

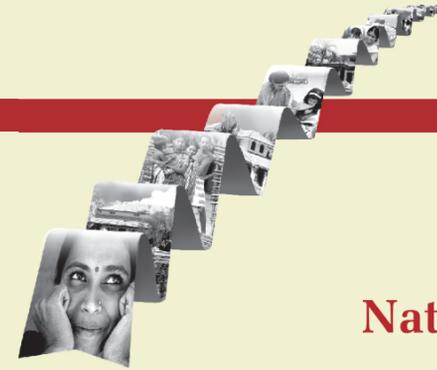
**ANNUAL REPORT
OF NHB
2003-04**



Our Vision

NHB ensures a sound and healthy housing finance system in India through effective regulation and supervision of housing finance institutions. NHB as a financial institution is also known for its commitment, innovation and quality of service, offering a broad spectrum of financial products to address the needs of the housing sector with motivated employees working in a congenial and participative work environment.

When people think of financial services related to housing, they think of NHB.



Management of National Housing Bank

Board of Directors
as on October 14, 2004 under different sections of the National Housing Bank Act, 1987

Chairman & Managing Director

Shri V. Sridar
till 15th Dec. 2004

Section 6(1) (a)

Shri P. K. Gupta
w.e.f. 16 Dec. 2004

Directors

Section 6(1) (b)

Shri Ashok Kumar
IAS (Retired)

Section 6(1) (c)

Shri S.B. Mathur
Chairman,
LIC Housing Finance Ltd.

Dr. P.S. Rana
Chairman & Managing Director,
Housing & Urban Dev. Corp. Ltd.

Section 6(1) (d)

Shri V. Leeladhar
Deputy Governor,
Reserve Bank of India

Shri K. Madhava Rao
Director - Central Board of Directors,
Reserve Bank of India

Section 6(1) (e)

Smt. Chitra Chopra
Secretary to the Government of India,
Ministry of Urban Empl. & Poverty
Alleviation

Shri Amitabh Verma
Joint Secretary to the Govt. of India,
Ministry of Finance

Shri Wilfred Lakra
Joint Secretary to the Govt. of India,
Ministry of Rural Development

Section 6(1) (f)

Shri N.C. Vasudevan
Commissioner cum Secretary to the
Government of Orissa, Housing &
Urban Development Department

Executive Committee of Directors

Shri V. Sridar
Chairman & Managing Director

Shri V. Leeladhar
Deputy Governor, Reserve Bank of India

Shri Amitabh Verma
Joint Secretary to the Govt. of India, Ministry of Finance

Shri Ashok Kumar
IAS (Retired)

Shri K. Madhava Rao
Director, Central Board of Directors, Reserve Bank of India

Shri Wilfred Lakra
Joint Secretary to the Govt. of India, Ministry of Rural Development

Audit Committee of the Board

Shri K. Madhava Rao
Chairman, Audit Committee of the Board,
Director, Central Board of Directors, Reserve Bank of India

Shri V. Leeladhar
Deputy Governor, Reserve Bank of India

Shri Amitabh Verma
Joint Secretary to the Govt. of India, Ministry of Finance

Shri Ashok Kumar
IAS (Retired)

Shri S.B. Mathur
Chairman, LIC Housing Finance Ltd.

Shri N.C. Vasudevan
Commissioner cum Secretary to the Govt. of Orissa,
Housing & Urban Development Department

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This is the 16th Annual Report of the National Housing Bank (NHB) submitted in terms of section 40(5) of the National Housing Bank Act, 1987 for the year July 1, 2003 to June 30, 2004.

HIGHLIGHTS

Financial and Performance Highlights

(Amount in Rs. Crore)

	2003-04	2002-03	% Change
1. Net Owned Fund	1656.78	1538.63	7.68
2. Disbursement	3297.38	2782.78	18.49
3. Total Assets	13107.51	10289.66	27.39
4. Profit before Tax	155.46	127.50	21.93
5. Profit after Tax	118.13	120.74	(-) 2.16
6. Capital Adequacy Ratio (%)	30.05	31.41	(-) 4.33
7. Return on Equity (%)	26.25	26.83	(-) 2.16
8. Return on average working funds	1.03	1.39	(-) 25.90
9. Staff Productivity	136.57	117.38	16.35

Other Highlights

- ▶ Out of the total refinance disbursement during the year, Rs. 1,700.88 crore (52.29%) was disbursed under Golden Jubilee Rural Housing Finance Scheme as against Rs. 335.96 crore disbursed during the previous year.
- ▶ The Bank maintained its enviable track record of NIL Net NPA as at June 30, 2004.
- ▶ The Bank successfully launched four issues of mortgage-backed securities amounting to Rs.228.45 crores.
- ▶ During the year the Bank introduced a short term facility to enable HFCs to tide over the temporary facility to tide over the temporary liquidity constraints faced by them
- ▶ NHB's debt instruments were rated as AAA(Ind) by Fitch Ratings India Private Limited and "CARE AAA" by Credit Analysis and Research Limited, denoting highest quality carrying negligible investment risk.
- ▶ Central Government, at NHB's request, notified 23 Housing Finance Companies, registered with NHB as financial institutions for the purpose of Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest [SARFAESI] Act, 2002.
- ▶ The Bank amended the Housing Finance Companies (NHB) Directions, 2001 during the year 2003-04 in respect of interest payable on repatriable deposits, investment in real estates by HFCs, classification of investments

and sanction of loans to State Government Agencies and Special Purpose Vehicles promoted by State Governments against guarantees of the State Governments.

▶ In order to assess the financial position of housing finance companies and verify their compliance with the Directions issued by NHB, the Bank carried out 39 on-site inspections during 2003-04 as compared to 29 inspections undertaken last year.

- ▶ The Bank has set up, during the year, a 'Fraud Cell' to collect information from HFCs regarding frauds on housing loans generated by them in order to identify the causative factors behind such frauds.
- ▶ During the year twelve training programmes for various institutions in the housing sector were organised. The programmes were attended by participants from Housing Finance Companies, Scheduled Commercial Banks and Institutional Investors.

The Domestic Economy 2003-04

The Indian Economy continued to show a steady growth with strengthening of industrial and services sector. The agricultural sector also registered a sharp turnaround during this period, because of normal monsoon across the country. As a result of this, the real GDP (at factor costs and constant prices) grew at an impressive rate of 8.2 % as per the estimates of Central Statistical Organisation. Liquidity from both domestic and international sources maintained interest rates at low levels for major part of the year.

With the supply of broad money increasing during the year, the economy saw easy liquidity conditions facilitating credit growth. Another significant development in the economy has been a significant shift in the preference of principal saver the household sector in favour of physical assets instead of financial assets. This could be attributed to the lower interest rates which prevailed in the economy. The credit offtake of the banks (both food credit and non-food credit) was comparable to the previous year. However the deployment of bank credit to the priority sector was significantly higher. Small housing loans upto Rs. 10 lakhs under the priority sector category were a major segment receiving the bank credit during the year.

Housing & Related Issues

Housing continues to be one of the thrust areas of the economy for the policy makers. Rising income levels coupled with increased rate of formation of new households has contributed to a steady growth in demand for housing. Added to this is a significant shift in home-ownership pattern with younger population striving to acquire their own houses. This phenomenon of early purchase has resulted in increased demand for housing loans. Policy interventions by the government during the last few years have been significant which included measures to tackle housing problems of rural areas as reflected in the budget pronouncements of the Government of India.

The flow of credit in the housing finance sector continued to show steady growth. The disbursements towards housing finance by the Commercial Banks and Housing Finance Companies registered a growth of 29.25% with total disbursements of Rs.53, 678.62 crore during 2003-04 as compared to Rs.41, 385.38 crore during 2002-03. The continuing boom in housing sector is reflected in the substantial increase witnessed in the direct housing finance disbursements by the commercial banks for the third consecutive year. During the year commercial banks disbursed housing finance of Rs.32, 816.39 crore as against Rs. 23,553.37 crore in 2002-03, thereby registering a



growth of 39.33%. During 2003-04, the aggregate housing finance disbursed by HFCs was Rs.20, 862.23 crore as against Rs.17,832.01 crore in 2002-03 thus registering a growth of 16.99%.

Budget 2004-05: Broad Strategies and Provisions for Housing

Committed to strike a fine balance among the three mutually reinforcing objectives of growth, stability and equity, the budget has been guided by the seven major economic policies of the National Common Minimum Programme outlined below:

- ▶ maintaining a growth rate of 7 - 8 per cent per year for a sustained period;
- ▶ providing universal access to quality basic education and health;
- ▶ generating gainful employment in agriculture, manufacturing and services, and promoting investment;
- ▶ assuring 100 days' employment to the breadwinner in each family at the minimum wage;
- ▶ focusing on agriculture and infrastructure;
- ▶ accelerating fiscal consolidation and reform; and
- ▶ ensuring higher and more efficient fiscal devolution.

The Hon'ble Finance Minister while announcing the Union Budget re-iterated the Government's commitment to the housing sector in our country, rural housing in particular. The Hon'ble Finance Minister expressed the need to give a fresh stimulus to the GJRHFS. With the objective of making the scheme more affordable to larger section of rural population, he announced that the National Housing Bank will provide additional concession of 25 bps on refinance to be provided under the scheme. He further announced that the Reserve Bank of India has agreed to revise the norms of re-payment for rural housing loans by banks, so that the repayment instalments coincide with crop cycles. This is intended to facilitate repayments by borrowers in rural areas with loan repayments coinciding with harvest seasons. Allocation for 'Indira Awas Yojana' for the year 2004-05 has also been increased to Rs. 2247 crore as against the allocation of Rs.1710 crore for the previous year. Besides, the Finance Minister mentioned that one of the major impediments coming in the way of flow of institutional credit towards rural housing is creation of security in view of non-availability of documents establishing clear title to non agricultural land in rural areas. He announced the initiation of measures to find a solution for this problem. This is expected to increase the demand for rural housing finance as well as to reduce the risk perceptions of the lending institutions.

Monetary Policy Measures

The overall stance of RBI's monetary policy during 2003-04 was provision of adequate liquidity to meet credit growth and to support investment demand in the economy while keeping inflation under control. Continuing its stance of preference for a soft and flexible interest rate environment within the framework of macroeconomic stability, RBI maintained the Bank Rate and CRR unchanged at 6% and 4.5% respectively.

Another significant development came in the form of the 90 days norm for recognizing impaired loans by all



financial institutions from year ending 31st March 2006. With this, all the players in the financial sector except non-banking financial companies will be aligned in respect of classification of loans. This will also call for better underwriting standards and co-ordinated monitoring of borrower accounts.

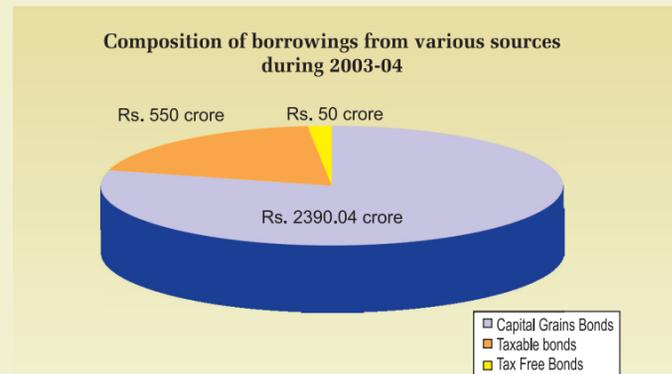
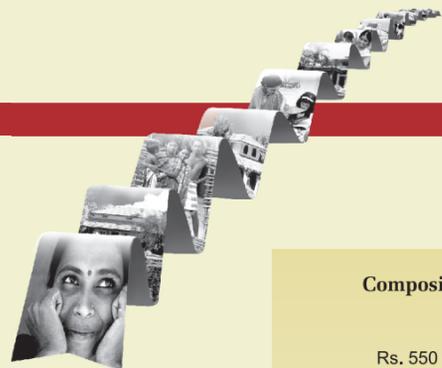
Highlights

- ▶ Road map for financial institutions to adopt 90 days norm for recognition of loan impairment for the year ended March 31, 2006.
- ▶ Banks advised to quickly build up investment fluctuation reserve (IFR) so that they are better positioned to meet interest rate risks.
- ▶ Extension of good corporate governance practices to Primary Dealers, Non Banking Finance Companies and Financial Institutions.
- ▶ Simplification of procedures and complete flexibility in micro-finance structure proposed to boost credit flow.
- ▶ Working Group proposed to address regulatory and supervisory issues pertaining to Development Finance Institutions (DFIs).
- ▶ Indian Banks Association to advise banks on benchmark PLR.
- ▶ Measures to improve credit delivery to agriculture and small scale sectors.
- ▶ Further move towards pure inter-bank call/notice money market.
- ▶ Flexibility in sale of government securities contracted for purchase with adequate safeguards.
- ▶ Banks to ensure hedging of foreign currency loans to corporates above US \$ 10 million except for exporters and for forex expenditures.
- ▶ Economic and financial data base with RBI to be placed in public domain for convenience of researchers and other users.

Financial Operations of the Bank during 2003-04

Resource Mobilization

The Bank continued its persistent efforts to build a low cost resource base by tapping diversified sources, where funds are available at competitive rates for preferred tenures. During the year, resources were raised by issuing bonds as under:



Capital Gains Bonds:

The Bank continued to mobilise funds by issuing Capital Gains Bonds at coupon rates of 5.25% per annum payable annually (having a tenor of 7 years with put and call option at the end of 5th year) and 5.10% (having a tenor of 5 years with put and call option at the end of 3rd year). During the year an amount of Rs.2390.04 crore has been mobilised.

