ANNUAL REPORT
2015-2016

NABARD FINANCIAL SERVICES LIMITED
(Subsidiary of National Bank for Agriculture and Rural Development)

#3072, 14th Cross, K R Road, Banashankari 2nd Stage, Bengaluru - 560 070, Karnataka, India
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CIN: U85110KA1997PLC021862 I Email: ho@nabfins.org I www.nabfins.org

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ABOUT US

" To argue that banking cannot be done with the poor because they do not have collateral is the same as arguing that men cannot fly because they do not have wings "

- Muhammad Yunus, Nobel Laureate and Founder of Grameen Bank

NABFINS approach to the business of microfinance is defined by the theme "balancing business with inclusion'. It adopts a unique business model which leverages the 'social collateral' provided by the Self Help Groups (SHGs) and the relationship between these groups and the Self Help Promoting Institutions. This is a significant departure from the business model being adopted by other MFIs. It not only enables NABFINS to optimise its cost of operations but it primarily contributes to the institutional capacity building of the groups its supports and its members. It is in this context "NABFINS" positions itself as a 'MFI with a difference'. The difference emerges not only in its approach to the business of credit delivery but also through its effort to make a profit and not to profiteer.

The operations of the company which commenced in 2010 by disbursing credit of Rs.20 crore to 400 groups in 10 districts in 2 states in 2010-11 to disbursement of Rs.900 crore to more than 22000 groups across 85 districts in 8 States of India has been a journey of empowerment and growth. This journey of ours was made true through our 300 + strong committed field force and 300 business and development correspondents and facilitators with the able support of our promoters, especially NABARD.

True to the vision of the company ''To be a trusted, client centric financial institution advancing hassle free services to low income households & the unorganised sector" our focus continues to be rural with the more than 90% of our client are from rural hinterlands.

The philosophy behind the pricing of the products is to make the credit available at affordable prices to the clients and with a view to ensuring operational sustainability of the company. Keeping the interest of the clients at heart, the margin realised by the company is kept at the minimum and much below the 10%, which is permitted by RBI. Accordingly, our loans are priced at the range between 15% p.a to 16.90% p.a which is way below the pricing by our counterparts in the industry.

The company was chosen as a partner to implement the "Post Tsunami Sustainable Livelihood Project" being implemented by Government of Tamil Nadu and International Fund for Agriculture and Rural Development. Patient Capital Assistance of Rs. 5 crore, which would convert into 'equity in perpetuity' at the end of the project period, has been granted to the Company. Around 1000 micro enterprises with an outlay of more than Rs.25 crore has been financed by the company during the past three years. As a mark of appreciation for the smooth implementation of the project, the company was chosen to be the partner when the project area was extended to 6 more districts of Tamil Nadu with a patient capital assistance of Rs.3.42 crore.

NABFINS was also chosen as a partner to extend ''skill loans'' to unemployed youth especially from the left wing extremism affected states in India in a 100% placement assured skill training programme conducted by PANIIT Alumni Reach for India (PARFI) with the support of NABARD. As on date, more than 300 youth have been beneficiaries of such ''skill loans'' and are earning regular income on placement.

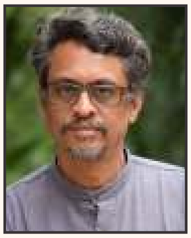
In addition to the above, the company has been supporting value chain interventions undertaken by various peoples' institutions in the form of NGOs, Cooperatives, Producer Companies and other forms of producer collectives. As at the end of March 2016, loans to the tune of Rs. 14 crore has been invested in such interventions towards strengthening more than 50 such institutions.

On the way forward, in pursuit of our vision, we plan to expand our footprint across the length and breadth of India to reach every needy poor household in need of credit to sustain their livelihoods through a robust technological infrastructure.

BOARD OF DIRECTORS
(AS ON JULY 19, 2016)

Shri J K Mohapatra
Additional Director & Chairman

Shri Aloysius P Fernandez
Director



Prof. M S Sriram
Independent Director

Dr. Venugopalan Puhazhendhi
Independent Director

Smt. Meera Saksena
Independent Director

Shri S S Bhat
Nominee Director-Canara Bank

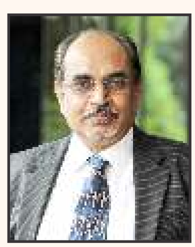
Shri G R Chintala
Nominee Director-NABARD

Shri Subrata Gupta
Nominee Director-NABARD

Shri M I Ganagi
Nominee Director-NABARD

Shri Subhash Chandra IAS
Nominee Director-
Govt. of Karnataka

Shri Chandrasekhar K
Nominee Director-
Union Bank of India



Dr. B S Suran
Managing Director

MESSAGE FROM CHAIRMAN

This is my last message as Chairperson of NABFINS having handed over to Shri J.K. Mohapatra (IAS Rtd) on 1st April 2016 after five and a half years. For me these five years have been challenging as well as a fulfilling. I had the privilege of working with four MDs deputed from NABARD and learnt from all of them. Shri C.P. Mohan was MD for the first three years, Shri Y.K. Rao and Shri V. Maruti Ram for about one year each; I worked with Shri B.S. Suran during the first year of his tenure. I was appointed while Shri Prakash Bakshi was the Chairman of NABARD. Dr Harsh Kumar Bhanwala succeeded him. The unqualified support of both Chairmen enabled NABFINS loan portfolio to reach Rs 620 crs during FY -2013-14; Rs. 815 crs during FY 2014-15 and Rs 878 crs during 2015-16. With a margin of 7% from which commission was paid to about 200 Business and Development Correspondents(B&DCs), NABFINS made a profit (after tax)of ₹8.45 crs in FY 13-14, ₹ 14.08 cr in FY14-15 and ₹ 8.6 crs in FY 15-16. As a Chairman of NABFINS, I must recall with gratitude the synergy between the first MD Shri C.P. Mohan and myself; together over a period of three years we were able to lay a good foundation. I am grateful to the Board Members who kept abreast of all developments and provided timely advice, particularly Shri SS Bhatt of Canara Bank, the three Independent Directors namely Prof M.S. Sriram, Dr. V. Puhazhendhi and Mrs Meera Saxena (IAS Rtd), as well to the several NABARD officers from Mumbai and Bengaluru particularly Shri G.R. Chintala, Shri Subrata Gupta and Shri M.I. Ganagi. **At this juncture, by way of closure, I need to share why I accepted to chair NABFINS (since many have asked me this question) and what , in my opinion, are the challenges and threats faced by NABFINS.**

Why did I accept to be Chairperson of NABFINS? NABFINS is an initiative of NABARD to continue and take forward the SHG-Bank Linkage model launched by NABARD in 1992 in which I was involved as Executive Director of Myrada. The concept and objectives of the SHGs which NABARD and the NGOs promoted between 1992 and 2000 (which I call the **first wave of micro credit and which lasted till 2000**) was very different from the concept and objectives after 2000

(which I call the second wave of micro credit). The second wave was led by private institutions like the NBFC-MFIs and Government sponsored programs like SGSY and NRLM. Unfortunately the name SHG continued to be used.

In the first wave NABARD took the lead in supporting Institutional Capacity Building (ICB) of SHGs, in lobbying with Banks to lend to SHGs (one former NABARD CGM of Karnataka Shri Wadhwa while addressing Bankers in the early 1990s even offered to place his Provident Fund as guarantee), in removing obstacles to the growth of the SHG-Bank Linkage program. NABARD also organised regular State level meetings of Government, Banks and NGOs involved in promoting SHGs to obtain feedback. Two Chairmen of NABARD, Shri P. Kotaiah and Shri Y.C. Nanda played a crucial role during the 1990s in stabilising and spreading the SHG movement in the country.

After 2000 when the **"second wave"** of micro-finance took off, led by NBFC/MFIs and Government programs like SGSY and NRLM, the concept of SHGs changed. The NBFC/MFIs were driven by speed and standardisation which focused on maximisation of profits. They had no time for training in institutional capacity building training (ICB) and saw no reason to finance this training. This undermined the strength and power of the SHG as a group and focused on the individual. This shift of focus from the group to the individual was strengthened by the demand from Banks and Government for data(related to credit)on individual members of groups. This was different from the demand during the first wave where under the SHG Banks Linkage program only one bulk loan was extended from the Bank to SHGs which at its meetings made decisions on individual loans to members. Data was provided on the amount of the bulk loan to the SHG and on repayments to the Banks. The SHGs managed all matters related to savings, credit and repayments. It was the last mile in the credit delivery chain. To demand separate data for each SHG member on these credit related matters (as is required today in the second wave) is self defeating and a waste of time and money without commensurate returns. Separate studies, usually large samples of loans from SHGs to individual members (collected from record of minutes of SHG meetings), were conducted to capture the purpose, size and repayment periods. Trends were analysed. For example whether size of loans was increasing, if not why?; whether purposes of loans were shifting from consumption to livelihood investments; if not why? But there was no demand for data on all the individual members of the SHG. This was considered unnecessary. Two central Govt. programs (SGSY and NRLM) also contributed to this shift from the group to the individual. Though they provided funds for Institutional Capacity Building (ICB) training, the quality of this training was poor; they too, like the NBFC/MFIs lent to individuals and required data on individuals thereby undermining the importance of the group.

I accepted to be Chairperson of NABFINS, which started in 2010 in the middle of the second wave, to try to return to the SHG concept as understood in the first wave. This however was a challenge as I will explain later and I needed support from the highest level in NABARD to meet this challenge as well as to take the SHGs to the next step of institutional progress. Did I get the support I required from NABARD to attempt a U turn? Yes I did and I am grateful for it.

My hope was that as Chairperson of NABFINS, I would be in a better position to return to the roots of the first wave, where SHGs were basically people's institutions, managing their affairs and setting the agenda. NABFINS which took off in 2010 when the second wave was dominant, is swimming against the tide. Promotion of the SHG model of the first wave is very much a part of the mission of NABFINS. To quote from the latest issue of "NABFINS – At a glance" : " NABFINS has a differentiated and layered approach to support and finance livelihoods of the poor communities it serves. It believes that the poor being a very heterogeneous group cannot be served by standardised financial products; and, therefore, its products are more client centric and tailored to actual need of the poor, with repayment tenure, frequency, and grace periods adjusted to their cash flow and felt needs of clients." During the first wave the experience was that the SHGs were the most appropriate institutions to manage this diversity (in size, purpose, repayment periods and reasons for default) as well as to avoid multiple lending to the same member; it also avoided extending loans for the same business to several people knowing that competition would lower income and in several cases even end up in losses.

I had some aspirations too. The feedback from SHGs indicated that several SHG members had shifted to cash crops, but in order to obtain a good price, they required to come together to aggregate similar commodities, to add value and to establish market linkages. This required support to promote Farmer Producer Companies /Cooperatives, or what NABFINS calls Second Level Institutions (SLIs). The common feature of these institutions is that they are owned and managed by people who have a stake. Bulk loans to NBFC/MFIs for on-lending are not included in the SLI category/vertical, as they are not people owned and managed and hence bulk loans to these institutions fall in another vertical. Further lending to SLIs calls for innovative structures and new skills, while bulk loans to NBFC/MFIs can be managed by the existing staff and structures of NABFINS. Can NABFINS provide the financial and management support to build these SLIs which would take the SHG movement forward ? This is a challenge. NABARD already has a program with this objective; could NABFINS, which has greater flexibility, carry this forward by introducing innovations to make its requirements more client friendly? NABFINS did carry this forward as a vertical but rather timidly. It has invested about Rs 45.03 crs in three years. Suggestions for making this vertical more client friendly were given in my paper which was presented in BIRD, Lucknow in 2013. My feeling is that if this vertical is to progress, NABFINS needs to set up a dedicated team, with appropriate skills, exclusively to promote it. At present the structure and skills are focused on the first vertical namely loans to SHGs. To reduce the risk of lending to SLIs, NABFINS was able to secure in 2014 a guarantee of its loans to SLIs from Rabo Bank (both for Cooperatives and Companies) and from SFAC (for Companies only).

Feedback also indicated that some members in each SHG are entrepreneurs who need larger loans than the SHGs were comfortable to extend. There were very few loans to individual members above Rs 50,000. SHGs which were appropriate institutions for the poor to take the first step, did not emerge as the appropriate instrument to advance larger loans to members ranging from Rs 1 lakh to 5 lakh. This resulted in multiple borrowings, since larger enterprises required between Rs 2 lac to Rs 5 lac. Could NABFINS fill this gap? Banks are unwilling, NBFC/MFI loans average around Rs 20,000; the informal sector is the only player in this sector. There is of course RBI's restriction on size of loans that NBFC/MFIs can advance; it is restricted to Rs 1lakh. Can NABFINS respond to this need? Two NBFC/MFIs I know have attempted a response. Surely NABFINS can and should respond if it is to be ahead of the curve, as its mission implies. However, this requires a long term perspective which will not be forthcoming unless the top management in NABFINS deputed from NABARD is able to serve in NABFINS for at last 3-5 years, which has not been the case so far.

Finally could NABFINS extend loans for training in technical skills which has become a major thrust of the present Government? NABFINS has supported one initiative in partnership with Pan IIT Alumni Reach for India Foundation where about 350 youth in tribal areas affected by extremism have benefitted. Surely NABFINS can build on this experience.

If I am to evaluate my own contribution to NABFINS growth I would put it at around 6 out of 10. Not enough to merit any incentives

And finally, I salute everyone in the nafins parivar. They are multi-talented, as the event they organised proved, and multi-task willingly; they respond with alacrity to any unexpected situation, may they be blessed abundantly.

March 31, 2016

(Aloysius P Fernandez)
Chairman

MANAGING DIRECTOR's MESSAGE

The genesis of NABFINS can be traced to the pursuit of a new institutional approach for an innovative and cost effective delivery of microfinance services to the unreached population. The primary delivery model that was thought off was an outreach model of financing groups like SHGs, and by forming strategic alliances with the local institutions(SHG promoting institutions asbusiness correspondents / facilitators) to serve as enablers. These partner intermediaries not only formed and nurtured the targeted client segment into SHGs but also provided some form of door step services to the client segment and had gained their trust. This approach was expected not only bridge the issue of 'information asymmetry' but, also lower the inhibitions of the unreached client segments dealings with formal financial institutions.

In the sixth year of operations of the company and with over 270 odd partners that operate across various geographies, the vulnerability side of this prime model was in view. Though not very critical, there were few recorded signs of stress, which was primarily an aggregation of partner level risks. Thus, a large part of the current year 2015-16 was devoted to reviewing the business operations, products, processes, policies, strengthening and digitising audit systems etc basically to chart out a clear path for the institution for the next phase of growth. So the year remained as a year of consolidation for NABFINS. While a large part of this work has been completed, the switch to a more robust and agile technology is still a work in process.

Thus, the year was challenging yet a very successful year with business consolidation in the intensive states of Tamil Nadu and Karnataka, growth and expansion in Maharashtra, Madhya Pradesh and establishing footprints in new areas. With our effort to expand NABFINS operations to lesser reached areas, the Company established its footprints in 3 new states like Chhattisgarh, Kerala and Mizoram during the year. This was guided by the overarching principle of supporting the National agenda of financial inclusion across all difficult geographies. The company also introduced a few new loan products viz; " skill loans" for unemployed rural youth in the rural hinterlands, financing industrial JLGs, provision of on-lending funds to other mid sized institutions which provide client friendly services to the poor.

The other business vertical of financing institutions of poor like second level institutions, credit cooperatives, functional societies and also producer collectives exhibited limited opportunity for expansion during the year. Many of these institutions being in the formative stage, without any demonstrated institutional capacities or credit handling capabilities, a few saddled with poor management capabilities etc leave very limited opportunities to expand.

In view of the foregoing, the Company recorded a moderated credit growth during the year. The disbursements under the SHG segment stood at ₹ 830 crore to 20,010 SHGs touching about 5 Lakh households during the year, recording a moderate (8%) increase over ₹ 795 crore disbursed during the year 2014-15. The overall lending by the company stood at ₹ 835 crore recording a 5 per cent growth over the previous year.

The above experience was suggestive of the need to diversify our delivery systems and product range and also to look at other direct approaches to financing. With many SHGs and its members availing repeated cycles of credit, the appetite for other loan products needing larger quantum was evident viz; direct lending for housing and house repairs, trader finance through JLGs, Industrial JLGs, financing in specified geographies where development intervention has been completed by NABARD leaves adequate scope for a diversified reach to clients. While many other modes will have to be experimented and tested, the SHG approach will continue its place of pride.

Our learnings have clearly demonstrated that the essence of good service to client is "information" and that too in understandable formats; the SHG approach enables this. This approach provides financial services to the client with significant amount of information (literacy) in very understandable formats. Thus, SHG serves as a "bank of trust" and it takes significant time and effort to build, the present compulsions of fast tracked microfinance and its practitioners in a teething hurry makes things very unhealthy for such microfinance models to survive exclusively in a minimalistic mode. This is particularly true when the yardstick for institutional performance measurement across the industry is largely made on growth rates and quantum of disbursements made.

Another compelling reason for the need for change has been the regulator's insistence for financing institutions to report credit information of every member of an SHG to Credit Information Companies. While the very design of SHG model emerged on the spirit of self-help, affinity and community help to better appreciate individual needs of each member and bridge information gaps and challenges which financial institutions faced while taking credit decisions. Thus the biggest capacity of the poor – "their integrity" is being questioned? A good SHG being a relationship credit product values this trust amongst its members and also its lender. The additional credit check for each member of SHG by financing institutions undermines the group approach. While the check at the time of sanction is understandable, but tracking member wise transactions on a continuous basis nullifies the benefits of a group approach. This particular position of policy advocacy can sway away microfinance service providers from such client friendly group approaches.

But there is light at the end of the tunnel, the pervasive and growing presence of technology enabled tools for financial service delivery can serve as a game changer. As a learning organisation, we are upgrading our technology infrastructure which fully leverages the mobility based solutions. With this robust technology, it is time for us to expand our product portfolio beyond existing SHG clients. Without losing our focus on improvement in the livelihoods of poor, we have launched customised products to meet the location specific (geographic) life cycle needs of the client in the watershed areas developed as a part of various developmental interventions of NABARD. We hope to synergise our efforts with the development efforts done by NABARD and ensure a better optimisation of the development interventions done by NABARD.

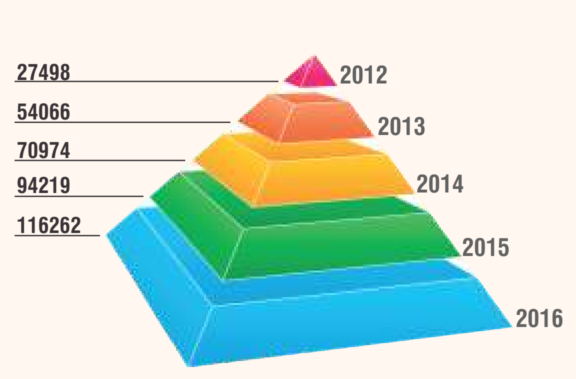
The human resources provide the critical last mile connectivity in rural hinterlands. The commitment and dedication of this workforce, is the founding pillar for the growth of the organisation. With a 300 strong work force backed by a robust technology with its ability to learn and unlearn, we are poised for growth. Contrary to the industry trend, which is predominantly urban focussed, we continue to remain rooted to our commitment to reach the unreached and bank the unbanked. Our zeal and enthusiasm remain unabated and would strive to continue our efforts to achieve our mission of **"to be a trusted, client centric financial institution advancing hassle free services to low income households and the unorganized sector"** and would continue to balance business with inclusion.

