

To,
The Board of Directors
SKS Microfinance Private Limited

Dear Sirs,

We have audited the attached Balance Sheet of SKS Microfinance Private Limited ('the Company') as at March 31, 2008 and also the Profit and Loss Account and the Cash Flow Statement for the year then ended. 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.

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.

As required by the Non-Banking Financial Companies Auditors Report (Reserve Bank) Directions, 1998, issued by the Reserve Bank of India ('RBI') vide Notification No. DFC. 117/DG (SPT)-98 dated January 2, 1998 as amended from time to time, based on our audit, we give hereunder a statement on the matters specified in paragraphs 3 and 4 of the said directions:

1. The Company is registered with RBI as a Non-Banking Financial Company with out accepting public deposits vide certificate no. N.09.00415 dated January 20, 2005.
2. A resolution for non-acceptance of any public deposit was passed in the meeting of the Board of Directors on May 16, 2007.
3. The Company has not accepted any public deposits during the year ended March 31, 2008.
4. In our opinion and to the best of our information and according to the explanations given to us, the Company has complied with the prudential norms relating to income recognition, accounting standards, asset classification and provisioning for bad and doubtful debts, as applicable to it.



CHARTERED ACCOUNTANTS

Mumbai
May 31, 2008

Auditors' Report**To The Members of
SKS Microfinance Private Limited**

1. We have audited the attached Balance Sheet of SKS Microfinance Private Limited ('the Company') as at March 31, 2008 and also the Profit and Loss Account and the Cash Flow Statement for the year ended on that date annexed thereto. 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 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 (as amended) ('the Order') issued by the Central Government of India in terms of sub-section (4A) of Section 227 of the Companies Act, 1956, ('the Act') 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:
 - i. 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;
 - ii. 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;
 - iii. The Balance Sheet, the Profit and Loss Account and the Cash Flow Statement dealt with by this report are in agreement with the books of account;
 - iv. In our opinion, the Balance Sheet, the Profit and Loss Account and the 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;
 - v. On the basis of the written representations received from the directors, as on March 31, 2008, and taken on record by the Board of Directors, we report that none of the directors is disqualified as on March 31, 2008 from being appointed as a director in terms of clause (g) of sub-section (1) of section 274 of the Companies Act, 1956;



S.R. BATLIBOI & Co.

Auditors' Report
SKS Microfinance Private Limited

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- vi. In our opinion and to the best of our information and according to the explanations given to us, the said accounts 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;
- a) in the case of the Balance Sheet, of the state of affairs of the Company as at March 31, 2008;
 - b) in the case of the Profit and Loss Account, of the profit for the year ended on that date; and
 - c) in the case of Cash Flow Statement, of the cash flows for the year ended on that date.



For S.R. BATLIBOI & Co.
Chartered Accountants



per Viren H. Mehta
Partner
Membership No.: 048749

Mumbai
May 31, 2008

- (vi) The Company has not accepted any deposits from the public.
- (vii) The Company has an internal audit system, *the scope and coverage of which, in our opinion requires to be enlarged to be commensurate with the size and nature of its business.*
- (viii) To the best of our knowledge and as explained, the Central Government has not prescribed maintenance of cost records under clause (d) of sub-section (1) of section 209 of the Companies Act, 1956 for the products of the Company.
- (ix) (a) Undisputed statutory dues including provident fund, employees' state insurance, sales-tax, wealth-tax, customs duty, excise duty, cess have generally been regularly deposited with the appropriate authorities *though there has been a slight delay in a few cases; in case of advance income-tax, there has been a significant delay in one case; and in case of dues for service tax, there have been considerable delays in many cases.*
 - (b) According to the information and explanations given to us, no undisputed amounts payable in respect of provident fund, investor education and protection fund, employees' state insurance, income-tax, wealth-tax, service tax, sales-tax, customs duty, excise duty, cess and other undisputed statutory dues were outstanding, at the year end, for a period of more than six months from the date they became payable.
 - (c) According to the information and explanation given to us, there are no dues of income tax, sales-tax, wealth tax, service tax, customs duty, excise duty and cess which have not been deposited on account of any dispute.
- (x) The Company has been registered for a period of less than five years and hence we are not required to comment on whether or not the accumulated losses at the end of the financial year is fifty per cent or more of its net worth and whether it has incurred cash losses in such financial year and in the immediately preceding financial year.
- (xi) Based on our audit procedures and as per the information and explanations given by the management, we are of the opinion that the Company has not defaulted in repayment of dues to a financial institution, banks or debenture holders.
- (xii) According to the information and explanations given to us and based on the documents and records produced to us, the Company has not granted loans and advances on the basis of security by way of pledge of shares, debentures and other securities.
- (xiii) In our opinion, the Company is not a chit fund or a nidhi / mutual benefit fund / society. Therefore, the provisions of clause 4(xiii) of the Companies (Auditor's Report) Order, 2003 (as amended) are not applicable to the Company.
- (xiv) In respect of dealing / trading in shares, securities, debentures and other investments, in our opinion and according to the information and explanations given to us, proper records have been maintained of the transactions and contracts and timely entries have been made therein. The shares, securities, debentures and other investments have been held by the Company, in its own name.

