

# PROGRESSIVE VISION





# PROGRESSIVE **VISION**

## To Create **Meaningful Change**

We remain persistent in our commitment to create an empowered, equitable society where poverty does not exist. In this sense, we usher prosperity to the underprivileged segment of society by offering quality, responsible and innovative microfinance and enterprise development services at the lowest cost in a financially sustainable manner. While we operate within a framework aligning all our people and processes towards achieving this common objective, we ceaselessly remain open to upgrade, modernise and rethink our strategies with the changing operating environment in our journey towards success.

Nevertheless, the changing industry dynamics have compelled us to revamp the strategies in the past where with educating the clients on the ways and means of ensuring a positive impact from microfinance and to safe guard them the possible negative effects of mere profit oriented MFIs operating in the country. This remains one of the significant strategic perspectives in our transition from BMI to BMIC. The fundamental purpose is to ensure progression of clients through encouragement of meaningful investments for successful business outcome and improving living standards thus pulling themselves and their families out of poverty. In this way, we unite our progressive vision to create a meaningful change that we envisage in the lives of our clients.



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# Vision, Mission, Strategic Goal & Objectives

## VISION

"Create an empowered, equitable society where poverty does not exist."

## MISSION

"Ensure poor have access to quality, responsible and innovative microfinance and enterprise development services at lowest possible cost in ensuring prosperous future for this segment of society in a financially sustainable manner with a motivated team while educating the general public on positive impact of microfinance."

## STRATEGIC GOAL

"To reach out to fifteen high poverty districts and to serve a minimum of 175,000 families consisting minimum 30% of minority communities, 20% of marginalised communities and maintaining at least 75% of women, to reduce poverty by 10% among existing borrowers, to include a minimum of 90% of the clients into saving and to become a market leader in the sustainable EDS Sector, while increasing OSS to 130% by the end of 2022."

## OBJECTIVES

1. Further growing the organisation by increasing active borrowers and deposit holders by introducing customer centric financial services.
2. Using new technology to optimise the operational efficiency and customer satisfaction, and to measure the impact of the services.
3. Strengthening HR policies and practices to ensure continuous career advancement towards employee satisfaction to retain committed and talented staff.
4. Improving impact oriented EDS services along with credit offered by BMIC.
5. Increasing the greener practices and occupational health and safety by BMIC and its clients.
6. Minimising unsatisfied client dropouts and ensuring all existing clients are satisfied with BMIC services.
7. Continue to be the number one brand in the microfinance sector with highest level of social acceptance.
8. Developing a comprehensive and fully fledged audit procedure and process in order to improve compliance, operational effectiveness, efficiency and transparency in all aspects.
9. Establishing Good Governance Structure & Compliance Policy in order to act as a responsible organisation.
10. Assessing the positive and negative outcomes of the BMIC services among its clientele in a scientific manner in order to further improve BMIC services.
11. Ensuring efficient fund management and financial sustainability.

# About this Report

## ABOUT THIS REPORT

This year, we present our Integrated Annual Report done for the first time under the six capital management reporting structure, through which we hope to provide our stakeholders with the information needed to make an informed assessment of Berendina Micro Investments Company Limited ("BMIC")'s ability to create value over the short, medium and long-term. The Report presents comprehensive yet concise information relating to our strategy, value creation model, risk management, governance, performance and prospects.

## SCOPE AND BOUNDARY

This Report covers the operations of BMIC for the period from 1st January 2017 to 31st December 2017. We adopt an annual reporting cycle for financial and non-financial reporting; the most recent Annual Report, covering the financial year ending 31st December 2016 is available on our website [www.berendina.org](http://www.berendina.org). There have been significant changes to the size, structure, ownership and services of the organisation compared to the year before. There are also no restatements of information provided in previous reports.

## STANDARDS AND PRINCIPLES OF PREPARATION

The Financial Statements presented on pages 94 to 122 of this Report have been prepared in accordance with the Sri Lanka Financial Reporting Standards and the requirements of the Companies Act No.7 of 2007. The narrative on Corporate Governance (pages 70 to 81) complies with the Code of Best Practice on Corporate Governance issued jointly by the Securities and Exchange Commission of Sri Lanka and the Institute of Chartered Accountants of Sri Lanka .

## TARGET AUDIENCE

This Report is prepared primarily for current and potential investors; however, it also contains information that is relevant to other stakeholders including employees, customers, regulators and communities. The Report focuses on aspects that are considered material to our value creation and the process we have adopted for determining such material topics is given on pages 34 to 35 of the Report.

## REPORTING ENHANCEMENTS

Every year we attempt to improve the readability, meaningfulness and relevance of our Report. In doing so, this year we have worked to demonstrate the various factors that contribute to the value creation process along with the interconnection between the capitals.

## EXTERNAL ASSURANCE

External assurance on the financial statements and related notes has been provided by Messrs. Ernst & Young, Chartered Accountants . Their assurance on the Financial Statements are presented in page 93 of this Report.

## STAKEHOLDER ENGAGEMENT AND MATERIALITY

We use materiality analysis to assist our investors and other stakeholders to determine our value creation ability and identify the issues of great significance to the business in the short, medium and long terms.

## CONTACT DETAILS FOR QUESTIONS REGARDING REPORT

We value your comments and inquiries on this Annual Report which could be addressed to:

Name : Kaushalya Hansamali Dharmadasa  
Position : Assistant Manager –  
Corporate Relationship & Development  
Address : No. 44/3, 3rd Floor, Nawala Road,  
Narahenpita, Sri Lanka  
Email : [managercooprelanddev.bmic@gmail.com](mailto:managercooprelanddev.bmic@gmail.com)

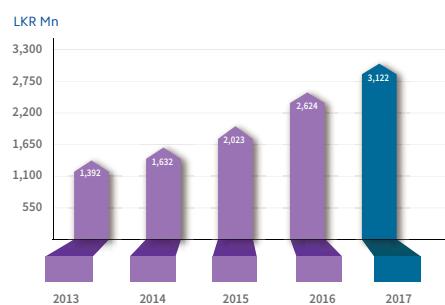
# Stakeholder Engagement and Materiality

Stakeholder	Purpose of engagement	Mode of engagement	Frequency of engagement	Stakeholder concerns and expectations	Company response
Employees	Engaging in the value creation process	Management meeting, employee surveys, whistle blowing policy and process, exit interviews, open door culture, performance review	On a regular basis as well as annually	Attractive remuneration, a conducive environment to maintain work-life balance, career growth opportunities, opportunities for direct communication with the management, ethical work practices, expressing their concerns and satisfaction	Salaries on par with industry, providing training opportunities, maintaining a clear channel to investigate, raise concerns and implement necessary actions, sharing employee feedback with top management, opening up two-way communication channels to offer opportunities for growth in performance and remuneration
Employees	Maintaining a high level of workforce moral and efficiency.	Intra-net/Regular staff meetings	On a regular basis	Attractive remuneration	Salaries on par with industry, provision of other allowances and best staff selection and rewarding
Customers	Create product awareness	Village level discussions/ meetings and print media/ videos	As necessary	Innovative products and services	Continuous product development based on market insights/customer insights
Customers	Identify loan/ credit needs and provide a high level of service	Branch network	On a regular basis	Improved product portfolio	The branch network across six regions to improve convenience and better service delivery
Customers	Obtaining customer feedback (customer complaints/ suggestions)	Direct customer feedback, customer surveys on product impact, customer hotline	On a regular basis	Effective complaint handling and mitigating issues, obtaining information on products and services, customised products to suit customer needs	Efficient customer assistance/ helplines at the branch level and at the head office level
Customers	Maintain customer interaction (customer relations)	Interaction at cluster meetings as well as individually at village level, Customer perception surveys on product impact	Monthly	Easy access to information, Company developing products and services aligned with customer needs	Enhanced service delivery to the customer by incorporating customer suggestions into strategy development
Funding Partners	Maintaining cordial and effective relations with the funding partners, creating opportunities for future funding	Dissemination of information on our achievements and strategies, award ceremonies	As necessary as well as annually	Positive impact on client life and on time servicing by lenders	Poverty level assessment using PPI, impact assessment survey and on time repayments and reporting
Regulators and the Government		Submission of other documentation as per regulator's stipulations	On a regular basis	Maintaining Solvency and Capital adequacy	Submission of statutory returns on time
Community		Maintaining a dialogue with community	On a regular basis	Contribution to community welfare	Maintaining a clear line of communications and fulfilling Company responsibilities as a responsible corporate citizen

# Financial Highlights

For the Year Ended 31st December	2017		
	BMI	BMIC	Combined
<b>Financial Performance</b>			
Gross Income (LKR)	515,191,060	324,602,913	839,793,973
Interest Income (LKR)	491,484,120	297,941,343	789,425,463
Interest Expense (LKR)	163,264,086	91,024,000	254,288,086
Profit Before Income Tax (LKR)	85,246,754	53,368,955	138,615,709
Income Tax Expense (LKR)	17,706,337	18,665,676	36,372,013
Profit After Tax (LKR)	64,373,835	38,872,528	103,246,363
<b>Financial Position at the Year End</b>			
Loans and Receivables (LKR)	3,121,810,223	3,121,810,223	
Borrowings (LKR)	2,108,845,131	2,108,845,131	
Total Equity (LKR)	862,785,811	862,785,811	
Total Assets (LKR)	3,434,952,540	3,434,952,540	
<b>Investor Information</b>			
Earnings Per Share (LKR)		0.46	0.46
Net Assets Per Share (LKR)		10.59	10.59
<b>Key Performance Indicators</b>			
Portfolio at Risk (1 Day)			0.91%
Portfolio at Risk (30 Days)			0.57%
Gross Interest Margin (%)			27.48%
Net Interest Margin (%)			18.63%
Return on Assets (%)			3.21%
Return on Equity (%)			12.83%
Interest Cover (Times)			1.55
Debt : Equity Ratio (Times)			2.44
<b>Operational Results of the Year</b>			
New Advances Disbursed (LKR)	2,025,103,000	1,420,493,100	3,445,596,100
Borrowings Obtained (LKR)	793,000,000	307,000,000	1,100,000,000
Operational Self Sufficiency After Tax (OSS)			120%
Financial Self Sufficiency (FSS)			101%
Capital Expenditure Incurred (LKR)	8,369,096	9,584,060	17,953,156

**Loans and Receivables**



**Total Assets**



**Interest Bearing Borrowings**



	BMI	BMIC	Combined	Change %
554,575,890	85,756,433	640,332,324		31%
522,682,534	74,717,553	597,400,087		32%
164,273,043	35,154,186	199,427,229		28%
101,934,725	(900,661)	101,034,064		37%
19,304,183	1,202,119	20,506,302		77%
81,433,291	(2,085,884)	79,347,407		30%
2,233,878,017	390,400,858	2,624,278,875		19%
1,654,044,743	195,174,000	1,849,218,743		14%
509,288,915	221,323,493	730,612,408		18%
2,483,438,372	453,715,165	2,937,153,536		17%
(0.12)		(0.12)		
9.43		9.43		
0.46%				
0.39%				
25.71%				
17.13%				
3.01%				
12.35%				
1.51				
2.53				
2,315,759,000	469,090,000	2,784,849,000		24%
870,183,316	450,000	870,633,316		26%
				119%
				101%
9,577,242	2,681,299	12,258,541		47%



#### Total Equity



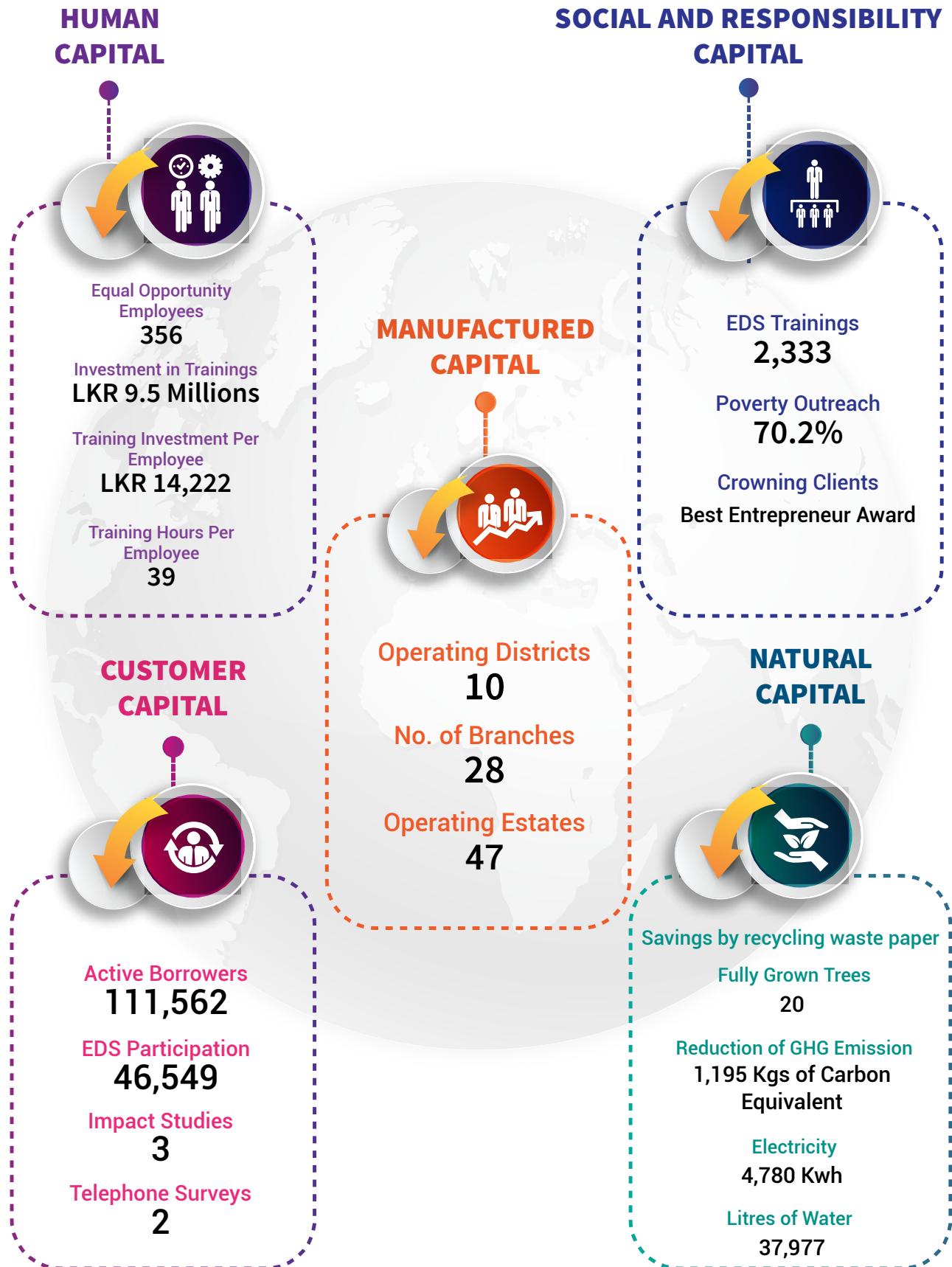
#### Gross Income



#### Interest Income



# Non-Financial Highlights





"We were losing than earning from paddy cultivation, though we were traditionally bound to continue. It was at that time, BMIC introduced ginger cultivation as a cash crop in our villages. They trained us on techniques and practices relating to ginger cultivation. We acquired a loan from them as an initial investment, which was at a very low interest rate than other MFIs in the area. BMIC gave us plantation materials as a start-up input. Thanks to BMIC, now we have been engaged in this for nearly four years and earning good profits."

*Wickramasinghe, Kahatagasdigiliya*

## OVERVIEW



# About BMIC

## TRANSITION FROM BMI TO BMIC

Berendina Micro Investments Company Ltd. (BMIC) is an entity established in 2014 as a sister Company of Berendina Microfinance Institute (Guarantee) Ltd. (BMI), mainly to surpass bottlenecks that arose in the fund-raising process. This establishment was relaunched in September 2017 as the sole microfinance arm of Berendina. The rationale was three-fold; first, it is in adherence with the regulatory requirement laid out by the Central Bank of Sri Lanka to standardise microfinance entities as public companies and corporate businesses. Second, to broaden the benefits to the BMIC client by placing extra emphasis on the requirement for meaningful "investments" whereby ensuring the prudent credit investments by the borrowers. Third, in order to highlight the positive sense of the phrase "micro investments" as opposed to the negative connotation associated with "microfinance".

Similar to BMI, BMIC also remain committed to uplifting underprivileged communities through financial inclusion and job creation by providing microfinance services as well as Enterprise Development Services (EDS). Over the course of the decade, Berendina Stitching has remained our principal donor.

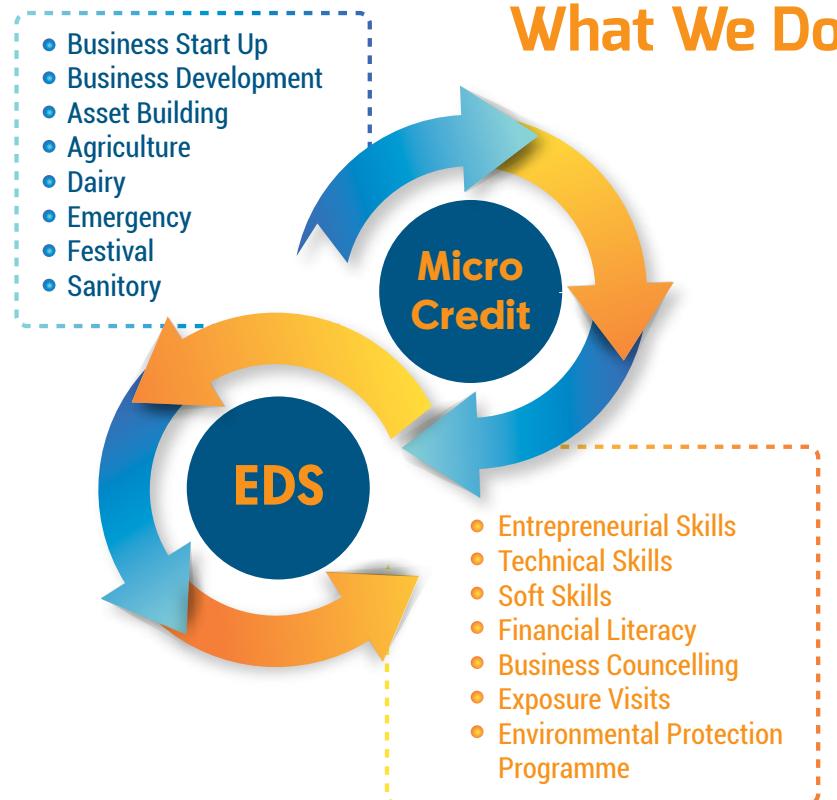
Envisioning prosperity for the impoverished segments of the society, BMIC employs a dual strategy to extend financial and non-financial assistance to identified communities to progress on an upward and a sustainable trajectory. The two-pronged approach involves the Micro Credit and Enterprise Development Services.

## MICRO CREDIT

Micro Credit services strive to assist BMIC clients to establish new business ventures and support existing businesses to expand and diversify and to build up family asset base. Through the Micro Credit programme, BMIC disburse small-sized, medium-tenured loans at low interest rates. Following a strict criterion based on the Progress out of Poverty Index (PPI) as well as the 'per head family income' indicators, BMIC selects poorer families (clients) who need assistance and funds a variety of purposes including development of micro enterprises, construction and renovation of houses, agriculture, dairy as well as certain emergencies.

## ENTERPRISE DEVELOPMENT SERVICES (EDS)

The credit plus component of BMIC, the Enterprise Development Services (EDS) focus on providing a wide spectrum of skills that will usher in long-term prosperity and development of BMIC clients and their communities. EDS programmes work towards providing technical skills, business management skills, financial literacy and leadership training. EDS programmes also concentrate on providing inspiration and motivational training to underprivileged communities, especially individuals in rural and plantation communities. BMIC staff provides business counseling services, market linkage to clients who require such services as well as environment protection programmes.



## BMIC CREDIT CHANNELS

BMIC uses three key modes of delivery for its credit disbursement. The most commonly used method is the Cluster-based lending which involves the provision of credit to cluster members in informal credit groups. BMIC also provides credit to plantation and estate sector workers through the Estate Worker Housing Co-operative Society (EWHCS) while agent based lending comprises disbursing loans to cluster members through a cluster leader, or designated cluster member, particularly in the event of an emergency.

- Cluster Based Lending

BMIC's cluster based lending has been adopted by various other microfinance institutions in Sri Lanka. The model involves a single cluster comprising 10 informal credit groups with three members each. Borrowers form groups with individuals of their choice and these individuals receive loans following an assessment of the credit worthiness of each member. Once the loan is given, regular follow-ups are carried out on how the loan is being utilised. This approach allows the organisation to deal with well-defined, recognised groups and enables a wider coverage as well as better monitoring. Cluster members meet monthly to repay loans and submit new loan applications. During the year under review BMIC has catered to 111,562 active clients.

- Lending Through Plantation Co-Operative

BMIC disburses credit facilities to estate sector workers through the Estate Worker Housing Co-operative Society (EWHCS). BMIC was the first ever microfinance institute to reach out to this relatively under-served community. During the year under review BMIC served 6,292 clients in 47 estates.

- Agent Based Lending

Agent-based lending model serves to assist cluster members during emergencies such as illnesses, deaths and educational requirements of children. This model serves to assist client families in challenging situations to enable them to avoid borrowing from money lenders who charge high interest rates. BMIC emergency loans are disbursed through Agents, who are typically leaders or designated cluster members from well performing clusters. BMIC lends in bulk to these selected agents, who in turn disburse loans to cluster members. During the year under review BMIC had 655 active agents who disbursed emergency loans.

## BMIC PARTNERSHIPS

Over the course of the years, BMIC nurtured various partnerships across a cross section of local and international organisations. These partners play a key role in BMIC's efforts to build a more equitable society through extending funding as well as technical knowledge.

### Sri Lanka Savings Bank (SLSB)

SLSB, formerly The National Development Trust Fund, is BMIC's longest-standing credit partner, with the partnership dating back to 2007. SLSB provides refinancing loans to BMIC through its Microfinance unit.

### Etimos

Etimos is a transnational cooperative consortium based in Italy including over 280 organisations across the globe. BMIC partnered Etimos in 2009 to obtain bulk loans for microfinance on lending.

### Stromme Micro Credit

SMAGL is the leading not-for-profit wholesale lenders for the microfinance sector in Sri Lanka. The partnership with them commenced in 2009, and since then BMIC has received both financial and technical support from this organisation.

### National Development Bank (NDB)

As BMIC's first commercial banking partner, NDB provided funding to BMIC through its Small and Medium Enterprises loan scheme in 2012.

### DFCC Bank

The partnership between BMIC and DFCC commenced in 2012. DFCC offered funding under a guarantee in the form of a Stand by Letter of Credit by Grameen Credit Agricole Microfinance Foundation in Luxembourg. From year 2015 onwards, the Bank has been providing loan facilities without such Letter of Credit guarantee.

### Hatton National Bank (HNB)

BMIC joined hands with HNB in 2012. Initially, the loan facility was given based on the security of loan guarantee from United Prosperity; a web-based fund-raising organisation in USA. From year 2014 onwards, HNB has been granting loan facilities at very competitive terms to BMIC.

### Commercial Bank

Commercial Bank became BMIC's partner in 2014 with the loan facility through their Development Credit Unit to further expand BMIC loan portfolio.

# About BMIC

## Plan Sri Lanka

Plan is one of the largest and the oldest children's development organisations in the world and Plan Sri Lanka's history dates back to 1981. BMIC partnered with Plan Sri Lanka in 2012 for a three year project with an objective of economic empowerment among Plan families at Manupa and Kahatagasdigiliya areas in Anuradhapura district and in Batticaloa district by providing micro loans and enterprise development services.

