

Management Discussion & Analysis

GLOBAL ECONOMY: A TIGHT ROPE WALK

It was a year of surprises for the global economy. Be it BREXIT (the exit of Britain from EU), or the US election results, sentiments moved back and forth around the world. Yet, it turned out that the worries were more a matter of perception and the actual impact was comparatively much milder. The current indicators are displaying stable to positive outlook and the world seems to have taken the 'Anugachatu Pravaha' (Sanskrit for 'go with the flow') stance. In simple words, moved on with time.

Looking forward, there are certain indicators that continue to unnerve sentiments, such as the expectation of higher deficit in the U.S., the weakening of FII inflows and the slowdown of China. Commodity prices are still trying to bottom, although the likes of Zinc and Lead have already taken the sky route. The concerns for the future lurk around uncertainties surrounding the policy stance of the United States administration, and its global ramifications.

On the flip side, hopes for a brighter future are gaining momentum. Major economies such as U.S. and Western Europe have performed better in FY2016-17 than the previous year. The European Union has already started showing signs of stability post BREXIT. With respect to US policies, the intervention of courts has been keeping things balanced. U.S. data on job creation and GDP shows positive trends, and accordingly U.S. Federal Agencies increased the policy rate in December 2016. There are hopes that China, the second largest economy, shall stabilise soon and influence global macros significantly. Another breather comes from the fact that violence in Middle-East is appearing to be on its decline.

According to the International Monetary Fund report of January 2017 economic activity in both, the developed economies as well as emerging markets and developing economies (EMDE), will accelerate in FY2017-18, with global growth projected to be 3.4% and 3.6% respectively. Developing economies are now projected to grow by 1.9% in 2017 and 2.0% in 2018.

The primary factor underlying the strengthening global outlook over FY2017-18 is, the projected surge in EMDEs' growth. This estimation reflects to an important extent a gradual normalization of conditions in a number of large economies that are currently experiencing macroeconomic strains.

INDIAN ECONOMY: ALL EYES ON A NEW ERA

Throughout the year, India was in the spotlight for various reasons. Almost every event that happened in India, attracted global attention - be it the historic move of demonetisation, assembly elections held in few States or the momentous satellite launch by ISRO; it is evident that the world now views India as a superpower in the making.

After a seemingly endless debate, the much awaited goods and service tax (GST) bill has got a *good-to-go* signal and is expected to get implemented in near future. This is a certainly a step forward in streamlining the prevailing tax structure of the Country.

Perhaps the most significant and far reaching initiative launched in India, and that which caused a huge stir was the demonetisation of currency. While there was to some extent resistance and criticism towards the manner in which this initiative was implemented, it was largely supported, particularly by the Corporate and Banking fraternity, and more importantly, the common citizen.

Standing at the doorstep of a reformatory metamorphosis, India has sacrificed few points on GDP growth this year, but all this is not futile. The focus is to wage a war against economic evils such as tax evasion, counterfeit currency, corruption and terrorism. If the objectives are achieved as anticipated, our nation shall grow at a much higher pace while exhibiting favourable terms of trade and lower external vulnerabilities.

Indian GDP is poised to grow at approximately 7.2% to 7.5% in the year ahead with the current account deficit at a level of 1.1% of GDP and fiscal deficit at 3.2% of GDP. The consumer price index (CPI) inflation declined to 3.9% in March 2017 from 4.8% in March 2016 and the policy repo rate is reasonable at 6.25%. As per the IMF report of April 2017, India's



economic growth will be 6.8% in FY2016-17 and the forecast for FY2017-18 has been projected to be at 7.2%.

While the domestic economy is not immune to global trends, one can safely assume that the Country will put up a resilient front against the pressures posed by global influences.

INTEREST RATE SCENARIO

India's retail inflation has risen to 3.65% in Feb 2017 from 3.17% in Jan 2017 on account of food and fuel prices. However, the core inflation has declined to 4.79% driven by lower housing, transport and communication prices. Going ahead retail inflation may show an uptick due to implementation of GST and effects of the house rent allowance under the 7th Pay Commission.

Looking at the global indicators, U.S. Federal Reserve hiked its funds rate by 25 bps to 0.75%-1% and said that there may be more rate hikes during the current year. In the Euro areas, the manufacturing purchasing managers index (PMI) has risen to six-year high and this indicates improving consumer confidence and employment conditions. Fuel prices have remained range bound since organisation of the petroleum exporting countries (OPEC) and its partners extended their deal to hold 1.8 million barrels of oil off the market. The long term impact of BREXIT on the global economic scenario is yet to be seen. Based on the current macro-economic trends, it is expected that the benchmark yield shall remain range bound between 6.75% to 6.95%.

In 2016, the RBI's active liquidity management kept the call money rate well anchored around the policy rate. In 2017, the RBI is expected to maintain liquidity in the money market and hence keeping the call money rates around policy rates. Corporate Credit is expected to be moderate, therefore ensuring banks participation in commercial paper investment for 2017.

INDIA'S HOUSING FINANCE SECTOR: ADVANTAGE POINT FOR GENUINE HOME BUYERS

The end users in housing sector are enjoying a fresh breeze of affordability. The Union Budget initiatives declared in February 2017 have lived up to the expectations of citizens who have stood with the

Government during the liquidity crunch, especially in terms of taxation and housing. The proposed inclusion of affordable housing, with revised parameters of definition in 'infrastructure' is generating plenteous interest within the real estate developer community and home buyers. This development will add to the transaction velocity in the sector. On the other hand, RERA and GST will bring about the much needed discipline, transparency, compliance and customer service standards in the real estate sector. Overall, the current picture is a perfect scenario of progressive customer orientation in the housing sector.

As on December 31st, 2016, the total housing credit outstanding in India stood at around INR 13.7 trillion and is expected to grow at 18-20% in FY2017-18. It is interesting to note that the mortgage loan proved to be the single largest and best performing retail asset in the lending industry which could withstand the impact of demonetisation as well. The share of HFCs and NBFCs in the overall mortgage finance market remained steady at 37% as on December 31st, 2017, with commercial banks accounting for the remaining 63%.

Looking ahead, an array of mixed factors will determine as to when the industry will regain its momentum. For the moment, the current situation can be titled as a 'consolidation phase'.

POSITIVE INDICATORS FOR INDIAN ECONOMY

Untapped Market

Despite a decent performance in the year gone by, the mortgage market in India remained under-penetrated with mortgage-to-GDP ratio of around 9%, which is far lower in comparison to the 15%-30% ratio of other peer developing economies, and 80+% for some of the developed ones. Total demand for urban housing is estimated at 4.2 million units during the period 2016-2020 across top eight cities which indicates the availability of a large sized untapped potential in the market.

