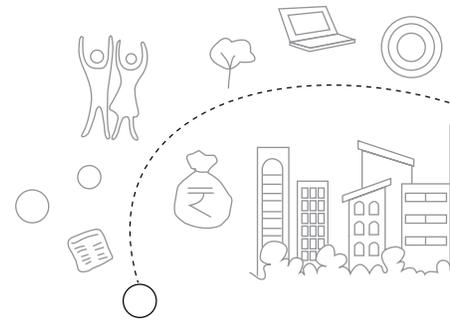




From the Chairman's Desk



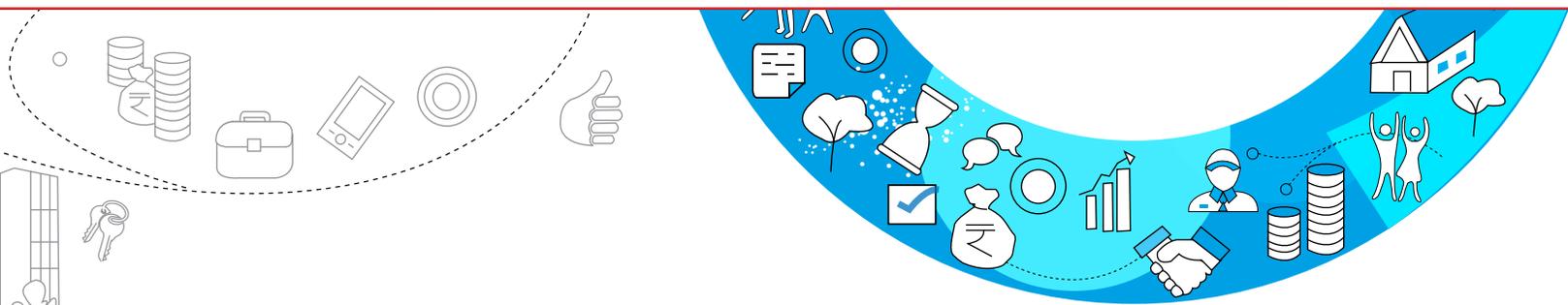
“ Our objective is to take this Company amongst the top 3 HFCs in a few years' time. The Company has drawn up an ambitious business plan for itself for the next 4 years ”

Dear Stakeholders,

I am happy to present to you the 26th Annual Report of your Company. I hope you will enjoy going through the contents.

I congratulate all the stakeholders on the momentous occasion of the Company successfully completing 25 years of its purposeful existence on November 11th, 2013. This is an opportune time to look back at PNB HFL, which is one of the fastest growing subsidiaries of Punjab National Bank (PNB).

PNB incorporated PNB HFL in 1988, like many other public sector banks and insurance companies, when the Indian Parliament notified the National Housing Bank Act. Our main objective was that the Company should efficiently deliver housing loans to the Indian public at large and



create a niche place for itself in the housing finance company (HFC) domain. As we went along, it was felt that in order to take optimum advantage of a growing market for home loans, the Company needs to be professionally driven and given operational independence. Moreover, in order to attain leadership position, the Company should have its own cadre of contemporary and sound human capital, robust operating model, market aligned products & policies and an effective delivery model.

Hence, in September 2008, PNB floated a global tender for disinvestment of its stake in the Company and brought in a private equity partner in December 2009. The disinvestment was followed by a detailed business process re-engineering (BPR) program, christened as 'Project Kshitij', which was operationalized in July 2010. It gives me immense satisfaction that the thought process behind restructuring and re-defining our strategies for the Company's future is on course to achieve all the specific objectives with which we had started this journey of BPR. The same has also been corroborated by business growth, one of the industry best asset quality and healthy profitability figures. In a short span of four years, the Company has now edged up to 5th position amongst HFCs with a loan book of over ₹ 10,000 crores and profit of over ₹ 125 crores, while maintaining excellent asset quality with just 0.32% gross NPAs and 1.10% total delinquencies.

Last year was an eventful and challenging year in terms of slow macro-economic growth, persistent high inflation and high rate of interest, particularly from July 2013 onwards. The country recorded moderate GDP growth of 4.7% for the year, which

provided limited growth opportunities. During these testing times, the Company recorded a growth of 60% in loans outstanding, 69% in deposits and 39% in profit after tax. While the industry struggled to contain NPAs, the Company continued to maintain very high quality of loan portfolio. The Company has also delivered benchmark standards of customer service and a door-step delivery model for customer ease and convenience.