## HelpAge

BMIC further expanded its coverage to senior citizens, another under-served community. BMIC partnered with Help Age in 2013. The partnership has the primary objective of empowering senior citizens through microfinancing. Currently, the funds obtained through this partnership has been utilised to provide loans towards income generating ventures for senior citizens who are age above 62.

## Grameen Credit Agricole

The partnership between BMIC and Grameen Credit Agricole Foundation in Luxembourg commence from year 2012. They provided Stand by Letter of Credit as guarantee to DFCC bank in order to facilitate loans to BMIC and have assisted BMIC by providing technical support for staff capacity development. Further, from year 2015 onward BMIC receives direct funding from them.

## Whole Planet Foundation (WPF)

BMIC has been in a partnership with WPF since 2016. The partnership is to strengthen BMIC having a dedicated contribution to set up new branches. The grant given by WPF has increased the equity and profitability of BMIC. Further, WPF provide technical advice to BMIC.

## YBSL

YBSL became BMIC's partner in 2015 with a loan facility to disburse micro loans among young entrepreneurs age between 18 to 35 years. YBSL is a National Organisation helping Sri Lankan Youth to start up their own businesses, by providing access to credit and acting as a volunteer business mentor in addition to providing EDS training.

## Memberships

During the past decade, BMIC obtained memberships in key national and international microfinance industry association. These associations enabled BMIC to strengthen its network, share knowledge and improve visibility.

BMIC is a member of the Microfinance Practitioners' Association, the coordinating body for microfinance activities in the country. BMIC's association with the 'Banking With The Poor Network' as well as financial and social performance reporting to the Microfinance Information Exchange (MIX) has enhanced organisational visibility in the international community, paving the way for enhanced benefits to BMIC clients.

BMIC is also a member of the Start and Improve Your Business Association (SIYB) and the Sri Lanka Evaluation Association (SLEVA)

# Anthem and Logo Creations

## BERENDINA ANTHEM

“ගම් ගමට යන, දාරින් දාරට එන කළන මේරු රේන්  
දීරෙය නංවලා දැනුම කුසලතා තිබඳ ඔප දමන්නේ  
කෙනේ කමිලලේ, ගමේ කඩපිලේ සැල නිවසක් ගානේ  
සතුට කැන්දනා, දිවිය සරසනා බෙරෙන්ඩිනා නාමේ.....  
බෙරෙන්ඩිනා නාමේ.....

මේ අපේ දියුණුවේ ආයතනයයි  
මබ අප යා යුතු නිවරදී මාවතයි  
එක්වෙලා, වෙහසිලා, මේනුදම්න්  
ප්‍රඛැවු ලක් දනන් ගක්තියෙන්.....  
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ගක්තියෙන්.....

කිරාමංකள් තොරුමඇ තොරුමඇ තොරුමඇ වන්තිගුම නණ්පර්කලෝ!  
මකිඩ්ඩෙවතන්තිගුමඇ බාඩ්ඩෙවතයර්තිගුමඇ පෙරණ්ඩිනානාමමො.....  
පෙරණ්ඩිනානාමමො.....

We see it, we feel it,  
The light of wealth will shine for all one day  
Let's Move on, in focus.....  
Together we can make it soon our way  
Berendina will comfort pathways  
Berendina will empower every way

පෙරණ්ඩිනානාමමො.....

බෙරෙන්ඩිනා නාමයයි.....

## BERENDINA LOGO



With the transition from BMI to BMIC, our organisational logo has also endured transformation. Our logo is a representation of the communities we serve and the key countries that were involved in the inception of our organisation.

While the letter 'B' stands for Berendina, the blue figure epitomises a man representing all the male community in our target segment and the blue colour represents the national colour of Sri Lanka. The orange figure represents a woman epitomising all women in our target community while the orange colour represents the national colour of the Netherlands, indicating our strong ties with the Netherlands. All the figures remaining under the arch of letter 'B' that represent Berendina indicates our dedicated effort to protect our communities.

This logo was developed based on a suggested design by an internal staff member of BMIC.

# Culture, Ethics and Values

## CULTURE

- Stakeholder engagement
- Non-discrimination based on religion, race and ethnicity
- Respect gender equality
- Participatory decision making
- Zero tolerance on mismanagement and frauds
- Low organisational cost to deliver better service to client
- Minimum inefficiencies
- Seniority recognition
- Learning culture
- Open door policy

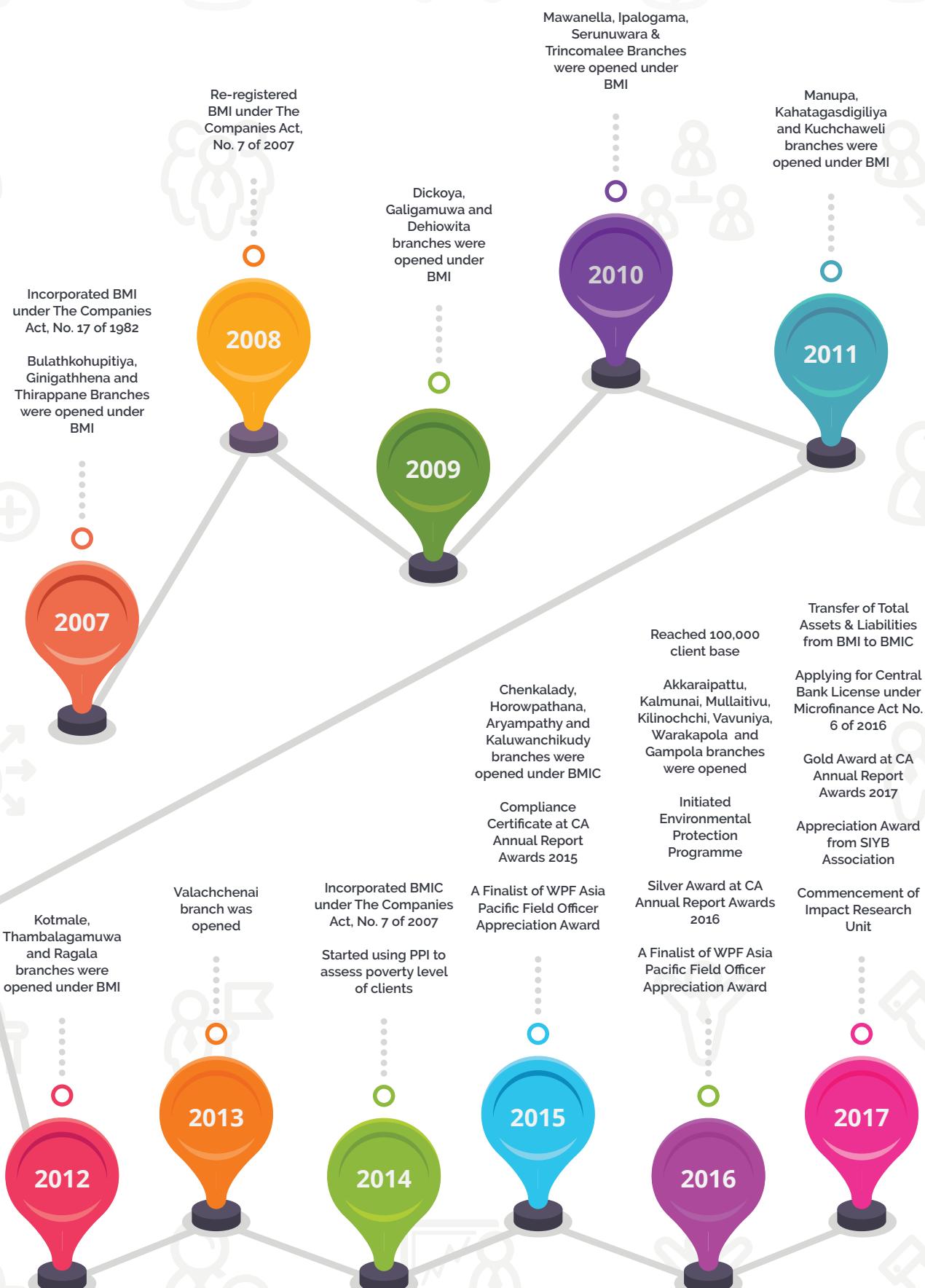
## ETHICS

- Be honest and truthful in our dealings
- Uniform treatment to all our employees
- Respect the environment

## VALUES

- Integrity
- Accountability
- Innovativeness
- Inclusiveness
- Respectfulness
- Empowerment
- Transparency

# Our Journey – Milestones



# Timeline of Activities in 2017

01

JANUARY



## Credit Appraisal Training for Staff

Two separate two days credit appraisal trainings were conducted for Branch Managers, Enterprise Development Officers and Field Officers in Nuwara-Eliya, Trincomalee and Northern Region. The trainings were conducted for 73 staff members by internal resource persons.

02

FEBRUARY



## Initiating Waste Paper Recycling Project

03

MARCH



## Nepal MFI's Keen to Emulate Berendina's EDS Model

The Sakchyam Access to Finance for the Poor Programme (Sakchyam) in Nepal invited BMIC to conduct a feasibility study to replicate the Enterprise Development Services (EDS) model in Nepal. BMIC Managing Director - Mr. Anura Athapaththu and Enterprise Development Manager - Mr. Rajesh Kanna conducted in the feasibility study in Chitalang, Gulariya and Pyuthan of Rural Nepal during March 2017.

# Timeline of Activities in 2017

04

APRIL



Trade Fairs

BMIC was able to organise six trade fairs during the April new year festival season. These fairs were organised at Kaluanchikudi, Dehiowita, Serunuwara, Valaichenai, Chenkaladi, Kahatagasdigiliya and Thirappane branches. Around 232 Berendina clients (traders) made their products available at these trade fairs and their turnover last year exceeded LKR 1 Million. All these were organised under the Enterprise Development Service division of BMIC.

05

MAY



Kaluanchikudy Branch  
2nd Year Anniversary

06

JUNE



'Soup Dansela' in Anuradhapura

The staff of BMIC in Anuradhapura Region organised a 'Soup Dansela' (alms giving stall) to mark the celebration of Poson Poya Day, which is of great religious significance to the Buddhists in Sri Lanka.

The 'Dansela' was held near the Thirappane Maradankawala Mawatha on the 10th of June 2017 from 10.30am to 3.00pm and attracted the participation of around 3,000 persons. The event was a great success.

# Timeline of Activities in 2017

07

JULY



OBT program for  
BMIC Employees

BMIC afforded an outbound training opportunity for 30 employees in a two-day training program conducted by the Wayamba Outbound Training (OBT) Center. The OBT program, held on July 21st and 22nd, 2017 at the Nikawaratiya, Wannigama Training Center, was attended by employees from Thirappane, Ipalogama and Bulathkohupitiya branches. The objectives of the program were to motivate participants, inculcate leadership attitudes, develop their personality and train on the art of working effectively as a team in order to achieve a specific goal. This event was coordinated by Outbound Training Adviser Mr. Sampath Sri Ekanayake at the Wayamba Training Center.

08

AUGUST



Drought Reliefs for  
2,000 Families

09

SEPTEMBER



Appreciation Award from  
SIYB Association

BMIC received a special appreciation award from the Start and Improve Your Business (SIYB) Association of Sri Lanka in recognition of BMIC as an Active Training Partner of the Association. The training services conducted by BMIC was honored at the Annual Convention of SIYB Association held on 27th September 2017 at the Renuka City Hotel. The award was presented by the Country Director of the ILO Country Office for Sri Lanka and Maldives – Ms. Simrin Singh and received by Manager of Enterprise Development Services of BMIC.

# Timeline of Activities in 2017

10

OCTOBER



## BMIC Contribution for BSS

As a step in further expanding our welfare services for clients' families, BMIC decided to sponsor the BSS for bright children of BMIC client's which was initially funded by Berendina Employment Center. Accordingly, during the year under review, LKR 2.3 Million was given for 671 students for this purpose starting from August 2017.

11

NOVEMBER



## Crowning 'Best Entrepreneurs'

12

DECEMBER



## CA Annual Report Awards

The gala ceremony, the 53rd Annual Report Awards 2017 which was organised by the Institute of Chartered Accountants of Sri Lanka was held at the 'Sirimavo Bandaranayake Hall', BMICH, on the 05th December 2017, for the financial years ended in 31st December 2016 or 31st March 2017. As a result of the continuous improvements done in line with the feedback given by CA Sri Lanka, BMI (the predecessor of BMIC), was able to win the 'Gold Award', under the category of "Not-For-Profit Organisations (NPO) including Non-Governmental Organisations (NGO)". This achievement was backed by the strong commitment of the Board of Directors and Management of BMI towards good governance, compliance and transparency in their operations, as well as reporting to their stakeholders.

# CHAIRMAN'S Message



*"During the year, our revenue increased by 31%, totaling LKR 840 Million. As to our credit portfolio, by the end of 2017, BMIC had 111,562 active borrowers, a 8% increase compared to the previous year."*

# The Chairman's Message

I am pleased to present the Annual Report and Audited Financial Statements of Berendina Micro Investments Company Limited (BMIC) for the 12 months ended 31<sup>st</sup> December 2017.

A glance back at the last financial year, I am pleased to report that we are progressively moving along our strategic direction while continuing to strengthen our operations through technology enabling platforms, involvement in advocacy for a healthy microfinance sector, and our unrelenting focus on client engagement and sustainability.

A critical transformation that we underwent last year is the change of legal status of our business entity from a Company Limited by Guarantee to a Public Limited Liability Company. While this brings us under the corporate banner, we will remain as non-profit poverty focused social organisation even though legal structure remains a profit making entity.

## SRI LANKA'S MICROFINANCE LANDSCAPE

Moving on to the developments in the overall microfinance sector in Sri Lanka, one pressing issue remains the multiple players within the industry. While this creates a highly competitive environment, the absence of regularities for entities carrying out microfinance leads to limited customer protection. The severe competition amongst the different players also leads to lack of skilled employees, where the qualified individuals are absorbed by other organisations within the sector.

Another critical challenge within the industry is the lack of proper regulatory framework to standardise the local microfinance entities. In the local context, "microfinance" remain within the boundaries of "microcredit" lending in terms of loans and recoveries. Nevertheless, most of the business entities involved in microfinance provide other credit facilities for their customers. Besides, most companies request collateral from their clients when providing credit facilities as opposed to the micro credit practice.

The amounts disbursed to the clients are also arguable as it tends to deviate from the meaning of "micro". The lack of clarity as to the amounts that can be considered as micro loans is an indication of the absence of proper direction across the microfinance sector in Sri Lanka.

## FROM BMI TO BMIC

Berendina Micro Investments Company Limited (BMIC) is an entity established in 2014 as a sister Company of Berendina Microfinance Institute (Guarantee) Limited (BMI), mainly to surpass bottlenecks that arose in the fund-raising process. BMIC was formed to access foreign loans that contributed significantly to the growth of funding during the past few years that sustained our activities.

However, BMIC was relaunched last year as the sole microfinance organisation within the group being in line with the regulatory framework set up by the Central Bank of Sri Lanka to standardise microfinance entities as public companies and corporate businesses, giving the opportunity for BMIC to reap the benefits of a regulated environment.

## FOCUS ON POVERTY ALLEVIATION

BMIC remains steadfast in its vision of creating an empowered, equitable society where poverty does not exist. In this regard, BMIC is persistent in ensuring that the under privileged in society have access to quality microfinance and enterprise development services at the lowest possible cost thereby ensuring a prosperous future for this sector in a financially sustainable manner.

Aligned with our vision and mission, during the year under review, we reinvested part of the profits earned from BMIC activities for social development of the country. Hence, profits earned through BMIC activities were given back to our sister Companies, Berendina Development Services (BDS) and Berendina Employment Centre (BEC) in support of their community development activities and employment generation projects as well as scholarship programs to support bright students from disadvantaged families.

As of 2017, an amount of LKR 11.42 Million was donated to BEC by BMIC which was completely contributed by BMIC clients through coupons. Although we are unable to cover the entire cost of BDS and BEC entities at present, we intend to build BMIC to the level where it can completely sustain the activities of BDS and BEC.

One of the significant features of our microfinance programme as a poverty alleviation tool is the upliftment of the entrepreneurs at the grassroot level by providing them loans at the lowest possible interest rate compared to other players within the sector, with the only exception of Government subsidised loan schemes.

Another distinct attribute is the Enterprise Development Services (EDS) component or the "credit plus" component of the BMIC that places emphasis on developing a range of requisite skills of the target clientele. BMIC is proud to be one of just a handful of organisations which provide such services to the rural communities and is known to be the only MFI that delivers a dedicated EDS component that is on par with the credit facilities given to clients.

As it was also strongly felt if long term sustainability and growth of the borrowers' business ventures to be secured, they require to develop a wide variety of related skills, EDS remain committed to enhance such skills with a primary focus on developing technical skills, business management skills and financial literacy. During the year under review we conducted 2,333 trainings, a 14% increase compared to the previous year while the total number of participants also increased by 6%, totaling 46,549.

# The Chairman's Message

Besides we are there for our clients when in need. Our "Suwasahana benefits" scheme provides assistance in emergency situations such as sudden illness or funerals. The client, his spouse as well as children under one year were given monetary assistance in the case of hospitalisation. During the year under review, this scheme operated in all branches and contributed LKR 11.11 Million as medical and funeral benefits to 4,226 beneficiaries. A daily allowance of LKR 300 was disbursed as hospitalisation benefits to the client while LKR 6,000 were given as funeral benefits.

Moreover, our collection of loan repayments was carried out on a monthly basis and we refrain from daily and weekly collection methods to avoid any inconvenience for the client. It is also noteworthy that during these monthly collection sessions, an important topic of relevance to the community was discussed with the clients such as consequences of drought situations, non-communicable diseases etc. Once again, we pride ourselves to be the only MFI that provides this kind of advisory sessions at the village level to our valued clients.

## PERFORMANCE

During the year, our revenue increased by 31%, totaling LKR 840 Million. As to our credit portfolio, by the end of 2017, BMIC had 111,562 active borrowers, a 8% increase compared to the previous year. There was also a 24% increase in the total loan disbursement compared to the previous financial year totaling LKR 3.45 Billion. Our loan outstanding also increased by 19%. While our Portfolio at Risk (30 days) remained at 0.57%, our Operational Self-Sufficiency (OSS) was 120%.

## CHALLENGES

One of the critical challenges faced during the year under review was staff retention. Due to the unhealthy competition created by other microfinance players, there was a tendency within the industry to absorb the skilled employees from other MFIs.

Moreover, employees also display a preference for government employment due to the guarantee of high job security. In addressing this issue, we have included a range of financial and non-financial benefits for the staff while also providing more opportunities for staff development. During the year 2017, 37 trainings were provided for 668 staff participants.

Another hindrance was the multiple borrowing leading to over indebtedness, a common factor across the industry. Since the unregulated MFIs do not have access to a CRIB, we were unable to gauge an understanding of the loan status of our clients. In mitigating this issue, at present we are involved along with some members of the Lanka Microfinance Practitioners' Association in discussing the possibility of developing a monitoring mechanism to gauge the multiple borrowing status of the clients in understanding the client's repayment capacity.

There was also those who were affected by severe drought conditions during the year, mainly those who are involved in agriculture and animal husbandry related enterprises. These people were provided dry rations in order to ease their burden during difficult times.

Protecting the environment for future generation is a global challenge. As a responsible organisation following triple bottom line approach, BMIC seriously concerns on environment protection. For this, a dedicated staff member is working and separate budget is allocated annually to mitigate negative implications arose due to our clients' enterprises and our office operations.

## GOING AHEAD

In moving ahead, we plan to introduce micro saving services to our marginalised clients. In this regard, we are presently in the process of obtaining license from the Central Bank.

In the long run, we wish to open a few additional branches in five districts that record a high density of poverty. In addition, we also intend to expand the number of borrowers in matured branches by introducing another staff member, an Assistant Manager. In this way, we intend to broaden our operations in increasing our outreach.

Another significant aspect of focus is the introduction of an ERP system in streamlining the entire processes and systems within the organisation under a digital platform. In this way, the entire functioning of the organisation will be brought under a technology enabling platform thereby assimilating the systems at branch level with the Head office operations. A crucial outcome expected of this change is bringing the standalone systems in the branches merged under a centralised platform.

# The Chairman's Message

## ACKNOWLEDGMENTS

I wish to express my sincere gratitude to the Board of Directors for the unwavering support extended towards me and the rest of the Berendina team. I would also like to express my sincere gratitude to Berendina Stitching for the continuous support given to us. I am grateful to our funding partners as well as entities that provided loans, grants and guarantees, thus allowing us to continue our efforts in serving our clients.

I would also like to thank our team whose unrelenting commitment and integrity enabled us to move forward with confidence with our innovative value creation model providing support to the clients in a sustainable and client-centric way.

I further wish to offer my sincere appreciation to our two charitable entities, Berendina Development Services (BDS), and Berendina Employment Centre (BEC), for fervently working along with us in realising our sustainable development model towards eliminating poverty.

I would also like to express my sincere gratitude towards our loyal clients who contributed to our progress through effective utilisation of our services to improve their circumstances, and also for their continued faith in BMIC and timely repayments.



G Jagath Chandana  
*Chairman*

23<sup>rd</sup> March 2018  
Colombo

# MANAGING DIRECTOR'S Review



*"In measuring clients' poverty status at the entry and each successive loan cycle, we utilise "Progress Out of Poverty Index (PPI)" for all our clientele. Using this internationally and nationally recognised poverty measurement, we were able to measure our outreach to population living under different poverty lines and track their reach out of poverty when they progress from one loan cycle to the next. As per the PPI data analysis, we have increased poverty inclusion in 2017 compared to 2016. We also found that a significant number of clients reduced their poverty level when they move from one loan cycle to the next."*

# Managing Director's Review

It gives me great pleasure to share with you the performance outlook of our Company that ends a remarkable year and looks to the future with added vigor.

## GLOBAL ECONOMY

Year 2017 was a challenging and an eventful year globally, due to political instability prevailing in some countries, increased fuel prices, increased cost of living and natural calamities. Nevertheless, an upward trend is witnessed in the global economic front despite the unsettling events and trends that prevailed during the year. The year marked a growth rate of 3.8%, with a notable rebound in trade. This growth was the result of investment recoveries in advanced economies, continued strong growth in emerging Asia, a notable upswing in emerging Europe, and signs of recovery in several commodity exporters. Emerging and developing economies recorded a growth rate of 4.8% in 2017 from 4.4% in 2016 particularly from countries like Russia and China.

While the global unemployment rate is stabilising, unemployment and decent work deficits continue to stay at persistently high levels in many parts of the world. Quality of education also fell short in many countries even as much of the world raced into the digital age. Nevertheless, the extreme poverty continues to decline while innovation and technology continue to enhance the quality of life.

## LOCAL ECONOMY

Contrary to the progress witnessed in the global front, the local economy showed slow progress with a growth rate declining to a 16 year low of 3.1%, the lowest it has recorded since 2001. The agricultural sector was largely affected by the adverse weather conditions, and as a result all its related activities contracted while exerting spill over effects on other sectors of the economy. However, both Industrial and Services activities recorded an expansion during the first half of the year. The expansion in Industry related activities was mainly supported by the continued growth in construction, mining and quarrying activities.

The positive progress observed in the Services sector is mainly due to the growth recorded in the financial services, wholesale, retail trade activities and transportation. Meanwhile, both investments and consumption expenditure contributed to the expansion in economic activities, while net exports continued to weigh down the growth momentum.

The unemployment rate declined marginally to 4.2% during the first half of 2017 from 4.4% in the corresponding period of 2016. This marginal improvement was due to the decline in the male unemployment rate amidst a marginal increase in the female unemployment rate. Although the unemployment rate declined, the total number of unemployed persons increased marginally during the first half of the year.

