



National Housing Bank

Annual Report

2004 - 05



**The 17th 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, 2004 to June 30, 2005.**

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.

National Housing Bank

**Board of Directors
as on September 26, 2005 under different Sections of
the National Housing Bank Act, 1987**

Chairman & Managing Director

Section 6(1) (a) **Shri P.K. Gupta**

Directors

Section 6(1) (b)

Dr. Errol D'Souza

Professor, Economics Area, Indian
Institute of Management, Ahmedabad

Shri Vidyadhar K. Phatak

Retired Principal Chief, Town and Country Planning Division,
Mumbai Metropolitan Region Development Authority

Section 6(1) (c)

Shri R. V. Shastri

Ex-Chairman & Managing Director, Canara Bank

Ms. Jayshree Ashvinkumar Vyas

Managing Director, Shri Mahila Sewa Sahakari Bank Ltd.

Section 6(1) (d)

Shri V. Leeladhar

Deputy Governor, Reserve Bank of India

Shri K. Madhava Rao, IAS (Retd.)

Director - Central Board of Directors, Reserve Bank of India

Section 6(1) (e)

Ms. Chitra Chopra, IAS

Secretary to the Government of India,
Ministry of Urban Employment & Poverty Alleviation

Shri Amitabh Verma, IAS

Joint Secretary to the Government of India,
Ministry of Finance

Ms. Nilam Sawhney, IAS

Joint Secretary to the Government of India,
Ministry of Rural Development

Section 6(1) (f)

Shri Avinash Kumar Srivastava, IAS

Secretary (Housing), Government of Uttar Pradesh

Shri N. Ramesh Kumar, IAS

Secretary (Housing),
Government of Andhra Pradesh

Executive Committee of Directors

Shri P.K. Gupta

Chairman & Managing Director

Shri V. Leeladhar

Deputy Governor, Reserve Bank of India

Shri K. Madhava Rao

Director, Central Board of Directors, Reserve Bank of India

Shri Amitabh Verma

Joint Secretary to the Government of India, Ministry of Finance

Ms. Nilam Sawhney

Joint Secretary to the Government of India, Ministry of Rural Development

Shri R.V. Shastri

Ex-Chairman & Managing Director, Canara Bank

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 Government of India, Ministry of Finance

Ms. Nilam Sawhney
Joint Secretary to the Government of India, Ministry of Rural Development

Ms. Jayshree Ashvinkumar Vyas
Managing Director, Shri Mahila Sewa Sahakari Bank Ltd.

Shri Vidyadhar K. Phatak
Retired Principal Chief, Town and Country Planning Division, Mumbai
Metropolitan Region Development Authority

Risk Management Advisory Committee

Shri P.K. Gupta – Chairman, Risk Management Advisory Committee
Chairman & Managing Director, NHB

Shri R. V. Verma
Executive Director, NHB

Shri Surindra Kumar
Executive Director, NHB

Prof. V. K. Bhalla - External Expert
Dean, Faculty of Management Studies, University of Delhi

Shri R. R. Rao - External Expert
Joint Managing Director, M/s. ICRA Advisory Services Ltd.

Dr. B. L. Patheja- External Expert
Assistant General Manager, Risk Management, Punjab National Bank

Shri R. Bhalla
General Manager, Resource Mobilization & Management Department

Shri R. Rajagopalan
General Manager, Refinance Department

Shri V. K. Badami
Deputy General Manager, Risk Management Department

Shri K. Muralidharan
Deputy General Manager, Project Finance Department

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1. Highlights

1.1 Performance Highlights

- 1.1.1 Disbursement during the year reached an all time high of Rs.7,527.20 crore. Of this, Rs.3536.16 crore i.e. 47% of the total refinance disbursement was under Golden Jubilee Rural Housing Finance Scheme.
- 1.1.2 The Bank continues to maintain its track record of NIL Net NPA.
- 1.1.3 The debt instruments of NHB are 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.
- 1.1.4 The Bank borrowed Rs.6759.24 crore during the year from various sources. Capital Gains Bonds continued to be the major source of funds for the Bank.
- 1.1.5 For the first time, the Bank launched Residential Mortgage Backed Security under NHB's corporate guarantee of the size of Rs. 99.33 crore.
- 1.1.6 To address the housing needs of the poor and the disadvantaged, the Bank has opened a new window of lending to Micro Finance Institutions (MFIs) in order to reach housing credit to the grass root level in the informal sector.
- 1.1.7 During the year, the Bank carried out 20 on-site inspections in order to assess the financial position of Housing Finance Companies (HFCs) and verify their status of compliance in relation to the Directions issued by NHB.
- 1.1.8 NHB organized eight training programmes during the year for various institutions engaged in the housing sector. The participants included representatives of Housing Finance Companies and Scheduled Commercial Banks besides Investors in residential mortgage backed securities.

2. The Domestic Economy 2004-05

2.1 Strong industrial and services sector along with a modestly buoyant agricultural sector continued to help the Indian Economy register a steady growth, notwithstanding that the GDP growth at 6.9% (estimates of Central Statistical Organisation) was lower than 8.2 % in the previous year. Though the growth rate for 2004-05 is less than that of 2003-04, this may be viewed in the context of adverse effects of uneven monsoon on the production of kharif crop. High growth rates in the manufacturing industry and the service sectors provided a conducive impetus to the Indian economy. Relatively stable price levels also made a positive contribution to the growth and stability of the Indian economy.

2.2 The downward trend in interest rates continued in 2004-05, with bank rate remaining pegged at 6%. With orderly and liquid conditions prevailing in the financial markets mainly on account of fund flow both from domestic and international sources, interest rates continued to remain soft in 2004. Appropriate and timely monetary and fiscal policy responses helped in containing the inflationary pressures emanating particularly from international crude oil prices.

2.3 The money supply (M3), on an annualized basis, grew at the rate of 14.1% during the year as compared to 12.1% during 2003-04. The monetary instruments like Market Stabilisation Scheme and Liquidity Adjustment Facility etc. as adopted by RBI helped in containing the money supply despite increase in capital inflows. In view of these measures, the financial market remained generally stable. The interest rates, though displayed some upward movements, particularly at the longer end, the overall interest rates remained benign during the year 2004-05. (Source: Macroeconomic and Monetary Developments in 2004-05 by RBI).

2.4 The closure of the year 2004 saw the Tsunami cyclone striking parts of India, Sri Lanka, Indonesia & Thailand causing unprecedented loss to life and property. The Government and various other institutions came forward to extend all possible support to rehabilitate the affected people and restore normal life.

3. Housing & Related Issues

3.1 Housing sector continued to draw funds from financing institutions particularly the Banks. The southward movement in interest rates stimulated demand for housing loans as the housing sector experienced steady growth. There was a marked preference for floating rate option as it suited both the borrowers and lenders. The interest rates in the housing sector have responded well to the market dynamics. During 2004-05, the aggregate housing finance disbursed by HFCs was Rs. 26,042.48 crore as against Rs. 20,862.23 crore in 2003-04 thus registering a 24% growth.

4. Budget 2005-06 : Broad Strategy and Provisions for Housing

4.1 The Union Budget 2005-06 laid stress on the growth of the economy through core sectors including the housing sector. The salient provisions relating to housing sector included the following:

4.11 The proposed amendment to the definition of 'Securities' under the Securities Contracts (Regulation) Act, 1956 to include securitised debt will help deepen the securitisation market (asset-backed securitisation & mortgage-backed securitisation) in India. This will broaden the MBS market improving access to funds for housing.

4.12 The Government's proposal to do away with rebates under Section 88 and deductions under Section 80 C and to introduce Section 80CCE removes the cap of Rs.20,000 on principal repayment of housing loans. Under this clause, an individual or a HUF can avail tax deduction of up to Rs.1,00,000 as compared to the earlier limit of Rs.20,000. The entire deduction can be for principal repayment of housing loans. This is expected to induce greater demand for housing loans.

4.13 Construction of residential complexes with more than 12 residential houses or apartments together with common areas is proposed to be brought under the service tax net. This will mean additional cost for acquisition of houses.

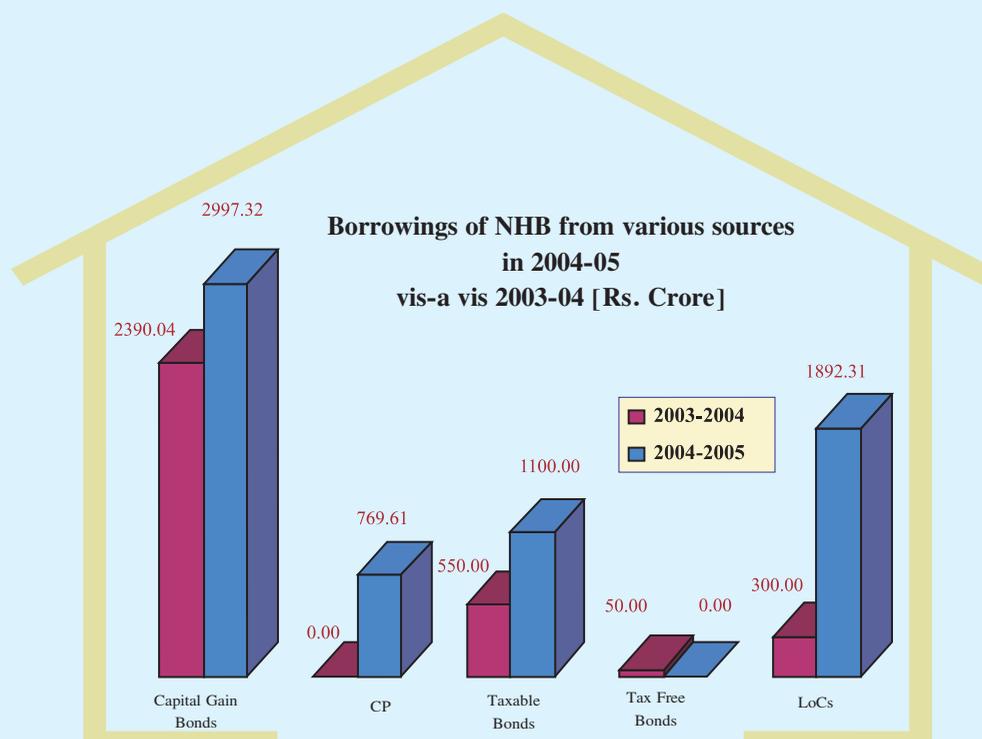
5. Monetary Policy Measures

5.1 The focus of RBI's monetary policy during 2004-05 has been management of liquidity overhang and inflationary pressures, arising from domestic and international developments. The impact of these policy adjustments largely came to rest on the interest rates. Inflation was expected to be stable and the outlook was a moderate growth for the economy. Ensuring adequate credit growth to meet the requirements of the productive sector and the Government demand was also high on the agenda in face of the inflationary pressures. In its review in April 05, RBI increased the Repo Rate by 25 basis points to 4.75%, while leaving the Bank Rate unchanged at 6.0% though the cash reserve ratio continued to be pegged at 5.0%. RBI addressed the issue of the liquidity overhang by raising the Market Stabilization Scheme limit to Rs.80000 crore.

