

Auditors' Report

To
The Members of SKS Microfinance Limited

1. We have audited the attached Balance Sheet of SKS Microfinance Limited ('the Company') as at March 31, 2011 and also the Profit and Loss 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.
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. Without qualifying our opinion, we draw attention to Note 2(s) of Schedule 20 to the financial statements, as regards recent regulatory matters affecting the Company, and consequent implications thereof on these financial statements.
5. 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, Profit and Loss Account and Cash Flow Statement dealt with by this report are in agreement with the books of account;
 - iv. In our opinion, the Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report comply with the accounting standards referred to in sub-section (3C) of section 211 of the Act;
 - v. On the basis of the written representations received from the directors, as on March 31, 2011, and taken on record by the Board of Directors, we report that none of the directors is disqualified as on March 31, 2011 from being appointed as a director in terms of clause (g) of sub-section (1) of section 274 of the Act.



S.R. BATLIBOI & CO.

Chartered Accountants

Auditors' Report
SKS Microfinance Limited
Year Ended March 31, 2011

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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, 2011;
 - 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 the Cash Flow Statement, of the cash flows for the year ended on that date.



For S. R. Batliboi & Co.
Firm registration number: 301003E
Chartered Accountants




per Viren H. Mehta
Partner
Membership No.: 048749

Mumbai
May 6, 2011

**Annexure referred to in paragraph 3 of our report of even date
Re: SKS Microfinance 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. 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 inventory. Therefore the provisions of clause 4(ii) of the Order are not applicable to the Company.
- (iii) (a) 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 Act. Therefore, the provision of clause 4 (iii)(a) to (d) of the Order are not applicable to the Company.
- (b) 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 Act. Therefore, the provision of clause 4 (iii)(e) to (g) of the Order are not applicable to the Company.
- (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. During the course of our audit, we have not observed any continuing failure to correct major weakness in internal control system of the Company.
- (v) According to the information and explanations provided by the management, we are of the opinion that there are no 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.
- (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 Act for the products of the Company.
- (ix) (a) The Company is generally regular in depositing with appropriate authorities 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, cess and other material statutory dues applicable to it.



The rules relating to amount of cess payable by the Company under Section 441A of the Act has not been notified by the Central Government of India upto the reporting date, and accordingly, as at the reporting date there is no statutory due payable pursuant section 441A of the Act.

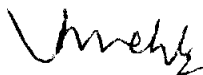
- (b) According to the information and explanations given to us, no undisputed amounts payable in respect of provident fund, investor education and protection fund, employees' state insurance, income-tax, wealth-tax, service tax, sales-tax, customs duty, excise duty, cess and other material undisputed 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 explanation 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 Companies (Auditor's Report) Order, 2003 (as amended) 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 provision of clause 4(xiv) of Companies (Auditor's Report) Order, 2003 (as amended), are not applicable to the Company.
- (xv) According to the information and explanations given to us, the Company has not given guarantee for loans taken by others from banks or financial institutions.
- (xvi) Based on the information and explanation 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 at relevant time were gainfully invested in liquid investments payable on demand.
- (xvii) According to the information and explanations given to us and on an overall examination of the balance sheet of the Company, we report that no funds raised on short-term basis have been used for long-term investment.
- (xviii) The Company has not made any preferential allotment of shares to parties or companies covered in the register maintained under section 301 of the Companies Act, 1956.
- (xix) The Company did not have any outstanding debentures during the year.



- (xx) We have verified that the end use of money raised by public issues is as disclosed in the notes to the financial statements.
- (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 fraud on or by the Company has been noticed / reported during the year though there were some instances of frauds on the Company by its employees and borrowers as given below:
- (a) *One hundred and fifty six cases of cash embezzlements by the employees of the Company aggregating Rs.16,018,106 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 fifty two of these employees were absconding. The outstanding balance (net of recovery) aggregating Rs.9,634,467 has been written off;*
- (b) *Two hundred and five cases of loans given to non-existent borrowers on the basis of fictitious documentation created by the employees of the Company aggregating Rs.45,177,531 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 Rs.35,417,295 has been written off;*
- (c) *Forty seven cases of loans taken by certain borrowers, in collusion with and under the identity of other borrowers, aggregating Rs.13,786,130, were reported during the year. The Company is pursuing the borrowers to repay the money. The outstanding loan balance (net of recovery) aggregating Rs.6,386,267 has been written off.*



For S. R. Batliboi & Co.
Firm registration number: 301003E
Chartered Accountants



per Viren H. Mehta
Partner
Membership No.: 048749
Mumbai

May 6, 2011

SKS MICROFINANCE LIMITED
Balance Sheet as at March 31, 2011

	Schedules	March 31, 2011	March 31, 2010
		Rupees	Rupees
SOURCES OF FUNDS			
Shareholders' funds			
Share capital	1	723,239,100	645,272,190
Share application money pending allotment		2,973,120	-
Stock options outstanding	1A	91,104,431	41,792,895
Reserves and surplus	2	16,990,871,210	8,893,253,598
Loan funds			
Secured loans	3A	21,674,148,225	25,795,733,538
Unsecured loans	3B	686,388,828	1,150,988,056
TOTAL		40,168,724,914	36,527,040,277
APPLICATION OF FUNDS			
Fixed assets			
4A			
Gross block		560,516,245	403,943,713
Less: Accumulated depreciation		341,867,654	215,426,101
Net block		218,648,591	188,517,612
Capital work in progress (including capital advances)		-	-
		218,648,591	188,517,612
Intangible assets			
4B			
Gross block		196,170,668	136,911,718
Less: Accumulated amortization		131,829,086	99,521,137
Net Block		64,341,582	37,390,581
Capital work in progress (including capital advances)		28,226,800	17,683,800
		92,568,382	55,074,381
Investment			
	5	37,560,993	2,000,000
Deferred tax assets (Net)			
	6	357,098,519	94,796,209
Current assets, loans and advances			
Interest accrued on investment		1,768,891	-
Sundry Debtors	7	19,218,777	29,539,143
Cash and Bank Balances	8	5,579,119,573	9,735,184,488
Other Current Assets	9	155,551,679	212,141,980
Loans and Advances	10	36,535,164,961	30,157,717,384
	(A)	42,290,823,881	40,134,582,995
Less: Current liabilities and provisions			
Current liabilities	11	1,940,159,195	3,694,833,925
Provisions	12	887,816,257	330,243,804
	(B)	2,827,975,452	4,025,077,729
Net current assets	(A-B)	39,462,848,429	36,109,505,266
Miscellaneous expenditure			
(To the extent not written off or adjusted)	13	-	77,146,809
TOTAL		40,168,724,914	36,527,040,277
Notes to accounts			
	20		

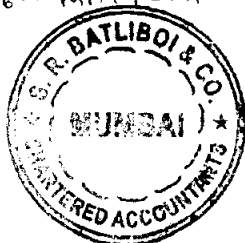
The schedules referred to above and notes to accounts form an integral part of the Balance Sheet.

As per our report of even date

S.R. Batliboi & Co.
For S. R. Batliboi & Co.
Firm Registration number : 301003E
Chartered Accountants

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

Viren H. Mehta
per Viren H. Mehta
Partner
Membership No.048749
Place: MUMBAI
Date: 6th MAY, 2011



Vikram Akula
Vikram Akula
Executive Chairman

M.R. Rao
M.R. Rao
Managing Director and
Chief Executive Officer

S. Dilli Raj
S. Dilli Raj
Chief Financial Officer

Sudarshan Pallap
Sudarshan Pallap
Company Secretary



SKS MICROFINANCE LIMITED

Profit and Loss Account for the period ended March 31, 2011

	Schedules	March 31, 2011 Rupees	March 31, 2010 Rupees
INCOME			
Income from operations	14	11,601,953,934	8,729,238,807
Other income	15	1,093,442,213	855,901,216
TOTAL		12,695,396,147	9,585,140,023
EXPENDITURE			
Financial expenses	16	3,478,864,133	2,884,051,711
Personnel expenses	17	3,263,467,726	2,164,250,109
Operating and other expenses	18	1,704,959,989	1,220,794,697
Depreciation and amortization	4A & 4B	161,495,861	125,999,054
Provisions and write offs	19	2,362,290,416	513,024,800
TOTAL		10,971,078,125	6,908,120,371
Profit before tax		1,724,318,022	2,677,019,652
Provision for tax			
Current tax		725,000,000	981,000,000
Deferred tax		(134,466,101)	(52,392,850)
Tax (credit) / charge in respect of earlier year		17,476,172	8,672,577
Fringe Benefit Tax (credit) / charge in respect of earlier year		-	201,683
Total tax expense		608,010,071	937,481,410
Profit after tax		1,116,307,951	1,739,538,242
Profit brought forward from previous year		2,199,951,901	808,321,307
Profit available for appropriation		3,316,259,852	2,547,859,549
APPROPRIATIONS			
Transferred to Statutory Reserve @ 20% of profit after tax as required by section 45-1C of Reserve Bank of India Act, 1934		223,261,590	347,907,648
Surplus carried to Balance Sheet		3,092,998,262	2,199,951,901
Earnings per Share (Refer note 15 of schedule 20)			
Basic (Rs.)		16.10	32.82
Diluted (Rs.)		15.24	27.33
Nominal value of share (Rs.)		10.00	10.00
Notes to accounts	20		

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

As per our report of even date

S. R. Batliboi & Co.
 For S. R. Batliboi & Co.
 Firm Registration number : 301003E
 Chartered Accountants

Viren H. Mehta
 per Viren H. Mehta
 Partner
 Membership No 048749
 Place: MUMBAI
 Date: 6th MAY 2011

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

Vikram Akula
 Vikram Akula
 Executive Chairman

M.R. Rao
 M.R. Rao
 Managing Director and
 Chief Executive Officer

S. Dilli Raj
 S.Dilli Raj
 Chief Financial Officer

Sulzerhan Pillap
 Sulzerhan Pillap
 Company Secretary



SKS MICROFINANCE LIMITED
Schedules to Balance Sheet

	March 31, 2011	March 31, 2010
	Rupees	Rupees
Schedule 1: Share capital		
Authorized share capital		
Equity Shares		
82,000,000 (Previous year 82,000,000) equity shares of Rs. 10 each	820,000,000	820,000,000
Preference Shares		
13,000,000 (Previous year 13,000,000) 0% compulsorily convertible preference shares of Rs. 10 each	130,000,000	130,000,000
	<u>950,000,000</u>	<u>950,000,000</u>
Equity share capital		
Issued subscribed and paid-up*		
72,323,910 (Previous year: 64,527,219) equity shares of Rs. 10 each fully paid up	723,239,100	645,272,190
	<u>723,239,100</u>	<u>645,272,190</u>
Total		
Schedule IA: Stock options outstanding		
Stock options outstanding	178,832,237	223,596,198
Less: Deferred compensation outstanding	87,727,806	181,803,303
	<u>91,104,431</u>	<u>41,792,895</u>
Schedule 2: Reserves and surplus		
A. Securities premium account		
As per last Balance Sheet	6,143,323,329	5,048,242,086
Add: Additions during the year	7,247,482,420	1,095,081,243
Less: Share Issue expenses	266,172,759	-
Sub-total	<u>13,124,632,990</u>	<u>6,143,323,329</u>
B. Statutory reserve		
As per last Balance sheet	549,978,368	202,070,720
Add: Transferred from profit and loss account	223,261,590	347,907,648
Sub-total	<u>773,239,958</u>	<u>549,978,368</u>
C. Profit and loss account		
	3,092,998,262	2,199,951,901
Sub-total	<u>3,092,998,262</u>	<u>2,199,951,901</u>
Total	<u>16,990,871,210</u>	<u>8,893,253,598</u>
	(A+B+C)	

*The Company, vide prospectus dated August 5, 2010, made an initial public offer ('IPO') of 16,791,579 equity shares of Rs. 10 each for cash consisting of a fresh issue of 7,445,323 equity shares at a premium of Rs. 975 each to Qualified Institutional Bidders and Non Institutional Bidders and at a premium of Rs. 925 each to Retail Individual Bidders and an offer for sale of 9,346,256 equity shares at a premium of Rs. 975 each to Qualified Institutional Bidders and Non Institutional Bidders and at a premium of Rs. 925 each to Retail Individual Bidders.