Domestic supply disruptions, tax revisions, and increased prices of imported commodities caused consumer price inflation to remain at elevated levels during the year, but further tightening of the monetary policy stance helped curtail demand driven inflationary pressures and inflation expectations. The price inflation raised to 6.6%, particularly food inflation due to bad weather disturbances, tax revisions and rising international commodity prices.

During the year some of the key challenges that existed in the local macroeconomic environment were the natural disasters, and the political instability and increased taxes. Although the government carried out fiscal reforms to enhance competitiveness, promote good governance and public financial management, there was slow progress mainly due to political uncertainty. The increased taxes particularly had an adverse impact on many businesses particularly the microfinance companies who are taxed at a higher rate. However, there were no significant developments neither in exports and imports nor in the development of the country's infrastructure.

Despite the overall slow progress, a favorable economic climate is anticipated in the year 2018 and growth is expected to rebound to around 4.5% provided the government is committed to the reform agenda.

## MICROFINANCE SECTOR OVERVIEW

The overall sector witnessed a growth in number of loans and amounts disbursed during the year under review. However, this growth is substandard considering the poor quality of service distributed by many players in the industry. The core purpose of microfinance, to bring "provision of financial services to low income people" who are unable to offer sufficient collateral thereby improving the income generation activities and other forms of investments by low income persons, have been neglected by the many players within the sector.

Consequently, the recent past witnessed customer exploitation through excessive interest rates and overloading unbearable amounts of loans and unethical recovery methods. Moreover, poor corporate governance in some institutions have also led to high costs and leading organisations to charge high interest rates. The profit motivations have become the first objective of many MFIs. The negative implications that had built up in 2017 was indicative in 2018 which was reflected by the multiple borrowing leading to over indebtedness. Incorrect utilisation of loans leading to large number of consumption loans by the borrowers has been evidenced. While these unethical practices adversely affect the borrowers keeping them within the 'cycle of poverty', it also continues to have a negative impact on the overall economic development of the country.

# Managing Director's Review

However, in terms of access there was considerable expansion of the industry. According to the Lanka Microfinance Practitioners Association, data provided by 37 microfinance institutions estimate that there were 2.9 Million active borrowers as of 2017, excluding the clientele of government implemented Samurdhi (Divinaguma) programme, Corporative Rural Bank, Regional Bank and Sanasa Development Bank. Further, the loan portfolio remains at LKR 95 Billion during the year under review.

A notable development during the year was the effort exercised by the Department of Supervision of Microfinance Institutions (DSMI) of the Central Bank to implement the Microfinance Act which was enacted in 2016. The Act provides for the licensing, regulation and supervision of companies carrying on microfinance business, which are called Licensed Microfinance Companies (LMFCs). Microfinance NGOs and micro credit NGOs will also regulate by the Microfinance Act through NGO secretariat. Its implementation efforts seek to regulate and standardised the unregulated entities engaged in microfinance business.

Another hopeful change was the readiness shown by the MFIs to get recognition and to obtain registration and license under the new Microfinance Act.

If the healthy growth of the industry to be anticipated, it is imperative to consider the social issues arising from the unethical practice of microfinance thereby taking required measure to mitigate them. In addition, good ethical practices should be brought in with clear guidelines on the size of the MFI loans, interest rates while generating legal provision to access the CRIB in comprehending the loan status of the borrowers. Meanwhile, the microfinance players should realise the inadequacy of loans alone for people's sustenance and therefore make effort to include the training and advisory programs to provide them with knowledge and skills necessary for their long-term sustainability.

## KEY DIFFERENTIATION

In envisioning an empowered, equitable society where poverty does not exist, BMIC employ multiple tools with a focus on client protection and client capacity building. One of the primary tools is its credit plus component where apart from credit facilities, the borrowers are provided with necessary skills to effectively utilise their loans to rise out of poverty. The Enterprise Development Services (EDS) in this regard is dedicated to providing training and advisory services for the BMIC clients including technical business knowledge and financial literacy training, support for marketing their products and business counseling.

BMIC charges the lowest effective interest rate in the market apart from the government lending institutions and certain banks and some co-operatives. The BMIC rate ranges from 5% - 15% flat p.a nominal, with an average blended rate of 12.5%. However, it is noteworthy that BMIC, despite the low interest rates, continues to be operationally stable and a sustainable organisation. Moreover, BMIC remains loyal to the word "micro" by disbursing small loan amounts to its clients with the maximum amount disbursed being LKR 150,000. In addition, we carry our own screening process of our clients in determining their suitability and capacity for repayment of a loan while also gauging a clear understanding of the purpose for which it is taken.

Further, collection of loan repayments was carried out on a monthly basis to avoid any inconvenience for the client. Apart from that, an important topic of relevance to the community was discussed with the clients during these monthly gatherings. This exceptional feature makes us stand out from the rest of the MFIs by being the only microfinance institution providing such advisory sessions at the village level.

In addition to our credit facilities and capacity building, we extend a helping hand to our valued clients in their difficult times. We provide our clients with emergency assistance through our "Suwasahana benefits" scheme where our clients were given monetary assistance during hospitalisation, disability or death. We even right off loans in such situations when the borrower finds it extremely difficult to repay the amount. Once more, this remains one of our unique features that is not carried out by other MFIs. Over 4,000 clients were assisted during the year through this benefit scheme.

A scholarship scheme was also put in place for the borrower's family members, where A/L students were given LKR 1,000 for arts and commerce stream and LKR 1,500 for science stream students every month. This programme under BMIC was commenced in the month of August 2017 and 671 children were assisted with LKR 2.3 Million.

## ENTERPRISE DEVELOPMENT SERVICES (EDS)

Our Enterprise Development Services (EDS) component was founded on the belief that our clients require further skills in enhancing their businesses, other than loans. In this regard, EDS assist clients to identify suitable income generating opportunities and provide advice and knowledge along the line to improve and expand their businesses. EDS is our credit plus component that enable the client to do their investments in a desirable manner.

# Managing Director's Review

EDS component contributed to poverty alleviation in three perspectives. Firstly, it provides critical assistance in establishing successful entrepreneurs. Secondly, it empowers them with the necessary knowledge and exposure as well as opening opportunities for marketing their products. Lastly, financial literacy trainings take them out of the credit trap and safeguard them from becoming prey to unethical microfinance intuitions. The recognition of our EDS model has also led to its replication in Nepal where three organisations have adopted the EDS model as a poverty alleviation tool.

## PROGRESSIVE VISION FOR A MEANINGFUL CHANGE

BMIC, a sister Company of Berendina Group was in operation since 2014. During the year BMIC acquired the business of BMI the first and the largest microfinance company of Berendina Group. The rationale was three-fold; one is in adherence to the regulatory requirement laid out by the Central Bank of Sri Lanka in regulating the MFIs. Second, is to broaden the benefits to the customer by emphasising more on the necessity for meaningful "investments" thereby ensuring that borrower prudently invest the credit obtained from BMIC. Thirdly, BMIC's intention to drive people away from the negative connotation associated with the phrase "microfinance" by replacing it with "micro investments" which on the contrary give a positive implication.

## OUR SUSTAINABLE DEVELOPMENT MODEL

BMIC surplus profits are shared with our two sister Companies, Berendina Development Services (BDS) and Berendina Employment Centre (BEC) which provide assistance to marginalised communities and provide employment opportunities for youth, respectively. Although at present, this surplus is inadequate to completely sustain the two sister Companies, we hope to achieve this target in the near future. As of last year, of the BMIC contributed LKR 38 Million for the programme activities of BDS.

Our clients are also contributing to the sustainability of the same scholarship program implemented by BEC for the poor families who are not BMIC clients. In 2017, BMIC clients contributed LKR 11.42 Million to the scholarship program.

## PERFORMANCE

During the year, our total revenue came to LKR 840 Million, a significant 31% growth compared to the previous year. Our profits also increased up to LKR 100 Million which is commendable considering our low interest rates and borrowing from the commercial entities.

Our active borrowers remained at 111,562 a 8% increase compared to the previous year. While our outstanding loan portfolio remains LKR 3.12 Billion, a 19% growth compared to the last financial year, the total asset base also increased by 17%. Our total loan disbursement was LKR 3.45 Billion, a 24% growth compared to the previous year.

Our Portfolio at risk (30 days) was 0.57%, the best recorded in the industry indicating high recovery while operational self-sufficiency was 120%, a significant gain considering our low interest rates.

During the last financial year, we trained 46,549 participants on different disciplines, a 6% increase compared to the previous year. Overall, we carried out 2,333 trainings, a 14% increase compared to the previous year. One of the major training area was educating people on financial literacy, specially interest rates. This has made people to move away from high interest rates borrowings.

## MEASURING POVERTY OUTREACH

In measuring clients' poverty status at the entry and each successive loan cycle, we utilise "Progress Out of Poverty Index (PPI)" for all our clientele. Using this internationally and nationally recognised poverty measurement, we were able to measure our outreach to population living under the poverty lines and track their reach out of poverty when they progress from one loan cycle to the next.

As per the PPI data analysis, we have increased poverty inclusion in 2017 compared to 2016. 70% of the clients were less than USD 3.75 per day (2005 PPP) compared to corresponding figures of 64% in 2006 at 76% probability level. This indicate we have increased the percentage of poor people in our programmes in 2017. Further, the results demonstrated that poverty rate of the clients decreased when they move from one cycle to another indicating us that clients reduce their poverty level when they are benefited from BMIC.

# Managing Director's Review

## KEY HIGHLIGHTS OF THE YEAR

During the year under review, one of our key initiatives was the support extended to the drought affected people in the Anuradhapura district. BMIC distributed 2,000 dry food ration packs to 2,000 families in the Anuradhapura region. BMIC submitted the application to the Central Bank of Sri Lanka for the microfinance licenses on 30th October 2017 after transferring the business of BMI to BMIC.

Our staff being the key behind our success, we continued to invest on staff trainings and capacity building initiatives during the year. We conducted 37 trainings for the staff which includes 23 types of trainings. In addition, the staff members who want to pursue higher professional education in the microfinance arena was provided educational scholarships in realising their dream.

Despite these efforts, staff retention remains a critical issue. One of the main challenges during the year was the high number of qualified field staff leaving the organisation. Since BMIC is recognised as a learning place producing qualified staff, there is a demand for BMIC staff amongst the other players within the industry. They tend to attract our staff through better remuneration packages. In tackling this challenge, we have introduced various staff incentive schemes as well as capacity building initiatives. Last year, for the first time our staff members were also given a share of the company profits. We further intend to create a pension scheme for our employees in the near future.

We are a company that is dedicated to the green microfinance concept. In this regard, we have a separate dedicated unit for environmental protection. BMIC has a full time dedicated environmental coordinator to assess the environmental impacts of enterprises for which BMIC credit support were given and implement mitigation plans. In 2016, we implemented protection measures for vehicle service station, poultry farm and dairy management projects. At head office, environmental protection programme was started by introducing waste paper recycling project and energy saving activities.

We were also awarded the "Gold" medal for the annual report in the category of NGOs. Further, one of our staff member was also rewarded by WPF as the best field officer. We were also awarded for being the largest SIYB training provider by the SIYB Association.

From time to time, during the year we carried out independent research work to identify employment generation, the impact people have made out of the services we have provided to the poor. The results of the research work will be used to improve the work in the future in addition to getting scientific assessment of the impact we make on getting people out of poverty.

## FUTURE AHEAD

Looking forward, in the short term we expect to streamline our operations in a way that contributes to improve the social impact that has been made in the past. We also intend to get a signed letter from our clients regarding their investments plans prior to disbursing a loan. In addition, we are also considering the possibility of obtaining photographs through our clients on what they have invested on to understand the before and after status of the investment. In this way, it will enable us to maintain a record of how the loan money has been utilised by our clients and whether it has been used intelligently. In this aspect, we further intend to devise a systematic storage mechanism where such photographs can be stored and used at branch level.

We look forward to receive the license to operate as a regulated microfinance company from the Central Bank of Sri Lanka in 2018. With that we will commence long felt much needed micro savings as an another investment instruments for poor people in the country.

The investments made during last 2 to 3 years to implement new ERP system will be operational in near future. With this all the branch operations will be online including all the aspects such as loans, savings, EDS, HR and payroll and inventory which will increase the operational efficiency, customer convenience and profitability results in years to come.

## ACKNOWLEDGMENTS

I take this opportunity to extend my sincere gratitude to our Chairman Mr. G Jagath Chandana and our Board of Directors for their continued support extended towards me and the Berendina team. I would also like to express my sincere gratitude to our founder and main funding partner Berendina Stitching for the continuous support given to us. I also thank the different type of other partners who contributed in various ways for the realisation of our objective during the year. I am also grateful for BMIC team's unfailing commitment that enabled us to move confidently towards our set goals.

I conclude by expressing my sincere thanks to our loyal clients who contributed to our progress through effective utilisation of our services to improve their circumstances and coming out of poverty.



H Athapaththuge Anura  
Managing Director/CEO

23<sup>rd</sup> March 2018  
Colombo



"Every day, our life was interrupted by public health inspectors. We knew what we were doing was not environmentally accepted. My husband's livelihood was washing vehicles and we didn't know what to do with the dirty water that drained into the well in front of our house. It was BMIC that gave us a loan to purchase material for our vehicle washing business. When we told our problem to them, they guided us to construct a water treatment system for an investment of LKR 150,000 and, also gave us a grant covering 50% of the total cost. Now we are not troubled by the public health inspectors."

*Mayori Thasarathan, Aryampathy*

## MANAGEMENT DISCUSSION AND ANALYSIS



# Operating Environment

## GLOBAL ECONOMY SHOWS OPTIMISM

According to the 'World Economic Prospects' by the World Bank, about half of the countries in the world are experiencing an increase growth, a sign of recovery from the global financial crisis of the past decade. This is mainly due to the growth in global investments and trade activities. This recovery is expected to lead to even faster growth in the near future as stronger growth in countries like China and United states spill over to the other parts of the world.

The future shows optimism with global growth projected to reach 3.1% in 2018. However, it is expected to slow down in the next two years as global slack dissipates, trade and investment moderate, and financing conditions tighten. Growth in advanced economies is predicted to slow down toward potential rates as monetary policy is normalised and the effects of U.S. fiscal stimulus diminishes. While oil prices are considerably higher than previously expected, global inflation is trending up, but only gradually and from low levels.

In advanced economies, activity continues to grow above potential, nevertheless some recent moderation, while additional fiscal stimulus measures are expected to provide a further lift to near-term growth in the United States. There is also a steady improvement in labor markets. With output gaps nearly or already closed, inflation expectations have crept up and monetary policy is becoming less expansionary. However, inflation remains below central bank targets in many advanced economies.

As for emerging markets and developing economies (EMDEs), the recovery in commodity exporters has continued similar to consumption and investment firms. The growth in energy exporters is still behind which is a sign of ongoing adjustments to the 2014-16 collapse in oil prices and production cuts in key oil exporters. Inflation is also generally moderating as the impact of past currency depreciations diminishes across commodity exporters.

Commodity exporter activities continue to be strong growth in China is gradually slowing, but remains resilient, while constraints to growth are dissolving in other large commodity importers; notably India and Mexico, where investment is recovering. Inflation remains broadly stable so far, despite higher commodity prices and limited remaining slack.

## SRI LANKAN ECONOMY DECELERATES WITH SOME POSITIVE DEVELOPMENTS

In contrast to the growth witnessed in the global economic front, the year 2017 saw slow progress in the Sri Lankan economy with growth rate declining to a 16 year low of 3.1%, the lowest it has recorded since 2001. This economic slowdown is mainly due to the complex political environment and the natural disasters that prevailed during the year.

The agriculture sector suffered the most by the adverse weather conditions and as a result all its related activities declined while its spill over effects were felt on other sectors of the economy. On the contrary, both Industry and Services activities recorded a growth during the first half of the year.

While growth in the industry related activities remained mainly due to the continued growth in construction, mining and quarrying activities, the growth witnessed in the services sector was mainly due to the growth recorded in the financial services, wholesale, retail trade activities and transportation. Both investments and consumption expenditure contributed to the expansion in economic activities, while net exports continued to weigh down the growth momentum.

As for the unemployment in the country, it declined marginally to 4.3% during the first half of 2017 from 4.4% in the corresponding period of 2016. This fringe improvement is owing to the decline in the male unemployment rate amidst a marginal increase in the female unemployment rate. Despite this borderline improvement in the unemployment rate, the number of unemployed persons increased marginally during the first half of the year.

Inflation remained high during the year due to domestic supply disruptions, tax revisions, and increased prices of imported commodities. Nevertheless, tightening of the monetary policy stance helped curtail demand driven inflationary pressures and inflation expectations.

The critical challenges for the Sri Lankan macroeconomic environment during 2017 were the natural disasters and the political instability leading to increased taxes. There was slow progress in the economy due to political uncertainty even though the government carried out fiscal reforms to enhance competitiveness, promote good governance and public financial management. The increased taxes greatly affected the microfinance sector with particularly high taxes placed on MFIs.

However, the year 2018 is expected to be favourable for the local economy with the growth expected to rebound to around 4.5% provided the government is committed to the reform agenda.

## MICROFINANCE SECTOR GROWTH SHORTFALL QUALITY EXPANSION

Despite the slow growth in the local economy, the sectoral performance is commendable mainly in terms of the quantitative expansion of the industry. Nevertheless, its qualitative growth remains substandard.

The quantitative expansion of the industry is quite evident. According to the Lanka Microfinance Practitioners Association, data provided by 37 microfinance institutions estimate that there were 2.9 Million active borrowers as of 2017, excluding the clientele of government implemented

# Operating Environment

credit schemes. The loan portfolio remains at LKR 94 Billion during the financial year under review. Furthermore, during the year, there were 2.4 Million depositors that accounts for a deposit value of LKR 33 Billion.

The qualitative expansion of the industry remains substandard as the recent developments in the local microfinance sector provides a rather disturbing image. The qualitative progress is highly disputed due to the poor quality of service offered by many players in the industry and the disregard to the fundamental purpose of microfinance, which is eliminating poverty thereby expanding and improving the income generation activities and capacities of low income people.

The consequences of such developments were witnessed across the sector such as exploitation of customer through high interest rates, illegal deposit mobilisation, and unethical recovery methods. Besides, poor repayment rates in some institutions due to poor corporate governance, high transaction costs and recurring losses have led these companies to distress.

These negative implications on the poorer social class is seen though their increase over indebtedness, multiple borrowing leading to non-payment, and incorrect utilisation of loans leading to large number of consumption loans. These implications have reversed the very objective of microfinance, the alleviation of poverty. While people remain within the 'poverty cycle', even going further down in their poverty levels due to accumulated financial burdens, it is in turn seriously affecting the country's economic development.

In response to these challenges, the enactment of the Microfinance Act was a step in the right direction. The Department of Supervision of Microfinance Institutions (DSMI) of the Central Bank took measures to implement the Microfinance Act that was enacted in 2016. The Microfinance Act No. 6 of 2016 intends to license, regulate and supervise unregulated microfinance companies and microfinance non-governmental organisations (MNGOs). Another optimistic development is the willingness expressed by large number of MFIs to get recognition for their services through obtaining licensing.

Achieving long terms sustainability and the profitability of the microfinance sector requires significant measures to tackle social issues arising from unethical practice of microfinance. Ethical practices should be introduced while providing clear guidelines on the size of the loans, interest rates, and generating legal provision to access the CRIB in comprehending the loan status of the borrowers.

As much as the microfinance players should comprehend the insufficiency of credit alone for the sustenance of underprivileged, MFIs should incorporate capacity building of its clients as a critical element for their success thereby bringing them out of their poverty status.

## COMPANY PERFORMANCE COMMENDABLE AMIDST CHALLENGING ENVIRONMENT

Under the above milieu, BMIC recorded a positive performance in terms of financial performance. A revenue growth of LKR 840 Million was recorded during the last financial year, a 13% increase compared to the previous year. The Company profits also increased up to LKR 100 Million despite of the low interest rates and the borrowings from commercial entities.

Compared to the previous financial year, the number of active borrowers also increased by 4% while the total loan disbursement increased by 24%. The total outstanding loan amount during the year stood at LKR 3.12 Billion, a 19% growth compared to the previous year. The total asset base also increased by 17%.

The Portfolio at risk (30 days) was 0.57%, the best recorded in the industry indicating high recovery while Operational Self-Sufficiency was 120%, a significant gain considering the BMIC's low interest rates.

## REDUCTION OF POVERTY AMONGST BMIC CLIENTS

The analysis of "Progress Out of Poverty Index"(PPI) data demonstrates that BMIC clients move out of poverty every year. Considering 2015 as the base year and 2017 as reference year, following table illustrates the annual rate of poverty reduction of BMIC clients and the number of clients reduced their level of poverty in 2017 from the level they were in 2015.

Poverty Line	Annual rate of poverty reduction	Number of clients move out of poverty during 2015 to 2017
1.25/ Day 2005 PPP	0.20%	346
2.5/Day 2005 PPP	3.40%	6,864
3.75/Day 2005 PPP	3.60%	7,278
National Poverty Line (NPL)	0.70%	1,350
200% NPL	4.00%	8,026
300% NPL	2.7%	5,324

# Operating Environment

## A PROGRESSIVE VISION FOR A MEANINGFUL CHANGE

BMIC that started as a sister Company of BMI in 2014 became the sole microfinance arm of Berendina in 2017. This decision was reached in the hope of driving the progressive vision for a meaningful change through streamlining the activities in accordance with a regulatory framework, broadening the benefits to the clients by emphasising more on the necessity of meaningful "investments" that ensures prudent investments and doing away with the negative connotation associated with "microfinance" by replacing it with "micro investments" that give a positive implication.

## TOWARDS SUSTAINABILITY

BMIC surplus profits were intended to sustain its two sister Companies, Berendina Development Services (BDS) and Berendina Employment Centre (BEC). Although at present, this surplus is inadequate to completely sustain the two sister Companies, BMIC expects to achieve this target in the near future. During last year, BMIC contributed LKR 38 Million to BDS.

## TOWARDS HEIGHTENED PERFORMANCE

Credit plus services provided by BMIC remains one of its unique strengths. EDS assists clients to identify suitable income generating opportunities and provide advice and knowledge along the line to improve and expand their businesses. The clients were also given financial literacy training as a way of assistance to keep away from the 'credit trap' and safeguard them against practices of unethical MFIs. During the last year, 46,549 participants were trained on different disciplines, a 6% increase compared to the previous year. Overall, 2,333 trainings were carried out, a 14% increase compared to the previous year. One of the

major training areas was creating awareness on financial information, especially interest rates which has encouraged people to move away from high interest rate borrowings.

IT platform underwent radical changes in streamlining the processes and systems as well as to provide better service delivery for the client.

Investments on human resources also continued during the year. Thirty-seven training programs were conducted for the capacity building of 668 participants. On an average each staff members has got 2 training opportunities during the year. In addition, the staff were also provided benefits including educational support in order to advance their educational goals. Nevertheless, staff retention remained a critical issue, which was mitigated though offering staff incentives such as insurance benefits, loans, and other benefits in addition to the capacity building programs. A pension scheme is also in the pipeline to be introduced in the near future.

BMIC carry out internal screening process of its clients in identifying their loan status. In the absence of access to a CRIB for unregulated MFIs, BMIC takes internal measures to verify the loan status of their clients to understand whether they are overburdened with loans. In addition, an internal audit team was utilised to visit the client and verify their loan status at a later stage. This mechanism has been effective in gauging information relating to the multiple borrowings of the client to some extent, although not completely dependable.

The Company also remains dedicated to the green microfinance concept. In this regard, a separate dedicated unit for environmental protection was established, where an environmental coordinator assesses the environmental impacts of enterprises for which BMIC credit support were given and implement mitigation plans. In 2017, such protection measures were implemented at head office and among clients. Moreover, Neptune Recyclers, a local recycling Company recognised our generous consideration in saving the environment.

