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ABOUT US

A profit earning NBFC-mFI, owned by Government / Government owned institutions demonstrating diverse and non-conventional livelihood supportive approaches to the unreached segments of the population at client friendly terms with operating expense ratios, lowest in the mFI industry in India.

MISSION

"To be a trusted, client centric financial institution advancing hassle-free servicesto low income households & the unorganised sector"

BOARD OF **DIRECTORS**

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MESSAGE
FROM THE
CHAIRMAN's
DESK

"IT CAN BE DONE WITH A MARGIN OF 7%"

On October 16, 2014, NABFINS – a subsidiary of NABARD, which is in its fourth year of operations, inaugurated its office extension in Bengaluru. The Chairman of NABARD Dr. Harsh Kumar Bhanwala and Shri S.V. Ranganath (IAS Rtd.), the former Chief Secretary of Karnataka graced the occasion. Shri Ranganath in this talk said: "When Shri Fernandez and the then Chairman of Nabard visited my office in 2011 to inform me about Nabfins, I asked him at what interest rate will Nabfins be lending. He replied that he had joined Nabfins to promote an alternate financial model which would lend at a margin of 6%-7%. I was sceptical since leading NBFC-MFIs at that time, mainly from Andhra, were making a strong case for a margin of 12% to 15%. Well, I am here today to recognise that Nabfins has kept to the challenge. It has made a net profit over the past four years with a margin of 6%-7%. My heartiest congratulations". I then thanked Shri Ranganath for not introducing an ordinance in Karnataka similar to the one in AP the objective of which both of us supported. Instead he accepted that to achieve the same objectives in Karnataka he would be willing to consider an initiative from the NBFC-MFIs to set up a body which was later called the All Karnataka Micro Finance Institution; this body took on the responsibility to being the first to cope with a crisis situation and to manage the media.I happened to be its first Chairperson.

But Nabfins is even more grateful to him for providing support and space for Nabfins to grow as an alternate model and for not following the Andhra decision to set up a Govt. sponsored Micro Finance Institution to fill the gap left by the withdrawal of NBFC-MFIs. The Government of Karnataka has also put its money behind its support; it has invested ₹20 crore equity in Nabfins with a commitment of a further ₹10 Crore. Several Commercial banks including Canara Bank, Union Bank of India, Bank of Baroda have also invested in equity; NABARD is the major shareholder and extends credit. The support of Shri H.K. Bhanwala has been critical to the growth of Nabfins; he has taken the lead in providing encouragement and timely support.

The Chairman of NABARD, Dr H. K. Bhanwala, announced a few months ago that Nabfins with a margin of 6%-7% made a profit of ₹14 crore on a loan portfolio of ₹ 620 crore during FY 2013-14. It had also made a net profit since it started operations in 2010-11. Why is the NABFINS model a low cost one when compared to most, if not all NBFC-MFIs, who find even a 12% margin inadequate. In fact one CEO even wrote that with a margin cap of 12%, NBFC-MFIs would not venture into remote areas like Vidarbha region, which Nabfins has succeeded in doing; it is now in 9 districts in this area; it took 18 months to break even –but that is the challenge that the poor bring to the table.

The major reasons why NABFINS transactions costs and hence interest rates are low are the following:

1. **Nabfins builds on the past. Considerable work has been done by Nabard/NGOs and others to establish the infrastructure for the SHG-Bank Linkage Model. Nabfins builds on this. It lends directly to SHGs continuing the SHG-Bank Linkage model. The SHG is a real joint liability group** which **takes over several functions of NBFC-MFI staff, thus reducing transaction costs; infact experience indicates that the SHGs perform these functions more effectively and efficiently than NBFC-MFI staff:** The SHGs that emerged in the NGO Myrada between 1984-86 comprised 12-18 members who were part of the larger number of poor families identified in a village through PRA. There **were two major features** of these groups: **The first feature was a social network – called affinity - among the members: they self-selected themselves** and formed separate groups because they were linked by relations of mutual trust and support which cut across caste and creed. This affinity exists in our culture- it is a strength on which interventions should build. Instead, several effortsare made to undermine it and to deal with individuals. Myrada did not create this affinity; it is like a diamond in the mud. Myrada just happened to kick it, but can take credit for picking it up and polishing it through institutional capacity Building (ICB) training to take on new responsibilities. The SHG model builds on this strength –namely affinity.

   The second major feature was **a tangible economic base,** namely the common fund of the group, in which the members have a stake, since their savings, interest on loans to members, and other income like fines for dysfunctional behaviour and grants are credited to this common fund. Bank loans when they come are also credited to this common fund. Incidentally joint liability is only one side of the coin, the other side is joint support which the SHG members provided in the past and continue to provide to members in a more organised manner. As a result of forming the SHG they provide several new services. Today there is a proposal to raise "self-help equity" from the borrowers – since equity is not forthcoming as required. The SHG concept was based on this self-help equity.The common fund comprises member's savings, interest on loans to members, fines (for not obeying to social norms set by the group) and grants. This comprises the self-help equity; the Bank loans also went into this common fund. The self-help equity percentage of the common fund in Myrada's groups average one third.

Joint liability therefore is underpinned by a) a social network and b) an economic base in which members have a stake. The claim that a Joint Liability group will work effectively if this base of two pillars does not exist (or is not matured enough - which takes at least 6 months) is misplaced. Joint liability groups wereformed by MBFC-MFI staff(in AP especially between 2007 and 2010) and given loans within a week. This claim of joint liability is based mainly and often only on a written agreement between the members. As a result the "joint liability" factor did not work to ensure repayments. NBFC staff have to be present forall SHG meetings (mostly weekly) to ensure repayments and spend time to visit borrowers homes when repayment was not made.(A visitor once noticed 4 motor bikes from different NBFC-MFIs outside one defaulting borrower's home early in the morning). They also have to form new groups or cannibalise from existing ones as happened in Krishna District (2005-6) which led to the crisis. During the hectic growth period of 2008-2010 the staff could not manage all these responsibilities- (their work load increased from 200-250 groups to 800-900 groups), but the pace of growth driven by massive equity/debt inclusion demanded much larger number of borrowers.They began to rely more and more on local "agents" to form groups; these agents also controlled loans to these groups and introduced them to several MFI-NBFcs; (in Andhrain 2009 a household on average had 9 micro loans from different sources); they of course took their "cut".

How do these two features (social network and economic base) of the SHGs reducethe transaction cost of Nabfins? Nabfins staff do not have to go to weekly meetings of SHGs for repayment; they also do not have to go to members' homes when they do not pay instalments. Even when an individual member cannot repay the instalment amount due to some emergency, the SHG makes up from the common fund – as a very short term measure. Nabfins staff do not have to form new groups as will be described in No 3 of this paper. Unfortunately the JLGs formed by many NBFC-MFIs are not supported by this social and economic base – which really is the basis of joint liability and joint support; hence the need for extra staff which adds to costs which are loaded on the client through higher interest rates.The SHG is really the last mile. But the NBFC-MFIs found that it takes too much time and money to invest in building the institutional strength of a SHG.

2. **Partnership with B&DCsreduces the transaction costs of Nabfins**: Nabfins partners with 206 B&DCs. This partnership provides Nabfins with SHGs already formed by the B & DC (NGO/Federation of SHGs /Coops.). The best are selected by a team of Nabfins and B&DC staff. Nabfins extends loans directly to the SHG not through the B&DC. The B&DC manages repayments. Its staff are already in the area and this function of credit provision is an add on. The B&DC receives commission of 2% for its work (1% for involvement in extending loans and 1% on recoveries).Some B&DCs are earning over ₹ 20 lakhs a year on commission. Nabfins studies indicate that this model is less costly for it than if Nabfins staff undertakes repayment (and formation of new SHGs) through its own staff. Nabfins does not have to set up local units covering a radius of 5-10 kms as the B & DC already has this infrastructure. Formation of new SHGs and

training (ICB) of old weak SHGs and new ones is supported by grants and done by the BC&D staff not by Nabfins staff. Nabfins however provides trainers where required. This reduces Nabfin's costs and has an impact on interest rates. Partnership with BCs reduces the requirement of staff on the part of Nabfins. If it had adopted the NBFC-MFI model where staff deal directly with borrowers, it would have required around 1200-1400 staff to service 4,20,000 SHG borrowers which it presently does. Sangamithra, for example which also lends to SHGs as a bulk loan but unlike Nabfins engages staff directly in lending operations employs 190 staff for a portfolio of ₹123 crore. Back up administration and HR support for staff in Nabfins is also reduced, hence transaction costs decrease. There are of course new sources of risk which is embedded in the B & DCs and SHGs. This is why (as mentioned in No 4) Nabfins invests in building the institutional capacity of both the B&DC as well as the SHG; but as a grant.

3. **NABFINSextends onebulk loan to the Group rather thanseveral loans to individuals in groups**: In 1991-1992 NABARD commissioned a study which was done by Dr. Puhazhendi entitled - “SHG Transaction Cost Analysis”.The study assessed and compared the transaction costs of the three models of credit provision to the poor in operation namely a)loans to individuals as practised by IRDP and b) loans to individuals in groups –where the group exerted pressure to recover – which was a replication of the Grameen bank model. These were the two major models functioning at that time--- in both cases the Bankers had to decide on each loan application from each member. He then compared these transaction costs with the third model operating on a pilot basis -- c)namely one loan to the group - allowing the group to decide on size, purpose etc of loans to members - which Myrada had initiated and promoted with a grant from NABARD in 1987. It came out clearly that the transaction costs to the Financial Institution of the third model were the lowest of the three. The Banker did not have to spend time assessing individual loans. The SHGs had first hand knowledge of the strengths and weaknesses of each member as well as of their reputation in the community. The SHGs had a holistic measure; they called it KYCC which stands for “know your client and community”. The second loan in fact was even less costly as it was based on the SHGs credit performance. Nabfins adopts this model. It is an extension of the SHG-Bank Linkage model which provides one bulk loan to a SHG and has the lowest transaction costs. This reduces the need for Nabfins to incur costs of collecting detailed data from individual clients. Besides, as a result of KYCC and the pressure arising from affinity, the risk is lowered and the staff do not have to spend time and money to visit the homes of borrowers in case of default or delayed repayment. While Nabfins does make use of Credit Bureaux, it does take their information with a pinch of salt (There are many reasons for this which can be explained elsewhere). This is why in India surrogate information (in this case provided by the SHG) is considered to be important.

However this first bulk loan is conditioned by several requirements on the part of the SHG like a)regular meetings of the SHG, b) regular savings, c) a group common fund, d) adequate training (ICB), d) initial borrowing from savings by members from the common fund d) recovery performance-credit history e) maintaining books of minutes of meetings.—and later regular updating of accounts and audits. Grants for providing training to the SHGs to build their institutional capacity were provided by NABARD and several major donors (private, bilateral and multilateral) involved in development; but more on this is the next para.

Briefly Nos 1, 2 & 3 describe Nabfins model which builds on the past and establishes a partnership with existing institutions, namely the Self Help Groups and the B & DCs. This enables Nabfins to reduce transaction costs in five areas a) the cost involved in identifying SHGs with potential clients who have a good credit history b)the cost of establishing infrastructure to cover the last few kms ; c)the cost of the process required to formalise services -to lend, repay and utilise as approved by the SHG d) the cost of ensuring that the agreement is respected by the SHG e) extending one bulk loan to the group. On the flip side , Nabfins risks are embedded in these two institutions –namely the SHGs and B&DCs; hence it has to invest in strengthening them by mobilising grants for their institutional capacity building (ICB) which is far more holistic than what is implied by Financial Literacy as understood today

4. **Financial Literacy (Institutional capacity Building-ICB) in the Nabfins model is provided up front and supported by grants before the loans are extended and hence not included in transaction costs.** Financial Literacy is understood as support to form and build new SHGs and to strengthen new ones. It is sometimes called Functional Financial Literacy to distinguish it from recent initiatives. As mentioned above, provision of the one bulk loan to the group requires investment in training the group and handholding it. The training focuses on how to build institutions and is called Institutional capacity Building (ICB). Training Modules include: How to meet, to set an agenda, to encourage participation of all, to resolve conflict, to arrive at consensus, to read numbers (because they asked for numeracy before literacy),to apply norms of behaviour (eg. coming on time for meetings) and sanctions for breaking norms (sanctions are an important component of institution building);how and why to cultivate the habit of regular savings and the experience of lending and repayments ;the need to maintain minutes recording decisions etc. .these were some of the modules which were incorporated in a Training Manual brought out by Myrada in the early 1990s.It was a practical training manual –not a resource book -- with games, charts queries etc. that were ready for us in a training session. It required that at most members of 2 SHGs could be handled at one session.It required at least 10-14 sessions each of a day over a period of 12 months to 18 months. It took about 6 months of experience in conducting meeting, savings, lending and recovery - before the SHGs were introduced to Banks. It helped to build the SHG as a sound institution which could take charge and manage the "last mile" the SHG took decisions on size and purpose of loans, repayment schedules etc.

   This was the Financial Literacy as understood in those early years. Who paid for it? NABARD, donors (Private, Multilateral and Bilateral).Then came SGSY which allocated an amount of ₹10,000 to train each SHG. How was it spent? In mobilising large gatherings to be addressed by politicians, in purchase of vehicles for Govt. related Institutions selected to do this training and in collecting members of 10-20 SHG groups for a brief session of half a day where the focus was on keeping accounts. The critical importance of ICB was never sufficiently appreciated by many implementing State Governments. The exceptions were TN Govt. which allotted ₹12,000 per SHG (under the IFAD program). Karnataka allotted ₹ 60 per SHG under the Stree Shakti program! NABARD gravitated between ₹ 2000 and ₹ 7000. In 2000 Myrada assessed the cost at ₹ 4000- ₹ 6000 per SAG to provide 14 modules over 12 to 18 months. It could be more today. However the availability of these grant fundsdecreased significantly. Even funds from NABARD declined as it moved to promote Joint Liability groups. Fortunately there are indications that NABARD has recently started investing more in ICB of SHGs. A recent circular from NABARD allocating ₹ 10,000 for ICB Training of one SHG is a sure sign that the SHG movement is once again a priority with NABARD. **However it would help if at least 60% of this amount was provided to training institutions in the first tranche.**

Today there is great deal of talk regarding financial literacy. The difference between ICB as adopted in the past by NABARD and some NGOs and the present Financial literacy as promoted by NBFC-MFIs is that while the former sought to build peoples institutions –namely SHGs which could be capable of deciding on their agenda on whether to give a loan or not, on the size,purpose and repayment etc.; the latter is focused on "educating" the clients to adopt the NBFC-MFI model and accept its requirements. Nabfins promotes Institutional Capacity building –the first model and to distinguish it calls it Functional Financial Literacy.

This investment in ICB in the past was provided as a grant. Many financial experts debated whether these costs could be borne initially by a MFI and later debited to the SHG. It remained a debate. My position is that they should be provided as a grant. All of us reading this were educated largely by grants. My position is that functional financial literacy should be provided as grant support and not loaded on to the transaction costs. The NBFC-MFIs had no time to invest in ICB; they found SHG formation too time consuming and costly; so they switched to JLGs which they form to maximise profits today and to raise valuations in anticipation of an IPO and quick exits of investors. NABARD tried to counteract this by providing funds to promote and train JLGs, but hardly any NBFC-MFI availed of these funds

Nabfins model invests as grants in Functional Financial Literacy for SHGs, Second level Institutions like Producers Companies and for B&DCs before loans are given. These grant funds are mobilised from NABARD, from Nabfins own funds which it allocates for this purpose. In several cases the B&DCs already have invested in forming SHGs. Where Nabfins finds them weak, it provides grants to strengthen them. As a result the cost of forming SHGs is not loaded on to the SHGs by way of interest.

