Management Discussion and Analysis

With over three decades of specialised experience in housing finance and a network of pan-India branches, PNB Housing Finance (PNB Housing) has continued the journey of being India's fifth largest housing finance company by assets size.

PNB Housing's journey began with a dream that every single family of our nation must have a home of their own, that this basic human aspiration must be fulfilled through a missionary zeal.

With rich industry insight, we have shaped a range of financial solutions. These include a variety of housing loans, non-housing loans and deposit options that can be availed at competitive rates of interest with convenient, hassle free services.

We leverage a unique operating model, a diverse resource profile and a robust network of distribution channels to build enduring bonds of trust and loyalty with the customers.

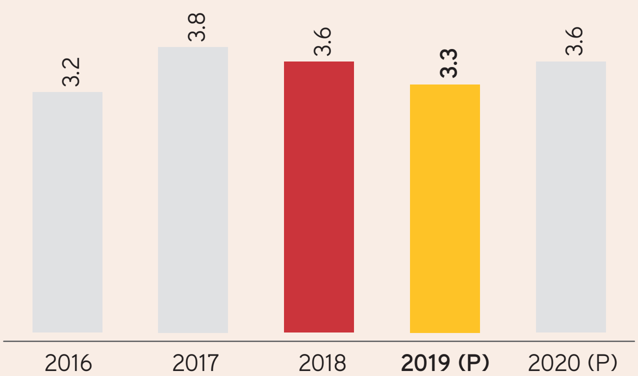
ECONOMIC ENVIRONMENT

Global economies navigating challenges

Global economic activity has softened from 3.8% in 2017 to 3.6% in 2018 and is projected to moderate further to 3.3% in 2019 [Source: International Monetary Fund (IMF)].

Key factors that decelerated the global economic momentum include escalating US-China trade tensions, macroeconomic stress in some developing economies such as Argentina and Turkey, disruption in the auto sector in Germany following the introduction of new emission norms, stringent credit policies in China, and financial tightening and normalisation of monetary policies in some of the larger advanced economies. Growth was favourably driven by large emerging Asian economies; these economies are projected to witness robust progress through 2020.

Global growth pattern (%)



P: Projections | Source: International Monetary Fund (IMF) World Economic Outlook April 2019

A projected 3.3% growth for 2019 for the global economy reflects multiple concerns: geopolitical uncertainties, unwinding of fiscal stimulus in the US, and weakening of financial market sentiments [Source: International Monetary Fund (IMF)]. Advanced economies will see modest growth rate, while emerging economies of Asia such as China and India are expected to grow sustainably. Going forward, global economic growth will depend on enhanced collaborations among nations, resolution of trade conflicts and restoration of business confidence.

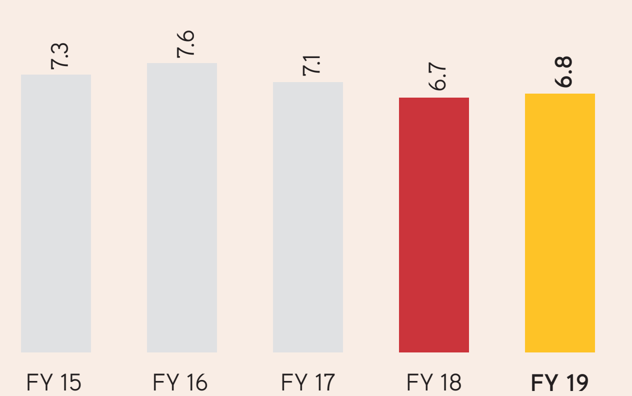
India grows steadily with long-term optimism

The overall economic outlook for India is positive. The country is now undergoing a phase of consolidation with strong transitional undercurrents at its various cross-sections.

FY 2018-19 saw the economy grow at 6.8% and improve its ranking considerably in the World Bank's Ease of Doing Business index [Source: Central Statistics Office (CSO)]. It now stands at 77 among 190 countries.

Although liquidity crunch and moderation in farm and manufacturing output in the economy dampened short-term momentum, India continued to demonstrate remarkable resilience – addressing global headwinds directly and building enablers for long-term growth. These enablers are accommodative monetary policy undertaken by the Reserve Bank of India (RBI), enhanced focus to drive consumption, rural infrastructure and strong regulatory oversight to strengthen the overall housing as well as financial services sector. The formalisation and digitalisation of the economy and stable government at the Centre are also big positives.

India's growth pattern (%)



Source: Central Statistics Office (CSO)

Key takeaways from Interim Union Budget, FY 2019-20

The Union Budget pegged the annual fiscal deficit at 3.4%, while projecting India to be a five-trillion-dollar economy in the next five years. It also reinforced the Government's commitment to digital connectivity, electricity-for-all and housing-for-all. A 10-point elaborate roadmap was outlined that would help the country realise its economic potential by 2030.

While the present income tax rates were left unchanged, a full tax rebate was sanctioned for individual taxpayers earning up to ₹5 lakhs and the standard deduction for salaried taxpayers was raised to ₹50,000. The direct tax system was simplified, with returns set to be processed in 24 hours with instantaneous refunds. Ninety percent Goods and Services Tax (GST) payers will be required to file quarterly returns.

Small and medium enterprises will get 2% interest rebate on an incremental loan of ₹1 crores. Tax deducted at source (TDS) threshold for home rent was expanded from ₹1.8 lakhs to ₹2.4 lakhs. The benefits under Section 80-IBA of the Income Tax Act was extended for one more year – to housing projects approved till March 2020, which will bolster the market for affordable housing.

FY 2018-19 interest rate trends

After peaking in the initial months, retail inflation rate remained benign and below the RBI's target of 4% between July 2018 and March 2019. It rose to 2.6% in February 2019 after four months of continuous decline [Source: Centre for Monitoring Indian Economy (CMIE)]. The depression in food prices, seen since October 2018, seems to have bottomed out. Crude prices, which constitute over 80% of the country's import bill, have dipped below US$ 60 per barrel [Source: Brent crude oil benchmark].

In its last bi-monthly monetary policy review of FY 2018-19 in February 2019, the RBI cut the repo rate – for the first time in 17 months – by 25 basis points to 6.25%. It also changed its monetary stance from 'calibrated tightening' to 'neutral', to provide flexibility while addressing challenges for a sustained growth of the Indian economy. FY 2018-19 saw the country receive the lowest number of new investment proposals since 2004-05, according to a CMIE report.

The RBI further cut the repo rate by 25 basis points to 6% in the first bi-monthly review of FY 2019-20 and again to 5.75% in the second bi-monthly review of FY 2019-20. The three consecutive rate cuts are attributed to tight liquidity, muted global growth, trade imbalances and sanctions in foreign markets. Along with the rate cut, in the second bi-monthly review, RBI changed its stance, from 'neutral' to 'accommodative', signalling that a rate hike is not likely soon.

In December 2018, the RBI suggested that all retail loans, including floating rate loans to micro and small enterprises, extended from April 2019, shall be benchmarked to either the repo rate, or any other external benchmark produced by the Financial Benchmarks India Ltd. (FBIL). As the RBI has not yet issued final guidelines on this, it is not mandatory for banks to switch over to external benchmark.

India advantage gathers momentum

The country continues to be one of the world's most attractive economies. Here we enumerate some of the key enablers of the India's growth story.

Income growth and strong private consumption

With over 60% of the population below the age of 35, and high disposable income, India continues to be a sweet spot of consumption. Consumer spending is likely to grow from US$1.5 trillion now to nearly US$6 trillion by 2030. During this period, the country will add ~140 million middle-income and ~21 million high-income households, overall nearly doubling the total share of these segments to 51% [Source: World Economic Forum].

Steady and rapid urbanisation

By 2030, 40% of Indians will be urban residents. Rural per capita consumption is likely to grow faster than in urban areas with the Government's focus on building rural infrastructure and growth in income levels. Rural towns are already at par with smaller ones in terms of earnings whereas greater penetration is narrowing the digital divide. The Government already plans to digitalise over one lakh villages and focus on artificial intelligence to drive rapid socio-economic transformation in the country [Source: World Economic Forum].

Favourable demographics

With a median age of 31 in 2030, India will continue to be among the word's youngest nations inhabiting one of the largest working age population. Moreover, the country will add ~90 million new millennial families who will be born in an economically empowered country, with ubiquitous internet, smartphones, digital media and internet-based consumption platforms [Source: World Economic Forum].

Credit offtake in the service sector

India's economic growth since liberalisation has largely been on account of expansion in the services sector. One third of the nation's workers are employed in the services sector, which contributes two-third of the country's GDP output. It is also the largest recipient of foreign direct investment (FDI). FY 2018-19 saw a growth of 36.5% from US$ 6.7 billion in 2017 to US$ 9.15 billion in FDI in the service sector. A common national market is expected to reduce costs in the long run on account of the availability of GST input credit, which will result in the reduction in prices of services [Source: Department of Industrial Policy & Promotion].

Outlook

Despite global headwinds and several downside risks, the silver lining lies in the investment space. According to CSO, India's gross fixed capital formation is likely to grow at 10% in FY 2018-19, the highest in the preceding seven years. Sharp improvement in the ease of doing business has also helped turn around investment sentiment in the country. Structural reforms such as the Goods and Services Tax (GST) and the Insolvency and Bankruptcy Code (IBC) framework continue to be of crucial importance.

