

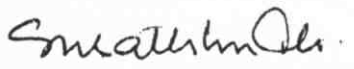
Auditors' Report


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, 2009 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 Act;
 - v. On the basis of the written representations received from the directors, as on March 31, 2009, and taken on record by the Board of Directors, we report that none of the directors is disqualified as on March 31, 2009 from being appointed as a director in terms of clause (g) of sub-section (1) of section 274 of the Act;

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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 Act 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, 2009;
 - 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.: 48749

Mumbai


Date: 1. 6 MAY 2009

**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) All fixed assets have not been physically verified by the management during the year but there is a regular programme of verification which, in our opinion, is reasonable having regard to the size of the Company and the nature of its assets. As informed, no material discrepancies were noticed on such verification.
- (c) There was no substantial 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) As informed, the Company has not granted any loans, secured or unsecured to companies, firms or other parties covered in the register maintained under section 301 of the Companies Act, 1956.
- (b) 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 rendering 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 of the Act have been so entered.
- (b) In respect of transactions made in pursuance of such contracts or arrangements exceeding value of Rupees five lakhs entered into during the financial year, because of the specialized nature of the items involved and absence of any comparable prices, we are unable to comment whether the transactions were made at prevailing market prices at the relevant time.
- (vi) The Company has not accepted any deposits from the public.
- (vii) In our opinion, the Company has an internal audit system 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.

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Auditors' Report
SKS Microfinance Private Limited


- (ix)(a) Undisputed statutory dues including provident fund, investor education and protection fund, employees' state insurance, income-tax, sales-tax, wealth-tax, service-tax, customs duty, excise duty and cess have generally been regularly deposited with the appropriate authorities, *except in case of dues of employees' profession tax which have not been regularly deposited with the appropriate authorities though the delays in deposit have not been serious.*
- (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 no accumulated losses at the end of the financial year and it has not incurred cash losses in the current and 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, bank 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 Order are not applicable to the Company.
- (xiv) In our opinion, the Company is not dealing in or trading in shares, securities, debentures and other investments. Accordingly, the provisions of clause 4(xiv) of the Order are not applicable to the Company.
- (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 institution.
- (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.12,677,820,861 of which Rs.12,677,820,861 was outstanding at the end of the year.
- (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.
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S.R. BATLIBOI & CO.

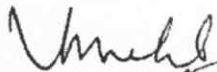
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SKS Microfinance Private Limited

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- (xix) According to the information and explanations given to us, during the year covered by our audit report, the Company had issued 2,500 debentures of Rs. 100,000 each. The Company has not created any security charge in respect of debentures issued. However, the time for such creation security charge has not elapsed as on the date of this report.
- (xx) The Company has not made any public issues during the year.
- (xxi) Based upon the audit procedures performed for the purpose of reporting the true and fair view of the financial statements and as per the information and explanations given by the management, we report that no material frauds on or by the Company were noticed / reported during the year although there were some instances of frauds on the Company by its employees as given below:
- (a) *Thirty-three cases of cash embezzlements by the employees of the Company aggregating to Rs.7,079,683 were reported during the year. 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 nine of these employees are absconding. The outstanding loan balance (net of recovery) aggregating to Rs.5,377,428 has been written off;*
- (b) *Eighteen cases of loans given to non-existent borrowers on the basis of fictitious documentation created by the employees of the Company aggregating to Rs.5,645,657 were reported during the year. The services of all such employees involved have been terminated and the Company is in the process of taking legal action. The outstanding loan balance (net of recovery) aggregating to Rs.4,253,379 has been written off; and*
- (c) *One case of fraud by an employee of the Company in collusion with vendors has been reported during the year. The aggregate value of transactions is Rs.9,610,755 (including Rs.3,051,510 in respect of the previous year). The services of the said employee and the arrangements with the said vendors have been terminated. The Company has initiated legal action and criminal proceedings against such employee. The financial effect of the loss incurred by the Company is not currently quantifiable.*



For S.R. BATLIBOI & Co.
Chartered Accountants



per Viren H. Mehta
Partner
Membership No.: 48749

Mumbai

Date: 6 MAY 2009

SKS MICROFINANCE PRIVATE LIMITED
Balance Sheet as at March 31, 2009

	Schedules	March 31, 2009	March 31, 2008
		Rupees	Rupees
SOURCES OF FUNDS			
Shareholders' Funds			
Share Capital	1	570,566,520	443,316,520
Stock Options Outstanding	1A	19,293,235	2,569,412
Reserves and Surplus	2	6,058,634,113	1,679,472,069
Loan Funds			
Secured Loans	3A	19,473,781,711	7,898,449,915
Unsecured Loans	3B	394,371,918	-
TOTAL		26,516,647,497	10,023,807,916
APPLICATION OF FUNDS			
Fixed Assets			
Gross Block			
Less: Accumulated Depreciation	4A	250,994,853	123,289,326
Net Block		126,862,639	48,355,901
Capital Work in Progress Including Capital Advances		124,132,164	74,933,425
		69,102	3,996,977
		124,201,266	78,930,402
Intangible Assets			
Gross Block			
Less: Accumulated Amortization	4B	121,236,871	100,003,354
Net Block		65,551,244	35,657,550
Capital Work in Progress Including Capital Advances		55,685,627	64,345,804
		9,836,800	1,675,000
		65,522,427	66,020,804
Deferred Tax Assets (Net)	5	42,403,359	9,389,663
Current Assets, Loans and Advances			
Cash and Bank Balances	6	15,470,212,491	2,752,275,237
Other Current Assets	7	317,205,395	44,302,133
Loans and Advances	8	14,369,462,869	7,936,529,420
		30,156,880,755	10,733,106,790
Less: Current Liabilities and Provisions			
Current Liabilities	9	3,721,294,681	769,438,769
Provisions	10	151,065,629	94,200,974
		3,872,360,310	863,639,743
Net Current Assets		26,284,520,445	9,869,467,047
TOTAL		26,516,647,497	10,023,807,916

Notes to Accounts

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


As per our report of even date

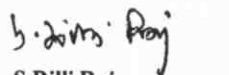

For S. R. Batliboi & Co.
Chartered Accountants

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



per Viren H. Mehta
Partner
Membership No.048749
Place:
Date: 6 MAY 2009


Vikram Akula
Chairman


S.Dilli Raj
Chief Financial Officer


Suresh Gurumani
Managing Director


Manish Kumar
Company Secretary