5. **Nabfins makes profit but does not maximise profits; it does not profiteer; this in turn reduces pressure on interest rates.** For example in 2012-13 on a loan portfolio of ₹ 378 crore, its profit after tax was ₹ 8.42 crore. And in 2013-14 on a portfolio of ₹620 crore, its net profit after tax was ₹14.08 crore. This make sound silly to many, especially to

who place micro finance squarely in the market driven sector as commercialised micro finance where profit is maximised, but if one is talking about the poor then this decision not to maximise profits is crucial; there has to be some features of the "Mahatma" in micro credit models (and governance) for the poor.

Micro finance was projected as a one bullet solution that would send poverty into the museums. CGAP went even further and projected it as an appropriate strategy for the "poorest of the poor". (Though a more recent publication in 2012 leaves out the poverty angle completely from micro finance). When poor people are the target, there is surely a need to manage market forces which if left to themselves have never worked primarily for the common good.

It may be useful here to dwell a little on values like trusteeship. Many business leaders invested in society because of values. The Gandhian ideal that you never really own wealth, but merely serve as its trustee, seems to have been relegated to the museum. Yeh dil mange more! Trusteeship must be part of the dominant ethic when working with a poverty alleviation objective. The general culture of those seeking power is not so much to be trustees as to extract every possible benefit that power opens the door to. Our Prime Minister Shri Narendra Modi has challenged this culture and hopefully it will permeate downwards through the government. In this context of values, micro finance as a poverty alleviation strategy requires integrity in governance and fiduciary responsibility; in turn this means that NBFC-MFIs in this sector cannot be fully driven by self-interest or by a focus only on the next quarter's numbers. Every NBFC-MFI claims to have two objectives – one to be commercially viable and to promote a social objective of reducing/eliminating poverty. The balance between these two objectives is not easy to maintain. Unless the Governing Bodies of NBFC-MFIs are proactive, the commercial objective will take over entirely reducing the social objective to a slide in the power point presentation at Seminars. In fact this inability to balance these two objectives was a major feature of the Governing Bodies of the Andhra NBFC- MFIs and the gap between a stated mission and the reality grew rapidly till they lost credibility. This also resulted in the marginalisation of borrowers who now longer saw the NBFC as a supporting institution or one in which they had a stake. Hence it was amusing to read an article by an economist (who had stakes in the major NBFC-MFI in AP) where he expected the clients to rise up against the AP Government's notification. Nothing of the sort happened.

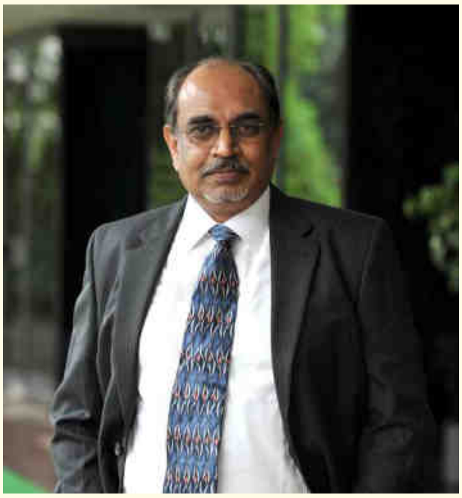
The question therefore can be asked. Are NBFC-MFIs which moved to a commercial objective entirely eligible to be included under the priority sector? The answer to my mind, is NO. One common feature which runs through the major NBFC-MFIs which had a causal influence on the shift to the commercialisation objective entirely is the influx of virtual capital and its accompanying baggage namely fast growth, high valuations, IPOs and exits. Therefore any NFBFC-MFI following this path needs to excluded from the list of institutions promoting inclusive growth and poverty alleviation and consequently from the priority sector.

But experience shows that a financial institution cannot really maximise profits if it relies only on lending at acceptable interest rates – which the RBI has interpreted as 10%-12% . No other country or institution including CGAP has dared to set an indicative figure in the context or even to refer to the unacceptable practice of maximising profits. Since the NBFC-MFIs cannot maximise profits if they are to abide by the RBI's regulations, they take up other activities like insurance and remittances; but their experience is that these are not profitable –of course there are exceptions where a NBFC charged premium both from the Insurance Company and the client and held the papers as a guarantee!. The Private Banks, to maximise profits, took greater risks by entering into investment, derivatives, subprime, even money laundering etc. The NBFC-MFIs therefore are pressurising the RBI to remove the margin cap. Some experts threatened that if the cap is not removed the NBFCs will not go into more remote areas –the example given was Vidarbha. Yet Nabfins with its margin of6 %- 7% is in 9 districts of Vidharba and Marathawada. It took 18 months to break even...but that's the challenge that the poor bring to the table.

6. **Salaries/ incentives and other emoluments**. **Over all Nabfins packages for senior staff are lower when compared to what the CEOs of the major NBFC-MFIs enjoy.** The MD of Nabfins (who is on deputation from Nabard)is paid by Nabfins as per Nabard's package. However, emoluments in the middle and lower scales are comparable to those in the industry. At the field level, the Field service Officers emoluments are amongst the highest in the sector. All staff are provided with accidental insurance (group and personal accident), Group medical insurance, conveyance allowance; mobile purchase re-imbursement, telephone allowance, lunch allowance, laptop and dongles [for Manager(s) – Operations and above] besides being covered by ESI, PF and gratuity. They also get an incentive every year based on performance which goes up to three times their monthly salary. The Board of Nabfins took a decision that no Board member is entitled to any incentives and cannot borrow or avail of any monetary gains in terms of loans or grants from the organisation. This staff remuneration pattern cuts down costs especially when CEOs of NBFC- MFIs were awarding themselves between ₹3 crore to ₹6 crore packages every year together with other benefits like sweat equity and even taking loans from their institutions to invest either in the same institution or in new ones created as independent spin offs. Nabfins scales overall are relatively higher- except at the top; this does reduce costs of staff. Further, one Field Staff whose role it is to assess the SHGs with the B&DC and to visit them even after the loan is given, manages about 200 SHGs on an average which works out to around 2400 clients (at 12 /SHG).This is far more when compared to field staff of NBFCs –MFIs who managed about 300 clients before 2008; during the highest growth period between 2008-2010 each staff managed 600-900 clients.

Thank you.

Aloysius Fernandez
Chairman



MANAGING DIRECTOR's **MESSAGE**

The year 2014 – 15 was an eventful year for Financial Services Sector in general and financial inclusion in particular. The financial sector landscape is undergoing drastic changes. The launch of Prime Minister's Jan DhanYojana with a slogan "sab kasaath sab kavikas" has reached a significant touchstone with majority of the households in the Country being covered by at least one savings bank account. Government has now followed up this with the next step of assigning a variety of financial services such as accident and life insurance to these accounts and sending direct benefits such as scholarships, pensions and subsidies to these accounts. Converging these savings accounts with the unique ID-Aadhaar and the ubiquitous mobiles is expected to be a game changer ushering in a revolution in the financial inclusion landscape. The Reserve Bank of India's (RBI)initiative to further the inclusion agenda by experimenting with new institutional forms like Small Finance Banks, Payment Banks is also expected to take a shape in the near future. Another apex organisation "MUDRA Limited" was also set up and it is expected to innovate new ways of channelling credit flows to small producers.

RBI has also attempted to streamline regulations covering NPA norms, capital requirements, provisioning requirements for all NBFCs which are systemically important and that which raises public deposits. With all these introductions and policy support, the focus on diverse financial inclusion is more intense and it is expected to usher in greater competition for the micro finance sector.

For NBFC-MFIs, the year 2014-15 witnessed a rather robust growth with the Gross Loan Portfolio (GLP) reporting 61% increase to ₹401 billion when compared to the previous year. However, the increase in client coverage was more moderate (23 %) over the previous year. This is suggestive of increased quantum of loans and higher repeat loans to existing clients rather than fresh coverage of new clients by the sector. Although, 32 states and 489 districts are stated to be covered by MFIs, the coverage appears to be asymmetrical with about 60% of the GLP reported in from 5 states viz; West Bengal, Tamil Nadu, Karnataka, Maharashtra and Uttar Pradesh.

As compared to the industry, our Company - NABFINs disbursed ₹ 764 crore to 20,010 SHGs touching about 3 Lakh households during the year under review which is 24% increase over ₹ 631 crore disbursed during 2013-14 to 17,027 groups (2.5 lakh households). The unique business model of our company which essentially leverages the institutional outreach and trust capital of our B&DC based on their pre-existing relationship for financial facilitation limits much accelerated growth. However, our Company recorded a moderated and consistent credit growth with matched expansion in client outreach as well. Operations of the Company are guided by the overarching principle of supporting the National agenda of financial inclusion across all difficult geographies. Though the GOI has been pursuing the accounts for all , a true financial inclusion can happen only with supportive financial literacy. We believe that this can be achieved using the local resource persons (active members of Women SHGs) to serve as enablers of true financial inclusion process. The Company has enabled coverage of new geographies during the year viz; additional districts in the Vidharbha region of Maharastra as also in Madhya Pradesh. I am happy to report that our Company has plans to expand to few more States in the ensuing year.

The other key vertical of our company has been financing Second Level Institutions in the form of producer collectives, Producer Companies, Societies, SHG Federations and other legal forms of collectives which has reported a business growth of 96% with disbursement of ₹ 22 crore during 2014-15. With this, our Company has disbursed ₹ 40 crore to 101 institutions. With extension of credit guarantee by RABO Bank and SFAC, all efforts will be made to hasten the growth momentum under this vertical.

It is important to bring to your notice that the rate of interest charged by our Company is by far the least in the mFI sector. Keeping a wafer thin interest margin, our Company is able to generate adequate profit to sustain its operations. This is despite the fact that the margin is much below the regulatory cap of 10% and provides ample proof to the fact even at this rates, the Micro Finance business is viable and profitable. While there can be various reasons for higher rates of interest including the model related differences, the fact remains that it is possible to reach the poor at affordable rates through appropriate models of credit delivery. This is an affirmation to our belief system about the business model which we predominantly employ. However, with repeated cycles of credit to these groups, the group members aspire for differential treatment and seek more diverse forms of financial services, which your institution should be able to service. This would also enable the institution to de-risk, diversify its portfolio, use differentiated delivery approaches to fulfil the emerging needs of the client segment that we serve.

The world CFSI 2014 report states that Micro Finance is close to an inflection point; what was an experiment in bottom-up development has become mainstream world over; and with that transition have come mainstream problems and notably among them the client over-indebtedness. This is true for MFIs in the Country too; with the preponderance of group based lending methodology like JLGs and SHGs in the Micro Finance space. The concern of multiple membership, multiple borrowings and consequent over indebtedness of the members which poses a significant risk to the business model; while to an extent the credit bureaus do track such over-borrowings; but, the inability to capture informal market borrowings, formal credit markets dominated by cooperative credit institutions and also group based lending models like SHGs have accentuated the challenge. However, it is expected that with pervasive technology, institutional mechanisms like e-KYC, digitisation of SHG accounts etc., the risks associated with the above factors would be mitigated to a greater extent.

Our Company is exposed to various risks that are an inherent part of any Micro Finance business. During the year, the Company witnessed a spurt in Non-Performing Assets partly triggered by aggregation of agency risk, operational risk as well as various client level issues. The operational risks faced encompasses Information Technology related (system) risk. With the growth and expansion of the portfolio, the existing IT system needs rapid upgradation. Therefore, the Company plans to change to an agile and robust IT infrastructure to support loan payments and collections, loan monitoring and also integrated accounting back-end on the lines of a core banking system. The other risk containment effort includes placing adequate internal & process changes, enhanced supervisory controls to prevent recurrence in future. The measures taken *inter alia* include prevention of NPAs by timely identification and diagnosis of problems of irregular and PAR accounts, tracking and reviewing B&DC accounts etc. Thus, the Company has adopted a twofold strategy for controlling fresh accretion and resolution of existing NPAs. The learnings from this are being factored into our present and future business approaches. The risk management has been moved into a pro-active mode to transform role of Risk into a Strategic function aligned with Business Objectives. A new Audit Policy is being planned to control & manage risk through internal audit functions which will gradually shift to a Risk focused Internal Audit (RFIA) mechanism.

Another aspect which has received utmost attention of the management is development of Human Resources. Our Company ensures staff satisfaction through continuous engagements with senior management, improving staff productivity and retention. Among the MFI sector, our Company faces one of the lowest attrition rates. In order to further strengthen the human resource pipeline and to meet the skill gap requirements of the Company in new and specialized areas, it plans to selectively recruit staff from key Business schools; as also attempt knowledge/ skill mapping exercises for designing training interventions. The Company has also made an assessment of the staffing requirements, HR Development and Capacity enhancement requirement and would systematically address these aspects so as to improve awareness and efficiency at all levels.

With hardly half a decade of existence, our Company is in the cusp of transformation from a provider of credit for an array of livelihood activities to a provider of a basket of financial services to the underserved segment. This institutional transformational trajectory would entail experimenting with different client centric delivery approaches, diverse financial products and services. With this goal, our Company plans to increase its outreach, diversify its risk and put adequate systems in place with appropriate technology not only to sustain its current business operations but also to cater to its future needs. With the able support of the promoters – NABARD and other shareholders like Canara Bank, Union Bank of India, Dhanalaxmi Bank, Bank of Baroda and Federal Bank, our Company would be able to meet the aspirational challenges to transform itself into a small finance bank.

As a responsible corporate citizen, our Company has committed to fulfil its obligations as a part of Corporate Social Responsibility. Under the guidance of the CSR Committee, our Company had committed to health and sanitation facilities at schools in rural areas. I am very happy to share with you that as on date, the committed task have been completed and all these facilities have been made available for use. For the year 2015-16, our Company intends to continue its activities for which a budgetary allocation of ₹45 lakh has been made.

I would be remiss, if I fail to thank, Government of India, all the State Governments where NABFINS is operating, RBI, NABARD and other shareholders, Board of Directors, Statutory Auditors, Internal Auditors and Secretarial Auditor for their guidance and support. Finally, I would be failing in my duty if I fail to thank our primary stakeholders, especially the poor households who are our reason for birth and survival for their continued trust and belief in our approaches and business model.

I also pledge to them that we would continue to work keeping their interest as our own interest and work for their development.

Thank you.

