

# V.NAGARAJAN & CO.,

Chartered Accountants

## AUDITORS' REPORT TO THE MEMBERS OF SWAYAM KRISHI SANGAM.

We have audited the attached Balance Sheet of SWAYAM KRISHI SANGAM, as at March 31, 2006 and the Income and Expenditure account for the period ended on that date annexed thereto. These financial statements are the responsibility of the Society'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.

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. In our opinion, proper books of accounts have been kept by the head office and the branches of the Society visited by us so far appear from our examination of the books.

In our opinion, and to the best of our knowledge, and according to the information given to us, the said accounts read along with the notes and accounting policies forming part of the accounts, give a true and fair view-

- a) In case of the Balance Sheet, of the state of affairs of the above named institution as at March 31, 2006 and
- b) In the case of Income and Expenditure account, for the year ended on that date.

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

Hyderabad,  
July 20, 2006

  
**(V. NAGARAJAN)**  
Partner



# V.NAGARAJAN & CO.,

Chartered Accountants

## AUDITORS' REPORT TO THE MEMBERS OF SWAYAM KRISHI SANGAM.

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

Hyderabad,  
July 20, 2006

  
**(V. NAGARAJAN)**  
Partner



# SKS MICROFINANCE PRIVATE LIMITED

Schedule to the Balance Sheet of a Non-Banking Financial Company as on March 31, 2006

(as required in terms of Paragraph 9BB of Non-Banking Financial Companies Prudential Norms (Reserve Bank) Directions, 1998)

S.No.	Particulars	(Rs. in lakhs)		
	-Other related parties			
2.	Other than related parties	Nil	Nil	Nil
		18	7,358	7,376
	(B) Employees Vehicle and Other Loans			
1.	Related Parties			
	-Subsidiaries	Nil	Nil	Nil
	-Companies in the same group	Nil	Nil	Nil
	-Other related parties	Nil	Nil	Nil
2.	Other than related parties	Nil	Nil	Nil
	<b>Total</b>	12	Nil	12
		<b>30</b>	<b>7,358</b>	<b>7,387</b>

## 7 Investor group-wise classification of all investments (current and long term) in shares and securities (both quoted and unquoted):

Category	Market Value / Break up or fair value or NAV	Book Value (Net of Provisions)
1. Related Parties		
-Subsidiaries	Nil	Nil
-Companies in the same group		
-Other related parties		
2. Other than related parties		
<b>Total</b>	Nil	Nil

## 8 Other information

Particulars		
Gross Non-Performing Assets		
-Related parties	Nil	Nil
-Other Than related parties		
Net Non-Performing Assets	Nil	116
-Related parties	Nil	Nil
-Other Than related parties	Nil	Nil
Assets acquired in satisfaction of debt	Nil	-
	Nil	Nil

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

Mumbai  
July 22, 2006



**(V. NAGARAJAN)**  
Partner

for SKS Microfinance Pvt. Ltd.

Director

Managing Director



**SWAYAM KRISHI SANGAM**

**MICRO FINANCE FUND  
BALANCE SHEET AS ON MARCH 31,**

**2006**

**2005**

**SOURCE OF FUNDS:**

**CAPITAL FUNDS**

**CAPITAL RESERVE**

**LOAN FUNDS:**

Secured

Unsecured

-Subordinated

**TOTAL**

**APPLICATION OF FUNDS:**

Fixed assets (net of Depreciation)

**CURRENT ASSETS, LOANS AND ADVANCES**

Collateral free loans to poor women(Own & managed)  
Less: Managed loans Loan Outstanding held on behalf of other  
Financial Institution

**Net Loans Outstanding (Owned)**

Add: Rescheduled loans

Net Loans

Less: Provision for doubtful debts

Other Current Assets

a) Cash and Bank Balances

b) Advances and Other Amounts Recoverable

**Total Current Assets**

**LESS: CURRENT LIABILITIES AND PROVISIONS**

Current Liabilities

**NET CURRENT ASSETS**

**TOTAL**

Significant Accounting Policies & Notes on Accounts  
Segment wise Income and Expenditure account  
Operating Ratios

1-4

5

6

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



*(Signature)*  
**(V. NAGARAJAN)**  
Partner



for **SWAYAM KRISHI SANGAM**

*(Signature)* *(Signature)*  
**(VIKRAM AKULA)** **(GV RAMANA BABU)**  
Chief Executive Officer Secretary

Place: Hyderabad  
July 20, 2006

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

**SWAYAM KRISHI SANGAM**

**MICRO FINANCE FUND**

**INCOME AND EXPENDITURE ACCOUNT FOR THE PERIOD ENDED ON MARCH 31,**

**2006**

Rs.  
**2005**

**INCOME:**

Financial Services to Poor Women in Self Help Groups

Income From Operations

61,720,625

69,205,678

Income From Investments

183,831

-

Other Income

1,513,516

1,686,539

TOTAL

**63,417,972**

**70,892,217**

**EXPENDITURE:**

Operational Expenses

28,120,570

28,482,445

Salaries, Allowances & Benefit to Staff

11,553,961

17,723,933

Administrative Expenses

6,467,527

10,016,995

Non-Cash Expenditure and Provisions

Provision for loan loss

10,910,980

Total Depreciation

513,477

1,500,623

Less: Transfer to capital reserve

332,954

180,523

(611,151)