Favourable Demographics

A large proportion of the Indian population is below the age of 30 years. The expanding urbanization, increase in supply of affordable homes, rising disposable incomes, reasonable interest rates, improved affordability and fiscal incentives on home loans will drive the growth for the sector.

Real Estate Developers' Focus on Affordable Housing

A large segment of our population, who would have thought of a home as a 'distant dream' until a few years ago, are now realizing that the doors to their dreams are opening easier than ever before. Harboring unsold inventory levels, the focus of real estate developers is undergoing a paradigm shift, moving from luxury segment towards the mass housing segment.

INITIATIVES BY THE GOVERNMENT

Government led actions during the year have inducted substantial positivity in the sector especially when viewed with a long term perspective.

Demonetisation

It was perceived that the out turn of demonetisation on the mortgage industry, would run deep, but the result fortunately turned out to be the opposite. The housing finance sector withstood the turbulence and bounced back within a couple of months. In fact, with the cash component eroding, the demand for formal sector credit has increased, which has helped in the expansion of the sector. With improved liquidity financial institutions have brought down interest rates and have made home loans all the more affordable, drawing in new customers who had erstwhile kept their decision of purchasing a home in abeyance.

Pradhan Mantri Awas Yojana Scheme (PMAY)

The amalgamation of PMAY and 'Housing for all by 2022' mission continues to pick up pace and will be a key factor in pushing the mortgage penetration levels further. This initiative has been given further boost in the union budget of FY2017-18 by widening the income bracket and enhancing property area restriction to extend the benefits to the middle income group.

Real Estate Regulatory Authority (RERA) Bill

The basic objective of the RERA bill is to protect the interest of the consumers and investors by introducing a regime to regulate and improve the level of transparency and accountability in the sector. The Act propagates restoration of confidence of buyers and investors in the real estate sector as it includes provisions for ensuring timely and orderly delivery of projects.

Relaxation in prudential norms for debt mutual funds

SEBI has increased the exposure limits provided for housing finance companies, in debt- oriented mutual fund schemes from 5% to 15%. With this change in regulation, the total exposure cap to the financial services sector now stands at 40%.

Amendments in SARFAESI Act and Bankruptcy Law

The Government has made certain amendments in the SARFAESI Act and Bankruptcy Law which is expected to help financial institutions recover dues in a more efficient manner.

THE THREATS

The Housing sector now faces a new challenge, that of actualisation. A very large number of schemes have been launched and one is left to wonder if these schemes would become ground realities, given the volume of work to be done for the same. Only with a unified effort of the Government, real estate developers and financial institutions, can success be achieved. Albeit, the eventuality shall be uncovered only with time.

There has been a steady increase of new entrants in the housing finance sector and this increase in competition may lead to price wars, loan transfers and drop in portfolio quality.

PNB HOUSING: ON STRONGER WINGS

The year was a milestone setting one for the Company with the grand success of its Initial Public Offering. The IPO of 3,87,19,309 equity shares, of INR 10 each, was offered at a price of INR 775 per share aggregating to INR 3,000 crores. The momentous occasion, i.e. the Company's public listing, happened on November 7th, 2016, at the National Stock Exchange and the Bombay Stock Exchange, making it the second largest IPO for the year 2016 and one of the largest ever in the BFSI space. The stock was accepted well by all categories of investors, both in domestic and international markets. This infusion of capital by marquee investors has enabled the Company to cruise across a widened horizon. PNB Housing now stands in the market with a robust financial abutment despite the tough economic environment. The Enterprise continues to uphold its stature as one of the five largest housing finance companies in the country.



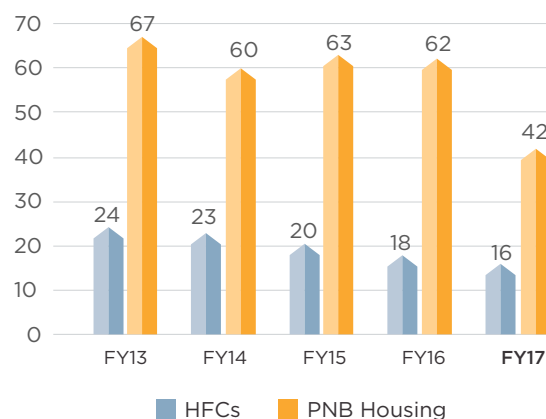
Discussing the impact of demonetisation on the Company, the outcome was fairly positive for PNB Housing. A temporary stagnation in loan applications, which lasted for not more than a few weeks, was the only impact felt. There was no unusual damage in terms of defaults or impact on the share prices. Instead, an increased inclination towards formal credit was observed within the potential customers.

PNB Housing has evolved into a healthy Enterprise which is driven by ambitious yet purposeful goals. The Company has an effective business model, governance structure, systems and operating framework offering mark to market product proposition which can deliver adequate shareholders' returns. Its asset quality, human capital efficiency and effective leverage of technology has granted it the virtues of scalability, profitability and sustainability.

PNB Housing enjoys the distinction of being a customer oriented entity that addresses the needs of customers, by offering contemporary products and services.

In fiscal terms, it was yet another year for the Company wherein performance was underscored with a growth rate that was amongst the highest in the sector. The Company's total loan assets crossed INR 38,531 crores this year and its 5-year CAGR stood at 55%.

TREND IN PORTFOLIO GROWTH RATE (%)



Source: Indian Mortgage Finance Market Update by ICRA

The Company boasts of a superior quality portfolio with very low NPAs. The rapidly increasing customer base stands testimony to the fact that it is steadily gaining reputation as the customers' preferred housing finance partner.

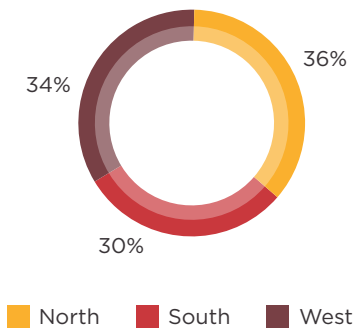
STRENGTHENING BUSINESS AND MARKET REACH

The performance has reaffirmed the ideology that customer centricity is the key to ensure business longevity. The Company refrains from compromising on sustainability to chase market share, instead believes, in ensuring that the quality of assets remains 'best in class'.