Our objective is to take this Company amongst the top 3 HFCs in a few years' time. The Company has drawn up an ambitious business plan for itself for the next 4 years. Complementing the growth plans of the Company, the Board of Directors has approved infusion of ₹ 1,000 crores by way of equity capital during the coming two to three years. This will allow the management of the Company to focus on quality growth and improving profitability indicators. I am sure in the coming years the Company will not only grow in size but will also be one of the most admired HFCs in the country.

The Company has customized its lending products and is offering wide range of fixed and floating rate of interest products, which suit prospective home buyers and insulate them from macro-economic volatilities. The Company is now developing state-of-the-art enterprise system solution, which will not only support the Company's loan origination and underwriting but would also enhance customer service and customer interface. Being in the service industry, our objective is to provide best-in-class service to the existing 83,000 loan and deposit customers and simultaneously grow the customer base many times more.

The Company has professional and experienced manpower drawn from the industry, robust policies, seamless system solution, secure and convenient sales and service branches across the country, solid and trustworthy brand image of the parent PNB, gives us the confidence that PNB HFL is certainly poised to reach greater heights in the times to come.

The year ahead has many challenges and opportunities. The Company is operationally ready to meet these challenges and seize the opportunities. I am sure that FY 2015 will be another year of excellent growth and the Company will be able to once again surpass your expectations.

In the end, I take this opportunity to thank our shareholders, my colleagues on the Board who have been valuable guide in steering PNB HFL to new heights and the customers who have patronized the brand PNB HFL to make it the fastest growing HFC in the country. A word of appreciation for the members of the staff of PNB HFL who have wholeheartedly participated in this journey of Business Process Re-engineering – without their selfless, dedicated and smart working we would not have attained these heights of excellence. I also thank our regulator, the National Housing Bank, for their continuous and timely guidance.

Yours sincerely,



K R Kamath



From the Managing Director's Desk



“ We stride forward with tangible and high level of operational readiness, which is steered by passionate and committed people and is rooted in a new set of system solutions and best industry practices ”

Dear Stakeholders,

Your Company, PNB HFL, after two and a half decades of its existence, is now at a significant point of inflection. And that is why the theme of this year's Annual Report is 'Transformation'.

As we move into the next phase of our business transformation journey, we do so as a more vibrant, dynamic, people-first, customer-centric and forward-looking organization which is entrenched in strong and deep-rooted values. We stride forward with tangible and high level of operational readiness, which is steered by passionate and committed people and is rooted in a new set of system solutions and best industry practices.

As we prepare to take the next big leap towards becoming a larger and more significant player in the housing finance sector, we are cognizant of the need to align our operations to the constantly evolving desires of our customers.



Expanding our portfolio with personalized and unique solutions, we are consistently driving our efforts to provide best-in-class products and service experience to our customers. It is our focused commitment to ensure customer delight across all our product lines, through customized solutions and door-step service.

FY 2014 saw us take many steps forward in fructifying our customer-focused agenda. When we look back at the year gone by, with a sense of satisfaction, it was a period of successful culmination of our plans –without a doubt it has been a year of exciting developments that have transformed your Company into a more contemporary, dynamic and energetic entity.

What makes this journey even more gratifying is the way we grew in contrast to the prevailing macro business environment, which was not favorable to the growth of the sector.

SOFTENING ECONOMY, HARDENING RATE OF INTEREST

Amid a continuing slowdown of the economy, India recorded the decade's lowest annual GDP growth rate of 4.7% during the fiscal gone by. From mid July, the industry faced a steep rise in rates of interest, resulting in some large lenders increasing rate of interest on home loans by 20-35 bps. This mainly impacted the existing customers, most of the lenders offered discounts in the range of 15-25 bps for new customers through special schemes. Hence, rates of interest for new customers were back to the pre-July 2013 levels.

National Housing Bank (NHB) relaxed some measures in the second half of FY 2014 - reduction in risk weights for home loans in the ₹ 0.30 crore to ₹ 0.75 crore category. This resulted in easing of pressure on capital adequacy, thereby enabling better portfolio growth for housing finance companies (HFCs).

GROWTH ACTUATORS WERE IN PLACE FOR FY 2014

Despite slowing down of the economy, HFCs displayed healthy growth momentum in the home loan segment. The overall growth in housing credit was 20% in FY 2014, which is higher than the growth rate for FY 2013. Real estate prices, however, remained subdued, with only a few cities reporting a marginal increase.