TOTAL

**46,322,581**

**68,023,825**

Net operating Surplus/(Loss)

17,095,391

2,868,392

Donations & Grants

Receipts

545,000

Less: Expenditure related to the Grant

332,014

212,986

**APPROPRIATION:**

Net Surplus for the year transferred to Grant Accounts

**17,095,391**

**3,081,378**

*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



*(Signature)*  
**(V. NAGARAJAN)**  
Partner



for **SWAYAM KRISHI SANGAM**

*(Signature)*  
**(VIKRAM AKULA) / RAMANA BABU**  
Chief Executive Officer Secretary

Place: Hyderabad  
July 20, 2006

**SWAYAM KRISHI SANGAM**  
**SWAYAM KRISHI SANGAM**

RS.

CASH FLOW STATEMENT FOR THE YEAR ENDED MARCH 31,	2006	2005
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
Net Profit Before Taxes	17,095,391	3,081,378
<b>Adjustment for Non- Cash Expenditures:</b>		
Provision for Loan Loss	-	10,910,980
Loans Written off Due to Member Death	573,490	3,202,110
Loans Written off Member's Husband Death	1,023,600	-
Loss on sale of Assets	307,367	-
Depreciation	180,523	889,472
<b>Operating Profit Before Changes in Operating Assets</b>	<b>19,180,371</b>	<b>18,083,940</b>
<b>Adjustments for:</b>		
(Increase)/ Decrease in Micro-credit Advances	224,915,010	(112,546,450)
(Increase)/ Decrease in Other Current Assets	(5,233,963)	(1,805,249)
(Decrease)/Increase in Other Liabilities and Provisions	10,914	27,028,848
Payment for Member's Grant	(45,500,000)	-
Other Payment/Transfers from grant account (Net)	(1,563,017)	-
Net cash generated from operating activities Before Tax	191,809,316	(69,238,911)
Income Tax & Fringe benefit tax paid	-	-
<b>Net cash Generated from Operating Activities After Tax</b>	<b>(A) 191,809,317</b>	<b>(69,238,911)</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
Loan Loss Reserve written off(non cash item at the time of business transfer)	(16,824,848)	-
Purchase of Fixed Assets	(949,331)	(3,547,802)
Sale of Fixed Assets	3,320,488	25,859
Reliable value of Computer software on Business Transfer	8,250,000	-
<b>Net cash flow in Investing Activities</b>	<b>(B) (6,203,691)</b>	<b>(3,521,943)</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>		
Receipt of Client Acquisition Cost	39,701,135	-
Capital Grant Received	-	3,621,000
Payment of Saving to Members	-	(1,384,598)
Increase in capital	-	(10,176)
Secured Loan - Receipt during the year	82,000,000	183,800,000
- Repaid during the year	(328,660,533)	(100,064,508)
Client Acquisition Cost & Incorporation exp.	-	-
<b>Net Cash Generated from Financing Activities</b>	<b>(C) (206,959,398)</b>	<b>85,961,718</b>
<b>Net Increase/(Decrease) in Cash and Cash equivalents during the year (A)+(B)+( C)</b>	<b>(21,353,772)</b>	<b>13,200,864</b>
Cash and Cash Equivalents at the beginning of the year	66,385,462	53,184,598
<b>Cash and Cash Equivalents at the end of the year</b>	<b>45,031,690</b>	<b>66,385,462</b>

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

for **SWAYAM KRISHI SANGAM**

Place:Hyderabad  
July 20, 2006



*(Signature)*  
**(V. NAGARAJAN)**  
Partner

*(Signature)* *(Signature)*  
**(VIKRAM AKULA)** **(GV RAMANA BABU)**  
Chief Executive Officer Secretary