SKS MICROFINANCE LIMITED
Schedules to Balance Sheet

	March 31, 2011	March 31, 2010
	Rupees	Rupees
Schedule 3 (A): Secured loans		
Term loans		
From banks	16,498,890,841	16,251,526,566
(Secured by hypothecation of portfolio loans and by lien marked on bank deposits)		
From financial institutions	3,221,731,828	6,076,517,683
(Secured by hypothecation of portfolio loans and by lien marked on bank deposits)		
From non banking financial companies	459,419,940	703,333,332
(Secured by hypothecation of portfolio loans and by lien marked on bank deposits)		
Debentures (Short term)		
(Secured by hypothecation of portfolio loans)		
Nil (Previous year: 750) 10% Secured Redeemable Non - Convertible Debentures of Rs. 10,00,000 each redeemable at par at the end of one year from the date of allotment April 23, 2010	-	750,000,000
(Secured by hypothecation of portfolio loans)		
Nil (Previous year: 500) 8.30% Secured Redeemable Non - Convertible Debentures of Rs. 10,00,000 each redeemable at par at the end of one year from the date of allotment December 23, 2010	-	500,000,000
(Secured by hypothecation of portfolio loans)		
Nil (Previous year: 500) 9.25% Secured Redeemable Non - Convertible Debentures of Rs. 10,00,000 each redeemable at par at the end of one year from the date of allotment December 23, 2010		500,000,000
Bank Overdraft (Due within one year)	1,474,917,575	1,014,355,957
(Secured by hypothecation of portfolio loans and by lien marked on bank deposits)		
Interest accrued and due on the term loan	1,565,347	-
Finance lease obligation	17,622,694	-
(Secured by assets taken on lease)		
Total	21,674,148,225	25,795,733,538
Schedule 3 (B): Unsecured loans		
Commercial paper (Short term)	700,000,000	1,200,000,000
Less: Unamortized interest	(13,611,172)	(49,011,944)
Maximum amount raised at any time during the year Rs. 2,200,000,000 (Previous year: 1,200,000,000)		
Total	686,388,828	1,150,988,056



SKS MICROFINANCE LIMITED
Schedules to Balance Sheet
Schedule 4 : Fixed assets and intangible assets
4A. Fixed assets

Rupees

PARTICULARS	GROSS BLOCK			DEPRECIATION					NET BLOCK	
	As on April 1, 2010	Additions	Deletions	As on March 31, 2011	As on April 1, 2010	For the year	Deletions	Total March 31, 2011	As on March 31, 2011	As on March 31, 2010
Freehold Assets										
(I) Furniture and fixtures	120,303,324	44,078,880	703,057	163,679,147	95,269,996	37,900,041	605,890	132,564,147	31,115,000	25,033,328
(II) Plant and machinery:										
Computers	239,138,355	71,457,551	4,069,412	306,526,494	109,399,778	78,450,060	1,990,010	185,859,828	120,666,666	129,738,577
Office equipments	41,710,884	23,735,803	508,284	64,938,403	10,220,455	7,148,308	150,459	17,218,304	47,720,099	31,490,429
(III) Vehicles	2,791,150	-	-	2,791,150	535,872	583,892	-	1,119,764	1,671,386	2,255,278
Leasehold Assets										
Computers	-	22,581,051	-	22,581,051	-	5,105,611	-	5,105,611	17,475,440	-
Total	403,943,713	161,853,285	5,280,753	560,516,245	215,426,101	129,187,912	2,746,359	341,867,654	218,648,591	188,517,612
Previous Year	-	157,298,907	-	403,943,713	-	92,029,162	-	215,426,101	188,517,612	-

4B. Intangible assets

PARTICULARS	GROSS BLOCK			AMORTISATION					NET BLOCK	
	As on April 1, 2010	Additions	Deletions	As on March 31, 2011	As on April 1, 2010	For the year	Deletions	Total March 31, 2011	As on March 31, 2011	As on March 31, 2010
(I) Goodwill	39,701,135	-	-	39,701,135	36,391,908	3,309,227	-	39,701,135	-	3,309,227
(II) Computer software*	97,210,583	59,258,950	-	156,469,533	63,129,229	28,998,722	-	92,127,951	64,341,582	34,081,354
Total	136,911,718	59,258,950	-	196,170,668	99,521,137	32,307,949	-	131,829,086	64,341,582	37,390,581
Previous Year	-	15,674,847	-	136,911,718	-	33,969,893	-	99,521,137	37,390,581	-

*Refer note 8 of schedule 20 for capital commitments

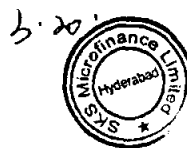
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SKS MICROFINANCE LIMITED

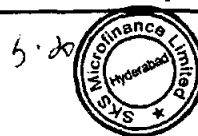
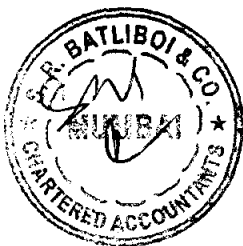
Schedules to Balance Sheet

	March 31, 2011	March 31, 2010
	Rupees	Rupees
Schedule 5: Investments		
Long term investment (At cost)		
Other than trade - Unquoted		
200,000 (Previous year : 200,000) Equity shares of Rs 10/- each fully paid-up in Alpha Micro Finance Consultants Private Limited	2,000,000	2,000,000
Current investment (At lower of cost and market value)		
Other than trade - Unquoted		
Investment in pass through certificate	35,560,993	-
Total	37,560,993	2,000,000
(Refer note 18 of schedule 20)		
Aggregate book value of unquoted investments	37,560,993	2,000,000
Schedule 6: Deferred tax assets / (Liabilities) (Net)		
Deferred Tax assets / (liabilities)		
Difference due to disallowance of expenses under section 43B of Income tax Act, 1961	17,489,342	30,473,757
Difference due to disallowance of provision for standard assets and non performing assets	230,514,662	59,433,791
Differences in depreciation and other differences in block of fixed assets and intangible assets as per tax and books of accounts	5,530,539	4,888,661
Effect of lease accounting	1,295,008	-
Deferred tax created on unamortized preliminary expenses under section 35D of Income tax Act, 1961	102,268,968	-
Deferred tax assets (Net)	357,098,519	94,796,209
Schedule 7: Sundry debtors		
Debts outstanding for a period exceeding six months		
Unsecured, considered good	-	833,868
Unsecured, considered doubtful	3,657,196	-
Other debts		
Unsecured, considered good	15,561,581	28,705,275
	19,218,777	29,539,143
Schedule 8: Cash and bank balances		
Cash on hand	15,431,151	11,804,492
Balances with scheduled banks:		
On current accounts	3,326,045,754	2,242,574,554
On deposit accounts	2,237,642,668	7,480,187,058
(Includes lien marked deposits. Refer note 22 of schedule 20)		
Balances with other banks :		
(Refer note 19 of schedule 20)		
On current accounts	-	618,384
Total	5,579,119,573	9,735,184,488
Schedule 9: Other current assets		
Interest accrued but not due		
On portfolio loans	67,727,564	119,022,992
On deposits placed with banks	79,391,821	67,506,742
Others	8,432,294	25,612,246
Total	155,551,679	212,141,980



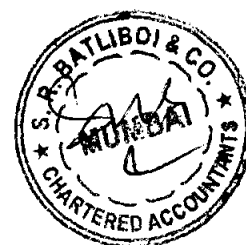
SKS MICROFINANCE LIMITED
Schedules to Balance Sheet

	March 31, 2011	March 31, 2010
	Rupees	Rupees
Schedule 10 :Loans & advances		
A. Portfolio loans		
a. Portfolio loans (Secured, considered good)		
Individual loans	92,534,009	13,949,529
b. Portfolio Loans (unsecured, considered good)		
Joint liability group loans	33,853,541,762	29,256,915,711
Individual loans	-	281,660
c. Portfolio Loans (unsecured, considered doubtful)*		
Joint liability group loans	842,920,094	96,057,621
Individual loans	-	-
	34,788,995,865	29,367,204,521
d. Portfolio Loans (unsecured, considered good)		
Joint liability group loans placed as collateral for loans asset assigned / securitised (Refer note 5 of schedule 20)	1,239,837,922	410,813,377
Sub-Total (A)	36,028,833,787	29,778,017,898
*These represent non performing assets (Refer note 1(r) of schedule 20)		
B. Other loans and advances		
Secured, considered good		
Employee loans	43,423	433,010
Unsecured, considered good		
Loans to SKS Microfinance Employees Benefit Trust (Refer note 20 of schedule 20)	60,906,186	87,285,811
Deposits	97,994,277	60,491,575
Advance fringe benefit tax (Net of Provision)	937,183	937,183
Interest accrued and due on portfolio loans	7,423,071	4,309,831
Advances recoverable in cash or kind or for value to be received		
Prepaid expenses	80,572,903	41,255,226
Others	242,654,131	172,084,046
Unsecured, considered doubtful		
Advances recoverable in cash or kind or for value to be received	15,800,000	12,902,804
Sub-Total (B)	506,331,174	379,699,486
Total (A+B)	36,535,164,961	30,157,717,384
Schedule 11: Current liabilities		
Sundry creditors		
Dues to micro and small enterprises (Refer note 21 of schedule 20)	-	-
Dues to other than micro and small enterprises	240,843,072	206,339,779
Employee payable	306,783,275	203,460,604
Payable for loan asset assigned	985,545,499	2,011,686,166
Deferred income		
Unamortised interest income	78,068,888	199,766,947
Unamortised group insurance administrative charges	169,988,146	316,987,402
Deferred gain on asset assignment	-	495,783,238
Interest accrued but not due		
On term loans	123,896,084	144,401,445
On debentures	-	93,988,703
Statutory dues	35,034,231	22,419,640
Total	1,940,159,195	3,694,833,925
Schedule 12: Provisions		
Provision for taxation (Net of advance tax payments of Rs. 2,221,328,227 (Previous Year: Rs.1,515,362,172))	95,809,356	74,652,372
Provision for standard and non performing assets (Refer note 16 of schedule 20)	647,234,568	121,249,521
Provision for loss on assigned loans (Refer note 2s (i) of schedule 20)	39,405,140	30,187,595
Provision for other assets	23,838,523	12,902,804
Provision for gratuity (Refer note 11 of schedule 20)	27,624,087	1,596,445
Provision for leave encashment and availment	53,904,583	89,655,067
Total	887,816,257	330,243,804
Schedule 13: Miscellaneous expenditure		
Share issue expenses for proposed initial public offer	-	77,146,809
	-	77,146,809