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**Annexure referred to in paragraph 3 of our report of even date
SKS Microfinance Private Limited ('the Company')**

- (i) (a) The Company has maintained proper records showing full particulars, including quantitative details and situation of fixed assets.
- (b) Fixed assets have been physically verified by the management during the year and no material discrepancies were identified on such verification.
- (c) There was no disposal of fixed assets during the year.
- (ii) The Company is a Non-Banking Financial Company ('NBFC') engaged in the business of providing loans and does not maintain any inventory. Therefore the provisions of clause 4(ii) of the Order are not applicable to the Company.
- (iii) (a) The Company has granted loan to parties covered in the register maintained under section 301 of the Companies Act, 1956. The maximum amount involved during the year was Rs.16,361,380 and there was no year-end balance of loan granted to such parties.
- (b) According to the information and explanations given to us, we are of the opinion that the terms and conditions of the loan given by the Company for such loans are not prima facie prejudicial to the interest of the Company. The loan given is interest free.
- (c) In respect of loans granted, repayment of such loan has been made during the year, and there is no default on part of the parties to whom the money has been lent. The loan given is interest free.
- (d) There is no overdue amount of loans granted to companies, firms or other parties listed in the register maintained under section 301 of the Companies Act, 1956.
- (e) As informed, the Company has not taken any loans, secured or unsecured from companies, firms or other parties covered in the register maintained under section 301 of the Companies Act, 1956.
- (iv) 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, for the purchase of fixed assets and for the sale of services. During the course of our audit, no major weakness has been noticed in the internal control system in respect of these areas.
- (v) (a) According to the information and explanations provided by the management, we are of the opinion that the particulars of contracts or arrangements referred to in section 301 of the Act that need to be entered into the register maintained under section 301 have been so entered.
- (b) In our opinion and according to the information and explanations given to us, the transactions made in pursuance of such contracts or arrangements exceeding value of Rupees five lakhs have been entered into during the financial year at prices which are reasonable having regard to the prevailing market prices at the relevant time.

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- (xv) According to the information and explanations given to us, the Company has not given any guarantee for loans taken by others from bank or financial institutions.
- (xvi) Based on information and explanations given to us by the management, term loans were applied for the purpose for which the loans were obtained, though idle/surplus funds which were not required for immediate utilization have been gainfully invested in liquid investments payable on demand. The maximum amount of idle/surplus fund invested during the year was Rs 100,000,000 of which no balance was outstanding as at the year end.
- (xvii) According to the information and explanations given to us and on an overall examination of the balance sheet of the Company, we report that no funds raised on short-term basis have been used for long-term investment.
- (xviii) The Company has not made any preferential allotment of shares to parties or companies covered in the register maintained under section 301 of the Companies Act, 1956.
- (xix) The Company did not have any outstanding debentures during the year.
- (xx) The Company has not raised any money by public issue during the year.
- (xxi) We have been informed that during the period covered by our audit report, *following cases of frauds were noticed or reported by the Company as given below:*
- (a) *Twenty-one cases of cash embezzlements by the employees of the Company aggregating to Rs.6,290,091.* The services of all such employees involved have been terminated and the Company is in the process of taking legal action. We have been informed that eleven of these employees are absconding. The outstanding loan balance (net of recovery) aggregating to Rs.5,665,580 has been written off;
- (b) *Two cases of misrepresentation by the employees of the Company aggregating to Rs.1,354,000.* The services of all such employees involved have been terminated and the Company is in the process of taking legal action. We have been informed that one such employee is absconding. The outstanding loan balance (net of recovery) aggregating to Rs.925,753 has been provided for; and
- (c) *Misrepresentation by a borrower who collected loan repayments from other borrowers aggregating to Rs.155,000.* The Company is pursuing the borrower to repay the money. The amount has been fully written off.



For S.R. BATLIBOI & Co.
Chartered Accountants



per Viren H. Mehta
Partner
Membership No.: 048749

Mumbai
May 31, 2008

SKS MICROFINANCE PRIVATE LIMITED
Balance Sheet As At March 31, 2008

	Schedules	March 31, 2008	March 31, 2007
		Rupees	Rupees
SOURCES OF FUNDS			
Shareholders' Funds			
Share Capital	1	443,316,520	266,430,470
Stock Options Outstanding	1A	2,569,412	-
Reserves and Surplus	2	1,679,472,069	450,320,442
Loan Funds			
Secured Loans	3	7,898,449,915	2,490,194,068
TOTAL		10,023,807,916	3,206,944,980
APPLICATION OF FUNDS			
Fixed Assets			
Gross Block			
Less: Accumulated Depreciation	4A	123,289,326	36,504,818
Net Block		48,355,901	15,878,359
Capital Work in Progress Including Capital Advances		74,933,425	20,626,459
		3,996,977	35,706
		78,930,402	20,662,165
Intangible Assets			
Gross Block			
Less: Accumulated Amortization	4B	100,003,354	47,954,635
Net Block		35,657,550	17,024,754
Capital Work in Progress Including Capital Advances		64,345,804	30,929,881
		1,675,000	540,000
		66,020,804	31,469,881
Deferred Tax Assets (Net)	5	9,389,663	8,896,348
Current Assets, Loans and Advances			
Cash and Bank Balances	6	2,752,275,237	564,536,150
Other Current Assets	7	44,302,133	10,393,752
Loans and Advances	8	7,936,529,420	2,713,132,200
	(A)	10,733,106,790	3,288,062,102
Less: Current Liabilities and Provisions			
Current Liabilities	9	769,438,769	81,611,602
Provisions	10	94,200,974	60,533,914
	(B)	863,639,743	142,145,516
Net Current Assets	(A-B)	9,869,467,047	3,145,916,586
TOTAL		10,023,807,916	3,206,944,980
Notes to Accounts	18		

The schedules referred to above and notes to accounts form an integral part of the Balance Sheet.

