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Message from the

CHAIRMAN'S DESK

Dear Stakeholders,

As I present the 27th Annual Report of PNB HFL, I am reminded of a quote by Peter F. Drucker - the founder of modern management - "The best way to predict the future is to create it". I am confident that PNB HFL is on the precise trajectory to actualise this thought.

The new government has created an aura of optimism and growth. With respect to housing finance and real estate, steps have been taken by the government towards relaxation of tax benefits, cheaper credit to urban poor and furtherance of the real estate bill. All these steps have the potential to help the housing finance sector. The real effectiveness of these steps and overall impact on the housing finance sector will be seen over the next few years. The business environment would surely remain dynamic and PNB HFL is geared well to respond to the emerging scenarios.

In the last five years, PNB HFL has rigorously implemented the planned initiatives advocated by its business process re-engineering (BPR) program. During this period, the Company has cruised through uncharted territories,

laying down strong and deeper foundations to actualise its dream of becoming the most admired housing finance Company in the Country. PNB HFL has significantly grown in its relevance to the opportunity in the housing finance sector today. Going by its performance in the recent years, I have no doubt in my mind that the Company will achieve its goals, sooner than later.

It is gratifying to note that the Company has exhibited an appreciable performance across all aspects of business. The assets under management (AUM) have grown nearly 7 times and deposits have increased over 16 times since March 2010. The loan approvals have increased 18 times and fresh loan disbursements have grown nearly 12 times since March 2010. The Company has maintained high quality of loan assets with gross NPAs at 0.20% and net NPAs at 0.07%. The Company has increased its profitability nearly 3 times over March 2010. I am happy to share with you that PNB HFL ranks as the largest subsidiary of the parent PNB within the group.

A large part of the credit for this performance goes to the team of PNB HFL employees who have put in their sincere efforts to achieve the goals of the Company. I express my hearty congratulations to each and every member of the senior management for having led the team from the front to reach these milestones.

PNB HFL has moved ahead to scale up the technology platform which empowers it with the much needed flexibility to adapt to various emerging scenarios in this dynamic industry. The endeavour is two pronged to make the service experience of PNB HFL customers as also the working experience of PNB HFL employees, contemporary and seamless. I am sure the Company will establish new standards in every aspect in the industry and others will emulate PNB HFL.

During the year there was a change of partnership as the Carlyle group acquired

ownership of Destimoney Enterprises Limited, Mauritius, which is parent company of Destimoney Enterprises Private Limited, India. I welcome Carlyle group's association with the Company and I am sure their global experience will be helpful in the Company's growth and stability.

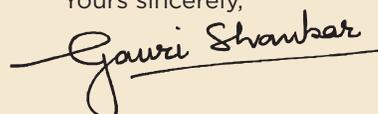
During the year, Mr. K. R. Kamath resigned as the Chairman on completion of his tenure as the CMD of PNB. For five years, he guided the Company to its present position. Erstwhile members of the Board, Mr. Anand Dorairaj and Mr. Vivek Vig, nominees of Destimoney Enterprises Private Limited have been replaced by Mr. Sunil Kaul and Mr. Devinjit Singh, representing the Carlyle group. Mr. S. S. Bhatia, General Manager, PNB resigned from the Board on attaining superannuation.

I take this opportunity to place on record my sincere thanks and appreciation for the contribution made by the outgoing Directors. At the same time, I welcome the new members to the Board to be a part of this wonderful journey that PNB HFL has set itself on.

I also wish to thank our Regulator - National Housing Bank, for being a continuous source of support and guidance to us, throughout the year.

The future looks full of promises. I have immense trust in PNB HFL team and, therefore, am confident that the coming years would see the Company cruising through its growth path, in a stable and steady manner, delivering to the expectations of all stakeholders and upholding the core values of 'People First', 'Customer-Centricity' and 'Ethical Standards.'

Yours sincerely,



Gauri Shankar



Message from the

MANAGING DIRECTOR'S DESK

Dear Stakeholders,

Five years ago, we embarked on a journey to transform your Company into a new age, vibrant and forward looking enterprise focused around customer requirements, empowered with robust and efficient processes based on an agile system solution and manned by skilled and motivated human capital – I am happy to report that with the close of the FY 2014-15 the objective has largely been attained.

These years have been full of challenges which have been overcome with a fair amount of satisfaction – with innocent humility, we coasted through the right path rather than taking short cuts – the approach is now bearing fruits.

Our journey has been guided by the objective of becoming 'a solid solution provider' to the needs of the housing finance sector. Inspired by this focus, we strive to deepen our understanding of the customers' requirements, grip over our processes and controls and our engagement with the employees.