While GST collections failed to meet the initial budget estimates on account of ongoing adjustments in the tax framework, it has certainly widened the tax base. This reality is encouraging as it helps improve the tax buoyancy in FY 2019-20. Interestingly, the combination of structural reforms and some improvement in domestic demand has translated to a rise in capacity utilisation in the manufacturing sector. There was an increase to a 22-quarter high of over 80% as on March 2019 [Source: Federation of Indian Chambers of Commerce & Industry (FICCI)].

Going forward, the Indian economy is likely to accelerate, driven by multiple factors: accommodative monetary policy undertaken by the Reserve Bank of India to inject additional liquidity in the economy, enhanced focus to drive rural infrastructure and consumption, and stronger regulatory oversight to strengthen the overall housing and financial services sector.

HOUSING FINANCE SECTOR STEERS THROUGH THE STORM

FY 2018-19 was a challenging year for the entire financial landscape of India. Liquidity stress in the economy followed by erosion in stakeholder trust, led to an upward movement of borrowing costs for NBFCs and employees across functions. However, better governed companies continued to navigate through the adversity on the strength of robust relationships with banks and their overall compliance integrity.

Asset quality

An indicator of India's macroeconomic growth journey, the retail lending space is witnessing a lot of activity. HFCs continue to maintain better asset quality vis-à-vis its banking counterparts. As on March 31, 2019, the overall gross non-performing assets, or GNPA (stage 3 assets as per revised Ind AS June 2018 onwards) of HFCs was 1.5%. It remained near the September 2018 level of 1.3% [Source: ICRA Limited]. As part of its mandate to ensure financial stability in the economy, the RBI on June 7, 2019, issued a revised circular on resolution of stressed assets, stating that lenders must resolve NPAs, over ₹2,000 crores within 180 days.

Funding and liquidity

With the tight liquidity seen in debt markets since September 2018, HFCs are raising funds from banks as well as down selling their assets to banks. Share of securitisation as a funding source is on the rise, while there is a significant decline in short-term borrowings. Consequently, the cost of funds for HFCs has risen. Most of them are keeping on-balance sheet liquidity buffers for meeting any sudden market disruptions and near-term debt obligations, as well as reducing asset and liability management (ALM) gaps.

Capitalisation and profitability

The National Housing Bank's (NHB) notification on capital adequacy, leverage and deposit norms for HFCs bear positive from a risk perspective. However, well-rated large HFCs are likely to maintain a cushion over and above regulatory limits. Thus, the need to raise external capital could remain high for some HFCs, if the growth momentum needs to be sustained.

The overall profitability indicators for HFCs moderated marginally owing to a squeeze on interest margins, because of the additional liquidity buffer maintained by many entities and the rising cost of debt. Going forward, as most HFCs have increased their lending rates, the overall impact on net interest margins (NIMs) could be lower; while a slowdown in growth is likely to impact the operating expense ratios.

Trends that pave the road ahead

Long-term promise in housing credit

The housing loan portfolio growth for HFCs and NBFCs compressed to 13% year-on-year, for the period ended March 31, 2019, owing to lower disbursements after the liquidity crisis and the portfolio sales made by HFCs through securitisation. The total housing credit outstanding stood at around ₹19.1 lakh crores, as on March 31, 2019 vis-à-vis ₹16.6 lakh crores as on March 31, 2018. However, the long-term prospects for the segment remain good on account of its sizeable market potential [Source: ICRA Limited].

Incremental growth in non-housing loan

To mitigate the margin risk and conserve or raise liquidity through prepayment, HFCs are cautiously increasing focus on their non-housing books.

Stability in portfolio mix

The short-term concerns notwithstanding, the Government's increased thrust on mass housing in Tier II and III townships provide an impetus to housing loan growth as well as influences the quality of assets. As a result, housing loan will continue to occupy the lion's share of the total loan book of larger HFC players.

Outlook

Broadly, mortgage penetration levels remain stagnant in India. The Centre launched the 'Housing for All' mission under the Pradhan Mantri Awas Yojana (PMAY) scheme in June 2015. The scheme attempts to address the demand-supply constraints that have impacted the sector's growth in the past. This was further extended in 2017, adding middle income group (MIG) I and II categories, helping improve housing affordability for a wider spectrum of borrowers across low- and middle-income segments, leading to increased growth potential in the sector.

Disposable income for low and middle income segment borrowers is likely to improve through tax exemptions. Initiatives taken by state governments and local bodies to provide land at reasonable prices should help in ensuring protection of developers' interest and thus supplying low-cost housing. Extension of tax benefits for affordable housing projects is likely to ensure adequate developer interest in the segment. This could have a positive impact on HFCs.

From an operational standpoint, an HFC will have to identify strategies that help drive asset quality. Disbursements are expected to be muted for some entities, as some HFCs aim to conserve liquidity. HFCs are projected to report profitability indicators in the short run, similar to FY 2018-19; however, long-term prospects for the sector remain encouraging, as the challenges in the market ease off. RBI is infusing greater liquidity in the economy as well as lowering interest rates, indirectly supporting the performance and development of NBFCs and HFCs.

PNB HOUSING: BUILDING LASTING VALUE

Amid a volatile operating context, PNB Housing registered good growth across all key metrices and outperformed the industry. Prudently we managed liquidity, leveraging robust systems and processes, efficient operations, a differentiated high-quality portfolio and focused business strategy. An adequate liquidity buffer was maintained, through long-term borrowings from multiple lending partners and judicious capital allocation. This enabled us to navigate the year's crisis with resilience and confidence. It was ensured that all lenders are well informed with adequate details on assets, liquidity position and ALM.

PNB Housing's overall AUM expanded by 36%, from ₹62,252 crores in FY 2017-18 to ₹84,722 crores in FY 2018-19. Disbursements expanded by 9%, from ₹33,195 crores in FY 2017-18 to ₹36,079 crores in FY 2018-19. Outstanding deposit in FY 2018-19 is ₹14,315 crores, reflecting 23.5% growth over ₹11,586 crores in FY 2017-18. A very healthy liquidity position was maintained all throughout the year and the same was over ₹7,000 crores as on March 31, 2019.

Despite sector-specific challenges, the performance during the year was the outcome of innovation and relentless efforts across all facets of operations.

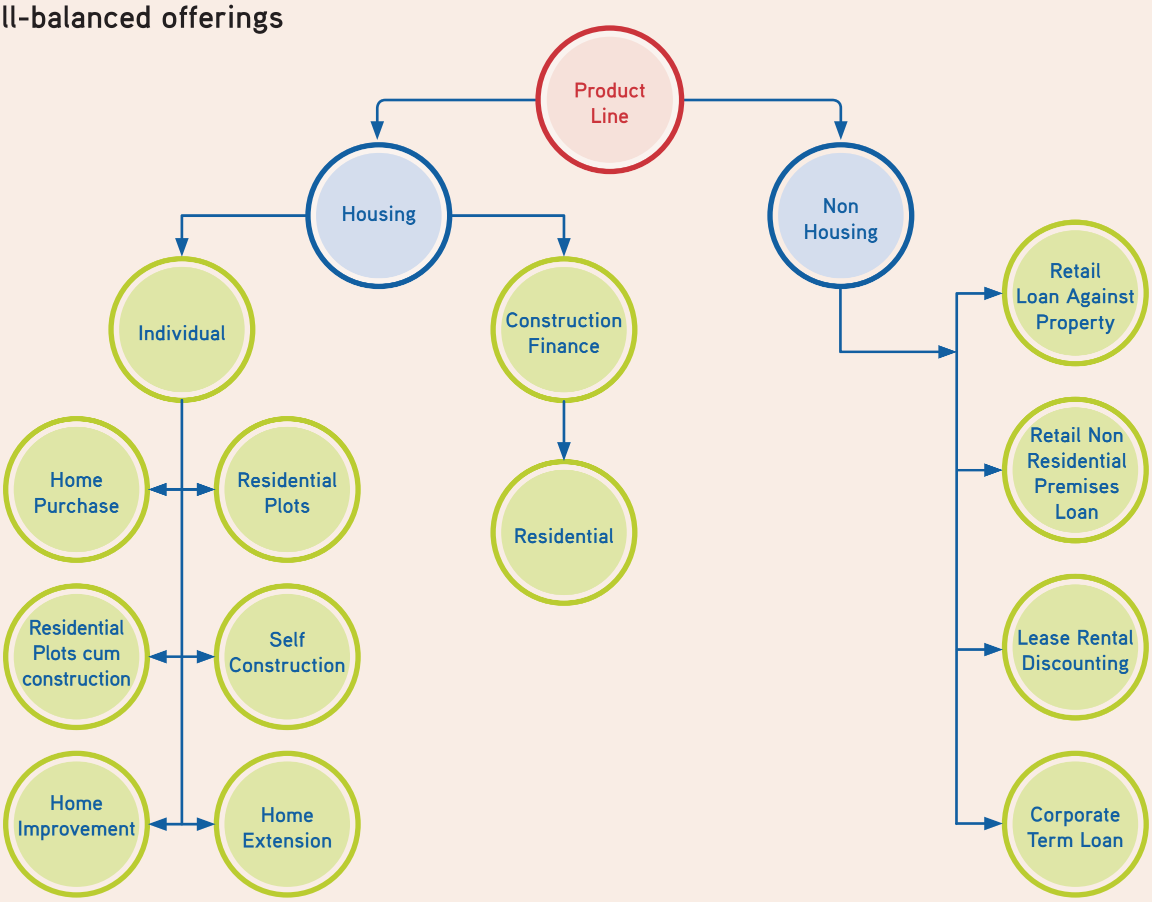
PROPELLING MULTIPLE GROWTH AVENUES

Innovating around our customers

Well-balanced offerings

The range of products and services are designed to fulfil the contemporary requirements of the retail market. A deep understanding of consumer preferences helps us formulate a comprehensive product line.