As per our report of even date

S. R. Batliboi & Co.

For S. R. BATLIBOI & Co.
Chartered Accountants

Viren H. Mehta

per Viren H. Mehta
Partner
Membership No.048749
Place: MUMBAI
Date: 31 MAY 2008

For and on behalf of the Board of Directors of
SKS Microfinance Private Limited

Vikram Akula
Vikram Akula
Managing Director

Sitaram Rao
Sitaram Rao
Director

S. Dilli Raj
S. Dilli Raj
CFO

Manish Kumar
Manish Kumar
Company Secretary



SKS MICROFINANCE PRIVATE LIMITED
Profit and Loss Account for the Year Ended March 31, 2008

	Schedules	March 31, 2008	March 31, 2007
		Rupees	Rupees
INCOME			
Income from Operations	11	1,650,495,643	449,859,616
Other Income	12	49,581,321	6,803,584
TOTAL		1,700,076,964	456,663,200
EXPENDITURE			
Financial Expenses	13	564,647,002	138,529,201
Personnel Expenses	14	477,553,378	129,674,099
Operating and Other Expenses	15	266,575,790	97,160,613
Depreciation and Amortization	4A & 4B	51,110,338	23,789,360
Provisions and Write Offs	16	50,763,652	22,124,763
TOTAL		1,410,650,160	411,278,036
Profit Before Tax and Prior Period Items		289,426,804	45,385,164
Prior Period Items	17	-	(18,647,121)
Profit Before Tax		289,426,804	64,032,285
Provision for Tax			
Current Tax		111,629,578	36,792,749
Deferred Tax		(493,316)	(12,208,278)
Income Tax for the Previous Year		2,835,200	-
Fringe Benefit Tax		8,991,712	2,776,143
Total Tax Expense		122,963,174	27,360,614
Profit After Tax		166,463,630	36,671,671
Profit Brought Forward from Previous Year		33,086,598	3,749,261
Profit Available for Appropriation		199,550,228	40,420,932
APPROPRIATIONS			
Transfer to Statutory Reserve		33,292,726	7,334,334
Surplus Carried to Balance Sheet		166,257,502	33,086,598
Earning Per share (Basic and Diluted) (Refer Note 15 of Schedule 18)		5.53	2.63
Notes to accounts		18	

The schedules referred to above and notes to accounts form an integral part of the Profit and Loss Account

As per our report of even date

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For S. R. BATLIBOI & Co.
Chartered Accountants

Viren H. Mehta

per Viren H. Mehta
Partner

Membership No.048749

Place: MUMBAI

Date: 31 MAY 2008

For and on behalf of the Board of Directors of
SKS Microfinance Private Limited

Vikram Akula

Vikram Akula
Managing Director

Sitaram Rao

Sitaram Rao
Director

S.Dilli Raj

S.Dilli Raj
CFO

Manish Kumar

Manish Kumar
Company Secretary



SKS MICROFINANCE PRIVATE LIMITED
Schedules to Balance Sheet and Profit and Loss Account

March 31, 2008

March 31, 2007

Schedule 1: Share Capital

Authorized Share Capital

Equity Shares

52,000,000 (Previous Year 37,000,000) Equity Shares of Rs. 10 each

520,000,000

370,000,000

Preference Shares

3,000,000 (Previous Year 3,000,000) Preference Shares of Rs. 10 each

30,000,000

30,000,000

550,000,000

400,000,000

Issued, Subscribed and Fully Paid-up

44,138,481 (Previous Year: 26,643,047) Equity Shares of Rs. 10 each

441,384,810

266,430,470

Issued, Subscribed and Partly Paid-up

38,63,415 (Previous Year: Nil) Equity Shares of Rs. 10 each, Rs.0.50 paid up

1,931,710

-

Total

443,316,520

266,430,470

Schedule 1A: Stock Options Outstanding (Refer Note 10 of Schedule 18)

Employee Stock options outstanding

14,212,480

-

Less : Deferred Employee compensation outstanding

11,643,068

-

2,569,412

-

Schedule 2: Reserves and Surplus

A. Securities Premium Account

As per Last Balance Sheet

408,904,759

-

Add: Amount received during the year

1,062,419,827

408,904,759

Total

1,471,324,586

408,904,759

B. Statutory Reserve

As per Last Balance Sheet

8,329,085

994,751

Add: Transfer from Profit and Loss Account

33,292,726

7,334,334

Total

41,621,811

8,329,085

C. Profit and Loss Account

Surplus brought forward from the Profit and Loss Account statement

166,257,502

33,086,598

Add: Adjustment for Employee Benefits provision (Refer Note 11 of Schedule 18)

268,170

-

Total

166,525,672

33,086,598

Total

1,679,472,069

450,320,442

Schedule 3 : Secured Loans

Term Loans

From Banks (Secured by Hypothecation of Portfolio Loans)

5,935,104,021

2,014,509,514

From Financial Institutions (Secured by Hypothecation of Portfolio Loans and by Bank

1,963,345,894

475,684,554

Deposits marked as Lien)

