



GRAMEEN
Financial Services Pvt. Ltd.

ANNUAL REPORT



2010-2011



OUR MISSION

We exist:

To transform and uplift the lives of poor and low income families with micro finance services and other developmental services.

To be a sustainable, friendly and trusted provider of affordable and need based services.





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Message | Chairperson
Mrs Vinatha M Reddy



It has been an exceptionally challenging year, especially the last 6 months, not only for Grameen Financial Services Pvt Ltd (GFSPL) but the whole of the micro finance sector be it in Andhra Pradesh, in India, in Pakistan or Bangladesh. Until October 2010, it was work as normal at the Company with new Branch openings, launch of new products and services, fund raising, trainings etc., till the promulgation of the Andhra Pradesh Micro-finance Institutions Ordinance, 2010. This AP Ordinance, immediately cast a gloom over the whole of the micro finance sector and has severely impacted the Andhra Pradesh MFI's. GFSPL too has borne the brunt of the turbulence by being constrained with a severe fund shortage.

The micro finance industry as a whole stands affected and paralysed. Its reputation tarnished till the Malegam Committee and the draft Micro Finance Bill restored and re-iterated the importance of micro finance in India's thrust for financial inclusion. It is however a time for reflection, deep introspection and course correction. How did we as a sector, born of NGOs forget our purpose and our primary objectives of serving the vulnerable? How did we tolerate unsustainable practices to creep in? How did we allow uncontrolled growth to happen?

For the course correction, we need to set a new road map, we need to rewrite the rules. We need to now adopt sustainable growth, client protection, fair and ethical practices, holistic services, use of technology and the credit bureau. It is important that capital from only social investors drives the growth of the micro finance sector henceforth. It is also imperative that the client gets back to the centre of focus of the sector and not the investor.

It is just not enough or adequate if we are running a good Company we have to contribute as a matter of responsibility, to the orderly growth of the sector. GFSPL is proud to be associated with and contributing to the micro finance sector through Sadhan, MFIN, AKMI, FKCCI, ASSOCHAM and the BC network.

We continue to strongly believe in micro finance being an incredible tool for change when combined with fair & ethical access to credit and other holistic services.

We will continue to work responsibly and use micro finance as an instrument of economic and social change. With the focus and discipline of the new regulations, with continued support and goodwill of all our stakeholders, GFSPL will rise and move ahead in the coming year. What lies ahead are good times, working in an era of regulation, credit bureaus, "Aadhar", New Pension Scheme, RaashtriyaSwasthyaBhimaYojna, micro-housing, Banking Correspondent and the thrust for holistic Financial Inclusion.

We appreciate the hardwork and resilience of all staff during this challenging year.

I would like to express a universal sentiment and end with a quote from Sam Mendelson, co-author of "Banana skins Report",

'I think the Indian crisis is the best thing that could have happened to the micro finance sector because it will clear out the loan sharks and the exploiters and what would be left would be the right people trying to figure out how to do it best'.

The primary objective of GFSPL is serving the client - all else being incidental.





Message | Managing Director
Mr Suresh K Krishna

The foregoing financial year has been eventful in the epoch making existence of the Grameen Financial Services Pvt Ltd (GFSPL). Despite the disappointing developments generated by the AP Government Ordinance on the operations of MFIs in October 2010, GFSPL has exhibited its internal vibrancy and inbuilt vitality by successfully carrying out its progressive projects for poverty eradication and social transformation. Although we met with stumbling blocks in implementing our expansion plans in the second half of the fiscal year due to liquidity constraints, we created success stories in a variety of areas and this proved our commitment to the social cause we envisage and our legitimacy to exist more powerfully in the process of India's inclusive development.

FY2011 witnessed an increase in total revenue by 65.37% of INR 82.33 crore from INR 49.79 crore in FY2010. In the absence of the necessary fund flow due to the adverse market conditions in the fiscal year, GFSPL was still able to confidently rely on alternative sources, of which a significant portion turned out to be the organization's own farsighted and foresighted securitizations done in the past. It remains in the organization's credit that 6 IFMR transactions out of 9 were such securitization transactions totaling a little less than INR 100 crore. Similarly, the on time repayment of loans was in excess of 98%. Thus the Company has proved still profitable even if it had to pass through an unforeseen financial barren land. The organization therefore has a right to be proud of itself not just

because it attained profit in spite of lack of fund flow from the traditional sources, but more importantly since it could remain faithful to its reason for existence by accomplishing a number of developmental projects in terms of providing both financial products and non financial services. To highlight certain specific areas are: Water and Sanitation and Indoor Air Pollution programs.

Going forward, it appears that in the forthcoming financial year too, we will have to face the challenge of limitedness in financial sources. Nevertheless we are hopeful to expand our activities not in geographical space but in further strengthening the bond with our extant clients and thus make our existence more effective and inspiring, envisaging a modest growth rate. I would like to thank all our collaborators in terms of providing funds and other services for their immensely valuable partnership, and look forward to their continued support in the coming years. Likewise, our staffs deserve applause for their effective support to the management in reaching out to the poor and needy and in achieving our targets without fail. I avail this opportunity to invite them to use their skills in diverse fields to enhance our activities creating a more financially educated and responsive client base in the coming years.

GFSPL remains committed to its mission of uplifting the poor and determined to make millions of financially marginalized Indian rural population part of India's development in the next decade using microfinancing as its strategic tool and powerful helping hand. We dream of a more economically egalitarian India in the near future through our advocacy for social change by means of social action.

Message | Chief Executive Officer
Mr Udaya Kumar



The year 2010-11 has been challenging for the MFI industry with a high degree of ups and downs. However, with enormous contribution from each stakeholder of the industry, dusts are settling down and all are looking forward to a great year ahead for the Industry.

For GFSPL, the year has been exceptionally challenging. Due to the AP episode, the liquidity has been extremely difficult during the 3rd quarter of the financial year and we had to withhold our branch expansion and new customer enrolment. We had to stop lending during some parts of the 3rd and 4th quarters due to reduced liquidity and had to manage funds with extreme care and extra-ordinary restraint in our field operations. Additional efforts were put in place to control our costs, delinquencies and funds management.

Based on our original plan we had opened new branches and expanded our manpower strength. Our utilization of the expanded infrastructure of our 65 new branches and an additional manpower of over 700 during the year has been very minimal due to the adverse industry scenario. This has impacted our operational costs during the year. Similarly, our portfolio decreased from INR 335 crores in September 2010 to INR 189 crores in January 2011. Therefore, income from operations also was impacted to a large extent. Nevertheless we were able to get liquidity of about INR 140 crores during the 4th quarter, which helped us to rebuild the portfolio to reach INR 250 crores as on March 31, 2011.

We resorted to aggressive control on operations, costs, delinquencies and funds management and thus we are able to post PBT of INR 3.79 crores as on March 31, 2011, an increase of 200% over the previous year. The year ahead is looking favorable for the industry with the new regulations, but still going to be considerably challenging for the major part of the year. We at GFSPL comply with all the stipulated regulations for NBFC-MFI, and are expecting a great year

and determined to leave our foot prints as a socially responsible organization by successfully implementing our various initiatives.

Our Chairman and the Managing Director have been great motivators with new visions and have been guiding all of us in GFSPL to take this Company to the next level.

My sincere gratitude to all our shareholders, investors, Banks & Institutions, regulators, customers, employees and all other stake holders for having supported GFSPL in these challenging times. I am looking forward to greater participation in building GFSPL with all in our onward journey.



Board of Directors

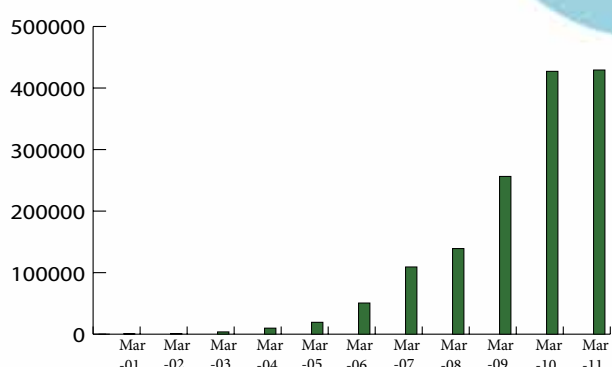


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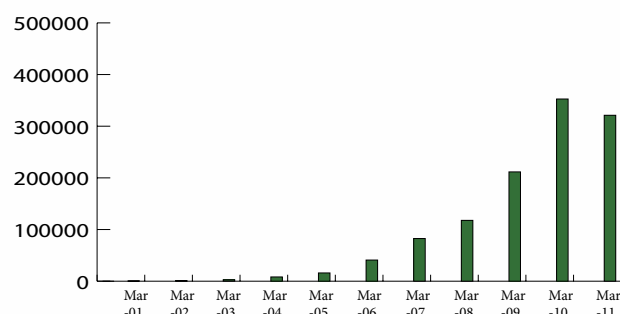
Mr Suresh K Krishna, Mr Aditya Bhandari, Mr Pradeep Pathiyamveetil, Mr Christian Banno,
Mr R Prabha, Mrs Vinatha M Reddy, Mrs Daksha Niranjana Shah, Mr Anal Jain

Financial and Operational Highlights

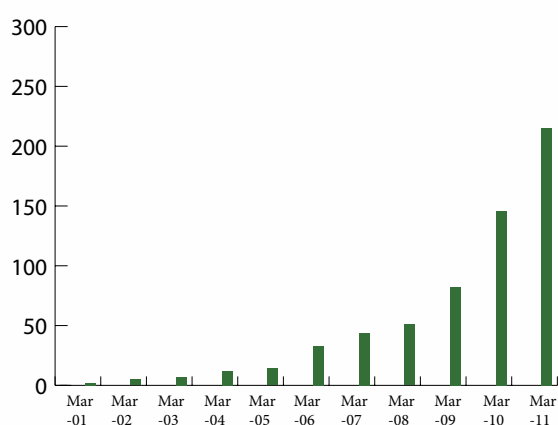
1. Members
2. Active Borrowers
3. Branches
4. State wise No. of Districts & Branches
as on March 31, 2011



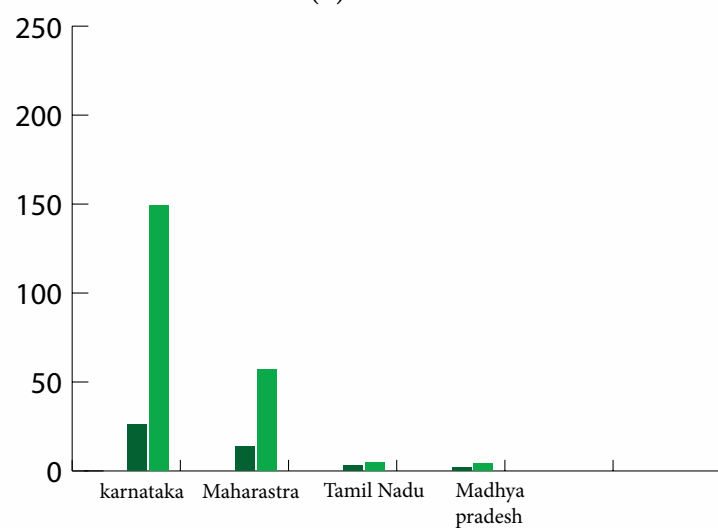
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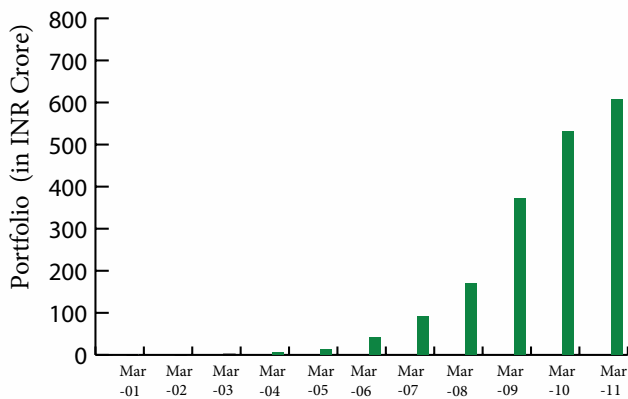
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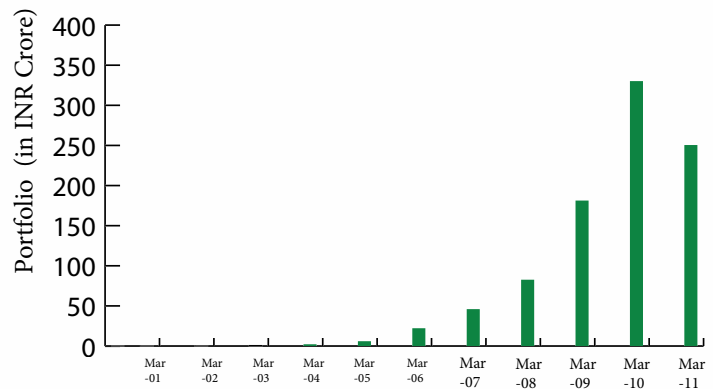
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5. Loan Disbursed during the FY
6. Portfolio* at the end of the FY
7. State wise Portfolio* as on March 31, 2011
8. Unit wise Portfolio* as on March 31, 2011

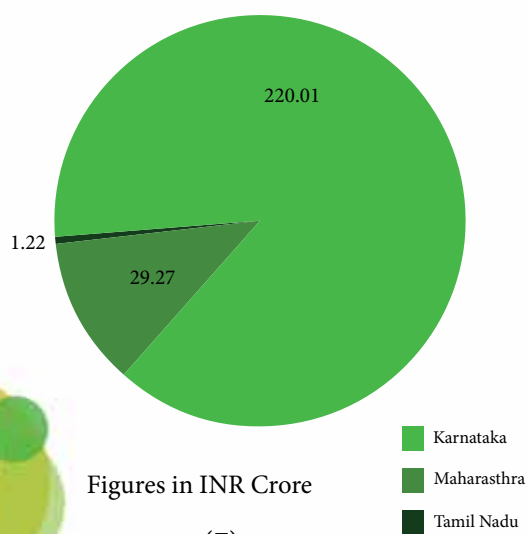
*Portfolios in INR Crore



(5)

