (recovery) relating to prior years	—	1	(89)	15
Change in unrecorded tax benefit of losses and temporary differences	6,296	3,445	26,356	11,225
Foreign exchange effect	513	(1,748)	864	4,186
Other including permanent differences	—	5	4	17
Provision for (recovery of) income taxes	16,655	5,153	51,709	(2,876)

The tax rate differential on income earned outside of Canada of \$29,523 and \$151,369 in the third quarter and first nine months of 2021 (2020 - tax rate differential on income earned outside of Canada of \$18,493 and tax rate differential on losses incurred outside of Canada of \$15,243) principally reflected the impact of net investment income and losses taxed in India and Mauritius at lower rates.

The change in unrecorded tax benefit of losses and temporary differences of \$6,296 in the third quarter of 2021 principally reflected changes in unrecorded deferred tax assets related to the temporary timing differences on the performance fee and professional fees of \$5,774, net operating losses in Canada of \$3,782, temporary timing differences on debt and equity issuance costs of \$1,258, the

potential impact of the application of capital loss benefit in India on future dispositions of investments in equity shares of \$177, partially offset by the impact of foreign exchange of \$2,369, the utilization of foreign accrual property losses of \$2,326 with respect to the company's wholly-owned subsidiaries that were not recorded by the company as the related pre-tax losses did not meet the recognition criteria under IFRS.

The change in unrecorded tax benefit of losses and temporary differences of \$26,356 in the first nine months of 2021 principally reflected changes in unrecorded deferred tax assets related to the temporary timing differences on the performance fee and professional fees of \$31,053, temporary timing differences on debt and equity issuance costs of \$3,119, the impact of foreign exchange of \$1,409, partially offset by the potential impact of the application of capital loss benefit in India on future dispositions of investments in equity shares of \$6,714, the utilization of foreign accrual property losses of \$2,323 with respect to the company's wholly-owned subsidiaries, and the utilization of net operating losses in Canada of \$188 that were not recorded by the company as the related pre-tax losses did not meet the recognition criteria under IFRS.

The change in unrecorded tax benefit of losses and temporary differences of \$3,445 in the third quarter of 2020 principally reflected changes in unrecorded deferred tax assets related to the potential impact of the application of capital loss benefit in India on future dispositions of investments in equity shares of \$4,075 and net operating loss carryforwards in Canada of \$1,466, partially offset by temporary timing differences on debt issuance costs of \$1,216 and the utilization of foreign accrual property losses of \$880 with respect to the company's wholly-owned subsidiaries that were not recorded by the company as the related pre-tax losses did not meet the recognition criteria under IFRS.

The change in unrecorded tax benefit of losses and temporary differences of \$11,225 in the first nine months of 2020 principally reflected changes in unrecorded deferred tax assets related to the potential impact of the application of capital loss benefit in India on future dispositions of investments in equity shares of \$6,419, net operating loss carryforwards in Canada of \$4,568, and temporary timing differences on debt issuance costs of \$1,673, partially offset by the utilization of foreign accrual property losses of \$1,435 with respect to the company's wholly-owned subsidiaries that were not recorded by the company as the related pre-tax losses did not meet the recognition criteria under IFRS.

At September 30, 2021 deferred tax assets of \$102,791 in Canada and \$1,623 in India (December 31, 2020 - \$71,268 in Canada and \$8,410 in India) were not recorded as it was considered not probable that those losses could be utilized by the company.

Foreign exchange effect of \$513 and \$864 in the third quarter and first nine months of 2021 (2020 - \$1,748 and \$4,186) 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 subsidiaries is the Indian rupee.

11. Financial Risk Management

Overview

There were no significant changes to the types of the company's risk exposures or the processes used by the company for managing those risk exposures at September 30, 2021 compared to those identified and disclosed in the company's annual consolidated financial statements for the year ended December 31, 2020, except as described below.

COVID-19

The rapid spread of the COVID-19 virus, which was declared by the World Health Organization to be a pandemic on March 11, 2020, and actions taken globally in response to COVID-19, have significantly disrupted business activities throughout the world. The company's Indian Investments rely, to a certain extent, on free movement of goods, services, and capital from around the world, which were significantly restricted as a result of COVID-19.

Given the ongoing and dynamic nature of the circumstances surrounding COVID-19, including subsequent variants, it is difficult to predict how significant the impact of the pandemic, including any responses to it, will be on the global economy and the company's Indian Investments in particular, or for how long any disruptions are likely to continue. The extent of such impact will depend on future developments, including new information which may emerge concerning the severity of COVID-19 and additional actions which may be taken to contain COVID-19. In particular, the potential resurgence of COVID-19 cases and its new variants, and consequently the extension or reintroduction of containment measures may contribute to greater uncertainty and delay the recovery of economic activity. Such further developments could have a material adverse effect on the company's business, financial condition, results of operations and cash flows.

Market Risk

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

Foreign Currency Risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument or another asset or liability will fluctuate due to changes in foreign exchange rates and produce an adverse effect on net earnings and equity when measured in Indian rupees, the company's functional currency. The company's net earnings and equity may also be significantly affected by foreign currency translation movements as the majority of its net assets and net earnings are denominated in a currency other than the company's U.S. dollar presentation currency. The company has not hedged its foreign currency risk. There were no significant changes to the company's framework used to monitor, evaluate and manage foreign currency risk at September 30, 2021 compared to December 31, 2020.

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 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 September 30, 2021 compared to December 31, 2020.

The company's exposure to interest rate risk increased in the first nine months of 2021, primarily reflecting the partial reinvestment of net proceeds received from the sales of Privi Speciality, an 11.5% minority interest in Anchorage and Other Public Indian Investments into Government of India bonds. 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 which the company believes to be reasonably possible in the current economic environment during COVID-19. This analysis was performed on each individual security, with the hypothetical effect on net earnings (loss).

	September 30, 2021			December 31, 2020		
	Fair value of fixed income portfolio	Hypothetical \$ change effect on net earnings ⁽¹⁾	Hypothetical % change in fair value	Fair value of fixed income portfolio	Hypothetical \$ change effect on net earnings ⁽¹⁾	Hypothetical % change in fair value
Change in interest rates						
200 basis point increase	164,939	(3,090)	(2.5)%	35,373	(367)	(1.4)%
100 basis point increase	167,021	(1,560)	(1.3)%	35,621	(185)	(0.7)%
No change	169,143	—	—	35,873	—	—
100 basis point decrease	171,307	1,590	1.3 %	36,130	189	0.7 %
200 basis point decrease	173,512	3,211	2.6 %	36,392	381	1.4 %

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

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

Market Price Fluctuations

Market price fluctuation is the risk that the fair value or future cash flows of an equity investment will fluctuate because of changes in market prices (other than those arising from interest rate risk or foreign currency risk), whether those changes are caused by factors specific to the individual investment or its issuer, or other factors affecting all similar investments in the market. The company's exposure to equity price risk through its equity investments at September 30, 2021 compared to December 31, 2020 are described below.

The company holds significant equity investments. The market values and liquidity of these investments are volatile and may vary dramatically either up or down in short periods, and their ultimate values will therefore only be known over a period of time or on disposition. As discussed earlier, COVID-19 has increased uncertainty and may adversely impact the fair value and future cash flows of the company's equity investments.

The company's exposure to market price risk increased to \$3,494,709 at September 30, 2021 from \$2,991,775 at December 31, 2020 primarily as a result of unrealized gains on the Public Indian Investments (principally IIFL Finance, Fairchem Organics, CSB Bank, IIFL Wealth and IIFL Securities), unrealized gains on the Private Indian Investments (principally Sanmar and NSE) and additional investments in Fairchem Organics and Spaisa, partially offset by the sale of the company's investments in Privi Speciality common shares and Other Public Indian Investments and unrealized loss on the company's private investment in NCML common shares. Refer to note 6 for the potential impact on net earnings (loss) 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 company estimates the potential impact on net earnings (loss) from a 20% increase or decrease in the fair value of its Public Indian Investments at September 30, 2021 to be a hypothetical increase or decrease in net earnings (loss) of \$229,523 (December 31, 2020 - hypothetical increase or decrease in net earnings (loss) of \$158,570). For the purpose of this sensitivity analysis, hypothetical \$ change effect on net earnings includes an income tax impact that is calculated using the company's marginal tax rate. Actual income tax expense (recovery) may differ significantly when earnings (losses) are realized.

Credit Risk

Credit risk is the risk of loss resulting from the failure of a counterparty to honour its financial obligations to the company, and arises predominantly from cash and cash equivalents, 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 September 30, 2021 compared to December 31, 2020.

Cash and Cash Equivalents and Short Term Investments

At September 30, 2021 the company's cash and cash equivalents of \$78,293 (December 31, 2020 - \$22,057) were primarily held in major financial institutions. The company monitors risks associated with cash and cash equivalents by regularly reviewing the financial strength and creditworthiness of these financial institutions. From these reviews, the company may transfer balances from financial institutions where it perceives heightened credit risk to others considered to be more stable.

At September 30, 2021 the company's short term investments in Government of India bonds of \$6,233 (December 31, 2020 - nil) were rated Baa3 by Moody's and BBB- by S&P.

Investments in Debt Instruments

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

At September 30, 2021 the company's debt instruments were all considered to be subject to credit risk with a fair value of \$169,143 (December 31, 2020 - \$35,873), representing 4.5% (December 31, 2020 - 1.2%) of the total cash and investments portfolio.

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

	September 30, 2021		December 31, 2020	
	Fair value	Rating	Fair value	Rating
Government of India bonds ⁽¹⁾	154,492	Baa3/BBB-	20,989	Baa3/BBB-
NCML CCD	14,651	Not rated	14,884	Not rated
Total bonds	<u>169,143</u>		<u>35,873</u>	

(1) Rated Baa3 by Moody's and BBB- by S&P at September 30, 2021 and December 31, 2020.

The company's exposure to credit risk from its investment in fixed income securities increased at September 30, 2021 compared to December 31, 2020, primarily reflecting the partial reinvestment of net proceeds received from the sales of Privi Speciality, an 11.5% minority interest in Anchorage and Other Public Indian Investments into Government of India bonds. 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 September 30, 2021 compared to December 31, 2020.

Liquidity Risk

Liquidity risk is the risk that the company will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. The company manages liquidity risk by maintaining sufficient liquid assets to enable settlement of financial commitments on their respective due dates. All accounts payable and accrued liabilities are due within three months, and income taxes payable, if any, must be remitted to the respective tax jurisdictions as they are due. There were no significant changes to the company's exposure to liquidity risk (except as set out in the discussion below) or the framework used to monitor, evaluate and manage liquidity risk at September 30, 2021 compared to December 31, 2020.

The undeployed cash and investments at September 30, 2021 provide adequate liquidity to meet the company's known significant commitments over the next twelve months, which are principally comprised of an investment in Maxop, a commitment under the automatic share purchase plan, interest expense, investment and advisory fees, and general and administration expenses.

At September 30, 2021 the company's payment obligations which are due beyond one year primarily relate to the recurring nature of expenses described above and a principal redemption on the \$500.0 million unsecured senior notes due in February 2028, which bears interest at a fixed rate of 5.0% per annum, payable in semi-annual installments. In addition, under the Investment Advisory Agreement (defined in note 12), if a performance fee is payable for the period ending on December 31, 2023, the performance fee will be payable in cash, or at Fairfax's option, in subordinate voting shares.

The company has the ability to sell a portion of its Indian Investments to supplement its liquidity requirements, by way of private placements or in public markets for its Public Indian Investments, or through private sales or IPOs for its Private Indian Investments. At September 30, 2021 the company held common shares of Public Indian Investments which carry no selling restrictions with a fair value of \$1,050,887, Government of India bonds with a fair value of \$154,492 and short term investments of \$6,233. The company expects to continue to receive investment income on its holdings of fixed income securities and dividends from its equity investments to supplement its cash and cash equivalents. Accordingly, the company has adequate working capital to support its operations.

Concentration Risk

The company's cash and investments are primarily concentrated in India and in Indian businesses or businesses with customers, suppliers or business primarily conducted in, or dependent on, India. The market value of the company's investments, the income generated by the company and the company's performance will be particularly sensitive to changes in the economic condition, interest rates, and regulatory environment in India. Adverse changes to the economic condition, interest rates or regulatory environment in India may have a material adverse effect on the company's business, cash flows, financial condition and net earnings. At September 30, 2021 and December 31, 2020 the company's total cash and investments composition by the issuer's country of domicile was primarily India, and at September 30, 2021 represented 98.2% (December 31, 2020 - 98.8%) of the total cash and investments portfolio.

The company's holdings of Public and Private Indian Investments (see note 5) at September 30, 2021 and December 31, 2020 are summarized by the issuer's primary industry sector in the table below:

	September 30, 2021	December 31, 2020
Infrastructure	1,374,257	1,396,117
Financial services	1,178,995	788,384
Commercial and industrial	743,480	632,700
Ports and shipping	141,611	136,355
Utilities	71,017	53,103
	3,509,360	3,006,659

During the first nine months of 2021 the company's concentration risk in the infrastructure sector decreased primarily due to unrealized foreign currency translation losses on the company's investment in BIAL. The company's concentration risk in the financial services sector increased primarily due to unrealized gains on the company's investments in IIFL Finance, CSB Bank, IIFL Wealth, IIFL Securities and NSE, partially offset by the sale of the company's investments in financial service companies within Other Public Indian Investments and unrealized foreign currency translation losses. The company's concentration risk in the commercial and industrial sector increased primarily due to unrealized gains on the company's investments in Fairchem Organics and Sanmar, partially offset by the sale of the company's investment in Privi Speciality and unrealized losses on the company's investment in NCML common shares. The company's concentration risk in the ports and shipping sector increased primarily due to unrealized gains on the company's investments in Saurashtra and Seven Islands. The company's concentration risk in the utilities sector increased primarily due to unrealized gains on the company's investments in common stocks of utility companies within Other Public Indian Investments.

The company will not make an Indian Investment if, after giving effect to such investment, the total invested amount of such investment would exceed 20.0% of the company's total assets at the time of the investment; provided, however, that the company is permitted to complete up to two Indian Investments where, after giving effect to each such investment, the total invested amount of each such investment would be less than or equal to 25.0% of the company's total assets (the "Investment Concentration Restriction"). The company's investment limit for an Indian Investment in accordance with the Investment Concentration Restriction increased at September 30, 2021 from December 31, 2020 principally as a result of unrealized gains on investments, sales of subsidiary shares to non-controlling interests, and dividend and interest income, partially offset by purchases of subordinate voting shares for cancellation, net repayments of borrowings, unrealized foreign currency translation losses, investment and advisory fees, and income tax and interest payments. 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 September 30, 2021 the company determined that it was in compliance with the Investment Concentration Restriction.

Capital Management

The company's objectives when managing capital are to protect its lenders, to safeguard its ability to continue as a going concern, and to maintain an optimal capital structure to reduce the cost of capital in order to optimize returns for common shareholders. The company will seek attractive risk-adjusted returns, but will at all times seek downside protection and attempt to minimize the loss of capital. Total capital (comprised of borrowings, common shareholders' equity and non-controlling interests) increased to \$3,519,359 at September 30, 2021 from \$2,994,162 at December 31, 2020, principally reflecting an increase in common shareholders' equity and non-controlling interests, partially offset by net repayments of borrowings, as described below.

Common shareholders' equity increased to \$2,894,869 at September 30, 2021 from \$2,446,934 at December 31, 2020 primarily reflecting net earnings attributable to shareholders of \$612,230 and the issuance of subordinate voting shares to Fairfax to settle the December 31, 2020 performance fee payable of \$5,217, partially offset by purchases of subordinate voting shares for cancellation of \$115,767 and unrealized foreign currency translation losses attributable to shareholders of \$43,902 in the first nine months of 2021.

Non-controlling interests of \$127,836 at September 30, 2021 (December 31, 2020 - nil) primarily reflected the sale of an 11.5% minority interest in Anchorage to OMERS, resulting in the recognition of non-controlling interests of \$129,076, partially offset by unrealized foreign currency translation losses attributable to non-controlling shareholders of \$1,235 in the first nine months of 2021.

On February 26, 2021 the company completed an offering of \$500.0 principal amount of 5.0% unsecured senior notes due February 26, 2028. On March 1, 2021 the company used the net proceeds from the offering and cash to repay \$500,000 of its \$550.0 million term loan. On May 11, 2021 the company used a portion of the proceeds received from the sale of Privi Speciality common shares to repay the remaining \$50.0 million term loan.

12. Related Party Transactions

Payable to Related Parties

The company's payable to related parties (excluding amounts related to unsecured senior notes discussed below) was comprised as follows:

	September 30, 2021	December 31, 2020
Performance fee	117,139	5,217
Investment and advisory fee	10,356	9,187
Other	22	24
	<u>127,517</u>	<u>14,428</u>

Investment Advisory Agreement

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

Performance Fee

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

Second Calculation Period

On March 5, 2021 the company issued 546,263 subordinate voting shares to Fairfax to settle the performance fee payable of \$5,217 for the second calculation period (three year period ending on December 31, 2020). Under the terms of the Investment Advisory Agreement, settlement of the performance fee was through the issuance of subordinate voting shares of the company as the market price per share was less than two times the then book value per share. The number of subordinate voting shares issued was calculated as the performance fee payable at December 31, 2020 of \$5,217 divided by the VWAP of \$9.55. The issuance of these subordinate voting shares, along with the purchases of subordinate voting shares for cancellation up to March 5, 2021, increased Fairfax's equity interest in Fairfax India from 28.0% at December 31, 2020 to 28.4% at March 5, 2021.

Third Calculation Period

The period from January 1, 2021 to December 31, 2023 (the "third calculation period") will be the next consecutive three-year period after December 31, 2020 for which a performance fee, if applicable, will be accrued. Under the Investment Advisory Agreement, if a performance fee is payable for the period ending on December 31, 2023, the performance fee will be payable in cash, or at Fairfax's option, in subordinate voting shares. If Fairfax elects to have the performance fee paid in subordinate voting shares, such election must be made no later than December 15, 2023. The number of subordinate voting shares to be issued will be calculated based on the VWAP.

At September 30, 2021 the company determined that there was a \$117,139 performance fee accrual related to the third calculation period (December 31, 2020 - \$5,217 performance fee payable related to the second calculation period). A performance fee of \$18,642 and \$118,169 was recorded in the consolidated statements of earnings (loss) in the third quarter and first nine months of 2021 (2020 - nil and a performance fee recovery of \$47,134, representing the reversal of the performance fee accrual at December 31, 2019).

Investment and Advisory Fees

The investment and advisory fees are calculated and payable quarterly as 0.5% of the value of undeployed capital and 1.5% of the company's common shareholders' equity less the value of undeployed capital. The investment and advisory fees recorded in the consolidated statements of earnings (loss) for the third quarter and first nine months of 2021 was \$10,304 and \$30,655 (2020 - \$8,503 and \$24,912).