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

**SWAYAM KRISHI SANGAM**

<b>GRANT ACCOUNTS</b>		<b>Rs</b>	
<b>BALANCE SHEET AS ON MARCH 31,</b>		<b>2006</b>	<b>2005</b>
<b>SOURCES OF FUNDS:</b>			
	<i>Sch</i>		
<b>CORPUS FUND</b>		240	240
<b>RESERVE AND SURPLUS</b>			
Income and Expenditure Account		17,807,848	3,303,012
<b>MICROFINANCE FUND</b>		(14,313,880)	(423,571)
<b>TOTAL</b>		<b>3,494,208</b>	<b>2,879,681</b>
<b>APPLICATION OF FUNDS:</b>			
<b>FIXED ASSETS:</b>			
	<b>1</b>		
Gross Block		4,701,626	4,054,316
Less: Depreciation		1,907,994	1,607,710
<b>Net Block</b>		<b>2,793,632</b>	<b>2,446,606</b>
<b>CURRENT ASSETS, LOANS AND ADVANCES</b>			
Cash and Bank Balances		596,797	269,891
Advances & Other Amounts Recoverable		161,537	183,071
<b>Total Current Assets</b>		<b>758,334</b>	<b>452,962</b>
<b>CURRENT LIABILITIES AND PROVISIONS</b>			
Current Liabilities		57,758	19,887
<b>NET CURRENT ASSETS</b>		<b>700,576</b>	<b>433,075</b>
<b>TOTAL</b>		<b>3,494,208</b>	<b>2,879,681</b>

Accounting Policies and Notes on Accounts  
As per our report of even date

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



*(Signature)*  
**(V. NAGARAJAN)**  
Partner



for **SWAYAM KRISHI SANGAM**

*(Signature)*  
**(GV RAMANA BABU)**  
Secretary

*(Signature)*  
**(VIKRAM AKULA)**  
Chief Executive Officer

Hyderabad,  
Dated: July 20, 2006

**SWAYAM KRISHI SANGAM**

<b>GRANT ACCOUNTS</b>	<b>2006</b>	<b>Rs 2005</b>
<b>INCOME &amp; EXPENDITURE ACCOUNT FOR THE YEAR ENDING ON MARCH 31,</b>		
<b>INCOME</b>		
<b>Donations and Grants from:</b>		
<b>Foreign Sources</b>		
SKS Foundation	448,500	2,512,294
CGAP Award	216,900	-
<b>Government of Andhra Pradesh</b>		
DPEP/SSA/L2R	320,627	192,000
<b>Others Income:</b>		
Other Income & Donations	85,416	18,075
Community Contribution	-	45,670
<b>TOTAL</b>	<b>1,071,443</b>	<b>2,768,039</b>
<b>EXPENDITURE</b>		
<b>Grant to Members for income generation projects</b>	<b>45,500,000</b>	<b>-</b>
<b>Direct Program Support Costs:</b>		
Direct Programme Expenditure - Balwadi / Creches	464,403	420,749
Allocated expenses for Education Program	-	144,000
<b>Other Costs</b>		
Salaries, Allowances and Staff benefits	892,950	1,282,169
Administrative Expenses	293,742	605,768
Travelling Expenses(Including Vehicle Expenses)	68,554	30,675
Depreciation	300,284	174,158
<b>TOTAL</b>	<b>47,519,933</b>	<b>2,657,519</b>
<b>APPROPRIATION</b>		
<b>Net (Deficit)/Surplus for the Current year</b>	<b>(46,448,490)</b>	<b>110,520</b>
Excess of Income/(Expenditure) in Micro Finance Fund	17,095,391	3,081,378
Other Adjustments made in the Capital Fund of Micro Finance Fund	43,857,935	-
Surplus brought forward from previous year	3,303,012	111,114
<b>Balance carried over to Balance Sheet</b>	<b>17,807,848</b>	<b>3,303,012</b>

**Accounting Policies and Notes on Accounts**  
As per our report of even date

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

Hyderabad,  
Dated: July 20, 2006



*(Signature)*  
**(V. NAGARAJAN)**  
Partner

for **SWAYAM KRISHI SANGAM**



*(Signature)* *(Signature)*  
**(GV RAMANA BABU)** **(VIKRAM AKULA)**  
Secretary Chief Executive Officer

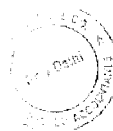
**SWAYAM KRISHI SANGAM**  
**RECEIPTS AND PAYMENTS ACCOUNT FOR THE YEAR ENDED MARCH 31, 2006**