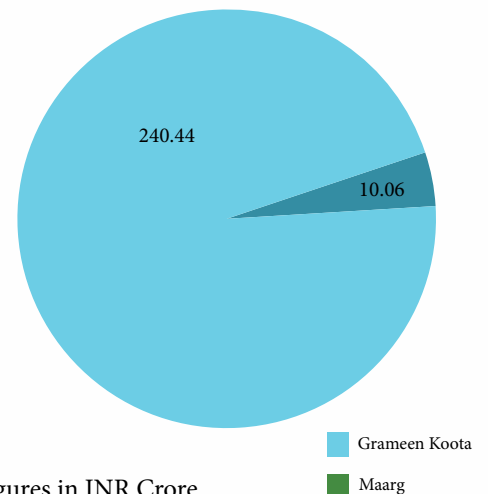


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Figures in INR Crore

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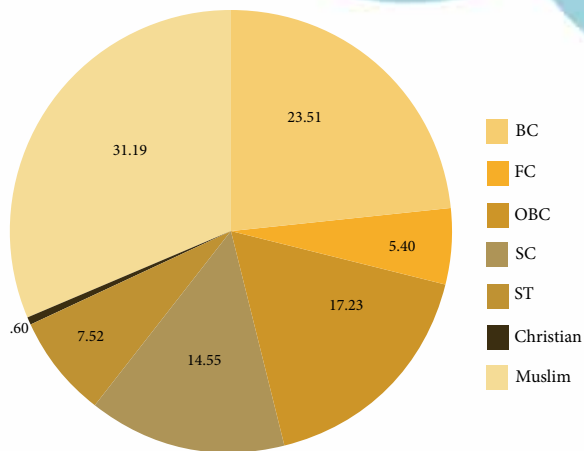


Figures in INR Crore

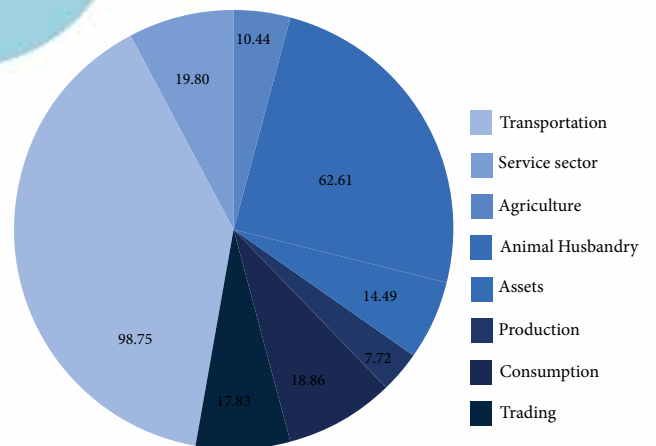
(8)

9. Caste & Religion wise portfolio* distribution
10. Loan Activity wise Portfolio* as on March 31, 2011
11. Product wise Portfolio* as on March 31, 2011
12. State wise Portfolio* as on March 31, 2011
13. Vintage in GFSPL

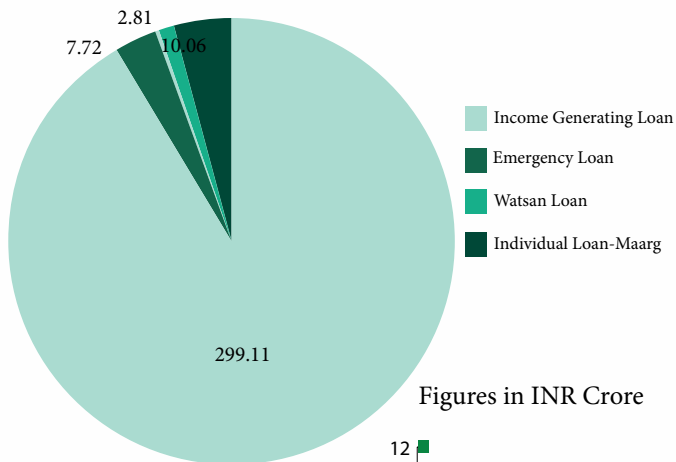
*Portfolios in INR Crore



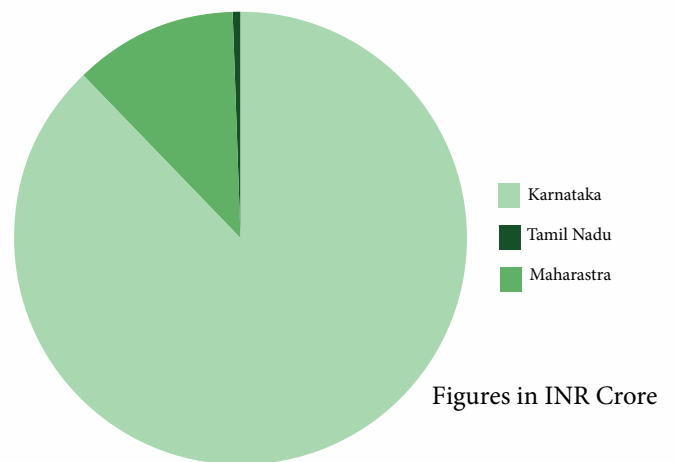
(9) Figures in INR Crore



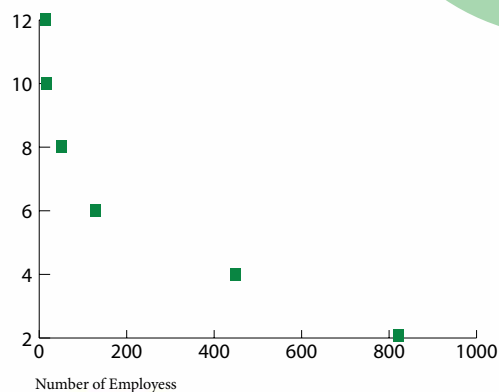
(10) Figures in INR Crore



(11)



(12)



(13)



A Dream to create a liveable India for all Indians

“Enthusiasm is excitement with inspiration,
motivation with a pinch of creativity”



Directors' Report

To

The Members,

Your Directors are pleased to present the Annual Report of Your Company together with the Audited Statement of Accounts and the Auditors' Report of Your Company for the financial year ended, March 31, 2011.

The summarized financial results for the year ended March 31, 2011:

Year ended March 31 (in INR Crore)	2011	2010
Total Revenue	82.33	49.79
Less: Total Expenditure	78.54	47.91
Profit before Tax	3.79	1.88
Profit after Tax	3.51	0.95
Surplus brought forward	1.41	0.74
Amount available for appropriation	4.92	1.69
Appropriation		
Transfer to Statutory Reserve	0.70	0.19
Preference Dividend	—	0.09
Dividend Tax	0.02	—
Surplus carried to Balance Sheet	4.20	1.41

- Total Revenue increased by 65.37% to INR 82.33 crore in FY2011 from INR 49.79 crore in FY2010.
- Profit After Tax increased by 271.19% to INR 3.51 crore in FY2011 from INR 0.95 crore in FY2010.

The Company raised funds through term loans, portfolio sales, securitizations and Non-Convertible Debentures. Funds were raised from public and private sector banks, domestic institutional investors and Foreign Institutional Investors. In addition to bank funding, the Company executed five securitization transactions totalling close to INR 100 crore and executed INR 35 crore listed NCD transaction.

The MFI crisis resulted in reduced fund flow to the Company during the last two quarters as a consequence of which disbursements in the field were scaled down. Reduction in business volume and incremental operating expenses from the new 45 branches opened during the first half of the financial year impacted the profitability of the Company. For the financial year ended March 2011, the Company posted a healthy net profit of INR 3.55 crore in spite of adverse market conditions.



Grameen Koota's Operations Remain Robust

Your Company was poised to significantly expand its operations during FY 2010-11. In order to ensure strong systems in place for the expansion, during the first two quarters, the Company:

- Strengthened the management team by recruiting Mr Udaya Kumar, who worked with Barclays Bank, ICICI Bank and Corporation Bank in various capacities for more than 25 years, as CEO to manage the operations
- Recruited an experienced specialist to handle borrower grievances
- Set up 5 Regional Offices
- Increased the Branch network from 146 to 215 branches
- Reviewed the Client Base and dropped 25,000 unproductive members
- Significantly strengthened the Internal Audit division
- Conducted capacity building exercises in the field (training, quality assurance) to strengthen operations

During this period of consolidation, the Company slowed down its disbursements while the regional office structure was implemented and processes were strengthened. The plan was to ramp up disbursements in the third quarter of the fiscal year. However, the Company was unable to implement the expansion plan due to the liquidity constraints that arose as a consequence of the adverse events in Andhra Pradesh.

As bank funding contracted, the Company conserved liquidity by providing credit only to existing clients and halted all new client acquisitions until funding clarity returned. At a time when funding to the industry had slowed down significantly, the Company successfully mobilized funding through securitizations, portfolio sales and Non-Convertible Debentures. Your Company's ability to attract foreign funding at attractive rates during a time of heightened risk perception of the industry is a testament to its strong systems and robust operations. During the year, collections remained strong with repayment rates in excess of 98 per cent. With the implementation of various cost cutting measures, the operational efficiency of the Company significantly improved. Your Company has remained profitable during a relatively difficult period for the sector.

Operational Highlights

Year ended March 31	2011	2010
Branches	215	146
Districts	45	37
Kendras	18,520	16,411
Members	429,299	427,144
Loans disbursed(in Rs. Crore)	606.69	531.52
Portfolio outstanding(in Rs. Crore)*	250.5	330.18
Total Employees**	1,748	1,380

*includes managed portfolio

**1565 as of June 30, 2011

Microfinance Industry

FY2010-11 was an eventful year for the Microfinance industry. The introduction of the MFI Ordinance in the state of Andhra Pradesh (AP) resulted in significant negative implications for operations in the state. As AP accounts for over a quarter of the industry market share, the industry as a whole was affected, particularly as a consequence of the reduction in bank lending to the sector. MFIs with significant exposure in AP participated in the Corporate Debt Restructuring program initiated by domestic banks.

Lack of regulatory clarity resulted in an increase in the perceived risk of the sector. MFIs without exposure to AP maintained their portfolio quality, but were adversely affected by the reduction of available funding.

The release of the Malegam Committee Recommendations in February 2011 and the subsequent release of the RBI circular in May 2011 have provided the much needed clarity to the regulatory framework of the Indian microfinance sector. A summary of the proposed regulations is included in the next section.

Investor interest in the sector is reviving albeit not to the level prior to the events in AP. MFIs have been able to effectively mobilize funding through alternative funding sources such as securitizations and NCD issuances. Bank funding, which is crucial to the sector has been relatively muted, but is likely to pick up with increased regulatory clarity.

Regulatory Environment

The Andhra Pradesh government issued an ordinance in October 2010 which significantly impacted the ability of MFIs to operate in the state. The Reserve Bank of India set up a committee constituted by members of its board and headed by Mr YH Malegam to provide a report of the microfinance sector. The committee published its recommendations in February 2011.

In its Monetary Policy Statement on May 3, 2011, the RBI provided guidelines on the proposed implementation of the Malegam Committee recommendations. Below is a summary of the guidelines in the circular:

- Bank loans to all MFIs, including NBFCs working as MFIs on or after April 1, 2011, will be eligible for classification as priority sector loans under respective category of indirect finance only if the prescribed percentage of their total assets are in the nature of “qualifying assets” and they adhere to the “pricing of interest” guidelines
- Bank loans to other NBFCs would not be reckoned as priority sector loans with effect from April 1, 2011
- Loans disbursed by an MFI to a borrower with a rural household annual income not exceeding INR 60,000 or urban and semi-urban household income not exceeding INR 1,20,000
- Loan amount not to exceed INR 35,000 in the first cycle and INR 50,000 in subsequent cycles. Total indebtedness of the borrower not to exceed INR 50,000
- Tenure of loan not to be less than 24 months for loan amount in excess of INR 15,000 without prepayment penalty; loan to be extended without collateral
- Aggregate amount of loan, given for income generation, not to be less than 75 per cent of the total loans given by the MFIs
- Loan to be repayable by weekly, fortnightly or monthly instalments at the choice of the borrower
- Banks should ensure a margin cap of 12 per cent and an interest rate cap of 26 per cent for their lending to be eligible to be classified as priority sector loans
- Loans by MFIs can also be extended to individuals outside the Self-Help Group (SHG) / Joint Liability Group (JLG) mechanism

In July 2011, the Finance Ministry released a draft of the new Bill for the microfinance sector.



Future Outlook

Your Company's outstanding loan portfolio reduced by 30 per cent during the financial year as a consequence of reduced liquidity. Portfolio quality remained good, and the Company has strong processes and infrastructure in place to enable robust growth in the loan portfolio.

The Company intends to disburse INR 600 Crore in loans during the coming fiscal year, similar to the disbursement levels from FY11. This will result in an outstanding portfolio slightly above levels achieved at the end of FY10 as a consequence of increased loan tenor for larger ticket loans. The Company intends to scale back non operational branches and focus on increasing penetration and strengthening its presence through the existing branch network this year. Client targeting and screening processes will be significantly strengthened as a consequence of the integration of credit bureau verification into the disbursement process.

Your Company is working on diversifying the products offered to the clients and providing socially relevant and need based such as products addressing 'water and sanitation', housing, alternative energy, etc. Your Company is also planning to provide savings and pension services by partnering with banks and business correspondents.

Your Company is actively working with various industry bodies such as Sa-Dhan, MFIN, AKMI to rebuild the reputation of the industry and work towards favorable regulations for the microfinance sector.

Your Company is working towards strengthening its position in its areas of operation by providing more client-centric products in a friendly and transparent manner. Your Company has already established a client grievance process with a dedicated toll free number and a grievance officer.

As Your Company has always been responsible in its pricing of services offered and in lending and recovery practices, the changes that needed to be made to comply with the new regulations have been minimal. Your Company's interest rate had always been less than 26% and hence there was no need to change the interest rate. We will implement additional processes to ensure strict compliance with the RBI regulations and intend to expand operational outreach in a prudent manner in the medium term.

Your Company has demonstrated its capability in diversifying

its funding options by raising funds through securitization, portfolio buyouts and NCDs apart from term loans from scheduled banks and financial institutions.

Your Company has adequately made provisions for loan losses and other statutory requirements.

Your Company has inducted two independent directors to enhance the governance of the Company and has also restructured the board committees during this year. The newly inducted directors are Mr Prabha R, with more than 35 years of banking experience and Mr Anal Jain, with more than 35 years of corporate experience.

Management Discussion and Analysis

The Management Discussion and Analysis for Your Company has been represented in a separate section in view of the Board's decision to provide details of all the workings of Your Company.

Corporate Governance

Your Company is committed to the best practices in corporate governance and recognizes that transparency, ethical behavior, integrity and protection of the interests of all the Shareholders form the keystones of the governance. As per the Guidelines on Corporate Governance for Non-Banking Financial Companies (Non-Deposit Accepting or Holding) issued by the RBI, the Company has constituted an Audit Committee to ensure strong internal controls and corporate reporting systems including financial reporting in pursuance with Section 29 2A of the Companies Act, 1956.

