

Auditor's Report

To, the members of
LIC Housing Finance Limited

1. We have audited the attached Balance sheet of LIC Housing Finance Limited as at 31st March 2008, the Profit and Loss account and also the Cash-flow statement for the year ended on that date, annexed thereto (in which are incorporated the accounts of 7 back offices audited by other auditors). These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.
2. We conducted our audit in accordance with the 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.
3. As required by the Companies (Auditor's Report) Order, 2003 issued by the Central Government of India in terms of sub-section (4A) of section 227 of the Companies Act, 1956, we enclose in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the said Order.
4. Further to our comments in the Annexure referred to above, we report that:
 - a) We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purposes of our audit;
 - b) In our opinion, proper books of account as required by law have been kept by the Company so far as appears from our examination of those books and proper returns adequate for the purposes of our audit have been received from the back offices not visited by us. The back offices auditors' reports have been forwarded to us and have been appropriately dealt with;
 - c) The Balance sheet, Profit and Loss account and Cash-flow statement dealt with by this report are in agreement with the books of account and with the audited returns from the back offices;
 - d) In our opinion, the Balance sheet, Profit and Loss account and Cash-flow statement dealt with by this report comply with the accounting standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956;
 - e) On the basis of written representations received from the directors, as on 31st March 2008, and taken on record by the Board of Directors, we report that none of the directors is disqualified as on 31st March 2008 from being appointed as a director in terms of clause (g) of sub-section (1) of section 274 of the Companies Act, 1956;
 - f) In our opinion and to the best of our information and according to the explanations given to us, the said accounts read with the significant accounting policies and notes thereon, give the information required by the Companies Act, 1956, in the manner so required, and give a true and fair view in conformity with the accounting principles generally accepted in India:
 - i) in the case of the Balance sheet, of the state of affairs of the Company as at 31st March 2008;
 - ii) in the case of the Profit and Loss account, of the profit for the year ended on that date; and
 - iii) in the case of the Cash-flow statement, of the cash-flows for the year ended on that date.

For P. C. Hansotia & Co.,
Chartered Accountants

R. Laxminarayan
Partner

Place: Mumbai
Date: 25th April 2008

Membership No. 33023

LIC HOUSING FINANCE LIMITED

Annexure to the Auditor's Report

Annexure to the Auditors' Report referred to in paragraph 3 of our Report of even date to the Members of LIC Housing Finance Limited on the accounts for the year ended 31st March 2008

1. The nature of the Company's business / activities during the year has been such that, the clauses (ii), (viii), (xiii) and (xiv) of paragraph 4 of the Order are not applicable to the company for the year.
2. a) The Company has maintained proper records showing full particulars, including quantitative details and situation of fixed assets.
- b) The fixed assets have been physically verified by the management during the year. In our opinion, the frequency of verification is reasonable. According to the information and explanations given to us, no material discrepancies were noticed on such verification.
- c) The fixed assets disposed off during the year, in our opinion, do not constitute a substantial part of the fixed assets of the Company and such disposal has, in our opinion, not affected the going concern status of the Company.
3. a) According to the information and explanations given to us, the Company has not granted any loans, secured or unsecured, to companies, firms or other parties covered in the register maintained under Section 301 of the Companies Act, 1956.
In view of what has been stated above, clause (iii)(b) regarding terms and conditions of such loans, clause (iii)(c) regarding receipt of principal amount and interest and clause (iii)(d) regarding steps for recovery of overdue amount of Para 4 of the Order are not applicable to the Company for the year.
- b) According to the information and explanations given to us, the Company has taken secured and unsecured loans from three parties covered in the register maintained under Section 301 of the Companies Act, 1956. At the year-end, the outstanding balances of such secured and unsecured loans taken aggregated to Rs.44,923,856,324/- and the maximum amount involved during the year was Rs.49,125,813,234/-.
- c) In our opinion, the rate of interest and other terms and conditions of such loans taken from the parties listed in the register maintained under Section 301 of the Companies Act, 1956 are not, prima facie, prejudicial to the interest of the Company.
- d) The payment of principal amount and interest in case of the aforesaid loans are as per stipulations.
4. In our opinion and according to the information and explanations given to us, there is an adequate internal control system commensurate with the size of the Company and the nature of its business with regard to purchase of fixed assets and sale of goods and services. During the course of our audit, we have not observed any continuing failure to correct major weaknesses in the aforesaid internal control systems.
5. a) To the best of our knowledge and belief and according to the information and explanations given to us, the particulars of contracts or arrangements referred to in Section 301 that needed to be entered into the register maintained in pursuance of Section 301 of the Companies Act, 1956 have been so entered.
- b) According to the information and explanations given to us, where each of such transactions (excluding loans reported under paragraph 3 above) is in excess of Rs. 500,000/- in respect of any party, the transactions have been made at prices, which are prima facie reasonable, having regard to the prevailing market prices at the relevant time.
6. In our opinion and according to the information and explanations given to us, the company has complied with the provisions of sections 58A and 58AA of the Companies Act, 1956 and the Housing Finance Companies (NHB) Directions, 2001 with regard to the deposits accepted from the public *except that the company is in the process of creating a floating charge on the liquid assets*. We are informed that no Order has been passed by the Company Law Board or the Reserve Bank of India or any Court or any other Tribunal.
7. In our opinion, the internal audit function carried out during the year by the company's internal audit department and by a firm of Chartered Accountants