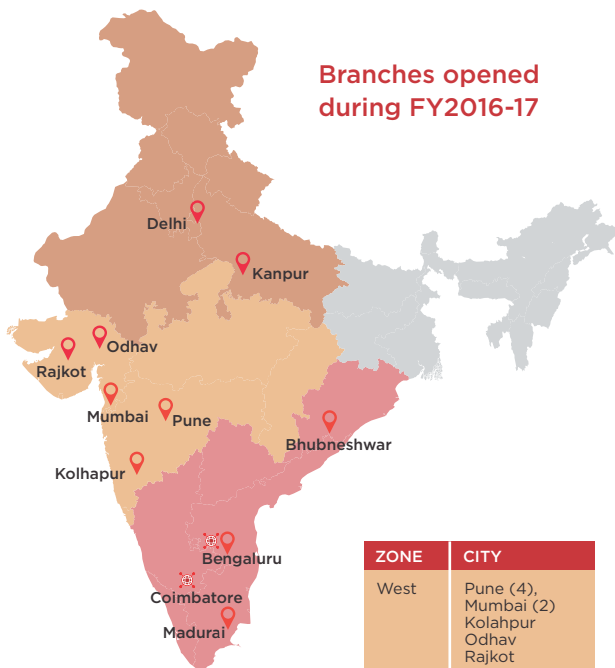
Reaching out to new markets is the Company's current focus area. The expansion strategy of the Company involves careful selection of geographies and distribution network such that the operational efficiencies remain homogeneous across all outlets.

In FY2016-17, the Company further strengthened its market reach with the opening of 16 new branches. This has taken the branch network to 63 branches and 27 outreaches by the end of the financial year. The focus was on exploring new markets and this has enabled the Company in developing a judicious geographical mix bringing the share in West and South zones almost at par with that in the North zone.

Geographical Distribution based on AUM



Branches opened during FY2016-17



| ZONE | CITY |
|-------|--|
| West | Pune (4), Mumbai (2) Kolhapur Odhav Rajkot |
| North | Kanpur Delhi (2) |
| South | Bengaluru (2) Madurai Bhabneswar |



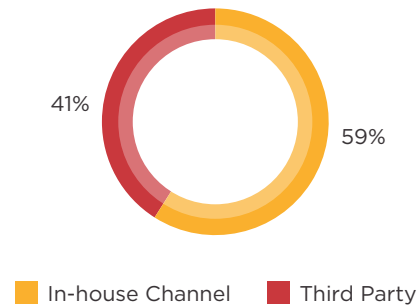
HUBs commissioned at Bengaluru and Coimbatore.

The market reach is reinforced with the Company's business sourcing network which comprises of over 9,700 members across different locations in India. These include in-house sales personnel, sourcing partners, deposit brokers etc. offering doorstep services to the customers.

One of the reasons for PNB Housing's resilience

during difficult times is that it enjoys a healthy mix in its business sourcing with balanced contribution from external and internal channels. The in-house channel is playing a major role in scaling up the Company's self-sufficiency in terms of business development.

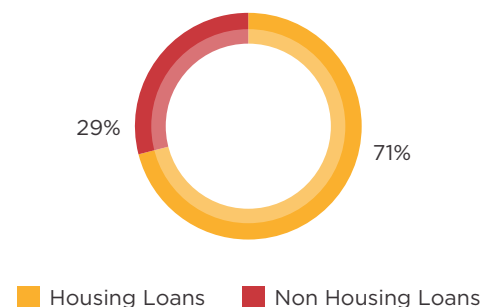
Disbursement Origination Mix



Asset Portfolio Mix

PNB Housing caters to a wide range of customer preferences with an array of products that have been designed through years of market research. The products offered by the Company include loans for purchase of home, self-construction, home extension and residential plots. In the non-housing segment, the Company offers loan against property (LAP), loan for purchase of non-residential premises (NRP) and lease rental discounting (LRD). The Company focusses on strengthening the supply side by offering loans to real estate developers for construction of residential projects and through loan against property.

Portfolio Mix





PNB Housing is proud to align its focus with the government's ambitious target to provide home to each and every citizen of the Country. The Company is contributing in a modest way, towards making the mission of 'Housing for All' and 'Affordable Housing' a success.

The Company is inspired by the spirit with which individuals from modest walks of life face challenges in pursuit of progress. This inspiration propelled the Company to introduce a specialized product 'Unnati' as a tribute to the spirit of this segment. It has further aligned its sourcing and underwriting capabilities to efficiently cater to this segment.

WHEN YOU THINK OF OWNING A HOME THINK OF US AS YOUR PARTNERS IN PROGRESS.

PRESENTING UNNATI HOME LOANS. GET UP TO ₹ 25 LACS FOR YOUR HOME.

pnb Housing Finance Limited
Ghar Ki Baat

DOORSTEP SERVICES | **30 YEARS** | **LOAN UP TO 90%**

Unnati

As an upshot, the Company disbursed 20% of the total individual home loan business in the sub INR 25 lakhs category during the first year of its launch.

REACHING OUT TO PROSPECTIVE CUSTOMERS



One of the characteristics of the new PNB Housing persona, is its focus to enhance the brand image in the minds of the consumers. The Company has implemented a multimedia strategy to ensure mass communication around the country and to maximize audience reach. A balanced media mix enabled reasonable presence in the print media, television, digital platforms and outdoors. The effort helped in communicating the strengths of the Company to millions of potential customers and to the investor community across India and overseas.



The Campaign Theme: 'Inspired'

PNB Housing's campaign revolved around nature and showcased how the Company is 'inspired' by the extraordinary traits of animals and how it has incorporated these traits into its personality. The essence of the communication was 'The door to your dream homes open easier with us' which has given PNB Housing its distinct brand image.

The Company participated in numerous events and exhibitions across the country and made its presence felt at points of sale to engage and foster relationship with potential customers. Digital interventions have augmented the efforts to reach out to new age customers.

FRIENDLY SERVICE ENSURES FASTEST GROWTH.

PNB Housing has emerged as the fastest growing amongst leading HFCs in India.



Maiden Dream Expo Ghar Utsav - Leading to New Dreams

To break the overwhelming dullness in the housing sector, PNB Housing planned a technologically advanced path breaking dream home expo 'Ghar Utsav', in collaboration with twenty one real estate developers, to create a wave of positive change. This was the first of its kind home expo instituted by the Company. The event was an astounding success as it witnessed close to 5000 footfalls in two days and more than 900 on the spot loan approvals. The event commemorated the success with a musical rendezvous.



The brand 'PNB Housing' is synonymous with trust and convenience and the same is reflected in all its communication, be it marketing initiatives or routine interactions with the customers. There is a constant endeavour by every team member to create memorable customer-service experience and to deliver the brand promise of PNB Housing at all times.

The marketing initiatives were well received by the audiences and the Company saw significant increase in the volume of loan enquiries and in the 'hits' on PNB Housing's official website.

CUSTOMER SERVICES: REDEFINING CONVENIENCE

The quality of services offered to the customers and the level of swiftness in response time sets the difference between a good service provider and a better service provider. PNB Housing has adopted the power of technology to ensure convenience for its customers and that their needs are catered to, accurately, and in a timely manner

The Company continues to upgrade its customer friendly online interfaces, enabling easy access to account related services. The modules are tailor made to cater to the contemporary needs of the customer so as to offer a standardised feel across all channels - brick and mortar outlets as well as digital. This omni-channel experience, spread across the customer relationship management system (CRMS) and the customer portal is the corner stone of Company's customer engagement strategy.