Well-balanced offerings



To serve marginalised communities, PNB Housing offers Unnati home loans to individuals from a modest income group. This is a small effort from our end to enable aspirants from relatively lower income groups to fulfil the dreams of their own home.

Well-defined target group

A judicious mix of customer segments has been maintained over the years. A deep acumen to appraise both salaried and self-employed segments has helped us deliver offerings that are well within the defined turnaround time. The self-employed segment, in particular, presents a tremendous opportunity for growth. We are stepping up to serve this high potential consumer group with customised offerings that can accommodate their repayment comfort. 79% of the asset book consists of retail segment while 21% is corporate loans. Retail book consists of individual housing loans, retail loan against property and retail non-residential premises loans. The corporate loans, consists of construction finance, lease rental discounting and corporate term loans.

Distribution channels

PNB Housing is expanding into adjacent markets and opening new branches, taking the best of its capabilities to a larger customer base. The approach is to strategically extend the reach and foray into new cities, ensuring that earnings are optimised for every geography that PNB Housing is present in.

Product mix

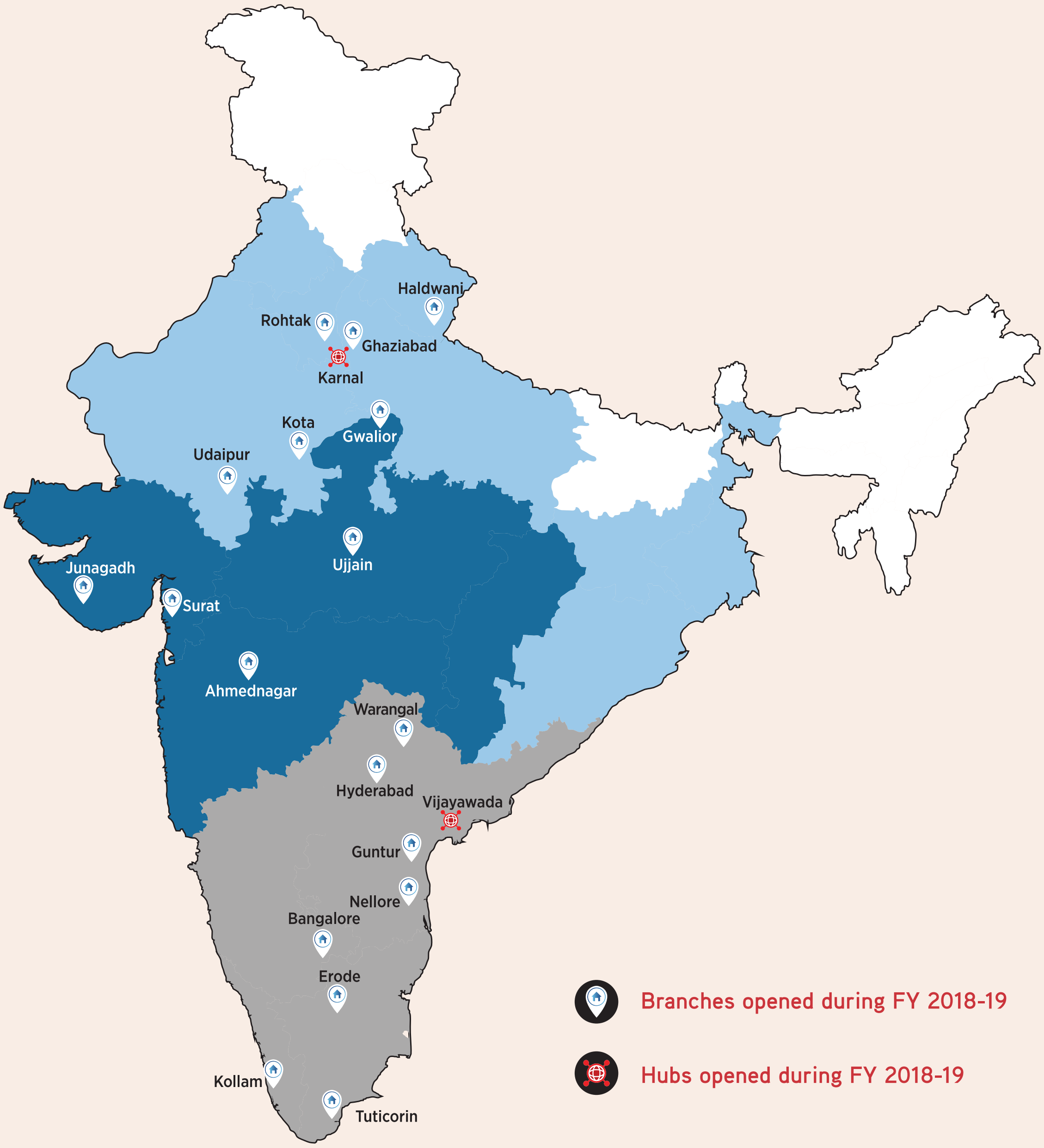
(%)

Funneling leads

The ISO-certified contact centre is the backbone of the in-house sales channel, generating pre-filtered qualified leads at a pan-India level. A strong team of tele-executives secure prospects generated through various marketing campaigns.

As a lead funnel for the sales channel and the first touchpoint for a prospective customer, the contact centre plays an expanding role in reinforcing the brand identity in the minds of prospects. The contact centre also facilitates faster connect for customers, helping the potential ones reach us instantly and fulfilling their post-sales service needs through a single digital platform.

New branches and hubs



The focus is to work with agility and precision. 18 branches were operationalised and two new advanced processing hubs were opened during FY 2018-19 taking the total tally to 102 branches and 23 processing hubs spanning across 62 cities.

PHFL Home Loans and Services Limited (PHFL)

The wholly-owned subsidiary, PHFL was incorporated in FY 2017-18 and 3,595 employees are currently on the rolls of the Company. PHFL primarily focuses on sales and distribution functions of PNB Housing. The dedicated arm has reduced our dependency on external sources for acquiring new businesses. The first year of the subsidiary was largely devoted to establishing processes and policies while strengthening back-end operations. On the performance front, it contributed close to 62% (disbursement) of parent's total retail asset business during FY 2018-19. The Company has also been providing adequate processing support which can ease the delivery mechanism for the customers.

Branding and marketing

The objective of marketing is to improve brand recall and preference through a holistic omni-channel strategy. Our brand communication will continue to focus on delivering the brand promise of ease and convenience throughout the customer journey. We primarily engage with the retail customers, through a balanced mix of various online and offline media channels. As today's consumer is becoming more and more tech savvy, digital marketing forms a significant portion of overall media strategy and it effectively complements our business strategy. Digital campaigns are broadly directed towards performance to generate leads by targeting the set of audience that is looking out for mortgage and deposit products. It not only helps acquire more customers but also changes the brand perception, delivery and enhance customer experience.

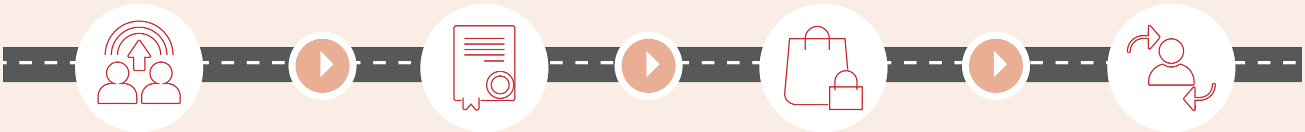
Consistently delivering the brand promise of owning a home in an easy and convenient manner

Corporate website, in-house distribution channels, external sales teams, stakeholder communication, Google ads, presence at point of sale and so on.

Contact centre support, online enquiry, doorstep delivery and features to suit customer needs.

Real-time status sharing, proactive communication, timely delivery, dedicated relationship officer and so on.

Easy online access, top-up loans, CIBIL trigger and improved turn around time (TAT).



AWARENESS

Ensuring presence at every touch point.

CONSIDERATION

Easy accessibility and better customer engagement via digital platform.

PURCHASE

Enhanced customer experience at each step.

RETENTION

Making customer journey a joyful experience at every touch point.

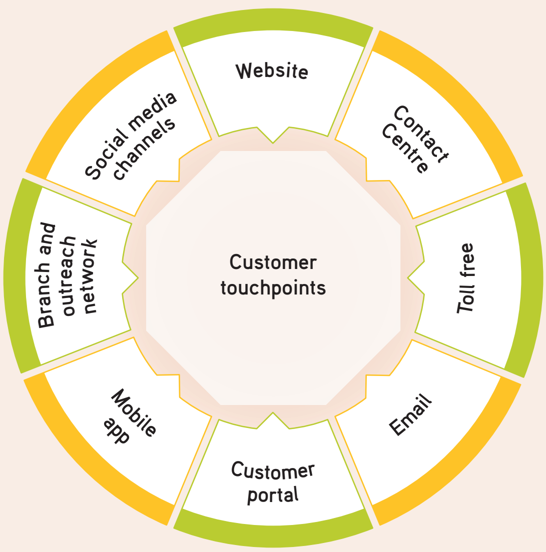
Autonomous journey

Customer focused digital innovations

The customer journey at PNB Housing is viewed holistically as we strive to evolve a typically transaction-oriented service platform to a solution-driven, engagement-focused model that best services the requirements of customers. Various steps were undertaken to facilitate a faster and convenient experience for the new-age customer across multi-channels.