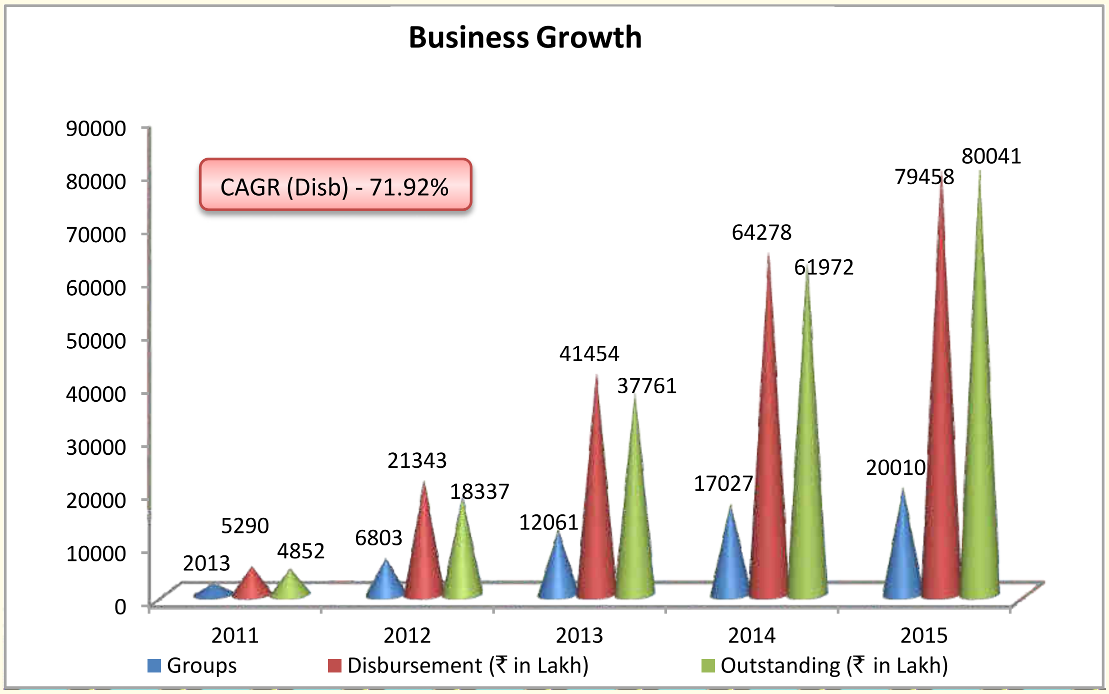
Dr. B. S. Suran
Managing Director

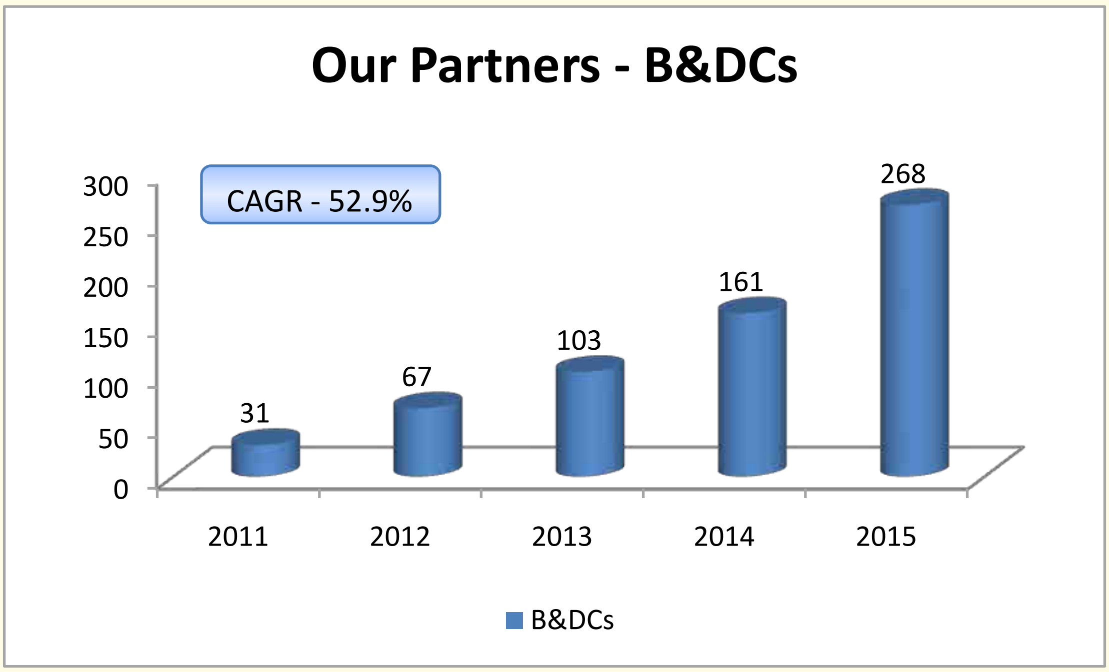
Small Beginning **Big Impact**

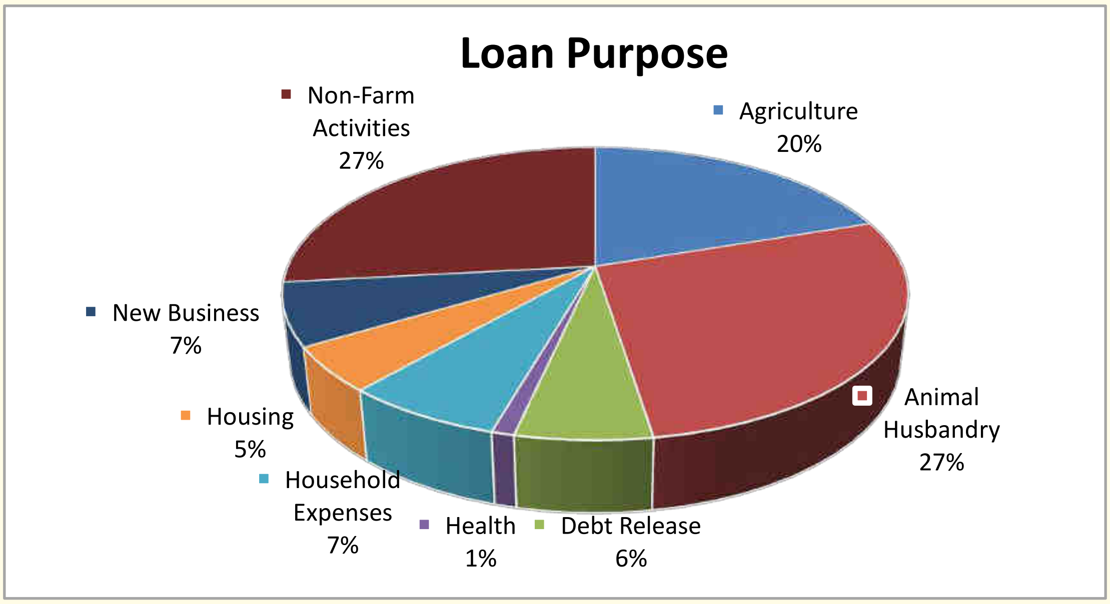
NABFINS embraced a corporate philosophy of giving even more back to the communities through its Corporate Social Responsibility commitments. During the year 2014-15, NABFINS, besides contributing to the "Swachh Bharat Kosh" of the Government, also took up the challange directly by addressing the inadequate social infrastructure in schools run by the State Governments. NABFINS provided sanitation and access to safe drinking water to ten schools in two disctricts viz., Nagapattinam and Uttara Kannada.

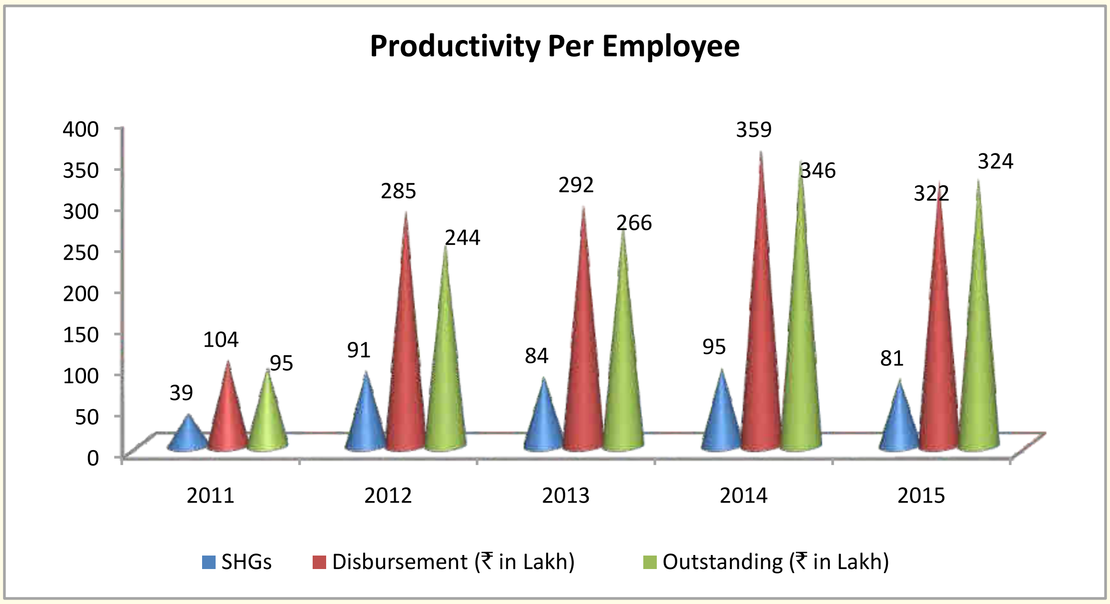
A graphical representation of our five year journey

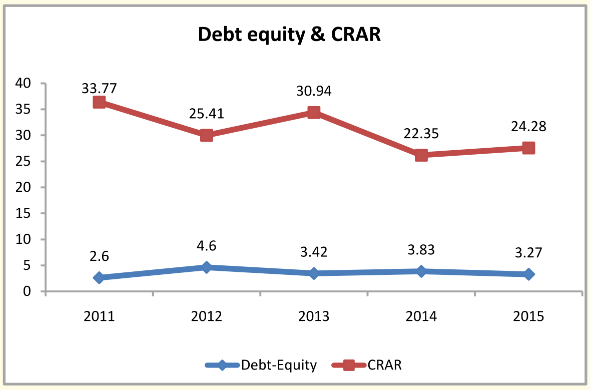
NABFINS commenced its microfinance activities in the year 2009-10 and expanded its outreach to 75 districts across 5 states as on March 31, 2015. The loan portfolio of the Company grew from ₹49 crore to ₹800 crore in a five year span with a compounded annual growth rate (CAGR) of 74.82% however; its disbursement grew with a CAGR of 71.92%. NABFINS partners with community based organizations which are empaneled as our Business and Development Correspondents (B&DCs). The number of partner B&DCs grew from 31 in 2 States in the financial year 2010-11 to 268 across 5 states in the financial year 2014-15.

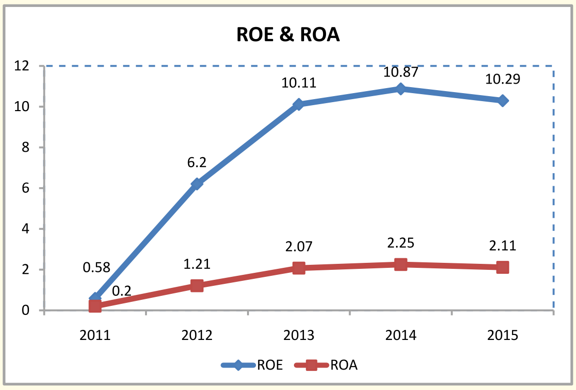





Loan Purpose
Non-Farm Activities 27%
Agriculture 20%
New Business 7%
Housing 5%
Household Expenses 7%
Health 1%
Debt Release 6%
Animal Husbandry 27%


Productivity Per Employee
400
350
300
250
200
150
100
50
0
39
104
95
91
285
244
84
292
266
95
359
346
81
322
324
2011
2012
2013
2014
2015
SHGs
Disbursement (₹ in Lakh)
Outstanding (₹ in Lakh)


Debt equity & CRAR
40
35
30
25
20
15
10
5
0
33.77
25.41
30.94
22.35
24.28
2.6
4.6
3.42
3.83
3.27
2011
2012
2013
2014
2015
Debt-Equity
CRAR


ROE & ROA
12
10
8
6
4
2
0
0.58
6.2
10.11
10.87
10.29
0.2
1.21
2.07
2.25
2.11
2011
2012
2013
2014
2015
ROE
ROA

MEDIA **FOOTPRINTS**

Nabard microfin arm in expansion mode nationally

business-standard.com/article/finance/nabard-microfin-arm-in-expansion-mode-nationally-114052801440_1.html

To get fresh dose capital to grow business

May 29, 2014 Last Updated at 00:48 IST

via Shutterstock

The National Bank for and (Nabard) will scale up the business of its arm Financial Services (Nabfins) to become a national-level player.

Nabfins, a 68 per cent non-banking finance subsidiary of Nabard, consolidated its operations in southern states such as Tamil Nadu and Karnataka and expanded in Maharashtra in 2013-14.

Harsh Bhanwala, chairman, Nabard, said, "Nabfins would become an all-India organisation. It has identified areas in Odisha, Jharkhand, Rajasthan and Madhya Pradesh for starting operations".

Nabfins lends money to self-help groups and works on thin margins, with lending rates in the range of 15-16.75 per cent against the RBI cap of 26 per cent.

The microfinance company reported net profit of Rs 18 crore in FY14 up from Rs 8.42 crore in 2012-13.

Its outstanding loan book grew to Rs 644 crore by March-end this year from Rs 412 a year ago. It plans to grow book to Rs 1,000 crore over the next two years, the Nabard chief said.

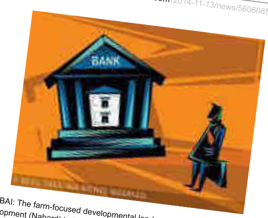
The capital of MFI will be expanded to support expansion of operations. MFI received equity investment from Bank of Baroda (Rs 5 crore) and Union Bank of India (Rs 2.5 crore) in 2013-14. The total share capital of the company at the close of FY14 was Rs 112 crore.

Meanwhile, Nabard posted a flat growth in net profit at Rs 1,860 crore for FY14 as against Rs 1,808 crore in FY13. Its balance sheet size, comprising loans, investments grew to Rs 2,54,574 crore in March 2014 from Rs 2,13,170 crore at the end of March 2013.

The capital adequacy ratio declined to 16.61 per cent from 18.24 per cent. The rural finance body has sought capital infusion of Rs 1,500 crore from the government to support business.

Nabard chairman Harsh K Bhanwala says keen to seek a small bank licence

articles.economictimes.indiatimes.com/2014-11-13/news/56060856_1_small-bank-licence-shg-dhanalaxmi-bank



MUMBAI: The farm-focused developmental lender National Bank for Agriculture and Rural Development (Nabard) today said it is keen to seek a small bank licence.

"We are planning to consider small finance bank as an option, if the RBI guidelines permit," said Nabard chairman Harsh K Bhanwala here, adding it will apply for such a licence through its MFI subsidiary Nabard Financial Services (Nabfins).

Separately, Reserve Bank Governor Raghuram Rajan today said the final guidelines on small and payment banks will be issued soon and by the month-end the applications for the same would be invited.

Nabard, fully owned by the RBI, is the major share-holder of the MFI and other share-holders include Karnataka government, Canara Bank, Union Bank of India, Federal Bank and Dhanalaxmi Bank.

Bhanwala, however, said Nabard is yet to take an approval from its board.

The lender today launched a pilot project for digitisation of self help groups (SHG) in Ramgarh district of Jharkhand and Wardha district of Maharashtra. It also plans to roll out the project in eight more districts in different phases.

The digitisation will help self help groups to create a central database and management information mechanism. It would also help them in managing their accounting in a more accurate and in cost-effective manner.

Digitisation of SHG records and accounts will increase bankers' comfort in SHG credit linkage, Bhanwala said.

Toilet blocks, RO plants donated to schools - The Hindu http://www.thehindu.com/news/national/tamil-nadu/toilet-blocks-ro-pl...