Unsecured Senior Notes

Fairfax, through its subsidiaries, purchased \$58,400 of the \$500.0 million unsecured senior notes under the same terms as the other participants. Amounts due to related parties related to the \$500.0 million unsecured senior notes were comprised as follows:

	September 30, 2021	December 31, 2020
Principal portion, presented within borrowings on the consolidated balance sheet	58,400	—
Interest portion, presented within accrued interest expense on the consolidated balance sheet	276	—
	<u>58,676</u>	<u>—</u>

Interest expense recorded in the consolidated statements of earnings (loss) for the third quarter and first nine months of 2021 included \$730 and \$1,736 related to amounts due to related parties (2020 - nil both periods). Refer to note 7 for further details on the \$500.0 million unsecured senior notes.

Fairfax's Voting Rights and Equity Interest

At September 30, 2021 Fairfax, through its subsidiaries, owned 30,000,000 multiple voting shares (December 31, 2020 - 30,000,000) and 12,462,241 subordinate voting shares (December 31, 2020 - 11,915,978) of Fairfax India. At September 30, 2021 Fairfax's holdings of multiple and subordinate voting shares represented 93.8% of the voting rights and 29.9% of the equity interest in Fairfax India (December 31, 2020 - 93.4% and 28.0%). Fairfax did not tender any shares to the substantial issuer bid discussed in note 8.

13. General and Administration Expenses

General and administration expenses for the three and nine months ended September 30 were comprised as follows:

	Third quarter		First nine months	
	2021	2020	2021	2020
Audit, legal and tax professional fees	637	508	1,762	1,464
Salaries and employee benefit expenses	171	130	825	699
Administrative expenses	502	115	941	471
Other ⁽¹⁾	824	197	1,004	472
	<u>2,134</u>	<u>950</u>	<u>4,532</u>	<u>3,106</u>

(1) Other expenses primarily included brokerage fees on sales of investments and stamp duties related to the transfer of 43.6% of the company's equity interest in BIAL such that it is held through Anchorage, and subsequent sale of 11.5% equity interest in Anchorage in the third quarter and first nine months of 2021.

14. Supplementary Cash Flow Information

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

	September 30, 2021	December 31, 2020
Cash and term deposits with banks	24,264	22,057
Treasury bills	54,029	—
	<u>78,293</u>	<u>22,057</u>

Details of certain cash flows included in the consolidated statements of cash flows for the three and nine months ended September 30 were as follows:

	Third quarter		First nine months	
	2021	2020	2021	2020
Purchases of investments				
Bonds	(121,480)	(34,842)	(214,116)	(91,733)
Common stocks	—	(40,023)	(24,260)	(84,672)
	<u>(121,480)</u>	<u>(74,865)</u>	<u>(238,376)</u>	<u>(176,405)</u>
Sales of investments				
Bonds	57,187	36,307	77,518	164,359
Common stocks	118,563	40,259	288,501	40,319
	<u>175,750</u>	<u>76,566</u>	<u>366,019</u>	<u>204,678</u>
Net interest and dividends received (paid)				
Net interest income received (paid)	(1,970)	1,314	(742)	7,651
Dividends received	8,983	6,714	21,768	13,497
Interest paid on borrowings	(12,500)	(5,976)	(14,670)	(19,031)
	<u>(5,487)</u>	<u>2,052</u>	<u>6,356</u>	<u>2,117</u>
Income taxes received (paid)	<u>(15,639)</u>	<u>(914)</u>	<u>(14,945)</u>	<u>(5,111)</u>

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

Notes to Management's Discussion and Analysis of Financial Condition and Results of Operations	40
Business Developments	40
Overview	40
Capital Transactions	40
Operating Environment	41
Business Objectives	43
Investment Objective	43
Investment Restrictions	43
Indian Investments	43
Summary of Indian Investments	44
Summary of Changes in the Fair Value of the Company's Indian Investments	45
Public Indian Investments	49
Private Indian Investments	59
Results of Operations	71
Consolidated Balance Sheet Summary	73
Financial Risk Management	75
Capital Resources and Management	75
Book Value per Share	75
Liquidity	75
Contractual Obligations	77
Related Party Transactions	77
Other	77
Quarterly Data	77
Forward-Looking Statements	78

Management's Discussion and Analysis of Financial Condition and Results of Operations (as of November 4, 2021)

(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 notes to the interim consolidated financial statements for the three and nine months ended September 30, 2021 and the company's 2020 Annual Report.
- (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") applicable to the preparation of interim financial statements, including International Accounting Standard 34 *Interim Financial Reporting*, and is presented in U.S. dollars with the Indian rupee as the functional currency of the company and its consolidated subsidiaries.
- (3) The MD&A contains references to book value per share. On any date, book value per share is calculated as common shareholders' equity at the end of the reporting period, determined in accordance with IFRS, divided by the total number of common shares of the company effectively outstanding on that date. Those amounts are presented in the consolidated balance sheet and note 8 (Total Equity under the heading *Common Stock*) respectively within the interim consolidated financial statements for the three and nine months ended September 30, 2021. Book value per share is a key performance measure of the company and is closely monitored as it is used to calculate the performance fee, if any, to Fairfax Financial Holdings Limited ("Fairfax").
- (4) The MD&A contains references to "Cash used in operating activities excluding the impact of changes in restricted cash and net sales (purchases) of investments", which provides a measure of the cash generated by (used in) the company's head office operations, primarily comprised of cash inflows (outflows) from interest and dividend income, interest expense, investment and advisory fees, current income taxes and general and administration expenses, and excludes the impact of changes to restricted cash and purchases and sales of investments. This measure is not a standard measurement under IFRS and therefore may not be comparable to similar measures presented by other issuers.
- (5) Throughout this MD&A, the term "Indian Investments" refers to deployed capital invested in Public and Private Indian Investments as disclosed in note 5 (Indian Investments) to the interim consolidated financial statements for the three and nine months ended September 30, 2021.

Business Developments

Overview

Fairfax is Fairfax India's ultimate parent and acts as its administrator. Fairfax is a holding company which, through its subsidiaries, is engaged in property and casualty insurance and reinsurance and the associated investment management. Hamblin Watsa Investment Counsel Ltd. (the "Portfolio Advisor"), a wholly-owned subsidiary of Fairfax and registered portfolio manager in the province of Ontario, is the portfolio advisor of the company and its consolidated subsidiaries, responsible to source and advise with respect to all investments. Fairfax India's subordinate voting shares trade on the Toronto Stock Exchange ("TSX") under the symbol FIH.U. The multiple voting shares of the company are not publicly traded.

The book value per share at September 30, 2021 was \$20.37 compared to \$16.37 at December 31, 2020 representing an increase in the first nine months of 2021 of 24.4%, primarily reflecting net earnings attributable to shareholders of \$612,230 (primarily related to net change in unrealized gains and net realized gains on investments and dividend income, partially offset by performance fees, provision for income taxes, investment and advisory fees, and interest expense), partially offset by unrealized foreign currency translation losses attributable to shareholders of \$43,902 in the first nine months of 2021. In addition, the company purchased for cancellation 7,933,707 subordinate voting shares during the first nine months of 2021 for a net cost of \$115,767 (\$14.59 per subordinate voting share) through its normal course issuer bid and substantial issuer bid which resulted in a further increase in book value per share.

The following narrative sets out the company's key business developments in the first nine months of 2021.

Capital Transactions

On February 26, 2021 the company completed an offering of \$500.0 million principal amount of 5.0% unsecured senior notes due February 26, 2028 ("500.0 million unsecured senior notes") at par for net proceeds after commissions and expenses of \$496,350.

During the first nine months of 2021 the company used the net proceeds of the \$500.0 million unsecured senior notes, a portion of proceeds from the sale of Privi Speciality common shares and cash to repay its \$550.0 million term loan which had a maturity date of June 28, 2021.

For further details refer to note 7 (Borrowings) to the interim consolidated financial statements for the three and nine months ended September 30, 2021.

On March 5, 2021 the company issued 546,263 subordinate voting shares to Fairfax to settle the performance fee payable of \$5,217 for the second calculation period (three year period ending on December 31, 2020). Under the terms of the Investment Advisory Agreement (defined in note 12 (Related Party Transactions) to the interim consolidated financial statements for the three and nine months ended September 30, 2021), settlement of the performance fee was through the issuance of subordinated voting shares, calculated based on the performance fee payable at December 31, 2020 of \$5,217 divided by the volume-weighted average trading price of the company's subordinated voting shares for the 10 trading days prior to and including the last day of the calculation period ("VWAP") of \$9.55.

On June 15, 2021 the company commenced a substantial issuer bid, pursuant to which the company offered to purchase for cancellation up to \$105,000 of its subordinate voting shares from shareholders for cash. In accordance with the terms and conditions of the substantial issuer bid, Fairfax India purchased for cancellation 7,046,979 subordinate voting shares at a purchase price of \$14.90 per share, for aggregate consideration of \$105,000, of which \$30,857 was charged to retained earnings.

During the first nine months of 2021, under the terms of the normal course issuer bid, the company purchased for cancellation 886,728 subordinate voting shares (2020 - 2,492,546) for a net cost of \$10,767 (2020 - \$22,538), of which \$1,436 was charged to retained earnings (2020 - \$3,698 was recorded as a benefit in retained earnings).

On September 16, 2021 the company sold 11.5% (on a fully-diluted basis) of its interest in Anchorage Infrastructure Investments Holdings Limited ("Anchorage") to Ontario Municipal Employees Retirement System ("OMERS") for gross proceeds of 9.5 billion Indian rupees (\$129,221). As a result of the transaction, the company recorded non-controlling interests of \$129,076 and a benefit to retained earnings of \$145.

For further details refer to note 8 (Total Equity) to the interim consolidated financial statements for the three and nine months ended September 30, 2021.

Indian Investments

Full descriptions of the Indian Investments committed to and acquired in the third quarter and first nine months of 2021 are provided in the Indian Investments section of this MD&A.

Operating Environment

COVID-19 Pandemic

Global recovery from the COVID-19 pandemic continued to progress during the first nine months of 2021, although its momentum has been impacted by the introduction of new variants and certain prolonged disruptions. According to the World Economic Outlook (October 2021) published by the International Monetary Fund ("IMF"), after an estimated contraction in global GDP of 3.1% in 2020, global growth is projected at 5.9% in 2021 and 4.9% in 2022. However, economic recoveries may diverge across countries and sectors, reflecting disparities in vaccine access and extent of policy support.

India's Response to the COVID-19 Pandemic

On March 25, 2020 the Indian government ordered a nationwide lockdown in an effort to contain the spread of COVID-19, which was lifted in phases beginning May 31, 2020 for districts that were deemed safe and remains in place for containment zones until November 30, 2021 by federal mandate (and may extend further as the COVID-19 pandemic continues to evolve) ("India's lockdown"). During the first nine months of 2021, India also experienced an intense second wave of COVID-19 which resulted in the introduction of partial lockdowns by local and state governments in high concentration areas, creating a disruption for the economic recovery that was taking shape. The second wave primarily took place during the second quarter of 2021. By October 2021, total active cases as a percentage of total infections reverted to levels seen in March 2020.

Vaccination remains a key focus in India's path to recovery. In October 2021, India reported over 1 billion doses administered and over 20% of the total population fully vaccinated. As part of the 2021 Union Budget of India the Indian government budgeted 350 billion Indian rupees towards the implementation of the COVID-19 vaccination program and committed to provide further funds if needed.

Economic Impact in India

Despite a severe second wave of the pandemic, India's GDP expanded by 20.1% in the first quarter of the country's 2021-22 fiscal year (April to June 2021) compared to the corresponding quarter of the 2020-21 fiscal year, which had been more significantly impacted by the initial phase of India's lockdown. However, in comparison to the fourth quarter of fiscal 2020-21, India's GDP contracted by 16.9%, reflecting the effects of the local lockdowns during the second wave. In its most recent October 2021 report the IMF maintained its forecasted GDP growth for India of 9.5% for 2021-22, reflecting the view of a rebound from the 7.3% contraction during the 2020-21 fiscal year.

The continuation of intermittent local lockdowns and restrictions to businesses and movement of labour may continue to negatively impact the Indian economy. Travel restrictions have reduced demand for domestic and international travel, impacting various industries such as airlines, hospitality and retail. However, the vaccination progress is expected to support minimized containment measures and encourage customer spending. Private consumption and gross fixed capital formation are expected to be the main drivers of growth.

In response to the economic downturn, the Indian government introduced several economic monetary stimulus packages aimed to ease the economic and social hardships for businesses and individuals impacted by the COVID-19 pandemic and support recovery. The economic stimulus packages included liquidity support through loans and guarantees for stressed sectors, equity injections into financial institutions and the electricity sector, production-linked incentives to boost manufacturing capabilities and enhance exports, and housing and infrastructure incentives to encourage urbanization. The 2021 Union Budget of India released on February 1, 2021 similarly focused on supporting the momentum of India's economic recovery. The budget placed emphasis on infrastructure spending, including healthcare and agriculture, stabilization of the financial sector, education and innovation. Tax incentives will be granted to infrastructure, real estate and start-up investments which are expected to encourage more private investments in these sectors and stimulate India's economic growth. In response to the second wave, the government introduced additional relief in the form of extending loan guarantees and concessional credit for priority areas such as health infrastructure and severely-affected sectors such as tourism.

The Reserve Bank of India ("RBI") has adopted an accommodative stance on monetary policy since 2020, and continuously emphasized that it would maintain this policy stance as long as necessary to revive growth on a sustained basis and the impact of COVID-19 on the economy is mitigated. As part of the RBI's measures to ease liquidity for both lenders and borrowers, interest rates were reduced and remained unchanged since May 2020, and relief was granted in the form of loan moratoriums and restructuring options over specified periods throughout 2020 to 2021 to help mitigate the economic hardships of the lockdown.

Indian Market Indices and Foreign Exchange Rate

In the first quarter of 2020 Indian equity markets experienced significant declines with the S&P BSE Sensex 30 falling 32.6%. The sell-off of Indian equities during this period was consistent with the market decline observed in other major emerging markets globally and a result of the economic impact of the COVID-19 pandemic. The S&P BSE Sensex 30 has since surpassed pre-pandemic levels, achieving growth of 13.1% during 2020, and continued growth of 21.9% in the first nine months of 2021. The Indian rupee similarly declined sharply by 5.6% during the first quarter of 2020 and landed on a softer decline of 2.3% during 2020. However, it depreciated a further 1.6% in the first nine months of 2021 reflecting concerns over the second wave of COVID-19 in India, coupled with rising oil prices due to increasing demand paired with global production cuts. The initial declines in equity markets and emerging market currencies were primarily attributable to higher risk aversion in global financial markets, leading to a "flight to quality", with the subsequent recovery reflective of increased appetite for risk in response to improved vaccination rates, reduced containment measures and strong GDP growth estimates.

Consistent with Indian equity markets, the fair values of the company's Public Indian Investments declined sharply in the first quarter of 2020 followed by recovery throughout the course of the pandemic with periods of increased volatility. The company also recorded unrealized foreign currency translation losses consistent with the decline in the Indian rupee as the company's net assets and net earnings are primarily denominated in Indian rupees.

The company's Indian Investments faced varying degrees of business disruption as a result of the response to the COVID-19 pandemic. While the company's valuation techniques for Private Indian Investments remained primarily unchanged during the first nine months of 2021 the development of unobservable inputs included added uncertainty related to the global economic disruption caused by the ongoing COVID-19 pandemic. Further discussion on the degree and severity of business disruption specific to each Indian Investment are discussed further in the Indian Investments section under the respective heading of each Indian Investment 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 based in Mauritius, FIH Mauritius Investments Ltd ("FIH Mauritius") and FIH Private Investments Ltd ("FIH Private"). In 2019 the company formed Anchorage, a subsidiary of FIH Mauritius based in India.

Investment Restrictions

The company will not make an Indian Investment if, after giving effect to such investment, the total invested amount of such investment would exceed 20.0% of the company's total assets at the time of the investment; provided, however, that the company is permitted to complete up to two Indian Investments where, after giving effect to each such investment, the total invested amount of each such investment would be less than or equal to 25.0% of the company's total assets (the "Investment Concentration Restriction"). The company's investment limit for an Indian Investment in accordance with the Investment Concentration Restriction increased at September 30, 2021 from December 31, 2020 principally as a result of unrealized gains on investments, sales of subsidiary shares to non-controlling interests, and dividend and interest income, partially offset by purchases of subordinate voting shares for cancellation, net repayments of borrowings, unrealized foreign currency translation losses, investment and advisory fees, and income tax and interest payments.

The company intends to make multiple different investments as part of its prudent investment strategy. Indian Investments may be financed through equity or debt offerings as part of the company's objective to reduce its cost of capital and provide returns to common shareholders. At September 30, 2021 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 Commodities Management Services Limited (formerly National Collateral Management Services Limited), IIFL Finance Limited, Sanmar Chemicals Group, Bangalore International Airport Limited and CSB Bank (collectively, "Significant Indian Investments"), for which the company had previously filed business acquisition reports, prepared their financial statements in accordance with Indian Accounting Standards ("Ind AS"), with the exception of the financial statements of CSB Bank prepared in accordance with Indian Generally Accepted Accounting Principles ("Indian GAAP") as a result of the RBI's decision to defer implementation of Ind AS for scheduled commercial banks until further notice. Ind AS are based on and substantially converged with IFRS as issued by the IASB. Fairfax India is limited with respect to the amount of independent verification it is able to perform on the Significant Indian Investments' financial statements. The unaudited summarized financial information contained in this MD&A was prepared exclusively for Fairfax India. Such unaudited financial information is the responsibility of the respective managements and has been prepared by them using recognition, measurement and presentation principles consistent with IFRS as issued by the IASB, and provided to the company in Indian rupees.

The company's Significant Indian Investments' fiscal years each end on March 31. Summarized financial information of the company's Significant Indian Investments has generally been provided for the periods subsequent to the company's investment and to the extent that the most recent interim financial information is available to the company's management. Significant Indian Investments' summarized financial information should be read in conjunction with Fairfax India's historical consolidated financial statements including the notes thereto and the related MD&A as well as Fairfax India's other public filings.

Fairfax India has no knowledge that would indicate that the Significant Indian Investments' summarized financial information contained herein requires material modifications. However, readers are cautioned that the Significant Indian Investments' summarized financial information contained in this MD&A may not be appropriate for their purposes.