- Your Company has also constituted a RISK Committee, a Nomination and Grievance Committee, an Assets and Liability Management Committee comprised of independent and nominee directors to oversee the critical areas of the Company. The details of each Committee are provided separately in the Annual Report.
- Your Company has implemented the "Green Initiative" as per Circular No 17/2011 dated April 21, 2011 and Circular No 18/2011 dated April 29, 2011 issued by the Ministry of Corporate Affairs to enable electronic delivery of notice / documents and annual report to shareholders.

Resources and Liquidity

Your Company was rated by CRISIL in August 2010 and the Company was awarded an institutional grading of mfr3. The Company's short term structured obligations were rated as 'A2' by ICRA and were subsequently upgraded to 'A1' during the interim surveillance.



Fixed Deposits

Your Company has not accepted any deposits from the public as specified under Section 58A of the Companies Act, 1956 and complies with the guidelines mentioned related to Fixed deposits.

Increase in Share Capital

The Company has not increased its Authorized Share Capital during the fiscal year.

Dividend

Your Directors propose not to declare any dividends considering the prevalent uncertainty and liquidity constraints in the industry. Accruals will be used to fund expansion, and will be conserved to maintain sufficient levels of Capital Adequacy.

RBI Guidelines

Your Company is a non-deposit accepting NBFC registered with the Reserve Bank of India (Section 45-IA of the RBI Act, 1934). The Company provided all required information to the RBI during the annual audit conducted during the fiscal year.

Response of the Board to Auditors' comments:

Sr. No	Auditors Comments	Response
1	During the year ended March 31, 2010, the Company issued equity shares against the dividend on compulsorily convertible preference shares, amounting to Rs.937,505 to non-resident shareholder without obtaining necessary regulatory approvals. We are informed that the Company is in the process of making an application to obtain necessary regulatory approvals and the penalties involved are currently not ascertainable. Pending the outcome of the Company's application for the regulatory approvals, no adjustments have been made to the accompanying financial statements in this regard.	Self-explanatory
2	Undisputed statutory dues including provident fund, investor education and protection fund, or employees' state insurance, income-tax, sales-tax, wealth-tax, service tax, customs duty, excise duty, cess have not been regularly deposited with the appropriate authorities and there have been serious delays in large number of cases.	The Company will ensure timely submission of dues and cess going forward
3	Nine cases of cash embezzlements by the employees of the Company aggregating Rs.2,148,851 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 Company is also adequately covered by fidelity insurance cover. The Company has made a provision of Rs.979,036 against the outstanding balance (net of recovery) of Rs.1,958,072, as at the Balance Sheet date.	Self-explanatory
4	Twenty-three cases of loans given to non-existent borrowers on the basis of fictitious documentation created by the employees of the Company aggregating Rs. 1,698,383 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 Company is also adequately covered by fidelity insurance cover. The Company has made a provision of Rs.484,968 against the outstanding balance (net of recovery) of Rs.977,086, as at the Balance Sheet date.	Self-explanatory

Information Relating to Conservation of Energy, Technology Absorption

Though the Company is not engaged in any manufacturing activity, it consistently invests in energy efficient office equipment at all its office locations and strives to promote and provide funds to its borrowers to acquire eco-friendly stoves and lighting equipment.

Foreign Exchange Earnings and Outgo

The foreign exchange inflow for the Company during the year was INR Nil.
The foreign exchange outflow during the year towards revenue expense is INR 141,503/-.

Auditors

M/s. S.R. Batliboi & Co. (ICAI Registration No 324983E), Chartered Accountants, Auditors of the Company, are eligible for reappointment.

The Auditors have confirmed that their appointment, if made, shall be in accordance with the provisions of Section 224 (IB) of the Companies Act, 1956.

Members are requested to consider the Auditors' reappointment at remuneration to be fixed by the Board.



Particulars of Employees

There are no employees with a salary in excess of INR 60,00,000 per annum (rupees sixty lakhs) and hence no statement under section 217 (2A) of the Companies Act, 1956 read with Companies (Particulars of Employees Rules) 197, as amended from time to time is required to be provided.

Directors

During the year, Your Company appointed Mr Anal Kumar Jain and Mr. R Prabha as Independent Additional Directors of the Company in the Meeting of the Board of Directors held on January 27, 2011.

The members of the Board of Directors:

Name of the Director	Designation
Mrs Vinatha M Reddy	Chairperson and Whole time Director
Mr Suresh K Krishna	Managing Director
Mr P Pradeep	Nominee Director
Mrs Daksha N Shah	Independent Director
Mr Aditya Bhandari	Nominee Director
Mr Christian Banno	Nominee Director
Mr R Prabha	Independent Director
Mr Anal Jain	Independent Director

The Company convened five board meetings during the year. The table below shows the participation of the Directors at the meetings held during the year:

Name	Position	Eligible meetings	Meetings Attended
Mrs Vinatha M Reddy	Chairperson	5	5
Mr Suresh K Krishna	Managing Director	5	5
Mr P Pradeep	Nominee Director	5	5
Mrs Daksha N Shah	Independent Director	5	4
Mr Aditya Bhandari	Nominee Director	5	5
Mr Christian Banno	Nominee Director	5	4
Mr R Prabha	Independent Director	1	1
Mr Anal Jain	Independent Director	1	1



Board Committees

Your Company's Board has eight committees that monitor different aspects of the Company's operations ensuring strong oversight and regular monitoring.

i. Audit Committee

The constitution of the Audit Committee is in compliance with the requirement of Section 292A of the Companies Act, 1956 and prudential norms of (Reserve Bank) Direction, 2007.

Powers of the Audit Committee:

1. To investigate any activity within terms of reference
2. Scrutiny of Financial Statements
3. To oversee internal audit and inspections
4. To seek information from any employee
5. To obtain outside legal or professional advice
6. To secure attendance of outsiders with relevant expertise, if it deems necessary

The Audit Committee comprises of four members - one Independent, one Managing and two Nominee Directors:

1. Mr Prabha R – Chairman
2. Mr Suresh K Krishna – Member
3. Mr Christian Banno – Member
4. Mr Aditya Bhandari – Member

The names of the directors of the Audit Committee and their attendance during the year are given below:

Name of the Director	Eligible Meetings	Meetings attended
Mr R Prabha	1	1
Mr Suresh K Krishna	4	4
Mr Christian Banno	4	4
Mrs Vinatha M Reddy	3	3
Mr Aditya Bhandari	1	1
Mrs Daksha N Shah	2	1

Mrs Vinatha M Reddy and Mrs Daksha N Shah stepped down from the positions of chairperson and member respectively of the Audit Committee in the meeting of the Board of Directors held on January 27, 2011 wherein the Board decided to reconstitute the Committees of the Board. Further, Mr R Prabha, Independent director was appointed as Chairman of the Committee. Mr Aditya Bhandari was inducted as a member of the committee.

ii. Nomination and Grievances Committee

The function of the Nomination Committee of the Board is to present a roster of qualified, acceptable candidates to serve on the Board of the Company and to ensure that the board is comprised of qualified, acceptable members.

The Grievances Committee was constituted to oversee the redressal of the complaints of members and employees of the Company.

The Nomination and Grievances Committee comprises of three members, including an Independent Director who chairs the

Committee:

1. Mr R Prabha – Chairman
2. Mr Suresh K Krishna – Member
3. Mrs Vinatha M Reddy – Member

The names of the directors of the Nomination and Grievance Committee and their attendance during the year are given below:

Name of the Director	Eligible Meetings	Meetings attended
Mr R Prabha	1	1
Mr Suresh K Krishna	2	2
Mrs Vinatha M Reddy	1	1
Mrs Daksha N Shah	2	2

Mr R Prabha was appointed as Chairman of the Nomination and Grievances Committee in the meeting of the Board of Directors held on January 27, 2011 wherein the Board decided to reconstitute the Committee. Further, Mrs Vinatha M Reddy was also inducted into this Committee.

iii. Assets and Liability Management Committee (ALM)

The constitution of ALM Committee is in compliance with the prudential norms of (Reserve Bank) Direction, 2007.

Responsibilities of the Committee include:

1. Funding and Capital Planning
2. ALM reporting compliance
3. Liquidity and interest rate risk management

The Committee comprises of three members:

1. Mr Suresh K Krishna – Chairman
2. Mr Christian Banno – Member
3. Mr Aditya Bhandari – Member

The names of the directors of the ALM Committee and their attendance during the year are given below:

Name of the Director	Eligible Meetings	Meetings attended
Mr Suresh K Krishna	4	4
Mr Christian Banno	4	4
Mr Aditya Bhandari	4	4
Mr P Pradeep	3	3
Mrs Vinatha M Reddy	3	3

The newly constituted committee does not include Mr P Pradeep and Mrs Vinatha M Reddy.



iv. Compensation and Remuneration Committee

Responsibilities of the Compensation and Remuneration Committee:

1. Overseeing the Company's equity-based plans
2. Reviewing and making recommendations to the Board regarding compensation
3. Setting the compensation of the Company's executive officers
4. Performing such other duties and responsibilities as may be consistent with the provisions of this charter.

The Compensation and Remuneration Committee comprises of five members, namely:

1. Mr Anal Jain – Chairman
2. Mr Suresh K Krishna – Member
3. Mr Christian Banno – Member
4. Mrs Vinatha M Reddy – Member
5. Mr P Pradeep – Member

The names of the directors of the Compensation and Remuneration Committee and their attendance during the year are given below:

Name of the Director	Eligible Meetings	Meetings attended
Mr Suresh K Krishna	5	4
Mr Christian Banno	5	4
Mr P Pradeep	5	4
Mrs Vinatha M Reddy	5	4
Mr Anal Jain	2	2

v. Investment and Borrowing Committee

Responsibilities of the Investment and Borrowing Committee:

1. To borrow money
2. To invest funds of the Company
3. To lend money

The above mentioned responsibilities of the Committee should be in compliance with section 292 and 293 of the Companies Act, 1956.

The Investment and Borrowing Committee comprises of three members of the Board of the Company:

1. Mrs Vinatha M Reddy – Chairperson
2. Mr Suresh K Krishna – Member
3. Mr Christian Banno – Member

The names of the directors of the Investment and Borrowing committee and their attendance during the year are given below:

Name of the Director	Eligible Meetings	Meetings attended
Mr Suresh K Krishna	9	9
Mr Christian Banno	9	3
Mrs Vinatha M Reddy	9	8

vi. Executive Committee

The Executive Committee of the Board was constituted specifically to discharge the function of opening/closing of the bank accounts of the Company. The Committee comprises of three members:

1. Mrs Vinatha M Reddy – Chairperson
2. Mr Suresh K Krishna – Member
3. Mr Christian Banno – Member

The names of the Directors of the Executive Committee and their attendance during the year are given below:

Name of the Director	Eligible Meetings	Meetings attended
Mr Suresh K Krishna	1	1
Mrs Vinatha M Reddy	1	1
Mr Christian Banno	1	1

vii. Risk Committee

The Risk Committee was constituted in the meeting of the Board of Directors held on January 27, 2011.

The responsibilities of the Risk Committee:

1. To assess the different types of risk to which the organization is exposed
2. To frame the organizational risk policies
3. To exercise risk oversight and recommend mitigating solutions
4. Credit risk management



The Committee is comprised of four members, two of whom are Independent Directors:

1. Mrs Daksha N Shah – Chairperson
2. Mr Anal Jain – Member
3. Mr Suresh K Krishna – Member
4. Mr P Pradeep – Member

The names of the directors of the Risk Committee and their attendance during the year are given below:

Name of the Director	Eligible Meetings	Meetings attended
Mrs Daksha N Shah	1	1
Mr Suresh K Krishna	1	1
Mr Anal Jain	1	1
Mr P Pradeep	1	0

viii. Share and Debenture Allotment Committee

The Share and Debenture Allotment Committee is specifically authorised to allot all kinds of equity, equity linked, debt and/or hybrid instruments such as common stock, debentures bonds, preference shares, etc. in physical form and in dematerialized form to such investors as identified by the Investment and Borrowing Committee.

The Committee comprises of two members:

1. Mrs Vinatha M Reddy – Chairperson
2. Mr Suresh K Krishna – Member

The names of the directors of the Share and Debenture Allotment Committee and their attendance during the year are given below:

Name of the Director	Eligible Meetings	Meetings attended
Mr Suresh K Krishna	3	3
Mrs Vinatha M Reddy	3	3

Directors' Responsibility Statement

Pursuant to the requirement of Section 217(2AA) of the Companies Act, 1956, with respect to the Directors' Responsibility Statement, the Board of Directors of the Company hereby confirms:

1. That in the preparation of the Annual Accounts for the Financial year ended March 31, 2011, the applicable accounting standards have been followed;
2. That the Directors have selected such accounting policies and applied them consistently and made judgments and estimates that were reasonable and prudent so as to give a true and fair view of the state of affairs of the Company as on 31st March 2011 and of Profit and Loss ended on March 31, 2011;
3. That the Directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956, for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
4. That the Directors have prepared the Annual Accounts for the Financial Year March 31 2011 on a going concern basis.

Acknowledgement

The Directors take this opportunity to place on record their sincere thanks to the Banks, Financial Institutions, Insurance Companies, Central and State Government Departments and the Shareholders for their continued support and co-operation extended to the Company. The Directors are pleased to record their appreciation of the sincere and dedicated services of the employees of the Company.

On behalf of the Board of Directors
For Grameen Financial Services Private Limited

Place: Bangalore
Date: July 19, 2011

SD/-
Managing Director



Management Discussion and Analysis

Operational Highlights

Particulars	March-07	March-08	March-09	March-10	March-11
Branches	44	51	82	146	215
Districts	13	13	23	37	45
Kendras	3,829	4,700	8,902	16,411	18,520
Members	109,251	139,114	256,371	427,144	429,299
Active borrowers	82,562	117,747	211,562	352,648	321,161
Loans disbursed(during the FY in INR Cr.)	91.56	168.84	372.65	531.52	606.69
Loans Recovered(during the FY in INR Cr.)	67.75	132.18	274.0	382.64	678.50
Current Loan outstanding(INR Cr.)	45.97	82.64	181.30	330.18	250.50
Drop outs	7,362	11,423	14,356	39,098	88,488
Field Officers	223	240	440	699	770
Total Staff		480	769	1,380	1,748
Avg.Members per field officer	490 ⁴⁰⁴	580	583	638	558
Avg.Borrowers per field officer	370	491	481	527	417
Amt.Outstanding per field officer(INR Cr.)	.20	.34	.41	.49	.32

Financial Performance in FY2011

Income from operations:

Income from operations increased by 61.61% to INR 78.71 crore in FY2011 from INR 48.70 crore in FY2010. This includes interest income from Loans, income from Sale of Portfolio, Loan Processing fees and Insurance admin charges.

Other income:

Other income increased by 235.4% to INR 3.61 crore in FY2011 from INR 1.07 crore in FY2010. This was due to the interest received from fixed deposits and better cash management by deployment in mutual funds.

