



Annual Report 2009-2010
Grameen Financial Services Pvt. Ltd.



Grameen Financial Services Pvt. Ltd.

Our 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

Our Vision

By 2012, we wish to enable economic and social change in 20 lakh (2 million) poor and low income households, in 7 states of India, through financial products and development services.

Core Values

Committed: We shall honour all our commitments made sincerely. We shall strive towards reaching our mission in all circumstances.

Reliable: We shall not deviate from any of the policies and procedures defined in letter and spirit. We will strive to deliver on time – every time.

Empathetic: 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.

Accountable: We shall be accountable for all our deeds, actions and words. We stand by our word.

Transparent: We shall provide full disclosures to all our clients in terms of the services and fees we offer to them.

We shall make our financial statements, reports and accounts as clear and comprehensive as possible. We shall keep our clients' and employees' information confidential and shall disclose only to authorities according to the law of the land.

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

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NOTICE

GRAMEEN FINANCIAL SERVICES PRIVATE LIMITED
REGD OFFICE: Avalahalli, Anjanapura Post
JP Nagar, 9th Phase, Bangalore 560 062

Notice is hereby given that the Annual General Meeting of the Company will be convened on 28st June 2010, Monday, at 10.00 a.m. at the Registered Office of the company to consider there at the following items of business:

ORDINARY BUSINESS:

1. Consideration and Approval of Audited Accounts:

To adopt the audited financial statements for the year ended 31.03.2010 (consisting of the following)

- i) Balance Sheet as at 31.03.2010 including Schedules thereto;
- ii) Profit and Loss Account for the Year Ended on 31.03.2010 (including Schedules thereto);
- iii) Report of the Statutory Auditors on the aforesaid Financial Statements; and
- iv) Report of the Board of Directors of the Company;

To consider and if thought fit to pass the following resolution as ordinary resolution with or without modification:

ÒThe audited financial statements for the year ended on 31st March 2010 consisting of Balance Sheet as at 31.03.2010 (including Schedules thereto); Profit and Loss Account for the Year Ended on 31.03.2010 (including Schedules thereto); Report of the Statutory Auditors on the aforesaid Financial Statements; and Report of the Board of Directors of the Company be and are hereby approvedÓ.

2. Appointment of Auditors & Fixing of Remuneration of Auditors:

The Term of M/s M.S. Kamath & Associates, Chartered Accountants as the Statutory Auditors of the company will expire at the close of this Annual General Meeting.

It is proposed to appoint M/s S.R. Batliboi & Co., Chartered Accountants as the Statutory Auditors of the company to hold office from the conclusion of this Annual General Meeting to the conclusion of the next Annual General Meeting. The proposed remuneration is Rs. 7 lacs plus Out of Pocket Expenses on actual basis (taxes extra).

To consider and if thought fit to pass the following resolution as ordinary resolution with or without modification: ÓM/s S.R. Batliboi & Co, Chartered Accountants, be and are hereby appointed as the Statutory Auditors of the company to hold Office from the date of close of this Annual General Meeting to the close of the next Annual General Meeting at a Remuneration of Rs. 7 lacs + Out of Pocket Expenses (on actual basis)Ó.

3. Change of Registered Office from the State of West Bengal to the State of Karnataka :

Company has received Order from Company Law Board Kolkata Bench approving the company's petition for change of Registered Office from the State of West Bengal to the State of Karnataka, vide the Order dated 22nd March 2010. Subsequently Company has received ÓCertificate of Registration of Company Law Board Order for Change of StateÓ from the Registrar of Companies, Karnataka vide their Letter dated 29th April 2010.

The Records are expected to be shifted from Kolkata to Bangalore shortly.

To consider and if thought fit to pass the following resolution as ordinary resolution with or without modification:

ÒResolved that Order from Company Law Board, Kolkata Bench approving the company's petition for change of Registered Office from the State of West Bengal to the State of Karnataka, vide the Order dated 22nd March 2010 and Certificate of Registration of Company Law Board Order for Change of State from the Registrar of Companies, Karnataka vide their Letter dated 29th April 2010 are taken on recordÓ.

4. Appointment of Director:

Mr. Kris Van Look, who has been appointed as a Director on the Board on 6th March 2010 (to represent IIM Impulse Ð 2 (Incofin) expressed his desire to resign from the Board and appoint Mr. Aditya Bhandari as a Director in his place vide his Letter dated May 19, 2010. It is therefore proposed to appoint Mr. Aditya Bhandari as a Director in place of Mr. Kris Van Look.

To consider and if thought fit to pass the following resolution as ordinary resolution with or without modification:

ÒResolved that appointment of Mr. Aditya Bhandari, in place of Mr. Kris Van Look, as a Director representing IIM Impulse Ð 2 with effect from 20th May 2010, be and is hereby confirmed.Ó

SPECIAL BUSINESS

5. Borrowing Powers U/s 293 I (d):

The present borrowing powers as approved by the Members are to the tune of Rs. 500 crore. In view of multi-fold increase in the volume of business and hence the funding requirements, it is proposed to seek a higher limit of borrowing powers from the Members to an extent of Rs. 1250 crores over and above paid up share capital and free reserves.

To consider and if thought fit to pass the following resolution as special resolution with or without modification:

ÒThe Borrowing Powers of the Company be and are hereby raised from Rs. 500 crore to Rs. 1250 crore over and above paid up share capital and free reserves.Ó

By the order of the Board

Date: 20th May 2010

Bangalore

Sd/-
Suresh K. Krishna
Managing Director

Explanatory Statement to the Resolution passed as a Special Resolution:

The present borrowing powers as approved by the Members are to the tune of Rs. 500 crore. In view of multi-fold increase in the volume of business and hence the funding requirements, it is proposed to seek a higher limit of borrowing powers from the Members to an extent of Rs. 1250 crores over and above paid up share capital and free reserves.

Note:

1. A member entitled to attend and vote at the meeting is entitled to appoint a proxy and the proxy need not be a member
2. The forms appointing the proxy should reach the registered office of the company at least 48 hours before the scheduled time of the meeting.
3. All correspondence may be sent to the registered office of the company.
4. A copy of the documents referred to in the above notice shall be available for inspection at the registered office of the company.

GRAMEEN FINANCIAL SERVICES PRIVATE LIMITED
REGD. OFFICE: Avalahalli, Anjanapura Post, JP Nagar, 9th Phase
Bangalore Ð 560 062

Directors Report

Dear Shareholders,

The Board of Grameen Financial Services Private Limited (GFSP) are pleased to present to you, Annual Report for the Financial Year ended on 31 March 2010.

Financial Highlights (in Rs. Crore)	Current Year (2009 Ð 10)	Previous Year (2008 Ð 09)
Total Income	53.78	34.05
Total Expenses	51.90	33.15
Profit Before Tax	1.88	0.90
Prior Period Taxes (written back)	0.11	-
Provision for Tax	1.05	0.41
Profit after Tax	0.94	0.49
Transferred to Statutory Reserves	0.19	0.10
Equity Dividend	Nil	Nil

GFSP expanded its presence in the national financial domain, earning an NCD listing (issue size of Rs. 20 crore) on the Bombay Stock Exchange in January 2010. Earlier, company's second round of equity infusion (Rs. 27.50 crore) was concluded in November 2009, which took the capital base (incl. premium) of the company to Rs. 48.46 crore. GFSP has sourced on-lending funds of Rs. 327.25 crore (sanctions received) from several public, private and MNC banks.

Deposits

Company has not accepted any deposits from the public during the year under review.

Auditors

M/s M.S. Kamath & Associates, Chartered Accountants, the statutory auditors of the company since October 2007, have audited the accounts of the company for the Financial Year ended on 31st March, 2010.

Conservation of Energy

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

Foreign Exchange Earnings and Outgo - Nil

Information Pursuant to Section

There is no employee, drawing remuneration in excess of the limits prescribed under Section 217 (2A) of the Companies Act, 1956.

Operations

Financial Year 2010 has witnessed rapid growth Ð company has opened 65 branches, reached over 4.25 lac clients, made Rs. 530 crore disbursements and built a portfolio base of Rs. 330 crore, The operational break-up (division-wise) is as given below:

	Grameen Koota	Maarg	Total
Branches	141	5	146
Members	423,718	3426	427144
States	Karnataka Maharashtra Tamil Nadu	Karnataka	

Performance Highlights

	31/03/10	31/03/09	Year on Year Growth (%)
1 Branches	146	82	78%
2 Kendras	16411	8902	84%
3 Members	427144	256370	67%
4 Active Borrowers	352648	211562	67%
5 Loans Disbursed (Rs. Cr)	531.46	372.66	43%
6 Loans Recovery (Rs Cr)	380.98	273.97	39%
7 Outstanding Portfolio (Rs Cr.)	330.17	181.3	82%
8 Staff	1380	769	79%

GFSPL has introduced two loan products viz., Water and Sanitation Loan and Solar Loan. Income-generating Loans contributed to 93.43% of total loan products, while Supplementary Loan and Emergency Loan contributed 2.87% and 2.44% respectively during the year.