Summary of Indian Investments

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

	Dates Acquired	September 30, 2021				December 31, 2020			
		Ownership %	Cost	Fair value	Net change	Ownership %	Cost	Fair value	Net change
Public Indian Investments:									
Common stocks:									
IIFL Finance	December 2015 and February 2017	22.3%	—	324,985	324,985	22.4%	—	131,478	131,478
IIFL Wealth	May 2019	13.7%	191,443	255,492	64,049	13.8%	191,443	166,702	(24,741)
IIFL Securities	May 2019	27.9%	91,310	110,552	19,242	26.5%	91,310	55,603	(35,707)
CSB Bank	October 2018, March and June 2019	49.7%	169,447	308,826	139,379	49.7%	169,447	214,341	44,894
Fairchem Organics	August 2020, March and April 2021	66.7%	53,015	216,492	163,477	48.8%	34,895	54,566	19,671
Spaisa	October 2017, August 2019 and May 2021	26.1%	29,676	46,313	16,637	26.6%	23,535	27,788	4,253
Privi Speciality	February and August 2016	< 1.0%	7	82	75	48.8%	39,489	138,413	98,924
Other	March and August 2018, March to June 2020, August 2020	< 1.0%	43,458	71,017	27,559	< 1.0%	107,734	147,604	39,870
			<u>578,356</u>	<u>1,333,759</u>	<u>755,403</u>		<u>657,853</u>	<u>936,495</u>	<u>278,642</u>
Private Indian Investments:									
NCML CCD	October 2019	—	13,970	14,651	681	—	13,970	14,884	914
Common stocks:									
BIAL ⁽¹⁾⁽²⁾	March and July 2017, May 2018	54.0%	652,982	1,374,257	721,275	54.0%	652,982	1,396,117	743,135
Sanmar	April 2016 and December 2019	42.9%	199,039	438,771	239,732	42.9%	199,039	338,621	139,582
Seven Islands	March, September and October 2019	48.5%	83,846	104,838	20,992	48.5%	83,846	103,543	19,697
NCML	August 2015 and August 2017	89.5%	174,318	73,484	(100,834)	89.5%	174,318	86,216	(88,102)
Saurashtra	February 2017	51.0%	30,018	36,773	6,755	51.0%	30,018	32,812	2,794
NSE	July 2016	1.0%	26,783	108,003	81,220	1.0%	26,783	72,617	45,834
IH Fund	January and November 2019, December 2020	—	22,422	24,824	2,402	—	24,098	25,354	1,256
			<u>1,203,378</u>	<u>2,175,601</u>	<u>972,223</u>		<u>1,205,054</u>	<u>2,070,164</u>	<u>865,110</u>
Total Indian Investments			<u>1,781,734</u>	<u>3,509,360</u>	<u>1,727,626</u>		<u>1,862,907</u>	<u>3,006,659</u>	<u>1,143,752</u>

- (1) Cost and net change includes \$74,202 (approximately 4.8 billion Indian rupees) of cash consideration paid attributable to the costs incurred to acquire the additional 10.0% equity interest in BIAL in July 2017.
- (2) On September 16, 2021 the company sold an 11.5% equity interest in Anchorage to OMERS, resulting in the recognition of non-controlling interest in the consolidated balance sheets. As part of the transaction, the company transferred 43.6% of its 54.0% equity interest in BIAL such that it is held through Anchorage. Upon closing of the transaction, the company's effective ownership interest in BIAL decreased to approximately 49.0% on a fully-diluted basis, while its actual ownership remains unchanged.

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 for the third quarter of 2021 is as follows:

	Third quarter					Balance as of September 30
	Balance as of July 1	Sales	Net realized gains on investments	Net change in unrealized gains (losses) on investments	Net unrealized foreign currency translation gains (losses)	
Public Indian Investments:						
Common stocks:						
IIFL Finance	289,692	—	—	34,627	666	324,985
IIFL Wealth	188,784	—	—	66,943	(235)	255,492
IIFL Securities	85,120	—	—	25,429	3	110,552
CSB Bank	335,732	—	—	(28,056)	1,150	308,826
Privi Speciality (formerly Fairchem)	48	—	—	34	—	82
Fairchem Organics	170,664	—	—	45,657	171	216,492
5paisa	42,106	—	—	4,145	62	46,313
Other	167,137	(117,602)	58,942	(38,123)	663	71,017
Total Public Indian Investments	1,279,283	(117,602)	58,942	110,656	2,480	1,333,759
Private Indian Investments:						
Bonds - NCML CCD	14,631	—	—	—	20	14,651
Common stocks:						
BIAL	1,372,411	—	—	(50)	1,896	1,374,257
Sanmar	438,482	—	—	(695)	984	438,771
Seven Islands	105,570	—	—	(900)	168	104,838
NCML	77,610	—	—	(4,245)	119	73,484
Saurashtra	36,810	—	—	(106)	69	36,773
NSE	99,091	—	—	8,754	158	108,003
IH Fund	25,722	(961)	—	14	49	24,824
Total Private Indian Investments	2,170,327	(961)	—	2,772	3,463	2,175,601
Total Indian Investments	3,449,610	(118,563)	58,942	113,428	5,943	3,509,360

A summary of changes in the fair value of the company's Public and Private Indian Investments for the third quarter of 2020 is as follows:

	Third quarter							Balance as of September 30
	2020							
	Balance as of July 1	Purchases	Fairchem Reorganization	Sales	Net realized gains on investments	Net change in unrealized gains (losses) on investments	Net unrealized foreign currency translation gains	
Public Indian Investments:								
Common stocks:								
IIFL Finance	83,068	—	—	—	—	6,068	1,895	91,031
IIFL Wealth	164,150	—	—	—	—	(9,527)	3,758	158,381
IIFL Securities	48,316	—	—	—	—	(5,248)	1,100	44,168
CSB Bank	177,965	—	—	—	—	39,420	4,356	221,741
Privi Speciality (formerly Fairchem) ⁽¹⁾	140,757	—	(34,895)	—	—	34,921	3,276	144,059
5paisa	19,999	—	—	—	—	11,199	539	31,737
Other	110,052	40,023	—	(40,189)	3,274	(5,482)	2,538	110,216
Total Public Indian Investments	744,307	40,023	(34,895)	(40,189)	3,274	71,351	17,462	801,333
Private Indian Investments:								
Bonds - NCML CCD	13,955	—	—	—	—	228	327	14,510
Common stocks:								
BIAL	1,351,712	—	—	—	—	97	31,580	1,383,389
Sanmar	326,004	—	—	—	—	1,547	7,554	335,105
Seven Islands	88,456	—	—	—	—	1,134	2,079	91,669
NCML	104,994	—	—	—	—	(14,666)	2,353	92,681
Fairchem Organics ⁽¹⁾	—	—	34,895	—	—	1,655	259	36,809
Saurashtra	26,870	—	—	—	—	757	629	28,256
NSE	53,089	—	—	—	—	12,759	1,316	67,164
IH Fund	14,711	—	—	(70)	—	335	345	15,321
Total Private Indian Investments	1,979,791	—	34,895	(70)	—	3,846	46,442	2,064,904
Total Indian Investments	2,724,098	40,023	—	(40,259)	3,274	75,197	63,904	2,866,237

(1) On August 12, 2020 as part of the Fairchem Reorganization, Fairchem spun off Fairchem Organics, a private company whose shares were subsequently listed on the BSE and NSE of India on December 24, 2020. Concurrent with the spin off transaction, Privi Organics merged with the remaining Fairchem business and was renamed Privi Speciality Chemicals Limited ("Privi Speciality"). Common shares of Privi Speciality continue to trade on the BSE and NSE of India.

A summary of changes in the fair value of the company's Public and Private Indian Investments for the first nine months of 2021 is as follows:

	First nine months						Balance as of September 30
	Balance as of January 1	Purchases	Sales	Net realized gains (losses) on investments	Net change in unrealized gains (losses) on investments	Net unrealized foreign currency translation losses	
Public Indian Investments:							
Common stocks:							
IIFL Finance	131,478	—	—	—	197,281	(3,774)	324,985
IIFL Wealth	166,702	—	—	—	92,199	(3,409)	255,492
IIFL Securities	55,603	—	—	—	56,309	(1,360)	110,552
CSB Bank	214,341	—	—	—	98,696	(4,211)	308,826
Privi Speciality (formerly Fairchem) ⁽¹⁾	138,413	—	(164,812)	132,303	(105,023)	(799)	82
Fairchem Organics ⁽²⁾	54,566	22,919	—	—	141,148	(2,141)	216,492
5paisa ⁽³⁾	27,788	6,141	—	(2,587)	15,591	(620)	46,313
Other	147,604	—	(122,013)	58,944	(11,389)	(2,129)	71,017
Derivatives - Fairchem Organics forward purchase derivative ⁽²⁾	—	—	(4,800)	4,847	—	(47)	—
Total Public Indian Investments	936,495	29,060	(291,625)	193,507	484,812	(18,490)	1,333,759
Private Indian Investments:							
Bonds - NCML CCD	14,884	—	—	—	—	(233)	14,651
Common stocks:							
BIAL	1,396,117	—	—	—	(42)	(21,818)	1,374,257
Sanmar	338,621	—	—	—	106,370	(6,220)	438,771
Seven Islands	103,543	—	—	—	2,938	(1,643)	104,838
NCML	86,216	—	—	—	(11,485)	(1,247)	73,484
Saurashtra	32,812	—	—	—	4,512	(551)	36,773
NSE	72,617	—	—	—	36,842	(1,456)	108,003
IH Fund	25,354	—	(1,676)	—	1,535	(389)	24,824
Total Private Indian Investments	2,070,164	—	(1,676)	—	140,670	(33,557)	2,175,601
Total Indian Investments	3,006,659	29,060	(293,301)	193,507	625,482	(52,047)	3,509,360

(1) On April 29, 2021 the company completed the sale of a 48.8% equity interest in Privi Speciality for proceeds of \$164,812 resulting in a realized gain since inception of \$132,303. Net change in unrealized gains on investments includes a reversal of prior period unrealized gains on Privi Speciality.

(2) On April 29, 2021 the company acquired additional Fairchem Organics common shares for cash consideration of \$18,117. As a result the company derecognized the Fairchem Organics forward purchase derivative asset with a carrying value of \$4,800, recorded a realized gain of \$4,847 and recorded its investment in Fairchem Organics common shares at a fair value at that date of \$22,917.

(3) On May 19, 2021 the company acquired additional 5paisa common shares for cash consideration of \$6,141 pursuant to a preferential share rights offering. The newly issued 5paisa common shares had a fair value of \$3,554 at that date based on bid price less a discount for lack of marketability due to certain selling restrictions, and as a result the company recorded a realized loss of \$2,587.

A summary of changes in the fair value of the company's Public and Private Indian Investments for the first nine months of 2020 is as follows:

	First nine months							Balance as of September 30
	Balance as of January 1	Purchases	Fairchem Reorganization	Sales	Net realized gains on investments	Net change in unrealized gains (losses) on investments	Net unrealized foreign currency translation gains (losses)	
Public Indian Investments:								
Common stocks:								
IIFL Finance	166,014	—	—	—	—	(69,155)	(5,828)	91,031
IIFL Wealth	191,476	—	—	—	—	(26,698)	(6,397)	158,381
IIFL Securities	48,796	—	—	—	—	(3,022)	(1,606)	44,168
CSB Bank	229,262	—	—	—	—	(57)	(7,464)	221,741
Privi Speciality (formerly Fairchem) ⁽¹⁾	127,413	—	(34,895)	—	—	55,598	(4,057)	144,059
5paisa	18,176	—	—	—	—	14,066	(505)	31,737
Other	95,892	84,672	—	(40,189)	3,274	(31,061)	(2,372)	110,216
Total Public Indian Investments	877,029	84,672	(34,895)	(40,189)	3,274	(60,329)	(28,229)	801,333
Private Indian Investments:								
Bonds - NCML CCD	14,286	—	—	—	—	685	(461)	14,510
Common stocks:								
BIAL	1,429,854	—	—	—	—	83	(46,548)	1,383,389
Sanmar	412,930	—	—	—	—	(63,991)	(13,834)	335,105
Seven Islands	88,800	—	—	—	—	5,725	(2,856)	91,669
NCML	120,734	—	—	—	—	(23,976)	(4,077)	92,681
Fairchem Organics ⁽¹⁾	—	—	34,895	—	—	1,655	259	36,809
Saurashtra	31,204	—	—	—	—	(1,920)	(1,028)	28,256
NSE	57,210	—	—	—	—	11,745	(1,791)	67,164
IH Fund	15,146	—	—	(130)	—	793	(488)	15,321
Total Private Indian Investments	2,170,164	—	34,895	(130)	—	(69,201)	(70,824)	2,064,904
Total Indian Investments	3,047,193	84,672	—	(40,319)	3,274	(129,530)	(99,053)	2,866,237

(1) On August 12, 2020 as part of the Fairchem Reorganization, Fairchem spun off Fairchem Organics, a private company whose shares were subsequently listed on the BSE and NSE of India on December 24, 2020. Concurrent with the spin off transaction, Privi Organics merged with the remaining Fairchem business and was renamed Privi Speciality Chemicals Limited. Common shares of Privi Speciality continue to trade on the BSE and NSE of India.

Public Indian Investments

The fair values of Fairfax India's Public Indian Investments with shares listed on both the BSE (formerly known as Bombay Stock Exchange Limited) and the National Stock Exchange of India ("NSE of India"), are determined using the bid prices of those investments (without adjustments or discounts) at the balance sheet date, with the exception of certain CSB Bank and 5paisa common shares subject to selling restrictions.

Investment in IIFL Finance Limited

Business Overview

IIFL Finance Limited ("IIFL Finance") is a publicly traded retail-focused diversified financing company located in Mumbai, India that offers home loans, gold loans, business loans (including loans against property and small-to-medium enterprise loans), microfinance, construction and real estate finance, and capital market finance.

Transaction Description

In December 2015 and February 2017 the company acquired 84,641,445 common shares of IIFL Holdings Limited ("IIFL Holdings") (representing a 26.9% equity interest) for aggregate cash consideration of \$276,734 (approximately 18.5 billion Indian rupees).

In October 2017 and May 2019 IIFL Holdings spun-off its subsidiaries 5paisa, IIFL Wealth and IIFL Securities in non-cash transactions. In aggregate, the transactions resulted in a return of capital which exceeded Fairfax India's cost basis in IIFL Holdings based on the estimated fair values of the spun off subsidiaries at the date of the transactions. Upon completion of the spin off of IIFL Wealth and IIFL Securities in May 2019, IIFL Holdings Limited was renamed IIFL Finance Limited and continued to trade on the BSE and NSE of India.

In March 2020 IIFL Finance was granted an NBFC license by the RBI and on March 30, 2020 completed the merger with its subsidiary, India Infoline Finance Limited ("India Infoline") through the issuance of 58,654,556 common shares of IIFL Finance to India Infoline's minority shareholders. Minority shareholders of India Infoline received 135 common shares of IIFL Finance for every 100 common shares of India Infoline held. As a result of the merger Fairfax India's equity interest in IIFL Finance was decreased to 22.4% at March 30, 2020.

At September 30, 2021 the company held 84,641,445 common shares of IIFL Finance representing a 22.3% equity interest (December 31, 2020 - 22.4%).

Key Business Drivers, Events and Risks

IIFL Finance's key business drivers include its access to well-diversified sources of funds, a diversified asset portfolio with a strategic focus on households, and its vast and growing physical network to deliver credit to underserved segments and under penetrated geographical areas in India. At September 30, 2021 IIFL Finance had one of the largest presences amongst retail focused NBFCs with 2,914 branches across 25 states in India.

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

IIFL Finance continues to achieve growth in volume and profit, driven primarily by core growth segments of affordable home loans, gold loans, small business loans, and microfinance. As part of its capital optimization strategy, IIFL Finance focuses on originating assets that meet bank credit underwriting standards and are Priority Sector Lending compliant, enabling growth of its assigned and securitized loan book while managing liquidity and credit risk. In addition, IIFL Finance has entered into various bank partnerships for the co-lending, sourcing and servicing of loans. These partnerships provide the banks with access to IIFL Finance's vast branch network, and segment experience to originate and service loans, while allowing IIFL Finance to scale its customer base and leverage capital more efficiently.

At September 30, 2021 IIFL Finance managed assets worth approximately 442 billion Indian rupees (approximately \$6 billion) comprised of home loans (35%), gold loans (31%), business loans (16%), microfinance (10%), construction and real estate finance (6%) and capital market finance (2%).

During 2021 IIFL Finance sold a significant portion of the construction and real estate loan asset portfolio to an Alternate Investment Fund ("AIF"). The AIF has a target size of 36 billion Indian rupees (approximately \$0.5 billion), of which IIFL Finance is expected to own one third of the AIF's units upon completion of the transaction. The capital released by the transaction is expected to strengthen IIFL Finance's balance sheet and allow it to focus sharply on retail lending.

COVID-19 Impact

As discussed in the Business Developments section under the heading Operating Environment of this MD&A, the RBI introduced several measures throughout the pandemic to assist borrowers facing financial difficulty on account of COVID-19. IIFL Finance has been sufficiently capitalized to withstand the liquidity pressures arising from such measures. IIFL Finance continued to source long term funding during the pandemic primarily through term loans and refinancing from banks, private and public issuances of non-convertible debentures, as well as incremental funding through the assignment and securitization of loans.

Disbursements and collection efficiencies experienced temporary declines from regular levels during peak periods of the pandemic, and gradually regained momentum in line with the recovery in economic activity.

Valuation and Interim Consolidated Financial Statement Impact

At September 30, 2021 the fair value of the company's investment in IIFL Finance was \$324,985 (December 31, 2020 - \$131,478). The changes in fair value of the company's investment in IIFL Finance for the third quarters and first nine months of 2021 and 2020 are presented in the tables at the outset of the Indian Investments section of this MD&A. IIFL Finance's share price increased by 151.1% from 113.50 Indian rupees per share at December 31, 2020 to 285.00 Indian rupees per share at September 30, 2021.

In the third quarter and first nine months of 2021 the consolidated statements of earnings (loss) included dividend income earned from the company's investment in IIFL Finance of nil and \$3,484 (2020 - nil and \$2,628).

IIFL Finance's Summarized Financial Information

IIFL Finance's fiscal year ends on March 31. Summarized below are IIFL Finance's balance sheets at June 30, 2021 and March 31, 2021.

Balance Sheets

(unaudited - US\$ thousands)

	June 30, 2021 ⁽¹⁾	March 31, 2021 ⁽¹⁾
Financial assets	5,184,972	5,345,415
Non-financial assets	223,324	216,729
Financial liabilities	4,606,925	4,778,324
Non-financial liabilities	41,916	46,144
Shareholders' equity	759,455	737,676

(1) The net assets of IIFL Finance were translated at June 30, 2021 at \$1 U.S. dollar = 74.33 Indian rupees and at March 31, 2021 at \$1 U.S. dollar = 73.11 Indian rupees. The exchange rates used were the spot rates prevailing on those respective dates.

Financial assets decreased primarily reflecting a decrease in total loan assets, principally attributable to the partial sale of the construction and real estate loan asset portfolio, and use of cash towards debt repayments and settlement of payables. Non-financial assets increased primarily due to additions to property, plant and equipment and increased other non-financial assets. Financial liabilities decreased primarily attributable to decreased payables related to loan assignment and securitization and net repayments on debt securities. Non-financial liabilities decreased primarily due to decreases in current tax liabilities and advances from customers.

Summarized below are IIFL Finance's statements of earnings for the three months ended June 30, 2021 and 2020.

Statements of Earnings

(unaudited - US\$ thousands)

	Three months ended June 30, 2021 ⁽¹⁾	Three months ended June 30, 2020 ⁽¹⁾⁽²⁾
Revenue	207,724	170,726
Earnings before income taxes	47,535	7,555
Net earnings	36,051	4,197

(1) Amounts for the three months ended June 30, 2021 and 2020 were translated into US\$ using the average exchange rates of \$1 U.S. dollar = 73.74 Indian rupees and \$1 U.S. dollar = 75.86 Indian rupees prevailing during those periods.