During the period between November 2010 and January 2011, we reduced our lending to maintain liquidity to meet financial obligations. The funds were invested in Money Market Funds, and earned a total income of INR 1.36 crore during the year.

During the FY2010-11 we successfully collected INR 22 lakh from Written-Off Accounts.

Financial expenses:

Financial expenses increased by 80.2% to INR 34.06 crore in FY11 from INR 18.90 crore in FY10. The increase was primarily due to higher borrowing costs and the upfront booking of processing fees pertaining to securitizations and buyouts. We paid INR 32.02 crore in Interest on Borrowings (INR 18.27 crore in FY10) and booked INR 1.47 crore (INR 0.39 crore in FY10) in Processing and Arranger fees.

Personnel expenses:

Personnel expenses increased by 79.3% to INR 23.25 crore in FY11 from INR 12.97 crore in FY10.

Personnel expenses pertain mainly to staff salaries and benefits and amounted to INR 23.19 crore in FY11 (INR 12.96 crore in FY10) a 78.9% increase over the previous year. Personnel expenses increased as we recruited over 900 employees based on our original expansion plan. The number of employees at the Company increased from 1380 in March 2010 to 2014 as on October 2010. The head count reduced to 1748 as of March 31, 2011 due to a freeze on additional hiring on account of subdued expansion. Further we have also provided for a sum of INR 26.71 lakh toward employee benefits against Leave Encashment, Un-Availed Sick Leave and Casual Leave in addition to Gratuity.

Operating and other expenses:

Operating and other expenses increased by 55.0% to INR 13.63 crore in FY11 from INR 8.79 crore in FY10.

The Operating Expenses mainly include Office and Branch building rent, electricity, employee travelling and conveyance, Internet and telephone expenses, Audit fees, Socioeconomic Development expenses (SEDs for Clients) and Staff Training expenses. During FY11 an amount of INR 81.09 lakh (INR 42.41 lakh in FY10) was spent on Staff Training.

Increase in operating expenses was on account of 45 additional branches opened during the year, which were either non-operational or functioned at low capacity utilization due to the crisis in the industry. We are reviewing the strategy to operationalize these branches.

Depreciation and amortization:

Depreciation and amortization increased by 7.1% to INR 2.74 crore in FY11 from INR 2.56 crore in FY10.

Provisions and write-offs:

Provisions and write-offs increased by 4.9% to INR 4.90 crore in FY11 from INR 4.68 crore in FY10.

The provisioning expenses includes Loan Loss provisioning of INR 0 (INR 2.83 crore in FY10) and bad debts written-offs and other advances written off of INR 4.90 crore (INR 1.84 crore in FY10). A significant portion of the written off amount was provided for during the last financial year (INR 2.83 crore in FY10). Additional amounts written off were as per the board approved Write-Off Policy.

Risk Management

Risk is an integral part of the Company's business and a sound risk management is critical to the success of the organization. As a financial intermediary, the Company is exposed to risks that are particular to its lending and the environment within which it operates. The Company has identified and implemented comprehensive policies and procedures to assess, monitor and manage risk throughout the Company. The Risk Committee of the Board reviews the risk management policies in relation to various risks and regulatory compliance issues.

Internal Audit and Internal Control

Your Company believes that a strong internal control framework is an essential pre-requisite of growing businesses. For this purpose, it has well documented policies, procedures and authorization guidelines commensurate with the size of the organization along with an independent internal audit system in place to conduct audits of its branches, regional offices and the head office.

Internal Audit in Your Company is an independent consulting activity that is guided by a philosophy of adding value to improve the operations of the organization. It assists Your Company in accomplishing its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of Your Company's internal control, risk management and governance processes.

The internal audit activity, with strict accountability for confidentiality and safeguarding records and information, is authorized full, free and unrestricted access to any and all of GFSPL's records, physical properties and personnel pertinent to carrying out any engagement.

The Audit Committee of the Board is updated on significant internal audit observations, compliance with statutes, and progress of risk management and effectiveness of working of the control systems every quarter. Internal Audit also interacts with the external auditors.



Human Resources

HR in Microfinance faces a major challenge in acquiring resources with the right skills and aptitude for the Industry. Your Company's HR team strongly abides by the organization's Vision of being Committed, Reliable, Empathetic, Accountable, Transparent and Efficient (CREATE). The HR ensures that these values are genuinely met for all internal resources.

The following list of activities shows the mode of operation of the Human Resources at GFSPL:

- The HR offers various employee welfare benefits – “Birthday, Wedding, Sibling Wedding and Child Gifts”, ESI, Insurance, SAF and Gratuity.
- Created HR SOPs and imparted training on HR Policies and Processes to all the employees.
- Created various forums for employees to express their views, concerns and new ideas.
- Developed a coordinated approach to the issue of bullying in order to raise organizational awareness about the issue and improve the Management's response time.

The HR has created a platform to:

- Encourage employee feedback on additional training requirements or further education.
- Build leaders by enhancing employee capabilities through training, education and internal job posting.

In these ways the Human Resources Department at GFSPL has been innovative in constantly improving its functioning.

Staff Training

Your Company has been conducting training programs for the staff. This enables them to update themselves in the activities of the organization and helps them to be motivated in their day-to-day functioning. It also offers the staffers a forum for enrichment through sharing their experiences with their fellow staffers.

Details of Training Programs FY 2010-11

Kendra Managers Training Status 2010-11							
Kendra Manager Basic Training				Kendra Manager Refresher Training			
Sl No	RTC Name	No of Batches	No Selected	Planned	Attended	No of Batches	No of Participants
				No of Batches	No of Participants		
1	Aurangabad	9	199	66	630	52	469
2	Bangalore	23	360	143	1103	143	882
3	Bijapur	13	227	133	1117	133	1018
4	Davangere	13	220	159	1457	159	1345
5	Pune	8	173	63	539	68	520
Total :		66	1179	564	4846	555	4234

Branch Managers Training Status 2010-11									
Sl No	RTC Name	ABM / BM Process Training				ABM / BM Refresher Training			
		Planned		Attended		Planned		Attended	
		No of Batches	No of Participants	No of Batches	No of Participants	No of Batches	No of Participants	No of Batches	No of Participants
1	Aurangabad	2	19	2	19	8	50	7	38
2	Bangalore	3	61	3	58	13	119	13	111
3	Bijapur	1	7	1	7	8	60	8	53
4	Davangere	1	27	1	27	15	130	14	120
5	Pune	5	23	5	23	11	101	11	94
Total :		12	137	12	134	55	460	53	416

Staff Experiences



Mr Abhishek R Jain
Senior Officer, Operations

I joined Grameen Financial Services on Aug 6, 2007 as an Insurance executive. I started off my job here

handling insurance claims and training of the field staff. Later I was appointed as an executive in the Operations Section. While working in this section my experience and knowledge grew. It is here that I gained good communication skills particularly in English language.

In 2010 I was promoted as a senior officer. I am happy that I have an important role in the organization and it gives me a good level of job satisfaction. So also, my job in GFS helped me develop my career.



Mr Mallish Athikari
Branch Manager
Chikkamangalore

I have been working for GFS for more than 6 years. I have always been interested to work for the poor and so I selected 'Rural Development' as

my optional subject for graduation. But as an individual I am unable to do much for the poor. Now, being part of GFS I can do a lot of service for them. In my opinion, GFS is the best organization to work with because there is a very good bond among the employees, and they are getting proper training and encouragement. Similarly, the clients of GFS also are being trained and are motivated for the proper utilization of loan amounts and for the timely repayment of the loans.

It is a very enriching experience to work as a Branch Manager. I am residing with Kendra Managers and it is very useful since we can discuss everything related to our job and also the ways to improve the organization's programs in the grass root level.



Mr M S Shivakumar
Senior Manager
South Karnataka (KA & TN)

I joined GFS on October 14, 2001 as a Kendra Manager. Since then I worked in different capacities as Branch

Manager, Area Manager, Divisional Manager and now I am the Regional Incharge, South Karnataka (KA & TN). I am happy to say that for all these years my experience at GFS has been very good. My knowledge and experience in the personal as well as the professional field, particularly in the Microfinance sector has grown very much.

GFS is a well known organization for its various developmental services and it is because of the top leadership management team of this Company that it is in its present position. The bond among the staff is very well maintained and the work environment is very comfortable. That gives confidence and inspiration to the employees to give their full.



Mr T N Vinay Kumar
Support Staff
GFS Registered Office,
Avalahalli

I am from Tiptur in Thumkur District. I joined the Company in 2003, through a friend of mine. All through these years my experience has been very good here. My work at the GFS Head Office is comfortable because all the officials here know me and they are very cooperative. I have a feeling of belongingness to the organization and I love to work for GFS.

Cleanliness is next to Godliness. Watsan Project gives thousands of poor Indians to have access to pure water and sanitation facilities



Information Technology

The information technology team in Your Company has focused on implementing a centralized and consolidated Information System to enable smooth and swift flow of information and data across the system. This enables Your Company to control the cost of operations and provide improved services to the members. Your Company has also been working on embracing effective and low cost technologies to support the Company's growth and overcome challenges in operations.

MIFOS

MIFOS, Microfinance Open Source, plays a key role in client information management. It is an initiative of the Grameen Foundation and the financial software has been produced specifically for the microfinance industry. The software provides key functionality for microfinance institutions: client management, portfolio management, loan repayment tracking, fee and savings transactions, and reporting. The product supports more than 850,000 microfinance clients across 28 microfinance institutions as of June 2011 and continues to grow its presence across the globe. To further enhance the reach of the product, GFSPL launched MIFOS Cloud in July 2010. MIFOS handles the complete reporting requirement for all the branches reducing most of the manual register entries which were previously in place.

E-Learning Portal

Your Company has been able to successfully implement an open source online E-learning portal for employee training, which provides a strong platform for delivering effective learning modules to all employees. The portal is a powerful tool to reduce training costs and deliver effective training programs to larger audiences.

Reporting

Your Company has also various internal and external reports using Jasper Reporting Server, which enables the reports to be auto extracted and emailed to various stake holders with a high degree of accuracy on timely basis. By adding a dedicated reporting server at your corporate office, the monthly data extraction time has been significantly reduced and helps ensure timely delivery of reports to all your stake holders.

Credit Bureau

Your Company is working with Credit Bureaus like Highmark, Equifax and CIBIL. The Credit Bureau will identify overlapping microfinance borrowers, their overall loan exposure and incidents of high default. The Credit Bureau verification process has been completely integrated into the loan delivery processes and is instrumental in minimizing instances of borrower over-indebtedness. This has made the Company more transparent in its communications with its clients.

Infrastructure Outsourcing

Your Company has been continuously working to partner with IBM on outsourced infrastructure management services, so that the entire production & DR server infrastructure management can be outsourced to them. This will bring in expertise and experience to the bench and ensure the SLA levels of uptime to be at the maximum levels.



We are informed, we are strengthened. Through the expanded
information technology services
GFSPL has made its service transparent and therefore
powerful.



Treasury and Cash Management System

Your Company has an integrated Treasury and Cash Management system that operates the complete cash/bank operations. This entails pooling of excess funds from branches and funding to the branches requiring disbursement, repayment of loan installments and payments to vendors, employees for goods, services, reimbursement, salary and investment of surplus funds if any.

Your Company became one of the few MFIs to:

- Complete assignment of receivables to Lenders, also assign portfolio for securitization deals and buy-out deals.
- Issue a non-convertible debenture directly with a Foreign Institutional Investor, listing in Bombay Stock Exchange (BSE).

New Initiatives

A future oriented organization has to continuously engage in reading the signs of the times to explore new opportunities to expand its activities. Your Company has thus shown to be pro-active in recognizing opportunities and has been a pioneer in taking various social initiatives in different segments for its customers. It has opened up new vistas in effectively providing water and sanitation facilities (WatSan), remedying indoor air pollution (IAP), offering education, Branchless Banking services, etc.

Water and Sanitation (WatSan)

An important new initiative is the WatSan project. In view of gathering accurate data on the actual living conditions of the people, Your Company conducted surveys across Tumkur district of Karnataka in 2009 and found the following facts:

- 30 to 35% of the earned income of the members was spent on health related expenses.
- More than 80% of the rural families do not have access to toilets and resort to open defecation.
- Hygiene was a major concern in more than 95% of the villages.
- Only two out of ten families had individual water tap connections in their house.
- 20% of women spent more than 3 hours of their productive time in fetching safe drinking water from taps and wells.

Water and sanitation (WatSan) loan scheme was launched in 2010 to help our clients install water connections and for the construction of toilets.

As of March 2011, we have supported 6,139 families in getting access to toilet and individual water tap connections. In terms of beneficiaries, we have helped more than 30,000 beneficiaries in stopping their age old practice of open defecation. The total loan amount disbursed so far is INR 3.87 Crore.

Indoor Air Pollution Awareness (IAP)

According to studies, indoor air pollution (IAP) kills more than 400,000 people a year in India and contributes to deforestation and climate change. The internationally recognized, and most effective way to tackle IAP is through the dissemination of 'improved cook stoves' – ones that emit less fumes and use less fuel, sometimes up to 90% less fumes and 60% less fuel. The savings from using less fuel allows users, with the help of MFIs, to repay the 700-2400 Rupee (US \$15-50) cost of the stoves within six to eight months. In collaboration with Shell Foundation & Envirofit, Your Company creates awareness through workshops and cook stove demonstrations in 13 Districts in Karnataka, and provides financing for stove purchases. The following table shows the status of the project in a nutshell:

Total number of applications mobilized	6,141
Total number of cook stove loans disbursed	4,242
Total number of cook stoves purchased	4,077

The table shows that more than 70% of the applicants actually made use of the opportunity provided to them. This explains the comparative success of the project.



Less fuel; more savings. Less fumes; more health. A sustainable environment and healthier human life is the Result of IAP Project



GK Development Trust

Banking is a process that poor people are generally ignorant of, and have little access to. In order to help the poor access banking services, Your Company aims to provide Branchless Banking services for unbanked customers through GK Development Trust (GKDT) BC agent network, facilitated by mChek mobile payment platform. The project is materialized by:

- Creating a Digi-Cash ecosystem integrating banks, telephone companies, merchants and customers on one platform.
- Enabling customers to avail banking, financial and payment services conveniently and at a low cost.

The project was implemented from April 2010 in 5 Branches of Bank of India - HSR Layout, JP Nagar, Banashankari 2nd Stage, White Field and Bidadi. The scheme envisaged appointment of Cash point agent (sub-agent) Network in the vicinity of customers to provide customer service and to visit banks.