THE HINDU

NATIONAL » TAMIL NADU

Published: August 24, 2015 00:00 IST | Updated: August 24, 2015 06:09 IST NAGAPATTINAM, August 24, 2015

Toilet blocks, RO plants donated to schools

- Special Correspondent

Students of three schools near here, who were undergoing the ordeals due to open defecation in the absence of toilet facility in their institutions, have been relieved of the trouble, thanks to the donation of toilet block and supply of reverse osmosis plant.

The National Bank for Agriculture and Rural Development Financial Services Limited (NABFINS) has donated the toilet blocks and the RO plants to the Government High School in Vadavur, Gandhi Adigal Middle School in Thannilapadi and Saraswathi Middle school at Keelavazhakarai.

"By and large, a number of schools lacked adequate toilet facilities in and around Nagapattinam.

We conducted a survey for about ten days only to select schools where students were found to resort to open defecation," said R. Satishkumar, District Manager, NABFINS. Each school accounted for a strength of about 200 students.

Ashuthosh Kumar, Chief Operating Officer, NABFINS, Bangaluru, who declared open the infrastructure, said that the blocks and RO plants had been constructed at a total expenditure of Rs.17.35 lakh under the Corporate Social Responsibility project of the NABFINS.

S. Palanisamy, Collector, said that teams comprising representatives of teachers, members of parent-teacher association and public have been constituted at each school for proper upkeep and maintenance of RO.

Printable version | Sep 4, 2015 2:59:50 PM | http://www.thehindu.com/news/national/tamil-nadu/toilet-blocks-ro-plants-donated-to-schools/article7573494.ece

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Nabard arm expanding service into unbanked areas in North

thehindubusinessline.com/companies/nabard-arm-expanding-service-into-unbanked-areas-in-north/article6058172.ece

NABFINS provides finance at 16% a year to self-help groups

Nabard Financial Services (NABFINS), a subsidiary of National Bank for Agriculture and Rural Development, will expand its services in the rural unbanked areas of Odisha, Jharkhand, Madhya Pradesh and Rajasthan.

Set up five years ago, with the intent of providing low-cost rural finance in Karnataka, NABFINS is now present in 66 districts spread mostly across Karnataka and Tamil Nadu.

NABFINS provides finance at about 16 per cent a year to self-help groups. This is much lower than the 22-24 per cent charged, even by the best performing microfinance institutions (MFIs).

Harsh Kumar Bhanwala, Chairman, Nabard, said: "The company has initiated work in Maharashtra and Andhra Pradesh. The average lending rate for an MFI is 22-24 per cent, but NABFINs is lending at about 16 per cent. At affordable rates, it is possible to give financial services at the doorstep of people in rural areas."

The NABARD chief said that the development finance institution lends to NABFINS at 9.6-9.7 per cent. "After accounting for all expenses, NABFINS earns a margin of 2-2.5 per cent," Bhanwala said. Nabard owns 61 per cent stake in NABFINS.

(This article was published on May 28, 2014)

NABARD Financial Services to support self-help groups in all states

timesofindia.indiatimes.com/business/india-business/NABARD-Financial-Services-to-support-self-help-groups-in-all-states/pmarticleshow/36147645.cms

CHENNAI: NABARD Financial Services (NABFINS), a subsidiary of National Bank for Rural and Agricultural Development which provides financial assistance to self help groups (SHGs), will expand its operations to all states in the country, according to NABARD chairman Dr Harsh Kumar Bhanwala.

At present, NABFINS serves a total of 66 districts in four states. (27 in Tamil Nadu, 26 in Karnataka, four in Andhra Pradesh and nine in Maharashtra).

NBARD will also grant support for promoting 2,000 new producer organizations (POs) in the next three years under a separate window -- Producer's Organization Development Fund (PODF), said the chairman. PO is a group of farmers and producers who come together to grow, harvest and aggregate their produce.

"NABARD will also explore the possibility to provide IT-related services and guidance to cooperative banks and Rural Financial Institutions (RFIs)," the chairman said after the 200th meeting of the board of directors of the bank last week. .

The board approved funding Public Private Partnership (PPP) under rural infrastructure sector using NIDA (Nabard Infrastructure Development Assistance). Earlier, the national bank had financed only state government and state-owned entities.

The meeting discussed the audited accounts for the year ending March 31, 2014, reviewed earlier projects and charted a road map for new business initiatives. According to the audited financial results, the total earnings of NABARD stood at Rs 15,442 crore and the total expenditure was Rs 12, 581 crore. The financial year 2013-2014 showed 19.45% growth.

The new business initiatives launched in 2010-2011 like NIDA, direct lending to cooperative banks, credit facility for federations and loans to producer organizations contribute 5% of the total business of NABARD.

The bank would initiate a new refinance product which would cover a medium term investment credit ranging from 18 to 36 months based on the demand for the banks, he said.

Nabard Arm Sets Sights on Small Finance Bank Biz

newindianexpress.com/business/news/Nabard-Arm-Sets-Sights-on-Small-Finance-Bank-Biz/2015/04/04/article2746214.ece

04th April 2015 06:00 AM

MUMBAI: The National Bank for Agriculture and Rural Development (Nabard) is planning to approach the Reserve Bank of India (RBI), seeking permission to apply for a small finance bank licence for its subsidiary Nabard Financial Services Ltd (Nabfins).

Nabard had planned to apply for a small finance bank licence for its unit late last year before RBI issued final application guidelines. However, it could not do so since the central bank's guidelines opened the new licences only to the private sector applicants and left out the public sector companies.

"Yes, we plan to ask the Reserve Bank," Harsh Kumar Bhanwala, Nabard chairman, said replying to a query in this regard.

Nabfins is a subsidiary of Nabard with equity participation from Nabard, government of Karnataka, Canara Bank, Union Bank of India, Bank of Baroda, Dhanalakshmi Bank and Federal Bank. It is a non-bank financial company (NBFC) with licence to accept deposits throughout the country.

The main objective of Nabfins is to provide finance in two broad areas of agriculture and microfinance. It gives credit and other facilities for promotion, expansion, commercialisation and modernisation of agriculture and allied activities. It also provides microfinance services to the disadvantageous segments of the society.

The RBI got 72 applications for small finance banks and another 41 applications for payment bank licence in February.

Former deputy governor Usha Thorat is heading another four-member committee to scrutinise small finance bank applications.

Nachiket Mor, a member on RBI board, is heading a four member committee for payments bank applications.

Directors' Report

Dear Members,

Your Directors take pleasure in presenting the Eighteenth Annual Report together with the audited financial statements of the Company for the year ended March 31, 2015.

Financial Highlights

The total Income of the Company for the year under review is ₹123.88 Crore which is 38.20 % higher than the total income of ₹89.64 Crore for the previous year. The profit before tax is ₹ 31.18 Crore for the year ended March 31, 2015 as against ₹ 23.81 Crore for the Corresponding previous year.

Your company has posted a reasonable growth in loan disbursement of 23.59%. However in terms of revenue from operations your Company has grown by 38% and profit after tax has grown by 23.59% in the FY 2014-15.

The summarized financial results for the year ended March 31, 2015 are as under:

(₹ In Crore)

Particulars	FY 2014-15	FY 2013-14
Income from Operations	114.88	83.25
Other Income	9.00	6.39
Total Income	**123.88**	**89.64**
Less: Total Expenditure	95.63	65.82
Profit before tax	**31.18**	**23.81**
Less: Income Tax	13.70	9.66
Profit after tax	**17.41**	**14.08**

Dividend

In order to conserve the resources for business operations to support business expansion plans, besides funding the establishment of a scalable, agile, cost effective technology platform for the Company during 2015-16, your Board of Directors do not recommend for the payment of the Dividend for the year ended March 31, 2015. This is also in consonance with the decision taken by the Board at its 71st meeting held on December 22, 2011 for dividend holiday for 5 years starting from 2010-11.

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 years.

Reserves

Your Directors propose to transfer a sum of ₹348.27 Lakhs to statutory reserve (being 20 % of profit after tax for the year) as per the requirement of Section 45(I)(C) of Reserve Bank of India Act, 1934. An amount of ₹3458.32 Lakhs is proposed to be retained in the surplus.

Operating Results

Your Company posted a growth of 38% in terms of Revenue from operations and 23.59% growth in profit after tax. The Company has maintained its high quality of assets with repayment rate greater than 99% and gross NPA of 2.36%.

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

There have been no material changes and commitments between the end of Financial Year and the date of this report, affecting the financial position of the Company.

Significant and material orders passed by the regulators or courts

Your Company had re- registered as an NBFC- MFI with effect from February 10, 2015 under section 45(I)(A) under RBI Act,1934; except the above, there were no significant and material orders passed by the regulators or courts or tribunals, which may impact the status of the Company and its operations in future.

Operational Highlights

Particulars	Units	2014-15	2013-14	% change
States covered	No.	5	4	-
Districts covered	No.	75	66	14%
SHGs financed during the year	No.	20,010	17,027	18%
Loans disbursed during the year	₹ Crore	794.60	642.91	24%
SHGs financed since inception	No.	58,066	38,056	53%
SHG Loans disbursed since inception	₹ Crore	2,074.30	1,310.28	58%
JLGs financed during the year	No.	406	46	-
Loans to JLGs under PTSLP	₹ Crore	8.23	0.26	-
Second Level Institutions covered	No.	56	27	107%
Loans disbursed during the year to SLIs	₹ Crore	22.33	11.37	96%
SLIs financed since inception	No.	101	45	-
Loans to SLIs since inception	₹ Crore	39.66	17.33	129%
Employees	No.	263	196	24%
B&DCs	No.	268	175	53%
Loan outstanding	₹ Crore	800.41	619.97	29%

Capital Infusion

During the year under review, your Company received a capital infusion of ₹40.10 Crore by way of equity share capital. Canara Bank and NABARD infused ₹14.10 crore and ₹26 crore respectively. Accordingly, your company's paid-up equity share capital increased from ₹112.11Crore (comprising of 11,21,16,307 equity shares of ₹10 each) to ₹152.22 Crore (comprising 15,22,16,307 equity shares of ₹10 each).

The brief shareholding as at the year ended March 31, 2015 is appended below :

Sl. No.	Name of the Shareholder	Share Capital (₹ lakh)		% to the total Paid up Capital (31.03.2015)
		as on 31.03.2015	as on 31.03.2014	
1	NABARD	102,00.63	7,600.63	67.01
2	Govt. of Karnataka	2,036.00	2,036.00	13.38
3	Canara Bank	1,600.00	190.00	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 share holders	Negligible	Negligible	-
	Total	**152,21.63**	**112,11.63**	**100.00**

Statutory Compliance

Guidelines of Reserve Bank of India

Your Company is classified as an NBFC- MFI with effect from February 10, 2015 under Section 45(I)(A) under RBI Act, 1934.

As per the directions of RBI for NBFC – MFIs your Company not accepted any public deposits and did not have any public deposits outstanding at the end of the year. Your Company does not propose as of now to accept any deposits from public.

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 the Companies Act, 2013. Hence reporting on the purpose of the loan or guarantee or security is, as proposed to be utilized by the 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 under **Annexure I** and forms part of this Report.

Conservation of energy, technology absorption and 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 during the year under review.

Internal Financial Controls

Your Company has in place, adequate internal financial controls to prevent and detect frauds & errors in time 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 incorporating the particulars on the Company's registration, Principal business activity, Share holding pattern, Indebtedness, Remuneration of Directors and Key Managerial Personnel and details on penalties / punishment / compounding of offences etc. is annexed as **Annexure II** and form part of this report.

Corporate Social Responsibility

The Company has laid down a Corporate Social Responsibility Policy, approved by the Board. A report on Corporate Social Responsibility pursuant Section 135 of Companies Act, 2013 read with Companies (Corporate Social Responsibility Policy) Rules, 2014 is attached herewith as **Annexure III** and forms part of this Report.

AUDITORS

Supplementary Audit

Comptroller and Auditor General of India vide their report dated July 15, 2015 **(Annexure IV)** have advised that they have decided not to conduct the supplementary audit of the financial statements of the Company for the year under review and as such have no comments to make under Section 143(6)(b) of the Act.

Secretarial auditor

Pursuant to the provisions of Section 204 of the Companies Act, 2013 and the Rules made thereunder, the Company appointed Shri. C R Ramesh Babu, Company Secretary in Practice, (Certificate of Practice Number: 2222), as secretarial Auditor of the Company for the year 2014-15.

The report of the Secretarial Auditor for the year under review is annexed to this report (Annexure V) along with the clarification / explanations on the observations made by the Secretarial Auditor

Statutory Audit

In pursuance of Section 139 of the Companies Act, 2013, the Comptroller & Auditor General of India appointed M/s. Phillipos & Co., Chartered Accountants, Bengaluru as the Statutory Auditors of the Company for the year 2014-15.

The Report of the Auditors which is annexed to this Report **(Annexure VI)** 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.

Internal Audit

M/s. Saraf & Chandra, Chartered Accountants, Bengaluru were appointed as your Company's Internal Auditors. The quarterly review reports received from the Internal Auditors were placed before the Audit Committee at its meetings at regular intervals.

Corporate Governance

Board of Directors

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

NABARD nominated *Shri V. Maruthi Ram, Chief General Manager NABARD who took charge as Managing Director of the Company from Shri Y. K. Rao, who is repatriated to NABARD Regional Office, Karnataka, Bengaluru.

* Dr B S Suran, Chief General Manager NABARD was nominated by NABARD as the Managing Director of the Company in place of Shri V. Maruthi Ram. Dr B S Suran took charge as the Managing Director of the Company with effect from 10 April 2015. Dr. B. S. Suran had also served as Director on the Board of the Company for a period from May 28, 2012 to February 12, 2014.

NABARD nominated Shri J. C. Das, General Manager in place of Shri G. R. Chintala, Chief General Manager, Regional Office, Karnataka, Bengaluru.

Union Bank of India had nominated Shri Ravi Kumar on the Board of the Company in place of Shri L. D. Rewatkar.

In pursuance of section 149(1) and 161(1) of the Companies Act, 2013, on the recommendation of the Nomination and Remuneration Committee, the Board have appointmented Smt. Meera Saksena as an Additional Director on the Board of the Company to hold office till the date of the ensuing Annual General Meeting.

Based on the recommendations of the Nomination and Remuneration Committee, the Board of Directors of the Company appointed the nominated directors to the Board of Directors of the Company.

The Board of Directors places on record their appreciation for the valuable services rendered by Shri Y. K. Rao, Shri G. R. Chintala and Shri L. D. Rewatkar during their tenure as Directors of the Company.

Reappointments

In accordance with the Companies Act, 2013, Shri Aloysius P. Fernandez, Shri S.S. Bhat and Shri Ravi Kumar, Directors, retire by rotation at the ensuing Annual General Meeting and being eligible, offer themselves for re-appointment.

Company Secretary

Shri Y. L. Narasappa, Company Secretary resigned from the position of Secretary of the Company with effect from February 28, 2015. Your Directors place on record their appreciation for the valuable services rendered by Shri Y. L. Narasappa during his tenure as Secretary of the Company.

Meetings Held

During the Financial Year 2014-15, the Board met five times on June 09, 2014, July 04, 2014, September 12, 2014, November 15, 2014 and March 07, 2015.

Committees of the Board

Audit Committee

The Committee was reconstituted on September 12, 2014 and the present composition is as under:

- Shri S. S. Bhat
- Prof. M. S. Sriram
- Dr. Venugopalan Puhazhendhi

Meetings Held

During the Financial Year 2014-15, the Audit Committee met four times on June 09, 2014, September 12, 2014, November 15, 2014 and March 07, 2015.

