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14th ANNUAL REPORT 2001-2002

PNB HOUSING FINANCE LTD.

(A wholly owned subsidiary of Punjab National Bank)

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Hon'ble Union Minister for Urban Development Shri Ananth Kumar inaugurating company's stall in an exhibition. Shri R. Nambirajan, MD explaining about the company's loan schemes.

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Hon'ble Minister of Forest, Environment and Urban Development Govt. of Uttranchal Shri Nav Prabhat inaugurating company's Dehradun branch. Shri R. Nambirajan standing to his left.

Shri T.S. Narayanasami, ED, PNB and Director of PNB Housing inaugurating company's Trivandrum branch.

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14th Annual Report 2001-2002

(Rs. in Crores)

Performance Highlights

	1995-96	1996-97	1997-98	1998-99	1999-2000	2000-2001	2001-2002	Cumulative
Loan Approvals	19.67	38.30	60.49	66.55	97.24	140.17	289.42	854.33
Loan Disbursements	15.65	20.44	50.78	63.06	87.17	130.29	267.62	771.03
Loan Outstanding	122.77	134.13	176.08	226.07	236.31	320.88	519.97	-
Deposit Outstanding	86.97	130.98	135.33	124.12	127.88	117.02	139.59	-
Total Income	19.02	33.17	34.89	34.90	49.98	52.41	66.92	-
Profit before tax	(8.01)	10.27	8.04	2.22	8.30	12.57	12.43	-
Proft after tax	(8.01)	9.86	6.43	0.23	5.63	9.87	9.17	-
Dividend (%)	-	15	15	-	10	10	11	-
Earnings per Share (Rs.)	-	9.86	6.43	-	1.88	3.29	3.06	-
Net Worth	16.29	24.50	29.28	51.70	54.00	60.20	67.61	-

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Exec. Vice President
V.K. Gupta

Company Secretary
Sanjay Jain

Auditors
Ramesh Kapoor & Co.
Ist-A, 180, First Floor
Lajpat Nagar
New Delhi - 110 024

Bankers
Punjab National Bank
Industrial Finance Branch
A-9, Connaught Circus
New Delhi - 110 001

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Board of Directors

Sh. S.S. Kohli, Chairman

Sh. T.S. Narayanasami

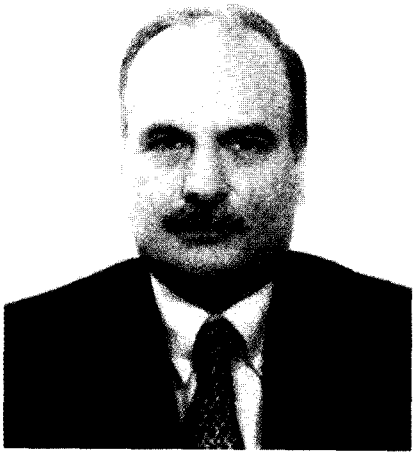
Sh. Manu Chadha

Sh. K.B. Sharma

Sh. M.S. Rekhrao

Sh. R.S Awasthi

Sh. K.K. Bhargava



Sh. C.P. Swarnkar

Sh. R. Nambirajan

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DIRECTORS' REPORT TO THE MEMBERS

PNB HOUSING FINANCE LIMITED

Your Directors have pleasure in presenting the Fourteenth Annual Report together with the Audited Accounts of the company for the year ended March 31, 2002.

