



GRAMEEN
Financial Services Pvt. Ltd.

ANNUAL REPORT 2013 - 14



OUR BANKERS





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From the **Chairperson**

Mrs. Vinatha M Reddy

On behalf of the entire team at Grameen Koota we are pleased to be presenting our Annual Report, especially as we complete 15 years of meaningful Financial Inclusion work. 15 years of inclusive work with low income households in an efficient business-like manner with a firm social purpose. 15 years of Institution building along with processes, systems, culture and values. Culminating in achievements, milestones, awards, ratings upgrade and of building the brand that is Grameen Koota today!

With the active support for the Microfinance sector coming from the Government, the Regulator and Banks, greater financial inclusion will enable a more equitable development of society. With committed equity support and fund flow, Grameen Koota now enters a different orbit to contribute to impacting financial inclusion on a larger scale and at all times with better efficiencies and quality of service. The best of Grameen Koota is yet to come!

As always with humility we will continue serving our simple clients with small aspirations. The dedication and hardwork of our staff will help us move ahead. We look forward to the continued support and guidance from the Board, Investors, Bankers, Financial Institutions, Networks and all other stakeholders.



From the **Managing Director's** desk

Mr. Suresh Krishna

2013-14 has been yet another year of great progress both financially and socially for Grameen Koota. We will be completing 15 years in our endeavor of providing affordable, transparent and timely micro finance services to the poor and low income households. We have grown in strength year after year and are amongst the top 10 Micro Finance Institutions in India.

In this annual report, we present you a detailed overview of our efforts in striking a balance between financial and social goals as we had envisioned. Grameen Koota today is valued by investors as a great investment opportunity, lenders value our operational strength in efficiently delivering financial services and international stakeholders recognize us as socially responsible pro-poor microfinance institution.

During the FY 13-14, we raised a fresh round of equity from our existing investor MicroVentures (MV) which will provide stable capital to fuel further growth. MV also provided exit to the early investors Aavishkar Goodwell and Incofin. We were recognized by SMART Campaign for meeting the Global Standards in Client Protection (only 5 MFI's are certified in India so far) and TrueLift recognized us as "Achiever" Pro-poor microfinance institution in India. Our clients are happy that we provide them choice of financial products at affordable interest rate and provide flexibility in repayment frequencies.

We plan to expand further into new geographies with products and services which support the poor and low income households to improve their quality of life and continue to be a financially sustainable microfinance institution with the strength and support of our team, investor and lenders.

We hope you will enjoy reading this annual report.



Message from the CEO

Mr. Udaya Kumar

The year 2013-14 has been a very eventful year for all of us at Grameen Koota. The year has been very important as we progressed to newer heights, created new benchmarks and stepped towards sustainability. We have achieved several milestones, awards and cherishing moments.

Two years back, we decided to consolidate our business for FY 2012-13 and FY 2013-14 so as to improve our growth, productivity, efficiency and sustainability before initiating geographical expansion. Accordingly, we planned to grow with controlled infrastructure during that phase.

With consistent efforts, today, we have achieved a position of being one of the most efficient MFIs in terms of productivity, efficiency and operational sustainability. Now that we have achieved our plan, FY 2014-15 will be the start of our growth and will take us to the next level of players in the industry.

Our customers are our biggest asset, we strive to remain most preferred MFI in the areas we work with highest level of transparency, superior service, reasonable pricing and flexible products to meet their life cycle needs.

Our employees are our biggest strength and their growing strength has made this progress possible. They are the key players in this journey who support with their unique contribution in field operations.

Our Promoters, Investors and Board of Directors & Regulators have been the guiding lights during this successful journey of ours. Our shareholders, customers, employees, lenders and management team have helped Grameen Koota achieve one milestone after another.

I am sure the journey will continue to create more of such milestones by crossing whatever hurdles come in the way.



ABOUT US

Inspired by the Alex Counts book "Give us credit" and visualized by Mrs Vinatha M Reddy in 1996, Grameen Koota (GK) was born in 1999 as a project under the NGO, T Muniswamappa Trust with seed capital funding assistance from Grameen Trust. Modeled along the lines of the Grameen Bank, Bangladesh, Grameen Koota in 2007 transformed in to Grameen Financial Services Pvt Ltd (GFSPL) a Non-Banking Financial Company, which subsequently got reclassified into a regulated and governed Non-Banking Financial Company - Micro Finance Institutions (NBFC-MFI) entity by Reserve Bank of India (RBI) in 2013.

We aim for the social and financial upliftment of the rural poor and low-income households, particularly women, by providing them with financial and non-financial services. Our goals broadly include:

- Client prosperity by way of encouraging entrepreneurship
- Provision of diverse and flexible products to our clients to address their different life cycle needs
- Provision of services that help our clients manage their risks
- Help improve health and hygiene conditions of our clients and their households
- Spreading financial literacy amongst clients
- Raising awareness on basic community issues

GFSPL's area centric approach is what differentiates us from our competitors and we are striving towards enhancing our reach and penetration with the aim of attaining a portfolio of Rs 3,500 cr by the year 2020.

GFSPL presently operates in 42 districts in the 3 states of Karnataka, Maharashtra and Tamil Nadu (176 branches, 5,68,958 members and an outstanding portfolio of Rs. 809.52 cr as of 31st March 2014).

This year, our Company got upgraded to mfr2 by CRISIL as well as our Company's Lines of Credit – Basel Bank Rating & NCD were upgraded to 'BBB' from 'BBB-' by ICRA, which was again recently further upgraded to 'BBB+'.



GRAMEEN
Financial Services Pvt. Ltd.

"A woman is the full circle. Within her is the power to create, nurture and transform." — Diane Mariechild







GFSPL's GUIDING PRINCIPLES

GFSPL's core philosophy is to strive towards enabling widespread economic and social change with our diverse financial products and development services. The overarching principles that we abide by is encapsulated in CREATE.

CREATE stands for:

Commitment: We shall honour all our commitments. We are committed to our mission.

Reliability: We shall not deviate from any of the policies and procedures.

Empathy: We shall be sensitive to the situations and circumstances of the people with whom we are dealing and provide them support to the best of our abilities.

Accountability: We shall be accountable for all our deeds, actions and words.

Transparency: We shall provide full disclosures, to all our clients, in terms of services and fees. We shall make our financial statements, reports and accounts as clear and as comprehensive as possible.

Efficiency: We shall be punctual, disciplined in all transactions with our stakeholders, strive towards reducing operational costs and thereby provide services to our customers in a cost-effective manner.

GFSPL's VISION

By 2020, we wish to enable economic and social change in over 2.0 mn poor and low income households through financial products and development services.

GFSPL's MISSION

We exist

- To transform and uplift the lives of poor and low-income families with microfinance and other development services.
- To be a sustainable, friendly and trusted provider of affordable and need-based services



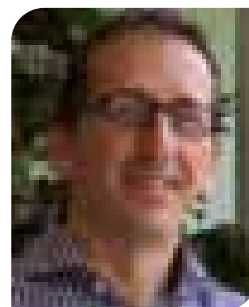
BOARD OF DIRECTORS



Vinatha M. Reddy
Founder, Promoter &
Chairperson



Suresh K Krishna
Co-Promoter &
Managing Director



Paolo Brichetti
Nominee Director



Pradeep P
Nominee Director *



Aditya Bhandari
Nominee Director *



Kenneth Dan Vander Weele
Nominee Director



Anal Kumar Jain
Independent Director



Prabha Raveendranathan
Independent Director



Amita Narain
Independent Director



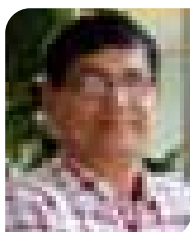
Daksha Niranjana Shah
Independent Director

Note: * These Directors were nominated by respective investors and resigned from the company as the investors exited their shareholding in the company completely in March 2014

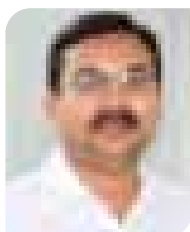
OUR MANAGEMENT TEAM



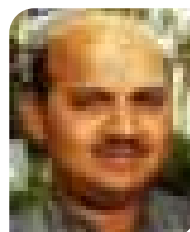
Suresh K Krishna
Managing Director



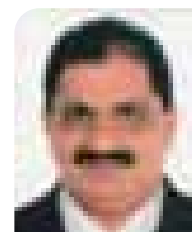
Udaya Kumar
Chief Executive Officer



B. R. Diwakar
Chief Financial Officer



Gururaj K S Rao
Senior Vice President – Internal
Audit & Risk Management



Sharath K Shetty
Vice President – Operations



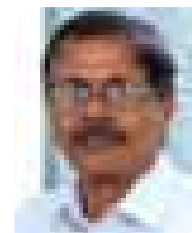
Srivatsa H N
State Head – Karnataka &
Tamil Nadu Operations



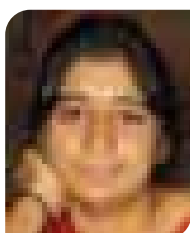
Kallol Chatterjee
State Head – Maharashtra
Operations



Gopal Reddy
Assistant Vice President
– Operations



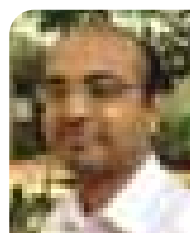
Raghvendra Rao
Head – Administration



Haridarshini A
Assistant Vice President
– Business Analysis



Arun Kumar B
Assistant Vice President – IT
& New Initiatives



Anshul Sharan
Assistant Vice President
– Product Operations



Ram Babu G V
Vice President – Human Resource

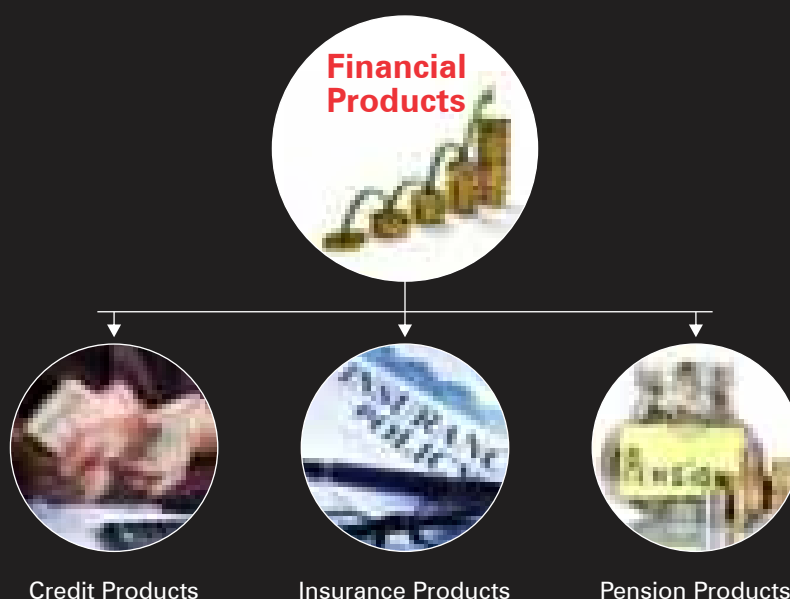


R V Kaveri
Head – Policy & Grievance



FINANCIAL PRODUCTS OF GFSPL

GFSPPL provides a wide range of products to meet the financial needs of the clients. These products have been designed by keeping their various life cycle needs in mind, which can be classified into Credit, Insurance & Pension, which are as mentioned below.



1. Credit Products:

a) Income Generation Loan

Purpose

Income Generation Loan support business enterprises and income enhancement activities of the clients like purchasing fixed assets to install additional machinery etc. These loans also meet the additional working capital requirements of the client's businesses.

Loan Amount

Clients can avail loans ranging from Rs. 5000/- up to Rs. 30,000/-.

Rate of interest

25% -26% per annum on declining balance. In May 2014, interest rates of higher ticket size loans were reduced from 26% to 25%.

Tenure

Minimum 52 weeks to Maximum of 104 weeks depending on the loan amount.

b) Home Improvement Loans

Purpose

GFSPPL offers its clients with home improvement loans that helps them to avail water connections & construct toilets and for improvement & extension of existing houses, i.e. repair or replace a roof, wall, floor or door, for monsoon proofing, adding a room or kitchen, etc.

Rate of interest

22% per annum on declining balance.

Loan Amount

Clients can avail loans ranging from Rs. 5,000/- up to Rs. 25,000/- under Home Improvement Loan depending upon the purpose.

Tenure

Minimum 52 weeks to Maximum of 104 weeks depending on the loan amount.





c) Emergency Loans:

Purpose

GFSPIL offers short term emergency loans to its clients to help them address emergencies and short-term cash flow constraints. Timely financial assistance refrains the members from resorting to other informal sources of money which are very expensive.

Loan Amount

Clients can avail Emergency loan upto Rs. 1000/- to help them deal better with sudden crisis situations.

Rate of interest

24% per annum on declining balance.

Tenure

Maximum of 3 months.

d) Family Welfare Loan

Purpose

Family Welfare Loan supports all those activities of our clients that can help them in improving the quality of their life which includes loans for fulfilling genuine consumption needs, such as purchasing cook stoves, LPG connections, bicycles, water purifiers and solar lights, meet education requirements of our clients' kith and kin, to cover medical expenses and to cater specific needs that arise during festivals.

Rate of interest

22% - 24% per annum on declining balance.

Loan Amount

Clients can avail loans ranging from Rs. 1,000/- up to Rs. 5,000/- under Family Welfare Products depending upon the purpose.

Tenure

Minimum 12 weeks to Maximum of 52 weeks depending on the loan amount.



e) Home Construction Loan

Purpose

The members who have been with us for more than 3 yrs are eligible to avail this loan for any major home construction. Borrowers have to provide clear titles of their land records as security for these loans.

Rate of interest

22% per annum on declining balance.

Loan Amount

Clients can avail loans ranging from Rs. 25,000/- up to Rs. 2,00,000/- under Home construction Loan depending upon the purpose.

Tenure

Minimum 104 weeks to Maximum of 260 weeks depending on the loan amount.

2. Insurance Products:

a) Life Insurance

GF SPL has tied up with three insurance service providers i.e. Shriram Life Insurance Company Limited, Bajaj Allianz Life Insurance Company Limited and Kotak Life Insurance Company Limited to cover its members and their spouses under group term life Insurance. Maximum insurance of Rs 30,000/- is provided to both member and spouse.

b) Healthcare Insurance

GF SPL in collaboration with institutions like SAS Poorna Arogya Healthcare Pvt Ltd and L&T Insurance Company provides its clients and their families with affordable and quality healthcare facilities.

Under the healthcare program members are provided with medical consultancy at low cost and cashless in-patient treatment at network hospitals. Access to quality medical services improves the health standards of members and protects them from high indebtedness due to sudden hospitalization and health related issues.

3. Pension Product:

a) Pension Scheme

GF SPL has tied up with the Government of India as an aggregator of the National Pension Scheme (NPS) to serve its clients better.

National Pension Scheme from PFRDA provides pension coverage to the weaker and economically disadvantaged sections of the society and promotes small savings during their productive life, in order to prevent economic deprivation in later stages of their lives.

GF SPL brings its clients under the mainstream of this program by creating awareness among the clients and collecting contribution from the members from their doorstep. This saves considerable time and money of our clients.

The client has to contribute minimum of Rs.1000 to a maximum of Rs.12, 000 in a year to avail the Swavalamban benefit of Rs.1000 from Government of India.





GFSP's **SOCIAL** INITIATIVES

GFSP believes in improving the lives of our clients and we believe that improvement can come only when the right kind of social initiatives are put in place. We therefore have put in place a host of supportive social initiatives for our clients, which include client education, healthcare initiatives, clean energy, safe drinking as well as water and sanitation projects.

WatSan Program - GFSP through its NGO Affiliate, 'Navya Disha', has been implementing Water & Sanitation Program in association with Water.org since 2009 in Karnataka, Maharashtra and Tamil Nadu for GFSP clients. Navya Disha closely works with GFSP in mobilizing loan funds required by the members along with free technical help for constructing toilets and getting water connections. It also helps them in getting subsidies on the purchase of required material.

During the financial year FY13-14, Navya Disha & GFSP has supported 50,253 households with sanitation facilities, 31,003 households to get access to clean drinking water and 640 masons with training. To educate people on health and hygiene issues, 13 Block level workshops were conducted benefitting 6,760 people, sensitized 324 Panchayat members while conducting Gram Panchayat meetings and 77,700 clients were reached during 3,108 Kendra meetings.

Also, the organization reached out to 29,250 people through their Street plays and to spread awareness on a large scale they painted various images on the walls in 20 villages depicting consequences of not having proper sanitation facilities and drinking unclean water.

Sugrama Project - Working on the similar lines, GFSP has launched another initiative named as 'Sugrama Project', in association with Navya Disha.

The project sugrama aims to achieve 100% sanitation coverage in all the target areas & create model villages by extending the services to entire village community. This is an effort to reach the households which have remained unreached up till now and ensure that all the people in these villages imbibe hygienic practices, have access to adequate safe drinking water, adopt rain water harvesting and watershed techniques to improve groundwater level and are facilitated with proper solid waste management and waste disposal systems, making the villages clean and open defecation free.

Currently this project is being implemented in two of the most underdeveloped Gram Panchayaths in Karnataka - Urdigere Gram Panchayath in Tumkur District and Vantamuri Gram Panchayath in Belgaum District.



After its launch in November 2013, till date under this program apart from rapport building activities like house visits, forming local youth teams and engaging self-help groups, Gram Panchayat meetings have been organized in both Urdigere and Vantamuri Panchayats comprising of members from around 25 villages.

National Pension Scheme (NPS) 'Swavalamban' - GFSPL as an aggregator of the National Pension Scheme (NPS), as of 31st March 2014, has enrolled total 28,047 members and 24,339 subscribers (88%) are eligible for Swavalamban benefit.

During the FY2014, total 10,978 members were enrolled under the program and 10,115 contributed towards NPS & became Swavalamban eligible in FY 2013-14. Close to 90% of 1st year contributors made subsequent contributions in FY 2013-14.

Healthcare Program - With this health care service during the financial year FY13-14, GFSPL has supported about 54,123 lives, and from its initiation till date over 2,45,557 lives.

On regular intervals, GFSPL also conducts free health camps in association with its network hospitals for its clients and their family members in its operational areas. During the financial year FY13-14, two health camps were conducted which were attended by over 260 members.

Jagruthi - GFSPL recognised knowledge is power and with a desire to make its clients well-informed, it initiated an awareness building program under the name "Jagruthi". This project aims to create awareness on different subjects ranging from health, food, nutrition, education, hygiene, importance of sanitation to the importance of savings, money management, government services and facilities, etc. to bring about a measurable and lasting impact on the awareness level of our clients in such a manner that it creates a perceptual shift in their minds.

Today, Jagruthi is being implemented in 140 branches across Karnataka & Maharashtra, educating over 5,00,662 members every week with a new topic. As of 31st March 2014, Jagruthi has generated awareness amongst our members by covering 138. This has not only enlightened these women on various issues but also helped them avail facilities provided by government as well as in inculcating hygienic practices.

Buzz Bus - Another initiative supported by GFSPL is Buzz Bus, a one of a kind initiative put together by Better Future India and Navya Disha in 2012 with an aim to empower women entrepreneurs at the grass root level by making education mobile, localized and accessible by all. Buzz Bus is a mobile academy consisting of a fully equipped mini-bus with trainers imparting education to the women entrepreneurs at the bottom of the pyramid. During the year 2013-2014, nearly 307 members were trained under this initiative.

GFSPL'S SOCIAL INITIATIVES OVER THE YEARS

The following table consolidates all the social initiatives that GFSPL was involved in the last 4 years.

Social Initiatives	Mar-11	Mar-12	Mar-13	Mar-14
Sanitation Units Supported	3,581	5,255	16,808	50,253
Water Connections/Pure it Supported	2,591	1,478	16,067	31,003
Energy Efficient Cook Stoves Supported	1,908	5,960	1,258	465
Members enrolled under Health Insurance	5,441	101,218	90,216	54,123
Members & Spouse covered by Life Insurance	553,381	530,734	664,025	890,374
Youth trained and provided placement	-	127	31	-
Students participated in education program	200	728	519	-
Awareness topics covered under 'Jagruthi'	-	52	95	138
Members covered under 'Jagruthi'	-	195,000	317,606	500,662
Financial Literacy Program conducted	142	143	155	-
Members participated in Financial Literacy program	56,000	47,700	53,828	-
Health Camps Conducted	-	5	4	2
No. of Members who attended the health camps	-	691	609	260
No. of NPS Enrollments-Contributions		-	16,815	10,990



AWARDS AND RECOGNITION





We have been a pioneer in the microfinance industry for a number of factors and the different laurels, awards and honours we have received over the years is testimony to our commitment towards being the best microfinance provider in the country. Last year, for our contributions towards the micro-finance as well as the society at large, we received a few acknowledgements, which are as follows -

Grameen Financial Services Pvt Ltd upgraded by ICRA

The ratings of Grameen Financial Services Pvt Ltd.'s (GFSPL) long-term bank loans (amounting to Rs 403.27 crore) and non-convertible debentures (amounting to Rs 178 crore) were upgraded to 'BBB(stable)' from 'BBB'.

GFSPL awarded with the Seal of Transparency

In August 2013, GFSPL was awarded with the official Seal of Transparency from MF Transparency as part of its Transparent Pricing Initiative in India. As per MF Transparency, Grameen Koota's firm commitment to consumer protection and responsible microfinance was primarily the basis of awarding the seal to the organization.



GFSPL got upgraded to mfr2 by CRISIL Rating

On 26th Nov 2013, GFSPL got upgraded to mfr2 as per the rating by CRISIL Limited, on a scale of 1 (highest) to 8 (lowest) based on the organization's overall performance. Grameen Koota is now one of the few MFIs in India to have this grade. This Microfinance (mfr) grading by CRISIL is a current opinion on the ability of an MFI to conduct its operations in a scalable and sustainable manner.

GFSPL gets a Social rating of 缺α-' (alpha minus) by MCRIL

Grameen Financial Services Private Limited (GFSPL) received a Social Rating of 缺α-' (alpha minus) by M- CRIL on 26th Nov . 2013, as recognition to its strong social commitment, good systems and adherence to social mission and values. It's a great honour as in the last 2 years it's only GFSPL which has received 缺α-' rating in India. This certification is a trust mark in microfinance and beyond to signify our commitment to positive and enduring change for people living in poverty.

GFSPL recognized as 'Achiever' by Truelift

GFSPL was awarded with its Truelift Certification of 'Achiever level', for its commitment to pro-poor microfinance practices. GFSPL is one of the only two organizations in India to get this accreditation.

Truelift through this certification not only recognized the efforts made by GFSPL to put welfare of clients at the centre of microfinance but also demonstrated that the institution is responsible, effective and committed towards bringing about total financial inclusion to promote inclusive growth and poverty alleviation.