(2) Certain prior period comparative figures have been reclassified to be consistent with current period's presentation.

IIFL Finance's revenue increased primarily reflecting an increase in interest and other income arising from a higher balance of assets under management, particularly across higher yielding segments such as gold loans and microfinance which increased 40% and 36% respectively over the comparative period. Earnings before income taxes and net earnings increased primarily due to the increased interest income and higher yields as noted above in addition to decreased loan loss provisioning compared to the three months ended June 30, 2020 as loan loss provisions were significantly affected by the initial impacts of the COVID-19 pandemic in the prior period.

Investment in IIFL Wealth Management Limited

Business Overview

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

Transaction Description

In May 2019 the company received 12,091,635 common shares of IIFL Wealth, representing a 14.2% equity interest with an estimated fair value on the date of the transaction of \$191,443 (approximately 13.3 billion Indian rupees), pursuant to a non-cash spin off transaction from the former IIFL Holdings. The common shares of IIFL Wealth were listed on the BSE and NSE of India on September 19, 2019.

At September 30, 2021 the company held 12,091,635 common shares of IIFL Wealth representing a 13.7% equity interest (December 31, 2020 - 13.8%).

Key Business Drivers, Events and Risks

IIFL Wealth provides its clients with investment management services with the aim to preserve capital while generating steady inflation-adjusted returns from a diversified portfolio with low volatility, along with additional services such as trust and estate planning and credit solutions. IIFL Wealth has a presence in 27 locations across 5 countries and continues to be one of India's leading fund managers of alternative investment funds.

India's wealthy are expected to increase their net assets through organic growth of existing assets or from the sale of businesses (unlocking potential value through secondary sales), with rising new wealth creators fueled by innovative startups, family businesses with strong professional management and the demographic advantage of a very large and young mass affluent segment. In 2020 it was estimated that there were over 275,000 ultra-high and high net worth households, with significant growth expected of both the number of wealthy Indians and their affluence.

In 2020 IIFL Wealth launched IIFL One, a service offering that institutionalizes the complete range of investment options for clients under a competitive and transparent fee structure. The model redefines client engagement in India's wealth management industry in terms of its approach to transparent conduct and open disclosures. IIFL Wealth will endeavour, over the course of the next few years, to grow this model to be the primary engagement model with clients over the historical broker/dealer distribution model where commissions were earned on a transaction by transaction basis. IIFL Wealth aims to evolve into a predictable, revenue-led, asset under management-driven organization, different from an industry dominated by product promotion and distribution.

In its 2020 fiscal year, IIFL Wealth changed its income model to recognize the majority of its distribution income on an annuity basis, moving away from the upfront income model that was previously followed, leading to a more stable annual recurring revenue model.

At September 30, 2021 the wealth management business had assets under management ("AUM") of 2,047 billion Indian rupees (approximately \$28 billion) and the asset management business had AUM of 519 billion Indian rupees (approximately \$7 billion). The total AUM included annual recurring revenue assets of 1,320 billion Indian rupees (approximately \$18 billion).

COVID-19 Impact

IIFL Wealth continued to operate with minimal business disruption arising from the COVID-19 pandemic during the period.

Valuation and Interim Consolidated Financial Statement Impact

At September 30, 2021 the fair value of the company's investment in IIFL Wealth was \$255,492 (December 31, 2020 - \$166,702) with the changes in fair value for the third quarters and first nine months of 2021 and 2020 presented in the tables at the outset of the Indian Investments section of this MD&A. IIFL Wealth's share price increased by 55.7% from 1,007.35 Indian rupees per share at December 31, 2020 to 1,568.40 Indian rupees per share at September 30, 2021.

In the third quarter and first nine months of 2021 the consolidated statements of earnings (loss) included dividend income earned from the company's investment in IIFL Wealth of \$5,706 and \$10,682 (2020 - \$6,476 and \$8,145).

Subsequent to September 30

On October 27, 2021 IIFL Wealth's board of directors approved a dividend of 20 Indian rupees per share. Fairfax India expects to receive approximately 242 million Indian rupees (approximately \$3.3 million at period end exchange rates).

Investment in IIFL Securities Limited

Business Overview

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

Transaction Description

In May 2019 the company received 84,641,445 common shares of IIFL Securities representing a 26.5% equity interest with an estimated fair value on the date of the transaction of \$91,310 (approximately 6.4 billion Indian rupees), pursuant to a non-cash spin off transaction from the former IIFL Holdings. The common shares of IIFL Securities were listed on the BSE and NSE of India on September 20, 2019.

At September 30, 2021 the company held 84,641,445 common shares of IIFL Securities representing a 27.9% equity interest (December 31, 2020 - 26.5%). The increase in equity interest during the period was the result of the purchase and cancellation of common shares by IIFL Securities, discussed further below.

Key Business Drivers, Events and Risks

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

IIFL Securities has a presence in approximately 2,500 locations, covering branches and business partners in over 500 cities in India along with a strong digital presence backed by cutting-edge technology. IIFL Securities' trading interfaces include mobile applications IIFL Markets and IIFL Mutual Funds which are widely used and highly rated, as well as the Advisor Anytime Anywhere ("AAA") mobile office platform for the growing sub-broker segment. IIFL Securities has also entered into partnerships with various banks and investment platforms to deliver innovative investment products and increase access, providing a one-stop shop for financial products to its customers.

IIFL Securities' institutional broking franchise business services over 750 domestic and foreign clients, and provides comprehensive research coverage in over 245 stocks in more than 20 sectors, which account for over 80% of India's market capitalization. In 2021, the investment banking business has completed 28 transactions to date across the capital markets and advisory business segments, and has a number of transactions in the pipeline.

On February 15, 2021 IIFL Securities completed a buy-back offer of equity shares from its shareholders which commenced in December 2020. The buy-back resulted in the purchase and cancellation of 17,000,394 common shares of IIFL Securities for 867 million Indian rupees (approximately \$12 million) (excluding taxes). The company did not tender any shares and as a result, its equity interest in IIFL Securities increased from 26.5% at December 31, 2020 to 27.9% on completion of the buy-back offer.

On February 24, 2021 IIFL Securities was announced as the successful bidder for the acquisition of approximately 1.1 million electronic securities holding accounts (demat accounts) in a formal bidding process organized by stock exchanges and depositories. The acquisition provided IIFL Securities with access to an increased customer base and significantly increased its assets under management. At September 30, 2021 IIFL Securities had assets under management of 1,185 billion Indian rupees (approximately \$16 billion) (December 31, 2020 - 387 billion Indian rupees (approximately \$5 billion)).

COVID-19 Impact

IIFL Securities continued to operate with minimal business disruption arising from the COVID-19 pandemic during the period.

Valuation and Interim Consolidated Financial Statement Impact

At September 30, 2021 the fair value of the company's investment in IIFL Securities was \$110,552 (December 31, 2020 - \$55,603) with the changes in fair value for the third quarters and first nine months of 2021 and 2020 presented in the tables at the outset of the Indian Investments section of this MD&A. IIFL Securities' share price increased by 102.0% from 48.00 Indian rupees per share at December 31, 2020 to 96.95 Indian rupees per share at September 30, 2021.

In the third quarter and first nine months of 2021 the consolidated statements of earnings (loss) included dividend income earned from the company's investment in IIFL Securities of nil and \$1,161 (2020 - nil and \$2,336).

Investment in CSB Bank Limited

Business Overview

CSB Bank is a publicly traded company located in Thrissur, India, established in 1920 and is a full-service bank offering retail banking, non-resident Indian banking services, small-to-medium enterprise and wholesale banking services through 542 branches and 368 automated teller machines across India.

Transaction Description

During 2018 and 2019 Fairfax India invested aggregate cash consideration of \$169,511 (approximately 12.1 billion Indian rupees) for a 51.0% equity interest in CSB Bank. On December 4, 2019 CSB Bank closed its IPO, issuing 1,230,769 shares and commenced trading on both the BSE and NSE of India. In 2019 CSB Bank also issued 5,000,000 shares to CSB Bank's employee stock option trust which together with the IPO decreased Fairfax India's ownership slightly from 51.0% to 49.7%.

On March 30, 2021 CSB Bank issued an additional 30,000 shares to CSB Bank's employee stock option trust and Fairfax India's ownership remained at 49.7%.

The company is restricted from selling a certain percentage of its common shares of CSB Bank for a specified period up to August 7, 2024 due to restrictions imposed by the RBI and the Securities and Exchange Board of India ("SEBI").

As a result of CSB Bank's IPO the company was restricted from selling 17,372,952 of its shares of CSB Bank for one year from the IPO closing. On December 2, 2020 the selling restriction on 16,880,645 of the common shares was released. On April 7, 2021 an additional 12,000 common shares became restricted as a result of the share issuance on March 30, 2021 discussed above. At September 30, 2021 the company held 69,394,331 common shares of CSB Bank that continue to be restricted until August 7, 2024.

At September 30, 2021 the company held 86,262,976 common shares representing a 49.7% equity interest (December 31, 2020 - 49.7%).

Key Business Drivers, Events and Risks

According to the RBI, India's banking sector is sufficiently capitalized and well-regulated. The increase in India's working population and growth in disposable income is anticipated to increase the demand for banking related services, particularly in rural banking locations. In addition, the Indian banking industry has evolved through technology innovations in digital payments systems, mobile and online banking.

CSB Bank's key business drivers relate to its ability to provide financial services in India, particularly in the area of retail, SMEs, gold and corporate lending, and mobilize low cost deposits in the form of current accounts, savings accounts and non-resident Indian deposits. CSB Bank has recently taken various strategic initiatives, including attracting talent to its sales and marketing team, as well as creating specialized banking verticals in gold, two-wheeler vehicles, small-to-medium enterprise and wholesale banking. Non-Performing Assets ("NPA") are being addressed by CSB Bank through the creation of asset recovery branches to accelerate delinquent loan recovery, with the goal of effectively minimizing losses by improving credit monitoring and risk management practices. In addition, CSB Bank continues to strive for increases in employee productivity and will invest in technology across its banking platforms, providing more efficient and cost effective services for its customers. CSB Bank opened 101 branches during its fiscal year ended March 31, 2021.

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

company's shareholding in CSB Bank must be brought down to 15.0% of the voting equity shares within 15 years. In addition, the RBI mandated that CSB Bank list its shares on the BSE and NSE of India through an IPO. On December 4, 2019 CSB Bank closed its IPO at a price of 195.00 Indian rupees per share.

COVID-19 Impact

CSB Bank continued to operate as financial services are considered essential services under India's lockdown guidelines, with the exception of certain retail locations located in COVID-19 "hotspot" districts, which were required to close. In light of the COVID-19 pandemic, CSB Bank has currently shifted its focus to gold loans and away from retail, SMEs, and corporate lending. CSB Bank has a stable deposit franchise which remains largely unaffected by the COVID-19 pandemic and deposit inflows remain positive despite interest rate reductions by the RBI. As discussed in the Business Developments section under the heading Operating Environment of this MD&A, as a result of measures being implemented by the RBI, the cost of funds for CSB Bank has decreased resulting in healthy lending spreads and a sustainable net interest income growth.

As discussed in the Business Developments section under the heading Operating Environment of this MD&A, the RBI introduced several measures throughout the pandemic to assist borrowers facing financial difficulty on account of COVID-19. CSB Bank has been sufficiently capitalized to withstand the liquidity pressures arising from such measures.

Valuation and Interim Consolidated Financial Statement Impact

At September 30, 2021 the company estimated the fair value of its investment in CSB Bank based on the bid price less a discount for lack of marketability of 20.4% on the remaining common shares subject to selling restrictions (December 31, 2020 - 20.9%). At September 30, 2021 the fair value of the company's investment in CSB Bank was \$308,826 (December 31, 2020 - \$214,341) with the changes in fair value for the third quarters and first nine months of 2021 and 2020 presented in the tables at the outset of the Indian Investments section of this MD&A. CSB Bank's share price increased by 45.7% from 218.20 Indian rupees per share at December 31, 2020 to 318.00 Indian rupees per share at September 30, 2021.

CSB Bank's Summarized Financial Information

CSB Bank's fiscal year ends on March 31. Summarized below are CSB Bank's balance sheets at June 30, 2021 and March 31, 2021.

Balance Sheets

(unaudited - US\$ thousands)

	June 30, 2021⁽¹⁾	March 31, 2021⁽¹⁾⁽²⁾
Financial assets	2,900,894	3,054,738
Non-financial assets	156,969	144,852
Financial liabilities	2,704,047	2,829,138
Non-financial liabilities	46,996	69,944
Shareholders' equity	306,820	300,508

(1) The net assets of CSB Bank were translated at June 30, 2021 at \$1 U.S. dollar = 74.33 Indian rupees and at March 31, 2021 at \$1 U.S. dollar = 73.11 Indian rupees. The exchange rates used were the spot rates prevailing on those respective dates.

(2) Certain prior period comparative figures have been reclassified to be consistent with current period's presentation.

Financial assets decreased primarily as a result of decreased loans and advances to customers. Non-financial assets increased primarily as a result of increased security and other deposits, and other advances. Financial liabilities decreased primarily as a result of decreased savings and term deposits from customers and decreased borrowings. Non-financial liabilities decreased primarily as a result of decreased acceptances and endorsements, and other payables.

Summarized below are CSB Bank's statements of earnings for the three months ended June 30, 2021 and 2020.

Statements of Earnings

(unaudited - US\$ thousands)

	Three months ended June 30, 2021 ⁽¹⁾	Three months ended June 30, 2020 ⁽¹⁾⁽²⁾
Revenue	52,375	33,500
Earnings before income taxes	15,554	16,343
Net earnings	11,650	12,242

(1) Amounts for the three months ended June 30, 2021 and 2020 were translated into US\$ using the average exchange rates of \$1 U.S. dollar = 73.74 Indian rupees and \$1 U.S. dollar = 75.86 Indian rupees prevailing during those periods.

(2) Certain prior period comparative figures have been reclassified to be consistent with current period's presentation.

Revenue increased primarily as a result of an increase in net interest income due to higher yielding advances and reduced cost of deposits. Earnings before income taxes and net earnings decreased primarily reflecting increased loss provisions as a result of increased gold non-performing assets, partially offset by increased revenue as discussed above and reduced cost-income ratio excluding provision for expected credit losses (39.5% for the three months ended June 30, 2021 compared to 45.5% for the three months ended June 30, 2020).

Investment in Fairchem Speciality Limited / Privi Speciality Chemicals Limited

Fairchem Speciality Limited

Business Overview

Fairchem Speciality Limited ("Fairchem") was a publicly traded specialty chemical manufacturer located in Ahmedabad, India. Fairchem manufactures oleochemicals used in the paints, inks and adhesives industries, as well as intermediate neutraceutical and health products. Privi Organics Limited ("Privi"), a wholly-owned subsidiary of Fairchem located in Mumbai, India, was a supplier of aroma chemicals to the fragrance industry.

Transaction Description

In March 2017 Fairchem and Privi were merged with the surviving entity continuing as Fairchem and with no changes to management of the underlying companies. Upon closing of the merger of Fairchem and Privi, the company acquired a 48.8% equity interest in Fairchem for aggregate cash consideration of \$74,384 (approximately 5.0 billion Indian rupees).

On August 12, 2020 Fairchem spun off its wholly-owned subsidiary Fairchem Organics Limited ("Fairchem Organics", comprised of the oleochemicals and neutraceuticals businesses) in a non-cash transaction ("Fairchem Reorganization"). Shareholders of Fairchem received one common share of Fairchem Organics for every three Fairchem common shares held. The distribution of new common shares to Fairchem shareholders was characterized as a return of capital and resulted in the company recording the initial cost of its investment in Fairchem Organics at its estimated fair value at that date of \$34,895 (approximately 2.6 billion Indian rupees). Concurrent with the spin off transaction, Privi amalgamated with the remaining Fairchem business and was renamed Privi Speciality Chemicals Limited ("Privi Speciality"). Common shares of Privi Speciality continue to trade on the BSE and NSE of India. Common shares of Fairchem Organics listed on the BSE and NSE of India on December 24, 2020.

Privi Speciality Chemicals Limited

Business Overview

Privi Speciality is a publicly traded specialty chemical manufacturer located in Mumbai, India. Privi Speciality is a supplier of aroma chemicals to the fragrance industry. Privi Speciality's world-class products are the result of its very strong research and development team that has proven expertise in developing new products, customizing aromas per customer specifications, scaling up products from basic research to commercial scale, and designing process improvements to drive quality and cost optimization. Privi Speciality has four manufacturing facilities located in Mahad, Maharashtra and a manufacturing facility located in Jhagadia, Gujarat.

Transaction Description

On April 29, 2021 the company completed the sale of its 48.8% equity interest in Privi Speciality for cash consideration of \$164,812 (approximately 12.2 billion Indian rupees). At September 30, 2021 the company held 3,250 common shares, representing less than 1% equity interest in Privi Speciality (December 31, 2020 - 19,046,078 common shares representing a 48.8% equity interest).

The company intends to invest up to 550.0 million Indian rupees (approximately \$7 million at current exchange rates) in non-convertible debentures with an effective yield of 10.0% compounded annually to be issued by entities affiliated with Mahesh P Babani, chairman and managing director of Privi Speciality, subject to customary closing conditions and approvals.

Key Business Drivers, Events and Risks

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

On March 24, 2021 Privi Speciality's insurance company finalized the insurance claim totaling 1,449 million Indian rupees (\$19.8 million) in relation to its April 2018 manufacturing facilities fire. Privi Speciality received the balance payment on April 7, 2021. Privi Speciality has fully reinstated its manufacturing facilities affected by the fire.

COVID-19 Impact

Privi Speciality was required to temporarily stop operations at the onset of India's lockdown. Privi Speciality gradually resumed operations and on April 7, 2020 restarted operations at its last plant. From June 2020 onwards sales and operations returned to levels prior to COVID-19. Privi Speciality's management is actively monitoring its liquidity situation and has no significant, immediate short term liquidity needs.

Valuation and Interim Consolidated Financial Statement Impact

At September 30, 2021 the fair value of the company's investment in Privi Speciality was \$82 (December 31, 2020 - \$138,413) with the changes in fair value for the third quarters and first nine months of 2021 and 2020 presented in the tables at the outset of the Indian Investments section of this MD&A.

Investment in Fairchem Organics Limited

Business Overview

Fairchem Organics is a publicly traded specialty chemical manufacturer located in Ahmedabad, India. Fairchem Organics 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 and corn oils into valuable nutraceutical and fatty acids.

Transaction Description

On August 12, 2020 Fairchem spun off its wholly-owned subsidiary Fairchem Organics in a non-cash transaction that resulted in Fairfax India receiving one common share of Fairchem Organics for every three Fairchem common shares held. Upon completion of the Fairchem Reorganization, Fairfax India received 6,348,692 common shares of Fairchem Organics representing 48.8% equity interest with an estimated fair value at that date of \$34,895 (approximately 2.6 billion Indian rupees). The distribution of new common shares of Fairchem Organics to Fairchem shareholders was characterized as a return of capital.