Project Figures:

No. of cash point agents	4
No. of applications received from customers	3,417
No. of applications submitted with bank	3,417
No. pending to be sent to bank	—
No. of accounts opened	3,346
No. of active customers	483
Average transactions per day	14
Average Mobile money transactions per month	INR 98,688
Total value of transations from Oct 2010 to March 2011	INR 697,880



Beyond space and time: GFSPL clients do banking through Mobile Phones – so their daily routines are uninterrupted



GK Learning Centers

Your Company has started 20 learning centers called “HippoCampus” across rural Karnataka in partnership with Hippocampus Learning Centers (HLC), as part of its Credit Plus initiatives for the upcoming academic year. These centers shall cater to different categories of students. The idea is to start with three programs, each of which are focused on a specific set of students:

- **Primary Education Centers (PEC):** This is a program for children studying in primary school (Age 6-13 years) who shall come to these centers after their school hours to learn and do better academically at their schools. Apart from the learning through dedicated teachers, all centers have a library with colorful books, activities, games, math program, painting, coloring activities and the English program.
Price per student including bag & books – Rs. 110/month.
- **Video based Coaching Centers:** This is a program for SSLC (10th Class) students, to help them score better marks in their examinations. It is an audio-visual method of learning using the video (DVD) which has the best teachers from the city delivering the lectures in a very simple and attractive way, using pictures, colorful charts, diagrams, graphs, etc.
Price per student including books – Rs. 150/month.
- **Kindergarten centers (KG):** This is a program for small children between 3 and 5 years of age. It shall include activities and teaching methods based on the Montessori system.
Price per student including uniforms, bag and books – Rs. 200/month.

At 75% utilization in first year, the aim is to enroll close to 1,400 students combining all the 3 programs across the 20 centers. The utilization should improve to 90% by the time next batch of students are enrolled. From the third year, the utilization targets are 100%.

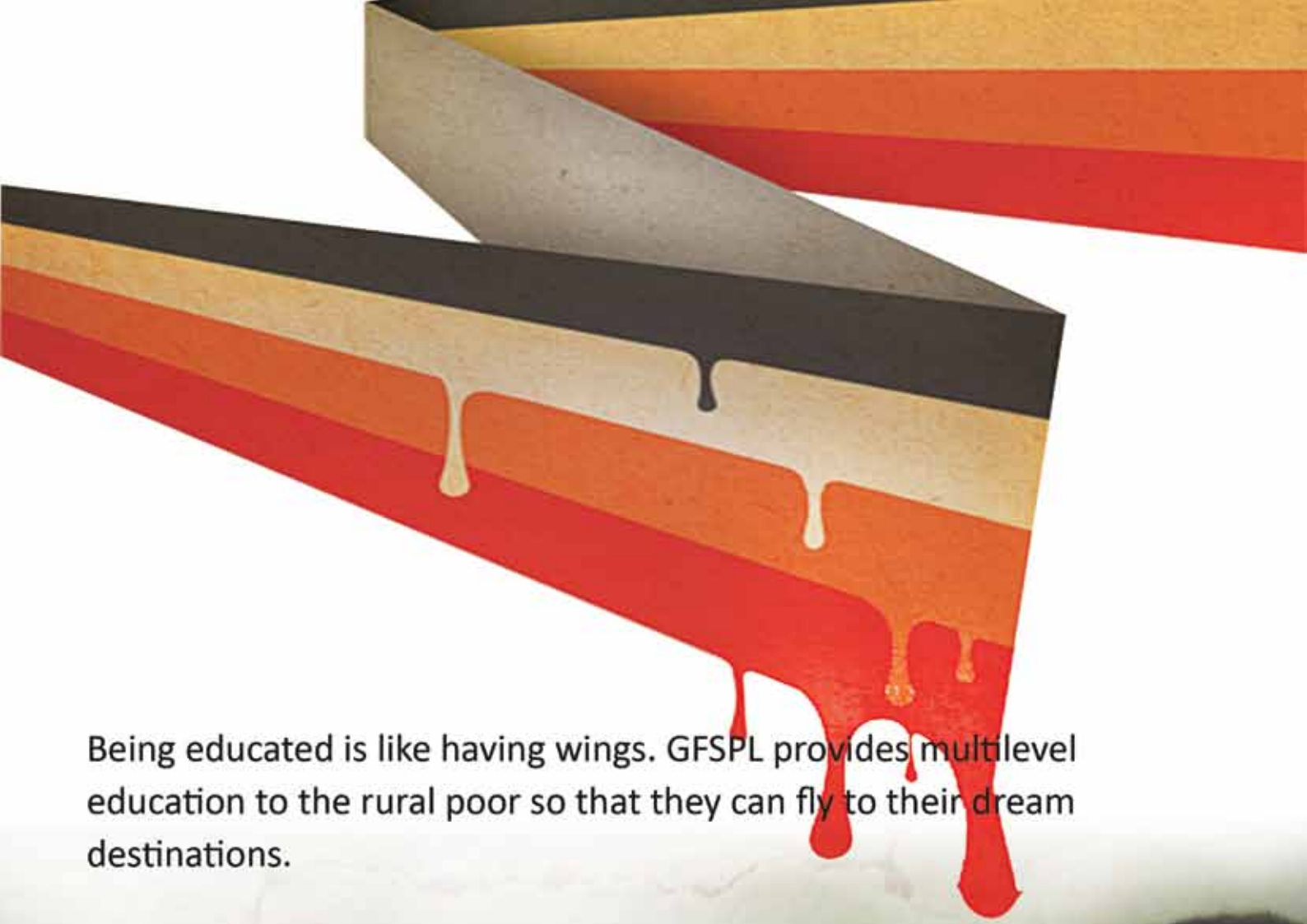
Micro-Housing

Your Company is set to partner with Habitat for Humanity (HFH) to foray in rural and urban housing space, initially supporting 100 members of GFS community, and subsequently supporting 900 members for new house constructions.

The maximum amount of loan will be INR 100,000. The first phase, comprising of 100 houses, is envisaged to be the experimental phase. This phase will cover the geographical areas of Kaggalipura, Kanakapura, Sira, Hiriur and Chitradurga. Based on the experience in the first phase, it will proceed to the completion of the project. The tentative project schedule is as shown below:

Phase	No of Houses	Duration	From	To
1	100	6 months	August 2011	January 2011
2	200	6 months	February 2011	July 2012
3	300	6 months	August 2012	January 2012
4	400	6 months	February 2012	July 2013





Being educated is like having wings. GFSPL provides multilevel education to the rural poor so that they can fly to their dream destinations.



Socio Economic Development Workshops (SEDs)

Grameen Koota has been conducting Socio economic development workshops for the last 12 years on awareness on health, legal issues, insurance, education, financial literacy, etc. The objective of these workshops has been to promote unity among our members and to enhance relationship with them and their families. This also gives us an opportunity to effectively communicate with all our members on the vision Grameen Koota envisages for them and it provides us an opportunity to get feedback on our services.

We conduct such kind of SEDs during the month of October every year for our members across all the branches of Grameen Koota. We invite our Kendra leaders and Kendra members to participate in such workshops.

Women's Day

GF SPL has been conducting Women's Day on 8th March every year across all our branches. We celebrate Women's Day in our own special way as our main mission is the empowerment of women. GK has been working towards financial independence for women as its experience reveals that women generally manage finances better and dedicate their life towards the upliftment and progress of the entire family. Grameen Koota rededicated itself to work for the cause of empowering women, especially the less privileged women from the lower strata of the society.

One such kind of Women's day was celebrated on March 8, 2011. The celebration of women's day brought together 56,000 women entrepreneurs, local people, business persons, government officials, NGO workers, labor leaders, lawyers, news persons across 142 branches of Grameen Koota. As part of the event, a special screening of 'Asha Kiran', a documentary on the importance of financial planning in one's life, was organized for the benefit of the clients.

Health Camps

One of the major areas of GF SPL's activities is working towards protecting and enhancing general health of the rural poor. In achieving that goal the organization is engaged in a variety of projects. Generating awareness on the importance of protecting health forms part of the goals of GF SPL's health programs. Identifying the health conditions and treating ill-health and diseases are constant challenges to the poor.

As part of GF SPL CSR activities Your Company has been organizing free health checkup camps for the benefit of our clients and their family members at various branches. In these camps we bring specialist doctors from both Government and private hospitals. In the last FY we conducted 5 health camps in which 2 were eye camps and 3 were general health camps. One such camp was conducted at Kanakapura branch wherein about 200 members got free health check-up. Similarly, the free eye testing camp conducted in November 2010 at the Head Office in association with Vasan Eye Care was attended by 100 members. Through the health camps of last year, around 1200 people received free check-up and advice from expert doctors.

Jagruthi

Jagruthi is an initiative of GF SPL to impart continuous education to empower the customers. Cocoon Consulting helped us build this program. The program's vision is to make a measurable and stable impact on the awareness level of the customers on basic community issues to impact a perceptual shift in their minds.

There would be a monthly theme for Jagruthi. All the activities for the month would align to this theme. Some of the themes dealt with in the year 2010-11 are the basics of money management, basic health management, legal rights, importance of education and literacy, to mention a few. Each monthly theme would be covered through four weekly sub-themes (WT). For example, 'the basics of money management' has been subdivided into: 1) Understanding money basics and your loan, 2) Good money management, 2) multiple borrowing and 4) Savings. Each sub-theme is designed in detail in such a way that it can be effectively presented for the duration of four hours. The program would have minimal cost and complexity of implementation to ensure easy replication and use across the sector.

Thus Jagruthi is motivating and inspiring the clients across the branches of GF SPL.



Women rise to recreate India by activating their dormant potentials.
Financial literacy makes them confident and enables them to earn
with their male partners



Progress out of Poverty Index (PPI)

Your Company collects poverty data on its clients using Grameen Foundation's tool, Progress out of Poverty Index (PPI). GFSPL is the first MFI in India to do so. One data point is collected every time income generating loan is renewed. The PPI data is collected from clients at the time of client acquisition, during each loan renewal, and at drop-out, if the client should leave the institution. Once collected, the PPI data is housed in the MIFOS platform to meet the specific data management needs.

GFSPL has collected PPI scores from over 300,000 clients since December 2008. More than 60,000 of these clients now have at least two PPI scores, and 4000 have three, which allow the organization to begin to track its clients' movement out of poverty. The data is analyzed regionally and at the branch level which helps the institution set targets based on this information. Another advantage is that the data can be parsed by various client characteristics such as urban/rural location, religion, branch affiliation, etc., in order to understand its clients' needs.

The data used for analysis is as on March 31, 2011. A total of 309,734 number of active customers' most recent PPI data have been used for the analysis.

A. Overall Portfolio

Portfolio	Base (Nos)	Below NPL	Below \$1.25/day/PPP	Below \$2/day/PPP
GK Clients	309,734	13.0%	35.8%	73.7%
National Rates (All India)	—	17.0%	42.6%	74.9%

B. By type of clients

Portfolio	Base (Nos)	Below NPL	Below \$1.25/day/PPP	Below \$2/day/PPP
Existing	253,826	12.8%	35.2%	73.1%
New Clients	55,908	13.9%	38.4%	76.4%

C. Rural Vs Urban clients

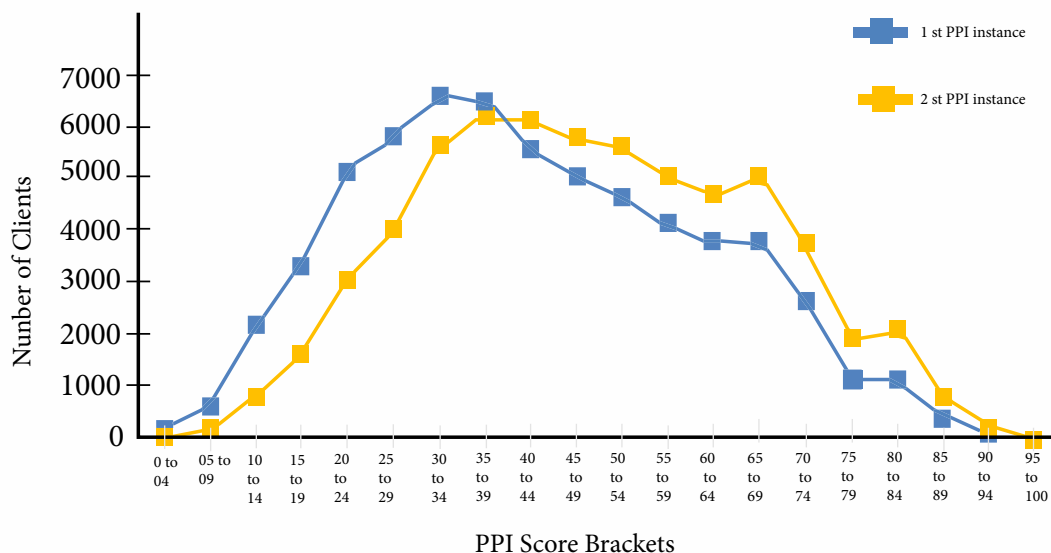
Portfolio	Base (Nos)	Below NPL	Below \$1.25/day/PPP	Below \$2/day/PPP
Rural Clients	168,216	14.1%	39.0%	76.7%
Urban Clients	141,518	11.6%	32.0%	70.1%

D. Customer cycle analysis

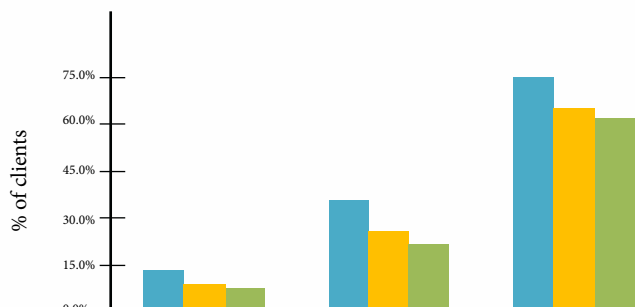
Portfolio	Base (Nos)	Below NPL	Below \$1.25/day/PPP	Below \$2/day/PPP
Cycle 1 & 2	204,828	14.1%	38.5%	76.1%
Cycle 3	48,594	12.8%	35.0%	72.6%
Cycle 4	15,548	9.5%	27.4%	66.4%
Cycle 5 & higher	40,764	9.0%	26.1%	65.4%

Significant reduction in the poverty levels for clients with more than 3 loan cycles is evident.





	Below NPL	Below \$1.25/day PPP	Below \$2/day PPP
PPI 1	15.0%	40.4%	76.9%
PPI 2	11.0%	31.5%	70.4%
National Poverty Rate,%			
Total Indian Population	17.0%	42.6%	74.9%



	Below NPL	Below \$1.25/day PPP	Below \$2/day PPP
1st PPI instance	12.6%	35.3%	74.0%
2nd PPI instance	8.8%	25.5%	64.7%
3rd PPI instance	7.1%	20.7%	61.0%

As seen in the table and chart above, the absolute poverty levels of GK clients with data from two PPIs have improved consistently across all poverty brackets during the course of their loan cycle, as the second PPI was collected at the time of their repeat loan application. These data show that chances of clients living on \$1.25 a day during the 2nd PPI instance has reduced by 9% and 7% by clients living on \$2 a day as compared to their chances during the 1st PPI instance.