(Dr. B. S. Suran)
Managing Director

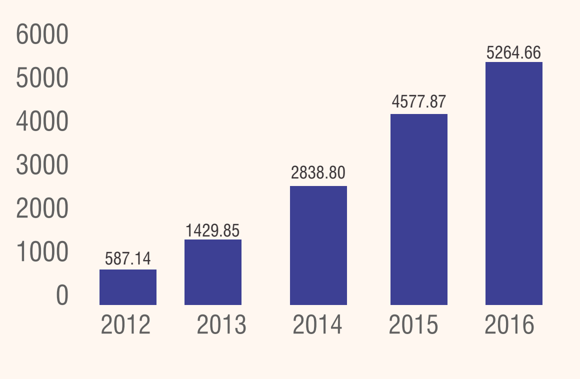
March 31, 2016

BUSINESS TREND

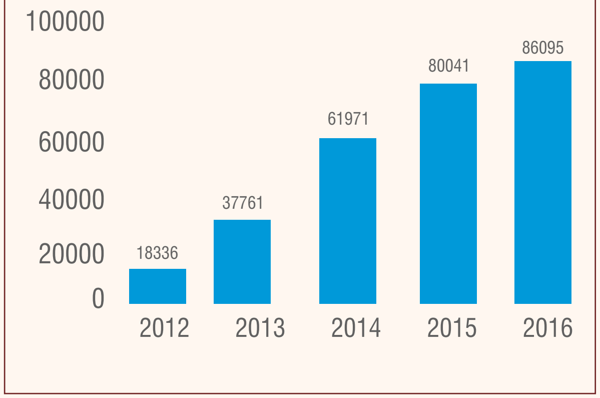
BALANCE SHEET (₹ Lakh)



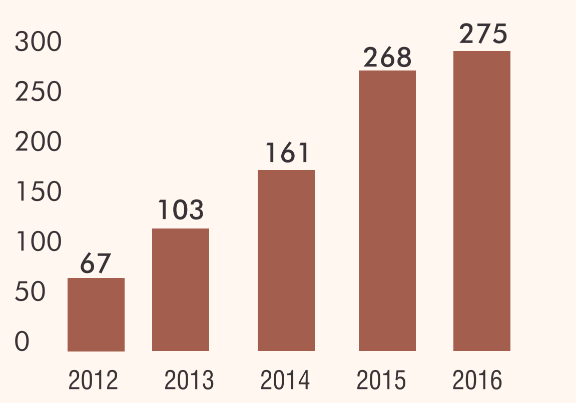
RESERVES AND SURPLUS (₹ Lakh)



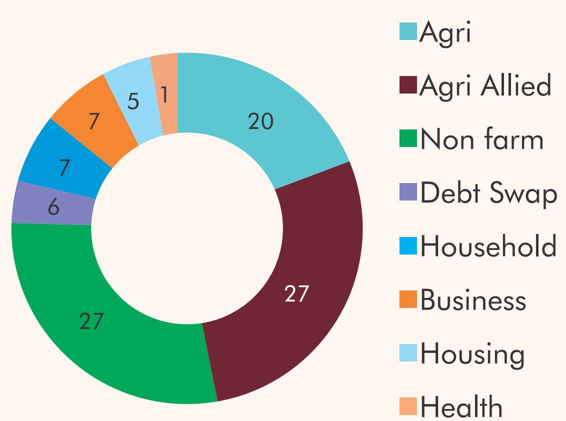
LOAN OUTSTANDING (₹ Lakh)



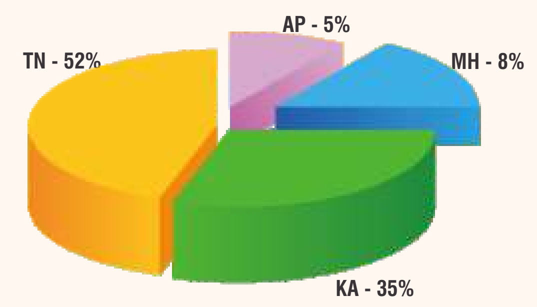
OUR PARTNERS - B&DCs (Nos)



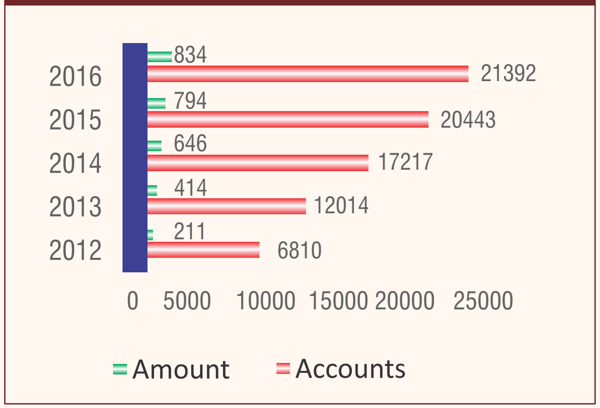
LOAN PURPOSES (%)



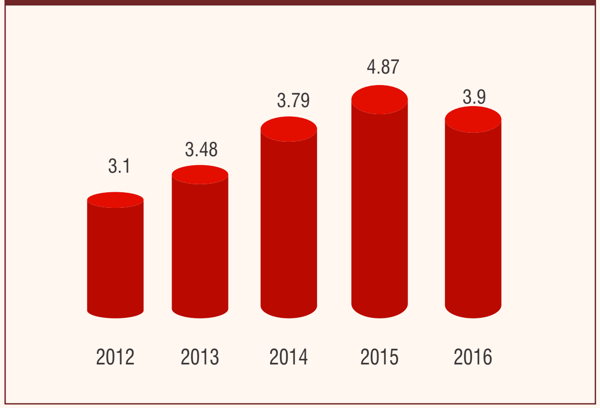
LOAN PORTFOLIO - STATEWISE (AS ON 31-03-2016)



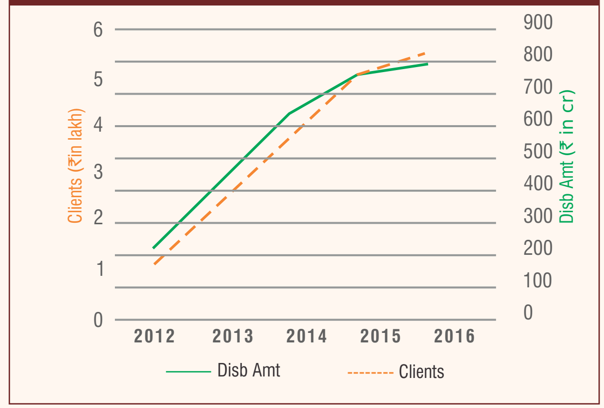
DISBURSMENT TREND - SHG (₹ Crore)



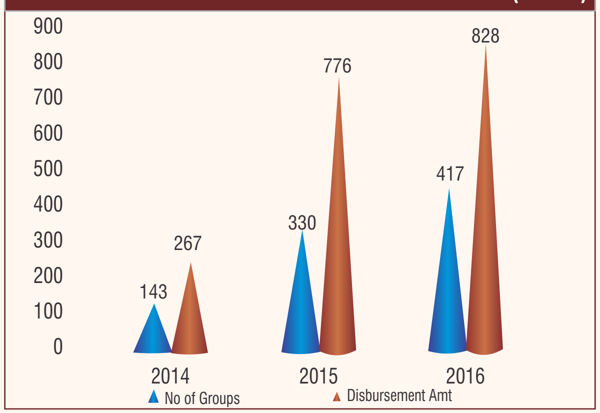
AVG LOAN SIZE PER SHG (₹ Lakh)



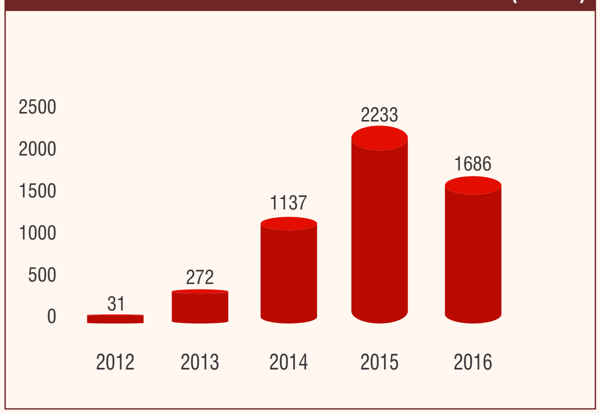
CLIENT OUTREACH - SHG



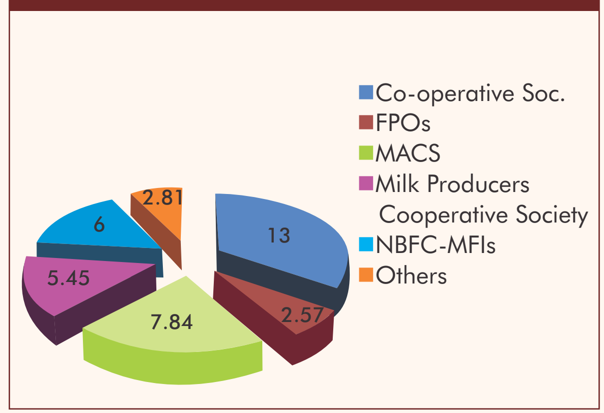
PTSLP TREND (₹ Lakh)



SLI - DISBURSEMENT (₹ Lakh)



SLI - INSTITUTION WISE SHARE



DIRECTORS' REPORT

Dear Members,

Your Directors take pleasure in presenting the Nineteenth Annual Report together with the audited financial statements of your Company for the year ended March 31, 2016.

Financial Highlights

The total income of the Company for the year under review is ₹144.51 crore which is 16.71 % higher than the total income of ₹ 123.82 crore for the previous year. The profit before tax is ₹ 24.63 crore for the year ended March 31, 2016 as against ₹ 31.18 crore for the corresponding previous year.

The summarized financial results for the year ended March 31, 2016 are as under:

(₹ In Crore)

Particulars	FY 2015-16	FY 2014-15
Income from Operations	133.09	114.88
Other Income	11.42	8.94
Total Income	**144.51**	**123.82**
Less: Total Expenditure	107.88	95.58
Profit before tax	**24.63**	**31.18**
Less: Income Tax	15.93	13.70
Profit after tax	**8.70**	**17.41**

Dividend

On the basis of the financial performance of your Company, the Directors are pleased to recommend for approval of the members a dividend of ₹0.10 per equity share for the financial year 2015-16. The dividend on equity shares, if approved by the members would involve a cash outflow of ₹1,83,20,450/- (including dividend distribution tax)

Transfer of Unclaimed Dividend to Investor Education and Protection Fund

The provisions of Section 125(2) of the Companies Act, 2013 do not apply as no dividend was declared during the preceding financial years.

Reserves

Your Directors propose to transfer a sum of ₹ 174 lakh to statutory reserve (being 20 % of profit after tax for the year) as per the requirement of section 45-IC of Reserve Bank of India Act, 1934. An amount of ₹ 3971.11 lakh is proposed to be retained in the surplus.

Operational Highlights

Particulars	Units	2015-16	2014-15
States covered	No.	8	5
Districts covered	No.	92	75
SHGs covered during the year	No.	20868	20010
Loans disbursed during the year	₹ crore	807.55	794.60
Loans to JLGs under PTSLP	₹ crore	10.23	8.23
Second Level Institutions covered	No.	32	56
Loans disbursed during the year to SLIs	₹ crore	16.86	22.33
Employees	No.	296	263
B&DCs	No.	275	242
Loan outstanding	₹ crore	860.95	800.41

Material changes and commitments, if any, affecting the financial position of the company which have occurred between the end of the financial year of the company to which the financial statements relate and the date of the report

Nil

Significant and material orders passed by the regulators or courts

NIL

Other Events

The Directors propose to shift the registered office of the Company within city limit from #190, R. V. Road, Jayanagar 2nd Block, Bengaluru – 560 004 to #3072, 14th Cross, K. R. Road, Banashankari 2nd Stage, Bengaluru – 560 070.

Capital Infusion

There was no capital infusion during the period under review.
The brief shareholding as at the year ended March 31, 2016 is appended below:

Sl. No.	Name of the Shareholder	Share Capital (in ₹ Lakh)		% to the total paid up capital (as on 31.03.2016)
		As on 31.03.2016	As on 31.03.2015	
1	NABARD	10,200.63	10,200.63	67.01
2	Govt. of Karnataka	2,036.00	2,036.00	13.38
3	Canara Bank	1,600.00	1,600.00	10.51
4	Union Bank of India	850.00	850.00	5.58
5	Bank of Baroda	500.00	500.00	3.28
6	Federal Bank	25.00	25.00	0.16
7	Dhanalakshmi Bank	10.00	10.00	0.07
8	Individual Shareholders	Negligible	Negligible	-
	Total	**15,221.63**	**15,221.63**	**100.00**

Statutory Compliance

Deposits from Public

During the year under review, your Company has not accepted any deposits from public and as such, no amount on account of principal or interest on deposits from public was outstanding as on the date of the balance sheet.

Companies Act 2013

Loans, Guarantees and Investment by the Company

During the year under review, your Company has not granted any loans, whether directly or indirectly nor has it given any guarantee or provided any security covered under section 186 of Companies Act, 2013. Hence reporting on the purpose of the loan or guarantee or security is proposed to be utilized by recipient does not arise.

During the year, your Company has not made any investment covered under section 186 of Companies Act, 2013.

Related party transactions

The details of related party transactions as required under Section 134(3)(h) of the Companies Act, 2013 are furnished in **Annexure I** and forms part of this Report.

Conservation of Energy and Technology Absorption, Foreign Exchange earnings & outgo

The provisions of section 134(3)(m) of the Companies Act, 2013, read with the Companies (Accounts) Rules, 2014 relating to the conservation of energy and technology absorption do not apply to your Company. There were no foreign exchange earnings or outgo during the year under review.

Internal Financial Controls

Your Company has in place, adequate internal financial controls to detect and prevent frauds & errors and ensure accuracy and completeness of the accounting records relevant to the preparation and presentation of financial statements.

Extract of the Annual Return

An extract of the Annual Return in accordance with section 134(3)(a) of the Companies Act, 2013, in the prescribed format (MGT-9) is appended as **Annexure II** and form part of this report.

Corporate Social Responsibility

Your Company had started Corporate Social Responsibility (CSR) programs from the year 2014. During the year under review, your Company has mainly focused on providing safe drinking water and sanitation facilities at the schools across the geographies.

As prescribed under the Companies (Corporate Social Responsibility) Rules, 2014, the initiatives undertaken by the Company on CSR activities are set out in the prescribed format under **Annexure III** and form part of this report.

AUDITORS

Accounts Audit by C&AG

Comptroller and Auditor General of India vide their report dated June 10, 2016 **(Annexure IV)** have forwarded the 'Nil Comments' certificate under section 143(6)(b) of the Companies Act, 2013 on the accounts of the Company for the year ended March 31, 2016.

Statutory Audit

In pursuance of Section 139 of the Companies Act, 2013, the Comptroller & Auditor General of India have appointed M/s. Rao & Emmar, Chartered Accountants, Bengaluru as the Statutory Auditors of the Company for the year 2015-16.

The Report of the Auditors is self-explanatory and does not contain any qualification, reservation or adverse remark and therefore, in the opinion of the Directors, does not call for further comments.

Further, the Company has received a communication from the Comptroller and Auditor General of India that M/s. Phillipos & Co., Chartered Accountants, Bengaluru have been appointed as Statutory Auditors of the Company for the financial year 2016-17.

Secretarial auditor

Pursuant to the provisions of section 204 of the Companies Act, 2013 and the Rules made thereunder, Shri C R Ramesh Babu, Company Secretary in Practice(Certificate of Practice Number: 3182), Bengaluru was appointed as Secretarial Auditor of the Company to conduct the secretarial audit of the Company for the financial year 2015-16. The Secretarial Audit Report for the financial year 2015-16 is appended as **Annexure V** and form part of this report.

The report of the secretarial auditor for the year under review does not contain any qualification, reservation or adverse remark and therefore does not call for any further explanation or comments.

Internal Audit

M/s. Saraf & Chandra, Chartered Accountants, Bengaluru were appointed as your Company's Internal Auditors for the financial year 2015-16. The quarterly review reports received from the internal auditors were placed before the Audit Committee at their meetings at regular intervals.

Corporate Governance

Board & Committees

Directors

Changes in the Board and Key Managerial Personnel during the Year:

NABARD nominated Shri Subrata Gupta, Chief General Manager in place of Shri J. C. Das, General Manager, Shri G. R. Chintala, Chief General Manager, NABARD in place of Shri M V Ashok, CGM, NABARD, Shri M I Ganagi, Chief General Manager, NABARD in place of Shri P Satish, the then Chief General Manager, NABARD. Union Bank of India had nominated Shri K Chandrasekhar, Field General Manager, Union Bank of India on the Board of the Company in place of Shri RaviKumar and Government of Karnataka nominated Shri Subhash Chandra, IAS, Principal Secretary, RDPR in place of Shri SanjivKumar, IAS.

Your Directors place on record their sincere appreciation for the valuable guidance provided by S/Shri M. V. Ashok, J. C. Das, P. Satish, Ravi Kumar and Sanjiv Kumar, IAS during their tenure as Directors of the Company.

Meetings Held

During the Financial Year 2015-16, the Board met five times and the meetings were held on April 10, 2015, June 12, 2015, September 25, 2015, January 22, 2016 and March 22, 2016.

Committees of the Board

Audit Committee

The Composition of the Audit Committee during the year under review was as follows:

Shri S S Bhat, Nominee Director
Prof. M. S. Sriram, Independent Director
Dr. Venugopalan Puhazhendhi, Independent Director

Meetings Held

During the Financial Year 2015-16, the Audit Committee met five times and the meetings of the Audit Committee were held on April 10, 2015, June 12, 2015, September 25, 2015, January 22, 2016 and March 22, 2016.

Corporate Social Responsibility Committee

The composition of the Committee during the year was as under:

- Prof. M. S. Sriram, Independent Director
- Dr. Venugopalan Puhazhendhi, Independent Director
- Dr. B S Suran, Managing Director

Meetings Held

During the financial year 2015-16, the Committee met two times on June 12, 2015 and January 22, 2016.

Nomination & Remuneration Committee

The composition of the Committee during the year under review was as under:

- Prof. M. S. Sriram, Independent Director
- Dr. Venugopalan Puhazhendhi, Independent Director
- Shri Aloysius P. Fernandez Director

Meetings Held

The Committee met five times during the financial year 2015-16; the meetings were held on April 10, 2015, June 12, 2015, August 25, 2015, September 25, 2015 and January 22, 2016.

Risk Management Committee

The composition of the Committee during the Financial Year 2015-16 was as under:

- Aloysius P. Fernandez, Director
- Shri M. I. Ganagi, Nominee Director
- Shri S. S. Bhat, Nominee Director
- Dr. B. S. Suran, Managing Director

Meeting Held

During the Financial Year 2015-16 the Risk Management Committee met once and the meeting was held on January 22, 2016.

Other Committees

Other Committees constituted by the Board are the Asset-Liability Management Committee, Loan Committee and Committee for Revision of Rates of Interest.

Declaration by Independent Director(s)

Your Company has received the declaration dated March 31, 2016 from Prof. M. S. Sriram, Smt. Meera Saksena and Dr. Venugopalan Puhazhendhi, the Independent Directors of the Company that they meet the criteria of independence as provided under Section 149(6) of the Companies Act, 2013 and are not disqualified from continuing as Independent Directors.

Evaluation

Pursuant to the provisions of Section 134(3)(p) read with Sub-rule (4) of Rule 8 of the Companies (Accounts) Rules, 2014 of the Companies Act, 2013 the Board carried out an annual evaluation of its own performance and that of its Committees and Individual Directors.

The aspects covered in the evaluation included the contribution to and monitoring of corporate governance practices, participation in strategic planning and the fulfillment of Directors' obligations and fiduciary responsibilities, including but not limited to, active participation at the Board and Committee Meetings.

The Independent Directors at their meeting reviewed the performance of the Board, Chairman of the Board, Committees and Non-Executive Directors.

Based on the inputs by the Nomination and Remuneration Committee and of Independent Directors, the Board evaluated the effectiveness of its functioning and that of the committees and of individual directors.

Vigil Mechanism / Whistle Blower Policy

The Company has established a ***Vigil Mechanism / Whistle Blower Policy*** for Directors and Employees to report genuine concerns and provide for adequate safeguards against victimization of persons who use such mechanism which is disclosed in the Company's website at www.nabfins.org.

Risk Management Policy

Your Company being a Micro Finance Institution (NBFC MFI), risk management assumes critical significance in the context of the absence or near absence of traditional risk mitigation instruments like collaterals or guarantors. The Company is in continuous process of strengthening the risk management framework for successfully handling any challenges in the business environment.

A sub-committee of the Board, “Risk Management Committee of the Board (RMCB)”, along with the Audit Committee of the Board is established to oversee, monitor and guide the Company for effective risk management.

The Company has put in place Loan Policy approved by the Board, Processes for identification of early warning signals, Policy on PAR assets & NPA management, Policy on B & DC business model for management of Agency risk, Disaster recovery policy to manage Business continuity risk, KYC policy to manage reputation/legal risk etc.

The Company has an exclusive “Risk Management & Internal Control Department” at Head Office for assessment and monitoring of current as well as potential risks through various audits such as Process audit of District Offices, Concurrent audit, Internal audit etc.

Directors' Responsibility Statement

Pursuant to the provisions of Section 134(3) (c) of the Companies Act, 2013, the Board of Directors of your Company confirm that –
i) in the preparation of the annual accounts, the applicable accounting standards had been followed along with proper explanation relating to material departures;

ii) the Directors had selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profit of the Company for the period;

iii) the Directors had taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 2013 for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;

iv)the Directors had prepared the annual accounts on a going concern basis; and

v)the Directors had devised proper systems to ensure compliance with the provisions of all applicable laws and that such systems were adequate and operating effectively.

Compliance of Sexual Harassment of Women at Workplace (Prevention, Prohibition and Redressal) Act, 2013

The Company is in compliance with the Sexual Harassment of Women at Workplace (Prevention, Prohibition and Redressal) Act, 2013 and has a prevention of sexual harassment policy in place. The Directors further state that during the year under review, there was no case filed pursuant to the Sexual Harassment of Women at Workplace (Prevention, Prohibition and Redressal) Act, 2013.

Acknowledgements

Your Board of Directors wishes to gratefully acknowledge the assistance, guidance and co-operation received from NABARD, RBI, Investors, the Government Agencies, Auditors, Partner NGOs, Institutions & Foundations, Advisors and all our well-wishers. The Board also wishes to place on record their warm appreciation for the creative, devoted and dedicated efforts of staff at all levels.

For and on behalf of the Board

	ALOYSIUS P. FERNANDEZ	Dr. B.S. SURAN
Bengaluru	DIN : 00027034	DIN : 05331558
July 19, 2016	DIRECTOR	MANAGING DIRECTOR

Annexure I

Details of material contracts or arrangements or transactions at arm's length basis

Name(s) of the related party	Nature of relationship	Nature of contracts / arrangements / transactions	Duration of the contracts / arrangements / transactions	Salient terms of the contracts or arrangements or transactions including the value, if any (in ₹ Lakh):	Date(s) of approval by the Board, if any:	Amount paid as advances, if any:
NABARD	Holding Entity	Loan Received	3 Years *	52,576.95	NA	Nil
NABARD	Holding Entity	Loan Repaid		35,051.32	NA	Nil
NABARD	Holding Entity	Interest Paid		6,443.09	NA	Nil
Dr. B. S. Suran	Key Managerial Personnel	Managerial Remuneration	Not Applicable	42.92	10.04.2015	Nil
Shri V. Maruthi Ram **	Key Managerial Personnel	Managerial Remuneration	Not Applicable	5.44	04.07.2014	Nil
Shri Aloysius P. Fernandez	Director / Chairman@	Professional Charges	1 Year***	19.04	07.06.2013	Nil
		Director Sitting Fee	Not Applicable	0.60	28.03.2013	Nil
Prof. M.S Sriram	Independent Director	Director Sitting Fee	Not Applicable	0.95	28.03.2013	Nil
Dr. Venugopalan Puhazhendhi	Director	Director Sitting Fee	Not Applicable	1.10	30.01.2014	Nil
Smt Meera Saksena	Independent Director	Director Sitting Fee	Not Applicable	0.50	16.03.2015	Nil
Shri Karthik A	Key Managerial Personnel	Remuneration	Not Applicable	5.00	12.06.2015	Nil

* The Company has refinance arrangement with NABARD and the refinance is repayable in three years half yearly installments and interest.
** Nomination withdrawn from the appointing authority with effect from April 10, 2015.
@ Ceased to be the Chairman with effect from April 28, 2016.
*** Valid for one year and renewable on mutual agreement.

