

17th October 2010

Ref: SKS/HO/2010-11/

The Bombay Stock Exchange Limited,
Floor 25, P J Towers,
Dalal Street,
Mumbai - 400 001
Fax No. 022-2272 2037 / 39 /41/61

The National Stock Exchange of India Limited,
Exchange Plaza,
Bandra-Kurla Complex
Mumbai – 400 051
Fax No. 022-2659 8237 / 38 /47 / 48

Dear Sir / Madam,

Sub: SKS clarifies its stand on the A.P. government's ordinance to protect "Women Self Help Groups" that was signed by the A.P. Governor on October 15, 2010.

1. We are seeking legal clarification as to whether the ordinance will apply to NBFC microfinance institutions (MFIs) as SKS Microfinance is not an NBFC as defined under Sec 58 A of the RBI Act 1934 as outlined in the ordinance.
2. SKS has also learned, from the microfinance industry association, Microfinance Institutions Network (MFIN), that MFIN plans to move a stay petition against the ordinance.
3. This ordinance does not have an interest rate ceiling on MFI loans except a mention that "No MFI shall recover from the borrower towards interest... an amount in excess of the principal amount." This works out to a flat interest rate of 100% compared to our flat rate of 12.5% with 1% upfront interest (26.7 % effective on a declining balance). So the provision is unlikely to have any adverse impact on our interest rate structure.
4. SKS welcomes those provisions of the ordinance which prohibit harsh recovery practices.
5. Provisions related to harsh recovery practices are likely to impact only those MFIs which
 - a. Incentivise field officers for collection
 - b. Penalise field officers for shortfall in collections.
 - c. Pay commissions to Centre or Group leaders for collections
 - d. Deploy commission/ collection /recovery agents

Since inception 13 years ago, SKS has never (during 8 years as an NGO and 5 years as an NBFC) had any of the aforementioned policies.

6. SKS consciously diversified beyond A.P. and has operations in 19 states. A.P. contributes 28% of the current loan portfolio.



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REGIONAL OFFICES

AGRA AHMEDABAD BANGALORE BHAGALPUR BHOPAL BHUBANESHWAR DEHRADUN DELHI ERNAKULAM GULBARGA HUBLI
HYDRABAD JAIPUR KOLKATA KURNOOL LUCKNOW NAGPUR PATNA PUNE RAIPUR RANCHI SILIGURI VARANASI VIJAYAWADA



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7. SKS is fully equipped to meet the various data requirements called for by the ordinance as it holds all its member data (7.3 million as of June 30, 2010) in digitized form. SKS also holds Know Your Customer (KYC) documents of every single borrower. As of now, there has been no material adverse impact on any of our field related and customer interface operations such as village centre meetings, barring extra-legal disturbances in 2 of our 559 branch offices in AP. As per our operating model, all credit related processes and member interface take place only at the village centres in the open and not in the branches. Branch offices have only back office operations.

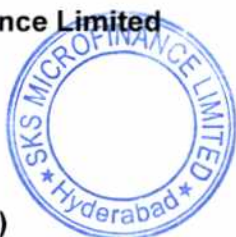
We request you to take the above on record.

Thanking you,

Yours Sincerely

For SKS Microfinance Limited

A handwritten signature in blue ink, appearing to read "Sudershan Pallap".



(Sudershan Pallap)

Deputy Company Secretary