6. Financial Operations of the Bank during 2004-05

6.1 Resource Mobilization

6.1.1 During the year, resources were raised by issuing bonds, commercial papers (CP) and borrowing from banks by way of Line of Credit (LoC). Bringing down the cost of funds and building a low cost resource-base continued to be a challenge for refinancing operations. The borrowings under various categories vis-à-vis the borrowings in the last year are as under:



6.1.2 Capital Gain Bonds: The Bank mobilised funds by issuing Capital Gain 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) till November 30, 2004. With effect from December 01, 2004, the interest rate structure on Capital Gain Bonds underwent changes as under -

Period	For 5 years with put/call option at the end of 3 years	For 7 years with put/call option at the end of 5 years
1.12.04 to 15.02.05 (for amounts up to Rs.1 crore) (for amounts of Rs.1 crore and above)	5.35 5.45	5.50
16.02.05 to 15.04.05 *	5.45	5.50
16.04.05 to present	5.25	5.35

* Distinction in rate of interest between amounts upto Rs. 1 crore and for amounts of Rs. 1 crore and above was removed w.e.f 16th February 2005.

6.1.3 Taxable Bonds: In June '05, the Bank mobilised a sum of Rs.850 crore by issuing Floating Rate Taxable Bonds as follows with tenures ranging from 3 to 5 years and rates linked to GOI securities and carrying put and call options.

Date of Issue	Amount (Rs. in crore)
02.06.2005	150.00
02.06.2005	350.00
07.06.2005	250.00
07.06.2005	100.00

6.1.4 Commercial Paper: During the year the Bank came out with 9 issues of Commercial Paper (CP). The face value of the CPs ranged from Rs.50 crore to Rs.300 crore and the term of the papers ranged between 81 days and 365 days. As on June 30, 2005, Commercial Papers to the tune of Rs.769.61 crore were outstanding.

6.1.5 Priority Sector Bonds: In November '04, the Bank mobilised a sum of Rs.250 crore by issuing Priority Sector Floating Rate Taxable Bonds Series I and II, having a tenure of four and three years respectively with a put and call option at the end of one year. The Bonds were floated at a spread of 10 bps over the 1 year GOI (semi-annual) benchmark.

6.2 Status of Priority Sector Bonds

Investments made by the Scheduled Commercial Banks in Bonds issued by NHB were reckoned as indirect finance to housing within the category of priority sector lending, subject to certain conditions. With a view to encourage Banks to lend directly to the priority sector borrowers, the Reserve Bank of India has decided that investments made by Banks on or after April 01, 2005 in

the bonds issued by NHB shall not be eligible for classification under priority sector lending. The investments which have already been made by banks up to March 31, 2005 in such bonds shall not be eligible for classification under priority sector lending with effect from April 01, 2006.

6.3 Cost reducing measures

On cost considerations, it was decided not to draw the undrawn loan amount of USD 13 million from the Asian Development Bank. The interest cost under swap arrangement with Bank of India (in respect of the borrowing from ADB), was negotiated for a lower rate with effect from June 2004. Efforts are being made to reduce the interest burden on earlier high cost borrowings to support lower lending rates.

6.4 Rating of borrowing programme

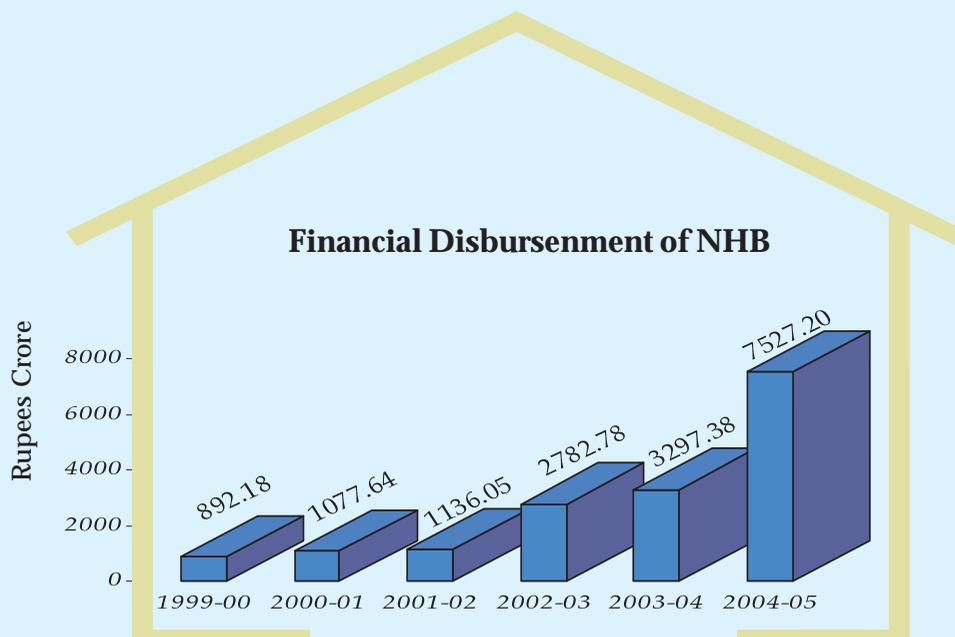
Ratings have been obtained for Bonds/Commercial Papers from all the four rating agencies. Fitch has awarded a rating of 'AAA (Ind)' and CARE has rated the instruments as 'CARE AAA'. ICRA has given a rating of 'A1+' while CRISIL has given 'AAA/Stable'. These ratings indicate 'highest degree of certainty regarding timely payment of financial obligation on the instruments.

6.5 Listing of the Bonds

The bonds of the Bank are listed on the Bombay Stock Exchange. In addition, most of the bonds are also listed on the National Stock Exchange.

7. Deployment of Funds

7.1 The details of financial assistance extended by the Bank during 2004-05 in the form of refinance and direct finance are given below:



7.2 Disbursements during the year under review at Rs. 7527.20 crore are more than double of the total disbursement made in the preceding year. The details of the aggregate disbursements under General Fund and Slum Improvement and Low Cost Housing Fund are given in the table below:

GENERAL FUND				(Rs. in crore)
[A] Refinance Disbursals	2002-03	2003-04	2004-05	Cumulative
a) Individuals	2709.72	3252.89	7500.04	20474.04
b) Projects	0.00	0.00	0.00	234.50
Sub - Total	2709.72	3252.89	7500.04	20708.54
[B] Direct Finance Disbursal	58.27	38.51	8.75	302.41
Total disbursals from General Fund [A + B]	2767.99	3291.40	7508.79	21010.95

SLUM IMPROVEMENT AND LOW COST HOUSING FUND				(Rs. in crore)
	2002-03	2003-04	2004-05	Cumulative
[A] Refinance :				
Orissa Cyclone	0.00	0.00	0.00	5.47
Projects	0.00	0.00	0.00	11.29
Sub Total	0.00	0.00	0.00	16.76
[B] Direct Finance : Projects	14.79	5.98	18.41	110.10
Total [A + B]	14.79	5.98	18.41	126.86

7.3 Refinance Operations

During the year 2004-05, refinance aggregating Rs.7500.04 crore was disbursed, as against Rs.3252.90 crore disbursed last year, registering a growth of around 131%.

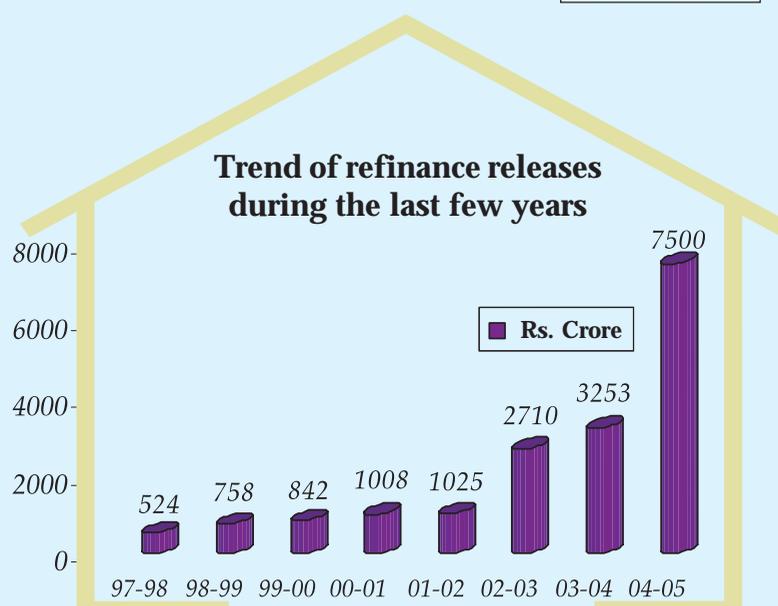
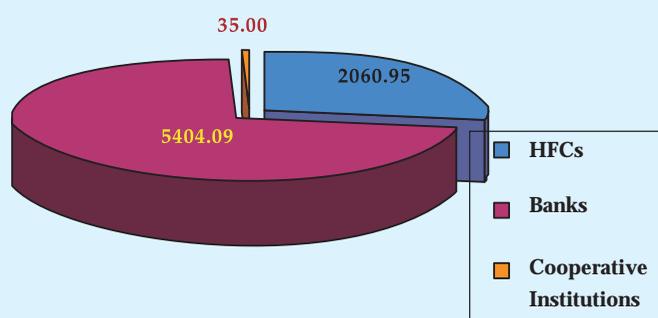
The break up of the disbursements made during 2004-05 is as under:-

Institution category	Amount (Rs. crore)	Dwelling units (number)
HFCs	2060.95	63,178
Banks	5404.09	1,29,677
Cooperative Institutions	35.00	3,955
Total disbursement	7500.04*	1,96,810

* An additional amount of Rs. 562.20 crore was disbursed to HFCs under Short Term Scheme

The graphical representation of the releases during 2004-05 is as under:

**Break up of refinance disbursed during 2004-05
[Amount in Rs. Crore]**



7.3.1 Performance under the Golden Jubilee Rural Housing Refinance Scheme

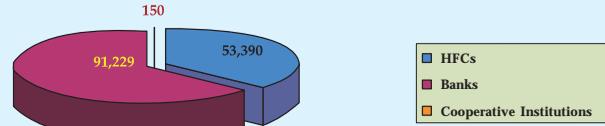
7.3.1a. In recent years, the rise in refinance disbursements by NHB has also been matched by the commensurate growth in disbursement under Golden Jubilee Rural Housing Refinance Scheme (GJRHRS). The Scheme was launched in the year 1997 for promotion of housing activity in the rural areas. During the year 2004-05, out of the total releases of Rs.7500.04 crore, around 47% aggregating Rs.3536.16 crore has been made under the GJRHRS in respect of loans given by Primary Lending Institutions (PLIs) in rural areas. The break up of the disbursements made under the Scheme is as follows:

Institution Category	Amount (Rs. crore)	Number of units
Housing Finance Companies	1551.37	53,390
Scheduled Banks	1981.52	91,229
Cooperative Sector Institutions	3.27	150
Total	3536.16	1,44,769

