

Independent Auditors' Report

To the Members of PNB Housing Finance Limited

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

We have audited the consolidated financial statements of PNB Housing Finance Limited ("the Holding Company"), and its subsidiary (the Holding Company and its subsidiary together referred to as "the Group"), which comprise the consolidated balance sheet as at March 31, 2019, the consolidated statement of profit and loss (including consolidated other comprehensive income), consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies and other explanatory information (hereinafter referred to as "the consolidated financial statements").

In our opinion and to the best of our information and according to the explanations given to us, the aforesaid consolidated financial statements give the information required by the Companies Act, 2013 ("the Act") in the manner so required and give a true and fair view in conformity with the Indian Accounting Standards prescribed under section 133 of the Act read with the Companies (Indian Accounting Standards) Rules, 2015, as amended, ("Ind AS") other accounting principles generally accepted in India, of the consolidated state of affairs of the Group as at March 31, 2019, and its consolidated profit, consolidated changes in equity and its consolidated cash flows for the year ended on that date.

BASIS FOR OPINION

We conducted our audit in accordance with the Standards on Auditing (SAs) specified under section 143(10) of the Act. Our responsibilities under those Standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the code of ethics issued by the Institute of Chartered Accountants of India (ICAI) together with the ethical requirements that are relevant to our audit of the consolidated financial statements under the provisions of the Act, and the Rules thereunder, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the ICAI's code of ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on the consolidated financial statements.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. We have determined the matters described below to be the key audit matters to be communicated in our report.

Sl. No.	KEY AUDIT MATTER	OUR RESPONSE
1.	<p>Transition to Ind AS from Indian GAAP</p> <p>The consolidated financial statements of the Company for the year ended March 31, 2019 have been prepared in accordance with Ind AS. For the purposes of transition to Ind AS, the Company has followed the guidance prescribed in Ind AS 101, 'First-Time Adoption of Indian Accounting Standards', with April 01, 2017 as the transition date and IGAAP as the previous GAAP.</p> <p>The transition to Ind AS has resulted in material changes in:</p> <ul style="list-style-type: none"> • Classification and measurement of financial assets and financial liabilities • Measurement of loan losses (expected credit losses) • Accounting for loan related fees and costs • Accounting for employee stock option plan • Accounting for Derivative financial instruments 	<p>The transition to Ind AS has resulted in changes in the presentation of the financial statements, disclosures in the notes thereto and accounting policies and principles.</p> <p>Our audit procedures included:</p> <ul style="list-style-type: none"> • Evaluating the accounting interpretations for compliance with Ind AS and testing the adjustments and disclosures made on transition. • The accounting policies (Refer Note 1.2) reflected in the comparative information are consistent with those applied in the current period or, if there have been changes in accounting policies, whether those changes have been properly accounted for and adequately presented and disclosed. (Refer Note 47 for detailed note on First-Time Adoption of Ind AS) • Assessed that the areas of significant estimates and management judgment are in line with principles under Ind AS.
2.	<p>Impairment of loans</p> <p>The Company reported total gross loans of ₹74,190.47 crore and ₹437.59 crore of expected credit loss provisions as on March 31, 2019 (Refer Note 6).</p> <p>Key judgements and estimates (Refer Note 2.20) in respect of the timing and measurement of expected credit losses (ECL) include:</p> <ul style="list-style-type: none"> • Allocation of assets to stage 1, 2 or 3 using criteria in accordance with the Indian Accounting Standard 109; • Accounting interpretations and modelling assumptions used to build the models that calculate the ECL; 	<p>Our audit procedures included testing the design and operating effectiveness of key controls across the processes relevant to the ECL. These controls/ processes included the allocation of assets into stages, model governance, data accuracy and completeness, credit monitoring, multiple economic scenarios, post model adjustments, individual provisions and disclosures and accounting thereof.</p> <p>The criteria used to allocate an asset to stage 1, 2 or 3 in accordance with Ind AS 109 was evaluated. Assets in stage 1, 2 or 3 were reviewed to verify that they were allocated to the appropriate stage.</p>

- Completeness and accuracy of data used to calculate the ECL;
- Inputs and assumptions used to estimate the impact of multiple economic scenarios;
- Completeness and valuation of post model adjustments;
- Measurements of individually assessed provisions including the assessment of multiple scenarios; and
- Accuracy and adequacy of the financial statement disclosures

With the support of the team of modelling specialists employed by the Company to make the models, we tested the assumptions, inputs and formulas used in a sample of ECL models. This included assessing the appropriateness of model design and formulas used, the 'Probability of Default', 'Loss Given Default', 'Exposure at Default', historical loss rates used and the valuation of collateral.