SKS MICROFINANCE LIMITED
Schedules to Profit and Loss Account

	March 31, 2011	March 31, 2010
	Rupees	Rupees
Schedule 14: Income from operations		
Interest income on portfolio loans (Refer note 4 of schedule 20)	10,308,543,947	7,609,531,413
Membership fees (Net of service tax of Rs.10,260,363 (Previous year: Rs. 16,249,986))	99,481,848	157,755,389
Income from assignment / securitisation of loans (Refer note 5 of schedule 20)	1,193,928,139	961,952,005
Total	11,601,953,934	8,729,238,807
Schedule 15: Other income		
Interest on bank deposits (Tax deducted at source: Rs. 15,422,777 (Previous year: Rs. 48,688,330))	162,622,025	272,310,159
Insurance commission (Tax deducted at source : Rs. 12,434,995 (Previous year: Rs. 30,276,396)) (Net of service tax of Rs.10,877,671 (Previous year: Rs. 21,690,014))	105,608,467	192,516,647
Other commission income (Tax deducted at source : Rs. 2,864,587 (Previous year: Rs. 1,999,993)) (Net of service tax of Rs.4,476,722 (Previous year: Rs. 3,172,685))	38,668,418	32,308,769
Group insurance administrative charges	708,467,266	323,233,253
Recovery against loans written off	56,140,867	20,410,363
Miscellaneous income (Tax deducted at source : Rs. 109,299 (Previous year: Rs. 84,944))	21,935,170	15,122,025
Total	1,093,442,213	855,901,216
Schedule 16: Financial expenses		
Interest		
On term loans from banks	2,317,690,430	1,866,720,688
On term loans from financial institutions	543,661,397	554,445,945
On term loans from non banking financial companies	67,571,174	83,150,155
On other loans	186,220,705	46,622,636
On bank overdraft facility	111,610,511	34,235,545
On debentures	68,469,859	121,750,001
Loan processing fees	147,206,614	159,755,972
Guarantee fees	6,363,000	214,800
Bank charges	30,070,443	17,155,969
Total	3,478,864,133	2,884,051,711
Schedule 17: Personnel expenses		
Salaries and Bonus / incentives	2,844,478,814	1,851,421,236
Staff leave encashment and availment	48,325,732	88,423,953
Contribution to Provident Fund	102,619,867	65,025,435
Contribution to ESIC	49,242,698	23,299,952
Gratuity expenses (Refer note 11 of schedule 20)	30,335,931	16,915,477
Staff welfare expenses	121,374,931	90,782,032
Employee stock option expenditure	67,089,753	28,382,024
Total	3,263,467,726	2,164,250,109



SKS MICROFINANCE LIMITED
Schedules to Profit and Loss Account

	March 31, 2011	March 31, 2010
	Rupees	Rupees
Schedule 18: Operating and other expenses		
Rent	199,879,997	140,847,310
Rates and taxes	11,349,318	13,793,856
Insurance	53,488,602	49,310,050
Repairs and maintenance		
Plant and machinery	19,229,786	12,118,560
Others	108,791,694	70,498,717
Electricity charges	35,660,616	22,944,742
Travelling and conveyance	630,837,648	417,267,234
Communication expenses	117,629,416	97,361,291
Printing and stationery	131,073,728	157,202,989
Legal and professional fees	147,686,392	128,604,519
Directors' sitting fees	355,000	-
Directors stock option expenditure	3,278,688	1,004,936
Auditors' remuneration (Refer note 24 of schedule 20)		
Audit fees	5,850,000	
Certification fees	120,000	
Out of pocket expenses	<u>1,220,825</u>	8,306,977
Other Provisions and write off	128,268,965	66,181,152
Loss on sale of fixed assets	682,100	837,912
Miscellaneous expenses	109,557,214	34,514,452
Total	<u>1,704,959,989</u>	<u>1,220,794,697</u>

Schedule 19 : Provisions and write offs

Provision for standard and non performing assets	525,985,047	59,609,243
Bad debts written off (Refer note 4 of schedule 20)	789,125,768	284,946,407
Loss from assigned loans	1,047,179,601	168,469,150
Total	<u>2,362,290,416</u>	<u>513,024,800</u>



	March 31, 2011	March 31, 2010
	Rupees	Rupees
A. Cash flow from operating activities		
Net profit before taxation after prior period adjustment	1,724,318,022	2,677,019,652
Adjustments for:		
Depreciation and amortization	161,495,861	125,999,054
Provision for employee benefits	(4,785,247)	57,945,560
Stock option expenditure	70,368,441	29,386,960
Share issue expenses	-	7,531,320
Provision for non performing assets	525,985,047	59,609,243
Bad debts written off	789,125,768	284,946,406
Loss from assignment of loans	1,047,179,601	168,469,149
Other provisions and write offs	128,268,965	66,181,152
(Profit) / Loss on disposal of fixed assets	682,100	837,912
Operating profit before working capital changes	4,442,638,558	3,477,926,408
Movements in working capital:		
(Increase) / decrease in sundry debtors	10,320,366	(8,134,380)
(Increase) / decrease in other current assets	54,821,410	103,642,778
(Increase) / decrease in portfolio loans	(7,039,941,657)	(15,887,737,340)
(Increase) / decrease in other loans and advances	(1,297,381,362)	(409,428,438)
(Decrease) / Increase in current liabilities	(1,794,157,954)	1,410,551,035
Cash generated from operations	(5,623,700,639)	(11,313,179,936)
Direct taxes paid	(721,319,186)	(948,403,683)
Net cash generated from operating activities	(A) (6,345,019,825)	(12,261,583,619)
B. Cash flow from investing activities		
Purchase of fixed assets (Including capital work in progress)	(161,853,285)	(157,229,805)
Sale of fixed assets	1,852,294	46,385
Purchase of intangible assets (Including capital work in progress)	(69,801,950)	(23,521,847)
Investment	(35,560,993)	(2,000,000)
Bank deposits not considered as cash and cash equivalent (net)	272,744,390	322,708,335
Net cash flow in investing activities	(B) 7,380,456	140,003,068
C. Cash flow from financing activities		
Proceeds from issuance of share capital (Including share premium)	6,913,356,576	1,162,899,613
Share issue expenses	127,146,809	(34,678,128)
Secured borrowings (net)	(4,121,585,313)	4,824,423,260
Unsecured borrowings (net)	(464,599,228)	756,616,138
Net cash generated from financing activities	(C) 2,454,318,844	6,709,260,883
Net increase/ (decrease) in cash and cash equivalents	(A)+(B)+(C) (3,883,320,525)	(5,412,319,668)
Cash and cash equivalents at the beginning of the year	7,774,797,430	13,187,117,098
Cash and cash equivalents at the end of the year	3,891,476,905	7,774,797,430

(Refer note 22 of Schedule 20)

S. R. Batliboi & Co.
 For S. R. Batliboi & Co.
 Firm Registration number : 301003E
 Chartered Accountants

Vireh H. Mehta
 per Vireh H. Mehta
 Partner
 Membership No.048749
 Place: MUMBAI
 Date: 6th MAY, 2011



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

Vikram Akula
 Vikram Akula
 Executive Chairman

M.R. Rao
 M.R. Rao
 Managing Director and
 Chief Executive Officer

S. Dilli Raj
 S. Dilli Raj
 Chief Financial Officer

Sudershan Pallap
 Sudershan Pallap
 Company Secretary



Schedule 20: Notes to Accounts

(Amount in Rupees unless otherwise stated)

1. **Nature of operations**

SKS Microfinance Limited ('the Company') is a non-deposit accepting non-banking financial company or NBFC- ND registered with the Reserve Bank of India (RBI). It is engaged in providing micro finance services to poor women in the rural areas of India who are organized as Joint Liability Groups ('JLG').

The Company provides individual loans to the existing members as a loan against property for a tenure ranging from three to five years.

The Company has also tied up with insurance companies to act as Group Insurance Manager for providing life insurance to its members.

2. **Statement of Significant Accounting Policies**

a. **Basis of preparation of financial statements**

The financial statements have been prepared to comply in all material respects with the Accounting Standards notified by Companies (Accounting Standards) Rules, 2006, (as amended), the relevant provisions of the Companies Act, 1956 ('the Act') and the provisions of the Reserve Bank of India ('RBI') as applicable to a non banking financial company. The financial statements have been prepared under the historical cost convention on an accrual basis except interest on loan which has been classified as non performing assets and is accounted for on cash basis. The accounting policies have been consistently applied by the Company and are consistent with those used in the previous year.

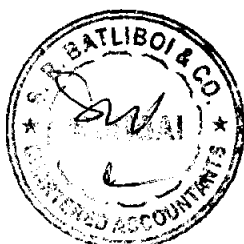
b. **Use of estimates**

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

c. **Revenue recognition**

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

- i. Interest income on loans given is recognized under the internal rate of return method. Income including interest or discount or any other charges on non-performing asset is recognized only when realized. Any such income recognized before the asset became non-performing and remaining unrealized shall be reversed.
- ii. Interest income on deposits with banks is recognized on a time proportion accrual basis taking into account the amount outstanding and the rate applicable.
- iii. Membership fees from members are recognized on an upfront basis.
- iv. In accordance with the RBI guidelines for securitisation of standard assets, the Company accounts for any loss arising from assignment / securitisation immediately at the time of sale and the profit/premium arising from securitisation is amortized over the life of the securities.



SKS MICROFINANCE LIMITED

NOTES ANNEXED TO AND FORMING PART OF BALANCE SHEET AS AT MARCH 31, 2011 AND PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED MARCH 31, 2011

- v. Commission income on insurance agency activities is recognized when risk and reward attached to the obligation is transferred.
- vi. Dividend income is recognized when the right to receive payment is established by the balance sheet date.
- vii. All other income is recognized on an accrual basis.

d. Fixed assets

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

Asset under development as at the balance sheet date are shown as capital work in progress. Advance paid towards such development are also included under capital work in progress.

e. Intangibles

- i. Goodwill is amortized using the straight-line method over a period of five years.
- ii. Computer Software cost are capitalized and amortized using the written down value method at a rate of 40% per annum.

f. Depreciation

- i. Depreciation on fixed assets is provided on the written down value method as per the rates prescribed under Schedule XIV of the Companies Act, 1956 which is also as per the useful life of the assets estimated by the management.
- ii. Fixed assets costing up to Rs. 5,000 individually are fully depreciated in the year of purchase

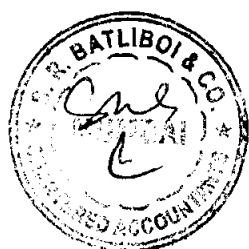
g. Impairment

The carrying amounts of assets are reviewed at each balance sheet date if there is any indication of impairment based on internal/external factors. An impairment loss is recognized wherever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the greater of the asset's net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and risks specific to the asset.