A customer relationship management (CRM) framework is more than a software; it is the nerve centre of a healthy customer service architecture. At the beginning of FY 2018-19, we migrated our systems across both branches and in-bound contact centre to a state-of-the-art CRM system. This now enables the ability to offer services across a complete spectrum of channels including the non-traditional, self-serving ones such as the automated interactive voice response (IVR), web chat, SMS and others. The CRM system even allows on-the-job training and improvement for the relationship management team, incorporating the suggestions and feedback received from customers.

Customer portal, on the other hand, acts as a free-flow bridge between customers and us and is a single window for all important information such as income tax certificates and EMI payment schedules, among others. This has been fostering trust among customers, since all their queries are addressed with just a click of a button.



~25%

of subsequent disbursement processed online

Customer convenience is at the heart of the various digital solutions that we introduced as part of our service bouquet. Loan disbursement is a critical moment both for the customer and the lender. The experience was simplified by digitalising the process of availing subsequent disbursements. A loan customer can now do so by raising a request through the web or mobile portal. The platform also facilitates the uploading of document images, such as those of developer demand letters, which are required for processing the disbursement, providing a seamless and paperless flow.

The process of applying for TDS exemption was also digitalised. One can log on to the customer portal (web or mobile) and submit Form 15G/H online, precluding the need for physical forms.

PNB Housing offers a unique service, wherein the loan and property documents are digitised, so that the soft copies are available at the click of a button. This concept is similar to a digital locker that enables instantaneous on-demand retrieval of document images. Scanned documents are tagged to the loan account under the core enterprise system. This has helped reduce the turnaround time (TAT) of this common request. There is a substantial reduction in cost that was earlier incurred for retrieval of physical documents from the back-end storage unit.

A new application was launched on both web and mobile platforms where a customer can create a deposit online, in a complete paperless and self-service mode. The app uses Aadhaar-enabled e-KYC to help open a fixed deposit within minutes. The app has received positive response and ~2,500 fixed deposits have been created in the past months since its launch. However, the Supreme Court ruling regarding the use of Aadhaar for KYC has, at present, forced us to hold the service for the timebeing.

As customer increasingly expect intuitive, seamless experiences, access to services at any time on any device, our endeavour is to build a digital-ready organisation to meet customer expectations without losing a personal connect.

EVOLVING CREDIT UNDERWRITING AS AN INTRICATE SCIENCE AND ART

PNB Housing is committed to build a larger loan portfolio that is in tune with the credit risk appetite. In doing this, the success of the business will increasingly depend on the consistent underwriting standards. This is backed by the ability to maintain and streamline sourcing mix, effective centralised portfolio monitoring and rigorous recovery processes, scalable hub-and-spoke operating model and team skills, among other factors. The operating environment notwithstanding, PNB Housing is committed to delivering greater ease of doing business, upholding good governance practices and nurturing proven fundamentals.

There is a well-planned strategy of building assets with optimum risk-reward levels, pursuing the overarching objective of making PNB Housing 'one of the most admired and preferred HFCs for all stakeholders'. Scientific procedures are in place to ensure sound growth without compromising on credit quality and underwriting processes. Our loan assets continue to perform better than the industry, with GNPA at 0.48% (retail book GNPA at 0.58% and corporate loan book GNPA at 0.17% as on March 31, 2019).

The low NPA measure bears out the steps that PNB Housing takes to intricately design and evolve the credit underwriting process. It underlines the focused way product portfolio, consumer profile and asset quality is approached. The Company follows a comprehensive underwriting process, spanning retail and corporate lending, adequately supported by prudent collection practices to honour the promise to stakeholders and generate maximum value at the intersection of risk and reward. Underwriting of loans is performed in specialised processing hubs and there are 23 such hubs, well spread across the country.

Starting from April 1, 2018, certain HFCs, including PNB Housing, adopted Indian Accounting Standard (Ind AS) for the first time. Ind AS converges with International Financial Reporting Standards (IFRS) and, therefore is expected to enhance the transparency and comparability of financial statements of companies across the world. The transition to Ind AS has had a profound impact on the financial services sector, not only in terms of accounting and disclosures, but also in context of their business practices, systems and processes, regulatory reporting and capital adequacy, among others. Critically, Ind AS also requires early recognition of a provision for losses on loans and off-balance sheet exposures based on an expected credit loss model, which brings in forward-looking information and macroeconomic factors in the estimation of losses. PNB Housing is making every effort to align technology, systems and processes to the new requirements, and be at par with global best practices and report a broader set of numbers. To that end, a mature credit underwriting methodology emerges as a strong lever to diversify business risk as the country shifts to more stringent accounting practices such as Ind AS.

Retail and corporate underwriting

Multiple initiatives were implemented by the retail underwriting team to bring higher productivity and efficiency with a superior portfolio quality and deliver value to both internal as well as external stakeholders. PNB Housing made significant strides across the various initiatives, as listed here.

The focus was on delivering an optimum end-to-end TAT from a customer's perspective – starting from login to sanction. 80% of loan applications were approved in less than five working days (wing to wing, from reference generation to sanction). The concept of straight pass through (SPT) was introduced to encourage on-ground teams to drive complete logins, enabling the underwriting decision in one go. This initiative has resulted in better TAT, enhanced productivity and reduced wastages. Various electronic and digital tools were inducted in the underwriting process to make it more productive, efficient and optimum. These initiatives were named 'Phygital', since they replaced physical processes with digital tools either in part or in full, to mitigate the inherent risk of fraud.

Total quality management (TQM) continues to add value to streamline processes and bring in desired improvement. The principles of TQM has been instituted in various units and procedures that are part of the disbursement process. This has helped reduce the time frame between customer application login and disbursement stage while adhering to the quality standards. Post implementation at larger processing hubs of NCR and Mumbai, it has been extended to the Bangalore hub as well.

At the same time, training and upskilling talent is a key priority. PNB Housing regularly undertakes portfolio scrub activities, in order to spot early warning signals with respect to the existing loan book.

The fraud control unit (FCU), at branches, has been empowered based on empirical trends of portfolio quality. The internal developed desktop search process has been strengthened and is helping the organisation avoid high-value cases that had adverse findings.

Given the stagnation in real estate prices across markets, post government-led structural reforms in the recent years, the organisation further adopted a cautious approach in assessing

Corporate book risk buying and review mechanism

Risk Buying

- External valuation and legal title checks to supplement in-house expertise
- Centralised team with specialisation across acquisition, technical, legal, credit, operations
- Effective risk management with segregation of responsibilities
- Stress test at the start of a relationship with clear guidelines
- Construction linked disbursement

Credit Covenants

- Over 90% developers are rated by external rating agencies
- Minimum security coverage ratio of 1.5x
    - Weighted average as on March 31, 2019 is 2.2x
- Cash receivable coverage (net off project expense) of 1.5x
- Collections through escrow mechanism

Monitoring

- Fund utilisation, sales velocity, collection efficiency and escrow discipline
- Continuous monitoring
    - At the time of every subsequent disbursement
    - RAG analysis on a regular basis; presented to the Board
- Helps in early warning signals to take timely corrective measures

developers' ability to execute projects. In line with the broader strategy of improving the yield on incremental housing loan portfolio, we are making focused efforts to identify and approve high-potential commercial projects. Such approvals are monitored from the central office.

Our corporate loan book witnessed healthy growth in a fast-changing real estate scenario. Many marquee real estate developers with strong financials and viable projects have associated with PNB Housing for corporate loans. A stringent process for risk buying and monitoring of corporate loans underwriting is followed.

The corporate loan business is managed by a team of relationship managers in key markets, experienced credit underwriters and qualified operations personnel, along with specialised legal and technical experts who ensure continued delivery of high-quality services, superior execution and closer monitoring of the portfolio amid the short-term turbulence.

Recoveries

Robust and contemporary practices have resulted in a sensible growth. We witnessed an increase in the scale of business through productivity enhancement, without compromising on the adherence and compliance to existing processes. The testimony of the success of sourcing, underwriting, operations and collection processes lies in the fact that PNB Housing counts among the top five companies – in terms of coincidental NPAs. Two-year lagged NPA is almost half of the industry average.

The portfolio management methodologies are designed for early identification of problematic loans at regular intervals through various qualitative and quantitative measures. There is a multi-layered, cross-functional and participative review mechanism at various levels. Periodicity of reviews and accountability to undertake these reviews is laid down very clearly. The insights, findings and learnings are shared with all stakeholders for continuous improvement and/or immediate corrections.

The Company's proficiency and experience in SARFAESI Act resulted in improved NPA resolution. We have been able to resolve and restrict forward flow of high value-cases to NPA that were projected as stressed accounts in FY 2018-19. This was possible due to strong follow-ups and legal moves made under Section 9 of the Arbitration Act and judicious action under SARFAESI Act.