Bengaluru
July 19, 2016

ALOYSIUS P.FERNANDEZ
DIN : 00027034
DIRECTOR

Dr. B.S. SURAN
DIN : 05331558
MANAGING DIRECTOR

Annexure - II

Form No. MGT-9

EXTRACT OF ANNUAL RETURN

As on the Financial Year ended March 31, 2016

[Pursuant to Section 92(3) of the Companies Act, 2013 and Rule 12(1) of the Companies (Management and Administration) Rules, 2014]

I.REGISTRATION AND OTHER DETAILS

I) CIN	:	U85110KA1997PLC021862
ii) Registration Date	:	25.02.1997
iii) Name of the Company	:	NABARD Financial Services Limited
iv) Category / sub Category of the Company	:	Company limited by shares – Indian Non-government Company
v) Address of the Registered Office and contact details	:	#190, Rashtriya Vidyalaya Road, Jayanagar 2nd Block, Bengaluru-560004
vi) Whether Listed Company	:	~~Yes~~/No
vii) Name, Address and Contact details of Registrar and Transfer Agent, if any	:	Not Applicable

II.PRINCIPAL BUSINESS ACTIVITIES OF THE COMPANY

All the business activities contributing to 10% or more of the total turnover of the Company shall be stated

Sl No	Name and Description of main products / services	NIC code of the Product / Service	% to the total turnover of the Company
1	Other Financial Service Activities except insurance and pension funding activities – Viz., Microfinance activities such as lending to SHGs, JLGs and Producer collectives	649	100%

III. PARTICULARS OF HOLDING, SUBSIDIARY AND ASSOCIATE COMPANIES

Sl No	Name and Address of the Company	CIN / GLN	HOLDING / SUBSIDIARY / ASSOCIATE	% of shares held	Applicable Section
1	National Bank for Agriculture and Rural Development	NA	Holding Entity	67.01%	An apex development financial institution, formed under an Act of Parliament, GOI

IV. SHARE HOLDING PATTERN (Equity share Capital Breakup as percentage of Total Equity)

I Category-wise Share Holding

Category of shareholders	No. of shares held at the beginning of the year				No. of shares held at the end of the year				% change during the year
	Demat	Physical	Total	% of total shares	Demat	Physical	Total	% of total shares	
A. Promoters									
(1)Indian									
a)Individual / HUF	NIL	7	7	Negligible	NIL	7	7	Negligible	NIL
b)Central Govt.									
c)State Govt(s)									
d)Bodies Corp.									
e)Banks / FI									
f)Any Other…									
Sub-total(A)(1) -	**NIL**	**7**	**7**	**Negligible**	**NIL**	**7**	**7**	**Negligible**	**NIL**
(2)Foreign									
a)NRIs – Individuals									
b)Other – Individuals									
c)Bodies Corp									
d)Banks / FI									
e)Any other…									
Sub-total(A)(2) -	<- - - - - - - - - - - NIL - - - - - - - - - - ->								
Total shareholding of Promoter (A) = (A) (I) +(A) (2)	**NIL**	**7**	**7**	**Negligible**	**NIL**	**7**	**7**	**Negligible**	**NIL**

B.Public shareholding									
1.Institutions									
a.Mutual Funds									
b.Banks / FI	NIL	131856300	131856300	86.62%	NIL	131856300	131856300	86.62%	NIL
c.Central Govt.	NIL								
d.State Govt.(s)	NIL	20360000	20360000	13.38%	NIL	20360000	20360000	13.38%	NIL
e.Venture Capital Funds									
f.Insurance Companies									
g.FIIs									
h.Foreign Venture Capital Funds									
i.Others (Specify)									
Sub-total(B)(1) -	**NIL**	**152216300**	**152216300**	**100 %**	**NIL**	**152216300**	**152216300**	**100 %**	**NIL**
2.Non-Institutions									
(a)Bodies Corp.									
I) Indian									
ii) Overseas									
(b)Individuals									
I)Individualshareholder sholding nominal share capital up to ₹1 lakh									
ii)Individual Shareh olders holding nominal share capital in excess of ₹1lakh									
(c) Others (Specify)									
Sub-total(B)(2)	<- - - - - - - - - - - NIL - - - - - - - - - - ->								
Shareholding (B) = Total Public (B)(1) + (B)(2)	**NIL**	**152216300**	**152216300**	**100 %**	**NIL**	**152216300**	**152216300**	**100 %**	**NIL**
C. Shares held by Custodian for GDRs & ADRs	<- - - - - - - - - - - NIL - - - - - - - - - - ->								
Grand Total (A+B+C)	**NIL**	**152216307**	**152216307**	**100 %**	**NIL**	**152216307**	**152216307**	**100 %**	**NIL**

(ii) Shareholding of Promoters

Sl. No	Shareholder's Name	Shareholding at the beginning of the year			Shareholding at the end of the year			
		No. of shares	% of total Shares of the Company	% of Shares Pledged / encumbered to total shares	No. of Shares	% of total shares of the Company	% of Shares Pledged / encumbered to total shares	% change in share holding during the year
1	H. B. Jayaprasad	01	Negligible	NIL	01	Negligible	NIL	NIL
2	T. Ramesh	01	Negligible	NIL	01	Negligible	NIL	NIL
3	B. Sathish Rao	01	Negligible	NIL	NIL	Negligible	NIL	NIL
4	S. S. Bhat	01	Negligible	NIL	01	Negligible	NIL	NIL
5	G. R. Chintala	01	Negligible	NIL	01	Negligible	NIL	NIL
6	V Maruthi Ram	01	Negligible	NIL	NIL	Negligible	NIL	NIL
7	Suseela Chintala	01	Negligible	NIL	NIL	Negligible	NIL	NIL
8	Dr. B S Suran	NIL	Negligible	NIL	01	Negligible	NIL	NIL
9	B. Uday Bhaskar	NIL	Negligible	NIL	01	Negligible	NIL	NIL
10	Vinod Chandrasekharan	NIL	Negligible	NIL	01	Negligible	NIL	NIL
	Total	**07**	**Negligible**	**NIL**	**07**	**Negligible**	**NIL**	**NIL**

(iii) Change in Promoters' Shareholding (please specify, if there is no change)

Sl. No.		Shareholding at the beginning of the year		Cumulative Shareholding during theyear	
		No. of Shares	**% of total shares of the Company**	**No. of Shares**	**% of total shares of the Company**
1	**At the beginning of the year**	07	Negligible	07	Negligible
2	**Date wise Increase / Decrease in Promoters Share-holding during the year specifying the reasons for increase / decrease (e.g. allotment / transfer /bonus/ sweat equity etc.):**	<- - - - - - - - - - - - NIL - - - - - - - - - - - ->			
3	**At the end of the year**	07	Negligible	07	Negligible

(iv) Shareholding Pattern of top ten Shareholders (Other than Directors, Promoters and Holders of GDRs / ADRs):

Sl No.		Shareholding at the beginning of the year				Cumulative Shareholding during the year	
	For each of the Top 10 Shareholders	Name of the Shareholder &No. of Shares			% of total shares of the Company	No. of Shares	% of total shares of the Company
	At the beginning of the year	National Bank for Agriculture & Rural Development		10,20,06,300	67.01		
		Gov. of Karnataka		2,03,60,000	13.38		
		Canara Bank		1600,00,000	10.51		
		Union Bank of India		85,00,000	5.58		
		Bank of Baroda		50,00,000	3.28		
		Federal Bank Ltd		2,50,000	0.16		
		Dhanalakshmi Bank Ltd		1,00,000	0.07		
	Date wise Increase / Decrease in Share-holding during the year specifying the reasons for increase / decrease (e.g. allotment /transfer /bonus/ sweat equity etc.):	Date	Name of Shareholder	Particulars	No of shares		
		Nil					
	At the end of the year	National Bank for Agriculture & Rural Development		10,20,06,300	67.01		
		Gov. of Karnataka		2,03,60,000	13.38		
		Canara Bank		1600,00,000	10.51		
		Union Bank of India		85,00,000	5.58		
		Bank of Baroda		50,00,000	3.28		
		Federal Bank Ltd		2,50,000	0.16		
		Dhanalakshmi Bank Ltd		1,00,000	0.07		

(v) Shareholding of Directors and Key Managerial Personnel:

	Shareholding at the beginning of the year					Cumulative Shareholding during the year	
For each of the Directors and KMP	Name of the Director & KMP & their shareholding				% of total shares of the Company	No. of Shares	% of total shares of the Company
At the beginning of the year	Subraya Shankar Bhat [S. S. Bhat]	1	Director		Negligible		
	V. Maruthi Ram	1	Managing Director-KMP		Negligible		
	G. R. Chintala	1	Director		Negligible		
Date wise Increase /Decrease inShare-holdingduring the yearspecifying the reasons forincrease /decrease (e.g. allotment /transfer /bonus/ sweatequity etc.)	**Date**	**Name & Folio of Transferor**	**Particular**	**Name & Folio of Transferor**			
	12.06.2015	Satish Rao Fl. No. 30	Transfer of 1 equity share	Vinod C– Fl. No. 40	Negligible		
	10.04.2015	V Maruthi Ram Fl. No. 36	Transfer of 1 equity share	Dr B S Suran – Fl. No. 38	Negligible		
At the end of the year	Dr. B S Suran	1	Managing Director - KMP		Negligible		
	Vinod Chandrasekharan	1	Chief Financial Officer – KMP		Negligible		

V. INDEBTEDNESS:

Indebtedness of the Company including interest outstanding / accrued but not due for payment

(₹ Lakh)

	Secured Loans excluding deposits	Unsecured Loans	Deposits	**Total Indebtedness**
Indebtedness at the beginning of the financial year :-	-			
I) Principal Amount	-	64834.47	-	64834.47
ii)Interest due but not paid	-	-	-	-

iii)Interest accrued but not due	-	991.86	-	991.86
Total (i+ii+iii)	-	65826.33	-	65826.33
Change in Indebtedness during the financial year	-		-	
Addition	-	59755.79	-	59755.79
Reduction	-	41371.32	-	41371.32
Net Change	-	18384.47	-	18384.47
Indebtedness at the end of the financial year :-	-		-	
i)Principal Amount	-	83041.94	-	83041.94
ii)Interest due but not paid	-		-	
iii)Interest accrued but not due	-	1168.86	-	1168.86
Total (i+ii+iii)	-	84210.80	-	84210.80

VI. REMUNERATION OF DIRECTORS AND KEY MANAGERIAL PERSONNEL:

A. Remuneration of Managing Director, Whole-time Directors and / or Manager:

Sl. No	Particulars of Remuneration	Name of MD/WTD/Manager		Total Amount
		Shri V. Maruthi Ram	**Dr. B S Suran**	
1	Gross Salary	₹ 5,44,425	₹ 42,92,506	₹ 48,36,931
	(a) Salary as per provisions contained in section 17(1) of the Income Tax Act, 1961			
	(b) Value of perquisites u/d 17(2) of Income Tax Act, 1961			
	(c) Profits in lieu of Salary under Section 17(3) of Income tax Act, 1961			
2	Stock Option	Nil	Nil	Nil

3	Sweat Equity	Nil	Nil	Nil
4	Commission	Nil	Nil	Nil
	- As % of profit			
	- Others, specify…			
5	Others, Please specify	Nil	Nil	Nil
	Total (A)	₹ 5,44,425	₹ 42,92,506	₹ 48,36,931
	Ceiling as per the Act			

B. Remuneration to other Directors:

Particulars of Remuneration	Name of Directors				Total Amount
	Shri Aloysius P. Fernandez	**Prof. M. S. Sriram**	**Dr. V. Puhazhendhi**	**Smt. Meera Saksena**	
Independent Directors					
* Fee for attending board / committee meetings		₹ 95,000/-	₹ 1,10,000/-	₹ 50,000/-	₹2,55,000/-
* Commission	NIL	NIL			
* Others, please specify – Re-imbursement of travelling & incidental expenses		NIL	₹ 7,910/-	NIL	₹ 7,910/-
Total (1)		**₹ 95,000/-**	**₹ 1,17,910/-**	**₹ 50,000/-**	**₹ 2,62,910/-**
Other Non-Executive Directors					
* Fee for attending board / committee meetings	₹ 60,000/-				₹ 60,000/-
* Commission	NIL	NIL	NIL	NIL	NIL
*Others, please specify -Professional Fee for acting as Professional Advisor -Transportation cost	₹ 14,64,900/- ₹ 4,39,500/-				₹ 14,64,900/- ₹4,39,500/-
Total (2)	**₹ 19,64,400/-**				**₹ 19,64,400/-**
Total (B) = (1+2)	**₹ 19,64,400/-**	**₹ 95,000/-**	**₹ 1,17,910/-**	**₹ 50,000/-**	**₹ 22,27,310/-**
Total Managerial Remuneration					
Overall Ceiling as per the Act					

C. REMUNERATION TO KEY MANAGERIAL PERSONNEL OTHER THAN MD/MANAGER/WTD

Sl. No	Particulars of Remuneration	Key Managerial Personnel			
		CEO	Company Secretary	CFO	Total
1	Gross Salary (a)Salary as per provisions contained in section 17(1) of the Income Tax Act, 1961 (b)Value of perquisites u/d 17(2) of Income Tax Act, 1961 (c)Profits in lieu of Salary under Section 17(3) of Income tax Act, 1961	NA	₹ 5,00,150/-	NA	₹ 5,00,150/-
2	Stock Option		NIL		NIL
3	Sweat Equity		NIL		NIL
4	Commission -As % of profit -Others, specify...		NIL		NIL
5	Others, Please specify		NIL		NIL
	Total		**₹ 5,00,150/-**		**₹ 5,00,150/-**

VII. PENALTIES / PUNISHMENT / COMPOUNDING OF OFFENCES:

Type	Section of the Companies Act	Brief Description	Details of Penalty / Punishment / Compounding Fees imposed	Authority [RD / NCLT / Court]	Appeal made, if any (give details)
Penalty					
Punishment					
Compounding					
B. OTHER OFFICERS IN DEFAULT					
Penalty					
Punishment					
Compounding					

FOR AND ON BEHALF OF NABARD FINANCIAL SERVICES LIMITED

ALOYSIUS P.FERNANDEZ
DIN : 00027034
DIRECTOR

Dr. B.S. SURAN
DIN : 05331558
MANAGING DIRECTOR

Bengaluru
July 19, 2016

Annexure III

Corporate Social Responsibility (CSR)

[Pursuant to Clause (o) of sub section(3) of section 134 of the Act and Rule 9 of the Companies (Corporate Social Responsibility) Rules, 2014]

CSR Policy

The CSR Policy outlines the Company's responsibility as a corporate citizen and lays down the guidelines and mechanism for undertaking activities for welfare and sustainable development of the community at large. The core activities to be undertaken by the Company under its CSR initiatives include **Health and Sanitation; Ecology and Environment and Contribution to the Prime Ministers' National Relief Fund.**

The CSR Policy gives an overview of the projects which are proposed to be undertaken by the Company in the future years. The CSR Policy is placed on the Company's website at www.nabfins.org

1. Composition of the CSR Committee

The Company has a CSR committee of Directors comprising of Prof. M. S. Sriram, Chairman of the Committee, Dr. Venugopalan Puhazhendhi and Dr. B. S. Suran. During the financial year 2015-16, the Committee met two times on June 12, 2015 and January 22, 2016.

2. Average net profit of the Company for last three financial years for the purpose of computation of CSR:

Particulars	₹ Lakh
Net Profit of the Company during the year 2012-2013	1305.51
Net Profit of the Company during the year 2013-2014	2381.99
Net Profit of the Company during the year 2014-2015	3118.10
Total Profit for the past 3 years	6805.60
Average Profit for the purpose of Section 135 of Companies Act 2013	2268.53
Prescribed CSR Expenditure for the year 2015-16 – 2 % of Average Net Profit	45.37

3. Details of CSR spent during the Financial Year:

Particulars	₹ Lakh
a. Total amount to be spent	45.37
b. Amount as approved by the CSR Committee and the Board	45.37
c. Amount actually spent	24.57
d. Amount unspent (a-c)	20.80

4. Manner in which the amount spent during the financial year is detailed below

Name & Details of Implementing Agency	CSR Project / activity identified	Sector in which the Project is covered	Location of project / Programs (Local area / district/ state)	Amount outlay / approved (₹ in Lakh)	Amount spent – Direct/ Overheads (₹ in Lakh)
Sulabh International Social Service Organisations	Construction of toilets and installation of RO water purifiers in the schools	Sanitation	India	25.87	24.57
Grass Roots Research and Advocacy Movement, Myrore	Establishing a nutrition supplement production unit by a tribal SHG Federation	Health	India	21.45	Nil*
			TOTAL	**47.32**	

*The amount of ₹ 2.14 lakh for GRRAM has been made on April 13, 2016. But the provision was done for the year 2015-16.

Notes:

All amounts mentioned above relate to amounts spent / to be spent as the case may be through implementing agency, unless stated otherwise;

The CSR Policy of the Company allows for undertaking CSR projects through external agencies viz., Trusts, Cooperatives, Company (ies), NBFCs, Banks etc. or unregistered entities like SHG, Farmers' Club, JLG Producer Collective etc. The CSR activities to be taken up are considered and monitored by the NABFINS CSR Team.

The company could not spend entire 2% of the average net profit of the last three financial years. However, as on the date of Directors' Report for 2015-16, the Company has spent an amount of ₹24.57 lakh.

Responsibility Statement

We hereby affirm that the CSR Policy, as approved by the Board, has been implemented and the CSR Committee monitors the implementation of CSR Projects and activities in compliance with our CSR objectives.

Bengaluru
July 19, 2016

M. S. Sriram
DIN: 00588922
Chairman of the CSR Committee

Dr. B.S. SURAN
DIN : 05331558
MANAGING DIRECTOR

Annexure IV

COMMENTS OF THE COMPTROLLER AND AUDITOR GENERAL OF INDIA UNDER SECTION 143(6)(b) OF THE COMPANIES ACT, 2013 ON THE ACCOUNTS OF NABARD FINANCIAL SERVICES LIMITED, BANGALORE FOR THE YEAR ENDED 31 MARCH 2016

The preparation of financial statements of NABARD Financial Services Limited, Bangalore for the year ended on 31 March 2016 in accordance with the financial reporting framework prescribed under the Companies Act, 2013 (Act) is the responsibility of the management of the company. The Statutory Auditor appointed by the Comptroller and Auditor General of India under Section 139(5) of Act is responsible for expressing opinion on these financial statements under Section 143 of the Act based on the independent audit in accordance with the Standards on Auditing prescribed under Section 143(10) of the Act. This is stated to have been done by them vide their Audit Report dated 05May 2016.

I, on the behalf of the Comptroller and Auditor General of India, have conducted a supplementary audit under Section 143(6)(a) of the Act of the financial statements of NABARD Financial Services Limited, Bangalore for the year ended on 31 March 2016. This supplementary audit has been carried out independently without access to the working papers of the Statutory Auditors and is limited primarily to inquiries of the Statutory Auditor and company personnel and a selective examination of some of the accounting records. On the basis of my audit, nothing significant has come to my knowledge, which would give rise to any comment upon or supplement to Statutory Auditor's report.

For and on the behalf of the
Comptroller and Auditor General of India

Sd/-
(Arabinda Das)
Principal Director of Commercial Audit
& Ex-Officio Member, Audit Board, Hyderabad

Place: Hyderabad
Date: 10 June 2016

Annexure V

Form No. MR 3
SECRETARIAL AUDIT REPORT
FOR THE FINANCIAL YEAR ENDED 31ST MARCH 2016
[Pursuant to section 204(1) of the Companies Act, 2013 and Rule No.9 of the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014

To,
The Members,
NABARD FINANCIAL SERVICES LIMITED
190 RV ROAD
2ND BLOCK JAYANAGAR
BENGALURU - 560004

I have conducted the secretarial audit of the compliance of applicable staturory provisions and the adherence to good corporate practices by Nabard Financial Services Limited (hereinafter called the company). Secretarial Audit was conducted in a manner that provided me a reasonable basis for evaluating the corporate conducts/statutory compliances and expressing my opinion thereon.

Based on my verification of the company's books, papers, minute books, forms and returns filed and other records maintained by the company and also the information provided by the Company, its officers and authorized representatives during the conduct of secretarial audit, I hereby report that in my opinion, the company has, during the audit period covering the financial year ended on (01.04.2015 to 31.03.2016) 31.03.2016 complied with the statutory provisions listed hereunder and also that the Company has proper Board-processes and compliance-mechanism in place to the extent, in the manner and subject to the reporting made hereinafter:

I have examined the Books, Papers, Minutes Book, Forms and Returns filed and other records maintained by the Company for the financial year ended on 31st March 2016 according to the provisions of:

The Companies Act, 2013 (the Act) and the Companies Act, 1956 and the rules there under for which I report that the Company has:

a) Maintained various Statutory Registers and Minutes of the Proceedings of the Board Meetings, Committee Meetings and General Meetings in Compliance with the Act;

b) Filed all the Forms, Returns, Documents and Resolutions as were required to be filed with Registrar of Companies (ROC) and other authorities and all the formalities relating to the same were complied with;

c) Circulated agenda of the Board Meetings and Commitee Meetings adequately in advance. Further, Board Meetings and the Committee meetings were held in Compliance with the Act including the requirement of quorum for all the meetings and sought necessary approvals of the Board of Directors, Commitee of Directors and Members as per the requirement of the Act;

d) Complied with the provisions of appointment or / and re appointment of Directors, Independent Directors, Nominee Directors on the Board of the Company;

e) Served the notice of Annual General Meeting to all the Members, Directors and Auditors of the Company;

f) Complied with the provisions with respect to Transfers of the company's Shares as per the requirement of the Act;

g) Secretarial Standards issued by The Institute of Company Secretaries of India.

h) Complied with the Provisions of Appointment & Remuneration of Auditors.

