Management Discussion & Analysis

Testing Times Continue for the Global Economy

The global economy struggled in FY 2014-15 and remained subdued with a sub-optimal growth of 2.6% over the previous year. The recovery has been weaker than anticipated with a string of disappointing growth outturns in the Euro Zone, Japan, parts of emerging Europe and Latin America which accounted for more than half the downward revisions of global growth in 2014.

Major forces that influenced the global outlook included soft commodity prices, tenaciously low interest rates and a weak international trade. Yet, one can anticipate a moderate change in the coming year with growth rising up to 3.0%. High income countries are likely to see a growth of 2.2% in FY 2015-16 as against 1.8% in the previous year, on the back of recovering labour markets, fiscal consolidation and low financing costs. In developing countries, as the domestic headwinds that held back growth in 2014 ease, growth is projected to gradually accelerate, rising from 4.4% in 2014 to 4.8% in 2015.

Promising Future for Indian Economy

The Indian economy seems to carry an air of buoyancy. A stable political environment, government's focus on administrative and governance reforms, and other such internal factors are promising a positive outlook. Initiatives such as 'Make in India', 'Housing for all by 2022', 'Jandhan Yojana', GST and higher FDI in insurance can give considerable thrust to India's economic stature. External factors, such as drop in prices of commodities, significantly altered the fiscal position and inflation in India. It released the Nation's capital for other productive uses such as investment in infrastructure and public services. The 10 year G-Sec yield has softened almost by 100 basis points in the last one year.

A combination of these factors has increased India's economic growth rate to about 7.5% and forecasts suggest that it would continue to remain at these levels in the near future. Inflation has dropped to 5.5% and it too is likely to hover around the same level.

As for the fiscal consolidation, the current account deficit dropped sharply to 1.6% as compared to 4.3% in FY 2012-13. According to forecasts, it should remain in the range of 1.6% to 1.8% in FY 2015-16. Consumption has received a boost, leading to a consecutive year of revival for the economy. RBI has been indicating further softening of rates of interest if the disinflationary trend continues. Foreign investment inflows and stronger macro-economic fundamentals for the Country are likely to give India an edge over other emerging markets for investors to remain interested in.

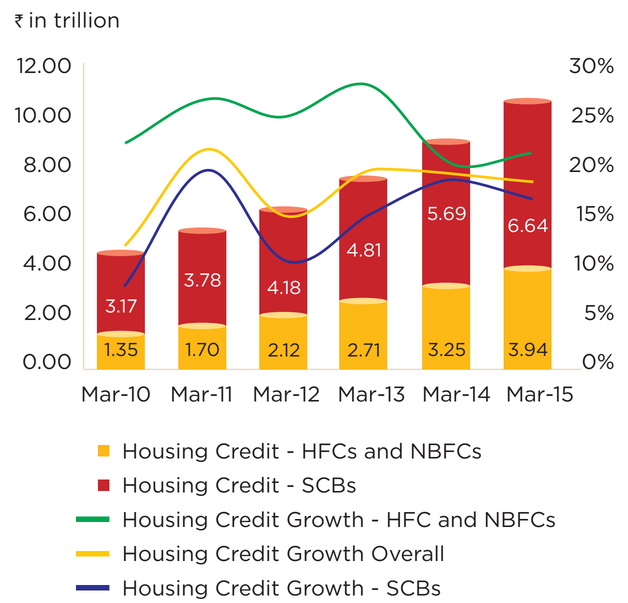
The key test for the government is the successful implementation of reforms, particularly in the manufacturing sector. Issues relating to rigidity of labour laws, state laws and infrastructural bottlenecks have been posing major challenges to the government. The extent of activism and result oriented positivity shown by the government in the area of reforms, will determine whether all these statistics would stand the test of time.

However, there seems to be a lot of promise built into FY 2015-16 and PNB HFL is looking forward to capitalise on the same.

Significant Headroom for Growth in the Indian Housing Finance Industry

India's organised housing finance industry, has a portfolio of approximately ₹10,60,000 crores. The figure though attractive, still accounts for only 8.4% of our Country's GDP, significantly lesser in comparison to a 20%-30% range in countries like China and Malaysia. This scenario indicates the efforts that still need to be made in this sector. With such potential waiting to be tapped, the housing finance industry can look forward to a brighter future.

GROWTH TREND IN HOUSING CREDIT IN INDIA



Source: ICRA

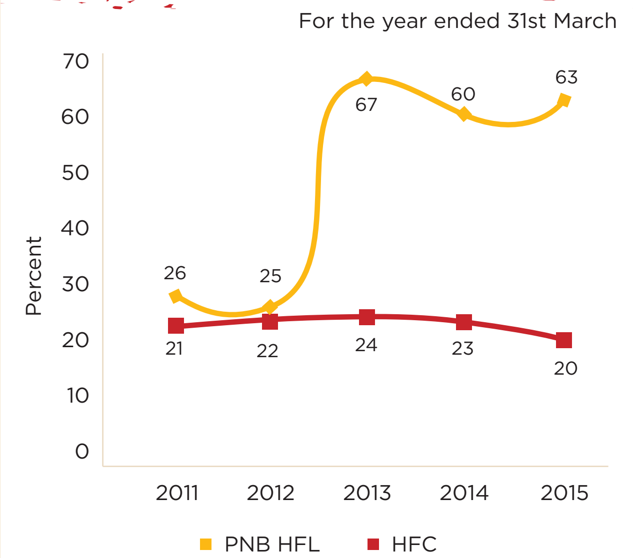
Resurgence Awaited in Real Estate

The real estate market has again remained a low contributor to India's GDP at 6.3%. The construction sector needs to grow as it is capable of supporting over 200 other ancillary industries like cement, iron and steel. While there have been encouraging signs of support for this sector in terms of 100% FDI, approval of 577 SEZs and the 'Housing for all by 2022' programme, a lot remains to be done to make developers accountable for their commitments . The real estate bill that has been put through the parliament includes several pointers for making the life of a home buyer easier, which is a welcome development for the industry.

Stiff Competition in Interest Rates

The interest rates have always remained competitive in housing finance. HFCs are faced with the formidable challenge of competing against attractive rates offered by the banks. This has led to somewhat unhealthy price wars amongst HFCs, where instead of fixing price against measured risks, heavy discounts are being offered to new customers. Women customers are being offered even larger discounts from some lenders. Home loan top-ups, which are pure cash-out loans, are also offered at similar rates as home loans, making balance transfers an attractive proposition. All these continue to maintain the pressure on the interest margins for HFCs.