Taxable Bonds:

The Bank mobilised a sum of Rs.500 crore by issuing Priority Sector Floating Rate Taxable Bonds, having a tenor of five years, in June 2004. The Bonds have been floated at a spread of 60 bps over the 1 year GOI (semi-annual) benchmark (as set on <INBMK=F3> page of Reuters).

The Bank had also mobilised Rs. 50 crore in September, 2003 by issuing bonds with a tenor of seven years carrying an interest rate of 5.35% per annum.

Tax Free Bonds

The total mobilization of fund under this category is Rs. 50 crore. This was mobilized at a rate of 4.75 % with tenure of 10 years with a put/call option of 7 years.

Apart from raising low cost funds, the Bank also endeavoured to reduce the cost of the existing liabilities by way of early repayment or restructuring of payment terms as detailed below:

Borrowings from RBI under Long Term Operations Fund

An amount of Rs.125 crores was prepaid to the Reserve Bank of India in May, 2004, in order to reduce the cost of outstanding liabilities.

Loan from Banks and FIs

The loans aggregating to Rs. 400 crore availed from Banks/Financial Institutions were repriced during the year in order to reduce the cost of funds.



Rating of borrowing programme

Rating has been obtained for Bonds amounting to Rs.5760 crore issued by the Bank. While Fitch has awarded a rating of 'AAA (Ind)', a rating of 'CARE AAA' has been awarded by CARE to the bonds. This rating indicates “highest degree of certainty regarding timely payment of financial obligations on the instruments.”

Listing of the Bonds:

Most of the borrowings/bonds of the Bank have been got listed on the Bombay Stock Exchange as well as the National Stock Exchange. In the remaining cases, listing arrangements are underway.

Deployment

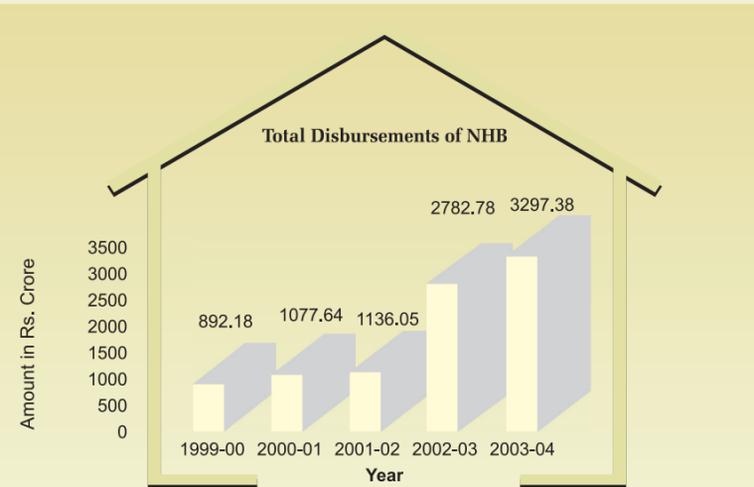
The details of financial assistance extended by the Bank during 2003-04 in the form of refinance and direct finance are given below:

GENERAL FUND

	(Rs. in crore)			
[A] Refinance Disbursals	2001-02	2002-03	2003-04	Cumulative
a) Individuals	1023.80	2709.72	3252.89	12974.00
b) Projects	0.00	0.00	0.00	234.50
Sub - Total	1023.80	2709.72	3252.89	13208.50
[B] Direct Finance Disbursal	92.21	58.27	38.51	293.66
Total disbursals from General Fund [A + B]	1116.01	2767.99	3291.40	13502.16

SLUM IMPROVEMENT & LOW COST HOUSING FUND

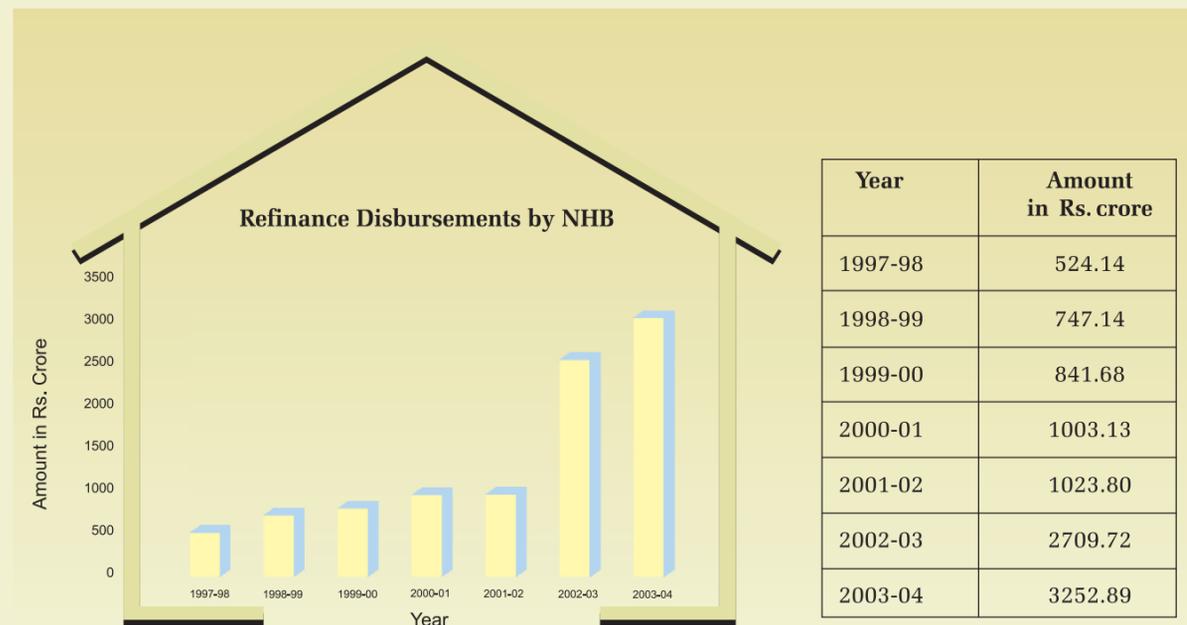
	(Rs. in crore)			
[A] Refinance :				
Orissa Cyclone				
Projects	1.00	0.00	0.00	5.47
	0.00	0.00	0.00	11.29
Sub Total	1.00	0.00	0.00	16.76
[B] Direct Finance : Projects	19.04	14.79	5.98	91.69
Total [A + B]	20.04	14.79	5.98	108.45



Disbursements made during the last two years constituted 44.67 per cent of the total disbursements since inception in 1988.

Refinance Operations

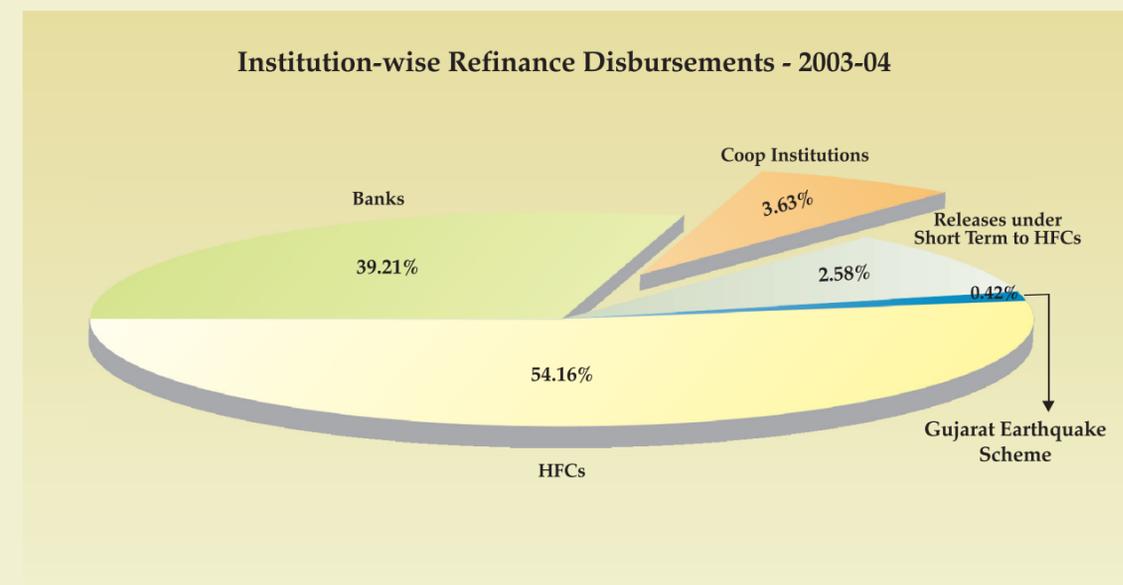
During the year ended 30th June, 2004, refinance aggregating Rs.3252.89 crore was released, as against Rs.2709.72 crore during the corresponding period last year registering a growth of 20.05%. This is an all-time high achievement for the bank. Trend of refinance releases during the last few years is captured in the diagram given below:



The comparative position of disbursements under refinance to various categories of primary lending institutions [PLIs] vis-à-vis the corresponding figures last year is as under:

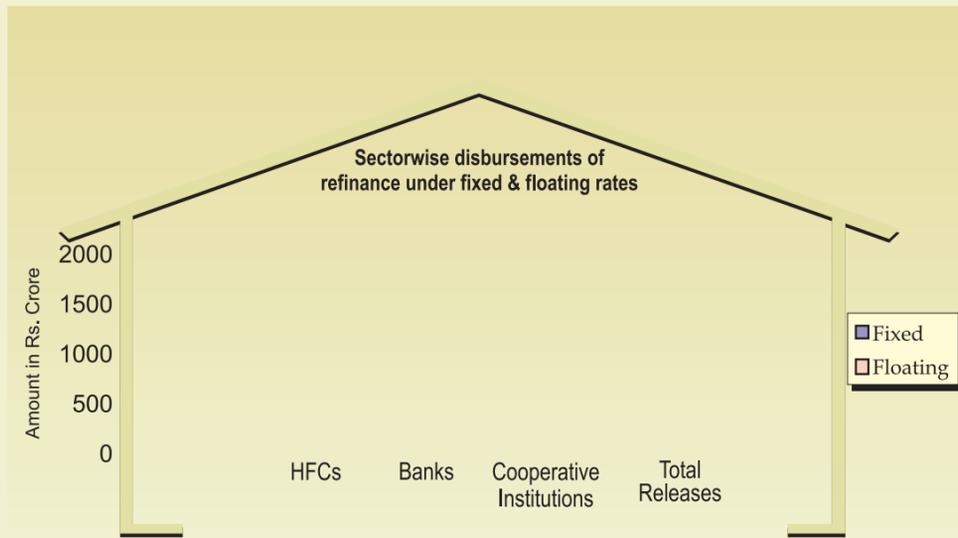
	2002-03	2003-04
Housing Finance Companies	1766.69	1845.86*
Banks	790.00	1275.50
Cooperative Institutions	139.77	118.10
Gujarat Earthquake Scheme	13.26	13.43
Total	2709.72	3252.89

*Out of this a sum of Rs.84.00 crores was disbursed under the Short term Facility



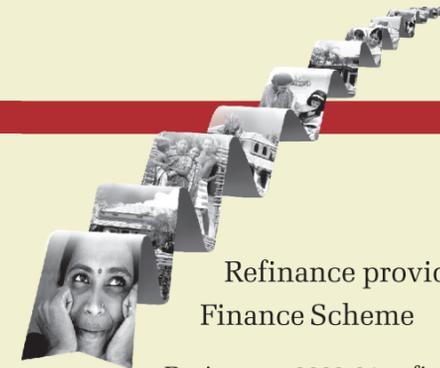
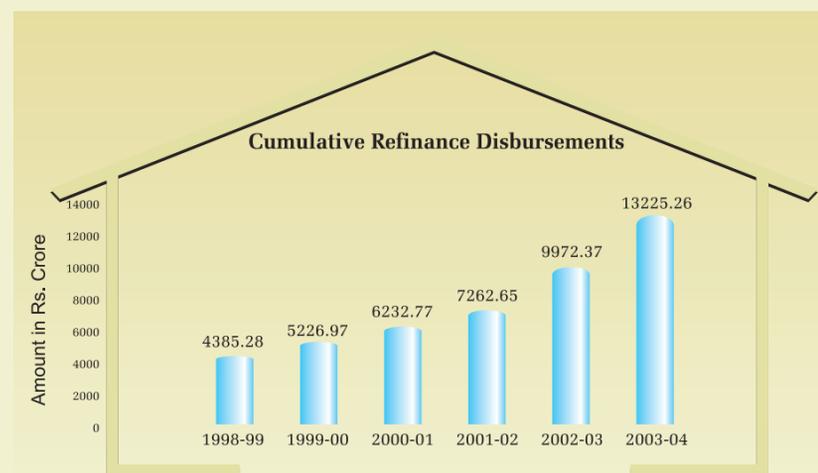
Fixed and Floating rate Disbursements

The ratio of fixed to floating rate disbursements during the current year [52:48] was almost the same as observed during the previous year [54:46]. The share of HFCs in the floating rate disbursements continued to be around 98% during 2003-04 indicating the HFCs' preference for floating rate borrowings. Scheduled banks on the other hand have shown a strong preference for fixed rate borrowings. As on June 30, 2004 the composition of outstanding refinance under fixed and floating rates was 70:30.