Your Company is now the fifth largest housing finance company (HFC) by loan assets and the second largest HFC by retail deposits in the Country.

Backed by the parentage of Punjab National Bank, a top league bank in India, our concerted efforts, have effectuated a noteworthy performance which stands deep rooted on our fundamental values. PNB HFL, today, is a name to reckon with in the Indian housing finance sector.

Your Company is now the fifth largest housing finance company (HFC) by loan assets and the second largest HFC by retail deposits in the Country. This achievement is remarkable, considering the fact that only few years ago, PNB HFL was positioned in the 'others' category!

The year gone by had its own bag of opportunities and challenges. Starting on a positive note, it gave rise to a stable Central Government in the 2014 general elections. The investment climate in India drew the attention of domestic as well as foreign investors. The year witnessed reduction in fuel and other commodity prices which helped the Country rein its trade and current account deficit. The consumer price index also dropped significantly during the year. However, the benchmark interest rates remained at a static-high of 8% for the first three quarters of FY 2014-15.

In spite of several positives for the Country, the overall economic environment remained dreary, affecting the performance of business houses, big and small alike. The trickle-down effect had a deleterious impact on the demand for real estate and in turn home loans.

Two years ago, the National Housing Bank, initiated the pre-payment regulations to protect customer interest. The abolition of pre-payment charges on all 'floating rate' loan products for individual customers has led to high incidence of balance transfer loans. The same loan assets keep rotating in the industry and lenders keep incurring more costs doing the same loans again and again - due to this phenomenon, an adverse impact is visible on top and bottom lines of HFCs.

This regulatory change, has not only

perpetuated the menace of 'take over' loans but has also inflicted a possibility of the asset class getting deteriorated. The 'Top-Up' loans may change the behaviour pattern of a typical Indian home loan customer to be more consumptive and spendthrift. There is also a risk of collateral documents getting misplaced between lenders - this may further complicate the nuances of the industry.

In another intervention during the year, the regulator made it compulsory for HFCs to provide for deferred tax liability (DTL). This has reduced the profitability for the year and also the available Tier-I capital, since DTL has to be provided on the total amount transferred to special reserves including those in the previous years. There is a breather that the DTL on amount transferred to special reserves in the past will be spread over a period of three years. This has further compressed the return on equity as the effective tax rates for HFCs have suddenly gone up from approximately 27% to 33%.

Due to collective impact of the economic and regulatory environment, the overall excitement in the home loan industry remained muted. Though the industry grew by approximately 18% during the year, I am convinced to say that the upside potential is significantly higher.

At the current growth rate, it is estimated that HFCs over the next five years will require Tier I capital to the tune of ₹25 to ₹30 thousand crores at an average internal accrual rate of 17%-18% p.a. However if the regulatory guidelines keep muting this rate of return, will Indian HFCs be able to attract the capital infusion in the near future? It is a moot question to be pondered upon.

On the contrary, given the potential demand for housing in our Country (with GDP penetration of mortgages of just over 9%), if the housing finance ecosystem (consisting of the regulators, HFCs, real estate developers and customers) is established in a collaborative manner, the time is not far when one would see much higher level of



growth in the sector. Housing for all, may indeed become a dream come true in the mid-term future.

WHAT WE DID IN FY 2014-15?

Geographically, we deepened our presence at existing locations, instead of spreading branches in new markets. This strategy, facilitated consolidation of PNB HFL brand in existing cities through enhanced productivity. With the same fixed costs, the Company was able to generate more business and revenue from these cities.

Sustained and cost-effective marketing initiatives, have improved brand visibility, widened reach and increased business volumes for the Company. PNB HFL has aligned its product extensions with the industry enabling us to support the level of growth and to cater to the needs of a larger target audience.

On the service front, PNB HFL's motto of Customer-Centricity was driven with single mindedness, i.e. a customer in true sense, should feel, it is 'Ghar Ki Baat' to avail services from PNB HFL. Customer service standards remain the corner stone of our rapid growth – we never compromise on customer delivery standards. The collective efforts by our team members fetch the necessary results leading to sterling quality growth of the portfolio and a large base of satisfied customers.

You would be pleased to know that your Company's AUM, has grown by seven times in the last five years, crossing over ₹17,000 crores as on 31st March, 2015. Loan approvals witnessed a growth of 71% in FY 2014-15 reaching ₹15,076 crores. Loan disbursements at ₹9,440 crores have shown an impressive growth of 72%. PNB HFL added close to 19,000 new loans in FY 2014-15, which is almost double to that of the previous year. All this could not have been achieved, but for the committed involvement of team PNB HFL across all levels. It gives us great satisfaction to see that all the hard work is bearing fruits.