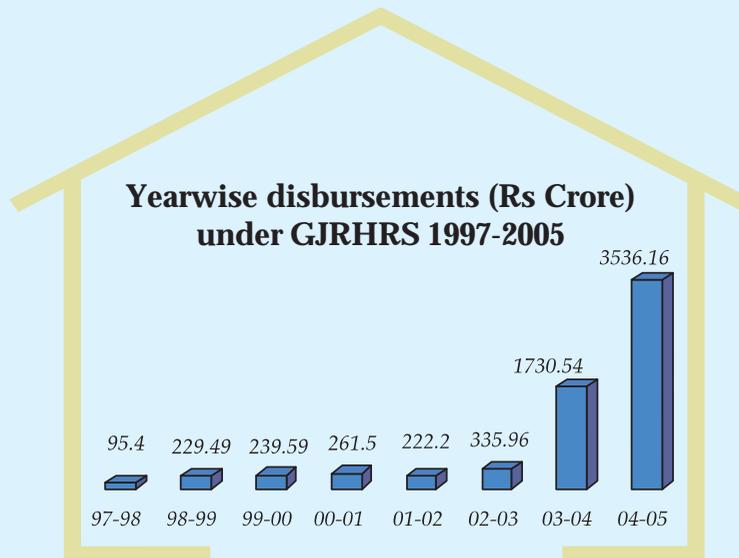
Performance under GJRHRS during 2004-02
[Amount in Rs. Crore]



Number of dwelling units financed by various PLIs under GJRHRS during 2004-02



7.3.1b To promote rural housing, the Bank lent its refinance at a concession of 50 basis points in interest rates under GJRHRS which has resulted in considerable growth in disbursements under the Scheme. The comparative disbursements under the GJRHRS since introduction of the Scheme are given below:



Cumulative Refinance Disbursements up to 30th June, 2005

(Rs. in crore)

Institution Category	Amount
Housing Finance Companies*	11141.82
Scheduled Banks	7920.72
Cooperative Sector Institutions	1578.76
Total	20641.30

*excluding disbursements under short term facility

7.3.2 Asset Quality

With 100% collection efficiency, the Bank continues to have Nil Net NPA position as at 30th June 2005.

7.4 Risk Mitigation Measures adopted by NHB

7.4.1 Risk based lending and pricing

With the introduction of the Liberalized Refinance Scheme (LRS) in March 2003, NHB has developed a system of internal credit rating for different categories of PLIs and also adopted the policy of risk based pricing and rating-linked exposure limits. The system was fine tuned during the year under review by introducing granularity in the method used for assessing the PLIs in respect of risk and pricing of funds lent.

7.4.2 Minimization of Interest Rate Risk

During the year, 92% of the refinance releases were made under fixed rates while the balance 8% were made under floating rates. This minimizes the interest rate risk, especially given the fact that the Capital Gain Bonds, which are the mainstay of NHB's borrowing at present are also at fixed rates. Moreover, while the floating rates are reviewed on a dynamic basis, the Bank has the option to reset the coupon rates after a tenure of 3 years in respect of refinance released under fixed rate having tenure of more than 3 years.

7.4.3 Tenure of Refinance Releases

Housing Finance Companies have borrowed for an average tenure of about 6 years with quarterly repayments, thereby bringing down the weighted average period of loan (WAPOL) to 3 years. Banks on the other hand have generally borrowed for 3 year tenure with bullet repayment. Hence, the WAPOL for all the releases made during the year is around **3.06 years**. Since the major source of funds for NHB for the last 3 years has been its Capital Gain Bonds having 3 year maturity, the lending is in line with the incremental borrowings, suiting the Bank's ALM requirements.

7.4.4 Strengthening of Off-site Surveillance System

NHB has a system of off-site surveillance where under its clients are required to submit prescribed returns periodically. The system has been strengthened by revising and rationalizing the returns for various categories of PLIs. In case of a few categories of PLIs involving relatively greater degrees of risk, the off-site system is supplemented by on-site scrutiny of underlying housing loan assets. The mechanism has helped in checking the financials of the clients as also maintaining quality of assets.

7.5 Project Finance

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

7.5.2 During the year, the Bank sanctioned finance for 12 projects. The disbursements under Project Finance aggregated to Rs.27.17 crore. An aggregate of 46,222 dwelling units have been constructed with this assistance so far.

7.5.3 Cumulatively, till the end of June 2005, the Bank has sanctioned 384 projects having project cost of Rs.2808.14 crore and loan component of Rs.1971.58 crore. Of these 384 projects, 228 projects were financed through the refinancing route and the remaining 156 projects were financed through direct finance window. So far, the Bank has disbursed Rs.658.30 crore as project finance of which Rs.245.79 crore was disbursed as refinance, and the remaining Rs.412.52 crore as direct finance. The total number of dwelling units that have received finance from NHB is 1,99,445 and the number of plots that were covered for housing project development was 17, 936.

7.5.4 The details of direct finance provided out of General and Special Funds are as follows:

	During the year 2004-05			Cumulative till 30th June 2005		
	Number of projects	Amount Sanctioned [Rs. Cr.]	Amount Disbursed [Rs. Cr.]	Number of projects	Amount Sanctioned [Rs. Cr.]	Amount Disbursed [Rs. Cr.]
General Fund	7(4684)	113.35	8.75	61	1138.15	302.41
Special Fund	5(41,538)	84.47	18.41	95	290.91	110.11
Total	12(46222)	197.82	27.16	156	1429.06	412.52

Figures in bracket indicate the number of dwelling units financed

7.5.5 Other Highlights:

- In its first initiative to support the housing needs of the micro financing institutions, the Bank disbursed loan to an NGO, SPARC Samudaya Nirman Sahayak for construction of 147 flats for slum dwellers in Dharavi, Mumbai.
- During the year, the Bank also sanctioned its first loan to a Federation of Women Self Help Groups (SHGs), Sri Padmavathy Mahila Abyudaya Sangam at Tirupati for construction of 300 houses in slums at various places in Tirupati.
- Rs. 10.80 crore was sanctioned to SHARE Micro Finance Ltd., a Micro-Financing Institution based at Hyderabad, for construction and up gradation of 4500 houses of women group members.
- Extending the support to Tsunami affected people in coastal Andhra Pradesh, Rs. 70 crore was sanctioned to Andhra Pradesh State Housing Corporation Limited for construction of 40,000 dwelling units.

8. Financial Performance of the Bank during 2004-05

8.1 During the year under review, profit before tax amounted to Rs. 77.63 crore as against Rs. 155.46 crore during the previous year. Profit after tax worked out to Rs. 44.04 crore as against Rs. 118.13 crore during the year 2003-04. Profit for the year 2004-05 has been arrived at after providing for deferred tax liability of Rs. 25.17 crore (2003-04 nil). Besides, profit for the year was adversely affected due to loss on sale of securities of Rs. 78.04 crore (2003-04 nil) and general pressure on interest spread. As a result of decline in profitability, the return on equity for the year 2004-05 worked out to 9.78% as against 26.25% in the year 2003-04. Further, a sum of Rs.48.84 crore on account of deferred tax provision in respect of earlier years was adjusted against reserves as a result of which the net owned fund declined marginally from Rs. 1656.78 crore as on 30th June 2004 to Rs. 1651.99 crore as on June 30, 2005.

General Activities of the Bank during 2004-05

9. Policy Review

9.1. Refinance

9.1.1.a. Keeping in view the relaxation of ceiling up to Rs.15 lakh under Priority Sector lending as introduced by the RBI in its mid-term review of Monetary and Credit Policy in October 2004, the Bank enhanced the ceiling of housing loans in rural areas eligible for refinance under Golden Jubilee Rural Housing Refinance Scheme to Rs.15.00 lakh from the earlier ceiling of Rs.10 lakh.

9.1.1.b. The Bank introduced a scheme to extend refinance assistance to Housing Finance Companies (HFCs) and Scheduled Commercial Banks (SCBs) for both, construction of new houses/flats and major repairs in the Tsunami affected areas, at a concessional rate of 5% per annum.

9.1.1.c. Modifications in Refinance Scheme:

During the year, the Bank has adopted the following modifications in its Refinance Scheme with effect from July 1, 2005.

- Ceiling of loan eligible for refinance assistance in the case of HFCs and SCBs has been fixed at Rs.50 lakh.
- Norm of Net NPA to Net Advances in the case of Banks has been reduced from existing level of 10% to 5% (in view of change to 90 days from 180 days).
- The maximum period of refinance assistance has been reduced from existing level of 15 years to 10 years in the case of Urban Co-operative Banks (UCBs), State Co-operative Banks, Regional Rural Banks, Apex Co-operative Housing Finances Societies (ACHFS) and Agricultural Rural Development Banks.
- Ceiling of loan eligible for refinance assistance in the case of Regional Rural Banks has been enhanced from Rs.10 lakh to Rs.15 lakh.

9.1.1.d. Other Major Modifications in Refinance Policy:

- The Bank introduced a framework for benchmarking the interest rates charged for refinance with reference to the costs associated with the Bank's operations.
- Based on the direction of the Board for Financial Supervision (BFS) and the recommendations of the RBI in-house group, the Bank developed a policy for classifying an account as a Special Mention Account and taking corrective action thereon, to prevent its slippage to NPA category.
- The Internal Credit Rating Model (ICRM) for HFCs was made more granular in order to capture the risk in a more focused manner. ICRMs were devised for SCBs, UCBs and ACHFS.
- The Short Term Refinance Scheme for HFCs and Banks were modified based on market response and client feedback.

9.1.2 Project Finance

Project Finance Loan Manual: The Project Finance Department has adopted a New Project Finance Manual for its operations. The highlights of the manual include provisions for a Rating Model for Projects and also the borrowing institution. Under the existing system only the borrowers were rated for assistance. The new Manual has been developed with assistance from CRISIL.



Annual General Boarding Meeting of Sri Padmavathy Mahila Abyudaya Sangam in Progress. Sitting on the dias is Chairman, NHB, among other participants

9.1.3 Risk Management Policy

As per the guidelines issued by Reserve Bank of India, the Risk Management Policy was revised and the Asset Liability Management Policy for the Bank was being formulated. The Asset Liability Management Committee [ALCO] headed by Chairman and Managing Director and comprising of senior executives representing the different operational areas of the Bank continued to review and monitor liquidity position and interest rate gaps at fortnightly intervals.

9.1.4 Guidelines for NHB's participation in equity of Housing Finance Companies

During the year the Bank amended the guidelines for participation in the equity of HFCs. The major amendments are:

- For HFCs catering mainly to the metro/urban areas, NHB can invest upto 25% of their paid up capital.
- For HFCs catering mainly to EWS/LIG/Rural segments, NHB can invest upto 50% of their paid up capital.
- In case of rights issue, NHB can subscribe at a premium price.
- NHB can disinvest its holding after expiry of 5 years or earlier.

10. Regulation & Supervision

10.1 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 / modified its Directions to the housing finance companies on the following aspects, during the year:

- (a) The rate of interest payable on premature repayment of a public deposit (after the minimum lock in period of three months) shall be two per cent lower than the interest rate applicable to the deposit for the period for which the deposit has run or if no rate has been specified for that period, then three per cent lower than the minimum rate at which the public deposits are accepted by that HFC.
- (b) It has been made obligatory for an HFC to intimate the details of maturity of the deposit to the depositor at least two months before the date of maturity of the deposit.
- (c) All deposit accounts standing to the credit of sole / first named depositor in the same capacity shall be clubbed and treated as one deposit account for the purpose of premature repayment.
- (d) In the context of premature repayment of deposits, HFCs have been classified into two categories, viz. normally run HFCs and problem HFCs
- (e) A normally run HFC can permit premature repayment of a public deposit after the lock-in period at its sole discretion only and premature closure cannot be claimed as a matter of right by the depositors.

