

V.NAGARAJAN & CO.,

Chartered Accountants

AUDITOR'S REPORT TO THE MEMBERS OF SKS MICROFINANCE PRIVATE LIMITED

We have audited the attached Balance Sheet of SKS MICROFINANCE PRIVATE LIMITED as at March 31, 2006, Income and Expenditure account and 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.

We have 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 evaluating the overall financial statement presentation. We believe that our audit provides reasonable basis for our opinion.

1. As required by the Companies (Auditor's Report) Order 2003 issued by the Company Law Board in terms of section 227(4A) of the Companies Act, 1956 and on the basis of such checks as we considered appropriate and according to the information and explanation given to us, we state in the annexure, a statement of matters specified in paragraphs 4 and 5 of the said Order.
2. Further to our comments in the Annexure referred above:
 - 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 accounts as required by the law have been kept by the company, so far as appears from our examination of the books maintained by the Company at the Head office and all the branches of the company, visited by us;
 - c) the Balance Sheet and the Income and Expenditure account dealt with by this report are in agreement with the books of account;
 - d) In our opinion, the Income and Expenditure Account and the Balance Sheet comply with the accounting standards referred to in sub section 3(C) of section 211 of the Companies Act, 1956.
 - e) On the basis of the written representations received from the directors as on March 31, 2006 and taken on record by the Board of Directors, we report that none of the director is disqualified as on March 31, 2006 from being appointed as director in terms of clause (g) of sub-section (1) of section 274 of the Companies Act, 1956.



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- f) in our opinion and to the best of our information and according to the explanations given to us, the Balance Sheet and the Profit and Loss Account read together with the notes on accounts attached thereto, give the information required by the Companies Act, 1956, in the manner so required and give a true and fair view:
- i. in the case of the Balance Sheet, of the state of affairs of the Company as at March 31, 2006 and
 - ii. In the case of Income and Expenditure account, of the profits of the company for the year ended on that date.
 - iii. In the case of Cash Flow Statement of Cash Flow for the year ended on that date.

Mumbai
July 22, 2006

for **V. NAGARAJAN & Co.,**
Chartered Accountants


(V. NAGARAJAN)
Partner



V.NAGARAJAN & CO.,

Chartered Accountants

**ANNEXURE TO THE AUDITORS' REPORT REFERRED TO IN OUR
REPORT
OF EVEN DATE TO THE MEMBERS OF
SKS MICROFINANCE PRIVATE LIMITED
[Pursuant to the Companies Auditors Report Order, 2003]**

Referred to in paragraph 3 of our report of even date,

1.
 - a) The Company has maintained proper records showing full particulars including quantitative details and situation of fixed assets.
 - b) All the assets have been physically verified by the management during the year. There is a regular program of verification which, in our opinion, is reasonable having regard to the size of the company and the nature of its assets. No material discrepancies were reported to have been noticed on such verification.
 - c) The company has not disposed of any fixed assets during the year.
2. The company is in the business of financing and hence it does not hold any finished goods, stores, spare parts and raw materials.
3. On the basis of representation received from the company management, and also as per our examinations of records, the company has neither granted nor received any loans, secured or unsecured to companies, firms or other parties covered in the register maintained under section 301 of the Act.
4. In our opinion and according to the information and explanations given to us, there are adequate internal control procedures commensurate with the size of the company and the nature of its business with regard to purchase of fixed assets and rendering of financial services. During the course of our audit, no major weakness has been noticed in the internal controls.
5. Based on the audit procedures applied by us and according to the information and explanations provided by the management, we are of the opinion that the transactions that need to be entered into the register maintained under section 301 have been so entered.
6. In our opinion and according to the information and explanations given to us, there are no transactions made in pursuance of contracts or arrangements entered in the register maintained under Section 301 and exceeding the value of five lakh rupees in respect of any party during the year.
7. In our opinion and according to the information and explanations given to us, the company has not accepted any deposits within the provisions of Sections 58A and 58AA of the Companies Act, 1956.
8. The Company has an internal audit system, the scope and coverage of which, in our opinion requires being covered Head office and be enlarged to be commensurate with the size and nature of its business, including its future expansion.
9. The Company is in the business of financing and hence maintenance of cost records under clause (d) of sub section (1) of section 209 of the Act is not applicable.
10. According to the records of the company, the company is generally regular in depositing with appropriate authorities undisputed statutory dues including provident fund, investor education protection fund, income-tax, sales-tax, wealth-tax, service tax, fringe benefit tax, custom duty, excise-duty, cess and other statutory dues applicable to it, except for



V.NAGARAJAN & CO.,

Chartered Accountants

- a) Non-deposit of ESI contribution of Rs. 4, 98,411/- (including of employees share of Rs.1, 24,559/-) as on 31.03.06 pending registration with ESI authorities.
 - b) Professional Tax of Rs. 29,661/- outstanding as on 31.03.06, of which Rs.4, 589/- still remains outstanding.
- 11.
- a) According to the information and explanations given to us, no undisputed amounts payable in respect of income tax, wealth tax, sales tax, service tax, customs duty and excise duty were outstanding, as at March 31, 2006 for a period of more than six months from the date they became payable, except to the extent referred in clause (IX).
 - b) According to the records of the company, there are no dues of sale tax, income tax, and customs tax/wealth-tax, excise duty/cess, which are in dispute and remain outstanding.
12. Based on our audit procedures and on 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 and banks.
13. The company has not granted loans and advances on the basis of security by way of pledge of shares, debentures and other securities.
14. The company, during the year, did not deal or trade in shares, debentures and other securities.
15. The company has not given any guarantee for loans taken by others from bank or financial institutions.
16. According to the information and explanations given to us and records of the company examined by us, all term loans were applied for the purpose for which the loans were obtained.
17. According to the information and explanation given to us, funds raised for short term purpose has not been utilized for long term use.
18. The Company had not made any preferential allotment of shares to parties and companies covered in the register under section 301 of the Act.
19. Based on the audit procedures performed and information and explanations given to us by the management, we report that there was a solitary instance of fraud which was in the nature of misappropriation of collection from customers to the extent of Rs.34, 000/- by an employee, which is yet to be recovered.
20. Clause (X), (XIII), (XIX), (XX) is not applicable to the company during the year under review.