Research is critical for evidenced based practice. In this regard, BMIC conducts its own independent research as well as outsource research to independent research companies to identify the impact of its services on the clients, and for employment generation. During last year, 2 such quarterly surveys were carried out.

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## OUR CAPITALS

HUMAN CAPITAL  
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SOCIAL & RESPONSIBILITY  
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# Value Creation Model



## Corporate Governance

## Risk Management

# PROCESS

# OUTPUTS

### OUR MATERIAL RISKS

- Increase taxes
- High inflation
- Natural disasters
- Severe competition and existence of unethical microfinance entities
- Exchange rate volatility

### STRATEGIC PRIORITIES

- Serving high poverty segments in the community
- Client convenience
- Client protection from unethical microfinance practices
- Sustainability
- Lobbying for prudential regulation
- Establishing best practices for the industry

### OUR PRODUCTS

- Micro Credit
- Enterprise Development Services (EDS)

**COMMUNITY**  
BMIC itself benefits the society through its services and contribute to sustainability of BDS & BEC programmes through funding

**FUNDING PARTNERS**  
On time repayments and reporting

VALUE OUT



#### MANUFACTURED CAPITAL

- Penetrating deeper into the villages through the branch network
- Introducing ultra-poor livelihood development scheme and festival loan for the estate workers
- Upgrading ERP system/IT security
- Reintroducing the mobile payment system
- Initiated new EDS products



#### FINANCIAL CAPITAL

- Gross income increased by 31%
- Profit after tax increased by 30%
- Total asset base increased by 17%
- Loans and receivables increased by 19%



#### CUSTOMER CAPITAL

- Cluster meetings
- Cluster leader program
- 3 customer impact studies
- Two EDS program evaluation surveys
- 8% increase of active borrowers
- 6% increase of EDS participation
- Mobile cash payment
- Customer benefits



#### SOCIAL & RESPONSIBILITY CAPITAL

- EDS training for 46,549 clients
- In areas where poverty is high, further penetration into interior
- 2 research studies to obtain customer feedback



#### HUMAN CAPITAL

- 37 trainings covering 668 staff
- Increased benefits including insurance claims
- Staff grading system at field level
- Promotional prospects
- Reduced staff turnover
- Staff get-together and trips



#### NATURAL CAPITAL

- Environmental awareness programs for staff and clients
- Constructed 3 waste water treatment tanks
- 67 organic farming training for 1,156 clients
- Saving of 20 fully grown trees, 2,097ℓ of oil, 4,780 Kwh of electricity, 37,977ℓ of water and 4 cubic meter of land fill
- Reducing greenhouse gas emission by 1,195kg's of carbon equivalent

Funding partners

Clients

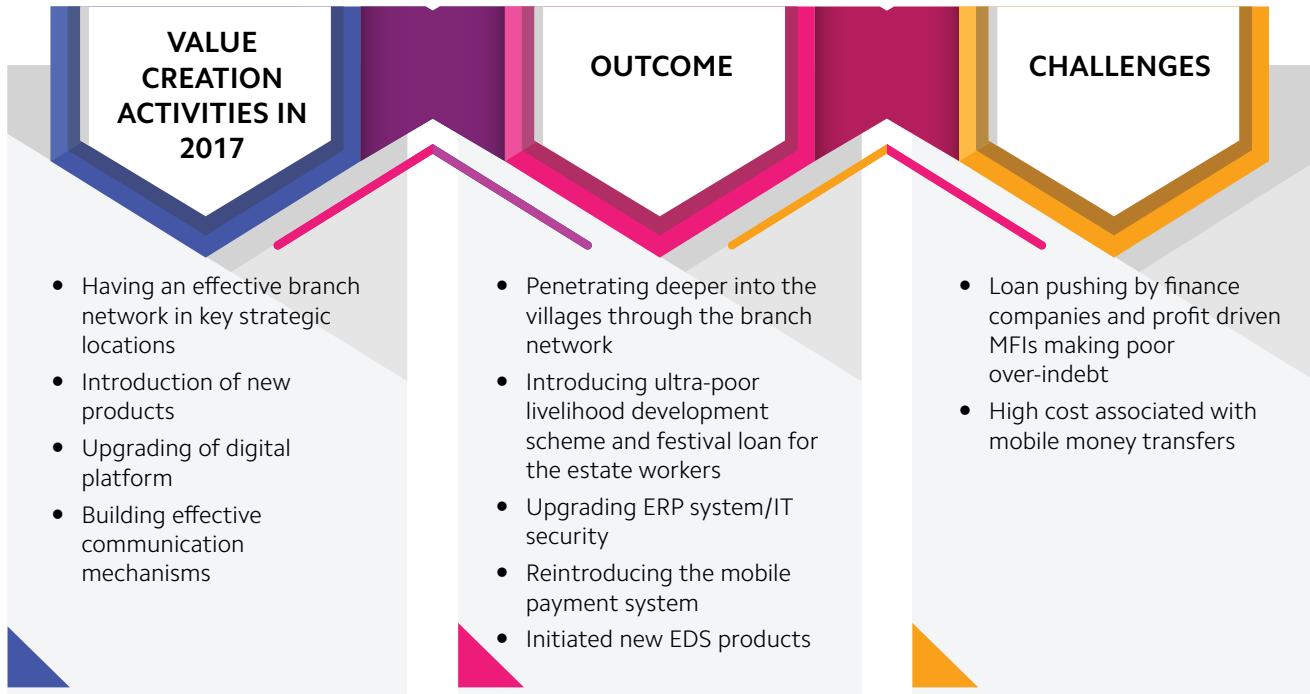
Employees

Community

Environment

VALUE SHARED

# Manufactured Capital



Manufactured Capital comprise of physical, material and technological objects that are available to an organisation for use in the provision of services in fulfilling its purpose towards delivering value to the customer.

At BMIC, our branch network as well as our product portfolio embrace our physical infrastructure while our upgraded information technology enabling platform includes our digital infrastructure. Our effective communication network also remains a vital strength in our enhanced service provision.

## PHYSICAL INFRASTRUCTURE

### Branch Network

We operate in key strategic locations where increased poverty exists. In consonance with our vision and mission we have identified districts and divisions with high poverty to set up new branches.

The branch locations are decided based on easy access by the community (close to a main bus – station) where people from most part of the area have easy access and close proximity to the bank making it convenient to en-cash their loan cheques.

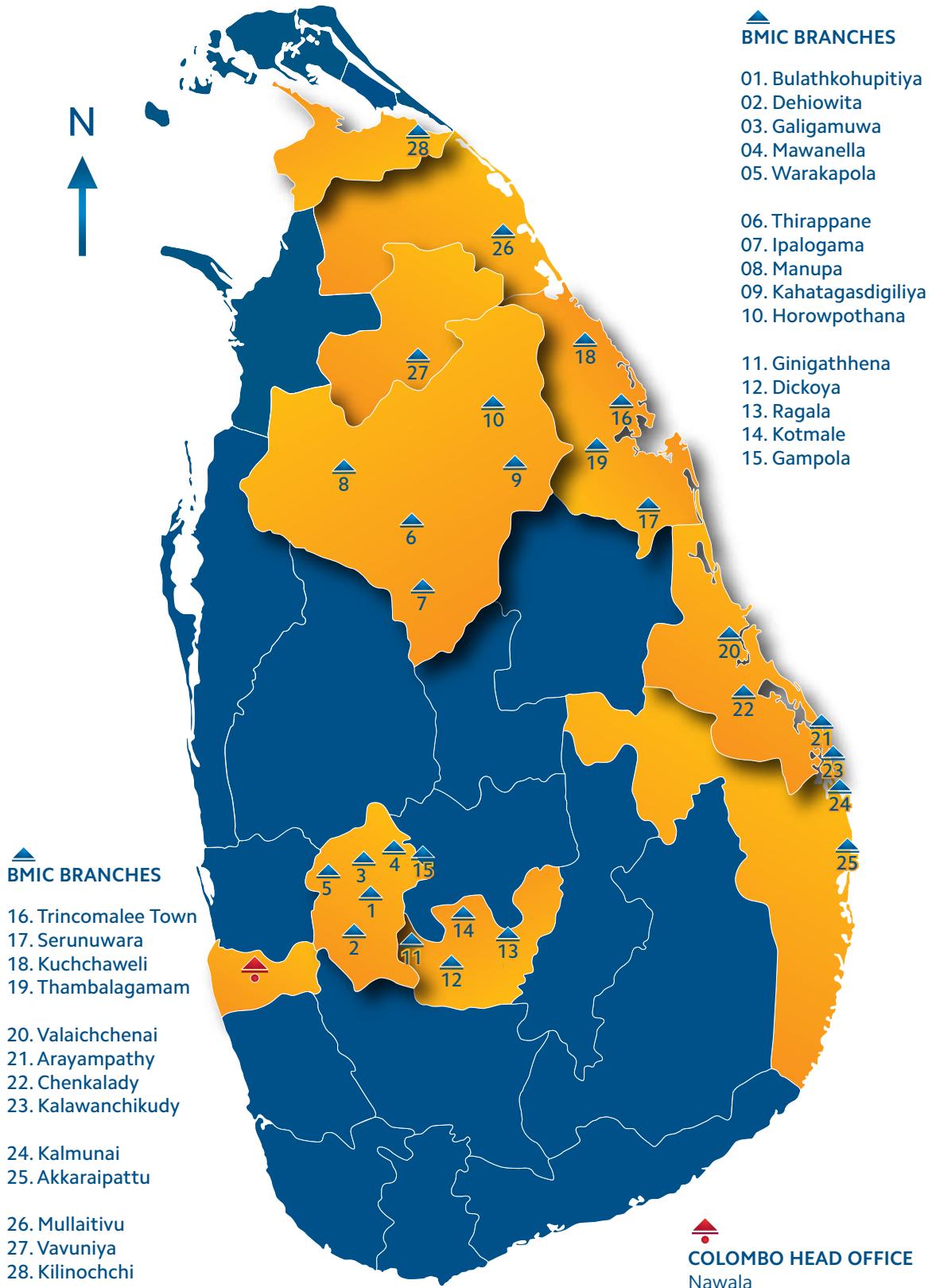
Our branch network comprises of 28 branches that are spread across the six regions. In addition, our microfinance operations are also carried out through 47 plantation estates in Kegalle and Nuwara Eliya districts.

All these branches are established according to the "Standard Branch Model" consisting of one Enterprise Development Officer (EDO), two Administrative and Accounts Officer, five Field Officers and a Branch Manager.

When considering branch relocation, BMIC's primary concern is the customer convenience and its ability to function and carry out the operations efficiently. As for the unproductive branches, closing down of branches have been carried out only once in the history of BMIC in Yatiyanthota area. The objective was to allow four cooperative societies to provide services to establish the market which was successfully carried out back in 2012- 13 period.

During the year under review, neither we carry out any upgrading nor revamping of our branches.

# Manufactured Capital



# Manufactured Capital

## Product Portfolio

Our product portfolio is designed with a customer centric viewpoint. Hence, we offer our clientele five types of loan products that includes;

- Small Entrepreneurial Loans: provided for starting a business and enhancement of existing businesses
- Agriculture loans: provided for commencement and enhancement of farming/agricultural activities
- Dairy loans: provided to commence and expand dairy businesses
- Asset Building loans: provided to build and repair houses, construction of latrines, purchase other assets, and to fulfill educational needs of the children etc.
- Emergency Loans: used by the BMIC clients for emergency purposes, such as funerals, emergency medical situations etc. The loan is available to clients at anytime through the appointed cluster agent.

During the year under review, BMIC developed another loan product specifically targeting the rural poor who are in extreme poverty, called the ultra-poor-livelihood development scheme. Also a special festival loan is made available to the estate workers, where 4,364 estate workers are supported through this loan last year.

Significant work was also carried out through Enterprise Development Services. 'Success in Money Management' training is one such initiative developed to enhance financial management knowledge amongst the youth. This training was intended to instil knowledge on managing household economy and on modern financial services that could direct them towards effective investments in starting economic activities.

## DIGITAL INFRASTRUCTURE

BMIC clearly understood the power of Information Technology (IT) in transforming the lives of clients and in strengthening the organisation. In this sense, BMIC vigorously drive innovative use of technology, both within the organisation and by the clients in making a positive impact in their lives, and in increasing the efficiency of the Company.

## New ERP Solution

A major investment into information technology was the acquisition of a locally-developed Information Management System back in 2007 which was initially sufficient to serve the organisation. However, with the expansion of the Company operations over the years, sourcing for the new ERP solution started in 2014 following which the implementation process began in 2017 after bringing in the necessary customisation which is still ongoing.

The new ERP system is based on SAAS technology, a cloud computing approach that is empowered by latest technology, adding value to the organisation in terms of minimising the huge infrastructure cost and bringing more business agility.

This was the stepping stone on a long and challenging process of implementing systems across the branches. This cloud-based system was designed and developed using the latest technology and is backed by the best practices and internal controls of the highest standards, in keeping up to date with the latest trends in the IT field.

At present, BMIC is in the process of implementing the new ERP system across all branches. The ERP system includes a core banking module having savings and credit and related accounting functions integrated with Enterprise Services module, Fixed assets, inventory, HR and Pay roll. The launch of this system is expected to further boost the efficiency of BMIC operations by enabling easy decision making by management with upto-date information, in-depth data analysis, increase in staff productivity and efficiency as well as a sizeable reduction in duplication of work.

Disaster Recovery (DR), one of the most crucial aspects of any IT system, will be fully managed by the chosen software vendor through their state-of-the-art DR Site which is in par with industry best practices.

Furthermore, BMIC is also in the process of adding various add-on functions of the system in order to further streamline operational activities at field level. In this sense, BMIC intends to create a platform where field officers and enterprise development officers can remotely log on to the system using their smart phones and immediately update the client transactions, issue receipts, register clients for training, other EDS services and carry out a host of similar field-level functions in an efficient manner.

Besides, BMIC wish to prepare the system through the APIs (Application Programming Interface) and fine tuning the adaptability capability of VAS (Value Added Services) to get the competitive advantage.

## Mobile Payments

BMIC initiated the mobile cash payment method in partnership with Dialog eZcash considering the vast quantity of payments that need to be efficiently handled on a daily basis. The initial pilot project was started in Dehiowita and Mawanella branches in 2015. This pilot project showed limited progress mainly due to fear of technology use amongst clients, difficulty in changing the mind-set of the client to move away from physical cash to mobile cash and preference shown by clients to attend Cluster meetings in order to interact with others while making their due payments.

However, the increased interest and enthusiasm shown by some clients on new technology in the recent past, led to the reintroduction of the mobile cash payment method in 2016. The second attempt was with slight changes to the previous system. The increased progress was clearly visible from the client base of the pilot project in Dehiowita branch.

In going forward, BMIC intends to extend the mobile cash payment method to other branches as well.

## IT Security

Cyber security is a critical aspect in the effective functioning of an IT system and hence BMIC have constantly kept upto date on the IT security through upgrading its internal security tools, and virus guards by benchmarking against industry best practices.

IT security was also enhanced through implementation of Firewall and Proxy server to control for the incoming and outgoing data traffic while accepting and restricting the Internet access according to the group IT policy/industry best practices.

## COMMUNICATIONS

Good communication has a positive impact on every aspect of business operations. Therefore, we engage a range of tools in connecting with our clientele as well as with our key stakeholders.

### Connecting with Clients

BMIC follows a set of action steps strictly in line with organisational principles to approach the relevant clientele and begin the work implementation process.

- BMIC field officers are assigned to Grama Niladari Divisions based on the number of families living in the particular target area which would generally encompass a village or a number of villages. All field officers are given a reasonable number of families so that they can provide a timely, professional service to them at all times. This overall effort is spearheaded by the field officer together with the Branch Manager and Area Manager.
  - Firstly, BMIC enters the new area by engaging respectable key individuals in the Division in addition to creating awareness amongst villages through posters, banners and leaflets. After which, a common awareness creation meeting is held prior to the formation of clusters.
  - Subsequently, interested villagers were organised into a group which is called a 'cluster', the key meeting point for clients with BMIC officers.
- At such cluster meetings, information about BMIC's products and services are again made available to participants. In addition, at each cluster meeting the responsible EDO or the field officer provides information on upcoming Enterprise Development Services (EDS).
  - Further, in order to increase participants for EDS programmes, special awareness programme called Village Awareness Programmes are organised on a regular basis. During the year under review, BMIC conducted a total of 95 village awareness programmes connecting 2,135 individuals in total.
  - A video documentary is screened prior to disbursing of loans to clients. This educational video demonstrates to prospective clients the services offered by BMIC, the roles and responsibilities of both the client and the BMIC and finally how best the client can utilise the loan and EDS to enhance his or her family's living standards and sustainable income generating prowess.
  - One new element that was brought into the process was the introduction of a Complaints Handling System directly linked to the corporate management at the Head Office. Client complaints have now been centralised with the establishment of a dedicated hotline at the Head Office whereby rural clients could voice their complaints directly by a telephone call and bring it to the attention of the top management. Thereafter, the management takes measures to address such concerns. This system is in stark contrast to the previous practice of individual branches handling client complaints and has proven to be a more effective exercise.
  - Being an impact driven organisation addressing country's poverty alleviation challenge, BMIC started its Research and Evaluation division in 2017 to monitor impacts of BMIC interventions on clients in terms of changes in lives of people, development of their income and assets levels, and reach out of poverty. Hence, during the year, two such research studies were carried out by our internal research team based on a randomly selected sample of our clientele.
  - BMIC also carried out Best Entrepreneur Award in order to motivate and appreciate the best performing entrepreneurs. In turn, this was expected to encourage entrepreneurs to expand their enterprises in creating more employment opportunities for rural community.
  - BMIC also obtained coverage from all three mediums; television, print and radio. There was a 30-minute discussion broadcasted on Swarnawahini channel while coverage was also received in television news, on radio and on newspapers.

# Manufactured Capital

## The Cluster Approach

Clusters play an important role within BMIC operations as it is the key entity at the grassroots level that drive the success of credit operations. Cluster leaders, selected and appointed by cluster members themselves ensure the effective and smooth functioning of each cluster.

Whilst functioning as a point of contact between BMIC and cluster members, a cluster leader tackles the provision of emergency loans for urgent financial needs of cluster members, such as funerals, emergency medical needs etc.

## Working with the People

### Trade Fairs

BMIC clients gained vital exposure for their products and reached a wider consumer base through trade fairs. Encouraged by the past success, BMIC conducted 7 trade fairs in the year under review. These trade fairs were held in Kaluvanchikudy, Dehiowita, Serunuwara, Kahatagasdigiliya, Thirappane, Ragala and Kiran areas to promote products offered by various micro and small level entrepreneurs attracted 267 traders collectively and witnessed interest of over 8,000 buyers to buy rural products manufactured by BMIC clients.

### Environment Protection Programme

BMIC remain dedicated to the green concept. During the year under review, 24 enterprises were identified in areas of Kahatagasdigiliya, Arayampathy, Galigamuwa, Thambalagamuwa and Dickoya as environmentally harmful and mitigation plans were implemented accordingly. Three waste water tanks were built for three vehicle service station. Also, 106 staff members were given a training on the environmental aspects of micro and small enterprises. In addition, 67 poultry producers were trained on eco-friendly farm practices.

Neptune Recyclers also recognised BMIC commitment to save the environment.

## Assisting Educational Aspirations of the Younger Generation

BMIC conducted several education assistance programmes throughout the year in aiming to provide assistance to BMIC clientele to further enhance their living standards through encouraging the younger generation to pursue academic success.

Educational seminars for Grade 5 scholarship were conducted in Nuwara-Eliya region by Kotmale and Dickoya branches with the participation of more than 190 students. Aryampathy branch in Batticaloa also conduct an educational seminar for Grade 5 scholarship for their second year anniversary which was attended by 130 students. Both Serunuwara and Kuchchawely branches have conducted mathematics education seminar for G.C.E. O/L students with the participation of 166 students.

## Engaging with Key External Parties

BMIC ensures a constant presence in key institutions and bodies related to microfinance, both locally and globally. These include:

### Lanka Microfinance Practitioners' Association (LMFPA)

BMIC is a leading member of the LMFPA, a network formed by several Microfinance practitioners in Sri Lanka. The LMFPA's main function is to enhance the ability of its members to provide quality financial services to grassroot communities. The Managing Director of BMIC served as a leading activist to support the new leadership of LMFPA.



**Lanka Microfinance  
Practitioners' Association**

## Start and Improve Your Business (SIYB) Association of Sri Lanka

BMIC is also a member of the Start and Improve Your Business) Association of Sri Lanka, an International Labour Organisation (ILO) backed entity that contributes to the economic development and creation of jobs in countries across the globe, including Sri Lanka. The association facilitates the development and promotion of SIYB training products.



## Sri Lanka Evaluation Association (SLEvA)

BMIC was granted SLEvA membership in 2017. SLEvA is an association with more than 200 monitoring and evaluation specialists and member organisation. SLEvA helps BMIC to train our employees through workshops, mini trainings and conferences.



## MIX Market

BMIC is registered with the MIX Market ([www.mixmarket.org](http://www.mixmarket.org)) a global data hub through which MFIs and supporting organisations share institutional data in order to broaden transparency and market insight.



## Banking With The Poor Network (BWTP)

BMIC is registered with the BWTP, an Asian association of a diverse range of microfinance stakeholders committed to improving the quality of life of the poor through promoting and facilitating their access to sustainable financial services.



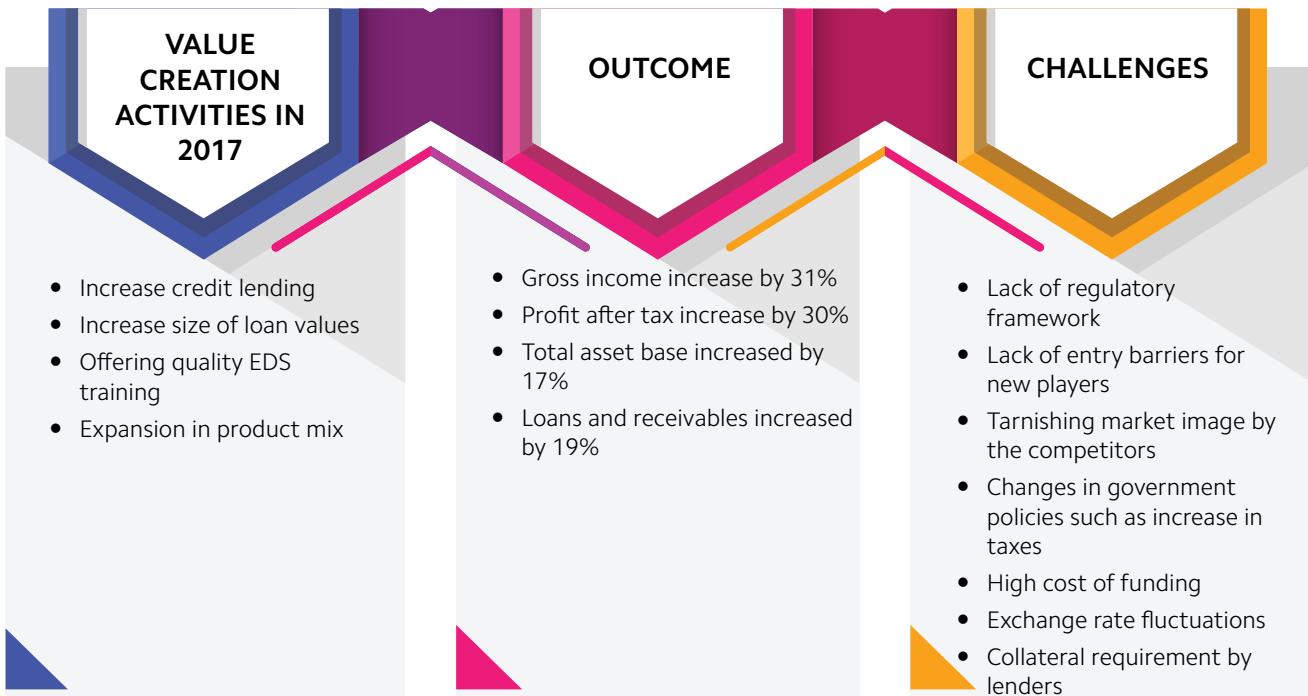
## Tools of Engagement

BMIC carry out its vision and message across to various segments of the society by effectively utilising a variety of communication tools.