Corporate Social Responsibility Committee

The Committee was reconstituted on September 12, 2014 and the present composition is as under:

- Prof. M. S. Sriram
- Dr. Venugopalan Puhazhendhi
- Shri V. Maruthi Ram**

** On repatriation of Shri V. Maruthi Ram to NABARD, the Committee was reconstituted on April 10, 2015 and Shri B.S. Suran was nominated in place of Shri V. Maruthi Ram.

Meetings Held

During the Financial Year 2014-15, the Committee met once on April 21, 2014.

Nomination & Remuneration Committee

The Nomination Committee and the Remuneration Committee of the Board of Directors of the Company were merged and reconstituted as Nomination and Remuneration Committee comprising of the following members:

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

Meetings Held

The Committee met 2 times during the Financial Year 2014-15 on June 09, 2014 and July 04, 2014.

Risk Management Committee

The Committee was reconstituted on September 12, 2014 and the present composition is as under:

- Shri Aloysius P. Fernandez
- Shri J. C. Das
- Shri S. S. Bhat
- Shri V. Maruthi Ram**

** On repatriation of Shri V. Maruthi Ram to NABARD, the Committee was reconstituted on April 10, 2015 and Shri B S Suran was nominated in place of Shri V. Maruthi Ram.

Meeting Held

During the Financial Year 2014-15, the Risk Management Committee met once and the meeting was held on November 15, 2014.

Declaration by Independent Director(s)

Your Company has received the declaration dated April 10, 2015 from Prof. M. S. Sriram 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.

Other Committees

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

Performance Evaluation of Board, Committees & Independent Directors

Pursuant to the provisions of sub-section 3(p) of Section 134 of the Companies Act, 2013 read with sub-rule (4) of Rule 8 of the companies (Accounts) Rules, 2014, the Board carried out an annual performance 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 and Non-Executive Directors.

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

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 are established to oversee, monitor and guide the Company for effective risk management.

The Company has put in place a 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 potential risks through various audits such as Process audit of District Offices, Concurrent audit, Internal audit etc.

Vigil Mechanism / Whistle Blower Policy

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

Prevention of Sexual Harassment of Women at Workplace

Your Company has always believed in providing a safe and harassment free workplace for every individual working in the Company through various interventions and practices. The Company always endeavors to create and provide an environment that is free from discrimination and harassment including sexual harassment. The Company has in place a robust policy on prevention of sexcual harassment at workspace. The policy aims at prevention of harassment of employees as well as contractors and lays down the guidelines for identification, reporting and prevention of sexual harassment.

During the year under review, no complaints relating to sexual harassment at the workplace were received.

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 have 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 have 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 have prepared the annual accounts on a going concern basis; and

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

Acknowledgements

Your Board of Directors wishes to gratefully acknowledge the assistance, guidance and co-operation received from NABARD RBI, Investors, 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

Place : Bengaluru	**Aloysius P. Fernandez**	**B. S. Suran**
Date : September 01, 2015	**00027034**	**05331558**
	Chairman	**Managing Director**

Annexure I

Details of material contracts or arrangement 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	Issue of Shares	Not Applicable	2,600.00	15.11.2014	Nil
Canara Bank	Associate	Issue of Shares	Not Applicable	1,410.00	26.05.2014	Nil
NABARD	Holding Entity	Loan Received	3 Years *	40,122.24	NA	Nil
NABARD	Holding Entity	Loan Repaid		29,137.96	NA	Nil
NABARD	Holding Entity	Interest Paid		5,268.38	NA	Nil
Shri Y.K Rao	Key Managerial Personnel	Managerial Remuneration	Not Applicable	9.92	22.06.2013	Nil
Shri V. Maruthi Ram	Key Managerial Personnel	Managerial Remuneration	Not Applicable	25.28	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	0.70	28.03.2013	Nil
Prof. M.S Sriram	Director	Director Sitting Fee	Not Applicable	0.80	28.03.2013	Nil
Dr. Venugopalan Puhazhendhi	Director	Director Sitting Fee	Not Applicable	0.75	30.01.2014	Nil
Shri Y L Narasappa	Key Managerial Personnel	Remuneration	Not Applicable	6.98	06.06.2011	Nil

* The Company has refinance arrangement with NABARD and the refinance is repayable in three years half yearly installments and interest.

** Valid for one year and renewable on mutual agreement.

Place: Bengaluru
Date: September 01, 2015

Aloysius P. Fernandez
00027034
Chairman

B. S. Suran
05331558
Managing Director

Annexure-II

Form No. MGT-9

EXTRACT OF ANNUAL RETURN

As on the financial year ended on March 31, 2015

[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, R. V. Road, Jayanagar 2nd Block, BENGALURU – 560 004
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
	De mat	Physical	Total	% of total shares	De mat	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)(1) + (A)(2)	**NIL**	**7**	**7**	**Negligible**	**NIL**	**7**	**7**	**Negligible**	**NIL**
B. Public shareholding									
1. Institutions									
a. Mutual Funds									
b. Banks / FI	NIL	91756300	91756300	81.84 %	NIL	131856300	131856300	86.62 %	NIL
c. Central Govt.	NIL								
d. State Govt.(s)	NIL	20360000	20360000	18.16 %	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**	**112116300**	**112116300**	**100 %**	**NIL**	**152216300**	**152216300**	**100%**	**NIL**
2. Non-Institutions									
(a) Bodies Corp.									
i) Indian									
ii) Overseas									
(b) Individuals									
i) Individual shareholders holding nominal share capital upto ₹1 lakh									
ii) Individual shareholders holding nominal share capital in excess of ₹1 lakh									
(c) Others (Specify)									
Sub-total(B)(2) -	<- - - - - - - - - - - NIL - - - - - - - - - - ->								
Total Public Shareholding (B) = (B)(1) + (B)(2)	**NIL**	**112116300**	**112116300**	**100 %**	**NIL**	**152216300**	**152216300**	**100%**	**NIL**
C. Shares held by Custodian for GDRs & ADRs	**<- - - - - - - - - - - NIL - - - - - - - - - - ->**								
Grand Total (A+B+C)	**NIL**	**112116307**	**112116307**	**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			% change in share holding during the year
		No. of shares	% of total Shares of the Company	% of Shares Pledged / encum-bered to total shares	No. of shares	% of total Shares of the Company	% of Shares Pledged / encum-bered to total shares	
01	H. B. Jayaprasad	01	Negligible	NIL	01	Negligible	NIL	NIL
02	T. Ramesh	01	Negligible	NIL	01	Negligible	NIL	NIL
03	B. Sathish Rao	01	Negligible	NIL	01	Negligible	NIL	NIL
04	S. S. Bhat	01	Negligible	NIL	01	Negligible	NIL	NIL

05	G. R. Chintala	01	Negligible	NIL	01	Negligible	NIL	NIL
06	V. Maruthi Ram	01	Negligible	NIL	01	Negligible	NIL	NIL
07	Suseela Chintala	01	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 the year	
		No. of Shares	% of total shares of the Company	No. of Shares	% of total shares of the Company
	At the beginning of the year	07	Negligible	07	Negligible
	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 - - - - - - - - - - - ->			
	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.	For each of the Top 10 Share-holders	Shareholding at the beginning of the year			Cumulative Shareholding during the year	
		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	7,60,06,300	67.79		
		Govt. of Karnataka	2,03,60,000	18.16		
		Union Bank of India	85,00,000	7.58		
		Bank of Baroda	50,00,000	4.46		
		Canara Bank	19,00,000	1.69		
		Federal Bank Ltd	2,50,000	0.22		
		Dhanalakshmi Bank Ltd	1,00,000	0.09		

	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**			
		26.05.14	Canara Bank	Allotment of equity shares	1,41,00,000	11.17		
		15.11.14	National Bank for Agriculture & Rural Development	Allotment of equity shares	2,60,00,000	17.08		
	At the end of the year	National Bank for Agriculture & Rural Development			10,20,06,300	67.01		
		Govt. of Karnataka			2,03,60,000	13.38		
		Canara Bank			1,60,00,000	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:**

Sl. No.	**For each of the Directors and KMP**	Shareholding at the beginning of the year				Cumulative Shareholding during the year	
		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		
		Y. K. Rao	1	Managing Director-KMP	Negligible		
		G. R. Chintala	1	Director	Negligible		

	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 & Folio of Transferor**	**Particular**	**Name of Transferee**			
		04.07.14	R. Bharat Kumar – Fl. No. 26	Transfer of 1 equity share	V Maruthi Ram – Fl. No. 36	Negligible		
		12.09.14	Y. K. Rao Fl. No. 33	Transfer of 1 equity share	Suseela Chintala – Fl. No. 37	Negligible		
	At the end of the year	Subraya Shankar Bhat [S. S. Bhat]		1	Director	Negligible		
		V Maruthi Ram		1	Managing Director-KMP	Negligible		

V. INDEBTEDNESS:

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

	Secured Loans excluding deposits	Unsecured Loans	Deposits	Total Indebtedness
Indebtedness at the beginning of the financial year :-	-		-	
i) Principal Amount	-	53850.20	-	53850.20
ii) Interest due but not paid	-	-	-	-
iii) Interest accrued but not due	-	840.37	-	840.37
Total (i+ii+iii)	-	54690.57	-	54690.57
Change in Indebtedness during the financial year	-		-	
Addition	-	45542.10	-	45542.10
Reduction	-	34406.34	-	34406.34
Net Change	-	11135.76	-	11135.76
Indebtedness at the end 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

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 Y. K. Rao	Shri V. Maruthi Ram	
1	Gross Salary			
	(a) Salary as per provisions contained in section 17(1) of the Income Tax Act, 1961	9.92	25.28	35.2
	(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			
3	Sweat Equity			
4	Commission			
	- As % of profit			
	- Others, specify…			
5	Others, Please specify			
	Total (A)	9.92	25.28	35.2
	Ceiling as per the Act			

B. Remuneration to other Directors:

Sl. No	Particulars of Remuneration	Name of Directors			Total Amount
		Shri Aloysius P. Fernandez	Prof. M. S. Sriram	Dr. V. Puhazhendhi	
	Independent Directors				
	* Fee for attending board / committee meetings	<- - - NIL - - - >	₹80,000/-	₹75,000/-	₹1,55,000/-
	* Commission		NIL		NIL
	* Others, please specify – Re-imbursement of travelling & incidental expenses		NIL	₹7,509/-	₹7,509/-
	Total (1)		**₹80,000/-**	**₹ 82,509/-**	**₹ 1,62,509/-**

	Other Non-Executive Directors				
	* Fee for attending Board / Committee meetings	₹70,000/-			₹70,000/-
	* Commission	NIL			NIL
	* Others, please specify - Professional Fee for acting as Professional Advisor - Transportation cost	 ₹14,64,900/- ₹ 4,39,500/-	<- - - NIL - - ->	<- - - NIL - - ->	 ₹ 14,64,900/- ₹ 4,39,500/
	Total (2)	**₹19,74,400/-**			**₹19,74,400/**
	Total (B) = (1+2)	**₹19,74,400/-**	**₹80,000/-**	**₹82,509/-**	**₹21,36,909/-**
	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	*₹6,98,230/-*	NA	*₹ 6,98,230/-*
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		***₹6,98,230/-***		***₹ 6,98,230/-***

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

Place : Bengaluru	**Aloysius P. Fernandez**	**B. S. Suran**
Date : September 01, 2015	**00027034**	**05331558**
	Chairman	**Managing Director**

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

A Committee comprising of the Directors titled '*Corporate Social Responsibility*' as constituted by the Board in its Meeting held on March 07, 2014 was re-constituted by the Board in its Meeting held on September 12, 2014 and its composition is as follows:

- Prof. M. S. Sriram
- Dr. Venugopalan Puhazhendhi
- Shri V. Maruthi Ram

During the year under review the Committee met once on April 21, 2014.

2 Average net profit of the Company for last three financial years

Particulars	In ₹ Lakh
Net Profit of the Company during the year 2011-12	352.15
Net Profit of the Company during the year 2012-13	1305.51
Net Profit of the Company during the year 2013-14	2381.99
Total Profit for the past 3 years	4039.65
Average Profit for the purpose of Section 135 of Companies Act, 2013	1346.55
Prescribed CSR Expenditure for the year 2014-15 – 2 % of Average Net Profit	26.93

3 Details of CSR spent during the financial year :

Particulars	In ₹ Lakh
a. Total amount to be spent	26.93
b. Amount as approved by the CSR Committee and the Board	26.93
c. Amount actually spent	0.20
d. Amount unspent (a-c)	26.73

FY 2014-15 being the first year for the Company for implementation of CSR activities, as such in view of the nascent stage of the implementation framework of CSR activities, 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 2014-15, the Company has spent an amount of ₹17.52 lakh as against the total amount of outlay of ₹ 26.86 Lakh and the remaining would be utilised by December 2015.

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)
Swachh Bharat Kosh	To support *Swachh Bharat Abhiyan* launched by Govt. of India	Sanitation	India	0.20	0.20
National Mother and Child Welfare Organisation (NAMCO)	Construction of toilets and installation of RO water purifiers in the schools	Sanitation and making available safe drinking water	Nagapattinam, Tamilnadu	17.35	-
Veera Maha Ganapati Company (VMGC)	Construction of toilets and installation of water purifiers in the schools	Sanitation and making available safe drinking water	Uttara Kannada, Karnataka	9.51	-

Notes:

a) Since FY 2014-15 being first year of applicability of Section 135 of the Companies Act, 2013, the figures for cumulative expenditure is not applicable;

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

c) There are no overheads in the above list.

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 Collectives etc. The CSR activities to be taken up are considered and monitored by the NABFINS CSR Team.

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.

Place : Bengaluru	**M. S. Sriram**	**B. S. Suran**
Date : September 01, 2015	**00588922**	**05331558**
	Chairman of the CSR Committee	**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 2015

The preparation of financial statements of NABARD Financial Services Limited, Bangalore for the year ended on 31 March 2015 in accordance with the financial reporting framework prescribed under the Companies Act, 2013 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 12 June 2015.

I, on the behalf of the Comptroller and Auditor General of India, have decided not to conduct the supplementary audit of the financial statements of NABARD Financial Services Limited, Bangalore for the year ended on 31 March 2015 and as such have no comments to make under Section 143(6)(b) of the Act.

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: 15 July, 2015

Annexure V

Form No. MR 3
SECRETARIAL AUDIT REPORT
FOR THE FINANCIAL YEAR ENDED 31ST MARCH 2015
[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
BANGALORE - 560004

I have conducted the secretarial audit of the compliance of applicable statutory 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 (01.04.2014 to 31.03.2015) 31.03.2015 complied **(subject to observations attached)** 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 2015 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 Register 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 Committee 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 , Committee 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.

The Secretarial Standards SS -1 & SS - 2 issued by the Institute of Company Secretaries of India in respect of Meeting of the Board of Directors and General Meeting has comes into effect from **01.07.2015.** However the Company has complied the said standards.

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) Workmen's Compensation Act, 1923

(ix) Employment Exchanges (Compulsory Notification of Vacancies)Act, 1959

(x) Contract Labour Act, 1970

(xi) Power of Attorney Act

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

(xiii) Income Tax Act 1961

(xiv) The RBI , 1934

(xv) Indian Stamp Act, 1899

(xvi) Service Tax Act

(xvii) Information Technology Act, 2000

(xviii) Equal Remuneration Act, 1976

(xix) Shops and Establishment Act

(xx) Employers Liability Act, 1938

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

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

(xxiii) Apprentices Act, 1961

(xxiv) Industrial Disputes Act, 1947

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: 27.08.2015

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

Note:

This Report is to be read with observations attached herewith an integral part of this report.