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

h. Leases

Finance leases, which effectively transfer to the Company substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the lower of the fair value and present value of the minimum lease payments at the inception of the lease term and disclosed as leased assets. Lease payments are apportioned between the finance charges and reduction of the lease liability based on the implicit rate of return. Finance charges are charged directly against income. Lease management fees, legal charges and other initial direct costs are capitalized.



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

i. Investments

The criteria to classify the investment into current and long term investment shall be spelt out by the Board of the Company in the investment policy. Investments that are readily realizable and intended to be held for not more than a year are classified as current investments. All other investments are classified as long-term investments. Current investments are carried at lower of cost and fair value determined on an individual investment basis. Long-term investments are carried at cost. However, provision for diminution in value is made to recognize a decline other than temporary in the value of the investments. Unquoted equity shares in the nature of current investment shall be valued at cost or break up value whichever is lower.

j. Borrowing Costs

All borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

k. Foreign Currency Transactions

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

l. Retirement and other employee benefits

- i. Retirement benefits in the form of Provident Fund are a defined contribution scheme and the contributions are charged to the Profit and Loss Account of the year when the contributions to the respective funds are due. There are no other obligations other than the contribution payable to the respective funds.
- ii. Gratuity liability is defined benefit obligations and is provided for on the basis of an actuarial valuation on projected unit credit method made at the end of each financial year.
- iii. Short term compensated absences are provided for based on estimates. Long term compensated absences are provided for based on actuarial valuation at the year end. The actuarial valuation is done as per projected unit credit method at the year end.
- iv. Actuarial gains/losses are immediately taken to profit and loss account and are not deferred.

m. Income Taxes

Tax expense comprises of current and deferred tax. Current income tax is measured at the amount expected to be paid to the tax authorities in accordance with the Income Tax Act, 1961, enacted in India. Deferred income taxes reflects the impact of current year timing differences between taxable income and accounting income for the year and reversal of timing differences of earlier years.



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

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

n. **Earnings per Share**

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

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

o. **Provisions**

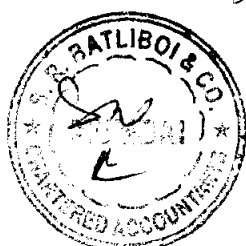
A provision is recognized when an enterprise has a present obligation as a result of past event; it is probable that an outflow of resources will be required to settle the obligation, in respect of which a reliable estimate can be made. Provisions are not discounted to its present value and are determined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

p. **Cash and Cash Equivalents**

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

q. **Share Based payments**

- i. In case of Employee Share Purchase Plan, measurement and disclosure of the employee share-based payment plans is done in accordance with the Guidance Note on Accounting for Employee Share-based Payments, issued by the Institute of Chartered Accountants of India. The Company measures compensation cost relating to employee share purchase plan using the fair value method. Such compensation expense is recognized immediately as these are granted and vested immediately.
- ii. In case of Stock Option Plan, measurement and disclosure of the employee share-based payment plans is done in accordance with SEBI (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999 and the Guidance Note on Accounting for Employee Share-based Payments, issued by the Institute of Chartered Accountant of India. The Company measures compensation cost relating to employee stock options using the fair value method. Compensation expense is amortized over the vesting period of the option on the straight line basis.



r. Classification of Loan Portfolio

i. Loans are classified as follows:

Asset Classification	Loans under JLG / Individual scheme (Andhra Pradesh)	Loans under JLG / Individual scheme (Other States)
Non Performing Assets	Overdue over 180 days	Overdue over 8 weeks
Sub-Standard Assets	Overdue for 180 – 720 days	Overdue for 8 weeks – 25 weeks
Loss Assets	Overdue over 720 days	Overdue for more than 25 weeks

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

ii. All other loans and advances are classified as standard, sub-standard, doubtful, and loss assets in accordance with the extant Non-Banking Financial (Non-Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2007, as amended from time to time.

s. Provision policy for Portfolio Loans & Assets Assigned

For the state of Andhra Pradesh:

The Government of Andhra Pradesh promulgated “The Andhra Pradesh Micro Finance Institution (Regulation of Money Lending) Ordinance 2010” on October 15, 2010, subsequently enacted the same as “The Andhra Pradesh Micro Finance Institution (Regulation of Money Lending) Act, 2011 (Act 1 of 2011)” on December 31, 2010 and notified by Gazette on January 1, 2011 (‘AP MFI Act’). In compliance with the said Ordinance/Act, the frequency of the JLG loan repayments in the state of Andhra Pradesh changed from a ‘weekly’ to a ‘monthly’ basis.

In January 2011, a Sub-committee of the Central Board of Directors of the Reserve Bank of India (‘RBI’) (‘the Malegam Committee’), in its recommendations, suggested that the provision for loan loss should be made with reference to the ageing of the overdue loan installments.

Subsequent to this, RBI vide its circular dated January 19, 2011, addressed to banks, stated that “the problems afflicting the Micro Finance Institutions (MFIs) sector are not necessarily on account of any credit weakness per-se but were mainly due to environmental factors” and extended the special regulatory asset classification benefit to restructured MFI accounts as well.

Due to the continued evolving environment, with no precedence, following the enactment of AP MFI Act and the resultant impact on the field operations in Andhra Pradesh the Company reassessed its estimate on the portfolio in the state of Andhra Pradesh as follows:

Asset Classification	Arrear Period	Provision (%)
Standard	Less than 180 days	0.25%
Sub-Standard	Overdue for 180 – 720	10%
Loss Assets	Overdue over 720 days	100%

The above-mentioned estimates for the provisioning of the loan portfolio in the state of Andhra Pradesh are based on the asset classification and provisioning norms as prescribed in the Non-Banking Financial (Non-Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2007.



SKS MICROFINANCE LIMITED

NOTES ANNEXED TO AND FORMING PART OF BALANCE SHEET AS AT MARCH 31, 2011 AND PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED MARCH 31, 2011

For the states other than Andhra Pradesh

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

Asset Classification	Arrear Period	Estimated Provision adopted by the Company
Standard	Less than 8 weeks	Note 1
Sub-Standard	Over 8 weeks - 25 weeks	50%
Loss Assets	More than 25 weeks	Write Off

Note 1: Standard Asset provision is linked to the Portfolio at Risk** (PAR) as shown below:

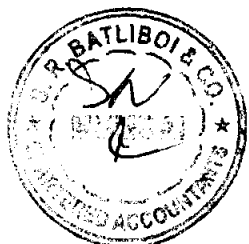
If Portfolio at Risk	Estimated Provision adopted by the Company (% of Standard Assets)
0 - 1%	0.25%
Above 1% to 1.5%	0.50%
Above 1.5% to 2%	0.75%
Above 2%	1.00%

- i. Provision for losses under assignment arrangements is made as higher of the incurred loss and provision as per the Company provisioning policy for JLG loans subject to the maximum guarantee given to respective assignee bank or financial institution.
- ii. All other loans and advances are provided for in accordance with the extant Non-Banking Financial (Non-Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2007, as amended from time to time.
- iii. All overdue loans where the tenure of the loan is completed and in the opinion of the management amount is not recoverable, are written off.

3. Change of Estimates

In the current year, pursuant to the regulatory changes in the state of Andhra Pradesh, the Company changed its estimate of provision for loan portfolio in the state of Andhra Pradesh as described in Note 2(s) above. Had the Company applied the provisioning estimates applicable to monthly repayment schedule loans, the provision for loan portfolio would have been higher by Rs.1,186,872,885.

4. Pursuant to the regulatory changes in the state of Andhra Pradesh, the Company has not recognized interest income on portfolio loans in the state of Andhra Pradesh amounting to Rs.815,318,396 and has written off loans aggregating Rs. 373,816,693 where the tenure was completed and which were outstanding at the balance sheet date.



SKS MICROFINANCE LIMITED

NOTES ANNEXED TO AND FORMING PART OF BALANCE SHEET AS AT MARCH 31, 2011 AND PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED MARCH 31, 2011

5. Assignment/ Securitization of loans

During the year the Company has sold loans through direct assignment/ securitisation. The information on direct assignment activity of the Company as an originator is as shown below:

Particulars	For the year ended March 31, 2011	For the year ended March 31, 2010
Total number of loans assigned / securitised	1,108,982	2,144,578
Total book value of the loans assigned / securitised	8,110,873,573	17,761,478,496
Sale consideration received for the loan asset assigned / securitized	8,110,873,573	18,408,838,735
Income from asset assignment recognised in the Profit and Loss Account	1,193,928,139	961,952,005
Particulars	As at March 31, 2011	As at March 31, 2010
Credit enhancements provided and outstanding:		
Interest subordination	481,676,008	273,760,208
Principal subordination	1,239,837,922	408,023,326
Cash Collateral	988,333,533	1,198,126,851
Corporate Guarantee	-	1,041,463,312

Under the agreement for the assignment/ securitisation of loans the Company has transferred all the rights and obligations relating to such loan assets assigned/ securitised as shown above. The guarantees given by the Company under the asset assignment/ securitisation has been disclosed in note 9 below.

6. Segment information

The Company operates in a single reportable segment i.e. lending to members, who have similar risks and returns for the purpose of AS 17 on 'Segment Reporting' notified under the Companies (Accounting Standard) Rules, 2006 (as amended). The Company operates in a single geographical segment i.e. domestic.