FINANCIAL RESULTS

(Rs. in lacs)

	For The Year Ended March 31, 02	For The Year Ended March 31, 01
Profit/Loss before tax	1230.48	1263.24
Less: Prior period expenditure	(4.28)	5.77
Add: Earlier year provision written back	7.84	0
	1242.61	1257.48
Less: Provision for Tax	280.00	270.00
Deferred Tax	45.23	0
Profit/Loss After Tax	**917.38**	**987.48**
Add: Balance brought forward from the previous year	60.38	23.20
	977.76	**1010.68**
Appropriation of Profits		
Transfer to Special Reserve	423.00	282.50
Transfer to General Reserve	200.00	300.00
Interim Dividend paid (Inc. Dividend Tax)	0	367.80
Proposed Dividend	330.00	0
Balance carried to Balance Sheet	24.76	60.38
	977.76	**1010.68**

Dividend

Your Directors are pleased to recommend a dividend of 11% for the year ended 31.03.02 as against 10% paid in 2000-01.

Review of Operations:

Income and Profit

During the year, the company earned a total income of Rs. 66.92 crores as compared to Rs.52.41 crores in the previous year. The Profit before tax was Rs.12.43 crores and the Profit after provision for tax and deferred tax was Rs. 9.17 crores. Although, as compared to previous financial year, the Profit before tax declined by 1% but the Profit from operations improved by 45% because the company earned extraordinary income of Rs. 4 crores in the previous financial year.

Loan Approvals

During the year, there was stiff competition from the banks that have become very aggressive in housing loans. Inspite of increase in number of institutions giving housing loans, the Company has bettered the industry's growth. The loan approvals at Rs. 289.42 crores improved by 106% and total disbursements at Rs. 267.62 crores improved by 105% over previous financial year. During the year, the Company financed a total of 7623 units. The Company continued its focus on loans to individuals, who constitute 94.50% of the total loan outstanding.

The cumulative loan approvals as on 31.03.2002 were Rs.854.32 crores in respect of 40961 units and cumulative loan disbursements were Rs. 771.02 crores. As on 31.03.02 the total loans outstanding, including installments due from borrowers were Rs. 519.97 crores. During the year, the Company has financed 768 units involving a sum of Rs. 25.62 crores under Golden Jubilee Rural Housing Scheme.

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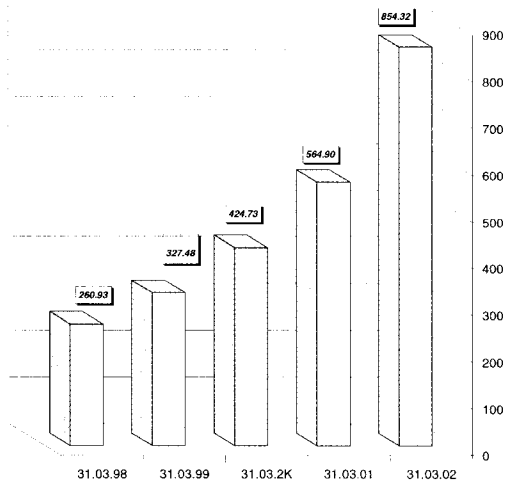
Asset Liability Management:

During the year, the company raised long term resources of over Rs. 264 crores from NHB refinance, term loan, issue of bonds and recovery of principal on housing loan. Thus, the entire disbursements of Rs. 267.62 crores of long-term individual housing loan was raised through

Cumulative Sanctions



PNB HOUSING HOME LOANS

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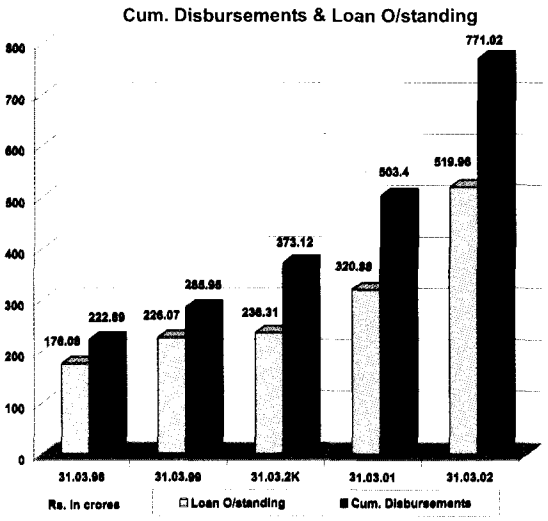


long-term borrowings. Over the last five years, the ratio of long term resources to total loan outstanding has constantly improved from 29% as on 31.03.98 to 79% as on 31.03.02.