Customer Relationship Management System (CRMS)

PNB Housing believes that 'response delayed is response denied' and it is this belief that has led to



the creation of the Company's indigenously designed CRMS. This interface provides quick handling of customer service requests and complaints. Its pre-defined, in-built workflows and swift processing ensures higher levels of customer satisfaction.

"Let the customer be your greatest teacher" say the wise in the corporate world. Every single feedback by the customer deserves due attention. The Customer relationship management at PNB Housing is further amplified keeping its doors open to suggestions and feedback from customers on various matters. The channel enables quick flow of information and resolution is initiated within 24 hours of the request raised.

Contact Centre

The contact centre, which is ISO 9001:2008 certified, plays a vital role in the journey of redefining convenience by providing faster connect and easy access to customers. It not only helps potential customers reach instantly but also ensures better customer care services by giving existing customers a platform to instantly contact the Company for their post sales service requirements.

All loan enquiries generated through various advertising campaigns are directed to the contact centre which focusses on creating a lasting first impression by ensuring that the customer expectations are met with dexterity. The technology enabled unit is capable of end to-end intelligent tracking of customer requests and monitors the performance of leads generated through advertising campaigns.

The emphasis has always been on achieving business efficiency and increased customer satisfaction through contact centre.



Customer Portal (CP)

The self-service customer portal by PNB Housing bridges the distance between the customer and the service provider. Its single window interface provides access to important information such as IT certificates, EMI payment schedules etc. at a click of a button. This portal has been linked to the CRMS. During the year, enhancements were made to the module making it all the more proactive. The new 'inbox' feature enables PNB Housing to reach out to its customers informing them about latest offers, new features and relevant notifications.

With the recently launched mobile app of customer service portal, the customers can now easily access their account details and avail various services on their smart phones. This fulfils the Company's brand promise of customer centricity.

TARGET OPERATING MODEL

The hub and spoke based target operating model (TOM) of the Company, comprises of a technology platform, experienced and specialized professionals and mark to market products and policies. The 'Spokes' or branches act as the primary point of sale and service, undertake loan origination, manage collections, deposit sourcing and customer service. Hubs and zonal offices provide support functions, such as loan processing, credit appraisal and monitoring. The Company supervises the operations nationally through the central support office (CSO) thus enabling precision oriented performance throughout the organization.

The branches, hubs, zonal offices and CSO are supported by the centralised operations (COPS) and central processing centre (CPC), which provide centralised and standardised administrative activities, payments and processing for the business. They rely in turn on the enterprise system solution (ESS). The ESS integrates all activities and functions within the organisation on a single system solution, bringing efficiencies to the back-end processes and enabling focus on delivering quality services to its customers.

The Company's subject matter experts possess extensive knowledge of their geographies which enables them to assess customer's requirements and offer them solutions within the broad framework of credit policies. The Target Operating

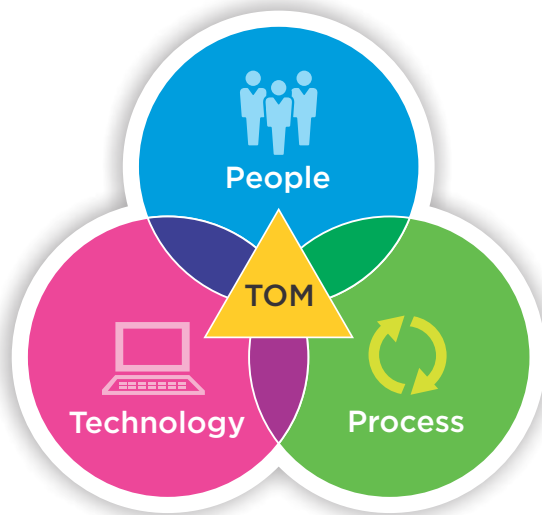
Model is scalable and facilitates economies of scale at lower incremental costs. The model has enabled deepening of market penetration with launch of new branches and outreach offices.

The Company has a well-established and streamlined credit underwriting, monitoring and collection process which has significantly contributed to the growth of loan portfolio. It lends

efficiency to manage the expanded scale of business by enhancing productivity and the ability to take prudent credit decisions without compromising on the credit quality.

As the Company continues to grow operations and expand into new territories, the thrust will be to maintain the credit quality of the loan portfolio by undertaking comprehensive risk assessment measures, diligent portfolio monitoring and management methodologies. It further plans to supplement the existing risk management protocols by introducing a credit scoring template that shall assist the underwriting teams and other subject matter experts in decision-making and enhancing the turnaround time of loan applications.

ROBUST TARGET OPERATING MODEL



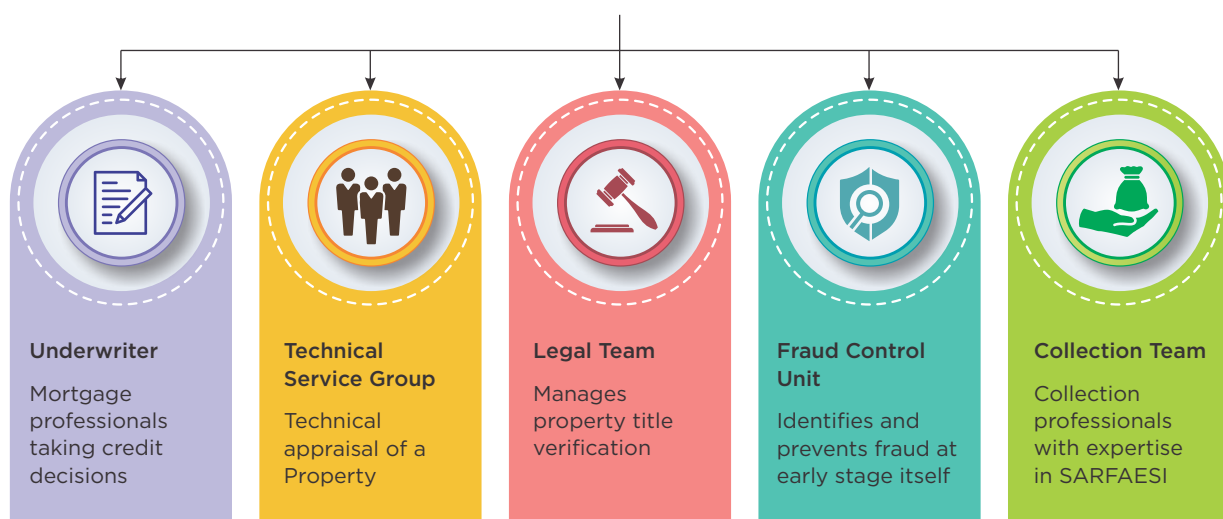
Credit Risk Management

PNB Housing actively monitors and controls the credit risk arising due to any sort of defaults. The credit committee regularly reviews and updates the credit policy that its underwriting teams are required to adhere to. Credit risk is managed by using a set of credit norms and policies, including a standard credit appraisal policy based on customer credit criteria approved by the Board. There is a structured and standardised credit approval process including a comprehensive credit risk assessment, which encompasses analysis of relevant quantitative and qualitative information to ascertain the credit worthiness of the customer.