The common shares of Fairchem Organics were listed on the BSE and NSE of India on December 24, 2020. At the time of listing and in accordance with Indian regulations, as a result of the anticipated changes in ownership of Fairchem Organics, the company announced an open offer for the acquisition of up to 3,377,953 common shares, representing the entire public float or 25.9% of the issued and outstanding shares, at a price of 575.53 Indian rupee per common share ("Fairchem Open Offer"). In support of the Fairchem Open Offer, the company was required to place on deposit, cash of approximately 19.5 million Indian rupees (\$267) and a bank guarantee for approximately 486.1 million Indian rupees (\$6,648) which expired in April 2021. The cash deposit was recorded in restricted cash within the consolidated balance sheet at December 31, 2020.

The tender period related to the Fairchem Open Offer commenced on February 9, 2021 and closed on February 23, 2021 with a total of 290 common shares of Fairchem Organics tendered. On March 2, 2021 the company completed the settlement of the common shares tendered for \$2. The remaining cash deposit of \$264 was returned on April 8, 2021.

On April 29, 2021 the company completed the purchase of an additional 17.9% equity interest in Fairchem Organics for cash consideration of \$18,117 (approximately 1.3 billion Indian rupees). Upon closing of the transaction the company settled a forward purchase derivative asset at a fair value of \$4,800 (approximately 355 million Indian rupees), which was a result of the transaction date fair value exceeding the agreed upon transaction price for Fairchem Organics common shares. The company recorded its

additional investment in Fairchem Organics at a fair value of \$22,917 (approximately 1.7 billion Indian rupees). At September 30, 2021 the company held 8,679,739 common shares representing a 66.7% equity interest in Fairchem Organics (December 31, 2020 - 6,348,692 common shares representing a 48.8% equity interest).

Key Business Drivers, Events and Risks

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

India is one of the largest consumers of soft oils which provides Fairchem Organics 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 Organics with certain competitive advantages in comparison to its international peers. Fairchem Organics 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.

COVID-19 Impact

Fairchem Organics was required to temporarily stop operations at the onset of India's lockdown, and resumed operations on May 21, 2020. From June 2020 onwards sales and operations returned to levels prior to COVID-19. Fairchem Organics' management is actively monitoring its liquidity situation and has no significant, immediate short term liquidity needs.

Valuation and Interim Consolidated Financial Statement Impact

At September 30, 2021 the fair value of the company's investment in Fairchem Organics was \$216,492 (December 31, 2020 - \$54,566) with the changes in fair value for the third quarters and first nine months of 2021 and 2020 presented in the tables at the outset of the Indian Investments section of this MD&A. Fairchem Organics' share price increased by 194.8% from 628.00 Indian rupees per share at December 31, 2020 to 1,851.40 Indian rupees per share at September 30, 2021.

In the third quarter and first nine months of 2021 the consolidated statements of earnings (loss) included dividend income earned from the company's investment in Fairchem Organics of \$413 in both periods (2020 - nil in both periods).

Investment in 5paise Capital Limited

Business Overview

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

Transaction Description

In October 2017 the company received 3,385,657 common shares of 5paise representing a 26.6% equity interest with a fair value on the date of the transaction of \$19,758, pursuant to a non-cash spin off transaction from the former IIFL Holdings. In August 2019 the company participated in a rights offer to existing shareholders of 5paise and acquired an additional 3,385,657 common shares of 5paise for cash consideration of \$3,777, maintaining an equity interest of 26.6%.

On April 13, 2021 5paise announced that its board of directors approved a rights offering for the issuance of equity shares to existing shareholders at a price of 500.00 Indian rupees per share ("5paise Preferential Share Rights Offer"). On May 19, 2021 the company participated in the offering and acquired 898,816 equity shares of 5paise on a preferential basis for cash consideration of \$6,141 (449.4 million Indian rupees). The company is restricted from selling the 898,816 common shares of 5paise acquired through the 5paise Preferential Share Rights Offer until May 28, 2022 due to restrictions imposed by SEBI. As a result, the company recorded its investment in the newly issued 5paise common shares at a fair value at that date of \$3,554 (260.1 million Indian rupees) based on bid price less a discount for lack of marketability of 22.2% resulting in the company recording a realized loss of \$2,587 on the date of acquisition.

The company is also restricted from selling the 6,771,314 common shares of 5paisa held prior to participating in the 5paisa Preferential Share Rights Offer until November 29, 2021. As a result of the 5paisa Preferential Share Rights Offer and common shares issued by 5paisa under an employee stock option plan during the period, the company's ownership interest decreased from 26.6% to 26.1%.

At September 30, 2021 the company held 7,670,130 common shares of 5paisa representing a 26.1% equity interest (December 31, 2020 - 6,771,314 common shares representing a 26.6% interest).

Key Business Drivers, Events and Risks

5paisa's key business driver relates to its ability to provide digital investment and lending solutions, 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 emerging do-it-yourself customer segment provides its customers with lower costs for various financial products, enabling investors to invest seamlessly, on their own and from anywhere. 5paisa remains focused on innovation based on understanding customer behaviour, and constantly strives to achieve technological superiority through the developments of its robust trading platform, advanced mobile app, its Artificial-Intelligence powered Robo-Advisory platform, and the paperless account opening process.

In 2020 5paisa, through its wholly-owned subsidiary, 5paisa P2P Limited, launched a digital peer-to-peer lending platform registered with the RBI which connects verified creditworthy lenders and individual borrowers in India.

At September 30, 2021 the 5paisa mobile application has reached over 8.5 million downloads. The total customer base exceeded 1.9 million with a rapid pace of organic customer growth, which combined with 5paisa's recurring subscription revenue model has contributed to a reduction of customer acquisition costs and sustained profitability.

The proceeds received from the preferential issuance of equity shares discussed above will allow 5paisa to accelerate its investment in customer centric technology, customer acquisition and sustain the pace of growth.

COVID-19 Impact

5paisa continued to operate with minimal business disruption arising from the COVID-19 pandemic during the period.

Valuation and Interim Consolidated Financial Statement Impact

At September 30, 2021 the company estimated the fair value of its investment in 5paisa based on the bid price less a discount for lack of marketability of 15.7% for the 5paisa common shares acquired through the 5paisa Preferential Share Rights Offer. At September 30, 2021 the fair value of the company's investment in 5paisa was \$46,313 (December 31, 2020 - \$27,788) with the changes in fair value for the third quarters and first nine months of 2021 and 2020 presented in the tables at the outset of the Indian Investments section of this MD&A. 5paisa's share price increased by 52.3% from 299.85 Indian rupees per share at December 31, 2020 to 456.60 Indian rupees per share at September 30, 2021.

Investment in Other Public Indian Investments

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

In 2020 the company acquired common shares of public companies in India's utilities and financial services sectors, listed on both the BSE and NSE of India, for aggregate consideration of \$84,672. In 2020 the company partially sold investments in Other Public Indian Investments for total net proceeds of \$41,913, resulting in realized gain of \$3,782.

In the third quarter and first nine months of 2021 the company sold investments in Other Public Indian Investments for total net proceeds of \$117,602 and \$122,013 and as a result the company recorded realized gains of \$58,942 and \$58,944.

At September 30, 2021 the fair value of the company's investment in Other Public Indian Investments was \$71,017 (December 31, 2020 - \$147,604) and represents less than 1.0% equity interest in each of the public Indian companies. The changes in fair value of the company's investment in Other Public Indian Investments for the third quarters and first nine months of 2021 and 2020 are presented in the tables at the outset of the Indian Investments section of this MD&A.

In the third quarter and first nine months of 2021 the consolidated statements of earnings (loss) included dividend income earned from the company's investment in Other Public Indian Investments of \$1,588 and \$3,504 (2020 - \$1,243 in both periods).

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.

While the company's valuation techniques for Private Indian Investments remained primarily unchanged during the first nine months of 2021 the development of unobservable inputs included added uncertainty related to the global economic disruption caused by the ongoing COVID-19 pandemic. The company has included assumptions related to the COVID-19 pandemic into the estimates of the amount and timing of future cash flows based on the information known and knowable at the reporting date, and the uncertainty in those assumptions has been incorporated into the company's valuations of Private Indian Investments primarily through higher risk premiums. Additional volatility in the fair values of Private Indian Investments may arise in future periods if actual results differ materially from the company's estimates.

Investment in Bangalore International Airport Limited

Business Overview

Bangalore International Airport Limited ("BIAL") is a private company located in Bengaluru, India. BIAL, under a concession agreement with the Government of India until the year 2068, 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 aeronautical and non-aeronautical revenue from the airport, real estate monetization and other non-airport related revenue which includes a five-star hotel operated under the Taj brand.

Transaction Description

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

On September 16, 2021 the company transferred 43.6% of its 54.0% equity interest in BIAL such that it is held through Anchorage and subsequently sold 11.5% (on a fully-diluted basis) of its interest in Anchorage to OMERS for gross proceeds of 9.5 billion Indian rupees (\$129,221), implying an equity valuation for 100% of BIAL of approximately 189.7 billion Indian rupees (approximately \$2.6 billion at exchange rates on that date). Upon closing of the transaction, the company's effective ownership interest in BIAL decreased to approximately 49.0% on a fully-diluted basis, while its actual ownership remained unchanged. Refer to note 8 (Total Equity, under the heading Non-controlling interests) to the interim consolidated financial statements for the three and nine months ended September 30, 2021 for further discussion on Anchorage.

Key Business Drivers, Events and Risks

KIAB is the busiest airport in South India, the third largest in the country, and was awarded the 'Best Regional Airport in India and Central Asia' during 2020 by Skytrax, a UK-based consultancy who conducts a global airport customer satisfaction survey.

On October 16, 2020 BIAL exercised its right to extend the concession agreement for an additional 30 years until the year 2068.

Plans to expand the capacity of the airport are underway and include the construction of an additional terminal building ("Terminal 2"), a third terminal building ("Terminal 3") and real estate development of 176 acres of land by 2026.

COVID-19 Impact

The COVID-19 pandemic has significantly impacted BIAL's airport business which faced reduced passenger traffic starting in February 2020. Effective March 23, 2020 and March 25, 2020 all scheduled international and domestic commercial airlines ceased operations as a result of India's lockdown. Domestic flights resumed on May 25, 2020, while international flights will remain suspended until at least November 30, 2021 with the exception of certain countries with which India has established air bubble arrangements. The suspension may be extended further as the COVID-19 pandemic continues to evolve. Cargo flights and flights catering to medical emergencies and other essential requirements remain operational. Construction activities for BIAL's capital projects and real estate development were slowed down and have since resumed as lockdown restrictions were gradually lifted. The airport is expected to commence regular operations upon lifting of the present restrictions with a gradual recovery in domestic and international passenger traffic by BIAL's fiscal year 2024 to levels witnessed before the pandemic.

The airport handled approximately 10.1 million passengers in the first nine months of 2021 representing an increase in overall traffic of 5.9% compared to the first nine months of 2020.

The lockdown and resulting slowdown of construction activities is expected to delay the completion of the first phase of the Terminal 2 expansion, and is now estimated to be operational by the third quarter of calendar 2022. The total cost of the Terminal 2 expansion is expected to increase primarily due to incremental interest and pre-operational expenses. Construction of Terminal 3 has been delayed until BIAL's fiscal year 2034.

BIAL has sufficient liquidity in place to continue its operations.

Valuation and Interim Consolidated Financial Statement Impact

At September 30, 2021 the company estimated the fair value of its investment in BIAL using a discounted cash flow analysis for its three business units based on multi-year free cash flow forecasts with assumed after-tax discount rates ranging from 12.0% to 15.6% and a long term growth rate of 3.5% (December 31, 2020 - 12.8% to 15.0%, and 3.5%, respectively). At September 30, 2021 free cash flow forecasts were based on EBITDA estimates derived from financial information for BIAL's three business units prepared in the third quarter of 2021 (December 31, 2020 - fourth quarter of 2020) by BIAL's management and adjusted for lower airport tariffs for the third control period commencing in BIAL's fiscal year 2022 and the ongoing impact of the COVID-19 pandemic on airport operations.

Free Cash Flow Forecast Inputs

The primary drivers of the free cash flow estimates are future domestic and international passenger traffic, airport tariff assumptions for future control periods and plans to monetize and develop leasehold land. In the event that forecasted passenger traffic or expected airport tariff levels are not met in future periods, this may result in a negative impact on the fair value of the company's investment in BIAL.

Current Model Assumptions

As a result of the continued business disruptions caused by the COVID-19 pandemic free cash flow forecasts were revised by BIAL's management in 2021 to primarily reflect (i) a temporary reduction, including a halt during the lockdown period, in passenger traffic as a result of travel restrictions imposed by the Indian government; (ii) a gradual recovery in passenger traffic over two years to levels expected before the pandemic; (iii) lower airport tariff rates for the third control period commencing in BIAL's fiscal year 2022; and (iv) delays in BIAL's capital projects and real estate development plans.

The COVID-19 pandemic did not have a significant impact on BIAL's fair value at September 30, 2021 as BIAL is an infrastructure investment that is currently in a period of capital expansion and as a result a significant amount of its fair value is driven by expected growth in passenger traffic in the later years of the forecasting period once various capital projects are complete. As a result of the COVID-19 pandemic, BIAL's forecast reflected reduced domestic and international passenger traffic forecasts for its fiscal year 2022 due to the resurgence of COVID-19 cases in India, a delay in expected discretionary capital expenditures, an increase in the expected total cost for Terminal 2 and a revised timeline for its real estate development plans. Additionally, BIAL's aeronautical revenues are primarily driven by user development fees ("UDF") charged to airlines and passengers, which are set by the Airports Economic Regulatory Authority of India ("AERA") in five-year control periods and are fixed in a manner to generate a 16.0% per annum return on invested equity for the airport operator. As the tariff setting mechanism adjusts for periods of underperformance, it is expected that underachievement in aeronautical revenues due to the COVID-19 pandemic in the second control period, which ended on March 31, 2021, will be substantially recovered through, among other factors, higher UDFs in future control periods. It should be noted that UDFs set by AERA for the third control period are not sufficient to recover losses sustained in the second control period due to India's lockdown.

A gradual recovery in passenger traffic over a two year time horizon to levels expected before the pandemic is supported by significant efforts by BIAL's management and the Indian government to support a return to normal patterns of travel and the recovery of airport operations, including the implementation of contactless passenger experiences, the easing of capacity limits for airlines, the reconnection of several domestic city pairs and the resumption of certain international flights.

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. These risk premiums were reflective of the increased uncertainty of the revised free cash flow forecasts as a result of the economic and social impacts of the COVID-19 pandemic. Long term growth rates were based on the expected long term sustainable growth rate of the economic environment and sectors in which BIAL operates and were not adjusted downward for the short term impacts of COVID-19.

At September 30, 2021 the company's internal valuation model indicated that the fair value of the company's investment in BIAL was \$1,374,257 (December 31, 2020 - \$1,396,117) which approximates the equity valuation of BIAL implied by the Anchorage transaction discussed above. The changes in fair value of the company's investment in BIAL for the third quarters and first nine months of 2021 and 2020 are presented in the tables at the outset of the Indian Investments section of this MD&A.

BIAL's Summarized Financial Information

BIAL's fiscal year ends on March 31. Summarized below are BIAL's balance sheets at June 30, 2021 and March 31, 2021.

Balance Sheets

(unaudited - US\$ thousands)

	June 30, 2021⁽¹⁾	March 31, 2021⁽¹⁾
Current assets	137,522	134,106
Non-current assets	1,359,356	1,342,511
Current liabilities	134,710	148,262
Non-current liabilities	1,034,952	973,729
Shareholders' equity	327,216	354,626

(1) The net assets of BIAL were translated at June 30, 2021 at \$1 U.S. dollar = 74.33 Indian rupees and at March 31, 2021 at \$1 U.S. dollar = 73.11 Indian rupees. The exchange rates used were the spot rates prevailing on those respective dates.

Current assets increased primarily due to increased bank deposits as a result of increased borrowings. Non-current assets increased principally as a result of ongoing capital expenditures for BIAL's expansion projects. Current liabilities decreased primarily as a result of decreased short term borrowings and other financial liabilities. Non-current liabilities increased primarily as a result of additional borrowings for BIAL's expansion projects.

Summarized below are BIAL's statements of earnings (loss) for the three months ended June 30, 2021 and 2020.

Statements of Earnings (Loss)

(unaudited - US\$ thousands)

	Three months ended June 30, 2021⁽¹⁾	Three months ended June 30, 2020⁽¹⁾
Revenue	18,783	6,999
Loss before income taxes	(20,546)	(27,484)
Net loss	(21,794)	(27,853)

(1) Amounts for the three months ended June 30, 2021 and 2020 were translated into US\$ using the average exchange rates of \$1 U.S. dollar = 73.74 Indian rupees and \$1 U.S. dollar = 75.86 Indian rupees prevailing during those periods.

The increase in revenue is primarily a result of the improvement in passenger traffic and overall volume of business as described in the Key Business Drivers, Events and Risks section under COVID-19 Impact. Loss before income taxes and net loss decreased primarily as a result of the increase in revenue as noted above, partially offset by an increase in depreciation and interest expense recognized as a result of the capitalization of expansion projects.

Investment in Sanmar Chemicals Group

Business Overview

Sanmar Chemicals Group ("Sanmar"), a private company located in Chennai, India, is one of the largest suspension polyvinyl chloride ("PVC") manufacturers in India with an operational presence in India and Egypt. Sanmar has an aggregate installed capacity of over 766,000 metric tons per annum, comprised of approximately 366,000 metric tons per annum in India and 400,000 metric tons per

annum in Egypt. As part of its expansion project in Egypt, Sanmar commissioned a calcium chloride facility with capacity of approximately 130,000 metric tons per annum.

Sanmar's principal lines of business consist of: (i) Chemplast Sanmar Limited ("Chemplast"), comprising of the largest specialty PVC manufacturer in India (based on installed production capacity as at December 31, 2020), Chemplast Cuddalore Vinyls Limited ("CCVL"), the second largest suspension PVC manufacturer in India (based on installed production capacity as at December 31, 2020), and a leading custom manufacturer of starting materials and intermediates for pharmaceutical, agro-chemical and fine chemicals sectors ("Specialty Chemicals"); and (ii) TCI Sanmar Chemicals S.A.E. ("Sanmar Egypt"), the largest Indian investor in Egypt's chemical business and the largest caustic soda, calcium chloride and PVC manufacturer in Egypt.

Transaction Description

During 2016 and 2019 Fairfax India invested aggregate cash consideration of \$199,039 (approximately 14.2 billion Indian rupees) for a 42.9% equity interest in Sanmar.

Key Business Drivers, Events and Risks

India continues to be a PVC deficit market with more than 50% of the demand being met through imports. Egypt and Turkey, which are manufacturing hubs for exports to Europe, currently have a demand gap for PVC of approximately 750,000 metric tons per annum which is currently met by imports from the U.S. and Asia. Global PVC demand is projected to grow at a compound annual growth rate between 2.5% to 3.0% outpacing the growth of supply over the next 10 years and India is expected to become a bigger market than North America in the next few years. In addition due to environmental regulations, China has reduced production capacity of PVC thereby tightening supply and improving prices globally.