During the year, continuous efforts were made to reduce the repossessed assets. The number of repossessed properties reduced from 308 as on March 31, 2018 to 223 as on March 31, 2019. The stock of acquired properties taken in the balance sheet (net of provision) is ₹131.11 crores as on March 31, 2019, as against ₹178.7 crores as on March 31, 2018.

2 year
lagged NPA of PNB Housing is less than half of the industry average.

MAKING TECHNOLOGY DO MORE

We live in an era of continuous and rapid disruption, and the best way to take advantage of this scenario is to continuously strengthen our technology edge. Simply put, technology drives the organisation's innovation engine and helps it to imagine and offer better products and services to the growing customer fraternity. The information technology (IT) architecture helps us remain agile and ahead of the curve.

The IT infrastructure helps improve operational efficiency, streamline and automate workflows and maximise profitability. Multiple initiatives were implemented during FY 2018-19; from using digital as a catalyst for change, enhancing applications and operations, maintaining healthy uptime to setting up new branches and hub locations.

Industry-leading CRM solution has been implemented pan-India across all branches and processing hubs, as well as the central customer service function. The channel-agnostic software, complete with IVR facilities, provides efficient in-bound and out-bound call services to our customers. This not only improves cross-platform customer connect but also leads to substantially better resolution of service requests.

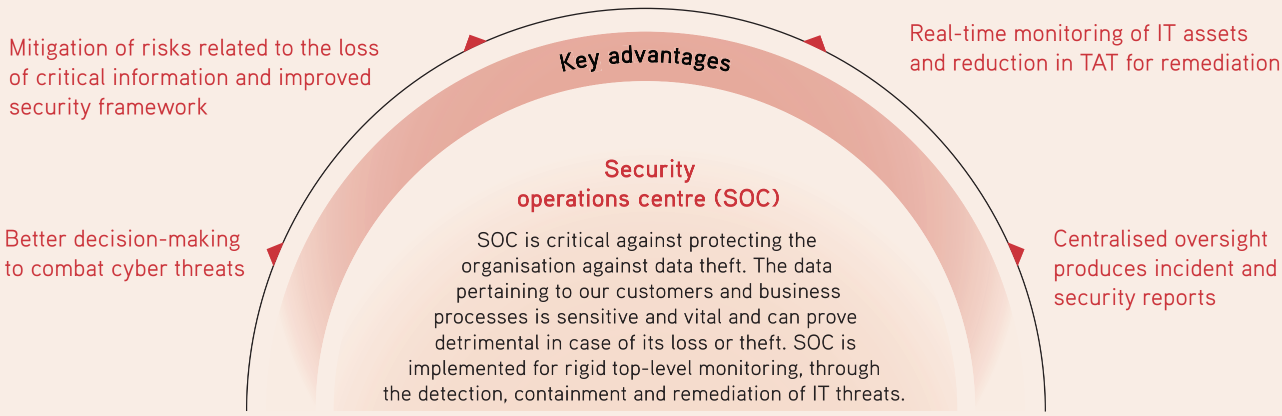
PNB Housing offers several web and mobile portals, for its customers and business partners alike. These are easy-to-use and intuitive, with a host of useful features, tools and payment options. These internet-based paperless facilities bring us closer to our stakeholders, enabling to manage their expectations in a better way.

A smart application for the audit team has been introduced. This uses web services to conduct audits of branches, processing hubs and other functions such as centralised operations (COPS), centralised processing centre (CPC), collections, among others. The application integrates all aspects of an audit cycle, from annual planning to detailed risk assessment and other elements such as performing tests, calculating scores, generating reports, compliance closure cycle via action tracking and dashboarding. It monitors ongoing audits and the actual progress against the annual audit plan. It analyses features for efficient dashboarding at the organisation level, as well as within individual entities and audits. It directly reports audit closure into the system by the auditee.

Access was expanded to the existing pay-out platform, V-Connect, to our underwriting partners as well. Various pay-out plans related to field investigation (FIs), FCUs and legal and technical agencies have been configured into the system. Now the underwriting partners can view and accept the monthly pay-out through the V-Connect system, leading to faster processing and lower turnaround in payment processing.

An enhanced enterprise system solution (ESS) is used to separately classify the accounts which are eligible for PMAY subsidy. The criteria, as prescribed by the National Housing Bank has been incorporated into the ESS. The system now automatically categorises the account as eligible under PMAY scheme (based on the data entry) with the relevant category and provides a report of the PMAY cases that can directly be submitted to the regulator for claiming the subsidy.

The innovative iBox application is used to assess the creditworthiness of a prospective customer and maintain a high-quality credit portfolio. This moves away from physical verifications of customer's documents to e-verification, in facilitating the underwriting process. We have integrated the ESS with e-verification services. A multi-bureau link is a unique service that provides consolidated reports from multiple credit bureaus and gives a detailed picture of a customer's track record. An identity check service provides a consolidated list of all demographic details available in a comprehensive database. A rich repository has been developed from a list of fraudulent customers reported by a closed user group (80 million+ unique applications), enabling us to identify probable fraud against various demographic parameters. The iBox application was recognised by The Economic Times BFSI Innovation Tribe Awards 2018



ELEVATING EFFICIENCY IN OPERATIONS

We aspire to implement best practices and deliver unparalled customer experience through our central operations, an ISO-certified unit and a transaction powerhouse. It helps usher in a higher degree of efficiency, quality, process optimisation, cost control and economies of scale, with the adoption of the mantra of 'centralisation' and technology-driven processes.

The central operations team comprises 2.6% of our human capital and successfully facilitates non-customer interface operational activities. The team consists of two specialised business units: central processing centre (CPC) and centralised operations (COPS).

Central Processing Centre (CPC)

CPC acts as a custodian of dockets, loan file, deposit applications, business partner applications, among others. All title documents are stored in sealed jacket in a professionally managed storage warehouse. The movement of documents, throughout the loan lifecycle, is tracked through bar codes. The stock of on-hand dockets is updated in real time, based on which the actual location of the dockets can be tracked at any given point.

CPC also manages the repayment mode and creation/settlement of charge at Central Registry of Securitisation Asset Reconstruction and Security Interest (CERSAI). In the coming months, CPC targets more technology-driven processes that ensures increased productivity and achieves operational excellence.

Centralised Operations (COPS)

COPS is fast progressing towards remarkable customer service delivery by considering the processing of deposits, business partner management and electronic bulk customer correspondence. COPS enables a paperless environment, wherein deposits are processed through images, payments to depositors are made electronically and so on. It is the single processing hub for payments of all channel partners as defined in the pay-out structure.

Central Operations witnessed expansion and establishment of new CPC at Mumbai in FY 2018-19. This will ensure business continuity and balance the load. Both units of CPC, Mumbai and Noida, are performing the defined activities in a desired manner. COPS continues to manage all the business activities as usual, adhering to the given timelines with enhanced accuracy and TAT.

EMPOWERING TALENT TO ASPIRE MORE

'People First' approach underscores our commitment to continuously upskill and address the knowledge gap of our teams. We are relentlessly making interventions to provide a rewarding and fulfilling career to our colleagues. The objective is to provide relevant skill development/upgradation opportunities to employees. Towards that objective, PNB Housing has made continuous efforts to build an inclusive culture of collaboration and camaraderie.

The endeavour is to build superior human capital and keep the workforce across levels engaged and motivated. Putting meritocracy at the centre, the organisation has charted a growth roadmap in a largely dynamic operating environment.

During the year, the leadership team proactively implemented measures to mitigate the risk of attrition by opening multiple channels of communication and arresting employee trust. In 2018, PNB Housing is once again certified as a Great Workplace for the second consecutive year.

Talent management

The slowdown also impacted overall employee productivity metrices. During the year, the focus remained on enlarging the footprint across geographies and expanding the service network to more cities, through branches, outreach offices and processing hubs.

Our HR team, along with respective functions, undertook the primary responsibility to timely onboard experienced resources across all new locations, impart functional and system training and develop homogenous and productive resources for cross-functional teams. This also gave an opportunity to identify and build the internal talent pool. In order to promote talent and provide opportunities internally, we have a robust internal job rotation plan. During the year, more than 70 employees were moved under this plan.

To build a reliable pipeline of managers, there is a management training programme, where graduates from reputed management institutes are hired and initially trained under various functions before being moved into a particular vertical.

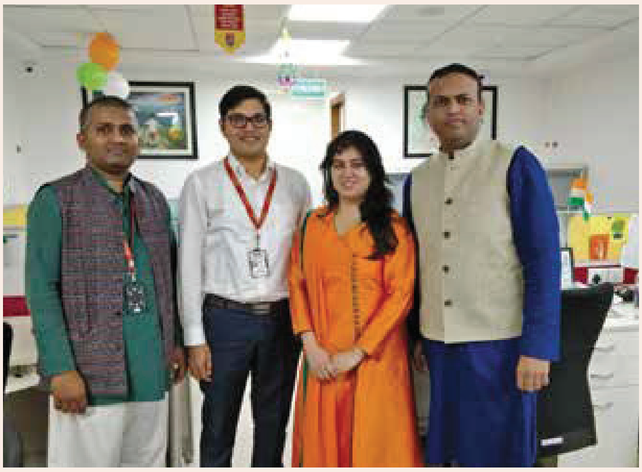
Learning and Development (L&D)
The L&D team helps our people to perform by enhancing their functional knowledge and upgrading their skills. L&D is critical to building and retaining the talent pipeline – lending a competitive advantage to PNB Housing. A series of workshops are conducted with regular reinforcement of the learnings for the participants, through a learning app, webinars, calls and action-learning projects. During the year, we conducted internal trainings for employees across functions.