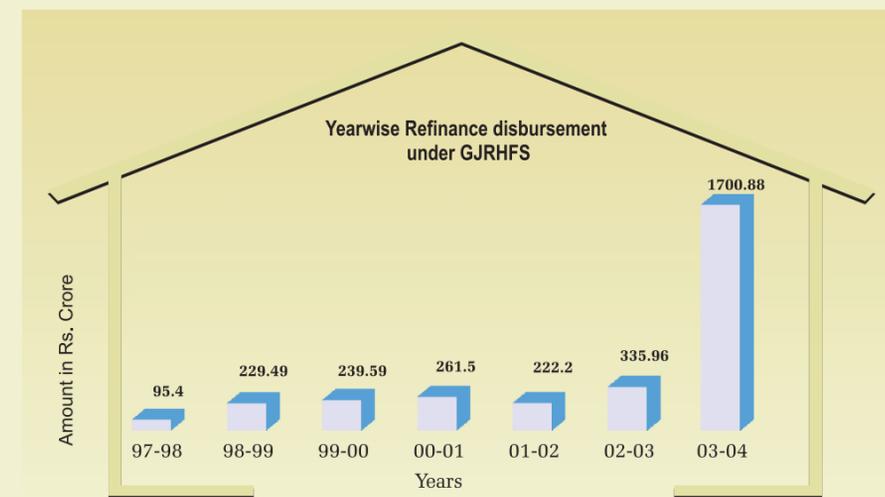
Cumulative Refinance Disbursements up to 30th June, 2004

Institution Category	Amount (Rs. in Crore)
Housing Finance Companies	9164.87
Scheduled Banks	2516.63
Cooperative Sector Institutions	1543.76
Total	13225.26



Refinance provided for loans given under the Golden Jubilee Rural Housing Finance Scheme

During year 2003-04, refinance assistance of Rs. 1700.88 crore was made in respect of housing loans disbursed by the PLIs under the Golden Jubilee Rural Housing Finance Scheme (GJRHFS). This constituted 52.29% of the total refinance disbursement of Rs.3252.89 crore during the year. To promote rural housing, the Bank introduced an interest concession of 25 basis points in September 2003, for refinance in respect of rural housing loans disbursed by the PLIs under the scheme.



Asset Quality

The growth in volumes has been achieved while maintaining good asset quality. The overall quality of Bank's assets is good, with the institution continuing to enjoy the enviable status of being a Nil Net NPA institution.

Project Finance

The Bank continued to extend financial assistance to public housing and development agencies for undertaking various types of housing projects.

During the current year, the Bank approved 19 projects having total project cost of Rs.111.26 crore and loan component of Rs.83.80 crore and disbursed Rs. 44.49 crore (including the amount lent from the Special Fund and the assistance provided to Gujarat earthquake victims) as direct finance.

Cumulatively, till the end of June, 2004, the Bank has sanctioned 372 projects (including projects sanctioned to support Gujarat earthquake victims) having project cost of Rs.2481.97 crore and loan component of Rs. 1773.76 crore. Out of these 372 projects, refinance assistance was provided to 228 projects. The remaining 144 projects were financed through direct finance window under both General and Special funds. So far the Bank has disbursed Rs. 631.14 crores as project finance of which Rs. 245.79 crore was disbursed as refinance and remaining Rs. 385.35 as direct finance. The details of the direct finance provided out of General and Special Funds are as follows:



General Fund

Cumulatively, 54 projects having project cost of Rs. 1452.18 crore and loan component of Rs. 1024.80 crore have been sanctioned and financial assistance worth Rs. 293.66 crore has been provided from General Fund. During the year 2003-04, 10 Projects having a project cost of Rs.89.75 crore and loan component of Rs.67.59 crore were sanctioned and a sum of Rs. 38.51 crore was disbursed which included Rs. 2.50 crores for projects under Gujarat Earthquake Relief Scheme.

Special Fund:

Cumulatively, 90 projects having project cost of Rs. 333.00 crore and loan component of Rs. 206.44 crore have been sanctioned and financial assistance worth Rs. 91.69 crore has been provided from Special Fund. During the year 2003-04, nine projects having a project cost of Rs.21.51 crore and loan amount of Rs.16.21 crore were sanctioned and a sum of Rs. 5.98 crore was disbursed.

General Activities of the Bank during 2003-04

Policy Review

Refinance

Modifications in Refinance Scheme for Apex Co-operative Housing Federations (ACHFS)

During the year 2002-03, the Refinance Scheme applicable to ACHFS was modified, inter alia, to introduce maturity linked interest rates. In order to align them with the general market movements of the industry, this year the scheme was further modified to introduce pricing of refinance based on their recovery performance. The bare outlines of the modifications are

- The scope of the scheme has been extended to include loans given directly to individuals in addition to loans given through primary societies as eligible for being refinanced under the scheme.
- As per the earlier scheme, an ACHFS to be eligible for refinance must have 'A' or 'B' class audit classification for the last three years. It was observed that few states did not follow this method of audit classification. Accordingly, fulfillment of this criterion in such states, where the system of awarding audit classification is not prevalent, was dispensed with.
- The earlier eligibility criteria of declaration of dividends during three out of five preceding years was replaced with the criteria of being a profit making institution for preceding three years.
- For the purpose of refinance, ACHFS are classified into two categories based on their recovery performance viz. Category I (with recovery of 75% and above) and Category II (with recovery of not less than 60% with an increase in recovery performance of at least 5% over the previous years level in each of the last two years). The interest rate applicable to Category II ACHFS will be 0.50% more than that charged to Category I ACHFS.

Introduction of Scheme for Short Term financial Assistance to HFCs

While NHB extends refinance assistance to housing finance companies (HFC) in respect of housing loans disbursed



by them, these institutions have to meet their short term liquidity requirements from competitive market sources. In order to cater to this need, NHB introduced a scheme to provide financial assistance to the HFCs for their short term liquidity requirements arising in the normal course of business. The salient features of this scheme are:

- The HFC must comply with all the eligibility conditions of the Refinance Scheme and must have minimum H4 rating as per the Bank's Internal Credit Rating Model.
- The assistance under this scheme may be drawn for a minimum period of 15 days and in multiples thereof with a maximum period not exceeding 90 days.
- The loan availed shall be repayable in one bullet instalment along with accrued interest at the end of the term.
- The loan to be provided under this scheme is unsecured.
- The rate of interest under the scheme is as under :

Repayment period	Fixed Rate of interest*
Upto 45 days	5.50%
46 days to 90 days	5.60%

* Concession under GJRHFS not available

Project Finance

Project Finance Loan Policy

With a focus on broadening the project finance portfolio of the bank, the 'Project Finance Loan Policy' was introduced in September 2003. The policy introduced an Internal Credit Rating Model (ICRM). The scope of the Loan Policy has been widened to also include private sector and joint sector entities as eligible borrowers. It is, therefore, expected that the Bank will play more meaningful role in future with regard to the provisions of projects for housing construction particularly in the area of Slum Improvement, Economically Weaker Sections and Low Income Group segments.

Reduction in interest rates

The interest rates applicable to schemes of Project Finance have been revised downwards during the year 2003-04. Additionally, under direct finance, tenure based interest rates upto a maximum tenure of 15 years have been introduced. Presently, the borrowers also have the option to choose between fixed and floating rates of interest.

Residential Mortgage Backed Securitisation (RMBS) policy

The Bank also formulated an RMBS Policy, so as to ensure minimum level of standards and unambiguity in the RMBS issues brought out by it. The Policy details the entire gamut of activities to be taken up by NHB and also sets forth guidelines for the same.



Information Technology

The Bank appointed M/s KPMG Advisory Services Pvt. Ltd. to formulate a comprehensive Information Technology Policy and Information Systems Plan in December 2003. Besides exploring the Bank's internal systems and processes, the consultants also studied the external environment and had interviews with important functionaries in the Government, RBI, and Housing Finance Companies. The consultants have proposed an IT strategy based on the findings of their studies and a roadmap for its implementation. They have also suggested functional policies based on the best practices. The Bank proposes to incorporate the recommendations of the consultant in its policies and plans for the coming years.

Risk Management

In compliance with the regulatory requirements as stipulated by the Reserve Bank of India, the Bank had formulated a Risk Management Policy in May, 2003. The Bank also engaged the services of M/s ICRA Advisory Services to improve the structure of risk management and control systems in the Bank and a framework for compliance of the Risk Management Policy. The report received from the consultant is being examined for implementation.

The Asset Liability Management Committee [ALCO] headed by Chairman and Managing Director and comprising of top/senior executives representing the different operational areas of the Bank continued to review and monitor liquidity position and interest rate gaps at fortnightly intervals.

Regulation & Supervision

Amendments to Housing Finance Companies (NHB) Directions, 2001

Having considered it necessary in public interest and for the purpose of regulating the housing finance system, the Bank issued the following Directions to the housing finance companies, during the year.

- To maintain uniformity in the interest rate payable on repatriable deposits accepted from the non-resident Indians by the various players in the financial system, the Bank advised HFCs in September 2003 that the interest rate payable by them on such deposits should be the same as is payable by the scheduled commercial banks on these deposits from time to time.
- Considering the fact that financing of real estate forms an integral part of the business of a HFC, the ceiling on investments by a HFC in real estate except for its own use was raised from 10% of a HFC's owned fund to 20% of a HFC's capital fund as on March 31 of the previous year subject to the stipulation that the additional limit would be permissible only for investments in residential units.
- In order to align the investment classification and inter-class transfer norms of HFCs with those applicable to the non-banking financial companies (NBFCs), the Bank amended the Housing Finance Companies (NHB) Directions 2001 regarding the prudential norms relating to classification and valuation of investments. This amendment inter alia specifies that the investments in securities shall be classified into current and long term at the time of making each investment and that there shall be no inter-class transfer from current to long term or vice versa on ad-hoc basis and if warranted, the inter class transfer can be effected only at the beginning of each half year.



- During the year, the Bank also advised HFCs that they should not sanction loans to State Government Undertakings/Special Purpose Vehicles (SPVs) for any project solely on the basis of guarantees extended by the State Governments and instead sanction loans only after a thorough appraisal of the project regarding identification of risks, risk mitigation measures, financial viability of the project and the creditworthiness of the borrower etc. Similarly, in respect of the housing/infrastructure projects, HFCs have been advised to undertake due diligence on the viability of the projects.

Registration of Housing Finance Companies u/ Section 29A of the National Housing Bank Act, 1987

Till the end of June 2004, the Bank had received 165 applications from HFCs for granting of Certificate of Registration (COR). Of this, 46 HFCs have been granted COR and applications received from 106 HFCs were rejected. In another 6 cases, show cause notices have been issued as to why their applications should not be rejected. In 7 cases, the COR granted earlier were cancelled as these HFCs either went out of the housing finance business or due to non compliance with the conditions subject to which the COR were issued.

Public Notices regarding obtention of COR from NHB

As a part of public awareness campaign, the Bank issued two public notices in November, 2003 and June, 2004 in all prominent newspapers in the country regarding the necessity for obtaining a Certificate of Registration (COR) from the Bank for a HFC to commence/carry on the business of housing finance under section 29 A of the National Housing Bank Act, 1987. The notice further cautions the public that they have to satisfy themselves that the concerned company has obtained COR from NHB before placing deposits or otherwise dealing with the company and the deposits with HFCs are neither insured nor guaranteed by NHB.

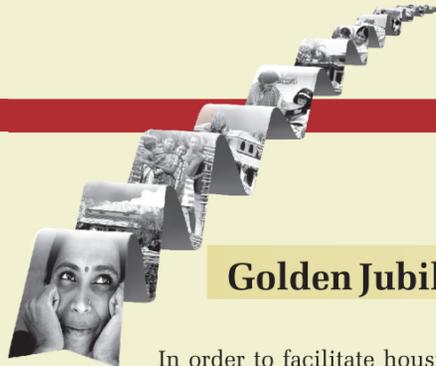
Co-ordination with other Regulatory Authorities

The Bank's officers continued to attend State Level Co-ordination Committee Meetings convened by the Reserve Bank of India during the year to ensure co-ordination with RBI and other Regulators for effective supervision of the HFCs.

During the year, the Bank appointed (on retainership basis) Company Secretaries for gathering Market Intelligence in various States where the office of the Registrar of Companies is situated. As on June 30, 2004, 15 Company Secretaries have been appointed for the purpose of monitoring the activities of the HFCs at the field level. Further, these Company Secretaries have been advised to gather information specifically with respect to the HFCs whose application for registration has been rejected and the HFCs who have not applied for registration. This arrangement has been introduced with effect from September 2003.

Penal action for non-maintenance of requisite level of liquid assets

Bank continued to view seriously non-adherence to its directions regarding maintenance of requisite level of liquid assets for public deposits mobilised by HFCs. Action has been initiated for collection of penal interest wherever necessary for non-maintenance of required level of liquid assets as per the provisions of the National housing Bank Act, 1987 in line with the policy adopted by the Bank in this regard.



Golden Jubilee Rural Housing Finance Scheme

In order to facilitate housing in rural areas and promote housing finance in the rural sector, the Government has introduced the Golden Jubilee Rural Housing Finance Scheme in the year 1997. There has been encouraging performance under the scheme which continues to benefit increasing number of rural households. This can be assessed by the number of units financed under the scheme. During the year 2003-04, the Government of India had set a target of financing 2,50,000 units against which 2,43,753 units were financed by the primary lending institutions. Achievement of various categories of lending institutions is as follows:

(Number of dwelling units)

Category of Institutions	Target	Achievement
Banks	119275	171180
Housing Finance Companies	126000	71697
Others including Cooperative sector institutions	4725	876
TOTAL	250000	243753

Up to the year ended 31st March, 2004, against the cumulative target of 10.75 lakh units to be financed, the achievement had been 10.86 lakh units. For the year 2004-05, target of financing 2, 50,000 units has been set by the Government of India.