- (f) Problem HFCs have been prohibited from making premature repayment of any public deposits or granting any loan against public deposits except in the case of
 - a) death of the depositor; or
 - b) in the case of "tiny deposits" in entirety ("tiny deposits" have been defined as the aggregate amount of public deposits not exceeding Rs.10,000/- standing in the name of the sole or the first named depositor in the same capacity in all the branches of the HFC); or
 - c) to enable the depositor to meet expenses of an emergent nature up to an amount not exceeding Rs.10,000/-.
- (g) Housing / Project Loans guaranteed by Central / State Governments have been assigned a risk weight of zero per cent. However, where guarantee has been invoked and the concerned Government has remained in default for a period of more than 90 days after the invocation of guarantee, a risk weight of 100 per cent is assigned.
- (h) HFCs not accepting/holding public deposits and having an asset size of less than Rs.100 crore have been exempted from submitting the quarterly return on statutory liquid assets.
- (i) To provide stimulus for increasing the institutional flow of funds for housing in the rural areas, a term loan granted to an agriculturist or to a person whose income is dependent on the harvest of crops shall be treated as a Non Performing Asset if the instalment of principal or interest thereon remains unpaid (i) for two crop seasons beyond due date if the income of the borrower is dependent on short duration crops or (ii) for one crop season beyond the due date if the income of the borrower is dependent on long duration crops (i.e. crop season longer than one year).

10.2 Guidelines issued during the year:

Besides the above, the Bank also issued the following guidelines during the year.

- (a) In the context of the provisions of the Prevention of Money Laundering Act, 2002 and the need to put in place systems and procedures to help control financial frauds, identify money laundering and suspicious activities, the Bank issued detailed "Know Your Customer" Guidelines to HFCs.
- (b) With effect from the financial year 2004-05, HFCs have been permitted to withdraw from the reserve fund (created under section 29C of the NHB Act, 1987), the excess amount credited (in excess of the statutory minimum of 20%) in the previous years for any business purposes subject to suitable disclosure in the balance sheet.

The HFCs which have transferred only the statutory minimum in the previous years would be selectively permitted to withdraw from the reserve fund only for the purpose of provisioning for non-performing assets subject to the conditions that there is no debit balance in the profit and loss account, the reason for such withdrawal are stated explicitly in the balance sheet and in such cases, prior permission of NHB is required to be obtained before appropriation.

- (c) HFCs which maintain the particulars/details of the deposits, as required under the Directions, on centralised computer database have been permitted to continue to do so provided the authenticated particulars of public deposits are sent to the respective branches, up dating the information on quarterly basis i.e., as on March 31, June 30, September 30 and December 31, every year irrespective of the fact that the branches do not open deposit accounts. The information pertaining to a quarter should reach the branch concerned before 10th of the succeeding quarter.
- (d) Creation of Deferred Tax Assets (DTA) results in an increase in Tier I Capital without any tangible asset being added to the balance sheet. Accordingly, it has been clarified to the HFCs that DTA should not be considered for the purpose of calculation of Tier-I Capital / Net Owned Fund.

10.3 Registration of HFCs

During the year 2004-05, two new housing finance companies have been granted Certificate of Registration without permission to accept deposits from the public.

Certificate of Registration previously granted to two housing finance companies were cancelled during the year, as these housing finance companies either went out of the housing finance business or due to non-compliance with the conditions subject to which the Certificate of Registration was issued.

As at the end of June 2005 the total number of housing finance companies having Certificate of Registration was 46. Of these, 24 housing finance companies were granted Certificate of Registration with permission to accept deposits from the public.

10.4 Measures for Public Awareness

As part of its efforts to create public awareness, the Bank issued a Public Notice in prominent newspapers on an all-India basis, with a view to educate the public that no housing finance company can undertake the business of a housing finance institution without obtaining a Certificate of Registration issued by NHB under Section 29A of the NHB Act, 1987. The Bank also issued three other Public Notices during the year, informing the public of the cancellation of Certificate of Registration and rejection of application for grant of Certificate of Registration in respect of individual housing finance companies.

10.5 Co-ordination with other Regulatory Authorities

During the year, the Bank's officers participated in 16 State Level Co-ordination Committee meetings convened by the RBI at its various regional offices. These meetings are held with the objective of ensuring active co-ordination among the various regulatory authorities concerned with the functioning of the housing finance companies and NBFCs, where policy as also operational issues of public interest are addressed.

10.6 Supervision of HFCs

During the year the Bank caused the regulatory inspection of 16 housing finance companies under Section 34 of the National Housing Bank Act, 1987. Further, inspection of 4 companies was conducted under Section 29A of the Act, *ibid*, in the context of applications for grant of Certificate of Registration.

In order to ensure compliance with the provisions of the NHB Act, 1987 and the Directions framed thereunder, it was decided by the Bank to invoke penal provisions in terms of the provisions of Section 52A of the NHB Act, 1987, with effect from October 1, 2004.

11. Golden Jubilee Rural Housing Finance Scheme

11.1 The Golden Jubilee Rural Housing Finance Scheme was launched in the year 1997-98 with a view to provide improved access to housing finance to people living in rural areas. The Scheme provides for construction of new dwelling unit or upgradation of the existing one. The Scheme is implemented through various Primary Lending Institutions (PLIs) namely Housing Finance Companies (HFCs), Public Sector Banks (PSBs) and Co-operative sector institutions. The Government of India sets national targets and NHB being the monitoring agency, sub-allocates the target to each Primary Lending Institution.

11.2 During the year 2004-05, the performance of the PLIs under the Scheme was commendable with the total units financed by PLIs going up to 2, 58,562 as against the national target of 2.50 lakh dwelling units. This was a record achievement of 103% as against 97.50 % in 2003-04.

11.3 Category wise performance of the PLIs under the Scheme is presented in the following table:

Institution	Target		Achievement		Percent	
	2003-04	2004-05	2003-04	2004-05	2003-04	2004-05
Housing Finance Companies	1,05,500	92,250	71,697	74,001	68%	80%
Public Sector Banks	1,32,000	1,57,750	1,71,180	1,84,262	130%	117%
Co-operative Sector Institutions	12,500	—	876	299	7.00%	—
TOTAL	2,50,000	2,50,000	2,43,753	2,58,562	97%	103%

For the current financial year 2005-06, a target of financing of 2, 75,000 units have been set by the Government of India.

12. Business Planning and Promotion Activities of NHB during 2004-05

12.1 Equity Participation by NHB

There was no fresh equity participation by the Bank during the year.

12.2 Fraud Management Cell

The Bank has set up a 'Fraud Management Cell' to collect information from HFCs regarding frauds committed on housing loans. Towards this objective, the Bank issued a detailed circular during the year indicating the causative factors and suggestive remedial action. All HFCs have been advised to take necessary safeguards and exercise adequate controls to avoid occurrence of fraudulent transactions.

12.3 Addressing Consumer Grievances

The Bank addresses complaints against HFCs received from individuals. The complaints are usually in respect of deposits accepted by the HFCs and the loans extended by them.

12.4 Meeting of CEOs of HFCs

During the year, two meetings with the Chief Executive Officers of Housing Finance Companies were held in August, 2004 at Bangalore and later at New Delhi in May, 2005. Issues like challenges in resource mobilization of the HFCs, securitization of mortgage loans, Golden Jubilee Rural Housing Finance Scheme, standardization of documents in housing finance process, Amendments to HFC (NHB) Directions 2001, geographical distribution of HFCs, Recommendations of the Committee on Standardization of Housing Loans and sharing of information on fraudulent transactions were discussed with the participants.

13. Training

13.1 As a capacity building measure in the housing finance sector, the Bank organises various training programmes on matters related to housing finance for the personnel of the sector. During the year, the Bank organized eight training programmes. More than 250 participants from various institutions attended these programmes. Apart from increasing awareness on issues related to housing finance industry, these programmes also serve as the forum for exchange of ideas and experience among the participants and NHB. One of the programmes viz. Orientation Programme for Housing Finance, also attracted participants from neighbouring Bangladesh.

13.2 The Bank has also been providing faculty support to various institutions conducting training programmes on housing finance for their staff. The Bank also provided support in terms of design and content of inhouse training programmes of the institutions. During the year, faculty support was provided to Bankers Institute of Rural Development for its specialized programme



A Training Session in Progress.

targeted for officers of RRBs. Besides this, faculty support was also provided to PNB Housing Finance Ltd., Punjab National Bank, Repco Home Finance Ltd and NABARD.

14. Residential Mortgage-Backed Securitization

14.1 Residential Mortgage Backed Securitisation (RMBS)

There have been thirteen issuances of Residential Mortgage Backed Securities (RMBS) by the Bank aggregating to Rs.763.26 crore brought out till 30th June, 2005, with the Bank assuming the role of Trustee (to the Special Purpose Vehicle Trusts) in the transactions involving individual home loans of six Housing Finance Companies and one Scheduled Commercial Bank.

14.2 New RMBS Issuances

During the year, NHB completed three issues of Residential Mortgage Backed Securities (MBS) involving 2892 housing loans amounting to Rs. 99.33 crore originated by one HFC and fully wrapped with NHB's guarantee. These are the initial form of RMBS issues in India with Guarantee of NHB conceptualized on the lines of the RMBS issued by institutions such as Fannie Mae and Freddie Mac of USA.

14.3 Performance of the Pools of Housing loans Securitized:

NHB has appointed the respective originators as Servicing and Paying Agents (S&P Agents) to ensure that collections in respect of each of the pool of securitized loans are distributed to the respective PTC holders and Service providers. The books of accounts of the NHB SPV Trust(s) have been audited for the year ended March 31, 2005. The average collection efficiency in the securitized pools ranged between 89% to 99% and the yields to Class A PTC holders have been consistent with that indicated at the time of issuances.



Execution of Memorandum of Agreement between NHB and BHW Birla Home Finance Ltd. (BBHFL) on March 29, 2005 : Mr. P. K. Gupta, CMD NHB and Mr. Ralph Haerke, MD, BBHFL are seen signing the agreement for the first set of NHB guaranteed MBS issue.

14.4 Measures for Market Development

14.4.1 In the Union Budget for the year 2005-06, the Hon'ble Finance Minister announced that the definition of eligible securities in the Securities and Contracts (Regulation) Act, 1956 would be amended to cover securitized mortgage debt. This is expected to facilitate listing of RMBS in stock exchanges and improve its tradability.

14.4.2 During the year, NHB entered into an Agreement with the Asian Development Bank (ADB) and Housing Development Finance Corporation Ltd. (HDFC) for undertaking a study for development of a Secondary Mortgage Institution in India along similar lines as the Fannie Mae in USA.

14.4.3 NHB has commissioned Administrative Staff College of India (ASCI) to conduct a study to understand the nature of the credit and prepayment risks endemic to housing finance market in our country, which is in its final stages. In addition to this, NHB had constituted a Working Group with representatives from the housing finance companies to recommend measures for standardization in the primary residential mortgage finance sector.

15. Mortgage Credit Guarantee Corporation

15.1 With the objective of promoting the lending abilities of banks and housing finance institutions, the Bank had 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). The Term Sheet for the Project has been finalised and accepted by all the Partners after detailed discussions and negotiations. Presently the issues relating to regulatory framework for the proposed company and the risk norms to be made applicable for guaranteed housing loans for the primary lending agencies are being examined by the Reserve Bank of India.