BMIC highlights key events during the calendar year such as award ceremonies, new products and service offerings and, other special occasions using print (leaflets, posters, newspapers) and other media (social media and television) to keep various stakeholders updated on the progress made by the organisation. The digital mediums we engage in communicating to our stakeholders include the corporate website, Facebook page, Youtube channel, Twitter and digital newsletters. Other tools include the Annual Report as well as articles in LMFPA and BWTP newsletters.

In 2017, the relief effort we carried out through providing dry rations to 2,000 drought affected people was given television news coverage while a live program was carried out in Swarnawahini channel on the Best Entrepreneur program. Further, a feature article was carried out in the newspaper on passion fruit cultivation as well as on the BMIC work in Nepal.

# Financial Capital



The dimensions of the Company had drastically changed in the year under review with the transfer of the entire assets and liabilities of Berendina Microfinance Institute (Guarantee) Limited (BMI), presently known as Berendina Microcredit Institute (Guarantee) Limited, to Berendina Micro Investments Company Limited (BMIC) on the 30th September 2017. The objective of the transfer was to comply with the regulatory development in the microfinance industry in accordance with the Microfianace Act No. 6 of 2016. The Company adopted a prospective basis accounting concept to account for the effects of the said transfer of the assets and liabilities of BMI to BMIC. However, figures reflected in the 10 year summary, financial highlights, value added statement and financial capital have been presented as line by line added items in the statement of comprehensive income and the statement of financial position of both companies from the very first day BMIC commenced operations. Hence, this is a disclosure of the comparative performance of Berendina microfinance business sector for the entire year under review.

The Company achieved a prudent growth in its revenue, profits and assets despite many internal and external challenges encountered during the year such as the macroeconomic factors of the country and adverse weather conditions that did not contribute to the increase of income of most of our clients. As such, the financial capital of the Company should be read in conjunction with these factors. A brief analysis of the Company performance is given below.

## ANALYSIS OF INCOME

The gross income rose by 31% year-on-year to LKR 840 Million, for the year ended 31st December 2017, where as the total revenue of the Company for the year ended 31st December 2016 was at LKR 640 Million. Interest income of BMIC improved from LKR 597 Million to LKR 789 Million (32 %) as per the financial year under review, while maintaining the growth of the loan portfolio by 19%.The contribution to the total revenue from the core business activity of 'interest income', generated from the microcredit loan portfolio remained unchanged, as the leading revenue contributor for the Company;which accounted 94% of the total gross income with a slight increase of 1% compared to the previous year. The net interest income grew by 34%, amounting to LKR 535 Million for the financial year. (LKR 398 Million in year 2016).

Even though the revenue generated from the EDS programmes were not significant, it is of paramount importance for the sustainability of the main revenue stream. The activities conducted by the EDS team is an essential element in improving the incomes of enterprises done by our clients. There is a positive growth of the EDS revenue compared to the previous year (6%).

The revenue generated from EDS programmes improved from LKR 34 Million to LKR 36 Million during the year under review. The direct cost incurred for the EDS programmes was consistently maintained without any significant increase,while retaining the same quality of the programmes throughout the year.

## Income Composition



The significant increase on VAT and NBT on financial services was reported at 64% mainly due to the increase of VAT on financial services from 11% to 15% in the latter part of the financial year 2016. BMI being the largest microfinance arm of the Berendina group, enjoyed the lower tax rate. However, with the transfer of the entire assets and liabilities of BMI to BMIC, the group had to sacrifice the privileges enjoyed. The effective income tax rate of the Company as a percentage of profit before tax, increased from 15% to 19%. The effective tax rate from all taxes of the Company was around 48% of the profit before tax for the year under review. The contribution towards the government tax revenue by the Company was LKR 92 Million.

## ANALYSIS OF THE EXPENDITURE

The total overhead expenditure of the Company (excluding impairment provision for loans and receivables, VAT & NBT on financial services and income tax) increased by 27% year over year to reach the amount of LKR 631 Million.

The investment on human capital as a percentage of the total expenditure of the Company, other than the 'interest expense', stood at 49%, which was the second largest expense incurred by the company. The Company invested LKR 25 Million as staff welfare and staff development costs during the year under review, which was 64% higher than the last year. However, as a result of an incessant investment in human capital, the employee turnover of the Company has reduced. The staff turnover of the Company as of December 2017 was 19.7% whereas it was 22% in 2016, 22.5% in 2015 and 25% in 2014. Personnel cost expenditure of the Company stood at LKR 237 Million in year 2017, an increase of 25% compared to the last year.

The credit incentives paid to operational staff were increased by 27% compared to last year, due to the expansion of the loan portfolio. The interest and similar expenses of the Company increased to LKR 254 Million (28%) from LKR 199 Million, reflecting an increase in the cost of borrowing as well as an enhancement of the new loan facilities.

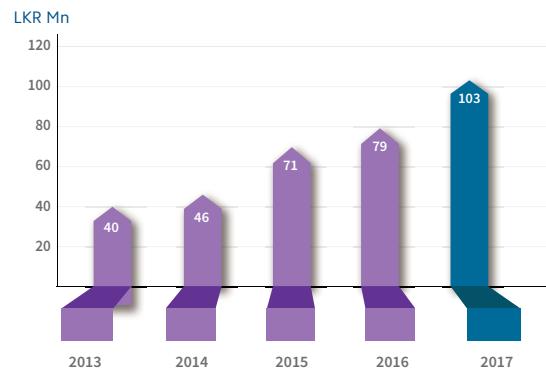
The provision for impairment of loans and receivables enlarged due to the growth of the value of delinquent loans. However, the Company continuously maintains its supreme record by having the lowest PAR in the industry in Sri Lanka, with the PAR (30 days) ratio of the Company being sustained at less than 1%. Impairment charges of loans and receivables at the end of the current financial year stood at LKR 13 Million, compared to LKR 7.6 Million in the previous year.

## PROFITABILITY

The Company completed the year 2017 on a high note, recording the highest profit of the Company in the history. Profit after tax was LKR 103 Million, recording a growth of profit after tax by 30%. The achievement was commendable when considering the many challenges faced, notably increasing interest rates of borrowings, increasing operational expenses, high investment on human capital, increasing tax legislation and increase of provision impairment of loans and receivables.

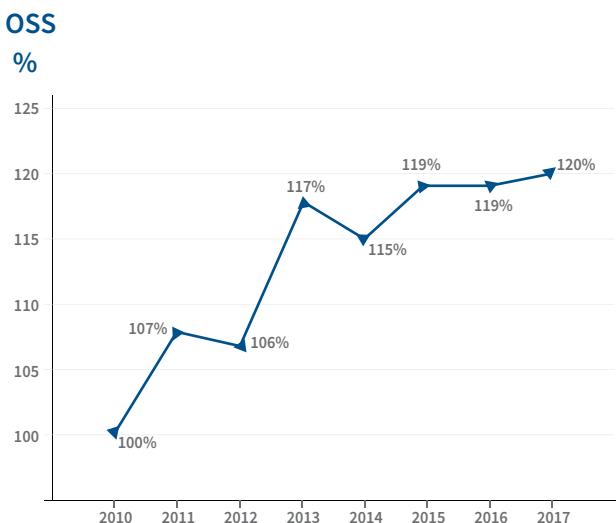
Things such as expanding product mix, size of the loan value, streamlining branch operations, following the best practices, continuous training and quality of EDS services, assistance provided to our customers in difficult situations are the main reasons for the current sustainable performances. Further, this was achieved given the other external challenges such as lack of a regulatory framework, lack of entry barriers for the new players, and tarnishing the market reputation by the competitors faced by the company.

## Profit After Tax



# Financial Capital

The Company maintained the Operational Self Sufficiency (OSS) at the rate of 120% as expected throughout the year, without much deviation. It is worthwhile to note that, 1% OSS improvement was reported compared to last financial year.



## LOAN PORTFOLIO

The outstanding loans and receivables balance as at 31st December 2017 was LKR 3,121 Million. The net growth of the loans and receivables was LKR 498 Million during the year. A 19% growth in the net loans and receivables was reported in the year 2017 compared to the last financial year of 2016, which stood at 30%. A healthy growth is recorded in the loan categories during the year which was mainly in the Business Expansion loans (158%), Business Starting Loans (59%), Assets Building Loans (30%) and Emergency Loans (20%).

### Loans and Receivables



A slight increase of Portfolio at Risk (PAR) was reported compared to the last year, increasing the PAR (30 days) by 0.18% and PAR (1 day) by 0.44%. The PAR (30 days) and PAR (1 day) as at 31st December 2017 was 0.57% and 0.91%, respectively.

Adequate provision for the impairment of loans and receivables were incorporated to cover the loss incurred by delinquent clients in future. Hence, the Company implemented fired up monitoring and recovery processes at branch level to collect the loan outstanding from the arrears clients. As a result, the write off ratio of the Company decreased to 0.04% compared to 0.11% in the previous year.

### Portfolio at Risk (PAR)



## EQUITY AND BORROWING

As at December 2017, Berendina Development Services (Guarantee) Limited held a 100% stake in the Company. However, the transfer of assets and liabilities from BMI to BMIC on the 30th of September 2017 resulted in the increase of the number of shares of the Company from 18,002,821 to 74,802,821. Total equity of the Company grew up to LKR 863 Million, at the end of the current financial year, which stood at LKR 731 Million in the previous financial year. Funds and reserves position and retained earning position of the Company stood at LKR 87 Million and LKR 28 Million respectively, during the period under review.

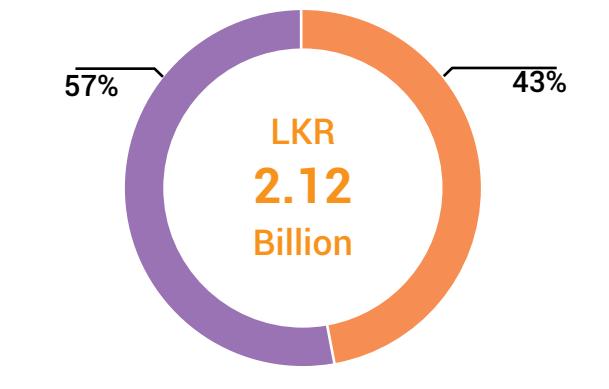
The outstanding balance of interest-bearing borrowing as at 31st December 2017 was LKR 2,109 Million. The Net interest-bearing borrowing increased by LKR 260 Million (14%), which was solely utilised for the advancement of the loans and receivables of the Company. Increase of the trust and confidence level of the lender towards the Company is an eye witness reflecting the growth of borrowings of the Company without providing collaterals at comparative rates.

## Interest Bearing Borrowings



The Company's principle sources of funding are the loans obtained from bank and financial institutions. The detailed analysis of these sources of funding are as follows as at year-end;

## Borrowing Diversification



## FUTURE OUTLOOK

If the Central Bank of Sri Lanka approved the application made by the Company to recognise BMIC as a licensed microfinance Company under the new Microfinance Act No. 6 of 2016, a competitive advantage could be gained since many of the rules and regulations pertaining to the new act are already complied by the Company. By obtaining the license the Company will mobilise deposits which are less costly and expand its capacity to directly apply to the Central Bank managed low cost funding sources for on lending.

With the implementation of SLFRS 9, the Company may require providing additional provision for the impairment of loans and receivables. Hence, the Company has taken actions to reduce the possible loss that may affect due to the tarnishing quality of the loans and receivables. The Company will be undertaking a consultation from external experts to build a suitable module to identify the expected loss on impairment of the company in line with the expected loss module under the SLFRS 9.

We may commence the use of the new ERP system in the near future. The integrated system will streamline the existing operational issues, improve the controls while improving the reporting.

The importance of having a quality portfolio cannot be over emphasised for the profitability and sustainability of the Company since it represents more than 91% of its total assets. Hence, the Company will focus on risk profile of its loan portfolio in retaining the quality of the same while giving broader attention to the new facilities that could be offered to our potential customers.

# Customer Capital



The customer remains the foundation of business success. Hence, the value of a Company's relationships with its customer is fundamental in assessing its competitive advantage. In this respect, BMIC continue to nurture its customer relationships through delivering products and solutions that meet their needs.

## OUR PRIMARY PRODUCTS

At present, we offer our customers two key product categories, namely credit or loan facilities and Enterprise Development Services (EDS).

Our Credit facilities are further divided based on the purpose of dispersion; for income generating activities and asset building purposes. The type of loans introduced for income generation activities consist of business starting loans, business expansion loans, agriculture loans and dairy loans. The loans given for asset building purposes were mainly given for acquisition of assets such as renovation of houses, acquisition of household equipment's and for building sanitary facilities. The customer is also allowed to utilise the asset building loan for their children's education.

We continue to improve this product portfolio based on customer feedback. One such instance is the senior citizen loan facility provided for those who are above 62 years of age. This loan facility which was initially limited to few branches were expanded to several branches during the year under review. Moreover, an Ultra poor loan facility was also introduced for those who are in extreme poverty condition at a very low interest rate.

Our EDS is the credit plus component that provide training and skill development for our customer base. Our EDS facilities are divided into three types; type A, B & C.

Type A is trainings that are provided for a fee includes over hundreds of different training programs that can be mainly categorised into agriculture and non-agriculture trainings. This further includes soft skills trainings and entrepreneurship development trainings such as 'Viyapara Jaya', financial literacy and motivational trainings. Based on developing customer needs advanced financial literacy programme called Success in Money Management was developed and piloted during the year. This product will be launched in the coming year.

Our B type services that are provided free of charge include business counseling, provision of market linkages, facilitation for dairy loan insurance and business information as well as assisting to obtain business registration.

Our type C EDS programs include providing coordination and support for groups of ten or more customers who are in similar business ventures to release their product lines into the market. These C type programs which are referred to as 'special projects' are carried out at branch level. At each branch, 2-3 such special projects are carried out at present.

## CUSTOMER FEEDBACK

In fostering effective customer relationships, BMIC constantly strive to obtain customer view point. A significant step in this aspect is the monthly cluster meetings conducted at village level. These group discussions carried out with cluster members provides the platform for the field officers to gauge customer comments and suggestions which are then discussed at the branch level and later taken up at head office level.

Besides, our cluster leader program conducted every two years at branch level provides another platform to engage customers in obtaining their feedback. These meetings which consist of nearly 150 cluster leaders provides half a day discussion session to voice their opinion.

Moreover, we conduct customer impact studies through our in-house research unit. Consistent research studies are carried out to understand the impact of BMIC work on their customers particularly by focusing on scrutinising aspects such as whether their businesses have grown, whether new employment have been created, whether they have acquired reasonable assets, and whether they have come out of poverty. A structured questionnaire developed in-house was used in obtaining the information while a randomly selected sample is utilised for this purpose.

During the year under review such 3 research studies were carried out. Initially a pilot study was conducted in Mawanella branch of Kegalle district covering a sample of 30 clients while a detailed survey was carried out in Kahatagasdigiliya branch and Thirappane branch in the Anuradhapura district covering a sample of 248 clients.

Data gathered in line with Progress out of Poverty index (PPP), a globally accepted poverty measurement tool is another powerful instrument we utilise in understanding the reduction of poverty levels of BMIC customers. The information in this regard is collected through a form filled with customer information prior to loan disbursement. After which, every year, such collected customer information of about hundred customers were taken out from each branch and analysed to understand their reach out of poverty from the first loan cycle to the second loan cycle and to further loan cycles. Accordingly, 2,800 sample of clients was analysed.

Furthermore, two telephone surveys were conducted covering a sample of 300 training participants from Nuwara-Eliya and Batticaloa districts during the year to evaluate the utilisation of knowledge gained from EDS programs.

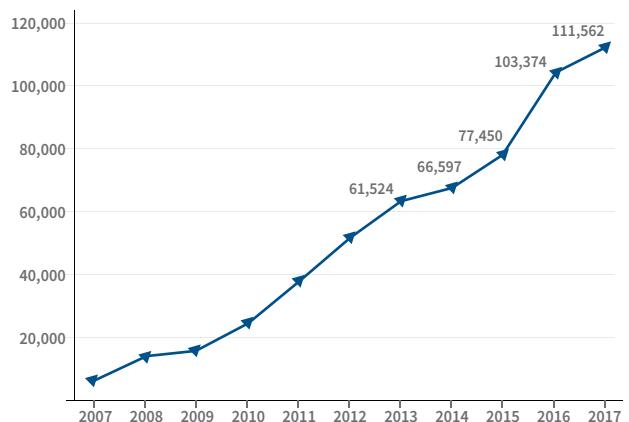
## CUSTOMER BASE

### Micro Credit Customer Base

From the inception, a steady grow has been recorded in BMIC customer base. Currently 28 branches have been located in high poverty effected ten districts across the country with the intention of high financial inclusion for poor communities. Also BMIC operates in 47 estates in Kegalle and Nuwara Eliya district to serve plantation workforce who are known as the most vulnerable community.

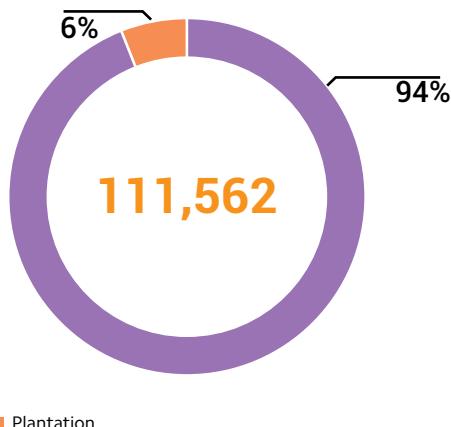
While we did not expand the branch network during the year under review, using our existing branch network we have expanded our operation into different geographical areas to reach a wider customer base. As a result, we were able to reach 111,562 active borrowers as of year end, which is an 8% increase compared to previous year.

### Active Borrowers



We cater for two types of customers namely rural poor (village) and plantation communities. Of these larger proportion is represented by the rural poor, which accounts for 94% as of year end.

### Active Borrowers by Sector

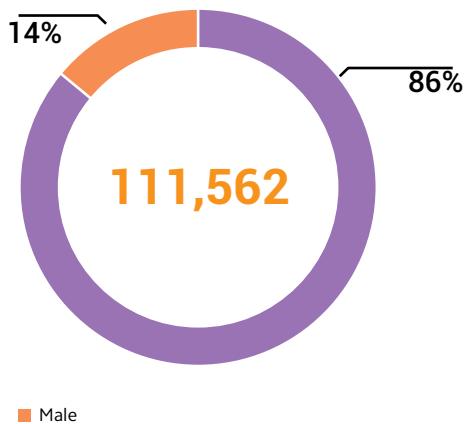


■ Village ■ Plantation

Empowering women to take up the reins of running and owning the business, engage in income generation activities and effective engagement in family financial management have been core aspect of BMIC. In Sri Lanka various social economic factors limits women especially rural women's access to formal credit or formal financial services. Hence empowering women has been a key focus of BMIC. As a result, out of total active borrowers, 84% represent women borrowers by the end of 2017.

# Customer Capital

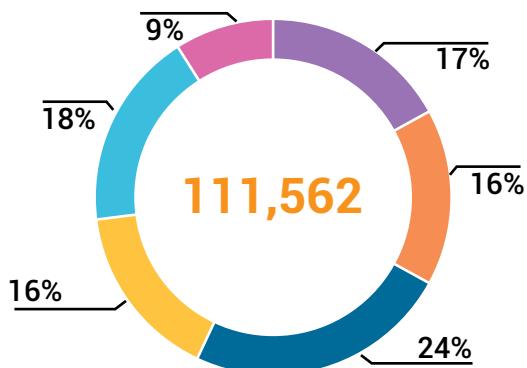
## Active Borrowers by Gender



■ Female ■ Male

More or less, the active borrowers' composition of Kegalle, Anuradapura, Trincomalee and Batticaloa contributed in same percentage where as NuwaraEliya region recorded highest contribution of 24% as oppose to the lowest contribution of 9% from North region due to new in operation and less number of branches.

## Region wise Active Borrowers

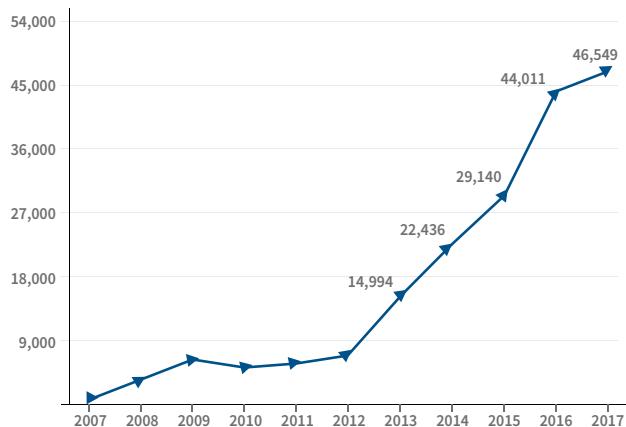


■ Kegalle ■ Nuwara Eliya ■ Batticalao  
■ A'pura ■ Trincomalee ■ Northern

## EDS Customer Base

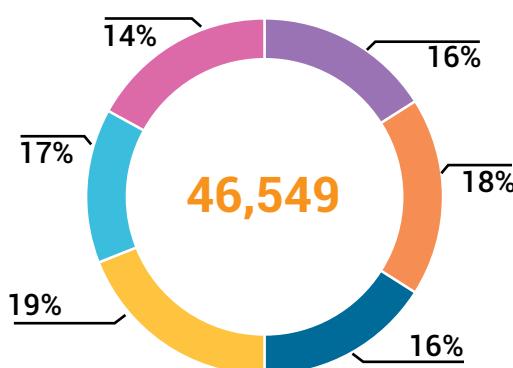
Similar to our active borrowers, continuous growth has been recorded in the enterprise development training participants. This was possible due to the attractive and effective training products offered under EDS based on customer requirements. During the year 46,549 clients were trained and it was a 6% growth when compared to the previous year.

## EDS Participants



During the year, highest training participants of 19% was recorded from Trincomalee region. The lowest of 14% recorded from North region as the operation of North was started in recent years and has less number of branches in the region.

## Region wise EDS Participants



■ Kegalle ■ Nuwara Eliya ■ Batticalao  
■ A'pura ■ Trincomalee ■ Northern

## CUSTOMER CONVENIENCE

All the BMIC services with the exception of loan disbursement are taking place in the same village of the customer. This saves the client both time and money spent on travelling to reach BMIC offices to receive services. Hence, services such as new member registration, awareness meetings, loan assessments, handing over and signing of loan applications, loan recovery, delivery of Suwasahana cash benefits and EDS services are offered in the nearby area of customer's residence.

As a way of increasing customer expediency, they were provided with several alternative repayment options. Hence, in addition to bank direct deposits and standing order facility, they were given the option of mobile cash payment. While this is implemented currently at one branch, BMIC plans to expand and integrate the mobile cash payment system with the Company's new IT platform in the coming years.

EDS coupon system is also a more comfortable method where client do not need to pay training fee upfront but do it over a period of time in very small installments. This is one of the best solutions to overcome the burden of bulk cash outflow from the customer's hand at once.

## CUSTOMER BENEFITS

We also look after our clients when in need and carry out social activities in gaining customer loyalty. In addition to providing them with monetary assistance during emergency situations, we also take care to right off loans in desperate situations such as client death, spouse death, client or breadwinner's full disability and long term illness of client or breadwinner of the family.