Performance management
The Company's robust performance appraisal process ensured productivity-driven transparent rewards culture in the organisation. Following the launch of the long-term incentive plan (LTIP) for high-performing junior management employees, we could minimise the attrition of critical resources, amid a challenging internal and external business environment. In addition, as a major development initiative, we have in place a contemporary performance management mechanism for seven consecutive years.

Rewards and Recognition (R&R)
Employee contribution is encouraged and recognised, through R&R programmes that are creative, flexible and meaningful. These programmes span functions, locations and teams and are run on monthly, quarterly and annual basis.

PNB Housing will continue to focus on offering its people, a long-term career based on employer value proposition of fairness, transparency, meritocracy, learning and growth and provide a supportive environment for professional growth.

In 2018, PNB Housing was once again certified as a Great Place to Work second year in a row.



Numbers speak volumes
Consolidated performance indicators (as per Ind AS)

(₹ in crores)

	FY 2018-19	FY 2017-18	Variance
Net interest income	2,063.48	1,659.86	24%
Fee and commission income (net of fees and commission expense)	394.82	208.79	89%
Other income	3.90	0.63	
Gross income	2,462.23	1,869.31	32%
Operating expenditure	538.89	358.16	50%
Pre-provision operating profit	1,923.34	1,511.15	27%
Impairment of financial instruments and write-offs	188.95	276.57	
Profit before tax	1,734.39	1,234.58	40%
Profit after tax	1,191.52	841.15	42%
Other comprehensive income (net of taxes)	(102.33)	(2.16)	
Total comprehensive income	1,089.19	838.99	30%
Basic earnings per share (₹)	71.19	50.52	41%
Dividend per share (₹)	9.00	9.00	

Key financial ratios

(%)

	FY 2018-19	FY 2017-18	Variance
Average yield	10.35	10.24	+11bps
Average cost of borrowing	8.00	7.70	+30bps
Spread	2.35	2.54	-19bps
NIM	2.93	3.19	-26bps
Cost-to-income	19.61	17.22	+239bps
Return on asset	1.61	1.56	+5bps
Return on equity	17.44	14.20	+324bps
Provision coverage ratio	167.41	232.27	
Average gearing	9.30	7.60	
Book value per share	450.46	394.22	14%
CRAR	13.98	16.67	
- Tier I capital	11.00	12.75	
- Tier II capital	2.98	3.92	
Risk-weighted asset (₹ in crores) (as per IGAAP)	58,020.24	44,451.64	31%

AUGMENTING TREASURY MANAGEMENT

Treasury oversees the daily cashflow and liquidity of a business, ensuring that operations remain well funded and that excess cash is prudently invested. We have evolved our treasury operations with a well-diversified resource profile and an efficient borrowing mix, despite industry headwinds and delinquency concerns.

FY 2018-19 key highlights

- **Securitisation**
  PNB Housing conducted the securitisation of the loan accounts under the direct assignment (DA) route all throughout the year. Also, our housing and non-housing loans was securitised, maintaining a good product mix at the loan asset level. Securitisation not only helped us access the liquidity of long tenure, but also helped deleverage and improve the asset liability management (ALM) and capital to risks asset ratio (CRAR). The GNPA of our securitised book of ₹10,699 crores was 0.20% with seasonality of ~38 months, as on March 31, 2019.

- **External commercial borrowing (ECB) under direct route**
  RBI allowed mobilisation of funds under the ECB automatic route up to US$750 million. During the year, we availed five-year tenor ECB of US$ 465 million from different foreign branches of domestic banks. On a fully hedged basis as well, these funds were cheaper than domestic funds for similar tenure, and also helped in managing the ALM profile better.

- **Liquidity update**
  Between September and March 2019, we maintained surplus liquidity in the range of ₹5,000-7,000 crores, mobilising long-term funds and securitisation.
  The surplus was sufficient to tide over any liquidity crisis and also stabilised our ALM profile. We did not borrow any amount from the wholesale debt market in the entire month of September 2018.

Borrowing snapshot

The 10-year benchmark G-Sec remained volatile in 2018 with yields ranging from 7.13% to 8.18% annually and commenced its downward trajectory by the last quarter of FY 2018-19, moving to 7.35% by March 31, 2019. The yields moved with macroeconomic factors like RBI policies, Federal Open Market Committee (FOMC) decisions, state elections, farm loan waivers, domestic economic growth, recapitalisation of public sector banks (PSBs) and events pertaining to liquidity crunch.

Since the liquidity crisis, we have been maintaining excess liquidity to the tune of ₹5,000-7,000 crores. This, coupled with increasing cost of borrowing, impacted our net interest margin (NIM). However, our spreads remained healthy during the year, as we kept repricing our assets in line with market movement.

Borrowings have grown by 33%, from ₹54,268 crores in FY 2017-18 to ₹72,362 crores in FY 2018-19. Incremental borrowings of ₹30,858 crores were 43% of the total borrowings at year-end. During the year, we also corrected our ALM, by bringing down our short-term borrowing through commercial papers (CPs) from ₹10,400 crores as on March 31, 2018 to ₹7,950 crores as on March 31, 2019.

Borrowing profile

The borrowing mix underwent a change, due to reduction in the proportion of CP and non-convertible debenture (NCD). The proportion of CP has reduced by 8% and that of NCD by 9%. This is a deliberate strategy to reduce the proportion of CP in the borrowing mix, whereas there is low traction in the NCD market.

During the year, the major source of borrowing was bank term loans, since they are cheaper as compared with other sources like NCDs for similar tenure. At the same time, bank borrowings are linked to the bank's marginal cost of funds based lending rate (MCLR). Therefore, any reduction in the MCLR is reflected by reduction of our cost of borrowings at applicable reset date.

Besides, we borrowed through ECB under the automatic route. We mobilised our highest ever refinance from the National Housing Bank (NHB) in the form of long-tenor funding, thus helping in further strengthening the ALM. The National Housing Bank (NHB) refinance is also a testimony of our strong corporate governance and robust operating model. Deposits are a stable source of funding and this year we were able to expand our deposit base with greater focus on raising retail deposits.

FY 2018-19 proved to be a fairly challenging year. However, our strong fundamentals enabled us to mitigate the impact of external factors on our Company. These events drove incremental cost of borrowing for the NBFC and HFCs higher. We are making every effort to contain the situation.

- **Bank loans**
  Bank borrowings were leveraged to meet the shortfall, resulting in increase of banks' share in our total borrowing mix. Incrementally we borrowed ₹15,096 crores of term loans from banks during FY 2018-19. Bank borrowings are linked to banks' MCLR, which were in the range of 8.25% to 9.00% during the year. With AAA rating on bank loans, PNB Housing became the preferred borrower for banks during these turbulent times. With the drying up of the NCD market, it provided necessary liquidity to our Company. We also entered into securitisation transactions, through direct assignment route, with banks, to generate long term resources. Share of bank loans was at 20.89% in the borrowing mix at year end.
- **External commercial borrowing**
  With the objective of lowering the economy's current account deficit, the Government introduced mobilisation of funds from ECB under automatic route. This route was used for long term funding.
- **Commercial paper**
  Borrowings through CP enabled in the reduction of overall cost of borrowing and provide cushion to declining NIMs. However, we are reducing our exposure to CPs in the borrowing mix to correct the ALM gaps. During the year, ₹33,575 crores was raised and ₹36,025 crores was repaid. The share of CPs, at 10.99% of the overall borrowings, was lower by 8% as compared to FY 2017-18.
- **NHB refinance**
  Out of sanctioned amount of ₹3,500 crores during the year, we availed the full limit, with ₹1,150 crores under the affordable housing scheme at attractive pricing. This reduced the overall cost of the NHB refinance. The share of NHB refinance out of total borrowings was 9.70%.
- **NCD/Bond**
  In tough market conditions, we were only able to raise NCDs worth ₹1,401 crores and tier-II Bonds worth ₹39.70 crores in FY 2018-19. The share of NCDs in overall borrowings was at 32.11%.
- **Deposits**
  Deposits are stable, and also long term in nature due to rollover possibilities. We increased our deposit base during the year, the proportion of deposits in the total borrowing mix was at 19.78%. Strong month-on-month growth was registered in retail deposit sourcing, during the year.
- **Overdraft facilities**
  PNB Housing has added new overdraft/cash credit (OD/CC) lines of ₹4,450 crores – equivalent to almost two months' disbursements. The OD lines are linked to the respective MCLR of the banks. These lines act as backstop facility for CP issuance and help in overall treasury operations.

Institutional lenders

- **Banks**
  Consequent to the low traction in the debt capital market, the banking system has been the largest source of funding in FY 2018-19. Banks have invested in our CPs, extended ECBs and provided term loans as well as OD facilities. Banks' lending rates were lower than the prevailing rates in the debt market for similar tenure.
- **NHB**
  PNB Housing availed long-term refinance from NHB at competitive rates. Major share of the refinance was taken under the liberal refinance scheme. In addition, we also availed refinance under the affordable housing scheme, bringing down the overall cost of NHB refinance.