Mumbai,
July 22, 2006

for **V. NAGARAJAN & Co.,**
Chartered Accountants


(V. NAGARAJAN)
Partner





V.NAGARAJAN & CO.,

Chartered Accountants

AUDITORS' REPORT OF EVEN DATE TO THE MEMBERS OF SKS MICROFINANCE PRIVATE LIMITED

[Pursuant to Non-Banking Financial Companies Auditor's Report (Reserve Bank) Directions, 1998]

We have audited the attached Balance Sheet of SKS MICROFINANCE PRIVATE LIMITED as at March 31, 2006 and the Income and Expenditure account for the year ended on that date annexed thereto and report that:

Further to our audit report of even date issued under section 224 of the Companies Act, 1956, as required by the Non-Banking Financial Companies Auditor's Report (Reserve Bank) Directions, 1998, based on the information and explanations given to us and based on the records produced, we state below a statement of matters specified in paragraph 3 of the said Directions.

- 1) IN THE CASE OF ALL NON-BANKING FINANCIAL COMPANIES (PARAGRAPH 3 (A) OF THE ORDER):
 - a) The company has obtained a certificate of registration as a Non-Banking Financial Company vide Certificate No. 09.00415 dated 20th January, 2005 pursuant to section 45IA of the Reserve bank of India Act, 1934 (2 of 1934)
- 2) IN THE CASE OF A NON-BANKING FINANCIAL COMPANY NOT ACCEPTING PUBLIC DEPOSITS (PARAGRAPH 3(C) OF THE ORDER):
 - a) The Board of Directors has passed a resolution in the meeting held on July 22, 2006 for the non-acceptance of any public deposits.
 - b) The company has not accepted any public deposits during the period under review.
 - c) The company has complied with the prudential norms relating to income recognition; assets classification, accounting standards and provisioning for bad and doubtful debts during the period ended March 31, 2006.
 - d) The company has also followed the capital adequacy norms; the accounting policies followed by the company in respect of the same are reported in the notes forming part of accounts.

Mumbai,
July 22, 2006

for V. NAGARAJAN & Co.,
Chartered Accountants


(V. NAGARAJAN)
Partner



SKS MICROFINANCE PRIVATE LIMITED

BALANCE SHEET AS ON MARCH 31,	2006	Rs. 2005
SOURCE OF FUNDS:		
SHARE HOLDER FUNDS		
Share Capital	139,071,700	20,600,500
Reserves and Surplus	4,744,012	319,670
LOAN FUNDS:		
Secured	692,183,333	-
DEFERRED TAX LIABILITY		
	3,311,930	-
TOTAL	839,310,975	20,920,170
APPLICATION OF FUNDS:		
FIXED ASSETS		
Gross Block	18,576,902	-
Less:-Accumulated Depreciation	2,903,723	-
Net Block	15,673,179	-
CURRENT ASSETS, LOANS AND ADVANCES		
Cash and Bank Balances	175,785,741	20,537,075
Collateral free loans to poor women (Owned and Managed)	918,896,686	-
Less: Managed Loans		
Loans Outstanding held on Behalf of Other Financial Institutions	163,043,743	-
Net Loans outstanding (owned)	755,852,943	-
Advances and Other Amounts Recoverable	16,191,598	321,988
Total Current Assets	947,830,282	20,859,063
LESS: CURRENT LIABILITIES AND PROVISIONS		
A .Current Liabilities	138,880,593	27,762
B. Other Provisions	22,118,567	170,000
Total Liabilities	160,999,160	197,762
NET CURRENT ASSETS	786,831,122	20,661,301
MISCELLANEOUS EXPENDITURE		
<i>(To the extent not written of or adjusted)</i>		
Pre incorporation Expenses and Client Acquisition Cost	36,806,674	258,869
TOTAL	839,310,975	20,920,170

Significant Accounting Policies & Notes on Accounts 1-4
 Segment wise Income and Expenditure account 5
 Operating Ratios 6

As per our report of even date
 for **V. NAGARAJAN & Co.,** for **SKS Microfinance Pvt. Ltd.**
 Chartered Accountants

Place: Mumbai
 July 22, 2006



(Signature)
(V. NAGARAJAN)
 Partner

(Signature)
 Director

(Signature)
(VIKRAM AKULA)
 Managing Director

Audited Financial Statements for the year ended on March 31, 2006



SKS MICROFINANCE PRIVATE LIMITED

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED MARCH 31,	2006	Rs. 2005
INCOME:		
Income from Operations	108,624,145	-
Income from Investments	114,685	-
Other Income	493,508	697,955
TOTAL	109,232,338	697,955
EXPENDITURE:		
Expenses on Operations	42,364,540	-
Salaries Allowances and Benefits to Staff	27,783,362	-
Administrative Expenses	18,154,081	154,658
Amortisation of Preincorporation and Client Aquisition Cost	5,108,280	86,290
Provision for Loan Losses	3,091,080	-
Depreciation	2,903,723	-
TOTAL	99,405,066	240,948
Profit Before Tax	9,827,272	457,007
- Prior Period Expenses	-	35,947
- Provision for Taxation (incl. Fringe Benefit Tax)	2,091,000	170,000
- Provision for Deferred tax	3,311,930	-
Profit After Tax	4,424,342	251,060
Profit brought forward previous year	262,269	68,610
Profit Available for appropriation	4,686,611	319,670
APPROPRIATIONS		
Transfer to Statutory reserve	937,350	57,401
Balance carried over	3,749,261	262,269
Earning Per share (basic/diluted)	1.69	0.12