RETAIL CREDIT FRAMEWORK

Hub Structure

HUB





Operational framework: Controlled yet progressive

For an organisation, growth in its stature needs to be backed by sustainability. Being one of the fastest growing housing finance enterprises, PNB Housing is well aware of the need to ensure that crucial aspects of the operations remain centrally controlled. This has led to the evolution of three main verticals viz. branch operations, central processing centre and centralized operations. Centralization of activities such as image based deposit processing, business partner management, repository of dockets, file CERSAI updation etc. have allowed the Company to adhere to standard operating procedures thereby bringing in higher accuracy and reduced turnaround time with cost optimisation. Centralization of EMI banking has helped in timely collection of funds, better fund management, stronger control and early alarms to the collection department, in a pro-active manner.

Moreover, as all bulk customer correspondence is 'in house' and is insulated from any third party interference, the delivery standards and ethos are adequately maintained. With centralized operations, there has been a sharp increase in productivity and it has enabled the Company to follow a flexible delivery model along with achieving economies of scale.

This structure has facilitated in evolving technology backed ISO 9001:2015 certified Centralized Operations, which in turn has enabled hubs and branches to focus on customer service and sales, as most of the back-end operations are now centralised and supported by the new Enterprise System Solution.



Infrastructure: Scaling up

During FY2016-17, PNB Housing added an incremental work area of 33,730 sq.ft. which has increased total work space from 1,90,245 sq.ft. to 2,23,975 sq.ft, an increase of 17.73% over the previous year.

The new offices opened across India are fully equipped, well connected with the entire network and ergonomically designed to provide the finest experience to customers as well as the workforce of PNB Housing.

TECHNOLOGY: PATH BREAKING

The efforts of the team members of PNB Housing are reinforced with technological interventions. PNB Housing continues to make prudent investment in technology to enhance customer experience and improve operational efficiency. The Company boasts of a fully integrated ESS which has streamlined processes and is bringing about a high level of automation across functions. It is paving way for realizing the Company's vision of providing a collaborative business environment among the frontend team, customers and business partners, and making transactions processing and sharing of information easy and user friendly.

For the first time, the Company completed its financial year closure on ESS and this has proved that both, the platform and the transformed processes have been well embraced by the employees. The architecture of ESS is agile, secured, scalable and modular, and has enabled the Company in various digital initiatives to further enhance convenience to the customers and make business operations more efficient and collaborative. Auto triggering of the 'Welcome Kit' upon the disbursement of loan to new 'on-boarded' customers, pushing of the Income Tax certificates to loan customers and Interest certificates to deposit customers through the self-service customer portal at the click of a button, and mobile application for business partners has enabled real time services and delivery, eliminating lengthy manual efforts.

The Company's recovery team has been relieved from manual efforts to a great extent with a novel digital initiative on mobility, i.e. tablet based collection mobile application. The application is

integrated with ESS and the e-payment gateway thus enabling collection from delinquent customers through multiple payment modes. It empowers the frontend field team with real time analytics, betters the efficiency through queue based collection management and supports geo tagging.

Digital security has attained new levels with the implementation of advanced threat protection for its corporate email and messaging system. This solution safeguards against zero-day attack, by analysing the behaviour of unknown attachment types and links in contained a sandbox environment. An enterprise class solution web content filtering has been implemented across the Organisation, which is secured and backed by real time threat protection technology. It is an accurate system for real-time identification and classification of threats during internet browsing from the internal or public network, thus enhancing overall IT security of the Organisation. This has been aptly backed by a centralized wireless network management system with unified WIFI SSID across the Organisation. The solution has enabled secured and seamless inter office roaming, centralised administration and separate limited provisions for guest access without access to PNB Housing internal network or data. AAA standard has been achieved with integration of PNB Housing's active directory, the CISCO access control system and CISCO centralised wireless controller. The Company had engaged the services of a leading IT consultant to conduct an IT security assessment, which has been successfully completed with no major observations.

The Company engages technology diligently to become digitally advanced and a highly secured housing finance provider. Going forward it shall consider implementing new technology initiatives in mobility, analytics, security and cloud storage to further enhance operational efficiency and help deliver the best service to its customers.

HUMAN RESOURCES: STRONGER TOGETHER

Nothing can substitute the warmth of human touch in a service industry. PNB Housing believes that only a happy team can deliver the desired customer delight. Thus, the Company's Human Resource Management systems and processes are aimed at creating a responsive, industry-focused, customer-centric culture and enhancing organisational vitality.

PNB Housing believes that robustness and adaptability of the Human Resource systems and processes are critical for an organisation to remain relevant and competitive in today's highly dynamic and rapidly evolving business landscape. The Human Resources function continues to align its strategic interventions and processes with the Company's vision of emerging as the most admired housing finance company. Its Human Resource agenda continues to remain focused on reinforcing the key thrust areas i.e. being the employer of choice, building an inclusive culture and a strong talent pipeline. The Company is focused on developing future leaders and having contemporary people practices. It takes pride in building a high trust and high performance culture with a growth mind set. Developing capabilities for all employees in the Company has remained an ongoing priority.

PNB Housing enjoys the reputation of being an 'employer of choice' which is testified by the fact that it has one of the lowest employee attrition rates in the industry. Its talent retention strategy is pivoted on offering career enhancement opportunities, competency development, rewards and recognition initiatives and empowering key talent.



During the year, the Company inducted 402 new members in its family, taking the total count of employees close to 1000 across India. The talent acquisition programs are complemented by a suite of training and development opportunities, delivered internally and externally to ensure the highest level of performance.

Effective performance management is critical to helping employees perform at their optimal level.



PNB Housing's Performance Management System is focused on creating 'line of sight' between an individual's work and the organisation's strategic and operational objectives. It measures employees' performance on fair parameters, identifies and supports the ongoing learning and development needs of employees.



The Company has a multi-pronged approach to learning, with focused interventions in core and functional areas, customised business specific and organisation-wide strategic interventions, as well as structured leadership development program.

The Company advocates a work - life balance and considers the families of the team as an extension of the PNB Housing Tree. Events such as family day are celebrated across all its business centres which strengthen the informal bonding within the entire team.