GFSPIL honored by Smart Campaign

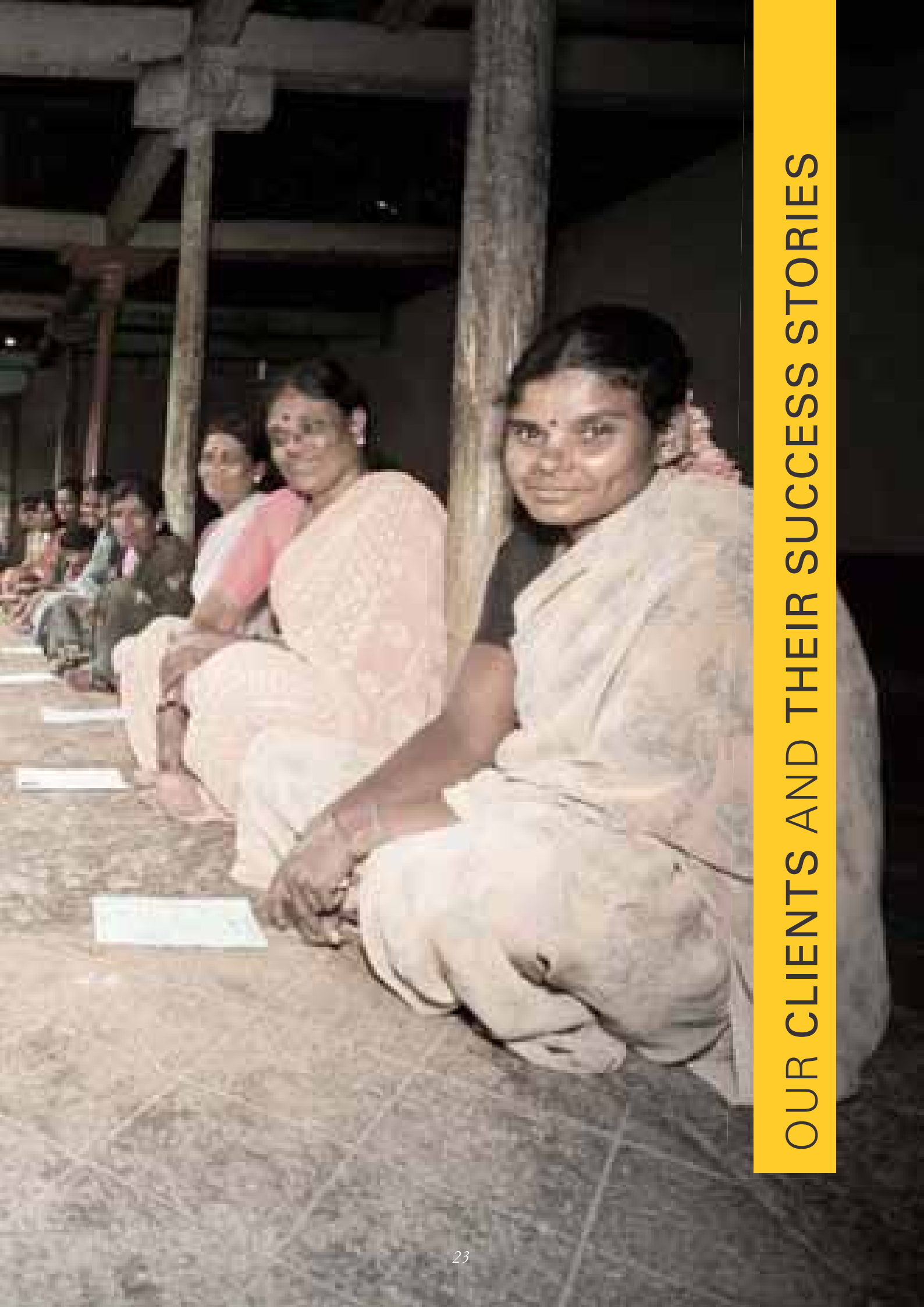
GFSPIL was honoured with the Smart Campaign certification award which was handed over by Shri Jairam Ramesh, Union Minister of Rural Development, at the event hosted in Delhi by the Smart Campaign on 9th Dec. 2013 to recognize all the 5 Indian institutions that have become Client Protection Certified for meeting the Global standards of client protection. GFSPIL is one of the 6 financial institutions in world and one of the 5 MFI's in India to have been bestowed with this honor



GFSPIL gets awarded with MIX2013 STAR recognition

GFSPIL got acknowledged for the 3rd time in a row by MIX for its outstanding performance in social sector. GFSPIL has been bestowed with the honor of being one of the only 5 Indian institutions which have been recognized as MIX 2013 Socially Transparent And Responsible (S.T.A.R.) MFI. It's one of the 30 institutions out of the 200+ MFIs, which participated in the desk review process globally, to have been awarded with STAR recognition.





OUR CLIENTS AND THEIR SUCCESS STORIES

In this section we present some snippets from the lives of our clients. These are people who may not be highly educated or come from a wealthy background but still aspire to make it big. Due to lack of education and exposure they remain devoid of even basic requirements of life. They want to lead a healthy life but are unable to practice it due various reasons. The main thing which is holding them back from living a decent life is lack of financial support. Lack of funds to meet their personal as well as occupational critical needs restrains them from moving ahead.

Through our loans we try to address such needs of our clients, so that along with fulfilling their needs, in the process they also move up on the socio - economic ladder.

Shamim Khanum - The master of her own fate

Shamim Khanum used her first loan from GK to finance the purchase of an auto rickshaw. However, her alcoholic husband did not shoulder the responsibility as the vehicle's driver. Instead, "on most days, the police would bring him home and he would be drunk," shared Shamim, explaining the reason behind their financial problems and they could not gather enough fares each day to maintain the auto and the home. So ultimately she had to sell off the auto rickshaw.

Shamim then realized that she could no longer rely on her husband to provide for her family. She decided to take matters into her own hands and be the master of her own fate. Since then Shamim has been functioning like a single parent, working two jobs (beedi rolling and tailoring) to raise her 3 children. "Even today I'd hardly see my husband. He is away drinking all day."

Soon Shamim directed her entire focus on tailoring as it's the only skill in which she majors. At present, Shamim is using her GK loans to steadily build her home-based tailoring unit and aspires to build a better life for her family. GK loans have enabled Shamim to be in control of her own destiny and hope for a better future.



Manjula G -Chasing the Dream

Manjula and her husband, Shivraj G., have been managing Raj Electronics and Watch Service Centre for the last 24-25 years. The growth of their family business has been slow but has recently picked up momentum. "Earlier we could not afford to buy much stock for the shop, but now with loans from Grameen Koota, we have added so many items. Our sales have gone higher than usual," explains Manjula.

When they first moved to Tumkur around 25 years ago, the couple recalls that the shop was "small and easy to miss". Today, the store sells not only electronic equipment but also gift items.



Manjula would like to invest in a larger showroom near the main road. For this, she will require at least Rs 1 lakh (\$2000) and plans to use her savings along with a loan from Grameen Koota to finance this ambition. The couple has 3 sons, Kiran is completing his second year of Pre-University education, Rakesh is in the 10th standard and Bindu, their youngest daughter is in the ninth standard.

Now Shivraj makes trips to Bangalore, about 1 hour from Tumkur, to stock up on the inventory weekly. He also actively involves his eldest son, Kiran, in the operations. "I'm teaching him how to repair watches, buy material and manage the work in the shop. He will someday have to do all this on his own," explains Shivraj.

Bharathamma -GFSPL made life easier

Bharathamma, who is a GFSPL client for quite some years now lives with her husband, Chikkarangappa, in Yaradakatte village, 90 kms away from Tumkur.

Her husband is physically challenged since he was three years old and walking without a support stick is next to impossible for him. Formerly, Bharathamma rolls beedis while her husband is a stamp vendor. The area in which they live has seen drought 59 times in the past 100 years. There is no lasting water source in this area. Getting water connection at home was next to impossible as there was only an underground tank available, and no overhead water tank. But today this family has a toilet and a water connection at home. All this was possible because of GFSPL and its NGO Affiliate - Navya Disha.



Since her joining, Bharathamma has availed numerous loans from GFSPL. "GFSPL has been a strong support for us in the last few years, it has helped us improve our life a lot," Bharathamma shared.

Her first loan was of Rs 15,000 for purchasing a buffalo. Second and the third time she availed Rs 10,000 for her husband's business. In between she also took a loan of Rs 3,000 for the construction of the toilet. "Our business is progressing well, we get three litres of milk every day from the buffalo," Bharathamma said. Adding to which Chikkarangappa said, "My troubles due to physical disability have been reduced by GFSPL's help, and I am very much relieved, we are very thankful to GFSPL and Navya Disha".

Bharathi R. - No more falling ill

Bharathi R. lives in Shakarapura area in Chikkamagalore along with her two children and her husband who is a lorry driver. She has been a member of GK since the past 5 years.

Her daughters used to frequently fall ill due to water borne diseases as the quality of water in her locality was not good. She purchased a steel water purifier to solve the problem but she noticed that there used to be a foul smell in the water and the device required regular cleaning up. These problems arose only 3 months after the purchase and also there was rust formation near the filter candles.

Incidentally, it was around this time that Grameen Koota and HUL started working towards creation of awareness on clean drinking water. Bharathi also saw the demonstration in her Kendra meeting and liked the device as she found that the device killed bacteria against which the stainless steel water purifier was not effective.

She took a loan from Grameen Koota to purchase the device and within 15 days of making the request Pure-it device was delivered to her home. The Pure-it device now adorns her living room. Bharathi is a happy mother now and shared that her daughters have not fallen ill since Pure-it came to her house neither does her daughters complain about the smell in water.



A close-up, slightly blurred photograph of a woman operating a vintage-style sewing machine. She is wearing a patterned shawl and is focused on her work. The sewing machine is dark-colored with a large hand wheel and a spool of purple thread. Purple fabric is being sewn under the needle. The background is a plain, light-colored wall.

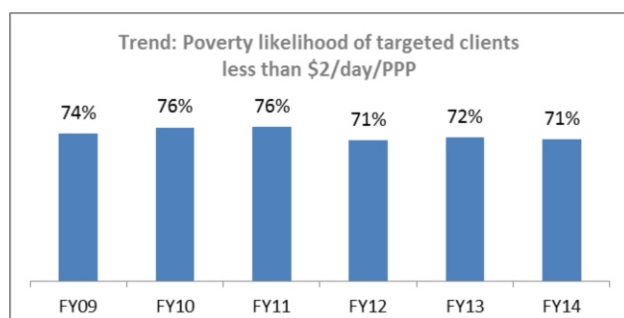
SOCIAL PERFORMANCE MANAGEMENT (SPM) REPORT

1) Governance and Strategy

Our vision and mission is to serve the poor and low-income households, by extending microfinance and related development services that address their requirements, leading to both social and economic change.

Client Targeting: Grameen Koota uses a set of economic indicators, internally developed for targeting clients. These indicators comprise condition of the house, cash flow of member family, and details of assets including livestock. Accordingly members are classified into very poor / moderately poor / non-poor – where the latter are excluded. To further vindicate the poverty levels of targeted clients, we use a poverty index tool called Progress Out of Poverty Index (PPI) developed by Grameen Foundation. PPI is a poverty assessment tool consisting country-specific, poverty scorecard to provide results related to national and international poverty lines and is based on data from Social-Economic Surveys.

Apart from applying PPI to determine the poverty levels of clients, we also use PPI scores to track changes in poverty levels over time. In December 2008, when we began collecting the poverty status data of clients using PPI, we were the first MFI in India to do so. We are the first fully certified user of the PPI in India. PPI certification demonstrates that we are using the tool correctly, and ensures the accuracy of its results. New Clients poverty levels are assessed at the time of joining. The table below indicates the percentage of clients who were living below \$2/day PPP at the time of joining Grameen Koota.

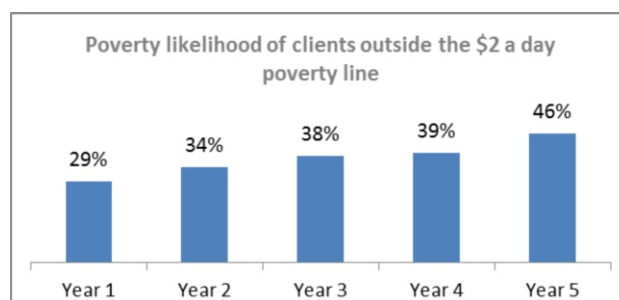


As witnessed in the above graph, the targeting of clients across past years has been consistent. Currently \$1/day/PPP in Rupee terms is equivalent to Rs. 31.7/person/day (Apr-14). In FY14, 73% of our clients targeted in rural areas and 67% in urban areas

live on less than \$2 a day, whereas 50% of the clients targeted in rural areas and 42% in urban areas live on less than \$1.5 a day – as estimated using PPI.

The income levels of clients for qualifying assets after adjusting to inflation is pegged at around Rs. 78,140 for rural borrowers and Rs. 155,300 in case of urban borrowers. This suggests that the likelihood of all our clients targeted in urban areas match the RBI income guidelines, whereas the likelihood in rural areas is that about 50% of the client families match the income criteria. However, at the time of joining all clients fall below the international poverty line.

We track movement of poverty levels of clients by capturing PPI scores at multiple instances – during client joining, loan renewal and exit. Therefore we have different sets of clients with two and multiple number of PPI instances. When we analyse the poverty levels of clients and compare their earliest PPI instance since 2009 and the latest PPI instance, we see a considerable improvement in the poverty levels of clients as seen in the graph below.



Governance: The Board members – two Promoter Directors, four Nominee Directors and four Independent Directors, have rich experience across different areas – microfinance, social development, banking, finance and technology. Two nominee directors resigned in March 2014 as the investors exited their share holding completely. We have nine committees to board to oversee the critical areas of the company. It includes Nomination & Grievance committee, Audit committee, Risk Mitigation committee, Compensation and Remuneration committee – all headed by Independent directors. The MD's and CEO's performance parameters include social development loans and financial goals. As a responsible microfinance institution, the board has adapted COC defined by MFIN, Sadhan, AKMI and the Fair Practices Code by RBI, and monitors the performance regularly.

1. Inflation measured by CPI has grown by 29% for industrial workers and 30% for agricultural labourers since RBI guidelines were issued in May 2011

2. Considering an average family size of rural Karnataka and Maharashtra is 4.7 and 4.6 respectively and in urban Karnataka and Maharashtra it is 4.3 and 4.5 respectively, mean income of rural families is estimated to be Rs. 102,341 and that of our urban families is Rs. 102,960, with \$2/person/day income.

2) Monitoring Social Goals

We have set out objectives that will lead to achieving our vision and mission. They are:

- Designing products suitable to meet majority needs of the poor & low income households
- Offering services that help in asset building and strengthen financial safety nets which enable them to face the life cycle events
- Designing processes and procedures which are transparent and easily understood by the target customers
- Providing various development services which help in enhancing the income
- Developing programs to build awareness on financial literacy, government entitlements and schemes, health, insurance, education, environment, water, sanitation etc.
- Developing employee friendly policies & procedures which are transparent and fair
- Developing & implementing monitoring & measuring tools to study the impact of the products & services provide

Accordingly, we have implemented and extend a set of developmental products apart from products supporting their livelihood. These products include supporting access to sanitation, water connection, social and economic security to families in terms of health insurance coverage and pension schemes. Further, we also undertake such activities that spread awareness and financial literacy amongst the clients like socio-economic development workshops, Jagruti awareness program at each of our branches.

Client Protection Principles, Responsible financing, social values continue to reflect in our positioning in the industry with relevant products and processes.

Implementing a responsible finance strategy seeks to advance six principles into concrete actions, as we expand our business operations, and broaden financial inclusion operations through existing and/or new microfinance products and services. Integral to the comprehensive approach towards responsible finance, the six principles of client protection include: a) Avoidance of over-indebtedness; b) Transparent

and responsible pricing; c) Appropriate Collection practices; d) Ethical Staff Behavior; e) Mechanisms for Complaint Resolution and f) Privacy of Client Data We ensure this by pursuing:

a) **Staff commitment to Grameen Koota's social mission through:**

- 1) Effective recruitment and training of new staff;
- 2) Extensive training sessions to communicate social objectives and expectations to new staff and provide refresher training to the existing employees.

b) **Internal Control**

- 1) Check reliability & completeness of data within the MIS
- 2) Monitor field compliance with client protection policies

3) HR and Responsibility to Staff

Staff selection process is well defined to determine skills and attitude of the candidates, and to assess mutual fit. A systematic process of induction and training is followed that reflects social goals & values (behavior with clients, client appraisal, grievance redressal, problem solving in the field, etc). The social performance areas covered in staff training are on the principles and strategies of the organisation – mission/vision orientation, social objectives, and gender sensitization; and specific operations / procedures related to – code of conduct, client protection principles, client selection best practices, risk management and staff behaviour.

Customer perspective elements are considered for staff appraisal. Our incentive policy is such which does not promote aggressive selling or recovery, but encourages following policies & procedures as well as social goals.

There are tremendous internal growth opportunities for employees, especially the staff in operational hierarchy. We prefer to fill vacancies for higher posts, especially in operations internally. We have a policy to identify good performers from branch manager and above to give them special attention and motivation and create opportunities to grow in the company.

Since many of the branch staff are posted at branches away from their natives, we provide free of



cost lodging facilities to them at the branch premises. We provide furniture, utensils and salary of the cook. According to the Great Places to Work Survey (2013), our Trust Score (mean of scores in 5 parameters – credibility, respect, fairness, pride & camaraderie) is better than 79% of all the companies that participated in the study.

Staff attrition is tracked regularly and discussed in review meetings by the senior management. Staff retention and team development are considered in appraisals of supervisory staff. A dedicated email-id for grievances and suggestions; displayed in the branch offices. Staff can also write directly to the Managing Director, whose email-id is also displayed at the branches. Other major benefits extended to staff include vehicle loan and personal loans.

A very important decision taken in this year was to change from six-day a week work schedule to five-day work schedule aimed to reduce staff work load and make organization employee friendly, motivating employees and building efficient working practices in the organization.

4) Treating Clients Responsibly

We are a SMART certified institution for adherence to Global standards of client protection. We are also certified as a S.T.A.R MFI by MIX which implies being Socially Responsible and Transparent.

- **Preventing over-indebtedness:** At the time of client joining a detailed assessment of household position with respect to demographic situation, occupation, cashflow, assets and liabilities is carried out through administering MBDF, and should general loan be repeated detailed cashflow information is captured along with PPI information. Further, we share client information with credit bureaus and also informally shares details of defaulting clients with other MFIs through the regional industry association. We offer a range of products and services to serve diverse client needs. And, there are clear debt thresholds defined within which loan approvals are made at multiple levels/positions. We have a very strong internal audit department that verifies compliance with respect the policies and systems to prevent over indebtedness.
- **Transparent pricing:** We have developed clear descriptions of loan terms, specifications, and eligibility criteria. Loan pass books are issued to

clients that clearly mentions annual interest rate (reducing balance), processing fee, insurance amount and other terms and conditions. Pricing is communicated to clients at multiple points during the joining and credit process. The different channels used to disseminate information are: Introductory meeting, Compulsory group training, Group recognition test – at the time of joining and during the credit process – Centre meetings, flyers, branch office.

- **Responsible pricing:** Pricing is determined scientifically and as per the regulatory guidelines. We have reduced our prices over a period of time and is committed towards passing on the benefits of scale to its clients. We have a varied pricing structure – the non-productive loans are priced much lower compared to productive loans. We have used our profits to develop different products and services to address diverse needs of clients.
- **Appropriate collection practices:** We have a very clear, comprehensive and well written collection policy and code of conduct. There are clear examples of acceptable and unacceptable collection practices. Staff training is trained primarily through class room sessions and shadowing experienced staff and we do not confiscate any physical collateral from clients. Re-scheduling is done in real and exceptional cases only. We has a well-defined policy and process in place for re-scheduling
- **Ethical Staff behaviour:** GK has developed a concise and comprehensive code of conduct which ratifies with codes promoted by industry associations and RBI Fair Practice Code. The Code of Conduct is part of all the key documents and communication at the organisation i.e., all policy documents are built based on the code of conduct. Training on ethical behavior is through classroom sessions and shadowing senior staff along with running e-courses to continuously develop capacity amongst staff on ethical behavior and code of conduct. Internal audit also keeps a close vigil on how staff is behaving with clients and whether appropriate action is taken in case of discrepancies.
- **Mechanisms for complaint resolution:** We systematically monitor client complaints through toll free numbers and have also established out-bound calling facility to pro-actively reach out

clients to check their satisfaction level and if they have any complaints or suggestions. Apart from Toll Free numbers, we have established various other ways through which complaints can be registered. A detailed written policy has been developed to manage grievance redressal process.

- **Privacy of client data:** We have put in place policies and processes for the privacy of client data. Clients are aware of their data being shared with third parties, such as for credit bureau checks. Data privacy is part of the Code of conduct and is reiterated through trainings. Across the organization, the protection of client data is ensured through non-disclosure agreements with all relevant third parties and through data-sharing and data-masking protocols.

Grievance Redressal Cell

During FY 2013-14, we received 1398 queries and requests from our members. We had resolved 1627 of these grievances (including the cases carried forward from last year) by 31 March 2014.

Highlights of the Cell:

- **Written Grievance Redressal Policy:** The Code of Fair Practices clearly establishes (in written format) different mechanisms of grievance redressal and clearly defines responsibility and timelines for the resolution of grievances. Board of Directors also tracks the progress of the institution on grievance resolution. We have formulated a very detailed and clear Customer Grievance Redressal Policy. The written policy document covers all elements of Grievance Redressal, channels for receiving complaints, complaint boxes, toll free number, outbound mail, email etc.; establishing grievance cell at Head Office; escalation process etc.
- **Active Client Handling Process:** We have instituted a number of Grievance Redressal Mechanisms which include:
- **Toll free numbers:** We have established toll free numbers for addressing complaints and queries of clients. The number is printed in passbooks, registers at field level and also displayed in branches. The toll free number is communicated to clients in multiple ways. It is printed on the loan

card, and also printed in the Centre Minutes Register. It is prominently displayed at branches. Besides, this number is communicated to clients by Kendra Manager during CGTs and centre meetings.

- **Out-bound calling:** We have a dedicated staff responsible for making fixed number of out-bound calls to clients on a daily basis to check their satisfaction with our services, if clients have any grievances from GF SPL, if clients are aware about different redressal mechanisms etc. We use a standard script for its outbound calls and staff is trained on the same. The script helps in communicating standard messages to clients and creating awareness about GFS products, services and grievance redressal mechanism.
- **Complaint boxes at branches:** Based on regulatory requirements, we recently introduced complaint boxes at each of our branches and developed policies and processes to make the complaint boxes effective.
- **E-mail and post:** Clients who are literate and use e-mail services can also send an email at yourvoice@gfspl.in or they can send in their complaint or suggestion through post. The postal address is mentioned at the back of the loan cards.