I) Complied with the Provisions affixing Common Seal

j) Complied Publication of Name of the Company in all correspondences.

k) Complied with all other applicable provisions of the Act and the Rules made there under;

I have also examined the Compliance with the applicable Clauses of the following:

(i) The Employees State Provident Fund Act, 1952

(ii) The Employees State Insurance Act, 1948

(iii) The payment of Bonus Act, 1965

(iv) Maternity Benefit Act, 1961

(v) Payment of Gratuity Act, 1972

(vi) The Karnataka Tax on Professions, Trades, Callings and Employment Act, 1976

(vii) Minimum wages Act, 1948

(viii) Recovery of Debts Due to Banks and Financial Institutions Act

(ix) Income Tax Act 1961

(x) The RBI Act, 1934

(xi) Indian Stamp Act, 1899

(xii) Service Tax Act

(xiii) Information Technology Act, 2000

(xiv) Equal Remuneration Act, 1976

(xv) Shops and Establishment Act

(xvi) The child Labour (Prohibition and Regulation) Act, 1986

(xvii) Sexual Harassment of Women at Workplace (Prevention, Prohibition and Redressal) Act, 2013

I further report that:

The Board of Directors of the Company is duly constituted with proper balance of Directors, Non-Executive Directors and Independent Directors. The changes in the composition of the Board of Directors that took place during the period under review were carried out in compliance with the provisions of the Act.

Adequate notice is given to all directors to schedule the Board Meetings, agenda and detailed notes on agenda were sent at least seven days in advance.

As per the Minutes of the Meetings of the Board and Committees of the Board is duly signed by the Chairman. Decisions at the meetings of the Board of Directors of the company were passed unanimously. There were no dissenting views by any member of the Board of Directors / Committees of the Board during the period under review.

Based on the Statutory Auditors Report, RBI and NABARD Inspection Report, Internal Auditors, Report produced to me which were confirmed by the Management and according to the information and explanations given to me by the Company, I further report that there are adequate systems and processes in the company commensurate with the size and operations of the company to monitor and ensure compliance with applicable laws, rules, regulations and guidelines.

Place: Bangalore
Date: 18/04/2016

C.R.RAMESH BABU
Practising Company Secretary
ACS No: 3182
C P No: 2222

Note:

This Report is to be read with my letter of even date which is annexed and forms an integral part of this report.

C.R. RAMESH BABU
B.Com, LL.B, ACA, ACS
PRACTISING COMPANY SECRETARY

No.240, 10th B cross,
25th Main, JP Nagar 1st Phase,
Bengaluru - 560 078
Ph: 26630318/41227900
9341254660

Date: 18.04.2016

To,
Nabard Financial Services Limited
190, RV Road 2nd Block, Jayanagar
Bengaluru - 560004

My report of even date is to be read along with this letter.

1) Maintenance of Secretarial record is the responsibility of the Management of the Company. My responsibility is to express an opinion on these secretarial records based on my audit.

2) I have followed the audit practices and processes as were appropriate to obtain reasonable assurance about the correctness of the contents of the secretarial records. The verification was done on test basis to ensure that correct facts are reflected in secretarial records. I believe that the processes and practices, I followed provide a reasonable basis for my opinion.

3) I have not verified the correctness and appropriateness of financial records and Books of Accounts of the Company.

4) Wherever required, I have obtained the Management representation about the Compliance of Laws, Rules and Regulations and happening events etc.

5) The Compliance of the Provisions of Corporate and othe applicable laws, rules, regulations, standards is the responsibility of Management. My examination was limited to the verification of procedures on test basis.

6) The Secretarial Audit Report is neither an assurance as to the future viability of the Company nor of the efficacy or effectiveness with which the Management as conducted the affairs of the company.

Place: Bangalore
Date: 18/04/2016

C.R.RAMESH BABU
Practising Company Secretary
ACS No: 3182
C P No: 2222

INDEPENDENT AUDITORS' REPORT

To the Members of NABARD FINANCIAL SERVICES LIMITED

Report on the Financial Statements.

We have audited the accompanying financial statements of **M/S NABARD FINANCIAL SERVICES LIMITED** (hereafter referred to as "the Company"), which comprise the Balance Sheet as at March 31, 2016,the Statement of Profit and Loss and the 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.

The management is responsible for the matters stated in section 134(5) of the Companies Act, 2013 ("the act") with respect to the preparation of these financial statements that give a true and fair view of the financial position and financial performance and cash flow of the Company in accordance with the accounted principles generally accepted in India, including the accounting standards specified under section 133 of the act, read with rule 7 of the Companies (Accounts) Rules, 2014. This responsibility also includes maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding the assets of the company and for preventing and detecting frauds and other irregularities; selection and application of appropriate accounting policies; making judgements and estimates that are reasonable and prudent; and design, implementation and maintenance of adequate internal financial controls, that were operating effectively for ensuring the accuracy and completeness of the accounting records, relevant to the preparation and presentation of the financial statements that give a true and fair view and are free from material mis-statement, whether due to fraud or error.

Auditors' Responsibility.

Our responsibility is to express an opinion on these financial statements based on our audit. We have taken into account the provisions of the Act, the accounting and auditing standards and matters which are required to be included in the audit report under the provisions of the Act and the Rules made thereunder.

We conducted our audit in accordance with the Standards on Auditing specified under section 143(10) of the Act. 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 misstatements.

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 financial control relevant to the company's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of the accounting estimates made by the 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 on the standalone financial statements.

Emphasis of Matters:

To our observation, the company requires to strengthen its internal controls and implement better tools of software to manage its information system more effectively. A detailed inspection and audit of divisions and branches along with Business and Development Correspondence needs to be regularly conducted to check on the disbursements of loans to the end source.

Opinion

In our opinion and to the best of our information and according to the explanations given to us, the aforesaid 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 of the state of affairs of the company as at 31st March 2016, and its profit for the year ended on that date.

Report on Other Legal and Regulatory Requirements.

1. As required by the Companies (Auditor's Report) Order, 2015 issued by the Central Government in terms of sub-section (11) of section 143 of the Act, we give in the Annexure a statement on the matters specified in paragraphs 3 and 4 of the said Order.

2. As required by the section 143(5) of the Companies Act 2013 we give in the annexure a statement on the directions given by Comptroller and Auditor General of India.

3. As required by section 143(3) of the Act, we report that:

   a) We have sought and 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, the Statement of Profit and loss and the Cash Flow Statement dealt with by this Report are in agreement with the books of accounts.

   d) In our opinion, the aforesaid financial statements comply with the Accounting Standards specified under section 133 of the act, read with rule 7 of the Companies (Accounts) Rules 2014.

   e) On the basis of written representations received from the directors as on March 31, 2016, and taken on record by the Board of Directors, none of the directors is disqualified as on March 31, 2016, from being appointed as a director in terms of section 164(2) of the Act.

f) With respect to the adequacy of the internal financial controls over financial reporting of the Company and the operating effectiveness of such controls, refer to our separate report in “Annexure B”; and

g) With respect to the other matters to be included in the Auditor's report in accordance with Rule 11 of the Companies (Audit and Auditor) Rules, 2014, in our opinion and to the best of our information and according to the explanation given to us:

   i. The Company has disclosed the impact of pending litigations on its financial position in its financial statements.

   ii. The company did not have any long – term contracts including derivative contracts for which there were any material foreseeable losses.

   iii. There has been no delay in transferring amounts, required to be transferred, to the Investor Education and Protection Fund by the Company.

For **RAO & EMMAR**
Chartered Accountants
Firm Registration No.: 003084S

B J Praveen
Partner
Membership No.: 215713
Date: May 05, 2016
Place: Bengaluru

Annexure to Independent Auditors' Report

(Referred to in paragraph 1 under "Report on Other Legal and Regulatory Requirements" of our report of even date)

i) (a) The Company is maintaining proper records showing full particulars, including quantitative details and situation of fixed assets;

(b) As explained to us, fixed assets have been physically verified by the management at reasonable intervals; no material discrepancies were noticed on such verification.

(c) Title deeds of immovable properties shown in Books of Accounts are held in the name of the company.

ii. The Company is engaged in financial lending activity. Accordingly it does not hold any Inventory. Thus, paragraph 3(ii) of the order is not applicable.

iii. The Company has not granted any loans, secured or unsecured to companies, firms, Limited Liability Partnerships or other parties covered in the register maintained under section 189 of the Companies Act, 2013.

iv. In respect of loans, investments, guarantees, and security, provisions of section 185 and 186 of the Companies Act, 2013 have been complied with.

v. The Company has not accepted Public Deposits during the period covered under the audit.

vi. The Central Government has not prescribed the maintenance of cost records under sub-section (1) of section 148 of the Companies Act, 2013 for any of the services rendered by the company.

vii. (a) According to the information and explanation provided to us and on the basis of our examination of the records of the company, undisputed statutory dues including provident fund, employees' state insurance, income-tax, sales-tax, service tax, duty of customs, duty of excise, value added tax, cess and any other statutory dues have been deposited with the appropriate authorities. There were no outstanding statutory dues as on 31st March 2016 for a period of more than six months from the date they become payable except the following.

₹ Lakh

Sl No.	Particulars	Amount
1	Professional Tax	₹ 2,24,184

(b) According to the information and explanations given to us there are no dues of income tax or sales tax or wealth tax or service tax or duty of customs or duty of excise or value added tax or cess have not been deposited on account of any dispute.

viii. The Company has not defaulted in repayment of loans or borrowing to a financial institution, bank, Government or dues to debenture holders. The company pays the dues of principal and interest amounts within due dates based on the demands raised by Nabard.

ix. During the period covered under the audit company has not raised moneys by way of initial public offer or further public offer (including debt instruments).

During the year company has availed term loan from United Bank of India and it is applied for the purpose for which the loan was obtained.

x. During the period the company has reported mis- appropriation and criminal breach of trust by one of the business correspondents of the company amounting to ₹1199.85 Lakhs.

The Company has extended loans to 442 Self Help Groups through a business and development correspondent called Society of Noble Oath and Welfare (SNOW) based at Chittoor Andhra Pradesh. An amount of ₹1961.70 Lakhs was disbursed through the business and development correspondent out of which only ₹ 749.06 has been recovered. The Company has initiated legal proceedings including filing FIR with police authorities in Chittoor District of Andhra Pradesh. The company has also filed respective returns to Reserve Bank of India as per the Guidelines.

xi. Managerial remuneration paid or provided by the company is in accordance with the provisions of section 197 read with Schedule V to the Companies Act.

xii. The company is not a Nidhi Company, hence the clauses related this point is not applicable.

xiii. All transactions with the related parties are in compliance with sections 177 and 188 of Companies Act, 2013 and the details of related party transactions have been disclosed in the Financial Statements as required by the applicable accounting standards;

xiv. The company has not made any preferential allotment or private placement of shares or fully or partly convertible debentures during the year under review.

xv. The company has not entered into any non-cash transactions with directors or persons connected with him and the provisions of section 192 of Companies Act, 2013 have been complied with;

xvi. The company is already registered under section 45-IA of the Reserve Bank of India Act, 1934.

For **RAO & EMMAR**
Chartered Accountants
Firm Registration No.: 003084S

B J Praveen
Partner
Membership No.: 215713
Date: May 05, 2016
Place: Bengaluru

Annexure to Independent Auditors' Report

(Referred to in paragraph 2 under "Report on Other Legal and Regulatory Requirements" of our report of even date)

Directions under Section 143(5) of Companies Act 2013

Sl.No.	Directions	Auditors Comments
1	Whether the company has clear title/lease deeds of freehold and lease hold land respectively? If not please state the area of freehold and lease hold land for which title/lease deeds are not available?	Yes the company has clear title deeds of free hold land. The company during the year has purchased two freehold lands which is as below : a. Land and Building for corporate office at Bangalore – At a cost of ₹7.75 crores (excluding other direct costs) b. Land at Dindigul – REEDs, one of the B&DC has conveyed property of land in Dharmapuram in favour of the company due to non-recovery of advance – at cost of ₹ 42.76 lakhs. (excluding other direct costs) There are no Leasehold lands held by the company during the year under review.
2	Whether there are any cases of waiver /write off debts / loans / interests etc., if yes, the reasons there for and amount involved.	The company has written off an amount of ₹1,99,489 which relates to 1185 of accounts . The amounts written off are in the nature of small amounts short paid by the borrowers.A miscellaneous deposit under other current assets of ₹10,000 has been written off since it is not traceable and relates to old balances. A sum of ₹5,08,220 paid as advance towards development of HR software has been written off since the developed software does not meet the company specification and the company has not mentioned any penal clause to the vendor.
3	Whether proper records are maintained for inventories lying with third parties & assets received as gift / grant(s) from the Govt. or other authorities.	The company is engaged in financial lending activity. Hence it does not hold any inventory. The Company has not received any assets as gifts/grant(s) from the Govt.or other authorities during the period covered under the audit.

As per our audit report of even date

For **RAO & EMMAR**
Chartered Accountants
Firm Registration No.: 003084S

B J Praveen,
Partner
Membership No.: 215713
Date: May 05, 2016
Place: Bengaluru

Annexure B to the Independent Auditors' Report

Report on the Internal Financial Controls under Clause (i) of Sub-section 3 of Section 143 of the Companies Act, 2013 ("the Act")

We have audited the internal financial controls over financial reporting of NABARD Financial Services Limited ("the Company") as of 31 March 2016 in conjunction with our audit of the financial statements of the Company for the year ended on that date.

Management's Responsibility for Internal Financial Controls

The Company's Management is responsible for establishing and maintaining internal financial controls based on the internal control over financial reporting criteria established by the Company considering the essential components of internal control stated in the Guidance Note on Audit of Internal Financial Controls over Financial Reporting issued by the Institute of Chartered Accountants of India (ICAI). These responsibilities include the design, implementation and maintenance of adequate internal financial controls that were operating effectively for ensuring the orderly and efficient conduct of its business, including adherence to Company's policies, the safeguarding of its assets, the prevention and detection of frauds and errors, the accuracy and completeness of the accounting records, and the timely preparation of reliable financial information, as required under the Act.

Auditors' Responsibility

Our responsibility is to express an opinion on the Company's internal financial controls over financial reporting based on our audit. We conducted our audit in accordance with the Guidance Note on Audit of Internal Financial Controls Over Financial Reporting (the "Guidance Note") and the Standards on Auditing, issued by the ICAI and deemed to be prescribed under Section 143(10) of the Act, to the extent applicable to an audit of internal financial controls, both applicable to an audit of Internal Financial Controls and, both issued by the ICAI. Those Standards and the Guidance Note require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether adequate internal financial controls over financial reporting was established and maintained and if such controls operated effectively in all material respects.

Our audit involves performing procedures to obtain audit evidence about the adequacy of the internal financial controls over financial reporting and their operating effectiveness. Our audit of internal financial controls over financial reporting included obtaining an understanding of internal financial controls over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion on the Company's internal financial controls over financial reporting.

Annexure B to the Independent Auditor's Report (continued)
Meaning of Internal Financial Controls Over Financial Reporting

A Company's internal financial control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A Company's internal financial control over financial reporting includes those policies and procedures that:

• pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;
•provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and
•provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or
disposition of the Company's assets that could have a material effect on the financial statements.

Inherent Limitations of Internal Financial Controls Over Financial Reporting
Because of the inherent limitations of internal financial controls over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of the internal financial controls over financial reporting to future periods are subject to the risk that the internal financial control over financial reporting may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Opinion

According to the information and explanation given to us and based on our audit, the company needs to strengthen its internal controls in the following areas in order to avoid any future lapses:

a) The disbursement of loans and collection of installments from the customers are not fully mechanized. Collection of installments from the customers are done through the Business and Development Correspondent and the company is not regularly conducting any check on the end use of the loans. The company has identified a fraud in the current year to the tune of ₹ 108 lakhs.

b) Interest calculation made on loans is not fully automated.

c) The frequency in Internal Audit of branches needs to be strengthened in order to have effective controls over the disbursements, enduse, collections, remittances and compliance of KYC norms.

In our opinion, except for the effects of the weakness described above on the achievement of the objectives of the control criteria, the Company has maintained, in all material respects, adequate internal financial controls over financial reporting and such internal financial controls over financial reporting were operating effectively as of March 31, 2016, based on "the internal control over financial reporting criteria established by the Company considering the essential components of internal control stated in the Guidance Note on Audit of Internal Financial Controls Over Financial Reporting issued by the Institute of Chartered Accountants of India".

We have considered the material weakness identified and reported above in determining the nature, timing, and extent of audit tests applied in our audit of the March 31, 2016 standalone financial statements of the Company, and the material weakness does not affect our opinion on the standalone financial statements of the Company.

For RAO & EMMAR
Chartered Accountants
Firm Registration number: 003084S

B J Praveen
Partner
Membership number: 215713
Date: May 05 2016
Place: Bengaluru

NABARD FINANCIAL SERVICES LIMITED

#3072, 14th Cross, Banashankari 2nd Stage, K R Road, Bengaluru - 560 070

BALANCE SHEET AS AT MARCH 31, 2016

(₹ Lakh)

	Particulars	Note No	As at 31.03.2016	As at 31.03.2015
I	**EQUITY AND LIABILITIES**			
	Shareholders' Funds			
1	a. Share Capital	1	15,221.63	15,221.63
	b. Reserves and Surplus	2	5,264.66	4,577.87
2	**Non-Current Liabilities**			
	a. Long-Term Borrowings	3	40,604.10	33,229.48
	b. Deferred Tax Liabilities (Net)		3.14	10.40
	c. Other Long Term Liabilities	4	895.68	422.42
	d. Long-Term Provisions	5	3,543.87	1,482.26
3	**Current Liabilities**			
	a. Short-Term Borrowings	6	4,735.00	4,850.38
	b. Other Current Liabilities	7	44,174.71	33,027.67
	c. Short-Term Provisions	8	1,819.65	1,403.97
	TOTAL		**116,262.44**	**94,226.08**
II	**ASSETS**			
	Non-Current Assets			
1	a. Fixed Assets			
	i. Tangible Assets	9	1,047.96	193.53
	ii. Intangible Assets	10	39.87	29.30
	b. Deferred Tax Assets (Net)		-	-
	c. Long-Term Loans and Advances	11	26,865.82	23,407.95
	d. Other Non-Current Assets	12	30.01	41.01
	Current Assets			
	a. Cash and Cash Equivalents	13	26,094.96	11,420.87
2	b. Short-Term Loans and Advances	14	60,982.86	58,111.45
	c. Other Current Assets	15	1,200.96	1,021.97
	TOTAL		**116,262.44**	**94,226.08**

The accompanying notes form an integral part of the financial statements

For NABARD Financial Services Limited

As per our report of even date
For Rao & Emmar
Chartered Accountants
Firm Reg No : 003084S

ALOYSIUS P.FERNANDEZ
DIN : 00027034
CHAIRMAN

B.S. SURAN
DIN : 05331558
MANAGING DIRECTOR

B J PRAVEEN
PARTNER
M.No. : 215713

C VINOD
CHIEF FINANCIAL OFFICER
M No. 26816

A KARTHIK
COMPANY SECRETARY
M No. 32562

Bengaluru
28.04.2016

NABARD FINANCIAL SERVICES LIMITED

#3072, 14th Cross, Banashankari 2nd Stage, K R Road, Bengaluru - 560 070

STATEMENT OF PROFIT AND LOSS FOR THE YEAR ENDED MARCH 31, 2016

(₹ Lakh)

	Particulars	Note No	Figures for the year ended 31.03.2016	Figures for the year ended 31.03.2015
I	Revenue from Operations	17	13,308.61	11,488.19
II	Other Income	18	1,142.39	894.46
III	**Total Revenue (I + II)**		**14,451.00**	**12,382.65**
IV	**Expenses:**			
	Employee Benefits Expense	19	1,115.26	862.83
	Finance Costs	20	6,567.78	5,567.11
	Depreciation & Amortization	9&10	74.74	61.82
	Other Expense	21	2,168.84	1,921.71
	Provision on loan portfolio			
	- Standard asset		17.18	-
	- Substandard asset		844.58	1,144.38
	Total Expenses		**10,788.38**	**9,557.86**
V	**Profit before exceptional and extraordinary items and tax (III-IV)**		3,662.62	2,824.79
VI	- Exceptional items (Refer Note No 38)		1,199.85	(293.32)
VII	**Profit before extraordinary items and tax (V-VI)**		2,462.77	3,118.10
VIII	Extraordinary Items		-	-
IX	**Profit before tax (VII-VIII)**		**2,462.77**	**3,118.10**
X	Tax Expense:			
	1. Current Year Tax		1,591.35	1,370.39
	2. Previous years Tax		8.69	1.30
	3. Deferred Liability / (Asset)		(7.26)	5.06
XI	**Profit (Loss) for the year from continuing operations (IX-X)**		**869.99**	**1,741.35**
XII	**Earnings per equity share:**			
	(1) Basic(Refer Note No 39)		0.52	1.04
	(2) Diluted		0.52	1.04

The accompanying notes form an integral part of the financial statements

For NABARD Financial Services Limited

As per our report of even date
For Rao & Emmar
Chartered Accountants
Firm Reg No : 003084S

ALOYSIUS P.FERNANDEZ
DIN : 00027034
CHAIRMAN

B.S. SURAN
DIN : 05331558
MANAGING DIRECTOR

B J PRAVEEN
PARTNER
M.No. : 215713

C VINOD
CHIEF FINANCIAL OFFICER
M No. 26816

A KARTHIK
COMPANY SECRETARY
M No. 32562

Bengaluru
28.04.2016

NABARD FINANCIAL SERVICES LIMITED

#3072, 14th Cross, Banashankari 2nd Stage, K R Road, Bengaluru - 560 070

Cash Flow Statement for the year ended March 31, 2016 (₹ Lakh)

Particulars		2015-16	2014-15
A) Cash flow from Operating Activities		2,462.77	3,118.12
Profit before tax			
Adjustments for :			
Depreciation		74.74	61.82
Provision for Non Performing Assets		2,044.43	1,144.38
Provision for Standard Assets		17.18	-
(Profit) / Loss on sale of Fixed Asset		(0.24)	(0.05)
Non performing assets written off		2.00	0.98
Amortization of ROC fee		11.00	11.00
Interest on Fixed Deposit		(1,120.05)	(882.33)
Operating Profit before working capital changes		**3,491.83**	**3,453.92**
Changes in current assets and liabilites			
(Increase) / Decrease in Loans and Advances		(4,858.61)	(17,331.11)
(Increase) / Decrease in Other Current Assets		(178.99)	(401.39)
Increase / (Decrease) in Liabilites and Provisions		(571.43)	(842.92)
Cash generated from operating activities		**(5,609.03)**	**(18,575.42)**
Payment towards Income tax		(1,481.36)	(1,221.32)
Net cash flow from operating activities	**(A)**	**(3,598.56)**	**(16,342.82)**
B) Cash flow from Investing Activities			
(Increase) / Decrease of Fixed & Intangible Assets		(939.94)	(104.63)
Sale of Fixed Assets / realisation		0.45	0.20
Interest on Fixed Deposit		1,120.05	882.33
Net cash flow from investing activities	**(B)**	**180.56**	**777.90**
C) Cash flow from Financing Activities			
Proceeds from issue of Shares		-	4,010.00
Increase / (Decrease) in Borrowings		18,092.09	15,825.78
Net cash flow from financing activities	**(C)**	**18,092.09**	**19,835.78**
Net increase in cash and cash equivalent	**(A)+(B)+(C)**	14,674.09	4,270.86
Cash and cash equivalent at the beginning of the year		11,420.87	7,150.00
Cash and cash equivalent at the end of the year		**26,094.96**	**11,420.87**
Cash and cash equivalent at the end of the year includes :			
Cash in hand		0.11	7.52
Balances with Banks		198.15	98.28
Deposits		25,896.70	11,315.07
TOTAL		**26,094.96**	**11,420.87**

The accompanying notes form an integral part of the financial statements

For NABARD Financial Services Limited

As per our report of even date
For Rao & Emmar
Chartered Accountants
Firm Reg No : 003084S

ALOYSIUS P.FERNANDEZ
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COMPANY SECRETARY
M No. 32562

Bengaluru
28.04.2016

NABARD FINANCIAL SERVICES LIMITED

NOTES FORMING PART OF FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2016

NATURE OF BUSINESS:

NABARD Financial services Limited is subsidiary of NABARD and incorporated under Companies Act 1956. The Company is Non-banking Financial Company (NBFC) registered with the Reserve Bank of India ("RBI") under section 45-IA of the Reserve Bank of India Act, 1934 and primarily engaged in lending and related activities. The Company received the Certificate of Registration from the RBI on 18th November, 2008 enabling the Company to carry on business as a Non-Banking Financial Company without accepting public deposits.