TREND IN PORTFOLIO GROWTH RATE



Strengthening Market Reach and Business Development

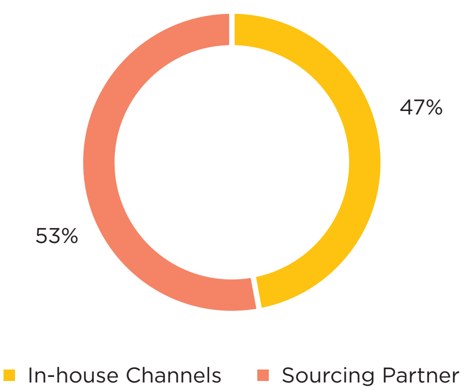
At the beginning of FY 2014-15, the Company was operating from 32 branch offices. During the year it deepened its distribution in the market by adding six new intra-city branches - two in Bangalore, and one each in Delhi, Pune, Chennai and Mumbai. PNB HFL has also started Bhiwadi (Haryana) outreach centre. Encouragingly, these new branches have begun contributing to incremental disbursements within the very first year of their establishment. PNB HFL now has 38 branches that are supported by 16 underwriting hubs.

The Company's strategy is to deepen and strengthen its foothold by maximising the productivity of its existing capacities rather than spreading thinly into new markets. This strategy has helped the Company in gaining a strong control over its portfolio.

In the last three years, the Company has expanded into western and southern parts of India thus de-risking its portfolio across geographies besides northern region. Currently, 58% of its incremental retail disbursements come from West and South zones. The diligent efforts of the business development team enabled PNB HFL to build a large network of distributors for its loan and deposit products.

Currently, PNB HFL has a distribution network of over 5,000 members including in-house sales team, direct selling associates, deposit brokers etc. spread across the Country.

BUSINESS SOURCING MIX



The business contribution from in-house channels is gradually increasing year by year.

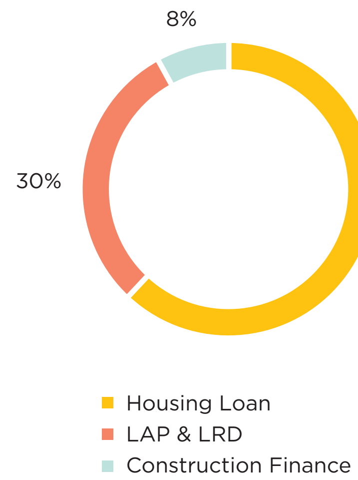
Products and Policy

PNB HFL offers a well-balanced basket of products including loans for purchase of home, self construction, home extension and residential plot. Non housing loans include loan against property (LAP), loan for purchase of non residential premises (NRP) and lease rental discounting (LRD). The Company also offers construction finance to real estate developers, thus enabling them to build homes for citizens.

PNB HFL has also introduced new loan eligibility programmes and mark-to-market products to expand its product portfolio and meet customers' needs.

PRODUCT WISE PORTFOLIO BREAK-UP

as on 31st Mar, 2015



Advancing on Information Technology

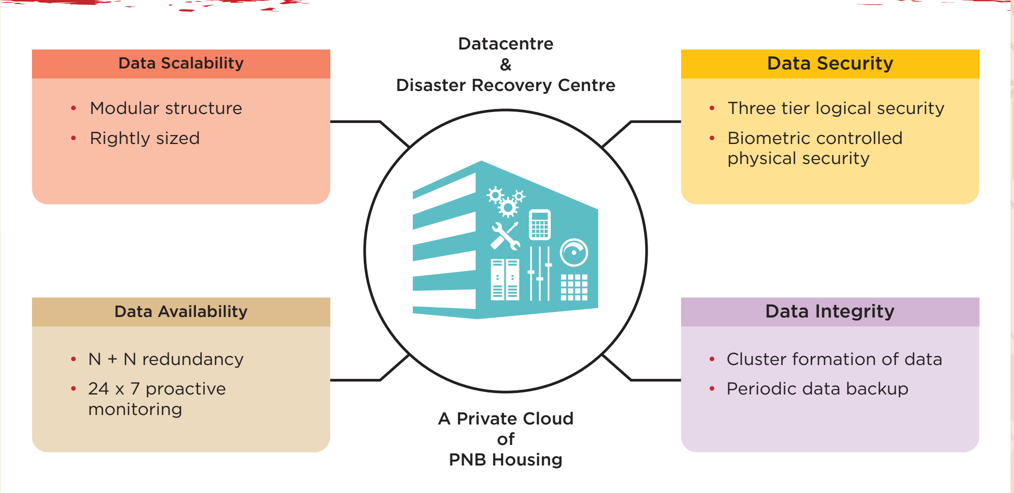
In an endeavour to provide its customers a service experience that is modern and delightful, PNB HFL has implemented the 'Enterprise System Solution' which seamlessly integrates all the activities of the organisation including lead management, loan origination, loan management, collections & collateral management, deposits, customer service, integrated accounting and peripheral applications such as human resource management, document management, business intelligence reports and customer & business partner portal.

The system is designed to derive the following business values:

- End-to-end business automation, eradicating manual efforts
- Configurable and parameterised system, scalable enough to support high business growth
- A workflow based model, improving operational efficiency
- Secured and compliant system, bringing all stakeholders to a single point of truth
- Cumulatively, enhanced customer service

BUSINESS VALUE STREAMS OF ENTERPRISE SYSTEM SOLUTION

DC & DR ARCHITECTURE FRAMEWORK



The complete enterprise system solution has been hosted on a robust infrastructure of data centre (DC) and disaster recovery centre (DR). The architecture of DC and DR has been designed on four fundamental principles, data security, data integrity, data availability and data scalability.

Comprehensive system manuals have been prepared incorporating the process work flow and the system work flow. PNB HFL has conducted extensive training programmes for all employees preparing them for both work and environment changes.

In FY 2014-15, the system went live on a pilot basis at few locations and would be live across the Country in the first quarter of FY 2015-16. The performance of the system is closely being monitored by the IT team which is also addressing the teething issues as they come up. The aim is to completely stabilise the working of this system across the organisation by the end of FY 2015-16.

The enterprise system solution will support operational readiness and sustainable business growth by automating the processes. This will improve efficiency and quality, thereby making the overall business model more secure, scalable and agile. PNB HFL will soon install an online portal that would enable its customers to login and access information on their loans and deposits on a real time basis.

In its endeavour to enhance the information technology environment, PNB HFL is associated with organisations of immense vintage and repute in the IT industry, such as Microsoft, CISCO and Oracle.