Total

7,898,449,915

2,490,194,068



SKS MICROFINANCE PRIVATE LIMITED
Schedules to Balance Sheet and Profit and Loss Account

Schedule 4: Fixed Assets and Intangible Assets

4A. Fixed Assets

PARTICULARS	GROSS BLOCK			DEPRECIATION			NET BLOCK		
	As on April 1, 2007	Additions	Deletion	As on March 31, 2008	For the Year	Deletion	Total March 31, 2008	As on March 31, 2008	As on March 31, 2007
(I) Furniture and Fixture	12,193,791	23,234,793	-	35,428,584	17,471,716	-	26,733,509	8,695,075	2,931,998
(II) Plant and Machinery: Computers** Office Equipments@	20,440,734 3,129,143	56,194,592 7,355,123	-	76,635,326 10,484,266	13,503,671 1,365,110	-	19,273,214 2,000,318	57,362,112 8,483,948	14,671,191 2,493,935
(III) Vehicles	741,150	-	-	741,150	137,045	-	348,860	392,290	529,335
Total	36,504,818	86,784,508	-	123,289,326	32,477,542	-	48,355,901	74,933,425	20,626,459
Previous Year	-	26,181,416	-	36,594,818	13,312,796	-	15,878,359	20,626,459	-

** Gross block of Computers include grant assets of nominal value of Rs. 586.

@ Gross block of Office Equipment include grant assets of nominal value of Rs. 14.

4B. Intangible Assets

PARTICULARS	GROSS BLOCK			DEPRECIATION			NET BLOCK		
	As on April 1, 2007	Additions	Deletion	As on March 31, 2008	For the Year	Deletion	Total March 31, 2008	As on March 31, 2008	As on March 31, 2007
(I) Goodwill	39,701,135	-	-	39,701,135	7,940,227	-	20,511,454	19,189,681	27,129,908
(II) Computer Software	8,253,500	52,048,719	-	60,302,219	10,692,569	-	15,146,096	45,156,123	3,799,973
Total	47,954,635	52,048,719	-	100,003,354	18,632,796	-	35,657,550	64,345,804	30,929,881
Previous Year	-	-	-	47,954,635	10,476,654	-	17,024,754	30,929,881	-



SKS MICROFINANCE PRIVATE LIMITED
Schedules to Balance Sheet and Profit and Loss Account

March 31, 2008

March 31, 2007

Schedule 5: Deferred Tax Assets / (Liabilities) (Net)

Deferred Tax Assets

Differences in depreciation and other differences in block of fixed assets and intangible assets as per tax books and financial books	-	699,446
Difference due to disallowance of expenses under section 43B of Income tax Act, 1961	3,919,935	3,466,529
Difference due to disallowance of provision for doubtful debts	10,927,347	3,577,886
Difference due to disallowance of provision for gratuity	-	598,823
Difference due to charge of tax on income on non-performing assets	-	117,835
Difference due to others disallowances	-	435,829
Gross Deferred Tax Assets	14,847,282	8,896,348

Deferred Tax Liabilities

Differences in depreciation and other differences in block of fixed assets and intangible assets as per tax books and financial books	5,457,619	-
Gross Deferred Tax Liabilities	5,457,619	-
Net Deferred Tax Assets	9,389,663	8,896,348

Schedule 6: Cash and Bank Balances

Cash on Hand	106,787,608	40,391,380
Balances with Scheduled Banks:		
On Current Accounts	1,479,173,793	423,187,675
On Deposit Accounts	1,161,538,551	100,106,863
(Of the total deposits placed with bank, deposit certificates of Rs.136,897,979 (Previous Year Rs.28,016,064) has been partly lien marked against term loans from financial institutions and asset assignments)		
Balances with Unscheduled Banks (Refer Note 18 of Schedule 18):		
On Current Accounts	4,775,285	850,232
On Deposit Accounts	-	-
Total	2,752,275,237	564,536,150

Schedule 7: Other Current Assets

Interest Accrued But Not Due		
On Portfolio Loans	35,252,129	8,689,397
On Deposits placed with Banks	4,790,007	12,642
Others	4,259,997	1,691,713
Total	44,302,133	10,393,752



SKS MICROFINANCE PRIVATE LIMITED
Schedules to Balance Sheet and Profit and Loss Account