7. Related parties

a. Names of the related parties

Entities holding Significant Influence	Current year – N/A Previous Year- The entities mentioned, in aggregate, exercise significant influence over the Company: a. Sequoia Capital India Growth Investment I b. Sequoia Capital India II, LLC c. Tejas Ventures
Key Management Personnel	Mr. Suresh Gurumani, Managing Director and Chief Executive Officer (till 03.10.2010) Dr. Vikram Akula, Chairman Mr. M.R.Rao, Managing Director and Chief Executive Officer from 04.10.2010 (Chief Operating Officer till 03.10.2010) Mr. S. Dilli Raj, Chief Financial Officer



SKS MICROFINANCE LIMITED

NOTES ANNEXED TO AND FORMING PART OF BALANCE SHEET AS AT MARCH 31, 2011 AND PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED MARCH 31, 2011

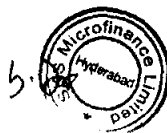
b. Related party transactions

	Key Management Personnel		Entities holding Significant Influence	
	31-Mar-11	31-Mar-10	31-Mar-11	31-Mar-10
Transaction during the year				
Issue of Equity Shares (Including Share Premium) – Mr. Suresh Gurumani	-	70,500,000	-	-
Issue of Equity Share (Including Share Premium) – Mr. Vikram Akula	-	47,053,752	-	-
Salary, incentive & perquisite – Mr. Suresh Gurumani	13,452,853	16,958,448	-	-
Salary, incentive & perquisite – Mr. M.R. Rao	14,776,648	14,136,988	-	-
Salary, incentive & perquisite – Mr. S. Dilli Raj	10,130,744	9,036,327	-	-
Commission – Mr. Vikram Akula	17,501,643	-	-	-
Balances as at year end				
Equity Share Capital	-	-	-	158,075,760
Equity Share Capital – Mr. Suresh Gurumani	100,000	2,350,000	-	-
Equity Share Capital – Mr. M.R. Rao	2,941,660	3,566,660	-	-
Equity Share Capital – Mr. S. Dilli Raj	776,660	1,026,660	-	-
Incentive Payable – Mr. Suresh Gurumani	-	1,500,000	-	-
Incentive Payable – Mr. M.R. Rao	-	1,000,000	-	-
Incentive Payable – Mr. S. Dilli Raj	-	600,000	-	-
Stock Option Outstanding – Mr. Suresh Gurumani	1,074,670	632,652	-	-
Stock Option Outstanding – Mr. Vikram Akula	11,763,269	11,763,269	-	-

8. Capital commitments

Estimated amounts of contracts remaining to be executed on capital account (net of capital advances) and not provided:

Particulars	March 31, 2011	March 31, 2010
For purchase / development of computer software	6,135,400	39,797,435
For purchase of fixed assets	22,900	8,193,537



SKS MICROFINANCE LIMITED

NOTES ANNEXED TO AND FORMING PART OF BALANCE SHEET AS AT MARCH 31, 2011 AND PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED MARCH 31, 2011

9. Contingent liabilities not provided for

Particulars	March 31, 2011	March 31, 2010
Guarantees given and outstanding by the Company for the loans assigned (including cash collaterals and receivables placed with banks)	1,952,301,516	2,409,375,527
Claims against the Company not acknowledged as debts*	48,549,551	24,088,137

*Represents the tax on items disallowed by the Income Tax department not acknowledged by the company.

10. Stock option scheme

The Company has provided various share-based payment schemes to its Directors and Employees. The plans in operation are Plan I (Managing Director), Plan II (Other Independent Directors) and Plan III (Employees) while 'a', 'b', 'c', 'd', 'e' are the different grants made under these plans. During the year ended March 31, 2011, the following series were in operation:

Particulars	Plan I(a)	Plan I (b)	Plan I (c)
Date of grant	Oct 15, 2007	Nov 10, 2008	Dec 8, 2008
Date of Board approval	July 31, 2007	Oct 30, 2008	Oct 30, 2008
Date of shareholder's approval	Sept 8, 2007	Nov 8, 2008	Nov 8, 2008
Number of options granted	1,852,158	1,769,537	900,000
Method of settlement	Equity	Equity	Equity
Vesting period	Immediate	Immediate	25 % equally at the end of each year
Exercise period	48 months from the date of vesting	60 months from the date of vesting	48 months from the date of grant
Vesting conditions	***None	***None	***None

Particulars	Plan II(a)	Plan II (b)	Plan II (c)	Plan II (d)	Plan II (e)
Date of grant	Feb 1, 2008	Feb 1, 2008	Nov 10, 2008	July 29, 2009	Feb 1, 2010
Date of Board approval	Oct 15, 2007	Oct 15, 2007	Oct 15, 2007	Oct 15, 2007	Jan 5, 2010
Date of shareholder's approval	Jan 16, 2008	Jan 16, 2008	Jan 16, 2008	Jan 16, 2008	Jan 08, 2010
Number of options granted	30,000	15,000	6,000	18,000	90,000
Method of settlement	Equity	Equity	Equity	Equity	Equity
Vesting period	*Immediate	**Immediate	*Immediate	*Immediate	25 % equally at the end of each year
Exercise period	36 months from the date of vesting	36 months from the date of vesting	36 months from the date of vesting	36 months from the date of vesting	60 months from the date of grant
Vesting conditions	***None	***None	***None	***None	***None

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SKS MICROFINANCE LIMITED

NOTES ANNEXED TO AND FORMING PART OF BALANCE SHEET AS AT MARCH 31, 2011 AND PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED MARCH 31, 2011

Particulars	Plan III(a)	Plan III(b)	Plan III (c)	Plan III (d)	Plan III (e)
Date of grant	Nov 3, 2009	Dec 15, 2009	Dec 15, 2009	May 4, 2010	May 4, 2010
Date of Board approval	July 29, 2009	Nov 04, 2009	Nov 04, 2009	May 4, 2010	May 4, 2010
Date of shareholder's approval	Sep 30, 2009	Dec 10, 2009	Dec 10, 2009	Dec 10, 2009	Dec 10, 2009
Number of options granted	514,750	1,313,160	568,000	4,340	6,000
Method of settlement	Equity	Equity	Equity	Equity	Equity
Vesting period	End of year 1 - 40 % End of year 2 - 25% End of year 3 - 25% End of year 4 - 10%	20 % equally at the end of each year	20 % equally at the end of each year	20 % equally at the end of each year	20 % equally at the end of each year
Exercise period	60 months from the date of grant	72 months from the date of grant	72 months from date of grant	72 months from date of grant	72 months from date of grant
Vesting conditions	***None	***None	***None	***None	***None

* 1/3rd of the options can be exercised within first twelve months from grant date; another 1/3rd of the options can be exercised within twenty four months from grant date and the rest being exercised within thirty six months from grant date.

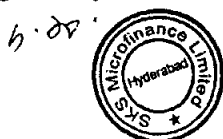
** 1/2 of the options can be exercised within twenty four months from grant date; another 1/2 of the options can be exercised within thirty six months from grant date.

***Option holders are required to hold the services being provided to the Company at the time of exercise of options.

The details of Plan I (a) have been summarized below:

Particulars	As at March 31, 2011		As at March 31, 2010	
	Number of options	Weighted average exercise price (Rs.)	Number of options	Weighted average exercise price (Rs.)
Outstanding at the beginning of the year	906,734	49.77	1,852,158	49.77
Granted during the year	-	-	-	-
Forfeited during the year	-	-	-	-
Exercised during the year	-	-	945,424	49.77
Expired during the year	-	-	-	-
Outstanding at the end of the year	906,734	49.77	906,734	49.77
Exercisable at the end of the year	906,734	49.77	906,734	49.77
Weighted average remaining contractual life (in years)	0.6	-	1.6	-
Weighted average fair value of options granted		7.28	-	7.28

The weighted average share price at the date of exercise for stock options was Rs.246.64



SKS MICROFINANCE LIMITED

NOTES ANNEXED TO AND FORMING PART OF BALANCE SHEET AS AT MARCH 31, 2011 AND PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED MARCH 31, 2011

The details of **Plan I (b)** have been summarized below:

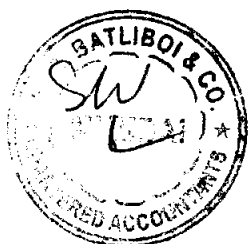
Particulars	As at March 31, 2011		As at March 31, 2010	
	Number of options	Weighted average exercise price (Rs.)	Number of options	Weighted average exercise price (Rs.)
Outstanding at the beginning of the year	1,769,537	300.00	1,769,537	300.00
Granted during the year				
Forfeited during the year	-	-	-	-
Exercised during the year	-	-	-	-
Expired during the year	-	-	-	-
Outstanding at the end of the year	1,769,537	300.00	1,769,537	300.00
Exercisable at the end of the year	1,769,537	300.00	1,769,537	300.00
Weighted average remaining contractual life (in years)	2.6	-	3.6	-
Weighted average fair value of options granted	-	2.92	-	2.92

The details of **Plan I (c)** have been summarized below:

Particulars	As at March 31, 2011		As at March 31, 2010	
	Number of options	Weighted average exercise price (Rs.)	Number of options	Weighted average exercise price (Rs.)
Outstanding at the beginning of the year	675,000	300.00	900,000	300.00
Granted during the year	-	-	-	-
Forfeited during the year	-	-	-	-
Exercised during the year	-	-	225,000	300.00
Expired during the year	-	-	-	-
Outstanding at the end of the year	675,000	300.00	675,000	300.00
Exercisable at the end of the year	-	-	-	-
Weighted average remaining contractual life (in years)	1.6	-	2.6	-
Weighted average fair value of options granted	-	1.81	-	1.81

The weighted average share price at the date of exercise for stock options was Rs.333.33.

b. do.



SKS MICROFINANCE LIMITED

NOTES ANNEXED TO AND FORMING PART OF BALANCE SHEET AS AT MARCH 31, 2011 AND PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED MARCH 31, 2011

The details of **Plan II (a)** have been summarized below:

Particulars	As at March 31, 2011		As at March 31, 2010	
	Number of options	Weighted average exercise price (Rs.)	Number of options	Weighted average exercise price (Rs.)
Outstanding at the beginning of the year	30,000	70.67	30,000	70.67
Granted during the year	-	-	-	-
Forfeited during the year	-	-	-	-
Exercised during the year*	30,000	70.67	-	-
Expired during the year	-	-	-	-
Outstanding at the end of the year	-	-	30,000	70.67
Exercisable at the end of the year	-	-	30,000	70.67
Weighted average remaining contractual life (in years)	-	-	0.8	-
Weighted average fair value of options granted	-	15.28	-	15.28

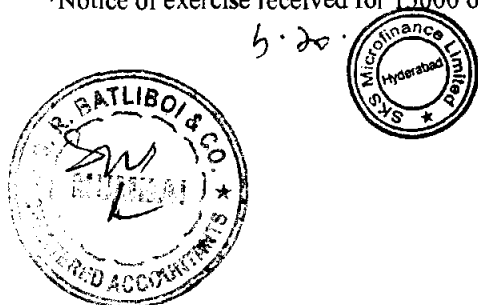
The weighted average share price at the date of exercise for stock options was Rs.1,266.

*Notice of exercise received for 5000 options; however the allotment is pending as on March 31, 2011.

The details of **Plan II (b)** have been summarized below:

Particulars	As at March 31, 2011		As at March 31, 2010	
	Number of options	Weighted average exercise price (Rs.)	Number of options	Weighted average exercise price (Rs.)
Outstanding at the beginning of the year	15,000	70.67	15000	70.67
Granted during the year	-	-	-	-
Forfeited during the year	-	-	-	-
Exercised during the year*	15,000	70.67	-	-
Expired during the year	-	-	-	-
Outstanding at the end of the year	-	-	15,000	70.67
Exercisable at the end of the year	-	-	15,000	70.67
Weighted average remaining contractual life (in years)	-	-	0.8	-
Weighted average fair value of options granted	-	17.72	-	17.72

*Notice of exercise received for 15000 options, however the allotment is pending as on March 31, 2011.