16. Board of Directors

16.1 *Change in incumbency*

16.1.1 *Section 6(1)(b)*

Dr. Errol D'Souza, Professor, Economics Area, Indian Institute of Management, Ahmedabad with effect from August 9, 2005.

Shri Vidyadhar K. Phatak, Retired Principal Chief, Town and Country Planning Division, Mumbai Metropolitan Region Development Authority with effect from August 12, 2005 in place of Shri Ashok Kumar, IAS (Retd.).

16.1.2 *Section 6(1)(c)*

Shri R.N. Bhardwaj, Chairman, LIC Housing Finance Ltd. with effect from December 22, 2004 in place of Shri S.B. Mathur.

Shri A.K. Shukla, Chairman, LIC Housing Finance Ltd. with effect from June 26, 2005 in place of Shri R.N. Bhardwaj.

Shri R.V. Shastri, Ex-Chairman & Managing Director, Canara Bank with effect from August 10, 2005 in place of Dr. P.S. Rana, CMD, HUDCO.

Ms. Jayshree Ashwinkumar Vyas, Managing Director Shri Mahila Sewa Sahakari Bank Ltd. with effect from August 12, 2005 in place of Shri A.K. Shukla, Chairman, LIC.

16.1.3 *Section 6(1)(d)*

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

16.1.4 *Section 6(1)(e)*

Ms. Chitra Chopra, Secretary, Ministry of Urban Employment & Poverty Alleviation with effect from August 12, 2004 in place of Shri A.N. Tiwari.

Dr. Amar Singh, Joint Secretary, Ministry of Rural Development with effect from January 28, 2005 in place of Shri Wilfred Lakra.

Ms. Nilam Sawhney, Joint Secretary, Ministry of Rural Development with effect from September 7, 2005 in place of Dr. Amar Singh.

16.1.5 *Section 6(1)(f)*

Shri N.C. Vasudevan, Commissioner cum Secretary (Housing), Government of Orissa with effect from September 20, 2004 in place of Smt. Rajalakshmi.

Shri J.S. Mishra, Secretary (Housing), Government of Uttar Pradesh with effect from April 4, 2005 in place of Shri N.C. Vasudevan, Commissioner cum Secretary (Housing), Government of Orissa, whose term expired on November 15, 2004.

Shri N. Ramesh Kumar, Secretary (Housing), Government of Andhra Pradesh with effect from April 21, 2005 in place of Shri J.N. Singh, Secretary (Housing), Government of Gujarat, whose term expired on November 15, 2004.

Shri Avinash Kumar Srivastava, Secretary (Housing), Government of Uttar Pradesh with effect from July 11, 2005 in place of Shri J.S. Mishra.

17. Corporate Governance

17.1 The Bank is committed to the best practices in the area of corporate governance and maintains its affairs to institutionalize corporate governance practices by ensuring that:

- a. the Bank's Board of Directors meets regularly, provide effective leadership, exercise control over management and monitor executive performance.
- b. 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.
- c. 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. clearly documented and transparent management processes for policy development, implementation and review, decision-making, monitoring, control and reporting are established.

17.2 Board of Directors

The Board of Directors has been constituted in accordance with the provisions of the National Housing Bank Act, 1987. The general superintendence, direction and management of the affairs and business of the Bank are vested in the Board of Directors. The Board is headed by the Chairman and Managing Director of the Bank and is assisted by 10 eminent non-executive directors of the Bank.

17.3 Board meetings

The meetings of the Board of Directors are held at regular intervals and at least once in a quarter. The notice of each meeting is given in writing to the Directors ordinarily a fortnight in advance, as provided in the NHB General Regulations, 1988. During the year, the Board met six times, all at the Head Office of the Bank at New Delhi.

17.4 Committees of the Board

The Board has constituted two committees viz. a) Executive Committee of Directors [ECD] 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 ECD and delegation of power to ECD by Board are well defined. The minutes of the ECD and ACB are placed before the Board for information. During the year there were five meetings of the ECD and six meetings of the ACB.

17.5 Executive Committee of Directors

The Executive Committee of Directors consists of the CMD and five Directors of the Board. The power to constitute Executive Committee (EC) in terms of Section 12(1) of the National Housing Bank Act, 1987 vests with the Board of Directors of National Housing Bank.

17.6 Risk Management Advisory Committee

The Board of Directors has constituted the Risk Management Advisory Committee (RMAC) which includes external professionals also as its members. The Committee oversees the Risk Management functions of the Bank with focus on the three risks identified by Basel II, i.e. Market Risk, Credit Risk and Operational Risk. The role of the Committee is as under:

- devise the strategy for integrated risk management of the Bank in line with RBI guidelines and within the framework provided by the Board.
- review the Risk Management Policy and recommend appropriate changes in the Policy to the Board.
- recommend various risk limits to the Board.
- recommend credit risk models for different categories of borrowers and issuers.
- recommend the risk premium for different risk grades.
- recommend selective use of portfolio reallocation strategies like purchase/sale of assets, which reduce portfolio risk and use derivative instruments to manage credit risks within the guidelines issued by RBI or any other regulator from time to time, for approval by the Board.
- ensure the efficiency of Credit Risk Rating Model and the effectiveness of the tools used to mitigate risk.
- provide inputs to the Board on strategic risk.
- monitor the performance of the Bank with respect to risk tolerance limits set by the Board.

17.7 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.

17.8 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.

18. Human Resources

18.1 Staff Strength

18.1.1 The total staff strength of the Bank, as on 30th June, 2005, stood at 80 as against 84 at the close of 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.

18.1.2 The Calendar Year 2004 ended with changes in the post of the Chairman & Managing Director of the Bank. Shri V. Sridar, on his appointment as full time CMD of UCO Bank, handed over charge to Shri P. K. Gupta on December 16, 2004. Shri Gupta was the Executive Director, Corporation Bank before taking up the post of Chairman & Managing Director of NHB.

18.1.3 During the year, the Bank completed the Competency Mapping Exercise for its officers. The exercise was carried out by experts from XLRI, Jamshedpur. The results are being used by the Bank in addressing the training requirements and capacity building for the staff.

18.2 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 of India in this regard.

19. Rajbhasha

19.1 The Bank has been successfully implementing the Official Language Policy since its inception. Several measures for promoting and encouraging use of Hindi in the Bank have been taken to enhance the usage of Hindi in the Bank's working. The Bank is continuously making efforts to bring about further improvement in this area. A large number of Hindi books were also purchased for Bank's library for the benefit of the officers.



Distribution of Rajbhasha Running Trophy.

- 19.2 'Awaz Bharati', the quarterly Hindi magazine published by the Bank has got an enriched coverage both in terms of content and readers. Besides, the Bank organized the 'Hindi Chetna Mas' during 16th August to 14th September 2004. During this period various competitions were held and awards were given to the prize winners in the competitions.
- 19.3 The Bank also complied with the various statutory provisions stipulated by the Government in the Official Language Policy (OLP). Accordingly, letters received in Hindi are replied in the same language, documents under clause 3(3) of the OLP, reports and other publications, stationery items are all in bilingual form. The Bank has also been conducting Hindi workshops. The Rajbhasha Implementation Committee of the Bank meets regularly to review the progress in usage of Hindi in the Head Office and the Regional Office at Mumbai and adopt suitable means to improve the usage.

20. New Initiatives

20.1 Process integration through Enterprise Resource Planning

- 20.1.1 The Bank has implemented the SAP Enterprise Resource Planning package integrating the General Ledger, Cash Management, HR Functions, Payroll, Resource Mobilization and Servicing processes of the Bank. The Bank has adopted the integrated operations from April 1, 2005.
- 20.1.2 The project has facilitated the operations of the concerned Departments by facilitating prompt preparation of financial statements, reconciliation, MIS, payroll etc.

20.2 Human Resource Policy

In order to have a well co-ordinated approach towards recruitment, training and development, performance management, promotion and career development of the manpower in the Bank, efforts have been initiated to formulate a comprehensive Human Resource Policy. Xavier Labour Relations Institute (XLRI), Jamshedpur is extending professional help to the Bank in this regard.

20.3 Competency Mapping of the officers of the Bank

To have a holistic approach in development of human capital in the Bank, a competency mapping exercise for various officers vis-à-vis the job requirement for the different functions at different levels was conducted. The exercise was conducted under professional guidance from XLRI. The study helped identifying the training need of the officers.

20.4 Strengthening of the Treasury Setup

Based on recommendations of Investment and Credit Rating Agency Ltd. on the risk management functions of the Bank, the different sections of treasury activities (Front, Mid and Back offices) have been segregated. While the Front office forms a part of the Resource Mobilisation and Management Department, the Mid and Back offices report to the Risk Management Department and Accounts Department respectively.

20.5 Rural Housing

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.

20.6 Real Estate Price Indices for the residential housing segment

There has been a long felt need to monitor the movement of value of the real estate in an economy where the industry has been on steady growth path. Reliable, unbiased information about the long-term performance of residential property specifically in terms of its pricing and their movements over time is needed not only for academic interests but also to make strategic decisions by the industry players. Realising the need for reliable and unbiased information about the long-term performance of residential property specifically in terms of its pricing and their movements over time, the Government of India have advised NHB to develop a Real Estate Price Index and NHB initiated the necessary steps in this regard. Accordingly, a project for the ‘Preparation of the Real Estate Price Indices for the residential housing segment [NHB RESIDEX]’ has been launched by the Bank in close co-ordination with the Government of India, Ministry of Finance, Reserve Bank of India and other prominent players in the industry.

20.7 Task Force on National Urban Housing & Habitat Policy (NUHHP)

20.7.1 The Government of India has set up a task force to review and suitably amend the National Housing & Habitat Policy, 1998 under the Chairpersonship of Secretary Urban Employment & Poverty Alleviation (UEPA). For the purpose of detailed examination of various issues (technical/legal/financial etc) of the existing NHHP and to get considered inputs, the Task Force constituted five sub-committees on Social Housing, Housing Finance, Legal & Regulatory Issues, Urban Infrastructure and Technology Alternatives. The Sub-committee for Housing Finance is headed by Shri P K Gupta, CMD, NHB and had representatives from HUDCO, NHB, HDFC, SPAARC, PNBHFL, DHFL Vysya and other experts in the field. The report of the Sub-committee has since been submitted to the Government.

20.8 Measures for Standardization in Housing Finance Processes

With the objective of introducing a standardised process of origination and documentation of the housing loan market, the National Housing Bank (NHB) had constituted a Working Group for suggesting Promotional Measures for Standardization of Housing Loan Origination and Documentation. The Working Group comprised of representatives from NHB and the industry. The Group has since submitted its Report to NHB and the recommendations are being examined for adoption in consultation with the various housing finance companies.

21. Miscellaneous

- 21.1 The Bank's bilingual official website "www.nhb.org.in" has been continuously upgraded and enriched in terms of its content.
- 21.2 The Bank has established connectivity between its Mumbai Regional Office and the Head Office, at Delhi through a dedicated leased line facilitating online transaction/communication on real time basis between the two centres.
- 21.3 The Bank has operationalised a centralized data centre for providing the information support to various operational departments.