The lines in the graph show the number of clients in each PPI score bracket for the first and second rounds of PPI data collection at GK. The line shifts to the right for the second PPI scores, meaning that clients generally have become less poor since they joined GK's credit program.

The implementation of PPI not only has allowed GFS to track progress of clients with two PPI scores, but also of clients with three PPI scores. The progress made by clients across poverty lines has been steady. The chart above shows that the chances of clients living on \$1.25 a day during the 3rd PPI instance has been reduced by 15% and 12% by clients living on \$2 a day as compared to their chances during the 1st PPI instance.

The new initiatives have shown that Your Company is on the right track, but it also reveals the need for extending its work both horizontally and vertically. The Company thus finds much more scope for developing its activities in the future.

Auditors' Report



Auditors' Report

To
The Members of Grameen Financial Services Private Limited

1. We have audited the attached Balance Sheet of Grameen Financial Services Private Limited ('the Company') as at March 31, 2011 and also the Profit and Loss Account and the Cash Flow Statement for the year ended on that date annexed thereto. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.
2. We conducted our audit in accordance with auditing standards generally accepted in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
3. As required by the Companies (Auditor's Report) Order, 2003 (as amended) ('the Order') issued by the Central Government of India in terms of sub-section (4A) of Section 227 of the Companies Act, 1956, we enclose in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the said Order.
4. *During the year ended March 31, 2010, the Company issued equity shares against the dividend on compulsorily convertible preference shares, amounting to Rs.937,505 to non-resident shareholder without obtaining necessary regulatory approvals. We are informed that the Company is in the process of making an application to obtain necessary regulatory approvals and the penalties involved are currently not ascertainable. Pending the outcome of the Company's application for the regulatory approvals, no adjustments have been made to the accompanying financial statements in this regard.*
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. 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 Companies Act, 1956.
 - 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 Companies Act, 1956.



S.R. BATLIBOI & Co.

Chartered Accountants

Auditors' Report
Grameen Financial Services Private Limited
Year ended March 31, 2011

Page 2 of 5

- vi. In our opinion and to the best of our information and according to the explanations given to us *except for the matter stated in paragraphs 4 above*, the said accounts give the information required by the Companies Act, 1956, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India;
- a) in the case of the Balance Sheet, of the state of affairs of the Company as at March 31, 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 Cash Flow Statement, of the cash flows for the year ended on that date.

S. R. Batliboi & Co.

For S. R. BATLIBOI & Co.

Firm registration number: 324983E

Chartered Accountants

Shrawan Jalan

per Shrawan Jalan

Partner

Membership No.: 102102

Mumbai

Date: July 20, 2011



Annexure referred to in paragraph 3 of our report of even date
Re: Grameen Financial Services Private Limited ('the Company')

- (i) (a) The Company has maintained proper records showing full particulars, including quantitative details and situation of fixed assets.
- (b) Fixed assets have been physically verified by the management during the year and no material discrepancies were identified on such verification.
- (c) There was no substantial disposal of fixed assets during the year.
- (ii) The Company is a Non-Banking Financial Company ('NBFC') engaged in the business of giving loans and does not maintain any inventory. Therefore the provisions of clause 4(ii) of the Order are not applicable to the Company.
- (iii) (a) According to the information and explanations given to us, the Company has not granted any loans, secured or unsecured to companies, firms or other parties covered in the register maintained under section 301 of the Companies Act, 1956. Accordingly, the provisions of clause 4 (iii)(a) to (d) of the Order are not applicable to the Company and hence not commented upon.
- (b) According to the information and explanations given to us, the Company has not taken any loans, secured or unsecured from companies, firms or other parties covered in the register maintained under section 301 of the Companies Act, 1956. Accordingly, the provisions of clause 4(iii)(e) to (g) of the Order are not applicable to the Company and hence not commented upon.
- (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. The activities of the Company do not involve purchase of inventory and the sale of goods. During the course of our audit, we have not observed any major weakness or continuing failure to correct any major weakness in the internal control system of the Company in respect of these areas.
- (v) In our opinion, there are no contracts or arrangements that need to be entered in the register maintained under Section 301 of the Companies Act, 1956.
- (vi) The Company has not accepted any deposits from the public.
- (vii) In our opinion, the Company has an internal audit system commensurate with the size and nature of its business.
- (viii) To the best of our knowledge and as explained, the Central Government has not prescribed maintenance of cost records under clause (d) of sub-section (1) of section 209 of the Companies Act, 1956 for the products of the Company.
- (ix) (a) Undisputed statutory dues including provident fund, investor education and protection fund, or employees' state insurance, income-tax, sales-tax, wealth-tax, service tax, customs duty, excise duty, cess have not been regularly deposited with the appropriate authorities and there have been serious delays in large number of cases.



Further, since the Central Government has till date not prescribed the amount of cess payable under section 441 A of the Companies Act, 1956, we are not in a position to comment upon the regularity or otherwise of the company in depositing the same.

- (b) According to the information and explanations given to us, undisputed amounts payable in respect of provident fund, investor education and protection fund, employees' state insurance, income-tax, wealth-tax, service tax, sales-tax, customs duty, excise duty, cess and other undisputed statutory dues were outstanding, at the year end, for a period of more than six months from the date they became payable.

Name of the statute	Nature of the dues	Amount (Rs)	Period to which the amount relates	Due Date	Date of Payment
Employees' State Insurance	Contribution to the fund	50,994	Various Dates	Various Dates	28-Jun-11
Employees' State Insurance	Contribution to the fund	834	Aug-10	21-Sep-10	Not paid till date

- (c) According to the information and explanations 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 financial institution, bank or debenture holders.
- (xii) According to the information and explanations given to us and based on the documents and records produced to us, the Company has not granted loans and advances on the basis of security by way of pledge of shares, debentures and other securities.
- (xiii) In our opinion, the Company is not a chit fund or a nidhi / mutual benefit fund / society. Therefore, the provisions of clause 4(xiii) of the Order are not applicable to the Company.
- (xiv) In our opinion, the Company is not dealing in or trading in shares, securities, debentures and other investments. Accordingly, the provisions of clause 4(xiv) of the Order are not applicable to the Company.
- (xv) According to the information and explanations given to us, the Company has not given any guarantee for loans taken by others from bank or financial 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) According to information and explanations given to us and based on records, the Company has issued 35 secured debentures of Rs.10,000,000 each on February 15, 2011. The Company has created security/charge in respect of these secured debentures subsequent to the balance sheet date on May 2, 2011.
- (xx) The Company has not raised money by public issue during the year.
- (xxi) Based upon the audit procedures performed for the purpose of reporting the true and fair view of the financial statements and as per the information and explanations given by the management, we report that no material 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) *Nine cases of cash embezzlements by the employees of the Company aggregating Rs.2,148,851 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 Company is also adequately covered by fidelity insurance cover. The Company has made a provision of Rs.979,036 against the outstanding balance (net of recovery) of Rs.1,958,072, as at the Balance Sheet date.*
- (b) *Twenty-three cases of loans given to non-existent borrowers on the basis of fictitious documentation created by the employees of the Company aggregating Rs. 1,698,383 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 Company is also adequately covered by fidelity insurance cover. The Company has made a provision of Rs.484,968 against the outstanding balance (net of recovery) of Rs.977,086, as at the Balance Sheet date.*

S R Batliboi & Co.

For S. R. BATLIBOI & Co.

Firm registration number: 324982E

Chartered Accountants

Shrawan Jalan

per Shrawan Jalan

Partner

Membership No.: 102102

Mumbai

Date: July 20, 2011

Grameen Financial Services Private Limited

Balance Sheet as at March 31, 2011

	schedules	As at March 31, 2011	As at March 31, 2010
		Rupees	Rupees
SOURCES OF FUNDS:			
Shareholders Funds			
Share Capital	1	248,423,210	248,423,210
Reserves and Surplus	2	288,928,322	254,006,576
		<u>537,351,532</u>	<u>502,429,786</u>
Loan Funds			
Secured Loans	3	2,260,788,659	2,461,376,832
Deferred Tax Liability (Net)		-	555,170
TOTAL		<u>2,798,140,191</u>	<u>2,964,361,788</u>
APPLICATION OF FUNDS:			
Fixed Assets			
Gross Block		47,150,407	30,211,976
Less: Accumulated Depreciation		12,871,339	7,466,524
Net Block	4A	<u>34,279,068</u>	<u>22,745,452</u>
Intangible Assets			
Gross Block	4B	83,796,736	82,968,688
Less: Accumulated Amortization		73,453,556	51,988,232
Net Block		<u>10,343,180</u>	<u>30,980,456</u>
Capital work in progress (including capital advances)		378,000	-
Deferred Tax Asset (Net) (Refer note 13 of schedule 18)		10,179,919	-
Investments	5	315,547,240	42,000,000
Current Assets, Loans and Advances			
Cash and Bank Balances	6	608,861,887	591,829,088
Loans and Advances	7	1,910,405,568	2,387,434,423
Other Current Assets	8	10,996,535	8,199,974
	(A)	<u>2,530,263,990</u>	<u>2,987,463,485</u>
Less: Current Liabilities and Provisions			
Current Liabilities	9	82,713,874	108,407,140
Provisions	10	32,361,985	30,304,478
	(B)	<u>115,075,859</u>	<u>138,711,618</u>
Net current Assets	(A-B)	<u>2,415,188,131</u>	<u>2,848,751,867</u>
Miscellaneous Expenditure (To the extent not written off or adjusted)	11	12,224,653	19,884,013
TOTAL		<u>2,798,140,191</u>	<u>2,964,361,788</u>

Notes to Accounts

18

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

As per our audit report of even date

For S.R. Batliboi & Co.

Chartered Accountants

Firm Reg. No. 324982E

[Signature]

per Shrawan Jaisan

Partner

Membership No. 102102

Place: MUMBAI

Date: July 20, 2011

For and on behalf of Grameen Financial Services Private Limited

[Signature]
Managing Director

[Signature]
Chairman

[Signature]
Chief Financial Officer

[Signature]
Company Secretary



Grameen Financial Services Private Limited

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

Schedules	For the year ended March	
	31,2011	March 31,2010
	Rupees	Rupees
Income		
Income from Operations	12 787,173,506	487,087,055
Other Income	13 36,163,051	10,783,502
Total	823,336,557	497,870,557
Expenditure		
Financial expenses	14 340,652,144	189,077,319
Personnel expenses	15 231,941,310	129,662,418
Operating and other expenses	16 136,376,206	87,933,351
Depreciation and amortization	4A & 4B 27,372,411	25,566,715
Provisions and write offs	17 49,073,292	46,817,433
Total	785,415,363	479,057,236
Profit before tax	37,921,194	18,813,321
Provision for:		
Current Tax	13,554,536	10,174,801
Deferred Tax	(10,735,088)	297,273
Tax (credit) / charge in respect of earlier years	-	(1,115,216)
Total tax expenses	2,819,448	9,356,858
Profit after tax	35,101,746	9,456,463
Profit brought forward from previous year	14,068,619	7,440,954
Profit Available for appropriation	49,170,365	16,897,417
APPROPRIATIONS:		
Transfer to Statutory Reserve @ 20% after tax as required by Sec 45-IC of Reserve Bank of India Act, 1934	7,020,349	1,891,293
Preference Dividend	-	937,505
Dividend Tax Paid	180,000	-
Surplus Carried to Balance sheet	41,970,016	14,068,619
Earning per share (Refer note 10 of schedule 18)		
Basic (Rs.)	1.41	0.49
Diluted (Rs.)	1.41	0.49
Nominal Value of Share (Rs.)	10.00	10.00
Significant accounting policies and Notes to accounts	18	
The schedules referred to above and notes to accounts form an integral part of the Balance Sheet as per our audit report or even date		
For S.R. Batliboi & Co. Chartered Accountants Firm Reg. No.324982E		
For and on behalf of Grameen Financial Services Private Limited		
per Shrawan Jalan Partner Membership No.102102 Place: Mumbai Date: July 20, 2011	Surya Managing Director	Vinatha H. Reddy. Chairman
	Chief Financial Officer	Company Secretary



Grameen Financial Services Private Limited
Schedules to Balance sheet

	As at March 31, 2011 Rupees	As at March 31, 2010 Rupees
Schedule 1: Share Capital		
Authorized share capital		
Equity Shares		
27,000,000 (Previous Year: 27,000,000) equity shares of Rs 10 each	270,000,000	270,000,000
Preference shares		
3,000,000 (Previous Year: 3,000,000) preference shares of Rs 10 each	30,000,000	30,000,000
Total	300,000,000	300,000,000
Equity Shares		
Issued, Subscribed and Paid up:		
2,48,42,321* Equity shares of Rs.10/- each fully paid (Previous Year: 24,842,321 Shares @ Rs. 10/- each)	248,423,210	248,423,210
*(Of the above, 4,500,000 (Previous year: 4,500,000) equity shares are allotted as fully paid up pursuant to a contract without payment being received in cash)		
*(1,750,000 (Previous year: 1,750,000) equity shares have been issued under sweat equity scheme for consideration other than cash)		
Schedule 2: Reserves and Surplus		
A. Securities premium account	236,186,425	236,186,425
B. Statutory Reserve:		
As per last Balance Sheet	3,751,532	1,860,239
Add: Transferred from Profit and Loss account	7,020,349	1,891,293
	10,771,881	3,751,532
C. Profit and Loss Account:	41,970,016	14,068,619
Total	(A+B+C) 288,928,322	254,006,576
Schedule 3: Secured Loans**		
Debentures*		
35 (Previous year: Nil) 11.25% Secured Redeemable Non-Convertible Debentures of Rs.1,00,00,000/- each redeemable at par at the end of two years three months from the date of allotment viz.,15.02.2011, or at the option of the Company earlier at par, but not before the end of the two years three months from the date of allotment, in part or full, (Secured by hypothecation of book debts)	350,000,000	
*(The charge for the secured Debentures outstanding as on the Balance Sheet date has been created subsequent to the Balance Sheet date on May 02,2011)		
Nil (Previous year: 200) 12% Secured Redeemable Non-Convertible Debentures of Rs 10,00,000 each redeemable at par at the one year from the date of allotment viz.,31.12.2009, or at the option of the Company earlier at par, but not before the end of the 1 year) from the date of allotment, in part or (Secured by hypothecation of book debts)		200,000,000
Term loans		
Term loan from bank (Secured by hypothecation of book debts and by lien marked on bank deposits)	1,204,689,117	1,947,119,468
Term loan from financial institution (Secured by hypothecation of book debts and by lien marked on bank deposits)	240,081,000	94,000,000
Term loan from non banking financial companies (Secured by hypothecation of book debts and by lien marked on bank deposits)	445,499,270	199,444,431
Other facilities from banks (Secured by hypothecation of book debts and vehicle)	20,519,272	20,812,933
Total	2,260,788,659	2,461,376,832
** Secured loans aggregating to Rs.389,924,538 are not secured by an equal amount of the security in the form of hypothecation of book debts/ lien on fixed deposits as at March 31,2011. Since, the Company made draw downs of loan towards the end of the year, the security cover has been completed subsequent to the Balance Sheet date.		