SKS MICROFINANCE LIMITED

NOTES ANNEXED TO AND FORMING PART OF BALANCE SHEET AS AT MARCH 31, 2011 AND PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED MARCH 31, 2011

The details of **Plan II (c)** have been summarized below:

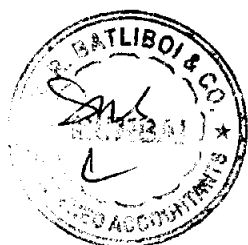
Particulars	As at March 31, 2011		As at March 31, 2010	
	Number of options	Weighted average exercise price (Rs.)	Number of options	Weighted average exercise price (Rs.)
Outstanding at the beginning of the year	6,000	70.67	6,000	70.67
Granted during the year				
Forfeited during the year	-	-	-	-
Exercised during the year	1,000	70.67	-	-
Expired during the year	-	-	-	-
Outstanding at the end of the year	5,000	70.67	6,000	70.67
Exercisable at the end of the year	5,000	70.67	4,000	70.67
Weighted average remaining contractual life (in years)	0.6	-	1.6	-
Weighted average fair value of options granted	-	52.14	-	52.14

The weighted average share price at the date of exercise for stock options was Rs.1,266.

The details of **Plan II (d)** have been summarized below:

Particulars	As at March 31, 2011		As at March 31, 2010	
	Number of options	Weighted average exercise price (Rs.)	Number of options	Weighted average exercise price (Rs.)
Outstanding at the beginning of the year	18,000	300.00	-	-
Granted during the year	-	-	18,000	300.00
Forfeited during the year	-	-	-	-
Exercised during the year	-	-	-	-
Expired during the year	-	-	-	-
Outstanding at the end of the year	18,000	300.00	18,000	300.00
Exercisable at the end of the year	12,000	300.00	6000	300.00
Weighted average remaining contractual life (in years)	1.3	-	2.3	-
Weighted average fair value of options granted	-	21.57	-	21.57

5.20



SKS MICROFINANCE LIMITED

NOTES ANNEXED TO AND FORMING PART OF BALANCE SHEET AS AT MARCH 31, 2011 AND PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED MARCH 31, 2011

The details of **Plan II (e)** have been summarized below:

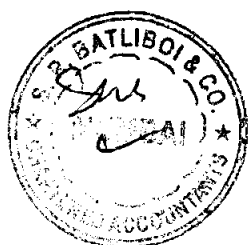
Particulars	As at March 31, 2011		As at March 31, 2010	
	Number of options	Weighted average exercise price (Rs.)	Number of options	Weighted average exercise price (Rs.)
Outstanding at the beginning of the year	90,000	300.00	-	-
Granted during the year	-	-	90,000	300.00
Forfeited during the year	-	-	-	-
Exercised during the year	-	-	-	-
Expired during the year	-	-	-	-
Outstanding at the end of the year	90,000	300.00	90,000	300.00
Exercisable at the end of the year	22,500	300.00	-	-
Weighted average remaining contractual life (in years)	3.8	-	4.8	-
Weighted average fair value of options granted	-	72.53	-	72.53

The details of **Plan III (a)** have been summarized below:

Particulars	As at March 31, 2011		As at March 31, 2010	
	Number of options	Weighted average exercise price (Rs.)	Number of options	Weighted average exercise price (Rs.)
Outstanding at the beginning of the year	5,02,250	300.00	-	-
Granted during the year	-	-	5,14,750	300.00
Forfeited during the year	37,500	300.00	12,500	300.00
Exercised during the year	144,910	300.00	-	-
Expired during the year	-	-	-	-
Outstanding at the end of the year	3,19,840	300.00	5,02,250	300.00
Exercisable at the end of the year	40,990	300.00	-	-
Weighted average remaining contractual life (in years)	3.6	-	4.6	-
Weighted average fair value of options granted	-	41.18	-	41.18

The weighted average share price during the period was Rs.690.46.

5.20



SKS MICROFINANCE LIMITED

NOTES ANNEXED TO AND FORMING PART OF BALANCE SHEET AS AT MARCH 31, 2011 AND PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED MARCH 31, 2011

The details of **Plan III (b)** have been summarized below:

Particulars	As at March 31, 2011		As at March 31, 2010	
	Number of options	Weighted average exercise price (Rs.)	Number of options	Weighted average exercise price (Rs.)
Outstanding at the beginning of the year	1,237,040	150.00	-	-
Granted during the year	-	-	1,313,160	150.00
Forfeited during the year	1,47,790	150.00	76,120	150.00
Exercised during the year	1,13,458	150.00	-	-
Expired during the year	-	-	-	-
Outstanding at the end of the year	9,75,792	150.00	1,237,040	150.00
Exercisable at the end of the year	104,392	150.00	-	-
Weighted average remaining contractual life (in years)	4.6	-	5.6	-
Weighted average fair value of options granted	-	115.30	-	115.30

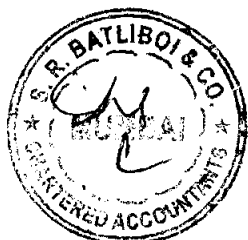
The weighted average share price during the period was Rs.642.96.

The details of **Plan III (c)** have been summarized below:

Particulars	As at March 31, 2011		As at March 31, 2010	
	Number of options	Weighted average exercise price (Rs.)	Number of options	Weighted average exercise price (Rs.)
Outstanding at the beginning of the year	562,000	300.00	-	-
Granted during the year	-	-	568,000	300.00
Forfeited during the year	94,000	300.00	6,000	300.00
Exercised during the year	67,000	300.00	-	-
Expired during the year	-	-	-	-
Outstanding at the end of the year	401,000	300.00	562,000	300.00
Exercisable at the end of the year	26,600	300.00	-	-
Weighted average remaining contractual life (in years)	4.6	-	5.6	-
Weighted average fair value of options granted	-	69.29	-	69.29

The weighted average share price during the period was Rs.634.98.

h. do.



SKS MICROFINANCE LIMITED

NOTES ANNEXED TO AND FORMING PART OF BALANCE SHEET AS AT MARCH 31, 2011 AND PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED MARCH 31, 2011

The details of **Plan III (d)** have been summarized below:

Particulars	As at March 31, 2011		As at March 31, 2010	
	Number of options	Weighted average exercise price (Rs.)	Number of options	Weighted average exercise price (Rs.)
Outstanding at the beginning of the year	-	-	-	-
Granted during the year	4340	150	-	-
Forfeited during the year	350	150	-	-
Exercised during the year	-	-	-	-
Expired during the year	-	-	-	-
Outstanding at the end of the year	3990	150	-	-
Exercisable at the end of the year	-	-	-	-
Weighted average remaining contractual life (in years)	5.1	-	-	-
Weighted average fair value of options granted	-	233.75	-	-

The details of **Plan III (e)** have been summarized below:

Particulars	As at March 31, 2011		As at March 31, 2010	
	Number of options	Weighted average exercise price (Rs.)	Number of options	Weighted average exercise price (Rs.)
Outstanding at the beginning of the year	-	-	-	-
Granted during the year	6000	300	-	-
Forfeited during the year	3000	300	-	-
Exercised during the year	-	-	-	-
Expired during the year	-	-	-	-
Outstanding at the end of the year	3000	300	-	-
Exercisable at the end of the year	-	-	-	-
Weighted average remaining contractual life (in years)	5.1	-	-	-
Weighted average fair value of options granted	-	152.53	-	-



SKS MICROFINANCE LIMITED

NOTES ANNEXED TO AND FORMING PART OF BALANCE SHEET AS AT MARCH 31, 2011 AND PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED MARCH 31, 2011

The details of exercise price for stock options outstanding at the end of the year March 31, 2011 are:

Series	Range of exercise prices	Number of options outstanding (31-Mar-11)	Number of options outstanding (31-Mar-10)	Weighted average remaining contractual life of options (in years) (31-Mar-11)	Weighted average remaining contractual life of options (in years) (31-Mar-10)	Weighted average exercise price
Options outstanding as on 31-Mar-10 and 31-Mar-11:						
Plan I (a)	49.77	906,736	906,736	0.6	1.6	49.77
Plan I (b)	300.00	1,769,537	1,769,537	2.6	3.6	300.00
Plan I (c)	300.00	675,000	675,000	1.6	2.6	300.00
Plan II(a)*	70.67	-	30,000	-	0.8	70.67
Plan II(b)**	70.67	-	15,000	-	0.8	70.67
Plan II (c)	70.67	5000	6,000	0.6	1.6	70.67
Plan II (d)	300.00	18,000	18,000	1.3	2.3	300.00
Plan II (e)	300.00	90,000	90,000	3.8	4.8	300.00
Plan III (a)	300.00	319,840	502,250	3.6	4.6	300.00
Plan III (b)	150.00	975,792	1,237,040	4.6	5.6	150.00
Plan III (c)	300.00	401,000	562,000	4.6	5.6	300.00
Options granted during the year and outstanding as on 31-Mar-11:						
Plan III (d)	150.00	3,990	-	5.1	-	150.00
Plan III (e)	300.00	3,000	-	5.1	-	300.00

*Notice of exercise received for 5000 options; however the allotment is pending as on March 31, 2011.

**Notice of exercise received for 15000 options, however the allotment is pending as on March 31, 2011.

Stock Options granted:

Plan III (d) - The weighted average fair value of stock options granted during the year was Rs.233.75. The Black-Scholes Model has been used for computing the weighted average fair value considering the following:

	2011	2012	2013	2014	2015
Weighted average share price	339.08	339.08	339.08	339.08	339.08
Exercise price (Rs.)	150.00	150.00	150.00	150.00	150.00
Expected volatility (%)	33.86	33.86	33.86	33.86	33.86
Historical volatility	-	-	-	-	-
Life of the options granted in years	1	2	3	4	5
Expected dividends per annum (Rs.)	0	0	0	0	0
Average risk-free interest rate (%)	6.88	7.06	7.24	7.42	7.53
Expected dividend rate (%)	0%	0%	0%	0%	0%

Expected Volatility – Since SKS Microfinance Limited was not a listed Company on the date of grant, a 33.86% Standard Deviation is assumed based on the volatility of the Bank Nifty Index over the last year preceding the grant date.



SKS MICROFINANCE LIMITED

NOTES ANNEXED TO AND FORMING PART OF BALANCE SHEET AS AT MARCH 31, 2011 AND PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED MARCH 31, 2011

Plan III (e) - The weighted average fair value of stock options granted during the year was Rs 152.53. The Black-Scholes Model has been used for computing the weighted average fair value considering the following:

	2011	2012	2013	2014	2015
Weighted average share price	339.08	339.08	339.08	339.08	339.08
Exercise price (Rs.)	300.00	300.00	300.00	300.00	300.00
Expected volatility (%)	33.86	33.86	33.86	33.86	33.86
Historical volatility	-	-	-	-	-
Life of the options granted in years	1	2	3	4	5
Expected dividends per annum (Rs.)	0	0	0	0	0
Average risk-free interest rate (%)	6.88	7.06	7.24	7.42	7.53
Expected dividend rate (%)	0%	0%	0%	0%	0%

Expected Volatility – Since SKS Microfinance Limited was not a listed Company on the date of grant, a 33.86% Standard Deviation is assumed based on the volatility of the Bank Nifty Index over the last year preceding the grant date.