Pursuing its vision to strive for a holistic growth and financial inclusion, GFSPL has launched two new entities, Navya Disha and GK Development Trust (GKDT), especially for community development. At present Navya Disha is spearheading initiatives in water, sanitation and combating indoor air pollution. Working closely with Water Partners International and The Shell Foundation, Navya Disha has already hosted training and awareness camps for locals in villages in and around Tumkur. This NGO arm of GFSPL has already aided the construction of 157 toilets and 7 water connections. GK Development Trust (GKDT) specialised in the business correspondent method of banking in microfinance. This arm of GFSPL will build robust systems around the company's mobile banking project, which is currently under observation and testing. GKDT has succeeded in forging partnerships with banks and private service providers to take the project from a 100-member user base to a 10,000-member user base.

Recovery Issues - Kolar

GFSPL witnessed an unprecedented recovery issues in the early part of the year. Started in Kolar at the end of the FY 09, the mass default by the members has spread to other places like Mysore, Ramnagara, Channapatna, Hampinagara, Gubbi, etc. While the default at each of these places had a different trigger, one common factor identified was the intervention of unrelated, vested interest groups claiming to be the champions of the interests of the borrowers. The Portfolio At Risk has gone up from 0 level to Rs. 7.86 crore by July 09 forcing the company to slow down disbursements till the end of the second quarter, which has partially impacted the growth of the business during the year. While, as a result of intense efforts on the part of the company, PAR could be brought down by Rs. 1.40 crore by the end of the year, company had to write off Rs. 1.60 crore and make an unprecedented provision of Rs. 2.83 crore which had made serious dent into the profitability for the year over and above the adverse impact of the negative growth in the first part of the year.

Frauds & Misappropriation

During the Financial Year ended on 31st March, 2010, there was one incidence of misappropriation by a staff member at Tarikere Branch on 23rd October 2009 involving an amount of Rs. 400,000/- (Rupees Four Lakhs) which has been recovered from the employee through the Court on 15th April 2010. Barring the above, there was no other significant case of fraud or misappropriation during the financial year 2009-10.

Community Building Initiatives

GFSPPL strategically reinforced its position as a socially relevant institution through community-based events and activities ranging from education to relief work.

i) Flood Relief

GFSPPL employees contributed portions of their salary and also food and supplies to aid the victims of the devastating floods that hit northern Karnataka in 2009. With these generous contributions, the company organized aid for the victims in Naganur (Gokak Taluk), Hansi (Navalgund Taluk), Kuduremoti (Yalburga Taluk) and Bikanahalli (Koppal Taluk). 4950 Kgs. of rice and 4050 Kgs. of wheat flour were distributed to 810 affected families.

ii) Business Training for Micro Entrepreneurs

In order to better prepare women micro-entrepreneurs for the challenges of the modern business, GFSPPL has launched a specialized training program that will equip participants with the skills necessary to succeed in business. The program is so designed to benefit those women who have limited education and literacy levels and who would not be comfortable in a traditional classroom setting.

iii) Socio-Economic Development (SED) Workshops

GFSPPL organized SED Workshops for Members and Spouses, the details of which are as given below:

	No. of Workshops	No. of Participants
Workshop for Members	65	12,656
Workshop for Husbands	23	2,328

New Products

In order to insulate its clientele from risks and damages, GFSPPL has created life and cattle insurance products that are widely utilized by the client base. While life insurance (for the borrower) has been made mandatory, with an optional additional premium amount to include her husband, the cattle insurance product is optional.

Completion of 10 Years of Grameen Koota

May 2009 marked 10 years since Grameen Koota began operations in 1999 as an NGO. Opting to use the milestone as a platform to contribute to both the microfinance sector and its borrowers, GFSPPL created two separate events to encourage healthy dialogue within the microfinance sector and deliver relevant education to borrowers.

i) Samvad: A Dialogue on Microfinance

Samvad: A dialogue on microfinance was designed to encourage an open discussion of the issues that the sector must currently address. Over the course of the day-long conference, held on May 30, 2009 (Saturday) at The Capitol (Rajbhavan Road), discussions revolved around transparency and client protection, microfinance and financial inclusion and convergence of Government schemes and MFI objectives. The conference brought together leaders from microfinance, rural development and the Government. Mr. Alex Count (President and CEO, Grameen Foundation USA) was present as the keynote speaker of the event. Samvad received significant media attention for its strong panel discussions and futuristic vision for development in India.

ii) Financial Literacy Campaign

Attended by over 500 Grameen Koota clients, along with their families, the program delivered education pertaining to financial management and planning. The specially produced GFSPL film on financial literacy was also well received. Ms. Jija Harisingh (DGP) presided as the Chief Guest for the occasion.

Recognition

In the past year, GFSPL has received significant mention in national and international circles:

- Ranked #10 in India by CRISIL
- Ranked #1 in India and #4 worldwide by The MIX Market
- Mr. Suresh K. Krishna (Managing Director) elected to the board of Sa-Dhan, a national network of over 200 microfinance institutions

Ratings and Evaluations

During this year, the company has obtained a Grading of mR3, NCD Rating of P4 and Structured Debt Rating of AA (So) (senior paper) and BBB (junior paper) from CRISIL. In the coming year, the company will seek a bank loan rating.

Equity Investments

GFSPL has raised equity of Rs. 27.50 crore, enhancing the capital base to Rs. 48.46 crore (increase of 94%). The shareholding pattern pre and post capital-raising is given below:

Shareholder Particulars	Pre-issue Shareholding (%)	Post-issue Shareholding (%)
Promoters	37.11	24.62
Aavishkaar Goodwell India Microfinance Development Company	29.21	22.54
TMT Community Trust	27.30	18.11
Employees	6.38	4.23
MicroVentures SPA	-	9.15
MicroVentures Investments SCA, SICAR	-	9.15
IIM D Impulse 2	-	12.20
Total	100.00	100.00

Employees

With the exception of Mr. Suresh K. Krishna (Managing Director), no employee has received an annual remuneration in excess of Rs. 24 lakh (or Rs. 2 lakh per month) during any part of the year. Relations with employees have been cordial through the year. The Directors place on record their appreciation of the efforts, dedication, commendable team work and consistent contribution of employees under various company initiatives, contributing towards high growth and performance of the Company during the year under review.

In this financial year, GFSPL made additions to the senior management team to include specialized Human Resources, Internal Audit and Risk Management and Marketing experts who have significant experience and insight into internal risk control, FMCG markets and human resource development etc.

The board consists of shareholders, independent and nominee directors. The Board of Directors are experienced professionals in areas of banking, finance and microfinance. Dr. Manjunath L. H. and Mr. Sriram Iyer resigned during the financial year, and have been replaced by Paolo Brichetti, Kris Van Look and Christian Banno (alternate director to Paolo Brichetti).

The statement below shows the participation of the Directors at the meetings held during the year.

	Position	Meetings Eligible for	Meetings Attended
Vinatha M. Reddy	Executive Chairman	4	3
Suresh K. Krishna	Managing Director	4	4
Daksha Niranjana Shah	Independent Director	4	2
Sriram Iyer	Independent Director	4	3
Pradeep Pathiyamveetil	Nominee Director	4	3
Paolo Brichetti	Nominee Director	1	-
Kris Van Look *	Nominee Director	1	-
Christian Banno *	Alternate Director to Paolo Brichetti	1	-

*Attended Board Meeting held on 27th November as Invitees before appointment as Director

Future Outlook

GF SPL has implemented strong operational systems and procedures; adapted the best corporate governance practices to ensure stronger, profitable growth in the coming years. GF SPL will recruit more professionals in HR, Finance, Operations, Marketing, Communications, Technology and Risk Management, creating an excellent strategy team that will channel the efforts of the growing field work force. In the coming years, GF SPL will deliver microfinance and developmental services to 3 more states, bring the total number of states up to 6.

Director's Responsibility Statement in Relation to Accounting Standards and Policies

Pursuant to the provisions of Sec. 217 (2AA) of the Companies Act, 1956, the Directors of the company herewith state as follows:

1. That in the preparation of the annual accounts of the company for the period 1.4.2009 to 31.3.2010, applicable accounting standards have been followed. There has been no material departure from the said standards.
2. That the Directors have selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to present a true and fair view of the state of affairs of the company at the end of financial year viz., 31.3.2010 and the profit and loss account for the period.
3. That the Directors have taken proper and sufficient care for maintenance of adequate accounting records in accordance with the provisions of the Companies act 1956 for safeguarding the assets of the company for preventing and detecting fraud and other irregularities.
4. That the Directors have prepared the annual accounts of the company for the period 1.4.2009 to 31.3.2010 on an ongoing concern basis.

