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INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF BERENDINA MICRO INVESTMENTS COMPANY LIMITED

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Berendina Micro Investments Company Limited ("the Company"), which comprise the statement of financial position as at 31 December 2018, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Basis for Opinion

We conducted our audit in accordance with Sri Lanka Auditing Standards (SLAuSs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the Code of Ethics issued by CA Sri Lanka (Code of Ethics) and we have fulfilled our other ethical responsibilities in accordance with the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Matter

The financial statements of Berendina Micro Investments Company Limited for the year ended 31 December 2017 were audited by another auditor who expressed an unmodified opinion on the statements on 05 March 2018.

Other Information

Management is responsible for the other information. These financial statements do not comprise other information. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.



Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SLAuSs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of the auditors' responsibilities for the audit of the financial statements is located at Sri Lanka Accounting and Auditing Standards website at: <http://slaasc.com/auditing/auditorsresponsibility.php>. This description forms part of our auditors' report.

Report on Other Legal and Regulatory Requirements

As required by section 163 (2) of the Companies Act No. 07 of 2007, we have obtained all the information and explanations that were required for the audit and, as far as appears from our examination, proper accounting records have been kept by the Company.

[Signature]

CHARTERED ACCOUNTANTS

Colombo, Sri Lanka

21 March 2019

BERENDINA MICRO INVESTMENTS COMPANY LIMITED
STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December,

		2018	2017
	Note	Rs.	Rs.
Gross income	3	914,737,460	324,602,913
Interest income	4	863,038,231	297,941,343
Less: Interest and similar expenses	5	258,916,232	91,024,000
Net interest income		604,121,999	206,917,343
Fee, commission and other income	6	51,699,229	26,661,570
Total operating income		655,821,228	233,578,913
Less: Impairment charges for loans and receivables	12.2	77,091,290	5,926,864
Net operating income		578,729,938	227,652,049
Less:			
Personnel expenses	7	249,180,113	92,516,828
Depreciation of property, plant and equipment	13	10,083,097	4,516,863
Amortization of intangible assets	14	1,421,338	390,022
Other operating expenses	8	146,867,335	55,538,350
Operating profit before value added tax and nation building tax on financial services		171,178,055	74,689,986
Less:			
Value added tax and nation building tax on financial services		56,172,766	20,875,574
Nation building tax on other services		700,180	445,455
Profit for the year before income tax		114,305,109	53,368,957
Less: Income tax expense	9	67,951,154	18,665,676
Profit for the year		46,353,955	34,703,281
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Actuarial (loss)/gain on defined benefit plan	18	(3,814,460)	5,790,624
Deferred tax reversal/(charge) on other comprehensive income	15	1,068,049	(1,621,375)
Total other comprehensive income for the year		(2,746,411)	4,169,249
Total comprehensive income for the year		43,607,544	38,872,530

The financial statements to be read in conjunction with the related notes, which form an integral part of these financial statements.

BERENDINA MICRO INVESTMENTS COMPANY LIMITED
STATEMENT OF FINANCIAL POSITION

As at 31 December,

	Note	2018 Rs.	2017 Rs.
Assets			
Cash and cash equivalents	10	180,045,317	108,341,644
Balances with banks and financial institutions	11	48,579,048	42,068,456
Loans and receivables	12	2,828,756,345	3,121,810,225
Property plant and equipment	13	23,843,093	27,924,708
Intangible assets	14	3,337,615	4,758,953
Deferred tax assets	15	5,191,935	2,583,614
Other assets	16	142,414,395	127,464,940
Total assets		3,232,167,748	3,434,952,540
Equity and liabilities			
Liabilities			
Interest bearing borrowings	17	1,771,624,851	2,108,845,131
Post employment benefit obligation	18	22,480,242	13,579,107
Other liabilities	19	531,669,301	449,742,492
		2,325,774,394	2,572,166,730
Equity			
Funds and reserves	20	71,559,550	86,993,090
Stated capital	21	763,461,750	748,028,210
Retained earnings		71,372,054	27,764,510
		906,393,354	862,785,810
Total equity and liabilities		3,232,167,748	3,434,952,540

The financial statements to be read in conjunction with the related notes, which form an integral part of these financial statements.

The Head of Finance certifies that the Financial Statements have been prepared in compliance with the requirements of the Companies Act No. 7 of 2007.



Head of Finance

The Board of Directors is responsible for the preparation and presentation of these Financial Statements in accordance with Sri Lanka Financial Reporting Standards. Signed for and on behalf of the Board by;



Director

21 March 2019
Colombo



Director

BERENDINA MICRO INVESTMENTS COMPANY LIMITED
STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December,

	Unrestricted Funds	Restricted Funds	Assets and Liabilities transfer reserve account	Stated capital	Retained earnings	Total Equity
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Balance as at 01 January 2017	865,800	51,537,500	-	180,028,210	(11,108,018)	221,323,492
Issues of shares for cash	-	-	-	18,000,000	-	18,000,000
Profit / (loss) for the year	-	-	-	-	34,703,281	34,703,281
Balance transfer from BMI	-	-	565,433,540	-	-	565,433,540
Issues of shares from transfer	-	-	(550,000,000)	550,000,000	-	-
Other comprehensive income (net of tax)	-	-	-	-	4,169,247	4,169,247
Received during the year	-	19,156,250	-	-	-	19,156,250
Balance as at 31 December 2017	865,800	70,693,750	15,433,540	748,028,210	27,764,510	862,785,810
Impact of adopting SLFRS 9 – “Financial Instruments” as at 1 January 2018 (Refer Note 2.5.3)	-	-	-	-	-	-
Restated Balance as at 01 January 2018	865,800	70,693,750	15,433,540	748,028,210	27,764,510	862,785,810
Profit for the year	-	-	-	-	46,353,955	46,353,955
Issues of shares from transfer	-	-	(15,433,540)	15,433,540	-	-
Other comprehensive income (net of tax)	-	-	-	-	(2,746,411)	(2,746,411)
Balance as at 31 December 2018	<u>865,800</u>	<u>70,693,750</u>	<u>-</u>	<u>763,461,750</u>	<u>71,372,054</u>	<u>906,393,354</u>

The financial statements to be read in conjunction with the related notes, which form an integral part of these financial statements.

BERENDINA MICRO INVESTMENTS COMPANY LIMITED
STATEMENT OF CASH FLOWS

<i>For the year ended 31 December,</i>	<i>Notes</i>	2018	2017
		Rs.	Rs.
Cash flows from operating activities			
Profit before tax		114,305,109	53,368,957
Adjustments for:			
Depreciation of property, plant and equipment	13	10,083,097	4,516,863
Amortization of intangible assets	14	1,421,338	390,022
Impairment charges for loans and receivables	12.2	77,091,290	5,926,864
Interest expense	17.1	253,337,970	88,222,454
Net foreign exchange difference		703,894	1,085,820
Gain on fixed assets disposal		(9,975,000)	(3,031,957)
Charges for defined benefit liability	18	6,053,185	1,540,290
VAT and NBT on financial service charges		56,872,946	21,321,029
Operating cash flows before working capital changes		509,893,829	173,340,342
Changes in operating assets		201,013,138	(61,874,542)
Changes in operating liabilities		45,724,607	49,807,218
VAT and NBT payment		(59,699,496)	(16,807,163)
Gratuity payments		(928,990)	(272,859)
Interest paid		(247,815,195)	(86,316,341)
Income tax payment / increase the liability		(30,500,196)	(6,687,096)
Net cash flows generated from operating activities		417,687,697	51,189,559
Cash flows from investing activities			
Purchase of property, plant and equipment	13	(6,001,482)	(9,584,060)
Sale proceeds on fixed assets disposal		9,975,000	3,077,680
Net investment made in fixed deposits		(6,510,592)	22,131,127
Net cash flows (used in)/generated from investing activities		(2,537,074)	15,624,747
Cash flows from financing activities			
Net proceeds from borrowings		(343,446,950)	(12,879,478)
Proceeds from issue of shares		-	18,000,000
Proceeds from funds	20	-	19,156,250
Net cash flows (used in)/generated from financing activities		(343,446,950)	24,276,772
Net increase in cash and cash equivalents during the year		71,703,673	91,091,078
Cash and cash equivalents at the beginning of the year		108,341,644	11,156,039
Cash and cash equivalents transfer from BMI		-	6,094,527
Cash and cash equivalents at the end of the year	10	180,045,317	108,341,644

The financial statements to be read in conjunction with the related notes, which form an integral part of these financial statements.

BERENDINA MICRO INVESTMENTS COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS

For the period ended 31 December 2018,

1. REPORTING ENTITY

1.1. General information

Berendina Micro Investments Company Limited (BMIC) is a public limited liability company incorporated in and domiciled in Sri Lanka. The registered office is located at No.44/3, 3rd Floor, Narahenpita Road, Nawala, Sri Lanka.

1.2. Principal activities and nature of operation

The principal activities of the Company are providing micro loan facilities for Asset Building, Business start-up, Business development, Agriculture etc. The aim of Berendina Micro Investments Company Limited (BMIC) is to build a sustainable micro finance organization by providing financial & enterprise development services to the poverty affected communities in an efficient and productive manner.