The details of above mentioned channels, through which the grievances could be raised, are also displayed on the official website of Grameen Koota as well as in its regional offices and head office.

- **AKMI Ombudsman:** We are an active member of Association of Karnataka MFI (AKMI). The association has established a client grievance redressal ombudsman. The Ombudsman's mandate is to resolve client complaints that are not resolved at the MFI Level.
- **Staff Training:** Dedicated Staff for handling complaints: At the head office, the toll free number is handled by a senior staff member. This person has the responsibility of receiving and recording complaints in a simple MS Excel tracking spread-sheet and also maintaining a manual diary. The staff members have to make a note of follow up action taken on each complaint and query.
- **Clear categorization of query, request and**

complaint: We make a clear distinction between queries, requests and complaints. In the detailed grievance redressal policy, each of the three categories is clearly demonstrated via the examples given below:

1. Query Clarification on interest rate offered repayment amount, etc.
 2. Request for Higher loan amount, personal loan, insurance claim request, etc.
 3. Complaint Harassment of client regarding repayment or non-disbursal of an emergency loan on time, etc.
- **Customer Feedback:** We consolidate the list of grievances and complaints received from clients and staff. The consolidated and analysed results are presented to Management on a monthly basis. The issues raised have to be addressed within the stipulated time as per the policies and procedures failing which, after passing through various levels, get escalated to the CEO/MD on day seven. Management also engages with Internal Audit and Supervisory staff to understand the issues and challenges in field operations. Based on all the discussions and feedback, necessary policy and process changes are introduced in the system and a circular towards the same is released to all branches. Every quarter, the Grievances Committee of the Board reviews the kind of grievances that come up; keep a close vigil on whether the complaints are resolved satisfactorily and also take steps to

improve customer service. They also provide feedback on different mechanisms established by the institution for grievance redressal.

5) Understanding the needs and preferences of clients

It is our constant endeavour to meet the requirements of the clients by offering need based services backed with client-friendly policies and strong implementation that has led to a client outreach of 568,958 members across 176 branches and 42 districts in the states of Karnataka, Maharashtra, and Tamil Nadu. In 2013, we secured social rating 'a' by M-CRIL; awarded with Truelift pro poor Certification as 'Achiever'; organization grading of 'mfR2' by CRISIL.

In order to meet this objective, GK conducts customer surveys and market research on regular basis. We have a two-pronged feedback process – one where clients are interviewed in person face-to-face, and another done over phone as a part of the feedback process. Where the former is conducted by our Area Managers on a monthly basis, the latter is done on daily basis with the help of a call centre. The call centre team has segmented clients into 6 different categories based on their vintage including dropped clients and asks specific sets of questions that are relevant to each segment to understand each segments' needs. In 2013-14, over 5,700 respondents were interviewed for the purpose. The highlights of the findings are presented in the table below:

Total calls made for the FY 13-14

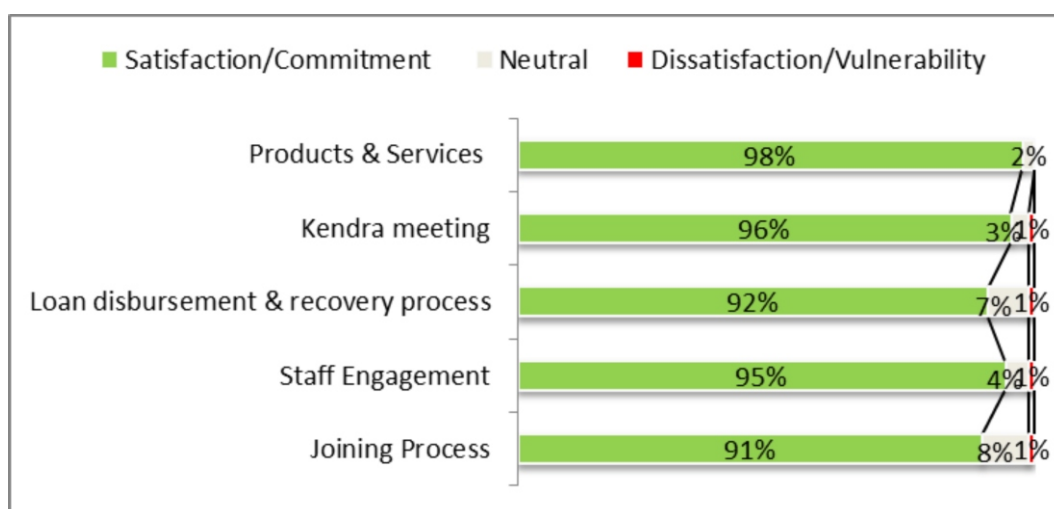
Particulars	Rating					Grand Total
	5	4	3	2	1	
Staff Behavior	495	3,219	1,763	4	-	5,481
Loan amount	967	3,477	1,035	2	-	5,481
Time Taken to process Loan	408	3,192	1,877	4	-	5,481
Disbursement Process	440	3,073	1,967	1	-	5,481
Tenure	548	3,365	1,565	3	-	5,481
Installment	674	3,292	1,515	-	-	5,481
Kendra Meeting	915	3,535	1,031	-	-	5,481

On the basis of feedback data obtained from the members during the survey, we observed the members have expressed their general comfort level. While the trend has been positive and member's opinion is shifting slowly but steadily towards rating 4 & 5 (on a scale of 1-signifying low satisfaction to 5 signifying high satisfaction). Time taken to process the loan, disbursement process and staff attitude emerged as areas that need to be fine-tuned.

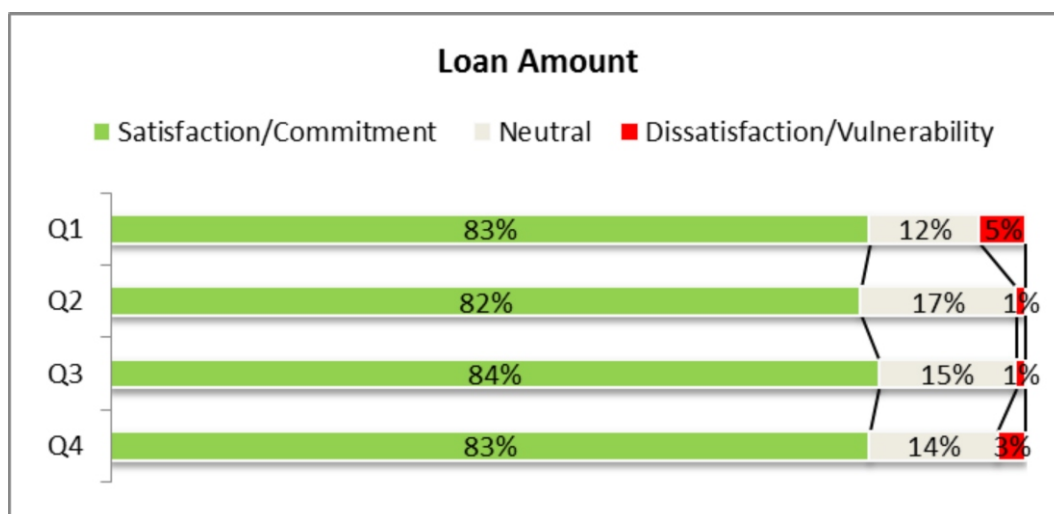
During the calls, it was also found that a significant no. of members were aware of various products & related services offered by us - 100% of members in respect of Loan passbook, 98% members in respect of Branch address & related matter, 95% in respect of Loan products and 89% in respect of Insurance. We found that there is a requirement to disseminate awareness in the area of Interest & Fee (77%) and Credit Bureau (73%). A substantial improvement has been noticed in the awareness levels in the members regarding Complaint box (61%) and Toll Free Redressal (70%) services extended by us but still more efforts have to be made at operational levels to improve the same.

The interviews by area managers were initially done once a quarter as pilot and later were regularized to happen on a monthly basis. In 2013-14, over 1,300 active borrowers were interviewed for the purpose. The highlights of the findings are presented below:

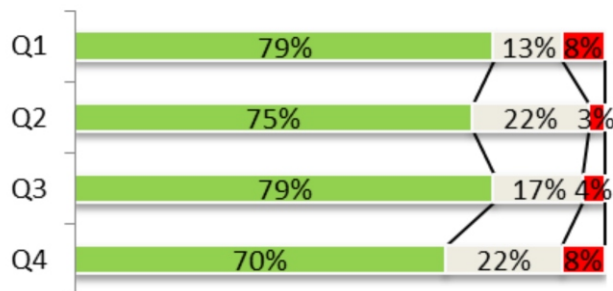
a) General Satisfaction levels of clients:



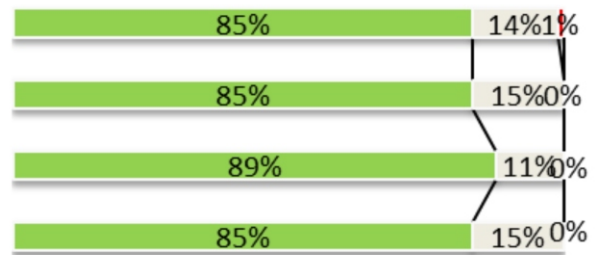
b) Satisfaction with respect our product: Income Generating Loan



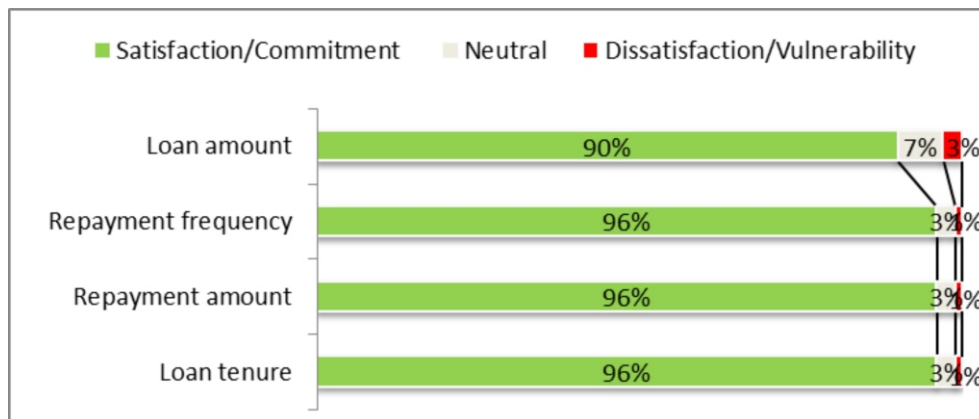
Repayment Tenure



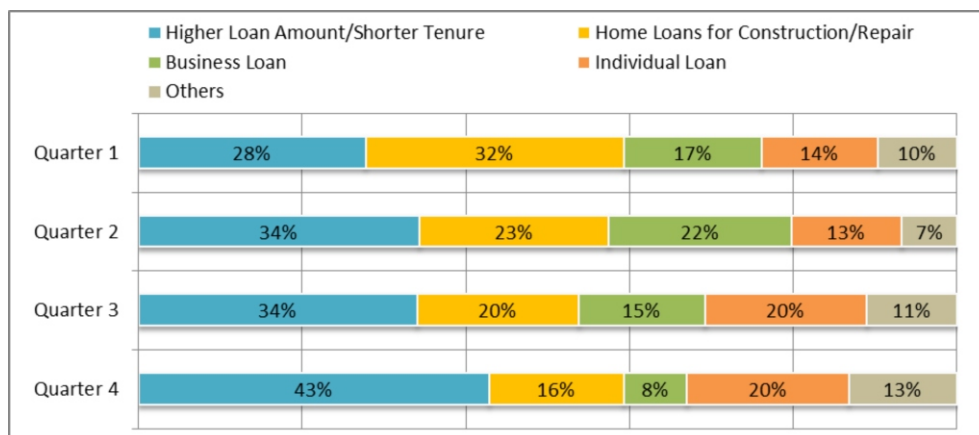
Repayment Amount



c) Satisfaction with respect our product: Emergency Loan



d) Short term and Medium term requirements of clients



e) Ad-hoc research: Study to understand customer preferences on frequency of Kendra meetings.

We offer flexible loan repayment options to its clients - weekly, bi-weekly and four-weekly, yet centre meetings are held on weekly basis. We have been reckoning about changing the frequency of the meeting to bi-weekly. Along with satisfying a section of customers, this shall help ease some load off the Kendra Managers, also help to reduce operational cost and increase efficiency.

With this we wished to address issues including: flexibility in operations, addressing demands of a segment of clients preferring non-weekly meetings, to increase staff productivity, reducing operational expenses and thereby increasing operational efficiency.

In this context, we undertook a study in this year to understand customer feedback to help us in appropriate decision-making on this front.

The objectives of the study were to know:

- What are the factors that contribute towards customer preference of frequency of payments and meetings?
- How do customers see current weekly meetings?
- Advantages and disadvantages of bi-weekly meetings
- Customer preference of bi-weekly meetings over weekly meetings

For the purpose, focus group discussions were held with current active clients of Grameen Koota. Convenient sampling method was adopted and Operational areas South, Central and North Karnataka Regions in Karnataka; Kolhapur and Latur divisions in Maharashtra with a mix of both rural and urban pockets were covered. A total of 40 centres were covered which comprised responses from over 860 customers.

Highlights of the study:

- 75% of the clients were in favour of weekly meetings
- Though these clients favoured weekly meetings, 60% of them responded they may continue their association with Grameen Koota even if bi-weekly meetings are imposed since it becomes inevitable
- However, 40% of them said they may stop taking loans from Grameen Koota if meetings are changed from weekly
- 20% of the clients were in favour of bi-weekly meetings
- However, these centres did not have issues to continue with weekly meetings also. One centre strongly preferred monthly meetings instead of weekly
- The response from the clients within a centre have been largely unanimous, except a couple of centres whose opinion have been diverse
- The most common reason for preferring weekly meetings has been "Small installments" at over 40%; followed by "Weekly payments match frequency of income" at 20% and "Frequent availability of EL and other small loans" at 15%

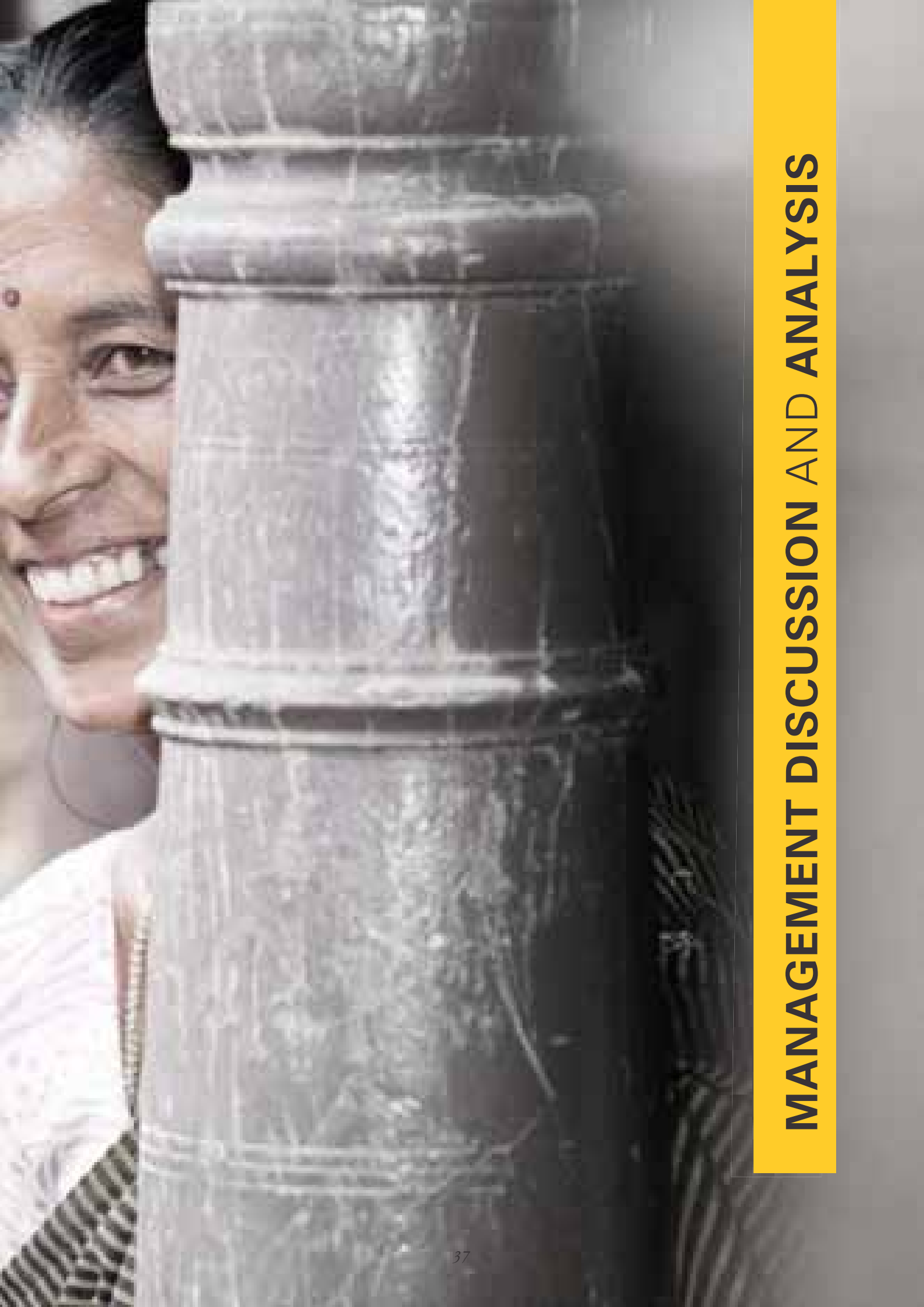
f) Use of feedback or complaints to improve organization's operations and services

A number of important policy and product decisions have been taken based on the results of client surveys. Following are some of the examples:

- Surveys repeatedly showed that half of clients demanded home loans. We now offer Home Loans on a pilot basis in a limited number of branches.
- Emergency Loans were capped at 2 per group. Due to strong feedback from clients, the number was increased to 50% of the group's size.
- Similarly, Festival Loans though not of big size, were given only at the branch. Based on the client feedback and exploration of client constraints with commuting to branches, festival loans are now disbursed in the groups
- Survey results showed lack of awareness about good hygiene and poor sanitation conditions. Dearth of money to construct toilets was a significant part of the problem. More than 90% of clients were interested in toilet construction if GK were to offer credit to support that purpose. Hence Sanitation Loans were introduced.
- Based on the customer feedback, it has been observed that, our members are facing difficulties in admitting their children in schools due to lack of timely availability of funds. Keeping that in mind GK has launched its Education Loans.
- Changes were introduced in the process of modifying client information in the MIS - which impacted insurance claim settlement process positively
- Established a process to raise discrepancies between clients' claims and credit bureau reports with other MFIs, so as to make suitable rectifications for genuine claims
- Change of rules in case of loans less than Rs. 5,000 size which required spouses signature earlier

Many of the products serving emergency or risk reducing purposes (e.g. emergency loan, festival loan, education loan, health cover) were all developed after deep analysis of customer demand and clients' utilization patterns of monies.





MANAGEMENT DISCUSSION AND ANALYSIS



Microfinance Industry Macro View:

The year 2013-14 was quite a good year for the microfinance sector in India. According to MFIN, as on 31st March 2014, total loan portfolio of 46 MFIN member MFIs was of Rs 279.31 bn, a historical high for the industry and together they served over 28 million clients. The latest report from MFIN suggests that about 80% of MFIN members registered increase in their loans outstanding as well as loans disbursements as compared to the last year. The total number of loans outstanding of NBFC-MFIs stood at 30.2mn showing a growth of 20% over FY12-13.

Total number of loans disbursed also grew by 31% in FY 13-14 compared with FY 12-13. The total assets for NBFC-MFIs stood at Rs 298.55 bn and total outstanding borrowing for NBFC-MFIs stood at Rs 222.24 bn. The funding to the NBFC-MFIs grew by 49% as compared with FY 12-13.

NBFC-MFIs have increased their client base by 20% over FY 12-13, the NBFC-MFIs who now operate in 30 states/union territories, have well spread portfolio across the various regions in the country.

The Life insurance benefits have been extended to over 30 mn clients with sum insured of Rs 508.2 bn and Pension services have been extended to over 1.2 mn clients through NBFC-MFI network.

Implementation of client protection principles, where all the MFIs are required to adhere to specified guidelines on qualifying assets, indebtedness of the borrowers and loan pricing, among other things, has not only facilitated in increasing the confidence of lenders and investors in MFIs, it has also helped in gaining trust of borrowers in the MFI industry.

With greater regulatory clarity, the industry has now bounced back into its regular form. Quite a lot of developments have taken place since Reserve Bank of India (RBI) brought micro loan companies under its purview for the first time by announcing a series of measures, including a cap on interest rates MFIs charge borrowers and creation of a new category of non-banking financial companies, called NBFC-MFI, for the industry. This gave a new lease of life to the industry, leading to confidence that the central bank controls have fixed the lenders, which in turn enthused the country's large banks to again start lending to microfinance firms. In addition, well-functioning credit bureaus are providing greater transparency.

The joining of Reserve Bank of India's (RBI) new Governor, Raghuram Rajan, in September 2013 has lightened up a ray of hope for everyone belonging to financial sector. Mr. Rajan is known to be a strong advocate of the development of the financial sector and of financial inclusion. His robust intervention on his very first day changed the decades-long tradition where he read out his first set of policy interventions and articulated some action based plans, indicating to have a real-time impact on financial markets.

One of his initiatives, the Report on Comprehensive Financial Services for Small Businesses and Low Income Households, which was submitted by the Committee led by Nachiket Mor, Member of the Central Board of the Reserve Bank of India Central Board and Chairman of the RBI Committee on Financial Inclusion. The committee was mandated with the task of framing a clear and detailed vision for attaining full financial inclusion and financial deepening in India. After reviewing the existing strategies, they developed the new ones that address specific barriers to progress and encourage participants to work swiftly towards achieving the same.

The Committee laid down a set of four design principles, namely Stability, Transparency, Neutrality, and Responsibility, that will guide the development of institutional frameworks and regulation for achieving the visions outlined. In its report, the Committee has outlined six vision statements:

1. Universal Electronic Bank Account (UEBA): Each Indian resident, above the age of eighteen years, would have an individual, full-service, safe, and secure electronic bank account.
2. Ubiquitous Access to Payment Services and Deposit Products at Reasonable Charges: The Committee envisions that every resident in India would be within a fifteen minute walking distance of a payment access point.
3. Sufficient Access to Affordable Formal Credit: Each low-income household and small-business would have access to a formally regulated lender that is capable of assessing and meeting their credit needs. Such a lender must also be able to offer them a full-range of suitable credit products at an affordable price.
4. Universal Access to a Range of Deposit and Investment Products at Reasonable Charges:

Each low-income household and small-business would have access to providers that can offer them suitable investment and deposit products. Such services must be available to them at reasonable charges.