Business Planning and Promotion Activities of NHB during 2003-04

Equity Participation by NHB

At the beginning of the year, the Bank had equity participation in Five HFCs. However, continuing the last year's trend of merger of bank sponsored HFCs with their parent organisations, NHB divested its entire holding in Vibank Housing Finance Limited, consequent to its plans of merger with Vijaya Bank. There was no fresh equity participation by the bank during the year.

Setting up of 'Fraud Cell'

In order to identify the causative factors behind frauds of housing loans in HFCs, NHB has set up a 'Fraud Cell' to collect from HFCs information regarding frauds on housing loans generated by them. This information is collected on a regular basis. The information collected is analysed and inferences regarding the causative factors are shared among all HFCs and also with RBI as a part of preventive measure.

Addressing Consumer Grievances

The bank addresses complains against HFCs received from individuals. During the year the bank received 125



complaints, 46 regarding deposit acceptance activities of the HFCs and remaining 79 pertaining to other aspects. All these complaints were attended to and as on 30th June 2004, 100 complaints were disposed off. The remaining cases were under process.

Training

As a capacity building measure in the housing finance sector, the Bank organises various training programmes on matters related to housing finance. These programmes are attended by officials of housing finance companies, banks, cooperatives, public housing agencies and institutional investors of the sector. Both in-house and external faculty share their knowledge with the participants.



Shri V. Sridar, CMD NHB addressing the participants of NHB's training programme at Cochin

The bank conducted twelve such training programmes during the year and more than 250 officers from various Housing Finance Companies and Banks participated in these programmes. The programmes addressed issues related to general awareness on housing finance and specialised topics such as Regulatory framework for housing finance, Securitisation, Legal issues in Housing, SARFAESI Act, Risk Management etc.

Apart from conducting programmes, Bank also provided faculty support to Banks, HFCs and National Co-operative of Housing Federation for conducting training programmes for their personnel.

Residential Mortgage-Backed Securitization (RMBS)

Ten RMBS issuances aggregating to Rs.663.92 crore have been brought out till 30th June, 2004, with the Bank assuming the role of Trustee (to the Special Purpose Vehicle Trusts) in the transactions involving individual home loans of six HFCs viz. Housing Development Finance Corporation, LIC Home Finance Ltd., Canfin Homes Ltd., BOB Housing Finance Ltd., Dewan Housing Finance Corporation Ltd. and BHW Birla Home Finance Ltd., and one Scheduled Commercial Bank, viz. Andhra Bank.



New RMBS Issuances

NHB brought out four RMBS issues during the year involving individual home loans of CanFin Homes Ltd. (CFHL), Andhra Bank (AB), Dewan Housing Finance Corporation Ltd. (DHFL) and Birla Home Finance Ltd. (BHFL). The details of these issues are as follows:

Name of the pool (Originators)	No. of Loans	Pool size	PTC "A" size	PTC "B" size	Date of issue	PTC "A" coupon	Credit Enhancements
CP-3 (CFHL)	2007	Rs. 64.13 crore	Rs. 54.45 crore	Rs. 9.68 crore	July 2, 2003	6.25% p.a. payable monthly	Cash Collateral Rs. 0.39 crores by originator
DP-1 (DHFL)	3155	Rs. 69.79 crore	Rs. 61.83 crore	Rs. 7.96 crore	March 5, 2004	6.98% p.a. payable monthly	Bank Guarantee of Rs. 1.24 crores by originator
SCB-AB1 (AB)	1437	Rs. 50.36 crore	Rs. 42.95 crore	Rs. 7.41 crore	March 19, 2004	6.15% p.a. payable monthly	Cash Collateral Rs. 68 lakhs by originator
Bh-1 (BHFL)	1058	Rs. 34.38 crore Plus Premium of Rs. 9.27 crore	Rs. 30.71 crore	Rs. 3.67 crore	March 19, 2004	6.60% p.a. payable monthly	Cash Collateral Rs. 9.80 crores by originator

The issue of Birla Home Finance Ltd. was the first issue by the Bank where the PTCs (Senior Class) were issued at par with a premium pricing. This product is an innovation in the industry.

Performance of the Securitised Pools:

With the credit risk component in the home loan sector being typically low as also due to the cherry picking exercise according to a stringent selection criteria specified by NHB for selection of the home loans to be securitised, all ten issues brought out by NHB have performed according to expectation. The average collection efficiency in each of the securitised pool ranged between 95% -99%. The trends in NHB's RMBS transactions indicate that the total collections from the pools were adequate to service not only the scheduled payments to Senior Class RMBS holders, but also contributed substantially to the residual income of the holders of subordinate RMBS holders. The subordination ratio has been consistently increasing over the months, imparting a higher amount of cushion to the PTC A holders in terms of credit enhancement. Needless to mention, there has been no instance of tapping of collaterals to meet any shortfall in payment to the Senior RMBS holders till date. The yield to the PTC A holders has been consistent with that indicated in the Information Memorandum at the time of issue.

Developments during the year 2003-04

The Bank assumes the responsibility of the Trustee for RMBS issues to ensure transfer, payment and timely servicing to the investors in the PTCs. The Bank also has the mandate to invest in its own issues of RMBS. Recognising the dual role required to be played by the Bank, i.e. of a Trustee as well as an investor, the Bank set up a Committee, "RMBS Trust Supervision Committee", under the Chairmanship of a retired High Court Judge to supervise the activities of the Trust periodically in respect of RMBS issues where NHB is interested in capacities other than that of trustee, so as to ensure that the interest of investors is duly protected.

NHB has also initiated the process of introducing Credit Enhancement measures such as Guaranteeing the senior



portion of the RMBS and Financial Support for subordinate RMBS by way of refinance etc. to facilitate more RMBS issues by HFCs and Banks.

Coordination with RBI regarding policy issues pertaining to RMBS

At the Bank's initiative, RBI has advised Banks and Financial Institutions that the risk weight on investment by Banks and Financial Institutions in RMBS originated by another Bank would attract a risk weight of 50%. Earlier, this concession was available only to RMBS issues originated by HFCs regulated and supervised by NHB.

Measures for Market Development

With a view to facilitate the development of secondary mortgage market and bring about standardization in the primary home loan market, NHB has commissioned the Administrative Staff College of India (ASCI) to undertake a study with the main objective to understand, analyse and assess the credit and prepayment risks in the housing finance sector. The study is being undertaken in two phases the pilot and the final stage. ASCI have concluded the pilot phase and are in the process of final phase involving larger and diversified samples of housing loans from HFCs.

NHB has also constituted a Working Group with representatives from the housing finance companies to recommend measures for standardization in the primary residential mortgage finance sector. The Working Group submitted the report which is being evaluated.

The books of accounts of the Trust(s) have been audited till March 31, 2004.

Mortgage Credit Guarantee Corporation

As mentioned in the last report, the Bank had taken a lead role in promoting the concept of mortgage default guarantee in the country and initiated the process of setting up of a Mortgage Credit Guarantee Company in collaboration with Canada Mortgage and Housing Corporation (CMHC), United Guarantee (UG), International Finance Corporation (IFC) and Asian Development Bank (ADB). During the year the term sheet has been finalised between the Partners.

Board of Directors

Changes in incumbency

Under Section 6(1) (c)

Dr. P.S. Rana, Chairman & Managing Director, Housing & Urban Development Corporation Ltd. with effect from November 25, 2003 in place of Shri L.M. Mehta, Chairman & Managing Director, Housing & Urban Development Corporation Ltd.

Under Section 6(1) (d)

Dr. Rakesh Mohan, Deputy Governor, Reserve Bank of India with effect from December 30, 2003 in place of Shri



Vepa Kamesam, Deputy Governor, Reserve Bank of India.

Shri V. Leeladhar, Deputy Governor, Reserve Bank of India with effect from September 30, 2004 in place of Dr. Rakesh Mohan, Deputy Governor, Reserve Bank of India.

Under Section 6(1) (e)

Shri A.N. Tiwari, Secretary, Ministry of Urban Employment & Poverty Alleviation with effect from March 17, 2004 in place of Shri S.S. Chattopadhyay, Secretary, Ministry of Urban Employment & Poverty Alleviation. Since August 12, 2004, Smt. Chitra Chopra, Secretary to the Government of India, Department of Urban Employment and Poverty Alleviation has been appointed in place of Shri A. N. Tiwari.

Shri Amitabh Verma, Joint Secretary, Ministry of Finance with effect from March 18, 2004 in place of Shri Shekhar Agarwal, Joint Secretary, Ministry of Finance.

Under Section 6(1) (f)

Shri J.N. Singh, Secretary (Housing), Urban Development and Urban Housing Department, Government of Gujarat with effect from September 23, 2003 in place of Shri A. Bhattacharya, Secretary (Housing), Urban Development and Urban Housing Department, Government of Gujarat. Shri. Singh has since been transferred to Science and Technology Department by the Government of Gujarat. A notification for change in incumbency from the Government of Gujarat is awaited.

Smt. Rajalakshmi, Principal Secretary to the Government of Orissa, Housing and Urban Development Department, Government of Orissa with effect from November 25, 2003 in place of Shri A.K. Samantaray, Principal Secretary to the Government of Orissa, Housing and Urban Development Department, Government of Orissa.

Shri N.C. Vasudevan, Commissioner cum Secretary to the Government of Orissa, Housing & Urban Development Department, with effect from September 20, 2004 in place of Smt. Rajalakshmi, Principal Secretary to the Government of Orissa.

Corporate Governance

The management of the Bank is committed to implement the mandate given by the National Housing Bank Act, 1987. 'Housing for all' is the ultimate goal of the Bank. The nature of the housing finance industry both at domestic and international fronts has undergone many changes over the last decade. In order to improve the competency in meeting these challenges, specially in this age of integration of markets world wide, the Bank has set itself some principles as a measure of good and effective corporate governance. With this in mind, the Bank ensures:

- that the Bank's Board of Directors meets regularly, provide effective leadership, exercise control over management and monitor executive performance.
- that the Chairman has responsibility for all aspects of executive management and is accountable to the Board for the ultimate performance of the Bank and implementation of the policies laid down by the Board.
- that a senior executive is made responsible to the Board in respect of compliance issues with all applicable statutes, regulations and other procedures, policies as laid down by the Board and report deviation, if any, to the Board.



d. accountability for performance and to achieve excellence at all levels.

e. transparency and integrity in communication and to make available full, accurate and clear information to all concerned.

f. that clearly documented and transparent management processes for policy development, implementation and review, decision-making, monitoring, control and reporting are established.

Good and effective corporate governance is a more of organization culture than applicable rules. By achieving our self imposed targets, we are confident of making NHB the 'the most preferred destination for housing finance institutions' to raise resources.

Board of Directors

The management of affairs and business of the Bank is vested in the Board of Directors headed by Chairman and Managing Director of the Bank. The other members of the Board comprise of eminent personalities besides representatives from RBI, Central Government, etc. The meetings of the Board are held at regular intervals and at least once in a quarter and as provided in the NHB General Regulations, 1988. During the year 2003-04 (July to June), the Board of Directors met 5 times.

Committees of the Board

The Board has constituted two committees viz. a) Executive Committee [EC] and b) Audit Committee of the Board [ACB] to enable better and more focused attention on the affairs of the Bank and has delegated certain powers to these Committees. The functions of EC and delegation of power to EC are well defined. The minutes of the EC and ACB are placed before the Board for information.

Executive Committee of Directors

The Executive Committee of Directors met thrice during the year 2003-04. During the period under review, the strength of the Executive Committee of Directors was enhanced from 4 to 6 to have the benefit of larger and wider participation of members in the meetings.

Audit Committee of the Board

The ACB provides directions and oversees the operations of the total audit functions in the Bank. The total audit function implies the organization, operationalisation and quality control of internal audit and inspection within the Bank and follow-up and compliance in respect of statutory audit of the Bank and inspection by RBI. The ACB reviews the effectiveness of the systems of internal control, and major areas of house keeping and accounting policies; the accuracy and fairness of the financial statements and compliance with the regulatory guidelines. The ACB also monitors the working of inspection wing of Department of Regulation and Supervision (DRS) and major irregularities observed in the working of HFCs during DRS inspections. The ACB acts as an interface between the management, statutory auditors and internal auditors. It is the prerogative of the ACB to invite senior executives, statutory auditors and internal auditors whom it considers appropriate to be present at the meetings.

The Committee is expected to meet at least four times in a year. During the year 2003-04 (July to June), the Audit



Committee of the Board met 4 times. The strength of the Audit Committee of the Board was enlarged from 4 to 6 during the year to have the benefit of larger and wider participation of members in the meetings.

Statutory Auditors

The statutory auditors are appointed by RBI. The Annual Accounts of the Bank together with the report of the Statutory Auditors are placed before the Board for adoption and the Statutory Auditors are invited to the Board meeting where the Annual Accounts are adopted to express their views and observations on the Accounts.

Human Resources

Staff Strength

The total staff strength of the Bank, as on 30th June, 2004, stood at 84 as against 74 at the close of the previous year. To upgrade the skills and enhance the proficiency of its human capital, the Bank deputed its officers for various training and management development programmes during the year, besides organizing in-house programmes for this purpose.

Compliance with Reservation Policy

The Reservation Policy of the Government of India is being adhered to by the Bank. A Liaison Officer is functioning in the Bank. Post based rosters are being maintained by the Bank as per the guidelines of the Government in this regard.

Rajbhasha



CMD and other senior executives of NHB at the function organised to celebrate 'HINDI CHETNA-MAS'



The Bank has remained fully committed, since its inception, for the successful implementation of Official Language Policy and has initiated effective measures for the progress of use of Hindi in the Bank. It has always been a policy of the Bank that through inspiration and incentives, the use of Hindi should constantly be increased and the Bank has succeeded in this regard substantially and efforts are on to bring about further improvement in this area.