The Board of Directors and Members of Berendina Microfinance Institute (Guarantee) Limited (BMI), by the resolutions passed on 18 September 2017, approved the sale, transfer and assignment of all assets and liabilities of the company to BMIC with effect from 30 September 2017.

The Board of Directors & Shareholders of BMIC, by the resolutions passed on 22 September 2017, approved the Company taking over the entire business undertaking of BMI effective from 30 September 2017. BMIC will continue to carry on the micro finance business previously conducted by BMI. An application has been made to the Monetary Board of Central Bank of Sri Lanka on 30 October 2017 for a license to carry on micro finance business as required by the Micro Finance Act No 06 of 2016. The transfer of Assets & Liabilities was duly effected by BMI & BMIC in accordance with the Asset Sale and Purchase agreement signed on 29 of September 2017.

1.3. Parent entity

The company's parent undertaking Berendina Development Services (Guarantee) Limited is a company limited by guarantee incorporated in and domiciled in Sri Lanka.

2. BASIS OF PREPARATION

2.1. Statement of Compliance

The Financial Statements of the company comprise the Statement of Financial Position, Statement of Comprehensive Income, Statement of Changes in Equity, Statement of Cash Flows and Notes to the Financial Statements have been prepared and presented in accordance with Sri Lanka Accounting Standards comprising SLFRS and LKAS (hereafter "SLFRS") laid down by The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) and in compliance with the requirements of the Companies Act No. 7 of 2007.

2.1.1. Comparative Information

The Accounting Policies have been consistently applied by the company and are consistent with those used in the previous period.

The Financial Statements for the previous period (2017) comprise results for the period from 01 January 2017 to 30 September 2017 of BMIC including results from 01 October 2017 to 31 December 2017 of the merged company, while the current period (2018) information given are for the period from 01 January 2018 to 31 December 2018 (BMIC). In this circumstance the comparative figures in the statement of comprehensive income, statement of cash flow, statement of changes in equity and related notes are not comparable with the figures for the current period.

BERENDINA MICRO INVESTMENTS COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS

For the period ended 31 December 2018,

2. BASIS OF PREPARATION (*Continued*)

2.2. Responsibility for Financial Statements

The Management is responsible for the preparation and presentation of the Financial Statements in accordance with Sri Lanka Accounting Standards and as per the provisions of the Companies Act No. 07 of 2007. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

2.3. Approval of Financial Statements by the Board of Directors

The Financial Statements of the Company as at and for the year ended 31 December 2018 were authorized for issue by the Board of Directors in accordance with the resolution of the Directors on 21 March 2019.

2.4. Basis of Measurement

The Financial Statements of the Company have been prepared on the historical cost basis, except for the following material items in the Statement of Financial Position.

Items	Basis of Measurement
Defined benefit obligations	Recognized at the present value of the defined benefit obligation

2.5. Significant Accounting Judgments, Estimates and Assumptions

The preparation of Financial Statements of the Company in conformity with Sri Lanka Accounting Standards requires the management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

The most significant areas of estimation, uncertainty and critical judgments in applying accounting policies that have most significant effect on the amounts recognized in the Financial Statements of the Company are as follows.

2.5.1. Common control business combination

Common control business combinations are accounted for using SLFRS 03 Business Combinations and the guideline issued under Statement of Recommended Practices (SoRP) on Merger accounting for common control combinations issued by the Institute of Chartered Accountants of Sri Lanka. The accounting pronouncement of the pooling of interest method has been adopted to account the assets and liabilities transfer between BMI and BMIC with effect from 30 September 2017 considering the transaction has no substance due to the following reasons.

- The purpose of this transaction is merely to improve the operational efficiencies of the Berendina group, by licensing under the Micro Finance Act no. 06 of 2016.
- There is no involvement of outside parties in this transaction, such as non-controlling interests or other third parties.
- Transaction will not be conducted using fair value.
- No new companies are established or no significant change in the ownership.

BERENDINA MICRO INVESTMENTS COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS

For the period ended 31 December 2018,

2. BASIS OF PREPARATION (*Continued*)

2.5 Significant Accounting Judgments, Estimates and Assumptions (*Continued*)

2.5.1. Common control business combination (*Continued*)

Accordingly,

- The net assets of the two entities are consolidated using the existing book values.
- No amount is recognized as goodwill since the transaction is carried out at carrying value of net assets of BMI in order to estimate the purchase consideration of the transaction.
- The financial statements of BMIC have been prepared after the business transfer on a prospective basis.
- Inter group balance and transactions and any unrealized income or expenditure arising from intra group transactions are eliminated in preparation of the consolidated financial statements.

2.5.2. Going Concern Basis of Accounting

The Directors have made an assessment of the Company's ability to continue as a going concern and are satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, Board is not aware of any material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern and they do not intend either to liquidate or to cease operations of the Company. Therefore, the Financial Statements continue to be prepared on the going concern basis.

2.5.3. Transition to SLFRS 9

Changes in accounting policies resulting from the adoption of SLFRS 9 – “Financial Instruments” have been applied retrospectively, except as described below:

The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application:

- The determination of the business model within which a financial asset is held.
- The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.
- If a debt security had low credit risk at the date of initial application of SLFRS 9 – “Financial Instruments”, then the company has assumed that credit risk on the asset had not increased significantly since its initial recognition.

Impact of adoption SLFRS 9 – “Financial Instruments”

The following table summarizes the impact, net of tax, of transition to SLFRS 9 – “Financial Instruments” on reserves and retained earnings as at 1 January 2018.

Company	Retained Earnings (Rs.)
Closing balance as per LKAS 39 (1st January 2018)	27,764,511
Impact on recognition of expected credit losses	-
Opening balance as per SLFRS 9 Initial Application (1st January 2018)	27,764,511

The impact of adopting SLFRS 9 as at 01st January 2018 has not been adjusted in the retained earnings since the impact is insignificant.

Classification of financial assets and financial liabilities on the date of initial application of SLFRS 9 – “Financial Instruments”

The following table shows the original measurement categories as per LKAS 39 – “Financial Instruments: Recognition and Measurement” and the new measurement categories as per SLFRS 9 – “Financial Instruments” along with their carrying amounts for each class of the Group's financial assets and financial liabilities as at 1st January 2018.

BERENDINA MICRO INVESTMENTS COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS

For the period ended 31 December 2018,

2. BASIS OF PREPARATION (*Continued*)

2.5 Significant Accounting Judgments, Estimates and Assumptions (*Continued*)

2.5.3. Transition to SLFRS 9 (*Continued*)

Financial Assets	Original Classification as per LKAS 39	New Classification as per SLFRS 09	Original carrying Amount as per LKAS 39 Rs.	New Carrying Amount as per SLFRS 09 Rs.
Financial Assets Measured at Amortized Cost	L&R	Amortized cost	3,121,810,223	3,121,810,223
Investment in Fixed Deposits	L&R	Amortized cost	42,068,454	42,068,454
Total Financial Assets			3,163,878,677	3,163,878,677

Financial Liabilities	Original Classification as per LKAS 39	New Classification as per SLFRS 09	Original carrying amount as per LKAS 39 Rs.	New Carrying Amount as per SLFRS 09 Rs.
Interest bearing borrowings	Other financial liabilities measured at amortized cost	Other financial liabilities measured at amortized cost	2,018,845,131	2,018,845,131
Total Financial Liabilities			2,018,845,131	2,018,845,131

2.5.4. Impairment losses on loans and receivables

Loss allowances for trade receivables is always measured at an amount equal to lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment and including forward-looking information.

The Company assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The Company considers a financial asset to be in default when:

- The borrower is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realizing security (if any is held); or
- The financial asset is more than 90 days past due.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk.

BERENDINA MICRO INVESTMENTS COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS

For the period ended 31 December 2018,

2. BASIS OF PREPARATION (*Continued*)

2.5 Significant Accounting Judgments, Estimates and Assumptions (*Continued*)

2.5.4. Impairment losses on loans and receivables (*Continued*)

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive).

ECLs are discounted at the effective interest rate of the financial asset.

Credit-impaired financial assets

At each reporting date, the Company assesses whether financial assets carried at amortized cost and debt securities at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- Significant financial difficulty of the borrower or issuer;
- A breach of contract such as a default or being more than 90 days past due;
- the restructuring of a loan or advance by the Company on terms that the Company would not consider otherwise;
- It is probable that the borrower will enter bankruptcy or other financial reorganization; or
- The disappearance of an active market for a security because of financial difficulties.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets. For debt securities at FVOCI, the loss allowance is charged to profit or loss and is recognized in OCI.

Write-off

The gross carrying amount of a financial asset is written off when the Company has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. For individual customers, the Company has a policy of writing off the gross carrying amount when the financial asset is 540 days past due based on historical experience of recoveries of similar assets. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Company's procedures to recovery of amounts due.

The Company reviews its individually significant loans and advances at each reporting date to assess whether an impairment loss should be recorded in the Statement of Comprehensive Income. In particular, management's judgment is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the impairment allowance made.

Loans and advances that have been assessed individually and found to be not impaired and all individually insignificant loans and advances are then assessed collectively, by categorizing them into groups of assets with similar risk characteristics, to determine whether a provision should be made due to incurred loss events for which there is objective evidence, but the effects of which are not yet evident. The collective assessment takes account of data from the loan portfolio such as credit quality, portfolio size, concentration etc. as well as judgments based on current economic conditions.