Effect of the share-based payment plans on the Profit and Loss Account and on its financial position:

Particulars	For the year ended March 31, 2011	For the year ended March 31, 2010
Directors stock option expenditure for the year pertaining to share-based payment plan	3,278,688	1,004,936
Employees stock option expenditure for the year pertaining to share-based payment plan	67,089,753	28,382,024
Sub total	70,368,441	29,386,960
Compensation cost pertaining to equity-settled employee share based payment plan	70,368,441	29,386,960

Particulars	As at March 31, 2011	As at March 31, 2010
Deferred compensation cost outstanding	87,727,806	181,803,303
Stock Options Outstanding	178,832,237	223,596,198

11. Retirement benefits

The Company has a defined benefit gratuity plan. Every employee who has completed five years or more of service is eligible for gratuity on cessation of employment and it is computed at 15 days salary (last drawn salary) for each completed year of service. The scheme is funded with an insurance company in the form of a qualifying insurance policy.

The following tables summarize the components of net benefit expense recognized in the Profit and Loss Account and the funded status and amounts recognized in the Balance Sheet for the gratuity plan.



SKS MICROFINANCE LIMITED

NOTES ANNEXED TO AND FORMING PART OF BALANCE SHEET AS AT MARCH 31, 2011 AND PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED MARCH 31, 2011

Profit and Loss Account

Net employees benefit expense (Recognized in personnel expenses):

Particulars	For the year ended March 31, 2011	For the year ended March 31, 2010
Current service cost	20,840,971	12,462,640
Interest cost on benefit obligation	4,728,753	2,525,154
Expected return on plan assets	(3,452,663)	(1,513,633)
Net actuarial (gain) / loss recognized in the year	6,692,887	3,441,316
Past service cost	1,525,983	-
Net employee benefit expense	30,335,931	16,915,477
Actual return on plan assets	1,407,990	(35,647)

Balance Sheet

Details of provision for gratuity:

Particulars	Gratuity	
	March 31, 2011	March 31, 2010
Defined benefit obligation	68,883,615	36,483,997
Fair value of plan assets	(39,825,147)	(34,887,552)
Unrecognized past service cost	(1,434,381)	-
Plan liability	27,624,087	1,596,445

Changes in the present value of the defined benefit obligation are as follows:

Particulars	Gratuity	
	March 31, 2011	March 31, 2010
Opening defined benefit obligation	36,483,997	19,642,037
Interest cost	4,728,753	2,525,154
Past service cost	2,960,364	-
Current service cost	20,840,971	12,462,640
Benefits paid	(778,684)	(37,870)
Actuarial (gains) / losses on obligation	4,648,214	1,892,036
Closing defined benefit obligation	68,883,615	36,483,997

Changes in the fair value of plan assets are as follows:

Particulars	Gratuity	
	March 31, 2011	March 31, 2010
Opening fair value of plan assets	34,887,552	17,822,480
Expected return	3,452,663	1,513,633
Contributions by employer	4,308,289	17,138,589
Benefits paid	(778,684)	(37,870)
Actuarial gains / (losses)	(2,044,673)	(1,549,280)
Closing fair value of plan assets	39,825,147	34,887,552

The Company has contributed Rs. 4,308,289/- towards gratuity during the period April 1, 2010 to March 31, 2011.



SKS MICROFINANCE LIMITED

NOTES ANNEXED TO AND FORMING PART OF BALANCE SHEET AS AT MARCH 31, 2011 AND PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED MARCH 31, 2011

The company expects to contribute Rs 5,000,000 towards gratuity in the financial year 2011-12.

The major categories of plan assets as a percentage of the fair value of total plan assets are as follows:

Particulars	Gratuity	
	March 31, 2011	March 31, 2010
Investment with insurer	100%	100%

The overall expected rate of return on assets is determined based on the average long term rate of return expected on investment of the fund during the estimated term of the obligations.

The principal assumptions used in determining gratuity:

Particulars	Gratuity			
	March 31, 2011		March 31, 2010	
Discount rate	8.30%		8.30%	
Expected rate of return on assets	7.50%		7.50%	
Salary escalation rate per annum	10% for the first two years and 7% there after		10% for the first three years and 7% there after	
Rates of leaving service at specimen ages	Age (Yrs)	Rates	Age (Yrs)	Rates
	21-30	5%	21-30	5%
	31-40	3%	31-40	3%
	41-59	2%	41-59	2%

The estimates of future salary increases, considered in actuarial valuation, take account of inflation, seniority, promotion and other relevant factors.

Amounts for the current and previous three years are as follows:

Particulars	Gratuity			
	Mar 31, 11	Mar 31, 10	Mar 31, 09	Mar 31, 08
Defined benefit obligation	68,883,615	36,483,997	19,642,037	5,480,291
Plan assets	39,825,147	34,887,552	17,822,480	5,398,173
Surplus / (deficit)	(29,058,468)	(1,596,445)	(1,819,557)	(82,118)
Experience adjustments on plan liabilities	4,648,214	4,582,747	5,137,920	2,213,180
Experience adjustments on plan assets	(2,044,673)	(1,549,280)	431,324	(93,594)

12. Managing Director's Remuneration

Particulars	For the year ended 31-Mar-11	For the year ended 31-Mar-10
Salaries and Incentives	17,951,420	11,899,944
Perquisites	1,172,958	3,645,000
Contribution to provident fund	876,494	955,764
Stock option cost	442,018	457,740
Total	20,442,890	16,958,448

Note: As the liabilities for employee benefits are provided on an actuarial basis for the Company as a whole, the amounts pertaining to the directors are not included above.



SKS MICROFINANCE LIMITED

NOTES ANNEXED TO AND FORMING PART OF BALANCE SHEET AS AT MARCH 31, 2011 AND PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED MARCH 31, 2011

13. Computation of Net Profit in accordance with section 349 of the Act:

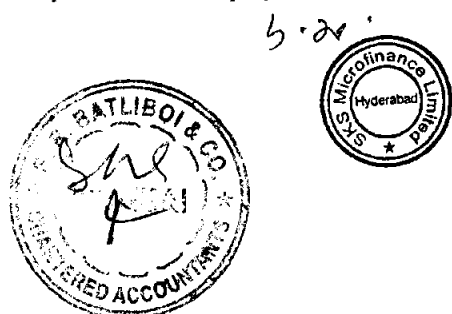
Particulars	For the year ended	
	March 31,2011	March 31,2010
Profit before tax	1,724,318,022	2,677,019,652
Add:		
(a) Managerial Remuneration Excluding Sitting Fees	20,442,890	16,958,448
(b) Commission to Other Director	17,501,643	-
(c) Provision for bad and doubtful debts	7,659,427	12,142,804
(d) Depreciation and amortisation as per books of accounts	161,495,861	125,999,054
(e) Loss on sale of Fixed Assets (net) as per Profit and Loss account	682,100	837,912
Less:		
(a) Depreciation as per section 350 of the Companies Act 1956	161,495,861	125,999,054
Net profit as per Section 349 of the Companies Act, 1956	1,770,604,082	2,706,958,816
Add: Director's remuneration	-	-
Net Profit as per Section 198 of the Companies Act, 1956	1,770,604,082	2,706,958,816
Maximum Remuneration to the Managing Director as per Section 387 @ 5% of the net profits as computed above	84,314,480	128,902,801
Commission to other Directors		
Maximum commission u/s 309 of Companies Act, 1956 at 1% of net profits (net of remuneration other than commission)	17,501,643	-
Commission approved for payment (1% of Profit u/s 309)	17,501,643	-

14. Expenditure in foreign currency

Particulars	For the year ended 31-Mar-11	For the year ended 31-Mar-10
Professional fees*	3,049,215	45,644,256
Travelling expenses**	723,350	1,343,262
Guarantee fees	-	214,800
Membership and subscriptions	206,194	361,225
Staff Training	161,984	
Software Development	183,174	-
Total	4,323,917	47,563,543

*Professional fees include an amount of Rs. Nil (Previous year Rs. 38,737,042) towards consultancy services in connection with the public offer of equity shares included in miscellaneous expenditure to the extent not written off.

**Travelling Expenses include an amount of Rs. 365,796 (Previous year Nil) incurred in connection with the public offer of equity shares included in miscellaneous expenditure to the extent not written off.




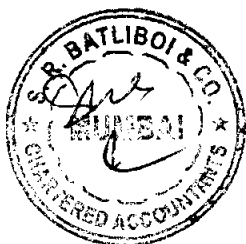
SKS MICROFINANCE LIMITED

NOTES ANNEXED TO AND FORMING PART OF BALANCE SHEET AS AT MARCH 31, 2011 AND PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED MARCH 31, 2011

15. Earnings Per Share

Particulars	For the year ended 31-Mar-11	For the year ended 31-Mar-10
Net Profit after tax as per Profit and Loss Account	1,116,307,951	1,739,538,242
Weighted average number of shares used in computing basic earnings per share	69,343,888	53,009,025
Add: Equity shares for Nil consideration arising on grant of stock options under stock option plan	3,919,448	1,428,615
Add: Partly paid up shares of Rs. 10 each, Rs. 0.50 paid up	-	2,523,921
Add: Compulsorily Convertible Preference Share of Rs. 10 each compulsorily convertible on December 26, 2009 with an option to the holder to convert the holding at any time before that date.	-	6,679,622
Weighted average number of shares in calculating Diluted Earning Per Share	73,263,336	63,641,183
Basic Earnings per Share	16.10	32.82
Diluted Earnings per Share	15.24	27.33
[Nominal value of shares Rs. 10 each (Previous Year : Rs. 10)]	10.00	10.00

5.20

SKS MICROFINANCE LIMITED

NOTES ANNEXED TO AND FORMING PART OF BALANCE SHEET AS AT MARCH 31, 2011 AND PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED MARCH 31, 2011

16. Loan Portfolio and Provisions for Standard and Non Performing Assets:

Asset Classification	Portfolio Loans Outstanding (Gross)		Provision for Standard and Non Performing Assets				Portfolio Loans Outstanding (Net)	
	As at March 31, 2011	As at March 31, 2010	For the year ended March 31, 2010	Additional Provision made during the year	Provision Write back during the year	As at March 31, 2011	As at March 31, 2010	
	Amount	Amount				Amount	Amount	
Standard assets	33,946,075,772	29,271,146,900	73,220,710	168,527,595	-	241,748,305	33,704,327,467	29,197,926,190
Sub-standard assets	842,920,093	96,057,621	48,028,811	357,457,452	-	405,486,263	437,433,830	48,028,811
Doubtful assets	-	-	-	-	-	-	-	-
Loss assets	-	-	-	-	-	-	-	-
	34,788,995,865	29,367,204,521	121,249,521	525,985,047	-	647,234,568	34,141,761,297	29,245,955,001



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SKS MICROFINANCE LIMITED

NOTES ANNEXED TO AND FORMING PART OF BALANCE SHEET AS AT MARCH 31, 2011 AND PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED MARCH 31, 2011

17. Leases

Finance Lease:

Computers are obtained on finance lease. The lease term is for three years, there is no escalation clause in the lease agreement. There are no restrictions imposed by lease arrangements. There are no subleases.