Various statutory provisions stipulated by the Government regarding Official Language are strictly adhered to. In order to inspire Bank's officers to use Hindi in their day to day official work, incentive schemes have been introduced in the Bank. A large number of Hindi books are being purchased for library of the Bank for the benefit of the officers of the Bank.

To develop the creative capacity of the Bank's officers, 'Awas Bharati', a quarterly Hindi News Letter, is being published regularly. The 'Awas Bharati' secured fourth position in the competition for In-house Hindi Magazine for the year 2001-02 organised by Reserve Bank of India and this prize was received in March, 2004 by the CMD of the Bank from the Governor of RBI. Besides, 'Awas Bharati', also secured 2nd position in the competition organised by Delhi Nagar Raj Bhasha Implementation Committee for Raj Bhasha Patrika of Delhi based Banking & Financial Institutions for the year 2002-03.

Bank's Regional Office in Mumbai also gives due importance to the use of official language. The Bank Nagar Rajbhasha Implementation Committee of Mumbai as well as State Level Rajbhasha Implementation Committee awarded 2nd rank to the Mumbai Regional Office of the Bank, in the category of Financial Institutions for performing best work in Hindi during the year 2002-03.

Miscellaneous

Bank's Web-site

The Bank's official website "www.nhb.org.in" has been further improved during the year and its Hindi version was made fully operational. The website provides information about the Bank's business activities, organisation, publications, information for HFCs' depositors, etc. Sample application forms for companies wanting to register with NHB as HFCs and application for individuals/institutions wanting to invest in bonds of NHB are available at the site.

New Initiatives

Initiative as a good corporate citizen

During the year the Bank organised a Painting Competition for the children from the economically weaker segment of the society studying in different schools in Delhi. The theme of this competition was 'My Dream House' and the dreams of the kids captured from the paintings made by them were used for the Corporate Calendar of the Bank for the year 2004.



CMD and other officers of NHB with the winners of Painting Competition organised by the Bank

Rural Housing

- i. In order to assess the need, adequacy, demand and financing pattern of housing in rural areas of the country, the Bank, during the year, commissioned a study to examine these issues for the State of Andhra Pradesh on a pilot basis. The major objectives of the study are:
 - (a) review the housing policy of the government, instruments used, measures initiated and their limitations with focus on rural housing
 - (b) assess the shelter need of households in the rural areas
 - (c) map the existing rural housing finance and to analyse the pattern of financing housing construction in recent years
 - (d) examine the viability of financing rural housing ventures in light of the above
 - (e) based on the above, draw policy implications that are useful to restructure institutions and programmes related to rural housing.

Based on the results of this pilot study, the Bank will decide about conducting the similar exercise in respect of other States to assess the position in respect of above issues in the rural parts of the country.

- ii. The Bank published "Handbook on Rural Housing and Infrastructure" in collaboration with Central Building Research Institute, Roorkee, for providing a comprehensive information on various aspects relating to rural housing such as planning, construction, use of local materials and typical designs along with specifications and cost estimates.

Research Studies

- i. During the year the Bank has commissioned a study through Administrative Staff College of India to find out the relationship between various features relating to individual housing loan viz. Loan to Value Ratio,



Installment-Income Ratio, number of dependents, etc. with default and prepayment risks.

- ii. As per the provisions of National Housing Bank Act, the Bank prepares a 'Report on Trend & Progress of Housing in India' every year. Centre for Symbiosis of Technology, Environment & Management (STEM), Bangalore has been commissioned to undertake a study on behalf of the Bank to enlarge the coverage of this report.

Organisation Structure

To enable the Bank to meet the challenges arising out of changing market dynamics, the services of the Administrative Staff College of India (ASCI), Hyderabad were engaged to suggest a revised organisation structure for the Bank. The revised Organizational Structure has been put in place with effect from May, 2004.

The services of Xavier Labor Relations Institute, Jamshedpur have been engaged for undertaking a Competency Mapping Exercise so as to enable the Bank to devise a suitable training policy as well as for initiating other steps necessary to fill the gaps in the competency levels required in various areas.

Future Outlook

During the current year, housing finance sector maintained the trend of healthy growth observed over the last few years and the housing finance disbursements crossed Rs.50,000 crore mark in the year 2003-04. It is expected that such robust growth will continue for next five years. However, this growth has not been without spatial imbalance. While certain states/ regions of the country obtained greater share of the housing finance as compared to others, the growth also remained largely focussed around the middle and upper income strata mostly concentrated in metropolitan/ urban areas or at least in major towns.

During the year, Dewan Housing Finance Corporation Limited took over the Vysya Bank Housing Finance Corporation Ltd. and IDBI Home finance Limited took over Tata Home Finance in order to expand their housing finance business.

Credit expansion for housing in rural areas continues to be a challenge. Though the average annual growth witnessed in housing loan disbursements is over 30 percent, during the last four years, a major portion of these disbursements are confined to urban areas. Less than 15 per cent of the total housing loan disbursements flow to the rural areas in spite of greater shortage of housing and consequently greater demand for housing finance in rural areas, the housing requirements in rural areas being estimated at 24 million units as compared to 7.1 million units in urban/metro areas based on 2001 census figures. The reduced flow of housing finance to the rural areas is attributed to the following factors:

- (i) Non availability of title deeds in respect of residential property in Abadi/Lal Dora/ Porumbokku areas, which makes title verification and creation of charge difficult/costlier (in view of higher stamp duty payable for creation of registered mortgage in the absence of title deeds for creation of registered mortgage in the absence of the title deeds for creation of equitable mortgage),
- (ii) Fluctuations in the level of income of the borrowers particularly agriculturists due to vagaries of nature,



fluctuations in the prices of the produce, etc.,

(iii) Difficulties faced by lending institutions in assessing the income of the rural borrowers engaged in informal/unorganized sector like agriculture and absence of a well laid-down model for this purpose,

(iv) Difficulties encountered in enforcing the securities in rural areas in case of default particularly in view of the lack of prospective buyers for the mortgaged property to be disposed.

It may also be noted that various fiscal measures introduced by the Government of India have served as a great impetus to the accelerated growth witnessed in the home loan market in the last five years as these fiscal measures have effectively reduced the real interest burden on the home loan borrowers through income tax concessions. The fiscal concessions presently being extended to promote home ownership in the country are almost entirely availed of by the urban/metro population and the rural segment is presently left out as most of the home loan borrowers in rural areas are not income tax payers. Under the circumstances, it is appropriate that the impediments witnessed in rural housing are addressed effectively through improvements in the institutional arrangements along with introduction of fiscal concessions to kick start rural housing in a big way.

Besides a robust housing finance system, a sound and sustainable housing policy is equally important for expansion in housing credit. Defective policies with short term objectives in the housing construction segment can impose serious constraints on the credit system. While the two policy areas of the financial sector, viz. monetary and credit policy and fiscal policy are well disposed towards housing, it is the 'Real' sector that needs to respond to the emerging challenges and opportunities. Rationalisation of stamp duty across the states and reforms in the registration regime will generate positive sentiments in the lending as well as the construction industry. Reduction in existing stamp duty and registration charges on mortgaged securitized papers across all the states will pave the way for increased flow of fund into the housing finance sector.

The past few years have witnessed fierce competition in the housing finance market and may unfold surprises in the coming years. The housing sector has witnessed varying standards and practices among the lending community, be it in origination and documentation or monitoring and supervision. Variation in standards across the industry imposes systemic risks which can be a potential threat to the sector. Due care has to be exercised in originating loans as well as in monitoring and supervision to ensure the sustained quality of assets, more so, as the housing loans are of long tenor. Thus, there is a need for evolving uniform standards for appraisal and documentation. There is also a need for adoption of a uniform practice by the housing finance industry relating to matters like prepayment of housing loans, conversion of fixed rate loans into floating rate loans and vice-versa and rescheduling of repayment instalments.

Growing competition and reduction in risk weights on housing loans from 100 percent to 50 percent has provided a substantial incentive to the lending institutions resulting in aggressive practices including very high Loan to Value [LTV] loans, softening of collateral requirements, competitive pricing etc. Till date the default rate in the housing finance industry has been low as compared to the default rate in case of corporate loans. However, all over the world, it has been empirically verified that loan default rates bear a positive correlation with LTV ratio and are higher in the case of home loans with higher LTV ratios. Studies have also revealed that the probability of default

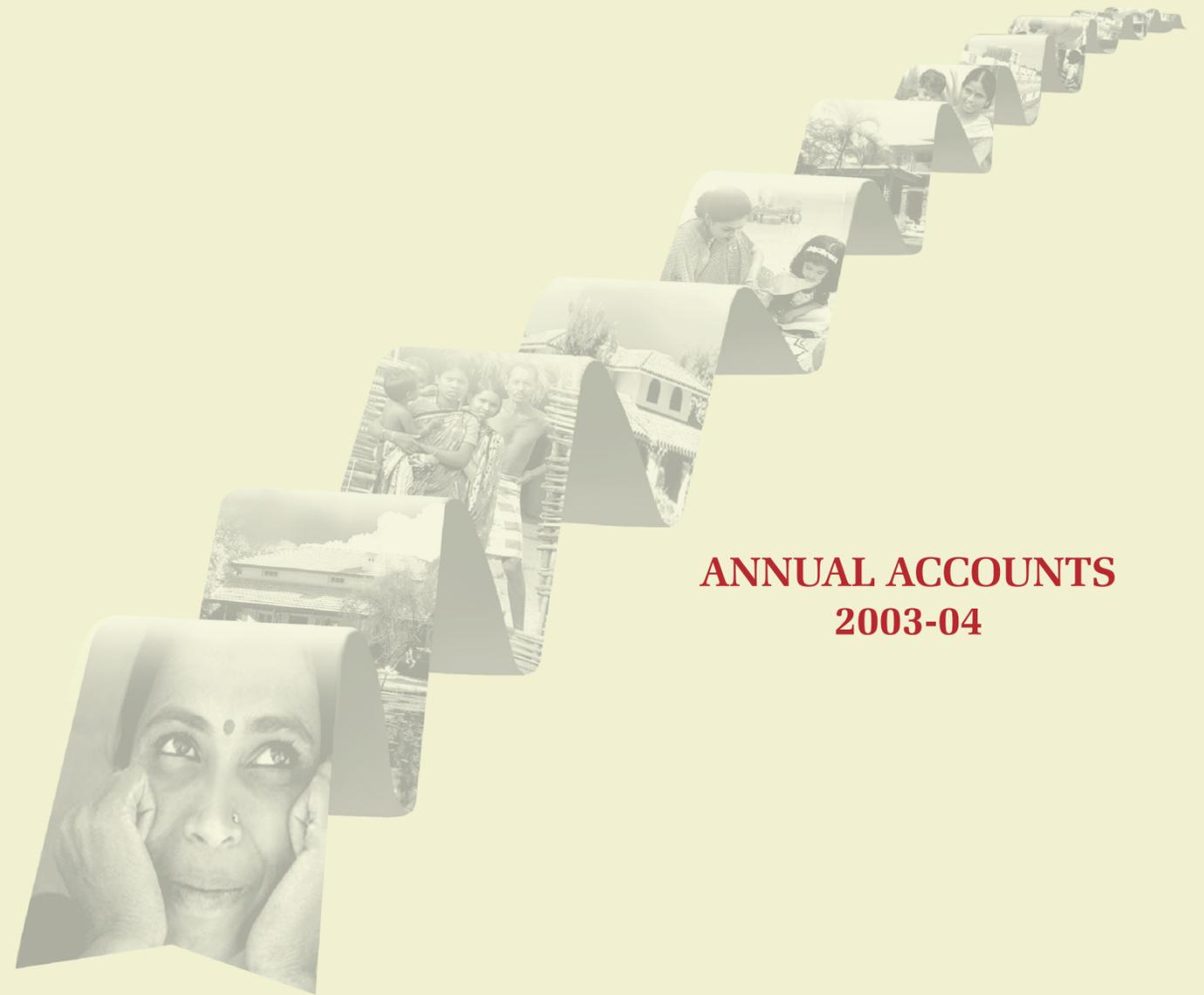


and loss severity of such loans with higher LTV ratios is also higher particularly in the rising interest rate scenario. Therefore, the need for fixing differential risk weights relative to the LTV ratio has to be looked into.

Availability of reliable information in respect of various parameters related to housing will no doubt help the policy makers, lenders as well as the borrowers. Thus, evolution of a suitable mechanism for creation, maintenance and regular dissemination of this information to the various stake holders needs immediate attention. NHB has taken initiatives in this regard and has initiated the process for development of the real estate price indices. These indices are expected to be of great help to planners, lenders and individual home seekers.

Micro Finance Institutions have been playing a crucial role in community development by inculcating saving and credit habits among their members. The Self Help Groups nurtured by these agencies over a period of time are steadily maturing to handle housing credit for their members. Demand from this segment is bound to increase. There is a need to strengthen these institutions in the informal sector and utilize their network to reach the lower segments of the society. NHB's recent initiatives to extend housing finance to this segment are expected to accelerate the flow of housing finance to the needy in the unorganized sector.

With the thrust provided by way of policy initiatives of the Government and the measures initiated by NHB and other agencies in respect of issues referred above, the housing finance sector is expected to maintain the growth momentum witnessed during the last few years, although renewed measures are required as above to address and tackle the core issues which can improve the growth of habitat development in our country.