PORTFOLIO PERFORMANCE

PNB Housing's portfolio continues to be one of the best in the industry, with NPAs at the minimum. Such robustness has been possible by the combined efforts of mortgage professionals, delegation of authority, robust processes, de-risking of geographical concentration, expansion in new geographies, multi-pronged control mechanism, regular portfolio review along with optimum usage of advanced information technology.

The retail loan process cycle, from origination to servicing is executed on the ESS. Loan decision making is based on the 'four eyes principle' and involves specialists from fraud control, underwriting, technical and legal.

In cases of wholesale finance business, the Company undertakes detailed and in-depth analysis covering various aspects like project analysis, financial appraisal, detailed legal review, customer feedback, background check, credit rating etc. before sanctioning the loan.

The portfolio management methodologies are designed for early identification of problematic loans. The Company monitors portfolio through various analysis on a regular basis to evaluate the portfolio quality. It also regularly reviews and monitors concentration risk in certain segments of the loan portfolio, which allows to identify potentially problematic loans at an early stage and prepares for immediate action if any repayment problem arise. The credit and collection teams undertake regular review of all large value loans, including construction finance loans.

Recoveries

PNB Housing aims at 'curing' and not just

PNB Housing is a great place to work!

The Company participated in an employee feedback survey conducted by the Great Place to Work Institute (USA) in December 2016. 94% of the employees participated in the survey and the results earned PNB Housing a position in Great Places to Work.



Great Place to Work Institute, USA, is amongst the renowned organizations, with 25 years of research experience, in recognizing and building great workplaces. The institute conducts the survey globally, and approximately 8000 organizations participate in the study every year. In India more than 800 companies participated in this independent and most objective survey during the year.

'collecting'. The recovery team is persistent in its approach and applies the best possible use of legal channels for collection. A structured early warning system, regular reviews and prompt actions have helped in minimising defaults and maximizing collections. The SARFAESI Act of 2002 has been very effective in improving the efficiency of the recovery unit. Appropriate legal actions and co-ordination with the judiciary have resolved most of the default cases. The effectiveness of the efforts is visible in fairly low level of NPAs in all types of loans offered by the Company.

Fair standards are observed while dealing with delinquent customers. While strictness is maintained, PNB Housing ensures that its interaction with the customers remains professional, transparent and respectful. The effectiveness of the framework can be judged by the fact that the Company has been able to contain its NPAs to 0.22%, one of the lowest in the sector.

OVERVIEW OF PNB HOUSING PERFORMANCE

Finance and Accounts

Business Highlights

- The Loan Portfolio outstanding stood at INR 38,531 crores; a 42% rise over FY2015-16.
- The Loan approvals in FY2016-17 were at INR 32,225 crores, growing by 40% over FY2015-16.
- The Company has disbursed loans amounting to INR 20,639 crores, growing by 43% over the previous year.

Financial Highlights

- During the year, the Company has earned a profit before tax of INR 804.01 crores and the profit after tax of INR 523.73 crores.
- Profit before tax grew by 60% as against 70% in the previous year.
- Profit after tax grew by 60% as against 66% in the previous year.
- Current year income tax provision (including provision for deferred tax) amounted to INR 280.28 crores as compared to INR 176.62 crores in the previous year. The effective income tax rate for the year is 34.86% as against 35.11% in the previous year.
- Return on average net worth for the year was

14.92% as against 17.12% in the previous year.

- Ratio of net interest margin to average assets was 2.97% for the current year as against 3.10% in the previous year.
- Cost to income ratio was 22.43% as against 25.15% in the previous year.
- The earnings per share (Basic) for the current year was INR 36.72 as against INR 27.48 for the previous year.

Spread on Loans

The average yield on loan assets during the year was 10.76% per annum as compared to 11.25% per annum in the previous year. The average all-inclusive cost of borrowings was 8.55% per annum as compared to 9.07% per annum in the previous year. The spread on loans over the cost of borrowings for the year was 2.21% per annum as against 2.18% per annum in the previous year.

Provision for Standard Assets, NPAs and Contingencies

As per the prudential norms prescribed by the NHB for Standard Loan Assets, HFCs are required to carry a provision of 0.40% on individual housing loan and non housing loans, 0.75% on developer loans for residential projects and 1.00% on developer loans for commercial projects. During the year, a provision of INR 63.51 crores (Previous year INR 52.46 crores) has been made on standard assets. As on March 31, 2017 the Company is carrying a provision of INR 193.97 crores (Previous year INR 130.46 crores) on standard assets, which is 0.50% (Previous year 0.48%) of standard assets of INR 38,445 crores (Previous year INR 27,117 crores). During the year, the Company has made a provision of INR 5.09 crores (Previous year INR 1.09 crores reversal) for non-performing assets (NPA). As on March 31, 2017, the Company is carrying a provision of INR 26.78 crores (Previous year INR 21.68 crores) towards non-performing assets of INR 85.78 crores (Previous year INR 59.81 crores). As on March 31, 2017, the Company is carrying total provisions for standard assets and non-performing assets of INR 220.75 crores (Previous year INR 152.14 crores) as against gross non-performing assets of INR 85.78 crores (Previous year INR 59.81 crores). Accordingly, the provision coverage ratio is at 257.35% (Previous year 253.71%). During the year, a further provision of



INR 10.97 crores (Previous year INR 2.71 crores) has been made on for diminution in the value of stock property acquired. As on March 31, 2017 the value of acquired property against which such provision is made is INR 169.76 crores (Previous year INR 87.62 crores). During the year, a further provision of INR 14.98 crores (Previous year INR 24.50 crores) has been made for provision for contingency, which is over and above the provisions required to be maintained as per NHB Directions. As on March 31, 2017 the Company is carrying a total provision for contingencies of INR 39.48 crore (Previous year INR 24.50 crores).

Capital Adequacy Ratio

As per the regulatory norms, the minimum requirement for the capital to risk asset ratio (CRAR) is 12% and for and minimum Tier I capital, it is 6% on the risk weighted assets. Company's capital adequacy ratio as at March 31, 2017 was 21.62%. The capital adequacy on account of Tier I capital was 16.48% and the capital adequacy on account of the tier II capital was 5.14%.

TREASURY

The Board of Directors has approved Company's investment policy and has set out limits for investments. The Company has a full fledged independent treasury function which effectively manages investment function to maintain sufficient liquidity, to ensure smooth carrying out of day-to-day operations of the Company, and invest the surplus funds generated out of the borrowings and operations in various securities with an objective to optimise return on liquid funds, with reasonable risk and expenses.

As at March 31, 2017, the investment portfolio stood at INR 3,287.29 crores. Investments constitute 7.65% of total assets as on March 31, 2017. Housing finance companies (HFCs) are required to maintain a statutory liquidity ratio (SLR) in respect of public deposits raised. Currently the SLR requirement is 12.50% of public deposits. As at March 31, 2017, PNB Housing had INR 961.55 crores in SLR securities.