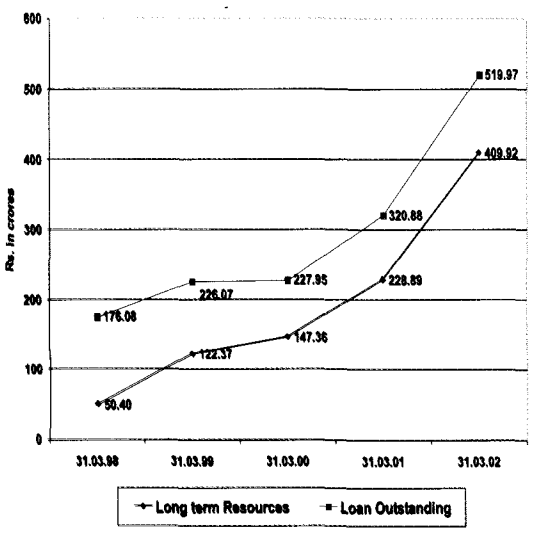
Long term Resources:

1. NHB Refinance

During the year, the company availed Rs. 52.74 crores refinance from NHB. The total refinance outstanding as on 31.03.2002 was Rs. 155.81 crores. The NHB has continued its financial support to the Company and sanctioned refinance limit of Rs. 75 crores for 2001-02 (July-June).

2. Term Loan

During the year, the Company availed fresh term loan of Rs. 93 crores from PNB. The outstanding term loan from PNB as on 31/3/2002 was Rs. 136.50 crores.



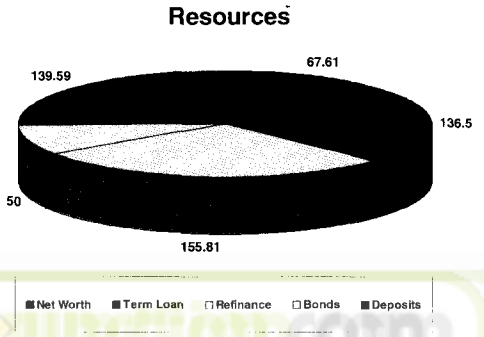
3. Bonds on private placement

In order to augment long term resources, the Company came out with an issue of 9.75% bonds of 7 years maturity with put and call option after 5 years on private placement. The total size of the issue was Rs. 25 crores with an option to retain 100% over-subscription.

The Company received very good response and 23 applications from 21 banks and other institutions were accepted and allotments were made with effect from 1.12.2001. The Company retained the full subscription of Rs. 50 crores. Your Directors wish to place on record their gratitude to all the applicants for subscribing to the issue.

4. Net worth

The net worth of the company as on 31/03/2002 was Rs. 67.61 crores.



Other Resources:

Public Deposits

The net deposit outstanding including interest accrued and due were Rs. 139.59 crores as against Rs. 117.02 crores as on 31.03.2001. Recently, the credit rating of public deposit program was upgraded by CRISIL by two notches from FAA- to FAA+ which means high safety regarding timely payment of interest and principal.

Unclaimed Deposits

Out of deposits which became due for repayment upto March 31, 2002, deposits of Rs. 10.71 crores, including interest accrued and due relating to 3588 depositors had not been claimed or renewed. Since then, deposits of Rs. 4.47 crores relating to 1545 depositors have been repaid or renewed. Other depositors have been intimated regarding the maturity of their deposits with request to either renew or claim the deposits.

Loan Recovery

During 2001-02 Rs. 121.51 crores were recovered towards housing loan installments. The Company maintained its good record of recovery in case of individuals and the recovery was 98.28%.