		March 31, 2008	March 31, 2007
Schedule 8: Loans and Advances			
A. Portfolio Loans (Unsecured, considered good)			
Loans under Joint Liability Group Scheme		7,188,556,687	2,606,405,559
Individual loans		604,902,945	32,375,412
Sub-Total	(A)	7,793,459,632	2,638,780,971
B. Portfolio Loans (Unsecured, considered doubtful)			
Loans under Joint Liability Group Scheme		14,510,354	3,142,394
Individual loans		925,291	-
Sub-Total	(B)	15,435,645	3,142,394
C. Other Loans and Advances			
Secured, considered good			
Loans to Employees		9,255,683	9,845,217
Unsecured, considered good			
Loans to Directors (Maximum amount outstanding Rs.16,361,380 (Previous Year Rs.16,361,380))		-	16,361,380
Loans to SKS Microfinance Employees Benefit Trust (Refer Note 19 of Schedule 18)		33,826,023	8,231,800
Advances Recoverable in Cash or Kind or Value to be received		68,984,234	5,993,882
Deposits		10,374,931	3,131,789
Interest Accrued and Due			
On Portfolio Loans		355,707	746,319
On Deposits placed with Banks		4,837,565	1,353,253
Others		-	25,545,195
Unsecured, considered doubtful			
Advances Recoverable in Cash or Kind or Value to be received		-	1,099,692
Less: Provision for Doubtful Advances		-	(1,099,692)
Sub-Total	(C)	127,634,143	71,208,835
Total	(A+B+C)	7,936,529,420	2,713,132,200
Schedule 9: Current Liabilities			
Sundry Creditors (Refer Note 20 of Schedule 18)		628,691,078	32,574,842
Unamortized Loan Processing Fees		112,437,225	29,389,040
Interest Accrued But Not Due		26,149,656	10,695,292
Statutory Dues		2,160,810	8,952,428
Total		769,438,769	81,611,602
Schedule 10: Provisions			
Provision for Taxation (Net of Advance Tax Payments)		16,861,702	30,326,173
Provision for Fringe Benefit Tax (Net of Advance Tax Payments)		542,182	363,233
Provision for Non Performing Assets		61,491,239	29,342,526
Provision for Gratuity		82,118	501,982
Provision for Leave Encashment		15,223,733	-
Total		94,200,974	60,533,914



SKS MICROFINANCE PRIVATE LIMITED
Schedules to Balance Sheet and Profit and Loss Account

	March 31, 2008	March 31, 2007
Schedule 11: Income from Operations		
Interest Income on Portfolio Loans (Refer Note 3 of Schedule 18)	1,330,783,339	396,361,185
Membership Fees (Net of Service Tax Rs. 4,530,379 (Previous Year: Rs.1,320,621))	36,653,550	10,789,383
Loan Processing Fees (Net of Service tax Rs.24,345,632 (Previous Year: Rs.4,880,637))	113,828,088	23,809,626
Income from Loan Management Services (Refer Note 4 of Schedule 18) (Net of Service Tax Rs.390,680 (Previous Year: Rs.1,727,986))	3,610,799	18,899,422
Income from Assignment of Loans (Refer Note 5 of Schedule 18)	165,619,867	-
Total	1,650,495,643	449,859,616
Schedule 12: Other Income		
Interest on Bank Deposits (TDS Rs.4,218,984 (Previous Year: Rs.404,998))	20,164,961	1,834,019
Dividend from Mutual Fund Investments	142,805	597,967
Miscellaneous Income	29,273,555	4,371,598
Total	49,581,321	6,803,584
Schedule 13: Financial Expenses		
Interest		
On Term Loans from Banks	424,977,398	97,802,539
On Term Loans from Financial Institutions	96,522,586	27,306,050
On Other Loans	-	6,349,564
On Overdraft facility	287,643	-
Loan Processing Fees	28,184,532	3,268,588
Guarantee Fees	1,725,938	-
Bank Charges	12,948,905	3,802,460
Total	564,647,002	138,529,201
Schedule 14: Personnel Expenses		
Salaries and Incentives	417,322,101	109,968,910
Staff Leave Encashment	16,898,847	6,311,274
Contribution to Provident Fund and ESIC	17,642,667	4,492,451
Gratuity	3,627,458	1,761,762
Staff Welfare Expenses	22,062,305	7,139,702
Total	477,553,378	129,674,099
Schedule 15: Operating and Other Expenses		
Rent	26,259,842	8,784,304
Rates and Taxes	11,639,142	4,610,896
Insurance	858,754	890,051
Repairs and Maintenance	2,045,762	1,488,582
Plant and Machinery	15,332,605	5,018,053
Others	4,860,990	1,657,113
Electricity Charges	110,182,382	38,889,220
Travelling and Conveyance	16,865,291	5,670,621
Communication Expenses	51,666,988	17,687,741
Printing and Stationery	17,770,888	5,105,128
Professional and Consultancy Charges	165,000	125,000
Directors' Sitting Fees	-	-
Auditors' Remuneration	-	-
Audit Fees	2,800,000	-
Out of Pocket Expenses	425,768	-
Share Issue Expenses	3,225,768	2,220,000
Miscellaneous Expenses	899,833	3,758,435
Total	266,575,790	97,160,613



SKS MICROFINANCE PRIVATE LIMITED
Schedules to Balance Sheet and Profit and Loss Account

March 31, 2008

March 31, 2007

Schedule 16 : Provisions and Write offs

Provision for Non Performing Assets	32,148,713	10,526,290
Bad Debts Written off	18,614,939	11,598,473
Total	50,763,652	22,124,763

SCHEDULE 17: Prior Period (Income) / Expenses

Interest Income on Portfolio Loans (Refer Note 3 of Schedule 18)	-	(22,851,624)
Service Tax on Loan Processing Fees	-	557,322
Pre-incorporation Expenses Written Off	-	1,736,539
Depreciation	-	1,579,030
Gratuity	-	331,612
Total	-	(18,647,121)



SKS Microfinance Private Limited
Cash Flow Statement for the Year Ended March 31, 2008