FUELED BY AMBITION, DRIVEN TO TRANSFORM

Let me share with you the panoramic insight to our business process re-engineering program (BPR), launched under the banner 'Project Kshitij', and how the initiatives have been successfully executed to bring about dramatic changes to the brand image.

This exercise was planned to span over four years starting from FY 2011 – the year was absorbed in discovering our own selves and determining our value proposition and where 'we want to be' in medium and long term time frame. Primarily we designed our own destiny.

The second year (FY 2012) was spent at strengthening our business and financial risk profiles by creating a robust, growth-oriented business model.

It included revamping of business processes, organizational restructuring, revisiting policies, creating and implementing a strong and scalable target operating model (TOM) and formulation of a detailed five year business plan to steer us through the journey of transformation.

From FY 2013 we started testing our new machinery, which included people, processes, systems, new branch lay-outs, new ways of sourcing business, centralized underwriting, handling recalcitrant customers, augmenting our networks, system solutions, human capital saw a sea change as contemporary practices were implemented – this was a very energy absorbing phase, we had to be continuously alert and tenacious; as we were changing all four wheels of a fast moving car!

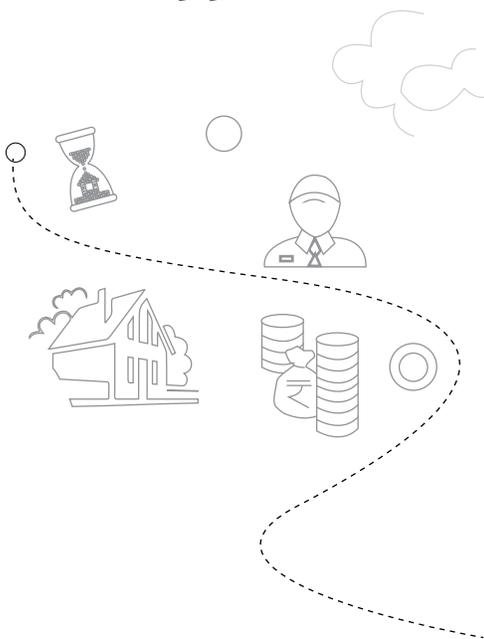
FY 2014 (year under review) was the first year when we could test, over-load and trust, wing to wing, all elements of change which were brought in under Kshitij.

I am happy to report that most of the initiatives are in the final stages of implementation and their results are already evident. The BPR exercise has transformed the face of PNB HFL and has resulted in significant improvements in our competitive position and scale of operations.

With the agenda of using technology extensively, we have remarkably improved our internal and external delivery model, human resource (HR) and customer relationship management (CRM), thereby enabling us to emerge as a customer-centric organization, across products and services.



“ The results of our efforts are palpable and evident in our performance. Notwithstanding uncertainties in the rate of interest regime and a slowing economy, your Company has more than doubled its loan asset size to ₹10,591 crores over the past two years ”



What is emerging as a result of these initiatives is an entity that is technology savvy, customer-friendly, competitive in borrowing and lending, as well as proactive in communicating its value proposition while maintaining its relevance to its target market segments. Our ambition is to strive for excellence and not merely growth in numbers. We aspire for nothing less than being the best-in-class HFC in the country.

A first for the Company, PNB HFL has gone live on radio, newspaper, television and Internet to generate better brand recall, gain consumer mind share and communicate our new and improved value add to the brand and services. This is a step which, I believe, shall go a long way in strengthening your Company's brand power and reputation.

Only after the final quality checks were satisfactory, your Company dared to go all out in the market to seize opportunities to grow faster than its peers - which was from FY 2013.

To share with you the key factors which brought about this change in culture and way of life within PNB HFL – the elements are:

PEOPLE LEADING THE CHANGE

This transformation would not have been possible but for the dedicated involvement of our people, who have moved in harmony with our journey of positive change. They have been active participants in this process; firstly, by changing their own beliefs and philosophy, aligning these with the Company's ethos, and secondly, by becoming agents of change to percolate the upgraded agenda across the organization, including the new family members.

FOCUS ON INTERNAL OPERATIONAL READINESS

The weak external environment did not distract us, we focused our energies on getting various aspects of our organizational transformation in place. While the human capital continued to play a vital role in taking our agenda forward, we also successfully enhanced our operational readiness through revamped business strategy, processes, infrastructure and systems.