SIGNIFICANT ACCOUNTING POLICIES

A. Significant Accounting Policies:

i. Basis of Preparation of Financial Statements:

The Financial Statements of the Company have been prepared in accordance with the Generally Accepted Accounting Principles in India (Indian GAAP) to comply with the Accounting Standards specified under Section 133 of the Companies Act, 2013, read with Rule 7 of the Companies (Accounts) Rules, 2014 and the relevant provisions of the Companies Act, 2013 (the 2013 Act) / Companies Act, 1956 (the 1956 Act), as applicable and conform to the statutory requirements, circulars and guidelines issued by the RBI from time to time and to the extent they have an impact on the financial statement. The financial statements have been prepared on accrual basis under the historical cost convention method and as a going concern. The accounting policy adopted in the preparation of the financial statements are consistent with those of the previous years.

ii. Use of Estimates:

The preparation of the financial statements in conformity with the generally accepted accounting principles require the management to make estimates and assumptions that affect the reported amount of assets, liabilities, revenues and expenses and disclosure of contingent assets and liabilities. The estimates and assumptions used in the accompanying financial statements are based upon management's evaluation of the relevant facts and circumstances as of the date of the financial statements. Actual results may differ from the estimates and assumptions used in preparing the accompanying financial statements. Any differences of actual results to such estimates are recognized in the period in which the results are known / materialized.

iii. Cash Flow Statement:

Cash flows are reported using the indirect method, whereby profit/loss before tax is adjusted for the effects of transactions of non-cash nature. The cash flows from operating, investing and financing activities of the Company are segregated based on the available information.

iv. **Revenue Recognition:**

a) Income is recognized and accounted on accrual basis except in case of Non-Performing Assets (NPA) outstanding for more than 90 days from the due date, which is recognized only on receipt basis, and any interest income recognised before the asset become NPA and remaining unrealised income if any is reversed as per guidelines for prudential norms issued by RBI.

b) Interest on bank deposits is recognised on accrual basis on a time proportion and duly supported by interest certificates from banks.

c) All other incomes are recognised on accrual basis, except in case of bad debts recovered, which are accounted as and when received.

v. **Fixed assets & Depreciation:**

a) The cost of fixed assets comprises its purchase price net of any trade discounts and rebates, any import duties and other taxes (other than those subsequently recoverable from the tax authorities), any directly attributable expenditure on making the asset ready for its intended use, other incidental expenses and interest on borrowings attributable to acquisition of qualifying fixed assets up to the date the asset is ready for its intended use. Fixed Assets are stated at cost less accumulated depreciation and impairment, if any.

b) Improvements to Leased Assets are fully charged to revenue in the same year in which such expenses are incurred.

c) Depreciation on Tangible fixed assets has been provided on straight-line method as per the useful life prescribed in Schedule II to the Companies Act, 2013.

vi. **Intangible Assets & Amortization:**

Expenses incurred on Intangible assets having enduring benefits are capitalized and amortized over their estimated useful life.

vii. **Employee Benefits:**

Employee benefits consist of Provident Fund, Medical Benefits, Leave Encashment, Compensated Absences and Gratuity Scheme.

a) Defined contribution plans:

The Company's contributions paid/payable during the year to Provident Fund and Employee State Insurance Scheme are considered as defined contribution plans and are charged as an expense based on the amount of contribution required to be made and when services are rendered by the employees.

b) Defined benefit plans:

Gratuity is post- employment benefit and is in the nature of Defined Benefit Plan. Liability for gratuity funded in terms of a scheme administered by the Life Insurance Corporation of India are determined by actuarial valuation on project unit credit method made at end of each balance sheet date.

The actuarial gain or loss is recognized immediately in the Statement of Profit and Loss as income or expenses in the period in which it occurs.

c) **Short-term employee benefits:**

The undiscounted amount of short-term employee benefits expected to be paid in exchange for the services rendered by employees are recognised during the year when the employees render the service. These benefits include performance incentive, leave encashment and compensated absences which are expected to occur within twelve months after the end of the period in which the employee renders the related service.

viii. **Prior Period, Exceptional and Extra Ordinary Items:**

Prior Period and Extra Ordinary Items having material impact on the financial statements of the Company are disclosed separately.

ix. **Taxation:**

Current tax is the amount of tax payable on the taxable income for the year as determined in accordance with the applicable tax rates and the provisions of the Income Tax Act, 1961 and other applicable tax laws.

a) **Current Tax:**

Provision for current tax is made on the basis of estimated taxable income for the accounting year in accordance with the Income Tax Act, 1961.

b) **Deferred Tax:**

Deferred tax expenses or benefits are recognised on timing differences being the difference between taxable and accounting income and are capable of reversal in one or more future periods. The deferred tax charge or credit and the corresponding deferred tax assets and liabilities are measured using the tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax assets are recognised only to the extent there is reasonable certainty that the asset can be realised in future; however, where there is unabsorbed depreciation or carried forward loss under taxation laws, deferred tax assets are recognised only if there is a virtual certainty of realisation of the assets.

Deferred tax assets are reviewed as at each balance sheet date and written down or written-up to reflect the amount that is reasonable/virtually certain (as the case may be) to be realised.

x. **Lease Rental Payments:**

The company has taken on lease Office building under cancellable lease agreements that are renewable at the option of the company and the Lessor. Lease payments in respect of lease are recognized as an expense in the statement of profit and loss on accrual basis.

xi. **Provision and Contingencies:**

The Company creates a provision when there is present obligation as a result of a past event that probably requires an outflow of resources and a reliable estimate can be made of the amount of the obligation.

A disclosure for a contingent liability is made when there is a possible obligation or a present obligation that may, but probably will not, require an outflow of resources. When there is a possible obligation or a present obligation in respect of which the likelihood of outflow of resources is remote, no provision or disclosure is made.

Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. If it is no longer probable that the outflow of resources would be required to settle the obligation, the provision is reversed.

Contingent assets are not recognised in the financial statements. However, contingent assets are assessed continually and if it is virtually certain that an economic benefit will arise, the asset and related income are recognised in the period in which the change occurs.

xii. **Borrowing Cost:**

Borrowing costs include interest, amortisation of ancillary costs incurred. Costs in connection with the borrowing of funds to the extent not directly related to the acquisition of qualifying assets are charged to the Statement of Profit and Loss over the tenure of the loan. Borrowing costs, allocated to and utilised for qualifying assets, pertaining to the period from commencement of activities relating to construction/development of the qualifying asset up to the date of capitalisation of such asset is added to the cost of the assets. Capitalisation of borrowing costs is suspended and charged to the Statement of Profit and Loss during extended periods when active development activity on the qualifying assets is interrupted.

xiii. **Asset Classification & Provisioning Norms:**

At the end of each financial year, management reviews all loans on over-due basis, write-offs, if any required are being made on case by case assessment.

Provision for loan is provided as per the Non-Banking Financial Company - Micro Finance Institutions (Reserve Bank) Directions, 2011 and modifications from time to time issued by the RBI.

Management treats a loan as over-due as soon as scheduled Instalment has failed.

Asset Classification	**RBI Norms**	**NABFINS Compliance**
A. Standard	0-90 Days	0-90 Days
B. Non Performing Assets	91 Days & above	91 Days & above

Provisioning Norms	RBI Norms	NABFINS Compliance
A. Standard Assets	Nil	0.40 % of Standard Assets
B. i) Non Performing Assets 91- 180 Days	50 % of the aggregate loan Instalments overdue	50 % of the aggregate loan Instalments overdue
ii) Non Performing Assets 180 Days & Above	100 % of the aggregate loan Instalment Overdue	100 % of the aggregate loan Instalment Overdue

Under exceptional circumstances including natural disasters, Management may renegotiate loans by rescheduling repayment terms for customers who have defaulted in repayment but who appear willing and able to repay their loans under a longer term agreement. Provisioning on such rescheduled loans will be subject to RBI norms.

xiv. Earnings per Share:

Basic and diluted earnings per share are computed in accordance with Accounting Standard (AS)-20 Earnings per share.

Basic earnings per share is calculated by dividing the net profit or loss after tax for the year attributable to equity shareholders by the weighted average number of equity shares outstanding during the year.

Diluted earnings per equity share are computed using the weighted average number of equity shares and dilutive potential equity shares outstanding during the year if any.

For and on behalf of Board of Directors

ALOYSIUS P. FERNANDEZ
CHAIRMAN
DIN: 00027034

B.S. SURAN
MANAGING DIRECTOR
DIN:05331558

C. VINOD
CHIEF FINANCIAL OFFICER
M No. 26816

A.KARTHIK
COMPANY SECRETARY
M No. 32562

As per our report of even date
For RAO & EMMAR
Chartered Accountants
Firm Reg No 003084S

B J PRAVEEN
PARTNER
M.No. 215713

Bengaluru
28.04.2016

NABARD FINANCIAL SERVICES LIMITED

Notes forming part of Financial Statement for the year ended March 31, 2016

(₹ Lakh)

Note No	Particulars	Current year 31.03.2016	Previous year 31.03.2015
1	**Share Capital** **Authorized Captial** 20,00,00,000 Equity Shares of ₹10/- each (Previous year 20,00,00,000 Equity Shares of ₹10/- each)	20,000.00	20,000.00
	Issued,Subscribed & Fully Paid up: 15,22,16,307 Equity Share of ₹10/-each (Previous year 15,22,16,307 Equity shares of ₹10/- each)	15,221.63	15,221.63
	TOTAL	**15,221.63**	**15,221.63**

a. **Reconciliation of the number of equity shares outstanding at the beginning and end of the year**

	Number of Shares	
	31-Mar-16	31-Mar-15
Number of Shares outstanding at the beginning of the year	152,216,307	112,116,307
Add : Issued during the year	-	40,100,000
Number of Shares outstanding at the end of the year	**152,216,307**	**152,216,307**

b. **Reconciliation of the equity share capital outstanding at the beginning and end of the year**

Equity Share Capital Outstanding at the beginning of the year	152,221.63	11,211,63
Add : Share Capital Issued during the year	-	4,010.00
Equity Share Capital Outstanding at the end of the year	**15,221.63**	**15,221.63**

c. **Rights, preferences and restrictions attaching to each class of shares including restrictions on distribution of dividends and repayment of capital**

The Company has only one class of equity shares having par value of Rs. 10 per share. Each share holder is entitled to one vote per share. The distribution of dividend is in proportion to the number of equity shares held by each share holders.

Repayment of capital will be in proportion to number of equity shares held.

d. **Details of shareholder holding more than 5 %**

	%	Number of Shares	
		31-Mar-16	31-Mar-15
1. National Bank for Agricultural & Rural Devlopment	67.01	10,20,06,300	10,20,06,300
2. Government of Karnataka	13.37	2,03,60,000	2,03,60,000
3. Canara Bank	10.51	1,60,00,000	1,60,00,000
4. Union Bank of India	5.58	85,00,000	85,00,000

e. **For a period of years, immediately preceeding the Balance sheet**

Aggregate number & class of shares :

- Allotted as fully paid up pursuant to contract(s) without payment being received in cash : NIL
- Allotted as fully paid up by way of bonus shares: NIL
- Bought back : NIL

Note No	Particulars	Current year 31.03.2016	Previous year 31.03.2015
2	**Reserves & Surplus**		
	(a) Reserves		
	(i) Reserve Fund		
	Opening Balance	919.55	571.28
	Additions during the year	174.00	348.27
	Sub Total (A)	**1,093.55**	**919.55**
	(ii) Risk Fund		
	Opening Balance	200.00	200.00
	Additions during the year		-
	Sub Total (B)	**200.00**	**200.00**
	(b) Surplus		
	Opening Balance	3,458.32	2,067.52
	Transfer from Statement of Profit & Loss	869.99	1,741.35
	Amount Available for Appropration	**4,328.31**	**3,808.87**
	Less: Appropriation		
	- for Reserve Fund	174.00	348.27
	- Dividend	152.22	-
	- Dividend Tax	30.99	-
	- for fixed assets write off (Refer Note No 40 (b)	-	2.30
	Sub Total (C)	**3,971.11**	**3,458.31**
	GRAND TOTAL (A+B+C)	**5,264.66**	**4,577.87**

Note No	Particulars	Current year 31.03.2016	Previous year 31.03.2015
3	**Long-Term Borrowings**		
	i. Loan from Bank		
	Secured :		
	- Union Bank of India, Domlur, Bengaluru (Refer Note No 31) (lien on Fixed Deposits)	538.31	-
	Unsecured :		
	- Refinance from NABARD (Refer Note No 30)	40,065.80	33,229.48
	TOTAL	**40,604.10**	**33,229.48**

Note No	Particulars	Current year 31.03.2016	Previous year 31.03.2015
4	**Other Long Term Liabilities**		
	- Security Deposit	130.80	110.54
	- Interest payable on security deposit	14.88	11.88
	- Patient Capital from IFAD - Government of Tamilnadu (Refer Note No 32)	500.00	300.00
	- Revolving Fund Assistance - LWE (Refer Note No 33)	250.00	-
	TOTAL	**895.68**	**422.42**

5	Long -Term Provisions	Current year 31.03.2016	Previous year 31.03.2015
	Provision made against		
	- Standard assets	329.77	312.60
	- Substandard assets	2,014.24	1,169.67
	- Loss assets	1,199.85	-
	TOTAL	**3,543.87**	**1,482.26**

6	**Short - Term Borrowings**		
	(a) Loan repayable on demand from		
	(I) Banks		
	Overdraft & Currents accounts with banks (lien on Fixed Deposits)		
	- Canara Bank, Ashoka Pillar Branch	901.85	901.56
	- State Bank of India, Jayanagar 2nd Block Branch	1,592.60	1,602.45
	- State Bank of Mysore, Jayanagar Branch	2,240.55	2,346.37
	TOTAL	**4,735.00**	**4,850.38**

7	**Other Current Liabilities**		
	(a) Current maturities of long-term debt		
	- Refinance from NABARD (Refer Note No 30)	42,294.30	31,604.99
	- Term loan from Union Bank of India (Refer Note No 31)	143.55	-
	(b) Interest accrued on borrowings	1,164.44	991.86
	(c) Other Payables		
	Withholding and other taxes payable	27.17	23.18
	Accrued Salaries and Incentives to Staff	159.56	125.00
	Commission & Other Payables	161.31	162.64
	ESIC, PF & Professional Taxes	13.85	11.27
	Payable to SHG groups and B&DC	123.48	54.08
	Provision for Expenses	60.26	25.12
	Provision for CSR	20.80	26.87
	Unutilised Grants from Nabard for SHG promotion	-	2.65
	Tender Deposit	6.00	-
	TOTAL	**44,174.71**	**33,027.67**

8	**Short - Term Provisions**		
	(a). Provision for employee benefit		
	Leave Encashment	40.59	30.80
	Gratuity	1.58	2.78
	Leave Travel Allowance	2.93	-
	TOTAL (A)	**45.10**	**33.58**
	(b). Others		
	Provision made for		
	(a) Proposed Dividend	152.22	-
	(b) Dividend Tax	30.99	-
	(c) Income Tax	1,591.35	1,370.39
	TOTAL (B)	**1,774.55**	**1,370.39**
	GRAND TOTAL (A+B)	**1,819.65**	**1,403.97**

NABARD FINANCIAL SERVICES LIMITED

Note : 9 & 10 FIXED ASSETS as on March 31, 2016

(₹ Lakh)

Note No.9 Tangible Assets	Gross Block				Rate of Depreciation	Depreciation Block				Net Carrying Value	
	As at 01.04.2015	**Additions**	**Disposal/ Written off**	**As at 31.03.2016**		**As at 01.04.2015**	**Additions**	**Withdrawn**	**Total 31.03.2016**	**As at 31.03.2016**	**As at 01.04.2015**
Land	-	574.71	-	574.71	-	-	-	-	-	574.71	-
Building	-	213.63	-	213.63	1.58%	-	-	-	-	213.63	-
Furniture & Fixtures	53.81	28.69	0.14	82.35	9.50%	11.51	7.10	0.03	18.58	63.77	42.29
Office Equipments	149.85	88.95	0.10	238.71	19.00%	37.95	37.23	0.05	75.13	163.57	111.91
Servers and Networks	5.34	1.79	-	7.14	15.83%	1.51	1.06	-	2.57	4.57	3.83
Laptop & Desktops	66.88	8.38	0.28	74.98	31.67%	31.90	16.06	0.22	47.73	27.24	34.98
Vehicle	0.59	-	-	0.59	9.50%	0.07	0.06	-	0.13	0.46	0.52
Sub Total	**276.48**	**916.15**	**0.52**	**1,192.11**		**82.95**	**61.51**	**0.31**	**144.15**	**1,047.96**	**193.53**
Note No.10 Intangible Assets											
Software	38.50	23.79	-	62.29	0.00%	9.19	13.23	-	22.42	39.87	29.30
GRAND TOTAL	**314.98**	**939.94**	**0.52**	**1,254.40**		**92.14**	**74.74**	0.31	**166.57**	**1,087.82**	**222.84**

NABARD FINANCIAL SERVICES LIMITED

Notes forming part of Financial Statement for the year ended March 31, 2016

(₹ Lakh)

Note No	Particulars	Current year 31.03.2016	Previous year 31.03.2015
11	**Long-Term Loans & Advances**		
	(a) Security Deposits		
	Deposit - Rent	61.44	56.63
	(b) Loans & advances to related parties	-	-
	(c) Other loans & advances		
	Unsecured considered good :		
	- Standard Assets	23,087.43	21,383.69
	- Substandard assets	2,452.77	1,892.04
	- Loss assets	1,199.85	-
	- Staff Advance	64.32	75.59
	TOTAL	**26,865.82**	**23,407.95**

12	**Other Non - Current Assets**		
	Unsecured Considered good :		
	- Income Tax Refund Due	19.01	19.01
	- Unamortrized Expenditure: ROC Expenditure	11.00	22.00
	(Refer Note No 28)		
	TOTAL	**30.01**	**41.01**

13	**Cash & Cash Equivalents**		
	(a) Cash on hand	0.11	7.52
	(b) Balance with banks	198.15	98.28
	Other Bank Balance		
	- Bank deposits with less than 12 months maturity	18,310.48	4,963.75
	- Earmarked balances with banks	896.08	826.39
	- Balances with banks held as margin money or security deposit against borrowings, gurantee /other commitments	6,690.14	5,524.92
	TOTAL	**26,094.96**	**11,420.87**

Details of bank balances and deposits

1. Deposits available on demand or with an original maturity of less than three months included in under 'Cash and cash equivalents'
2. Bank deposits due to mature within 12 months from the reporting date included under 'Other bank balances'
3. Bank deposits due to mature after 12 months from the reporting date, if any is included under 'Non-current assets'

14	**Short-Term Loans and Advance**		
	(I) Loans & Advances		
	Unsecured considered good:		
	- Standard assets	59,355.68	56,765.58
	(ii) Others		
	Unsecured considered good:		
	- Advances to Employees for Expenses	15.64	12.61
	- Income Tax	1,472.67	1,220.02
	- Telephone Deposit	0.02	0.01
	- Tax Deducted at source	111.09	88.75
	- Prepaid Expenses	27.76	24.48
	TOTAL	**60,982.86**	**58,111.45**

15	**Other Current Assets**		
	Interest receivable on Bank Deposits	334.26	231.24
	Interest receivable on Loans	656.03	588.85
	Processing Fee Receivable	151.40	140.67
	Service Tax Receivable	22.60	17.35
	Cenvat Credit on Capital Goods	-	1.68
	Advance to others	7.03	12.11
	Service Tax RCM	9.55	-
	Receivable from NABARD for SHG Promotion	6.10	-
	Other receivables	13.98	22.92
	CENVAT Credit Receivable	-	7.15
	TOTAL	**1,200.96**	**1,021.97**

16	**Contingent liabilities & commitments**		
	(a) Claims against the company not acknowledged as debt (Refer Note No. 35)	28.60	28.60
	(b) Guarantees	-	-
	(c) Other money for which the company is contingently liable	-	-
	Commitments		
	(a) Estimated amount of contracts to be executed on capital account & not provided for	-	-
	(b) Uncalled liability on shares & other investments partly paid	-	-
	(c) Others	-	-