PNB Housing has classified its investments into current and long-term investments. The current investments have been entirely 'marked to market'. In respect of long-term investments, provisions have been made to reflect any permanent diminution in

the value of investments. The aggregate provision on account of long-term investments amounts to INR 7.73 crores as on March 31, 2017. After considering the opening balance of INR 4.75 crores in the diminution in the value of investments account and the write back of provisions on account of investments sold, an incremental provision of INR 2.98 crores has been made for diminution in value of investments in the Statement of Profit and Loss.

As on March 31, 2017, the market value of quoted investments was higher by INR 10.83 crores as compared to the value at which these investments are reflected in the balance sheet.

1. Borrowings

Borrowings as on March 31, 2017 amounted to INR 35,656.87 crores as against INR 26,158.88 crores in the previous year - an increase of 36%.

Borrowings constituted 86% of funds employed as on March 31, 2017. Of the total borrowings, debentures and securities constituted 41%, deposits 28% and Bank term loans and overdraft 7%, refinance from NHB 8%, ECB 4% and others 12%

2. Subordinated Debt

As on March 31, 2017, the Company's outstanding subordinated debt stood at INR 1,399 crores. The debt is subordinated to present and future senior indebtedness of the Company and has been assigned the rating of 'CARE AAA', IND AAA, 'CRISIL AA+' and 'ICRA AA+' by CARE, India Rating, CRISIL and ICRA respectively.

The Company has issued subordinated debt of INR 789 crores during the year. Based on the balance term to maturity, as on March 31, 2017, INR 1,399 crores of the book value of subordinated debt was considered as Tier II as per Directions issued by the National Housing Bank (NHB) for the purpose of capital adequacy computation.

3. External Commercial Borrowings

During the year, the Company raised an external commercial borrowing (ECB) of USD150 million in the form of a term loan facility. The ECB was raised under the Low Cost Affordable Housing Scheme of the Reserve Bank of India (RBI). The

proceeds have been 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 INR 30 lac, the loan amount is capped at INR 25 lac and the carpet area does not exceed 60 square meters. The ECB is for an average tenor of 5 years and the foreign exchange risk on the principal has been hedged in accordance with the guidelines prescribed by the RBI.

4. Secured non-convertible debenture (NCD)

During the year under review, the Company has raised INR 4592.00 crores (Previous year INR 4805.00 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 a specific immovable property and by hypothecation of book debts to the extent of 1.10 to 1.25 times of outstanding amount. Company's NCDs are rated 'CARE AAA', 'IND AAA', 'CRISIL AA+' and 'ICRA AA+' indicating high safety with regard to timely payment of interest and principal. The outstanding balance of secured NCDs as at March 31, 2017 was INR 13,172.00 crores (Previous year INR 8,770.00 crores).

5. Commercial Paper

The Company uses commercial paper as a source of funding its working capital needs and to bridge financing till such time as longer term securities are raised. During the year, the Company raised INR 14,295.00 crores (Previous year INR 15,825.00 crores) via issuance of commercial paper and repaid INR 14,950.00 crores (Previous year INR 12,400.00 crores). Company's short-term borrowings including commercial paper are rated 'CARE A1+'. These ratings indicate highest safety regarding timely re-payment. The outstanding balance of commercial paper as at March 31, 2017 was INR 4,370.00 crores (Previous year INR 5,025.00 crores).

6. Assignment/Sale of Loans

The Company sold loans amounting to INR 3,377 crores under the loan assignment route, during the year.

The advantage for the Company in selling loans under the loan assignment route is that there is no credit enhancement to be provided by the Company on the loans sold and the risk is passed on to the purchaser. The assignment of loan is also Return on Equity accretive to the Company as no capital or provisioning is required to be maintained on these loans. Further, despite the loans being off the balance sheet, the Company continues to receive a monthly income as servicing fee, thereby generating a stream of income in the future years on the loans sold.

As at March 31, 2017, total loans outstanding in respect of all loans sold/assigned stood at INR 2,960.47 crores. PNB Housing Finance continues to service these loans and is entitled to servicing fees on the loans sold/assigned.

7. Term loans from banks, institutions and refinance from NHB

The Company has borrowed funds with both long and short-term maturities from the banking sector at competitive rates. This year fresh loans procured from banks were nil (Previous year INR nil crores) while loans repaid amounted to INR 572.61 crores (Previous year INR 2,083.86 crores). The outstanding balance of bank term loans was INR 586.85 crores (Previous year INR 1,159.45 crores) as on March 31, 2017.

During the year, the Company has availed refinance of INR 1,000.00 crores (Previous year INR 900.00 crores) from the NHB. The outstanding refinance from the NHB as at March 31, 2017 of INR 2,748.40 crores (Previous year INR 2,078.85 crores) and is secured by hypothecation of specific loans/books debts against which refinance has been availed.

7A. Overdraft Facilities

The Company has added new OD/CC lines, with total lines now available for INR 2,150.00 crores (Previous year INR 1,500.00 crores). These OD/CC lines are at MCLR (marginal cost of funds/based lending rate) of the respective banks. These lines of credit act as backstop facility for CP issuance and also help in treasury operations of the Company.



8. Initial public offering of INR 3,000 crores

During the year, the Company has successfully completed its IPO of INR 3,000 crores. The Company got listed on the National Stock Exchange and the Bombay Stock Exchange on November 7th, 2016. It was the largest ever initial public offer by a housing finance company/NBFC in India, the second largest IPO in 2016 and largest IPO by a public sector entity in the last 5 years. The funds received from the IPO are utilized to augment the capital base and will be utilized for business growth.

9. Asset liability management

The ALM policy of the Company lays down the mechanism for assessment of various types of risks and alteration in the asset-liability portfolio to mitigate such risks. The asset liability management committee (ALCO) monitors asset-liability mismatches to ensure that there are no imbalances or excessive concentrations on either side of the Balance Sheet. ALCO also reviews the asset portfolio, lending rates, borrowing profile and cost of funds on periodic basis.

Under Schedule III of the Companies Act, 2013, the classification of assets and liabilities into current and non-current is based on their contracted maturities. However, the estimates based on past trends in respect of prepayments of loans and renewals of liabilities which are in accordance with the ALM guidelines issued by the NHB have not been taken into consideration while classifying the assets and liabilities under the Schedule III.

The ALM position of the Company is based on the maturity buckets as per the guidelines issued by the NHB. In computing the information, certain assumptions, estimates and adjustments have been made by the management.