SUSTAINED INCREASE IN ASSET SIZE

The results of our efforts are palpable and evident in our performance. Notwithstanding uncertainties in the rate of interest regime and a slowing economy, your Company has more than doubled its loan asset size to ₹10,591 crores over the past two years. Adhering to the strategy to strengthen our competitive position, I am confident that your Company will continue to maintain above average industry growth rate for quite a few years to come.

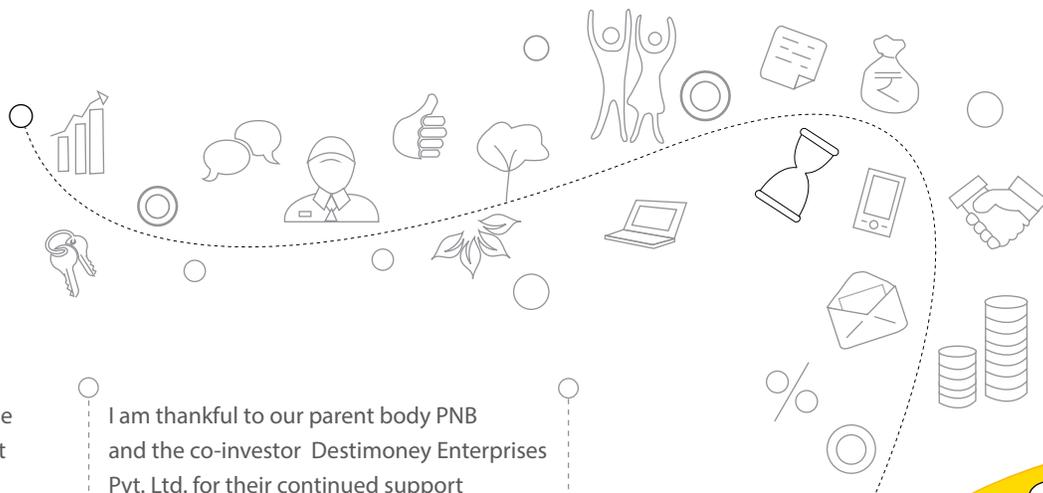
CHANGING PROFILE OF CUSTOMERS

As we move towards evolving into a more resurgent and dynamic entity, we are geared to leverage the immense potential of future growth. This growth comes with a renewed focus on customer centricity.

Customers have always been at the core of our growth philosophy and our business model is built around customer needs and desires. We have re-defined our target customer segment with focus on young, ambitious and upwardly mobile customers in existing and emerging urban centers.

CORPORATE WITH A HEART

We strongly believe in fostering meaningful relations with all those who fall within



our periphery of activity, especially the underprivileged, so that development becomes a universal phenomenon.

As a responsible corporate citizen, we see a role for ourselves in promoting development of the society in a holistic manner and act towards this end. We have collaborated with NGOs that promote child-care, general wellness and health care for the underprivileged.

SETTING THE AGENDA FOR THE FUTURE

As we move forward, I see a huge potential for growth in the relatively under penetrated housing finance sector in India. Your Company is well poised to leverage the opportunities that are before us. This transformation augurs well for our future and going forward it paves the way for a more ambitious growth agenda.

Transparency, integrity and care are key drivers of our growth strategy. We are committed to becoming a truly customer-oriented organization rooted in the ethos of our 'Ghar Ki Baat' positioning.

In the following pages a detailed commentary on this heart transplant has been compiled, to show case to you how much micro planning and execution prowess has been utilized to make this journey a successful model; may be worth replicating.

I thank the Board of Directors for their continued support and guidance, who have inspired us to build new roads.

I am thankful to our parent body PNB and the co-investor Destimoney Enterprises Pvt. Ltd. for their continued support and guidance.

The PNB brand makes our journey smooth; it inspires us to whole-heartedly contribute to the national wealth and be a good corporate citizen.

I thank our regulator National Housing Bank, our customers, our lenders, our rating agencies, our lawyers and several business partners whose continued trust in the Company keeps us going and achieving new milestones. They are our reason of existence – I thank them all to have associated with us and am sure we will cement our relationships in the years to come.

Finally, I take this opportunity to thank our management team and express my gratitude to all our employees, without whose relentless support we could not have steered this journey to new milestones within a limited time frame. I also welcome aboard the new team members who have recently joined PNB HFL to carry forward our agenda.

Thanking you,

Yours sincerely,

Sanjaya Gupta