5. **Universal Access to a Range of Insurance and Risk Management Products at Reasonable Charges:** Each low-income household and small business would have access to providers that have the ability to offer them suitable insurance and risk management products. These products must at minimum allow them to manage risks related to: (a) commodity price movements; (b) longevity, disability, and death of human beings; (c) death of livestock; (d) rainfall; and (e) damage to property.
6. **Right to Suitability:** Each low-income household and small-business would have a legally protected right to be offered only suitable financial services. She will have the right to seek legal redress if she feels that due process to establish Suitability was not followed or that there was gross negligence.

As a roadmap towards these goals, the committee made wide-ranging recommendations. It suggested the creation of new banking models, it suggested new regulatory structures, it argued for the elimination of the statutory liquidity ratio for existing banks, a convergence of rules for banks and NBFCs. For which a set of building blocks have to fall in place. Among them: Aadhaar; a new set of financial organisations; the notion of responsible marketing of financial products; a new credit push; and a new model for regulation and oversight.

The Committee recommended moving away from a limited focus on any one model to an approach where multiple models and partnerships are allowed to emerge, particularly between national full-service banks, regional banks of various types, non-bank finance companies, and financial markets.

This report opened great avenues for the NBFCs, laying down a road map for those institutions which can move ahead and become banks. To enable non-banking financial companies (NBFCs) to become more active in spreading financial inclusion, along with partial convergence of norms for NBFC and banks, the panel has also recommended allowing ND-NBFC to become BCs (Business Correspondents) of banks, which has the potential to

dramatically improve the delivery of financial services to the poor.

On the other hand, the MFI industry also started taking many proactive measures. MFIs are now communicating effectively with the regulator, through industry associations as well as individually. MFIs now share their loan information and borrower profiles with credit bureaus. The repayment rate has climbed and the industry has also started expanding into a different demographic base.

Reserve Bank gave new banking licenses, after nearly 10 years,. Bandhan Financial Services a Kolkata Based MFI was given license to convert to a full fledged bank apart from IDFC Ltd., This is one of the biggest recognitions given to the MFI industry during last financial year, showing the importance of microfinance institutions in financial inclusion.

Since the Central government has prioritized its focus on financial inclusion the mainstream banks have started using the 'business correspondent' route to re-enter the segment. So, the domestic micro-lending industry in the country is now witnessing resurgence in interest from commercial banks in targeting low-income borrowers. RBI norms mandate that banks have to lend 40 per cent of their loans to the so-called priority sector, which includes agriculture, micro-credit, exports and the economically weaker sections.

An estimated 130 million Indian households could potentially be served through microfinance, with money lenders and other informal sources accounting for more than 80 per cent of borrowings. Informal credit in rural India is estimated at \$5.4 billion, according to the All India Debt and Investment Survey. This potential has also attracted India's top lender State Bank of India, number two lender ICICI Bank and even private sector lender YES Bank, Ratnakar Bank among various others, to look at serving India's 600,000 underserved villages.

The revised Micro Finance Institutions (Development and Regulation) Bill 2012 that was referred to the Standing committee on Finance of Parliament has lapsed. A Parliamentary panel rejected the bill and asked the government to bring a fresh legislation before Parliament as the report requires wider consultations.

The year saw many equity investments deals as the investors and fund managers also are focusing on





social performance to ensure effective and responsible use of their capital. To receive their continued support, the MFIs on their part have to demonstrate consistent profitability to investors and funders.

GFSP Operations Perspective

Client Profile

GFSP's clients come from diverse backgrounds, from various ethnicities and different age groups yet they have been functioning together as its members for years now. The tables below show, the distribution of the clients based on their ethnicity, age and vintage with the Company.

Ethnicity	FY 12	FY 13	FY 14
Backward Caste (BC)	19%	16%	13%
Other Backward Castes (OBC)	21%	22%	24%
Scheduled Caste (SC)	18%	19%	23%
Scheduled Tribe (ST)	8%	9%	9%
Minorities	29%	30%	28%
Other	5%	4%	3%

Client's Age	FY 12	FY 13	FY 14
Less than 25 years	7%	7%	8%
25-30 years	17%	15%	15%
30-35 years	20%	19%	19%
35-40 years	21%	20%	18%
40-50 years	30%	31%	30%
>50 years	6%	8%	9%

Customer Vintage with the company	FY 12	FY 13	FY 14
Less than 1 years	20%	22%	39%
1-3 years	60%	49%	26%
3-6 years	17%	22%	26%
6 year and above	3%	7%	9%

Profitability

During FY 2013-14, our total revenues were Rs 147.8 crore, an increase of nearly 66% over the last financial year. Our total expenses stood at Rs 120.2 crore during FY 2013-14, an increase of 50% over the last financial year. Our profit before tax is around 27.7 crore in FY 2013-14 an increase of more than 200% over the last financial year when we had a profit of Rs 9.0 crore.

Outreach and branch network

During the financial year 2013-14, your company registered 54.63% growth in loan portfolio (including managed loans) and 45.65% growth in active borrowers, growth in number of branches was 9.32 % and total employees growth was 31.20%. Improving operations along with staff productivity has been an important area of focus for the year which has resulted in growth. We have also ensured that increase in number of staff does not have an adverse impact on our portfolio quality.

Operational Trends

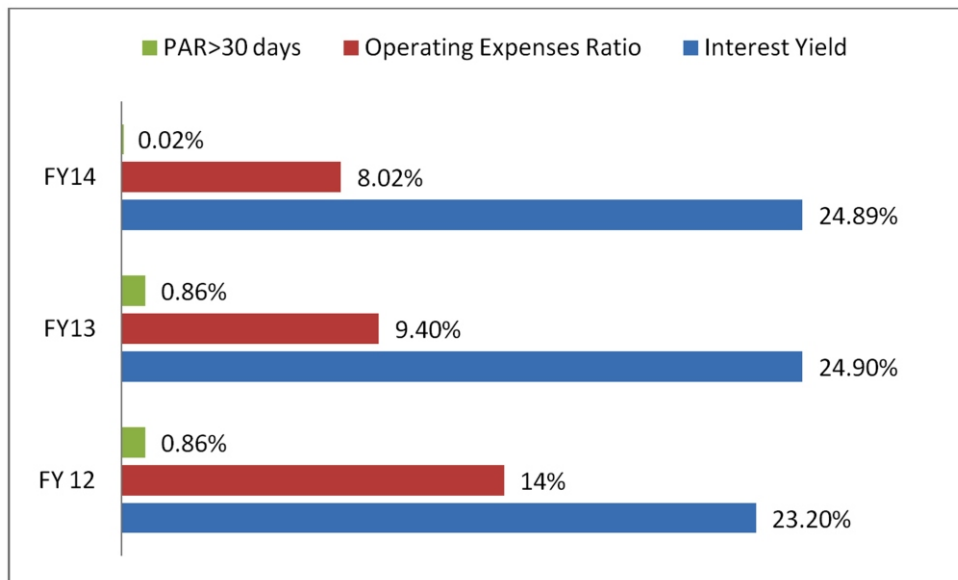
During the six year period, starting from 31 March 2008 and ending on 31 March 2014, your company had a Compounded Annual Growth Rate (CAGR) of around 21.59% in the number of districts, 22.93% in the number of branches and 27.45% in number of active borrowers. Loans disbursed during a year, have witnessed a CAGR of nearly 35.14%. Our outstanding loan portfolio, including managed portfolio have grown at nearly 46.31% year on year. The number of our total staff has grown at a rate of 21.71% during this period. Portfolio quality as always has been of very high quality with on time repayments rates of above 99% consistently over the years.

Operational Trends

Particulars	Mar-08	Mar-09	Mar-10	Mar-11	Mar-12	Mar-13	Mar-14	CAGR (%)
Branches	51	82	146	215	168	161	176	22.93%
Districts	13	23	37	45	42	41	42	21.59%
Active Borrowers	117,747	211,562	352,648	321,161	313,610	346,519	504,688	27.45%
Loans disbursed (INR Cr.)	168.8	372.7	531.5	606.7	595.3	606.4	1028.1	35.14%
Portfolio on Book (INR Cr.)[A]	82.6	115.4	234.2	186.3	267.4	384.2	668.3	46.31%
Managed Portfolio (INR Cr.)[B]	-	65.9	96	64.2	113.9	139.7	141.8	
Portfolio Outstanding (INR Cr.)[A + B]	82.6	181.3	330.2	250.5	381.3	523.9	810.1	
Field Officers	240	440	660	770	848	800	1092	28.73%
Total Staff	480	769	1,380	1,748	1,267	1,189	1,560	21.71%
Repayment Rate	100.00%	99.90%	98.80%	99.60%	99.60%	99.90%	99.90%	N/A
Debt raised during the year (INR Cr.)	80.7	204.2	311.2	287	366.7	541.8	857.3	48.27%

Financial Performance

For FY-2013-14, our portfolio yield was 24.89%, as against 24.90% for the last financial year. Our Operating Expense Ratio declined to 8.02% in FY 2013-14, from 9.40% in the last financial year, reflecting improvements in operating efficiencies. Our portfolio quality also improved with PAR > 30 at 0.02%.



Funding Trends

The changes in the funds received from different sources during the FY 2013-14 in comparison to last year can be seen in the below table.

All figures in Rs. Cr	O/s as on Mar-13	O/s as on Mar-14
Public Sector Banks	112.09	276.07
Private Banks	165.65	287.28
Securitization / Buyouts	133.68	145.89
NCD / Foreign sources	70.50	169.57
NBFC's and FI's	38.83	72.31

Portfolio Distribution

We have operational presence in Karnataka, Maharashtra and Tamil Nadu. While Karnataka continues to contribute a major proportion to our loan portfolio (70.83% for year ending March 2014), we have been increasing our outreach in Maharashtra which contributed over 27.04% for year ending March 2014.

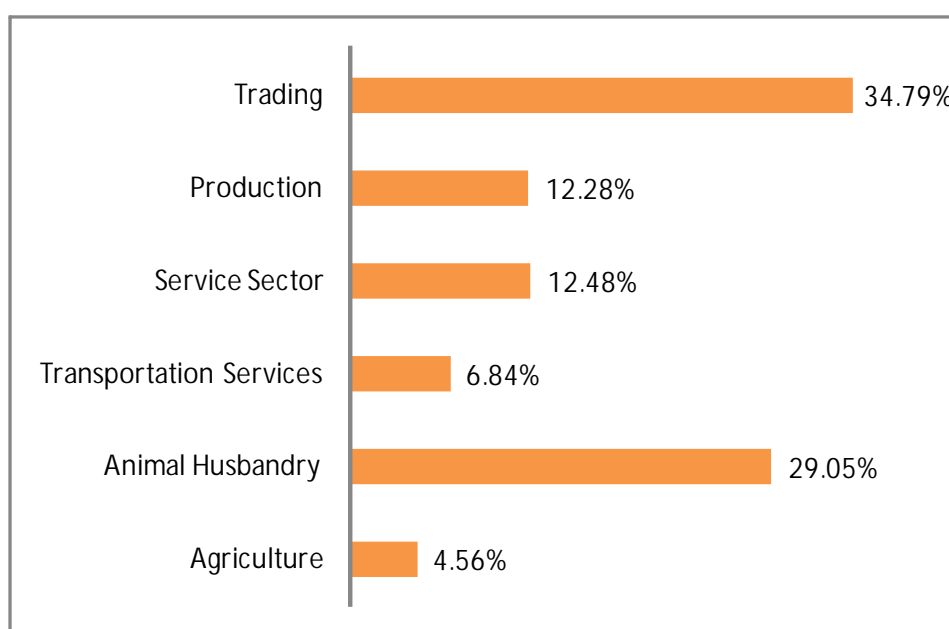
State Wise Portfolio Distribution

State wise Portfolio Distribution	FY 13		FY14	
State	Portfolio(Rs.Cr)	% age	Portfolio(Rs.Cr)	% age
Karnataka	412.94	78.82%	573.85	70.83%
Maharashtra	105.00	20.04%	219.10	27.04%
Tamil Nadu	5.96	1.14%	17.19	2.12%

GFSPS offers various products as shown in the table below

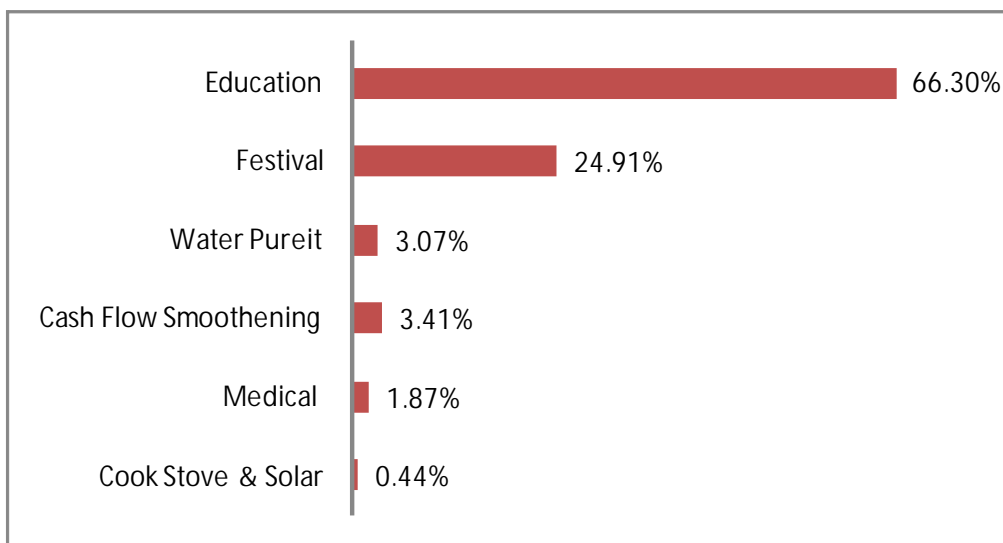
Products	FY 13		FY14	
	Portfolio(Rs.Cr)	% age	Portfolio(Rs.Cr)	% age
Income Generation Loans	485.2	92.6%	716.4	88.4%
Emergency Loans	9.3	1.8%	13.3	1.6%
Family Welfare Loans	6.7	1.3%	16.6	2.1%
Home Improvement Loans	22.7	4.3%	63.2	7.8%
Home Constructions Loans	-	0.0%	0.6	0.1%
Total	523.9	100.0%	810.1	100.0%

Income Generation Loans (Activity wise)



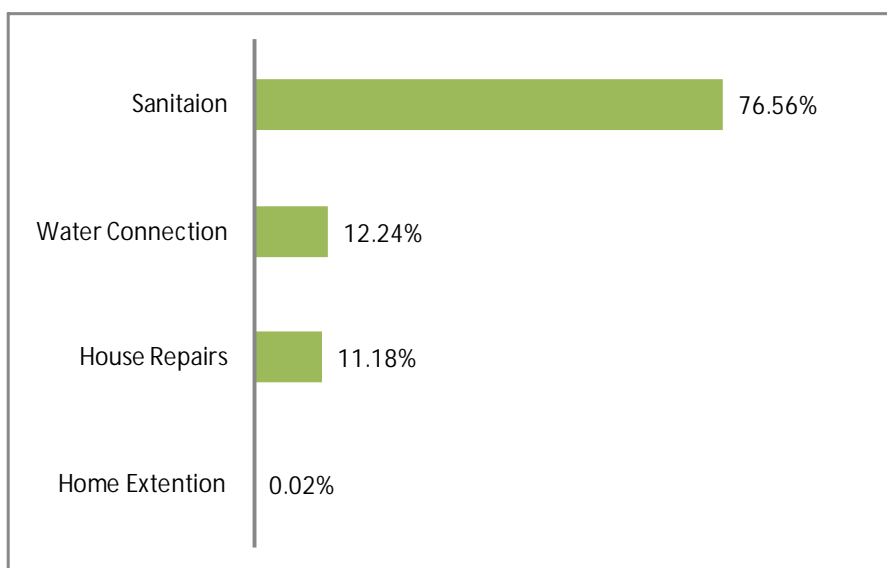
As per the above graph, most of the clients avail income generation loans for the purpose of establishing or supporting businesses like trading and animal husbandry, whereas very few clients belong to the profession related to agriculture.

Family Welfare Loans



As the above graph represents, highest utilization of our family welfare loans is for the purpose of education, which is a good sign of our clients understanding the importance of education and contributing towards increasing the literacy rate of the states we are operating in. Although the utilization of our clean energy products is low, various steps are being taken to encourage clients by spreading awareness among them regarding the benefits of using them.

Home Improvement Loans



The highest utilization by our clients of our home improvement loans is for the purpose of constructing toilets in their homes and then getting their own water connections. These numbers are the testimony of us getting nearer to our goal of having a healthy society, free from open defecation and unhygienic drinking water.

GFSPL's emphasis on Social Performance

GFSPL is committed to achieve stated social objectives. We have ensured that we adopt right strategies to achieve our social objectives. This year, we have tried to give you a glimpse of how we put social performance management into practice in the separate section as SPM Report.

Internal Audit and Internal Controls

Your Company believes in maintaining a strong internal control framework and views such a framework as an essential prerequisite for a growing business like ours. Precisely for this reason, we have well documented policies, procedures and authorization guidelines that commensurate with the size of our organization. Additionally we have an independent internal audit system in place to conduct audits of all branches, regional offices and as well as the head office.

Internal Audit in your company is an independent consulting activity guided by a philosophy to add value to improve and enhance operations of your 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 is conducted with strict accountability for confidentiality and safeguarding records and information. It has full authorized, 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. Every branch is audited with an average of 6 times in a year.

Risk Management: Overview and Strategy

IFC supported GFSPL to develop and strengthen core institutional activities around risk management. The program implementation was being facilitated by M-

Cril and IMAcs and designed a new risk management dashboards for monitoring risks and started off the Risk Management department which reports to the Risk Mitigation Committee of the board.

Human Resources

Human Resources personnel in the Microfinance sector face 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, Transparency and Efficiency (CREATE). The HR department at GFSPL ensures that these values are genuinely met for all internal resources. The department continues to work towards different employee welfare benefits including "Birthday, Wedding, Sibling Wedding and Child Gifts", ESI, Insurance, SAF and Gratuity.

The 2013-2014 different highlights of the HR department include:

- Worked towards shifting towards 5 working days a week from the current 6 day working.
- Zero delay in all statutory payments and filling of returns on time.
- Employee welfare benefits like leave accumulation has been extended from 60 to 120 with encashment made any time during the year subject to eligibility, E-PF pass book downloading, employee benefit handouts to candidates post recruitment.

Information Technology

The information technology team in your Company has been focused on implementing a centralized and consolidated Information System to enable smooth and swift flow of information and data across the system. This will enable 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, continues to play a key role in client information management. MIFOS helps your Company manage its entire customer & product portfolio. As the data sizes have grown, your company is planning to upgrade its technology for enable smoother & more efficient operations.

E-Learning Portal

Your Company has continued to use the 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 large 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 stakeholders.

Credit Bureau

Your Company is working with Credit Bureaus like Highmark, Equifax, Experian and CIBIL. The credit bureaus help identify overlapping microfinance borrowers, their overall loan exposure and incidents of high default. Every single loan given by your Company undergoes a credit check with the Credit Bureaus. The Credit Bureau verification process has been completely integrated into the loan delivery processes and is instrumental in minimizing instances of borrower over-indebtedness.

Credit Bureau utilization data

	FY 12	FY 13	FY 14
Applications sent	372,722	712,620	2,232,750
Applications approved	351,752	654,654	2,066,423
Applications rejected	20,970	57,966	166,327

Infrastructure Outsourcing

Your Company has been continuously working to partner with IBM on outsourced infrastructure management services, so that the entire production & disaster recovery server infrastructure management is managed by them. Your Company is also partnering with Bharti Airtel for network connectivity across all critical locations.

Technology initiatives

Your Company is actively working on upgrading its technology infrastructure & applications to keep pace with the changing environment in the industry. There is a lot of focus on increasing operational efficiency through technology initiatives such as field force automation, robust internal communication & knowledge management systems to ensure greater cooperation between teams as well as more effective management of operations.

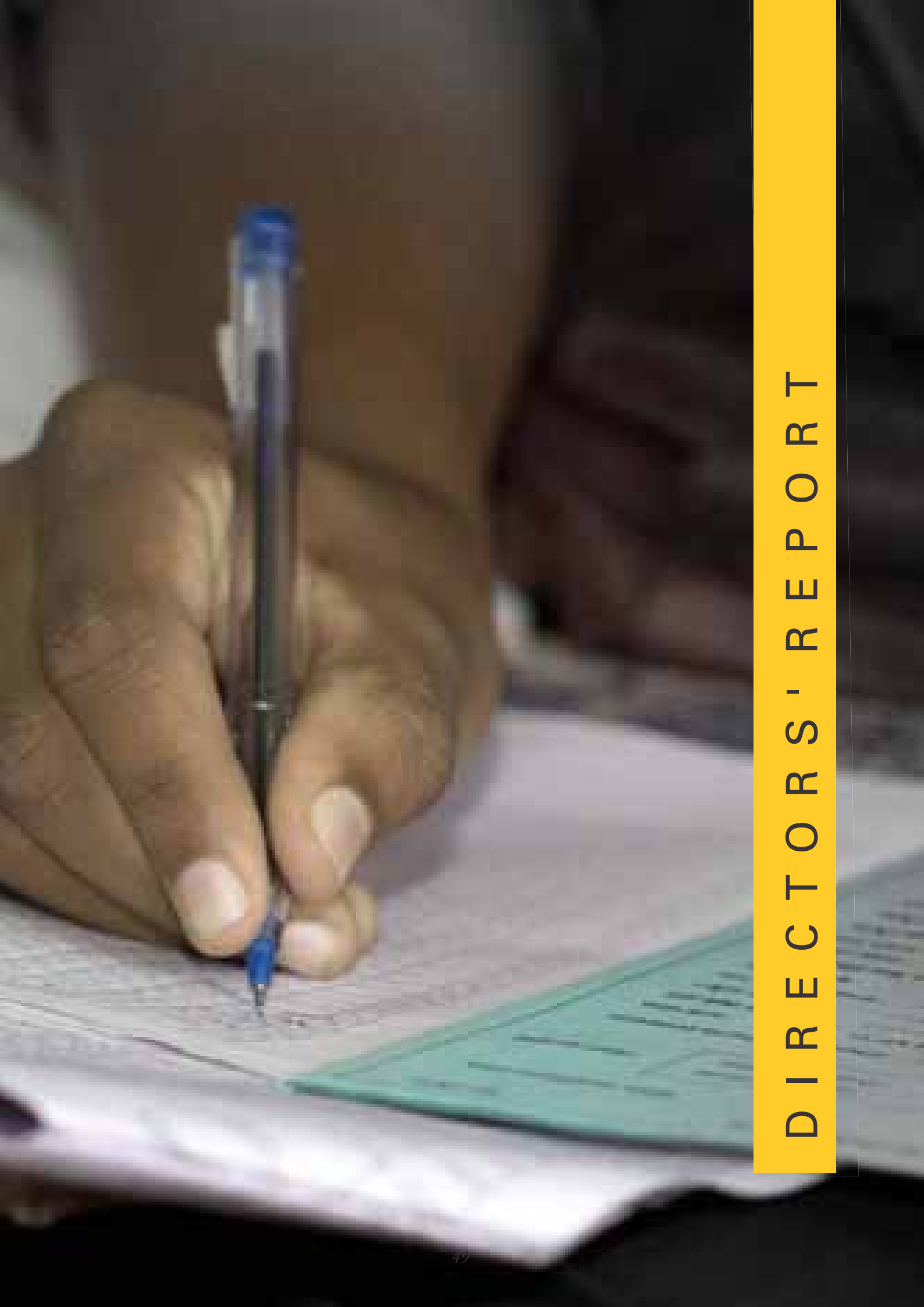
Treasury and Cash management system

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

Your company is one of the few MFIs to: Issue a non-convertible debenture directly with a Foreign Institutional Investor, listing in Bombay Stock Exchange (BSE).