Acknowledgements

Your directors thank all the shareholders, customers, vendors, lending banks and financial institutions for their continued support throughout the year and look forward to their continued support in future.

Your Directors also wish to place on record the appreciation for the contribution made by the company's employees at all levels as without their hard work, solidarity and support your company's consistent growth would not have ever been possible.

Date: 20th May 2010

for and on behalf of the Board

Sd/-
Vinatha M. Reddy
Chairman

Sd/-
Suresh K. Krishna
Managing Director

**REPORT OF THE AUDITORS TO THE MEMBERS
of
GRAMEEN FINANCIAL SERVICES PRIVATE LIMITED.**

We have audited the attached Balance Sheet of GRAMEEN FINANCIAL SERVICES PRIVATE LIMITED as at 31st March 2010 and also the Profit and Loss Account and the Cash Flow Statement of the Company for the year ended on 31st March 2010 annexed thereto and report that:

1. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.
2. We conducted our audit in accordance with auditing standards generally accepted in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
3. As required by the Companies (Auditors' Report) Order, 2003 (as amended) issued by the Central Government of India in terms of sub-section 4A of Section 227 of the Companies Act, 1956, and on the basis of such checks as we consider appropriate, we enclose in the Annexure a statement on the matters specified in paragraph 4 and 5 of the said order to the extent they are applicable to the Company.
4. Further to our comments in the Annexure referred to in paragraph 1 above, we state that:
 - (a) We have obtained all the information and explanation 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 the law have been kept by the Company so far as appears from our examination of those books.
 - (c) The Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report are in agreement with books of account.
 - (d) In our opinion, the Balance Sheet, Profit & Loss Account and Cash Flow Statement dealt with by this report comply with the accounting standards referred to in Subsection 3 (c) of Section 211 of the Companies Act, 1956.
 - (e) On the basis of written representations received from the Directors as on March 31, 2010, and taken on record by the Board of Directors, we report that none of the Directors are disqualified as on March 31, 2010 from being appointed as a Director as per the terms of clause (g) of Subsection (1) of Section 274 of the Companies Act, 1956.
 - (f) In our opinion and to the best of our information and according to the explanation given to us, the said accounts give the information required by the Companies Act, 1956, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:
 - (i) in the case of the Balance Sheet, of the state of affairs of the Company as at 31st March 2010;
 - (ii) in the case of the Profit and Loss Account, of the profit for the year ended on that date; and
 - (iii) in the case of Cash Flow Statement, of the cash flows for the year ended on that date.

BANGALORE
20.05.2010

For, M.S.KAMATH & ASSOCIATES,
(Chartered Accountants)

Sd/-
M.S.KAMATH, F.C.A.
Proprietor
Membership No.022529

ANNEXURE TO THE AUDITORS' REPORT

Annexure referred to in paragraph 3 of the Auditors' Report on the Accounts of GRAMEEN FINANCIAL SERVICES PRIVATE LIMITED.

i. In respect of its fixed assets:

a) The company has maintained proper records showing full particulars, including quantitative details and situation of fixed assets.

b) Most of the fixed assets were physically verified during the year by the management in accordance with a programme of verification, which in our opinion provides for physical verification of all the fixed assets at reasonable intervals. According to the information and explanations given to us no material discrepancies were noticed on such verification.

c) The Company has not disposed off substantial part of fixed assets during year.

ii. The nature of the Company's operations does not require it to hold inventories. Consequently Clause 4(ii) of the order is not applicable to the Company.

iii. In our opinion and according to the information and explanations given to us, the company has not granted or taken any loan secured or unsecured to / from companies, firms or other parties covered in the register maintained under Section 301 of the Companies Act, 1956.

iv. In our opinion and according to the information and explanations given to us, there is an adequate internal control system commensurate with the size of the Company and nature of its business for purchase of fixed assets and for the sale of services. Activities of the Company do not involve purchase of inventory and sale of goods. During the course of our audit we have not observed any continuing failure to correct major weaknesses in internal control system.

v. According to the information and explanations provided by the management, we are of the opinion that there are no contracts or arrangements that need to be entered into the register maintained under Section 301 of the Companies Act, 1956.

vi. The Company has not accepted any deposits from the public.

vii. In our opinion, the internal audit system of the company is commensurate with its size and nature of its business.

viii. To the best of our knowledge and as explained, Clause 4 (viii) of the Companies (Auditors' Report) Order 2003 (as amended) is not applicable to the Company.

ix. (a) The company has been generally regular in depositing with appropriate authorities undisputed statutory dues including provident fund, employees' state insurance, income-tax, and other material statutory dues as applicable.

b) According to the information and explanations given to us, no undisputed amounts payable in respect of provident fund service tax, and other undisputed statutory dues were outstanding, at the year end for a period of more than six months from the date they became payable.

(c) According to the information and explanation given to us, there are no dues of provident fund, professional tax and service tax as on March 31, 2010, which have not been deposited with the respective authorities, on account of any disputes.

x. The Company has no accumulated losses as at 31st March, 2009 and it has not incurred any cash losses in the financial year ended on that date and in the immediately preceding financial year.

- xi.** In our opinion, the Company has not defaulted in repayment of dues to financial institutions or banks or debenture holders.
- xii.** According to the information and explanations given to us and based on the documents and records produced to us, the Company has not granted loans and advances on the basis of security by way of pledge of shares, debentures and other securities other than companies own shares.
- 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 Companies (Auditor's Report) Order 2003 (as amended) are not applicable to the Company.
- xiv.** In our opinion, The Company has not dealt or traded in shares, securities, debentures and other investments during the financial year ending 31st March 2010. Accordingly the provisions of Clause 4 (xiv) of the Companies (Auditor's Report) Order 2003 (as amended) is 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. Accordingly the provisions of Clause 4 (xv) of the Companies (Auditor's Report) Order 2003 (as amended) is not applicable to the Company.
- xvi.** To the best of our knowledge and belief and according to the information and explanations given to us, the term loans have been applied for the purpose for which the loans were obtained.
- xvii.** According to the information and explanations given to us, and on overall examination of the Balance Sheet of the Company, we are of the opinion that the funds raised on short term basis have not been used for long term investment.
- xviii.** The Company has not made any preferential allotment of shares to parties or companies covered in the register maintained under section 301 of the Companies Act, 1956.
- xix.** To the best of our knowledge and belief and according to the information and explanations given to us, the Company has created security for the debentures issued during the year.
- xx.** The Company has not raised any money by public issue. Accordingly Clause 4 (xx) of the Companies (Auditor's Report) Order 2003 (as amended) is not applicable to the Company.
- xxi.** To the best of our knowledge and belief and according to the information and explanation given to us, management has identified misappropriation of funds by employee, amounting to Rs. 4,00,000 and the same has been recovered during April 2010.

BANGALORE
20.05.2010

For, M.S.KAMATH & ASSOCIATES,
(Chartered Accountants)

Sd/-
M.S.KAMATH. F.C.A.
Proprietor
Membership No.022529

Non-Banking Financial Companies Auditor's Report (Reserve Bank) Directions, 1998

In addition to the report made by us under Section 227 of the Companies Act, 1956, on the attached Balance Sheet of GRAMEEN FINANCIAL SERVICES PRIVATE LIMITED as at 31st March 2010 and also the Profit and Loss Account of the Company for the year ended on 31st March 2010 annexed thereto, we report to the Board of Directors on the matters specified in paragraph 3 and 4 in the Non-banking financial Companies Auditor's Report (Reserve Bank) Directions, 1998, that

In our opinion and according to the information and explanations given to us,

1. In the case of all non-banking financial companies (as per paragraph 3 (A) of the order)

- i. The Company has received certificate of registration No. 05.01311 Dt. 30-03-1998 from Reserve Bank of India as provided in Section 45-IA of the Reserve Bank of India Act, 1934 (2 of 1934).
- ii. The Company is entitled to continue to hold CoR in terms of its asset/income pattern as on 31st March 2010.

2. In the case of a non-banking financial company not accepting public deposits (as per paragraph 3 (C) of the order)

- (i) Board of directors has passed a resolution for the non acceptance of any public deposit.
- (ii) The Company has not accepted any public deposits during the financial year ending 31st March 2010.
- (iii) The Company has complied with prudential norms relating to income recognition, accounting standards, asset classification and provisioning for bad and doubtful debts as applicable to it during the financial year ending 31st March 2010.
- (iv) The Company is yet to submit the annual statement of capital funds, risk assets/exposures and risk asset ratio (NBS-7), relating to financial year ended on 31st March 2010, which is due for filing on or before 30th June 2010.