Significant Accounting Policies & Notes on Accounts	1-4
Segment wise Income and Expenditure account	5
Operating Ratios	6

As per our report of even date
for **V. NAGARAJAN & Co.,**
Chartered Accountants

Place: Mumbai
July 22, 2006



(Signature)
(V. NAGARAJAN)
Partner

for **SKS Microfinance Pvt. Ltd.**

(Signature)
Director

(Signature)
(VIKRAM AKULA)
Managing Director



Audited Financial Statements for the year ended on March 31, 2006

SKS MICROFINANCE PRIVATE LIMITED

RS.

**CASH FLOW STATEMENT FOR THE YEAR ENDED
MARCH 31,**

CASH FLOW FROM OPERATING ACTIVITIES

	2006	2005
Net Profit Before Taxes	9,827,272	457,007
Adjustment for Non- Cash Expenditures		
Provision for Loan Loss	3,091,080	-
Loans Written off Due to Member Death	1,295,400	-
Loans Written off Member's Husband Death	3,347,160	-
Depreciation	2,903,723	-
Amortisation of Preincorporation and Client Acquisition Cost	5,108,280	86,290
Operating Profit Before Changes in Operating Assets	25,572,915	543,297
Adjustments for:		
(Increase)/ Decrease in Micro-credit Advances	(760,495,503)	-
(Increase)/ Decrease in Other Current Assets	(11,953,509)	(315,079)
Loan Loss Reserve accounted for (non cash item at the time of business transfer)	16,824,848	-
Payment for Client Acquisition Cost	(39,701,135)	-
Incorporation Expenses	(1,954,950)	-
(Decrease)/Increase in Other Liabilities and Provisions	138,852,831	6,162
Net cash generated from operating activities Before Tax	(632,854,503)	234,380
Income Tax & Fringe benefit tax paid	(3,974,462)	(32,980)
Net cash Generated from Operating Activities After Tax	(A) (636,828,965)	201,400
CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of Fixed Assets	(18,576,902)	-
Sale of Fixed Assets	-	-
Net cash flow in Investing Activities	(B) (18,576,902)	-
CASH FLOW FROM FINANCING ACTIVITIES		
Proceeds from Issue of Equity Share Capital	118,471,200	-
Secured Loan - Receipt during the year	718,050,000	-
- Repaid during the year	(25,866,667)	-
Net Cash Generated from Financing Activities	(C) 810,654,533	-
Net Increase/(Decrease) in Cash and Cash equivalents during the year (A)+(B)+(C)	155,248,666	201,400
Cash and Cash Equivalents at the beginning of the year	20,537,075	20,335,675
Cash and Cash Equivalents at the end of the year	175,785,741	20,537,075

Significant Accounting Policies & Notes on Accounts 1-4
Segment wise Income and Expenditure account 5
Operating Ratios 6

As per our report of even date
for **V. NAGARAJAN & Co.,**
Chartered Accountants

Place: Mumbai
July 22, 2006



(Signature)
(V. NAGARAJAN)
Partner

for **SKS Microfinance Pvt. Ltd.**

(Signature) *(Signature)*
(VIKRAM AKULA)
Director Managing Director



Audited Financial Statements for the year ended on March 31, 2006

Schedules to the Financial Statements for the year ended March 31, 2006

All figures in Indian Rupees

Significant Accounting Policies and Notes on Accounts

1. SIGNIFICANT ACCOUNTING POLICIES:

1.1. Basis of Preparation of Financial Statements

1.1.1. The financial statements have been prepared under historical cost convention and on accrual basis, assuming the principle of going concern. The company has applied all the applicable accounting standards to the Micro Finance operations.

1.2. Revenue Recognition:

1.2.1. Interest on microfinance loans disbursed, is recognized on accrual basis as per the contract with the borrowers and repayments collected on weekly basis,

1.2.1.1. Calculated on a flat rate basis on Portfolio of Loans Owned

1.2.1.2. Calculated on reduced balance method on Loans Managed on behalf of other financial institutions.

1.2.2. Other Group Mentoring, Monitoring and Meeting Charges are accounted for as accruing at each group meeting.

1.2.3. Income on Non-performing assets and income on fee based services are recognized only when realized and any interest accruing on such assets is de-recognized in the same manner and at the same rate in which provisions for doubtful debts is made.

1.3. Classification of Loan Portfolio:

1.3.1. All loans and advances overdue up to 4 weeks have been classified as Standard assets, overdue beyond 4 weeks and up to 50 weeks (which is the maximum loan duration) are classified as Sub-standard assets. Loans overdue beyond the loan durations are classified as doubtful of recoveries.

1.3.2. Loans and advances where possibility of recovery is remote in the assessment of the management are classified as loss assets.

1.4. Provision for Loan Losses:

1.4.1. The Provision of 1% is provided on advance outstanding and classified as Standard assets, provision of 10% is provided on advances classified as Sub-standard, up to 25 weeks, and 50% between 25-50 weeks, whereas, 100% provision is provided for in case of advances classified as Doubtful and loss assets.

1.4.2. All rescheduled loans are provided for in full.

1.4.3. Advances classified as loss assets by the management are either written off or fully provided for in Income and Expenditure Account.