	March 31, 2008	March 31, 2007
	Rupees	Rupees
A. Cash flow from operating activities		
Net profit before taxation after prior period adjustment	289,426,804	64,032,285
Adjustments for:		
Prior Period Interest Income on Portfolio Loans	-	(22,851,624)
Prior Period Pre-incorporation Expenses Written Off	-	1,736,539
Prior Period Depreciation	-	1,579,030
Prior Period Gratuity	-	331,612
Depreciation and Amortization	51,110,338	23,789,359
Interest Income on Bank Deposits	(20,164,961)	(1,691,020)
Interest Expense	521,499,984	131,458,153
Dividend Income	(142,805)	(597,967)
Loan Processing Fees	28,184,532	7,481,194
Provision for Employee benefits	18,851,191	1,761,762
Employee Stock Options	2,569,412	-
Share Issue Expenses	899,833	3,758,435
Provision for Non Performing Assets	32,148,713	10,526,290
Bad Debts Written Off	18,614,939	11,598,473
Operating Profit Before Working Capital Changes	942,997,980	232,912,521
Movements in Working Capital:		
(Increase) / Decrease in Portfolio Loans	(5,179,430,362)	(1,873,022,523)
(Increase) / Decrease in Current Assets	(29,131,016)	(6,618,643)
(Increase) / Decrease in Loans and Advances	(62,876,636)	(62,756,788)
(Decrease) / Increase in Current Liabilities	672,372,803	(67,725,124)
Cash Generated from Operations	(3,656,067,231)	(1,777,210,556)
Direct Taxes Paid	(136,742,012)	(6,892,935)
Net Cash Generated from Operating Activities	(A) (3,792,809,243)	(1,784,103,491)
B. Cash Flow from Investing Activities		
Purchase of Fixed Assets (Including Capital Work in Progress)	(90,745,779)	(26,217,122)
Purchase of Intangible Assets (Including Capital Work in Progress)	(53,183,719)	(540,000)
Purchase of Mutual Funds Units	(100,000,000)	(320,000,000)
Redemption of Mutual Fund Units	100,000,000	320,000,000
Dividend Received	142,805	597,967
Net Cash Flow in Investing Activities	(B) (143,786,693)	(26,159,155)



SKS Microfinance Private Limited
Cash Flow Statement for the Year Ended March 31, 2008

	March 31, 2008	March 31, 2007
	Rupees	Rupees
C. Cash Flow from Financing Activities		
Proceeds from issuance of Share Capital (Including Share Premium)	1,239,305,877	536,263,529
Share Issue Expenses	(899,833)	(3,758,435)
Proceeds from Term Loan Borrowings	7,215,000,000	2,260,000,000
Repayment of Term Loans	(1,806,744,153)	(461,989,265)
Interest Paid	(506,045,620)	(124,395,160)
Loan Processing Fees	(28,184,532)	(7,481,194)
Deposits Placed with Banks Marked as Lien against Term Loans, Managed Loans and Asset Assignment	(109,877,896)	(18,016,064)
Interest received on Deposits Placed with Bank Marked as Lien against Term Loans, Managed Loans and Asset Assignment	11,903,284	433,170
Maturity / Release of Deposits Placed with Bank Marked as Lien against Term Loans, Managed Loans and Asset assignment	995,981	4,500,000
Net Cash Generated from Financing Activities	(C) 6,015,453,108	2,185,556,581
Net Increase/(Decrease) in Cash and Cash Equivalents (A)+(B)+(C)	2,078,857,172	375,293,935
Cash and Cash Equivalents at the Beginning of the Year	536,520,086	161,226,151
Cash and Cash Equivalents at the End of the Year (Refer Note 21 of Schedule 18)	2,615,377,258	536,520,086

As per our report of even date

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For S. R. BATLIBOI & Co.
Chartered Accountants

For and on behalf of the Board of Directors of
SKS Microfinance Private Limited

Virendra H. Mehta

per Viren H. Mehta
Partner
Membership No.048749
Place: MUMBAI
Date: 31 MAY 2008

Vikram Akula

Vikram Akula
Managing Director

Sitaram Rao

Sitaram Rao
Director

S.Dilli Raj

S.Dilli Raj
CFO

Manish Kumar

Manish Kumar
Company Secretary



SKS MICROFINANCE PRIVATE LIMITED

**NOTES ANNEXED TO AND FORMING PART OF BALANCE SHEET AS AT MARCH 31, 2008
AND PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED MARCH 31, 2008**

Schedule 18: Notes to Accounts

1. Nature of Operations

SKS Micro Finance Private Limited ('the Company') is engaged in micro finance lending activities for providing financial services to poor women in the rural areas of India who are organized as Joint Liability Groups ('JLGs'). The Company provides small value collateral free loans up to Rs.25,000/- for tenure of fifty weeks for income generation to poor women in groups.

All financial transactions are conducted in the group meetings organized near the habitats of these women. The operations, in the initial stages of group formation, involves efforts, on development training on financial discipline, and later constant monitoring through weekly meetings, and providing financial and support services at the doorsteps of the borrowers to ensure high rates of recovery. In case of loans given to JLGs, the Company follows weekly collection for recovery of loans and the interest accrued thereon.

The Company also provides individual loans to the existing members ranging between Rs.25,000 to Rs.50,000 for income generation activities for a tenure ranging from twelve months to twenty four months. These loans are generally given to poor women who have completed a minimum of one cycle of loan under JLG. In case of individual loans, the Company follows monthly collection for recovery of loans and the interest accrued thereon.

The Company also acts as an intermediary to manage direct loans provided by certain banks to JLGs. The terms and the tenure of managed loans disbursed are similar to the loans given by the Company to the JLGs.

The Company has tied up with various insurance companies and acts as Group Manager for providing group health insurance to its members. The Company collects nominal charges from its members to meet the administrative costs incurred for rendering these services.