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The Company also made good inroads in recovery of NPA accounts of Private Builders and during the period under review, three NPA accounts of private builders were settled. With the result, overall recovery percentage has improved to 95.10% as compared to 90.21% as on 31.03.2001. The net non-performing assets to total loans outstanding also declined to 3.43% from 4.25% as on 31.03.2001.

Compliance with guidelines of NHB

The National Housing Bank has issued fresh guidelines, The Housing Finance Companies (NHB) Directions, 2001, which were published in the Official Gazette on 29.12.2001.

The Company has been complying with the guidelines and Directions issued by the NHB on asset classification, accounting standards, income recognition, provisioning, capital adequacy, concentration of credit/ investments, credit rating etc. issued from time to time.

Capital Adequacy Ratio

As on 31.03.2002, the capital adequacy ratio was 14.43% as against National Housing Bank requirement of minimum 12% of total risk weighted assets.

Business Outlook

Over the last few years, the housing finance industry has grown by over 28% per annum. The surge in the demand has been due to stable property prices, declining interest rates and tax benefits.

In the last few years, there has been continuous accretion in housing stock but the country still suffers from acute shortage of dwelling units. The only way to convert this demand into effective demand is through continuation of tax incentives, land reforms, simplification of laws etc. which will ultimately make owning a dwelling unit more affordable. The Government will have to continue housing sector reforms, initiated in the last few years, in an effort to make 'Housing for All' a reality.

The business outlook for 2002-03 is positive but there has been growing competition from the banks that have entered the housing finance business on a big scale. They have also taken over accounts of housing finance companies. Due to low cost of funds, banks have reduced the interest rates considerably. Although, the Company has reduced the interest rates, but it could not be matched with banks due to pressure on margins. The industry needs level playing field such as availability of long term funds at competitive rate, reduction in risk weight on housing loans to 50% as per RBI norms for banks and a favorable pre-payment policy of NHB refinance in order to compete with them.

The recovery in the housing sector will improve after the Government has notified Housing Finance Institutions Debt Recovery Appellate Tribunal (Financial and Administrative Powers) Rules, 2002 on 7th May, 2002. The summary procedure through specialized Recovery Tribunal will ensure speedy realization of housing loan defaults.

New Branches

During the last financial year, the Company opened four new branches at Gurgaon, NOIDA, Navi Mumbai and Bangalore. The business response at all the four branches was very encouraging.

In line with Company's policy of expansion in the retail segment, so far in the current financial year, two new branches were opened at Trivandrum and Dehradun. With this, the total number of branches has increased to 21. The Company has now expanded its reach in the National Capital Territory, state of Kerala, Karnataka, Maharashtra and newly formed state of Uttranchal. The Company will shortly open two new branches at Cochin and Bhopal.

Development of new software

The work on development of new software for housing loan, deposits and financial accounting has been completed and new software was installed in all the branches for trial run. The package will be fully operational by the end of current financial year.

Particulars of Employees

As on 31/03/2002, the company had 124 employees including 29 employees on deputation from PNB. During the year, the Company recruited a fresh batch of Management Trainees and after induction training, they were posted to different branches.

In terms of provisions of section 217 (2A) of the Companies Act, 1956 read with Companies (Particulars of Employees) Rules, no employee of the company whether employed for the full financial year or for a part of the year, was in receipt of remuneration equal to or exceeding the remuneration as prescribed under the said provisions.

Directors' responsibility statement

In terms of the provisions of section 217 (2AA) Board of Directors Report that;

i. In preparation on annual accounts, the applicable accounting standards had been followed alongwith proper explanation relating to material departures, if any.

ii. The directors had selected such accounting policies and applied them consistently and made judgements and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the company as on 31.03.2002 and the profit and loss account for the year ended 31.03.2002.

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iii. That the Company had taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of Companies Act for safeguarding the assets of the company and for preventing and detecting fraud and other irregularities.

iv. That the Company had prepared the accounts on a going concern basis.