I wish to make a special mention about our

deposits program, which is a true manifestation of trust that the public has on your Company. Sincere emphasis on customer service, training of employees and various awareness campaigns amongst aggregators and end customers resulted in more than 20,000 new deposit customers during the year. Deposits contribute to 28% of the loan assets, which indicates that the Company is self-generating a significant portion of its raw material required for lending operations. From business point of view, we have been successful in backward integration and in de-risking our dependence on external sources.

On the risk management front, one of the key initiatives was to fully operationalise the target operating model (TOM), which we refer to as the 'Hub and Spoke' model. The Company has fully implemented its desired TOM with necessary functional rigor and strength across India. There are sixteen hubs which are fully functional and are fountain heads of subject matter experts (SME), catering to the business aggregated through thirty eight branches or spokes. These hubs are scalable installations; capacity in each hub can be enhanced to service up to 5 to 6 branches. With a nimble TOM, the road ahead is paved well for growth and its sustainability.

Another key area of focus has been management of collections. Diligent portfolio monitoring for any unusual triggers has helped your Company in timely identification of warning indicators. Use of SARFAESI Act, 2002 in certain cases, has helped the Company to significantly reduce its non-performing asset (NPA) percentages and inventory levels. You will be proud to know that your Company has the lowest gross NPAs in the housing finance industry.

In FY 2014-15, the Company has further improved the brick & mortar infrastructure. All the workplaces have been given a contemporary look and feel, making it comfortable for employees, customers and business partners. The construct and design accounts well for safe custody of documents & data storage and swift data

transfer network with two levels of fail over support. This has enhanced operational efficiency, employee motivation and has garnered commendable appreciation from our customers.

The game changer of FY 2014-15 was implementation of the new enterprise system solution, which we refer to as 'Project Sapphire' - this marks the last leg of our transformation journey. With 'Project Sapphire' going live, the Company is operationally ready to take larger strides. The system solution is an enabler for growth and delivers higher level of customer service in a robust and user friendly manner.

The process implementation and business initiative (PIBI) unit of PNB HFL comprising of fifty five highly skilled and motivated employees chosen from all user groups, led the project from the front - they conceptualized and successfully implemented, with controlled disruption of business as usual (BAU), 'Project Sapphire'.

PIBI members committed themselves to designing a system that optimises the rigor of processes and enhances output of all the functions in a simple manner. The new system offers an enterprise system solution that automates the functioning of PNB HFL across all verticals encompassing lead management, loan origination, loan management, loan collections, deposits, general accounting, MIS, balance sheet generation, collateral management and customer relationship management. The system has a built-in capability to support functioning in a paper-free environment and enable credit decisions online on a real-time basis.

The work culture environment has seen a sea change within PNB HFL - the Company today runs on a contemporary single platform which cuts across, wing to wing on real time on line basis. This increases accuracy and currency of data and improves efficiency in back-end processes thereby enabling us to concentrate far more on our customer requirements and augmenting our service delivery standards.

Besides adding delivery agility, the new system solution also enhances our ability to audit any activity on a concurrent basis.

I am certain that the enterprise system solution will herald a new era of delightful customer experience and ease of doing business for our business associates. Phase II of the project is expected to be delivered by December 2015 and that would mark the completion of the project.

The operations unit of PNB HFL is a three level structure consisting of central processing centre (CPC), central operations (COPS) and branch operations. COPS and CPC provide the required back-end support, rendering branches the capacity to ensure a top of the order customer experience. This model has now stabilized and is scalable to manage increase in number of branches and volume of business. COPS and CPC form the backbone of our TOM.

During the year, the Company adopted a dynamic approach towards financial resource mobilization. For the first time, the Company raised external commercial borrowing (ECB) of USD 100 million through IFC Washington (DC) and ANZ Bank. Another first; the Company raised ₹500 crores by securitization of home loan portfolio.

The Company garnered funds through issuance of commercial paper to match the liquidity requirements and to moderate the blended cost of borrowings. Retail deposits helped in de-risking the Company from heavy reliance and exposure to bank lines of credit. The Company reduced reliance on high cost term loans from banks. The multi-pronged strategy in treasury helped in efficient management of cost of funds (CoF).