Annexure to the Auditor's Report (Contd.)

- appointed by the management have been commensurate with the size of the Company and nature of its business.
8. a) In our opinion and according to the information and explanations given to us, the Company has generally been regular in depositing undisputed statutory dues, including provident fund, investor education and protection fund, employees' state insurance, income tax, wealth tax, service tax, custom duty, cess and any other material statutory dues where applicable, with the appropriate authorities during the year. There are no arrears of outstanding statutory dues as at the last day of the financial year for a period of more than six months from the date they became payable.
 - b) According to the information and explanations given to us and the records of the company examined by us, there are no dues of income tax, wealth-tax, service tax and cess which have not been deposited on account of any dispute as at 31st March 2008.
 9. The Company has no accumulated losses at the end of the financial year and it has not incurred cash losses in the financial year under report and in the immediately preceding financial year.
 10. In our opinion, and according to the information and explanations given to us, the Company has not defaulted in the repayment of dues to financial institutions, banks and debenture holders.
 11. We are of the opinion that the company has maintained adequate records where the company has granted loans and advances on the basis of security by way of pledge of shares, debentures and other securities.
 12. According to the information and explanations given to us, the Company has not given any guarantee for the loans taken by others from banks or financial institutions during the year.
 13. In our opinion and according to the information and explanations given to us, term loans availed by the Company were, prima facie, applied by the Company during the year for the purposes for which the loans were obtained, other than temporary deployment pending application.
 14. According to the information and explanations given to us and on the basis of review of Asset Liability Management report prepared for submission to the Board of Directors of the Company, giving utilisation of funds on overall basis, we report that funds raised on short term basis have, prima facie, not been used during the year for long term investment.
 15. According to the information and explanations given to us, the Company has not made any preferential allotment of shares to the parties and companies covered in the register maintained under Section 301 of the Companies Act, 1956.
 16. According to the information and explanations given to us and the records examined by us, in respect of debentures issued by the Company during the period covered by our report, security / charge have been created on two of the immovable properties of the Company and are further supplemented by a negative lien on all other assets of the company.
 17. The Company has not raised any money by public issue during the year.
 18. During the course of our examination of the books of account carried out in accordance with the generally accepted auditing standards in India and as per the information and explanations given to us, we have not come across any instance of fraud, either noticed or reported during the year, on or by the company, except that there have been instances of misappropriation of funds by way of sanction and disbursal of non-tenable loans or use of deception to obtain housing loans by some of the customers involving an aggregate amount of Rs.52,597,403/-. However, as informed to us, such instances are inherent in the nature of business of the Company and adequate provision in respect thereof has been made in the accounts for the year.

For P. C. Hansotia & Co.
Chartered Accountants

R. Laxminarayan
Partner

Place: Mumbai
Date: 25th April 2008

Membership No. 33023