Further, under the Berendina Suwasahana scheme cash grant of LKR 300 per day is provided for client and one-year-old baby for the hospitalisation up to 10 days per year. In addition, also provide LKR 6,000 for client or close family member's funeral.

BMIC provided LKR 8 Million worth of dry ration as drought relief for 2,000 families affected by drought in the Anuradhapura region during the year. The beneficiaries of this relief action plan consisted of families living in the remote villages of Manupa, Thirappane, Kahatagasdigiliya, Horowpathana and Ipalogama.

As a step for further expanding our welfare activities for clients' families, BMIC sponsored for the bright children of BMIC clients' where A/L students were given LKR 1,000 for Arts and Commerce stream and LKR 1,500 for Science stream students every month for two years period. During the year under review LKR 2.3 Million has been invested among 671 students for this which was started in August 2017.

## HANDLING CUSTOMER COMPLAINTS

Successful handling of customer complaints is another critical element in our client relationship management. Our clients have the space to voice their grievances to our staff at the field level or at the head office level. Where necessary, they were even provided with the option of directly liaising with the branch manager, area manager or with the directors at the head office level. Branch contact numbers were shared with all customers to raise their concerns

at field level. As for the customer complain handling a dedicated contact number was assigned at head office level where customers can make their complains during office hours for which a dedicated staff have been allocated to receive complains and forward it to relevant officers in order to response within a short time period.

## CUSTOMER PRIVACY

As a policy we refrain from disclosing any information relating to our customers to any third party. In case such measures are required, we give primary importance to obtaining customer consent prior to disclosing such information to a third party.

## COMPLIANCE

In ensuring a stable business operation, we comply with rules, directives and guidelines stipulated by regulatory bodies. As such, with obtaining the license from the Central Bank of Sri Lanka under the Microfinance Act No. 6 of 2016, although BMIC is not regulated so far BMIC continues to comply with the rules and regulations set by Central Bank. Also as member of Lanka Microfinance Practitioners' Association BMIC comply with the code of conduct issued by the Association.

## CHALLENGES

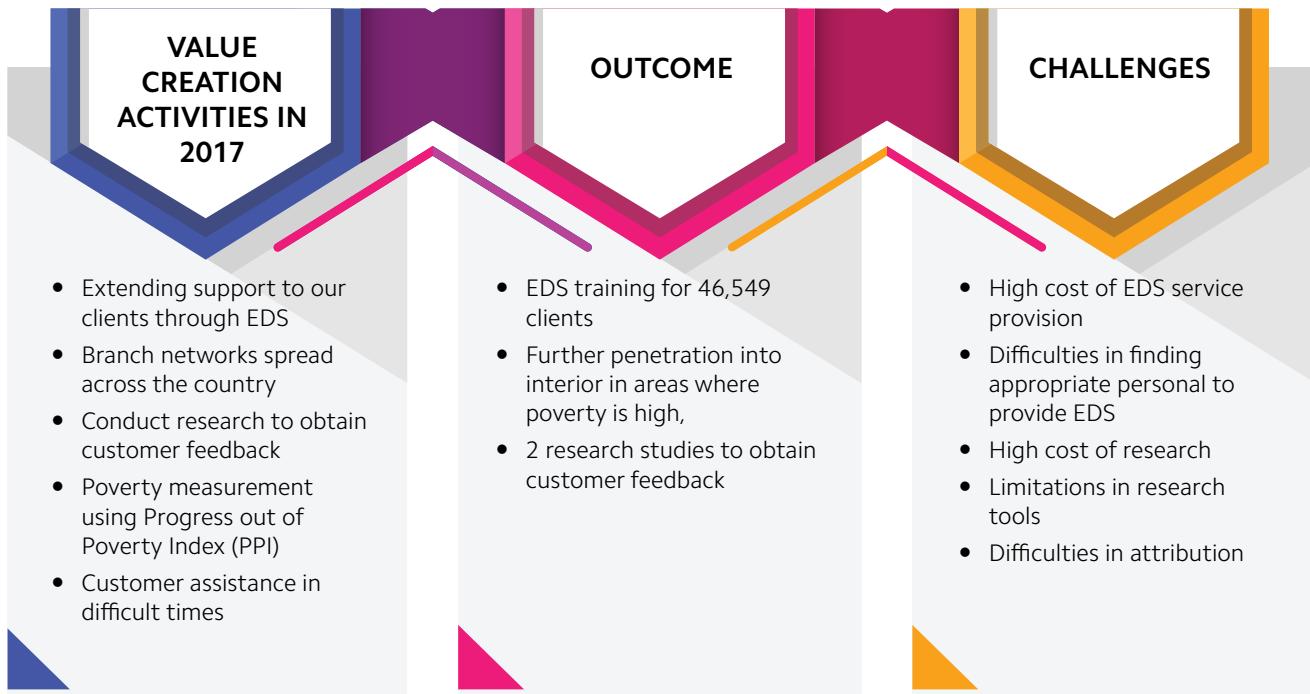
One of the critical challenges faced at the overall industry level is the multiple borrowings leading to over indebtedness. As there is an absence of a proper regulatory mechanism for microfinance institutions, there is scarcely opportunity to understand the status of credit borrowings of customers. As a result, people are constantly caught up in loan traps leading to incapacity in loan repayment.

Maintaining customer discipline and a good credit culture have become a challenge due to high competition and over supply. As most of the competitors aim to make their loan recoveries through informal means, BMIC cluster operations have been challenged specially in terms of maintaining cluster attendance and recovery.

Another issue is the customers increasing demand for higher loans. At present, the maximum amount disbursed by BMIC remains LKR 150,000. However, due to customer compulsion, BMIC plans to increase the loan amount up to LKR 250,000 for 4th loan cycle customers in 2018.

The lack of utilisation of the knowledge obtained through EDS trainings is another problem faced when dealing with customers. Although the number of participants have increased in EDS programs, there is a lack of utilisation of such knowledge to start up new businesses amongst the new training recipients.

# Social and Responsibility Capital



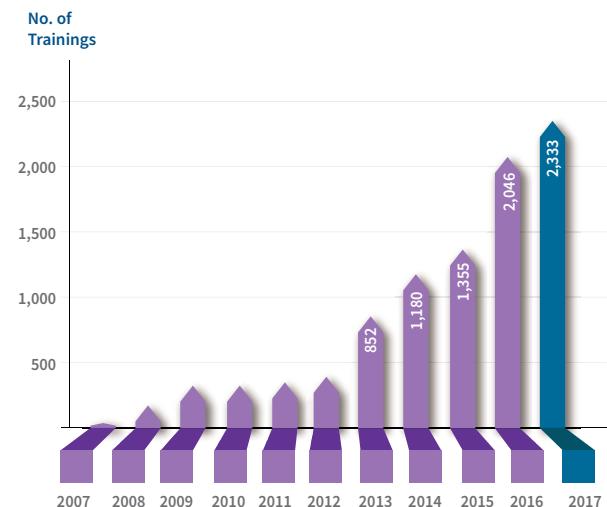
Social and Responsibility Capital entails the long standing mutually beneficial relationships and networks that the Company has nurtured with a variety of stakeholders in ensuring the long-term sustainability of the community. In this perspective, BMIC have nurtured relationships with a variety of stakeholders including client relationships through maintenance of clusters, funding partners, institutions and individuals.

## CUSTOMER RELATIONS

### Customer Support

Our Enterprise Development Services (EDS) model was founded on the belief that our clients require further skills in enhancing their businesses in addition to loan facilities. The objective of the EDS service is to ensure the long-term sustainability and growth of the borrowers' business ventures by developing a wide variety of their skills, which primarily include technical skills, business management skills and financial literacy. During the last financial year, 46,549 participants were trained on different disciplines through 2,333 training programmes.

**EDS A Type Service Trainings**



Besides, we also provide our clients with other different services through business counseling, encouraging business registration, business information provision, and linking the customer with the raw material suppliers or in introducing the end product to the market.

# Social and Responsibility Capital

Our EDS component remains one of our key poverty alleviation tools mainly due to its assistance in establishing skillful entrepreneurs, its capacity to empower them with knowledge and exposure and safeguarding them from becoming a victim of unethical high interest charging microfinance intuitions. The recognition of our EDS model has also led to its replication in Nepal where three organisations have adopted the EDS model as a poverty alleviation tool.

The overall success of our activities have led our Company towards profitability enabling us to share the surplus profits with our two sister Companies, Berendina Development Services (BDS) and Berendina Employment Centre (BEC), in extending its support to marginalised communities and providing employment opportunities for youth, respectively. This sustainable development model is a unique feature that indicates our commitment and dedication to social welfare.

## Customer Outreach

We function through our head office with a 28 branch network. Our branches are spread across six regions namely Anuradhapura, Baticaloa, Nuwara Eliya, Kegalle, Trincomalee and Northern province. Each region has 4-5 branches in operation comprising of a Branch Manager and 6 to 7 field staff members, 2 – 3 Accounts, Administration and support staff. In penetrating into the clientele, our primary outreach mechanism is village awareness creation through meetings conducted with the aid of our branch network and field staff.

Our field staff penetrate into interiors where poverty is at high levels and carry out awareness programs either individually or in groups regarding our loan and EDS products and how it could benefit the start-ups and the existing enterprises and household asset building. These village level awareness meetings are our primary method in marketing our products.

## Customer Feedback

We constantly rely on the feedback of our customers in enhancing our service. We seek their advice in further improvement of our service delivery in addition to carrying out our own observations of their business improvement.

We obtain feedback from our clients through several mechanisms that includes discussions at cluster meetings at branch level, feedback obtained at the cluster leader program and most significantly our in-house research carried out to obtain the customer perception in relation to the impact we have made in their lives and uplifting them from poverty. During last year, two such research studies were carried out by our internal research team based on a randomly selected sample of our clientele.

A pilot study was initially conducted in Mawanella branch by taking 30 clients from an area covered by one field officer. Based on the findings of the pilot study, a detailed study was conducted, Thirappane & Kahatagasdigiliya branches in the

Anuradhapura region. 129 client feedbacks were obtained from Kahatagasdigiliya branch while 119 client feedbacks were obtained from Thirappane branch, totaling 248 clients' feedbacks covering 23 clusters.

Of the sample interviewed, 78% (193 clients) stated that their businesses were benefited by BMIC loans and EDS services. However, in total 221 businesses were given support to start or for further expansion indicating more than one business was supported by BMIC for certain clients.

Business category	Number of businesses
Agriculture or cultivation related	73
Livestock farming	24
Bricks production and selling	23
Retail shops	27
Tailoring related	29
Food items production	7
Mason and carpentry	20
Water filtering	3
Salon and beauty	3
Service station	3
Other	9
Total	221

Further, 46% of the clients amounting to 114 recorded to have received support from BMIC to develop their household assets in multiple ways. The ways in which those 114 clients were benefited are as follows.

Description	Number of clients	Percentage of clients
Repaired/renovate home	110	96%
Construct toilet	6	5%
Electricity	4	4%
Water	6	5%
Household assets	8	7%
Spend for children education	6	5%

Additionally, an impact assessment survey was conducted amongst a randomly selected customer base in identifying the impact of trainings provided under EDS while people's reach out of poverty is gauged through measuring poverty using progress out of Poverty Index.

## Customer Benefits

BMIC provides special benefits to clients through Suwashana scheme for funerals and hospitalisation (LKR 6,000 for funeral and LKR 300 per day for 10 days for hospitalisation). We also offer grace periods to clients when they face difficulties to pay loans due to unavoidable circumstances such as drought and landslides.

# Social and Responsibility Capital

## Customer Centric Products

We also continue to develop customer centric products in enhancing our business success. A key development in this regard is the livelihood development loan that was designed for the clients who does not have current income to repay a loan and therefore unable to borrow from commercial banks. This product was introduced during the last quarter with a lower interest rate. This was expected to encourage client's to start new businesses creating an income for the families. Further, BMIC continuously change the products offered either by changing the loan amount that a customer can borrow, developing a new product or any other change depending on the requirement.

## Customer Complaints

The Complaints Handling System that is linked to the corporate management at the head office level is a new element introduced into the process. As a result, customer complaints have now been centralised with the establishment of a dedicated hotline at the head office. This allows the rural customers to voice their complaints directly by a telephone call and bring it to the attention of the top management, following which the management takes measures to address such concerns.

## Customer Privacy

As a policy we refrain from disclosing any information relating to our customers to any third party.

## BMIC Poverty Outreach

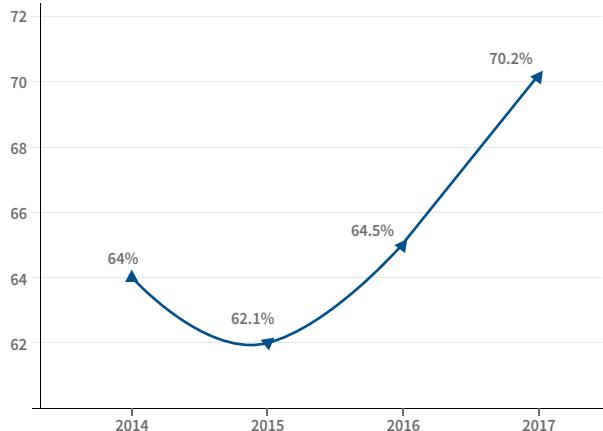
As our focus remain on ushering prosperity to our clients, we make every effort to support them to reach out of poverty. Hence, our client relations do not end at providing low interest credit plus EDS services, but continue with constant tracking of their reach out of poverty resulting from the use of our products and the services. In this regard, we utilise Progress out of Poverty Index (PPI), an internationally recognised poverty measurement tool.

This tool assesses the level of poverty of the clients giving an indication of poverty outreach. It also helps to track poverty status over a period in order to understand the client's progress out of poverty from one loan cycle to the other. While the data for PPI is collected from each and every client at every loan disbursement, poverty status was assessed through statistically analysing a randomly selected sample of these clientele.

An analysis of data shows that overall poverty outreach of BMIC clients have increased over time with 3.75/day 2005 PPP international poverty line which we consider in selecting clients, with 76% of the clients having the probability of being below this poverty line. Highest poverty outreach rate of 70.2% was recorded in 2017 compared to 64.5% in the previous year.

## Poverty rate with time under 3.75/day 2005 PPP line

Poverty outreach %

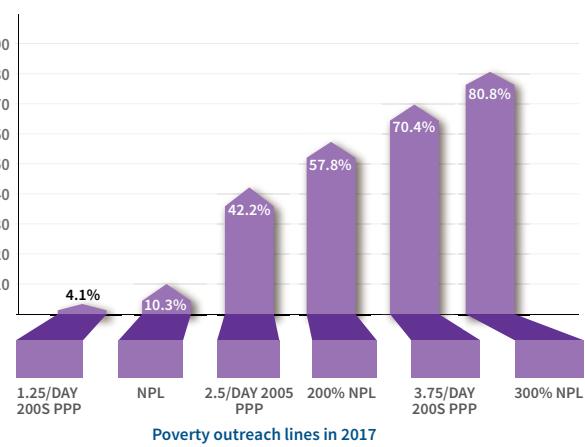


To ensure higher poverty inclusion, BMIC remain steadfast in garnering a clientele who are below the poverty line taking into consideration their PPI score (cut off 39) and monthly per head family income of below LKR 9750.

Following graph illustrates BMIC poverty outreach with respect to varied poverty lines in 2017.

## Poverty Rate of Clients

Outreach (%)



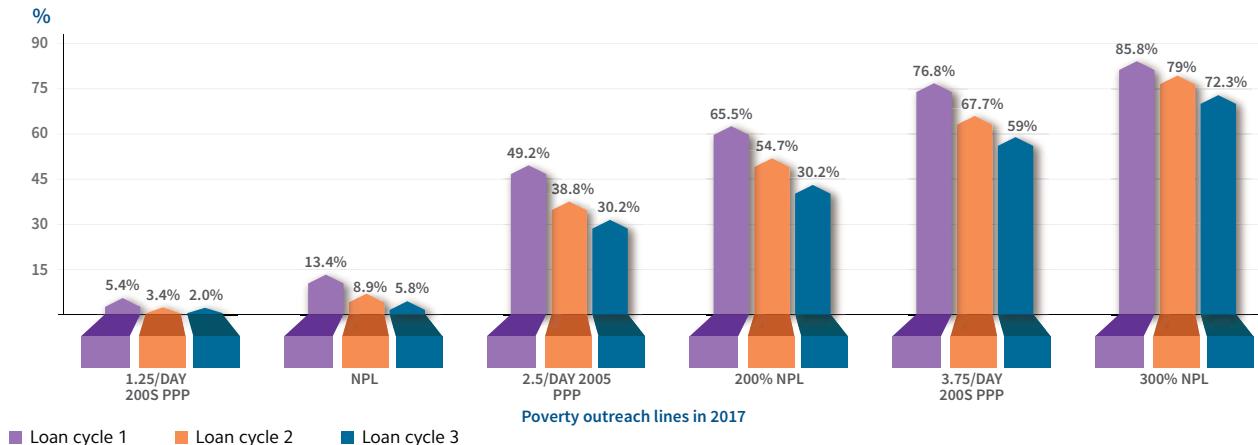
Furthermore, the analysis demonstrates that 42.2% of sample population live below 2.5/day 2005 PPP international poverty line while 10.3% of the clients live below the national poverty line. Also, the graph above illustrates that during the year under review, BMIC also reached 4.1% of those who are in extreme poor conditions with 1.25/day 2005 PPP international poverty line.

# Social and Responsibility Capital

## Reduction in Poverty Levels of the Clients

BMIC clients shows a reduction in their poverty levels from one loan cycle to the next indicating their improved living conditions with the creation of micro enterprises and acquisition of assets thereby contributing to the overall wellbeing in the family. The following graph demonstrate the reduction of poverty level of our clients in relation to different poverty lines when they progress from one loan cycle to the next.

### Loan Cycle Poverty Rate Comparison



## BUSINESS RELATIONS

In fostering business relationships with our stakeholders, we carried out several initiatives during the year.

BMIC organised several events with the participation of BMIC clients namely trade fairs that provide opportunity for marketing their products an social events such as cricket tournaments, blood donation camps and educational seminars for grade 5 scholarship students and O/L students.



Blood donation camp in Thambalagamam

Besides, BMIC also provided exposure visits to BMIC for the stakeholders including light minded MFIs, funders and the general public (students). In 2017, a delegation from the

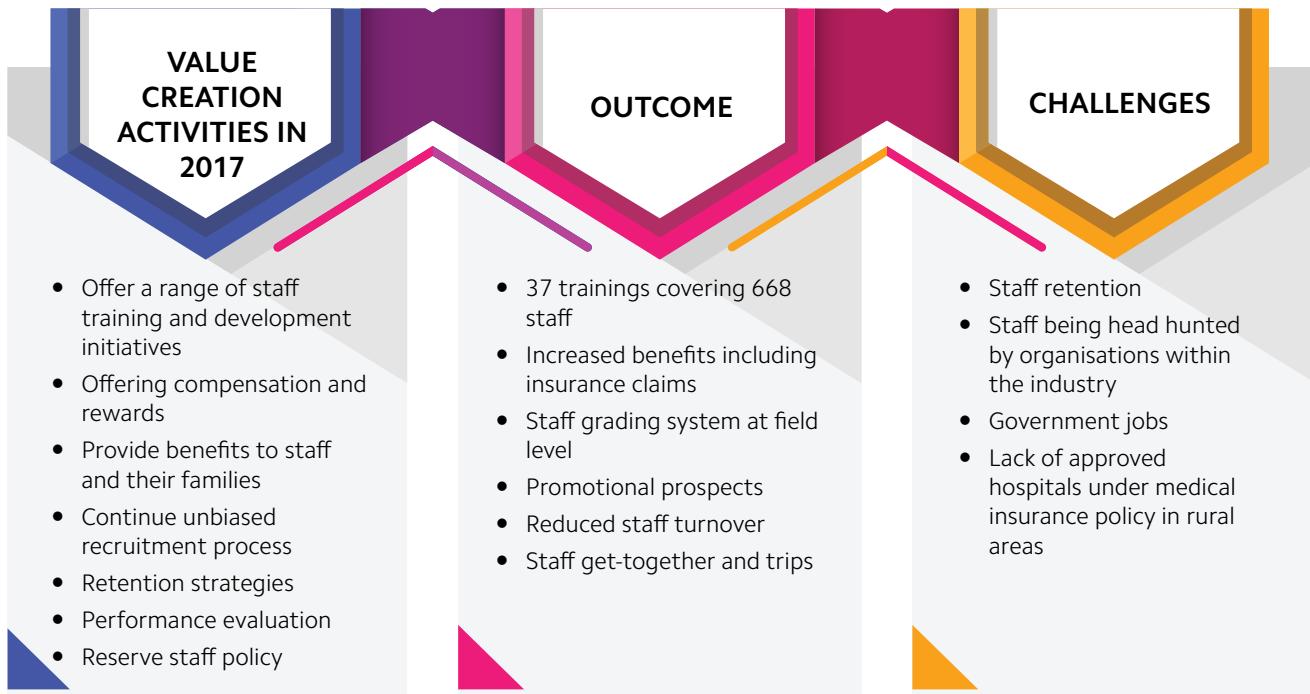
Rural Microfinance Development Centre (RMDC) in Nepal visited BMIC in Ragala visiting clusters and BMIC clients. This exposure visit was conducted based on a request by Lanka Microfinance Practitioners' Association (LMFPA).



RMCD exposure visit to Ragala branch

BMIC also ensures periodical engagement of its relevant stakeholders. Accordingly, depending on the funders' requirements BMIC reports to them in an orderly manner when requested which vary from monthly, quarterly, bi annually to annual reporting. In addition, information is also provided to Lanka Microfinance Practitioners' Association (LMFPA) and the mix market. Further, BMIC comply with statutory payment obligations such as taxes and provident fund for staff according to Sri Lankan laws and regulations.

# Human Capital



Human capital determines the capacity of an organisation to accomplish its goals. A strong workforce that represents a rich and diverse human capital base inclusive of skills, competencies, capabilities and experience plays a vital role in ensuring the healthy growth and sustainability of a Company. BMIC in comprehending this critical perspective, remains dedicated to build a workforce that not only possess the relevant skills and knowledge, but also maintain a sense of passion and a profound feeling of connection towards achieving a common goal. With this understanding, BMIC continue to acquire, cultivate and retain human capital that would ultimately drive the Company towards its set objectives.

## HR POLICY

Our HR policy focuses on ensuring that the employees are not discriminated on the ground of race, gender, age and any other socioeconomic factor in the recruitment process, training and promotion of its employees. We continue to recruit staff based on their merit to fit into vacancy positions that become available or are newly created within our operations.

We also maintain a flexible working culture that encourages open door policy, participatory decision making, team work, learning, and employee engagement.

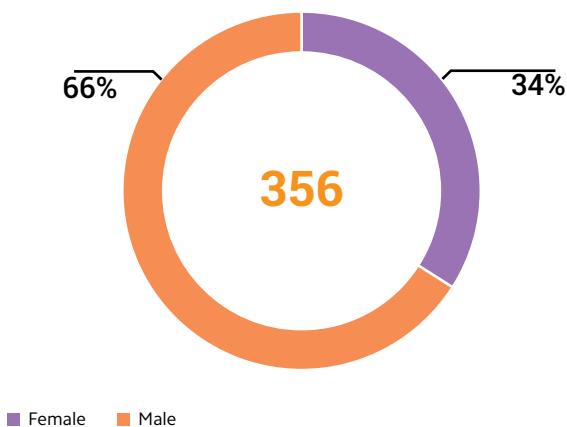
## EMPLOYEE PROFILE

Our approach to human resource management aims at nurturing our people through edification while embracing them with a learning environment that empowers them towards remarkable performance. In this regard, BMIC currently employs two employee categories; permanent and contract staff which in total constitute an employee cadre of 356 as at 31st December 2017, an 6.9% increase compared to the previous year.