OBSERVATIONS

1. The performances evaluation of various Committees of Directors and that of individual Directors , Independent Directors , Managing Director, Chairman yet to be done as required u/s 134 (3) (p) of the Companies Act, 2013 .
2. Company is yet to formulate policy relating to the Remuneration of Directors, KMP and other personnel which has to be disclosed in Boards' Report.
3. Code of Conduct for Board of Directors and Senior Executives is yet to be formulated.
4. During the year 2014 – 15 Company has not Nominated / Appointed Key Managerial Personnel as required u/s 203 of the Companies Act, 2013 which came into effect from 01..04.2014 .
5. NABARD Financial Services Limited Employees' Group Gratuity Trust has not convened periodical meetings. Also Trust Account for the year ended 31.03.2014 and 31.03.2015 are yet to be Audited and placed before Board of the Company.
6. During 2014 – 15 Company has spent only Rs. 20,000 /- towards CSR activities out of Rs. 26.93 Lakhs. Hence unspent amount is Rs. 26.73 lakhs.
7. Company is yet to formulate a suitable policy and Procedure on Risk Management.
8. Related Party Transactions are not recommended by Audit Committee to Board.
9. During the year 2014 – 15 , in few months Company has made delay in submitting few Periodical Returns to RBI within the stipulated time .
10. No meetings were convened and held by Asset liability Management Committee.

Explanations on the observations made by the Secretarial Auditor in his Audit Report for the period 2014-15

Sl No.	Observations	Explanations
1.	The performance evaluation of various Committees of Directors and that of individual Directors , Independent Directors, Managing Director, Chairman yet to be done as required u/s 134 (3) (p) of the Companies Act, 2013.	The performance evaluation has been conducted as per the Policy approved by the Board by a circular resolution on August 27, 2015. This exercise will be undertaken annually in compliance with the Companies Act 2013.
2.	Company is yet to formulate policy relating to the Remuneration of Directors, KMP and other personnel which has to be disclosed in Boards' Report.	Of the 11 directors of the Company, 7 are nominee directors, 2 independent directors, Chairman and Managing Director. No remuneration is paid to the Nominee Directors. However, the Independent Directors are being paid the sitting fee and other incidental expenses as approved by the Board. As regards Chairman, remuneration by way of Professional fee is being paid as per the Board approved policy. As regards MD, the remuneration is based on the pay scales of NABRAD which is approved by the Members in the 17th AGM. As regards KMP, the remuneration of the Company Secretary is as per the approval of the Board.
3.	Code of Conduct for Board of Directors and Senior Executives is yet to be formulated.	Even though there is no specific Code of Conduct, the Board of Directors execute a deed of covenant which essentially is an undertaking for adhering to specific code of conduct from the current year.
4.	During the year 2014 – 15 Company has not Nominated / Appointed Key Managerial Personnel as required u/s 203 of the Companies Act, 2013 which came into effect from 01.04.2014	The company was in the process of identifying a suitable person for CFO and has accordingly nominated Shri Vinod Chandrasekharan as CFO with effect from June 12, 2015. As regards MD and Company Secretary, even though these officials were appointed in the respective positions, they were formally designated as KMP's in the Board Meeting held on June 12, 2015.
5.	NABARD Financial Services Limited Employees' Group Gratuity Trust has not convened periodical meetings. Also Trust Account for the year ended 31.03.2014 and 31.03.2015 are yet to be Audited and placed before Board of the Company.	The Trust was reconstituted with Dr B S Suran, MD in the 86th Board Meeting held in April 2015. As regards audit of the Trust, M/s Saraf & Chandra have been appointed as auditors of the Trust and the report of the audit would be placed before the Board.

Sl No.	Observations	Explanations
6.	During 2014–15 Company has spent only ₹ 20,000 /- towards CSR activities out of ₹ 26.93 Lakh. Hence unspent amount is ₹ 26.73 Lakh.	Being the first year of implementation of CSR and due to the inherent nature of the projects undertaken, the activities could not be completed during the year. However, as on the date of Directors' Report for 2014-15, the Company has spent an amount of outlay of ₹17.52 Lakh as against the total amount of outlay of ₹ 26.86 Lakh and remaining would be spent by the end of December 2015.
7.	Company is yet to formulate a suitable policy and Procedure on Risk Management.	A consultant has been appointed to frame a policy for Risk Management and he has completed the preparation of manuals which is expected to be presented before the Board in the ensuing meeting.
8.	Related Party Transactions are not recommended by Audit Committee to Board.	Even though a separate memorandum indicating the details of Related Party Transactions were not placed before the Audit Committee, these transactions were reported as a part of the Financial Statements placed before the Audit Committee which was recommended by the Committee to the Board for its consideration.
9.	During the year 2014 – 15, in few months Company has made delay in submitting few Periodical Returns to RBI within the stipulated time.	All efforts are being taken to avoid such delays in future.
10.	No meetings were convened and held by Asset liability Management Committee.	The suggestion is noted and appropriate action would be initiated in this regard.

Place: Bengaluru
Date: September 01, 2015

Aloysius P. Fernandez
00027034
Chairman

B. S. Suran
05331558
Managing Director

INDEPENDENT AUDITOR'S REPORT

To
The Members of
M/s NABARD Financial Services Limited.,
Bangalore.

Report on the Financial Statements

We have audited the accompanying financial statements of M/s **NABARD Financial Services Limited.** ("the Company"), which comprises the Balance Sheet as at March 31, 2015, and the Statement of Profit and Loss for the period then ended 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 Company's Board of Directors is responsible for the matters 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, performance of the Company in accordance with the accounting 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 the maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding of the assets of the Company and for preventing and detecting the frauds and other irregularities; selection and application of appropriate accounting policies; making judgments and estimates that are reasonable and prudent; and design, implementation and maintenance of internal financial control, 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 misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit.

We 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 there under.

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 misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal financial control relevant to the Companies' preparation of the financial statements that give true and fair view in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of the accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion on the financial statements.

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;

a) in the case of the Balance Sheet, of the state of affairs of the Company as at March 31, 2015;

b) in the case of the Statement of Profit and Loss, of the profit for the year ended on that date; and

c) in the case of the Cash Flow Statement, of the cash flows for the year ended on that date.

Report on other Legal and Regulatory Requirements

I. As required by the Companies (Auditor's Report) Order, 2015 ("the Order") issued by the Central Government of India in terms of sub-section (11) of section 143 of the Act and based on such checks as we considered appropriate and according to the information and explanations given to us, we give in the Annexure a statement on the matters specified in paragraphs 3 and 4 of the Order.

II. 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 purposes 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 account.

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 the written representations received from the directors as on 31st March, 2015 taken on record by the Board of Directors, none of the directors is disqualified as on 31st March, 2015 from being appointed as a director in terms of Section 164 (2) of the Act.

f) With respect to the other matters to be included in the Auditor's Report in accordance with rule 11 of the Companies (Audit and Auditors) Rules, 2014, in our opinion and to the best of our information and according to the explanations given to us:

i. The Company does not have any pending litigations which would impact its financial position.

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 Phillipos & Co.
Chartered Accountants
Firm Reg. No.:002650S

Place: Bangalore
Date: 12/06/2015

C.H.SREEDHARAN
Membership No.:006281

The annexure referred to in our report of even date on report on other legal and regulatory requirement of M/s NABARD Financial Services Limited for the year ended 31st March 2015

(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.

(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 or other parties listed in the register maintained under section 189 of the Companies Act.

(iv) In our opinion and according to the information and explanations given to us, there is generally an adequate internal control procedure commensurate with the size of the company and the nature of its business, with regard to purchase of fixed assets and its financial lending services. Activities of the company do not involve purchase of inventories and sale of goods. During the course of our audit, no major instance of continuing failure to correct any weaknesses in the internal controls has been noticed.

(v) The Company has not accepted any deposits. Hence the provisions of sections 73 to 76 or any other relevant provisions of the Companies Act and the rules framed thereunder are not applicable.

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

(vii) (a) According to the information and explanations given to us and on the basis of our examination of the records of the company, undisputed statutory dues including Provident Fund, Investor Education and Protection Fund, Employees' State Insurance, Income-tax, Sales-tax, Service Tax, Custom Duty, Excise Duty, cess to the extent applicable and any other statutory dues have been generally deposited with the appropriate authorities. According to the information and explanations given to us there were no outstanding statutory dues as on 31st of March, 2015 for a period of more than six months from the date they became payable;

(b) According to the information and explanations given to us, the following dues of Income tax have not been deposited by the company on account of disputes;

Name of the statute	Nature of dues	Amount (in ₹)	Period to which the amount relates	Forum where dispute is pending
Income Tax Act, 1961	Income tax and Interest demand as per intimation u/s. 143(1)	14,75,041	Assessment Year 2008-09	The Income Tax Officer ward 12(1), Bengaluru
Income Tax Act, 1961	Income tax and Interest demand as per intimation u/s. 143(1)	9,12,140	Assessment Year 2009-10	The Income Tax Officer ward 12(1), Bengaluru
Income Tax Act, 1961	Interest u/s 220(2)	1,64,178	Assessment Year 2009-10	The Income Tax Officer ward 12(1), Bengaluru
Income Tax Act, 1961	Income tax and Interest demand as per intimation u/s. 143(1)	2,68,060	Assessment Year 2010-11	The Income Tax Officer ward 12(1), Bengaluru
Income Tax Act, 1961	Interest u/s 220(2)	40,182	Assessment Year 2010-11	The Income Tax Officer ward 12(1), Bengaluru

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

The company has sought rectification for the AY 2011-12 for release of refund and contested the adjustment of demands against refund vide its letter dated 24.05.2013.

(c) According to the information and explanations given to us, the amount required to be transferred to investor education and protection fund in accordance with the relevant provisions of the Companies Act, 1956 (1 of 1956) and rules made thereunder has been transferred to such fund within time.

(viii) The Company does not have any accumulated loss and has not incurred cash loss during the financial year covered by our audit and in the immediately preceding financial year.

(ix) The Company has not defaulted in repayment of dues to any financial institution, or bank or debenture holders during the year.

(x) The Company has not granted any guarantees for loans taken by others from bank or financial institutions, the terms and conditions whereof are prejudicial to the interest of the company.

(xi) The term loans are applied for the purpose for which the loans were obtained.

(xii) According to the information and explanations given to us, no fraud on or by the company has been noticed or reported during the year.

For Phillipos & Co.
Chartered Accountants
Firm Reg. No.:002650S

Place: Bangalore
Date: 12/06/2015

C.H.SREEDHARAN
M. No.: 006281

NABARD FINANCIAL SERVICES LIMITED

ADDENDUM TO THE AUDITORS' REPORT DATED 12-06-2015
Directions under section 143(5) of Companies Act 2013
Applicable from the year 2014-15 and onwards

	Directions	Response
	If the Company has been selected for disinvestment, a complete status report in terms of valuation of Assets (including intangible assets and land) and Liabilities (including Committed & General Reserves) may be examined including the mode and present stage of disinvestment process.	Not Applicable
	Please report whether there are any cases of waiver/ write off of debts/loans/interest etc., if yes, the reasons there for and the amount involved.	A sum of Rs. 97681/- was written off as bad debts since they are not recoverable.
	Whether proper records are maintained for inventories lying with third parties & assets received as gift from Govt. or other authorities.	Not Applicable
	A report on age-wise analysis of pending legal/ arbitration cases including the reasons of pendency and existence/ effectiveness of a monitoring mechanism for expenditure on all legal cases(foreign and local) may be given.	Nil, apart from what is mentioned in our Auditors' Report along with CARO dated 12-06-2015

For PHILLIPOS & Co.
CHARTERED ACCOUNTANTS
Firm's Regn.No.002650S

PLACE : BANGALORE
DATE : 08/07/2015

C.H.SREEDHARAN
PARTNER
M.No.006281

NABARD FINANCIAL SERVICES LIMITED

 # 190, Rashtriya Vidyalaya Road, Jaynagar 2nd Block Bengaluru-560004

BALANCE SHEET AS AT MARCH 31, 2015

₹ in Lakh

	Particulars	Note No	As at 31.03.2015	As at 31.03.2014
I	**EQUITY AND LIABILITIES**			
1	**Shareholders' funds**			
	a. Share capital	1	15,221.63	11,211.63
	b. Reserves and surplus	2	4,577.87	2,838.80
2	**Non-current liabilities**			
	a. Long-term borrowings	3	33,229.48	27,498.87
	b. Deferred tax liabilities (Net)		10.40	5.34
	c. Other Long term liabilities	4	422.42	382.88
	d. Long-term provisions	5	312.60	605.91
3	**Current liabilities**			
	a. Short-term borrowings	6	4,850.38	8.87
	b. Other current liabilities	7	33,021.35	27,400.70
	c. Short-term provisions	8	2,573.64	1,021.32
	Total		**94,219.77**	**70,974.32**
II	**ASSETS**			
1	**Non-current assets**			
	a. Fixed assets			
	i. Tangible assets	9	193.53	174.29
	ii. Intangible assets	10	29.30	8.18
	b. Deferred tax assets (net)	-	-	
	c. Long-term loans and advances	11	21,515.91	10,622.08
	d. Other non-current assets	12	41.01	52.01
2	**Current assets**			
	a. Cash and cash equivalents	13	11,437.46	7,150.00
	b. Short-term loans and advances	14	60,003.49	52,370.09
	c. Other current assets	15	999.07	597.67
	Total		**94,219.77**	**70,974.32**

The accompanying notes form an integral part of the financial statements

As per our report of even date

For Phillipos & Co
Chartered Accountants
Firm Reg No 002650S

For NABARD Financial Services Limited

C.H. Sreedharan
Partner
M.No. 006281

ALOYSIUS P.FERNANDEZ
CHAIRMAN
00027034

B.S. SURAN
MANAGING DIRECTOR
05331558

Place : Bengaluru
Date : 12/06/2015

C.VINOD
CHIEF FINANCIAL OFFICER
M 26816

A.KARTHIK
COMPANY SECRETARY
A 32562

NABARD FINANCIAL SERVICES LIMITED

 # 190, Rashtriya Vidyalaya Road, Jaynagar 2nd Block Bengaluru-560004

STATEMENT OF PROFIT AND LOSS FOR THE YEAR ENDED MARCH 31, 2015

₹ in Lakh

	Particulars	Note No	Figures for the year ended	
			31.03.2015	31.03.2014
I.	Revenue from Operations	17	11,488.19	8,325.13
II.	Other Income	18	900.56	639.13
III.	**Total Revenue (I+II)**		**12,388.75**	**8,964.26**
IV.	**Expenses:**			
	Employee benefit expenses	19	852.24	645.56
	Finance costs	20	5,567.11	3,983.74
	Depreciation & Amortization	9&10	61.82	15.82
	Other expenses	21	3,082.78	1,937.15
	Total Expenses		**9,563.95**	**6,582.27**
V.	**Profit before exceptional and extraordinary items and tax (III-IV)**		**2,824.80**	**2,381.99**
VI.	Exceptional items (Refer Note No 26)		293.32	-
VII.	**Profit before extraordinary items and tax (V+IV)**		**3,118.12**	**2,381.99**
VIII	Extraordinary Items		-	-
IX	**Profit before tax (VII-VIII)**		**3,118.12**	**2,381.99**
X.	Tax Expense:			
	1. Current Year Tax		1,370.39	966.45
	2. Previous years Tax		1.30	0.33
	3. Deferred Tax		5.06	6.25
XI.	**Profit (Loss) for the year from continuing operations (IX-X)**		**1,741.37**	**1,408.95**
XII.	Earnings per equity share:			
	(1) Basic (Refer Note No 27)		1.04	0.95
	(2) Diluted		1.04	0.95