**ANNUAL ACCOUNTS
2003-04**



MUKUND M. CHITALE & CO.
Chartered Accountants

Tel.: 26143130 • 26143127
26113991 • 26107804
Fax : 26146415

Auditor's Report

We have audited the attached Balance Sheet of National Housing Bank (General and Special Fund) as at 30th June 2004 and the Profit and Loss Account of the said Bank for the year ended on that date annexed thereto and the Cash Flow statement for the year ended on that date.

These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

We report as follows :

- a) The Balance Sheet and Profit and Loss Account have been drawn up in accordance with the National Housing Bank Act, 1987 and regulations framed there under for General Fund and for Special Fund in accordance with the provisions of National Housing Bank (Slum Improvement and Low Cost Housing Fund) Regulations, 1993.
- b) In our opinion, proper books of account as required by Law have been kept by the Bank so far as appears from our examination of those books.
- c) The Balance Sheet and Profit and Loss Account dealt with by this report are in agreement with the books of account.

We further report that

1. We are unable to form an opinion on the treatment given by the Bank in respect of the following matters and the impact that the same may have on the accounts of the Bank as the final decisions have yet to be delivered by the Courts and the sums determined :
 - a) Rs. 237.06 crores received from State Bank of Saurashtra pursuant to a decree by the Special Court and others and included in 'Other Liabilities' [Note no. 4(i)].



- b) Rs. 149.37 crores appearing as Other Assets representing Rs. 95.40 crores paid by the Bank to State Bank of Saurashtra and Rs. 53.97 crores paid by the Bank to Custodians pursuant to the orders of the Special Court. [Note no. 4(ii)].

Further, subject to our comments in para I above, in our opinion and to the best of our information and according to the explanations given to us and as shown by the books of the Bank the said accounts give the information required by the National Housing Bank Act, 1987 and regulations framed there under in the manner so required and in conformity with the accounting principles generally accepted, we report that:

- i) where we have called for information and explanations, such information and explanations have been given to us and we have found them to be satisfactory.
- ii) the Balance Sheet of the Bank read with the notes on accounts, is a full and fair Balance Sheet containing all the necessary particulars and is properly drawn up so as to exhibit a true and fair view of the affairs of the Bank as at 30th June 2004.
- iii) the Profit and Loss Account, shows a true balance of profit of the Bank for the year ended on that date; and
- iv) the Cash Flow Statement gives a true and fair view of the cash flows for the year.

For **Mukund M. Chitale & Co.**
Chartered Accountants

Sd/-
(Mukund M. Chitale)
Partner
M. No. 14054

Place : New Delhi
Date : October 14, 2004

Balance Sheet

as at 30th June, 2004

Previous Year Rs. Crore	Liabilities	Schedules	Current Year Rs. Crore
450.00	1. Capital	I	450.00
1,087.95	2. Reserves	II	1,206.14
0.68	3. Profit & Loss Account	III	0.64
6,010.52	4. Bonds and Debentures	IV	8,246.72
400.00	5. Subordinated Debts		400.00
1,521.53	6. Borrowings	V	1,922.57
401.75	7. Current Liabilities and Provisions	VI	438.24
245.58	8. Other Liabilities	VII	267.84
171.65	9. HLA deposits with banks/HFCs - As per contra		175.36
10,289.66	TOTAL		13,107.51

Previous Year Rs. Crore	Assets	Schedules	Current Year Rs. Crore
2,327.72	1. Cash and Bank Balances	VIII	3,113.87
387.02	2. Investments	IX	880.69
6,883.39	3. Loans and Advances	X	8,284.00
31.83	4. Fixed Assets	XI	34.63
487.67	5. Other Assets	XII	615.37
0.38	6. Deferred Tax Asset		3.59
171.65	7. HLA deposits with banks/HFCs - As per contra (out of this Rs.9,27,11,734.00 used as automatic refinance)		175.36
10,289.66	TOTAL		13,107.51

Notes forming part of Accounts

XIII

Sd/-
A. P. Saxena
Assistant General Manager

Sd/-
P. K. Kaul
General Manager

Sd/-
A.K.Sohani
Executive Director

Sd/-
R.V. Verma
Executive Director

Sd/-
V. Sridar
Chairman & Managing Director

Sd/-
Ashok Kumar
Director

Sd/-
S.B.Mathur
Director

Sd/-
P.S.Rana
Director

Sd/-
V. Leeladhar
Director

Sd/-
K. Madhava Rao
Director

Sd/-
Amitabh Verma
Director

As per our attached Report of even date

For **Mukund M. Chitale & Co.**
Chartered Accountants

Sd/-
(Mukund. M. Chitale)
Partner
M.No.14054

Place: New Delhi
Dated: October 14, 2004

Profit & Loss Account

for the Year ended 30th June, 2004

Previous Year Rs. Crore	Expenditure	Current Year Rs. Crore
538.96	1. Interest	610.81
10.36	2. Staff Salaries, Allowances etc. and Terminal benefits	3.42
0.06	3. Directors' and Committee Members fees and Expenses	0.13
0.01	4. Audit Fees	
	(i) Statutory Audit Fees	0.04
	(ii) Tax Audit Fees	0.01
	(iii) Certification	0.03
3.30	5. Rent, Taxes, Electricity and Insurance	2.31
0.28	6. Postage, Telegrams, Telex and Telephones	0.40
0.12	7. Law Charges	0.44
1.08	8. Stationery, Printing, Advertisement etc.	0.59
1.88	9. Depreciation	2.06
9.83	10. Underwriting Commission, Brokerage and Guarantee Fee	7.95
0.74	11. Travelling Expenses	0.98
3.42	12. Other Expenditure	8.37
0.00	13. Depreciation on Investment	47.09
150.45	14. Loss in Securities Transaction of 1991-92	0.00
8.98	15. Provision for NPA/Standard Assets	12.50
0.20	16. Wealth Tax	0.19
0.06	17. Deferred Tax	0.00
127.50	18. Balance of Profit c/d	155.46
857.23	TOTAL	852.78
6.76	19. Provision for Income Tax	37.33
16.20	20. Transfer to Invest. Fluctuation Reserve	17.80
35.50	21. Transfer to Special Reserve in terms of Section 36(1)(viii) of Income Tax Act, 1961	70.00
69.10	23. Balance Carried to Balance Sheet	48.08
127.56	TOTAL	173.21

Previous Year Rs. Crore	Income	Current Year Rs. Crore
685.63	1. Interest and Discount	743.86
38.25	2. Income from Investments	54.57
54.67	3. Other Income	39.19
62.48	4. Provisions no longer required now written back	15.16
16.20	5. Provisions and Contingencies (Excess Provision on Investments reversed)	0.00
857.23	TOTAL	852.78
127.50	6. Balance of Profit brought down	155.46
0.06	7. Transfer from Investment Fluctuation Reserve	17.75
127.56		173.21

As per our attached Report of even date
For Mukund M. Chitale & Co.
Chartered Accountants

Sd/-
(Mukund. M. Chitale)
Partner
M.No.14054

Place : New Delhi
Dated: October 14, 2004

Sd/- A. P. Saxena Assistant General Manager	Sd/- P. K. Kaul General Manager	Sd/- A.K.Sohani Executive Director	Sd/- R.V. Verma Executive Director	Sd/- V. Sridar Chairman & Managing Director
Sd/- Ashok Kumar Director	Sd/- S.B.Mathur Director	Sd/- P.S.Rana Director	Sd/- V. Leeladhar Director	Sd/- K. Madhava Rao Director
		Sd/- Amitabh Verma Director		

Schedules to the Balance Sheet as at 30th June, 2004

Previous Year Rs. Crore			Current Year Rs. Crore
	SCHEDULE - I		
	CAPITAL		
450.00	1. Authorised		450.00
450.00	2. Issued and Paid-up (wholly subscribed by the Reserve Bank of India)		450.00
450.00			450.00
	SCHEDULE - II		
	RESERVES		
759.00	1. Reserve Fund		804.00
212.48	2. Special Fund (Slum Improvement & Low Cost Housing Fund)		215.35
88.89	3. Special Reserve in terms of Section 36(1) (viii) of Income Tax Act, 1961		158.89
19.95	4. Investment Fluctuation Reserve		20.00
7.38	5. Taxation Reserve		7.39
0.25	6. Staff Benevolent Fund		0.51
1,087.95			1,206.14
	SCHEDULE - III		
	PROFIT & LOSS ACCOUNT		
0.74	1. Opening Balance	0.68	
69.10	Balance as per P&L account annexed	48.08	
0.06	Add: Transfer from Taxation Reserve	0.00	
16.97	Less: Profit of Slum Improvement & Low Cost Housing Fund transferred	2.87	45.89
	2. Less: Appropriations		
45.00	i. Reserve Fund	45.00	
7.00	ii. Taxation Reserve	0.00	
0.25	iii. Staff Benevolent Fund	0.25	45.25
0.68	3. Balance of Net Profit		0.64

Previous Year Rs. Crore			Current Year Rs. Crore
	SCHEDULE - IV		
	BONDS AND DEBENTURES		
475.50	1. Bonds (Guarnateed by GOI)		435.50
	2. Priority Sector Bonds		
1,100.00	i. Tax-free Bonds	1,140.00	
1,935.30	ii. Taxable Bonds	1,794.66	
551.80	iii. Special Series Bonds	538.60	3,473.26
1,947.92	3. Capital Gain Bonds		4,337.96
6,010.52			8,246.72
	SCHEDULE - V		
	BORROWINGS		
	1. From Reserve Bank of India		
175.00	(a) Out of National Housing Credit (Long Term Operations) Fund		50.00
90.00	(b) Others (Line of credit)		39.50
	2. From Other Sources		
630.00	i. In India		1,290.04
626.53	ii. Outside India		543.03
1,521.53			1,922.57
	SCHEDULE - VI		
	CURRENT LIABILITIES AND PROVISIONS		
189.49	1. Interest Payable		194.68
51.53	2. Interest & Instalment received in advance		46.25
9.17	3. Provision for Retirement benefits		9.91
85.82	4. Provision for Income Tax/Wealth Tax		123.30
65.74	5. Others		64.10
401.75			438.24



Previous Year Rs. Crore			Current Year Rs. Crore
	SCHEDULE - VII OTHER LIABILITIES		
237.15	1. Unsettled transactions of 1991-92		237.20
8.43	2. Sundry Deposit / others		30.64
245.58			267.84
	SCHEDULE - VIII CASH & BANK BALANCES		
0.69	1. Cash/ Cheques in Hand		21.90
0.07	2. Balance with Reserve Bank of India		0.03
	3. Balance with other Banks		
	i. In India		
11.17	(a) Current Accounts	14.11	
1,770.33	(b) Term Deposit - Bank/FIs	2,550.94	2,565.05
545.46	ii. Outside India		526.89
2,327.72			3,113.87
	SCHEDULE - IX INVESTMENTS		
145.71	1. GOI Dated Securities - at cost or market value whichever is less		851.43
11.94	2. Stocks, shares, bonds, debentures and Securities of Housing Finance Institutions / Building Material Co.		10.74
229.37	3. Stocks, shares, bonds, debentures and Securities of other Institutions		18.52
387.02			880.69

Previous Year Rs. Crore			Current Year Rs. Crore
	SCHEDULE - X LOANS AND ADVANCES		
	(i) Housing Finance Institutions		
4,628.61	(a) Housing Finance Companies		4,736.29
522.03	(b) Co-operative Housing Finance Societies		561.72
	(ii) Scheduled Banks		
856.32	(a) Commercial Banks		2,142.96
2.25	(b) Regional Rural Banks		2.66
79.61	(c) Urban Co-operative Banks		113.80
522.10	(iii) State Co-operative Agriculture Rural Development Banks/Land Development Banks		495.14
272.47	(iv) Housing Boards/Devp. Authorities	226.54	
	(v) Others	4.89	231.43
6,883.39			8,284.00

SCHEDULE - XI
Fixed Assets (For the period 01.07.2003 to 30.06.2004)

Sl. No.	Assets	Cost			Depreciation			WDV as on 30/06/04	WDV as on 30/06/03
		Opening Balance	Addition	Deletion	Total	Opening Balance	During the year		
1	Leasehold Land	11.08	0.00	0.00	11.08	1.48	0.00	1.60	9.60
2	Premises	29.76	3.61	0.02	33.35	9.65	@	10.69	20.11
3	Computer/ Microprocessors	3.28	0.63	0.04	3.87	2.14	0.01	2.59	1.14
4	Motor Vehicles	0.53	0.48	0.05	0.96	0.18	0.03	0.33	0.35
5	Furniture & Fixtures	1.77	0.08	@	1.85	1.45	@	1.57	0.32
6	Office Equipments	1.22	0.21	0.11	1.32	0.99	0.02	1.08	0.23
7	Residence Furnishing -Furniture	0.04	@	@	0.04	0.01	@	0.02	0.03
8	Residence Furnishing -Electrical	0.19	0.03	0.02	0.20	0.14	@	0.16	0.05
	Total	47.87	5.04	0.24	52.67	16.04	0.06	18.04	31.83

@ Amount less than Rs.0.50 lakhs.

Previous Year Rs. Crore		Current Year Rs. Crore
	SCHEDULE - XII	
	OTHER ASSETS	
237.07	1. Interest/Discount Receivable/Accrued	263.98
101.23	2. Advances, Receivables, Adv Tax, Prepaid Expenses	202.02
149.37	3. Unsettled transactions of 1991-92	149.37
487.67		615.37



Schedule XIII
Notes forming parts of the accounts

(A) Significant Accounting Policies

1. General

The Bank prepares its accounts on accrual basis in accordance with the generally accepted accounting principles.

Balance Sheet and Profit and Loss Account have been drawn in accordance with the requirements of the National Housing Bank Act, 1987 and National Housing Bank General Regulations, 1988 framed thereunder.