To verify data quality, calculation of the data used in the ECL was tested by reconciling to source systems. To test credit monitoring, risk ratings were checked for a sample of performing loans.

Appropriateness of forecasted macroeconomic variables, such as GDP, Money supply and House Price Index were evaluated.

The completeness and appropriateness of post model adjustments was assessed.

The adequacy and appropriateness of disclosures for compliance with the Ind AS including disclosure of Ind AS 107 was evaluated.

INFORMATION OTHER THAN THE FINANCIAL STATEMENTS AND AUDITORS' REPORT THEREON

The Holding Company's Board of Directors is responsible for the preparation of the other information. The other information comprises the information included in the Annual Report, for example, Management Discussion and Analysis, Board's Report including Annexures to Board's Report, Business Responsibility Report, Corporate Governance and Shareholder's Information, Key Highlights etc., but does not include the consolidated financial statements, standalone financial statements and our auditors' report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained during the course of our audit or otherwise appears to be materially misstated.

The other information is expected to be made available to us after the date of this auditors' report. When we read this other information, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Holding Company's Board of Directors is responsible for the matters stated in section 134(5) of the Act with respect to the preparation of these consolidated financial statements that give a true and fair view of the consolidated financial position, consolidated financial performance, consolidated changes in equity and consolidated cash flows of the group in accordance with the Ind AS and other accounting principles generally accepted in India. The respective Board of Directors of the Companies include in a Group are responsible for maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding the assets of the Group and for preventing and detecting frauds and other irregularities; selection and application of appropriate accounting policies; making judgments and estimates that

are reasonable and prudent; and design, implementation and maintenance of adequate internal financial controls, that were operating effectively for ensuring the accuracy and completeness of the accounting records, relevant to the preparation and presentation of the consolidated financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error, which have been used for the purpose of preparation of the consolidated financial statements by the Directors of the Holding Company, as aforesaid.

In preparing the consolidated financial statements, the respective Board of Directors of the Companies included in the Group are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The respective Board of Directors of the companies included in the Group are responsible for overseeing the financial reporting process of the Group.

AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with SAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence

that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances. Under section 143(3) (i) of the Act, we are also responsible for expressing our opinion on whether the company has adequate internal financial controls system in place and the operating effectiveness of such controls.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the audit of the financial statements of such entities included in the consolidated financial statements of which we are the independent auditors. For the other entities included in the consolidated financial statements, which have been audited by other auditors, such other auditors remain responsible for the direction, supervision and performance of the audits carried out by them. We remain solely responsible for our audit opinion.

Materiality is the magnitude of misstatements in the consolidated financial statements that, individually or in aggregate, makes it probable that the economic decisions of a reasonably knowledgeable user of the consolidated financial

statements may be influenced. We consider quantitative materiality and qualitative factors in

- (i) planning the scope of our audit work and in evaluating the results of our work; and
- (ii) to evaluate the effect of any identified misstatements in the consolidated financial statements.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

1. As required by section 143(3) of the Act, based on our audit we report that:
 - (a) We have sought and obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit.
 - (b) In our opinion, proper books of account as required by law have been kept so far as it appears from our examination of those books.
 - (c) The consolidated balance sheet, the consolidated statement of profit and loss (including consolidated other comprehensive income), consolidated statement of changes in equity and the consolidated statement of cash flow dealt with by this Report are in agreement with the books of account.
 - (d) In our opinion, the aforesaid consolidated financial statements comply with the Ind AS specified under section 133 of the Act, read with Rule 7 of the Companies (Accounts) Rules, 2014.

- (e) On the basis of written representations received from the directors as on March 31, 2019 and taken on record by the Board of Directors, none of the directors is disqualified as on March 31, 2019 from being appointed as a director in terms of section 164 (2) of the Act.
- (f) With respect to the adequacy of the internal financial controls over financial reporting of the Group and the operating effectiveness of such controls, refer to our separate report in Annexure 'I'.
- (g) With respect to the other matters to be included in the Auditor's Report in accordance with the requirements of section 197(16) of the Act, as amended:

In our opinion and to the best of our information and according to the explanations given to us, the remuneration paid by the Holding Company to its directors during the year is in accordance with the provisions of section 197 of the Act.