Sanmar continues to draw strength from the strong brand equity of the Sanmar Group, experienced management, dominant market position in the chemicals industry and demand outlook for PVC and caustic soda industry in India and across global markets. Sanmar's key business drivers relate to the execution of its plan to increase PVC manufacturing capacity in India to align with the growing demand for PVC, and to improve the overall capacity utilization at all of its PVC production facilities. The implementation risk associated with its expansion projects at Sanmar Egypt significantly decreased with the successful implementation and commissioning of the expansion projects in September 2018.

In September 2020, the Egyptian government introduced import duties for PVC at 2.0% and reduced import duties on Ethylene Dichloride ("EDC"), a key raw material used in the production of PVC, from 2.0% to nil.

During the second quarter of 2021, Sanmar Egypt received approval from its lenders to restructure \$785.4 million of its term loans, which will ease the liquidity pressure caused primarily by the COVID-19 pandemic.

On August 24, 2021 Chemplast completed an IPO, issuing 24,029,574 common shares to the public for proceeds of 13.0 billion Indian rupees (approximately \$175 million at exchange rates on that date). The IPO also included a secondary offering, whereby Sanmar sold 47,134,935 common shares of Chemplast to the public for proceeds of 25.5 billion Indian rupees (approximately \$344 million at exchange rates on that date). As a result of the IPO, Sanmar's ownership interest in Chemplast was diluted from 100.0% to 55.0%. The proceeds from the IPO were used to repay Chemplast's debt and Sanmar's holding company debt. Following the listing of shares of Chemplast the share price increased by 13.2% from the IPO price of 541.00 Indian rupees per share to 612.45 Indian rupees per share at September 30, 2021.

COVID-19 Impact

The COVID-19 pandemic resulted in a temporary closure of Sanmar's plants in India due to India's lockdown in 2020. The Sanmar plant in Egypt was temporarily closed on March 18, 2020 and re-opened its operations on April 3, 2020. The operations at the suspension PVC plant in India were constrained until May 15, 2020. The remaining plants in India, including the specialty PVC plant, gradually re-opened operations in May 2020. Specialty Chemicals has not been significantly impacted by the COVID-19 pandemic. Since the second quarter of Sanmar's fiscal year 2021, demand increased for PVC, chloromethanes and caustic soda, and global PVC supply tightened resulting in a swift recovery of suspension and specialty PVC prices, contributing to improved sales volume and margins.

Valuation and Interim Consolidated Financial Statement Impact

At September 30, 2021 the company estimated the fair value of its investment in Sanmar common shares using: (i) a discounted cash flow analysis for Sanmar Egypt, based on multi-year free cash flow forecasts with an assumed after-tax discount rate of 15.9% and a long term growth rate of 3.0%; and (ii) the unadjusted bid price of Chemplast's common shares. At September 30, 2021 free cash flow

forecasts were based on EBITDA estimates derived from financial information for Sanmar Egypt prepared in the second quarter of 2021 by Sanmar's management.

At December 31, 2020 the company estimated the fair value of its investment in Sanmar common shares using a discounted cash flow analysis for Sanmar Egypt and Chemplast, based on multi-year free cash flow forecasts with assumed after-tax discount rates ranging from 15.0% to 20.5% and long term growth rates ranging from 3.0% to 4.0%. At December 31, 2020 free cash flow forecasts were based on EBITDA estimates derived from financial information for Sanmar Egypt and Chemplast prepared in the fourth quarter of 2020 by Sanmar's management.

Free Cash Flow Forecast Inputs

The primary driver of the free cash flow estimates is the future commodity price of petrochemical products. In the event that the commodity price of petrochemical products does not develop favourably in future periods, this may result in a negative impact on the fair value of the company's investment in Sanmar.

Current Model Assumptions

Free cash flow forecasts for Sanmar Egypt were revised by Sanmar's management in the second quarter of 2021 primarily to reflect lower sales volume for certain product lines and higher input costs due to supply shortages, resulting in lower forecasted margins. The revised forecasts negatively impacted the valuation of Sanmar which was more than offset by a decrease in Sanmar Egypt's after-tax discount rate and a reduction in net debt as a result of its debt restructuring, discussed below.

During the second quarter of 2021 Sanmar Egypt received approval from its lenders to restructure \$785.4 million of its borrowings. The restructuring plan will result in an extended tenor, reduced borrowing rates and the conversion of a portion of term loans to a 13.9% equity interest in Sanmar Egypt. Certain implementation steps of the restructuring plan are subject to regulatory approval. The debt restructuring implied a decrease in Sanmar Egypt's after-tax cost of borrowing and a decrease in Sanmar's net debt, which increased the valuation.

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. These risk premiums were reflective of the increased uncertainty of the free cash flow forecasts due the economic and social impacts of the COVID-19 pandemic as well as the resulting liquidity pressures and were partially offset by a reduced cost of debt at Sanmar Egypt due to its debt restructuring. Long term growth rates were based on the expected long term sustainable growth rate of the economic environment and sectors in which Sanmar operates and were not adjusted downward for the short term impacts of COVID-19.

At September 30, 2021 the company's internal valuation model indicated that the fair value of the company's investment in Sanmar was \$438,771 (December 31, 2020 - \$338,621) with the changes in fair value for the third quarters and first nine months of 2021 and 2020 presented in the tables at the outset of the Indian Investments section of this MD&A.

Sanmar's Summarized Financial Information

Sanmar's fiscal year ends on March 31. Summarized below are Sanmar's balance sheets at June 30, 2021 and March 31, 2021.

Balance Sheets

(unaudited - US\$ thousands)

	June 30, 2021⁽¹⁾	March 31, 2021⁽¹⁾
Current assets	330,553	258,408
Non-current assets	1,736,863	1,758,517
Current liabilities	640,939	655,819
Non-current liabilities ⁽²⁾	1,465,922	1,522,588
Shareholders' deficit	(39,445)	(161,482)

(1) The net assets of Sanmar were translated at June 30, 2021 at \$1 U.S. dollar = 74.33 Indian rupees and at March 31, 2021 at \$1 U.S. dollar = 73.11 Indian rupees. The exchange rates used were the spot rates prevailing on those respective dates.

(2) Subsequent to June 30, 2021 non-current liabilities decreased as a result of the repayment of debt with proceeds from the Chemplast IPO as described in the Key Business Drivers, Events and Risks section.

Current assets increased primarily due to increased inventories and other financial assets. Non-current assets in U.S. dollars decreased primarily due to the weakening of the Indian rupee relative to the U.S. dollar during the three months ended June 30, 2021, partially offset by increased property, plant and equipment. Current and non-current liabilities decreased primarily as a result of reduced borrowings due to repayment of term loans and the debt restructuring at Sanmar Egypt as described in the Key Business Drivers, Events and Risks section, partially offset by increased trade payables.

Summarized below are Sanmar's statements of earnings (loss) for the three months ended June 30, 2021 and 2020.

Statements of Earnings (Loss)

(unaudited - US\$ thousands)

	Three months ended June 30, 2021 ⁽¹⁾	Three months ended June 30, 2020 ⁽¹⁾
Revenue	263,725	115,378
Loss before income taxes	(556)	(32,875)
Net loss	(2,414)	(32,888)

(1) Amounts for the three months ended June 30, 2021 and 2020 were translated into US\$ using the average exchange rates of \$1 U.S. dollar = 73.74 Indian rupees and \$1 U.S. dollar = 75.86 Indian rupees prevailing during those periods.

Revenue increased primarily due to increased demand for PVC and caustic soda leading to their increased sales volume and prices. Furthermore, increased demand in the pharmaceutical industry also resulted in increased sales volume and prices for chloromethanes. Loss before income taxes and net loss decreased primarily reflecting increased revenue as noted above and lower interest costs due to reduced borrowings, partially offset by increased EDC prices in Egypt, and increased power costs and other expenses due to sales volume increases.

Investment in Seven Islands Shipping Limited

Business Overview

Seven Islands Shipping Limited ("Seven Islands"), a private company located in Mumbai, India, is the second largest private sector tanker shipping company in India and transports liquid and gas cargo along the Indian coast as well as in international waters. At September 30, 2021 Seven Islands owned 22 vessels, including two gas carriers, with a total deadweight capacity of approximately 1.2 million metric tons. Its vessels are registered in India and operate as Indian owned and flagged vessels.

Transaction Description

During 2019 Fairfax India invested aggregate cash consideration of \$83,846 (approximately 5.8 billion Indian rupees) for a 48.5% equity interest in Seven Islands.

Key Business Drivers, Events and Risks

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

Following a contraction in global oil demand in 2020, the OPEC estimated that demand would exceed pre-pandemic levels in 2022, led by growth in the United States, China and India. The path to recovery, however, may be impacted by uncertainties from the emergence of COVID-19 variants, vaccination roll-out progress, and extent of policy support. In addition, the global production cuts introduced in the prior year have contributed to a significant rise in oil prices and an imbalance in supply against the recovery in demand. With ongoing efforts to address the imbalance in the oil market by OPEC and participating non-OPEC countries, the tanker market is expected to benefit as oil trade trends are stabilized and lockdown measures are eased.

During the third quarter of 2021, Seven Islands acquired its first two gas carrier vessels, marking its venture into the gas seaborne logistics business to tap into the growing demand for liquefied petroleum gas imports in India.

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

COVID-19 Impact

Seven Islands continued to operate as transportation of goods is considered an essential service under India's lockdown guidelines. Seven Islands has reasonable safeguards against loss of business in the short term arising from the imbalance in the oil markets since the majority of its revenue contracts are on time charter which range between six months to over a year.

Valuation and Interim Consolidated Financial Statement Impact

At September 30, 2021 the company estimated the fair value of its investment in Seven Islands using a discounted cash flow analysis based on multi-year free cash flow forecasts with an assumed after-tax discount rate of 10.7% and a long term growth rate of 3.0% (December 31, 2020 - 13.5% and 3.0%, respectively). At September 30, 2021 free cash flow forecasts were based on EBITDA estimates derived from financial information for Seven Islands prepared in the third quarter of 2021 (December 31, 2020 - fourth quarter of 2020) by Seven Islands' management.

Free Cash Flow Forecast Inputs

The primary driver of the free cash flow estimates is the vessel profile composition, including planned vessel acquisitions and charter rates.

Current Model Assumptions

Free cash flows were revised by Seven Islands' management in the third quarter of 2021 primarily to reflect market conditions of the shipping industry in the near term, including the timing and composition of its planned vessel acquisitions, including acquisitions of gas carriers, which are expected to have robust demand. Discount rates were based on the company's assessment of risk premiums to the appropriate risk-free rate of the economic environment in which Seven Islands operates. These risk premiums were reflective of the increased uncertainty of the free cash flow forecasts due to the economic and social impacts of the COVID-19 pandemic. Long term growth rates were based on the expected long term sustainable growth rate of the economic environment and sectors in which Seven Islands operates.

At September 30, 2021 the company's internal valuation model indicated that the fair value of the company's investment in Seven Islands was \$104,838 (December 31, 2020 - \$103,543) with the changes in fair value for the third quarters and first nine months of 2021 and 2020 presented in the tables at the outset of the Indian Investments section of this MD&A.

Investment in National Commodities Management Services Limited

Business Overview

National Commodities Management Services Limited ("NCML") (formerly National Collateral Management Services Limited), a private company located in Gurugram, India, is a leading integrated agriculture value chain solutions company operating for over 15 years and offers end-to-end solutions in grain procurement, storage and preservation, testing and certification, collateral management, market and weather intelligence, and logistics services. 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 commodity management solutions (including adjacent services) and collateral management, non-banking finance company, and the silo projects.

Transaction Description

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

In 2019 the company was issued 12.5% unsecured compulsorily convertible debentures ("NCML CCD"), due September 30, 2029, at a cost of \$13,970 (approximately 1.0 billion Indian rupees). The company has the option to convert the NCML CCD into common shares of NCML at any time prior to the maturity date, at which time the conversion is compulsory, at a conversion price of 68.00 Indian rupees per common share.

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 expansion of its commodity management solutions line of businesses with adjacent services, and the successful construction of the silos under the concession agreement with the Food Corporation of India ("FCI").

According to the Government of India's most recent estimates, food grain production in India increased by approximately 3.7% during the 2020-21 crop year (July 2020 to June 2021), representing a market of approximately 309 million metric tons of food grains. NCML's commodity management solutions business currently services approximately 1.7 million metric tons of food grain volume each year and continuously seeks opportunities to increase its utilization within the sizeable market by participating in government assignments and securing deposits from multinational corporations for both the food and non-food grain sector.

The silo projects are comprised of 11 silos that will be constructed under a design, build, finance, own and operate model and 2 silos that will be constructed under a design, build, finance, operate and transfer model, with all 13 silo projects being constructed for the exclusive use by the FCI. Two of the silo projects successfully achieved commercial operations during 2021 and began to generate revenue. The remaining silo projects are expected to be substantially completed throughout 2022 to 2023.

COVID-19 Impact

NCML's commodity management solutions and NBFC businesses continued to operate at reduced capacities during the period. The reduced capacities were primarily attributable to an overall decrease in volume of commodity deposits and restrictions affecting inflows during the key April to June harvesting season, combined with a conscious effort to reduce loan exposure during the moratorium period permitted by the RBI.

As lockdown restrictions relating to movement of goods and labour were eased, NCML observed gradual recovery in demand across its business lines, however sales volume remained below pre-pandemic levels due to decreased funding as a result of the tightened credit environment. To manage working capital, NCML has focused on risk mitigation controls and protocols and primarily serving existing clients. Silo construction also experienced delays due to restrictions on the movement of goods and labour and incremental safety protocols enforced by NCML management.

NCML has been managing its liquidity requirements through utilization of its current credit lines and prudent working capital management. Additional capital may also be released through the sale of excess land parcels and the scaling down of businesses with less favourable risk-reward characteristics.

Valuation and Interim Consolidated Financial Statement Impact

NCML Common Shares

At September 30, 2021 the company estimated the fair value of its investment in NCML common shares using a discounted cash flow analysis based on multi-year free cash flow forecasts with assumed after-tax discount rates ranging from 10.8% to 11.4% and long term growth rates ranging from 2.4% to 6.0% for two business units, and an adjusted net book value approach for its NBFC business unit (December 31, 2020 - 11.3% to 11.7%, 2.4% to 6.0%, respectively and an adjusted net book value approach for its NBFC business unit). At September 30, 2021 free cash flow forecasts were based on EBITDA estimates derived from financial information for two business units prepared in the third quarter of 2021 (December 31, 2020 - fourth quarter of 2020) by NCML's management.

Free Cash Flow Forecast Inputs

The primary drivers of the free cash flow estimates are warehouse capacity and future EBITDA growth of NCML's commodity management solutions business.

Current Model Assumptions

Free cash flow forecasts were revised by NCML's management in the third quarter of 2021 to primarily reflect changes to its composition of owned, leased and franchisee warehouse capacity, and to adjust EBITDA growth based on expected business volumes more towards franchisee warehouse capacity and away from leased capacity. 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. These risk premiums were reflective of the increased uncertainty of the free cash flow forecasts due to the economic and social impacts of the COVID-19 pandemic. Long term growth rates were based on the expected long term sustainable growth rate of the economic environment and sectors in which NCML operates and were not adjusted downward for the short term impacts of COVID-19.

During the third quarter of 2020, NCML's NBFC business unit experienced decreased funding from public sector banks which limited its ability to advance loans, in addition to a decline in the demand for lending as a result of the continued business disruptions in agri-businesses caused by the COVID-19 pandemic and India's lockdown. As a result, NCML's management commenced a process of scaling down its loan book. Accordingly, the company determined growth rates would not be relevant and it was more appropriate to value NCML's NBFC business unit using an asset-based approach rather than performing a discounted cash flow analysis as it had done previously.

At September 30, 2021 the company's internal valuation model indicated that the fair value of the company's equity investment in NCML was \$73,484 (December 31, 2020 - \$86,216) with the changes in fair value for the third quarters and first nine months of 2021 and 2020 presented in the tables at the outset of the Indian Investments section of this MD&A.

NCML Compulsorily Convertible Debentures

At September 30, 2021 the fair value of the company's investment in NCML CCD was \$14,651 (December 31, 2020 - \$14,884) with the changes in fair value for the third quarters and first nine months of 2021 and 2020 presented in the tables at the outset of the Indian Investments section of this MD&A.

NCML's Summarized Financial Information

NCML's fiscal year ends on March 31. Summarized below are NCML's balance sheets at September 30, 2021 and March 31, 2021.

Balance Sheets

(unaudited - US\$ thousands)

	September 30, 2021 ⁽¹⁾	March 31, 2021 ⁽¹⁾
Current assets	57,983	60,391
Non-current assets	136,991	137,664
Current liabilities	40,947	34,360
Non-current liabilities	72,738	73,490
Shareholders' equity	81,289	90,205

(1) The net assets of NCML were translated at September 30, 2021 at \$1 U.S. dollar = 74.23 Indian rupees and at March 31, 2021 at \$1 U.S. dollar = 73.11 Indian rupees. The exchange rates used were the spot rates prevailing on those respective dates.

Current assets decreased primarily due to the use of cash towards silo construction and net repayments of debt. Non-current assets in U.S. dollars decreased primarily due to the weakening of the Indian rupee relative to the U.S. dollar during the six months ended September 30, 2021, partially offset by the continued construction and land procurement for silo projects. Current liabilities increased primarily due to increased working capital loans for the commodity management solutions business and advances received for silo project milestones, in addition to increased interest payables. Non-current liabilities in U.S. dollars decreased primarily due to the weakening of the Indian rupee relative to the U.S. dollar as discussed above, partially offset by increased lease liabilities.

Summarized below are NCML's statements of earnings (loss) for the six months ended September 30, 2021 and 2020.

Statements of Earnings (Loss)

(unaudited - US\$ thousands)

	Six months ended September 30, 2021 ⁽¹⁾	Six months ended September 30, 2020 ⁽¹⁾
Revenue	17,655	31,978
Loss before income taxes	(7,657)	(9,492)
Net loss	(7,590)	(6,870)

(1) Amounts for the six months ended September 30, 2021 and 2020 were translated into US\$ using the average exchange rates of \$1 U.S. dollar = 73.92 Indian rupees and \$1 U.S. dollar = 75.11 Indian rupees prevailing during those periods.

Revenue decreased primarily reflecting reduced business volumes in the supply chain management business, consistent with NCML management's strategy to reduce exposure and focus on specific customer segments in response to the tightened credit environment during the six months ended September 30, 2021. The above was partially offset by incremental revenue from newly operating silos as well as NCML's new logistics services line of business. Loss before income taxes and net loss for the six months ended September 30, 2021 was impacted by the decreased revenues as noted above and accounting loss provisions recorded in the current period relating to insurance claim receivables which may be recovered in future periods. Loss before income taxes and net loss for the six months ended September 30, 2020 was impacted by losses incurred in connection with withdrawal from three silo projects, partially offset by a recovery of income taxes.