Well-established Human Resources Unit

A good intent, a great vision, financial resources and brilliant technology cannot provide the necessary result unless there are people who can intelligently pool them together to produce the desired outcome. This is where the role of human resources unit comes to light.

People First

In a service oriented industry, the importance of human element remains paramount. The Company leaves no stone unturned to make working at PNB HFL an enjoyable experience. With a definitive approach, the unit works towards keeping engagement levels high amongst the staff members. The Company nurtures a strong belief that an engaged and motivated work force will always live up to the core value of 'Customer-Centricity' by delivering high standards of service.

Talent Acquisition

Being a progressive organisation PNB HFL has an ever growing need for the 'right' talent. With an efficient recruitment process in place, PNB HFL has been able to identify individuals with the appropriate skill sets and attitude, to enrich its talent pool.

The Company's human resource unit has garnered the best fit talent across functions in-line with business requirements. The Company has driven a successful campus recruitment programme and has brought on-board a young, bright and vibrant 'Management Trainee' cadre. This cadre is being groomed to assume future leadership positions in the Company.

Performance Management

PNB HFL's contemporary performance management system and total rewards programme have consistently helped in achieving organisational goals. Structured cascading of the annual business plan and alignment of individual, functional and organisational goals have succeeded in fostering a high performance work culture. The entire rewards model at PNB HFL emanates from the context of an overall business strategy, organisational culture and HR strategy. It encompasses a strategic mix of compensation, benefits, work-life balance, recognition, development and career opportunities. Through the 'Nine Box' talent management framework, the Company ensures identification of right talent in the context of performance versus potential. This has laid a solid foundation for progressive succession planning in the organisation. The HR policies ensure an unbiased work culture, guided by a detailed code of conduct. The Company offers equal opportunities to all its employees.

Training and Development

The ever changing industry dynamics demand interventions for bridging the skill gaps at individual, functional and organisational levels. In FY 2014-15, PNB HFL customised its training programmes, based on a detailed training need analysis (TNA). These trainings were conducted with a focus on enhancing functional competencies and achieving optimum efficiencies. The Company follows a holistic 70:20:10 capability building approach, based on the belief that 70% of all capability is built on the job, 20% through coaching and 10% through classroom learning.

Rewards and Recognition (R&R)

To encourage excellence in performance, PNB HFL has institutionalised several innovative mechanisms for rewards and recognitions. Formal R&R

programmes have been instituted across functions, locations and teams to bring about cross functional synergy and alignment with organisational goals. The R&R programmes run on monthly, quarterly and annual basis.

Robust Marketing and Branding Plan

PNB HFL follows a result oriented marketing strategy. The marketing team analyses various marketing opportunities, carefully selects alternatives and ensures consistent communication to build a superior brand recall.

The key messages that the Company reinforces through its marketing initiatives are:

- **High level of Trust and Transparency:**

  Delivering what is committed, being transparent and fair in its dealings

- **Contemporary and Customer-Centric in its outlook:**

  Superior quality of service delivery to meet the expectations of the new age customer

As a result of various marketing initiatives, PNB HFL has emerged as a 'reliable brand' in housing finance industry.

The New PNB HFL Logo

The Company introduced its new logo in August 2014. This change has paved way for improved visibility of brand 'PNB Housing' as a specialised housing finance company. The tag line 'Ghar Ki Baat' has been retained, as it exhibits the purpose of making home loan a pleasurable experience for the customers.

Customer Engagement

The Company engages its customers through structured and balanced feedback initiatives. This interaction gives the brand an opportunity to build stronger relationship with the client. PNB HFL continues to uphold 'customer delight' as the key to an effective marketing strategy.

Above The Line Activities

PNB HFL undertook several above the line (ATL) marketing initiatives during the year. Advertisements were featured consistently across radio and print media including newspapers, trade magazines and in-flight publications. Three Delhi Metro train sets were wrapped in PNB HFL colours across selected

routes. Such initiatives have helped the brand enhance its image as a customer-centric and contemporary organisation.

Below The Line Activities

PNB HFL participated in trade shows and property exhibitions that gave a significant lift to its brand visibility across potential home loan buyers and real estate developers. The Company initiated cross selling of loans and deposits by sending direct mailers to its deposit and loan customers. Hoardings were also placed at developers' project sites. Presence at such point of sales helped PNB HFL gain the mindshare of home buyers.

Digital Media

It was vital for PNB HFL to have a strong presence on the digital media as the target group (TG) is highly active on the internet.

Various digital marketing initiatives such as search engine marketing, search engine optimisation, email marketing, tie-ups with online business partners, internet banners and video display advertising have resulted in elevated business volumes. Online loan enquiries have reached an average of over 15,000 per month as compared to 9,000 per month during the previous year.

Managing Risks

The risk management function provides stability and balance to ensure that the Company's growth is built on a quality portfolio.

Target Operating Model

PNB HFL's target operating model is built on hub and spoke concept, where a 'hub' is attached to a set of branches (or spokes) and provides expertise to enable the branches in serving the customers seamlessly. These hubs are manned by professionals from underwriting, technical services, legal services, fraud control and recovery services.

Expertise in Underwriting

The Company has developed expertise to underwrite all kinds of customer segments, be it self-employed, professionals or salaried. Industry and subject matter experts regularly train the underwriters. The Company's underwriting guidelines are benchmarked to the market and compliment PNB HFL's product basket. The Company has put in place adequate internal controls to maintain the quality of loans being approved.

Technical Service Group

PNB HFL has developed its own technical service group (TSG), consisting mostly of civil engineers, which supports underwriters in the technical appraisal of a property, drives the advance processing facility (APF) and undertakes developer ratings. It assesses the risks associated with projects and real estate developers by conducting regular monitoring of delivery standards. The technical subject matter expert at each hub is supported by a team of regional supervisors to manage geographical diversity.

Legal Services

The Company's legal team manages property title verification of collaterals. This team is also involved in setting up of legal policies and processes, drafting of loan agreements and related documents as well as getting title due diligence of APF projects. The team has a regional presence to ensure that local legal nuances are taken care off in legal evaluation of all collaterals.

Fraud Control

The Company's fraud control unit (FCU) educates business verticals about effective checks required to identify various types of frauds in the industry. The team screens the files and verifies the documents for genuineness. FCU is present at each hub, supported by external vendors to screen and examine the documents for any potential fraud.

Turn Around Time

Each function at the hub operates within a defined turn around time, ensuring timely and accurate delivery of services to internal and external customers.

Wholesale Business

As on 31st March, 2015, the wholesale portfolio stood at ₹2,186 crores comprising of 57% construction finance (CF) and 43% non CF loans. The Company is associated with top law firms in the Country for expert legal assistance and evaluation of collaterals. With extensive evaluations and monitoring of loan processes, PNB HFL has achieved zero NPA in the wholesale segment.