Rs

PARTICULARS	Grants			Microfinance amount	Consolidated
	Foreign Funds	India Funds	Total		
<b>Opening Balances Represented by:</b>					
Cash & Bank Balance	6,911	262,980	269,891	66,385,462	66,655,353
Other Current Assets/Advances	183,071	-	183,071	5,166,278	5,349,349
Less: Current Liabilities	19,887	-	19,887	29,284,220	29,304,107
<b>Total</b>	<b>170,095</b>	<b>262,980</b>	<b>433,075</b>	<b>42,267,520</b>	<b>42,700,595</b>
<b>RECEIPTS/SOURCES OF FUNDS</b>					
<b>Revenue Receipts:</b>					
SKS Foundation - USA	448,500	-	448,500	-	448,500
CGAP	216,900	-	216,900	-	216,900
Income from Investments	-	-	-	183,831	183,831
Individual Donations	-	10,100	10,100	-	10,100
DPEP/SSA - Government of Andhra Pradesh	-	210,085	210,085	-	210,085
Learning to Rural Program(L2R)	-	110,542	110,542	-	110,542
Income From Operations	-	-	-	61,720,625	61,720,625
Interest Received on Loans(Managed for others)	-	-	-	-	-
Group Mentoring, Monitoring and Meeting Charges	-	-	-	-	-
Other Income	-	75,316	75,316	1,513,516	1,588,832
<b>Capital Receipts:</b>					
Loan availed from Financial Institutions/Banks	-	-	-	82,000,000	82,000,000
Increase/ (Decrease) in Collateral free loans to poor women tfd to MFPL	-	-	-	226,512,100	226,512,100
Receipt of Client Acquisition Cost	-	-	-	39,701,135	39,701,135
Reliable value of Computer software on Business Tr	-	-	-	8,250,000	8,250,000
Sale of Fixed Assets & Tff to MFPL	-	2,000	2,000	3,322,488	3,322,488
Fund Transfer from MFI Accounts	-	47,063,017	47,063,017	-	47,063,017
<b>Total Receipts during the year</b>	<b>665,400</b>	<b>47,471,060</b>	<b>48,136,460</b>	<b>423,201,695</b>	<b>471,338,155</b>
<b>TOTAL RECEIPTS (Including opening balance)</b>	<b>835,495</b>	<b>47,734,040</b>	<b>48,569,535</b>	<b>465,469,215</b>	<b>514,038,750</b>
<b>PAYMENTS/APPLICATION OF FUNDS</b>					
<b>Revenue Expenses:</b>					
Grant to Members	-	45,500,000	45,500,000	-	45,500,000
Operational Expenses	-	-	-	28,120,570	28,120,570
Direct Program/Project Expenses	-	464,403	464,403	-	464,403
Salaries, Allowances and Staff Benefits	259,405	633,545	892,950	11,553,961	12,446,911
Administrative Expenses (including Travelling exp.)	2,124	360,172	362,296	6,160,160	6,522,456
<b>Capital Expenses:</b>					
Fund Transfer to Grant Accounts	-	-	-	47,063,017	47,063,017
Repayment of Commercial Borrowings	-	-	-	328,660,533	328,660,533
Purchase of Fixed Assets	-	649,310	649,310	949,330	1,598,640
Reversal of Loan Loss Reserve on a/c of Business Transfer	-	-	-	16,824,848	16,824,848
<b>TOTAL PAYMENTS</b>	<b>261,529</b>	<b>47,607,430</b>	<b>47,868,959</b>	<b>439,332,419</b>	<b>487,201,378</b>
<b>CLOSING BALANCES</b>	<b>573,966</b>	<b>126,610</b>	<b>700,576</b>	<b>26,136,796</b>	<b>26,837,372</b>
<b>Closing Balance Represented by:</b>					
Cash and Bank Balances	470,187	126,610	596,797	45,031,690	45,628,487
Add:Advances & Deposits	161,537	-	161,537	10,400,240	10,561,777
Less:Current Liabilities	57,758	-	57,758	29,295,134	29,352,892
<b>Total Funds Available</b>	<b>573,966</b>	<b>126,610</b>	<b>700,576</b>	<b>26,136,796</b>	<b>26,837,372</b>

Hyderabad,  
Dated: July 20, 2006

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



*(Signature)*  
**(V.NAGARAJAN)**  
Partner



for SWAYAM KRISHI SANGAM  
*(Signature)*  
**(GV RAMANA BABU)**  
Secretary

*(Signature)*  
**(VIKRAM AKULA)**  
Chief Executive Officer

**SWAYAM KRISHI SANGAM**

**GRANT ACCOUNTS  
SCHEDULE 1: FIXED ASSETS**

Particulars	Gross Block		Depreciation		Net Block		Rate of Depreciation		
	as on 01.04.05	Additions up to 30.09.2005 from Oct 01, September 2005	Tranf./Deletions as on 31.03.06	Up to 31.03.05	For the Period	As on 31.03.06		As on 31.03.06	As on 31.03.05
<b>FIXED ASSETS</b>									
Land	407,436	-	-	-	-	-	407,436	407,436	0%
Buildings	2,046,156	105,385	-	329,019	91,126	420,145	1,731,396	1,717,137	5%
Motor Vehicle	42,318	-	-	26,021	2,445	28,465	13,853	16,297	15%
Furniture And Fixture	369,034	-	2,000	136,111	23,092	159,203	207,831	232,923	10%
Office Equipment	168,099	-	-	130,527	5,636	136,163	31,936	37,572	15%
Computers and Peripherals	883,863	543,925	-	862,703	175,874	1,038,576	389,212	21,160	60%
Air Conditioners	43,800	-	-	35,716	1,213	36,928	6,872	8,084	15%
Borewell	32,490	-	-	26,493	900	27,393	5,097	5,997	15%
Generators	61,120	-	-	61,120	-	61,120	-	-	15%
<b>TOTAL</b>	<b>4,054,316</b>	<b>105,385</b>	<b>2,000</b>	<b>1,607,710</b>	<b>300,284</b>	<b>1,907,994</b>	<b>2,793,632</b>	<b>2,446,606</b>	
<b>Previous year figure</b>	<b>3,992,568</b>	<b>63,748</b>	<b>2,000</b>	<b>1,433,552</b>	<b>174,158</b>	<b>1,607,710</b>	<b>2,446,606</b>	<b>2,559,016</b>	