22. Future Outlook

- 22.1 The retail loans portfolio of the banks has been on the upswing. Housing loans form a sizable portion of this portfolio and have been expanding likewise. Continued fiscal support and soft interest rates have helped in sustaining high level of demand for housing loans. As a result, the industry continued to witness demand-led expansion. With fiscal incentives and competitive pricing, the sector is expected to sustain the growth.
- 22.2 The National Housing Bank (NHB) continued with its liberalized refinance scheme and clocked an all time high refinance of Rs. 7500 crore during the year, accounting for nearly 10% of the system's housing loan disbursements. In its refinancing capacity, the NHB endeavoured to supplement the efforts and resources of the Primary lending Institutions (PLIs) for improving the opportunities of housing finance in the country by offering them market-friendly products. Responding to the market demand and the trend, NHB has

been delivering need based products to the housing finance institutions with market friendly features such as differential risk-based pricing, fixed and floating rates with easy convertibility, periodic and bullet repayments of principal as well as interest, availability of different maturities to suit the client's ALM requirements, competitive rates, simplified procedures and easy exit route. The commercial banks also found the refinance products and the lending rates of NHB attractive. Refinance to commercial banks accounted for nearly 72% of the total refinance disbursed during the year by NHB.

- 22.3 For its lending operations at competitive rates, NHB relies primarily on the funds mobilized through the capital gain bonds. Supporting the efforts of the Government to promote housing finance in rural areas, the NHB has also been giving an additional 25 basis points reduction in the rates for refinance against rural loans under Golden Jubilee Rural Housing Refinance Scheme (GJRHRS). NHB's refinance under GJRHRS accounts for nearly 47% of the Bank's total lending during the year. However, there is still a huge section of the rural population which awaits servicing from formal delivery channels at affordable rates.
- 22.4 The tenth Five Year Plan document on urban development has estimated an additional requirement of about 4.5 million houses each year during the Plan period (2002-07). Increasing number of household, rural urban migration and rising income levels have made the housing finance market in the urban and semi urban areas attractive as well as challenging. Housing in rural areas however continues to be under served requiring adequate infrastructural support and institutional depth. Partnership with the local bodies in the private and public sector is potentially good opportunity for the financing agencies. Though the capacity of the micro-financing institutions in the area of housing is still limited, NHB extended direct financial support to some of their endeavours, encouraging the local informal sector entities to undertake more and more housing micro-finance activities for their members. This segment is considered to hold enormous potential and scope for providing housing at the local and decentralized level. An efficient and sustainable partnership structure will enhance the scope of funding the housing needs of this segment of the population.
- 22.5 The Union Budget for 2005-06 has reinforced the commitment of the Government to support housing through continued fiscal incentives through the new Section 80 CCE of the Income Tax Act. The Budget announcement has also proposed to make securitization instruments as eligible securities under the Securities Contracts (Regulation) Act, 1956. This will facilitate integration of the housing finance industry with the capital market as these instruments will become tradable in the stock exchanges providing liquidity and depth to the secondary mortgage market. The industry recognizes this move as an important measure to significantly improve the flow of funds into housing as also facilitate efficient pricing. The envisaged legislative changes will facilitate financial innovation and credit enhancement measures, critical for the development of the mortgage securitization market. They are likely to offer scope to the lenders to devise innovative ways of raising funds at competitive costs to maintain the profitability and growth in housing finance business.

- 22.6 Though banks, with their access to low cost deposits and large regional penetration in terms of branch network, continued to dominate the housing finance market, the Housing Finance Companies sustained the growth witnessed in earlier years. However, they are increasingly challenged by the banks, who continue with their aggressive lending. Security of mortgage and low defaults in this segment, coupled with the growth in demand continued to engage the interest of the lending institutions. Although the overall sentiments in the market have remained positive, the competition in pricing and upward bias on the cost of funds continued to exert pressure on the spread of the lending agencies. Sensing overheating of the market resulting from aggressive lending, the Reserve Bank of India raised the risk-weight on housing loans of the commercial banks from 50% to 75% in its mid-term review of the Credit Policy in October 2004, signaling, inter alia, increased risk at the systemic level. This, in turn calls for lenders to exercise greater care in lending for housing to ensure that there is no slippage in asset quality.
- 22.7 The housing sector in coming years is poised for sustained growth and expansion. The quality of assets and the standards of origination will count for its growth and stability. In tandem with growing competition and innovation in the financial sector, the multi-dimensional housing sector may see the emergence of specialized agencies for origination, funding, loan servicing, credit enhancement in primary market and secondary market and securitization related special purpose institutions.

PROFIT & LOSS ACCOUNT
2004 - 05



AUDITOR'S REPORT

We have audited the attached Balance Sheet of National Housing Bank (General and Special Fund) as at 30th June, 2005 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 crore received from State Bank of Saurashtra pursuant to a decree by the Special Court and others and included in 'Other Liabilities' [Note no. 14(i)].
 - b) Rs.149.37 crore appearing as 'Other Assets' representing Rs.95.40 crore paid by the Bank to State Bank of Saurashtra and Rs.53.97 crore paid by the Bank to Custodians pursuant to the orders of the Special Court [Note no.14 (ii)].

2. Further, subject to our comments in para 1 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, 2005;
 - 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: September 26, 2005

Balance Sheet

Previous Year Rs. Crore	Liabilities	Schedules	Current Year Rs. Crore
450.00	1. Capital	I	450.00
1,206.14	2. Reserves	II	1,201.32
0.64	3. Profit & Loss Account	III	0.67
8,246.72	4. Bonds and Debentures	IV	12,366.95
400.00	5. Subordinated Debts		400.00
1,922.57	6. Borrowings	V	3,246.19
438.24	7. Current Liabilities and Provisions	VI	740.36
267.84	8. Other Liabilities	VII	335.41
0.00	9. Deferred Tax Liability		70.42
175.36	10. HLA deposits with Banks & HFCs - as per contra		136.59
13,107.51	TOTAL		18,947.91

Sd/-
A. P. Saxena
Assistant General Manager

Sd/-
R. S. Garg
General Manager

Sd/-
Surindra Kumar
Executive Director

Sd/-
R.V.Verma
Executive Director

Sd/-
P. K. Gupta
Chairman & Managing Director

Directors

Sd/-
Vidyadhar K. Phatak

Sd/-
Dr. Errol D'Souza

Sd/-
R. V. Shastri

Sd/-
J. A. Vyas

Sd/-
V. Leeladhar

Sd/-
K. Madhava Rao

Sd/-
Amitabh Verma

Sd/-
A. K. Srivastava

New Delhi, September 26, 2005

as at 30th June, 2005

Previous Year Rs. Crore	Assets	Schedules	Current Year Rs. Crore
3,113.87	1. Cash and Bank Balances	VIII	4,963.38
880.69	2. Investments	IX	247.58
8,284.00	3. Loans and Advances	X	12,662.23
34.63	4. Fixed Assets	XI	25.88
615.37	5. Other Assets	XII	912.25
3.59	6. Deferred Tax Asset		0.00
175.36	7. HLA deposits with banks & HFCs - as per contra (out of this Rs.5,70,77,515/- used as automatic refinance)		136.59
13,107.51	TOTAL		18,947.91

Notes forming part of Accounts

XIII

As per our attached Report of even date

For Mukund M. Chitale & Co.
Chartered Accountants

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

Profit & Loss Account

Previous Year Rs. Crore	Expenditure		Current Year Rs. Crore
610.81	1. Interest		811.22
3.42	2. Staff Salaries, Allowances etc. and Terminal benefits		3.83
0.13	3. Directors' and Committee Members fees and Expenses		0.08
0.08	4. Audit Fees:		0.06
	(i) Statutory Audit Fees	0.05	
	(ii) Tax Audit Fees	0.01	
	(iii) Certification	0.00	
2.31	5. Rent, Taxes, Electricity and Insurance		1.81
0.40	6. Postage, Telegrams, Telex and Telephones		0.40
0.44	7. Law Charges		0.84
0.59	8. Stationery, Printing, Advertisement etc.		1.42
2.06	9. Depreciation		2.45
7.95	10. Underwriting Commission, Brokerage and Guarantee Fee		10.85
0.98	11. Travelling Expenses		0.87
8.37	12. Other Expenditure		2.25
47.09	13. Depreciation on Investment		0.29
0.00	14. Loss on sale of Securities		78.04
12.50	15. Provision for NPA & Standard Assets		20.40
0.19	16. Wealth Tax		0.14
0.00	17. Deferred Tax		25.17
37.33	18. Provision for Income Tax		33.54
0.00	19. Provision for Fringe Benefit Tax		0.05
118.13	20. Balance of Profit c/d		44.04
852.78	TOTAL		1,037.75
0.00	21. Deferred Tax for earlier years		48.84
17.80	22. Transfer to Investment Fluctuation Reserve		0.00
0.00	23. Transfer to Reserve Fund		20.05
70.00	24. Transfer to Special Reserve in terms of Section 36(1)(viii) of Income Tax Act, 1961		76.24
48.08	25. Balance Carried to Balance Sheet		8.48
135.88	TOTAL		153.61

Sd/- **A. P. Saxena** Assistant General Manager Sd/- **R. S. Garg** General Manager Sd/- **Surindra Kumar** Executive Director Sd/- **R.V.Verma** Executive Director Sd/- **P. K. Gupta** Chairman & Managing Director

Directors

Sd/- **Vidyadhar K. Phatak** Sd/- **Dr. Errol D'Souza** Sd/- **R. V. Shastri** Sd/- **J. A. Vyas**
Sd/- **V. Leeladhar** Sd/- **K. Madhava Rao** Sd/- **Amitabh Verma** Sd/- **A. K. Srivastava**

New Delhi, September 26, 2005

'for the year ended 30th June, 2005

Previous Year Rs. Crore	Income	Current Year Rs. Crore
743.86	1. Interes and Discount	945.64
54.57	2. Income from Investments	12.49
39.19	3. Other Income	27.61
15.16	4. Provisions no longer required now written back	4.87
0.00	5. Provisons and Contingencies (Excess Provision on Investments reversed)	47.14
852.78	TOTAL	1,037.75
118.13	6. Balance of Profit brought down	44.04
17.75	7. Transfer from Investment Fluctuation Reserve	0.15
0.00	8. Transfer from Reserve Fund	84.00
0.00	9. Transfer from Special Reserve in terms of Section 36(1)(viii) of Income Tax Act, 1961	25.42
135.88		153.61

As per our attached Report of even date

For Mukund M. Chitale & Co.
Chartered Accountants

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

Schedules to the Balance Sheet as at 30th June, 2005

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		
804.00	1. Reserve Fund		750.04
215.35	2. Special Fund (Slum Improvement & Low Cost Housing Fund)		213.71
158.89	3. Special Reserve in terms of Section 36(1)(viii) of Income Tax Act, 1961		209.71
20.00	4. Investment Fluctuation Reserve		19.85
7.39	5. Taxation Reserve		7.39
0.51	6. Staff Benevolent Fund		0.62
1,206.14			1,201.32
	SCHEDULE - III		
	PROFIT & LOSS ACCOUNT		
0.68	1. Opening Balance	0.64	
48.08	Balance as per P&L account annexed	8.48	
	<i>Add:</i> Transfer of Profit from Slum Improvement & Low Cost Housing Fund	3.00	
	<i>Less:</i> Profit of Slum Improvement & Low Cost Housing Fund transferred	1.36	10.76
2.87	2. Less: Appropriations		
45.00	i. Reserve Fund	10.00	
0.25	ii. Staff Benevolent Fund	0.09	10.09
0.64	3. Balance of Net Profit		0.67