The accompanying notes form an integral part of the financial statements

As per our report of even date

For Phillipos & Co
Chartered Accountants
Firm Reg No 002650S

For NABARD Financial Services Limited

C.H. Sreedharan
Partner
M.No. 006281

ALOYSIUS P.FERNANDEZ
CHAIRMAN
00027034

B.S. SURAN
MANAGING DIRECTOR
05331558

Place : Bengaluru
Date : 12/06/2015

C.VINOD
CHIEF FINANCIAL OFFICER
M 26816

A.KARTHIK
COMPANY SECRETARY
A 32562

NABARD FINANCIAL SERVICES LIMITED

 # 190, Rashtriya Vidyalaya Road, Jaynagar 2nd Block Bengaluru-560004

Cash Flow Statement for the year ended MARCH 31, 2015

₹ in Lakh

Particulars	During 2014-15	During 2013-14
a) Cash flow from Operating Activities		
Profit before tax	3,118.12	2,381.98
Adjustments for :		
Depreciation	61.82	15.82
Provision for Non performing Assets	1,144.38	23.70
Provision for Standard Assets	-	417.19
(Profit) / Loss on sale of Fixed Asset	(0.05)	-
Non performing assets written off	0.98	0.25
Amortization of ROC fee	11.00	11.00
Interest on Fixed Deposit	(882.33)	(632.52)
Operating Profit before working capital changes	**3,453.92**	**2,217.42**
Changes in current assets and liabilites		
(Increase) / Decrease in Loans and Advances	(17,308.19)	(24,821.30)
(Increase) / Decrease in Other Current Assets	(401.39)	1,336.59
Increase / (Decrease) in Liabilites and Provisions	(849.23)	7,973.60
Cash generated from operating activities	**(18,558.81)**	**(15,511.11)**
Payment towards Income tax	(1,221.32)	(853.40)
Net cash flow from operating activities (A)	**(16,326.21)**	**(14,147.09)**
b) Cash flow from Investing Activities		
(Increase) / Decrease of Fixed & Intangible Assets	(104.63)	(54.63)
Sale of Fixed Assets	0.20	-
Interest on Fixed Deposit	882.33	632.52
Net cash from investing activities (B	**777.90**	**577.89**
(c) Cash flow from Financing Activities		
Proceeds from issue of Shares	4,010.00	760.00
Increase / (Decrease) in Borrowings	15,825.78	5,352.11
Net cash raised from financing activities (C)	**19,835.78**	**6,112.11**
Net increase in cash and cash equivalent (A)+(B)+(C)	4,287.48	(7,457.08)
Cash and cash equivalent at the beginning of the year	7,150.00	14,607.08
Cash and cash equivalent at the end of the year	**11,437.47**	**7,150.00**
Cash and cash equivalent at the end of the year includes :		
Cash in hand	24.12	210.73
Balances with Banks	98.28	187.34
Deposits	11,315.07	6,751.93
Total	11,437.47	7,150.00

The accompanying notes form an integral part of the financial statements

As per our report of even date

For Phillipos & Co
Chartered Accountants
Firm Reg No 002650S

For NABARD Financial Services Limited

C.H. Sreedharan
Partner
M.No. 006281

ALOYSIUS P.FERNANDEZ
CHAIRMAN
00027034

B.S. SURAN
MANAGING DIRECTOR
05331558

Place : Bengaluru
Date : 12/06/2015

C.VINOD
CHIEF FINANCIAL OFFICER
M 26816

A.KARTHIK
COMPANY SECRETARY
A 32562

NABARD FINANCIAL SERVICES LIMITED

NOTES FORMING PART OF FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 2015

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 by not accepting deposits. Considering the nature of business the company was reclassified under NBFC-MFI with effect from 10th February 2015.

SIGNIFICANT ACCOUNTING POLICIES

A. Significant Accounting Policies:

1. Basis of Preparation of Financial Statements:

The accompanying financial statements have been prepared in accordance with the generally accepted accounting principles in India ("Indian GAAP") to comply with the accounting standards and as per the provisions of Companies Act, 1956 (to the extent applicable), the provisions of Companies Act 2013, (to the extent notified and made 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.

2. 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.

3. Cash Flow Statement

Cash flow statement is prepared in accordance with the indirect method prescribed in Accounting Standard 3.

4. 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.

5. Fixed assets & Depreciation:

The cost of fixed assets comprises purchase price less CENVAT if eligible for credit and any other incidental cost of bringing the asset to its working condition for its intended use. Subsequent expenditure incurred on assets put to use is capitalized only when it increases the future benefit / functioning capability from / of such assets. 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.

6. Intangible Assets & Amortization:

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

7. Employee Benefits:

I. Short term employee benefits

Short term employees' benefits are recognized as an expense at the undiscounted amounts in the statement of profit & loss for the year in which the related services are rendered.

II. Long term employee benefits

a) Provident Fund:

In accordance with law, eligible employees of the Company are entitled to receive benefits under the provident fund. The Company contributes an amount, on a monthly basis, at a determined rate (currently 12% of employee's basic salary) to the Pension Scheme administered by the Regional Provident Fund Commissioner (RPFC) and the Company has no liability for future provident fund benefits other than its annual contribution.

Contribution payable to the recognised provident fund, which is a defined contribution scheme, is accounted for on accrual basis.

b) Gratuity :

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) Leave Encashment and other short term benefits:

i. Leave encashment is in the nature of short term benefit. Every eligible employee is entitled for $2^1/_2$ days earned leave (EL) on pro rata basis for each calendar month. Liability in respect of Leave Encashment has been provided.

ii. Leave Travel Concession is in the nature of short term benefit and every eligible employee is entitled to one month's basic pay in a year. Liability in respect of Leave Travel concession has been provided.

iii. Performance based incentive in accordance with company rules has been provided.

8. Prior Period and Extra Ordinary Items:

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

9. Taxation:

Income-tax expense comprises current tax (i.e. amount of tax for the period determined in accordance with the income-tax law), deferred tax charge or credit (reflecting the tax effect of timing differences between accounting income and taxable income for the period).

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.

10. 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.

11. 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.

12. Finance Expenses:

Expenditure incurred for raising borrowed funds including ancillary costs incurred in connection with the arrangement of borrowings, which is not eligible for capitalisation, is fully charged to the statement of profit and loss on incurrence.

13. 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 Installments overdue	50 % of the aggregate loan Installments overdue
ii) Non Performing Assets 180 Days & Above	100 % of the aggregate loan Installment Overdue	100 % of the aggregate loan Installment 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.

14. Earnings Per Share:

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

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

As per our report of even date
For Phillipos & Co
Chartered Accountants
Firm Reg No 002650S

For NABARD Financial Services Limited

C.H. Sreedharan
Partner
M.No. 006281

ALOYSIUS P.FERNANDEZ
CHAIRMAN
00027034

B.S. SURAN
MANAGING DIRECTOR
05331558

Place : Bengaluru
Date : 12/06/2015

C.VINOD
CHIEF FINANCIAL OFFICER
M 26816

A.KARTHIK
COMPANY SECRETARY
A 32562

NABARD FINANCIAL SERVICES LIMITED

NOTES FORMING PART OF FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 2015

₹ in Lakh

Note No	Particulars	Current year 31.03.2015	Previous year 31.03.2014
1	**Share Capital** **Authorized Captial** 20,00,00,000 Equity Shares of Rs.10/- each (Previous year 20,00,00,000 Equity Shares of Rs.10/- each)	20,000.00	20,000.00
	Issued, Subscribed & Fully Paid up: 15,22,16,307 Equity Share of Rs.10/-each (Previous year 11,21,16,307 Equity shares of Rs.10/- each	15,221.63	11,211.63
	TOTAL	**15,221.63**	**11,211.63**

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

	Number of Shares March 31, 2015	March 31, 2014
Number of Shares outstanding at the beginning of the year	112,116,307	104,516,307
Add : Issued during the year	40,100,000	7,600,000
Number of Shares outstanding at the end of the year	152,216,307	112,116,307

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	11,211.63	10,451.63
Add : Share Capital Issued during the year	4,010.00	760.00
Equity Share Capital Outstanding at the end of the year	15,221.63	11,211.63

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

NABARD FINANCIAL SERVICES LIMITED

NOTES FORMING PART OF FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 2015

		Number of Shares as at			
d	**Details of shareholder holding more than 5 %**	**31.3.2015**	**%**	**31.3.2014**	**%**
	1. National Bank for Agricultural & Rural Devlopment	10,20,06,300	67.01	76,006,300	67.79
	2. Government of Karnataka	2,03,60,000	13.37	20,360,000	18.16
	3. Canara Bank	1,60,00,000	10.51	-	
	4. Union Bank of India	85,00,000	5.58	8,500,000	7.58

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 31.03.2015	Previous year 31.03.2014
2	**Reserves & Surplus**		
	(a) Other Reserves :		
	(i) Reserve Fund		
	Opening Balance	571.28	289.49
	Additions during the year	348.27	281.79
	Sub Total (A)	**919.55**	**571.28**
	(ii) Risk Fund		
	Opening Balance	200.00	100.00
	Additions during the year	-	100.00
	Sub Total (B)	**200.00**	**200.00**
	(b) Surplus		
	Opening balance	2,067.52	1,040.36
	Transfer from Statement of Profit & Loss	1,741.37	1,408.95
	Amount Available for Appropration	3,808.89	2,449.31
	Less: Appropriation		
	- for Reserve Fund (Refer Note No 29)	348.27	281.79
	- for Risk fund	-	100.00
	- for fixed assets write off (Refer Note No 28 (b))	2.30	-
	Sub Total (C)	**3,458.32**	**2,067.52**
	GRAND TOTAL (A+B+C)	**4,577.87**	**2,838.80**

NOTES FORMING PART OF FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 2015

₹ in Lakh

Note No	Particulars	Current year 31.03.2015	Previous year 31.03.2014
3	**Long-Term Borrowings**		
	i. Term Loan		
	a. Loans & Advances from related parties		
	Unsecured :		
	- Refinance Loan From NABARD (Refer Note no:33)	33,229.48	27,498.87
	Total	**33,229.48**	**27,498.87**
4	**Other Long Term liabilities**		
	(a) Others :		
	Security Deposit	110.54	75.42
	Interest payable on security Deposit	11.88	7.46
	Patient Capital from IFAD - Government of Tamilnadu (Refer Note No.34)	300.00	300.00
	Total	**422.42**	**382.88**
5	**Long -Term provisions**		
	a. Others :		
	Provision made against Standard Assets (Refer Note No 23)	312.60	605.91
	Total	**312.60**	**605.91**
6	**Short - Term borrowings**		
	(a) Loan repayable on demand from		
	(i) Banks		
	Overdraft & Currents accounts with banks (lien on Fixed Deposits)	4,850.38	8.87
	Total	**4,850.38**	**8.87**

NOTES FORMING PART OF FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 2015

₹ in Lakh

Note No	Particulars	Current year 31.03.2015	Previous year 31.03.2014
7	**Other Current Liabilities**		
	(a) Current maturities of long-term debt		
	- Refinance Loan from NABARD	31,604.99	26,351.33
	(Refer Note No: 33)		
	(b) Interest accrued on borrowings -	991.86	840.38
	Refinance from NABARD		
	(c) Other payables		
	Withholding and other taxes payable	23.18	7.67
	Accrued Salaries and Incentives to Staff	125.00	90.85
	Commission & Other payables	210.41	86.42
	ESIC, PF & Professional taxes	11.27	7.31
	Accrued Expenses	25.12	16.75
	Provision for CSR Expenses (Refer Note No 38)	26.87	-
	Unutilised Grants from Nabard for SHG promotion	2.65	-
	Total	**33,021.35**	**27,400.70**

Note No	Particulars	Current year 31.03.2015	Previous year 31.03.2014
8	**Short - Term provisions**		
	(a) Provision for employee benefit		
	Leave Encashment	30.80	27.71
	Gratuity	2.78	1.87
	Total (a)	**33.58**	**29.58**
	(b) Others		
	Provision made for		
	(a) Non Performing Assets (Refer Note No 23)	1,169.67	25.29
	(b) Income Tax	1,370.39	966.45
	Total (b)	**2,540.06**	**991.74**
	Grand Total (a+b)	**2,573.64**	**1,021.32**

NOTES FORMING PART OF FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 2015

Note No 9 &10

₹ in Lakh

Note No.9	Gross Carrying Value				Depreciation (Refer Note No 28)						Net Carrying Value	
Tangible Assets	As at 01.04.2014	Additions	Disposal/ Written off	As at 31.03.2015	Rate of Depre-ciation	As at 31.03.2014	For the Year	With-drawn	Total 31.03.2015	To be Charged to Retained Earnings	As at 31.03.2015	As at 01.04.2014
Furniture & Fixtures	47.03	6.78	-	53.81	10%	6.35	5.16	-	11.51	-	42.29	40.68
Office Equipments	102.79	47.22	0.16	149.85	19%	8.71	29.25	0.01	37.95	-	111.91	94.08
Servers and Networks	5.25	0.09	-	5.34	16%	0.68	0.84	-	1.51	-	3.83	4.57
Laptop & Desktops	47.16	21.84	-	69.00	32%	12.78	19.12	-	31.90	2.12	34.98	34.38
Vehicle	0.59	-	-	0.59	10%	0.02	0.06	-	0.07	-	0.52	0.58
Sub Total (a)	202.82	75.93	0.16	278.60		28.53	54.43	0.01	82.95	2.12	193.53	174.29
Note No.10												
Intangible Assets												
Software (b)	9.98	28.69	-	38.68		1.80	7.39	-	9.19	0.18	29.30	8.18
GRAND TOTAL ((a) + (b))	**212.80**	**104.63**	**0.16**	**317.27**		**30.33**	**61.82**	**0.01**	**92.14**	**2.30**	**222.83**	**182.47**
Previous Year	158.28	54.57	0.05	212.80		14.51	15.82	-	30.33	-	182.47	-

NOTES FORMING PART OF FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 2015

₹ in Lakh

Note No	Particulars	Current year 31.03.2015	Previous year 31.03.2014
11	**Long-term loans & advances**		
	(a) Security Deposits		
	Deposit - Rent	56.63	44.21
	(b) Loans & advances to related parties	-	-
	(c) Other loans & advances		
	Unsecured considered good:		
	- Standard assets	21,383.69	10,552.26
	- Staff Advance	75.59	25.61
	Total	**21,515.91**	**10,622.08**
12	**Other non - current assets**		
	Unsecured, Considered good		
	(a) Others		
	Income Tax Refund Due	19.01	19.01
	Unamortized Expenditure:	22.00	33.00
	- ROC filing fee & Stamp duty towards Increase in Authorised capital (Refer Note no 32)		
	Total	**41.01**	**52.01**
13	**Cash & Cash equivalents**		
	I (a) Cash on hand	24.12	210.73
	(b) Balance with banks	98.28	187.34
	II Other Bank Balance		
	Bank deposits with less than 12 months maturity	4,963.75	4,150.00
	Earmarked balances with banks	826.39	800.00
	Balances with banks-held as margin money or security deposit against borrowings, gurantee/ other commitments	5,524.92	1,801.93
	Total	**11,437.46**	**7,150.00**