Hyderabad,  
Dated: July 20, 2006

As per our report of even date

for V. NAGARAJAN & Co.,  
Chartered Accountants  
*(Signature)*  
(V. NAGARAJAN)  
Partner



for SWAYAM KRISHI SANGAM

*(Signature)*

(GV RAMANA BABU)  
Secretary  
(VIKRAM AKULA)  
Chief Executive Officer

**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 society 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. Grants and Donations:**

1.3.1. Revenue Grants and donations relating to micro finance operations are recognized as income for current period in the financial statements of Micro Finance Fund. Capital Grants, for assets acquisition are recognized as Capital Reserve, under the head Donated Equity. Depreciation on such assets are reduced from the Capital Reserve {Refer to Policy g (iv)}

**1.4. Classification of Loan Portfolio:**

1.4.1. 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.

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

**1.5. Provision for Loan Losses:**

1.5.1. No provision is made 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.

1.5.2. All rescheduled loans are provided for in full.

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

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

**1.6. Write off of Loans:**

1.6.1. 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.

**1.7. Fixed Assets:**

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

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

1.7.3. In respect of additions, the depreciation is provided on a half yearly basis, during which half year in which assets are put to use.

1.7.4. In respect of assets acquired out of the Capital Grant, depreciation calculated as above, is charged off to the Grant so capitalized.

# Swayam Krishi Sangam-Micro Finance Fund

## 1.8. Employee Benefits:

- 1.8.1. Contribution to Provident Fund is accounted on actual liability basis and paid.  
1.8.2. Leave encashment to employees also stands fully provided for.

## 1.9. Foreign Currency Transactions:

- 1.9.1. All transactions in the foreign currency are recognized at the exchange rate prevailing on the date of transactions.  
1.9.2. 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.

## 2. NOTES ON BUSINESS ACTIVITIES:

**2.1.** In Earlier years, the Society has instituted the Micro Finance Fund 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, savings 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. During the Financial year 2005-06, the Society has transferred the Micro Finance operations to SKS Micro Finance Private Limited for a consideration inclusive of Client Acquisition cost of Rs. 39,701,135. The total consideration of the entire operations transferred was agreed upon at Rs. 535,670,248/- as detailed below

2.1.1. The summary of Business transfer transactions is as follows:

<b>SUMMARY OF BUSINESS TRANSFER (SWAYAM KRISHI SANGAM TO SKS MICRO FINANCE (P) LTD.) 2005-2006</b>					
Particulars	GROSS VALUE OF BUSINESS TRANSFERRED / 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)
<b>(I) ON AUGUST 31, 2005</b>					
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
<b>TOTAL</b>	<b>481,326,769</b>	<b>16,824,848</b>	<b>-</b>	<b>194,140,610</b>	<b>270,361,311</b>
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
<b>TOTAL VALUE OF THE BUSINESS AS ON 31.08.05</b>	<b>535,670,248</b>	<b>19,105,134</b>	<b>267,209,137</b>	<b>194,140,610</b>	<b>55,215,367</b>

## 3. NOTES TO ACCOUNTS:

### 3.1. Contingent Liabilities:

- 3.1.1. Capital commitments in progress: Nil  
3.1.2. Claims not acknowledged as debts: Nil  
3.1.3. Guarantees provided by the society for the management of portfolio of other financial institutions.

# Swayam Krishi Sangam-Micro Finance Fund

## 3.2. Books and Records:

3.2.1. The society maintains a detailed Management Information System for Loan Portfolio and book keeping, including all its branches, printing of sub ledger accounts of all borrowers. The efforts have been instituted to fool proof back up system and viewing / printing of the same through computing devices.

## 3.3. CAPITAL FUND : Rs. 14,313,880

3.3.1. The entire capital fund is provided by Swayam Krishi Sangam out of grant support for implementation of its poverty reduction program.