All staff members are initially recruited on a contract basis for a period of one year, following which the contract is extended for another one-year period. Staff members who complete two years of service are considered eligible for permanent staff cadre, a decision made by the management based on their performance. Nevertheless, both staff categories remain equally eligible for the compensation and benefits.

The male workforce is relatively high with over half of the employees (66%) being male while 34% being females.

## Gender Representation



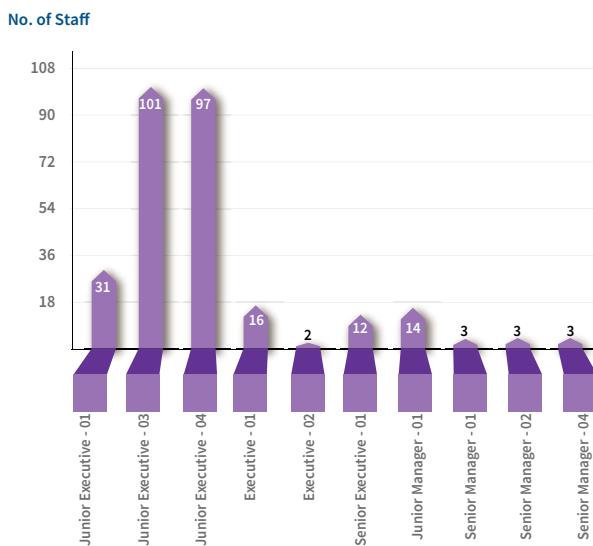
We also have a fairly young workforce which is indicative from our 297 staff members who are below 37 years of age. However, it is noteworthy that BMIC do not have a clear policy on the age limit with regard to employees. At present, the lowest age limit for recruitment remains at 18 years for field staff, while 25 years and above for managerial staff.

## Age Analysis



A critical element that was introduced during the year under review was the staff grading system at the field level. A grade analysis of the branch and field staff of BMIC indicate that majority of the staff members come under the Junior Executive category, totaling 229.

## Grade Analysis - Field Staff



## RECRUITMENT PROCESS

We thrive to ensure a transparent and unbiased recruitment and selection process that results in the appointment of the best candidate based solely on merit and best fit for the organisational values and goals. In this process, the primary step is the communication of vacancies to the Company's Human Resource Department where a draft advertisement is developed stating the job profile, educational and professional qualifications required and benefits given. This would be circulated amongst the internal staff in addition to advertising in newspapers and employment websites.

Upon shortlisting the applicants at preliminary and secondary levels, an initial interview will be conducted, and the final selection will be done following another interview process, written tests or IQ test, and a scenario analysis tests. Once the approval is received from the necessary authorities, the applicant will be issued the offer letter to obtain the consent for employment terms after which formal letter for appointment will be issued.

## EMPLOYEE TURNOVER

During the year under review, there was a staff turnover ratio of 19.7% amongst the staff who have served the Company for over three months. This turnover ratio is considered average in view of the industry turnover ratio.

There is a continuous reduction in staff turnover as BMIC adopted several measures to retain staff. The staff turnover was 22%, 22.5% and 25% for 2016, 2015 and 2014 respectively.

# Human Capital

## EMPLOYEE RETENTION

Effective employee retention strategies are critical to making employees feel valued and appreciated which would in turn motivate them to remain with the Company. To maximise staff retention several initiatives were implemented during the year. A significant move in this regard was the introduction of the grading system amongst the field level staff for the first time with different increment slabs for different grades. The purpose behind this exercise was to provide them with a career path where they can excel in the ladder of success.

## COMPENSATION AND BENEFITS

BMIC provides a range of other financial and non-financial benefits to the staff.

One of the key compensation for all contract and permanent staff is the EPF (Employer contribution is 15%) and ETF contributions in addition to being entitled for gratuity after five years of service. The staff was also provided with the opportunity to en-cash all available casual leave.

All staff members who complete over one year of service is given a cost of living allowance, in addition to providing them fixed allowances such as boarding allowance, phone allowance on a need basis, which was increased last year. Besides, field staff at branch level were also given allowances such as field visit allowances to cover the travelling and food cost including motorcycle fuel cost reimbursement, motorcycle revenue license and emission test cost reimbursement. Additionally, field staff members were given motor cycle helmets, rain coats, boots and bags for field use free of charge.

Moreover, staff were given assistance in educational attainment which was considered the main criteria in the staff grading system. Hence, BMIC provided monetary assistance to staff who are pursuing professional qualifications (up to postgraduate level) in microfinance related area. They were given up to 100% course fee (depending on relevancy to work area, service period and investment amount etc). Of the total amount, 50% is given at the start while the balance given at the end of the course at the submission of the certificate.

A range of insurance policies are offered to all staff members of BMIC. These benefits include a health insurance policy that covers all medical expenses including OPD and hospitalisation expenses, for the employee and family members, a personal accident policy and a life insurance policy that provides death benefit up to LKR 2 Million, Workman Compensation Insurance (WCI) policy and a motor cycle insurance. During the year there was an increase in the insurance claim benefits under the Health Insurance Policy.

As for the staff loan schemes, they were given in house personal loans up to LKR 200,000 and compensate a maximum of 8% interest rate for bank loans upto LKR 500,000 obtained by staff in addition to motorcycle loans, distress loans, laptop loans and festival advance.

More benefits for the staff include marriage allowance of LKR 10,000, funeral allowance of LKR 15,000 that is even applicable in the event of demise of the employee's close family member, as well as the staff annual get together and annual trip allowance. During the year, staff funeral allowance and the annual trip allowance were increased.

## PERFORMANCE MANAGEMENT SYSTEM

Appraisals are vital for human resource management and performance management. Critical evaluation of their role, objectives, benefits and purpose within an organisation is significant to understanding the future career direction. Hence, we conduct staff appraisals every year in order to assess and evaluate the performance of all staff members who have been in service for over three months. The job specific tasks are evaluated against Key Performance Indicators (KPIs) while also taking into consideration factors such as managerial skills, behavioral disciplines, training and development needs of the staff. The annual increments and promotions under the grading system will be decided based on the marks received for appraisals.

BMIC utilise a standard appraisal format to evaluate all staff categories where they first have to fill an appraisal form by themselves as a self-assessment. Afterwards, an interview will be conducted amongst each and every staff member by a selected interview panel. Based on the interview outcome, final appraisal marks will be decided by the appraisal team. Employees are also given an opportunity to comment in writing their decision of the appraisal team which is reviewed by the senior management at the final decision making.

## TRAINING AND DEVELOPMENT

Training and development opportunities play a vital role in enhancing human capacity. As such, BMIC provides technical trainings and soft skills trainings for their staff members. Technical trainings are mainly related to credit appraisal and delinquency management. Soft skills trainings are mainly in relation to management, attitudinal and motivational aspect. Besides, the staff were also exposed to other seminars and workshops for further career development.

Staff were also given educational support in enhancing their educational/professional qualifications (up to post graduate level). In this regard, BMIC contributes up to 100% course fees.

# Human Capital

During the year under review, 37 training programs were conducted for 668 staff members. Of these, considerable number of trainings were conducted on delinquency management.

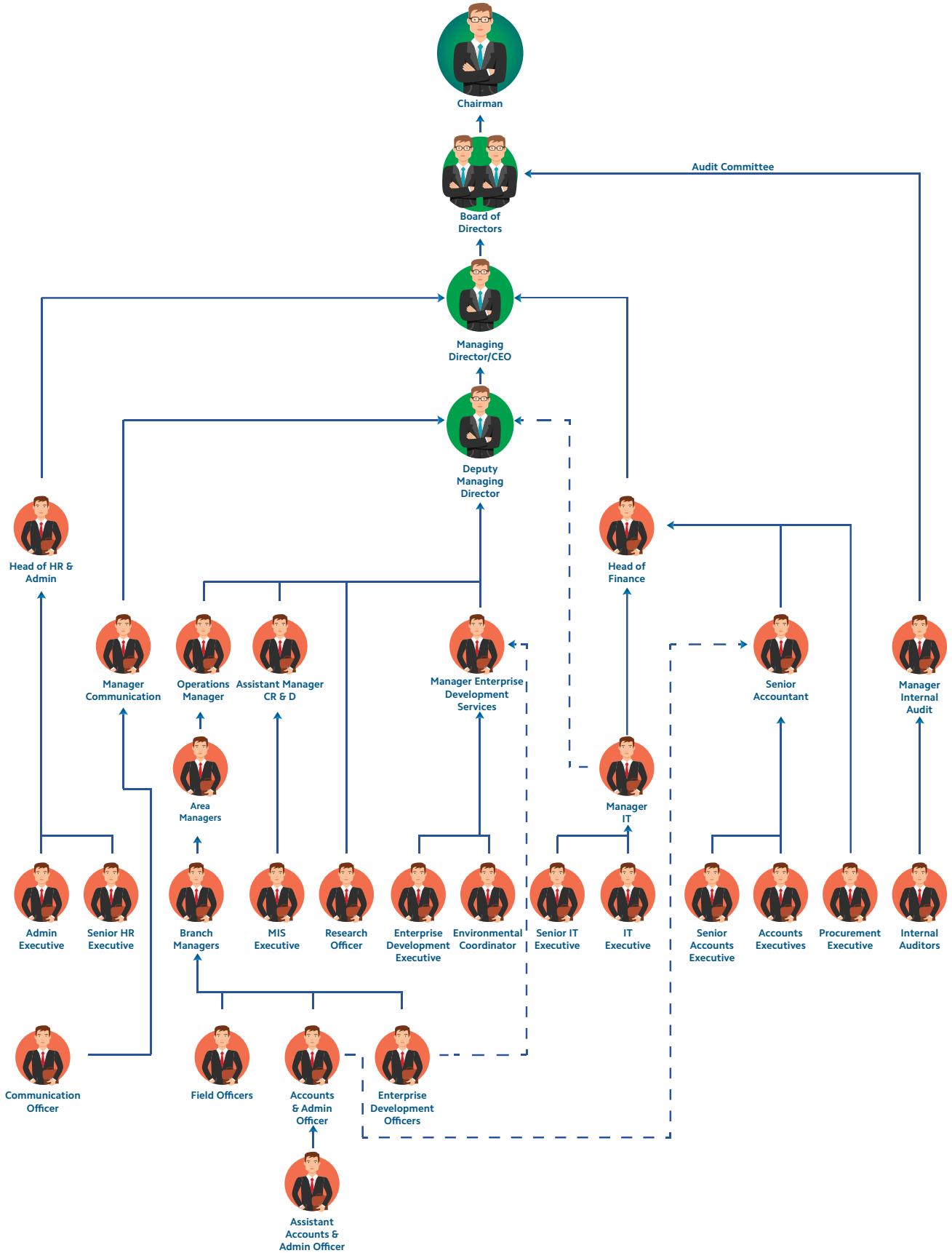
	Training programs and capacity development opportunities conducted	No. of Programs	No. of Participants
1	Induction Training	3	67
2	Delinquency Management	5	147
3	Refresher - Financial Literacy (TOT)	6	131
4	Credit Appraisal	2	73
5	PPI Training	1	42
6	Operation Manual Training	2	37
7	Advance Financial Literacy (TOT)	1	34
8	Leadership	2	32
9	CGAP - Accountancy	1	31
10	CGAP - Financial Analysis	1	24
11	Business Counseling Training	1	22
12	Credit Evolution & Quality Portfolio	1	2
13	International Computer Driving License	1	2
14	KYC – Know Your Customer	1	2
15	Microfinance Workshop	1	6
16	Diriya Niyamuwo Seminar	1	4
17	Seminar on Foreign Exchange Act, No. 12 of 2017	1	3
18	Training Workshop on Customer Relationship Management	1	2
19	Three Day Workshop on Upcoming SLFRSs	1	2
20	Training Workshop on Internal Audit & Compliance	1	2
21	World Environment Day Seminar	1	1
22	IIA 7th National Conference on Internal Audit 2017	1	1
23	Successful 2018	1	1
<b>TOTAL</b>		<b>37</b>	<b>668</b>

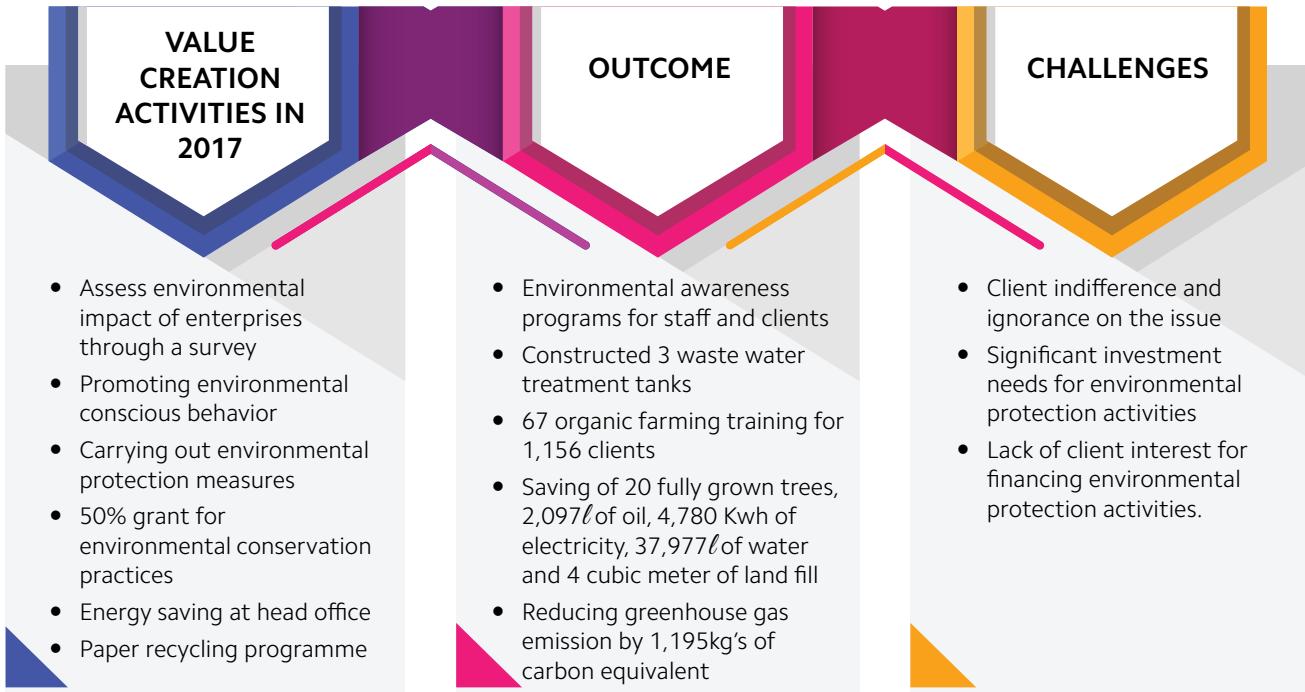
## FUTURE PLANS

Going forward, BMIC intends to conduct research in understanding employee perception on the organisation and a salary survey to determine the industry accepted rate of remuneration for the employees. While BMIC intends to utilise the services of an independent research agency in conducting the research studies, the findings are expected to be utilised in uplifting the staff morale.

# Human Capital

## ORGANISATIONAL STRUCTURE





Natural Capital is the stock of renewable and non-renewable resources provided by the ecosystem such as land, minerals, energy, water which are essential for human survival and economic activity. Over the recent years, there has been fast depletion of natural resources leading to increasing environmental risks threatening the sustainability of many economies and industries. Thus, the Companies were bound to pay attention to environmental impact of their resource use, outputs and waste considering, its negative effect on the ecosystem and on the Company's cost structure. In this sense, contemplation of natural capital in businesses have become a vital element in their continued and productive effort to utilise natural resources prudently for long term economic growth.

## BMIC APPROACH

BMIC as a Company that is dedicated for the green microfinance concept since 2016, follow the triple bottom line approach; people, planet and profit in eliminating poverty.

## ASSESS THE ENVIRONMENT IMPACTS OF ENTERPRISES

We engage a full time dedicated environmental coordinator to assess the environment impact of enterprises for which BMIC provides credit support and EDS. We identify such harmful enterprises and provide aid in implementing mitigation plans. A questionnaire base survey was conducted in Kahatagasdigiliya, Aryampathy, Galigamuwa, Thambalagamuwa and Dickoya branches. In

total, 79 enterprises identify by field officers as enterprises having negative environmental effects were visited by the environmental coordinator, of which 24 enterprises (30%) were identified as harmful enterprises. In 2017, we implemented protection measures for these harmful enterprises such as vehicle service stations, poultry farms and dairy farms.

It is noteworthy that we also maintain a separate section in our loan application forms for the clients to declare the environmental impact of their businesses. Such information provided by the clients are closely evaluated prior to loan disbursement.

## PROMOTING ENVIRONMENTAL CONSCIOUS BEHAVIOUR

### Environmental Awareness Boards for Client Projects

We also funded in placing environmental awareness boards at rural enterprises in order to improve alertness on environment protection.



Environmental awareness board

# Natural Capital

## Environmental Awareness for Branch Staff

In our commitment to create an environmental friendly workforce, we carried out staff awareness programs at branch level during the year. Staff members of Galigamuwa, Warakapola, Mawanella, Bulathkohupitiya, Dehiowita, Thirappana, Manupa, Kahatagasdigiya, Ipalogama, Ragala, Ginigathenna, Gampola and Kotmale branches were included in these awareness training program.

They were also informed on the implementation of the office sustainability practices such as saving water, reducing paper usage, minimising electricity consumption and managing waste though 3R (Reduce, Reuse, Recycle) principle. In addition, "Green tips" were also continuously shared among the staff members through email.

### BE THE CHANGE AGENT...

#### ACT NOW FOR A GREENER TOMORROW....

- Reduce Use of Polythene & Plastic...
- Make and Use Eco-friendly Products...
- If can, Use a Lunch box...
- Save Water & Electricity....
- At least Plant a Tree...



A Green tip

## Training and Awareness Programs for Clients

In recognising the vital role that sustainable poultry farming play in the overall health and welfare of the villages, we introduced eco-friendly farm practices amongst our clients. For the first time this concept was introduced amongst 67 poultry farmers in Thirappane, Serunuwara, Dickoya and Galigamuwa branches with the purpose of uplifting their livelihood activities. They were also given a handbook on eco-friendly farm practices for reference.



Awareness handbook on eco-friendly farm practices

In addition, we made our clients aware of the importance of environmental and sustainability measures through our monthly cluster topics. Topics such as prevention of land degradation, importance of saving electricity and natural resources, protection measures from lightning and reduction of natural disasters were discussed during these monthly gatherings.



Awareness training program for clients

## Controlling Carbon Footprint

In consistent with the Company policy, we do not allow our staff members to use motorbikes that are over nine years of age in order to minimise the harmful carbon emission to the environment.

## ENVIRONMENTAL PROTECTION MEASURES

### Paper Recycling Program

We introduced, at head office level, a monthly waste paper recycling program in partner with Neptune Recyclers, a local recycling Company to reduce the ecological foot print of paper usage. As a result, BMIC was recognised in 2017 by Neptune Recyclers for our contribution in reducing the collection of waste thereby contributing to preserving the environment.

The environmental benefits of our paper recycling program include;

- Saving
  - 20 fully grown trees
  - 2,097 litres of oil
  - 4,780 Kwh of electricity
  - 37,977 litres of water
  - 4 cubic meter of land fill
- Reducing greenhouse gas emission by 1,195kg's of carbon equivalent



## NEPTUNE RECYCLERS EVERY DAY IS AN EARTH DAY

April 03, 2018

Mr. Kasun Dissanayake,  
Environmental Coordinator.  
Berendina Micro Investments Company Ltd.  
Narahenpita Road,  
Nawala.

Dear Sir,

**Thank You for Shredding Your Waste Paper / Confidential Documents with Neptune Recyclers.**

We hereby confirm the **collection** and **shredding** of 1,195 kg's of Waste Paper / confidential documents from **April 2017 to March 2018** from "Berendina Micro Investments Company Ltd".

We thank you for using our shredding service to dispose off your waste papers in an environmentally friendly manner which not only saves precious Natural Resources, but also assists your organization in securely disposing your confidential documents at **no charge** to you. If every company in Sri Lanka thought as you do, our country would definitely be a better place to live for you and me.

The environmental return on your investment translates to the saving of:

- **20 Fully Grown Trees**
- **2,097 Liters of Oil**
- **4,780 Kwh of Electricity**
- **37,977 Liters of Water**
- **4 Cubic Meter of Land Fill**
- **& Reduce Green House Gas Emission by 1,195 kg's of Carbon Equivalent.**

Whilst thanking you for your generous consideration in saving the environment we assure you of quality service at all times. Should you require further information or clarifications, please feel free to contact us on **0777-915153** or **011-3038877** at any given time.

Thanking you,  
Yours Sincerely,

NEPTUNE PAPERS (PVT) LTD.

Mohamed Sakkaf  
Manager - Recycling Solutions

# Natural Capital

## Wastewater Treatment Tanks

Wastewater treatment facility is an essential component to a vehicle service station since untreated wastewater could severely damage the surrounding environment. Hence, under BMIC environmental program, wastewater treatment systems were constructed for identified service stations in Ragala, Arympathy and Kahatagasdigiliya branches with contribution from both BMIC and clients.



*Wastewater treatment system project*

## Introducing Organic Farming to Home Garden

We also introduced organic farming methods to ensure chemical free food products by clients. In this regard, we carried out 67 organic farming training for 1,156 clients in Thirappane, Trincomalee, Valachchenai, Dehiowita, Ragala, Bulathkohupitiya, Arympathy, Akraipaththu, Kalmune, and Kaluwanchikudy branches during the year.

## Bio Gas Units

We have also planned to construct bio gas units in selected dairy farms.

## CHALLENGES

We encountered few challenges when implementing our green initiatives. One of the most critical problems was convincing our clientele on the importance of environmental protection. The indifference and ignorance displayed by clients on the topic made it difficult to convince them on the significance of adhering to environmental protection measures when running their enterprises. We were also faced with the risk of losing clients in our genuine effort to save the nature.



"This is the seventh year of my relationship with BMIC. I am the one who brought BMIC into our village. I started my business with financial support from BMIC and I was able to reach many of my targets at a young age. I constructed my house from the earnings of my business. I bought a lorry recently, so that transport costs in the business is reduced. Everything I bought for my house are from the profits I earned. Now, I am holding many positions in the village level societies and popular among the villagers."

*Ishan Lakmal Jayathilake, Bulathkohupitiya*

## CORPORATE STEWARDSHIP



# The Board of Directors' Profile

## Appointed to the Board

On 1st June 2017 and appointed as the Chairman on 26th October 2017.

## Skills & Experience

Mr. Jagath holds a B.Sc. in Agriculture (special) (Sri Lanka) and a Postgraduate Diploma in Business Management from the National Institute of Business Management (Sri Lanka). He is working as an Independent Consultant for local and international organisations in enterprise development. He has more than 25 years of experience in microfinance, enterprise development and related activities.

## Current Appointments

Director – Berendina Development Services (Guarantee) Limited  
Director – Berendina Employment Center (Guarantee) Limited  
Director – Berendina Microcredit Institute (Guarantee) Limited



**G JAGATH CHANDANA**  
Chairman



**H ATHAPATHTHUGE ANURA**  
Managing Director/CEO

## Appointed to the Board

On 20th November 2014 and appointed as the Managing Director on 26th October 2017.

## Skills & Experience

Mr. Anura holds a Master's of Business Administration from the University of Lincoln, UK, a Postgraduate Diploma in Economic Development, Certificate in Agriculture Extension and Rural Development from the University of Reading UK and a B.Sc. in Agriculture (Special) Sri Lanka. He has over 30 years of extensive management and consultancy experience in microfinance and enterprise development services, for local and international organisations including World Bank, Asian Development Bank, United Nations Development Programme, Women's World Banking and Mix Market.