Investment in Saurashtra Freight Private Limited

Business Overview

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

Transaction Description

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

Key Business Drivers, Events and Risks

Saurashtra measures the operating performance of its CFS business based on the utilization of its standard twenty-foot (shipping container) equivalent units ("TEUs") relative to total installed capacity, and total import and export container traffic in the market. In the third quarter of 2021, Saurashtra handled 28,486 TEUs compared to quarterly installed capacity of 49,300 TEUs, implying capacity utilization of approximately 58% (third quarter of 2020 - 23,089 TEUs compared to quarterly installed capacity of 45,000, implying utilization of approximately 51%). Saurashtra had the highest market share for imports at approximately 16%, and second highest market share for exports at approximately 13% at Mundra port in India. Saurashtra remains as the largest container freight station at Mundra port in terms of total throughput achieved with a 15% market share for the quarter ended September 30, 2021.

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

During 2021 Saurashtra completed the construction of a new logistics park in Mundra, which increased the total capacity of its CFS business and is expected to improve utilization. Saurashtra has also invested in additional container units to expand its container carrier business, where profitability has benefited from high ocean freight rates. Saurashtra is continuing to actively pursue additional volume and increase capacity through offering comprehensive packages to shipping lines and evaluating expansion projects in its existing businesses and the wider logistics industry.

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

COVID-19 Impact

Saurashtra's businesses continued to operate as transportation of goods was considered an essential service under India's lockdown guidelines. The local lockdowns during the second wave of the pandemic proved to be less disruptive to output compared to the nationwide lockdown of the prior year, as reflected by the improvement in utilization year over year.

Saurashtra has sufficient cash on hand to manage its liquidity needs.

Valuation and Interim Consolidated Financial Statement Impact

At September 30, 2021 the company estimated the fair value of its investment in Saurashtra using a discounted cash flow analysis based on multi-year free cash flow forecasts with assumed after-tax discount rates ranging from 18.8% to 21.3% and long term growth rates ranging from 4.0% to 5.0% (December 31, 2020 - 14.3% to 17.7%, and 4.0% to 5.0%, respectively). At September 30, 2021 free cash flow forecasts were based on EBITDA estimates derived from financial information for Saurashtra's two business units prepared in the second quarter of 2021 (December 31, 2020 - fourth quarter of 2020) by Saurashtra's management.

In the third quarter and first nine months of 2021 the consolidated statements of earnings (loss) included dividend income earned from the company's investment in Saurashtra of \$897 and \$1,317 (2020 - nil both periods).

Free Cash Flow Forecast Inputs

The primary drivers of the free cash flow estimates are the import and export handling capacity and utilization.

Current Model Assumptions

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. These risk premiums were reflective of the increased uncertainty of the free cash flow forecasts due to the economic and social impacts of the COVID-19 pandemic. Long term growth rates were based on the expected long term sustainable growth rate of the economic environment and sectors in which Saurashtra operates.

At September 30, 2021 the company's internal valuation model indicated that the fair value of the company's investment in Saurashtra was \$36,773 (December 31, 2020 - \$32,812) with the changes in fair value for the third quarters and first nine months of 2021 and 2020 presented in the tables at the outset of the Indian Investments section of this MD&A.

Investment in National Stock Exchange of India Limited

Business Overview

National Stock Exchange of India Limited ("NSE"), a private company located in Mumbai, India, operates India's largest stock exchange. In addition to providing a platform for exchange-traded financial products in India, NSE's flagship index, Nifty50, is used extensively by investors in India and around the world as a barometer of the Indian capital markets.

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).

Key Business Drivers, Events and Risks

India has two main stock exchanges where the majority of its trading takes place, the BSE and NSE of India. Although most significant firms in India are listed on both the BSE and NSE of India, NSE enjoys dominant market share positions including a 92% market share in the equity trading segment, a 100% market share in the equity derivatives trading segment and a 71% and 94% market share in the foreign exchange futures and options markets, respectively. NSE of India emerged as the world's largest exchange in derivatives trading volumes in 2019 and 2020.

In September 2016 SEBI ordered NSE to transfer all revenues generated from their co-location facilities into an escrow account. In May 2017 SEBI issued show-cause notices to NSE prompting responses on inquiries over certain broker members having access to co-location facilities at NSE thereby potentially gaining unfair trading advantages. On April 30, 2019 SEBI directed NSE to pay approximately 6.9 billion Indian rupees in penalties plus 12.0% interest after finding that it had failed to provide equal access to all trading members. In May 2019 NSE filed an appeal with the Securities Appellate Tribunal ("SAT") and in May 2021 the SAT approved the withdrawal of amounts by NSE deposited in the escrow account held by SEBI of approximately 60.9 billion Indian rupees. The next set of hearings is scheduled for November 2021.

On December 28, 2016 NSE filed a draft prospectus with SEBI in connection with its proposed IPO. Subject to completion of the SAT ruling and regulatory approval from SEBI, it is estimated that the IPO will be completed sometime in 2022. 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.

COVID-19 Impact

NSE continued to operate as financial services are considered essential services under India's lockdown guidelines.

Valuation and Interim Consolidated Financial Statement Impact

At September 30, 2021 the company's estimated fair value of its investment in NSE of \$108,003 (December 31, 2020 - \$72,617) was based on recent third party transactions completed in the third quarter of 2021 (December 31, 2020 - fourth quarter of 2020). The changes in fair value of the company's investment in NSE for the third quarters and first nine months of 2021 and 2020 are presented in the tables at the outset of the Indian Investments section of this MD&A.

In the third quarter and first nine months of 2021 the consolidated statements of earnings (loss) included dividend income earned from the company's investment in NSE of \$1,685 in both periods (2020 - \$743 in both periods).

Investment in India Housing Fund

Business Overview

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

At September 30, 2021 IH Fund had invested approximately 16,091 million Indian rupees (approximately \$217 million at period end exchange rates) in 13 real estate sector investments.

Transaction Description

Fairfax India had invested aggregate cash consideration of \$24,399 (approximately 1.7 billion Indian rupees) in IH Fund through the following transactions: (i) on January 7, 2019 the company invested 25.0% or 437.0 million Indian rupees (\$6,272) of the committed investment amount in IH Fund; (ii) on November 7, 2019 the company invested an additional 35.0% or 611.8 million Indian rupees (\$8,621) of the committed investment amount in IH Fund; and, (iii) on December 24, 2020 the company invested the remaining 40.0% or 699.2 million Indian rupees (\$9,506) of the committed investment amount in IH Fund.

Key Business Drivers, Events and Risks

The Indian real estate industry is a key growth driver of the country's economy and is the second-highest employment generator in India. The Indian real estate industry is expected to contribute approximately 13% to the country's GDP by 2025 and reach \$1 trillion by 2030.

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

COVID-19 Impact

The Indian real estate industry has experienced a slowdown as a result of the unavailability of labour for construction, reduced sales inquiries, tightened liquidity, and delays in project approvals from regulatory authorities and government offices. While there may be certain real estate project delays within investee companies impacting cash flows, IH Fund has sufficient capital in place to withstand these pressures.

Valuation and Interim Consolidated Financial Statement Impact

At September 30, 2021 the company estimated the fair value of its investment in IH Fund of \$24,824 (December 31, 2020 - \$25,354) based on the net asset value provided by the third party fund manager. The fair values of the underlying assets are determined using quoted prices for short term investments, and industry accepted valuation models for debt and equity instruments. The changes in fair value of the company's investment in IH Fund for the third quarters and first nine months of 2021 and 2020 are presented in the tables at the outset of the Indian Investments section of this MD&A.

In the third quarter and first nine months of 2021 the consolidated statements of earnings (loss) included dividend income earned from the company's investment in IH Fund of \$358 and \$784 (2020 - \$182 and \$332).

Investment in Maxop Engineering Company Private Limited

Maxop Engineering Company Private Limited ("Maxop"), a private company located in New Delhi, India, is a precision aluminum die casting and machining solution provider for customers in the automotive and industrial sectors.

On September 16, 2021 Fairfax India entered into an agreement to acquire, in aggregate, a 67.0% equity interest in Maxop in two transactions. In the initial transaction, Fairfax India will invest approximately 2.2 billion Indian rupees (approximately \$30 million at the date of the agreement) for a 51.0% equity interest in Maxop and, in the second transaction, will invest up to approximately 2.7 billion Indian rupees (approximately \$36 million at the date of the agreement) for an additional 16.0% equity interest. The initial transaction is expected to close in the fourth quarter of 2021 and the second transaction is expected to close in the second half of 2022. The transaction is subject to customary closing conditions.

Results of Operations

Fairfax India's consolidated statements of earnings (loss) for the three and nine months ended September 30 are shown in the following table:

	Third quarter		First nine months	
	2021	2020	2021	2020
Income				
Interest	1,253	951	3,128	5,148
Dividends	10,647	8,644	23,030	15,427
Net realized gains on investments	59,076	3,874	193,643	4,706
Net change in unrealized gains (losses) on investments	113,177	74,429	625,068	(129,288)
Net foreign exchange gains (losses)	1,867	11,550	(5,445)	(19,186)
	<u>186,020</u>	<u>99,448</u>	<u>839,424</u>	<u>(123,193)</u>
Expenses				
Investment and advisory fees	10,304	8,503	30,655	24,912
Performance fee (recovery)	18,642	—	118,169	(47,134)
General and administration expenses	2,134	950	4,532	3,106
Interest expense	6,380	7,190	22,134	22,572
	<u>37,460</u>	<u>16,643</u>	<u>175,490</u>	<u>3,456</u>
Earnings (loss) before income taxes	148,560	82,805	663,934	(126,649)
Provision for (recovery of) income taxes	16,655	5,153	51,709	(2,876)
Net earnings (loss)	<u>131,905</u>	<u>77,652</u>	<u>612,225</u>	<u>(123,773)</u>
Attributable to:				
Shareholders of Fairfax India	131,910	77,652	612,230	(123,773)
Non-controlling interests	(5)	—	(5)	—
	<u>131,905</u>	<u>77,652</u>	<u>612,225</u>	<u>(123,773)</u>
Net earnings (loss) per share	\$ 0.91	\$ 0.52	\$ 4.14	\$ (0.82)
Net earnings (loss) per diluted share	\$ 0.85	\$ 0.52	\$ 3.90	\$ (0.82)

Total income of \$186,020 in the third quarter of 2021 increased from \$99,448 in the third quarter of 2020 principally due to increased net realized gains on investments principally due to realized gains arising from the sale of the company's investments in Other Public Indian Investments of (\$58,942) and increased net change in unrealized gains on investments (discussed below), partially offset by decreased net foreign exchange gains. The net change in unrealized gains on investments of \$113,177 in the third quarter of 2021 was principally comprised of unrealized gains on the company's investments in IIFL Wealth (\$66,943), Fairchem Organics (\$45,657), IIFL Finance (\$34,627), IIFL Securities (\$25,429) and NSE (\$8,754), partially offset by unrealized losses in the company's investments in CSB Bank (\$28,056) and NCML common shares (\$4,245), and the reversal of prior period unrealized gains arising from the sale of Other Public Indian Investments (\$47,297). The net change in unrealized gains on investments of \$74,429 in the third quarter of 2020 was principally comprised of unrealized gains in the company's investments in CSB Bank (\$39,420), Privi Speciality (formerly Fairchem) (\$34,921), NSE (\$12,759), 5paisa (\$11,199) and IIFL Finance (\$6,068), partially offset by unrealized losses in the company's investments in NCML common shares (\$14,666), IIFL Wealth (\$9,527), IIFL Securities (\$5,248), and Other Public Indian Investments (\$5,482). Interest income of \$1,253 in the third quarter of 2021 increased from \$951 in the third quarter of 2020 principally as a result of increased interest from Government of India bonds. Dividend income of \$10,647 in the third quarter of 2021 primarily related to dividends received from the company's investments in IIFL Wealth, NSE, Other Public Indian Investments and Saurashtra. Dividend income of \$8,644 in the third quarter of 2020 primarily related to dividends received from the company's investments in IIFL Wealth, NSE and Other Public Indian Investments.

Total income of \$839,424 in the first nine months of 2021 compared to total loss from income of \$123,193 in the first nine months of 2020 principally due to net change in unrealized gains on investments (discussed below), increased net realized gains on investments principally due to realized gains arising from the sale of the company's investments in Privi Speciality (\$132,303) and Other Public Indian Investments (\$58,944), decreased net foreign exchange losses, and increased dividend income, partially offset by decreased interest income. The net change in unrealized gains on investments of \$625,068 in the first nine months of 2021 was principally comprised of unrealized gains on the company's investments in IIFL Finance (\$197,281), Fairchem Organics (\$141,148), Sanmar (\$106,370), CSB Bank (\$98,696), IIFL Wealth (\$92,199), IIFL Securities (\$56,309) and NSE (\$36,842), partially offset by unrealized losses in the company's investments in NCML common shares (\$11,485) and the reversal of prior period unrealized gains arising from the sale of Privi Speciality common shares (\$105,057) and Other Public Indian Investments (\$30,791). The net change in unrealized losses on investments of \$129,288 in the first nine months of 2020 was principally comprised of unrealized losses in the company's

investments in IIFL Finance (\$69,155), Sanmar (\$63,991), Other Public Indian Investments (\$31,061), IIFL Wealth (\$26,698) and NCML common shares (\$23,976), partially offset by unrealized gains in the company's investments in Privi Speciality (formerly Fairchem) (\$55,598), 5paisa (\$14,066), NSE (\$11,745) and Seven Islands (\$5,725). Interest income of \$3,128 in the first nine months of 2021 decreased from \$5,148 in the first nine months of 2020 principally as a result of decreased interest from Government of India and Indian corporate bonds. Dividend income of \$23,030 in the first nine months of 2021 primarily related to dividends received from the company's investments in IIFL Wealth, Other Public Indian Investments, IIFL Finance, NSE, Saurashtra, IIFL Securities and IH Fund. Dividend income of \$15,427 in the first nine months of 2020 primarily related to dividends from the company's investments in IIFL Wealth, IIFL Finance and IIFL Securities.

Net gains (losses) on investments and net foreign exchange gains (losses) for the third quarters and first nine months of 2021 and 2020 were comprised as follows:

	Third quarter					
	2021			2020		
	Net realized gains	Net change in unrealized gains (losses)	Net gains (losses)	Net realized gains (losses)	Net change in unrealized gains (losses)	Net gains (losses)
Net gains (losses) on investments:						
Short term investments	—	(3)	(3)	—	—	—
Bonds	134	(248)	(114)	600	(540)	60
Common stocks	58,942 ⁽¹⁾	113,428 ⁽¹⁾	172,370	3,274 ⁽¹⁾	74,969 ⁽¹⁾	78,243
	<u>59,076</u>	<u>113,177</u>	<u>172,253</u>	<u>3,874</u>	<u>74,429</u>	<u>78,303</u>
Net foreign exchange gains (losses) on:						
Cash and cash equivalents	786	—	786	(1,101)	—	(1,101)
Borrowings	—	711 ⁽²⁾	711	—	12,667 ⁽²⁾	12,667
Other	370	—	370	(16)	—	(16)
	<u>1,156</u>	<u>711</u>	<u>1,867</u>	<u>(1,117)</u>	<u>12,667</u>	<u>11,550</u>

(1) Refer to 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 the third quarters of 2021 and 2020.

(2) In the third quarter of 2021 net change in unrealized gain on borrowings of \$711 related to the \$500.0 million unsecured senior notes. In the third quarter of 2020 unrealized foreign exchange gain on borrowings related to the \$550.0 million term loan.

	First nine months					
	2021			2020		
	Net realized gains (losses)	Net change in unrealized gains (losses)	Net gains (losses)	Net realized gains (losses)	Net change in unrealized gains (losses)	Net gains (losses)
Net gains (losses) on investments:						
Short term investments	—	(3)	(3)	—	—	—
Bonds	136	(411)	(275)	1,432	927	2,359
Common stocks	188,660 ⁽¹⁾	625,482 ⁽¹⁾	814,142	3,274 ⁽¹⁾	(130,215) ⁽¹⁾	(126,941)
Derivatives	4,847 ⁽¹⁾	—	4,847	—	—	—
	<u>193,643</u>	<u>625,068</u>	<u>818,711</u>	<u>4,706</u>	<u>(129,288)</u>	<u>(124,582)</u>
Net foreign exchange gains (losses) on:						
Cash and cash equivalents	1,357	—	1,357	(206)	—	(206)
Borrowings	(36,032) ⁽²⁾	27,524 ⁽²⁾	(8,508)	—	(17,736) ⁽²⁾	(17,736)
Other	1,706	—	1,706	(1,244)	—	(1,244)
	<u>(32,969)</u>	<u>27,524</u>	<u>(5,445)</u>	<u>(1,450)</u>	<u>(17,736)</u>	<u>(19,186)</u>

(1) Refer to 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 the first nine months of 2021 and 2020.

(2) In the first nine months of 2021 net realized foreign exchange loss of \$36,032 related to the extinguishment of the \$550.0 million term loan. The net change in unrealized gain of \$27,524 was primarily comprised of the reversal of unrealized foreign exchange losses in prior years of \$32,546 on the extinguishment of the \$550.0 million term loan, partially offset by unrealized foreign exchange losses of \$5,022 primarily related to the new \$500.0 million unsecured senior notes issued in February 2021. In the first nine months of 2020 unrealized foreign exchange loss on borrowings related to the \$550.0 million term loan.

Total expenses of \$37,460 and \$175,490 in the third quarter and first nine months of 2021 increased from \$16,643 and \$3,456 in the third quarter and first nine months of 2020 primarily as a result of a performance fee accrual in the third quarter and first nine months of 2021 compared to the reversal of previously accrued performance fees in the first nine months of 2020, increased investment and advisory fees, and increased general and administration expenses primarily attributable to increased brokerage fees on sales of investments, in addition to stamp duties and fees related to the transfer of a portion of the company's equity interest in BIAL such that it is held through Anchorage and subsequent sale of minority equity interest in Anchorage.

The investment and advisory fees are calculated and payable quarterly as 0.5% of the value of undeployed capital and 1.5% of the company's common shareholders' equity less the value of undeployed capital. The investment and advisory fees recorded in the consolidated statements of earnings (loss) for the third quarter and first nine months of 2021 were \$10,304 and \$30,655 (2020 - \$8,503 and \$24,912).

The provision for income taxes of \$16,655 and \$51,709 in the third quarter and first nine months of 2021 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, partially offset by change in unrecorded tax benefit of losses and temporary differences, and foreign exchange fluctuations.

The provision for income taxes of \$5,153 in the third quarter of 2020 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 change in unrecorded tax benefit of losses and temporary differences.

The recovery of income taxes of \$2,876 in the first nine months of 2020 differed from the recovery for income taxes that would be determined by applying the company's Canadian statutory income tax rate of 26.5% to the company's loss before income taxes primarily as a result of the tax rate differential on losses incurred outside of Canada, change in unrecorded tax benefit of losses and temporary differences, and foreign exchange fluctuations.

The company reported net earnings attributable to shareholders of \$131,905 (net earnings of \$0.91 per basic share and \$0.85 per diluted share) in the third quarter of 2021 compared to net earnings of \$77,652 (net earnings of \$0.52 per basic and diluted share) in the third quarter of 2020. The quarter-over-quarter increase in net earnings attributable to shareholders primarily reflected increased net realized gains and net change in unrealized gains on investments, partially offset by a performance fee accrual in the third quarter of 2021, increased provision for income taxes, and decreased net foreign exchange gains.