The preparation of financial statements requires that management makes estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the financial statements and the reported income and expense during the reporting period. Management believes that the estimates used in the preparation of the financial statements are prudent and reasonable. Actual results could differ from these estimates.

2. Revenue Recognition

Interest on loans and advances, except in respect of non-performing assets, is accounted for on accrual basis. In respect of non-performing assets, interest is accounted for on receipt basis.

Interest on deposits with banks and institutions is included under the head 'interest and discount'.

3. Investments

3.1 Classification

Investments are classified into "Held for Trading", "Available for Sale" and "Held to Maturity" categories as below:

- (a) The investments that are acquired with the intention to trade by taking advantage of the short-term price/interest rate movements are classified under "Held for Trading". These investments are held under this category upto 90 days from the date of acquisition.
- (b) Investments which are intended to be held up to maturity are classified as "Held to Maturity."
- (c) Investments which are not classified in either of the above categories are classified as "Available for Sale."

3.2. Valuation:

3.2.1 In determining acquisition cost of investment:

- (a) brokerage/commission received on subscriptions is deducted from the cost of securities.
 - (b) brokerage and transfer charges incurred at the time of acquisition are capitalized.
 - (c) Interest accrued up to the date of acquisition of securities (i.e. broken period interest) is excluded from the acquisition cost.
- 3.2.2 Individual scrips classified under "Held for Trading" category, where market quotations are available, are valued at lower of book value or market value. Depreciation, if any, is aggregated category-wise as per the classification of investments prescribed by RBI and recognized in the profit and loss account, while appreciation is ignored. The book value of the individual scrip is not changed.
- 3.2.3 Investments under "Held to Maturity" category are carried at acquisition cost. Wherever the book value is higher than the face value/redemption value, the excess amount is amortized equally over the remaining period of maturity.
- 3.2.4 Investments under "Available for Sale" category are valued at cost or market price whichever is lower. Where market quotations are not available, market value for this purpose is arrived at on the basis of realizable price computed as per Fixed Income Money Market and Derivatives Association of India/Primary Dealers Association of India / RBI guidelines. Depreciation, if any, is aggregated category-wise as per the classification of investments prescribed by RBI and recognized in the profit and loss account, while appreciation is ignored. The book value of the individual scrip is not changed.
- 3.2.5 Treasury bills and commercial paper are valued at cost.
- 3.2.6 In respect of debentures/bonds etc., where income/principal is not serviced, provision for depreciation is made as per norms of RBI.
- 3.2.7 Investment in equity shares of housing finance companies / building material industries is valued at cost or market value or on the basis of NAV (net asset value) as ascertained from the latest balance sheet of the company where such companies are not listed whichever is less and in the absence thereof at the rate of Re. 1 per company.

4. Loans and advances

- (a) Subscription to Special Rural Housing Debentures (SRHDs) of State Co-operative Agricultural & Rural Development Banks (ARDBs) / Land Development Banks (LDBs) in respect of loans for rural housing by their branches/primary banks is shown under Loans and Advances.
- (b) Assets representing loans and advances are classified based on record of recovery as Standard, Sub-standard, Doubtful and Loss assets. Provision is made for assets as per the Guidelines issued to refinancing institutions by RBI as under:-



i. Standard Assets	0.25%
ii. Sub-standard assets	10%
iii. Doubtful assets	100% of unsecured portion plus 20%/30%/50% of the secured portion depending on the period for which loans and advances remained doubtful.
iv. Loss assets	100%.

(c) Provision made as above is grouped in the Balance Sheet under Current Liabilities and Provisions.

5. Fixed assets

- (a) Fixed assets are stated at historical cost less depreciation.
- (b) Assets costing below Rs.1000 are charged to revenue.
- (c) Depreciation on various assets is provided on the following basis:-

S.No.	Assets	Method of Depreciation	Rate (%)
1.	Premises	Written down value	5
2.	Leasehold Land	Straight Line	Over the lease period
3.	Furniture & Fixture	Straight Line	10
4.	Other Assets	Straight Line	20

- (d) Assets classified under No. 3 and 4 above whose useful life is less than 10 years and 5 years respectively are depreciated fully during the year of acquisition.
- (e) Depreciation on addition to assets is calculated for full period irrespective of the date of acquisition.

6. Staff Benefits:

Liability for Gratuity, Pension and Leave Encashment is determined on the basis of actuarial valuation at the end of the period. Incremental liability is provided for by charging to the profit and loss account.

7. Income Tax

Provision for Income Tax for the year has been arrived at after due consideration of various judicial pronouncements and legal opinion obtained on the relevant issues.



8. Deferred Tax

Provision for taxation is made on the basis of estimated tax liability with adjustment for deferred tax in terms of the Accounting Standard on 'Accounting for Taxes on Income' (AS 22) issued by the Institute of Chartered Accountants of India.

9. Foreign Exchange Transactions

Gains/losses on account of fluctuations in foreign exchange rates in respect of foreign currency borrowings, net of risk management arrangements, is included in the Profit & Loss Account in compliance of the Accounting Standard (AS 11) on Accounting for the Effects of Changes in Foreign Exchange Rates issued by the Institute of Chartered Accountants of India.

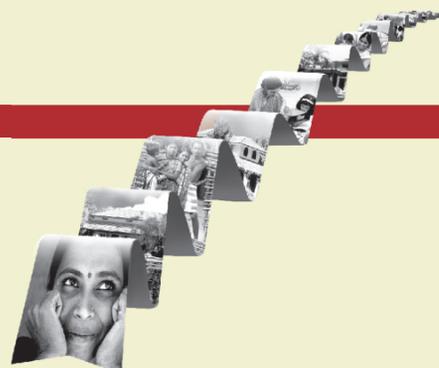
(B) NOTES

1. Fixed Assets

- (i) Registration formalities are in progress in respect of properties situated at India Habitat Centre, Lodhi Road, Jangpura Extension and Vasant Kunj Flats in New Delhi and Varsova and Chembur in Mumbai having written down value of Rs.19.31 crore.
- (ii) In respect of the office space acquired at India Habitat Centre (IHC), Lodhi Road, New Delhi, the exact cost has not been apportioned by IHC among the different allottees. As such, a sum of Rs.14.12 crore has been capitalised by the Bank on the basis of payments made to IHC.

2. External Borrowings

- (i) Under the Housing Guarantee Programme of USAID, the Bank had raised a loan of US \$25 million in the U.S. capital market in the year 1990-91. The loan, shown under external borrowings, is repayable in forty equal half yearly installments commencing from October, 2001. Government of India had guaranteed the loan and also agreed to bear the exchange loss, if any.
- (ii) Overseas Economic Co-operation Fund of Japan released a sum of 2.970 billion yen to Government of India under the Housing Programme for Low and Medium Income Households. Government of India lent Rs.41.36 crore being the rupee equivalent of 2.970 billion yen to the Bank during the year 1991-92 through a subsidiary loan agreement and repayable in thirty one equal semi-annual installments. In terms of subsidiary loan agreement between NHB and GOI, latter shall bear the foreign exchange risk on the loan. The repayment of loan has started from January 20, 2001. The same has been shown under external borrowings.



(iii) The Bank has borrowed US Dollar 120.4 million (equivalent to Rs.564 crore) from Asian Development Bank (ADB) and the same has been guaranteed by the Government of India. In terms of the agreements entered into with two public sector banks and EXIM Bank, NHB deposited the dollar funds (USD 120 million) in the overseas branches of these banks. The said deposits are to be utilized for repayment of borrowings from ADB. The Bank raised Rs.564 crore by issue of special series of priority sector bonds and these bonds have been subscribed by the banks/Exim Bank with whom the above US Dollar deposit have been kept. Bank repaid US Dollar 15.7 million (equivalent to Rs.71.35 crore) to ADB during the year.

3. Investments

During the year the Bank has changed the method of calculating the acquisition cost of investments. The brokerage and transfer charges incurred at the time of acquisition are being capitalized. This has resulted in change in accounting policy of the Bank. On account of the change in accounting policy an amount of Rs.0.064 crore has been added to the cost of investments, due to which the profits for the year have been shown higher to that extent.

4. Security Transactions of 1991-92

- (i) A sum of Rs.237.20 crore appearing in the Balance Sheet under the head "Other Liabilities" includes a sum of Rs.237.06 crore representing the decreed amount received from State Bank of Saurashtra (SBS) in a suit filed by NHB. This amount will be adjusted on final disposal of the appeal filed by SBS and NHB in the Supreme Court.
- (ii) The sum of Rs.149.37 crore appearing in the Balance Sheet under the head "Other Assets" represents the sum of Rs.95.40 crore paid by the Bank to SBS during 1991-92 for purchase of securities and Rs.53.97 crore paid by the Bank to the custodian pursuant to the orders of the special court. Both the amounts will be adjusted on final disposal of the appeal filed by the SBS and NHB in the Supreme Court.
- (iii) A sum of Rs.40.25 crore was appearing in the books of NHB as unclaimed amount since 1991-92. While passing a Decree in favour of NHB in the above suit against SBS, the special Court noted this fact and directed NHB to deposit a sum of Rs.40.22 crore with the Custodian, which was duly deposited. Provision for interest amounting to Rs.35.28 crore has been made on the above sum from 1991-92 till date of deposit with the Custodian and thereafter on the balance amount. It is being shown under the head "Current Liabilities and Provisions - Others" and will be adjusted on final disposal of the appeal pending in the Supreme Court as referred above.
- (iv) The disputes between NHB & SBI and NHB & Grindlays Bank have been settled and no claim exists between the parties against each other, However, any money to be recovered from the assets of the late Sh. Harshad Mehta by SBI and Grindlays Bank in accordance with the decrees passed in their favour by the special court will be shared by them with NHB in the agreed manner and will be accounted for on actual receipt.



5. Segment Reporting

The main business of the National Housing Bank is to promote and regulate housing finance institutions and also to provide financial and other support to such institutions. All other activities of the Bank centre around the main business. Hence, there are no separate reportable segments as per the Accounting Standard on "Segment Reporting" (AS 17) issued by the Institute of Chartered Accountants of India.

6. Related Party Transactions

As per the Accounting Standard on "Related Party Disclosures" (AS 18) issued by the Institute of Chartered Accountants of India, the necessary disclosure is made as under:

S.N.	Name of the Related Party	Nature of Relationship
1.	Reserve Bank of India	Holding Company
2.	BOB Housing Finance Company Ltd.	Associate Company
3.	V. Sridar	Key Management Personal

(Related party relationships are identified by the Bank)

The nature & volume of transactions of the Bank during the year with the above parties were as follows:

[Rs. crore]

Particulars	Holding Company	Associate Company	Key Management Personnel
Interest Income	-	26.41	-
Refinance given	-	2.03	-
Dividend received	-	0.59	-
Loan taken	0.00	-	-
Interest paid	13.41	-	-
Remuneration	-	-	0.06
Receivable as on June 30, 2004	-	221.56	-
Payable as on June 30, 2004	89.50	-	-



7. Deferred Tax

The Bank has recorded as at 30th June, 2004 net deferred tax assets of Rs.3.59 crore (previous year Rs.0.38 crore), which has been credited to the profit and loss account.

Deferred Tax Assets	
On account of the timing difference towards various provisions	Rs.4.19 crore
Deferred Tax Liabilities	
On account of the timing difference between the book depreciation and Income Tax depreciation	Rs.0.60 crore
Net Deferred Tax Assets	Rs.3.59 crore

8. Home Loan Account Scheme

Deposits under Home Loan Account Scheme (HLAS) including interest thereon and the corresponding asset on account of moneys retained by Banks/Housing Finance Companies is taken on the basis of information furnished by them as on 31st March each year, as their accounts are closed on the said date.

Thus deposits under Home Loan Account Scheme held by the banks/HFCs aggregating Rs.175.36 crore as at March 31, 2004 have been disclosed in the Balance Sheet as a Contra item.

9. Securitisation

In its efforts to mobilize more resources for the housing sector, NHB continues to undertake securitization of home loans of housing finance institutions and banks during the year. Securitization by NHB involves purchase of home loans backed by mortgages from the originators and the transfer of the same to the investors for consideration. NHB acts as trustee for such investors. NHB has so far completed ten securitization transaction involving 35116 individual home loans originated by six housing finance companies and one public sector bank, aggregating to Rs.663.92 crore. Home loans purchased for the purpose of securitization during the year were duly securitized for Rs.221.93 crore and Pass Through Certificates have been issued to the investors. NHB has also invested Rs.2.18 crore in these Pass Through Certificates. As trustee, NHB arranges for collection of cash flows on the securitized loans and its distribution to the investors. A sum of Rs.0.13 crore was received during the year as Trusteeship Fee.

10. Consolidation of Special Fund with the General Fund

The Voluntary Deposits (Immunities and Exemptions) Act, 1991 was passed with the objectives of providing certain immunities and exemptions from direct taxes to persons making voluntary deposits with the National



Housing Bank and exemptions from direct taxes in relation to such amounts. The amount so collected under the Voluntary Deposits Scheme is required to be kept in a Special Fund exclusively for the purpose of financing slum clearance and low cost housing for the poor. In terms of National Housing Bank (Slum Improvement & Low Cost Housing Fund) Regulations, 1993 Profit and Loss Account for the year ended 30th June and Balance Sheet as on that date are required to be prepared each year in respect of the Special Fund and audited by the Statutory Auditors appointed by the Reserve Bank of India under Section 40 (1) of the National Housing Bank Act, 1987.