	2006	2005
Opening Balance	423,571	(2,647,632)
Payment for Member's Grant	(45,500,000)	
Other Payment/Transfers from grant account (Net)	(1,563,017)	(10,176)
<i>Add: Receipt on Transfer of Portfolio:</i>		
(i) Client Acquisition cost	39,701,135	
(ii) Relisable value of Computer software and systems	8,250,000	
(iii) Assets purchased out of SIDBI grant (on written down value)	1,820,668	
(iv) Loan Loss Reserve(for current the year)	(5,913,868)	
Net Profit/(Loss) for the Year	17,095,391	3,081,378
<b>Closing Balance</b>	<b>14,313,880</b>	<b>423,571</b>

## 3.4. RESERVE AND SURPLUS: Rs. 856,227/-

	2006	2005
<i>A: Capital Reserve</i>		
Opening Balance	3,009,849	-
Add: Capital Grant during the year	-	3,621,000
Less: Depreciation for the year	332,954	611,151
Less: Assets purchased out of SIDBI grant (on written down value)	1,820,668	-
<b>Closing Balance</b>	<b>8,56,227</b>	<b>3,009,849</b>

## 3.5. LOAN FUNDS:

	Average Loan Outstanding*	Balance as on 31.03.2006	Balance as on 31.03.2005
<b>a) For onward lending Owned Loans – Secured Loans From</b>			
HSBC	17,003,204	7,307,689	--
Friends of Womens' World Banking	88,54,166	-----	18,482,142
HDFC Bank Limited	20,944,688	-----	21,702,500
UTI Bank Limited	5,039,583	-----	10,250,000
Small Industrial Development Bank of India	125,480,431	-----	125,533,580
Small Industries Development Bank of India – Transformation Loan	9,583,333	-----	10,000,000
ABN Amro Bank	29,875,000	-----	45,000,000
Citi Bank	6,708,333	-----	23,000,000
Total	<b>223,488,738</b>	<b>7,307,689</b>	<b>253,968,222</b>
<b>b) For onward lending Owned Loans Unsecured Loans from</b>			
Grameen Foundation, USA Loan – I	2,439,000	2,439,000	2,439,000
Grameen Foundation, USA Loan – II	1,220,000	1,220,000	1,220,000
Total	<b>3,659,000</b>	<b>3,659,000</b>	<b>3,659,000</b>
1.No amount was overdue in respect of any loans during the year			
<b>c) For Micro Finance Loans - Managed Loans on behalf of other financial institutions - From**</b>			
ICICI Bank Phase I	8,046,075	-----	38,180,340
ICICI Bank Phase II	116,405,561	67,238,260	73,040,560
ICICI Bank Phase III	46,453,259	55,325,460	-
HDFC Bank Partnership Phase I	9,861,112	-----	20,000,000
Total	<b>180,766,007</b>	<b>122,563,720</b>	<b>131,220,900</b>
<b>Grand Total</b>	<b>407,913,745</b>	<b>133,530,409</b>	<b>388,848,122</b>
* 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.			

## Swayam Krishi Sangam-Micro Finance Fund

### 3.6. FIXED ASSETS : NIL

A. GENERAL ASSETS : NIL										
Particulars	GROSS BLOCK				DEPRECIATION				WRITTEN DOWN VALUE	
	As on 01.04. 2005	Additions during the year	Sale/Trsf. during the year	As on 31.03. 2006	Up to 31.03. 2005	For the Year	Depreciation written back	Total	As on 31.03. 2006	As on 31.03. 2005
Furniture and Fixtures	482,910	780,733	1,263,643	-	90,987	27,082	118,069	-	-	391,923
Computers	1,643,763	41,128	1,684,891	-	1,107,982	143,498	1,251,480	-	-	535,781
Office Equipment	85,442	80,083	165,525	-	38,098	4,713	42,811	-	-	47,344
Vehicles	87,026		87,026	-	62,514	2,043	64,557	-	-	24,512
Generators	109,046		109,046	-	22,840	3,188	26,028	-	-	86,206
<b>Total</b>	<b>2,408,187</b>	<b>901,944</b>	<b>3,310,131</b>	<b>-</b>	<b>1,322,421</b>	<b>180,524</b>	<b>1,502,945</b>	<b>-</b>	<b>-</b>	<b>1,085,766</b>
B. Fixed ASSETS PURCHASED OUT OF CAPITAL GRANTS: Rs. NIL										
Furniture and Fixtures	602,700		602,700	-	45,203	56,122	101,325	-	-	557,498
Computers	1,810,430	47,387	1,857,817	-	543,129	249,219	792,348	-	-	1,267,301
Office Equipment	60,840		60,840	-	4,563	6,704	11,267	-	-	56,277
Photocopier	224,000		224,000	-	16,800	17,616	34,416	-	-	207,200
Generators	19,417		19,417	-	1,456	3,294	4,750	-	-	17,961
<b>Total</b>	<b>2,717,387</b>	<b>47,387</b>	<b>2,764,774</b>	<b>-</b>	<b>611,151</b>	<b>332,954</b>	<b>944,105</b>	<b>-</b>	<b>-</b>	<b>2,106,236</b>
<b>GRAND TOTAL</b>	<b>5,125,574</b>	<b>949,331</b>	<b>6,074,905</b>	<b>-</b>	<b>1,933,572</b>	<b>513,478</b>	<b>2,447,050</b>	<b>-</b>	<b>-</b>	<b>3,192,002</b>

### 3.7. COLATERAL FREE LOAN TO WOMEN IN SEL HELP GROUPS: NIL

3.7.1. During the year total portfolio have been sold out to SKS Micro Finance Private Limited.

Particulars	2006	2005
a) Own Loans	-----	227,101,940
b) Managed Loans	-----	106,049,100
c) Rescheduled Loans	-----	240,000
Less: Advance Installments	-----	829,840
<b>Total</b>	<b>-----</b>	<b>332,561,200</b>

3.7.2. Provision for loan losses amounting Rs. 59,13,868 has been adjusted in consideration value of assets transferred to SKS Micro Finance Private Limited. Write off of bad debts are independent of provision for loan loss allowance.