BERENDINA MICRO INVESTMENTS COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS

For the period ended 31 December 2018,

2. BASIS OF PREPARATION (*Continued*)

2.5 Significant Accounting Judgments, Estimates and Assumptions (*Continued*)

2.5.5. Post-employment benefit obligations

The Post employment benefit obligation and the related charge for the year are determined using projected unit credit method. The valuation method involves making assumptions on discount rates, future salary increases, mortality rates etc. Due to the long term nature of such obligations these estimates are subject to significant uncertainty. All assumptions are reviewed at each reporting period.

2.5.6. Useful –lives of property plant & equipment

The Company reviews the residual values, useful lives and methods of depreciation of assets as at each reporting date. Judgment by the management is exercised in the estimation of these values, rates, methods and hence they are subject to uncertainty.

2.5.7. Useful –lives of intangible assets

The Company reviews the residual values, useful lives and methods of amortization of assets as at each reporting date. Judgment by the management is exercised in the estimation of these values, rates, methods and hence they are subject to uncertainty.

2.6. Significant Accounting Policies

2.6.1. Taxation

As per Sri Lanka Accounting Standard - LKAS 12 (Income Taxes), tax expense is the aggregate amount included in determination of profit or loss for the period in respect of current and deferred taxation. Income tax expense is recognized in the Statement of Comprehensive Income, except to the extent it relates to items recognized directly in equity or other comprehensive income in which case it is recognized in equity or in other comprehensive income.

a) Current taxes

Current tax assets and liabilities consist of amounts expected to be recovered from or paid to the Commissioner General of Inland Revenue in respect of the current year, using the tax rates and tax laws enacted or substantively enacted on the reporting date and any adjustment to tax payable in respect of prior years.

Accordingly, provision for taxation is based on the profit for the year adjusted for taxation purposes in accordance with the provisions of the Inland Revenue Act No. 10 of 2006 and Inland Revenue Act No. 24 of 2017 and the amendments thereto at the rates specified in Note 9.2 to the Financial Statements.

b) Deferred taxation

Deferred tax is provided on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefits will be realized.

BERENDINA MICRO INVESTMENTS COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS

For the period ended 31 December 2018,

2. BASIS OF PREPARATION (*Continued*)

2.6 Significant Accounting Policies (*Continued*)

2.6.1. Taxation (*Continued*)

The net increase in the carrying amount of deferred tax liability net of deferred tax asset is recognized as deferred tax expense and conversely any net decrease is recognized as reversal to deferred tax expense, in the Statement of Comprehensive Income.

c) Value Added Tax on Financial Services (VAT on FS)

VAT on Financial Services is calculated in accordance with the amended VAT Act No. 7 of 2003 and subsequent amendments thereto. The base for the computation of VAT on Financial Services is the accounting profit before income tax adjusted for the economic depreciation and emoluments of employees. VAT on financial services is computed on the prescribed rate at 15%.

d) Nation Building Tax (NBT) on Financial Services

NBT on financial services is calculated in accordance with Nation Building Tax (NBT) Act No 09 of 2009 and subsequent amendment thereto with effect from 1 January 2014. NBT on financial services is calculated at 2% of the value addition used for the purpose of VAT on financial services.

2.6.2. Cash and cash equivalents

Cash and cash equivalents are, cash in hand, petty cash, demand deposits and short-term highly liquid investments readily convertible to known amounts of cash and subject to insignificant risk of changes in value.

For the purpose of cash flows statement, cash and cash equivalents consist of cash in hand and deposits in banks net of outstanding bank overdrafts. Financial instruments with short maturities i.e. three months or less from the date of acquisition are also treated as cash equivalents.

2.6.3. Property, plant and equipment

Cost

Property, plant and equipment are stated at cost less any subsequent accumulated depreciation and any subsequent accumulated impairment losses. All items of property, plant and equipment are initially recorded at cost.

The cost of property, plant and equipment is the cost of acquisition or construction together with any expenses incurred in bringing the asset to its condition for its intended use. All other repair and maintenance costs are recognized in the profit or loss as incurred.

Depreciation

Depreciation is charged to Statement of Comprehensive Income so as to write off the cost of assets (other than freehold land) less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at each year-end, with the effect of any change in estimate accounted for on a prospective basis. The estimated useful lives of property, plant and equipment are as follows;

The class of tangible assets

Useful life

Furniture & Fittings	5 Years
Office Equipment	8 Years
Computers Equipment	4 Years
Motor Vehicle	4 Years

BERENDINA MICRO INVESTMENTS COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS

For the period ended 31 December 2018,

2. BASIS OF PREPARATION (*Continued*)

2.6 Significant Accounting Policies (*Continued*)

2.6.3. Property, plant and equipment (*Continued*)

De-recognition

Items of property, plant and equipment are de-recognized upon disposal or when no future economic benefits are expected from its use. Gain or loss arising on de-recognition of an item of property, plant and equipment is determined as the difference between the sales proceed and the carrying amount of the asset and is recognized in the Statement of Comprehensive Income.

2.6.4. Intangible assets

Basis of recognition

An Intangible Asset is recognized if it is probable that future economic benefits that are attributable to the assets will flow to the entity and the cost of the assets can be measured reliably.

Basis of measurement

Intangible assets acquired separately are measured as initial recognition at cost. Following initial recognition intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. The useful life of intangible assets is assessed to be either finite or indefinite. Intangible assets with finite useful life are amortized over the useful life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the method for an intangible asset with a finite useful life is reviewed at least at each financial year end. Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash generating unit level.

Subsequent expenditure

Subsequent expenditure on intangible assets is capitalized only when it increases the future economic benefits embodied in such assets. All other expenditure is expensed when incurred.

De-recognition

Intangible assets are de-recognized on disposal or when no future economic benefits are expected from its use. The gain or loss arising from de-recognition of intangible assets are measured as difference between the net disposal proceeds and the carrying amount of the asset.

Amortization

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates. The amortization expenses on intangible assets with finite lives are recognized in the Statement of Comprehensive Income.

The useful lives and the amortization methods of intangible assets with finite lives are as follows:

The class of intangible assets	:	Computer software
Useful life	:	4 years
Amortization Method	:	Straight line method

BERENDINA MICRO INVESTMENTS COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS

For the period ended 31 December 2018,

2. BASIS OF PREPARATION (*Continued*)

2.6 Significant Accounting Policies (*Continued*)

2.6.5. Post-employment benefit obligations

a) Defined benefit plan

Gratuity is a Defined Benefit Plan. The Company annually measures the present value of the promised retirement benefits for gratuity. The cost of providing benefits under the defined benefit plans is determined using the projected unit credit method. The rate of interest, salary increment rate, staff turnover and retirement age have been adjusted in the gratuity computation.

Actuarial gains and losses for defined benefit plans are recognized in full in the period in which they occur in other comprehensive income. The gratuity liability is not externally funded.

b) Defined contribution plans - Employees' Provident Fund & Employees' Trust Fund

Employees are eligible for Employees' Provident Fund contributions and Employees' Trust Fund contributions in line with respective statutes and regulations.

The company contributes 15% and 3% to the Employees' Provident Fund and Employees' Trust Fund respectively.

2.6.6. Provisions

Provisions are recognized when the company has a present obligation (legal or constructive) as a result of a past event, where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

As per the Asset sale & purchase agreement dated 29 September 2017 entered into between BMI & BMIC, BMIC undertakes that, with effect from 30 of September 2017, it shall properly perform, assume and pay and discharge when due, all the obligations of the BMI, and fully indemnify, hold harmless and defend BMI against all claims, demands, actions suits, losses, damages or costs and expenses which may arise in relation to all the Liabilities which are assumed by BMIC on the Transfer Date or any other later date as provided in the Agreement. Hence any liability that may arise to BMI would be assumed by BMIC

2.6.7. Other non-financial assets

All other non-financial assets are valued net of specific provision, where necessary, so as to reduce the carrying value of such assets to their estimated realizable value.

2.6.8. Other non-financial liabilities

Other Non-Financial Liabilities are recognized at their nominal amount.

2.6.9. Impairment of non-financial assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is higher of asset's fair value less costs to sell and its value in use. It is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

BERENDINA MICRO INVESTMENTS COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS

For the period ended 31 December 2018,

2. BASIS OF PREPARATION (*Continued*)

2.6 Significant Accounting Policies (*Continued*)

2.6.10. Financial instruments – Initial recognition and subsequent measurement

Recognition and initial measurement

Loans and receivables and debt securities issued are initially recognized when they are originated. All other financial assets and financial liabilities are initially recognized when the Company becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is initially measured at fair value plus, for an item not at fair value through profit or loss (FVTPL), transaction costs that are directly attributable to its acquisition or issue.

Classification and subsequent measurement of financial assets

On initial recognition, a financial asset is classified and measured at amortized cost; fair value through other comprehensive income (FVOCI) - debt investment; fair value through other comprehensive income (FVOCI) - equity investment; or fair value through profit or loss (FVTPL).

Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

- It is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- It is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets - Business model assessment

The Company makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- The stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realizing cash flows through the sale of the assets;
- How the performance of the portfolio is evaluated and reported to the Company's management;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- How managers of the business are compensated - e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- The frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

BERENDINA MICRO INVESTMENTS COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS

For the period ended 31 December 2018,

2. BASIS OF PREPARATION (Continued)

2.6 Significant Accounting Policies (Continued)

2.6.10 Financial instruments – Initial recognition and subsequent measurement (Continued)

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose, consistent with the Company's continuing recognition of the assets.

Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at FVTPL.

Financial assets -Assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Company considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Company considers:

- Contingent events that would change the amount or timing of cash flows;
- Terms that may adjust the contractual coupon rate, including variable-rate features;
- Prepayment and extension features; and
- Terms that limit the Company's claim to cash flows from specified assets (e.g. non-recourse features).

A prepayment feature is consistent with the solely payments of principal and interest criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for early termination of the contract. Additionally, for a financial asset acquired at a discount or premium to its contractual par amount, a feature that permits or requires prepayment at an amount that substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable additional compensation for early termination) is treated as consistent with this criterion if the fair value of the prepayment feature is insignificant at initial recognition.

Financial assets - Subsequent measurement and gains and losses

Financial assets at FVTPL	These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognized in profit or loss.
Financial assets at amortized cost	These assets are subsequently measured at amortized cost using the effective interest method. The amortized cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.
Debt investments at FVOCI	These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognized in profit or loss. Other net gains and losses are recognized in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.
Equity investments at FVOCI	These assets are subsequently measured at fair value. Dividends are recognized as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognized in OCI and are never reclassified to profit or loss.

BERENDINA MICRO INVESTMENTS COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS

For the period ended 31 December 2018,

2. BASIS OF PREPARATION (Continued)

2.6 Significant Accounting Policies (Continued)

2.6.10 Financial instruments – Initial recognition and subsequent measurement (Continued)

Financial assets classification

Measurement Basis	Classification under SLFRS 9	Classification under LKAS 39
Fair value	FVOCI/ FVTPL	AFS/ FVTPL
Amortized cost	Amortized cost	HTM/ Loans and Receivable

2.6.11. Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue and associated costs incurred or to be incurred can be reliably measured, regardless of when the payment is being made. The following specific criteria are used for the purpose of recognition of revenue.

a) Interest income and expenses

Interest income and expense are recognized in Statement of Comprehensive of Income using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial assets or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset and liability. When calculating the effective interest rate, the Company estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

The calculation of the effective interest rate includes all fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

b) Fee and commission income

Fee and commission income earned for the period of services over a period of time are accrued over that period. Other fee including admission fee, service charges are recognized as related services are performed.

c) Other Income

Non-operational interest income and fees are accounted for on accrual basis.

2.6.12. Expenses recognition

Expenditure is recognized in the Statement of Comprehensive Income on the basis of direct association between the cost incurred and the earning of specific items of income. All expenditure incurred in the running of the business and in maintaining the property, plant and equipment or investment properties in a rate of efficiency has been charged to income in arriving at the profit for the year.

For the purpose of presentation of the Statement of Comprehensive Income the directors are of the opinion that the nature of expense method presents fairly the elements of the Company's performance, and hence such presentation method is adopted. Repairs and renewals are charged to the Statement of Comprehensive Income in the year in which the expenditure is incurred.

2.6.13. Statement of Cash Flows

The cash flows statement has been prepared using the 'Indirect Method' of preparing cash flows in accordance with the Sri Lanka Accounting Standard LKAS - 7 'Statement of Cash Flows.' Cash and cash equivalents comprise short term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. Cash and cash equivalents comprise of cash in hand and cash at banks and other highly liquid financial assets which are held for the purpose of meeting short-term cash commitments with original maturities of less than three months which are subject to insignificant risk of changes in their fair value.

BERENDINA MICRO INVESTMENTS COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS

For the period ended 31 December 2018,

2. BASIS OF PREPARATION (*Continued*)

2.6 Significant Accounting Policies (*Continued*)

2.6.14. Related party disclosures

Transactions with related parties are conducted in the normal course of business.

2.6.15. Commitments and contingencies

All discernible risks are accounted for in determining the amount of all known liabilities. Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is not probable or cannot be reliably measured. Contingent liabilities are not recognized in the Statement of Financial Position but are disclosed unless they are remote.

2.7. Effect of Sri Lanka Accounting Standards issued, but not effective

The following new accounting standards were issued by the Institute of Chartered Accountants in Sri Lanka which are not yet effective as at 31 December 2018. Accordingly, these accounting standards have not been applied in the preparation of the Financial Statements for the year ended 31 December 2018.

A number of new standards and amendments to standards which have been issued but not yet effective as at the reporting date have not been applied in preparing these Financial Statements. Accordingly, these Accounting Standards have not been applied in preparing these Financial Statements.

The following new standards are not expected to have a significant impact of the Company's Financial Statements.

New or amended Standard	Summary of the Requirement	Possible impact on Financial Statements
SLFRS 16 Leases	<p>SLFRS 16 eliminates the current dual accounting model for lessees which distinguishes between On-Balance Sheet finance leases and Off-Balance Sheet operating leases. Instead, there will be a single On-Balance Sheet accounting model that is similar to current finance lease accounting</p> <p>SLFRS 16 is effective for reporting periods beginning on or after 01 January 2019.</p>	The Company is assessing the potential impact on its Financial Statements resulting from the application of SLFRS 16.

BERENDINA MICRO INVESTMENTS COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December,

	2018 Rs.	2017 Rs.
3 Gross income		
Interest income (Note 4)	863,038,231	297,941,343
Fee and commission and other income (Note 6)	51,699,229	26,661,570
Gross income	914,737,460	324,602,913
4 Interest income		
Interest from loans and advances	854,110,187	295,616,717
Interest income from bank deposits	8,135,429	2,072,956
Staff loan interest	792,615	251,670
	863,038,231	297,941,343
5 Interest and similar expenses		
Interest on long term borrowings (Note 17.1)	253,337,970	88,222,454
Bank charges	2,026,456	1,128,145
Guarantee fee for loans	1,845,486	-
Loan processing charges	374,933	404,805
Interest on staff security fund	627,493	182,776
Exchange loss on foreign loan	703,894	1,085,820
	258,916,232	91,024,000
6 Fee, commission and other income		
Written-off loans recoveries	431,118	330,898
Enterprise Development Service (EDS) income	34,062,631	14,889,050
Miscellaneous income	17,205,480	5,250,622
Documentation charges	-	6,191,000
	51,699,229	26,661,570
7 Personnel expenses		
Salaries and other benefits	219,317,500	82,986,989
Defined contribution plan-EPF and ETF	23,809,428	7,989,549
Defined benefit plan-Gratuity (Note 18)	6,053,185	1,540,290
	249,180,113	92,516,828
8 Other operating expenses		
Office administration and establishment expenses	122,874,161	45,084,163
Enterprise Development Service (EDS coupon) expenses	17,690,701	7,124,263
Professional and legal expenses	4,638,399	2,499,316
Auditor's remuneration	1,664,074	830,608
	146,867,335	55,538,350

BERENDINA MICRO INVESTMENTS COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December,

	2018 Rs.	2017 Rs.
9 Income tax expense		
Current tax	71,587,773	15,919,894
Over Provision of current taxes	(2,096,347)	-
Deferred tax (reversal)/charge (Note 15)	(1,540,273)	2,745,782
	67,951,154	18,665,676
9.1 Taxable income		
Accounting profit before tax	114,305,109	53,368,955
Aggregated disallowed items	151,530,872	27,589,537
Aggregated allowable items	(10,065,365)	(8,417,747)
Adjusted profit from trade	255,770,616	72,540,745
Interest income	-	2,072,956
Total statutory income	255,770,616	74,613,701
Less:		
Allowable losses	-	(17,756,936)
Qualifying Payments	(100,000)	-
Taxable income	255,670,616	56,856,765
9.2 Statutory Tax rate		
Tax liability for the year @ 28%	71,587,773	15,919,894
Current income tax expenses	71,587,773	15,919,894
Income tax is calculated at the rate mentioned as above of the assessable profit for the period.		
<i>As at 31 December,</i>		
	2018 Rs.	2017 Rs.
10 Cash and Cash equivalents		
Petty cash	118,554	118,669
Cash in hand	6,852,627	2,930,943
Cash at bank	173,074,136	105,292,032
	180,045,317	108,341,644
11 Balances with banks and financial institutions		
Sri Lanka Savings Bank	48,035,058	41,780,000
Interest receivables	543,990	288,455
	48,579,048	42,068,455

BERENDINA MICRO INVESTMENTS COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS

As at 31 December,

	2018 Rs.	2017 Rs.
12 Loans and receivables		
Loan receivables (Note 12.1)	2,944,548,935	3,163,177,650
Less : Collective allowance for impairment (Note 12.2)	<u>(115,792,590)</u>	<u>(41,367,425)</u>
	2,828,756,345	3,121,810,225

12.1 Loans and receivables - analysis (by product)

Business development loan	1,260,377,859	1,189,779,814
Business starting loan	550,294,476	864,275,210
Assets building loan	574,336,494	522,809,793
Business expansions loan	477,910,346	494,833,864
Estate festival loan	38,530,940	21,837,473
Dairy loan	9,343,401	16,009,229
Agriculture loan	6,960,781	11,415,966
Staff loans	21,842,542	21,688,042
Emergency loan	3,783,586	19,498,930
Sanitary loan	274,400	788,071
Livelihood development loan	894,110	241,258
	2,944,548,935	3,163,177,650