2. Statement of Significant Accounting Policies

a. Basis of Preparation of Financial Statements

The financial statements have been prepared to comply in all material respects with the Notified Accounting Standards by Companies Accounting Standards Rules, 2006 and mandatory Accounting Standards ('AS') issued by the Institute of Chartered Accountants of India ('ICAI'), the relevant provisions of the Companies Act, 1956 ('the Act') and the provisions of the Reserve Bank of India ('RBI') as applicable to a non banking financial company. The financial statements have been prepared under the historical cost convention on an accrual basis except interest/discount on a loan which have been classified as Non Performing Assets and is accounted for on cash basis. The accounting policies have been consistently applied by the Company and except for the changes in accounting policy discussed more fully below, are consistent with those used in the previous year.



SKS MICROFINANCE PRIVATE LIMITED

**NOTES ANNEXED TO AND FORMING PART OF BALANCE SHEET AS AT MARCH 31, 2008
AND PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED MARCH 31, 2008**

b. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the results of operations during the reporting period end. Although these estimates are based upon management's best knowledge of current events and actions, actual results could differ from these estimates.

c. Adoption of Accounting Standard AS15 (Revised) Employee Benefits

Till March 31, 2007, the Company was providing for gratuity based on actuarial valuation as per Accounting Standard-15 "Employee Benefits" issued by the ICAI. In Current year, the Company has adopted the Accounting Standard 15 (Revised) "Employee Benefits" issued by the ICAI which is mandatory from accounting periods commencing on or after from December 7, 2006. Accordingly the Company has provided for gratuity based on actuarial valuation done as per projected unit credit method. Further in accordance with the transitional provision in the revised accounting standard, Rs.268,170 has been adjusted to the Surplus carried in Profit and Loss Account balance. This change is not having material impact on the profit for the current year.

d. Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured.

- i. Interest income on loans given is recognized under the internal rate of return method. Income on Non-performing assets is recognized only when realized and any interest accruing on such assets is de-recognized totally by reversing the interest income already recognized.
- ii. Interest income on deposits with banks is recognized on a time proportion accrual basis taking into account the amount outstanding and the rate applicable.
- iii. Loan processing fee on loans being an adjustment to yield is recognized over the life of the loan on a straight line basis.
- iv. Membership fees are recognized on an upfront basis.
- v. Dividend income is accounted on establishment of right to receive basis by the Balance Sheet date.
- vi. All other income is recognized on an accrual basis.



SKS MICROFINANCE PRIVATE LIMITED

**NOTES ANNEXED TO AND FORMING PART OF BALANCE SHEET AS AT MARCH 31, 2008
AND PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED MARCH 31, 2008**

e. Fixed Assets

All fixed assets have been stated at historical cost less accumulated depreciation and impairment loss, if any. Cost comprises the purchase price and any attributable cost of bringing the asset to its working condition for its intended use.

f. Depreciation

- i. Depreciation on Fixed Assets has been provided on the Written Down Value method at the rates prescribed under Schedule XIV of the Companies Act, 1956.
- ii. Fixed assets costing upto Rs. 5,000 individually are fully depreciated in the year of purchase.

g. Impairment

The carrying amounts of assets are reviewed at each balance sheet date if there is any indication of impairment based on internal/external factors. An impairment loss is recognized wherever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the greater of the asset's net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value at the weighted average cost of capital.

After impairment, depreciation is provided on the revised carrying amount of the asset over its remaining useful life.

h. Intangibles

- i. Goodwill is amortized using the straight-line method over a period of five years.
- ii. Software expenditure is amortized on a Written Down Value method at a rate of 40% per annum.

i. Leases

Leases where the lessor effectively retains substantially all the risks and benefits of ownership of the leased term are classified as operating leases. Operating lease payments are recognized as an expense in the Profit and Loss Account on a straight-line basis over the lease term.

j. Investments

Investments that are readily realizable and intended to be held for not more than a year are classified as current investments. All other investments are classified as long-term investments. Current investments are carried at lower of cost and fair value determined on an individual investment basis. Long-term investments are carried at cost. However, provision for diminution in value is made to recognize a decline other than temporary in the value of the investments.



SKS MICROFINANCE PRIVATE LIMITED

**NOTES ANNEXED TO AND FORMING PART OF BALANCE SHEET AS AT MARCH 31, 2008
AND PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED MARCH 31, 2008**

k. Foreign Currency Transactions

- i. All transactions in the foreign currency are recognized at the exchange rate prevailing on the date of transactions.
- ii. Foreign currency monetary items are reported using the exchange rate prevailing at the close of the financial year and net gain or losses are recognized as income or expense.
- iii. Exchange differences arising on the settlement of monetary items or on reporting Company's monetary items at rates different from those at which they were initially recorded during the year, or reported in previous financial statements, are recognized as income or as expenses in the year in which they arise.

l. Retirement and other employee benefits

- i. The monthly contributions towards Provident Fund and Employee's State Insurance Scheme are charged to Profit and Loss Account for the year.
- ii. Gratuity liability are defined benefit obligations and are provided for on the basis of an actuarial valuation on projected unit credit method made at the end of each financial year.
- iii. Short term compensated absences are provided for based on estimates. Long term compensated absences are provided for based on actuarial valuation. The actuarial valuation is done as per projected unit credit method
- iv. Actuarial gains/losses are immediately taken to Profit and Loss Account and are not deferred.

m. Income Taxes

Tax expense comprises of current, deferred and fringe benefit tax. Current income tax and fringe benefit tax is measured at the amount expected to be paid to the tax authorities in accordance with the Indian Income Tax Act. Deferred income taxes reflects the impact of current year timing differences between taxable income and accounting income for the year and reversal of timing differences of earlier years.