Recoveries

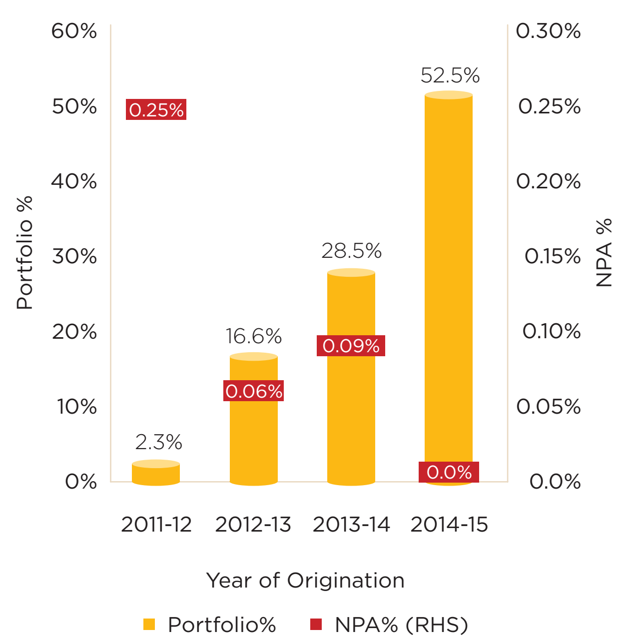
FY 2014-15 was a benchmark year, where PNB HFL reduced its gross NPAs from 0.32% last year to 0.20%. With the use of a creative approach, rigorous follow up and co-ordination with judiciary, the Company was able to resolve chronic default cases. The SARFAESI effectiveness has improved from 39% to 43% in the last 12 months. As per ICRA industry report for FY 2014-15, PNB HFL has registered highest portfolio growth and lowest NPA amongst its peers. As per CRISIL, two year lagged industry level gross NPAs for the year FY 2014-15 were 1% whereas PNB HFL's two year lagged gross NPAs was 0.5%.

Portfolio Performance

Post BPR period, PNB HFL growth has surpassed the industry's growth rate, while keeping the NPAs at the minimum. This is a result of initiatives like hiring of mortgage professionals, re-organizing of departments, delegation of authorities, introduction of mark to market policy and processes, de risking of geographical concentration, expansion in new geographies, multi-pronged control mechanism coupled with regular portfolio review.

Retail portfolio created under post BPR period stood at 89% of the total retail book with average loan amount of ₹33 lacs. As on 31st March, 2015, gross NPA percentage from post BPR portfolio was 0.05% only.

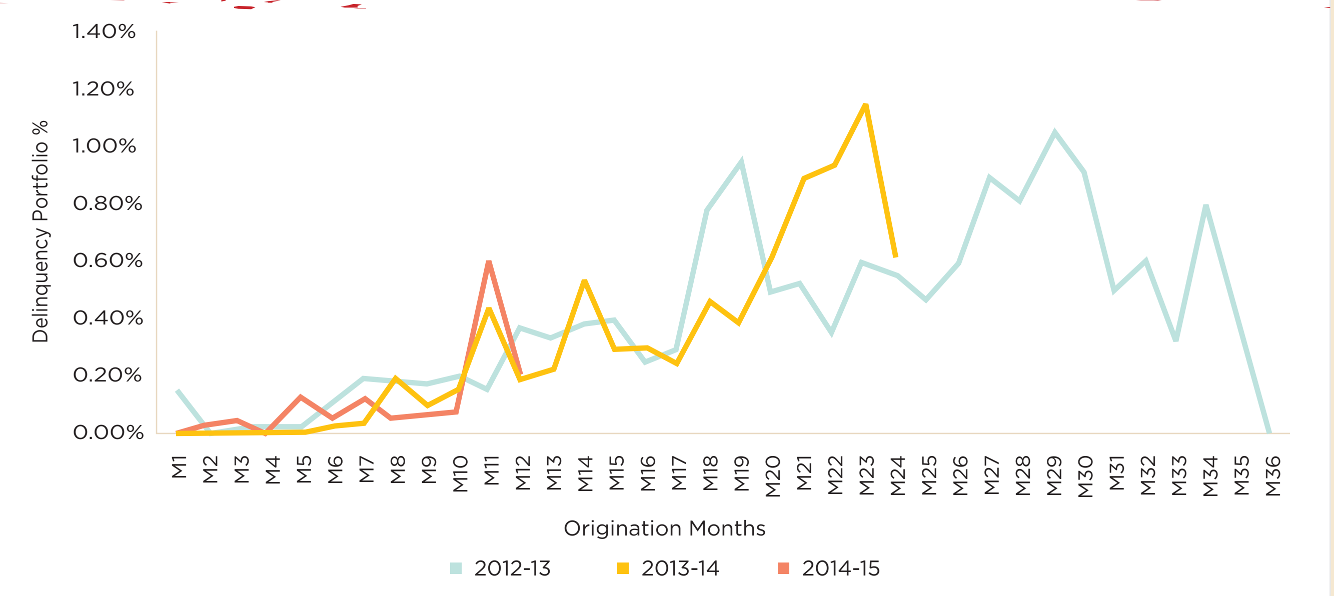
VINTAGE ANALYSIS - POST BPR PERIOD



The vintage wise trend of post BPR retail pool showing consistency in the sourcing strategy, product allocation and policy framework. The Company's 30 days plus average delinquency percentage trend is around 1% to 1.2%.

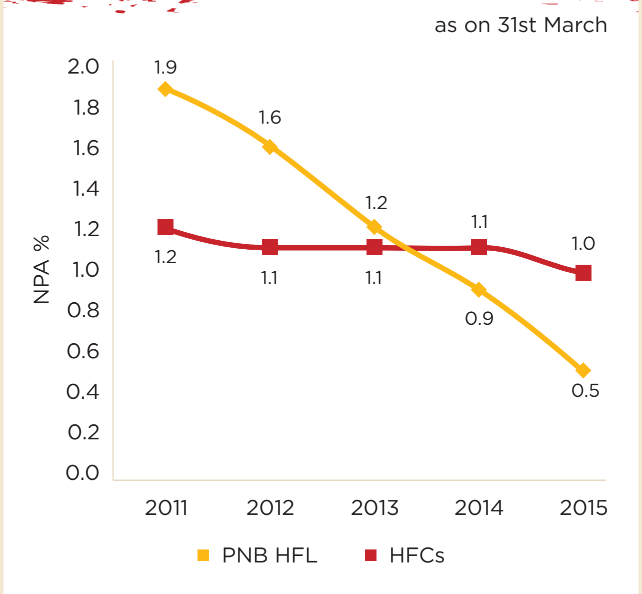
Overall portfolio growth and quality has got accolades amongst its peers and rating agencies. As per ICRA report for FY 2014-15, PNB HFL has registered highest portfolio growth and lowest NPA percentage in the industry. As per CRISIL data, two year lagged industry level gross NPAs for the year FY 2014-15 were 1% whereas PNB HFL's two year lagged gross NPAs were 0.5%. *(Refer to the graph on next page)*