Investment snapshot

Treasury's primary objective is to keep adequate liquidity to support business growth. Our Treasury team also worked at deploying surplus funds into high-rated liquid instruments to enable additional source of revenue, with an aim for a cost-neutral model of investment.

- **Statutory liquidity ratio (SLR)**
  As per NHB notification, all deposit-taking HFCs are required to maintain 13% of public deposits outstanding (with a lag of two quarters) as SLR investments. These investments were made in sovereign securities such as G-Sec, State Development Loans and Central Government Guaranteed Bonds. We began the year with SLR investments of ₹1,183 crores and the investments at the end of the year were ₹1,386 crores.
- **Bonds**
  We invest in public sector unit (PSU) and higher-rated corporate bonds for short duration. Investments are made, keeping in mind the 'Overall' and 'Per Entity' limit as per the Investment Policy approved by our Board. The investment in bonds were ₹169 crores, with an average investment of ₹258 crores during FY 2018-19.
- **Mutual funds**
  Surplus funds are invested in the mutual funds as they provide liquidity with modest returns. Investor/lender confidence weakened in the year, owing to market conditions. To give some comfort vis-à-vis our liquidity, we maintained our mutual fund investments on the higher side, with an average of ₹1,752 crores during FY 2018-19. We earned an average return of 7.26% p.a. on mutual fund investments in this period.
- **Fixed deposits**
  Short-term deposits with banks were placed since the third quarter of FY 2018-19. Against fixed deposits, OD facilities were provided by the banks for liquidity; we earned a modest income on average fixed deposits of ₹366 crores.

COMMUNICATING WITH INVESTORS

The year was very volatile for the Indian equity market. Consequently, investors and lenders remained cautious on liquidity, the ALM position of NBFCs/HFCs, disbursements made by HFCs and corporate book. In addition, HFCs came under Ind AS from April 1, 2018. As a prudent measure towards more effective communication, we proactively engaged with all the key investors and research analysts with regular meetings, conferences, roadshows and earnings calls, among others. Pre-empting the queries, we further enhanced the communication materials shared with the market. As a testimony, during the year, the Company received recognition in two prestigious investor relations events.

Investment portfolio grew by 89%, from ₹2,413 crores in FY 2017-18 to ₹4,561 crores in FY 2018-19.

EXECUTING WITH STRATEGIC FACILITIES

Facilities Management is a service function that coordinates space, infrastructure and general administration.

Office administration is one of the key elements associated with a high level of workplace productivity and efficiency. It is responsible for planning, design, execution, operation and maintenance of all the facilities and provide complete logistics support for meticulous execution of day-to-day business activities. At the same time, it steers through financial and technical constraints with aesthetics, security, accessibility and ease of doing business. The functions, while planning for a new location, keeps in mind the accessibility for the employees as well as customers. For instance, many of our branches are closer to the metro lines so that it is easy to commute. The function continues to play a crucial role in re-positioning of our brand, both within the organisation and to the external world.

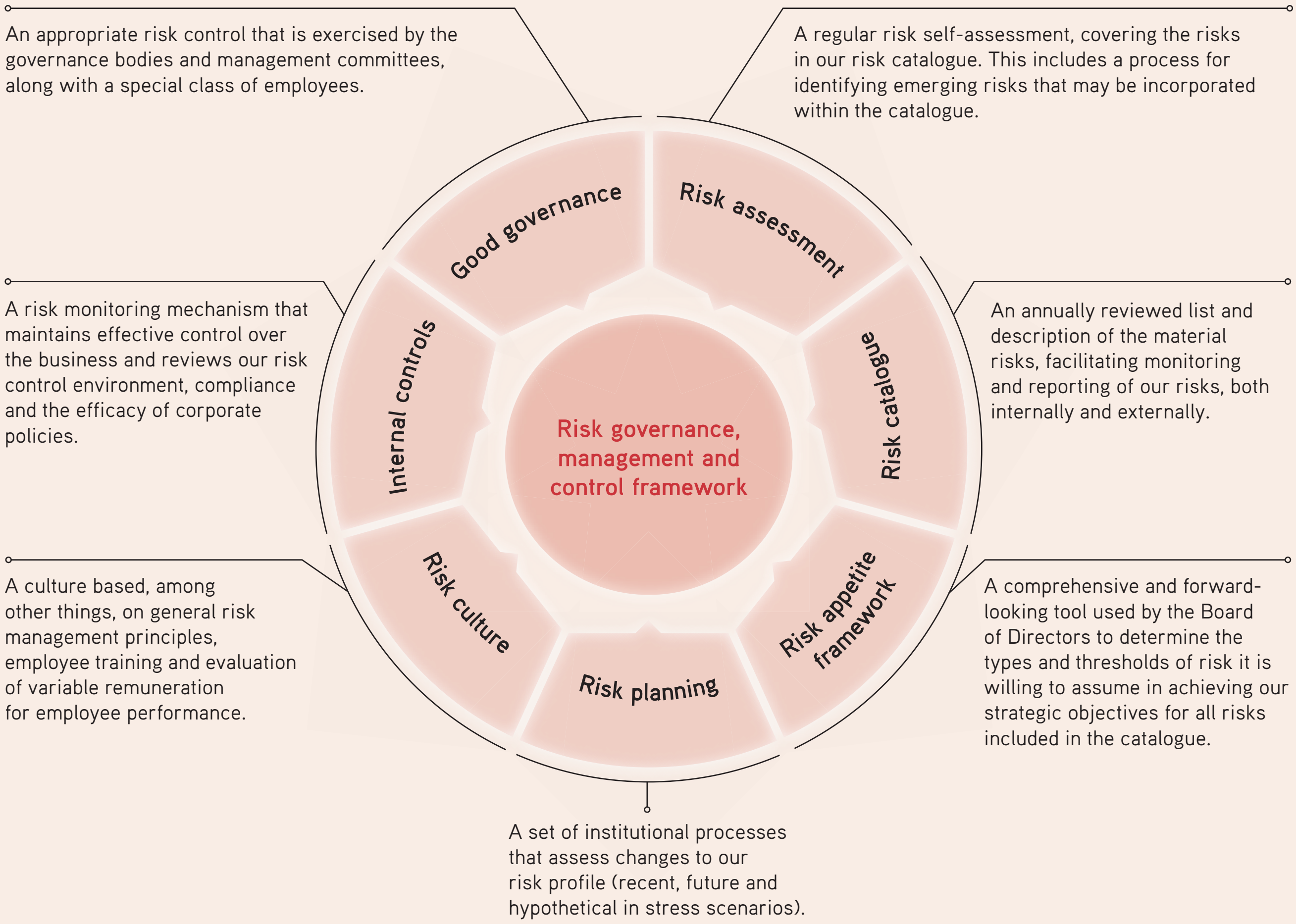
FY 2018-19 key highlights

- PNB Housing began the year, operating out 118 office spaces, comprising 84 branch offices, 23 processing hubs, 11 regional offices and a central support office, maintaining a total area of 3,18,890 sq. ft. An incremental work area of 1,05,722 sq. ft. has been added during FY 2018-19, increasing the total workspace to 4,24,612 sq. ft.
- Facilities provided complete logistic support to an average of 1,500 full-time employees and 3,500 PHFL staff members, in an efficient manner, optimising the expenses.

RISK RESILIENCE AT THE CORE

PNB Housing's risk mitigation methodology is designed to actively identify and manage risks that impede the achievement of business objectives, as well as provide reasonable, but not absolute, assurance against material misstatement or loss. We continue to build risk management into the way we work. It is implemented through a Company-wide framework and this enables us to be closer to realising our ambition of being one of the most preferred HFC for stakeholders.

Our risk management measures broadly include risk assessment, risk catalogue, risk appetite framework, risk planning, risk culture, internal controls and good governance. We clearly articulate our risk appetite, functional policies and key risk indicators (KRIs) to explicitly define the level and nature of risk that we are willing to take.



The Board has delegated the responsibility of risk management to its risk management committee (RMC), which reviews the efficacy of our risk management framework, provides important oversight and assesses whether it is consistent with the risk tolerance levels as laid down. The RMC gives directions to executive risk management committee (ERMC) that comprises our senior management team.

The principal business risks (assessed function wise) are credit risk, market risk, liquidity risk, reputation risk and technology risk. We have formulated risk management policies along with KRIs, which are measured and reported to the RMC on quarterly basis.

Credit risk 1

WHAT THIS IS ABOUT

Risk of a decrease in the value of the Company's assets due to uncertainty about a stakeholder's ability to meet their obligations.

MITIGATION MEASURE

- Facilitate the Company to take appropriate risks to achieve its business objectives within the acceptable level of risk tolerance, setting out the principles, standards and approach through a comprehensive framework to identify, assess, measure, monitor, control and report credit risks in a timely and efficient manner, observing early warning signs of delinquency and maintaining asset quality year on year
- Define roles and responsibilities for RMC, ERMC and business units to optimise credit risk governance
- Customise approaches for risk measurement of various portfolio segments/sub-segments
- Develop strong underwriting and security/collateral management frameworks
- Review KRIs of concentration, delinquency, and efficiency

Market risk 2

WHAT THIS IS ABOUT

Risk of a decrease in the value of the Company's assets held for trading or an increase in the value of its liabilities held for trading, due to fluctuations in interest rates, credit spreads, external factors or prices in the market where the assets and liabilities are traded.