Previous Year Rs. Crore			Current Year Rs. Crore
	SCHEDULE - IV		
	BONDS AND DEBENTURES		
435.50	1. Bonds (Guaranteed by GOI)		390.50
	2. Priority Sector Bonds		
1,140.00	i. Tax-free Bonds	1,140.00	
1,794.66	ii. Taxable Bonds	2,971.34	
538.60	iii. Special Series Bonds	524.70	4,636.04
4,337.96	3. Capital Gain Bonds		7,340.41
8,246.72			12,366.95
	SCHEDULE - V		
	BORROWINGS		
	1. From Reserve Bank of India		
50.00	(a) Out of National Housing Credit (Long Term Operations) Fund		50.00
39.50	(b) Others (Line of credit)		36.87
	2. From Other Sources		
1,290.04	i. In India		2,661.93
543.03	ii. Outside India		497.39
1,922.57			3,246.19
	SCHEDULE - VI		
	CURRENT LIABILITIES AND PROVISIONS		
194.68	1. Interest Payable		278.96
46.25	2. Interest & Instalment received in advance		223.16
9.91	3. Provision for Retirement benefits		1.87
123.30	4. Provision for Income Tax/Wealth Tax		156.83
64.10	5. Others		79.54
438.24			740.36

Previous Year Rs. Crore		Current Year Rs. Crore
	SCHEDULE - VII	
	OTHER LIABILITIES	
237.20	1. Unsettled transactions of 1991-92	237.20
30.64	2. Sundry Deposit / others	98.21
267.84		335.41
	SCHEDULE - VIII	
	CASH & BANK BALANCES	
21.90	1. Cash/ Cheques in Hand	5.11
0.03	2. Balance with Reserve Bank of India	11.79
	3. Balance with other Banks	
	<i>i. In India</i>	
14.11	(a) Current Accounts	10.75
2,550.94	(b) Term Deposit - Bank/FIs	4,446.83
526.89	<i>ii. Outside India</i>	488.90
3,113.87		4,963.38
	SCHEDULE - IX	
	INVESTMENTS	
851.43	1. GOI Dated Securities - at cost or market value whichever is less	12.15
10.74	2. Stocks, shares, bonds, debentures and Securities of Housing Finance Institutions / Building Material Co.	10.74
18.52	3. Stocks, shares, bonds, debentures and Securities of other Institutions	224.70
880.69		247.58

Previous Year Rs. Crore			Current Year Rs. Crore
	SCHEDULE - X		
	LOANS AND ADVANCES		
	(i) Housing Finance Institutions		
4,736.29	(a) Housing Finance Companies		4,927.79
561.72	(b) Co-operative Housing Finance Societies		476.49
	(ii) Scheduled Banks		6,719.92
2,142.96	(a) Commercial Banks	6,620.29	
2.66	(b) Regional Rural Banks	2.57	
113.80	(c) Urban Co-operative Banks	97.06	
495.14	(iii) State Co-operative Agriculture Rural Development Banks/Land Development Banks		342.98
226.54	(iv) Housing Boards/Devp. Authorities	191.16	
4.89	(v) Others	3.89	195.05
8,284.00			12,662.23

SCHEDULE - XI
Fixed Assets (For the period 01.07.2004 to 30.06.2005)

Rs. in Crore

Sl. No.	Assets	Cost					Depreciation					WDV as on 30/06/05	WDV as on 30/06/04
		Opening Balance	Addition	Deletion	Adj.	Total	Opening Balance	During the year	Accu. dep on sale	Adj	Total		
1	Leasehold Land	11.08	3.67	14.75	0.00	0.00	1.60	0.09	1.69	0.00	0.00	0.00	9.48
2	Premises	33.35	1.43	0.00	0.02	34.80	10.69	1.21	0.00	0.02	11.92	22.88	22.66
3	Computer/ Microprocessors	3.87	1.57	0.36	(0.26)	4.82	2.59	0.73	0.27	(0.26)	2.79	2.03	1.28
4	Motor Vehicles	0.96	0.00	0.04	0.00	0.92	0.33	0.19	0.04	0.00	0.48	0.44	0.63
5	Furniture & Fixtures	1.85	0.11	0.05	@	1.91	1.57	0.12	0.05	0.00	1.64	0.27	0.28
6	Office Equipments	1.32	0.06	0.05	0.01	1.34	1.08	0.09	0.06	0.01	1.12	0.22	0.24
7	Residence Furnishing	0.24	0.01	@	@	0.25	0.18	0.02	@	0.01	0.21	0.04	0.06
	Total	52.67	6.85	15.25	(0.23)	44.04	18.04	2.45	2.11	(0.22)	18.16	25.88	34.63
	Prev Year	47.87	5.04	0.24	0.00	52.67	16.04	2.06	0.06	0.00	18.04	34.63	-

@ Amount less than Rs.0.50 lakh.

Previous Year Rs. Crore		Current Year Rs. Crore
	SCHEDULE - XII	
	OTHER ASSETS	
263.98	1. Interest/Discount Receivable/Accrued	422.64
202.02	2. Advances, Receivables, Adv Tax, Prepaid Expenses	340.23
149.37	3. Unsettled transactions of 1991-92	149.37
615.37		912.25

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 50%/ 100% of the secured portion of the assets remained outstanding for less than three or more years, respectively.
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:-

Assets	Method of Depreciation	Rate (%)
1. Premises	Written down value	5
2. Leasehold Land	Straight Line	Over the lease period
3. Furniture & Fixtures	Straight Line	10
4. Other Assets	Straight Line	20

- (d) 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

10. Fixed Assets

- (i) Registration formalities in respect of Versova (Mumbai) property has been completed. 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 Chembur in Mumbai having written down value of Rs.16.26 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.
- (iii) The Bank has carried out the physical verification of fixed assets during the year and completed the process of creating the fixed asset register containing the original cost and accumulated depreciation in respect of each individual asset comprised in the block of assets. Consequently, certain amounts had to be adjusted in certain block of assets in respect of original cost and accumulated depreciation and these have been shown in Adjustment column in Schedule XI for fixed assets.
- (iv) The Bank had acquired a plot of land on leasehold basis from NOIDA for construction of building in the past and was paying the annual lease rent. The Bank had paid lump sum amount of Rs.3.95 crore to NOIDA as per the terms of the lease deed and consequently further lease rent was not payable. The land has been sold during the year and the entire amount of advance lease rent included in prepaid expenses has been adjusted against the profit derived from said sale.

- (v) Till last year, the Bank used to make a provision for certain amount payable towards lease extension charges on account of non construction of building on the plot at NOIDA. However, the Bank has now received a clarification from NOIDA stating that no lease extension charges are payable by the Bank. Consequently, lease extension charges provided till last year amounting to Rs.2.09 crore have been written back to the credit of Profit and Loss Account.

11. External Borrowings

- (i) Under the Housing Guarantee Programme of USAID, the Bank had raised a loan of US \$25 million in the US 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 120.40 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.

12. Provision for doubtful assets – change in accounting policy

The Bank was following the policy of making provision in respect of secured portion of doubtful asset at 20%/30%/50% depending upon the period for which the loans and advances remained doubtful as per the RBI guidelines upto last year. During the year the Bank has changed this policy to make it more conservative by deciding that it will provide 50%/100% of the secured portion of doubtful assets which remains outstanding for less than three years or more than three years, respectively. However, the Bank does not have any such doubtful asset during the year and therefore this change in policy has no impact on the financial statements for the current year.

13. Transfer from Special Reserve

The Bank had transferred a sum of Rs. 35,50,00,000 to special reserve account in terms of section 36(1)(viii) of the Income Tax Act, 1961 for the assessment year 2003-04. However, the Bank has claimed deduction of Rs. 10,08,20,653 only under Section 36(1)(viii) of the Income Tax Act, 1961 in the income tax return for the relevant assessment year. Consequently, the excess amount of Rs. 25, 41,79,347 is transferred from special reserve account to profit and loss account for the current year.

14. 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 has been made on the above sum from 1991-92 till date of deposit with the Custodian and thereafter on the balance amount totaling to Rs.35.28 crore. 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.

15. 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.

16. 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. No.	Name of the Related Party	Nature of Relationship
1.	Reserve Bank of India	Holding Company
2.	BOB Housing Finance Company Ltd.	Associate Company
3.	Shri V. Sridar (upto 15.12.2004) Shri P. K. Gupta (from 16.12.2004)	Key Management Personnel

(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:

Particulars	Holding Company	Associate Company	Key Management Personnel
Interest Income	-	9.82	-
Dividend received	-	0.39	-
Interest paid	4.87	-	-
Remuneration	-	-	0.06
Receivable as on June 30, 2005	-	23.28	-
Payable as on June 30, 2005	86.87	-	-

17. Income tax

The Income Tax Department has raised a notice of demand on the Bank in respect of assessment years 2002-03 and 2003-04 for Rs.45.13 crore after adjusting the refund of Rs.44.62 crore due to the Bank. The Bank has preferred appeal against the demand and paid Rs.36.92 crore.

The Bank has obtained opinion on certain transactions disallowed by the Income Tax Authority and in view of the same considered the amount to be recoverable. The contingent liability on account of these assessment orders works out to Rs. 63.24 crore.

18. Deferred Tax

During the year the Bank has obtained opinion from the Expert Advisory Committee of the Institute of Chartered Accountants of India regarding creation of Deferred Tax Liability (DTL)

in respect of Special Reserve created by the Bank under section 36(1)(viii) of Income Tax Act, 1961. Accordingly, the Bank has created provisions for DTL in respect of Special Reserve created by the Bank for current year as well as earlier years as follows:

For the financial year 2001-02 to 2003-04	-	Rs.48.84 crore
For the financial year 2004-05	-	Rs.25.17 crore
Total	-	Rs.74.01 crore

The Bank has shown Rs.25.17 crore in the Profit & Loss Account for the year and Rs.48.84 crore as appropriation.

The composition of Deferred Tax Assets and Liabilities into major items is given below:

Deferred Tax Assets	
On account of the timing difference towards various provisions	Rs.0.79 crore
Deferred Tax Liabilities	
On account of the timing difference between the Book depreciation & Income Tax depreciation and Special Reserves created u/s 36(1)(viii) of Income Tax Act, 1961	Rs.71.21 crore
Net Deferred Tax Liability	Rs.70.42 crore

19. Home Loan Account Scheme

- (i) Deposits under Home Loan Account Scheme (HLAS) including interest thereon and the corresponding asset on account of moneys retained by Banks/Housing Finance Companies are taken on the basis of information furnished by them as on 31st March each year, as their accounts are closed on the said date.
- (ii) Thus deposits under Home Loan Account Scheme held by the banks/HFCs aggregating Rs.136.59 crore have been disclosed in the Balance Sheet as on March 31, 2005 as a Contra item.