12.2 Movement in impairment charge during the year

Balance as at 01 January	41,367,425	3,169,016
Balance transfer from BMI	-	33,359,987
Written off during the year	(2,666,125)	(1,088,442)
Charge for the year	77,091,290	5,926,864
Balance as at 31 December	115,792,590	41,367,425

12.3 Movement in impairment charge during the year 2018

	Stage 01	Stage 02	Stage 03	Total ECL
Balance as at 01 January	31,110,401	2,352,917	7,904,107	41,367,426
Written off during the year	-	-	(2,666,125)	(2,666,125)
Charge for the year	5,499,339	33,853,938	37,738,013	77,091,290
Balance as at 31 December	36,609,740	36,206,855	42,975,995	115,792,591

BERENDINA MICRO INVESTMENTS COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS

As at 31 December,

13 Property, plant and equipment

As at 31 December 2018	Office Equipment	Computers and Network	Furniture and Fittings	Motor Vehicle	Total 2018
	Rs	Rs	Rs	Rs	Rs
Cost					
Balance as at 01 January 2018	8,041,828	13,961,686	15,172,590	31,098,400	68,274,503
Additions	1,229,448	2,785,990	1,846,044	140,000	6,001,482
Scrap and disposals	-	-	-	(12,018,400)	(12,018,400)
Balance as at 31 December 2018	9,271,276	16,747,676	17,018,634	19,220,000	62,257,585
Accumulated depreciation					
Balance as at 01 January 2018	2,908,042	8,361,615	8,146,113	20,934,025	40,349,795
Charge for the year	1,044,440	2,584,493	2,496,149	3,958,015	10,083,097
Accumulated depreciation on scrap and disposed assets	-	-	-	(12,018,400)	(12,018,400)
Balance as at 31 December 2018	3,952,482	10,946,108	10,642,262	12,873,640	38,414,492
Net book value as at 31 December 2018	5,318,794	5,801,568	6,376,372	6,346,360	23,843,093
As at 31 December 2017	Office Equipment	Computers and Network	Furniture and Fittings	Motor Vehicle	Total 2017
	Rs.	Rs.	Rs.	Rs.	Rs.
Cost					
Balance as at 01 January 2017	1,028,870	2,169,798	2,098,170	7,025,000	12,321,838
Additions	205,102	836,900	957,059	7,585,000	9,584,061
Balance transfer from BMI	6,932,234	11,195,978	12,365,572	19,688,400	50,182,184
Scrap and disposals	(124,378)	(240,991)	(248,211)	(3,200,000)	(3,813,580)
Balance as at 31 December 2017	8,041,828	13,961,685	15,172,590	31,098,400	68,274,503
Accumulated Depreciation					
Balance as at 01 January 2017	149,413	512,033	481,659	2,780,729	3,923,834
Charge for the year	336,542	1,027,913	921,262	2,231,146	4,516,863
Balance transfer from BMI	2,501,073	7,062,660	6,991,070	19,122,150	35,676,953
Accumulated depreciation on scrap and disposed assets	(78,986)	(240,991)	(247,878)	(3,200,000)	(3,767,855)
Balance as at 31 December 2017	2,908,042	8,361,615	8,146,113	20,934,025	40,349,795
Net book value as at 31 December 2017	5,133,786	5,600,070	7,026,477	10,164,375	27,924,708

13.1 The company acquired property, plant & equipment to the aggregate value of Rs.6,001,482 for the year ended 31 December 2018.(2017 - Rs. 9,584,060/-)

The value of fully depreciated assets as at 31 December 2018 is Rs.13,811,706. (2017 - Rs. 22,081,039/-)

14 Intangible assets	2018	2017
	Rs.	Rs.
Cost		
Balance as at 01 January	7,880,551	185,000
Balance transfer from BMI	-	7,695,551
Balance as at 31 December	7,880,551	7,880,551
Amortisation		
Balance as at 01 January	3,121,598	19,271
Amortization	1,421,338	390,022
Balance transfer from BMI	-	2,712,305
Balance as at 31 December	4,542,936	3,121,598
Net book value as at 31 December	3,337,615	4,758,953

BERENDINA MICRO INVESTMENTS COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS

As at 31 December,

15 Deferred taxation

	Statement of Financial Position			Income Statement		Other Comprehensive Income 2017
	2018 Rs.	2017 Rs.	2018 Rs.	2017 Rs.	2018 Rs.	
Deferred tax liability						
Accelerated depreciation allowances for tax purposes on property, plant and equipment	1,102,532	1,218,536	116,004	(941,718)	-	
	1,102,532	1,218,536	116,004	(941,718)	-	
Deferred tax assets						
Post employment benefit obligation	6,294,468	1,696,448	1,424,269	3,162,482	1,068,049	(1,621,375)
Brought forward taxable losses	-	-	-	(4,966,546)	-	-
Balance transfer from BMI	-	2,105,702	-	-	-	-
	6,294,468	3,802,150	1,424,269	(1,804,064)	1,068,049	(1,621,375)
Deferred tax reversal/(charge)				1,540,273	(2,745,782)	1,068,049
	5,191,935	2,583,614				
Net deferred tax assets						
Property, Plant and Equipment			Total Long service benefits			
	Rs.	Rs.		Rs.	Rs.	
As at 01 January 2018	(1,218,536)	3,802,150	2,583,614			
Charge (credit) to profit or loss for the year	116,004	2,492,318	2,608,321			
As at 31 December 2018	(1,102,532)	6,294,468	5,191,935			

Long service benefits are not tax deductible until the benefit is actually paid but it has already been recognized as an expense in measuring the company profit for the year.

BERENDINA MICRO INVESTMENTS COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS

As at 31 December,

16 Other assets

	2018 Rs.	2017 Rs.
Other financial assets		
Refundable deposit	2,546,140	2,713,640
Other receivable	14,151,115	1,583,634
EDS coupon receivable	<u>113,405,378</u>	<u>112,199,944</u>
	<u>130,102,633</u>	<u>116,497,218</u>
Other non-financial assets		
Pre-paid expenses	8,766,215	7,466,468
Other advances and receivable	1,103,179	1,097,828
Stationary Stock	<u>2,442,367</u>	<u>2,403,426</u>
	<u>12,311,761</u>	<u>10,967,722</u>
	<u><u>142,414,395</u></u>	<u><u>127,464,940</u></u>
17 Interest bearing borrowings		
Borrowings from banks	575,049,408	912,283,300
Borrowings from financial and other institutions	<u>1,196,575,443</u>	<u>1,196,561,831</u>
	<u><u>1,771,624,851</u></u>	<u><u>2,108,845,131</u></u>
17.1 Movement in interest bearing borrowings		
Balance as at 01 January 2018	Rs	Rs
Balance transfer from BML	Rs	Rs
Loan obtained		
Repayments		
Loan interest charged		
Balance as at 31 December	Rs	Rs

Banks borrowings	912,283,300	-	135,000,000	579,901,116	107,667,224	575,049,408
Financial and other institutions borrowings	<u>1,196,561,832</u>	<u>-</u>	<u>502,000,000</u>	<u>647,657,135</u>	<u>145,670,746</u>	<u>1,196,575,443</u>
	<u><u>2,108,845,132</u></u>	<u><u>-</u></u>	<u><u>637,000,000</u></u>	<u><u>1,227,558,251</u></u>	<u><u>253,337,970</u></u>	<u><u>1,771,624,851</u></u>

BERENDINA MICRO INVESTMENTS COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS

As at 31 December,

	2018 Rs.	2017 Rs.
18 Post employment benefit obligation		
Balance as at 01 January	13,579,107	554,788
Amount recognized in income statement (Note 18.1)	6,053,185	1,540,290
Amount recognized in other comprehensive income	3,814,460	(5,790,624)
Payments made during the year	(928,990)	(272,859)
Balance transfer from BMI	-	17,547,512
Balance transfer to BEC	(37,520)	-
Balance as at 31 December	22,480,242	13,579,107

18.1 Amount recognize in income statement

Current service cost	4,695,274	947,290
Interest cost	1,357,911	593,000
	6,053,185	1,540,290

18.2 The principal assumptions used for compute the gratuity liability are as follows:

Rate of interest	11%	10%
Salary increment rate	15%	9%
Staff turnover	20%	20%
Retirement age	55 years	55 years

18.3 Sensitivity of assumptions employed in computation

A quantitative sensitivity analysis for significant assumption as at 31 December 2018 is shown below:

Assumptions Sensitivity level	Discount rate		Salary increment rate	
	1% increase	1% decrease	1% increase	1% decrease
Impact on defined benefit liability	(1,059,414)	1,168,059	1,162,584	(1,075,467)

19 Other liabilities

Financial liabilities

Payables to vendor	797,885	1,382,427
Other financial liabilities	18,502,026	21,636,056
Loan risk fund	244,929,064	211,721,025
EDS coupon liability	170,740,524	159,646,238

434,969,499 **394,385,746**

Non financial liabilities

Income tax payable	63,654,973	24,663,743
Finance VAT payable	1,593,722	3,877,836
Nation Building Tax payable	337,000	879,437
WHT payable	1,545,970	-
Other payables	29,568,135	25,935,730

