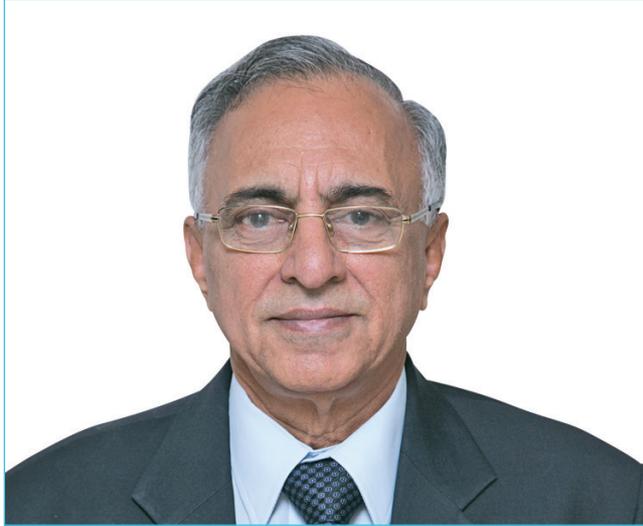


CHAIRMAN'S MESSAGE

31st Annual General Meeting



Dear Shareholders,

It is my pleasure to welcome you to the 31st Annual General Meeting. The journey of three decades of your Company has been characterized by growth, expansion and several achievements. Over the years, your company has strived to live upto its ideals of providing easy access to home finance to the common men and women in tune with its vision of promoting home ownership and increasing the housing stock in the country. The values and services provided in the last thirty years have enabled your Company to become one of the reputed housing finance institutions. We are now on the brink of a new era teeming with new possibilities and our onward march continues with the same verve and determination.

ECONOMIC SCENARIO

India remains one of the fastest growing economies of the world with a stable GDP and favourable economic outlook and has just become the sixth biggest economy in the world. The year gone by was driven by various economic reforms like the implementation of the Goods and Service Tax, announcement of bank recapitalisation, giving the infrastructure status to affordable housing. India's GDP is anticipated to increase to 7.5% in FY 2018-19 from 6.6% in FY 2017-18. Government's initiative of 'Housing for all by 2022' and the consequent incentives to the sector, i.e., extended coverage of MIG under Pradhan Mantri Awas Yojana (PMAY) Credit Linked Subsidy Scheme, increase in carpet area norm for eligibility under CLSS and the classification of Smart Cities are likely to give a good fillip to infrastructure and housing sector growth.

INDIAN HOUSING FINANCE INDUSTRY

In a developing country like India, with a rapidly burgeoning population, the demand for housing is always on the higher side. With the real estate sector accounting for 47% of the total loans granted by NBFCs, Housing Finance Sector has always been an important part of the NBFC sector. But the moot point is that the penetration level of housing finance in India is still low when compared to the global standards. Despite lower ticket size, affordable housing constitutes about 47.41% of the total HFC credit requirement and the demand for affordable homes is expected to be 25 million homes by 2022.

There has been a continuous rise in per capita income, as the country is moving towards growth along with a rise in working population. The increase in the per capita income is an indicator that there will be an increase in demand for houses in urban areas, thus giving a boost to the HFC sector.

HFCs have a major role in providing and promoting housing finance. The introduction of Real Estate Regulation Act in different states has impacted the real estate development initially. However, this along with GST were significant disruptions for bringing about transparency, confidence and credibility in real estate sector as a whole and real estate funding in particular. With improved quality and timely completion of projects, it will have a huge positive impact in the days to come.

REVIEW OF OUR OPERATIONS

In terms of operations, despite the lull in real estate market in some parts of the country and stiff competition from banks and HFCs, the year was marked with delivery of another consistent financial performance by your Company.

I am happy that during the last two years of successive reforms in the sector, loan book of your company grew by ₹5100 cr to surpass the milestone of ₹15000 cr. This is as against the growth of ₹8400 cr during the previous five-year period. The other two milestones reached by your company were surpassing the Net Interest Income (NII) of ₹500 crore and Profit after Tax (PAT) of ₹300 crore.

Total income of your company grew by 14% to ₹1547 cr (₹1353 cr in FY17) while expenses increased by 11% to ₹1066 cr (₹965 cr in FY17). Backed by strong earnings growth Net Interest Income (NII) rose by 21% to ₹510 crore (₹422 crore in FY17). Operating Profit and PBT improved by 24% each to ₹480 crore (₹388 crore in FY17) and ₹458 crore (₹370 crore in FY17) respectively. Profit After Tax (PAT) rose by 28% to ₹301.77 crore (₹235.28 crore in FY17).

With a prudent borrowing mix and healthy asset portfolio, we could maintain our NIM above the 3.50% consistently (3.53% for FY18). Cost Income Ratio improved further to 15.21% (17.20% for FY17).

ROAA improved from 1.97% in FY17 to 2.09% during the year under review while RoE improved further from 24.08% to 24.91%. For the first time your company's ROAA improved past the 2% mark while almost touching the 25% mark of RoE; both the ratios compare well with the best in the industry.

The above indicates a healthy growth in topline as well as bottom-line parameters and a consistent improvement in the financial ratios of the Company. Asset quality wise, your company continued to be the best amongst peers with a Gross NPA ratio of 0.43% and Net NPA Ratio of 0.20%.

To achieve our twin objectives of increasing housing stock and promoting home ownership throughout the country, we continued our expansion foray in new geographies across the country. During the year, we opened 9 new branches and 4 Satellite Offices, totalling 170 units which includes 133 branches, 20 Affordable Housing Loan Centres (AHCLs) and 17 Satellite Offices.

ROAD AHEAD

In the coming year, we would endeavour to increase our loan book and increase our market presence by setting up more branches and AHCLs thereby expanding our total network of branches to about 190 by the end of next year. We continue to broaden our service offerings through our five new products: Aam Awas, New Gruhalakshmi Rural Housing Scheme, New Urban Housing Scheme, CFHL Nishchint and CFHL-Top up loan introduced during FY 17-18, to provide more affordable schemes and to give a boost to the aspirations of the common man.

Our customer profile continues to be dominated by the salaried and professional category, accounting for 73% of the

total portfolio, with 90.70% of the fresh loan approvals given to housing sector. With 19.08% CRAR (Tier-I Ratio of 16.96%) as against statutory minimum of 12%, the company is well capitalized and internal accruals have been strong enough to sustain and support current growth rates. With a view to improve the leverage ratio from current 10.34% to single digit and to support an accelerated growth planned during FY19-FY22 (Housing for All), your company has in place a board approved capital raising plan so as to keep the company prepared ahead of time. Your Company has drawn a road map of reaching a loan book of Rs 40000 cr by FY 2022.

ACKNOWLEDGEMENTS

It has been my privilege to hold the Chairman's post of your Company for 4 consecutive, eventful years. As I demit office with fond memories of my tenure and the four annual general meetings in your midst, I would like to thank all the members for your best wishes and continued patronage.

I thank the Members of the Board, National Housing Bank, Canara Bank and our Auditors, M/s Varma & Varma for their consistent support and guidance.

I would like to express gratitude to all our stakeholders for believing in the company and its growth prospects. I would also like to gratefully acknowledge the commitment and contribution of the employees and look forward to another year of achievement and success.

With warm regards

Yours Sincerely,

K.N. Prithviraj
Chairman

Place: Bengaluru

Date: July 18, 2018