Signature





Grameen Financial Services Private Limited

Schedules to Balance Sheet

Schedule 4: Fixed Assets and Intangible Assets

4A: Fixed Assets

PARTICULARS	Gross Block			Depreciation			Net Block	
	As on April 01, 2010	Additions	Deletions	As on March 31, 2011	As on April 01, 2010	For the year	As on March 31, 2011	As on March 31, 2010
(I) Furniture and Fixtures	5,930,928	4,981,949	-	10,912,877	2,404,076	1,995,095	4,399,171	3,526,852
(II) Plant and machinery								
Computers	6,118,978	8,378,502	-	14,497,480	1,502,791	1,840,339	3,343,130	11,154,350
Electrical Equipments	3,022,840	1,183,116	118,854	4,087,102	459,367	359,772	797,701	3,289,401
Office equipment	5,106,027	2,485,249	-	7,591,276	419,869	462,230	882,099	6,709,177
(III) Vehicles	9,260,403	-	818,138	8,442,265	2,666,271	919,576	3,105,013	5,337,252
(IV) Building	772,800	-	-	772,800	14,150	12,597	26,747	746,053
(V) Leasehold Improvements	-	846,607	-	846,607	-	317,478	317,478	529,129
Total	30,211,976	17,875,423	936,992	47,150,407	7,466,524	5,907,087	12,871,339	34,279,068
Previous year	18,517,963	12,803,114	86,979	30,211,976	3,289,448	4,469,484	7,466,524	22,745,452

4B: Intangible Assets

PARTICULARS	Gross Block			Depreciation			Net Block	
	As on April 01, 2010	Additions	Deletions	As on March 31, 2011	As on April 01, 2010	For the year	As on March 31, 2011	As on March 31, 2010
(I) Computer Software *	6,968,688	828,048	-	7,796,736	3,988,232	1,465,320	5,453,552	2,343,184
(II) Goodwill	76,000,000	-	-	76,000,000	48,000,000	20,000,004	68,000,004	7,999,996
Total	82,968,688	828,048	-	83,796,736	51,988,232	21,465,324	73,453,556	10,343,180
Previous year	81,946,565			82,968,688	30,654,877	21,097,224	51,988,232	30,980,456

* Refer note 6 of schedules 18



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Grameen Financial Services Private Limited

Schedules to Balance sheet

	March 31, 2011	March 31, 2010
	Rupees	Rupees
Schedule -5: Investments		
Long term Investments (at Cost)		
Other than trade- Unquoted		
20000(Prior year 20000) Equity shares of Rs 10 each of Alpha Microfinance Consultants Pvt Ltd	2,000,000	2,000,000
Current Investments		
Units of mutual funds (At net asset value declared by the fund)	313,547,240	40,000,000
(At cost: Rs. 307,925,196, Previous year: Rs.40,000,000)		
Total	315,547,240	42,000,000

Statement of mutual fund units purchased and sold during the year*:

Particulars	Purchased		Redeemed	
	Units	Cost	Units	Cost
Bharti AXA Treasury Advantage Fund - Institutional Plan - Daily Dividend (Re-Investment)	20,000	20,000,000		20,000,000
Birla Sun Life Savings Fund - Institutional Plan - Daily Dividend (Re-Investment)	11,991,846	120,000,000	11,991,846	120,000,000
Birla Sun Life Cash Plus - Instl. - Daily Dividend - Reinvestment	8,332,619	90,011,455	8,332,619	90,011,455
Birla Sun Life Cash Plus - Instl. Premium - Daily Dividend - Reinvestment	6,487,350	65,000,000	6,487,350	65,000,000
HDFC Liquid Fund - Premium Plan - Daily Dividend (Re-Investment)	6,525,392	80,000,000	6,525,392	80,000,000
HDFC Floating Rate Income Fund - Short Term Plan - Wholesale Option - Dividend Reinvestment	14,383,636	145,000,000	14,383,636	145,000,000
HDFC Liquid Fund - Dividend - Daily Dividend (Re-Investment)	8,334,804	85,000,000	8,334,804	85,000,000
ICICI Prudential Flexible Income Plan - Premium Plan - Daily Dividend (Re-Investment)	2,326,571	246,000,000	2,326,571	246,000,000
ICICI Prudential Liquid Super Institutional Plan - Daily Dividend (Re-Investment)	1,449,672	145,000,000	1,449,672	145,000,000
IDFC Cash Fund - Super Inst Plan C - Daily Dividend	12,996,751	130,000,000	12,996,751	130,000,000
IDFC Cash Fund - Inst Plan B - Daily Dividend	17,095,955	181,000,000	17,095,955	181,000,000
IDFC Money Manager Fund - TP - Super Inst Plan C - Daily Dividend	21,756,736	217,600,000	21,756,736	217,600,000
Reliance Money Manager - Institutional Plan - Daily Dividend (Re-Investment)	130,821	131,000,000	130,821	131,000,000
Reliance Money Manager - Retail Plan - Daily Dividend (Re-Investment)	45,948	46,000,000	45,948	46,000,000
Religare Liquid Fund - Institutional Daily Dividend	32,192,918	322,000,000	32,192,918	322,000,000
Religare Ultra Short Term Fund - Institutional Daily Dividend	18,588,214	186,200,000	18,588,214	186,200,000
SBI - Magnum Insta Cash Fund - Daily Dividend Option	5970042.328	100,000,000	5970042.328	100,000,000
SBI - SHF - Ultra Short Term Fund - Institutional Plan - Daily Dividend	21187287.63	212,000,000	21187287.63	212,000,000
TATA Liquid Super High Investment Fund - Daily Dividend	35,890	40,000,000	35,890	40,000,000
Fidelity Cash Fund - Institutional - Daily Dividend	25,093,727	251,000,000	25,093,727	251,000,000
Fidelity Ultra Short Term Debt Fund Institutional - Daily Dividend	31,242,189	312,500,000	31,242,189	312,500,000
Total	246,188,369	3,125,311,455	246,188,369	3,125,311,455



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Grameen Financial Services Private Limited
Schedules to Balance sheet

	As at March 31, 2011	As at March 31, 2010
	Rupees	Rupees
Schedule 6: Cash & Bank Balances		
Cash on hand	31,387,321	148,298,311
Balances with scheduled banks:		
On current accounts	209,426,416	268,927,292
On deposit accounts*	368,048,150	174,603,485
Total	608,861,887	591,829,088
* Of the total deposits placed with banks, lien has been marked against deposit certificates of Rs. 218,048,150 (Previous Year Rs.174,603,485) towards term loans availed from banks, NBFC's, financial institutions and towards cash collateral placed in connection with asset assignment/ securitization.		
Schedule 7: Loans and Advances		
A. Portfolio loans		
a. Portfolio loans (unsecured, considered good)		
Joint liability group loans	1,691,339,704	2,300,224,683
Individual loans	100,633,647	41,112,738
b. Portfolio loans (unsecured, consider doubtful)*		
Joint liability group loans	1,721,498	-
	1,793,694,849	2,341,337,421
c. Portfolio loans (unsecured, considered good)		
Joint liability group loans placed as collateral for loan asset assigned/ securitized (Refer note 3 of schedule 18)	69,704,958	-
Sub Total (A)	1,863,399,807	2,341,337,421
B. Other Loans and Advances		
Unsecured and considered good		
Employee loans and advances	8,572,524	10,509,409
Security deposits	21,596,620	12,638,681
Interest accrued and due on portfolio loans	1,364,722	2,909,612
Advance tax (net of provision)	554,707	-
Advances recoverable in cash or in kind or for value to be received		
Prepaid and other expenses	11,907,650	20,039,300
Unsecured and considered doubtful		
Advances recoverable in cash or in kind or for value to be received	3,009,538	-
(B)	47,005,761	46,097,002
Total (A+B)	1,910,405,568	2,387,434,423
Schedule 8: Other Current Assets		
Interest accrued but not due		
On portfolio loans	3,177,221	6,476,731
On deposits placed with banks	7,819,314	1,723,243
Total	10,996,535	8,199,974
Schedule 9: Current Liabilities		
Sundry creditors		
Due to micro & small enterprises (Refer note 14 of schedule 18)	-	-
Due to others	1,207,249	-
Employees payable	10,231,087	7,103,297
Statutory Dues	5,809,078	1,308,202
Deferred gain on asset assignment/ securitization	2,278,812	45,555,791
Payable for loan asset assignment/ securitization	24,302,932	33,381,772
Interest accrued but not due:		
On term loans	7,998,926	-
On debentures	4,854,452	-
Other Liabilities	26,031,338	21,058,078
Total	82,713,874	108,407,140



Grameen Financial Services Private Limited**Schedules to Balance sheet**

	As at March 31, 2011	As at March 31, 2010
	Rupees	Rupees
Schedule -10: Provisions		
Provision for standard and non performing assets (Refer note 11 of schedule 18)	25,512,719	28,337,764
Provision for gratuity (Refer note 8 of schedule 18)	1,214,368	-
Provision for leave encashment and availment	2,625,360	-
Provision for taxation (net of advance tax)	-	1,966,714
Provision for other assets	3,009,538	-
Total	32,361,985	30,304,478
Schedule -11: Miscellaneous expenditure (to the extent not written off or adjusted)		
Share issue expenses	1,685,378	2,566,898
Discount on issue of Debenture	1,296,296	-
Sweat Equity Expense to Be Written Off	-	7,000,000
Ancillary Borrowing Costs	9,242,979	10,317,115
Total	12,224,653	19,884,013



Grameen Financial Services Private Limited

Schedules to Profit and Loss account

	For the year ended March 31, 2011	For the year ended March 31, 2010
	Rupees	Rupees
Schedule 12		
Income from Operation		
Interest on portfolio loans	563,082,859	330,724,078
Income from securitisation & asset assignment (Refer note 3 of schedule 18)	68,366,645	18,887,652
Loan processing fees	144,705,309	125,323,365
Insurance administration charges	11,018,693	12,151,960
Total	787,173,506	487,087,055
Schedule 13		
Other Income		
Interest on fixed deposits	12,990,903	8,060,591
(Tax deducted at source-Rs 12,80,927 (Previous year Rs749,030))	13,626,373	-
Dividend on mutual funds	1,041,635	873,981
Interest on staff loans	624,783	388,099
Interest on other loans	3,915,931	895,932
Excess provision no longer required written back	1,690,134	564,899
Miscellaneous Income	2,273,292	-
Recovery of Bad debts	-	-
Total	36,163,051	10,783,502
Schedule 14		
Financial Expenses		
Interest on term loans and non convertible debentures	320,298,420	182,765,938
Loan processing fees	10,102,071	3,903,633
Arranger fees	4,670,507	-
Subscription fees for Non convertible debentures	1,833,334	-
Bank charges	3,688,765	2,401,836
Interest on car loan	59,047	5,912
Total	340,652,144	189,077,319
Schedule 15		
Personnel Expenses		
Salaries and bonus/ incentives	205,410,706	116,477,772
Contribution to provident fund	9,834,419	5,828,283
Contribution to ESIC	6,870,677	3,327,964
Contribution to labour welfare fund	12,476	17,292
Contribution to superannuation fund	618,536	412,849
Staff leave encashment and availment	2,671,921	112,790
Leave travel allowance	2,256,859	1,606,625
Gratuity (Refer note 8 of schedule 18)	1,477,588	1,106,812
Staff welfare expenses	2,788,128	772,031
Total	231,941,310	129,662,418
Schedule 16		
Operating and Other Expenses		
Rent	21,250,520	12,928,815
Rates & taxes	2,372,587	296,846
Insurance	1,053,183	590,133
Repairs & maintenance		
Repairs to building	5,440,205	5,252,108
Repairs to machinery	1,163,864	452,215
Others	1,858,036	1,976,094
Electricity	2,642,195	1,484,834
Travelling and conveyance	39,534,211	27,783,022
Postage & telecommunication	7,919,668	5,026,059
Printing & stationery	9,105,329	7,582,934
Professional & consultancy charges	22,922,180	8,009,821
Directors sitting fees	235,000	80,000
Auditors remuneration (Refer note 15 of schedule 18)		
Audit fees	800,000	
Out of pocket fees	62,690	862,690
Training expenses	8,109,532	4,241,050
Other administrative expenses	11,907,006	11,197,524
Total	136,376,206	87,933,351



Grameen Financial Services Private Limited

Schedules to Profit and Loss account

	For the year ended March 31, 2011	For the year ended March 31, 2010
	Rupees	Rupees
Schedule 17		
Provisions and Write offs		
Provision for standard and non performing asset	-	28,337,764
Bad Debts written off	45,273,321	17,082,951
Provision for other assets	3,799,971	1,396,718
Total	49,073,292	46,817,433



Grameen Financial Services Pvt Ltd
Cash Flow Statement For the year ended March 31, 2011

	March 31, 2011 Rupees	March 31, 2010 Rupees
A. Income from Operative activities		
Net profit before taxation	37,921,194	18,813,321
Adjustments for		
Depreciation & Amortisation	27,372,411	10,413,458
Loss on disposal of fixed asset	135,020	30,701
Discount on issue of debentures	103,704	-
Provision for Gratuity	1,214,368	-
Provision for Leave	2,625,360	-
Bad Debts Written Off	45,273,321	-
Other advances written off	3,799,971	-
Processing fees	10,102,071	-
Arranger Fees	4,670,507	-
Amortisation of share issue expenses	881,520	2,566,898
Sweat Equity expenses	7,000,000	3,500,000
Dividend Income	(13,626,373)	-
Provision Written Back	(2,825,045)	-
Operating Profit Before working capital changes	124,648,029	35,324,378
Movement in working capital:		
(Increase)/ Decrease in Loans & advances	431,519,811	(1,464,606,334)
(Increase)/ Decrease in other Current Assets	(2,796,561)	(15,712,381)
(Decrease)/ Increase in current Liabilities & Provisions	(25,693,266)	55,183,639
Direct taxes paid	(16,255,957)	(6,368,298)
Cash generated from operating activities (A)	511,422,056	(1,396,178,996)
B. Cash Flow from Investing Activities		
Purchase of Fixed Assets	(19,081,471)	(12,803,114)
Sale of Fixed Asset	299,700	-
Dividend Income	13,626,373	-
Purchase of investments	(273,547,240)	(42,000,000)
Bank deposits not considered as cash and cash equivalent (net)	(43,444,665)	(105,443,381)
Net Cash Flow in Investing Activities (B)	(322,147,303)	(160,246,495)
C. Cash flow from Financing Activities		
Secured Loans (repaid)/availed	(215,686,620)	1,529,406,553
Increase in Share Capital including security Premium	-	275,000,000
Net Cash Flow from Financing Activities (C)	(215,686,620)	1,804,406,553
Net Increase / (Decrease) in cash or Cash Equivalents (A+B+C)	(26,411,867)	247,981,062
Cash & Cash Equivalents at the beginning of the year*	417,225,603	169,244,541
Closing Balance of cash & Cash equivalents*	390,813,736	417,225,603

* Refer note 17 of Schedule 18

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

As per our audit report of even date

S. R. Batliboi & Co.

For S.R. Batliboi & Co.