NABARD FINANCIAL SERVICES LIMITED

Notes forming part of Financial Statement for the year ended March 31, 2016

(₹ Lakh)

Note No	Particulars	Current year 31.03.2016	Previous year 31.03.2015
17	**Revenue from Operations**		
	(i) Interest	12,473.56	10,683.06
	(ii) Processing Fee	835.05	805.13
		13,308.61	**11,488.19**
18	**Other Income**		
	Interest on Fixed Deposits	1,120.05	882.33
	Interest on Staff Loan	7.22	4.30
	Excess provision written back	14.58	6.34
	Recovery from Bad Debts	0.09	0.02
	Miscellaneous income	0.04	1.42
	Profit on sale of Fixed Assets	0.24	0.05
	Application Fees	0.17	-
	TOTAL	**1,142.39**	**894.46**

19	**Employee Benefits Expenses**		
	Salaries and Wages	744.63	567.90
	Incentive for Staff	157.55	115.16
	Gratuity	7.33	14.83
	Leave encashment	57.88	44.80
	Leave Travel Allowance	33.25	24.99
	Contribution to Statutory funds	66.34	51.77
	Staff Insurance	24.51	20.26
	Staff Welfare	11.09	6.10
	Rent paid for Staff Quarters	5.20	3.20
	Mobile Purchase for Staff	7.48	13.81
	TOTAL	**1,115.26**	**862.83**

20	**Finance Costs**		
	Interest on		
	- NABARD Refinance Loans	6,443.09	5,419.87
	- Over Draft	121.57	142.74
	- Security Deposits	3.12	4.50
	TOTAL	**6,567.78**	**5,567.11**

NABARD FINANCIAL SERVICES LIMITED

Notes forming part of Financial Statement for the year ended March 31, 2016

		Current year 31.03.2016	Previous year 31.03.2015
21	**Other Expenses**		
	Rent	88.92	64.89
	Commission for Business Correspondent/Facilator	1,497.95	1,343.40
	Travelling & Conveyance	235.46	204.82
	Insurance	9.32	11.46
	Printing & Stationery	28.94	45.27
	Postage, Telephone & Courier Charges	48.20	36.37
	Repairs & Maintenance	35.07	31.61
	Electricity & Water charges	12.32	7.66
	Business Promotion	11.68	6.01
	Legal & Professional Charges	48.61	30.30
	Bank charges	25.13	20.83
	CSR Expenses	45.37	27.07
	Review & Retreat Expenses	7.46	3.84
	Meeting Expenses	3.27	1.90
	Auditors Remuneration		
	- Statutory Audit Fee	4.41	3.76
	- Internal Audit Fee	6.02	5.39
	Recruitment Expenses	1.46	3.57
	Training Expenses	2.84	10.03
	Internet & Website Charges	6.19	10.22
	Directors Sitting Fee	3.15	2.25
	Security Guard Expenses	5.45	4.41
	Broker commission	0.50	0.78
	Books and Periodicals	0.80	0.56
	Miscellaneous Expenses	0.94	0.48
	Advertisement Expenses	1.14	2.13
	Rates & Taxes		
	-Share Issue Expenses - ROC fee amortized	11.00	11.00
	-Interest on Delayed Remittance of TDS	0.03	-
	-Others	2.63	4.75
	Bad Debts written off	2.00	0.98
	Patient Capital Expenses	2.84	2.65
	Liveli hood promotion expenses	-	4.09
	Assets costing Less than Rs.5000	-	8.25
	Transportation Charges	-	0.10
	SHPI Promotion Expenses	-	10.88
	Advances written off	5.18	-
	Data Entry Expenses	0.15	-
	Prior period expenditure	2.39	-
	Membership & Subscription	10.38	-
	Swach Bharat Cess Exp	1.62	-
	TOTAL	**2,168.84**	**1,921.71**

NABARD FINANCIAL SERVICES LIMITED

NOTES FORMING PART OF FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2016

Note No. 22

Capital to Risk Weighted Asset Ratio:

Particulars	As at 31.03.2016	As at 31.03.2015
CRAR	23.10%	24.28%
Tier I Capital	23.10%	24.28%
Tier II Capital	-	-

As per the RBI Norms NBFC-MFI should maintain capital adequacy ratio which shall not be less than 15 percent of it aggregate risk weighted assets.

Exposure to Real Estate Sector

The Company does not have any direct or indirect exposure to the real estate sector as at 31 March 2015 and as at 31 March 2016.

Note No.23

ASSET CLASSIFICATION & PROVISIONING NORMS:

Provision on loans has been provided as per RBI circular issued by RBI vide notification number DNBR (PD) CC.No.047/03.10.119/2015-16 dated 1st July 2015.

As per the guidelines, the aggregate loan provision to be maintained by NBFC-MFIs at any point of time shall not be less than the higher of (a) 1% of the outstanding loan portfolio or (b) 50% of the aggregate loan instalments which are overdue for more than 90 days and less than 180 days and 100% of the aggregate loan instalments which are overdue for 180 days or more'.

(A)

(₹ Lakh)

Asset Classification	Criteria	Out standing	Over Due Amount	RBI Norms		Provision	
		₹ in lakhs		%	Amount	%	Amount
Total Portfolio	-	86095.74		1%	860.96	1%	860.96

(B)

Asset Classification	Criteria	Out standing	Over Due Amount	RBI Norms		Actual Provision	
		₹ in lakhs		%	Amount	%	Amount
Standard Assets	Less than 90 Days	82443.11	-	-	-	0.40	329.77
Substandard assets	More than 90 days but less than 180 days	431.06	212.53	50	106.27	50	106.27
Substandard assets	180 Days & Above	2021.72	1907.98	100	1907.98	100	1907.98
Loss Assets		1199.85	279.09	100	1199.85	100	1199.85
Total Provision		**86095.74**	**2399.61**		**3214.10**		**3543.87**

Note No. 24

Maturity Pattern of certain items of assets and liabilities as on 31.03.2016

(₹ Lakh)

Particulars	1 to 14 days	15 to 28 days	29 days to 3 months	3 to 6 months	6 to 12 months	1 to 3 years	3 to 5 years	5 to 7 years	Total
Assets Loans	1969.17	250.88	1961.26	14681.36	40493.01	26557.07	182.99	-	86095.74
FDs, Bank & Cash balances	1,773.64	-	-	4,699.53	19621.97		-	-	26095.14
Total	**3742.81**	**250.88**	**1961.26**	**19380.89**	**60114.98**	**26557.07**	**182.99**	**-**	**112190.88**
Liabilities Refinance from NABARD	-	-		22,044.80	20,249.49	40,065.80	-	-	82,360.09
Interest on Refinance		-	-	1164.44					1164.44
Term Loan UBI	11.96		35.88	35.88	71.76	287.04	239.33		681.85
Total	**11.96**	**-**	**35.88**	**23245.12**	**20321.25**	**40352.84**	**239.33**		**84206.38**

Note No. 25

Net Interest Margin during the year:

Particulars	**For the year ended March 31, 2016**	**For the year ended March 31, 2015**
Average Interest - (a)	16.15 %	16.12 %
Average cost of borrowings – (b)	9.47 %	9.46 %
Interest Margin (a – b)	6.68 %	6.66 %

Average interest represents the average rate interest at which loans have been disbursed to the customers for the year ended 31 March 2016 and 31 March 2015.

The Average interest cost of borrowings of the Company for the year ended 31 March 2016 and 31 March 2015 has been computed based on the monthly interest cost divided by the average monthly balances of outstanding borrowings.

Note No. 26

Disclosure of complaints

	Particulars	**No.**
(a)	No. of complaints pending at the beginning of the year	Nil
(b)	No. of complaints received during the year	Nil
(c)	No. of complaints redressed during the year	Nil
(d)	No. of complaints pending at the end of the year	Nil

Note No. 27

Disclosures of Fraud Pursuant to Reserve Bank of India guidelines.

NABFINS has extended loans to 442 Self Help Groups through a business & development correspondent based at Chittoor, Andhra Pradesh. ₹1961.70 Lakhs was disbursed through the through a business & development correspondent of which ₹749.06 lakhs has been recovered. The business & development correspondent had committed a fraud against which the company has initiated legal proceedings including filing FIR with police authorities Chittoor District of Andhra Pradesh.

Note No. 28

Expenses towards Increase in Authorized Share Capital

The Company has incurred expenses during 2012-13 towards ROC filing fee amounting to ₹55.00 lakhs (Rupees Fifty Five Lakhs Only) towards increase in Authorized Share Capital of the company. The company has amortized 1/5th of such expenditure amounting to ₹11 lakhs for the year and the un-amortised portion of ₹ 11.00 lakhs (Rupees Eleven Lakhs Only) is included in the "Other non-current assets". (Refer Note no.12)

Note No. 29

Statutory Reserve

(a) During the current year, the Company has transferred 20 % profit after tax to the statutory reserves in accordance with the provisions of section 45-IC of Reserve Bank of India Act, 1934.

Interest on Risk Fund

The company has allocated a sum of ₹ 200 lakhs towards risk fund as approved by the Board and the interest earned risk on fund has been recognized as income in thestatement of profit & loss on accrual basis.

Note No. 30

Re-finance loan from NABARD

The company has "Re-finance" arrangements with NABARD, and the refinance is being availed by the company after disbursement of loan. Refinance is repayable in three years with half yearly installments and interest payments are made as per the demand advice received from NABARD.

The "Re-finance" arrangements are unsecured in nature and there was no default in repayment of loan installments and also interest. The following are the repayment terms:

SL No.	Rate Of Interest %	Outstanding No. of Installments	Amount in ₹ Lakh
1	8.25%	1	17,898.95
2	8.35%	1	4,645.83
3	9.10%	1	14,000.00
4	9.20%	2	12,585.83
5	9.30%	1	2,268.28
6	9.50%	3	21,693.21
7	9.65%	2	988.88
8	9.70%	4	6,805.93
9	9.90%	2	1,006.85
10	10.25%	2	466.34
		19.00	**82,360.10**

The current maturities (payable within the period of 12 months) of “Re-finance” commitments, are classified as Current liabilities amounting to ₹ 42294.30 lakhs and the remaining commitments are classified under Long term borrowing amounting to ₹ 40065.80 lakhs (Refer Note no 3 & 7).

Note No. 31

During the year a sum of ₹ 717.75 lakhs was borrowed from Union Bank of India, Domlur Branch for acquiring property as approved by the board and the interest paid on said loan for the year was ₹ 18.01 lakhs. Since the property is under construction/development, the specific borrowing cost of ₹ 18.01 lakhs has been capitalized as per Accounting Standard 16.

The current maturities (payable within the period of 12 months) of term loan are classified as Current liabilities amounting to ₹ 143.55 lakhs and the remaining commitments are classified under Long term borrowing amounting to ₹ 538.30 lakhs (Refer Note no 3 & 7).

Note No. 32

Patient Capital

The Company has entered into MOU dated 19th June 2013 with PMU of IFAD (Project Management Unit of International Fund for Agricultural Development – Government of Tamilnadu) assisted Post Tsunami Sustainable Livelihood Program. As per the MOU, the Company is eligible for receiving Fund assistance for ₹ 500 lakhs in accordance with the terms and conditions set forth therein. The said fund assistance of ₹ 500 lakhs provided to the company as patient capital by IFAD will be utilized for development of micro enterprises and all aspects relating to various activities included in the MOU and implementation thereof including Auditing of the accounts, monitoring and review will be under taken its assignees / its successor for 8 years which was later revised to 6 years, the date on which the patient capital will be converted as Equity in perpetuity of the company.

The Company has received of ₹ 500 lakhs and the amount received was accounted as “Patient Capital” classified under “Other Long Term Liabilities”.(Refer note.no - 4)

Note No. 33

NABARD has sanctioned a grant assistance of ₹ 5 crore to the Company to be used as "Revolving Fund Assistance (RFA)". The grant will be used to lend to the trainees who will register themselves with Gurukuls set up by the PAN IIT Reach for India Foundation (PARFI) to undertake training. As per the terms and conditions of the sanction, ₹ 2.50 crore (50% of the sanctioned amount) was released by NABARD as advance on acceptance of the terms and conditions for sanction. The entire grant shall be utilized within a period of 4 years from the date of release of first installment. The principal recovery and unutilized outstanding amount (amount not released / unutilized) is transferrable to the Share Capital Deposit account maintained on behalf of NABARD, at the end of 5 years from the date of release of first installment by NABARD. NABARD reserves the right to transfer any amount in share capital deposit account towards the equity of NABFINS. (Refer note.no - 4)

Note No.34

Payables to SHG groups and BD&Cs under the head Other current liabilities (Refer note no-7) include an amount of ₹ 24.54 lakhs which was deposited by various SHG groups to company's bank accounts and has not been appropriated to SHGS due to absence of information.

Note No. 35

Claims against the company not acknowledged as debt

Details of demand raised by the Income Tax Department including interest.

(₹ Lakh)

Particulars	**Demand raised under 143(1) of I.T Act 1961**
Asst Year 2008-2009	14,75,041
Asst Year 2009-2010	10,76,318
Asst Year 2010-2011	3,08,242
Total demand raised	**28,59,601**

The demand raised by the tax authorities is not provided in the books, since the credit for tax deducted at source was not been considered by the tax authority. The company has made representation to tax authorities to rectify the above demand.

Details of refund amount adjusted

(₹ Lakh)

Particulars	**Amount**
Refund receivable for the Asst Year 2011-2012	13,84,560
Less : Adjusted against demand of	
- Asst Year 2009-2010	10,76,318
- Asst Year 2010-2011	3,08,242
Total amount adjust against the demand	**13,84,560**

The company has sought rectification for the AY 2011-12 for release of refund and contested the adjustment of demands against refund.

Note No. 36

Employees Benefits

i. The Managing Director is on deputation from NABARD. MD's remuneration including Provident Fund, Gratuity and Leave Salary is charged to the accounts and reimbursed to NABARD on the basis of the advices received from them and rent paid towards MD accommodation is charged to statement of profit & loss under the head rent paid to staff quarter

ii. The Liability in respect of Gratuity for employees is funded through a scheme administered by an insurer and the said gratuity of ₹7.21 Lakhs on actuarial basis has been paid during the year.

iii. Liability in respect of Leave encashment has been provided as per policy of the company amounting to ₹40.59 Lakhs.

iv. As a part of company policy, mobile phone will be provided by the company to the employees as per the staff rules and hence the same has been charged off as employee cost in the statement of profit & loss. Employee benefit expenses include ₹7.49 Lakhs towards mobile purchased for staff during the year.

Note No. 37

Consumables

All the purchases towards stationery and other consumables has been made as per the requirement and consumed immediately, hence no material Inventory of consumables is available with the company. Accordingly all the purchases made towards consumables has been charged off in the statement of profit & loss.

Note No. 38

Exceptional Item

A sum of ₹1199.84 lakhs has been provided as provision towards the accounts categories under fraud. The same has been shown under exceptional item in the statement of profit and loss. The company has initiated the necessary action to recover the same.

Note No. 39

Earnings Per Share:

(₹ Lakh)

Particulars	2015-16	2014-15
Net Profit after tax as per statement of Profit & Loss	869.99	1741.37
Less : Transfer to Statutory Reserve	174.00	350.57
Profit available to Equity Shareholders	695.99	1390.80
Weighted average No. of Equity shares	1338.50	1338.50
Basic Earnings per share	0.52	1.04
Diluted Earnings per share	0.52	1.04

Note No. 40

Fixed Assets and accumulated depreciation on fixed asset has been reclassified as per schedule II to Companies Act 2013. Depreciation on Fixed Assets is provided based on the useful life of the asset on straight line basis as per schedule II of the Companies Act 2013.

(a) The carrying amount of the assets have been depreciated over the remaining useful life of the asset as per para 7 (a) of schedule II to the Companies Act 2013.

(b) Where the remaining useful life of the asset is Nil, the carrying amount has been charged to opening retained earnings after retaining the residual value as per para 7 (b) of schedule II to the Companies Act 2013.

(c) Intangible assets has been amortized over their estimated useful life as per Accounting Standard 26 issued by ICAI which is as per schedule II to the Companies Act 2013.

Tangible Assets

Particulars	Useful Life
Furniture & Fixtures	10 Years
Office Equipment	5 Years
Servers & Networks	6 Years
Laptops & Desktops	3 Years
Vehicle	10 Years

Intangible assets: Lower of license period or 5 years

Note No. 41

Additions to Fixed Assets

Total additions to land and building during the year was ₹830.32 Lakh (excluding interest capitalization)this includes ₹42.76 lakhs representing the value of land and building transferred by an Business & development correspondent in lieu of accounts which were sponsored by the agency & turned out to be NPA. The value of property has been adjusted against 99 NPA accounts.

Note No. 42

Names of Related Parties and Nature of Relationship

Description of Relationship	As at March 31, 2016	As at March 31, 2015
Holding Company	NABARD	NABARD
Share Holder	Canara Bank	Canara Bank
Share Holder	Union Bank of India	Union Bank of India
Chairman	Shri Aloysius P. Fernandez	Shri Aloysius P. Fernandez
Managing Director up to April 10, 2015	Shri Maruthi Ram	Shri Y. K Rao
Managing Director from April 1, 2015	Dr. B S Suran	Shri V. Maruthi Ram
Director	Prof. M.S Sriram	Prof. M.S. Sriram
Director	Dr. Venugopalan Puhazendhi	Dr. Venugopalan Puhazendhi
Chief Financial Officer	Mr. Vinod C	-
Company Secretary	Mr. Karthik A	Shri Y.L. Narasappa

Note No. 43

Transactions with the Related Parties ₹ Lakh

Transaction	Related Party	For the year ended 31.03.2016	For the year ended 31.03.2015
Other Transactions: Issue of Shares	NABARD	-	2,600.00
Issue of Shares	Canara Bank	-	1410.00
Loan Received (Secured)	Union Bank of India	717.75	-
Loan Received (Unsecured)	NABARD	52576.94	40122.24
Loan Repaid	NABARD	35051.32	29,137.96
Rental Deposit on behalf of MD	Dr. B S Suran	4.00	-
Expenses: Interest Payment	NABARD	6443.10	5419.87
Interest Payment	Union Bank of India	18.01	-
Managerial Remuneration/ reimbursement	Shri Y.K. Rao	-	9.92
Managerial Remuneration / Reimbursement	Shri V. Maruthi Ram	5.44	25.28
Managerial Remuneration /reimbursement	Dr. B.S. Suran	42.93	-
Professional Charges	Shri Aloysius P. Fernandez	19.04	19.04
Director Sitting Fee		0.60	0.70
Director Sitting Fee	Prof. M.S Sriram	0.95	0.85
Director Sitting Fee	Dr. Venugopalan Puhazendhi	1.10	0.75
Director Sitting Fee	Smt. Meera Saksena	0.50	-
Reimbursement	Mr. Vinod C	0.27	-
Salary	Mr. Narasappa	-	6.98
Salary	Mr. A Karthik	5.00	-

Note No. 44

Expenditure on Corporate Social Responsibility

(a) Gross amount required to be spent by the company during the year : ₹ 45.37 lakh

(b) Amount spent during the year on (₹ Lakh)

Particulars	In cash	Yet to be paid in cash	Total
(i) Construction / Acquisition of asset	24.57	20.80	45.37
(ii) On purposes other than above (a)	-	-	-

The company has entered contract with Sulab International Social Service Organization and GRAAM to execute the projects, accordingly the company has provided for the unspent of ₹20.80 Lakhs in the books.

Note No.45

Break-up of Deferred Tax (Asset) / Liability as on 31st March 2016: - (₹ Lakh)

Particulars	DTL	DTA
Timing difference on account of Difference between Written Down Value of Fixed Assets as per companies Books & Income tax	19.83	
Disallowance with respect to Professional tax		0.79
Disallowance u/s 43B of the Income Tax Act, 1961 in respect of Earned Leave Encashment		9.79
Total	**19.83**	**10.59**
Deferred Tax Calculated on above	6.74	3.60
Net Deferred tax Liability	3.14	
Less : Opening balance of deferred tax liability	10.39	
Liability created/Reversed during for the year	**(7.25)**	

Note No. 46

Foreign Currency Transactions: -

Particulars	2015-16	2014-15
a. Earnings in Foreign Currency	Nil	Nil
b. Expenditure in Foreign Currency	Nil	Nil

Note No. 47

Capital Commitment

The company had entered into agreement on April 15, 2016 with M/s Sanjay Marketing and Publicity Services towards civil work (Interiors) for an amount of ₹201.34 Lakhs.

Note No. 48

Disclosure required under section 22 of the Micro, Small and Medium Enterprises Development Act, 2006. There are no Micro and Small Enterprises to whom the company owes dues, which are outstanding for more than 45 days at the Balance Sheet date. The information regarding Micro and Small Enterprises has been determined to the extent such parties have been identified on the basis of information available with the company.

Note No. 49

Segment Reporting: The company is engaged in Financial Lending Activity which is considered as the only reportable business segment as per AS 17. The geographical segment is not relevant since the company's business activities are restricted within the country

Note No.50

Previous Year figures are regrouped / reclassified wherever necessary to make them comparable with current year's classification / disclosure.