96,699,800 **55,356,746**

531,669,301 **449,742,492**

BERENDINA MICRO INVESTMENTS COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS

As at 31 December,

		2018 Rs.	2017 Rs.
20	Funds and reserves		
	Unrestricted funds (Note 20.1)	865,800	865,800
	Restricted funds (Note 20.2)	70,693,750	70,693,750
	Assets and liability transfer reserve account	-	15,433,540
		71,559,550	86,993,090
20.1	Unrestricted funds		
	Balance as at 01 January	865,800	865,800
	Received during the year	-	-
	Balance as at 31 December	865,800	865,800
	Total unrestricted Funds	865,800	865,800
20.2	Restricted funds		
	Whole Planet Foundation		
	Balance as at 01 January	70,693,750	51,537,500
	Received during the year	-	19,156,250
	Transfer to unrestricted funds	-	-
	Balance as at 31 December	70,693,750	70,693,750
	Total restricted funds	70,693,750	70,693,750
21	Stated capital		
		2018 Number	2017 Number
		2018 Rs.	2017 Rs.
	Fully paid ordinary shares		
	(Note 21.1)	76,346,175	74,802,821
		763,461,750	748,028,210
21.1	Fully paid ordinary shares		
		2018 Number	2017 Number
		2018 Rs.	2017 Rs.
	Balance at beginning of the year	74,802,821	18,002,821
	Issue of shares for cash	-	1,800,000
	Issue of shares for net assets transfer from BMI	1,543,354	55,000,000
	Balance at end of the year	76,346,175	74,802,821
		763,461,750	748,028,210

BERENDINA MICRO INVESTMENTS COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS

As at 31 December,

22 Contingent liabilities and commitments

22.1 Commitments

To the best of knowledge and information available to the Board the company does not have any significant commitments as at the reporting date.

22.2 Contingent liabilities

To the best of knowledge and information available to the Board the company does not have any significant contingencies as at the reporting date.

23 Events occurring after the reporting date

No circumstances have arisen and no material event have occurred during the period between the balance sheet date and the date in which the account has been signed and no event is required to disclosure or adjust to the Financial Statements.

24 Assets pledged

Fixed deposits represents the mandatory deposit as per the borrowing agreement made with "Sri Lanka Saving Bank" is not available for use until the loans are settled.

25 Capital management

The primary objective of the Company's capital management is to ensure that it maintains healthy capital ratios in order to support its business and maximize shareholder value. The Company manages its capital structure and makes adjustments to it, in light, of changes in economic conditions. Capital of the company comprises of stated capital, funds and reserves and retained earnings and is measured at Rs.906,393,356 as at 31 December 2018 and it was Rs.862,785,811 as at 31 December 2017.

Capital and reserves

I Ordinary shares

The holders of ordinary shares are entitled to receive dividends as declared from time to time, and are entitled to one vote per share at meetings of the company. All ordinary shares rank equally with regard to the company's residual assets.

II Nature and purpose of reserves

Unrestricted Funds - Note 20.1

The fund was received in 2016 for the purpose of expansion of EDS services.

Restricted funds - Note 20.2

The fund was set up for the purpose of loan disbursement of Kaluwanchikudy branch.

III Dividends

Company has not declared dividends during the year ended 31 December 2018 and 2017.

26 Related party disclosures

Details of significant related party disclosures are as follows;

26.1 Transactions with Key Management Personnel (KMP) and their family members

As per the Sri Lanka Accounting Standard (LKAS -24) - "Related Party Disclosures", the KMPs include those who are having authority and responsibility for planning, directing and controlling the activities of the Company. Accordingly, the Board of Directors of the Company has been classified as KMPs of the Company.

BERENDINA MICRO INVESTMENTS COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS

As at 31 December,

26.1.1 Key management personnel compensation

	2018	2017
	Rs.	Rs.
Short term employment benefits		
Short term employee benefits	<u>10,363,545</u>	<u>2,074,250</u>
	<u>10,363,545</u>	<u>2,074,250</u>

- Further, the company has not provided any non cash benefits to Key Management Personnel in terms of employment contracts with them.
- Company has not entered into any transactions, arrangements and agreements involving Key Management Personnel (KMPs), their Close Family Members (CFMs) and their related entities.

26.2 Transactions with related entities

26.2.1	Name of the related party	Nature of the transaction	During the year transaction	Balance	During the year transaction	Balance
			2018 Rs.	2018 Rs.	2017 Rs.	2017 Rs.
Berendina Development Services Guarantee Limited	Shared expenses	Balance brought forward		152,394		(28,219)
		Shared expenses	2,112,753		635,109	
		Amount received	(2,013,316)	99,437	(454,497)	180,612
		Balance carried forward		<u>251,831</u>		<u>152,393</u>
	Borrowings	Balance brought forward		793,257,072		800,925,440
		Amount borrowed - capital	332,000,000		82,000,000	
		Amount settled - capital	(274,896,879)	57,103,121	(89,668,368)	(7,668,368)
		Balance carried forward		<u>850,360,193</u>		<u>793,257,072</u>
	Share capital	Balance brought forward		748,028,210		180,028,210
		Issue of shares for cash			18,000,000	
		Issue of shares for net assets transfer from BMI	15,433,540	15,433,540	550,000,000	568,000,000
		Balance carried forward		<u>763,461,750</u>		<u>748,028,210</u>
Berendina Employment Centre Guarantee	Shared expenses	Balance brought forward		235,447		32,480
		Shared expenses	2,741,700		1,809,014	
		Amount received	(2,830,833)	(89,133)	(1,606,047)	202,967
		Balance carried forward		<u>146,314</u>		<u>235,447</u>

BERENDINA MICRO INVESTMENTS COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS

As at 31 December,

26.2.2 Terms and conditions of transactions with related parties

Outstanding balances as at the year-end are unsecured, interest free and due on demand. There have been no guarantees provided or received for any related party receivables or payables. The company has not recorded any impairment of receivables relating to amounts owed by related parties.

Outstanding balances due from shared expenses as at the year-end are unsecured, interest free and due on demand.

There have been no guarantees provided or received for any related party other than the following guarantees provided to BMIC by BDS.

Lender	Loan Amount Rs.	Guarantee Rs.	Loan Outstanding as at 31 December 2018 Rs.
Sri Lanka Savings Bank	200 Mn	200 Mn BDS Corporate Guarantee	1,572,043
Sri Lanka Savings Bank	250 Mn	250 Mn BDS Corporate Guarantee	80,807,516
Sri Lanka Savings Bank	300 Mn	300 Mn BDS Corporate Guarantee	24,166,667
Stromme Microcredit (Guarantee) Limited	100 Mn	25 Mn BDS Land Mortgage 10 Mn BDS Corporate Guarantee	88,333,332
Etimos Asia Pte Ltd	100 Mn	50 Mn BDS Corporate Guarantee	22,192,213
Etimos Asia Pte Ltd	100 Mn	50 Mn BDS Corporate Guarantee	54,404,434

Land & Building belongs to BDS has been pledged to Stromme Microcredit (Guarantee) Limited to obtain a loan for Berendina Micro Investments Company Limited.

27 Fair value

For all financial instruments where fair values are determined by referring to externally quoted prices or observable pricing inputs to models, independent price determination or validation is obtained. In an inactive market, direct observation of a traded price may not be possible. In these circumstances, the Company uses alternative market information to validate the financial instrument's fair value, with greater weight given to information that is considered to be more relevant and reliable.

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1:** Quoted (unadjusted) prices in active markets for identical assets or liabilities
- Level 2:** Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly
- Level 3:** Techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data

Set out below is a comparison, by class, of the carrying amount and fair values of the Company's financial instruments that are not carried at fair value in the financial statements.

	As at 31 December 2018		As at 31 December 2017	
	Carrying Value Rs.	Fair Value Rs.	Carrying Value Rs.	Fair Value Rs.
Financial assets				
Cash and cash equivalents	180,045,317	180,045,317	108,341,644	108,341,644
Balances with banks and financial institutions	48,579,048	48,579,048	42,068,456	42,068,456
Loans and receivables	2,828,756,345	2,828,756,345	3,121,810,225	3,147,808,410
Other financial assets	130,102,633	130,102,633	116,497,218	116,497,218
Total	3,187,483,343	3,187,483,343	3,388,717,543	3,414,715,728
Financial liabilities				
Interest bearing borrowings	1,771,624,851	1,494,644,346	2,108,845,131	2,058,564,395
Other financial liabilities	434,969,499	434,969,499	394,385,746	394,385,746
Total	2,206,594,350	1,929,613,845	2,503,230,877	2,452,950,141

BERENDINA MICRO INVESTMENTS COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS

As at 31 December,

27 Fair value (*Continued*)

- a) For financial assets and financial liabilities that have a short term maturity (less than three months) it is assumed that the carrying amounts approximate their fair value. This assumption is also applied to cash in hand, balances with banks and financial institutions, other financial assets, bank overdraft and other financial liabilities without a specific maturity.

- b) Loan receivables with fixed interest rates were fair valued using market rates at which fresh loans were granted during the fourth quarter of the reporting period. Conversely, interest bearing loans and borrowings with original tenors above one year were discounted using current market interest rates offered by lenders during the fourth quarter of the reporting period.