Details of bank balances and deposits

Deposits available on demand or with an original maturity of less than three months included in under 'Cash and cash equivalents'

Bank deposits due to mature within 12 months from the reporting date included under 'Other bank balances'

Bank deposits due to mature after 12 months from the reporting date, if any is included under 'Non-current assets'

NOTES FORMING PART OF FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 2015

₹ in Lakh

Note No	Particulars	Current year 31.03.2015	Previous year 31.03.2014
14	**Short-Term Loans and Advance**		
	(i) Loans & Advances		
	Unsecured considered good:		
	- Standard assets	56,765.58	51,195.38
	- Non performing assets	1,892.04	224.03
	(ii) Others		
	Unsecured considered good:		
	Advances to Employees for Expenses	12.61	10.59
	Income Tax	1,220.02	853.07
	Telephone Deposit	0.01	0.01
	Tax Deducted at source	88.75	63.54
	Prepaid Expenses	24.48	23.47
	Total	**60,003.49**	**52,370.09**
15	**Other current assets**		
	Interest receivable on Bank Deposits	231.24	85.69
	Interest receivable on Loans	588.85	403.21
	Processing Fee Receivable	140.67	99.21
	Service Tax Receivable	17.35	6.16
	Cenvat Credit on Capital Goods (Refer Note no.31)	1.68	-
	Advance to others	12.11	3.40
	CENVAT Credit Receivable	7.15	-
	Total	**999.07**	**597.67**
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	-	-

NOTES FORMING PART OF FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 2015

₹ in Lakh

Note No	Particulars	Current year 31.03.2015	Previous year 31.03.2014
17	**Revenue from Operations**		
	(i) Interest	10,683.06	7,681.64
	(ii) Processing Fee	805.13	643.49
		11,488.19	**8,325.13**
18	**Other Income**		
	Interest on Fixed Deposits	882.33	632.52
	Interest on Staff Loan	4.30	1.88
	Notice pay recovery	4.02	0.59
	Excess provision written back	6.34	0.25
	HRA recovery from Staff	2.08	0.61
	Recovery from bad debts	0.02	-
	Profit on sale of Fixed Assets	0.05	-
	Miscellaneous income	1.42	3.28
	Total	**900.56**	**639.13**
19	**Employee Benefit Expenses**		
	Salaries and Wages	587.81	453.41
	Incentive for Staff	115.16	82.23
	Recruitment & Training Expenses	3.57	1.95
	Gratuity	14.83	13.28
	Leave encashment	44.80	32.58
	Leave Travel Allowance	24.99	15.55
	Staff Welfare	6.10	6.08
	Rent paid for Staff Quarters	3.20	1.21
	Contribution to Statutory funds	51.77	39.29
	Total	**852.24**	**645.56**
20	**Finance Costs**		
	Interest on		
	- NABARD Refinance Loans	5,419.87	3,928.96
	- Over Draft	142.74	51.04
	- Security Deposits	4.50	3.74
	Total	**5,567.11**	**3,983.74**

NOTES FORMING PART OF FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 2015

₹ in Lakh

Note No	Particulars	Current year 31.03.2015	Previous year 31.03.2014
21	**Other Expenses**		
	Rent	64.89	47.70
	Repairs & Maintenance	31.61	13.13
	Commission for Business Correspondent/Facilator	1,343.40	1,019.34
	Electricity & Water charges	7.66	7.55
	Business Promotion	6.01	4.45
	Insurance	31.72	29.69
	Travelling & Conveyance	204.82	165.23
	Printing & Stationery	45.27	33.85
	Postage, Telephone , & Courier Charges	36.37	26.09
	Transportation Chages	0.10	0.06
	Auditors Remuneration		
	- Statutory Audit Fee	3.42	3.71
	- Tax Consultancy charges	0.34	0.28
	- Other Services	0.11	1.37
	Internal Audit Fee	5.39	5.39
	Books and Periodicals	0.56	0.53
	Meeting Expenses	1.90	1.30
	Miscellaneous Expenses	0.48	0.30
	Website Charges	10.22	3.54
	Advertisement Expenses	2.13	1.90
	Rates & Taxes		
	- Share Issue Expenses - ROC fee amortized	11.00	11.00
	- Interest on Delayed Remittance of TDS	-	0.03
	- Others	4.75	5.37
	Data Entry Expenses	-	0.90
	Directors Sitting Fee	2.25	1.20
	Training Expenses	10.03	11.62
	Legal & Professional Charges Fee	30.19	24.47
	Review & Retreat Expenses	3.84	22.58
	Liveli hood promotion expenses	4.09	9.80
	Patient Capital Expenses	2.65	1.24
	SHPI Promotion Expenses	10.88	1.66
	Security Guard Expenses	4.41	4.41
	Assets costing Less than Rs.5000	8.25	2.39
	Bad Debts written off	0.98	0.25
	Bank charges	20.83	33.91
	CSR Expenses	27.07	-
	Broker commission	0.78	-
	Provision for Standard Assets	-	417.19
	Provision for Non Performing Assets	1,144.38	23.70
	Total	**3,082.78**	**1,937.15**

NOTES FORMING PART OF FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 2015

₹ in Lakh

Note No 22

Capital to Risk Weighted Asset Ratio:

Particulars	As at 31.03.2015	As at 31.03.2014
CRAR	24.28 %	22.35 %
Tier I Capital	24.28 %	22.35 %
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 2014.

Note No 23

ASSET CLASSIFICATION & PROVISIONING NORMS

Provision on loans has been provided as per RBI circular issued by RBI vide notification number DNBS.(PD) CC.No. 395/03.10.38/2014-15, dated July 1 2014.

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)

(₹ in Lakh)

Asset Classification	Criteria	Outstanding	Over Due Amount	RBI Norms		Actual Provision	
		₹ in lakhs		%	Amount	%	Amount
Total Portfolio	**-**	**80041.31**		**1%**	**800.41**	**1%**	**800.41**
Total							**800.41**

₹ in Lakh

(B)

Asset Classification	Criteria	Outstanding	Over Due Amount	RBI Norms		Actual Provision	
		₹ in lakhs		%	Amount	%	Amount
1. Standard Assets	Less than 90 Days	78149.28	-	-	-	0.40 %	312.60
2.1 Non Performing Assets	More than 90 days but less than 180 days	571.78	267.25	50 %	133.63	50 %	133.63
2.2 Non Performing Assets	180 Days & Above	1320.25	1036.04	100 %	1036.04	100 %	1036.04
Total Provision		**80041.31**	**1303.29**		**1169.67**		**1482.26**

Note :

The company received the modified registration certificate from RBI under NBFC-MFI with effect from 10th February 2015. Previously the company was classified under NBFC-ND-SI. Hence, current year the company made provision as per the guidelines issued by RBI for NBFC-MFI. With regard to the immediate previous year, the company had made provision as per guide lines of NBFC-ND-SI.

Note No. 24

Maturity Pattern of certain items of assets and liabilities as on 31.03.2015

(₹ in 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	2129.02	3953.90	12088.30	16087.92	24598.39	21183.78	-	-	80041.31
FDs, Bank & Cash balances	1989.94	944.14	1359.15	3444.25	3700.00	-	-	-	11437.47
Total	**4118.96**	**4898.04**	**13447.45**	**19532.17**	**28298.39**	**21183.78**	**-**	**-**	**91478.78**
Liabilities									
Refinance from NABARD	-	-		17195.59	14409.40	33229.48	-	-	64834.47
Interest on Refinance		-	-	991.86	-	-	-	-	991.86
Total	**-**	**-**	**-**	**19259.95**	**14409.40**	**33229.48**	**-**	**-**	**65826.33**

NOTES FORMING PART OF FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 2015

₹ in Lakh

Note No 25

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	1
(c)	No. of complaints redressed during the year	1
(d)	No. of complaints pending at the end of the year	Nil

Note No. 26

Exceptional Item

(₹ in Lakh)

Particulars	Provision required as at 31.03.2015	Provision created up to 31.03.2014	Excess Provision
Standard assets	312.59	605.91	293.32

The company has created provision as per the NBFC-MFI norms issued by RBI. The company provided provision on standard asset at 0.40 % which amounts to ₹ 312.59 Lakhs. The remaining excess provision of ₹ 293.32 Lakhs has been reversed and shown under exceptional item in the Statement of Profit & Loss.

Note No. 27

Earnings Per Share

(₹ in Lakh)

Particulars	2014-15	2013-14
Net Profit after tax as per		
Statement of Profit & Loss	1,741.37	1,408.95
Less : Transfer to Statutory Reserve, Risk Fund & Others	350.57	381.79
Profit available to Equity Shareholders	1,390.80	1,027.16
Weighted average No. of Equity shares	1,338.50	1,082.88
Potential Equity shares	-	-
Basic Earnings per share	1.04	0.95
Diluted Earnings per share	1.04	0.95

NOTES FORMING PART OF FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 2015

Note No. 28

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. 29

Contribution to Statutory Reserve & Risk Fund

(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.

Note No 30

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.

ii. The Liability in respect of Gratuity for employees is funded through a scheme administered by an insurer and the said gratuity of ₹ 12.34 Lakhs on actuarial basis has been paid during the year. Further Gratuity provisions of ₹ 1.20 Lakhs is made for Managing Director as per the advice received from NABARD.

iii. Liability in respect of Leave encashment has been provided as per policy of the company amounting to ₹ 30.80 Lakhs.

NOTES FORMING PART OF FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 2015

Note No 31

Utilization of Cenvat Credit on Capital Goods against Service tax liability

During the previous year, the company has availed Cenvat credit benefits on the purchase of Point Of Sale (POS) machines in accordance with Rule 3 of Cenvat Credit Rules 2004, which are being used in the field for recording loan installment collection and accounting thereof.

The company is a provider of taxable service, has registration certificate under Service tax for their output service "Banking and Financial services". The Cenvat credit availed on Capital Goods will be utilized for payment of service tax liability in accordance with Rule 4 Cenvat Credit Rules 2004.

Accordingly the company has utilized a sum of ₹ 1.68 Lakhs towards Cenvat credit on purchase 230 POS Machines during the current year against service tax liability and balance amount has been carried forward for the next financial year as per CENVAT Credit rules.

Note No 32

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 under section 35D of the Income tax Act and the un-amortised portion of ₹ 22.00 lakhs (Rupees Twenty Two Lakhs Only) is included in the "Other non-current assets". (Refer Note no.12)

Note No 33

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.

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:

S.no	Rate of Interest %	Out-standing no.of Installments	Amount (₹ in Lakh)
1	9.00%	18	3091.75
2	9.10%	1	193.02
3	9.20%	9	3882.82
4	9.30%	1	3402.44
5	9.50%	3	33933.16
6	9.65%	2	2966.64
7	9.70%	4	13611.85
8	9.90%	2	2353.78
9	10.25%	2	1399.01
		Total	**64834.47**

NOTES FORMING PART OF FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 2015

The current maturities (payable within the period of 12 months) of "Re-finance" commitments, are classified as Current liabilities amounting to ₹ 31,604.99 lakhs and the remaining commitments are classified under Long term borrowing amounting to ₹ 33,229.48 lakhs (Refer Note no 3 & 7).

Note No 34

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 by 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 first instalment of ₹ 300 lakhs out of ₹ 500 lakhs and the amount received was accounted as "Patient Capital" classified under "Other Long Term Liabilites". (Refer note.no - 4)

Note No 35

Claims against the company not acknowledged as debt

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

Particulars	Demand raised under 143(1) of I.T Act, 1961
Asst Year 2008-2009	₹ 1475041
Asst Year 2009-2010	₹ 1076318
Asst Year 2010-2011	₹ 308242
Total demand raised	**₹ 2859601**

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

Particulars	Amount
Refund receivable for the Asst Year 2011-2012	₹ 1384560
Less : Adjusted against demand of	
- Asst Year 2009-2010	₹ 1076318
- Asst Year 2010-2011	₹ 308242
Total amount adjust against the demand	**₹ 1384560**

The Company has sought rectification for the AY 2011-12 for release of refund and contested the adjustment of demands against refund vide its letter dated 24.05.2013.

NOTES FORMING PART OF FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 2015

Note No 36

Names of Related Parties and Nature of Relationship

Description of Relationship	As at March 2015	As at March 2014
Holding Company	NABARD	NABARD
Associate	Canara Bank	Canara Bank
Chairman	Mr. Aloysius P. Fernandez	Mr. Aloysius Fernandez
Managing Director upto 31st July 2014	Mr. Y. K Rao	Mr. Y. K Rao / C.P Mohan
Managing Director from 23rd June 2014	Mr. V. Maruthi Ram	Mr. V. Maruthi Ram
Director	Prof. M.S Sriram	Prof. M.S Sriram
Director	Dr. Venugopalan Puhazendhi	Dr. Venugopalan Puhazendhi
Company Secretary	Mr. Y.L Narasappa	Mr. Y.L Narasappa

Note No 37

Transactions with the Related Parties

(₹ in Lakh)

Transaction	Related Party	For the year ended 31.03.2015	For the year ended 31.03.2014
Other Transactions			
Issue of Shares	NABARD	2,600.00	-
Issue of Shares	Canara Bank	1410.00	-
Loan Received	NABARD	40,122.24	33,189.87
Loan Repaid	NABARD	29,137.96	20,030.68
Expenses			
Interest Payment	NABARD	5,268.38	3,928.86
Managerial Remuneration	C.P Mohan	-	5.61
Managerial Remuneration	Mr. Y.K Rao	9.92	24.21
Managerial Remuneration	Mr. V. Maruthi Ram	25.28	-
Professional Charges Director Sitting Fee	Mr. Aloysius P. Fernandez	19.04 0.70	17.68 0.60
Director Sitting Fee	Prof. M.S Sriram	0.80	0.35
Director Sitting Fee	Dr. Venugopalan Puhazendhi	0.75	0.10
Salary	Mr. Narasappa	6.98	7.55

NOTES FORMING PART OF FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 2015

Note No 38

Expenditure on Corporate Social Responsibility

(a) Gross amount required to be spent by the company during the year : 26.93 lakhs

(b) Amount spent during the year on

(₹ in Lakh)

Particulars	In cash	Yet to be paid in cash	Total
(i) Construction / Acquisition of assets	-	26.86	26.86
(ii) On purposes other than above (a)	0.20	-	0.20

Note No 39

Break-up of Deferred Tax (Asset) / Liability as on 31st March 2015: -

(₹ in Lakh)

Particulars	DTL	DTA
Timing difference on account of		
Difference between Written Down Value of Fixed Assets as per companies Books & Income tax	34.58	
Disallowance with respect to Professional tax		0.89
Disallowance u/s 43B of the Income Tax Act, 1961 in respect of Earned Leave Encashment		3.08
Total	**34.58**	**3.98**
Deferred Tax Calculated on above	11.75	1.35
Net Deferred tax Liability	10.39	
Less : Opening balance of deferred tax liability	5.33	
Liability created for the year	5.06	

Note No 40

Foreign Currency Transactions:-

Particulars	2014-15	2013-14
a. Earnings in Foreign Currency	Nil	Nil
b. Expenditure in Foreign Currency	Nil	Nil

NOTES FORMING PART OF FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 2015

Note No 41

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 42

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

Note No 43

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

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