BANGALORE
20.05.2010

For, M.S.KAMATH & ASSOCIATES,
(Chartered Accountants)

Sd/-
M.S.KAMATH. F.C.A.
Proprietor
Membership No.022529

BALANCE SHEET AS AT MARCH 31 2010,		Sch	Mar-10	Mar-09
SOURCES OF FUNDS:				
SHAREHOLDERS FUNDS				
Equity Share Capital	1		248,423,210	164,805,790
Reserves & Surplus	2		254,006,576	53,167,533
			502,429,786	217,973,323
LOAN FUNDS				
<i>Less: Managed Loan Obligations</i>	3		3,421,833,212	1,892,426,659
			960,456,380	659,180,531
NET LOAN FUNDS			2,461,376,832	1,233,246,128
DEFERRED TAX LIABILITY			555,170	257,897
TOTAL			2,964,361,788	1,451,477,348
APPLICATION OF FUNDS:				
FIXED ASSETS (At cost less depreciation)	4		23,531,444	15,228,515
INVESTMENTS	5		2,000,000	-
CURRENT ASSETS, LOANS & ADVANCES				
Cash and Bank Balances	6		613,067,996	238,404,645
Microfinance Loans	7		3,273,456,037	1,813,053,408
<i>Less: Managed Portfolio</i>			960,456,380	659,180,531
Net Microfinance Loans			2,312,999,657	1,153,872,877
Interest Accrued on Microfinance Loans			9,386,343	5,182,638
Advances Recoverable and Other Current Assets	8		75,436,838	56,557,279
			3,010,890,834	1,454,017,438
LESS: CURRENT LIABILITIES AND PROVISIONS				
Current Liabilities	9		89,646,048	53,223,502
Provisions	10		10,175,804	4,317,338
			99,821,852	57,540,840
NET CURRENT ASSETS			2,911,068,982	1,396,476,598
MISCELLANEOUS EXPENDITURE (to the extent not written off)	11		27,761,362	39,772,235
TOTAL			2,964,361,788	1,451,477,348
Significant Accounting Policies	19		-	-
Notes On Accounts	20			

As per our report of even date
for, **M. S. KAMATH & ASSOCIATES,**
Chartered Accountants

for, **GRAMEEN FINANCIAL SERVICE (P) Limited**

Sd/-

K. Madhusudan
Chief Financial Officer

Sd/-

(M.S. KAMATH)

Proprietor

Membership No. 022529

Bangalore
May 20, 2010

Sd/-

Chairman
Vinatha M.Reddy

Sd/-

Managing Director
Suresh K Krishna

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED ON 31,		Sch	Mar-10	Mar-09
INCOME				
Income from Operations	12		527,392,466	334,815,866
Income from Term Deposits & Other Investments	13		8,060,591	2,584,710
Other Income	14		2,384,037	718,460
Excess Charge on Valuation written back			-	2,378,359
Total			537,837,094	340,497,396
EXPENDITURE				
Financial Charges On Borrowings & Portfolio Sale	15		226,642,020	168,092,247
Salaries, Allowances and Benefits to Staff	16		120,990,189	74,199,745
Remuneration to Directors	17		3,818,684	3,400,656
Other Operating Expenses	18		116,285,962	78,550,124
Non Cash Charge				
Depreciation			4,469,484	3,032,483
Loan Loss Provision			28,337,764	-
Bad Debts Written Off			17,082,951	-
Loans of Deceased Members Written Off			1,396,718	4,213,611
Total			519,023,773	331,488,866
Profit Before Tax			18,813,321	9,008,529
Provision for Taxation:				
(1) (a) Current Tax			10,174,801	3,079,104
(b) Deferred Tax			297,273	37,021
(2) Earlier Years Tax			(1,115,216)	-
(3) Fringe Benefit Tax			-	1,048,391
Profit After Tax			9,456,463	4,844,013
APPROPRIATIONS:				
Transfer to Statutory Reserve @ 20%			1,891,293	968,803
Preference Dividend			937,505	-
Balance Carried Forward			6,627,665	3,875,210
Weighted Earning Per Share:			0.49	0.46
Significant Accounting Policies	19			
Notes On Accounts	20			

As per our report of even date
for, **M. S. KAMATH & ASSOCIATES,**
Chartered Accountants

for, **GRAMEEN FINANCIAL SERVICE (P) Limited**

Sd/-
K. Madhusudan
Chief Financial Officer

Sd/-
(M.S. KAMATH)
Proprietor
Membership No. 022529

Sd/-
Chairman
Vinatha M.Reddy

Sd/-
Managing Director
Suresh K Krishna

Bangalore
May 20, 2010

SCHEDULES FORMING PART OF BALANCE SHEET:		
1 SHARE CAPITAL:		
Particulars	31-Mar-10	31-Mar-09
Authorized:		
Equity Shares	270,000,000	180,000,000
27,000,000 Equity Shares of Rs 10 each (Previous Year: 18000000 @ Rs. 10/- each)		
Preference shares		
3,000,000 Preference shares of Rs 10 each (Previous Year: 3,000,000 @ Rs.10/-each)	30,000,000	30,000,000
	300,000,000	210,000,000
Issued Subscribed and Paid up:		
Equity Shares		
2,48,42,321 Equity Shares of Rs.10/- each fully paid (Previous Year: 1,64,80,579 Shares @ Rs. 10/- each)	248,423,210	164,805,790
Total	248,423,210	164,805,790
RESERVES AND SURPLUS:	31-Mar-10	31-Mar-09
a. Share Premium	236,186,425	43,866,340
b. Statutory Reserve:		
Opening Balance	1,860,239	891,436
Transfer during the year	1,891,293	968,803
Closing Balance	3,751,532	1,860,239
c. Profit and Loss Account:		
Opening Balance	7,440,954	3,565,744
Addition during the year	6,627,665	3,875,210
Closing Balance	14,068,619	7,440,954
Total	254,006,576	53,167,533

3 LOAN FUNDS							
SL. No.	Name of Bank/Financial Institution	Cumulative Amount Availed As On March 31, 2010	Balance Outstanding as on		Rate of Interest %	Repayme nt Period	Type of Security
			Rupees	31-Mar-10			
Term Loans							
1	The Royal Bank of Scotland N.V. / ABN Amro Bank N.V	350,000,000	135,030,000	202,890,000	12% - 13.25%	36 Months	100 % Hypothecation of Book Debts
2	AXIS Bank Limited	540,000,000	314,190,477	233,888,889	11.5% - 12.25%	30 Months	100 % Hypothecation of Book Debts
3	Corporation Bank	150,000,000	74,999,865	16,666,664	11.75%	12 Months	105 % Hypothecation of Book Debts
4	Karur Vysya Bank Limited (including interest accrued but not due Rs.13,87,157/-)	200,000,000	123,087,158	62,500,000	12.00%	27 Months	105 % Hypothecation of Book Debts
5	Citi Bank N.V.	140,000,000	140,000,000	140,000,000	14.50%	36 Months	100 % Hypothecation of Book Debts
6	Union Bank	50,000,000	29,166,665	44,444,444	11.75%	36 Months	100 % Hypothecation of Book Debts + 10% Margin
7	South Indian Bank Limited	120,000,000	93,537,884	30,000,000	12.00%	24 Months	100 % Hypothecation of Book Debts
8	YES Bank Limited	250,000,000	181,578,947	94,736,842	13.50%	24 Months	110 % Hypothecation of Book Debts
9	Ananya Finance For Inclusive Growth Private Limited / Friends of Women's World Banking	470,000,000	159,444,431	124,999,973	11.5% - 13.5%	18 Months	100 % Hypothecation of Book Debts
10	HDFC Bank Limited	398,400,000	205,591,668	130,866,667	12% - 14%	36 Months	100%-105 % Hypothecation of Book Debts + 5% SBLC+5% Margin
11	HDFC Limited	102,500,000	40,000,000	20,000,000	11.5% - 13%	36 Months	100 % Hypothecation of Book Debts
12	ING VYSYA Bank Limited	300,000,000	221,382,868	132,222,217	11.25% - 12.5%	36 Months	105 % Hypothecation of Book Debts
13	INDIAN Bank (including interest accrued, but not due Rs.34,932)	200,000,000	100,034,932	-	12.00%	14 Months	100 % Hypothecation of Book Debts + 10% Margin
14	Development Credit Bank Limited	50,000,000	29,166,670	-	13.00%	13 Months	100 % Hypothecation of Book Debts
15	ICICI Bank Limited	50,000,000	50,000,000	-	12.00%	24 Months	100 % Hypothecation of Book Debts
16	Oriental Bank of Commerce	50,000,000	47,144,000	-	12.00%	36 Months	105 % Hypothecation of Book Debts + 5% Margin
17	Reliance Capital (including interest accrued, but not due Rs.22,08,334/-)	100,000,000	102,208,334	-	13.25%	18 Months	100 % Hypothecation of Book Debts
18	Small Industrial Development Bank of india (SIDBI)	100,000,000	94,000,000	-	13.00%	48 Months	100 % Hypothecation of Book Debts + 10% Margin
19	Syndicate Bank	100,000,000	100,000,000	-	12.50%	27 Months	110 % Hypothecation of Book Debts
Sub total		3,720,900,000	2,240,563,899	1,233,215,696			
Managed Loan Obligations							
1	ICICI Bank Limited	884,505,593	429,882,785	362,612,815	12.50%	12 Months	Cash Collateral
2	IndusInd Bank Limited	350,000,000	175,861,836	143,821,684	10.00%	12 Months	Cash Collateral
3	Axis Bank Limited	100,000,000	-	87,715,691	12.00%	12 Months	Cash Collateral
4	Development Credit Bank Limited	250,000,000	129,399,815	65,030,341	13.25%	12 Months	Cash Collateral
5	Fullerton India Credit Company Limited	70,000,000	-	-	13.25%	12 Months	Cash Collateral
6	IFMR Capital - Pioneer III (SPV)	264,646,977	225,311,944	-	9.80%	13 Months	Cash Collateral
Sub total		1,919,152,570	960,456,380	659,180,531			
Cash Credit Limits							
1	AXIS Bank Limited	20,070,097	20,070,097	30,432	12.25%	12 Months	100 % Hypothecation of Book Debts
Other Secured Loans							
1	Micro Vest - Non Convertible Debentures	200,000,000	200,000,000	-	12.00%	12 Months	100 % Hypothecation of Book Debts
2	HDFC Bank Ltd (Car Loans)	814,000	742,836	-	9.00%	36 Months	Hypothecation of Vehicle
Sub total		200,814,000	200,742,836	-			
Total		5,860,936,667	3,421,833,212	1,892,426,659			