DIRECTORS' REPORT



To
The Shareholders of Grameen Financial Services Pvt Ltd

Your Directors are pleased to present the Annual Report of your Company together with the Audited Statement of Accounts and Auditors' Report for the financial year ended March 31, 2014.

The total revenue of the Company increased to Rs 147.78 crore in FY 2013-14 as against Rs 89.24 crore in FY 2012-13 and the profit after tax also increased to Rs 18.51 crore in FY 2013-14 as compared to Rs 8.46 crore registered in FY 2012-13. The growth in loan portfolio ensured significant increase in revenues. Improvement in operating efficiency, along with continued sound portfolio quality has enhanced the profitability this year. The Company raised on-lending funds from various banks and issued NCDs to foreign financial institutions. The Company also raised 11.40 crore of subordinated debt during the year from Global Commercial Microfinance Fund, a Fund managed by Deutsche Bank.

The Company's capital adequacy improved significantly to 31.64% after fresh capital infusion of Rs. 80 crore and on account of increase in the profits during the year.

Year ended 31st March (In Rs.Crore)	2014	2013
Total Revenue	147.78	89.24
Less: Total Expenditure	120.18	80.19
Profit Before Tax	27.65	9.05
Profit after Tax	18.51	8.46

Operational Highlights

Your Company during FY 2013-14, consolidated its operations which remained robust in terms of operational outreach, processes, technology and human resources. This has resulted in steady and stable growth and improvement in operating efficiencies. The Company, during the year added around 2 lakh new borrowers and also opened 15 new branches in the States of Karnataka and Maharashtra. While the employee strength increased to 1650 from 1189 during the year, which was mainly the frontline field staff level, there has been no change in the senior management team of the company.

The Company has put in place a strong system of thoroughly scrutinizing all loan applications so as to ensure that loan sanctions are given only to such clients who do not have multiple borrowings from MFIs, are not over indebted and are not defaulting borrowers. The Company thus has ensured to be compliant as per RBI guidelines. Your Company has maintained high asset quality throughout the year. The Company's IT system continues to remain strong and supportive in its ability to provide live operational information.

Your Company's organizational highlights for FY 2013-2014 are as follows:

Year Ended	2014	2013
Branches	176	161
Districts	42	41
Kendras	24,163	16,925
Members	568,958	381,749
Loans Disbursed(Rs.Cr)	1,028.1	606.4
Portfolio Outstanding(Rs.Cr)	810.1	523.9
Total Employees	1,650	1,189

Participation of Senior Management at diverse events and workshops during FY 2013-2014

- Mr. Suresh Krishna, MD and Mr. Udaya Kumar, CEO along with five other members of the company's senior management team visited Cashpor Financial Services in Varanasi and Bandhan Financial Services in Kolkata between July 10- 16, 2013 as part of a week-long study tour, during which they also visited Grameen Bank in Bangladesh to understand the current microfinance models being practiced there.
- Mr. Suresh Krishna, as one of the panelists at the Microcredit Summit held in October 2013 at Manila and during the European Microfinance week at Luxembourg in November 2013 presented the experiences of GFSPL in sessions on Finance and Housing. He also represented GFSPL at Microfinance India Summit 2013 convened by ACCESS Development Services as one of the panelists and participated in the discussion on significance and importance of client protection titled "Client Protection for Financial Inclusion: The Way Forward in India," and spoke about his experience as one of the first certified MFIs in India and the importance of Smart Campaign certification.
- Mrs. Vinatha M Reddy, Chairperson, was invited to New Delhi to participate in the Hon'ble Finance Minister's pre-Budget consultations with social sector related groups. She presented a note on the difficulties faced by NGOs and the MFI-sector and the relief measures required from the Ministry of Finance.

Organizational events during the year

- GFSPL launched its intranet portal in April 2013 to streamline access to internal and external information and improve communication, enhance collaboration and coordination between branches and the headquarters, along with enabling capturing and sharing of knowledge.
- GFSPL won the Super Max 8 Inter Corporate Cricket Tournament Cup against Infinite Team, Bangalore which was held in June 2013 at the SPT Sports Academy.
- A two-day workshop on responsible finance was held in August 2013, to orient staff members towards conducting a meaningful and insightful survey to understand client needs appropriately.
- On the 30th and 31st of July, 2013 a Gender Sensitization Workshop was held at the State Head Quarters conducted by the Trustee of Visthaar, Ms. Mercy Keppan.
- The Board Members of GFSPL visited different branch offices and field level center meetings at Hospet and Bellary during the third quarter Board Meeting held in November 2013 at Hampi, a UNESCO World Heritage Site.
- Free health camps were conducted for the clients and their family members, at Rahata on December 2, 2013 at Dr. Pangawhane Hospital and another in Mysore on December 24, 2013 at Dr. M D Sachidananda Murthy Memorial Hospital. A total of 101 members at Rahata and 159 members in Mysore attended these health camps.
- GFSPL in association with its NGO affiliate Navya Disha launched new initiative, named 'Sugram Project' in two of the most underdeveloped Grama Panchayaths in Karnataka, Urdigere Grama Panchayath in Tumkur District and Vantamuri Grama Panchayath in Belgaum District.



Equity Infusion received during the year

GFSPPL raised Rs. 80 crore in its fifth round of equity funding from one of its existing investors – MicroVentures. The company, in the process, also provided exit to Aavishkar Goodwill Microfinance India Development Fund and IIM Impulse 2 during this round of equity.

Corporate Social Responsibility (CSR)

GFSPPL continues to contribute 5% of PAT to Navya Disha as CSR to promote health, safe water, sanitation, education in the areas where we operate. The Company initiated programs on financial literacy, client awareness on health and sanitation in the field operations with support from Navya Disha. These programs have had a strong impact in generating awareness among the customer segment.

Water and sanitation: About 50,253 households were supported by way of loans to construct sanitation units and about 31,003 households to acquire water connections during the last year.

Clean Energy: About 465 households were extended loans to procure energy efficient cook stoves during the last year.

Health care support: Over 54,123 members were benefitted under the healthcare assistance. Two health camps were conducted which were attended by over 260 members.

Life Insurance: More than 890,374 borrowers and their spouses were insured under term insurance plan in partnership with Bajaj Allianz and Shriram Life insurance companies. During the financial year, about 5307 claims have been settled and Rs. 8.63 crore were paid to the families of the deceased members.

Awareness building: Jagruthi, a program to educate and build awareness amongst the Company's borrowers on various Government schemes, finance and money management, importance of hand washing, safe drinking water etc., saw many new topics being introduced. A total of 138 topics were covered under Jagruthi during the year and over 500,662 members benefitted from the same.

NPS: Enrolments of 10,978 were carried out and 10,115 members are expected to avail Swavalamban benefit from Government of India.

Awards and Recognition during 2013-14

- GFSPPL got reclassified into a Non-Banking Financial Company -Micro Finance Institutions (NBFC-MFI) entity by Reserve Bank of India (RBI) in September 2013
- GFSPPL received the Smart Campaign certification award from Shri Jairam Ramesh, Union Minister of Rural Development in Delhi on 9th December 2013.
- GFSPPL was awarded with Seal of Transparency from MF Transparency
- GFSPPL was honoured with Truelift 'Achiever level' Certification by M-CRIL
- GFSPPL was recognized as MIX 2013 Socially Transparent and Responsible (S.T.A.R.) MFI.
- Mrs. Vinatha M Reddy, Chairperson of GFSPPL was awarded the Citizen Extraordinaire award by the Rotary Club of Bangalore. Mr. Suresh Krishna, MD of GFSPPL was re-elected as a Director of Microfinance Institutions Network (MFIN) for the 3rd consecutive time.

Microfinance Industry

In 2013-14, the microfinance industry consolidated mainly due to the regulatory clarity. In the present scenario, the MFIs are required to adhere to specified guidelines on qualifying assets, indebtedness of the borrowers and loan pricing, among other things. MFIs are now communicating effectively with the regulator, through industry associations as well as individually. Most of the MFIs have adjusted their operating methodologies to operate sustainably within the constraints imposed by the regulator. RBI changed the margin and interest calculations method which has made the pricing cap calculations easier and will drive the industry towards lowering interest charges.

Highlights of Microfinance Industry in FY2013-14:

- As of March 31, 2014 NBFC-MFIs provide credit to over 28 mn clients showing a growth of 20% over FY13
- Gross Loan Portfolio grew by 35% to Rs.27,931 Cr with NBFC-MFIs (other than those under CDR) growing by 51%
- Loan amount disbursed also increased by 48% to Rs.34,968 Cr and the figure stood at 56 % for NBFC-MFIs (other than those under CDR)
- Average loan outstanding per client stood at Rs.9,961 showing a growth of 12% over FY13
- Total number of employees working in NBFC-MFIs stood at 67,838 a growth of 10% over FY13
- Total branches of NBFC-MFIs stood at 9,780 showing a growth of 7% over FY13
- NBFC-MFIs received a total debt funding of Rs.15,030 Cr (major source being commercial banks), an increase of 49% over FY13
- NBFC-MFIs have done securitization worth Rs.5,146 Cr showing an increase of 54% over FY13
- PAR for NBFC-MFIs (other than MFIs under CDR) remained well under 1% of gross loan portfolio.
- Industry productivity ratios continued to improve
- Life insurance to over 30 mn clients with sum assured of Rs.50,820 Cr extended through NBFC-MFI network
- Pension services extended to over 1.2 mn clients through NBFC-MFI network

Future Outlook

With more certainty in regulations, enhanced capital inflow by MicroVentures and smooth flow of on-lending funds, your Company is planning to expand its branch network during the next financial year. The Company has invested in developing new risk management systems with technical assistance and support from IFC and i-MACS (a subsidiary of rating agency ICRA). The new risk management system is expected to greatly aid in technically monitoring the risks and mitigating them.

The new Companies Act 2013 comes into force from 1st April 2014 and your Company is prepared to implement all the new regulations relevant to it. One of the key components of the new Companies Act is the mandatory requirement of CSR contribution of the companies which meets certain criteria. Your Company is well prepared for this and infact has been making contributions to CSR activities since last 5 years.

Your Company has engaged IBM to evaluate its current technology platform and also to assess the preparedness of the current system to support the scale of growth that has been planned for the coming years.



Based on IBM's report, which would be further evaluated by Board's IT Sub-Committee, a suitable technology roadmap is expected to be drawn up for implementation in the next financial year.

Corporate Governance

Your Company is committed to best practices in corporate governance and recognizes that transparency, ethical behaviour, integrity and protection of the interests of all the Stakeholders form the keystones of the Governance. As per the Guidelines on Corporate Governance for Non-Banking Financial (Non - Deposit Accepting or Holding) issued by the RBI, the Company has had an Audit Committee to ensure strong internal controls and corporate reporting systems including financial reporting in pursuance with Section 292A of the Companies Act, 1956.

Internal Control System: The Company's internal control system comprises audit and compliance by in-house Internal Audit Division. The Internal Auditors independently evaluate the adequacy of internal controls and concurrently audit the majority of the transactions in value terms of Independence of the audit and compliance is ensured by the direct reporting of Internal Audit Division and Internal Auditors to the Audit Committee of the Board.

Your Company has had various other committees to oversee the critical areas of the Company, namely, Risk Mitigation Committee, Nomination and Grievance Committee, Assets and Liability Management Committee, Investment and Borrowing Committee comprised of independent and nominee directors. The details of each committee are provided separately in the Report.

Institutional Rating

During the year, your Company's external grading was upgraded by CRISIL to mfR2, while the Company's BASEL and NCD ratings were upgraded from 'BBB-' to 'BBB' by ICRA. The Company also received a Social rating of 'a-' (alpha minus) by M-CRIL.

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

Your Company's authorized share capital has increased from Rs.43,00,00,000 to Rs.53,00,00,000 during the year and your Company's paid-up share capital has increased from Rs.39,62,00,990 to Rs.52,95,34,330.

Dividend

Your Directors have proposed not to declare any dividends and use the accruals 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.

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

During the year, the foreign exchange inflow and outflow for the Company is Rs.97,98,745 & Rs.23,00,651 respectively.

Auditors

The current statutory auditors, M/s. SRBC & Co, LLP, have completed the audit for financial year 2013-14. They have conveyed that they have formed a new entity "M/s S.R. Batliboi & Co. LLP and have expressed their willingness to be appointed as statutory auditors of the Company under the new firm M/s S.R. Batliboi & Co. LLP, to which the Board consented.

The Board has appointed, subject to approval by the Shareholders, M/s S. R. BATLIBOI & CO. LLP as Statutory Auditors of the Company from conclusion of this annual general meeting to next annual general meeting.

The Auditors have confirmed that their appointment, if made, shall be in accordance with the provisions of the Companies Act, 2013

Particulars of Employees

There are no employees drawing salary more than RS. 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

There has been one addition to the Board of Directors of your Company during the year. Mrs. Amita Narian joined the Board of Directors of GF SPL in the month of November 2013. 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 of the Director	Designation on the Board	Eligible Meetings	Meetings Attended
Mrs. Vinatha M Reddy	Promoter Director and Chairperson	5	5
Mr. Suresh K Krishna	Managing Director	5	5
Mr. PrabhaRaveendranathan	Independent Director	5	5
Mr. Anal Jain	Independent Director	5	5
Mr. Paolo Brichetti	Nominee Director	5	3
Mrs. Daksha Niranjana Shah	Independent Director	5	5
Mr. Aditya Bhandari	Nominee Director	5	3
Mr. PradeepPathiyamveetil	Nominee Director	5	4
Mr. Kenneth Dan Vender Weele	Nominee Director	5	4
Mrs. Amita Narian	Additional Director	2	2

Board Committees

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

Name of Committee	Members of the Committee
Audit Committee	Mr. Prabha R (Chairperson), Mr. Paolo Brichetti, Mr. Aditya Bhandari, Mr. Suresh Krishna
Asset & Liabilities Management Committee	Mr. Suresh Krishna (Chairperson), Mr. Paolo Brichetti, Mr. Aditya Bhandari
Nomination & Grievances Committee	Mr. Prabha R (Chairperson), Mr. Suresh K Krishna, Mrs. Vinatha M. Reddy
Compensation and Remuneration Committee	Mr. Anal Jain (Chairperson), Mrs. Vinatha M. Reddy, Mr. Suresh K Krishna, Mr. Paolo Brichetti, Mr. Pradeep P
Investments & Borrowings Committee	Mrs. Vinatha M. Reddy (Chairperson), Mr. Suresh K Krishna, Mr. Paolo Brichetti
Executive Committee	Mrs. Vinatha M. Reddy (Chairperson), Mr. Suresh K Krishna, Mr. Paolo Brichetti
Risk Mitigation Committee	Ms. Daksha Shah (Chairperson), Mr. Suresh Krishna, Mr. Kenneth Vander Weele, Mr. Pradeep P, Mr. Anal Jain
Shares & Debenture allotment Committee	Mrs. Vinatha M. Reddy (Chairperson), Mr. Suresh K Krishna

The following table presents the composition as well as the number of meetings held by each of these Committees.

Committee	No. of Meetings Held during the year
Audit Committee	4
Asset Liability Management Committee	5
Compensation and Remuneration Committee	4
Nomination and Grievance Committee	4
Shares & Debenture Allotment Committee	2
Executive, Borrowings & Investments Committee	17
Risk Mitigation Committee	2



Director's 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:

- That in the preparation of the Annual Accounts for the financial year ended March 31, 2014, the applicable accounting standards have been followed;
- 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 at March 31, 2014 and of Profit and Loss ended on March 31, 2014;
- 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; and
- That the Directors have prepared the Annual Accounts for the financial year March 31, 2014 on a going concern basis.

Acknowledgment

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.

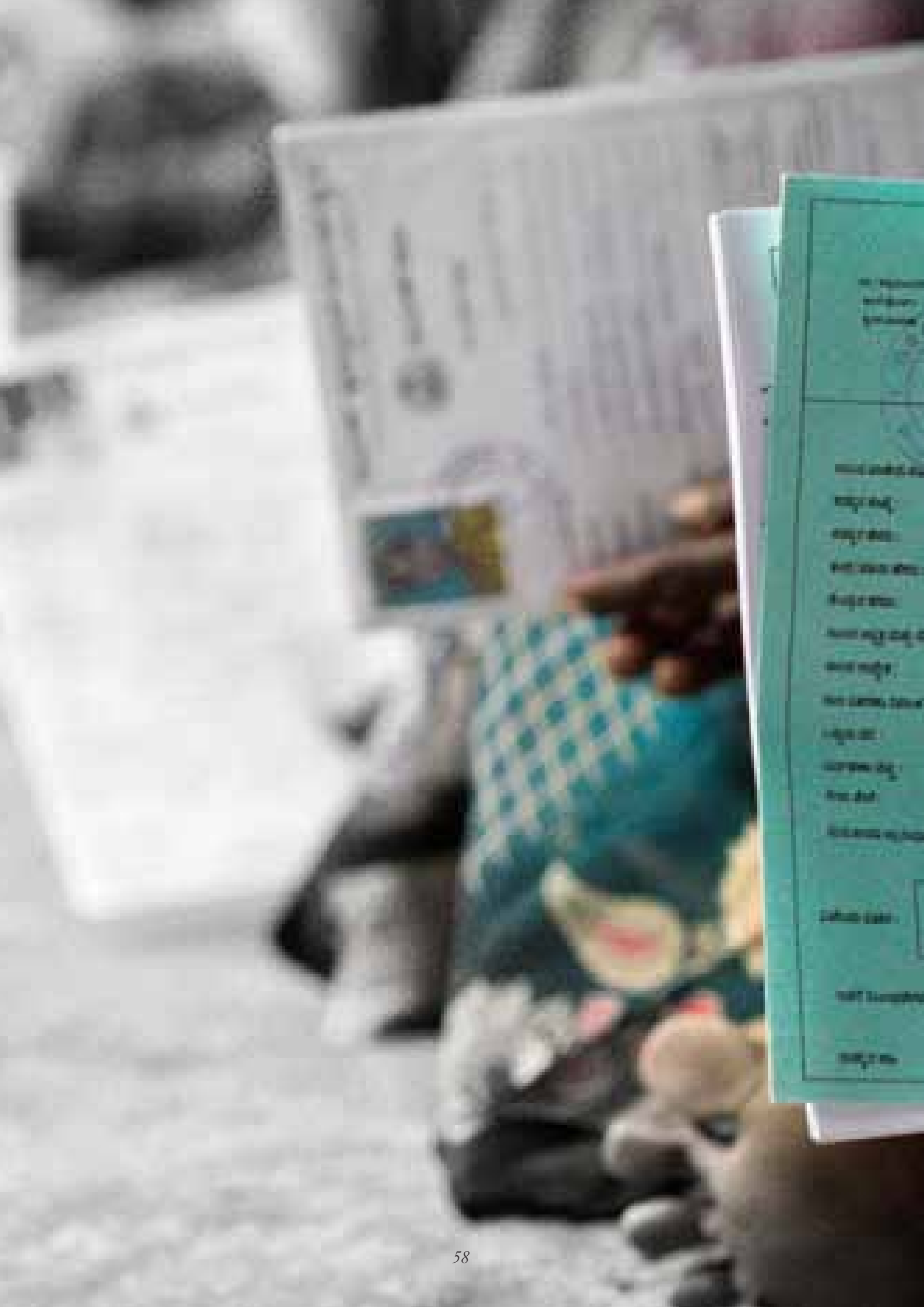
On behalf of the Board of Directors
For Grameen Financial Services Pvt Ltd

Sd/-
Managing Director

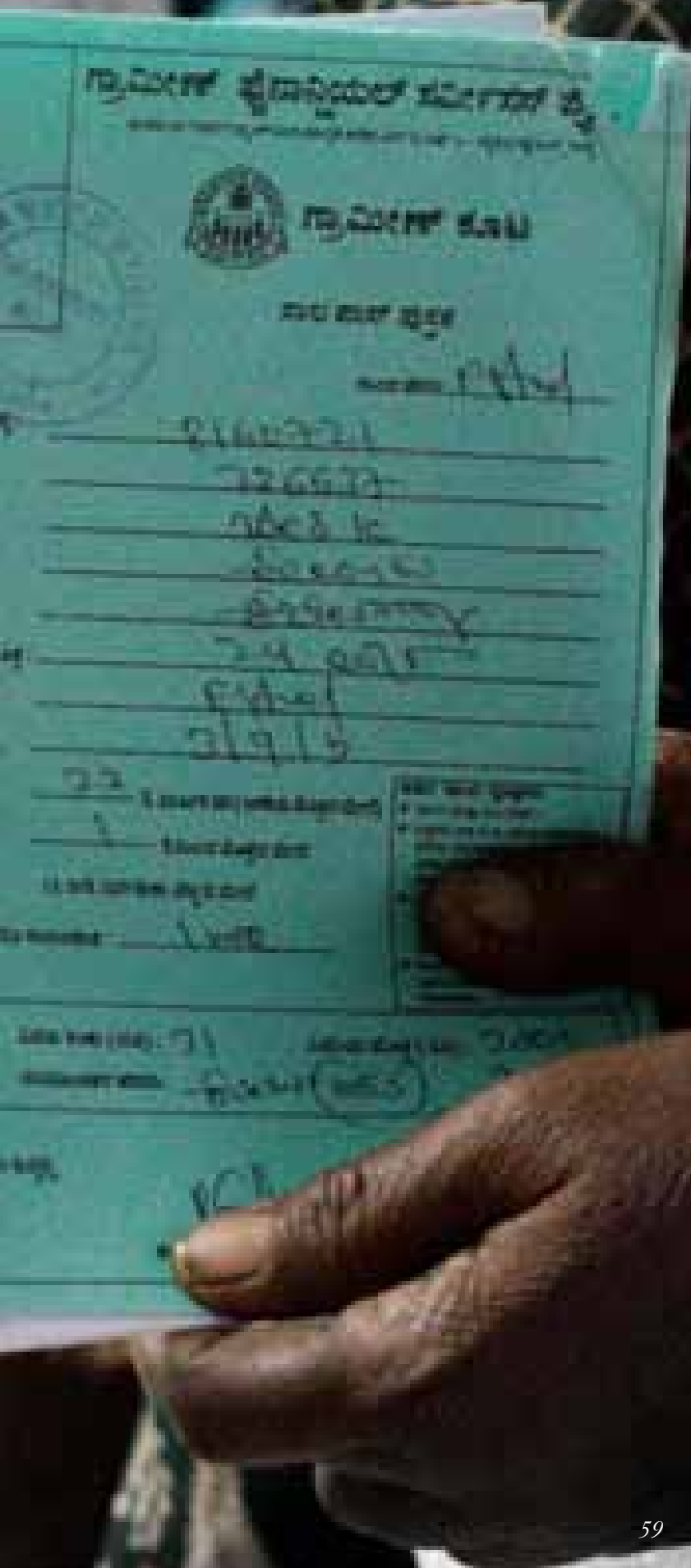
Sd/-
Chairperson

Place: Bangalore
Date:





INDEPENDENT AUDITORS' REPORT





To the Members of Grameen Financial Services Private Limited

Report on the Financial Statements

We have audited the accompanying financial statements of Grameen Financial Services Private Limited ("the Company"), which comprise the Balance Sheet as at March 31, 2014, and the Statement of Profit and Loss and Cash Flow Statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation of these financial statements that give a true and fair view of the financial position, financial performance and cash flows of the Company in accordance with accounting principles generally accepted in India, including the Accounting Standards notified under the Companies Act, 1956 ('the Act'), read with General Circular 8/2014 dated April 4, 2014 issued by the Ministry of Corporate Affairs. This responsibility includes the design, implementation and maintenance of internal control relevant to the preparation and presentation of the financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Standards on Auditing issued by the Institute of Chartered Accountants of India. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of the accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion and to the best of our information and according to the explanations given to us, the financial statements give the information required by the Act in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:

- (a) in the case of the Balance Sheet, of the state of affairs of the Company as at March 31, 2014;
- (b) in the case of the Statement of Profit and Loss, of the profit for the year ended on that date; and
- (c) in the case of the Cash Flow Statement, of the cash flows for the year ended on that date.