Audit Committee

During the year, the Company expanded the Audit Committee to four members with the induction of Sh. K B Sharma, Chartered Accountant as one of its member. The Committee comprises of qualified and experienced persons from the field of banking, finance and taxation.

The Committee provides direction and oversees internal audit system and procedures, internal control systems, inspection and recovery in NPA accounts. It also reviews half-yearly and annual financial statements before submission to the Board. It also periodically reviews internal/ statutory/ tax audit reports, compliance of statutory and regulatory/ legal requirements.

Auditors

Messrs Ramesh Kapoor & Co., Chartered Accountants, New Delhi were appointed by the Comptroller and Auditor General of India as Auditors of the company for the financial year ended March 31, 2002.

Directors

Sh. K B Sharma, Chartered Accountant and Sh. Man Mohan Singh Rekhrao retired Chief General Manager, RBI were co-opted on the Board as Additional Directors with effect from 30.01.2002 and 27.05.2002 respectively.

Pursuant to the provisions of Section 260 of the Companies Act, 1956 (the Act) Shri K B Sharma and Shri Man Mohan Singh Rekhrao would hold office upto the ensuing Annual General Meeting. The company has received notices under section 257 of the Act proposing the appointment of Shri K B Sharma and Shri Man Mohan Singh Rekhrao respectively as Directors of the Company.

In accordance with the provisions of the Companies Act, 1956, Shri S S Kohli, Chairman, Sh. T S Narayanasami and Sh. C P Swarnkar, Directors retire by rotation at the ensuing Annual General Meeting and being eligible offers themselves for re-appointment.

Comments from Comptroller and Auditor General of India (CAG)

The CAG in its report on Annual Accounts 2001-02 commented that the Provision for Non Performing Assets is understated by Rs. 45.57 lacs due to short provision in respect of loan assets, which remained doubtful for more than one year. Your Directors clarify as under:

The CAG comment relates to provisioning in two accounts where the company re-negotiated the terms and entered into settlements. In one account, the borrower was to pay Rs. 251.25 lakh from April 2001 to October 2002 as per settlement and all the installments due upto 31.03.2002 have been received. As per settlement, the account will be adjusted by October 2002. In respect of the other account, the borrower has agreed to deliver the possession of mortgaged property in full satisfaction of company's claim before 31.07.2002 as approved by the Board and the account will stand adjusted by 31st July 2002. MoU has already been signed by the borrower with us in this regard. The NHB's guidelines on Asset classification and provisioning require company to continue with the same asset classification and provisioning norms as were applicable prior to its re-negotiation for re-schedulement and not to upgrade/re-classify such NPA accounts where re-schedulement of loan has been made, until the expiry of one year of satisfactory performance. The Company has acted in accordance with these guidelines.

Further, since both the accounts are expected to be liquidated fully within the current financial year, even the existing provision made at 20% shall have to be written back during the year 2002-03. As such in the opinion of the management there is neither under statement of current liabilities and provisions nor over statement of profits by Rs. 45.57 lakh and creation of additional provision of 10% as suggested by CAG shall be un-necessary.

Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988

There is no information to disclose under the head 'Conservation of Energy and Technology Absorption' given in the above rules since the company is engaged in providing housing loans. There were no foreign exchange earnings during the year. The Company incurred a total expenditure of Rs. 2.03 lacs in foreign currency on account of exhibition in Dubai and Managing Director's tour to Canada as a member of study team deputed by NHB.

Acknowledgement

The Directors of the company place on record their appreciation for the co-operation and support received from the Government of India, Reserve Bank of India, National Housing Bank and Punjab National Bank.

Finally, the Directors express their appreciation for the dedication and commitment with which the staff of the Company, at all levels has worked during the period.

For and on behalf of the Board

Place : New Delhi
Dated : 24.07.2002

(S S Kohli)
Chairman

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