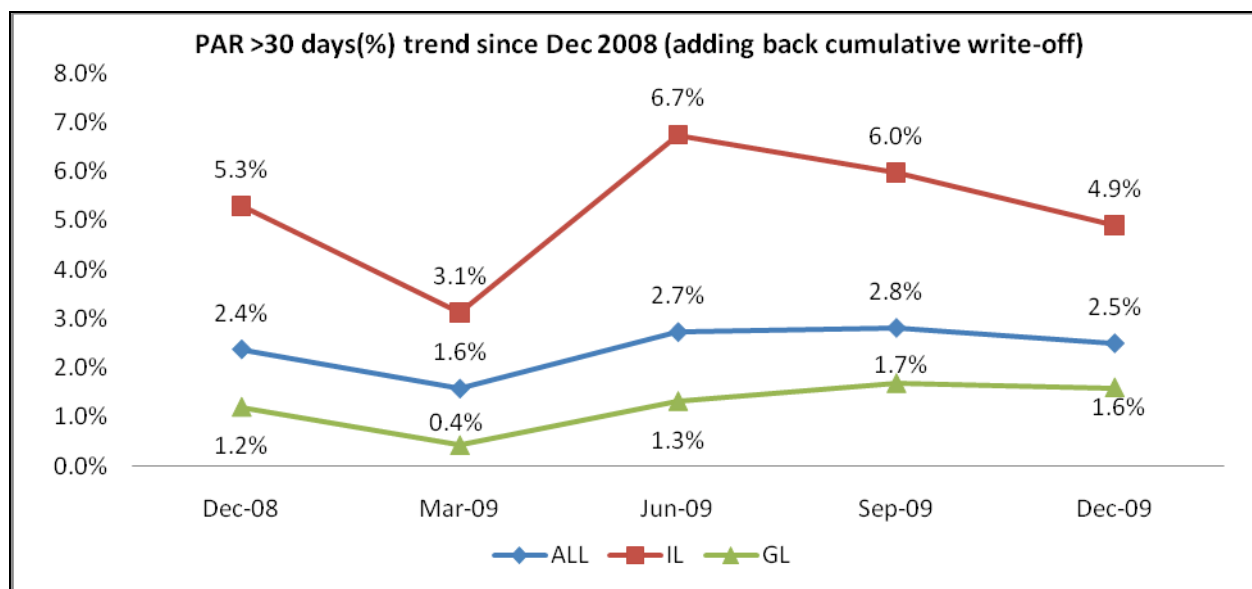


Our comments on the CRISIL Report Mar 2010

Serial no.	Issue raised	Response
1.	Pg4: SFPL does not have a dedicated audit team to conduct detailed and regular audits	SFPL already has a dedicated internal auditor, who was sufficient given the limited number of branches in the current year. In the next year we intend expanding the team in keeping with the expansion of business.
2	Pg5: Asset quality continues to marginally decline	<p>PAR>30 increased marginally in Dec-09 (2.51%) from Dec-08 (2.37%). For IL, PAR>30 decreased to 4.90% from 5.30%, while for GL, PAR>30 increased to 1.60% from 1.20% (please see graph 1, Trends in GL and IL PAR).</p> <p>PAR>30 (%) for Jun-09 and Sep-09, taken in the graph below differ from CRISIL's figures as write-off was done in Jul-09 and Oct-09 respectively.</p> <p>PAR>30 for IL is at an overall level within a 3% to 7% band (Please also see comment from ACCION our technical advisor at the end of this note).</p>
3	Pg10: Small scale of operations	<p>In the CRISIL report, productivity of group loan product has been clubbed with the individual loan product. However, both the products should not be clubbed together as they are distinct products. The group loan product allows a standardized methodology, unlike the IL product (Please also see comment from ACCION at the end of this note).</p> <p>Please see table 2, Productivity indicators for GL and IL.</p>

Graph 1 Trends in IL and GL PAR>30 days



Graph 2: Productivity Indicators for GL and IL

Indicators Sep-08 Mar-09 Sep-09	Sep-08		Mar-09		Dec-09	
	GL	IL	GL	IL	GL	IL
Borrowers per branch	1612	199	1014	227	1251	229
Borrowers per loan officer	179	36	209	41	195	46
Loan Outstanding per branch (Rs. million)	6.7	2.5	5.7	3.3	6.5	3.1
Loan Outstanding per loan officer (Rs. million)	0.74	0.46	1.18	0.59	1.01	0.61
Loan Outstanding per borrower (Rs.)	4135	12780	5651	14537	5206	13338

General Comments of ACCION to the CRISIL report:

Upon review of the CRISIL report ACCION recommends that a distinction be made in the portfolio quality and loan officer productivity standards used for group lending and individual lending respectively. According to CAMEL standards developed by ACCION the PAR>30 standard for individual lending is <3%. The Mix 2008 MFI benchmarks for individual lending methodology MFIs, for PAR>30 is 3.4% compared to 1% for village banking methodology MFIs. In terms of loan officer productivity our experience worldwide shows that a caseload of 300 individual loan borrowers per loan officer is a satisfactory performance. The Mix 2008 MFI benchmarks for individual borrowers per loan officer is 222 compared to 336 for village banking borrowers per loan officer.

We therefore recommend that the key operating and productivity indicators be separated by product to show the progress each of the products is making and avoid that the lower asset quality and productivity standards and results of the individual loan product negatively affect the overall results of Swadhaar.