Report on Other Legal and Regulatory Requirements

1. As required by the Companies (Auditor's Report) Order, 2003("the Order") issued by the Central Government of India in terms of sub-section (4A) of section 227 of the Act, we give in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the Order.
2. As required by section 227(3) of the Act, we report that:
 - (a) We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit;
 - (b) 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;
 - (c) The Balance Sheet, Statement of Profit and Loss, and Cash Flow Statement dealt with by this Report are in agreement with the books of account;
 - (d) In our opinion, the Balance Sheet, the Statement of Profit and Loss, and the Cash Flow Statement comply with the Accounting Standards notified under the Act, read with General Circular 8/2014 dated April 4, 2014 issued by the Ministry of Corporate Affairs; and
 - (e) On the basis of written representations received from the directors as on March 31, 2014, and taken on record by the Board of Directors, none of the directors is disqualified as on March 31, 2014, from being appointed as a director in terms of clause (g) of sub-section (1) of section 274 of the Act.

For S R B C & CO LLP
Chartered Accountants
ICAI Firm's Registration Number: 324982E

per Shrawan Jalan
Partner
Membership No.: 102102

Mumbai
May 27, 2014



Annexure referred to in paragraph 1 under the heading "Report on other legal and regulatory requirements" 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 disposal of a substantial part of fixed assets during the year.
- (ii) The Company's business does not involve inventories and, accordingly, the requirements under paragraph 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 Act. 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 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 Act. 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 Act. Accordingly, the provisions of clause 4(v)(b) of the Order is not applicable to the Company and hence not commented upon.
- (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 of the Company and nature of its business.
- (viii) To the best of our knowledge and as explained, the Central Government has not prescribed the maintenance of cost records under clause (d) of sub-section (1) of section 209 of the Act, for the products of the Company.
- (ix) (a) The Company is regular in depositing with appropriate authorities undisputed statutory dues including provident fund, investor education and protection fund, employees' state insurance, income-tax, sales-tax, wealth-tax, service tax, customs duty, excise duty, cess and other material statutory dues applicable to it.
- (b) According to the information and explanations given to us, no undisputed amounts payable in respect of provident fund, investor education and protection fund, employees' state insurance, income-tax, wealth-tax, service tax, sales-tax, customs duty, excise duty cess and other material statutory dues

were outstanding, at the year end, for a period of more than six months from the date they became payable.

- (c) According to the information and explanations given to us, the dues outstanding of income tax, sales-tax, wealth tax, service tax, customs duty, excise duty and cess on account of dispute, are as follows:

Name of the Statute	Nature of disputed dues	Amount under dispute (Rs.)	Amount paid* (Rs.)	Period to which it relates	Forum where dispute is pending
Income Tax Act, 1961	Income Tax	72,141,000	20,000,000	Financial Year 2010-11	The Commissioner of Income Tax (Appeals)

* The Company has paid the amount under protest.

Stay order received from the Deputy Commissioner of Income Tax for payment of the balance amount of Rs.52,141,000 till September 30, 2014.

(x) The Company has no accumulated losses at the end of the financial year and it has not incurred cash losses in the current and immediately preceding financial year.

(xi) Based on our audit procedures and as per the information and explanations given by the management, we are of the opinion that the Company has not defaulted in repayment of dues to a financial institution, bank or debenture holders.

(xii) According to the information and explanations given to us and based on the documents and records produced before 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 information and explanations given to us by the management, term loans were applied for the purpose for which the loans were obtained, though idle/surplus funds which were not required for immediate utilization have been gainfully invested in liquid investments payable on demand.

(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 Act.



- (xix) According to the information and explanations given to us, the Company had issued 1,110 debentures of Rs.1,000,000 each, during the period covered by our audit report. The Company has created security or charge in respect of the debentures issued. The Company has also issued 1,140 unsecured debentures of Rs.100,000 each, during the period covered by our audit report, on which no security or charge is required to be created.
- (xx) The Company has not raised money by public issue of shares during the current year.
- (xxi) We have been informed that during the year there were instances of cash embezzlement by employees of the Company amounting to Rs.278,606 and loans given to non-existent borrowers on the basis of fictitious documentation created by employees of the Company aggregating Rs.40,800. As informed, investigations are in progress and the services of 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.318,865 against the outstanding balance (net of recovery) aggregating Rs.318,865, as at the Balance Sheet date.

For S R B C & CO LLP
Chartered Accountants
ICAI Firm's Registration Number: 324982E

per Shrawan Jalan
Partner
Membership No.: 102102

Mumbai
May 27, 2014

Balance sheet as at March 31, 2014

Particulars	Notes	31-Mar-14 (Rupees)	31-Mar-13 (Rupees)
Equity and Liabilities			
Shareholders' funds			
Share capital	3	529,534,330	396,200,990
Reserves and surplus	4	1,581,047,015	728,703,439
		<u>2,110,581,345</u>	<u>1,124,904,429</u>
Non-current Liabilities			
Long-term borrowings	5	3,700,177,335	1,470,052,994
Long-term provisions	6	29,014,697	50,697,702
		<u>3,729,192,032</u>	<u>1,520,750,696</u>
Current liabilities			
Other current liabilities	7	4,717,349,654	2,794,259,004
Short-term provisions	6	61,507,797	13,757,128
		<u>4,778,857,451</u>	<u>2,808,016,132</u>
TOTAL		<u>10,618,630,828</u>	<u>5,453,671,257</u>
Assets			
Non-current assets			
Fixed assets			
Tangible assets	8	24,777,933	26,226,848
Intangible assets	9	1,503,630	1,497,835
Intangible assets under development		2,310,800	1,082,700
Non-current investments	10	2,024,204	2,046,100
Deferred tax asset (net)	11	12,678,606	17,218,905
Long-term loans and advances	12	1,586,887,989	956,328,084
Other non-current assets	13	471,126,662	358,460,959
		<u>2,101,309,825</u>	<u>1,362,861,431</u>
Current assets			
Current investments	14	-	2,591,729
Trade receivables	15	-	203,845
Cash and bank balances	16	3,250,310,260	912,423,855
Short term loan and advances	12	5,179,531,874	3,010,541,937
Other current assets	13	87,478,869	165,048,460
		<u>8,517,321,004</u>	<u>4,090,809,826</u>
TOTAL		<u>10,618,630,828</u>	<u>5,453,671,257</u>

Summary of significant accounting policies

Accompanying notes are an integral part of the financial statements.

As per our report of even date

For **S R B C & CO LLP**
Chartered Accountants
ICAI Firm's Registration Number: 324982E

per **Shrawan Jalan**
Partner
Membership No.102102

Place: Bangalore
Date: 27 May 2014

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

Managing Director

Chairman

Chief Financial Officer
Date: 27 May 2014

Company Secretary



GRAMEEN
Financial Services Pvt. Ltd.

Statement of profit and loss for the year ended March 31, 2014

Particulars	Notes	31-Mar-14 (Rupees)	31-Mar-13 (Rupees)
Income			
Revenue from operations	17	1,423,360,955	866,971,484
Other income	18	54,924,926	25,412,669
Total revenue (I)		<u>1,478,285,881</u>	<u>892,384,153</u>
Expenses			
Employee benefits expenses	19	292,539,432	224,505,255
Finance costs	20	694,001,630	402,716,367
Other expenses	21	152,698,308	125,054,444
Depreciation and amortisation expenses	22	5,269,467	6,051,613
Provision and write-offs	23	57,254,744	43,584,631
Total expenses (II)		<u>1,201,763,581</u>	<u>801,912,310</u>
Profit before tax (III) = (I) - (II)		276,522,301	90,471,843
Tax expense			
Current tax		86,256,049	25,681,276
MAT credit entitlement		-	(2,569,823)
Deferred tax		4,540,298	(17,218,905)
Short provision of tax relating to earlier years		636,057	-
Total tax expense (IV)		<u>91,432,405</u>	<u>5,892,548</u>
Profit for the year (III) - (IV)		185,089,896	84,579,295
Earnings per equity share [nominal value of share Rs.10 (March 31, 2013: Rs.10)]			
Basic (Computed on the basis of total Profit for the year)		4.66	3.23
Diluted (Computed on the basis of total Profit for the year)		4.66	3.23

Summary of significant accounting policies

Accompanying notes are an integral part of the financial statements.

As per our report of even date

For S R B C & CO LLP
Chartered Accountants
ICAI Firm's Registration Number: 324982E

per Shrawan Jalan
Partner
Membership No.102102

Place: Bangalore
Date: 27 May 2014

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

Managing Director

Chairman

Chief Financial Officer
Date: 27 May 2014

Company Secretary

Cash flow statement for the year ended March 31, 2014

Particulars	31-Mar-14 (Rupees)	31-Mar-13 (Rupees)
A. Cash flow from operating activities		
Profit before tax	276,522,301	90,471,843
Adjustments for :		
Depreciation and amortization	5,269,467	6,051,613
Provision for gratuity	9,873,893	3,847,518
Provision for leave benefits	4,942,844	4,964,453
Bad debts written off	44,594,164	419,570
Unrealised gain on mutual funds	-	(91,729)
Intangible assets under development written off	-	345,600
Loss on sale of fixed assets	1,634,564	931,759
Provision for non-performing assets	12,660,580	43,165,061
Amortisation of ancillary borrowing costs	32,614,247	15,394,904
Amortisation of discount on issue of debentures	118,451	674,072
Amortisation of share issue expenses	219,711	1,993,317
Income from mutual funds	(34,068,637)	(9,352,836)
Other provisions and write offs	3,525,869	9,862,204
Operating profit before working capital changes	357,907,454	168,677,349
Movements in working capital :		
Increase/ (decrease) in other liabilities	(12,752,525)	117,054,906
Decrease / (increase) in trade receivables	203,845	896,306
Decrease / (increase) in loans and advances	(2,827,920,330)	(1,195,301,691)
Decrease / (increase) in other assets	124,826,551	(103,425,196)
Cash used in operations	(2,357,735,006)	(1,012,098,326)
Direct taxes paid (net of refunds)	(106,641,651)	(31,415,501)
Net cash used in operating activities (A)	(2,464,376,657)	(1,043,513,827)
B. Cash flow from investing activities :		
Purchase of fixed assets, including capital work in progress and capital advances	(6,816,516)	(4,232,888)
Proceeds from sale of fixed assets	127,505	829,749
Dividend income from mutual funds	34,068,637	9,352,836
Purchase of non-current investments	-	(46,100)
Sale / redemption of non-current investments	21,896	-
Purchase of current investments	(10,538,800,000)	(6,563,000,000)
Sale of current investments	10,541,391,729	6,560,500,000
Margin money deposits (net)	(243,359,808)	(301,799,661)
Net cash used in investing activities (B)	(213,366,557)	(298,396,064)

Particulars	31-Mar-14 (Rupees)	31-Mar-13 (Rupees)
A. Cash flow from operating activities		
Profit before tax	276,522,301	90,471,843
Adjustments for :		
Depreciation and amortization	5,269,467	6,051,613
Provision for gratuity	9,873,893	3,847,518
Provision for leave benefits	4,942,844	4,964,453
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Decrease / (increase) in trade receivables	203,845	896,306
Decrease / (increase) in loans and advances	(2,827,920,330)	(1,195,301,691)
	<u>124,826,551</u>	<u>(103,425,196)</u>

Summary of significant accounting policies

Accompanying notes are an integral part of the financial statements.

As per our report of even date

For **S R B C & CO LLP**
Chartered Accountants
ICAI Firm's Registration Number: 324982E

per **Shrawan Jalan**
Partner
Membership No.102102

Place: Bangalore
Date: 27 May 2014

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

Managing Director

Chairman

Chief Financial Officer
Date: 27 May 2014

Company Secretary

1. Corporate information

Grameen Financial Services Private Limited ('the Company') is a company domiciled in India and incorporated under the provisions of the Companies Act, 1956 ('the Act'). The Company was registered as a non-deposit accepting Non-Banking Financial Company ('NBFC-ND') with the Reserve Bank of India ('RBI') and has got classified as a Non-Banking Financial Company - Micro Finance Institution ('NBFC-MFI') with effect from September 5, 2013.

The Company is engaged primarily in providing micro finance services to women who are enrolled as members and organized as Joint Liability Groups ('JLG').

In addition to the core business of providing micro-credit, the Company uses its distribution channel to provide certain other financial products and services to the members.

2. Basis of preparation

The financial statements of the Company have been prepared in accordance with generally accepted accounting principles in India (Indian GAAP). The Company has prepared these financial statements 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 read with general circular 8/ 2014 dated April 4, 2014 issued by the Ministry of Corporate Affairs and the provisions of the RBI as applicable to NBFC-MFI and NBFC-ND. The financial statements have been prepared on an accrual basis and under the historical cost convention except interest on loans which have been classified as non-performing assets which are accounted for on realization basis.

The accounting policies adopted in the preparation of financial statements are consistent with those of previous year.

2.1 Summary of significant accounting policies

a. Use of estimates

The preparation of financial statements in conformity with the generally accepted accounting principles requires the management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities and the disclosure of contingent liabilities, at the end of the reporting period. Although these estimates are based on the management's best knowledge of current events and actions, uncertainty about these assumptions and estimates could result in the outcomes requiring a material adjustment to the carrying amounts of assets or liabilities in future periods.

b. Revenue recognition

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

- i. Interest income on loans given is recognised under the internal rate of return method. Income or any other charges on non-performing asset is recognised only when realised. Any such income recognised before the asset became non-performing and remaining unrealized is reversed.
- ii. Interest income on deposits with banks is recognised on a time proportion accrual basis taking into account the amount outstanding and the rate applicable.
- iii. Loan processing fees collected from members are recognized on an upfront basis at the time of disbursement of the loan.

- i. Profit / premium arising at the time of securitisation of loan portfolio is amortised over the life of the underlying loan portfolio / securities and any loss arising therefrom is accounted for immediately. Income from interest strip is recognized in the statement of profit and loss account net of any losses.
- ii. Dividend income is recognized when the right to receive payment is established by the balance sheet date.
- iii. All other income is recognized on an accrual basis.

c. Tangible fixed assets

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

d. Intangible assets

The amount relating to acquisition of software, valued at the cost of acquisition of these assets and these 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.

e. Depreciation

Depreciation on tangible fixed assets 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 (SLM)
Furniture and Fittings	6.33%
Office equipment	4.75%
Vehicles	9.50%
Buildings	1.63%
Computers	16.21%

f. Impairment

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's net selling price and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. 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 the risks specific to the asset. In determining net selling price, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used.

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

g. Leases (where the Company is the lessee)

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 recognised as an expense in the statement of profit and loss on a straight-line basis over the lease term.

h. Investments

Investments, which are readily realizable and intended to be held for not more than one year from the date on which such investments are made, are classified as current investments. All other investments are classified as long-term investments. Current investments are carried in the financial statements at lower of cost and fair value determined on an individual investment basis except for investments in the units of mutual funds in the nature of current investments that have been valued at the net asset value declared by the mutual fund in respect of each particular scheme, in accordance with the NBFC directions. Long-term investments are carried at cost. However, provision for diminution in value is made to recognise a decline other than temporary in the value of the investments. On disposal of an investment the difference between carrying amount and net disposal proceeds are charged or credited to the statement of profit and loss.

i. Borrowing costs

Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds. Ancillary borrowing costs are amortized over the tenure of the loan on a straight line basis.

j. Foreign currency transactions

- i. All transactions in foreign currency are recognised at the exchange rate prevailing on the date of the 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 restatement of 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 recognised as income or as expenses in the year in which they arise.

k. Retirement and other employee benefits

- i. Retirement benefits in the form of provident fund and superannuation are defined contribution schemes. The Company has no obligation, other than the contribution payable to the respective funds. The Company recognizes contribution payable to the respective funds as expenditure, when an employee renders the related service.
- ii. Gratuity liability is a defined benefit obligation and is provided for on the basis of an actuarial valuation on projected unit credit method made at the end of each financial year. Actuarial gains and losses for defined benefit plans are recognized in full in the period in which they occur in the statement of profit and loss.
- iii. The Company treats accumulated leave expected to be carried forward beyond twelve months as long-term employee benefit for measurement purposes. Such long-term compensated absences are provided for based on the actuarial valuation using the projected unit credit method at the end of each financial year. Actuarial gains/losses are immediately taken to the statement of profit and loss and are not deferred. The



Company presents the leave as a current liability in the balance sheet, to the extent it does not have an unconditional right to defer its settlement for 12 months after the reporting date.

- iv. Accumulated leave, which is expected to be utilised within the next 12 months, is treated as short-term employee benefit. The Company measures the expected cost of such absences as the additional amount that it expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

l. Income taxes

- i. Tax expense comprises 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. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date.
- ii. Deferred income taxes reflect the impact of timing differences between taxable income and accounting income originating during the current year and reversal of timing differences for the earlier years. Deferred tax is measured using the tax rates and the tax laws enacted or substantively enacted at the reporting date. Deferred income tax relating to items recognised directly in equity is recognised in equity and not in the statement of profit and loss.
- iii. Deferred tax assets are recognised for deductible timing differences 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 realised. In situations where the Company has unabsorbed depreciation or carry forward tax losses, all deferred tax assets are recognised only if there is virtual certainty supported by convincing evidence that they can be realised against future taxable profits.
- iv. The carrying amount of deferred tax assets are reviewed at each reporting date. The Company writes-down the carrying amount of 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 realised. 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.
- v. Minimum alternate tax (MAT) paid in a year is charged to the statement of profit and loss as current tax. The Company recognizes MAT credit available as an asset only to the extent that there is convincing evidence that the Company will pay normal income tax during the specified period, i.e., the period for which MAT credit is allowed to be carried forward. In the year in which the Company recognizes MAT credit as an asset in accordance with the Guidance Note on Accounting for Credit Available in respect of Minimum Alternative Tax under the Income-tax Act, 1961, the said asset is created by way of credit to the statement of profit and loss and shown as "MAT Credit Entitlement." The Company reviews the "MAT credit entitlement" asset at each reporting date and writes down the asset to the extent the Company does not have convincing evidence that it will pay normal tax during the specified period.

m. Earnings per share

Basic earnings per share is calculated by dividing the net profit or loss for the year attributable to equity shareholders 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.

n. Provisions

A provision is recognised when the Company has a present obligation as a result of past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the

obligation and a reliable estimate can be made of the amount of the obligation. Provisions are not discounted to their present value and are determined based on the best estimate required to settle the obligation at the reporting date. These estimates are reviewed at each reporting date and adjusted to reflect the current best estimates.

o. Contingent liabilities

A contingent liability is a possible obligation that arises from past events whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events beyond the control of the Company or a present obligation that is not recognised because it is not probable that an outflow of resources will be required to settle the obligation. A contingent liability also arises in extremely rare cases where there is a liability that cannot be recognised because it cannot be measured reliably. The Company does not recognise a contingent liability but discloses its existence in the financial statements.

p. Cash and cash equivalents

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

q. Share based payments

In case of stock option plan, measurement and disclosure of the employee share-based payment plans is done in accordance with the Guidance Note on Accounting for Employee Share-based Payments, issued by the Institute of Chartered Accountants of India as applicable for equity-settled share based payments.

The cost of equity-settled transactions is measured using the intrinsic value method and recognized, together with a corresponding increase in the "Stock options outstanding account" in reserves. The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the company's best estimate of the number of equity instruments that will ultimately vest. The expense or credit recognized in the statement of profit and loss for a period represents the movement in cumulative expense recognized as at the beginning and end of that period and is recognized in employee benefits expense.

r. Classification of loan portfolio

Classification of loan portfolio is as follows:

Asset classification	Arrear period
Standard assets	Overdue for less than 90 days
Non-performing assets	
Substandard assets	Overdue for 90 days or more
Loss assets	After 9 months of being classified as substandard assets

"Overdue" refers to interest and / or instalment remaining unpaid from the day it became receivable.

s. Provisioning for loan portfolio

Loans are written off / provided for, as per management estimates, subject to the minimum provisioning required as per Non-Banking Financial Company – Micro Finance Institutions (NBFC-MFIs) Directions, 2011, as amended from time to time.



t. Accounting for amounts received towards technical assistance

Amounts received as technical assistance are recognised in the statement of profit and loss on meeting the conditions attached to such assistance. Amounts received as technical assistance during the year are in the nature of revenue. Therefore, the same are credited to the statement of profit and loss, under the heading 'Other Income'.

u. Share issue expenses

Expenses incurred in connection with the issue of equity shares are amortised over a period of five years.