1.4.4. The provision, thus made, is larger than the provision required under the Non Banking Financial Companies Prudential Norms (Reserve Bank) Directions 1998.

1.5. Write off of Loans:

1.5.1. All loans of the Clients who have expired or the loan period is over, but in the opinion of the management the loans are not recoverable, are written off in the first instance, though the recovery efforts are not reduced.

1.6. Fixed Assets:

1.6.1. All fixed assets have been valued at cost inclusive of direct and incidental expenses related to acquisition.

1.6.2. Depreciation is provided on the assets based on written down value method at the rates appropriate for the useful life of the assets.

1.6.3. Depreciation is provided on the assets based on Written down value method at the rate specified in the Schedule XIV to the Companies Act, 1956.

1.6.4. In respect of additions the depreciation is provided on proportionate basis for the period during which the assets are put to use.

1.7. Employee Benefits:

1.7.1. Contribution to Provident Fund is accounted on actual liability basis and paid.



Signature

SKS Microfinance Private Limited

- 1.7.2. The Provision of Gratuity has not been provided in books, which needs actuarial valuation.
 1.7.3. Leave encashment to employees also stands fully provided for.

1.8. Foreign Currency Transactions:

- 1.8.1. All transactions in the foreign currency are recognized at the exchange rate prevailing on the date of transactions.
 1.8.2. Liabilities and receivables in foreign currency are converted at the exchange rate prevailing at the close of the financial year and net gain or losses are recognized in the Income and Expenditure account.

1.9. Amortization of Client Acquisition Costs and Incorporation Expenses:

- 1.9.1. Written off over a period of five year, in proportion to the period of business activities

2. NOTES ON BUSINESS ACTIVITIES:

- 2.1. During the Audited Financial year 2005-06, the Company has acquired the Micro Finance operations from Swayam Krishi Sangam, primarily lending to poor women of self-help groups. To acquire these operations, the Company has also paid the Client Acquisition cost of Rs. 39,701,135. The total value of the entire operations transferred amounted to Rs. 535,670,248/- as detailed below

- 2.2. The summary of Cost and value of transfer transactions is as follows:

SUMMARY OF BUSINESS TRANSFER (SWAYAM KRISHI SANGAM TO SKS MICRO FINANCE (P) LTD.) 2005-2006

Particulars	GROSS VALUE OF BUSINESS PURCHASE / TOTAL ASSETS	LOAN LOSS RESERVE/ CURRENT LIABILITIES	PAYABLE TO FINANCIAL INSTITUTIONS/BANKS		NET VALUE OF BUSINESS TRANSFER
			PRINCIPAL DUE (owned loans)	PRINCIPAL DUE (managed loans)	
	(a)	(b)	(c)	(d)	e=(a-b-c-d)
(1) ON AUGUST 31, 2005					
Total Loans Outstanding: Owned	288,294,472	16,824,848	-		271,469,624
Total Loans Outstanding: Managed	194,140,610			194,140,610	-
Less: Prepayment of Loans Pending Adjustment	1,108,313				1,108,313
	481,326,769	16,824,848		194,140,610	270,361,311
Fixed Assets, net of depreciation	3,320,488				3,320,488
Add: Estimated value of software for MIS	8,250,000				8,250,000
Other Current Assets	3,071,855				3,071,855
Current Liabilities at Branch level	-	2,280,286			(2,280,286)
Liabilities Towards the Servicing of Loans			267,209,137		(267,209,137)
Client Acquisition Cost	39,701,135				39,701,135
TOTAL VALUE OF THE BUSINESS AS ON 31.08.05	535,670,248	19,105,134	267,209,137	4,140,610	55,215,367

- 2.3. The Company is engaged in Micro Finance lending activities for providing financial services to the poor women in the rural areas of India who are organized as self-help groups. It provides small value collateral free loans and insurance services to poor women in groups and all financial transactions are conducted in the group meetings organized near the habitats of these women.
- 2.4. The operations, in the initial stages of group formation, also involves efforts, for their mobilization, on development training on financial discipline, advice on the micro enterprises carried by the individual members, and later constant monitoring through weekly meetings, by proactively calling those meetings and conducting the same and
- 2.4.1. Providing financial and support services at the doorsteps of the borrowers to ensure high rates of recovery.
- 2.4.2. Acting as an intermediary to manage direct loans provided by certain financial institutions to its members through the Self Help Group meetings, by linking the banks with the groups of poor women.
- 2.4.3. Also providing other financial services such micro insurance services which form part of these services.

Signature



SKS Microfinance Private Limited

2.5. The present operations are in five States of India i.e. Andhra Pradesh, Maharashtra, Madhya Pradesh, Orissa and Karnataka.

3. NOTES TO ACCOUNTS:

3.1. Contingent Liabilities:

3.1.1. Claims not acknowledged as debts: Nil

3.1.2. Guarantees provided by the company for the management of portfolio of other financial institutions is Rs. 80 lacs on ICICI managed loans.

3.2. Books and Records:

3.2.1. The company maintains a detailed Management Information System for Loan Portfolio and book keeping, including all its branches, printing of sub ledger accounts of all borrowers (approximately 213,985 small value loans accounts with large volume, which is in an increasing mode continuously) is found to be economically not viable, in the micro finance scenario, the company is maintaining the sub ledgers in electronic form only. The company is making efforts to institute fool proof back up system and viewing / printing of the same through computing devices.

3.3. Capital Fund:

a) The Capital structure of the company as follows.