STATIC POOL ANALYSIS - 30 DAYS PLUS DELINQUENCIES



(Graph above depicts vintage wise 30 days plus average delinquency percentage trend of Post BPR Retail Portfolio: X axis represents months since disbursement and Y axis represents 30 days plus average delinquency percentage as per vintage)

TREND IN GROSS NPAs (2 YEAR LAGGED)



Strengthening Infrastructure

During the year, new workspace of about 52,000 sq.ft was added taking the total to more than 154,000 sq.ft. Several infrastructural changes in terms of relocation or refurbishment of existing offices were done in order to make the work atmosphere comfortable for the employees and to provide a pleasant and safe experience to the customers.

Optimising Operational Efficiencies

The business of retail finance is competitive and volume intensive. The pressure exposes it to various financial and operational risks. Given these risks, the Company has evolved to achieve optimum efficiencies by way of centralised control over certain important activities.

PNB HFL's operations have three main verticals - branch operations, the central operations (COPs) and central processing centre (CPC). This structure has facilitated the hubs and branches to focus on customer service and sales, as most of the back-end operations are now centralised and are supported by the new enterprise system solution.

Centralised Banking and Loan Repayment

In FY 2014-15, loan repayment instruments, i.e. ECS and PDCs, for all loan accounts were transferred from branches to CPC. With this, pre-EMI interest/ EMI amount for all loan accounts is being collected and processed centrally. The centralisation of banking has enabled timely collection of funds, better fund management, stronger control and early alarms to the recovery department in a proactive manner.

Professionally Managed Centralised File Storage

With implementation of the enterprise system solution, loan files and security documents are being moved from branch offices to a professionally managed repository at CPC where they are appropriately logged using barcodes. Internal audit checks and continuous tracking of movement of files and documents is maintained as a standard procedure. Deposit application forms and related documents get dispatched to CPC after creation of a deposit receipt from centralised operations. This cost effective model has improved customer service standards and reduced the turn around time, while exploiting economies of scale.

Investments

The Board of Directors has approved the Company's investment policy and has set limits for investments. The power to invest funds has been delegated to the Managing Director who is assisted by two senior executives. The investment function is carried out to maintain sufficient liquidity for day-to-day operations of the Company. Surplus funds generated out of borrowings and operations are invested in various securities with an objective to maximise return on liquid funds at a reasonable risk and expense.

Considering the time lag between raising of resources and its deployment, the surplus funds are generally parked with liquid fund schemes of mutual funds and PSU/corporate bonds. During the year, the Company has parked/redeemed ₹12,091 crores with liquid fund schemes of mutual funds and earned ₹19.89 crores as surplus from cash management schemes of mutual funds. During the year, the Company has also made short-term investments of ₹4,187.80 crores in PSU/corporate bonds and sold PSU/corporate bonds of ₹3,348.02 crores. The Company has earned interest of ₹44.74 crores on these bonds and made profit of ₹15.68 crores.

As per NHB directions, HFCs are required to maintain a statutory liquid ratio (SLR) in respect to public deposits raised. Currently, the SLR requirement is 12.50% of the public deposits. During the year, the Company has made fresh investments in SLR securities of ₹251.32 crores and securities amounting to ₹25.00 crores were redeemed upon maturity. As on 31st March, 2015 the Company has invested ₹465.34 crores in approved securities comprising of government securities, government guaranteed bonds, NHB bonds and deposits with scheduled banks, which is higher than the limit prescribed by NHB.

Funding Sources

FY 2014-15 was a year of transformation for the Indian economy, as it shed concerns of high current account deficit, political uncertainty and elevated inflation. The Country started showing signs of revival in growth as the CPI fell from 8.59% in April, 2014 to 5.5% in March 2015. Improvement in economic indicators reflected in softening of interest rates. Also the 10 year G-Sec yield declined from 8.80% p.a. as on 31st March, 2014 to 7.74% p.a as on 31st March, 2015. A similar impact was witnessed on other fixed income securities and the yields calibrated.

The Company has been raising funds for its lending activities from banks by way of term loans, NHB refinance, private placement of non convertible debentures (NCDs), issuance of commercial paper and mobilisation of public deposits from the retail market.

The Company has managed to contain its borrowing cost through prudent asset-liability management. Some of these measures were diversification of funding sources, tenure optimisation, structured interest rates and prudent borrowing timing. The Company has diversified its funding sources with an objective to reduce borrowing cost, earn an adequate net interest margin and improve liquidity. As on 31st March, 2015, the Company's funding sources comprised 24% from banks and financial institutions, 11% from NHB refinancing, 29% from public deposits, 27% from NCDs and 9% through commercial paper. The borrowings that are maturing within twelve months from the end of the year, constitute 32.42% (previous year 21.36%) of the total borrowings of ₹16,752 crores (previous year ₹10,241 crores). The outstanding borrowings at fixed interest rates were ₹7,558 crores (previous year ₹4,170 crores), which was 45% (previous year 41%) of the total outstanding borrowings. The average cost of total borrowings during the year was 9.42% p.a. vis-a-vis 9.67% p.a. in the previous year.

Subordinated Debt

During the year, the Company raised ₹200 crores of long-term unsecured redeemable non convertible subordinated debentures. The debt is subordinated to present and future senior indebtedness of the Company. It is rated 'CRISIL AA+' and 'ICRA AA+', indicating high safety with regard to timely payment of interest and principal, with stable outlook. The outstanding subordinated debt as on 31st March, 2015 was ₹500 crores. Based on the balance term to maturity as on 31st March, 2015, ₹400 crores of the book value of subordinated debt is considered as Tier II capital under the guidelines issued by NHB for the purpose of computation of CRAR.