Notes to financial statements for the year ended March 31, 2014

3. Share capital	31-Mar-14	31-Mar-13
Authorised shares 53,000,000 (March 31, 2013: 43,000,000) equity shares Rs. 10 each	530,000,000	430,000,000
Issued, subscribed and fully paid up shares: 52,953,433 (March 31, 2013: 39,620,099) Equity shares of Rs.10 each fully paid	529,534,330	396,200,990
Total issued, subscribed and fully paid-up share capital	529,534,330	396,200,990

(a) Reconciliation of the shares outstanding at the beginning and at the end of the reporting year

Equity shares

	31-Mar-14		31-Mar-13	
	No. of Shares	Amount	No. of Shares	Amount
At the beginning of the year	39,620,099	396,200,990	24,842,321	248,423,210
Issued during the year	13,333,334	133,333,340	14,777,778	147,777,780
Outstanding at the end of the year	52,953,433	529,534,330	39,620,099	396,200,990

(b) Terms/Rights attached to equity shares

The Company has only one class of equity shares having a par value of Rs. 10 per share. Each holder of equity shares is entitled to one vote per share. The Company declares and pays dividends in Indian Rupees. Any dividends proposed by the Board of directors is subject to the approval of shareholders in the ensuing Annual General Meeting.

In the event of liquidation of Company, the holders of equity shares will be entitled to receive remaining assets of the Company, after distribution of all preferential amounts. The distribution will be in proportion to the number of equity shares held by the shareholders.

(c) Details of shareholders holding more than 5% shares in the Company

Equity shares of Rs.10 each fully paid-up	31-Mar-14		31-Mar-13	
	No. of Shares	% holding in the class	No. of Shares	% holding in the class
MicroVentures Asia BV	13,333,334	25.18%	-	-
Creation Investments Social Venture Fund II, L.P	10,416,667	19.67%	10,416,667	26.29%
MicroVentures Investments SCA SICAR, Luxembourg	5,522,727	10.43%	5,522,727	13.94%
MVH SPA, Italy	4,872,727	9.20%	4,872,727	12.30%
TMT Community Trust	4,500,000	8.50%	4,500,000	11.36%
IIM – Impulse 2, Mauritius	4,141,414	7.82%	4,141,414	10.45%
Aavishkaar Goodwell India Microfinance Development	2,999,351	5.66%	2,999,351	7.57%
Mrs.Vinatha M Reddy	2,241,100	4.23%	2,241,100	5.65%

As per the records of the Company, including its register of shareholders / members and other declarations received from shareholders regarding beneficial interest, the above shareholding represents both legal and beneficial ownership of shares

(d) Aggregate number of shares issued for consideration other than cash during the period of five years immediately preceding the reporting date:

Equity shares of Rs.10 each fully paid-up	31-Mar-14 No. of shares	31-Mar-13 No. of shares
Equity shares allotted as fully paid-up pursuant to business	-	4,500,000
Equity shares allotted as fully paid-up under sweat equity	-	1,750,000



Notes to financial statements for the year ended March 31, 2014

4. Reserves and Surplus	31-Mar-14	31-Mar-13
Securities Premium Account		
Balance as per last financial statements	620,408,657	236,186,425
Add : Premium on shares issued during the year	666,666,700	384,222,232
Closing Balance	1,287,075,357	620,408,657
Statutory Reserve (As required by Sec 45-IC of Reserve Bank of India Act, 1934)		
Balance as per last financial statements	27,688,642	10,772,783
Add : Amount transferred from the surplus balance of profit and loss	37,017,979	16,915,859
Less: Amount utilized	-	-
Closing Balance	64,706,621	27,688,642
Stock options outstanding		
Balance as per last financial statements	-	-
Add : Compensation for options granted during the year	586,980	-
Closing Balance	586,980	-
Surplus balance in the statement of profit and loss		
Balance as per last financial statements	80,606,140	12,942,704
Add: Profit for the year	185,089,896	84,579,295
Less: Transfer to statutory reserve as required by Sec 45-IC of Reserve Bank of India Act, 1934	(37,017,979)	(16,915,859)
Net surplus in the statement of profit or loss	228,678,057	80,606,140
Total reserves and surplus	1,581,047,015	728,703,439

5. Long-term borrowings	Non-current portion		Current maturities	
	31-Mar-14	31-Mar-13	31-Mar-14	31-Mar-13
Non Convertible Debentures				
Secured				
35 (March 31, 2013: 35, 11.25%) 14% Secured Redeemable Non-Convertible Debentures of face value of Rs.10,000,000 each redeemable at par in three installments on November 30, 2013, February 28, 2014 and April 30, 2014 respectively.	-	116,666,667	116,666,667	233,333,333
25 (March 31, 2013: 25) 14.05% Secured Redeemable Non-Convertible Debentures of face value of Rs.10,000,000 each redeemable at par at the end of two years from the date of allotment June 08, 2012	-	125,000,000	250,000,000	125,000,000
250 (March 31, 2013: Nil) 14.14% Secured Redeemable Non-Convertible Debentures of face value of Rs.1,000,000 each redeemable at par at the end of six years (subject to exercise of option at the end of three years) from the date of allotment November 18, 2013	250,000,000	-	-	-
250 (March 31, 2013: Nil) 14.20% Secured Redeemable Non-Convertible Debentures of face value of Rs.1,000,000 each redeemable at par at the end of six years (subject to exercise of option at the end of three years) from the date of allotment November 18, 2013	250,000,000			
310 (March 31, 2013: Nil) 14.02% Secured Redeemable Non-Convertible Debentures of face value of Rs.1,000,000 each redeemable at par at the end of two years from the date of allotment February 25, 2014	310,000,000	-	-	
300 (March 31, 2013: Nil) 14.70% Secured Redeemable Non-Convertible Debentures of face value of Rs.1,000,000 each redeemable at par at the end of six years from the date of allotment February 26, 2014	300,000,000	-	-	
Nature of security The above debentures are secured by way of first and exclusive charge over eligible book debts of the Company				
Unsecured				
21 (March 31, 2013: 21) 16.78% Unsecured Redeemable Non-Convertible Debentures of face value of Rs.5,000,000 each redeemable at par in four equal installments on May 5, 2017, November 5, 2017, May 5, 2018 and November 5, 2018 respectively.	105,000,000	105,000,000	-	
1140 (March 31, 2013 Nil) 14.95% (net of withholding tax as applicable) Unsecured Redeemable Non-Convertible Debentures of face value of Rs.100,000 each redeemable at par on May 5, 2019.	114,000,000		-	
Term loans				
Indian rupee loan from banks	2,117,450,638	1,013,314,012	3,516,028,976	1,781,098,113
Indian rupee loan from financial institutions	137,060,028	-	95,002,019	7,890,000
Indian rupee loan from non banking finance companies	116,666,669	109,868,235	374,363,794	267,034,027
Indian rupee loan from others	-	204,080	-	3,272,454
	3,700,177,335	1,470,052,994	4,352,061,456	2,417,627,927
The above amount includes				
Secured borrowings*	3,481,177,335	1,365,052,994	4,352,061,456	2,417,627,927
Unsecured borrowings	219,000,000	105,000,000		
Amount disclosed under the head "other current liabilities" (Note 7)	-	-	(4,352,061,456)	(2,417,627,927)
Net amount	3,700,177,335	1,470,052,994	-	-

* The Indian rupee loans are secured by hypothecation of book debts and margin money deposits.

Notes to financial statements for the year ended March 31, 2014

5. Long-term borrowings (Contd.) Terms of repayment of long term borrowings as on March 31, 2013

Original maturity of loan	Interest rate	Due within 1 year		Due between 1 to 2 Years		Due between 2 to 3 Years		Due between 3 to 4 Years		Due between 4 to 5 Years		Due between 5 to 6 Years		Total
		No. of installments	Amount (in Rupees)	No. of installments	Amount (in Rupees)	No. of installments	Amount (in Rupees)	No. of installments	Amount (in Rupees)	No. of installments	Amount (in Rupees)	No. of installments	Amount (in Rupees)	
Monthly repayment schedule	8.50% - 9.00%	1	204,080	-	-	-	-	-	-	-	-	-	-	204,080
	12.00% - 12.50%	43	436,805,545	16	170,370,387	5	55,555,556	-	-	-	-	-	-	662,731,488
	12.50% - 13.00%	38	295,354,903	31	198,116,654	5	35,033,333	-	-	-	-	-	-	528,504,890
	13.00% - 13.50%	78	606,412,643	55	412,324,683	5	38,766,674	-	-	-	-	-	-	1,056,904,000
	13.50% - 14.00%	149	1,034,280,423	99	599,483,349	10	32,533,333	-	-	-	-	-	-	1,666,297,105
	14.00% - 14.50%	17	91,662,004	1	4,166,670	-	-	-	-	-	-	-	-	95,828,674
	14.50% - 15.00%	33	161,086,029	-	-	-	-	-	-	-	-	-	-	161,086,029
	15.00% - 15.50%	12	3,931,273	12	4,574,523	4	1,685,505	-	-	-	-	-	-	10,191,301
	15.50% - 16.00%	10	40,277,769	-	-	-	-	-	-	-	-	-	-	40,277,769
	Quarterly repayment schedule	-	-	-	-	-	-	-	-	-	-	-	-	-
1-3 Yrs	12.50% - 13.00%	10	250,000,000	8	142,857,143	-	-	-	-	-	-	-	-	392,857,143
	13.00% - 13.50%	22	271,427,743	7	107,142,857	-	-	-	-	-	-	-	-	378,570,600
	13.50% - 14.00%	22	664,285,709	11	412,500,000	-	-	-	-	-	-	-	-	1,076,785,709
	14.00% - 14.50%	5	325,000,000	-	-	-	-	-	-	-	-	-	-	325,000,000
	14.50% - 15.00%	4	66,666,668	8	376,666,668	3	50,000,001	-	-	-	-	-	-	493,333,337
	15.00% - 15.50%	4	15,000,000	4	15,000,000	-	-	-	-	-	-	-	-	30,000,000
	Half Yearly repayment schedule	-	-	-	-	-	-	-	-	-	-	-	-	-
1-3 Yrs	15.00% - 15.50%	2	16,666,667	2	16,666,667	1	8,333,333	-	-	-	-	-	-	41,666,667
5-6 Yrs	16.50% - 17.00%	-	-	-	-	-	-	2	52,500,000	2	52,500,000	-	-	105,000,000
Yearly repayment schedule	16.50% - 17.00%	3	73,000,000	-	-	-	-	-	-	-	-	-	-	73,000,000
	14.00% - 14.50%	-	-	-	-	-	-	-	-	-	-	2	500,000,000	500,000,000
5-6 Yrs	14.50% - 15.00%	-	-	-	-	-	-	-	-	-	-	1	300,000,000	300,000,000
	16.50% - 17.00%	-	-	-	-	-	-	-	-	-	-	1	114,000,000	114,000,000
Total		453	4,352,061,456	254	2,459,869,600	33	221,307,736	2	52,500,000	2	52,500,000	4	914,000,000	8,052,238,792

Notes to financial statements for the year ended March 31, 2014

5. Long-term borrowings (Contd.) Terms of repayment of long term borrowings as on March 31, 2013

Original maturity of loan	Interest rate	Due within 1 year		Due between 1 to 2 Years		Due between 2 to 3 Years		Due between 3 to 4 Years		Due between 4 to 5 Years		Due between 5 to 6 Years		Total
		No. of installments	Amount (in Rupees)	No. of installments	Amount (in Rupees)	No. of installments	Amount (in Rupees)	No. of installments	Amount (in Rupees)	No. of installments	Amount (in Rupees)	No. of installments	Amount (in Rupees)	
Monthly repayment schedule	7.00%	5	272,784	-	-	-	-	-	-	-	-	-	-	272,784
	9.00%	5	666,380	-	-	-	-	-	-	-	-	-	-	666,380
		12	2,333,290	1	204,080	-	-	-	-	-	-	-	-	2,537,370
	12.00% to 12.50%	1	7,692,308	-	-	-	-	-	-	-	-	-	-	7,692,308
		12	129,411,765	5	70,588,235	-	-	-	-	-	-	-	-	200,000,000
		12	135,416,674	12	114,583,326	-	-	-	-	-	-	-	-	250,000,000
	12.50%-13.00%	12	107,851,849	12	111,111,108	3	37,037,043	-	-	-	-	-	-	250,000,000
		12	120,000,000	1	10,000,000	-	-	-	-	-	-	-	-	130,000,000
		11	114,583,334	-	-	-	-	-	-	-	-	-	-	114,583,334
		1	811,935	-	-	-	-	-	-	-	-	-	-	811,935
		6	22,222,217	-	-	-	-	-	-	-	-	-	-	22,222,217
		12	24,800,000	-	-	-	-	-	-	-	-	-	-	24,800,000
	13.50% to 14.00%	12	104,761,905	9	95,238,095	-	-	-	-	-	-	-	-	200,000,000
		12	126,000,000	11	113,500,000	-	-	-	-	-	-	-	-	239,500,000
		12	50,000,000	-	-	-	-	-	-	-	-	-	-	50,000,000
Quarterly repayment schedule		7	58,325,000	-	-	-	-	-	-	-	-	-	-	58,325,000
		11	45,833,337	12	50,000,004	1	4,166,659	-	-	-	-	-	-	100,000,000
	15.00% to 16.00%	12	66,589,598	3	18,257,119	-	-	-	-	-	-	-	-	84,846,717
		5	2,777,772	-	-	-	-	-	-	-	-	-	-	2,777,772
		12	50,000,000	9	37,699,999	-	-	-	-	-	-	-	-	87,699,999
		12	33,333,333	1	2,777,777	-	-	-	-	-	-	-	-	36,111,110
		2	650,000	-	-	-	-	-	-	-	-	-	-	650,000
	16.45%	3	60,000,000	-	-	-	-	-	-	-	-	-	-	60,000,000
		4	385,530,646	3	278,518,113	-	-	-	-	-	-	-	-	664,048,759
	12.00%-13.00%	3	21,428,572	4	28,571,428	-	-	-	-	-	-	-	-	50,000,000
		1	7,240,000	-	-	-	-	-	-	-	-	-	-	7,240,000
	13.00%-13.50%	4	146,428,572	1	125,000,000	-	-	-	-	-	-	-	-	271,428,572
		2	62,500,000	-	-	-	-	-	-	-	-	-	-	62,500,000
		4	148,500,000	4	75,000,000	-	-	-	-	-	-	-	-	243,500,000
Half yearly repayment schedule	13.50%-14.00%	4	50,000,000	2	25,000,000	-	-	-	-	-	-	-	-	75,000,000
		2	233,333,333	1	116,666,667	-	-	-	-	-	-	-	-	350,000,000
		4	33,333,324	4	33,333,340	-	-	-	-	-	-	-	-	66,666,664
	14.00% to 15.00%	3	30,000,000	-	-	-	-	-	-	-	-	-	-	30,000,000
		1	11,000,000	-	-	-	-	-	-	-	-	-	-	11,000,000
	13.50%	3	60,000,000	-	-	-	-	-	-	-	-	-	-	60,000,000
	16.78%	1	-	-	-	-	-	-	-	2	52,500,000	2	52,500,000	105,000,000
		-	-	-	-	-	-	-	-	-	-	-	-	-
	Yearly repayment schedule	-	-	-	-	-	-	-	-	-	-	-	-	-
	16.45%	1	10,000,000	1	18,000,000	-	-	-	-	-	-	-	-	18,000,000
		234	2,417,627,928	96	1,323,849,291	4	41,203,702	-	-	2	52,500,000	2	52,500,000	3,887,680,921
	Total													

6. Provisions	Long term		Short term	
	31-Mar-14	31-Mar-13	31-Mar-14	31-Mar-13
Provision for employee benefits				
Provision for gratuity	13,721,411	3,847,518	-	-
Provision for leave encashment	-	-	9,944,485	6,411,294
	13,721,411	3,847,518	9,944,485	6,411,294
Others provisions				
Contingent provision against standard assets	14,524,757	2,147,132	51,563,312	7,345,834
Provision for non performing assets	768,528	44,703,052	-	-
	15,293,286	46,850,184	51,563,312	7,345,834
Total	29,014,697	50,697,702	61,507,797	13,757,128

7. Other current liabilities	31-Mar-14	31-Mar-13
Expenses and other payables	47,866,663	52,899,241
Employee benefit payables	34,221,714	13,857,316
Payable towards securitisation	118,646,803	158,876,089
Other liabilities		
Current maturities of long-term borrowings (refer note 5)	4,352,061,456	2,417,627,927
Interest accrued but not due:		
On term loans	16,238,776	15,732,885
On debentures	56,702,455	21,969,424
Statutory dues	7,130,575	8,147,818
Unamortized income		
Unamortised gain on securitisation	82,106,468	102,628,668
Unamortised interest income	2,374,745	2,519,636
	4,717,349,654	2,794,259,004

Notes to financial statements for the year ended March 31, 2014

8. Tangible Assets	Building	Computer	Electrical Equipment	Furniture & Fixtures	Leasehold Improvement	Office equipments	Vehicle	Total
As at April 1, 2012	772,800	15,054,314	4,066,470	11,074,803	846,607	7,909,525	7,774,610	47,499,129
Additions	-	857,707	19,408	202,104	-	1,598,770	409,497	3,087,486
Disposals	-	230,082	84,862	230,954	-	1,288,799	1,241,379	3,076,076
Other adjustments	-	(245,500)	(2,859,749)	32,602	-	2,304,218	-	(768,429)
As at March 31, 2013	772,800	15,436,439	1,141,267	11,078,555	846,607	10,523,714	6,942,728	46,742,110
Additions	-	1,948,401	81,803	268,850	-	1,413,143	1,081,452	4,793,649
Disposals	-	347,044	9,750	19,851	-	535,533	2,776,513	3,688,691
Other adjustments	-	-	-	-	-	-	-	-
As at March 31, 2014	772,800	17,037,796	1,213,320	11,327,554	846,607	11,401,324	5,247,667	47,847,068
Depreciation								
As at April 1, 2012	39,344	5,618,744	968,854	4,925,734	846,607	1,246,516	2,860,228	16,506,027
Depreciation charge for the year	12,597	2,427,763	51,165	389,898	-	554,772	703,122	4,139,317
Disposals	-	197,832	49,010	211,645	-	321,931	534,150	1,314,568
Other adjustments (depreciation)	34	148,118	(344,106)	987,453	-	394,219	(1,232)	1,184,486
As at March 31, 2013	51,975	7,996,793	626,903	6,091,440	846,607	1,873,576	3,027,968	20,515,262
Depreciation charge as on Mar-14	12,597	2,582,571	100,881	569,889	-	552,995	661,562	4,480,495
Disposals	-	202,024	4,523	19,851	-	93,533	1,606,691	1,926,622
As at March 31, 2014	64,572	10,377,340	723,261	6,641,478	846,607	2,333,038	2,082,839	23,069,135
Net Block								
As at March 31, 2013	720,825	7,439,646	514,364	4,987,115	(0)	8,650,138	3,914,760	26,226,848
As at March 31, 2014	708,228	6,660,456	490,059	4,686,076	(0)	9,068,286	3,164,828	24,777,933

9. Intangible Assets	Computer Software	Goodwill	Total
As at March 31, 2012	7,796,736	76,000,000	83,796,736
Additions	-	-	-
Internal Development	579,359	-	579,359
Ajustments	768,422	-	768,422
As at March 31, 2013	9,144,517	76,000,000	85,144,517
Purchase	794,767	-	794,767
Internal Development	-	-	-
As at March 31, 2014	9,939,285	76,000,000	85,939,285
Amortization			
As at April 1, 2012	6,918,872	76,000,000	82,918,872
Depreciation charge for the year	588,972	-	588,972
Other adjustments (depreciation)	138,838	-	138,838
As at March 31, 2013	7,646,682	76,000,000	83,646,682
Depreciation charge as on Mar-14	788,972		788,972
As at March 31, 2014	8,435,654	76,000,000	84,435,654
Net Block			
As at March 31, 2013	1,497,835	-	1,497,835
As at March 31, 2014	1,503,630	-	1,503,630

10. Non-current investments	31-Mar-14	31-Mar-13
Non trade investments (valued at cost unless stated otherwise)		
Investment in equity shares (Unquoted)		
200,000 (March 31, 2013: 200,000) equity shares of Rs 10 each of Alpha Microfinance Consultants Private Limited	2,000,000	2,000,000
Others (Unquoted)		
Investment in pass through certificate of Arete IFMR capital - Series A3	24,204	46,100
Aggregate amount of unquoted investments	2,024,204	2,046,100

11. Deferred tax asset (net)	31-Mar-14	31-Mar-13
Deferred tax liabilities		
Impact of amortisation of ancillary borrowing cost	19,482,370	9,786,220
Gross deferred tax liabilities	19,482,370	9,786,220
Deferred tax assets		
Impact of difference between tax depreciation and depreciation/amortisation charged to profit and loss	1,996,037	2,341,438
Impact of expenditure charged to profit and loss in the current year but allowed for tax purpose on payment basis	3,380,130	3,486,970
Impact of provision against other assets	4,060,252	2,755,491
Impact of provision against standard assets and non-performing assets	22,724,558	18,421,226
Gross deferred tax assets	32,160,977	27,005,125
Net deferred tax assets	12,678,606	17,218,905
Deferred tax assets recognised	12,678,606	17,218,905

	Non-current		Current	
12. Loans and advances	31-Mar-14	31-Mar-13	31-Mar-14	31-Mar-13
A. Portfolio Loans				
Unsecured considered good*				
Joint liability group loans	1,528,560,000	858,863,458	5,156,331,212	2,936,647,391
Individual loans	-	-	-	1,675,486
Unsecured considered doubtful**				
Joint liability group loans	768,528	29,305,643	-	-
Individual loans	-	15,397,409	-	-
(A)	1,529,328,528	903,566,510	5,156,331,212	2,938,322,877
* Represents standard assets in accordance with Company's asset classification policy				
**Represents non-performing assets in accordance with Company's asset classification policy.				
B. Subordinated contribution used for accelerated payout for securitisation	-	15,006,034	3,053,523	55,802,682
(B)	-	15,006,034	3,053,523	55,802,682
C. Security Deposits				
Unsecured, considered good	18,920,503	16,990,257	-	-
(C)	18,920,503	16,990,257	-	-
D. Advances recoverable in cash or kind				
Unsecured, considered good	-	2,168,166	8,895,512	6,677,415
Unsecured, considered doubtful	7,076,552	7,078,309	-	-
	7,076,552	9,246,475	8,895,512	6,677,415
Less: Provision for doubtful advances	(7,076,552)	(7,078,309)	-	-
(D)	-	2,168,166	8,895,512	6,677,415
E. Other loans and advances (Unsecured, considered good)				
Advance income tax (net of provision for taxation)	33,470,674	11,151,306	-	-
MAT credit entitlement	-	2,569,823	-	-
MAT credit entitlement	1,510,000	1,510,000	-	-
Advance recoverable from ESOP trust	723,038	1,461,286	5,430,670	4,473,912
Prepaid expenses	2,935,246	1,904,702	5,820,958	5,265,051
Loans and advances to employees	38,638,958	18,597,117	11,251,628	9,738,963
(E)	38,638,958	18,597,117	11,251,628	9,738,963
Total (A + B + C + D + E)	1,586,887,989	956,328,084	5,179,531,874	3,010,541,937

13. Other assets	Non-current		Current	
	31-Mar-14	31-Mar-13	31-Mar-14	31-Mar-13
Non-current bank balances (note 16)	428,421,347	305,082,459	-	-
Unamortized expenditure				
Share issue expenses	8,974,455	3,806,166	2,408,346	1,400,883
Ancillary borrowing costs	25,044,716	14,502,472	34,154,780	14,288,996
Interest accrued but not due on deposits placed with banks	8,686,145	7,171,365	31,250,949	21,323,681
Income accrued but not due on securitisation transactions	-	-	-	83,910,816
Interest accrued but not due on portfolio loans	-	-	19,645,653	8,344,676
Interest accrued and due on portfolio loans	-	-	16,118	291
Discounted income on securitisation transaction receivable in future years		27,898,497		35,426,307
Other current assets			3,022	352,810
Total	471,126,662	358,460,959	87,478,869	165,048,460

14. Current investments	31-Mar-14	31-Mar-13
Unquoted: Mutual funds (At net asset value declared by the fund)		
Nil (March 31, 2013: 235,822) units of Rs. 10 each of Union KBC Dynamic Bond Fund	-	2,591,729
Total	-	2,591,729
Aggregate amount of unquoted investments (Market value Rs. Nil (March 31, 2013: Rs 2,591,729.))	-	2,591,729

15. Trade receivables	Current	
	31-Mar-14	31-Mar-13
Outstanding for a period less than six months from the date they are due for payment		
Unsecured, considered good	-	203,845
Total	-	203,845

The Company does not have any trade receivables outstanding for a period exceeding six months from the date they are due for payment

16. Cash and bank balances	Non-current		Current	
	31-Mar-14	31-Mar-13	31-Mar-14	31-Mar-13
Cash and bank balances				
Balance with banks				
On current accounts	-	-	1,740,848,492	430,087,101
Deposits with original maturity of less than 3 months*	-	-	1,061,820,612	203,469,401
Cash in hand	-	-	49,763,335	1,010,452
	-	-	2,852,432,439	634,566,954
Other bank balances				
Margin money deposits**	428,421,347	305,082,459	397,877,821	277,856,901
	428,421,347	305,082,459	397,877,821	277,856,901
Amounts disclosed under non-current assets (note 13)	(428,421,347)	(305,082,459)	-	-
Total	-	-	3,250,310,260	912,423,855

* Includes an amount of Rs.3,725,927 representing insurance claim received after death of an employee, pending settlement on account of an impending court order for identifying the nominee.