Schedule to the
Balance Sheet of a Non-Deposit taking Non-Banking Financial Company

(as required in terms of paragraph 13 of
Non-Banking Financial (Non-Deposit Accepting or Holding)
Companies Prudential Norms (Reserve Bank) Directions, 2007)
As on 31st March, 2016

Sl No	Particulars		(₹ lakhs)	
	Liabilities side :			
1	**Loans and advances availed by the non- banking financial company inclusive of interest accrued thereon but not paid:**		**Amount outstanding**	**Amount overdue**
	(a)	Debentures : Secured	NIL	NIL
		:Unsecured	NIL	NIL
		(other than falling within the meaning of public deposits*)		
	(b)	Deferred Credits	NIL	NIL
	(c)	Term Loans	84206.39	NIL
	(d)	Inter-corporate loans and borrowing	NIL	NIL
	(e)	Commercial Paper	NIL	NIL
	(f)	Other Loans (specify nature)	NIL	NIL
	* Please see Note 1 below			

	Assets side :	
(2)	**Break-up of Loans and Advances including bills receivables [other than those included in (4) below] :**	**Amount outstanding**
	(a)Secured	NIL
	(b)Unsecured	86095.74

(3)	**Break up of Leased Assets and stock on hire and other assets counting towards AFC activities**			**Amount outstanding**
	(I)	lease assets including lease rentals under sundry debtors :		
		(a)	Financial lease	NIL
		(b)	Operating lease	NIL
	(ii)	Stock on hire including hire charges under sundry debtors:		
		(a)	Assets on hire	
		(b)	Repossessed Assets	
	(iii)	Other loans counting towards AFC activities		
		(a)	Loans where assets have been repossessed	
		(b)	Loans other than (a) above	

(₹ lakhs)

(4)	Break-up of Investments : Current Investments :				Amount outstanding
	1.	Quoted :			
		(I) shares :	(a)	Equity	NIL
			(b)	Preference	NIL
		(ii) Debentures and Bonds			NIL
		(iii) Units of mutual funds			NIL
		(iv) Government Securities			NIL
		(v) Others (please specify)			NIL
	2.	Unquoted :			
			(a)	Equity	NIL
			(b)	Preference	NIL
	(ii)	Debentures and Bonds			NIL
	(iii)	Units of mutual funds			NIL
	(iv)	Government Securities			NIL
	(v)	Others (please specify)			NIL
	Long Term investments				
	1.	Quoted :			NIL
		(I)shares :	(a)	Equity	NIL
			(b)	Preference	NIL
	(ii)	Debentures and Bonds			NIL
	(iii)	Units of mutual funds			NIL
	(iv)	Government Securities			NIL
	(v)	Others (please specify)			NIL
	2.	Unquoted :			
	(I)	shares :	(a)	Equity	NIL
			(b)	Preference	NIL
	(ii)	Debentures and Bonds			NIL
	(iii)	Units of mutual funds			NIL
	(iv)	Government Securities			NIL
	(v)	Others (please specify)			NIL

(5)	Borrower group-wise classification of assets financed as in (2) and (3) above :				
	Please see Note 2 below				
	Category		Amount net of provisions		
			Secured	Unsecured	Total
	1.	Related Parties **			
	(a)	Subsidiaries	NIL	NIL	NIL
	(b)	Companies in the same group	NIL	NIL	NIL
	(c)	Other related parties	NIL	NIL	NIL
	2.	Other than related parties	NIL	86095.74	86095.74
		TOTAL		86095.74	86095.74

(6)	**Investor group-wise classification of all investments (current and long term) in shares and securities (both quoted and unquoted):**				
	Please see Note 3 below				(₹ lakhs)
	Category			**Amount net of provisions**	
				Market Value / Break up or fair value or NAV	Book Value (Net of Provisions)
	1.	Related Parties **			
		(a)	Subsidiaries	NIL	NIL
		(b)	Companies in the same group	NIL	NIL
		(c)	Other related parties	NIL	NIL
	2.	Other than related parties		NIL	NIL
		TOTAL		**NIL**	**NIL**
	As per Accounting Standard of ICAI (Please see Note 3)				

(7)	**Other Information**			**(₹ lakhs)**
	Particulars			**Amount**
	(I)	Gross Non-Performing Assets		NIL
		(a)	Related parties	NIL
		(b)	Other than related parties	**3652.62**
	(ii)	Net Non-Performing Assets		NIL
		(a)	Related parties	NIL
		(b)	Other than related parties	**438.53**
	(iii)	Assets acquired in satisfaction of debt		42.76

Notes:

1. As defined in paragraph 2(1) (xii) of the Non-Banking Financial Companies Acceptance of Public Deposits (Reserve Bank) Directions, 1998.

2. Provisioning norms shall be as applicable to it in terms of Non-Banking Financial Company -Micro Finance Institutions (Reserve Bank) Directions, 2011.

3. All Accounting Standards and Guidance Notes issued by ICAI are applicable including for valuation of investments and other assets as also assets acquired in satisfaction of debt. However, market value in respect of quoted investments and break up/fair value/NAV in respect of unquoted investments should be disclosed irrespective of whether they are classified as long

For NABARD Financial Services Limited

As per our report of even date
For Rao & Emmar
Chartered Accountants
Firm Reg No 003084S

ALOYSIUS P.FERNANDEZ
CHAIRMAN

Dr. B.S. SURAN
MANAGING DIRECTOR

B J PRAVEEN
PARTNER
M.No. 215713

Bengaluru
28.04.2016

C. VINOD
CHIEF FINANCIAL OFFICER

A. KARTHIK
COMPANY SCRETARY

Skill Loans – Dreams to reality

Getting an assured placement after education has been a dream for many aspiring youth in India. Getting trained industry ready workforce has remained an unmet demand.
“Skill Loans” isa unique initiative to promote a sustainable model for creating industry ready employable skilled youth especially belonging from the regions affected by Left Wing Extremism and other backward regions. This initiative was launched in association with PanIIT Alumni Reach for India Foundation (PARFI), a not-for-profit social enterprise promoted by alumnus of IITs with the financial assistance from NABARD.

Under this NABFINS provides skill loans unemployed youth in backward regions for provision of industry oriented skill trainings based on the demand mapped by the potential employers. After the skill training, these youth are placed into industry nationally and abroad after successful completion of training. The training, which normally runs over a month, is provided under traditional “Gurukul”method, where the youth are not only trained in select skills but also social skills. NABFINS extends loan to meet their training fee at a concessional interest rate of 6% p.a. which is repayable over a period of 6 to 9 months after their placement. This helps them to create a good credit history.

Within a year of launch of this project, NABFINS has supported more than 750 such identified youth including two batches of girl candidates.

Sustaining the developed watersheds

Watershed Development has been one of the main community led programme promoted by NABARD and efforts have been put by the project implementing agencies in developing physical and social infrastructure for enhancement of livelihood of the rural communities.

Post the development of watershed and ensuring its development with appropriate water harvesting and in situ conservation measures, it is critical to link these geographies with client friendly financial institutions for long term success and sustainability of watersheds. The underlying theme of a new paradigm for watershed-based finance being attempted by NABFINS is to enable watersheds to move from a limited grant-funded approach to a portfolio strategy that builds partnerships to explore the full range of possible financing options and to make the intervention sustainable.Keeping this in view, NABFINS launched exclusive product to augment Watershed initiative and leveraging the enhanced credit absorption capacity of the community in the treated Watershed.

Through this model, NABFINS envisage a greater role of the Village Watershed Committee, being one of the anchor institutions for implementing watershed and capacitated to undertake post-watershed interventions. NABFINS intend to involve the Village Watershed Community in the process and thereby strengthening it. The model focuses on systematic approach, delivering the credit by forming Joint Liability Groups among the watershed community.

The first such pilot was launched by NABFINS at Chattar Watershed atLingsugur Taluk in Raichur district of Karnataka.

Shri U Ramesh Kumar, C.O.O. NABFINS inaugurating the programme

Chattar VWC president signing MoU in the presence of VWC office bearers.

Watershed community present during the product launch

Shri N. Narayan Raju, DDM, NABARD, Raichur addressing the community during the occasion.

Beyond Business

NABFINS attempt to address Nutrition Deficiency in Tribal Children through Social business unit set by the Self Help Group members

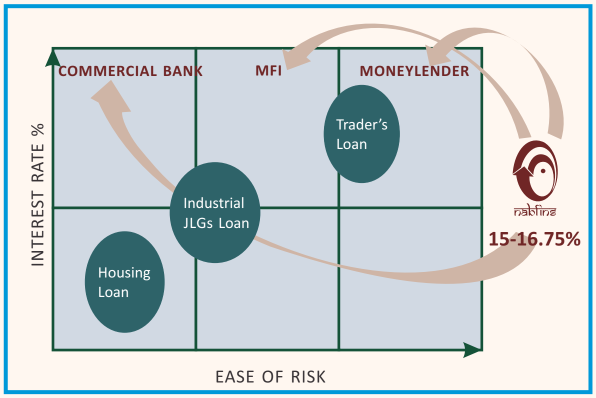
Many researcheshave reported problem of malnutrition and severe nutrition deficiency in the children belonging to tribal community in the country. It is also clinically proven that nutritional values of raagi is could be partially a solution for the Sickle cell anaemia, a disease which is predominant in tribal children in few districts of Karnataka. Ragi is one of the major crops cultivated by the tribal community in Karnataka. However there is a decrease in consumption of Ragi by them.

NABFINS, with an objective to address this issue and to support tribal farmers undertaking Ragi cultivation, is supporting to establish a Social business unit set up by the Self Help Group members for production of nutrition supplement and value added products of Ragi in HD Kote Taluka of Mysore District in Karnataka. The project is implemented in association with Grassroots Research and Advocacy Movement (GRAAM), a non-governmental organization based at Mysore, Karnataka.

Apart from addressing nutrition deficiency in tribal children, the project is envisaged to facilitate a group of Ragi producers to have an effective marketing linkage for their produce and to create a local market for value added products of Ragi in a sustainable manner

Findings of research interns from Ivey Business School, Western University, Canada

NABARD Financial Services Limited has hosted seven student interns from various universities and institutions nationally and internationally. The interns, under the support and guidance from NABFINS team have undertaken different research assignments across different operational areas of NABFINS. The summary of research carried out by interns from Ivey Business School, Western University, Canada is presented below.



Analysing NABFINS' market positioning, within the industry, the study attempted to differentiate between two main elements: Interest rate and the ease of risk for three potential products Housing Loan, Loans to Industrial JLGs and Loans to traders. Thepotential of these product among three categories of lending institutions viz. Commercial bank lending at 8 -12%, microfinance institutions at 22-28% and moneylenders at 28% and above. As apparent from fig. 1.1, Housing loans found to be a good product for commercial banks, industrial JLGs for MFIs and Traders loans which is considered the riskier of the lot is being served mainly by money lenders

The study attempted to explain the positioning of NABFINS vis a vis the other players in the market and also suggested that Industrial JLG could be a potential product for NABFINS.

Ivey Business School Research Team with
Dr. B S Suran, Managing Director NABFINS and other officials.

A Brief History of SHGs - Past and Present

The history of SHGs will be divided into two parts:

i) The history of the SHG movement from 1987(when NABARD gave a grant to Myrada for an action research project) to 1992 (when the SHG-Bank Linkage started); this period (1987 to 1992) has not been recorded adequately and ii) A comparison of the concept of SHGs and the strategy pursued with the help of SHGs during the first wave of micro credit between 1992 and 2000 with the concept of a SHG and strategy pursued with the help of so-called "SHGs" during the second wave after 2000. For the sake of clarity this comparison will be given in tabular form.

1. The history of the SHG movement between 1987 and 2000. Yes, I have had a long and very positive relationship with NABARD since 1986 when as Executive Director of Myrada, I approached Shri P.R. Nayak (then Chairman of NABARD and Deputy Gov.RBI) for a grant of Rs 3 million to match the savings of what Myrada called Credit Management Groups (there were already about 100 in Myrada by 1987) and to train these groups. Their members were the poor who had received no benefits from the Cooperative Society (PACS). In fact I discovered that the PACS were controlled by the powerful families which used the PACs to strengthen their power and hold over the poor. Shri P.R.Nayak was previously Development Commissioner of Karnataka and knew Myrada's work well. NABARD granted only Rs 1 million to Myrada in 1987 , but this grant effectively gave NABARD ownership and responsibility to follow this pilot closely as a source of learning. NABARD suggested that Myrada should change the name from Credit Management Groups to Self Help Groups - which it did.

The outcome of this pilot could be summarised in three policy decisions taken by NABARD and backed by RBI (between 1991 and 1992) in which I was closely involved: **i) To lend to SHGs** (one loan to the SHG) and not a loan to each individual member in a group; as transaction costs to Banks decreased in the first model (one loan to the SHG), the Bankers supported this. The decision to give one loan to the group was the result of the discovery that social **affinity** existed among few (10-20) rural families prior to Myrada's intervention; it was based on relations of trust and mutual support; this was called affinity and provided a social collateral. Affinity was a strength of the people on which the Institutional Capacity Building (ICB) Training (supported by NABARD and conducted by NGOs) was built. As a result of this affinity, which already existed, they self selected the SHG members. **The group common fund** (comprising savings, grants & loans) was an economic base in which all members had a stake and which strengthened social affinity; **ii)to lend to unregistered SHGs** provided they kept accounts and maintained records of decisions taken; this was difficult until Shri C. Rangarajan gave the go ahead. This decision gave the SHG space and freedom to operate; even though they had taken a Bank loan, they did not have to follow Bank's rules regarding size and purpose of loans. This differed from recent programs related to the push for "financial inclusion" which requires the client to follow the rules of the Banks. The decision to allow the SHGs to receive loans, even though they were not registered, meant in effect that the SHGs were not mainstreamed (included) in the official financial system; but they were surely included in growth with the help of low cost credit from the Banks, empowerment through ICB training and freedom to decide on purpose and size of loan. The strategy in the first wave was to start with SHGs which was only the first step and then to assist members to approach Banks for larger loans. Many in fact did approach Banks for larger loans after 3-5 years and it was interesting to see the Banks asking for their credit history in the SHGs. In 2009 Myrada collected the loan profile of several members of SHGs. What emerged was that it took about 10- loans over a period of 6-7 years for a total amount of Rs 3 lakh on an average for a family to move out of poverty and remain there; and **iii)to lend without physical collateral;** there were precedents and hence the Banks agreed since there was social collateral based on affinity among members and an economic base , namely, the group common fund in which all had a stake.

The first wave

These policy changes enabled NABARD to launch the SHG-BANK Linkage program in 1992. NABARD provided grants to NGOs for ICB training of SHGs to build them into sound institutions. Their performance till 2000 proved that this objective was largely achieved. The Training comprised 14 modules which Myrada put together. They included: exercises to increase participation, to arrive at consensus and resolve conflict, basic numeracy, analysis of sources of credit and of local power structures that had control of local natural resources ; how to monitor usage of funds from Government/panchayat,importance of maintaining minutes of meetings and accounts, how to address common issues related to domestic violence, caste and oppressive practices, how to carry out self assessment, how to build a vision for the group, village and their families, how to deal with the Gram Panchayat and elections, etc The SHGs formed between 1987 and 2000 focused on "building Institutions of the poor" which managed their resources and set the agenda for their growth. These features made the SHG the last mile in the credit and repayment management structure. In 2001 I wrote a book entitled "Putting Institutions first even in Micro finance" when there was already strong evidence of the second wave which focused on individuals emerging, and which I foresaw would dismantle the SHGs as institutions in favour of extending loans directly to individuals. This shift was accompanied by the decision to set up centralised Credit Bureau which would help mainly in controlling multiple lending and providing data on the amount and size of loans to individuals; experience has shown that they have not been as effective as expected in achieving these objectives.

After 2000 a "second wave" emerged, led primarily by NBFC-MFIs which watered down or discarded most of the features of the first wave as will be explained below. Government sponsored programs like SGSY and later NRLM which claimed to have adopted the group approach also undermined some of the features of the first wave of SHGs. In effect they nationalised people institutions and co-opted them in the Govt. delivery system. These two thrusts, one backed by Government ,the other by the private sector effectively undermined the features of the first wave SHGs. **Unfortunately even during the second wave, the NBFC/MFIs and Govt. sponsored programs continued to call the groups they formed as SHG –** as this name had gained acceptance in Govt. and financial institutions. It was at this time that Myrada changed the name to SAGs (Self Help Affinity Groups)to identify those groups which continued to preserve the features of the SHGs of the first wave.

The following table may help to highlight the differences between the first and second wave especially the differences related to the concept of SHGs and their role in implementing a strategy for micro finance.

First wave 1992 to 2000 (thereabouts)	Second Wave (2000 onwards)
1. Objective: Poverty mitigation& Inclusion of the poor in growth through collectively owned and managed institutions. NABFINS promotes these objectives **Strategy :** From 1992 to 2000- Building poor peoples institutions –mainly SHGs as a first step;	**1. Objective: Financial inclusion of individuals; profitable NBFC/MFIs and their rapid expansion- Whether financial inclusion leads to growth in income is not considered.** **Strategy:** No investment in building peoples institutions.
--Provision of credit is only one of the inputs and was managed by SHGs. -- NABARD/NGOs/ and, after 2010, NABFINS, recognised that there are other critical features of the strategy; to start with it is necessary to build on peoples strengths especially those which keeps them together like traditional relations of trust and support (or affinity); to build self-confidence and empowerment through SHG management of its activities, ICB Training, networking to influence change in unequal power relations, to manage local resources and institutions, Panchayat, schools etc. -- SHGs / People Institutions emerged as appropriate instruments to achieve these objectives as well as to equip the SHGs with skills to take decisions to deal with diversity (in size, purpose)and to manage repayment. SHGs emerged as the last mile. Hence, --Priority was given to institutional capacity building(ICB)of SHGs to strengthen them as peoples institutions which could mobilise and mange resources (thru savings and debt),to adapt to diversity of purposes and sizes of loans ,to lobby for change in unequal power relations (social and gender).	--Priority given to quick provision of credit- which is expected to eradicate poverty –based on the assumption that financial inclusion is sufficient to eradicate poverty. --No recognition that unequal power relations are a major cause of poverty and that most institutions , including the PACS, strengthen these unequal relations because they are controlled by families that hold traditional political, economic and social/political power in the village. - Strategy dominated by emphasis on rapid expansion of loan portfolio of NBFC/MFI to achieve financial sustainability through profit maximisation and zero default rate by all means. - No involvement of NGOs or peoples institutions as Business Facilitators; in fact no NGOs/Peoples Institutions have any role to play. -No recognition of (unable to cope with) great diversity in needs related to purpose size and repayment schedule of loans, hence standardisation of size of loans and repayment period (the last depends on size of loans not on purpose) .

--NABARD/NGOs/NABFINS provided funds/trainers for ICB and mobilised technical support for effective/efficient use of loans to increase productivity/income and confidence to initiate change at their pace --NGOs functioned as Business Facilitators , they did not manage cash but did ICB Training and overall monitoring; did not get commission and had to rely on donor grants. **Findings :** The deeper the poverty the less is credit the trigger for growth. Other inputs are required to build empowered and independent peoples institutions in order to increase capital at the bottom of the pyramid. - Banks provided credit directly to SHGs;, **they made a profit but did not profiteer.** **NABFINS:** Partners NGOs as Business and Development Correspondents (B&DCs)they got a commission (2%) and repayments were channelled thru them. Note: NABFINS extended credit directly to SHG/client not thru B&DCs.	**Findings:** NBFC/MFIs achieved success in becoming profitable; this was used by International Institutions as evidence of the success of the second wave. Profiteering not profit is the driver. - Focus on providing credit only, leads to extraction of capital from the bottom of the pyramid which issued to subsidise expansion of NBFC/MFI, pay high salaries to its staff. Banks did not provide credit to SHGs; they provided credit to NBFC/MFIs which on lent to individuals
2. Drivers: NABARD which provided grants for ICB training and lobbied Banks to lend directly to SHGs(even though unregistered) and to remove hurdles. No subsidies for asset or for interest rates. -- NABARD conducted meetings at State and National levels with Govt. banks, NGOs, SHG members to remove hurdles in SHG-Bank Linkage prog. **BANKS** under Linkage Prog started in 1992 and NABFINS since 2010; both provided **one bulk loan directly to SHGs.** No subsidies. NABFINS is a continuation of the SHG-Bank Linkage prog.	**2. Drivers:** Private NBFC/MFIs --No ICB Training, no savings or group common fund),; NBFC/MFIs lend directly to individuals in so-called groups (SHGs, JLGS) -- no subsidies provided by NBFC/MFIs **Government Programs (SGSY/NRLM)** provide subsidies (for asset under SGSY and for interest under NRLM). Loans from Banks. --Both SGSY and NRLM promoted their own version of SHGs controlled by Govt. and as part of Govt. delivery system; they did not lend to groups leaving this to Banks

SHGs were the major drivers over the "last mile".They decided at meetings whether or not to give loans to individuals and on size and purpose of loans and managed repayments. They also supported training in ICB for empowerment and management skills. **Challenge for NABFINS.** NABFINS is lobbying to keep the SHG-Bank practice of extending one loan to the SHG which manages the last mile (extending loans and managing repayments). SHG also performs other roles (building self confidence, networking) leading to empowerment. –-- NABFINS is under pressure to deal with individuals; and will adopt it. --The inputs (money, commitment and time) required to build SAGs as institutions are declining.	as in the first wave. Banks lend to NBFC/MFIs instead of directly to SHGs.Bank loans to groups directly are declining Govt. promoted Finance Institutions (ex.Andhra Pradesh) crowded out direct SHG Bank Linkage program and focused on credit only. **Caution:** NBFC/MFIs in the second wave are aggressively adopting the model of providing individual loans to members. Individual data is also required by RBI and govt. Institutions. Together this strengthens the shift from SHG management of the last mile, to management by individuals and Staff of the NBFC/MFI and in the case of Andhra to staff of the organisation and intermediary groups like Village organisations.
3. Training and activities for Institutional capacity building (ICB) of SHGs– The objective of ICB training was to build SHGs as institutions to manage savings and loans and to foster change –to function as the last mile. NOTE –The ICB training by itself did not build institutions. The members of SHGs who self selected themselves were already united by affinity(relations of trust and mutual support) . ICB training built on this strength; it motivated the SHG to build a group common fund in which all had a stake and which they controlled.	**3. Training and activities for ICB:** State sponsored Training : Some states like T.N. provided Rs 12,000 for ICB training of each SHG under IFAD program, GOI programs like SGSY provided Rs 10,000 per group. NRLM also provided funds. But some States and programs like SGSY and NRLM did not engage experienced NGOs in training. During SGSY, UP chose the Panchayat secretary as trainer. In most cases ICB training was reduced to a one day affair for hundreds of participants or large gatherings addressed by politicians and officers. NLRM conducted training thru its own institutions at state level but in most