External Commercial Borrowing (ECB)

During the year, the Company has raised $100 million of ECB in the form of a syndicated loan facility for a duration of 5 years. The ECB raised was under the low cost affordable housing scheme of the RBI. PNB HFL is one of the four housing finance companies to draw an ECB under this window during FY 2014-15. The proceeds have to be utilised for financing prospective owners of low cost affordable housing units. As per the RBI norms, low cost affordable housing units have been defined as units where the property cost is up to ₹30 lacs, where the carpet area of the unit does not exceed 60 square metres and the loan amount is capped at ₹25 lacs. The principal and spread has been fully hedged as per the guidelines of RBI.

Fixed Deposits

During the year, the Company received incremental deposits of ₹3,185 crores (net of maturities). The outstanding deposits have increased from ₹1,712 crores at the beginning of the year to ₹4,897 crores by the end of the year, registering a growth of 186%. The outstanding balance of public deposits now constitutes 29% of the total outstanding borrowings as on 31st March, 2015.

PNB HFL's deposit programme is rated 'FAAA' by CRISIL. This rating indicates highest safety with regard to the repayment of principal and interest.

PNB HFL has been offering brokerage to its deposit referral associates. The brokerage structure is linked to the term of deposits mobilised. PNB HFL has been amortising the brokerage paid over the tenure of deposits mobilised.

Term Loans from Banks, Institutions and Refinance from NHB

The Company has borrowed funds for both long and short term maturities from the banking sector at competitive rates. The Company has raised fresh loans from banks aggregating to ₹1,611 crores during the year and repaid loans aggregating to ₹2,289 crores. Term loans from banks have been secured by a negative lien on all assets of the Company excluding specific immovable properties mortgaged in favour of the debenture trustees for issuance of NCDs and the statutory liquid assets having floating charge in favour of the public deposit trustees against public deposits. The outstanding balance of bank loans was ₹3,404 crores as on 31st March, 2015.

During the year, Company has availed refinance of ₹1,010 crores from NHB. The outstanding refinance from NHB as on 31st March, 2015 was ₹1,774 crores and secured by hypothecation of specific loans/books debt against which refinance has been availed.

Secured Non Convertible Debenture (NCD)

During the year, the Company raised ₹900 crores through secured non-convertible debentures via private placement. The Company's NCD issues have been listed on the wholesale debt market segment of the NSE. The NCDs are secured by mortgage of specific immovable property and by hypothecation of book debt to the extent of 1.10 - 1.25 times of outstanding amount. The Company's NCDs are rated 'CARE AAA', 'CRISIL AA+/stable' and 'ICRA AA+/positive' indicating high safety with respect to timely payment of interest and principal. The outstanding balance of secured NCDs as on 31st March, 2015 was ₹3,965 crores.

Commercial Paper

The Company uses commercial paper as a source of funding its working capital needs and to bridge financing till such time longer term securities are placed. During the year, the Company has raised ₹3,975 crores via issuance of commercial paper and repaid ₹2,375 crores. Company's short-term borrowings including commercial paper, are rated 'CARE A1+'. These ratings indicate highest safety with respect to timely repayment. The outstanding balance of commercial paper as on 31st March, 2015 was ₹1,600 crores.

Judicious Mix of Borrowings

₹ in crores

	Mar-14	%Share	Mar-15	%Share
Banks	4,083	39.86	3,405	20.33
NCDs	3,450	33.69	4,465	26.65
Refinance (NHB)	996	9.73	1,774	10.59
Deposits	1,712	16.72	4,897	29.23
ECB	-	-	611	3.65
Commercial Paper	-	-	1,600	9.55
Total	10,241	100.00	16,752	100.00

Sale/Assignment of Loans

During the year, the Company has raised ₹500 crores through securitisation of loan assets under direct assignment route to Punjab National Bank.

Provision for Standard Assets, NPAs & Contingencies

As per the prudential norms prescribed by NHB for standard loan assets, HFCs are required to carry a provision of 0.40% on individual loans, 1% on individual non residential property loans, 0.75% on developer loans for residential projects and 1% on developer loans for commercial projects.

During the year, a further provision of ₹31.22 crores was made on standard assets. As on 31st March, 2015 the Company carried a provision of ₹78 crores on standard assets, which is 0.46% of standard assets of ₹16,785 crores (previous year ₹46.78 crores provision on standard assets of ₹10,557 crores).

During the year, PNB HFL made a provision of ₹5.46 crores for non performing assets (NPA). As on 31st March, 2015 the Company carried a provision of ₹22.77 crores (previous year ₹17.32 crores) towards non performing assets of ₹34.14 crores (previous year ₹33.72 crores).

As on 31st March, 2015 the Company carried a total provision of ₹100.77 crores under non performing assets and standard assets, against gross non performing assets of ₹34.14 crores. Accordingly, the provision coverage ratio stood at 295% (previous year 190%).

Overview of PNB HFL Performance in FY 2014-15

Business highlights:

- The Company's assets under management (AUM) stood at ₹17,297 crores at the close of FY 2014-15. This marks a 63% increase over the last year closing portfolio size of ₹10,591 crores.
- The loan portfolio outstanding was at ₹16,819 crores, a 59% rise over FY 2013-14. These growth rates are way ahead of the comparative industry growth rate of 18% CAGR during FY 2014-15.
- Loan approvals in FY 2014-15 were at ₹15,076 crores, indicating a growth of 71% over FY 2013-14. The Company has disbursed loans amounting to ₹9,440 crores, growing by 72% over last year. PNB HFL added close to 19,000 new loans to its portfolio in FY 2014-15 as against 10,000 new loans in FY 2013-14, indicating greater acceptance of the brand.

Financial Highlights:

During the year, the Company earned a profit before tax of ₹295.46 crores, and a profit after tax of ₹196.11 crores.

- Profit before tax grew by 68% as against 39% in the previous year.
- Profit after tax grew by 54% as against 39% in the previous year.
- Current year income tax provision (including provision for deferred tax) amounted to ₹99.67 crores as compared to ₹48.30 crores in the previous year. The effective income tax rate for the year is 33.70% as against 27.48% in the previous year.
- Return on average net worth for the year was 16.09% as against 17.09% in the previous year.
- Ratio of net interest margin to average assets was 3.21% for the current year as against 3.17% in the previous year.
- Cost-to-income ratio for the year was 30.94% as against 32.70% in the previous year.
- The earnings per share (basic) for the current year were ₹24.41 as against ₹25.42 for the previous year.

Spread on Loans

The average yield on loan assets during the year was 11.73% p.a. as compared to 11.75% p.a. in the previous year. The average all inclusive cost of borrowings was 9.42% p.a. as compared to 9.66% p.a. in the previous year. The spread on loans over the cost of borrowings for the year was 2.31% p.a. as against 2.09% p.a. in FY 2013-14.