	2006	2005
Authorized:		
Equity Shares		
17,000,000 Equity Shares of Rs. 10 each	170,000,000	21,000,000
		* 11,000,000
Preference Shares		
3,000,000 Convertible Preference Shares of Rs. 10 each	30,000,000	30,000,000
Total	200,000,000	62,000,000
<i>Previous year figures consist of Class A shares of Rs. 2,10,00,000 (21,00,000 share of Rs. 10 each) and Rs. 1,10,00,000 (11,00,000 shares of Rs. 10 each, stands merged and reclassified as single class of equity shares in the current year.</i>		
Issued Subscribed and Paid up:		
13,907,170 Equity Shares of Rs. 10 each fully paid up in cash	139,071,700	20,600,500
<i>The increase in Subscribed capital has been contributed by 5 major shareholders of 13,897,120 shares for a value of Rs.138,971,200 (99.93% of total) while the Mutual Benefit Trusts and Small Industrial Development Bank of India together hold 7,600,000 equity shares to a value of Rs.76,000,000 (54.65 % of total capital)</i>		

3.4. Reserves And Surplus

	2006	2005
Statutory Reserve *		
Opening Balance	57,401	-
Add. Additions during the period	937,350	57,401
Total	994,751	57,401
Profit and Loss Account		
As per account attached	3,749,261	262,269
Total	4,744,012	319,670

* Note: Allocated @ 20% of post tax profits, as per the provisions of section 45I of the Reserve Bank of India Act.

3.5. Loan Funds

For onward lending Owned Loans – Secured Loans From	2006	
	Average Outstanding *	Balance



SKS Microfinance Private Limited

ABN Amro Bank	119,196,983	178,300,000
Small Industrial Development Bank of India	200,000,000	200,000,000
HDFC Bank Limited	60,433,620	63,883,333
Citi Bank	50,000,000	50,000,000
UTI Bank Limited	140,948,533	200,000,000
Total	570,579,136	692,183,333

The Interest paid during the year on borrowings from Swayam Krishi Sangam is amounting Rs.10,466,148 on the total Term Loan availed Rs. 267,209,137. The Closing balance of loan payable to Swayam Krishi Sangam is Rs. 10,966,689/- as on March 31,2006 have been stated in schedule No. 12 of 'CURRENT LIABILITIES'

For Micro Finance Loans - Managed Loans on behalf of other financial institutions - From*		
ICICI Bank Phase I	100,000,000	100,000,000
HDFC Bank Partnership Phase I	52,107,459	80,909,091
Total	152,107,459	180,909,091
Grand Total	722,686,595	873,092,424

1. The Interest paid during the year on borrowings from Swayam Krishi Sangam is amounting Rs.93,68,751 on the total Managed Loan availed Rs. 194,140,610. The Closing balance on account of Managed loans payable to Swayam Krishi Sangam is Rs. 94,849,983/- as on March 31,2006 have been shown in schedule No. 11 of 'CURRENT ASSETS' as same is recoverable from borrowers.
2. No amount was overdue in respect of any loans during the year
3. Average outstanding has been drawn out of the monthly average balances of the year.

* Per Contra relating to the Microfinance loans managed on behalf of other financial institutions per Schedule of Advances and Other amounts Recoverable

3.6. Deferred Tax Liability : Rs. 3,311,930/-

	As per Income Tax Act	As per Companies Act	Total Timing Difference	Deferred Tax
Opening balance				
Addition:				
Due to difference in depreciation charges	17,374,087	2,903,723	14,470,364	
Amortisation of Client Creation cost	0	4,631,000	(4,631,000)	
TOTAL	17,374,087	7,534,723	9,839,364	
Closing Balance of Deferred Tax Liability (@ 33.66% on Timing Difference)				3,311,930

3.7. Fixed Assets: Rs. 15,673,179/-

PARTICULARS	GROSS BLOCK		DEPRECIATION		NET BLOCK
	Additions	As on 31.03.2006	For the Year	Total	As on 31.03.2006
(I) FURNITURE & FIXTURES	3,371,397	3,371,397	234,979	234,979	3,136,418
(II) PLANT & MACHINERY:					
Computers	5,400,348	5,400,348	673,551	673,551	4,726,797
Computer Software	8,253,500	8,253,500	1,917,100	1,917,100	6,336,400
Office Equipment	415,687	415,687	11,181	11,181	404,506
Photo Copier	199,934	199,934	15,435	15,435	184,499
Telephone/Fax	97,540	97,540	461	461	97,079
Generators	79,063	79,063	6,358	6,358	72,705
Air Conditioner	61,108	61,108	4,156	4,156	56,952
(III) VEHICLES	698,325	698,325	40,502	40,502	657,823
Total	18,576,902	18,576,902	2,903,723	2,903,723	15,673,179

* There were no opening balances of assets, hence no deletions also.

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3.8. Cash And Bank Balances: Rs.175,785,741/-

	2006	2005
a) Cash in Hand	11,754,164	950
b) Bank Balances in Scheduled Banks:		
In Current Accounts	149,471,987	36,125
Total	161,226,151	37,075
In Fixed Deposit Accounts:		
- Pledged for Management of loan portfolio of other Financial Institutions (HDFC Bank Ltd.),	4,500,000	20,500,000
Interest Accrued thereon	43,526	
- Pledged against borrowings (SIDBI)	10,000,000	
- Interest Accrued thereon	16,064	
Total	175,785,741	20,537,075

3.9. Collateral free Loans to Poor Women in Self Help Groups: Rs. 918,896,686/-

3.9.1. Composition of own and portfolio managed: Consists of:

- 3.9.1.1. Rs. 715,950,358 as short-term loans only (including re-scheduled loans Rs. 83,000/- and net off with Advance Installment Rs. 1,794,748/-, of term not exceeding 50 weeks) to poor women in self-help groups out of the funds borrowed and assuming the primary lending risk.
- 3.9.1.2. Rs. 39,902,585 as long term loans only (of term exceeding 50 weeks) to poor women in self-help groups out of the funds borrowed and assuming the primary lending risk.
- 3.9.1.3. Rs.163, 043,743 loans provided by the other financial institutions where the primary risk of lending is assumed by the them, but managed by the company, though original lending is routed through the books of company.
- 3.9.1.4. Categories of assets managed:

	2006	2005
a) Own Loans	717,662,108	
b) Individual Loans	39,902,585	
c) Re-scheduled Loans	83,000	
Sub total	757,647,691	
Less: Advance Installments	1,794,748	
Total Owned Loans	755,852,943	
d) Managed Loans	163,043,743	
Total Loans	918,896,686	-

3.9.2. Provision for loan losses: Rs. 19,915,928

- 3.9.2.1. Stands fully provided for in respect defaulted loans as per the Loan loss policy, where large number of groups of women were instigated by local leaders with vested interests, against repayments, but recovery efforts have already resulted in slow repayments, though not through group meetings.
- 3.9.2.2. Out of total loan loss provision of Rs. 19,915,928 an amount of Rs. 16,824,848 represents the loan loss provision relating to the portfolio transferred from Swayam Krishi Sangam and the balance represents 100% on Principal outstanding at Madhina, Khammam District, Andhra Pradesh, which is considered doubtful due to actions by the local administration.

- 3.9.3. **Asset Classification:** The loan portfolio has been classified as per the norms prescribed for classification by the Reserve Bank of India through Non-Banking Financial Companies Prudential Norms (Reserve Bank) Directions, 1998. However in tune with micro finance practices and normally accepted industry standard conventions provisions are made which is far in excess of the requirements of the RBI norms. The details are shown below:

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SKS Microfinance Private Limited

Asset Classification	Loan Outstanding (Before Provision)				Provision			Loan Outstanding (Net of Provision)	
	As on 31.03.06		As on 31.03.05		Provision at the time of Business Transfer	During the Period	Up to 31.03.06	As on 31.03.06	As on 31.03.05
	No of A/c	Amount	No	Amount					
Assets									
Standard - - Current dues upto 4 weeks (including long term loans)	170,002	744,205,352	--	--	8,268,337	--	8,268,337	735,937,015	--
Sub- standard - Dues beyond 4 weeks but upto 50 weeks	--	--	--	--	--	--	--	--	--
Rescheduled Loans	1	83,000	--	--	83,000	--	83,000	--	--
Total Sub-standard and Rescheduled	170,003	744,288,352	--	--	8,351,337	--	8,351,337	735,937,015	--
Loss Assets- (@100%) Nizamabad-B	2,299	8,473,511	--	--	8,473,511	--	8,473,511	--	--
Madhira	669	3,091,080	--	--	--	3,091,080	3,091,080	--	--
Total	172,971	755,852,943			16,824,848	3,091,080	19,915,928	735,937,015	
Portfolio at Risk (> 4 weeks)							1.54%		
% PAR to Total Loan Assets							1.27%		

3.9.4. Income Generation Activity wise, State wise spread of Portfolio:

Income Generation Activity	Rs. Millions						Total	Activities %
	Andhra Pradesh	Karnataka	Maharashtra	Madhya Pradesh	Orissa			
FARM / AGRICULTURE								
Agriculture and Agri Related	127.90	16.36	1.69	0.10	0.78	146.83	16%	
Animal Husbandry, Related	200.75	37.16	6.79	1.76	1.64	248.10	27%	
NON FARM								
Cottage Industries / Small Manufacturing	23.21	2.49	0.73	0.09	0.20	26.73	3%	
Trading	113.67	22.57	4.62	0.42	1.83	143.11	16%	
Services Providers	45.58	8.82	1.44	0.12	0.84	56.80	6%	
LIFE ESSENTIALS								
Construction and Related	31.79	5.76	1.35	0.03	1.35	40.28	4%	
Food and Food Services	60.89	15.76	1.83	0.18	1.67	80.34	9%	
Garments, Cloths Related	70.09	14.35	2.46	0.21	0.66	87.76	10%	
AUTOMOBILE AND TRANSPORT								
Transport	7.45	1.36	0.35	-	0.77	9.94	1%	
Automobile Repairing and Servicing	61.01	15.12	2.03	0.03	0.41	78.59	9%	
Others	0.33	0.09	0.01			0.43	0%	
Total	742.66	139.85	23.30	2.94	10.15	918.90	100%	
% - State	80.8%	15.2%	2.5%	0.3%	1.1%	100%		

Note: No major risk is perceived in any specific geographical location or in any of the activities, except that may occur in the normal course of the business.

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3.9.5. Rates of interest charged on different loan products:

	Income Generation Loans and Mid term Loans	Individual Loans *	Emergency Loans **
For Borrowers in Andhra Pradesh			
Product repayment schedules are calculated on Flat rate***	12.50%	11%	0%
Which if translated on Reducing Balances, works out to	23.60%	19.70%	0%
For all other borrowers in Karnataka, Maharashtra and Madhya Pradesh			
Product repayment schedules are calculated on Flat rate	15%		0%
Which if translated on Reducing Balances, works out to	28.10%		0%
* Not introduced in States other than Andhra Pradesh			
** No interest is charged on Emergency Loans			
*** Until Nov 14, 2005 the rate was 15%			

3.9.6. Others:

- 3.9.6.1. No provision for expenses related to recovery of actual or anticipated loan losses have been made.
- 3.9.6.2. Write off of bad debts are independent of provision for loan loss allowance.
- 3.9.6.3. In the opinion of the Board of Directors, the loans and advances have a value on realization in the ordinary course of business at least equal to the amount at which they are stated in the Accounts.