20. 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 issue of Residential Mortgage Backed Securities (RMBS) to the investors for consideration. NHB acts as trustee in respect of such RMBS transaction. NHB has so far

completed ten securitization transactions involving 35,116 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 RMBS in the form of Pass Through Certificates(PTCs) have been issued to the investors. NHB has also invested Rs.2.18 crore in these PTCs. As trustee, NHB arranges for collection of cash flows of the securitized loans and its distribution to the investors. A sum of Rs.0.13 crore was received by NHB during the year as Trusteeship Fee.

21. Consolidation of Special Fund with the General Fund

The Voluntary Deposits (Immunities and Exemptions) Act, 1991 was passed with the objective 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.

22. Regrouping

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

23. Cash Flow Statement for the Year Ended June 30, 2005

(Rs. In Crores)

A.	CASH FLOW FROM OPERATING ACTIVITIES	
	Net Profit	44.04
	Adjustments for	
	Provision for Tax (Including Fringe Benefit Tax)	33.59
	Provision for Wealth Tax	0.14
	Deferred Tax Liabilities	25.17
	Depreciation on fixed assets	2.45
	Provision for Standard Assets and Contingencies	20.40
	Profit on Revaluation of Forex Loans & Deposits	(3.06)
	Profit/Loss on Sale of Fixed Assets	(7.99)
	Provisions & Contingencies	(47.13)
	Amortisations Reversals & Provisions written back	(4.87)
		62.75
	Adjustments for	
	Increase/(Decrease) in Investments	680.24
	Increase/(Decrease) in Deposits with Banks	(1,857.89)
	Increase/(Decrease) in Loans & Advances	(4,378.24)
	Increase/(Decrease) in other assets	(296.88)
	Increase/(Decrease) in Current Liabilities & Provisions	247.89
	Increase/(Decrease) in Other Liabilities	67.54
	NET CASH FLOW FROM OPERATING ACTIVITIES	(5,474.59)
B.	CASH FLOW FROM INVESTING ACTIVITIES	
	Increase/(Decrease) in Fixed Assets	19.19
	NET CASH GENERATED FROM INVESTING ACTIVITIES	19.19
C.	CASH FLOW FROM FINANCING ACTIVITIES	
	Proceeds from issue of Share Capital	-
	Proceeds from issue of Subordinated Debt	-
	Payments from Staff Benevolent Fund	0.02
	Proceeds from issue of Bonds & Debentures	4,120.22
	Increase/(Decrease) in Borrowings	1,326.67
	NET CASH GENERATED FROM FINANCING ACTIVITIES	5,446.92
	Net increase in cash and cash equivalents	(8.48)
	Cash and cash equivalents as at 01st July 2004	36.04
	Cash and cash equivalents as at 30th June 2005	27.56

24. Additional Disclosures as per RBI Guidelines

A. Capital		(Rs. In Crore)	
a.	CRAR		22.48%
	Core CRAR		18.86%
	Supplementary CRAR		3.62
b.	Amount of subordinated debt raised and outstanding as Tier II Capital		400.00
c.	<i>Risk Weighted Assets</i>		
	- On Balance Sheet Items		8518.19
	- Off Balance Sheet Items		94.77
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	0.00	0.00%
	Doubtful	0.00	0.00%
	Loss	0.00	0.00%
	Total	0.00	0.00%
g.	Amount of provisions made during the year towards :		
	- Standard Assets		13.58
	- NPAs		9.53
	- Investments		0.28

- Income tax & Fringe Benefit Tax		33.59
- Contingencies		0.00

Note: Provision made during the year towards NPAs is in accordance with Section 36(1) (vii) of IT Act, 1961.

		As on 30/06/04	As on 30/06/05
h.	Movement in net NPAs		
	- Net NPAs	Nil	Nil
i.	Credit exposure as percentage to capital funds and as percentage to total assets, in respect of:	Total Credit o/s	% age to Capital Fund % age to total assets
	- The largest single borrower	1100.00	56.83% 5.81%
	- The largest borrower group	1406.72	72.67% 7.42%
	- The 10 largest single borrowers	8665.12	447.64% 45.73%
	- The 10 largest borrower groups\$ \$ NHB has only five borrower groups	4398.16	227.21% 23.21%
j.	Credit exposure to the five largest sectors/ industries as percentage to total loan assets	Total Credit o/s	%age to total o/s
	- Housing Finance Companies	4927.79	38.92%
	- Schduled Commercial Banks	6622.86	52.30%
	- Co-operative Housing Finance Societies	476.49	3.76%
	- State Cooperative Agricultural Rural Development Banks/Land Development Banks	342.98	2.71%
	- Urban Cooperative Banks	97.06	0.77%

C. Liquidity - Maturity pattern of assets and liabilities (Rs. In 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	7640.89	10081.80	1876.49	1260.53	1337.69	22197.40
Foreign currency assets	509.24	37.49	34.55	31.32	91.42	704.02
Total Assets	8150.13	10119.29	1911.04	1291.85	1429.11	22901.42
Rupee liabilities	6959.13	7914.44	1722.53	1008.66	2975.26	20580.02
Foreign currency liabilities	38.18	76.30	75.70	75.32	397.45	662.95
Total Liabilities	6997.31	7990.74	1798.23	1083.98	3372.71	21242.97

D. Operating results

a) Interest Income as a percentage to average Working Funds	5.88%
b) Non-interest income as a percentage to average Working Funds (*)	0.25%
c) Operating profit as a percentage to average Working Fund	0.53%
d) Return on average assets	-0.03%
e) Net Loss (loss after tax) per employee (Rs./crore)	-0.06
(*) Non-interest income excludes write-back of provisions & Contingencies , no longer required.	

Note: Return on average assets and net loss per employee is due to deferred tax provision of Rs.48.84 crore in respect of earlier years made during the current year.

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	31.45
Add: Provisions made during the year	9.53
Less: Write off, write back of excess provision	1.15
b) Closing balance at the close of the year	39.83
II Provisions for Depreciation on Investments	
c) Opening Balance at the beginning of the year	47.68
Add: i) Provisions made during the year	0.28
ii) Appropriation, if any, from Investment Fluctuation Reserve Account during the year	0.15

Less: i) Write back during the year	47.13
ii) Transfer, if any, to Investment Fluctuation Reserve Account	0.00
d) Closing balance at the close of the year	0.98

F. Restructured Accounts

a) Total Amount of loan Asset	Nil
b) Sub-standard Assets	Nil

G. Forward Rate Agreements and Interest Rate Swaps

a) Notional principal of swap agreements	Nil
b) Nature and terms of the swaps	Nil
c) Quantification of losses	Nil
d) Collateral required	Nil
e) Concentration of credit risk	Nil
f) Fair value of total swaps	Nil

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 2005 (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 made through private placement	Investments investment grade' Securities held	'below Securities held	'unrated' Securities	'unlisted'
(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	30.00	30.00	0.00	0.00	0.00
4	Private Corporates	4.90	0.00	0.00	0.00	0.00
5	Subsidiaries/Joint ventures	0.00	0.00	0.00	0.00	0.00
6	Others	1.62	1.62	0.00	0.00	1.62
7	Provisions held towards depreciation	0.00	0.00	0.00	0.00	0.00
Total		36.52	31.62	0.00	0.00	1.62

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 outstanding	As on June 30, 2005	
Securities sold under repos	0.00	730.58	10.73	0.00	
Securities purchased under reverse repo	0.00	0.00	0.00	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/-
R. S. Garg
General Manager

Sd/-
Surindra Kumar
Executive Director

Sd/-
R.V.Verma
Executive Director

Sd/-
P. K. Gupta
Chairman & Managing Director

Directors

Sd/-
Vidyadhar K. Phatak

Sd/-
Dr. Errol D'Souza

Sd/-
R. V. Shastri

Sd/-
J. A. Vyas

Sd/-
V. Leeladhar

Sd/-
K. Madhava Rao

Sd/-
Amitabh Verma

Sd/-
A. K. Srivastava

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

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

New Delhi, September 26, 2005

*SLUM IMPROVEMENT AND
LOW COST HOUSING FUND
2004 - 05*



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
17.09	2. Reserves (i) Special Reserve in terms of Section 36(1)(viii) of Income Tax Act, 1961	22.72
3.00	(ii) Investment Fluctuation Reserve	3.00
150.66	3. Profit & Loss Account Balance from last balance sheet	153.53
0.00	Less: Profit transferred to Profit & Loss A/c	3.00
2.87	Add: Profit transferred from the Profit & Loss Account annexed	1.36
25.08	4. Other Current Liabilities & Provisions	30.23
0.00	5. Deferred Tax Liability	7.65
260.52	TOTAL	277.31

Profit & Loss Account

Previous Year Rs. Crore	Expenditure	Current Year Rs. Crore
0.01	1. Interest	0.00
@	2. Underwriting Commission, Brokerage and Guarantee Fee	@
@	3. Other Expenditure	@
0.79	4. Depreciation on Investment	0.00
1.60	5. Provision for NPA & Standard Assets	0.00
0.00	6. Deferred Tax	3.36
7.53	7. Provision for Income Tax	5.41
10.39	8. Balance of Profit c/d	8.28
20.32	TOTAL	17.05
0.00	9. Deferred Tax for earlier years	4.29
0.80	10. Transfer to Investment Fluctuation Reserve	0.00
7.51	11. Transfer to Special Reserve in terms of Section 36 (1) (viii) of Income Tax Act, 1961	11.00
2.87	12. Balance Carried to Balance Sheet	1.36
11.18	TOTAL	16.65

@ Amount less than Rs.0.50 lakh.

Low Cost Housing Fund as at 30th June, 2005

Previous Year Rs. Crore	Assets	Current Year Rs. Crore
141.20	1. Cash and Bank Balances Balance with other banks in deposit account	128.63
1.19	2. Investments (i) Units of Mutual Funds	36.28
10.25	(ii) PSU/FI Bonds	0.00
84.10	3. Loans & Advances	86.79
23.78	4. Other Assets (Interest Receivables, Advance Tax, etc.)	25.61
260.52	TOTAL	277.31

for the year ended 30th June, 2005

Previous Year Rs. Crore	Assets	Current Year Rs. Crore
10.55	1. Interest & Discount	16.19
4.29	2. Income from Investments	0.05
5.48	3. Other Income	0.02
0.00	4. Provisions & Contingencies (Excess provision on investments reversed)	0.79
20.32		17.05
10.39	5. Balance of Profit brought down	8.28
0.00	6. Transfer from Profit & Loss Account	3.00
0.79	7. Transfer from Invest Fluctuation Reserve	0.00
0.00	8. Transfer from Special Reserve in terms of Section 36 (1)(viii) of Income Tax Act, 1961	5.37
11.18		16.65

@ Amount less than Rs.0.50 lakh.

Notes forming part of Accounts

1. 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.
2. 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

Sd/-
A. P. Saxena
Assistant General Manager

Sd/-
R. S. Garg
General Manager

Sd/-
Surindra Kumar
Executive Director

Sd/-
R.V.Verma
Executive Director

Sd/-
P. K. Gupta
Chairman & Managing Director

Directors

Sd/-
Vidyadhar K. Phatak

Sd/-
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Sd/-
R. V. Shastri

Sd/-
J. A. Vyas

Sd/-
V. Leeladhar

Sd/-
K. Madhava Rao

Sd/-
Amitabh Verma

Sd/-
A. K. Srivastava

New Delhi, September 26, 2005