28 Maturity of assets and liabilities

Assets	As at 31 December 2018			As at 31 December 2017		
	Less than one year	More than one year	Total carrying value	Less than one year	More than one year	Total carrying value
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Cash and cash equivalents	180,045,317	-	180,045,317	108,341,645	-	108,341,645
Balances with banks and financial institutions	-	48,579,048	48,579,048	-	42,068,454	42,068,454
Loan and receivables	1,963,032,625	981,516,312	2,944,548,937	1,116,716,559	2,046,461,090	3,163,177,649
Property plant and equipment	-	23,843,093	23,843,093	-	27,924,710	27,924,710
Intangible assets	-	3,337,615	3,337,615	-	4,758,953	4,758,953
Deferred tax assets	-	5,191,935	5,191,935	-	2,583,614	2,583,614
Other assets	104,612,601	37,801,793	142,414,394	49,519,583	77,945,357	127,464,940
Total assets	2,247,690,543	1,100,269,796	3,347,960,339	1,274,577,787	2,201,742,178	3,476,319,965
Liabilities						
Interest bearing borrowings	789,998,459	981,626,393	1,771,624,851	973,824,360	1,135,020,771	2,108,845,131
Post employment benefit obligation	-	22,480,242	22,480,242	-	13,579,107	13,579,107
Other liabilities	230,099,166	282,042,572	531,669,301	128,694,287	321,048,205	449,742,491
	1,020,097,625	1,286,149,207	2,325,774,394	1,102,518,647	1,469,648,083	2,572,166,729

BERENDINA MICRO INVESTMENTS COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS

As at 31 December,

29 Risk management

29.1 Introduction

The Company has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk.

29.2 Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to financial instruments fails to meet its contractual obligations. Credit risk is mainly arising from Company's receivables in terms of loan receivable and deposits with banks & financial institutions.

Credit risk is managed by evaluating the credit worthiness and by periodical review on the credit granted.

The Company establishes an allowance for impairment that represents its estimate of incurred losses in respect of receivables in terms of loans and receivables. The Company policy on impairment consists of allowance for a collective impairment established for similar receivables in term of their credit risk on product basis where the loss event has occurred but not yet identified. The collective impairment is determined based on the historical data of payments statistics for similar financial assets.

Credit quality analysis

The tables below sets out information about the credit quality of financial assets held by Company net of allowance for impairment/expected credit losses against those assets.

Expected credit losses

With the adoption of SLFRS 9 - "Financial Instrument" the Company manages credit quality using a three stage approach which is inline with the new standard requirements as well.

- Stage one : 12-month expected credit losses (ECL)
- Stage two : Lifetime expected credit losses (ECL) - Not credit impaired
- Stage three : Lifetime expected credit losses (ECL) - credit impaired

Explanation of the terms of 12-month ECL and Lifetime ECL included in note number 2.5.4.

BERENDINA MICRO INVESTMENTS COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS

As at 31 December,

29 Risk management

29.2 Credit risk (Continued)

Table below shows the classification of assets and liabilities based on the above-mentioned three stage model

As at 31 December 2018	Note	12-month ECL	Life time ECL -		Total
			Not credit impaired	credit impaired	
		Rs	Rs	Rs	Rs
Cash and cash equivalents	10	180,045,317	-	-	180,045,317
Balances with banks and financial institutions	11	48,579,048	-	-	48,579,048
Loan and receivables	12	2,721,933,923	68,017,992	38,804,431	2,828,756,346
Other financial assets	16	130,102,633	-	-	130,102,633

As at 31 December 2017	Note	12-month ECL	Life time ECL -		Total
			Not credit impaired	credit impaired	
		Rs	Rs	Rs	Rs
Cash and cash equivalents	10	108,341,644	-	-	108,341,644
Balances with banks and financial institutions	11	42,068,456	-	-	42,068,456
Loan and receivables	12	3,113,819,407	2,108,245	5,882,572	3,121,810,224
Other financial assets	16	116,497,218	-	-	116,497,218

Impairment allowance for loans and advances to customers		31 December 2018	31 December 2017
Loans and advances		Rs.	Rs.
Gross loans and advances			
Stage 01		2,758,543,665	3,144,929,808
Stage 02		104,224,847	4,461,162
Stage 03		81,780,425	13,786,679
Gross Loans and advances		2,944,548,937	3,163,177,649
Less expected credit loss			
Stage 01		36,609,741	31,110,402
Stage 02		36,206,856	2,352,917
Stage 03		42,975,995	7,904,107
Total expected credit loss		115,792,592	41,367,426
Total Loans and advances - Net		2,828,756,345	3,121,810,223

29.2.1 Fair value of collateral and credit enhancements held

The following table shows the fair value of collateral and credit enhancements held by the Company.

	As at 31 December 2018		As at 31 December 2017	
	Maximum exposure to credit risk		Net exposure	
	Rs.	Rs.	Rs.	Rs.
Cash and cash equivalents	180,045,317	173,074,136	108,341,644	105,292,032
Balances with banks and financial institutions	48,579,048	48,579,048	42,068,456	42,068,456
Loan and receivables	2,944,548,935	2,944,548,935	3,163,177,650	3,163,177,650
Other financial assets	130,102,633	130,102,633	116,497,218	116,497,218
	3,303,275,933	3,296,304,752	3,430,084,968	3,427,035,356

BERENDINA MICRO INVESTMENTS COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS

As at 31 December,

29 Risk management (*Continued*)

29.2 Credit risk (*Continued*)

29.2.2 Credit quality by class of financial assets

a) As at 31 December 2018

Assets	Neither past due nor impaired			Total	
	Rs.	Rs.	Rs.	Rs.	Rs.
Cash and cash equivalents	180,045,317	-	-	-	180,045,317
Balances with banks and financial institutions	48,579,048	-	-	-	48,579,048
Loan and receivables	2,646,409,117	149,368,952	148,770,866	-	2,944,548,935
Other financial assets	130,102,633	-	-	-	130,102,633
Total financial assets	3,005,136,115	149,368,952	148,770,866	-	3,303,275,933

Age analysis of past due but not impaired loans by class of financial assets

Description	Overdue			Total	
	Less than 31 Days	31 to 60 Days	61 to 90 Days	More than 90 Days	Days
Assets	Rs.	Rs.	Rs.	Rs.	Rs.
Loan and receivables	76,967,001	39,215,899	33,186,051	148,770,866	298,139,818

b) As at 31 December 2017

Assets	Overdue			Total	
	Less than 31 Days	31 to 60 Days	61 to 90 Days	More than 90 Days	Days
Cash and cash equivalents	108,341,644	-	-	-	108,341,644
Balances with banks and financial institutions	42,068,456	-	-	-	42,068,456
Loan and receivables	3,134,746,128	15,233,592	13,197,930	-	3,163,177,650
Other financial assets	116,497,218	-	-	-	116,497,218
Total financial assets	3,401,653,446	15,233,592	13,197,930	-	3,430,084,968

BERENDINA MICRO INVESTMENTS COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS

As at 31 December,

29 Risk management (*continued*)

29.2 Credit risk (*Continued*)

Age analysis of past due but not impaired loans by class of financial assets

Description	Overdue				Total Rs.
	Less than 31 Days	31 to 60 Days	61 to 90 Days	More than 90 Days	
	Rs.	Rs.	Rs.	Rs.	
Loan and receivables	10,581,363	2,913,336	1,738,894	13,197,930	28,431,522
	<u>10,581,363</u>	<u>2,913,336</u>	<u>1,738,894</u>	<u>13,197,930</u>	<u>28,431,522</u>

29.3 Liquidity risk

Liquidity risk is the risk that the company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

The company uses the maturity analysis of all the financial instruments to manage the liquidity risk.

a) Exposure to liquidity risk

The Company relies on borrowing as its primary source of funding. Company actively manages this risk through maintaining competitive pricing and constant monitoring of market trends.

b) Management of liquidity risk

The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due without incurring unacceptable losses or risking financial position of the company while maintaining regulatory requirements and debt covenants agreed with the fund providers.

BERENDINA MICRO INVESTMENTS COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS

As at 31 December,

29 Risk management (*continued*)

29.3 Liquidity risk (*continued*)

29.3.1 The maturity analysis of financial liabilities based on undiscounted gross outflow is reflected below,

	Carrying amounts Rs.	Gross nominal outflow Rs.	On demand Rs.	Up to 3 months Rs.	3 to 12 months Rs.	More than 1 year Rs.
a) As at 31 December 2018						
Interest bearing borrowings	1,771,624,851	2,078,976,886	-	296,026,214	662,534,875	1,120,415,796
Other financial liabilities	434,969,499	434,969,499	-	52,706,665	100,220,262	282,042,573
	2,206,594,350	2,513,946,385		348,732,879	762,755,137	1,402,458,369
b) As at 31 December 2017						
Interest bearing borrowings	2,108,845,131	2,498,924,009	-	294,516,923	902,850,862	1,301,556,224
Other financial liabilities	394,385,746	394,385,746	-	21,390,116	51,947,425	321,048,204
	2,503,230,877	2,893,309,755		315,907,039	954,798,287	1,622,604,428

29.4 Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in market prices. Market risk of the company mainly comprises of interest rate risk and currency risk.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

BERENDINA MICRO INVESTMENTS COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS

As at 31 December,

29 Risk management (*continued*)

29.4 Market risk (*Continued*)

29.4.1 The table below analyses the Company's interest rate risk exposure on non-trading financial assets and liabilities. The Company's assets and liabilities are included at carrying amount and categorized by the earlier of contractual re-pricing or maturity dates.