- (h) With respect to the other matters to be included in the Auditor's Report in accordance with Rule 11 of the Companies (Audit and Auditors) Rules, 2014 (as amended), in our opinion and to the best of our

information and according to the explanations given to us:

- i. The Consolidated financial statements disclose the impact of pending litigations on its financial position in its consolidated financial statements – Refer Note 37(i) to the consolidated financial statements;
- ii. The Group did not have any long term contracts including any derivative contracts for which there were any material foreseeable losses;
- iii. The Holding Company has generally been regular in depositing the amounts required to be transferred to the Investor Education and Protection Fund.

For **B.R. Maheswari and Co. LLP**
Chartered Accountants
FR No : 001035N/N500050

Sudhir Maheshwari
Partner

Place: New Delhi
Date: May 09, 2019

Membership No. 081075

Annexure 'I' to the Independent Auditors' Report

(Referred to in Paragraph 1(f) under the heading "Report on other legal and regulatory requirements" of our report of even date)

Report on the Internal Financial Controls under clause (i) of sub section 3 of section 143 of the Companies Act, 2013 ("the Act")

We have audited the internal financial controls over financial reporting of PNB Housing Finance Limited ("the Holding Company") and its Subsidiary as of March 31, 2019 in conjunction with our audit of the consolidated financial statements of the Company for the year ended on that date.

MANAGEMENT'S RESPONSIBILITY FOR INTERNAL FINANCIAL CONTROLS

The respective Board of Directors of the Group are responsible for establishing and maintaining internal financial controls based on the internal control over financial reporting criteria established by the Company considering the essential components of internal control stated in the Guidance Note on Audit of Internal Financial Controls Over Financial Reporting issued by the Institute of Chartered Accountants of India ("ICAI"). These responsibilities include the design, implementation and maintenance of adequate internal financial controls that were operating effectively for ensuring the orderly and efficient conduct of its business, including adherence to company's policies, the safeguarding of its assets, the prevention and detection of frauds and errors, the accuracy and completeness of the accounting records, and the timely preparation of reliable financial information, as required under the Companies Act, 2013.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on the Company's internal financial controls over financial reporting based on our audit. We conducted our audit in accordance with the Guidance Note on Audit of Internal Financial Controls Over Financial Reporting (the "Guidance Note") and the Standards on Auditing, issued by ICAI and prescribed under section 143(10) of the Companies Act, 2013, to the extent applicable to an audit of internal financial controls, both applicable to an audit of Internal Financial Controls and, both issued by the Institute of Chartered Accountants of India. Those Standards and the Guidance Note require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether adequate internal financial controls over financial reporting was established and maintained and if such controls operated effectively in all material respects.

Our audit involves performing procedures to obtain audit evidence about the adequacy of the internal financial controls system over financial reporting and their operating effectiveness. Our audit of internal financial controls over financial reporting included obtaining an understanding of internal financial controls over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. The procedures selected depend on the auditor's judgement, including the assessment

of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion on the Company's internal financial controls system over financial reporting.

MEANING OF INTERNAL FINANCIAL CONTROLS OVER FINANCIAL REPORTING

A Company's internal financial control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with generally accepted accounting principles. A Company's internal financial control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of consolidated financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorisations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorised acquisition, use, or disposition of the company's assets that could have a material effect on the consolidated financial statements.

INHERENT LIMITATIONS OF INTERNAL FINANCIAL CONTROLS OVER FINANCIAL REPORTING

Because of the inherent limitations of internal financial controls over financial reporting, including the possibility

of collusion or improper management override of controls, material misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of the internal financial controls over financial reporting to future periods are subject to the risk that the internal financial control over financial reporting may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

OPINION

In our opinion, the Holding Company and its Subsidiary, have, in all material respects, an adequate internal financial controls system over financial reporting and such internal financial controls over financial reporting were operating effectively as at March 31, 2019 based on the internal control over financial reporting criteria established by the Company considering the essential components of internal control stated in the Guidance Note on Audit of Internal Financial Controls Over Financial Reporting issued by the Institute of Chartered Accountants of India.

For **B.R. Maheswari and Co. LLP**
Chartered Accountants
FR No : 001035N/N500050

Sudhir Maheshwari
Partner

Membership No. 081075

Place: New Delhi
Date: May 09, 2019