4 FIXED ASSETS:										
Assets	GROSS BLOCK				DEPRECIATION				NET BLOCK	
	As on 01.04.09	Additions During the Year	Deletions During the Year	As on 31.03.10	As on 01.04.09	Additions During the Year	Deletions During the Year	As on 31.03.10	As on 31.03.10	As on 31.03.09
Furniture and Fixture	2,161,826	3,784,852	-	5,946,678	1,239,940	2,009,964	-	3,249,904	2,696,774	921,886
Vehicles	8,359,622	987,760	86,979	9,260,403	817,317	740,031	56,278	1,501,069	7,759,334	7,542,304
Office Equipment	2,098,216	1,821,349	-	3,919,565	195,787	267,993	-	463,780	3,455,785	1,902,432
Electrical Equipment	1,932,196	2,261,355	-	4,193,551	203,446	461,201	-	664,647	3,528,904	1,728,750
Buildings	772,800	-	-	772,800	1,553	12,424	-	13,977	758,823	771,247
Computers & Printers	3,193,303	3,947,798	-	7,141,101	831,406	977,872	-	1,809,277	5,331,824	2,361,895
Total	18,517,963	12,803,114	86,979	31,234,098	3,289,448	4,469,484	56,278	7,702,654	23,531,443.51	15,228,515
As on 31.03.2009	-	9,812,748	-	18,517,963	-	3,032,483	-	3,289,448	15,228,515	8,618,104

5 INVESTMENTS:					
Alpha Microfinance Consultants Private Limited (200,000 shares of Rs. 10/- each. Previous Year - Nil)		2,000,000			
Total		2,000,000			
6 CASH AND BANK BALANCES:		31-Mar-10	31-Mar-09		
Cash on hand		148,298,311	42,229,746		
Balances with Scheduled Banks:					
i. Current Accounts:					
At Branches		103,550,091	26,049,309		
At Head Office		165,377,202	100,965,486		
ii. Term Deposits					
Incumbered		155,842,393	69,160,104		
Short Term, Surplus Funds Investment in Liquid Funds		40,000,000	-		
Total		613,067,996	238,404,645		
7 MICRO FINANCE LOANS :		31-Mar-10		31-Mar-09	
Particulars	31-Mar-10		31-Mar-09		
	No of A/cs	Loan Outstanding	No of A/cs	Loan Outstanding	
Animal Husbandary	106,483	855,203,478	54,817	380,775,025	
Trading	155,965	1,306,814,174	111,719	792,472,437	
Production	37,474	300,414,022	29,490	200,273,637	
Transportation	29,422	261,045,908	23,054	170,403,338	
Agriculture	13,956	119,773,299	8,097	60,380,783	
Others	45,224	393,486,458	18,282	144,320,947	
Emergency Loan	142,773	81,078,253	113,227	64,427,241	
Total	531,297	3,317,815,592	358,686	1,813,053,408	
Less: Provision for Loan Loss	9,081	28,337,764	-	-	
Less: Loans Written Off	3,574	16,021,791	-	-	
Total	518,642	3,273,456,037	358,686	1,813,053,408	
8 ADVANCES RECOVERABLE AND OTHER CURRENT ASSETS:		31-Mar-10	31.03.09		
<i>(Unsecured - Considered Good)</i>					
Advances and other amounts recoverable in cash or kind or value to be received					
Group-A					
Staff Loans & Advances		10,509,409	6,122,926		
Interest Receivable on Term Deposits and Other Investments		1,723,243	1,107,545		
Advance Against Purchases & Other Advances		17,929,652	24,921,814		
Sundry Deposits (Rent, Telephone, Electricity & Others)		12,628,681	7,676,581		
Security Deposit - Managed Portfolio		-	5,022,227		
Loan to T. Muniswamappa Trust		2,145,079	3,000,000		
Interest Accrued on Loan to T.Muniswamappa Trust		-	4,932		
Cash Point Credit Line		10,000	50,000		
Unexpired Broken Interest (Managed Loan Obligations)		1,832,365	642,061		
GK Digital Cash		-	259,784		
Prepaid Expenses		17,553,700	2,359,819		
Insurance Claim Receivable		2,665,159	117,219		
Group-B					
Advance Tax		5,300,000	3,741,875		
TDS Recoverable		645,804	235,023		
Tax Refund Due		2,263,286	-		
Advance Tax - FBT		-	1,239,851		
CENVAT Credit		230,460	55,622		
Total		75,436,838	56,557,279		
9 CURRENT LIABILITIES:		31-Mar-10	31.03.09		
Statutory Dues:					
Professional Tax Payable		-	640		
TDS Payable		1,308,202	4,907,719		
Staff Dues:					
Bonus Payable		5,565,268	3,575,980		
Gratuity Payable		-	251,646		
Other Dues		1,538,029	1,202,796		
GK Digital Cash Payable		-	300,000		
Amounts Payable Under Portfolio Sale		60,176,471	40,187,290		
Insurance and Other Amounts Payable		19,948,640	1,041,574		
Provision for Expenses		344,438	1,127,957		
Audit Fee Payable		765,000	627,900		
Total		89,646,048	53,223,502		
10 PROVISIONS:		31-Mar-10	31.03.09		
Provision for Taxation (Income Tax)		10,175,804	3,080,107		
Provision for Taxation (Fringe Benefit)		-	1,237,231		
Total		10,175,804	4,317,338		
11 MISCELLANEOUS EXPENDITURE (to the extent not written off):		31-Mar-10	31.03.09		
Software Development		2,194,464	3,291,696		
Cost of acquisition of Intellectual property right account		16,000,000	24,000,000		
Sweat Equity to Chairman and Managing Director to be written Off		7,000,000	10,500,000		
Other Expenses (Capital Issue related)		2,566,898	1,980,539		
Total		27,761,362	39,772,235		