### 3.7. CASH AND BANK BALANCES: Rs. 45,031,690/-

Particulars	2006	2005
a) Cash in Hand	-	3,339,688
b) Bank Balances in Scheduled Banks:		
In Current Accounts and Savings Bank Accounts	21,088,986	43,250,830
In Fixed Deposit Accounts:		
- Pledged against borrowings		
With HDFC Bank Limited (as security deposit)	2,818,387	2,680,000
Add: Interest Accrued there on	179,799	175,585
With SIDBI (as security deposit) *	18,920,000	15,920,000
Add: Interest Accrued there on	2,024,518	1,019,359
<b>Total</b>	<b>45,031,690</b>	<b>66,385,462</b>

\* Since pledge has been removed upon closure of loans

# Swayam Krishi Sangam-Micro Finance Fund

### 3.8. ADVANCES AND OTHER AMOUNTS RECOVERABLE: Rs. 10,400,240/-

Particulars	2006	2005
Recoverable from SKS Microfinance(P)Ltd. (Recoverable on a/c of Term Loans Rs. 10,966,689/- (Payable on a/c of Business Transfer a/c Rs. 4,035,334/-	6,931,355	
Staff Vehicle and other Loans		333,327
Advances and other amounts recoverable in cash or in kind or for value to be received	959,859	3,776,128
Interest Accrued but not due	-	877,021
Tax deducted at source	2,509,026	179,802
<b>Total</b>	<b>10,400,240</b>	<b>5,166,278</b>

### 3.9. CURRENT LIABILITIES & PROVISIONS: Rs. 29,295,134/-

Particulars	2006	2005
Statutory Dues	385,375	388,158
Payment Due to Financial Institutions/Banks- ICICI on Managed Loans Rs. 122,563,720/- Less: Recoverable from SKS Microfinance(P)Ltd. Rs. 94,849,983/-	27,713,737	25,171,800
Other Liabilities	1,196,022	3,724,262
<b>Total</b>	<b>29,295,134</b>	<b>29,284,220</b>

### 3.10. INCOME FROM OPERATIONS: Rs. 61,720,625/-

Particulars	2006	2005
<b>(A) FROM LOAN BUSINESS:</b>		
Interest income on owned loans (net of interest derecognised Rs. Nil)	36,309,657	50,959,154
Income on owned loans from SKS Micro Finance (P) Ltd. (includes TDS Rs.1,174,302)	10,466,148	-
Interest Income on Managed loans Rs. 7,535,751 Income on managed loans from SKS Micro Finance (P) Ltd. (includes TDS Rs.1,051,174) Rs. 9,368,751		8,069,645
Total Income on Managed Loans Rs.16,904,502 Interest Paid on Managed loans Rs(16,904,502)		--
Admission, Pass Book Fee	809,184	1,363,422
Loan Fee - Owned Loans	4,582,760	6,520,120
Adm. Charges for Technical Asst. - Managed Loans	2,398,183	5,890,575
<b>Total</b>	<b>54,565,932</b>	<b>62,602,908</b>
<b>(B) FROM INSURANCE BUSINESS:</b>		
Insurance Claim Receipts	2,227,780	--
Insurance Premium (Death Relief fee)	4,579,500	6,602,770
Commission Received - On Insurance Premium Paid	347,413	--
<b>Total</b>	<b>7,154,693</b>	<b>6,602,770</b>
<b>Total Income From Operations</b>	<b>61,720,625</b>	<b>69,205,678</b>

### 3.11. INCOME FROM INVESTMENTS: Rs. 183,831/-

Particulars	2006	2005
Profit On Redemption of Mutual Funds units	183,831	-
<b>Total</b>	<b>183,831</b>	<b>-</b>

### 3.12. OTHER INCOME: Rs. 1,513,516/-

Particulars	2006	2005
Interest on Bank deposits (includes TDS amounting Rs. 133,378/-)	1,291,533	1,595,656
Other Income	221,983	90,883
<b>Total</b>	<b>1,513,516</b>	<b>1,686,539</b>