MITIGATION MEASURE

- Review the interest rate scenario regularly
- Provide inputs regarding market risk profile and portfolio performance so that positions taken are within the approved risk tolerance limits

Liquidity risk 3

WHAT THIS IS ABOUT

Risk of insufficient liquid assets or limited access to market financing to meet contractual maturities of liabilities, regulatory requirements or the investment needs of the Company.

MITIGATION MEASURE

- Ensure availability of adequate liquid resources with a view to keep assets and liabilities maturity mismatches within the desired levels
- Implement a 'Liquidity Contingency Plan' to take care of any adverse liquidity position

Reputation risk 4

WHAT THIS IS ABOUT

Any indirect loss expected to arise from adverse experience or adverse perception in public domain.

MITIGATION MEASURE

- Measure and monitor the traditional as well as social media landscape for threats
- Promptly respond consumer complaints; and continually interact with internal and external stakeholders

Technology risk 5

WHAT THIS IS ABOUT

Losses due to any inadequacies or failures that could compromise the availability, integrity, accessibility and security of software, hardware and data.

MITIGATION MEASURE

- Review KRIs of availability and continuity, security, data integrity, and outsourcing
- Constantly monitor internal and external forces that could endanger operations
- Incorporate best practices vis-à-vis the protection of corporate information, IT systems, services and equipment

GOOD CORPORATE GOVERNANCE TO GREAT SUSTAINABILITY

Environmental, social and governance (ESG) considerations are integrated across the business and built into the policies and principles that govern PNB Housing. This is viewed as a business fundamental and seek continuous improvement in these areas because they underpin the long-term value-creation ability of the Company.

Role in society

While economic activity and business productivity is one aspect of our operations, the other is contributing to the community we are part of. The interventions are primarily driven towards the welfare of construction workers and their families. PNB Housing extends comprehensive support programmes that seek to enhance their quality of life in every manner possible. Besides, investments are made in promoting education, enabling access to higher education opportunities, addressing systemic challenges faced by differently abled children, spreading awareness on health and hygiene among adolescent girls and so on. Our modest efforts reached 40,000+ beneficiaries during the year. Details of the Company's community-focused initiatives are shared on Page 44 of this Annual Report.

Environment responsibility

On one hand, we use energy-efficient equipment to furnish offices and optimise energy usage and consumption. All electrical equipments are purchased after reviewing their star ratings and thereafter, are serviced regularly to improve performance as well as costs. On the other hand, focus is laid on conserving green covers in our neighbourhoods and restoring misused public spaces. We are looking after a public park in Faridabad for the last three years. The park's infrastructure was revamped into a child-friendly playground.

Information technology

Our technology initiative focussed on empowering our underwriters to perform in-depth analysis of prospective customers with superior efficiency and accuracy helped us in reducing our carbon footprint on environment. It is integrated with contemporary service providers to perform multiple checks on a customer's profile for e-verifications thus bringing efficiency in the underwriting processes. While our mobile app ensured seamless flow of information from a variety of partners across the country, it further minimised usage of paper.

Employee engagement

Ongoing and proactive communication with employees make PNB Housing stronger and better informed. Moreover, we strongly believe that an employee is only as productive as they are healthy and this ethos drives many of our activities and events. The Managing Director addresses all teams regularly throughout the year; besides, employees frequently connect with senior business leaders one on one. More than 10% of vacancies in the year were filled by advancing internal team members and building their capabilities. A retention incentive programme was launched for senior and middle management employees. 'Taiyari Udaan Ki' is an initiative undertaken to recognise next-generation talent, among the children of our employees, and inspire them to excel in academics. Over 100 children were felicitated on the occasion of PNB Housing's Foundation Day.

From the standpoint of nurturing a progressive workplace, the Company's gender diversity score improved to 17.34% in FY 2018-19 from 16.67% in FY 2017-18. We provided creches in office spaces for working parents. Six months of maternity leave was implemented in 2011 itself; and this can be further extended by two months, if required. Workshops and counselling sessions are organised for female employees on how to maintain a balance between work and life, along with their overall wellbeing.

Employee development

L&D is a critical talent management function in building and retaining the talent pipeline, by uncovering employee and organisational potential, which gives us a competitive advantage in delivering critical results.

During the year, our interventions encompassed all the critical functions and supported them in achieving business goals. Our training interventions are broadly divided in three domains: functional trainings, behavioural trainings and compliance trainings. We delivered an average of 2.6 training person-days per employee through ~250 training programmes.

Functional: emphasis is laid on core fundamental trainings to provide teams with a strong foundation. These are aimed at further developing functional and job role capabilities in our people. We work with both our in-house talent and industry experts for these programmes. Some key ones conducted during the year were induction and orientation, system-based trainings, refresher trainings on product and policy for the front-line sales team and training on disbursement process, among others. With an aim to develop a resilient risk management team, multiple trainings were also arranged for various risk functions such as underwriting, technical services, internal legal and collections.

Behavioural: in line with our commitment of providing a holistic development opportunity to our employees, various interventions were done to evolve behavioural competencies. Training programmes were designed to address comprehensive organisational goals, especially customer centricity. Programmes were conducted for various job

1,609

Employees on PNB Housing Finance payroll

3,595

Employees on PHFL payroll

17.34%

Ratio of women in workforce

37.88%

New hires in the year aged 20-30

families to build a culture, wherein every employee takes pride in delighting customers through high standards of service. Additionally, we regular organise workshops to further mentor teams and develop their managerial and leadership skills.

Compliance: ethics represents one of the core values of the business and hence programmes were conducted on various critical topics such as anti-money laundering, prohibition of insider trading, data security and prevention of sexual harassment.

These trainings are augmented by our e-Learning Management System, eGuru. This acts as an online learning platform and can be accessed as a mobile app that provides the employees with an ease to learn on the go.

Governance and ethics

PNB Housing maintains high standards in corporate ethics, transparent disclosure, integrity and accountability. The Board consists of eleven members comprising seven Independent Directors, three Non-Executive Directors and one Managing Director. The Board functions through six Committees, which have been assigned specific responsibilities. These are Audit Committee, Nomination and Remuneration Committee, Corporate Social Responsibility Committee, Stakeholders Relationship Committee, Risk Management Committee and Credit Committee. The Chairperson of all the Committees is an Independent Director. The composition and role of each Committee is mentioned in the Corporate Governance Report on Page 92 of this Annual Report.

The Company has a diversified Board in terms of expertise, domain, educational qualification and industry experience. There is one female Independent Director on the Board and the average age of the Board is 59 years. The Company has in place a Board Diversity Policy, which views performance through the lens of inclusivity.

The Board and the senior management interact with each other, during Board meetings on a quarterly basis as well as whenever required. Key discussion points include updates on business, financials, credit appraisal, human resources, regulations, enterprise risk management, strategy and so on. In addition, the Board interacts with the senior management, through its many Committees, for matters related to the delegated area.

The Board has adopted a Code of Conduct which is applicable and binding on all the Non-Executive Directors, including Independent Directors of the Company. The Code of Conduct for Non-Executive Directors was recently amended by the Company, in compliance with Regulation 25 of Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, effective from April 1, 2019. The Code provides them guidance on matters relating to professional conduct, ethics and governance, while they discharge their obligations as a Director of the Company and help foster a culture of honesty and integrity which would help sustain the trust reposed by all the stakeholders. The Board has also adopted a separate code of conduct for Executive Directors and the senior management.

The Company has a whistle-blower policy, which allows all employees to raise concerns about serious irregularities within the organisation. Employees through this policy have direct access to the Chairman of Audit Committee. The Company has also put in place a grievance redressal mechanism for resolving customer grievance. There is a robust system to address shareholders' grievances as well, wherein shareholders can send their complaints to Company through dedicated e-mail IDs, that is, investor.services@pnbhousing.com and investor.relations@pnbhousing.com. The compliance and investor relations team keep a track of these e-mails and resolve the complaints of shareholders accordingly. These e-mail addresses have been posted on the website and shared in releases to the stock exchanges. In addition to this, shareholders can also directly approach our registrar and transfer agent (RTA), Link Intime India Pvt. Ltd.

Internal controls

Business growth demands that internal audit performs stringent checks to track any deviation. We have set up new processes for internal audit where disbursement and docket audit is shifted from CPC to branches. External legal firms conduct audits and their findings are shared on a monthly basis while the audit reports are issued quarterly. Besides docket audit, a separate team of internal auditors conduct audit of disbursed files and issue quarterly reports. For auditing the rest of the functions such as accounts, deposits, general administration, IT, human resource, customer service and so on, the auditors visit the branches twice a year. Transaction audit of the branches were completed as per the given scope and in time. Functions at CSO, treasury, finance and accounts, general administration, HR, are audited by an external auditor, while corporate finance and central recovery functions are audited by in-house internal auditors on a quarterly basis.

Safe harbour statement

In this Annual Report, certain statements are forward looking, including and without limitation statements within the meaning of applicable laws and regulations, relating to the implementation, strategic initiatives and other information on our business, business development and commercial performance. While these forward-looking statements exemplify our judgment and future expectations concerning the development of our business, a number of risks and uncertainties and other important factors viz. economic conditions affecting demand and supply, government regulations, natural calamities and so on, may cause actual development and results to differ materially from our expectations. PNB Housing Finance undertakes no obligation to -publicly revise any forward-looking statements to reflect future events or circumstances.