SCHEDULES FORMING PART OF PROFIT AND LOSS		
12 INCOME FROM OPERATIONS:	31-Mar-10	31.03.09
Interest on Microfinance Loans	330,724,078	240,031,441
Income from Sale of Portfolio	58,854,189	13,544,459
Loan Processing Fee	125,323,365	80,973,482
Fines and Penalties	338,875	266,484
Insurance Administration Charges	12,151,960	-
Total	527,392,466	334,815,866
13 INCOME FROM TERM DEPOSITS/ OTHER INVESTMENTS	31-Mar-10	31.03.09
Interest on Term Deposits and Other Investments	8,060,591	2,584,710
Total	8,060,591	2,584,710
14 OTHER INCOME:	31-Mar-10	31.03.09
Interest on Staff Loans	873,981	306,576
Interest on Other Loans	388,099	4,932
Cattle Tagging Charges	17,489	16,004
Excess Provisions Written Back	893,029	-
Fee Income - Dialogue on Business	33,750	-
Income on Sale of Asset	2,014	-
Interest on Advances (WA/TA)	889	95
Rent Recovered from Staff	97,008	89,401
Facilitation Charges (telephone connectivity services)	-	120,200
Miscellaneous income	77,777	181,252
Total	2,384,037	718,460
15 FINANCIAL CHARGES ON BORROWINGS AND PORTFOLIO SALE:	31-Mar-10	31.03.09
Interest On Term Loans and Non-Convertible Debentures	182,771,850	139,924,809
Loan Processing fee	3,903,633	1,287,085
Broken Period Interest on Portfolio Sale	2,506,799	2,042,438
Discount Charges on Portfolio Sale and Securitization	37,459,738	11,005,279
Interest on Borrowings from T. Muniswamappa Trust	-	13,832,636
Total	226,642,020	168,092,247
16 SALARIES, ALLOWANCES AND BENEFIT TO STAFF:	31-Mar-10	31.03.09
Salaries, Incentives and Trainees' Stipend Expenses	102,993,228	62,779,820
Annual Performance Bonus	5,635,240	3,616,381
Employer Contribution - SSY Insurance	-	86,282
Employer Contribution - Provident Fund	4,884,842	3,369,498
Employer Contribution - ESI	3,327,964	2,221,143
Employer Contribution - Labour Welfare Fund	17,292	-
Employer Contribution - SAF	391,777	298,236
PF Administrative Charges	663,709	436,288
Health Insurance - Staff	249,910	526,756
Leave Encashment Allowance	112,790	121,903
Leave Travel Allowance	1,606,625	491,792
Gratuity	1,106,812	251,646
Total	120,990,189	74,199,745
17 REMUNERATION TO DIRECTORS:	31-Mar-10	31.03.09
Managing Director:		
Salary	2,117,928	1,925,400
Contribution to Provident Fund	160,500	144,000
Contribution to Superannuation Fund	13,380	12,000
PF Administrative Charges	25,416	19,320
Sitting Fees	20,000	-
Total (a)	2,337,224	2,100,720
Other Directors:		
Salary	1,319,952	1,200,000
Contribution to Provident Fund	92,364	82,080
Contribution to Superannuation Fund	7,692	6,840
PF Administrative Charges	1,452	11,016
Sitting Fees	60,000	-
Total (b)	1,481,460	1,299,936
Total (a+b)	3,818,684	3,400,656
18 OTHER OPERATING EXPENSES:	31-Mar-10	31.03.09
Travelling and Conveyance:		
- Directors	394,747	316,145
- Staff, Advisors and Others	27,388,275	14,698,642
Training Expenses	4,241,050	655,912
Professional & Consultancy charges	7,937,760	5,667,575
Rates & Taxes	296,846	402,630
Postage & Telecommunication	4,982,923	3,630,050
Office Building Rent	12,928,815	6,990,301
Office & Guest House Maintenance	6,633,165	3,496,115
Staff Welfare Expenses	522,121	330,278
Repairs & Maintenance	2,428,309	2,179,580
Insurance - Company Assets	553,315	640,231
Insurance & Death Relief Expenses - Borrowers	3,608,221	54,521
Auditors Remuneration and Expenses	1,031,896	794,227
Printing & Stationery	7,582,934	4,669,479
Board Meeting Expenses	264,257	135,830
Credit Rating Expenses	72,061	225,000
Memberships & Subscriptions	553,495	218,012
Other Administrative Expenses	34,865,773	33,445,597
Total	116,285,962	78,550,124

SCHEDULES FORMING PART OF BALANCE SHEET AND PROFIT AND LOSS

SIGNIFICANT ACCOUNTING POLICIES:

i	Basis of Preparation of Financial Statements	The financial statements are prepared under historical cost convention, on accrual basis of accounting and in accordance with the provisions of Companies Act, 1956 and the Accounting Standards issued by the Institute of Chartered Accountants of India (ICAI) to the extent applicable, except otherwise stated and stipulated in the directions issued by Reserve Bank of India (RBI) for Non Banking Financial (Non – Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2007 from time to time.																					
ii	Revenue Recognition:																						
	a	Interest on loans is recognized on accrual basis, calculated on weekly reducing balance method on the loans disbursed and outstanding.																					
	b	Income on non performing assets is recognized on realization basis.																					
iii	Fixed Assets:																						
	a	These are stated at cost.																					
	b	Depreciation is provided on the straight-line method at the following rates as prescribed under the Companies Act, 1956:																					
		<table border="1"> <thead> <tr> <th>Category of Asset</th> <th>Rate of Depreciation</th> </tr> </thead> <tbody> <tr> <td>Furniture and Fixtures</td> <td>6.33%</td> </tr> <tr> <td>Office Equipments (including Electrical Equipments)</td> <td>4.75%</td> </tr> <tr> <td>Vehicles</td> <td>9.50%</td> </tr> <tr> <td>Buildings</td> <td>1.63%</td> </tr> <tr> <td>Computers</td> <td>16.21%</td> </tr> </tbody> </table>	Category of Asset	Rate of Depreciation	Furniture and Fixtures	6.33%	Office Equipments (including Electrical Equipments)	4.75%	Vehicles	9.50%	Buildings	1.63%	Computers	16.21%									
Category of Asset	Rate of Depreciation																						
Furniture and Fixtures	6.33%																						
Office Equipments (including Electrical Equipments)	4.75%																						
Vehicles	9.50%																						
Buildings	1.63%																						
Computers	16.21%																						
	c	In respect of additions the depreciation is provided prorata from the date the assets are put into use.																					
	d	Depreciation on Assets, whose actual cost does not exceed Rs.5000/-, is provided at the rate of 100%.																					
iv	Investments:																						
	a	Classification of Investments: Current (less than 12 months at time of investing) and any investment beyond this period is classified as long term.																					
	b	Valuation of Investments:																					
		<table border="1"> <thead> <tr> <th>Type of investments</th> <th>Method of valuation</th> </tr> </thead> <tbody> <tr> <td>Quoted Investments</td> <td>At cost or market value which is lower</td> </tr> <tr> <td>Unquoted investments</td> <td>At cost or break up value which ever is lower</td> </tr> <tr> <td>Mutual fund investments</td> <td>Net Asset Value declared by the Fund</td> </tr> <tr> <td>Unquoted Government securities or Government guaranteed bonds and commercial papers</td> <td>At carrying cost</td> </tr> </tbody> </table>	Type of investments	Method of valuation	Quoted Investments	At cost or market value which is lower	Unquoted investments	At cost or break up value which ever is lower	Mutual fund investments	Net Asset Value declared by the Fund	Unquoted Government securities or Government guaranteed bonds and commercial papers	At carrying cost											
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v	Loans and Advances:																						
		Loans and advances are classified as standard assets, sub-standard assets, doubtful assets and loss assets in terms of the Non Banking Financial (Non Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions 2007.																					
		<table border="1"> <thead> <tr> <th>Classification of Assets</th> <th>Criteria for Classification</th> <th>Provisioning required as per Directions</th> </tr> </thead> <tbody> <tr> <td>Standard Assets</td> <td>The assets in respect of which, no default in repayment of principal or payment of interest is perceived and which does not disclose any problem nor carry more than normal risk attached to the business</td> <td>Nil</td> </tr> <tr> <td>Sub Standard Assets</td> <td>An asset which has been classified as a non-performing asset (NPA) for a period not exceeding 18 months</td> <td>10% of the loan outstanding</td> </tr> <tr> <td rowspan="4">Doubtful Debts</td> <td>An asset which remains a sub-standard asset for a period exceeding 18 months</td> <td>100% of unsecured portion of the loan outstanding and an increasing % over a period of three years on secured portion as follows:</td> </tr> <tr> <td>Upto 1 Year</td> <td>20%</td> </tr> <tr> <td>1 to 3 Years</td> <td>30%</td> </tr> <tr> <td>Over 3 Years</td> <td>50%</td> </tr> <tr> <td>Loss Assets</td> <td>(a) An asset which has been identified as loss asset by the non-banking financial company or its internal or external auditor or the Reserve Bank of India during the inspection of the non-banking financial company, to the extent it is not written off by the non-banking financial company; (b) an asset which is adversely affected by a potential threat of non-recoverability due to either erosion in the value of security or non-availability of security or due to any fraudulent act or omission on the part of the borrower.</td> <td>To be written off or provided at 100%</td> </tr> </tbody> </table>	Classification of Assets	Criteria for Classification	Provisioning required as per Directions	Standard Assets	The assets in respect of which, no default in repayment of principal or payment of interest is perceived and which does not disclose any problem nor carry more than normal risk attached to the business	Nil	Sub Standard Assets	An asset which has been classified as a non-performing asset (NPA) for a period not exceeding 18 months	10% of the loan outstanding	Doubtful Debts	An asset which remains a sub-standard asset for a period exceeding 18 months	100% of unsecured portion of the loan outstanding and an increasing % over a period of three years on secured portion as follows:	Upto 1 Year	20%	1 to 3 Years	30%	Over 3 Years	50%	Loss Assets	(a) An asset which has been identified as loss asset by the non-banking financial company or its internal or external auditor or the Reserve Bank of India during the inspection of the non-banking financial company, to the extent it is not written off by the non-banking financial company; (b) an asset which is adversely affected by a potential threat of non-recoverability due to either erosion in the value of security or non-availability of security or due to any fraudulent act or omission on the part of the borrower.	To be written off or provided at 100%
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vi	Loan Loss Provisioning Policy:																						
		Loan Loss Provision is made on the basis of age of the portfolio at risk (PAR) as given below:																					
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vii	Write-Off Policy:																						
	i	As approved at the Board of Directors Meeting on 6th March, 2010, all overdue loans more than 365 days will be written off;																					
	ii	During the period from February '09 to July '09, certain extraordinary events have resulted in default due to which, loans could not be regularized. The Board and the Management have decided to ring fence this portfolio and write off overdue loans which are more than 180 days and there was no recovery since the first default date. This decision is only with regard to portfolio at Kolar, Mysore (1, 2 and 3), Tumkur (1), Channapatna (town), Hampinagar, Ramnagara, Chamrajpet (Individual Lending) and Gubbi which are ring fenced. However, all efforts will be made to recover and regularize this portfolio.																					
viii	Employee Benefits:																						
	a	Provident Fund: Contribution is accounted on actual liability basis and paid to the government managed Employees' Provident Fund Organization.																					
	b	Employee State Insurance Scheme: Contribution is accounted on actual liability basis and paid to the government managed Employees' State Insurance Corporation.																					
	c	Gratuity is computed and provided in accounts as per the Scheme framed under the Payment of Gratuity Act, 1972.																					
ix	Accounting for Taxes on Income:																						
		Taxes on income have been accounted in accordance with Accounting Standards-22 of the ICAI. Deferred tax liability and asset are recognized subject to consideration of prudence and timing difference.																					
x	Foreign Exchange Transactions:																						
		Foreign currency current assets and current liabilities outstanding at the Balance Sheet date are translated at the exchange rates prevailing on that date and the net gain or loss is recognized in the Income and Expenditure Account. All other currency gains and losses are recognized in the Income and Expenditure Account.																					
xi	Intangible Assets:																						
		The amount related to allotment of sweat equity and the acquisition of copyrights, technical know-how, software, intellectual proprietary rights in the field of Micro finance and Livelihood Promotion, and expenditure incurred in connection with fresh capital infusion has been accounted for as intangible assets valued at the cost of acquisition of these assets and are amortized over a period of 5 years in equal installments, based on expected future economic benefits accruing to the Company from the year of acquisition.																					
xii	Accounting for transactions relating to Portfolio Sale:																						
		Micro finance Loans outstanding, interest earned on loans, finance costs relating to receivables sold under portfolio sale to banks and financial institutions and loans under securitization are shown separately as Managed Portfolio. The difference between the net present value of future receivables (at the agreed discount rate) and the total value of future receivables is shown as unexpired discount. Proportionate discounting charges at the end of each accounting period are credited to the unexpired discount account. The discount charges are charged off to be profit and loss account. The interest earned on the receivables under portfolio is shown separately as income from Managed Portfolio. The book value of Managed Portfolio is netted off from the gross portfolio. Income earned and discount charged are on accrual basis.																					