# Swayam Krishi Sangam-Micro Finance Fund

### 3.13. OPERATIONAL EXPENSES : Rs. 28,120,570/-

Particulars	2006	2005
<b>(A) INTEREST &amp; FINANCIAL CHARGES ON BORROWED FUND</b>		
Interest paid on Fund Borrowed by the Company	22,668,374	23,804,673
Loan Processing Fee & Bank Charges on Borrowed Fund	745,720	1,475,662
Total	<b>23,414,094</b>	<b>25,280,335</b>
<b>(B) EXPENSES ON INSURANCE BUSINESS:</b>		
Loans Written off Due to Member Death	573,490	3,202,110
Loans Written off Member's Husband Death	1,023,600	-
Premium Paid to Insurance Agency	3,109,386	-
Total	<b>4,706,476</b>	<b>3,202,110</b>
<b>Total Operational Expenses</b>	<b>28,120,570</b>	<b>28,482,445</b>

### 3.14. SALARIES ALLOWANCES AND BENEFIT TO STAFF: Rs. 11,553,961/-

Particulars	2006	2005
Staff Salaries, Incentives	10,685,266	15,551,507
Provident Fund and other Contributions	417,022	1,616,004
Staff Welfare Expenses	451,673	556,422
Total	<b>11,553,961</b>	<b>17,723,933</b>

### 3.15. ADMINISTRATIVE EXPENSES: Rs. 6,467,527/-

Particulars	2006	2005
Traveling Expenses	2,486,504	4,097,397
Printing and Stationery & Computer Maintenance	726,789	1,556,871
Rent, Rates & Taxes	558,682	1,007,944
Office Expenses, Maintenance & Utilities	931,216	1,300,204
Professional & Consultancy Charges	1,269,909	1,985,371
Other Miscellaneous Exp.	486,065	207,683
Adj. Expenses Incurred/ (Allocated) to other Projects	8,362	(138,475)
Total	<b>6,467,527</b>	<b>10,016,995</b>

## 4. SUPPLEMENTARY INFORMATION:

### 4.1. Auditors' Remuneration:

Particulars	2006	2005
Audit fee including service tax	3,92,840	479,370
Taxation and other consulting services	1,12,240	10,000
Traveling and other out of pocket expense	34,029	9,624
Total	<b>5,39,109</b>	<b>498,994</b>

### 4.2. Managerial Remuneration:

Remuneration to Chief Executive Officer	1,30,000	1,311,100
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### 4.3. Earnings and Outgo In Foreign Currency:

Particulars	2006	2005
<i>Expenditure:</i>		
Travel and Related expenses	NIL	231,008
Consultation Charges	NIL	NIL
Principal Repayment of Loans	NIL	190,557,628
Interest and Other Financial Charges	24,400	24,400

### 4.4. Previous period figures have been regrouped and rearranged wherever necessary.

# Swayam Krishi Sangam - Microfinance Fund

## 5. SEGMENT WISE INCOME AND EXPENDITURE ACCOUNT:

Particulars	Year ended March 31, 2006		
	Micro Insurance	Micro Insurance	Total
<b>INCOME:</b>			
Income from Operations	54,565,932	7,154,693	61,720,625
Income from Investments	183,831	-	183,831
Other Income	1,513,516	-	1,513,516
<b>TOTAL</b>	<b>56,263,279</b>	<b>7,154,693</b>	<b>63,417,972</b>
<b>Percentage</b>	<b>89%</b>	<b>11%</b>	<b>100%</b>
<b>EXPENDITURE:</b>			
Operational Expenses	23,414,094	4,706,476	28,120,570
Salaries Allowances and Benefits to Staff	11,406,256	147,705	11,553,961
Administrative Expenses	6,370,514	97,013	6,467,527
Depreciation	177,815	2,708	180,523
<b>TOTAL</b>	<b>41,368,679</b>	<b>4,953,902</b>	<b>46,322,581</b>
<b>Percentage</b>	<b>89%</b>	<b>11%</b>	<b>100%</b>
<b>Profit Before Tax</b>	<b>14,894,600</b>	<b>2,200,791</b>	<b>17,095,391</b>
<b>Percentage</b>	<b>87%</b>	<b>13%</b>	<b>100%</b>

## 6. OPERATING RATIOS:

Description of Ratio	Nominator	Denominator	Ratio	
			2006	2005
Financial Sustainability	Total Income	Total Expenses	136.90%	103.7%
Return on Assets	Total operating Profit	Average Assets	9.59%	1.0%
Yield on Portfolio	Total operating income	Average Portfolio	56.00%	43.8%
PAR to Total assets	Portfolio at Risk	Total Loan assets	N.A.	4.72%
Provision for loan loss to advances (Including managed advances)	Total Provision	Advances	N.A.	3.3%
Provision for loan loss to advances (Only owned advances)	Total Provision	Advances	N.A.	4.8%
Provision for loan loss to average outstanding of advances	Total provision	Average Outstanding	N.A.	6.6%

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

for **SWAYAM KRISHI SANGAM**

Hyderabad  
July 20, 2006



**(V. NAGARAJAN)**  
Partner

*(Signature)*

**(GV RAMANA BABU)**  
Secretary

*(Signature)*

**(VIKRAM AKULA)**  
Chief Executive Officer