3.10. Advances And Other Amounts Recoverable Rs. 16,191,598/-

	2006	2005
Recoverable/ Excess paid on a/c of Managed Loans	3,135,669	-
Recoverable/ Excess paid on a/c of Managed Loans (Due to Swayam Krishi Sangam):		
Amount Payable to Swayam Krishi Sangam on a/c of ICICI Managed Loans	Rs. 94,849,983/-	
Less: Amount Recoverable from borrowers	Rs. 94,849,983/-	
Loans to Staff	1,185,836	-
Advances to Staff & others	1,094,332	-
Advance Tax and Prepaid taxes	4,234,455	146,722
Insurance claim Recoverable from insurance Agency	1,357,860	-
Interest Accrued but no due on loans	1,525,206	-
Commission on Insurance Premium	93,887	-
Rent, Telephone and Other Deposits	3,263,353	175,266
Total	16,191,598	321,988

3.11. Current Liabilities: Rs. 138,880,593/-

Statutory Dues Payable	3,603,883	6,772
Due to Swayam Krishi Sangam:		
(Payable on a/c of Term Loans	Rs. 10,966,689/-	
(Recoverable on a/c of Business Transfer a/c	Rs. 4,035,334/-	
Undisbursed Loan on account of Managed Loans	115,851,000	-
Interest Payable	3,632,299	-
Security Deposit - Individual Loans	1,775,000	-
Other Liabilities / Sundry Creditors	7,087,056	20,990
Total	138,880,593	27,762

3.12. Provisions: Rs. 22,118,567/-

Provision for Taxation (including fringe benefit tax)	2,202,639	170,000
Provision for loan loss	19,915,928	-
Total	22,118,567	170,000

3.13. Miscellaneous Expenses (To The Extent Not

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Written Off): Rs. 36,806,674/-

Opening Balance	258,869	345,159
Additions during the year		
(a) Client Acquisition Cost	39,701,135	
(b) Others	1,954,950	
	41,914,954	345,159
Less: Written off during the year	5,108,280	86,290
Total	36,806,674	258,869

3.14. Income From Operations: Rs. 108,624,145/-

(A) From Loan Business:		
Interest income on loans (net of interest derecognised Rs. 4,99,456/-)	62,923,860	
Interest Income on Managed Loans: (Rs. 11,484,169/- & payment of Interest Rs. 11,484,169/-)		
Loan Processing Fee - Owned Loans	11,041,910	
Group Mentoring, Monitoring and Meeting Charges - Managed Loans	13,835,766	
Admission, Pass Book Fee	2,605,620	
Total	90,407,156	
(B) From Insurance Business:		
Insurance Claim Receipts	5,837,540	
Insurance Premium (Death Relief fee)	11,402,930	
Commission Received - On Insurance Premium Paid	975,519	
Total	18,215,989	
TOTAL INCOME FROM OPERATIONS	108,624,145	

3.15. Income From Investments: Rs 114,685/-

Income from Mutual Fund investments

114,685

3.16. Other Income: Rs. 493,508/-

Interest on Bank deposits and other accounts (included TDS Rs.1,26,368/-)	415,701	697,955
Other Income	77,807	
Total	493,508	697,955

3.17. Expenses On Operations: Rs. 42,364,540/-

(A) Interest & Financial Charges On Borrowed Funds		
Interest paid on Fund Borrowed by the Company	13,616,369	
Interest paid to Swayam Krishi Sangam	10,466,148	
Total Interest Paid	24,082,515	
Loan Processing Fee & Bank Charges on Borrowed Fund	2,666,869	
Total	26,749,384	
(B) Expenses On Insurance Business:		
Loans Written off Due to Member Death	1,295,400	
Loans Written off Member's Husband Death	3,347,160	
Premium Paid to Insurance Agency	8,772,596	
Total	13,415,156	
Total Expenses On Operations	42,364,540	

3.18. Salaries Allowances And Benefits To Staff: Rs. 27,783,362/-

Staff Salaries, Incentives	24,809,478	
Provident Fund and other Contributions	1,377,816	
Staff Welfare Expenses	1,796,068	
Total	27,783,362	

3.19. Administrative Expenses: Rs. 18,154,081/-

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SKS Microfinance Private Limited

Traveling Expenses	7,509,584	
Meeting Expenses	318,792	
Printing and Stationery & Computer Maintenance	2,384,982	
Rent, Rates & Taxes	1,319,477	
Rates & Taxes	4,882	
Office Expenses, Maintenance & Utilities	5,111,115	
Professional & Consultancy Charges	1,33,000	142,158
Other Miscellaneous Expenses	12,500	12,500
Total	18,124,081	154,658

3.20. Amortization of Incorporation Exp. & Client Acquisition Cost: Rs. 5,108,280

Pre Incorporation Expenses	477,280	86,290
Client Acquisition Cost	4,631,000	-
Total	5,108,280	86,290

3.21. Auditors' Remuneration:

	2006	2005
Audit fee including service tax	378,249	22,040
Taxation and other consulting services	131,016	-
Traveling and other out of pocket expense	42,144	-
Total	551,409	22,040

3.22. Managerial Remuneration:

Remuneration to Managing Director	1,747,333	
Director's Traveling & Other Expenses	652,294	

4. SUPPLEMENTARY INFORMATION:

4.1. Significant Changes after the Balance Sheet Date:

- 4.1.1.** The company has been constrained from conducting its normal business and making recovery efforts in respects of loans outstanding in and around of Krishna District of Andhra Pradesh (disbursed by the Company through its branches located in Madhira), due to directions in the form of public announcement and through the press, from District Administration Officials and as enforced by the Local Police. In view of this in the following year significant efforts are expected for recovering the outstanding loan amounts in groups in and around the Madhira branches of Andhra Pradesh amounting Rs 3,091,080.
- 4.1.2.** Management after several deliberations with government of Andhra Pradesh and Reserve bank of India is of the opinion that the stalemate on recovery and conducting its business may be fully resolved soon.
- 4.1.3.** The Company has been creating and managing the portfolio on behalf of other financial institutions. The funds so managed, in terms of outstanding constituted 18% of the total funds and revenue therefrom constituted 25% of the total earnings during the year.
- 4.1.4.** Apart from interest payments other direct expenses could not be assessed and allocated between cost of operations relating to 'owned' and 'managed' business.