	On demand	Less than 3 Months	4 to 12 Months	1 to 5 Years	Total as at 31 December 2018	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Interest earning assets											
Cash and cash equivalents	-	-	-	-	180,045,317				-	180,045,317	
Balances with banks and financial institutions	-	-	-	-					48,579,048	48,579,048	
Loan and receivables	-	572,551,182	1,390,481,442	981,516,311						2,944,548,935	
Other financial assets	-	35,598,151	56,702,689	37,801,793						130,102,633	
Total interest earning assets	180,045,317	608,149,333	1,447,184,131	1,067,897,152		180,045,317	608,149,333	1,447,184,131	1,067,897,152	3,303,275,933	
Interest bearing liabilities											
Interest bearing borrowings	-	243,781,144	546,217,314	981,626,393						1,771,624,851	
Other financial liabilities	-	52,706,665	100,220,262	282,042,572						434,969,499	
Total interest bearing liabilities	-	296,487,809	646,437,576	1,263,668,965		296,487,809	646,437,576	1,263,668,965	2,206,594,350		
Gap in interest earning assets and interest bearing liabilities - net assets / (liabilities)	180,045,317	311,661,524	800,746,555	(195,771,813)		180,045,317	311,661,524	800,746,555	(195,771,813)	1,096,681,583	
b) As at 31 December 2017											
Interest earning assets	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Cash and cash equivalents	-	-	-	-	-	-	-	-	-	108,341,644	108,341,644
Balances with banks and financial institutions	-	-	-	-	-	-	-	-	42,068,456	42,068,456	
Loan and receivables	-	325,708,996	791,007,563	2,046,461,091						3,163,177,650	
Other financial assets	-	10,245,185	20,490,370	85,761,665						116,497,220	
Total interest earning assets	108,341,644	335,954,181	811,497,933	2,174,291,212		108,341,644	335,954,181	811,497,933	2,174,291,212	3,430,084,970	
Interest bearing liabilities	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Interest bearing borrowings	-	235,026,233	738,798,128	1,135,020,771						2,108,845,131	
Other financial liabilities	-	22,582,276	50,755,265	321,048,204						394,385,746	
Total interest bearing liabilities	-	257,608,509	789,553,393	1,456,068,975		257,608,509	789,553,393	1,456,068,975	2,503,230,877		
Gap in interest earning assets and interest bearing liabilities - net assets	108,341,644	78,345,672	21,944,540	718,222,237		108,341,644	78,345,672	21,944,540	718,222,237	926,854,093	

BERENDINA MICRO INVESTMENTS COMPANY LIMITED
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As at 31 December,

- 29 Risk management (*continued*)
 29.4 Market risk (*Continued*)
 29.4.2 Interest rate sensitivity

The following table demonstrates the sensitivity to a reasonably possible change in the interest rates, with all other variables held constant, of the Statement of Comprehensive Income.

	As at 31 December 2018		As at 31 December 2017	
	Increase/ decrease in Interest Rate	Effect on profit before tax	Increase/ decrease in Interest Rate	Effect on profit before tax
	Rs.	Rs.	Rs.	Rs.
Interest rate	+ 1%	9,808,890	+ 1%	8,854,867
Interest rate	- 1%	(9,808,890)	- 1%	(8,854,867)

29.4.3 Foreign currency risk

- a) Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

As at 1 January 2018, the company held a loan LKR 96,612,000 where the repayment schedule is denominated in Sri Lanka Rupees. As per the agreement of this loan, each repayment denominated in LKR will be converted to and paid in the equivalent amount in EURO at the EUR/LKR fixing rate prevailing two business days prior to the relevant repayment date. The fixing rate is arrived at by converting the repayment value to EUR at the EUR/LKR cross rate determined by using the EUR/USD quoted by the Bloomberg market and USD/LKR middle rate determined by the Central Bank of Sri Lanka. Due to the time delay between the actual date of payment and the date of fixing rate, the company does not have a significant foreign exchange risk. The loan has been fully settled as at 31 December 2018.

The tables below indicates the effect to the Gains/ Losses in case of a market rates increase/decrease by 1% during the two days lag of repayment of loan instalment as explained above. The analysis calculates the effect of a possible movement of the EUR against LKR, with all other variables held constant, on the Statement of Comprehensive Income.

- b) Impact on statement of comprehensive income due to exchange rate shocks

	As at 31 December 2018		As at 31 December 2017	
	Change in Currency Rate in %	Effect on profit before tax	Change in Currency Rate in %	Effect on profit before tax
	Rs.	Rs.	Rs.	Rs.
EURO	+1%	-	+1%	966,120
EURO	-1%	-	-1%	(966,120)

30 Loan risk fund

The maximum value can be utilized to write off the loan outstanding of the eligible customers under the loan risk fund is limited to Rs. 244,929,064/- . The total loan portfolio of the company as at 31st December 2018 is Rs.2,922,706,395/-.

BERENDINA MICRO INVESTMENTS COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December,

31 Assets and liabilities transfer to BMIC

The company adopted the prospective basis accounting concept to account the effect of the transfer of the assets and liabilities of BMIC on 30th September 2017 in the financial statements of the company. If the company adopted the retrospective application to account the said transaction, the figures in the statement of comprehensive income and statement of financial position of the company as of respective date are as follows.

This is merely a disclosure to understand the company performance if the two entities were combined on 1st January 2016 and do not form a part of the financial statements of the company.

31.1 Statement of Comprehensive Income

	31 December 2018 Rs.	31 December 2017 Rs.	31 December 2016 Rs.
Gross income	914,737,460	839,793,973	640,332,324
Interest income	863,038,231	789,425,463	597,400,087
Less: Interest and similar expenses	258,916,232	254,288,086	199,427,229
Net interest income	604,121,999	535,137,377	397,972,858
Fee, commission and other income	51,699,229	50,368,510	42,932,236
Total operating income	655,821,228	585,505,887	440,905,094
Less: Impairment charges for loans and receivables	77,091,290	13,013,192	7,605,809
Net operating income	578,729,938	572,492,695	433,299,285
Less:			
Personnel expenses	249,180,113	237,609,633	189,860,755
Depreciation of property, plant & equipment	10,083,097	8,624,036	9,051,802
Amortization of intangible assets	1,421,338	811,294	240,604
Other operational expenses	146,867,335	130,060,111	98,451,207
Operating profit before value added tax and nation building tax on financial services	171,178,055	195,387,621	135,694,917
Less:			
Value added tax and nation building tax on financial services	56,172,766	55,746,822	34,660,853
Nation building tax on other services	700,180	1,025,090	-
Profit for the year before income tax	114,305,109	138,615,709	101,034,064
Less: Written off remaining net assets balance after transfer of assets and liabilities	-	-	-
Less: Income tax expense	67,951,154	36,372,013	20,506,302
Profit for the year	46,353,955	102,243,696	80,527,762
Other comprehensive income			
Other Comprehensive Income not to be reclassified to Profit or Loss in subsequent periods			
Actuarial (loss)/gain on defined benefit plans	(3,814,460)	2,963,319	(1,055,774)
Deferred tax reversal/(charge) on other comprehensive income	1,068,049	(1,960,651)	(124,581)
Other comprehensive income for the period net of tax	(2,746,411)	1,002,668	(1,180,355)
Total comprehensive income for the period	43,607,544	103,246,364	79,347,407

BERENDINA MICRO INVESTMENTS COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS

As at 31 December,

31 Assets and liabilities transfer to BMIC (Continued)

31.2 Statement of Financial Position

	31 December 2018 Rs.	31 December 2017 Rs.	31 December 2016 Rs.
Assets			
Cash and cash equivalents	180,045,317	108,341,644	99,682,194
Balances with banks and financial institutions	48,579,048	42,068,456	64,732,115
Loan and receivables	2,828,756,345	3,121,810,225	2,624,278,875
Property plant and equipment	23,843,093	27,924,708	23,695,823
Intangible assets	3,337,615	4,758,953	689,896
Deferred tax assets	5,191,935	2,583,614	5,780,016
Other assets	142,414,395	127,464,940	118,294,617
Total assets	3,232,167,748	3,434,952,540	2,937,153,536
Equity and liabilities			
Liabilities			
Interest bearing borrowings	1,771,624,851	2,108,845,131	1,849,218,743
Obligation under Finance Lease	-	-	898,303
Post employment benefit obligation	22,480,242	13,579,107	11,796,652
Other liabilities	531,669,301	449,742,492	344,627,431
	2,325,774,394	2,572,166,730	2,206,541,129
Equity			
Funds and reserves	71,559,550	86,993,090	309,821,731
Stated capital	763,461,750	748,028,210	180,028,210
Retained Earnings	71,372,054	27,764,510	240,762,466
	906,393,354	862,785,810	730,612,407
Total equity and liabilities	3,232,167,748	3,434,952,540	2,937,153,536