INTERNAL AUDIT

Along with the rapid growth in business, internal audit has achieved high standards of audit excellence. The Target Operating Model has been aligned with the new ESS, a new process for internal audit was established whereby disbursement and docket audit was shifted from CPC to Branches. External Legal Firms now conduct this audit

concurrently. Findings are shared on monthly basis and the Audit report is issued quarterly.

Besides docket audit, at each of the Hubs, a separate team of internal auditors conduct audit of disbursed files and issue report quarterly. For purposes of auditing the rest of the functions such as accounts, deposits, general administration, IT, human resource, customer service, etc. the auditors visit branches twice a year. Transaction audit of the branches was completed as per the given scope and in time. Functions at CSO, treasury, finance and accounts, GAD, HR, are audited by an external auditor, Wholesale finance and Central Recovery functions are audited by in-house internal auditors on a quarterly basis.

RISK MANAGEMENT: ADDRESSING UNCERTAINTIES

While walking that extra mile to generate customer convenience is a priority for the Company, safeguarding itself from risks is equally important. A disciplined approach to risk management is important in a sector like housing finance to ensure that the Company achieves its strategic objectives and is well prepared to put up a resilient front against headwinds. PNB Housing has established a prudent risk management framework which supports sustainable and profitable growth. Consistent assessment, measurement, quantification and management of material risks enables informed business decision making and ensure tight vigilance over the changing dynamics in the business environment.

Liquidity and interest rate risk

The Company monitors the maturity profile of assets and liabilities through its assets and liabilities management committee (ALCO). ALCO is a strategic decision making body constituted by the Board, to mitigate the risks arising from cash flow mismatches. The committee comprises of the Managing Director and other senior functionaries.

Operational risk

A failure of internal processes, systems and people, as well as the impact of external forces, can be a threat to the operations. The Company uses information technology extensively in its operations. The processes and controls are reviewed periodically on predefined dates. Testing of control

measures is conducted at regular intervals for their design and operating effectiveness to ascertain the reliability and authenticity of financial information. The Company ensures that compliance with all applicable laws is in place.

CORPORATE SOCIAL RESPONSIBILITY: A CONCERNED APPROACH

Corporate Social Responsibility is an integral part at PNB Housing Finance and the Company strongly believes that its initiatives should empower the underprivileged communities in vital sectors making a meaningful impact on their lives and in their quest for a better future. The interventions undertaken by PNB Housing attempts to impact the development of the direct beneficiaries, while focusing to enhance the quality of lives of those who are present in the ecosystem of the impact area.

Keeping a key focus on people who are integral to real estate sector, the Company continued working towards the empowerment of construction workers and their immediate families during FY2016-17. Another area where meticulous efforts were made to have an impact was education of the underserved especially children.

Reaching out, reaching far through our on-site day care centres

The Company collaborated with Mobile Creches and various real estate developers to offer day care services to the children of construction workers on various construction sites providing health, nutrition, learning and care to foster their holistic development. These interventions also enable the workers, especially women, to focus on work and enhance their productivity. Currently the Company is operating 27 day care centers and has so far impacted the lives of around 2500 children across the Country.

Enhancing human potential through skill development

The scarcity of skilled workforce in the real estate sector continues to be a cause of concern to this labor intensive industry. PNB Housing has partnered with CREDAI to facilitate skill training programs for construction workers, using a mix of 'classroom' and 'on the job training'. The focus is not just on technical upgradation but also on social and behavioral aspects, mainly health and sanitation

awareness, work safety etc. To bring the skills level at par with international benchmarks, technical training is imparted in trades of electrical, masonry, bar bending, shuttering, tiling, plumbing and painting. Through this initiative, the Company has influenced more than 4500 construction workers so far.



Strengthening Literacy

The efforts of PNB Housing to promote education is not limited to the construction industry. The Company supports Vidya - Rainbow Montessori School in New Delhi to empower the children of underprivileged families, with education. More than 300 children are ensured formal education up to grade 5 with an objective of enrolling them in government and private schools for further education. With minimal drop out rate, this year's session demonstrated an academic progress of about 95% across all the classes.

Support has also been extended to Primary School Adchini in Delhi which operates under a public private partnership with Vidya and South Delhi Municipal Corporation. Both the schools have collectively provided formal education to 400 children coming from the less privileged community.

FUTURE OUTLOOK

The road to 'Housing for All by 2022' mission is marked with hurdles. PNB Housing, the fifth largest housing finance company by portfolio, shall play its part along with the Government, real estate developers, lenders and the citizens to eradicate homelessness.

PNB Housing envisions a housing finance ecosystem



that is delightful and sustainable. Home loans is more than just a process of lending and recovering loans, it is about giving a family an opportunity to live in a home of their own even before they have been able to accumulate enough savings to buy one through outright purchase. Hence as a housing finance provider, the Company shoulders responsibilities that are beyond business. Fulfilling these responsibilities shall drive the pursuits of the organization in the year ahead.

With expansion being the engine of growth for the next few fiscals, PNB Housing has planned opening of new branches and outreaches across the Country to cater to its growing customer base. Front end digital utilities shall be bettered, so that ease of doing business is further pronounced in the eco system of the Company.

The Company shall refrain from price wars and focus on the quality of products and services for cementing relationships with its customers. It shall continue to delight its customers through need of the hour solutions.

The bar shall be raised in terms of efficiency through enhancement of its Enterprise System Solution and Target Operating Model.

This shall be the first year for PNB Housing after its IPO. The Company has laid down stringent benchmarks to prevent any dent in the profitability keeping in mind the phenomenon, that high business volume growth and geographical expansion, is often coupled with increasing trend of cost to income ratio (CIR).

It is an ambitious plan, to be able to absorb all costs in the next two to three years, after executing the geographical expansion plan and putting the facilities to economic use from FY 2018-19 onwards. Thereafter, it is expected that the economies of scale will play out and opex to ATA and CIR ebb towards sector best before the next round of capital raise.

The Company shall continue its current business development strategies as they are augured well with the contemporary market scenario with a huge potential waiting to be tapped.

The efforts to exploit new frontiers in technology, unleashing hidden potential of the team members and bettering cost to income ratio shall be adjoined with deep impacting CSR initiatives.

Best practices will be followed in true earnest and

Factors that indicate growth potential of PNB Housing Finance



bettered wherever and whenever required.

Finally the robust governance, transparency, ethical practices and compliance shall guide the Company in maintaining its stature as a dependable housing finance partner which opens doors to the dreams of home aspirants.

Data Sources:

- World Economic Outlook Update by International Monetary Fund, January 2017
- Indian Mortgage Finance Market Update by ICRA
- Revitalizing Indian Real Estate: A New Era of Growth and Investment by Cushman and Wakefield
- Housing Boom Ahead by CLSA, April 2017

- Global economy walking a tight rope, Bill Gross warns published by Financial Times

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.