Chartered Accountants

Firm Reg. No.324982E

[Signature]

per Shrawan Jalan

Partner

Membership No.102102

Place: MUMBAI

Date: July 20, 2011

For and on behalf of Grameen Financial Services Private Limited

[Signature]
Managing Director

Vinatha M. Reddy.
Chairman

[Signature]
Chief Financial Officer

[Signature]
Company Secretary



Schedule 18: Notes to Accounts

1. Nature of Operations

Grameen Financial Services Private 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 through its Grameen koota division in the rural areas of India who are organized as Joint Liability Groups ('JLG'). The Company also provides individual loans through its Maarg division.

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 realization 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. 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 on loans is recognized on accrual basis, calculated on weekly/monthly reducing balance method on the loans disbursed and outstanding. Income on non-performing assets is recognized on realization basis and any interest recognized and remaining unrealized on such loans becoming non performing is 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. Loan processing fees and Insurance administration charges from members is recognized on accrual basis.
- iv. In accordance with the RBI guidelines for securitization of standard assets, with effect from February 1, 2006, the company accounts for any loss arising from assignment / securitization immediately at the time of sale and the profit/premium arising from securitization is amortized over the life of the securities.
- v. Dividend income is recognized when the right to receive payment is established by the balance sheet date.



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vi. All other income is recognized on an accrual basis.

d. Fixed Assets

Fixed assets are stated at 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 balance sheet date are shown as capital work in progress and advance paid towards such development are also included under capital work in progress.

e. Intangible Assets

The amount relating to acquisition of software, intellectual property rights in the field of Micro Finance and Livelihood Promotion, corporate service cost has been accounted as intangible assets valued at the cost of acquisition of these assets and Cost of corporate service cost has been amortized over a period of three years and all other intangible assets are amortized over a period of five years in equal installments, based on expected future economic benefits accruing to the Company from the year of acquisition.

f. Depreciation

Depreciation on fixed asset is provided using the Straight Line Method as per the useful lives of the assets estimated by the management, or at the rates prescribed under schedule XIV of the Companies Act, 1956 whichever is higher.

Leasehold improvements are amortized over the primary lease period.

Fixed assets costing up to Rs. 5,000 individually are depreciated fully in the year of purchase.

The rate of Depreciation for the asset is as under:

Category of Asset	Rate of Depreciation
Furniture and Fittings	6.33 %
Office equipment	4.75%
Vehicles	9.50%
Buildings	1.63%
Computers	16.21%

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.



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h. Leases

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

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 breakup value whichever is lower.

j. Borrowing Costs

Ancillary borrowing costs are amortized over the period of the loan on a straight line basis. All other 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 Translations

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, superannuation fund and employee state insurance is 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 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.



GRAMEEN FINANCIAL SERVICES PRIVATE 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

iv. Actuarial gain/losses are immediately taken to profit & loss account and are not deferred.

m. Income taxes

- i. 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.
- ii. 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.
- iii. 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.
- iv. The carrying amount of deferred tax assets are reviewed at each balance sheet date. The company writes-down the carrying amount of a deferred tax asset 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.

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. Classification of Loan portfolio

- i. Loans and advances are classified as standard assets, sub-standard assets, doubtful assets and loss assets in terms of the Non-Banking Financial (Non deposit Accepting or Holding) Companies prudential norms (Reserve Bank) Directions 2007, as amended from time to time.

r. Provision policy for Portfolio loans

- i. 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



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

time. The provisioning norms adopted by the Company are as follows.

Age of Portfolio at Risk	Percentage of Provisioning
Standard	
0 days	0.5
1 – 30 days	5
31 – 60 days	10
61 – 90 days	25
90 – 180 days	50
Sub-standard	
181 – 365 days	75
>365 days	100

ii. Write of Policy

All unsecured non-performing Loans with dues outstanding for more than 365 days, are written off, while other loans are written off after the management has exhausted all reasonable options for recovery of principal and interest on the loan, irrespective of period of outstanding.

3. Assignment / Securitization of loans

During the year the Company has sold loans through direct assignment / securitization. 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 / securitized	135,885	102,667
Total book value of the loan asset assigned	1,145,370,066	1,008,352,033
Sale consideration received for the loan asset assigned/secured	1,094,931,532	1,063,528,349
Income from assignment of loans recognized in the Profit and Loss Account	68,366,645	18,887,652
Balance of loans assigned and securitized as at March 31, 2011	641,517,227	960,456,380
Particulars	As at March 31, 2011	As at March 31, 2010
Credit enhancements provided and outstanding:		
Principal subordination	69,841,449	-
Cash Collateral	141,398,150	12,39,53,485
Corporate guarantee	12,990,755	-

4. 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.



GRAMEEN FINANCIAL SERVICES PRIVATE 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. Related parties

i. Names of the related parties

Key management Personnel	Ms. Vinatha M Reddy, Chairman Mr. Suresh K Krishna, Managing Director
--------------------------	--

ii. Related party transactions

Particulars	Key management personnel	
	March 31, 2011	March 31, 2010
Transaction during the year		
Salaries, incentives and perquisites:-		
- Mr. Suresh Krishna	3,937,219	2,337,224
- Ms. Vinatha M Reddy	2,413,104	1,481,460
Balances as at year end		
Incentive Payable:-		
-Mr. Suresh Krishna	956,732	318,138
-Ms.Vinatha M Reddy	584,028	185,411

6. Capital Commitment

Estimated amount of contracts remaining to be executed on capital account (net of capital advances) and not provided is Rs. 6,67,000.

7. Contingent Liabilities not provided for

Particulars	March 31, 2011	March 31, 2010
Guarantees given and outstanding for the assigned loans (including cash collaterals and receivable placed with banks)	190,333,874	123,953,485

8. Retirement Benefit

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.



GRAMEEN FINANCIAL SERVICES PRIVATE 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 employee benefit expense (recognized in Personnel Expenses)

Particulars	For the year ended march 31,2011	For the year ended march 31,2010
Current service cost	14,78,231	10,16,803
Interest cost on benefit obligation	72,043	1,48,848
Expected return on plan assets	(2,30,421)	(1,18,379)
Net actuarial(gain) / loss recognized in the year	18,72,541	(404,228)
Past service cost	--	(1,497,677)
Net employee benefit expense	31,92,394	(854,633)
Actuarial return on plan assets	32,799	1,00,838

Balance Sheet

Details of provision for gratuity:

Particulars	March 31,2011	March 31,2010
Defined benefit obligation	4,149,882	1,106,812
Plan assets	2,935,514	3,084,838
Plan Liability	(1,214,368)	1,978,026

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

Particulars	Gratuity	
	March 31, 2011	March 31, 2010
Opening defined benefit obligation	1,106,812	1,860,606
Interest cost	72,043	148,848
Past service cost	Nil	(1,497,677)
Current service cost	1,478,231	1,016,803
Benefits paid	(412,544)	Nil
Actuarial (gains) / losses on obligation	1,905,340	(421,768)
Closing defined benefit obligation	4,149,882	1,106,812

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	3,084,838	Nil
Expected return	230,421	118,379
Contributions by employer	Nil	2,984,000
Benefits paid	(412,544)	Nil
Actuarial gains / (losses)	32,799	(17,451)
Closing fair value of plan assets	2,935,514	3,084,838



GRAMEEN FINANCIAL SERVICES PRIVATE 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 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	8.00%	8.00%
Expected rate of return on assets	8.00%	8.00%
Salary escalation rate per annum	4% for the first five years and 4% there after	4%
Rates of leaving service at specimen ages	2%	2%

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

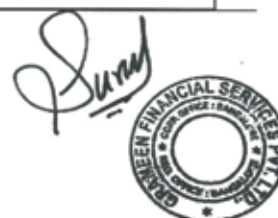
The Company expects to contribute Rs.20, 96,000/- to gratuity in the next year (PY Rs. 51, 53,000).

3. Expenditure in foreign currency on actual basis

Particulars	March 31, 2011	March 31, 2010
Training expenses	141,503	-
Software support charges	-	2,579,756

10. Earnings per share

Particulars	March 31, 2011	March 31, 2010
Profit available to equity shareholders (Rs.)	34,921,745	8,518,958
Weighted average number of shares used in computing basic earnings per share	24,842,321	19,267,826
Basic earnings per shares (Rs.)	1.41	0.49
Diluted earnings per share (Rs.)	1.41	0.49
Nominal value of shares (Rs.)	10	10



GRAMEEN FINANCIAL SERVICES PRIVATE 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

11. Loan portfolio and provisions for standard and non-performing assets:

(Amount in Crores)

Asset Classification	Portfolio outstanding (Gross)		Provision for Standard and Non-Performing Assets				Portfolio outstanding (Net)	
	As at March 31, 2011	As at March 31, 2010	As at March 31, 2010	Provision made during the year	Written back during the year	As at March 31, 2011	As at March 31, 2011	As at March 31, 2010
Standard assets	186.17	229.51	0.059	2.36	-	2.4222	183.75	229.45
Sub-standard Assets	0.1721	4.6244	2.775	-	2.646	0.1291	0.043	1.8498
Doubtful assets	-	-	-	-	-	-	-	-
Loss assets	-	-	-	-	-	-	-	-
Total	186.34	234.13	2.83	2.36	2.65	2.55	183.79	231.30

12. Leases

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.

There are no restrictions imposed by lease arrangements. There are no subleases. Lease payments during the year are charged to Profit and loss account.

Particulars	March 31, 2011	March 31, 2010
Operating lease payments recognized during the year	21,216,520	12,928,815
Minimum Lease Obligations		
Not later than one year	12,224,715	2,121,6520
Later than one year but not later than five years	77,1150	-
Later than five years	-	-

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GRAMEEN FINANCIAL SERVICES PRIVATE 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. Details of deferred tax asset/liabilities are as under;

Deferred tax asset / (liabilities)	March 31, 2011	March 31, 2010
Difference due to disallowance of expenses under Section 43B of Income Tax Act, 1961	851,929	-
Differences in depreciation and other differences in block of fixed assets and intangible assets as per tax and books of accounts	2,815,370	(555,170)
Difference on account of Provision for other assets	123,3090	
Difference due to disallowance of provision for standard assets and non-performing assets	8,278,877	-
Differences on account of deferred bank loan processing fee	(2,999,347)	-
Deferred tax asset/(liability)(net)	10,179,199	(555,170)

14. Dues to Micro and Small Enterprises

The Company has initiated the process of identification of suppliers registered under the Micro Small and Medium Enterprise Development Act, 2006 (the 'MSMED') by obtaining confirmation from all the suppliers.

Based on the information currently available with the Company no amount is payable to the Micro, Small and Medium Enterprises as per the MSMED Act, 2006 as at March 31, 2011.

15. Auditors Remuneration

Particulars	March 31, 2011	March 31, 2010
Audit Fees	8,00,000	8,50,000
Certification Fees	-	79,100
Out of pocket expenses	62,690	52,796
Tax audit fee	-	50,000

16. Managing Director's Remuneration

Particulars	March 31, 2011	March 31, 2010
Salaries and Incentives	1,367,520	2,117,928
Perquisites	14,39,087	219,296
Contribution to provident and other funds	173,880	173,880
Bonus	956,732	318,138
Total	39,37,219	2,892,242

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.



GRAMEEN FINANCIAL SERVICES PRIVATE 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. Components of cash and cash equivalents

Particulars	March 31, 2011	March 31, 2010
Cash and Bank balance (Refer schedule 8)		
Cash on Hand	31,387,321	148,298,311
Balance with Scheduled bank		
On Current accounts	209,426,416	268,927,292
On Deposit accounts	368,048,150	174,603,485
Total	608,861,887	591,829,088
Less: Bank deposits not considered as cash and cash equivalent*	(218,048,151)	(174,603,485)
Cash and Cash Equivalent	390,813,736	417,225,603

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

18. Additional information required by Reserve bank of India

a. Capital Risk to Asset Ratio (CRAR)- The CRAR is arrived at as per the method prescribed by Reserve Bank of India, accordingly the CRAR as at March 31, 2011 is as follows,

Particulars	March 31, 2011	March 31, 2010
CRAR (%)	19.63%	18.54%
CRAR-Tier I Capital (%)	19.63%	18.54%
CRAR-Tier II Capital (%)	-	-

b. The Company has no exposure to real estate sector directly or indirectly.

c. Asset liability management

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

	(Rs. in crores)								
	01 days to 30 days	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 year	Over 3 year to 5 year	Over 5 year	total
Liabilities									
Borrowings from Banks	9.51	7.42	14.06	26.49	45.77	22.04	-	-	125.29
Market Borrowings	7.82	3.22	3.8	10.84	18.27	42.15	14.69	-	100.79
Assets									



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GRAMEEN FINANCIAL SERVICES PRIVATE 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

Loans and advances	30.61	23.09	19.4	52.22	59.87	1.14			186.34
Other Loans & Advances	0.38	0.28	0.69	0.85	1.19	0.99	0.25	-	4.64
Investments	31.35					0.2			31.55

19. Previous year's figures have been regrouped and reclassified where necessary to conform to this year's classification.


For S. R. Batliboi & Co.
Firm Registration No. 324982E
Chartered Accountants

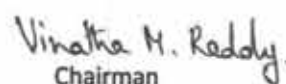


per Shrawan Jalan
Partner
Membership No. 102102
Place : MUMBAI
Date : July, 2011

For and on behalf of the Board of Directors of
Grameen Financial Services Private Limited


Managing Director


Chief Financial Officer


Vinatha M. Reddy.
Chairman


Company Secretary



“Every accomplishment starts with a decision to try.”
We decided, we tried, we accomplished.





GRAMEEN

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