Deferred tax is measured based on the tax rates and the tax laws enacted or substantively enacted at the balance sheet date. Deferred tax assets are recognized only to the extent that there is reasonable certainty that sufficient future taxable income will be available against which such deferred tax assets can be realized.

At each balance sheet date the Company reassesses unrecognized deferred tax assets. It recognizes unrecognized deferred tax assets to the extent that it has become reasonably certain or virtually certain, as the case may be, that sufficient future taxable income will be available against which deferred tax assets can be realized.



SKS MICROFINANCE PRIVATE LIMITED

**NOTES ANNEXED TO AND FORMING PART OF BALANCE SHEET AS AT MARCH 31, 2008
AND PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED MARCH 31, 2008**

The carrying amount of the deferred tax assets are reviewed at each balance sheet date. The Company writes down the carrying amount of the deferred tax assets to the extent that it is no longer reasonably certain or virtually certain as the case may be, that sufficient future taxable income will be available against which deferred tax asset can be realized. Any such write down is reversed to the extent that it becomes reasonably certain or virtually certain, as the case may be that sufficient future taxable income will be available.

n. Earnings per Share

Basic earnings per share are calculated by dividing the net profit or loss for the period attributable to equity shareholders by the weighted average number of equity shares outstanding during the period. Partly paid equity shares are treated as fraction of an equity share to the extent that they were entitled to participate in dividends related to a fully paid equity share during the reporting period.

For the purpose of calculating diluted earnings per share, the net profit or loss for the period attributable to equity shareholders and the weighted average number of shares outstanding during the period are adjusted for the effects of all dilutive potential equity shares.

o. Provisions

A provision is recognized when an enterprise has a present obligation as a result of past event; it is probable that an outflow of resources will be required to settle the obligation, in respect of which a reliable estimate can be made. Provisions are not discounted to its present value and are determined based on best estimate required to settle the obligation at the balance sheet date. These are reviewed at each balance sheet date and adjusted to reflect the current best estimates.

p. Cash and Cash Equivalents

Cash and cash equivalents in the balance sheet comprise cash at bank and in hand and short-term investments with an original maturity of three months or less.

q. Employee Share Based payments

- (a) In case of Employee Share Purchase Plan, measurement and disclosure of the employee share-based payment plans is done in accordance with the Guidance Note on Accounting for Employee Share-based Payments, issued by the ICAI. The Company measures compensation cost relating to employee stock options using the fair value method. Such compensation expense is recognized immediately as these are granted and vested immediately.
- (b) In case of Employee Stock Option Plan, measurement and disclosure of the employee share-based payment plans is done in accordance with the Guidance Note on Accounting for Employee Share-based Payments, issued by the ICAI. The Company measures compensation cost relating to employee stock options using the Black-Scholes Model. Compensation expense is amortized over the vesting period of the option on the straight line basis.



SKS MICROFINANCE PRIVATE LIMITED

**NOTES ANNEXED TO AND FORMING PART OF BALANCE SHEET AS AT MARCH 31, 2008
AND PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED MARCH 31, 2008**

r. Classification of Loan Portfolio

i. Loans are classified as follows:

Asset Classification	Loans under JLG	Individual Loans
Non Performing Assets	Overdue over 8 weeks	Overdue over 3 months
Sub-Standard	Overdue for 8 weeks – 25 weeks	Overdue for 3 – 6 months
Doubtful assets	Overdue for 25weeks – 50 weeks	Overdue for 6 – 12 months
Loss Assets	Overdue for more than 50 weeks	Overdue for more than 12 months

“Overdue” refer to interest and/ or installment remaining unpaid from the day it became receivable.

- ii. All other loans & advances are classified as standard, sub-standard, doubtful, and loss assets in accordance with the extant Non-Banking Financial (Non-Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2007.
- iii. Under exceptional circumstances, management may renegotiate loans by rescheduling repayment terms for clients have defaulted in repayment but who appear willing and able to repay their loans under longer term agreement. All rescheduled loans are separately identified and fully provided for.

s. Provision for Non Performing Assets

Loans are provided for as per the management’s estimates, subject to the minimum provision required as per Non-Banking Financial (Non-Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2007. The provisions norm adopted by the Company is as follows:

Provisioning Norms for JLG Loans

Asset Classification	Arrear Period	Provision as per RBI prudential norms	Estimated Provision adopted by the Company
Standard	Less than 8 weeks	Nil	0.75%
Sub-Standard	Over 8 weeks - 25weeks	Nil	10%
Doubtful Assets	Over 25 weeks - 50 weeks	10%	50%
Loss Assets	More than 50 weeks	100%	100%

Provisioning Norms for Individual Loans

Asset Classification	Arrear Period	Provision as per RBI prudential norms	Estimated Provision adopted by the Company
Standard	Less than 3 months	NIL	0.75%
Sub-Standard	Over 3 – 6 months	NIL	10%
Doubtful assets	Over 6 – 12 months	10%	50%
Loss Assets	More than 12 months	100%	100%