The company reported net earnings attributable to shareholders of \$612,225 (net earnings of \$4.14 per basic share and \$3.90 per diluted share) in the first nine months of 2021 compared to a net loss of \$123,773 (a net loss of \$0.82 per basic and diluted share) in the first nine months of 2020. The year-over-year increase in net earnings attributable to shareholders primarily reflected increased net change in unrealized gains and net realized gains on investments, decreased net foreign exchange losses and increased dividend income, partially offset by a performance fee accrual and provision for income taxes in the first nine months of 2021 compared to a performance fee recovery and recovery of income taxes in the first nine months of 2020, and increased investment and advisory fees.

Consolidated Balance Sheet Summary

The assets and liabilities reflected on the company's consolidated balance sheet at September 30, 2021 were primarily impacted by the net change in unrealized gains on investments resulting in the accrual of performance fee and provision for deferred income taxes, purchases and sales of investments, the sale of subsidiary shares to non-controlling interests, purchases of subordinate voting shares for cancellation, net repayment of borrowings, unrealized foreign currency translation losses, and a commitment related to the automatic share purchase plan.

Total Assets

Total assets at September 30, 2021 of \$3,757,444 (December 31, 2020 - \$3,072,998) were principally comprised as follows:

Total cash and investments increased to \$3,748,378 at September 30, 2021 from \$3,066,020 at December 31, 2020. The company's total cash and investments composition was as follows:

Cash and cash equivalents increased to \$78,293 at September 30, 2021 from \$22,057 at December 31, 2020 principally due to net proceeds received from the sales of Privi Speciality, an 11.5% minority interest in Anchorage and Other Public Indian Investments, and the release of the company's debt service reserve account which was previously held to fund term loan interest payments, partially offset by purchases of Government of India bonds, purchases of subordinate voting shares for cancellation, net repayments of borrowings, and additional investments in Fairchem Organics and Spaisa.

Restricted cash decreased to nil at September 30, 2021 from \$16,315 at December 31, 2020 primarily due to the release of the company's debt service reserve account as discussed above.

Short term investments of \$6,233 at September 30, 2021 (December 31, 2020 - nil) related to the reinvestment of a portion of the net proceeds from the sale of Other Public Indian Investments into Government of India bonds with maturity dates between three and twelve months when purchased.

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 \$3,748,378 at September 30, 2021 (December 31, 2020 - \$3,066,020) see note 6 (Cash and Investments) to the interim consolidated financial statements for the three and nine months ended September 30, 2021.

Interest and dividends receivable increased to \$7,901 at September 30, 2021 from \$1,911 at December 31, 2020 and primarily relates to increased interest receivable from Government of India bonds and the NCML CCD, and dividends receivable from Other Public Indian Investments.

Income taxes refundable decreased to \$970 at September 30, 2021 from \$2,803 at December 31, 2020, primarily due to the receipt of a corporate income tax refund during the first nine months of 2021.

Other assets decreased to \$195 at September 30, 2021 from \$2,264 at December 31, 2020, primarily due to the release of prepaid interest expense of \$2,027 related to the borrowings during the first nine months of 2021.

Total Liabilities and Equity

Total liabilities at September 30, 2021 of \$734,739 (December 31, 2020 - \$626,064) were principally comprised as follows:

Accrued interest expense of \$2,361 at September 30, 2021 (December 31, 2020 - nil) was primarily comprised of accrued interest expense for the \$500.0 million unsecured senior notes.

Automatic share purchase plan liability of \$10,000 at September 30, 2021 (December 31, 2020 - nil) related to a liability recognized in connection with the company's automatic share purchase plan under the normal course issuer bid, representing an obligation for the potential purchases of subordinate voting shares for cancellation. Subsequent to September 30, 2021, 757,869 subordinate voting shares were purchased for cancellation on behalf of the company for a net cost of \$10,000 and the automatic share purchase plan liability of \$10,000 recognized at September 30, 2021 was reversed.

Payable to related parties increased to \$127,517 at September 30, 2021 from \$14,428 at December 31, 2020 primarily as a result of a performance fee accrual in the first nine months of 2021 as the company determined that there was a performance fee accrual of \$117,139 (relating to the third calculation period ending on December 31, 2023) to Fairfax, partially offset by the settlement of the performance fee payable at December 31, 2020 of \$5,217 (relating to the second calculation period ending on December 31, 2020).

Deferred income taxes increased to \$97,139 at September 30, 2021 from \$63,477 at December 31, 2020 primarily as a result of a provision for deferred income taxes primarily attributable to unrealized gains on Fairchem Organics, CSB Bank, IIFL Wealth, and IIFL Securities, partially offset by a reversal of prior period deferred taxes recognized on the company's investment in BIAL.

Borrowings decreased to \$496,654 at September 30, 2021 from \$547,228 at December 31, 2020. At September 30, 2021 borrowings comprised of the \$500.0 million unsecured senior notes net of unamortized issuance costs (December 31, 2020 - comprised of the \$550.0 million term loan net of unamortized issuance costs). Refer to note 7 (Borrowings) to the interim consolidated financial statements for the three and nine months ended September 30, 2021 for further discussion on the borrowings.

Total equity at September 30, 2021 of \$3,022,705 (December 31, 2020 - \$2,446,934) was comprised of common shareholders' equity of \$2,894,869 (December 31, 2020 - \$2,446,934) and non-controlling interests of \$127,836 (December 31, 2020 - nil). Non-controlling interests at September 30, 2021 primarily related to the sale of an 11.5% minority interest in Anchorage during the first nine months of 2021. For further details refer to note 8 (Total Equity, under the heading Non-controlling interests) to the interim consolidated financial statements for the three and nine months ended September 30, 2021.

Financial Risk Management

The primary goals of the company's financial risk management program are to ensure that the outcomes of activities involving elements of risk are consistent with the company's objectives and risk tolerance, while maintaining an appropriate balance between risk and reward and protecting the company's consolidated balance sheets from events that have the potential to materially impair its financial strength. There were no significant changes in the types of the company's risk exposures or the process used by the company for managing those risk exposures at September 30, 2021 compared to those identified at December 31, 2020 and disclosed in the company's 2020 Annual Report, other than as outlined in note 11 (Financial Risk Management) to the interim consolidated financial statements for the three and nine months ended September 30, 2021.

Capital Resources and Management

For a detailed analysis, refer to note 11 (Financial Risk Management, under the heading Capital Management) to the interim consolidated financial statements for the three and nine months ended September 30, 2021.

Book Value per Share

Common shareholders' equity at September 30, 2021 was \$2,894,869 (December 31, 2020 - \$2,446,934). The book value per share at September 30, 2021 was \$20.37 compared to \$16.37 at December 31, 2020 representing an increase in the first nine months of 2021 of 24.4%, principally reflecting net earnings attributable to shareholders of \$612,230 (primarily related to net change in unrealized gains and net realized gains on investments and dividend income, partially offset by performance fees, provision for income taxes, investment and advisory fees, and interest expense), partially offset by unrealized foreign translation losses attributable to shareholders of \$43,902 in the first nine months of 2021. In addition, the company purchased for cancellation 7,933,707 subordinate voting shares during the first nine months of 2021 for a net cost of \$115,767 (\$14.59 per subordinate voting share) through its normal course issuer bid and substantial issuer bid which resulted in a further increase in book value per share.

	September 30, 2021	December 31, 2020
Common shareholders' equity	2,894,869	2,446,934
Number of common shares effectively outstanding	142,083,127	149,470,571
Book value per share	\$20.37	\$16.37

Liquidity

The undeployed cash and investments at September 30, 2021 provide adequate liquidity to meet the company's known significant commitments over the next twelve months, which are principally comprised of an investment in Maxop, a commitment under the automatic share purchase plan, interest expense, investment and advisory fees, and general and administration expenses.

At September 30, 2021 the company's payment obligations which are due beyond one year primarily relate to the recurring nature of expenses described above and a principal redemption on the \$500.0 million unsecured senior notes due in February 2028, which bears interest at a fixed rate of 5.0% per annum, payable in semi-annual installments. In addition, under the Investment Advisory Agreement (defined in note 12 (Related Party Transactions) to the interim consolidated financial statements for the three and nine months ended September 30, 2021), if a performance fee is payable for the period ending on December 31, 2023, the performance fee will be payable in cash, or at Fairfax's option, in subordinate voting shares.

The company has the ability to sell a portion of its Indian Investments to supplement its liquidity requirements, by way of private placements or in public markets for its Public Indian Investments, or through private sales or IPOs for its Private Indian Investments. The fair values of cash and investments at September 30, 2021, including selling restrictions and financial risks related to the investments, are disclosed in note 6 (Cash and Investments) and note 11 (Financial Risk Management) to the interim consolidated financial statements for the three and nine months ended September 30, 2021. At September 30, 2021 the company held common shares of Public Indian Investments which carry no selling restrictions with a fair value of \$1,050,887, Government of India bonds with a fair value of \$154,492 and short term investments of \$6,233. The company expects to continue to receive investment income on its holdings of fixed income securities and dividends from its equity investments to supplement its cash and cash equivalents. Accordingly, the company has adequate working capital to support its operations.

Highlights in the first nine months of 2021 (with comparisons to the first nine months of 2020) of major components of the statements of cash flows are presented in the following table:

	First nine months	
	2021	2020
Operating activities		
Cash used in operating activities excluding the impact of changes in restricted cash and net sales (purchases) of investments	(40,016)	(22,297)
Net decrease (increase) in restricted cash in support of borrowings	16,051	(5,141)
Decrease in restricted cash in support of investments	264	—
Purchases of short term investments	(6,312)	—
Purchases of investments	(238,376)	(176,405)
Sales of investments	366,019	204,678
Cash provided by operating activities	<u>97,630</u>	<u>835</u>
Financing activities		
Borrowings:		
Proceeds	500,000	—
Issuance costs	(3,650)	(5,545)
Repayments	(550,000)	—
Purchases of subordinate voting shares for cancellation	(115,767)	(22,538)
Sales of subsidiary shares to non-controlling interests	129,221	—
Cash used in financing activities	<u>(40,196)</u>	<u>(28,083)</u>
Increase (decrease) in cash and cash equivalents during the period	<u>57,434</u>	<u>(27,248)</u>

"Cash used in operating activities excluding the impact of changes in restricted cash and net sales (purchases) of investments" provides a measure of cash generated by (used in) the company's head office operations, primarily comprised of cash inflows (outflows) from interest and dividend income, interest expense, investment and advisory fees, current income taxes and general and administration expenses, and excludes the impact of changes in restricted cash and net sales (purchases) of investments. Cash used in operating activities excluding the impact of changes in restricted cash and net sales (purchases) of investments of \$40,016 in the first nine months of 2021 increased from \$22,297 in the first nine months of 2020 primarily reflecting increased cash used in investment and advisory fees and income tax payments and decreased cash provided by interest income, partially offset by decreased interest payments and increased cash provided by dividend income.

Decrease in restricted cash in support of borrowings of \$16,051 in the first nine months of 2021 compared to increase in restricted cash in support of borrowings of \$5,141 in the first nine months of 2020 principally related to the changes in the restricted cash account required to be maintained to fund interest payments on borrowings, of which the restriction was removed during the first nine months of 2021 and the balance of the debt service reserve account was released to the company. Refer to note 7 (Borrowings) to the interim consolidated financial statements for the three and nine months ended September 30, 2021 for additional details. Purchases of short term investments of \$6,312 in the first nine months of 2021 related to the purchase of Government of India bonds with maturity between three and twelve months on purchase. Purchases of investments of \$238,376 in the first nine months of 2021 primarily related to purchases of Government of India bonds and the company's investments in common shares of Fairchem Organics and 5paisa. Purchases of investments of \$176,405 in the first nine months of 2020 primarily related to purchases of Government of India and Indian corporate bonds and the company's investments in Other Public Indian Investments. Sales of investments of \$366,019 in the first nine months of 2021 primarily related to sales of the company's investments in common shares of Privi Speciality and Other Public Indian Investments, and partial sales of Government of India bonds. Sales of investments of \$204,678 in the first nine months of 2020 related to the partial sale of certain investments in Other Public Indian Investments, Government of India bonds, and Indian corporate bonds. Refer to note 14 (Supplementary Cash Flow Information) to the interim consolidated financial statements for the three and nine months ended September 30, 2021 for details of purchases and sales of investments.

Proceeds from borrowings of \$500,000 and issuance costs of \$3,650 in the first nine months of 2021 related to the net proceeds received from the issuance of the \$500.0 million unsecured senior notes on February 26, 2021. Repayments of borrowings of \$550,000 in the first nine months of 2021 related to the repayment of the \$550.0 million term loan. Issuance costs of \$5,545 in the first nine months of 2020 related to the issuance costs on the amended \$550.0 million term loan on June 26, 2020. Refer to note 7 (Borrowings) to the interim consolidated financial statements for the three and nine months ended September 30, 2021 for additional details.

Purchases of subordinate voting shares for cancellation of \$115,767 in the first nine months of 2021 (2020 - \$22,538) related to the company's purchases of 7,933,707 subordinate voting shares (2020 - 2,492,546) under the terms of the normal course issuer bid and the substantial issuer bid completed in the first nine months of 2021. Sales of subsidiary shares to non-controlling interests of \$129,221 in the first nine months of 2021 related to the sale of an 11.5% minority interest in Anchorage to OMERS. Refer to note 8

(Total Equity, under the heading Non-controlling interests) to the interim consolidated financial statements for the three and nine months ended September 30, 2021 for additional details.

Contractual Obligations

On February 26, 2021 the company completed an offering of \$500.0 million principal amount of 5.0% unsecured senior notes due February 26, 2028 at par for net proceeds after commissions and expenses of \$496,350. The \$500.0 million unsecured senior notes bear interest at a fixed rate of 5.0% per annum, payable in semi-annual installments.

On September 16, 2021 Fairfax India entered into an agreement to acquire, in aggregate, a 67.0% equity interest in Maxop in two transactions. In the initial transaction, Fairfax India will invest approximately 2.2 billion Indian rupees (approximately \$30 million at the date of the agreement) for a 51.0% equity interest in Maxop and, in the second transaction, will invest up to approximately 2.7 billion Indian rupees (approximately \$36 million at the date of the agreement) for an additional 16.0% equity interest. The initial transaction is expected to close in the fourth quarter of 2021 and the second transaction is expected to close in the second half of 2022. The transaction is subject to customary closing conditions.

Under the terms of the Investment Advisory Agreement (defined in note 12 (Related Party Transactions) to the interim consolidated financial statements for the three and nine months ended September 30, 2021), the company and its subsidiaries are contractually obligated to pay Fairfax an investment and advisory fee and, if applicable, a performance fee. These fees will vary based on the company's common shareholders' equity and book value per share.

The investment and advisory fees recorded in the consolidated statements of earnings (loss) for the third quarter and first nine months of 2021 were \$10,304 and \$30,655 (2020 - \$8,503 and \$24,912).

At September 30, 2021 the company determined that there was a performance fee accrual of \$117,139 relating to the third calculation period (December 31, 2020 - payable of \$5,217 relating to the second calculation period). Refer to note 12 (Related Party Transactions) to the interim consolidated financial statements for the three and nine months ended September 30, 2021 for discussion on the performance fee.

Related Party Transactions

The company's related party transactions are disclosed in note 12 (Related Party Transactions) to the interim consolidated financial statements for the three and nine months ended September 30, 2021.

Other

Quarterly Data (unaudited)

<i>US\$ thousands, except per share amounts</i>	September 30, 2021	June 30, 2021	March 31, 2021	December 31, 2020	September 30, 2020	June 30, 2020	March 31, 2020	December 31, 2019
Income (loss)	186,020	313,303	340,101	110,221	99,448	72,723	(295,364)	633,868
Expenses	37,460	61,637	76,393	22,552	16,643	16,181	(29,368)	62,199
Provision for (recovery of) income taxes	16,655	26,772	8,282	5,372	5,153	4,158	(12,187)	36,445
Net earnings (loss)	131,905	224,894	255,426	82,297	77,652	52,384	(253,809)	535,224
Net earnings (loss) attributable to shareholders	131,910	224,894	255,426	82,297	77,652	52,384	(253,809)	535,224
Net earnings (loss) per share	\$ 0.91	\$ 1.51	\$ 1.71	\$ 0.55	\$ 0.52	\$ 0.35	\$ (1.67)	\$ 3.51
Net earnings (loss) per diluted share	\$ 0.85	\$ 1.43	\$ 1.66	\$ 0.55	\$ 0.52	\$ 0.35	\$ (1.67)	\$ 3.42

<i>Indian rupees and in millions, except per share amounts ⁽¹⁾</i>	September 30, 2021	June 30, 2021	March 31, 2021	December 31, 2020	September 30, 2020	June 30, 2020	March 31, 2020	December 31, 2019
Income (loss)	13,857	23,118	24,791	8,183	7,364	4,894	(21,403)	44,646
Expenses	2,792	4,552	5,568	1,671	1,234	1,150	(2,128)	4,395
Provision for (recovery of) income taxes	1,235	1,967	604	398	382	288	(883)	2,577
Net earnings (loss)	9,830	16,599	18,619	6,114	5,748	3,456	(18,392)	37,674
Net earnings (loss) attributable to shareholders	9,830	16,599	18,619	6,114	5,748	3,456	(18,392)	37,674
Net earnings (loss) per share	67.58	111.11	124.65	40.79	38.21	22.84	(120.71)	246.84
Net earnings (loss) per diluted share	63.71	105.75	120.98	40.64	38.21	22.84	(120.71)	240.92

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

Income continues to be primarily comprised of net change in unrealized and realized gains (losses) on investments, net foreign exchange gains (losses), and interest and dividend income. Income was significantly impacted in the third quarter of 2021 by the net change in unrealized gains on the company's Indian Investments (principally unrealized gains in the company's investments in IIFL

Wealth, Fairchem Organics, IIFL Finance, IIFL Securities and NSE, partially offset by unrealized losses in the company's investments in CSB Bank and the reversal of prior period gains upon the sale of the company's investment in Other Public Indian Investments) and net realized gains principally related to the sale of the company's investment in Other Public Indian Investments. Individual quarterly results have been (and may in the future be) affected by increased expenses impacted by the change in fair value of the company's Indian Investments which would result in a higher performance fee, if applicable, and investment and advisory fees.

Forward-Looking Statements

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

Forward-looking statements are based on our opinions and estimates as of the date of this interim 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: the COVID-19 pandemic; oil price risk; geographic concentration of investments; foreign currency fluctuation; volatility of the Indian securities markets; investments may be made in foreign private businesses where information is unreliable or unavailable; valuation methodologies involve subjective judgments; financial market fluctuations; pace of completing investments; minority investments; reliance on key personnel and risks associated with the Investment Advisory Agreement; lawsuits; use of leverage; significant ownership by Fairfax may adversely affect the market price of the subordinate voting shares; weather risk; taxation risks; emerging markets; multilateral instrument; economic risk; and trading price of subordinate voting shares relative to book value per share risk. Additional risks and uncertainties are described in the company's annual information form dated March 5, 2021 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.

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