Capital Adequacy Ratio

As per the regulatory norms, the minimum requirement for capital to risk asset ratio (CRAR) is 12% and for Tier I capital, it is 6% on the risk weighted assets. The Company's capital adequacy ratio as on 31st March, 2015 was 13.76%. The capital adequacy on account of Tier I capital was 10.41% and for Tier II capital it was 3.35%.

NHB Guidelines and Prudential Norms

The Company has complied with the guidelines issued by NHB regarding accounting standards, prudential norms for asset classification, income recognition, provisioning, capital adequacy, concentration of credit, credit rating, 'Know Your Customer' (KYC), fair practices code and grievance redressal mechanism, recovery of dues, channel partners and real estate and capital market exposures.

The Company had no investment in excess of the limits prescribed by NHB with any one company or any single group of companies. Also, the Company has not made investment in any of the promoter group companies or in the stock markets.

The Company's total borrowings as on 31st March, 2015 were ₹16,751 crores which was within the permissible limit of 16 times of the net owned funds. Out of this, public deposits of ₹4,897 crores were within the limit of 5 times of the net owned funds, as prescribed by NHB. The Company has complied with the guidelines issued by NHB regarding the ceiling on interest rates offered on deposits and brokerage paid to the deposit referral associates.

Inspection by National Housing Bank (NHB)

The NHB, under section 34 of the NHB Act, 1987 undertakes its inspection of HFCs every year. The NHB conducts comprehensive inspection of select few branches and also inspects lending, resource raising, fixed deposit mobilisation and accounting activities apart from the compliances with the prudential guidelines issued by NHB.

For FY 2012-13, NHB had carried out such inspection of PNB HFL for the financial position as on 31st March, 2013. It had made certain observations and as per the advice, a disclosure has been made by way of a separate note 24(a) in the notes to financial statements of the current year.

Asset Liability Management

The Company has formulated an asset liability management (ALM) policy which lays down the mechanism for assessment of various types of risks and altering the asset-liability portfolio in a dynamic manner to mitigate such risks. There is ongoing monitoring of the maturity profile of assets and liabilities by Asset Liability Management Committee (ALCO) - a strategic decision making body constituted by the Board, to mitigate the risks arising from cash flow mismatches. It comprises of the Managing Director, Business Head, Chief Financial Officer, Chief Operations and Technology Officer, Chief Risk Officer, Company Secretary & Head Compliance.

Internal Audit

The Company has a well-equipped internal audit department which carries out regular independent evaluation of various activities undertaken by the Company through its branches, zonal offices and central support office. The internal audit department is headed by senior management personnel with reporting line to the Audit Committee of the Board and dotted line reporting to the Managing Director.

The audit function maintains its independence and objectivity while carrying out assignments. It evaluates on a continuous basis, the adequacy and effectiveness of internal control mechanism, adherence to policies, procedures as well as regulatory and legal requirements. The function also proactively recommends improvement in operational processes and suggests streamlining of controls against various risks. The Audit Committee of the Board reviews the performance of the internal audit on a continuous basis, gives direction to its functionaries and reviews effectiveness of internal control systems.

Corporate Social Responsibility

In line with the new Companies Act, PNB HFL has formalised its CSR policy, which will guide the Company in serving the society through meaningfully aligned CSR activities. A dedicated CSR committee has been formed, which has planned the way forward for PNB HFL's social initiatives.

Day Care Centre for Children

PNB HFL has joined hands with Mobile Crèches India and has established a day care centre for the children of labour at construction site. The centre focuses on areas such as education, nutrition, health and parental guidance. Future plans include replicating this initiative at other construction sites as well.

Donation Drive for J&K Flood Relief - Sahayata Sankalp

Employees of PNB HFL participated in 'Sahayata Sankalp', a donation drive to help people of Jammu & Kashmir, who had lost their homes, livelihood and loved ones in the flood disaster. The spirit of volunteerism observed during this initiative was truly inspiring.

Prime Minister's Relief Fund

PNB HFL contributes to the PM relief fund as well, in order to support the relief initiatives by the government.

Future Outlook

PNB HFL will continue to strengthen its partnerships with its business associates and explore new avenues for strategic tie-ups which complement its business model. The Company will explore different CSR initiatives and participate actively wherever it can play a meaningful role in contributing to the society. Through its various constituents in terms of network of associates across different sourcing and processing verticals, the Company is in a position to create employment opportunities for hundreds of deserving candidates. By virtue of its experience in the housing finance industry, PNB HFL will be able to add value towards the formulation of policies and practices that impact this important and vibrant industry. As and when opportunities arise in these areas, PNB HFL will play its role responsibly and in the process add its humble contribution towards nation building.

The Company's key agenda for FY 2015-16 includes managing growth, stabilisation of enterprise system solution and retention of customers and employees. Stabilisation of the enterprise system solution, the employee productivity and ease of closing business will see a sea change, which will bring forth unique service differentiators in the industry.

Cautionary Note

This Annual Report contains forward-looking statements and information identified by words 'plans', 'intends', 'will', 'anticipate', 'estimates', 'expects' and so on. Such statements are based on our current expectations and certain assumptions, which are subject to certain risks and uncertainties. Should one or more of these risks or uncertainties materialise, or should underlying assumptions prove incorrect, actual results could vary. PNB HFL does not intend to assume any obligation or update or revise these forward-looking statements in light of developments, which may differ from those anticipated.

Data Source

The industry data, wherever mentioned in the annual report has been sourced from various published reports:

- *ICRA Industry Update*
- *CRISIL*
- *Global Economic Prospects*
- *Economic Survey*

Directors' Report to the Members

Your Directors have the pleasure in presenting the 27th Annual Report together with the Audited Accounts of the company for the year ended 31st March, 2015.