Grants for ICB training provided by NABARD, donors and State Govts starting with Tamil Nadu under an IFAD program in late 1980s.NGOs were selected to implement Training till 2000-. Trainings comprise 14 modules over one to two years during which decisions related to regular and voluntary savings and small loans from common fund are used as training exercises. Each SHG was trained seperately or at most 2 SHGs together. --Habit of regular savings was cultivated ;Savings put in a group common fund; this strengthens the social basis of affinity; group opens account in Bank in which common fund is placed. This helps to start interaction between Banks and SHG members. -- If members asked for small loans , SHG decided to take from common fund. Multiple loans controlled by SHG. --Repayment performance is monitored by SHG as part of training (ICB) --Management of savings, of small loans and repayments are part of the training. Banks came in with one loan to SHG after 6- 8 months. Challenge for NABFINS: Funds for Training in ICB are declining. Could NABFINS provide/mobilise larger grants for ICB ; CSR could be tapped. Build a group common fund	states the trainers were inexperienced. Hence SHGs were weak and disbanded after receiving the first loan and distributing it equally. No effort was made to build a group common fund which SHG could manage. -No effort to build a group common fund and to lend from it and to mobilise repayment as part of training before Bank steps in. --NBFC/MFIs: No investment in ICB training by NBFC/MFI. They find it too long and expensive; no group common fund is built up; --loans given to individuals directly by NBFC/MFI after a week of formation. Clients were grouped together only for convenience to disburse loans and collect repayments --JLGs emerged which have no or minimal ICB training –usually restricted to keep books of accounts. No effort to build a common group fund. No member of JLG filled the gap when a member defaulted. Hence, staff of NBFC/MFIs had to go directly to households to collect repayment which caused embarrassment to people.
4. Location: Largely in rural areas where NGOs had already promoted development programs (like agriculture, watershed development, animal husbandry, artisans etc.) and peoples institutions. Credit	**4. Location:** NBFCs/MFIs work Largely in Cities, towns and peri urban areas where NGOs do not have supporting development initiatives or peoples institutions to optimise the use of credit, to open new

provision was embedded in these development programs and institutions. **--NABFINS** clients are in rural areas;it partners with NGOs who become Business and Development Correspondents (B&DCs). The “D” is added since it is essential to complement credit as a strategy for inclusion in growth. --As a result 47% of NABFINS loans are for agri. and allied activities, 27% for Non-farm livelihoods,6% for debt swap, 5% for housing and 8% for consumption including health. Challenge:Donor funds to NGOs for development programs are declining especially in South India. Can NABFINS engage specialised institutions to provide technical support to optimise rural livelihoods? Can NABFINS partner with private sector for grants under CSR for development programs.	livelihood opportunities and empower poor people. As a result the majority of loans are for consumption (including health and education) which meet urgent needs. These loans are repaid by income from other sources; many families, for example, are engaged in service sector. **Comment:** Many criticise the large part of the loan portfolio which is taken for consumption; I am not so sure, since aspirations are rising daily and have to be met. But the lack of investment in strengthening peoples institutions that can tackle issues related to corruption, exploitation and gender imbalance while at the same time catering largely to consumption, reduces Micro finance to a palliative. If Marx were around he would probably have said that **micro credit (second wave)is the opium of the people.**
5. Selection process of clients: SHGs formed thru self selection based on relations of mutual trust and support or affinity. PRA exercises are conducted by NGOs to identify poor; all families in the village participate. Once identified,the poor self select, (on the basis of affinity) the members of their group.- All members are in same economic category (poor) unlike PACS. **Findings: :** The poor select group members based on AFFINITY (mutual trust and support) which already exists (This is the social basis of the group).ICB training builds on this affinity which is a strength to enable	**5. Selection process of clients: Client acquisition through agents/ brokers.** Some groups formed by capturing some better off members of SHGs resulting in breaking of SHGs; --NBFC/MFIs focus on aggressive and fast expansion of clients through setting targets for NBFC/MFI field workers and providing them with incentives resulting in weak groups and multiple borrowing from several NBFC/MFGs **Findings:** Formation of groups thru clients without adequate ICB training, a group common fund and affinity opens the door to agents taking control. Most agents are

the group to take on new responsibilities (finance management, social issues) and to acquire confidence and appropriate skills.	supported by local powerful people . Often the agent gives only a small part of the loan to the client though in the records the total loan of amount is in the name of the client; this information is fed to the Credit Bureau.
6. Meetings: regularity, timing, location duration and Agenda **Who conducts meeting? SHG office bearers. Usually Chairperson is changed for every meeting** --Regularity: Weekly or fortnightly – as group decides. But analysis shows that strong SHGs meet weekly. Loans are not on agenda of every weekly meeting; repayments are accepted whenever members come forward to repay; but other issues (social/domestic) discussed. --Timing- again as group decides. --Location- in a common place acceptable to all --Agenda:-Song/prayers,attendance,each member contributes to the agenda; they bring up issues related to health, drinking water problems, domestic violence, caste conflicts, problems with Panchayat and PACS. --Collection of savings - -decision on size and purpose of loans to individual members and assessment of repayment performance --Defaulters handled by SHGs and decisions taken on strategy for recovery. --Duration -around 2-3 hours, depending	**6. Meetings: Who conducts meeting? Staff of NBFC/MFI** --Regularity and timing as NBFC MFI decides; --Location: common place, usually many groups come to same location and NBFC/MFI staff meets one after the other. --Duration: less than half an hour --Staff of NBFC/MFI attend all meetings since they conduct them --Agenda. Mainly on extending loans and collecting repayments with extra attention to defaulters; staff of NBFC often go to homes of defaulters to "shame" them. Obligation to repay is mainly on the individual client (and NBFC/Staff), not on group. --Size of loans standardised – so no role for group to decide. -- Purpose of loan –often differs from what the client states to the NBFC/MFI staff and what loan is actually used for. --No social issues discussed or even identified.

on agenda set by the group. --NABFINS staff attend meeting before loan given and towards end of repayment period. Other meetings conducted by SHG.	
7. Savings: Voluntary Savings: SHGs set up by NGOs in 1980s and those that emerged after the SHG-Bank Linkage program took off in 1992 up to 2000 started with Voluntary savings; amount of saving was decided by each group; the objective was to cultivate a habit of regular savings. Savings were placed in the group common fund. -- Studies show that group members increase the amount of savings in the common fund gradually over a few years and that after 3-4 years individual members open personal accounts with their savings in the Bank as they gained confidence by dealing with the Banks as SHG members who interacted with the Bank officers regularly and deposited money in the Banks on rotation.	**7. Savings:** No habit of savings cultivated through regular savings mobilised and no group common fund . -- Loans extended to individuals within a month of contact. Note: Grameen Bank which is held up as a model by many did not start with savings but later introduced compulsory savings in early 1990s (2.5% of the loan amount was withheld and locked in for 3 years) and later voluntary savings. Interest on savings deposited with GB was 9%. Loans advanced by GB at 20 plus %. By 2000,Grameen was largely recycling to clients their own savings. --Group members are not provided with the opportunity to cultivate relationships with the Banks – which was one of the objectives of the SHG-Bank Linkage program promoted in the first wave ;this was considered a first step before they could deal with Banks directly.
8. Source of credit: Major source was Banks under SHG Bank Linkage Prog.started in 1992; one loan credited to group common fund; **NABFINS** follows this practice;it borrows from NABARD at 9.75 % interest and on lends to groups --no subsidies for assets as in SGSY or for interest as in NRLM. **Grants:** NGOs and some donors provided grants to the SHGs common fund on the basis of performance.	**8. Source of credit:** --Loans provided by NBFCs/MFIs; usually standardised in size for all purposes. --Banks shifted from extending loans directly to SHGs to extending loans to NBFC/MFIs for onward lending to individuals in groups **Grants:** Govt. sponsored programs(NRLM) provided grants

9. Loan model: SHG-BANK Linkage model extended one loan from Bank to the group common fund but only after 6 to 8 months of ICB training. This ICB training included the practice of regular savings and management of small loans from group fund. The SHG decides purpose and size of loans to individuals, gives importance to utilisation of credit as agreed in the SHG meeting. Loans sizes were not standardised even for the same purpose. Purpose of loan : The SHGs were free to advance loans for any purpose and size. The NGOs who formed the SHGs functioned like Business Facilitators (BFs) but did not get any commission and did not handle money.. **Caution:** Banks are increasingly reluctant to lend directly to SHGs because NPAs have increased and pressure from top management to promote the SHG-Bank Linkage prog. has declined. They find the loans too small hence not viable. RRBs have amalgamated into larger institutions which once again makes small loans unviable. I do not expect RRBs to lend less than Rs 10 lakhs in future unless they are free to raise interest rates (up to 26% for small loans as allowed by RBI for NBFC/MFIs).. Hence Banks are shifting from extending loans directly to SHGs to extending loans to NBFC/MFIs.In some cases the Banks require all the members of groups to come to the Bank to avail of the loan which increases costs to client. **NABFINS** started by extending one loan directly to the SHG (after assessing it with the B&DC), but is increasingly under pressure to keep records of individual loans;	**9. Loan model:** NBFC/MFIs lend directly to individuals who were brought together in a so-called group. Loans are given often within a week of forming the group. Loan sizes are standardised. Every client gets the same amount whatever the purpose may be. This also eases documentation and fits into standard software packages that are taken off the shelf. Purpose of loan is recorded on the basis of statement given to Staff before loans are disbursed. This gives room for difference between this statement and actual use. For example in one case 4 maids working in flats informed me that they were taking loans of Rs 10,000 each from an NBFC/MFI—two to buy carts which would be stocked with vegetables/fruits and two to open a shop. Three months later I met them to enquire how come they were still working as maids. They giggled –all had added some savings and purchased ear rings. Repayments are made from wage income. --Some NBFC/MFIs which operate in cities and towns use e -transfers to credit loans directly to individual clients; in others where the Banks are not easily accessible, the staff collect the loan amount from the Bank and carry it to the group for disbursement. These features reduce the cost to client **Findings:** The SHG Bank Linkage model (in the first wave of Micro finance) partnered with NGOs as Business Facilitators- their role was to form and Train SHGs and to monitor their performance on a continuous basis (but they did not get any commission) this training prog was funded by grants which makes this model constantly

as a result, information on size and purpose of loan is collected before loan is extended to the group. This in effect changes the model from group loan to individual loan. **NABFINs** converted the NGO Business Facilitators into Business and Development Correspondents (B&DCs) since they handle money during recoveries (not while extending a loan which NABFINs extends directly to SHGs in the presence of the B&DC staff). --Initially NABFINS used to carry cash(with adequate safety measures at its cost) to the SHGS in the village. This reduced the costs of SHGs members who had otherwise to travel to Banks and was listed by SHGs as the main reason why they approached NABFINs. However with e-transfers to Banks increasing (and the policy to reduce cash transactions) transfers in cash are gradually being phased out. Since NABFINS works in rural areas where Banks are not close to SHGs, travel and other costs are high which the SHGs have to bear. **Caution: Transaction costs of SHGs are increasing which may make NABFINS less competitive even though its interest rates are the lowest in the sector.**	dependent on donors which critics say is a weakness which will never make the program viable. (They forget that they spent years in education which was paid for or subsidised). This model is less expensive than the NBFC/MFI model of the second wave. For example NABFINS which adopts the SHG-Bank Linkage model of the first wave including NGOs (as B & DCs) who are paid a commission employs far less field staff than other NBFC/MFIs where the staff play a major role in disbursement and repayments. On the other hand, this increases NABFINS risk since it depends on the B&DC which can decide to stop repayments to NABFINS and hold it to ransom; hence NABFINS has started to lend directly to individuals similar to other NBFC/MFIs in the second wave. The increase in the number of weak SHGs has largely contributed to this concern. There is also an increase in the number of NGOs without any commitment to the poor; forming NGOs has become a business .With donor funding declining, micro finance has become their major income source.
10. Repayment: model: Key driver is Group liability based on ownership and affinity. The genuine SHGs are the real Joint Liability Groups. Basis of joint liability is affinity (social collateral) and common fund(in which all have a stake). It is not just group pressure on members to repay. Group liability is greater. The group repays even	**10. Repayment model :** Key driver is Individual liability (and NBFC/MFI staff); the group is supposed to exert pressure, but in reality seldom does. Hence the sad picture of 4-5 staff of different NBFC/MFI (who have extended loans to one client) camping in front of the houses of defaulters to "shame them." In the final analysis, Staff of NBFC/MFIs take the full responsibility

from common fund if cash flow problem arises when the member has a genuine reason for delaying part or full amount. Amount due to Bank is repaid in full even though SHG may have to dip into the group common fund to tide over a temporary shortfall. . -- Repayments collected at SHG Meetings and delivered by one member(in rotation) to Bank --The SHGs , where they are strong, play a role in ensuring that loan is spent for the purpose stated. Since SHGs give loans for all purposes (consumption and livelihoods) ,there is no need for the member to give false information which they often do when the insistence is on livelihood purposes only.The SHGs are aware of the total income of the family and based on this are willing (or not) to lend for "consumption" purposes. However if the SHG is weak this oversight is weak. **Caution:** Investment in ICB and importance to it by NABFINS must increase. Also investment in development initiatives by B&DCs needs to increase. NABARD and private grants through CRS need to be tapped for these purposes	since in most cases the overdues are deducted from their salaries and allowances. -- Senior management is not concerned with the use of loan and whether the actual use differs from the purpose stated in their records. The major concerns are to ensure zero NPAs and rapid expansion of loan portfolio. --So-called Joint Liability groups have no social basis (affinity)as most of the groups do not self select their members but are put together by NBFC/MFI. Also group has no economic basis like group common fund in which all have a stake. **Note:** Grameen Bank(GB) had adopted joint liability initially through Solidarity groups which emerged from the people; but soon discarded solidarity groups and moved towards individual liability; the reason given: Why should "good members"suffer if some members do not repay. Also the threat that these good members will approach other NBFC/MFIs played a role in this shift. -GB always gave loans to individuals even when solidarity group functioned. The GB Bank Manager made decisions on hundreds of small loans!
11.Group common Fund: consists of members regular savings, loans from Banks (credited to Common fund not to individuals), interest on loans to members (added to Banks interest rate), fines, contributions/grants, interest on SB account of group common fund. - -In well run SHGs, savings, interest ,fines, grants etc (excluding Bank loans) amounts	**11.Group Common Fund. No such fund is promoted by NBFC/MFIs** --NBFC/MFI extends loans directly to individuals. --Both the social basis of affinity as well as the economic basis of the common fund in which all members have a stake are lacking. Hence the members have weak social ties and no economic stake in the group. As a result group pressure and

to about 30 % of total Common Fund.This is the SHGs net owned funds -Loans to individual members are given from this Common fund after group decides at its meeting. Banks extend one loan to this group common fund not to individuals --Data over 15 years from Myrada promoted SHGs shows that even though the group takes liability for recovery and sometimes has to dip into the common fund when one member cannot repay on time to meet schedule of repayments (which is recovered from the member later), the common fund increased Y-O-Y.	liability to manage repayments and defaulters is weak or non existent. --ICB Training is also not given resulting in poor management and weak groups. ICB helps SHGs to take on new responsibilities resulting from the need to manage the various components of the common fund like savings, credit and repayment s well as to realise the importance of transparent peoples institutions which support sustainability.
12. Interest rates: On loans from Bank to SHG up to 2000 averaged between 9% - 11%. SHG added 2% to 3% . Total interest about 13% to 14%. **NABFINS rates range between 15.50 %and 16.90 %** and are the lowest in the sector. **Findings:** Interest rates are given far more importance than they deserve. The inability to repay the capital due to repeated droughts and the growing gap between input costs which are rising and prices of product (which are not rising proportionately) together with loss of face when loans from relatives cannot be repaid are the major causes of stress for the farmer.	**12.Interest rates:** RBI has allowed margins (between cost of credit and rate of loan) of up to 12% and an overall cap of 26% interest plus some other charges. This is difficult to justify in rural areas since a single rural livelihood activity does not earn sufficient income to cover this cost of credit and provide a reasonable and regular income . The Family therefore undertakes several activities but(as per RBI norms) can avail of formal credit from only two sources. Hence relatives and private lenders fill the gap at high cost
13. Concept of Self Help: In this context self help does not mean that the poor have to pull themselves out of poverty with their own resources. It means freedom to set up their own institutions (like SHGs or producer Companys/Cooperatives)and to set their agenda;	**13. Concept of Self Help:** The thinking that the poor should (and could) finance their way out of poverty was the underlying ideology of the second wave. This appealed to the international financial institutions who took pride in publishing that they had commercialised micro finance and hence

SELFHELP=OWNERSHIP+MANAGEMENT The pressure to mainstream SHGs (follow the loan management practices of Banks)was avoided thanks to Dr. C. Rangarajan (Gov.RBI) who allowed Banks to lend to unregistered SHGs. A survey conducted by Myrada showed that not one SHG wanted to be registered since it would make them vulnerable to harassment by some petty official. However they assured Banks that they would maintain records of meetings,decisions,accounts etc. Hence SHGs could select any purpose and provide loans of any size even for the same purpose .For example one member asks for Rs 15,000 to purchase a buffalo (in early 2000)while another asks for Rs 25,000 to purchase a buffalo of the same quality/milk production. The first has sold a buffalo and hence requires less. Some members can manage 20 plus 1 sheep, others only 2.SHG is free to lend accordingly. No Banker has the discretion to differentiate. Both have to take the same size loan for a buffalo and the same number of sheep. Several members take loans to repay high cost loans taken earlier from moneylenders. The Banks would surely not sanction these.	there would be no further need to keep pumping in grants to eradicate poverty which would be relegated to the museum. Donor fatigue also played its part. As a result profits were maximised (a shift from making profit by Banks of the first wave to profiteering in the second wave). --Profits also are used by the NBFC/MFI to expand and to pay high salaries and dividends in case of public issue. Donors saw this as an ideal strategy. -- SELF HELP=HIGH PROFITS FOR NBFC/MFIs which did not need grants or further subsidies to be sustainable. -- No initiative to empower the SHG through helping SHG to build up a common fund, through management training, through confidence building to initiate change in society. Hence the features of self-help of the first wave SHGs were no longer supported. --In this model, resources are extracted from the bottom of the pyramid.
14. Control over excessive and multiple borrowing: In the first wave this control was exercised by the SHGs. They knew each family, its income and debts. They knew if the purpose for which a loan was extended would earn an adequate income and more if it would compete with other similar initiatives in the village thereby reducing everyone's income. Hence no SHG extended several loans for shops. As said	**14. Control over excessive and multiple borrowing:** Credit Bureau are expected to generate information to help exercise control over multiple lending. But these do not have data on SHG loans and do not capture loans from relatives, friends and money lenders or from informal lending institutions which are increasing in number. -NBFCs provide only small loans. The average size according to data provided by

earlier -the SHG is really the last mile. --Today the term the "last mile" usually refers to one way extension of credit (technology can play the major role here). But as described earlier, in order for credit to be utilised to support livelihoods, several other inputs are required. These inputs can only be provided by an institution set up and managed by the people who have a stake in it, which can respond to the diversity in purposes and sizes of loan requirements, which can take decisions in a short time, which do not need to standardise sizes and limit purposes, which has close interaction with the local families and community –what I call "Know your people and community (KYPC) "	AKMI is around Rs 20,000. This is not adequate given their needs; hence they resort to multiple lending –-- Agents have many ways to circumvent Credit Bureau. For example, Agents access loans on behalf of several women . The loan amount is Rs 10,000 each but the agent gives them only a small part. However the KYC data which the Credit Bureau capture is in the name of each of the borrowers for a loan of Rs 10,000. The agent then disappears leaving the others to face the pressure to repay. The emergence of the agent especially in the north is a major factor.

In conclusion: Where do we go from here? I believe that the SHGs of the first wave and the strategy adopted will revive, because the role of institutions in development and progress is being increasingly appreciated. As far as credit institutions are concerned, SHGs of the first wave are similar to the Vishis of Gujerat, Bishis of Maharashtra and Chit funds in Tamil Nadu - are all based on peoples strengths; all required a trigger. In the case of SHGs these inherent strengths ,include their affinity, traditional habit of savings.

The size of SHGs is declining - from 15-20 members before 1995 to 10-15 members between 1995 and 2005. After 2005, the number has fallen further to around 10 members per group. One major reason is that affinity (relations of trust and mutual support) are weakening and the number of families who can be trusted by others is declining. Hence NABFINS could mobilize SHGs with 5 to 10 members in future.

Aloysius P Fernandez

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Ushering in transparency in credit pricing – Base rate approach

Micro finance sector is an integral part of the financial architecture of the country; focused on reaching the unreached and the unserved households. This necessitates that the less aware and low literacy clients are clearly informed about the pricing of credit products which are offered by the micro Finance Institutions. As a measure to ensure greater transparency in fixing interest rates and ushering a culture of best practice in the sector, besides informing the stakeholders about the basis of pricing its credit products; the management of the company has decided to compute and publish its base rates for the company from the current year.

The Reserve Bank of India has so far issued guidelines for Commercial Banks on the modalities for computation of ''Base rate''. The approach to pricing has been made mandatory for pricing of loans for banks by RBI. The base rate is the minimum rate set by the Reserve Bank of India below which banks are not allowed to lend to its customers. It is expected to enhance transparency in the credit market and ensure that lending institutions pass on the lower cost of fund to their customers. Credit product pricing is normally done by adding base rate and a suitable margin (spread) depending on the credit risk perceived etc. The company has decided to move towards a transparent pricing framework in the lines of "base rate'' approach prescribed by RBI for banks.

The components taken for computation of base rate of the company include cost of funds, operating costs and minimum expected return. The actual pricing of the different credit products are done by adding the risk premium (as applicable to each client segment) and tenor premium (wherever applicable). Accordingly, the base rate computed for various loan products of the company are:

Sr.No.	Component	In percentage p.a.		
		Group loans	Institutions of poor	Individuals
1	Cost of Funds	9.26	9.26	9.26
2	Cost of Operations	4.18	1.00	4.18
3	Minimum return	2.00	2.00	2.00
4	Base rate(1 + 2 + 3)	15.44	12.26	15.44
5	Risk Premium	0.05 to 1.50	1.00 to 1.75	0.10 to 1.40
6	Loan pricing	15.50 to 16.90	13.25 to 14.00	15.50 to 16.90

By adopting this approach, NABFINS becomes the first in the Industry to adopt such a transparent approach to credit product pricing. Further, by disclosing the same to the clients and other stakeholders; the company endeavours to further the cause of transparency in microfinance operations. The base rates are reviewed on a half yearly basis.