** Represents margin money deposits placed to avail tem loans from banks, financial institutions, non banking financial companies and as cash collateral in connection with securitisation transactions.

17. Revenue from operations	31-Mar-14	31-Mar-13
Interest Income		
Interest on portfolio loans	1,185,871,509	643,428,185
Income from securitization and asset assignment	69,948,706	125,563,240
Other operating revenue		
Loan processing fees	102,805,223	60,446,789
Interest on margin money deposits*	52,916,596	34,685,303
Recovery against loans written offs	11,818,921	2,847,967
Total	1,423,360,955	866,971,484

* Represents interest on margin money deposits placed to avail term loans from banks, financial institutions, non banking financial companies and as cash collateral in connection with securitisation transactions.

18. Other income	31-Mar-14	31-Mar-13
Dividend on mutual funds	16,082,280	9,352,836
Interest on fixed deposits	2,798,115	171,867
Income recognised towards amount received for technical assistance	11,278,435	11,987,772
Interest on employee loans	1,061,501	1,068,874
Excess provision no longer required written back	-	192,223
Profit from sale of investments	17,986,357	-
Miscellaneous Income	5,718,238	2,639,097
Total	54,924,926	25,412,669

19. Employee benefits expense	31-Mar-14	31-Mar-13
Salaries & bonus	247,850,297	191,877,629
Contribution to provident fund and other funds	22,328,614	17,520,120
Leave encashment and availment	4,942,844	4,964,453
Leave travel allowance	4,910,711	4,303,277
Gratuity	9,873,893	3,847,518
Staff welfare expenses	2,046,093	1,992,258
Stock option expenditure	586,980	-
Total	292,539,432	224,505,255

20. Finance costs	31-Mar-14	31-Mar-13
Interest expense		
on debenture	143,661,720	75,846,038
on term loan from banks	416,622,869	241,380,942
on term loan from financial institution	8,871,487	6,542,449
on term loan from non banking finance companies	74,357,196	40,258,930
on term loan from loan from others	-	486,049
other facilities from banks	-	10,285
Other borrowing costs	49,615,758	37,213,047
Bank charges	872,600	978,627
Total	694,001,630	402,716,367

21. Other expenses	31-Mar-14	31-Mar-13
Rent	18,822,765	17,668,031
Rates & taxes	402,848	3,059,196
Insurance	1,270,074	5,673,820
Repairs & maintenance		
Repairs to building	5,740,718	4,292,318
Repairs to machinery	368,403	573,211
Others	110,936	53,332
Electricity	2,914,817	2,410,372
Travelling and conveyance	44,713,383	32,448,113
Postage & telecommunication	16,207,214	15,796,416
Printing & stationery	8,321,035	5,856,409
Professional & consultancy charges	10,165,264	8,110,260
Credit Bureau Expenses	6,911,365	2,095,231
Directors sitting fees	640,000	430,000
Auditors remuneration		
Audit fees	1,690,000	1,825,000
Out of pocket fees	585,824	312,189
Training expenses	8,897,921	4,157,626
Donations	13,483,460	-
Other administrative expenses	7,926,412	10,430,716
Provision for other assets	3,525,869	9,862,204
Total	152,698,308	125,054,444

Particulars	31-Mar-14	31-Mar-13
As auditor:		
Audit fee	950,000	800,000
Limited review	450,000	400,000
Others	-	200,000
In other capacity		
Certification services	290,000	425,000
Reimbursement of expenses	585,824	312,189
Total	2,275,824	2,137,189

22. Depreciation and amortisation expense	31-Mar-14	31-Mar-13
Depreciation of tangible assets	4,480,495	5,323,803
Amortisation of intangible assets	788,972	727,809
Total	5,269,467	6,051,612

23. Provision and write-offs	31-Mar-14	31-Mar-13
Provision for standard assets	56,595,102	2,776,998
Provision for non-performing assets	(43,934,522)	40,388,063
Portfolio loans and other balances written off	44,594,164	419,570
Total	57,254,744	43,584,631



24. Securitization of loans

- i. Disclosure as per RBI circular DBOD.NO.BPBC.60/21.04.048/2005-06 dated February 1, 2006:

During the year the Company has sold loans through securitization. The information on securitization by the Company as an originator is as given below:

Particulars	For year ended March 31, 2014	For year ended March 31, 2013
Number of loans securitized	159,850	135,138
Book value of loans securitized(Refer note 1)	1,396,989,897	1,884,271,972
Sale consideration received(Refer note 1)	1,475,635,926	1,935,989,188
Income recognised in statement of profit and loss	69,948,706	125,563,240
Particulars	As at March 31, 2014	As at March 31, 2013
Principal outstanding of loans securitized(Refer note 2)	1,409,562,133	1,397,098,428
Credit enhancements provided and outstanding:		
Cash collateral	195,454,889	322,365,779

Note 1: For the year ended March 31, 2013, the amount includes Rs.15,006,034 representing portfolio loans derecognized and held as "Subordinated contribution used for accelerated payout for securitization". The same is also included in sale consideration received as it represents Company's contribution.

Note 2: Includes loans aggregating Rs.32,327,468 (March 31, 2013: Nil) in respect of which the repayment to SPVs has been completed.

- i. Disclosure as per RBI circular DNBS.PD.No.301/3.10.01/2012-13 dated August 21, 2012:
(Information in respect of transactions in operation as at reporting date)

Particulars	As at March 31, 2014	As at March 31, 2013
No of SPVs sponsored by the NBFC for securitization transactions	13	15
Amount of securitized assets as per books of SPV sponsored by NBFC(Refer note 3)	1,485,313,000	1,416,780,501
Amount of exposures retained by NBFC to comply with MRR as on the date of balance sheet		
a. Off-Balance sheet exposure		
• First Loss	-	-
• Others	-	-
b. On-Balance sheet exposure		
• First Loss - Cash collateral	195,454,889	322,365,779
• Others	-	-
Amount of exposures to securitization transactions other than MRR		
a. Off-Balance sheet exposure		
i. Exposure to own securitizations		
• First Loss	-	-
• Loss	-	-
ii. Exposure to third party transactions		
• First Loss	-	-
• Others	-	-
b. On-Balance sheet exposure		
i. Exposure to own securitizations		
• Others	24,204	46,100
ii. Exposure to third party transactions		
• First Loss	-	-
• Others	-	-

Note 3: Includes an amount of Rs. Nil (March 31, 2013 Rs.70,808,266) representing portfolio loans derecognised and held as "Subordinated contribution used for accelerated payout for securitization". This amount shall flow back to the Company on full repayment to the PTC holders as per the terms of the securitization agreement.

25. Segment information

The Company operates in a single reportable segment i.e. lending to members, which 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.

26. Related parties

I Names of the related parties with whom transactions have been entered

Key Management Personnel	<p>Ms. Vinatha M. Reddy, Chairperson (Executive Chairperson upto November 30, 2012 Non-executive Chairperson with effect from December 1, 2012)</p> <p>Mr. Suresh K. Krishna, Managing Director</p>
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ii. Related party transactions

Particulars	Key management personnel	
	March 31, 2014	March 31, 2013
Transactions during the year		
Salaries and perquisites:		
Ms. Vinatha M. Reddy *	200,438	1,742,527
Mr. Suresh K. Krishna	5,215,150	4,037,097
Balances as at year end		
Ms. Vinatha M. Reddy	-	-
Mr. Suresh K. Krishna	-	-

*Salaries and perquisites indicated above are for the period upto November 30, 2012.

24. Capital commitments

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

Particulars	March 31, 2014	March 31, 2013
For purchase/development of computer software	583,700	501,300

25. Contingent liabilities

Particulars	March 31, 2014	March 31, 2013
Credit enhancements provided by the Company towards securitization and other contracts (including cash collateral)	186,173,155	305,579,608
Tax on items disallowed by the Income Tax department not acknowledged as debt by the Company	2,898,254	-

26. Retirement benefits

Gratuity

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 summarise the components of net benefit expense recognised in the statement of profit and loss and the funded status and amounts recognised in the Balance Sheet for the gratuity plan.

Statement of profit and loss

Net employee benefit expense

Particulars	For the year ended March 31, 2014	For the year ended March 31, 2013
Current service cost	4,150,099	1,649,862
Interest cost on benefit obligation	759,295	436,039
Expected return on plan assets	(387,123)	(347,332)
Net actuarial (gain) / loss recognized	5,351,621	2,118,949
Past service cost	-	-
Net employee benefit expense	9,873,893	3,857,518
Actual return on plan assets	51,525	346,242

Balance sheet

Details of provision for gratuity:

Particulars	March 31, 2014	March 31, 2013
Defined benefit obligation	18,041,524	9,239,218
Plan assets	4,324,392	5,395,979
Plan liability	(13,717,132)	(3,843,239)

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

Particulars	Gratuity	
	March 31, 2014	March 31, 2013
Opening defined benefit obligation	9,239,218	5,797,813
Interest cost	759,295	436,039
Past service cost	-	-
Current service cost	4,150,099	1,649,862
Benefits paid	(1,123,112)	(762,355)
Actuarial (gains) / losses on obligation	5,016,023	2,117,859
Closing defined benefit obligation	18,041,524	9,239,218

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

Particulars	Gratuity	
	March 31, 2014	March 31, 2013
Opening fair value of plan assets	5,395,979	3,633,569
Expected return	387,123	347,332
Contributions by employer	0	2,178,523
Benefits paid	(1,123,112)	(762,355)
Actuarial gains / (losses)	(335,598)	(1,090)
Closing fair value of plan assets	4,324,392	5,395,979

The Company's estimate of contribution towards gratuity for the next financial year is Rs.9,317,022(March 31, 2013:Rs.2,842,857).

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

Particulars	Gratuity	
	March 31, 2014	March 31, 2013
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, 2014	March 31, 2013
Discount rate	8.75%	8.05%
Expected rate of return on assets	8.00%	8.05%
Salary escalation rate per annum	10% for the first five years and 7% thereafter	9% for the first five years and 7% thereafter
Rates of leaving service	20.00%	29.00%

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

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

Particulars	March 31, 2014	March 31, 2013	March 31, 2012	March 31, 2011
Defined benefit obligation	18,041,524	9,239,218	5,797,813	4,149,882
Plan assets	4,324,392	5,395,979	3,633,569	2,935,414
Surplus / (deficit)	(13,717,132)	(3,843,239)	(2,164,244)	(1,214,368)
Experience adjustments on plan liabilities	(5,016,023)	(2,117,859)	(491,242)	(1,905,340)
Experience adjustments on plan assets	335,598	1,090	(16,970)	(32,799)

30. Earnings and expenditure in foreign currency (on accrual basis)

a. Earnings in foreign currency:

Particulars	March 31, 2014	March 31, 2013
Amount received towards technical assistance	9,798,745	10,975,206

a. Expenditure in foreign currency

Particulars	March 31, 2014	March 31, 2013
Travelling Expenses	446,378	590,922
Software support charges	-	843,450
Share issue expenses	-	750,000
Debenture issue expenses	1,854,273	1,243,047
Total	2,300,651	3,427,419

31. Earnings per share (EPS)

Profit and number of shares data used in computation of basic and diluted EPS:

Particulars	March 31, 2014	March 31, 2013
Net profit for calculation of EPS	185,089,896	84,579,295
Weighted average number of equity shares - basic EPS	39,729,688	26,218,881
Effect of dilution: Stock options granted under ESOP	Nil	Nil
Weighted average number of equity shares - diluted EPS	39,729,688	26,218,881
Basic EPS (Rs.)	4.66	3.23
Diluted EPS (Rs.)	4.66	3.23
Nominal value of shares (Rs.)	10.00	10.00

32. Loan portfolio and provision for standard and non-performing assets:

Asset Classification	Portfolio loans outstanding (Gross)		Provision for standard and substandard assets			Portfolio loans outstanding (Net)	
	March 31, 2014	March 31, 2013	March 31, 2013	Additions in 2013-14	March 31, 2014	March 31, 2014	March 31, 2013
Standard	668.49	379.72	0.95	5.66	6.61	661.88	378.77
Non-performing	0.08	4.47	4.47	(4.39)	0.08	-	-
Total	668.57	384.19	5.42	1.27	6.69	661.88	378.77

33. Leases

Head office and branch office premises are acquired on operating lease. The branch office premises are generally rented on can cell able 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 statement of profit and loss.

Particulars	March 31, 2014	March 31, 2013
Operating lease payments recognized during the year	18,822,765	17,668,031

34. Dues to micro, small and medium enterprises

There are no amounts that need to be disclosed in accordance with the Micro Small and Medium Enterprise Development Act, 2006 (the 'MSMED') pertaining to micro or small enterprises.

For the year ended March 31, 2014, no supplier has intimated the Company about its status as micro or small enterprises or its registration with the appropriate authority under MSMED.

35. Amounts received as technical assistance

Following amounts have been received and recognized in the statement of profit and loss under "Other Income":

Particulars	March 31, 2014	March 31, 2013
Operating lease payments recognized during the year	11,278,435	11,987,772

36. Stock options

During the year ended March 31, 2014, the following stock option grants were in operation:

Particulars	Tranche I	Tranche II
Date of grant	April 1, 2012	October 1, 2013
Date of Board / Compensation Committee approval	October 15, 2011	August 22, 2012
Options granted	716,676	631,339
Method of settlement	Equity	Equity
Graded vesting period:		
Day following the expiry of 12 months from grant	25%	25%
Day following the expiry of 24 months from grant	25%	25%
Day following the expiry of 36 months from grant	25%	25%
Day following the expiry of 48 months from grant	25%	25%
Exercise period	48 months from date of vesting	48 months from date of vesting
Vesting conditions	Continuousservice	Continuousservice
Weighted average remaining contractual life (years)	6.01	7.51
Weighted average exercise price per option (Rs.)	27.00	27.00
Weighted average fair value of options (Rs.)	14.32	16.97

Reconciliation of options:

Particulars	March 31, 2014	March 31, 2013
Date of grant		
Tranche I		
Options outstanding at the beginning of the year	702,676	-
Granted during the year	-	716,676
Forfeited during the year	33,500	14,000
Exercised during the year	-	-
Expired during the year	-	-
Outstanding at the end of the year	669,176	7,02,676
Exercisable at the end of the year	167,294	-
Tranche II		
Options outstanding at the beginning of the year	-	-
Granted during the year	631,339	-
Forfeited during the year	-	-
Exercised during the year	-	-
Expired during the year	-	-
Outstanding at the end of the year	631,339	-
Exercisable at the end of the year	-	-

Details of stock options granted during the year:

Tranche II: The weighted average fair value of stock options granted during the year was Rs.16.97. The Black-Scholes Model has been used for computing the weighted average fair value considering the following:

Particulars	Tranche vesting in FY 2014-15	Tranche vesting in FY 2015-16	Tranche vesting in FY 2016-17	Tranche vesting in FY 2017-18
Share price on the date of grant (Rs.)	30.58	30.58	30.58	30.58
Exercise price (Rs.)	27.00	27.00	27.00	27.00
Expected volatility (%)	34.50%	34.50%	34.50%	34.50%
Life of the options granted (years)	5	6	7	8
Risk-free interest rate (%)	8.05%	8.05%	8.05%	8.05%
Expected dividend rate (%)	0%	0%	0%	0%
Fair value of the option (Rs.)	15.08	16.43	17.64	18.73

The Company measures the cost of ESOP using the intrinsic value method. Had the Company used the fair value model to determine compensation, its profit after tax and earnings per share as reported would have changed to the amounts indicated below:

Particulars	Year ended March 31, 2014	Year ended March 31, 2013
Stock option expenditure (charge to profit and loss)	6,048,451	3,474,178
Basic / Diluted EPS	4.51	3.09

37. Additional information required by RBI

a. Capital to risk assets ratio ('CRAR'):

Particulars	March 31, 2014	March 31, 2013
CRAR (%)	31.64%	24.46%
CRAR-Tier I Capital (%)	28.81%	23.93%
CRAR-Tier II Capital (%)	2.83%	0.53%

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

c. The Company has not disbursed any loans against the security of gold.

d. Asset liability management:

Maturity pattern of assets and liabilities as on March 31, 2014:

Particulars	Upto 1 month	1 to 2 months	2 to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	3 to 5 years	Over 5 years	Total
Liabilities									
Borrowings from banks	16.52	23.30	43.70	88.14	168.94	211.75	-	-	563.35
Market borrowings	18.05	3.47	28.41	13.57	20.10	56.37	10.50	91.40	241.88
Assets									
Advances	60.46	59.97	47.26	139.72	210.59	158.57	0.08	-	676.64
Investments	-	-	-	-	-	-	-	0.20	0.20

Maturity pattern of assets and liabilities as on March 31, 2013:

Particulars	Upto 1 month	1 to 2 months	2 to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	3 to 5 years	Over 5 years	Total
Liabilities									
Borrowings from banks	8.44	12.02	24.37	50.46	82.82	101.33	-	-	279.44
Market borrowings	2.44	2.15	2.04	7.28	49.74	35.17	5.25	5.25	109.33
Assets									
Advances	31.96	35.29	27.08	79.58	128.56	89.73	0.01	4.47	396.69
Investments	-	-	-	0.26	-	-	-	0.20	0.46

e. Information on instances of fraud

Instances of fraud reported during the year ended March 31, 2014:

Nature of fraud	No. of cases	Amount of fraud (Rs.)	Recovery (Rs.)	Amount provided (Rs.)
Cash Embezzlement	1	278,606	-	278,606
Fake Loans	2	40,800	541	40,259

Instances of fraud reported during the year ended March 31, 2013:

Nature of fraud	No. of cases	Amount of fraud (Rs.)	Recovery (Rs.)	Amount provided (Rs.)
Cash Embezzlement	1	870,007	23,029	846,978
Fake Loans	1	1,618,459	-	809,230



- f. The net interest margin (NIM) for the Company, for the year ended March 31, 2014 is 10.30% (March 31, 2013: 9.58%). The computation of NIM has been based on guidelines communicated by RBI vide its letter dated April 4, 2013 to Micro Finance Institutions Network.
38. The Company's application to the Company Law Board on October 19, 2011 for compounding in respect of equity shares issued in financial year 2010, against the dividend on compulsorily convertible preference shares, amounting to Rs.937,505, to non-resident shareholders, for which FIPB approval was received subsequently on December 2, 2011 is pending with the appropriate authorities.
39. The Company has given an interest free collateral free advance to GFSPL ESOP Trust for the benefit of the employees of the Company in accordance with the stock option plan instituted by the Company. The outstanding balance of such advance as at March 31, 2014 is Rs.1,510,000 (March 31, 2013: Rs.1,510,000).
40. Previous year's figures have been regrouped where necessary to conform to this year's classification.

For S R B C & CO LLP
Chartered Accountants
ICAI Firm's Registration Number: 324982E

per Shrawan Jalan
Partner
Membership No.102102

Place: Bangalore
Date: 27 May 2014

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

Managing Director

Chairman

Chief Financial Officer
Date: 27 May 2014

Company Secretary

ABBREVIATIONS :

- AKMI: Association of Karnataka Microfinance
- CoC: Code of Conduct
- FI: Financial Institutions
- GFSPL: Grameen Financial Services Pvt Ltd
- GK: GrameenKoota
- HUL:Hindustan Unilever Limited
- ICRA : Investment Information and Credit Rating Agency
- IFC: International Finance Corporation
- IMaCs:ICRA Management Consulting Services Limited
- M-CRIL : Micro-Credit Ratings International Limited
- MFI: Micro Finance Institutions
- MFIN: Micro Finance Institutions Network
- MIX: Microfinance Information Exchange
- MV: MicroVentures
- NBFC-MFI: Non-Banking Financial Company - Micro Finance Institutions
- NCD: Non-Convertible Debentures
- ND-NBFC: Non Deposit - Non-Banking Financial Company
- NGO: Non-Governmental Organization
- NPS:National Pension Scheme
- PAR: Portfolio At Risk
- PPI: Progress Out of Poverty Index
- PPP: Purchasing power parity
- RBI: Reserve Bank of India

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