Accordingly, the Profit and Loss Account and the Balance Sheet of the Special Fund have been prepared as per the provisions of the National Housing Bank (Slum Improvement & Low Cost Housing Fund) Regulations, 1993 and attached as Annexure to these financial statements. The balance lying in the Special Fund is included under the head "Reserves". Various assets and liabilities of the Special Fund have been consolidated with the amounts relating to the General Fund under the respective heads.

11. Regrouping

Figures for the previous year have been re-grouped, wherever necessary, so as to make them comparable with those of the current year.

12. Cash Flow Statement for the year ended June 30, 2004

(Rs. crore)

A) CASH FLOW FROM OPERATING ACTIVITIES		
Net profit before taxes		155.46
Adjustments for		
Depreciation on fixed assets	2.06	
Deferred Tax	-3.21	
Provision for Standard Assets and Contingencies	12.50	
Depreciation on Investments	47.09	
Provisions written back	-15.16	
		198.74
Adjustments for		
(Increase)/Decrease in Investments	-540.75	
(Increase)/Decrease Deposits with Banks	-776.15	
(Increase)/Decrease in Loans & Advances	-1395.72	
(Increase)/Decrease in other assets	-130.90	
Increase/(Decrease) in Current Liabilities & Provisions	13.75	
Increase/(Decrease) in Other Liabilities	22.76	
NET CASH FLOW FROM OPERATING ACTIVITIES		-2,608.27
B) CASH FLOW FROM INVESTING ACTIVITIES		
(Increase)/Decrease in Fixed Assets	-4.86	
NET CASH USED IN INVESTING ACTIVITIES		-4.86
C) CASH FLOW FROM FINANCING ACTIVITIES		
Proceeds from issue of Share Capital	0.00	
Proceeds from issue of Subordinated Debt	0.00	
Proceeds from issue of Bonds & Debentures	2236.20	
Increase/(Decrease) in Borrowings	401.04	
NET CASH GENERATED FROM FINANCING ACTIVITIES		2,637.24
Net increase in cash and cash equivalents	24.11	
Cash and cash equivalents as at 1st July 2003	11.93	
Cash and cash equivalents as at 30th June 2004		36.04

13. Additional Disclosures as per RBI Guidelines

(Rs. crore)

A. Capital			
a. CRAR			30.05%
Core CRAR			24.46%
Supplementary CRAR			5.59%
b. Amount of subordinated debt raised and outstanding as Tier II Capital			400.00
c. Risk Weighted Assets			
- On Balance Sheet Items		6643.70	
- Off Balance Sheet Items		14.56	
d. Share-holding pattern as on the date of the Balance Sheet			(%age of shareholding)
- Reserve Bank of India			100%
B. Asset Quality & Credit Concentration			
e. Percentage of net NPAs to net Loans & Advances			0.00%
f. Amount and percentage of net NPAs under the prescribed asset classification categories			
		Amount	%age
Sub-Standard		Nil	-
Doubtful		Nil	-
Loss		Nil	-
Total		Nil	-
g. Amount of provisions made during the year towards :			
- Standard Assets			3.50
- NPAs			9.00
- Investments			47.08
- Income tax			37.33
- Contingencies			-
h. Movement in net NPAs		As on 30/06/03	As on 30/06/04
- Net NPAs		Nil	Nil

i	Credit exposure as percentage to capital funds and as percentage to total assets, in respect of:	Total Credit Outstanding	% age to Capital Fund	% age to Total Assets
	- The largest single borrower	1051.22	52.65%	8.02%
	- The largest borrower group	1,235.19	61.87%	9.42%
	- The 10 largest single borrowers	5337.41	267.34%	40.72%
	- The 10 largest borrower groups\$	2,963.54	148.44%	22.61%
	\$ NHB has only five borrower groups			
j.	Credit exposure to the five largest sectors/ industries as percentage to total loan assets	Total Credit Outstanding	% age to Total Outstanding	
	- Housing Finance Companies	4736.30	57.17%	
	- Commercial Banks	2142.95	25.87%	
	- Co-operative Housing Finance Societies	561.72	6.78%	
	- State Cooperative Agricultural Rural Development Banks/Land Development Banks	495.14	5.98%	
	- Urban Cooperative Banks	113.80	1.37%	

C. Liquidity - Maturity pattern of assets and liabilities

(Rs. crore)

Items	Less than or equal to 1 year	More than a year upto 3 years	More than 3 years upto 5 years	More than 5 years upto 7 years	More than 7 years	Total
Rupee assets	3728.35	4383.23	3261.80	1521.80	2507.35	15402.53
Foreign currency assets	25.42	54.78	58.42	61.85	461.09	661.56
Total Assets	3753.77	4438.01	3320.22	1583.65	2968.44	16064.09
Rupee liabilities	1081.63	6471.31	2423.16	906.68	3022.66	13905.44
Foreign currency liabilities	23.98	52.10	55.90	59.41	389.82	581.21
Total Liabilities	1105.61	6523.41	2479.06	966.09	3412.48	14486.65

D. Operating results	
a) Interest Income as a percentage to average Working Funds	6.48%
b) Non-interest income as a percentage to average Working Funds (*)	0.82%
c) Operating profit as a percentage to average Working Fund	1.77%
d) Return on average assets	1.03%
e) Net Profit (profit after tax) per employee	1.41
(*) Non-interest income excludes write-back of provisions & Contingencies , no longer required.	
E. Movement in the provisions	
I Provisions for Non Performing Assets (comprising loans, bonds and debentures in the nature of advance and inter-corporate deposits) (excluding provision for standard assets)	
a) Opening balance as at the beginning of the financial year	35.00
Add: Provisions made during the year	9.00
Less: Write off, write back of excess provision	12.55
b) Closing balance at the close of the year	31.45
II Provisions for Depreciation on Investments	
c) Opening Balance at the beginning of the year	0.60
Add: i) Provisions made during the year	47.08
ii) Appropriation, if any, from Investment Fluctuation Reserve Account during the year	17.73
Less: i) Write off during the year	
ii) Transfer, if any, to Investment Fluctuation Reserve Account	17.73
d) Closing balance at the close of the year	47.68
F. Restructured Accounts	
a) Total Amount of loan Assets	Nil
b) Sub-standard Assets	Nil
G. Forward Rate Agreements and Interest Rate Swaps	
a) Notional principal of swap agreements	Rs.2319.86 crore
b) Nature and terms of the swaps	Quanto swaps with NHB receiving fixed and pay floating rate of interest.
c) Quantification of losses	If counterparties failed to fulfill their obligations, NHB would suffer a loss of Rs.1.46 crore
d) Collateral required	No collaterals were required
e) Concentration of credit risk	All deals have been transacted with Banks
f) Fair value of total swaps	(-)Rs.42.98 crore

H. Interest Rate Derivatives

S.No.	Particulars	Amount
1	Notional principal amount of exchange traded interest rate derivatives undertaken during the year (instrument wise)	Nil
2	Notional principal amount of exchange traded interest rate derivatives outstanding as on 30th June 2003 (instrument wise)	Nil
3	Notional principal amount of exchange traded interest rate derivatives outstanding and not "highly effective" (instrument wise)	Nil
4	Mark-to-market value of exchange traded interest rate derivatives outstanding and not "highly effective" (instrument wise)	Nil

I. Investments in Non Government Debt Securities

A. Issuer Categories in respect of investments made

[Rs. crore]

Sr. No.	Issuer	Amount	Amount of			
			Investments made through private Placement	'below investment grade' Securities held	'unrated' Securities held	'unlisted' Securities
(1)	(2)	(3)	(4)	(5)	(6)	(7)
1	PSUs	0.00	0.00	0.00	0.00	0.00
2	FIs	0.00	0.00	0.00	0.00	0.00
3	Banks	10.25	10.25	0.00	0.00	10.25
4	Private Corporates	5.43	0.00	0.00	0.00	0.00
5	Subsidiaries/Joint ventures	2.18	2.18	0.00	0.00	2.18
6	Others	0.00	0.00	0.00	0.00	0.00
7	Provisions held towards depreciation	0.53	0.00	0.00	0.00	0.00
Total		17.33	12.43	0.00	0.00	12.43

B. Non performing investments

[Rs. crore]

Particulars	Amount
Opening balance	0.53
Additions during the year	Nil
Reductions during the year	Nil
Closing balance	0.53
Total Provisions held	0.53

J. Securities sold and purchased under repo

(Rs. crore)

Particulars	Minimum outstanding	Maximum outstanding	Daily average	As on June 30, 2004
Securities sold under repos	0.24	840.04	12.69	840.04
Securities purchased under reverse repo	0.00	3.18	0.01	0.00

Schedule I to XIII form an integral part of accounts.

Signatures on schedules I to XIII for identification

Sd/
A. P. Saxena
Assistant General Manager

Sd/-
P. K. Kaul
General Manager

Sd/-
A.K.Sohani
Executive Director

Sd/-
R.V. Verma
Executive Director

Sd/-
V. Sridar
Chairman & Managing Director

Sd/-
Ashok Kumar
Director

Sd/-
S.B.Mathur
Director

Sd/-
P.S.Rana
Director

Sd/-
V. Leeladhar
Director

Sd/-
K. Madhava Rao
Director

Sd/-
Amitabh Verma
Director

As per our attached Report of even date
For **Mukund M. Chitale & Co.**
Chartered Accountants

Place: New Delhi
Dated: October 14, 2004

Sd/-
(Mukund. M. Chitale)
Partner
M.No.14054



(Slum Improvement and Balance Sheet

Previous Year Rs. crore	Liabilities	Current Year Rs. crore
61.82	1. Special Fund (Slum Improvement and Low Cost Housing Fund) A/c	61.82
	2. Reserves	
9.58	(i) Special Reserve in terms of Section 36(1)(viii) of Income Tax Act, 1961	17.09
2.99	(ii) Investment Fluctuation Reserve	3.00
	3. Profit & Loss Account	
133.69	Balance from last balance sheet	150.66
	Add: Profit transferred from the Profit & Loss Account annexed	2.87
16.97		153.53
14.96	4. Other Current Liabilities & Provisions	25.08
240.01	TOTAL	260.52

Profit & Loss Account

Previous Year Rs. Crores	Expenditure	Current Year Rs. Crores
@	1. Interest	0.01
@	2. Underwriting Commission, Brokerage and Guarantee Fee	@
@	3. Other Expenditure	@
0.00	4. Depreciation on Investment	0.79
1.00	5. Provision for NPA/Standard Assets	1.60
28.51	6. Balance of Profit c/d	17.92
29.51	TOTAL	20.32
4.02	Provision for tax	7.53
0.02	Transfer to Invest Fluctuation Reserve	0.80
7.50	Transfer to Special Reserve	7.51
16.97	Balance Carried to Balance Sheet	2.87
28.51	TOTAL	18.71

@ Amount less than Rupees 0.50 lakh

Sd/- A. P. Saxena Assistant General Manager	Sd/- P. K. Kaul General Manager	Sd/- A.K.Sohani Executive Director	Sd/- R.V. Verma Executive Director	Sd/- V. Sridar Chairman & Managing Director
Sd/- Ashok Kumar Director	Sd/- S.B.Mathur Director	Sd/- P.S.Rana Director	Sd/- V. Leeladhar Director	Sd/- K. Madhava Rao Director
				Sd/- Amitabh Verma Director



Low Cost Housing Fund) as at 30th June, 2004

Previous Year Rs. crore	Assets	Current Year Rs. crore
25.78	1. Cash and Bank Balances Balance with other banks on deposit account	141.20
	2. Investments	
34.66	(i) Securities of Central and State Government	0.00
4.77	(ii) Certificate of Deposits	0.00
62.31	(iii) Units of Mutual Funds	1.19
10.25	(iv) PSU/FI Bonds	10.25
86.30	3. Loans & Advances	84.10
15.94	4. Other Assets (Interest Receivable etc.)	23.78
240.01	TOTAL	260.52

for the year ended 30th June, 2004

Previous Year Rs. crore	Income	Current Year Rs. crore
11.48	1. Interest & Discount	10.55
6.02	2. Income from Investments	4.29
11.99	3. Other Income	5.48
0.02	4. Provisions & Contingencies (Excess provision on investments reversed)	0.00
29.51		20.32
28.51	Balance of Profit brought down	17.92
0.00	Transfer from Investment Fluctuation Reserve	0.79
28.51		18.71

Notes forming part of Accounts

- Balance Sheet and Profit & Loss Account of Special Fund have been drawn in accordance with the provisions of National Housing Bank (Slum Improvement and Low Cost Housing Fund) Regulation, 1993.
- NHB (Slum Improvement and Low Cost Housing Fund) represent 40% of the amounts deposited by any person voluntarily in accordance with the NHB Voluntary Deposit Scheme (VDS).

As per our attached Report of even date
For **Mukund M. Chitale & Co.**
Chartered Accountants

Sd/-
(Mukund. M. Chitale)
Partner
M.No.14054

Place : New Delhi
Dated: October 14, 2004

राष्ट्रीय आवास बैंक के वरिष्ठ कार्यपालकगण Senior Executives of National Housing Bank



श्री आर. वी. वर्मा
कार्यपालक निदेशक
Shri R. V. Verma
Executive Director



श्री ए. के. सोहानी
कार्यपालक निदेशक
Shri A. K. Sohani
Executive Director



श्री पी. के. कौल
महा प्रबंधक
Shri P. K. Kaul
General Manager



श्री आर. एस. गर्ग
महा प्रबंधक (विधि)
Shri R. S. Garg
General Manager (Law)



श्री आर. भल्ला
महा प्रबंधक
Shri R. Bhalla
General Manager



श्री आर. राजगोपालन
महा प्रबंधक
Shri R. Rajagopalan
General Manager



श्री वी. रघु
महा प्रबंधक
Shri V. Raghu
General Manager