NOTES ON ACCOUNTS:

- i The Company is engaged in micro finance activities (Loan to each Borrower is less than Rs. 50,000).
- ii The operations of the Company are in the States of Karnataka, Maharashtra and Tamilnadu.
- iii In the case of group lending, all loans are collateral free and provided to Women JLGs in rural, semi-urban and urban areas and in the case of individual lending, loans are given to individuals (men and women), generally in urban area.
- iv
- v All Borrowings are Rupee denominated and carry no exchange risk. No payment is overdue as on March 31, 2010.
- vi
- vii Depreciation has been provided on straight line method at the rates stated in Policies.
- viii
- ix Provisioning: As per the requirements of Prudential Norms of the RBI, company is required to make a Provision of Rs. 46,24,408 as shown below. However, as a prudent measure and as per company's internal Loan Loss Provisioning Policy, company has made a Provision of Rs.2,83,37,764/- (P.Y. - Nil).
- x Write Off: During the Financial Year, company has experienced recovery problems in certain parts of Karnataka and could not recover some loans on time. Company has identified certain accounts as irrecoverable in spite of its best efforts and accordingly written off 3,574 accounts of the value of Rs.1,60,21,791 (Principal) and Rs.10,61,160/- (Interest).

Asset Classification	Loan Outstanding						Provision		
	As on 31.03.10			As on 31.03.09			Up to 31.03.09	During the Year	Up to 31.03.10
	A/cs	Amount	%	A/cs	Amount	%	Amount	Amount	Amount
Standard	510,299	3,255,549,716	99%	358,686	1,813,053,408	100.0%	-	-	-
Sub-Standard	8,343	46,244,084	1%	-	-	0.0%	-	4,624,408	4,624,408
Doubtful	-	-	0%	-	-	0.0%	-	-	-
Loss Asset	-	-	0%	-	-	0.0%	-	-	-
Sub-Total	518,642	3,301,793,800	100%	358,686	1,813,053,408	100%	-	4,624,408	4,624,408

Loan Loss Provisioning Made & Loans Written Off as per Company's Internal Policy

Portfolio At Risk (PAR)		Provision Made		Written Off			
Age	No. of Accounts	%	Amount (Rs.)	No. of Accounts	Principal (Rs.)	Interest (Rs.)	Total (Rs.)
1-30 days	102	1	2,792	-	-	-	-
31-60 Days	66	5	8,052	-	-	-	-
61-90 Days	81	15	32,469	-	-	-	-
90-180 Days	489	30	548,000	-	-	-	-
181-365 days	8,343	60	27,746,451	3,228	13,400,491	868,789	14,269,280
>365 days	-	100	-	346	2,821,300	19,2371	2,813,671
Total	9,081		28,337,764	3,574	16,021,791	1,061,160	17,082,951

PAR Rs.48,727,416 net of write off of Rs.16,021,791 as shown above.

x Analysis of Portfolio At Risk:

Age	31-Mar-10		31.03.09	
	%	Amount	%	Amount
Current	98.52%	3,253,066,385	99.68%	1,807,288,786
PAR < 30	0.01%	279,158	0.20%	3,602,239
PAR 31-60	0.00%	161,048	0.11%	1,945,390
PAR 61-90	0.01%	216,458	0.00%	75,134
PAR 91-180	0.06%	1,826,668	0.01%	141,859
PAR 181-365	1.40%	46,244,085	0.00%	-
PAR > 365	0.00%	-	0.00%	-
Total PAR	1.48%	48,727,417	0.32%	5,764,622
Total Portfolio (net of write off)	100%	3,301,793,802	100.00%	1,813,053,408

xi

Particulars	31-Mar-10	31.03.09
1st quarter	97.40%	100.00%
2nd quarter	97.47%	100.00%
3rd quarter	98.81%	99.98%
4th quarter	99.87%	99.87%

(Recovery - Prepayment)
OTRR = ----- X 100
Demand = Due (amount due as per repayment schedule) + Over Due Amount

xii

Particulars	31.03.10	31.03.09
Audit Fees	850,000	700,000
Certification Fee	79,100	40,219
Auditors Traveling & Other Expenses	52,796	19,008
Tax Audit Fee	50,000	35,000
Total	1,031,896	794,227

xiii Deferred Tax Liability: As per the Accounting Standard (AS 22) issued by the ICAI, Deferred Tax Liability has been calculated on timing differences between Accounting Income and Taxable Income (loss) as follows:

Particulars	Amount (Rs.)
Calculation of Deferred Tax:	
Depreciation as per Books	4,469,484
Less: Depreciation as per Income Tax	5,344,074
Difference is recognised as (timing difference) under Deferred Tax Liability	(874,590)
Deferred Tax Liability @ 33.99% thereon	(297,273)

xiv Related Party Transactions:

As per the Accounting Standard on "Related Party Disclosures" (AS-18) issued by the ICAI, the details are given here under:

T. Muniswamappa Trust' ('TMT')

Particulars	Amount (Rs.)
Payments:	
Loan	2,145,079
Short Term Advance	1,000,000
Managing Trustee & Chief Operating Officer of 'TMT'	
Particulars	Amount (Rs.)
Payments:	
Rent Payment to Chairman (net of TDS Rs. 41,232/-)	282,768

xv

Capital to Risk Assets Ratio (CRAR): The CRAR is arrived at as per the method prescribed by Reserve Bank of India. Accordingly, the CRAR as at 31st March 2010, works out to 18.54%

xvi

Company has no exposure to real estate sector, both direct and indirect.

xvii

Maturity Pattern of Assets and Liabilities: The maturity pattern of assets and liabilities as at 31st March 2010 is attached hereto.

xviii Others:

- No amount is due to any small-scale industrial undertaking by the Company.
- ii Earnings and Outgo in Foreign Currency: NIL
- Balance sheet abstract and Company's general business profile, pursuant to Part IV to Schedule VI is separately attached
- Additional information pursuant to paragraph 4-C and 4-D of Part B to Schedule VI of the Companies Act, 1956 - None other than stated above.
- v All loans are rupee denominated and no currency mismatches are expected out of any transaction
- Previous Year figures have been regrouped and rearranged wherever necessary.

As per our report of even date
for **M. S. KAMATH & ASSOCIATES,**
Chartered Accountants

for **GRAMEEN FINANCIAL SERVICE (P) Limited**

Sd/-
K. Madhusudan
Chief Financial Officer

Sd/-
(M.S. KAMATH)
Proprietor
Bangalore
May 20, 2010
Membership No. 022529

Sd/-
Chairman
Vinatha M.Reddy

Sd/-
Managing Director
Suresh K Krishna

CASH FLOW STATEMENT FOR THE YEAR ENDED ON MARCH 31**2010****2009****A. CASH FLOWS FROM OPERATING ACTIVITIES:**

Net Profit/(Loss) before Tax	18,813,321	9,008,529
Add/(Less): Non Cash Expenditure/(Income):		
Provision on Loan Losses written back	-	(2,378,359)
Provision for Loan losses	-	
Depreciation	4,469,484	3,032,483
Loss on Sale of Asset + Sale Proceeds	32,715	17,404
Profit on sale of Asset	(2,014)	
Miscellaneous Expenditure written off	13,314,838	13,217,958
<i>Operating Profit before Working Capital Changes:</i>	36,628,345	22,898,015
Adjustments for:		
(Increase) / Decrease in Other Current Assets(Other than loan disbursed under Microfinance programme and tax payments)	(15,712,381)	(41,232,413)
Loan Disbursed to Women under Microfinance Programme (Net of Recovery)	(1,464,606,334)	(986,591,554)
(Decrease)/ Increase in Current Liabilities (other than Business Acquired)	36,422,546	(84,636,423)
Other Deferred Revenue Expenditure	(1,303,966)	(591,808)
Income Tax & Fringe benefit tax paid	(6,368,298)	(11,546,866)
Net Cash Flow from Operating Activities	1,451,568,432	(1,124,599,064)
B. CASH FLOWS FROM INVESTING ACTIVITIES:		
Fixed Assets Acquired (net of fixed assets sold)	(12,803,114)	(9,660,299)
Investments	(2,000,000)	-
Net Cash Flow from Investing Activities	(14,803,114)	(9,660,299)
C. CASH FLOWS FROM FINANCING ACTIVITIES:		
Secured Loan Availed	1,529,406,553	1,123,976,435
Increase/(Decrease) in Share Capital (inc. Premium)	275,000,000	45,000,000
Net Cash Flow from Financing Activities	1,804,406,553	1,168,976,435
Net Increase or Decrease in Cash or Cash Equivalents (A+B+C)	374,663,352	57,615,086
Add: Opening Cash and Cash Equivalents	238,404,645	180,789,558
Closing Cash and Cash Equivalents at the end of the year	613,067,996	238,404,645
Net increase /(Decrease)	374,663,352	57,615,086

As per our report of even date
for **M. S. KAMATH & ASSOCIATES,**
Chartered Accountants

for **GRAMEEN FINANCIAL SERVICE (P) Limited**

Sd/-
K. Madhusudan
Chief Financial Officer

Bangalore
May 20, 2010

Sd/-
(M.S. KAMATH)
Proprietor
Membership No. 022529

Sd/-
Chairman
Vinatha M.Reddy

Sd/-
Managing Director
Suresh K Krishna

Annexure to Notes Forming Part of Balance Sheet and Profit and Loss

The Information Relating to the Balance Sheet abstract and the Company's General Business Profile.
As per Part IV of Schedule VI to the Companies Act, 1956 as under:

I. Registration Details

Registration No.					0	5	2	0	3	0	State Code			2	1
Balance Sheet Date	3	1		0	3		2	0	1	0					

II. Capital Raised During the Period (Amount in Rs. Thousands)

Public Issue	0	Right Issue	0
Bonus Issue	0	Private Placement	83,617

III. Position of Mobilization and deployment of Funds (Amount in Rs. Thousands)

Total Liabilities	2,964,362	Total Assets	2,964,362
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Sources of Funds

Paid up Capital	248,423	Reserves and Surplus	254,007
Secured Loans	2,461,377	Unsecured Loans	0
Deferred Taxation	555		

Application of Funds

Net Fixed Assets	23,531	Investments	2000
Net Current Assets	2,911,069	Miscellaneous Expenditure	27,762
Accumulated Losses	-		

IV. Performance of Company (Amount in Rs. Thousands)

Total Receipts	537,837	Total Expenditure	519,024
Profit/Loss before Tax	18,813	Profit/Loss after Tax	9,456
Earning Per Share Rs.	0.49	Dividend	-

VI. Generic Name of Three Principal Products/Services of the Company.

Item Code No. (ITC Code):	N . A .
Product Description	FINANCIAL SERVICES

As per our report of even date
for, **M. S. KAMATH & ASSOCIATES,**
Chartered Accountants

for, **GRAMEEN FINANCIAL SERVICE (P) Limited**

Sd/-
K. Madhusudan
Chief Financial Officer

Bangalore
May 20, 2010

Sd/-
(M.S. KAMATH)
Proprietor
Membership No. 022529

Sd/-
Chairman
Vinatha M.Reddy

Sd/-
Managing Director
Suresh K Krishna

(Vi) Borrower group-wise classification of all leased assets, stock-on-hire and loans and advances:				
		(Rs. In 000s)		
Category		Amount net of provisions		
		Secured	Unsecured	Total
1	Related Parties**	-	-	-
a	Subsidiaries	-	-	-
b	Companies in the same group	-	-	-
c	Other related parties	-	3,145	3,145
2	Other than related parties		2,394,678	2,394,678
	Total	-	2,397,823	2,397,823
(Vii) Investor group-wise classification of all investments (current and long term) in shares and securities (both quoted and unquoted)				
Category		Market Value Break up or fair value or NAV	Book Value (Net of provisions)	
1	Related parties **	-	-	
a	Subsidiaries	-	-	
b	Companies in the same group	-	-	
c	Other related parties	-	-	
2	Other than related parties	-	2,000	
	Total			
** As per Accounting Standard				
(VII) Other Information				
Particulars				Amount
(i)	Gross Non-Performing Assets *			-
a	Related Parties			-
b	Other than related parties			46,244
(ii)	Net Non-Performing Assets			-
a	Related Parties			-
b	Other than related parties			41,620
(iii)	Assets acquired in satisfaction of debt (during the year)			-
* as per prudential norms				
As per our report of even date for, M. S. KAMATH & ASSOCIATES, Chartered Accountants		for, GRAMEEN FINANCIAL SERVICE (P) Limited		
Sd/- (M.S. KAMATH) Proprietor Membership No. 022529		Sd/- K. Madhusudan Chief Financial Officer		
Bangalore May 20, 2010	Sd/- Chairman Vinatha M.Reddy		Sd/- Managing Director Suresh K Krishna	

Grameen Financial Services Pvt. Ltd.

Board of Directors

Vinatha M. Reddy	Executive Chairman
Suresh K. Krishna	Managing Director
Daksha Niranjana Shah	Independent Director
Sriram Iyer	Independent Director
Pradeep Pathiyamveetil	Nominee Director
Paolo Brichetti	Nominee Director
Kris Van Look	Nominee Director
Christian Banno	Alternate Director to Paolo Brichetti

Auditors

M. S. Kamath & Associates

www.gfspl.in

Grameen Financial Services Pvt. Ltd

Grameen Financial Services
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Anjanapura Post Bangalore-560 062, India
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Email: info@gfspl.in