1. FINANCIAL PERFORMANCE

₹ in crores

	As on March 31st, 2015	As on March 31st, 2014
Profit/Loss before tax	295.77	175.74
Less: Provision for Tax		
- Current year	89.80	50.00
- Earlier years	-	0.65
- Deferred Tax	9.87	(2.35)
Profit/Loss After Tax	**196.11**	**127.44**
Add: Balance brought for-ward from the previous year	11.50	12.21
	207.61	**139.65**
Appropriation of Profits		
Transfer to Special Reserve (including u/s 29C of NHB Act, 1987)	39.25	25.55
Transfer to General Reserve	25.00	85.00
Proposed Dividend	24.10	15.04
Dividend distribution Tax	4.91	2.56
CSR Activities	2.69	-
Balance carried to Balance Sheet	111.66	11.50
	207.61	**139.65**

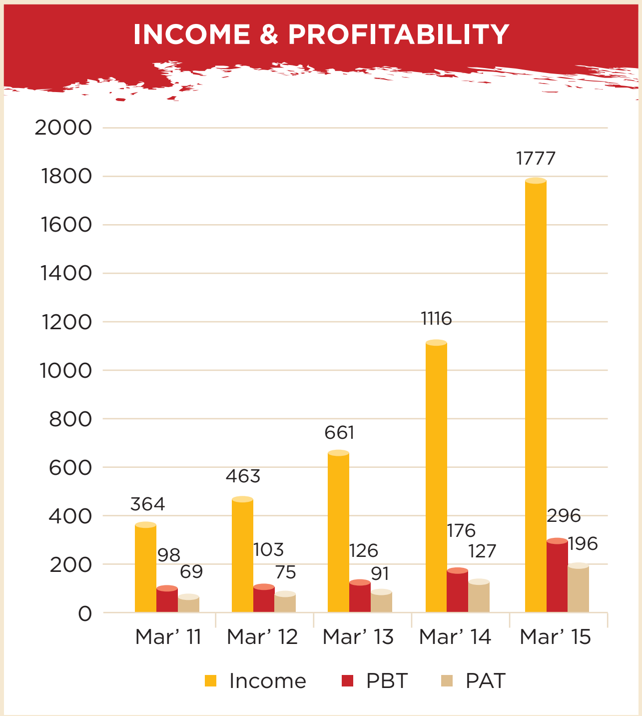
Income

During the year, the Company's revenue from operations was ₹1,776.73 crores as compared to ₹1,116.02 crores in the previous year, recording a growth of 59%. Out of the total revenue, interest income on loans was ₹1,597.64 crores, a growth of 60%, investment income was ₹108.50 crores, a growth of 43% and other income was ₹70.59 crores, a growth of 80%.

Expenses

Total expenses (except provisions and write offs) during the year were ₹1,442.85 crores as compared to ₹909.84 crores in the previous year, a growth of 59%. Out of total expenses for the year, interest expenditure was ₹1,264.84 crores (₹801.15 crores) and operating expenditure was ₹178.01 crores (₹108.69 crores).

(₹ in crores)



2. DIVIDEND

Your Directors are pleased to recommend a dividend of 30% (last year 30%) on enhanced equity share capital, post Rights Issue. Total dividend, including dividend distribution tax is ₹29.01 crores which will be paid pro-rate on enhanced equity capital.

3. LOANS PERFORMANCE

During the year, the Company has sanctioned loans to more than 27,000 customers amounting to ₹15,076 crores as compared to over 13,000 customers amounting to ₹8,840 crores in the previous year, recording a growth of 107% in sanction number and 71% in sanction amount.

During the year, the Company has disbursed loans of ₹9,440 crores as compared to ₹5,500 crores in the previous year, recording a growth of 72%.

Out of total disbursements, ₹6,510 crores loans were disbursed for housing and ₹2,930 crores were disbursed for non-housing purposes. Cumulative sanctions and disbursements as on 31st March, 2015 were ₹38,533 crores and ₹26,216 crores respectively.

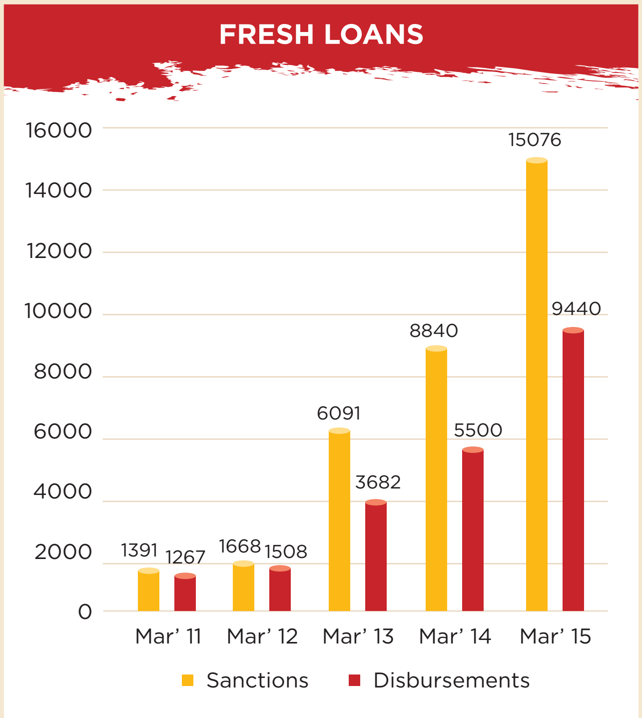
Out of total loan sanctioned during the year, loans of ₹228 crores are eligible under Golden Jubilee Rural Housing Scheme of Government of India, in respect to 574 units.

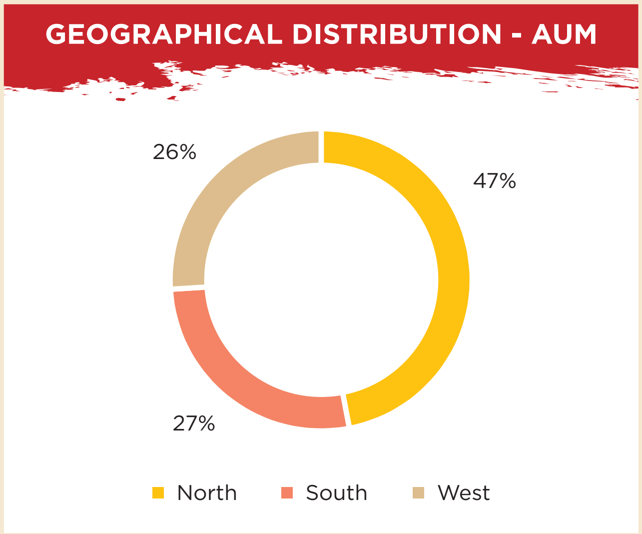
Loans Outstanding

Total loans outstanding as at 31st March, 2015 were ₹16,819 crores, recording a growth of 59% over the last year. Loan outstanding comprises ₹10,357 crores for individual housing loan, ₹1,279 crores for construction finance and ₹5,183 crores for non-housing loans.

During the year, the Company has securitized housing loan portfolio of ₹500 crores. The total Assets Under Management (AUM) as on 31st March, 2015 were ₹17,297 crores.

(₹ in crores)





During the year under review, an amount of ₹3,213 crores was received by way of scheduled re-payment and pre-payment of loan amount.

The average loan outstanding per individual customer as on 31st March, 2015 was ₹25 lac. The average ticket size for fresh loans sanctioned during the year was ₹56 lac.