4.2. Other Information:

- 4.2.1.** This being the first year of operations after take over of portfolio from Swayam Krishi Sangam most of the previous year figures are not comparable; however where necessary previous year figures have been regrouped and rearranged.
- 4.2.2.** The company received no subsidy in form, during the period of its operations.
- 4.2.3.** All loans are rupee denominated and no currency mismatches are expected out of any transactions

4.3. Related Party Disclosures:

With Swayam Krishi Sangam	2006	2005
(1) Gross value of assets acquired	535,670,248	
(2) Interest paid on balances outstanding	1,04,66,148	

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SKS Microfinance Private Limited

5. SEGMENT WISE INCOME AND EXPENDITURE ACCOUNT:

Particulars	Year ended March 31, 2006		
	Micro finance	Micro Insurance	Total
INCOME:			
Income from Operations	90,407,156	18,216,989	108,624,145
Income from Investments	114,685	-	114,685
Other Income	493,508	-	493,508
TOTAL	91,015,349	18,216,989	109,232,338
Percentage	83%	17%	100%
EXPENDITURE:			
Expenses on Operations	28,949,384	13,415,156	42,364,540
Salaries Allowances and Benefits to Staff	27,274,640	508,722	27,783,362
Administrative Expenses	17,790,999	363,082	18,154,081
Amortization of Pre-incorporation and Client Acquisition Cost	5,108,280	-	5,108,280
Provision for Loan Losses	3,091,080	-	3,091,080
Depreciation	2,845,649	58,074	2,903,723
TOTAL	85,060,031	14,345,034	99,405,066
Percentage	86%	14%	100%
Profit Before Tax	5,955,318	3,871,955	9,827,272
Percentage	61%	39%	100%

Cost Allocation: Direct expenses are identified to the extent possible and other Administrative Expenses are allocated based on the Direct costs for each segment.

6. POSITION OF MATURING ASSETS AND LIABILITIES

Assets

SL.NO.	Balance as on	31.03.06	30.09.06	31.03.07	30.09.07	31.03.08
1	Portfolio Owned by the Company	755.85	255.22	43.39		
2	Portfolio Owned by other F.I.s but managed by the company	163.04	121.39			
	Total	918.90	376.61	43.39		

All loans are maturing less than 52 weeks

Liability

A	TERM LOANS					
1	ABN AMRO Bank	178.30	138.30	98.30	58.30	18.30
2	UTI Bank	200.00	166.67	133.33	100.00	66.67
3	HDFC Bank	63.88	45.50	30.97	20.83	12.50
4	CITIBANK	50.00	38.41	26.27	13.62	-
5	Small Industrial Development Bank of India	200.00	173.75	134.03	98.60	63.17
	Total	692.18	562.62	422.90	291.36	160.63
B	MANAGED LOANS					
1	HDFC Bank	80.91	41.76	12.49		
2	ICICI Bank	100.00	75.40	27.40		
	Total	180.91	117.16	39.89		
	Gross Total	873.09	679.78	462.80	291.36	160.63
	GAP	45.80	(303.17)	(419.41)	(291.36)	(160.63)

7. SOME OPERATING RATIOS:

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SKS Microfinance Private Limited

Ratio	Numerator	Denominator	2006	2005
Return on Total share holders Equity	Net Profit after Taxes	Average Total Share holders equity	3.28%	1.22%
Return on Ordinary share holders Equity	Net Profit after Taxes and preference shares dividend	Average Ordinary Share holders equity or net worth	3.28%	1.22%
Return on Average Assets (total)	Total operating Profit	Average total Assets	1.71%	2.22%
Yield on Portfolio (total)	Total operating Income	Average Portfolio	23.77%	N.A.
PAR to assets (total)	Portfolio at Risk	Total Loan assets	1.27%	N.A.
PAR to assets (owned)	Portfolio at Risk	Owned Loan assets	1.54%	N.A.
Sustainability Ratio	Total Income	Total Expenses	109.89%	289.67%
Gross NPA to Advances	Gross NPA	Owned Advances	1.54%	N.A.
Net NPA to Advances	Net NPA	Owned Advances	0.00%	N.A.
Capital Adequacy Ratio			14.64%	N.A.
Business per employee (Rs.)	Total Portfolio	Total Employees	1,135,843	N.A.
Operating Profit per employee (Rs.)	Total Operating Profit	Total Employees	2,147	N.A.
Provision for loan loss to advances Including managed advances)	Total Provision	Advances	1.27%	N.A.
Provision for loan loss to advances only owned assets	Total Provision	Advances	1.54%	N.A.
Provision for loan loss to average outstanding of advances	Total provision	Average Outstanding	2.03%	0.00%

As per our report of even date
for **V. NAGARAJAN & Co.,**
Chartered Accountants

Mumbai
July 22, 2006


(V. NAGARAJAN)
Partner
M. No. 19959



for **SKS MICROFINANCE PVT LIMITED**


Director


(VIKRAM AKULA)
Managing Director