Description	March 31, 2011	March 31, 2010
Total minimum lease payments at the year end	20,079,069	-
Less : amount representing finance charges	3,089,769	-
Present value of minimum lease payments (Rate of interest: 13% p.a.)	16,989,300	-
Contingent rent recognized in Profit and Loss Account	-	-
Minimum Lease Obligations		-
Not later than one year [Present value of Rs.7,729,847 as on March 31, 2011(Rs. Nil as on March 31, 2010)]	8,924,031	-
Later than one year but not later than five years year [Present value of Rs.8,367,179 as on March 31, 2011(Rs. Nil as on March 31, 2010)]	11,155,038	-
Later than five years	-	-

Operating Lease

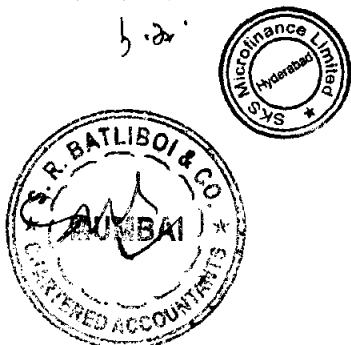
Office Premises:

Head office and the Branch office premises are obtained on operating lease. The Branch office premises are generally rented on cancellable term for less than twelve months with no escalation clause and renewable at the option of the Company. However, the Head office premise has been obtained on the non-cancelable lease term of twenty four months with an escalation clause of five percent for every twelve months. There are no restrictions imposed by lease arrangements. There are no subleases. Lease payments during the year are charged to Profit and Loss Account.

Description	March 31, 2011	March 31, 2010
Operating lease payments recognized during the year	199,879,997	140,847,310
Minimum Lease Obligations		
Not later than one year	32,130,036	41,310,012
Later than one year but not later than five years	-	32,130,036
Later than five years	Nil	Nil

Vehicles:

The Company has taken certain vehicles on cancellable operating leases. Total lease expense under cancellable operating lease during the year was Rs. 8,276,680/-(Previous year Rs. 4,834,164).



SKS MICROFINANCE LIMITED

NOTES ANNEXED TO AND FORMING PART OF BALANCE SHEET AS AT MARCH 31, 2011 AND PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED MARCH 31, 2011

18. Investment activity

Particulars	For the year ended March 31, 2011		For the year ended March 31, 2010	
	Purchased during the year (Nos.)	Amount invested	Purchased during the year (Nos.)	Amount invested
Alpha Micro Finance Consultants Pvt. Ltd.	-	-	200,000	2,000,000
Series A2 PTCs of India Microfinance Loan Receivable Trust (IMLRT) August 2010	355,609.93	35,560,993	-	-
Total	355,609.93	35,560,993	200,000	2,000,000

19. Balances held with Non-scheduled banks in the current account and deposit account as at March 31, 2011 is as shown below:

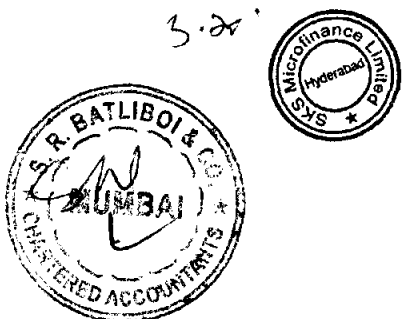
Bank Name	Maximum Balance outstanding during the year ended March 31, 2011	As at March 31, 2011	Maximum Balance outstanding during the year ended March 31, 2010	As at March 31, 2010
Balances held in current account				
Urban Co-operative Bank	-	-	6,701,091	556,569
Buldhana Urban Credit Co-operative Bank	-	-	2,202,125	61,815
Total	-	-	-	618,384

20. The Company has given Interest free collateral free loan to an employee welfare trust under the Employee Stock Purchase Scheme to provide financial assistance to its employees to purchase equity shares of the Company under such scheme. The loan is repayable by the Trust under a back to back arrangement by the Trust with the employees of the Company. The year end balance for the total loan granted is Rs. 60,906,186 (Previous Year Rs. 87,285,811).

21. Dues to Micro and Small Enterprises

There are no amounts that need to be disclosed pertaining to Micro Small and Medium Enterprise Development Act, 2006 (the 'MSMED').

As at March 31, 2011, no supplier has intimated the Company about its status as Micro or Small Enterprises or its registration with the appropriate authority under MSMED.



SKS MICROFINANCE LIMITED

NOTES ANNEXED TO AND FORMING PART OF BALANCE SHEET AS AT MARCH 31, 2011 AND PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED MARCH 31, 2011

22. Components of cash and cash equivalents

Particulars	March 31, 2011	March 31, 2010
Cash and Bank balance (Refer schedule 8)		
Cash on Hand	15,431,151	11,804,492
Balance with Scheduled bank		
On Current accounts	3,326,045,754	2,242,574,554
On Deposit accounts	2,237,642,668	7,480,187,058
Balance with Non-scheduled banks		
On Current accounts	-	618,384
Total	5,579,119,573	9,735,184,488
Less: Bank deposits not considered as cash and cash equivalent*	1,687,642,669	1,960,387,058
Cash and Cash Equivalent	3,891,476,904	7,774,797,430

*The amount include deposits lien marked towards term loans availed from banks, financial institutions and towards cash collateral placed in connection with asset assignments / securitization.

23. Details of utilization of proceeds raised through public issue during the year:

Pursuant to the approval of the shareholders of the Company in the Extra General Meeting held on January 8, 2010 the Company made a public issue of 16,791,579 equity shares of Rs. 10 each for cash consisting of a fresh issue of 7,445,323 equity shares at a premium of Rs. 975 each to Qualified Institutional Bidders and Non Institutional Bidders and at a premium of Rs. 925 each to Retail Individual Bidders and an offer for sale of 9,346,256 equity shares at a premium of Rs.975 each to Qualified Institutional Bidders and Non Institutional Bidders and at a premium of Rs.925 each to Retail Individual Bidders. The issue has been made in accordance with the terms of the Company's prospectus dated August 5, 2010.

The details of issue are as follows:

Particulars	Amount (in Rs.)
Fresh Issue	7,221,963,305
Offer for Sale	9,065,870,000
Total Issue size	16,287,833,305

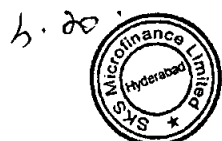
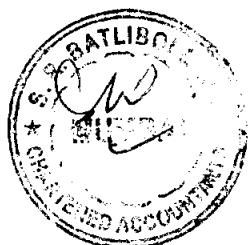
The proceeds raised from fresh issue upto March 31, 2011 are given below:

Particulars	Amount (in Rs.)
Funds received upto March 31, 2011	
Equity Share Capital	74,453,230
Securities Premium	7,147,510,075
Total	7,221,963,305

The amount raised through public issue has been utilized upto March 31, 2011 are given below:

Particulars	Projected	Actual
Total Fresh Issue Proceeds	7,221,960,000	7,221,963,305
Utilized for Onward Lending	6,616,940,000	6,827,954,337
Issue Expenses*	605,020,000	394,008,968

*Projected issue expenses include expenses attributable to shares offered for sale.



SKS MICROFINANCE LIMITED

NOTES ANNEXED TO AND FORMING PART OF BALANCE SHEET AS AT MARCH 31, 2011 AND PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED MARCH 31, 2011

24. Auditors Remuneration

Particulars	March 31, 2011	March 31, 2010
Disclosed under "Operating and other expenses"		
Audit Fees	5,850,000	6,650,000
Certification Fees	120,000	120,000
Out of Pocket Expenses	1,220,825	1,536,977
Other Matters *	4,358,229	3,970,800

*Fees for other matters represent fees for services rendered in connection with the Initial Public Offer which has been included in share issue expenses.

25. Additional disclosures required by the Reserve Bank of India:

a. Capital to risk Ratio ('CRAR')

	Item	March 31, 2011	March 31, 2010
i.	CRAR (%)	45.39%	28.55%
ii.	CRAR – Tier I Capital (%)	44.85%	28.55%
iii.	CRAR - Tier II Capital (%)	0.54%	0.00%

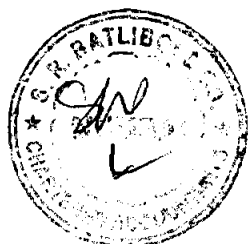
b. The Company has no exposures to Real Estate Sector directly or indirectly.

c. Asset Liability Management

Maturity pattern of certain items of assets and liabilities as on March 31, 2011:

	(Rs. in Crores)								
	1 day - 30/31 days (one Month)	Over 1 month to 2 months	Over 2 month to 3 months	Over 3 month to 6 months	Over 6 month to 1 year	Over 1 year to 3 years	Over 3 year to 5 years	Over 5 year	Total
Liabilities									
Borrowings from Banks	282.78	162.04	179.54	234.70	420.80	505.44	12.24	-	1,797.54
Market Borrowings	17.62	19.67	86.11	93.44	99.84	110.83	10.61	-	438.12
Assets									
Advances*	575.58	570.47	439.67	1041.85	732.75	287.32	6.87	0.38	3,654.89
Investments	3.56	-	-	-	-	-	-	0.20	3.76

*Monthly recovery of 5% has been estimated on the overdue loan portfolio in the State of Andhra Pradesh.



SKS MICROFINANCE LIMITED

NOTES ANNEXED TO AND FORMING PART OF BALANCE SHEET AS AT MARCH 31, 2011 AND PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED MARCH 31, 2011


Maturity pattern of certain items of assets and liabilities as on March 31, 2010:

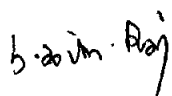
	1 day - 30/31 days (one Month)	Over 1 month to 2 months	Over 2 month to 3 months	Over 3 month to 6 months	Over 6 month to 1 year	Over 1 year to 3 years	Over 3 year to 5 years	Over 5 year	Total
Liabilities									
Borrowings from Banks	228.88	68.68	141.59	252.05	691.93	613.92	-	-	1,997.05
Market Borrowings	33.25	19.64	62.97	103.62	145.96	299.94	32.23	-	697.61
Assets									
Advances	461.43	435.16	373.66	911.27	779.96	0.78	3.48	8.96	2,974.70
Investment	-	-	-	-	-	-	-	0.20	0.20

26. Previous year's figures have been regrouped where necessary to confirm to this year's classification.

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


Vikram Akula
Executive Chairman


M.R. Rao
Managing Director and
Chief Executive Officer


S. Dilli Raj
Chief Financial Officer


Sudershan Pallap
Company Secretary