With respect to human resource management, our strategic focus has been to enable the Company optimize its business performance through effective people and organization management. Over the last five years, we have worked assiduously towards building superior



human capital. Being a quality and growth oriented employer, we are able to attract the best talent in the industry. PNB HFL gives equal importance to retain good talent through effective talent development framework and establish an enabling culture. The human resource unit ensures employee motivation through a balanced compensation program, focus on retention and development of talent, and a contemporary 'Rewards & Recognition' framework. A culture of learning while working is well-established in the Company.

The relentless practice of the core value - 'People First' has earned PNB HFL the Indian Management Association award for Excellent Talent Management Practices. There is no gain saying the fact that our people are our greatest assets.

Your Company continues to be an employment generator in a slow macro economy - in our own modest manner we are helping the nation grow.

LOOKING AHEAD

Over the next two years, PNB HFL will harbour an agenda where the focus areas would be managing growth, customer retention and stabilising new technology. This will act as an enabler to achieve more exacting standards of routine business, enhancing customer experience, reaching out to a larger audience and monitoring growth with accuracy and ease. We are confident that these initiatives will poise us in a stronger position to exploit economies of scale and improve profitability.

Sustaining the momentum of growth, without compromising on quality will continue to be the DNA of your Company. PNB HFL's methods to retain customers would be built around service differentiators, enabled through extensive use of full blown enterprise system solution which will be fully equipped by latter part of calendar year 2015.

We have several learnings from the past and

team PNB HFL is committed to internalize those learnings in its journey towards all round excellence.

PNB HFL has today grown to be a mature and a stable organisation. We have a much better perspective of our existence, vis-à-vis the ecosystem we operate in. A better society, a prosperous nation, gives us a stronger purpose. We are intensifying our CSR activities and have planned to undertake various steps, not only as a mandatory corporate social responsibility (CSR) but also as an earnest effort to give back to the society. We will be industrious in exploring ways through which we could add to the national wealth and well-being of the citizens of the Country.

I would like to take this opportunity to mention that given its strong fundamentals and the growth trajectory, PNB HFL is well poised to look at an Initial Public Offer in the foreseeable future.

CHANGE IS CONSTANT

Internally, we witnessed a few changes in the Board of Directors. Our erstwhile Chairman, Mr. K. R. Kamath, under whose patronage the entire business process re-engineering was successfully expedited, demitted his office as the Chairman and Managing Director of Punjab National Bank - hence his tenure as our Chairman of the Board of Directors came to an end. On behalf of the entire PNB HFL family I convey my heartfelt gratitude to him for his support and high quality of professional guidance. We sincerely wish him a very healthy and happy superannuation period.

The void left behind by Mr. Kamath was swiftly filled by an equally eloquent and sharp professional Mr. Gauri Shankar, who is also the CEO and Managing Director of Punjab National Bank.

Destimoney Enterprises Private Limited (DEPL), which is the private partner in the public private partnership (PPP) saw a change of its ownership - Quality Investment Holding (QIH) which in turn is owned by the Carlyle group bought over

DEPL. Hence Mr. Anand Dorairaj and Mr. Vivek Vig were replaced by Mr. Sunil Kaul and Mr. Devijit Singh on the Board of the Company. Mr. G.N. Bajpai, who was the Chairman of the Marketing Committee of the Board of PNB HFL also resigned during the year. We sincerely thank our past Directors for their unrelenting guidance and support to our change management initiative.

We wish our new Chairman and Directors a very satisfying experience on the Board of this new age HFC and look forward to their profound guidance and support for our forward growth journey.

I wish to express my sincere thanks to our customers, for believing in and trusting PNB HFL to be their preferred solution provider for home finance and retail deposit products.

I also wish to thank our regulator, the National Housing Bank (NHB), our lenders, our rating agencies, our lawyers and our business partners whose continuous trust makes us who we are today.

The Board of Directors has continued its relentless guidance and support to the development of the Company. The Independent Directors have played a pivotal role in bringing about very high standards

of corporate governance, especially with the enactment of the Companies Act of 2013. We sincerely thank them for their continued guidance and support.

We thank our CAG, statutory and internal auditors who have kept a very keen vigil on all aspects of our operations while maintaining a pragmatic view on business growth.

Team PNB HFL has emerged as a true winner in testing times, both external and internal, their tenacity, self-belief, self-motivation, collaborative team spirit and swift manoeuvres have insulated the Company from external hardships. Their undaunting efforts augur a sincere vote of thanks from the entire stakeholders' community - on your behalf I take the opportunity to thank them for their stupendous work.

We have compiled an interesting annual report which covers most of the business aspects of the FY 2014-15. I hope you will enjoy reading the extracts.

Yours Sincerely,



Sanjaya Gupta
Managing Director