## Current Appointments

Chairman – Berendina Development Services (Guarantee) Limited  
Chairman – Berendina Employment Center (Guarantee) Limited  
Chairman – Berendina Microcredit Institute (Guarantee) Limited



**T D CHARITH FERNANDO**  
Deputy Managing Director

### Appointed to the Board

On 20th November 2014 and appointed as the Deputy Managing Director on 26th October 2017.

### Skills & Experience

Mr. Charith holds a Master's of Business Administration from Cardiff Metropolitan University, UK and a B.Sc. Public Management (Special) Degree from the University of Sri Jayewardenepura. He is also a Certified Microfinance Management Professional at the Boulder Institute of Microfinance in the US. Further, he is at the final stage of Chartered Accountancy at the Institute of Chartered Accountants of Sri Lanka (ICASL). Apart from being a Founding Director of BMIC, he also served as the General Manager of Berendina Microcredit Institute (Guarantee) Limited, and the General Manager - Finance & Administration for Berendina Group, before assuming his present position. He had been a Board Member and the Treasurer of the 'Lanka Microfinance Practitioners' Association' for the 2014/2015 and 2015/2016 years. He has experience in the field of Auditing, Accounting & Finance and Microfinance in the private and 'NGO' sector establishments for over 18 years and has attended many international microfinance conferences and events.



**J G VINODINI SHANKAR**  
Independent Director

### Appointed to the Board

On 16th June 2015

### Skills & Experience

Ms. Vinodini is an Associate Member of Chartered Institute of Management Accountants, UK (ACMA-UK) and an Associate Member of the Institute of Certified Management Accountants of Sri Lanka (ACMA). She also holds a Certificate in Taxation from the Institute of Chartered Accountants of Sri Lanka. Prior to assuming her duties as a Director of BMIC, she was the General Manager – Finance, Admin and HR for Berendina Group. She also serves as a part time consultant. Ms. Vinodini has more than 15 years of experience in finance, procurement, compliance monitoring and in successfully rolling out an integrated business ERP systems.

# CORPORATE MANAGEMENT TEAM



**S M Kapila R Subasinghe**  
Head of HR &  
Administration

**Rajany Yoganathan**  
Manager - Operations

**C Nirmal Priyankara**  
Head of Finance



**R Rajesh Kanna**  
Manager - Enterprise  
Development Services

**A Prasanna W Perera**  
Manager - Internal Audit

**M D J Saman  
Manathunga**  
Senior Accountant



**S M Adnaan Adil  
Sabireen**  
Manager -  
Communications

**K P S Dhammika**  
Manager - Field Staff Training  
& Development

**C H M Dakshina T  
Chandrasekara**  
Manager - IT

**A A Madushan  
Samaranayake**  
Senior Executive - HR

**W K T Lakmal Premasiri**  
Senior IT Executive

**W M Shyama M Wijekoon**  
Research Officer





**H M Kasun P  
Dissanayake**  
Environmental  
Coordinator

**P G Kaushalya H  
Dharmadasa**  
Assistant Manager -  
Corporate Relationship &  
Development

**P Rajitha Chinthana**  
Administration Executive



**T M A P Jayathilake**  
Internal Auditor

**Sarbdeen Viswaj**  
Internal Auditor

**R P Tharindu N Gunarathne**  
Internal Auditor



**J Prabodhana  
Ekanayaka**  
Internal Auditor

**W R K Wijesinghe**  
Enterprise Development  
Executive

**M M Mohammed  
Mursideen**  
Internal Auditor

**Charith D  
Kahawearachchi**  
Procurement Executive

**L H Peshani K  
Gunawardana**  
Senior Accounts  
Executive



# REGIONAL MANAGEMENT TEAM



## KEGALLE

**W M U I B WEERASURIYA**  
Branch Manager, Bulathkohupitiya

**T G E SARATHCHANDRA**  
Asst. Branch Manager, Mawanella

**B M P RATHNAYAKE**  
Senior Area Manager

**W A P D K WANIGASUNDARA**  
Senior Branch Manager, Dehiowita

**N M C D NAWARATHNA**  
Branch Manager, Galigamuwa

**J A P R KUMARA**  
Asst. Branch Manager, Warakapola



## ANURADHAPURA

**J P Y R JAYASINGHE**  
Branch Manager, Manupa

**E D S D EDIRISINGHE**  
Branch Manager, Ipalogama

**L A S P WIJESUNDARA**  
Senior Area Manager

**Y A M S JAYASINGHE**  
Asst. Branch Manager, Horowpathana

**N S A HETTIARACHCHI**  
Asst. Branch Manager, Kahatagasdigiliya

**A A E L D AMARASINGHE**  
Branch Manager, Thirappane



## NUWARA ELIYA

**G D LIYANAGAMA**  
Asst. Branch Manager, Kotmale

**M P JONEY**  
Branch Manager, Dickoya

**E N D JAYARATHNA**  
Area Manager

**S T PRASANNA**  
Branch Manager, Ragala

**U D G D NANAYAKKARA**  
Branch Manager, Ginigathena

**M P D D KUMARA WIJESIGNHE**  
Asst. Branch Manager, Gampola



## TRINCOMALEE

**P VATHANAN**  
Asst. Branch Manager, Kuchchaveli

**N NITHIYANANTHAN**  
Branch Manager, Trincomalee

**E THIRUCHELVAM**  
Senior Area Manager

**S RAJESWARAN**  
Senior Branch Manager, Valachchenai

**S NIRUSHAN**  
Asst. Branch Manager, Thampalakamam

**S RAVICHANDRAN**  
Branch Manager, Seruwewara



## BATTICALOA

**G GAJAROOBAN**  
Asst. Branch Manager, Kaluwanchikudy

**M ARJUN**  
Branch Manager, Chenkalady

**P A AJITHSIRI**  
Area Manager

**B VITHURSHANA**  
Branch Manager, Aryampathy

**S SENTHURAN**  
Asst. Branch Manager, Kalmunai

**B THILEEPAN**  
Asst. Branch Manager, Akkaraipaththu



## NORTHERN

**E JEYARUBAN**  
Asst. Branch Manager, Mullaitivu

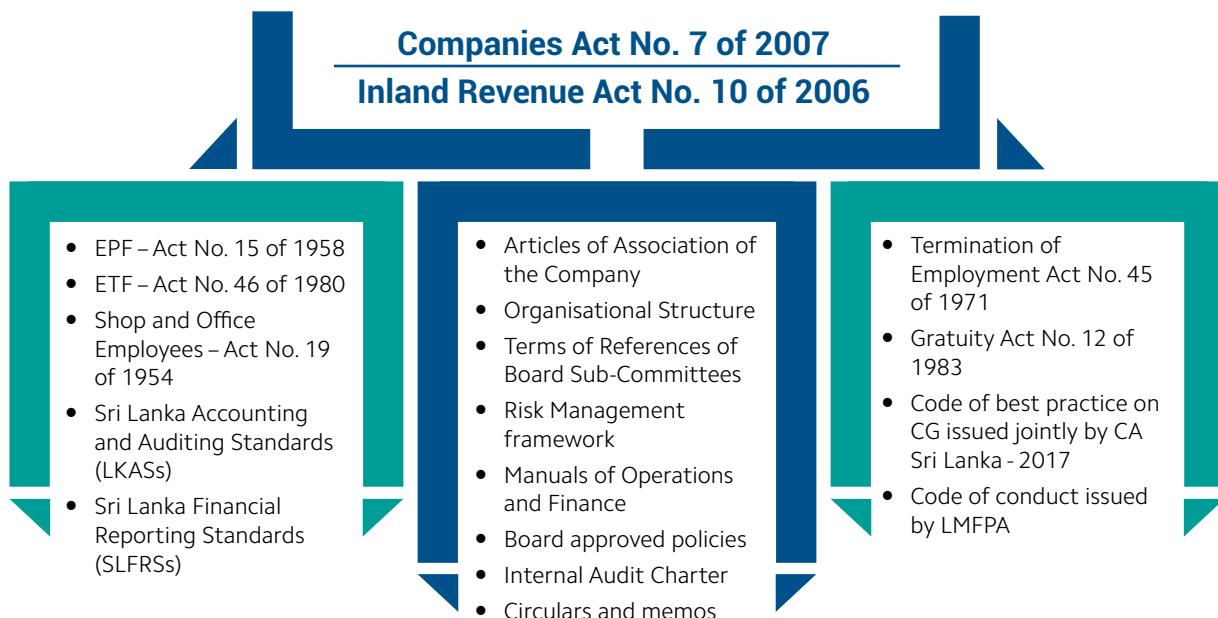
**K THUSHANTHAN**  
Area Manager

**R RAJESWARAN**  
Asst. Branch Manager, Kilinochchi

**S VITHUSH**  
Asst. Branch Manager, Vavuniya

# Corporate Governance

## THE GOVERNANCE ENVIRONMENT OF THE COMPANY



## INTERNAL GOVERNANCE STRUCTURE

Internal governance structure of BMIC is embedded within the organisation and as a result, has an impact on the execution and monitoring of all governance related initiatives, systems and processes. The Internal Governance Structure encompasses;

- 1.1. Shareholders
- 1.2. The Board of Directors
- 1.3. Board appointed Sub-Committees
- 1.4. Employee Empowerment

As represented in the governance framework, the above components are strengthened and complemented by internal policies, processes and procedures.



## Shareholders

BMIC's highest governing body is the shareholders. BMIC's sole shareholder is Berendina Development Services (Guarantee) Limited exercise the influence through Annual General Meeting (AGM) and through resolutions. The AGM resolves;

- Adopting the Annual Report and the Audited Financial Statements
- Appointing the Auditors
- Appointment of Directors and fixing Directors' Fees and Remunerations

## Board of Directors

Second governing body of BMIC is its Board of Directors. In carrying out its responsibilities, the Board promotes a culture of openness, and constructive dissent.

## Board Responsibilities

- Formulating, implementing and monitoring of business Strategies

Developing and implementing annual business plan, annual budgets and managing day-to-day operations are fulfilled by the corporate management team under the supervision of the Board of Directors. The Board is responsible for formulation, implementation and monitoring of business strategies with the participation of corporate management team, with area managers and branch managers. The decisions are taken in a participatory manner. The annual schedule of programme is designed in line with the overall business strategy for the year based on the 3-year business plan. This schedule and financial budget is approved by the Board of Directors and evaluate the progress of the programmes against the approved plan twice a year.

- Monitoring and evaluating internal control

The Board of Directors is responsible for ensuring the adequacy and integrity of the organisation's internal policies, procedures and controls. Board members regularly conduct field visits to review the progress of the development programmes and they monitor whether the internal controls, integrity of information, and risk management policies are in place. The internal audit team is directly reporting to the Management Audit Committee while the external auditors are directly reporting to both local and foreign members of the shareholder BDS. In addition, external consultants are regularly engaged to advise upon and present a balanced view on the organisation's key processes and activities to the Board of Directors.

- Compliance with laws, regulations and ethical standards

The Company has been following ethical standards in carrying out operations while taking relevant measure to comply with laws and regulations wherever possible.

- Consider all stakeholder interest in corporate decisions

The Board of Directors ensures minimum or no negative aspects towards stakeholders in the corporate decision making process.

- Adoption of appropriate accounting policies and fostering compliance with financial regulations

The Company's Accounting Policies are prepared based on the Sri Lanka Accounting Standards (SLFRS and LKAS) and industry best practices. Further, such policies are reviewed annually and updated accordingly to reflect the true and fair financial position of the Company. Financial Statements of the Company are prepared and presented in compliance with the Sri Lanka Accounting Standards (SLFRSs and LKAS) and also comply with the requirements of the Companies Act No. 7 of 2007 and the directions issued there under. The Independent Auditor's Report is given on page 93 of this Report.

- Access to advice and services of the Company Secretary

All the Directors have access to the advice and service of the Company Secretary. The Secretary ensures that Board procedures are followed and are in compliance with the provisions of the Companies Act No. 7 of 2007 and other applicable rules and regulations. The Secretary possesses the required qualifications as per the Companies Act and only the Board has the authority to change the Secretary.

## Board Composition

As at 31st December 2017, the Board of Directors comprised of two Executive Directors and two Non-Executive Directors including the Chairman and one Independent Director.

Name of the Director	First Date of Appointment
1. Mr. G J Chandana	1st June 2017
2. Mr. H A Anura	20th November 2014
3. Mr. T D C Fernando	20th November 2014
4. Ms. J G V Shankar	16th June 2015

## Changes of the Board

On 26th October 2017, Mr. Godakandage Jagath Chandana was appointed as the Chairman, Mr. Hewa Athapaththuge Anura was appointed as the Managing Director and Mr. Thebuwanage Duminda Charith Fernando was appointed as the Deputy Managing Director. All the directors are to be proposed to reappoint in the Annual General Meeting to be held on 23rd March 2018 as per the Notice of the Meeting on page 130 of this report.

# Corporate Governance

## Separate Roles of the Chairman and the Chief Executive Officer

The roles of the Chairman and the Chief Executive Officer are held by two separate persons to ensure the balance of power and authority of the positions while enhancing the independence of the Board decision making.

## Board Skills

The Board is experienced in microfinance, small enterprise development, social & livelihood development, NGO management, financial management and other related aspects coupled with passion and commitment towards poverty alleviation.

## Access to Independent Professional Advice

In order to preserve the independence of the Board and to strengthen the decision making, the Board seeks independent professional advice for finance, legal, HR and IT when deemed necessary.

## Board Meetings

Name of the Director	Executive	Non-Executive	Independent	Non-Independent	Attendance at Board Meetings		
					24.05.2017	22.09.2017	19.12.2017
1 Mr. G J Chandana		✓	✓		✓	✓	✓
2 Mr. H A Anura	✓			✓	✓	✓	✓
3 Mr. T D C Fernando	✓			✓	✓	✓	✓
4 Ms. J G V Shankar		✓	✓		✓	✓	✓

✓ - Present

## Board Appointed Sub-Committees

### Management Audit Committee

The Board of Directors initiated the establishment of an Audit committee in 2015 and in 2016 the Chairman & members were formally appointed as per the approved Terms of Reference of the Management Audit Committee. The role of the Audit Committee is to assist the Board in fulfilling its oversight responsibilities for the integrity of the financial statements of the Company, the internal control and risk management systems and its compliance with legal and regulatory requirements, the external auditors' performance, qualifications and independence, and the adequacy and performance of the internal audit function.

### HR Committee

The HR Committee of BMIC determines and agrees with the Board on a framework for considering targets, and benchmark principles for any performance related pay schemes within terms of agreed framework, determine total remuneration package of each employee, keeping in view; performance, industry trends, past remuneration and succession planning of Key Management Personnel.

BOD remuneration is decided at the AGM by the approval of shareholders. Critical HR decisions are taken by the HR Committee, a team that includes Directors, Head of HR and Head of Finance. These include special increments if any, Staff Promotions/designation changes and issues related to employment which is raised by respective employees. In addition, the committee discuss and take decisions on calculating of Cost of Living allowances, developing new HR policies and updating any out dated circulars and procedures, staff scholarship circulars, and the staff grading system. The HR Committee strives for continuous improvement of HR processes and systems in the most effective and efficient manner in line with best practices in HR.

Name of the Director	Attendance to Sub-Committee Meetings	
	Management Audit Committee	HR Committee
<b>Number of meetings held</b>	4	1
1 Mr. G J Chandana	N/A	1
2 Mr. H A Anura	N/A	1
3 Mr. T D C Fernando	4	1
4 Ms. J G V Shankar	N/A	1

### Employee Empowerment

Given the importance BMIC places on its employees for the growth of the organisation, policies, processes and systems are in place to ensure effective recruitment, development and retention of this vital stakeholder. The bedrock of these policies is the BMIC's competency framework.

Top management and other senior staff are mandated to get involved in formulating goals, strategies and plans, while all levels of staff are encouraged to participate in decision making as appropriate for each level, in order to instill a sense of ownership, reduce bureaucracy and speed-up the decision making process.

BMIC creates an environment for employees' to express independent opinions at decision making forums and initiates discussions by obtaining operational level feedback for critical aspects of new developments. Use of the inputs of field level staff in all operational decision making processes gives them a high sense of value for their constructive inputs in the decision making process.

# Corporate Governance

BMIC strongly believes that constructive disagreement is essential for optimal decision making. Moreover, BMIC provides a safe, secure and conducive environment for its employees, allows freedom of association and collective bargaining, prohibits child labour, forced or compulsory labour and any discrimination based on gender, race or religion, and promotes a workplace which is free from physical, verbal or sexual harassment.

## INTEGRATED GOVERNANCE

### Human Resource Governance

BMIC human resource governance is designed in a manner that enables accessibility of any employee to every level of management. BMIC provides equal opportunity to staff at all levels of the organisation's hierarchy and constant dialogue is facilitated to address work related issues as well as concerns pertaining to general interest that could affect employees. BMIC follows an open door policy for its employees and this is promoted at all levels of the organisation.

### Performance Management

The Performance Management System is at the heart of many supporting human resource management processes such as learning and development, career development, succession planning, talent management, rewards/recognition and compensation/benefits.

BMIC conducted local and foreign exposure visits and special seminar sessions for employees to uplift their soft and hard skills. The Company also selected the "best employee of the year" which entitle the towards holder gifts in the form of cash and non-cash benefits. BMIC has a policy to prioritise internal staff members for job openings.

### Channels to Reach All Stakeholders of the Company

### Principal Activities

The principal activities of the Company include providing Micro loan facilities for asset building, business starting, business expansion, agriculture etc. The aim of BMIC is to build a sustainable microfinance organisation by providing financial & enterprise development services to the poverty affected communities in an efficient and productive manner.

### Financial Reporting

The Board of Directors is responsible for the preparation and fair presentation of the Financial Statements in accordance with Sri Lanka Financial reporting standards (LKAS/SLFRS).

### Auditors Report

The Auditors report on the Financial Statements of the BMIC is given on page 93 of this report.

### Related Party Transactions

The BMIC considers its Board of Directors and Members of corporate management as the key management personnel. Details of related party transactions are described on Financial Statements of the BMIC under Note 26 on pages 113 to 114 of this report.

### Internal Control

"The Directors statement on internal control" acknowledges their responsibility for a sound system of internal control.

### Going Concern

The going concern has been adopted in the preparation of the Financial Statements after making necessary inquiries and reviews. The management is confident that the BMIC has adequate resources to continue its operational existence for the foreseeable future.

## ASSURANCE MECHANISMS

The Assurance Mechanisms comprise of the various supervisory, monitoring and benchmarking elements of the BMIC Corporate Governance System which are used to measure actual against plan with a view to signaling the need for quick corrective action, when necessary. These mechanisms also act as safety nets and internal checks in the governance system. The Board of Directors together with the corporate management team are committed towards assuring the best corporate governance mechanisms.

### BMIC Code of Conduct

The objectives of the Code of Conduct are strongly affirmed by a strong set of Corporate Values which are well institutionalised at all levels within the Company through structured communication. BMIC endeavors to adhere to and comply with the rules and regulations applicable in the territories that BMIC operates in at all times. Importance of conducting business in an ethical manner at all times in

# Corporate Governance

keeping with acceptable business practices and exercising professionalism and integrity in all business, public and personal transactions is strongly emphasised. The degree of employee commitment in upholding corporate values and their degree of loyalty to the BMIC Code of conduct are the key elements of reward and recognition schemes.

The BMIC strategic vision, mission and goals disclosed in the Annual Report have been consistently referred to by the Chairman, Board of Directors, Sector and Business Unit Heads during employee and other key stakeholder engagements.

## REGULATORY AND ACCOUNTING BENCHMARKS

The Board and the members of the corporate management, strive to ensure that the Company complied with the laws and regulations of the country.

The Board of Directors also took all reasonable steps in ensuring that all Financial Statements were prepared in accordance with the Sri Lanka Accounting Standards (SLFRS/LKAS) issued by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka). Information in the financial statements of the Annual Report are supplemented by a detailed Management Discussion and Analysis which explains to stakeholders the strategic, operational, investment, sustainability and risk related aspects of the Company that have translated into the reported financial performance and are likely to influence future results. BMIC is fully compliant with all the mandatory rules and regulations stipulated by the Companies Act No. 7 of 2007.

The BMIC has also given due consideration to the Best Practice on Corporate Governance Reporting guidelines jointly set out by CA Sri Lanka and the SEC (Securities & Exchange Commission) and embraced such practices voluntarily where relevant and value adding.

# Corporate Governance

## **THE CODE OF BEST PRACTICE ON CORPORATE GOVERNANCE ISSUED JOINTLY BY THE SECURITIES AND EXCHANGE COMMISSION (SEC) OF SRI LANKA AND THE INSTITUTE OF CHARTERED ACCOUNTANTS OF SRI LANKA (CA SRI LANKA)**

Rule Reference	Principal	Compliance Status	Extent of Adoption
<b>A. Directors</b>			
A.1.1	Board Meetings	BMIC has conducted three board meetings in 2017.	Partially Complied
A.1.2	Board Responsibilities	<p>The BOD of BMIC is responsible for following;</p> <ul style="list-style-type: none"> <li>• Formulating, implementing and monitoring of business Strategies</li> <li>• Monitoring and evaluating internal control</li> <li>• Compliance with laws, regulations and ethical standards</li> <li>• Consider all stakeholder interest in corporate decisions</li> <li>• Adoption of appropriate accounting policies and fostering compliance with financial regulations</li> <li>• Access to advice and services of the Company Secretary</li> </ul>	Complied
A.1.3	Independent professional advice	In order to preserve the independence of the Board and to strengthen the decision making, the Board seeks independent professional advice for finance, legal, HR and IT when deemed necessary.	Complied
A.1.4	Access to the Company Secretary	All the Directors have access to the advice and service of the Company Secretary. The Secretary ensures that Board procedures are followed and are in compliance with the provisions of the Companies Act No. 07 of 2007 and other applicable rules and regulations. The Secretary possesses the required qualifications as per the Companies Act and only the Board has the authority to change the Secretary.	Complied
A.1.5	Independent judgment of Directors	All Directors bring independent judgement on decisions taken by the Board including strategy, performance, resource allocation, risk management, compliance and standards of business conduct.	Complied
A.1.6	Directors' dedication of adequate time and efforts	All Directors of BMIC dedicate sufficient time and efforts in decision making.	Complied
A.1.7	Board Resolutions	All the major decisions will be taken through resolutions including shareholder resolutions and Board resolutions separately.	Complied
A.1.8	Training for Directors	Board of Directors are given opportunity to get trained. Exposure visits, participating to conferences, etc. are arranged to train the Directors.	Complied
A.2.1	Separation of Chairman and Chief Executive Officer (CEO)	The Company has two separate individuals as the Chairman and the Chief Executive Officer. The powers and authorities have distributed separately to insure independence of Board decision making.	Complied

# Corporate Governance

Rule Reference	Principal	Compliance Status	Extent of Adoption
A.3.1	Role of Chairman	The Chairman of the Company chairs the Board meetings and the agenda is prepared with the BOD suggestions and the Company Secretary relating to strategy, performance, resource allocation, risk management and compliance and the detailed information is shared among Directors prior to Board meeting. All the directors are participating for the Board meeting. The meeting minutes are prepared accordingly.	Complied
A.4	Availability of sufficient financial acumen	All the Directors are well experienced in micro financing, finance management and other related areas.	Complied
A.5.1	Board Composition	The Company's Board comprise of one half of Non-Executive Directors.	Complied
A.5.2	Composition of Independent Directors in the Board	One half of Non-Executive Directors of the Company are independent Directors.	Complied
A.5.3	Independent Director requirements	The Independent Director is free from any business or other relationship that materially interfere with independent judgement.	Complied
A.5.4	Declaration of Independence	Non-Executive Directors of the Company has submitted annual declaration of his/her independence.	Complied
A.5.5	Determination of independence of the Directors by the Board	The Board determines the independence or non-independence of each Non-Executive Director annually.	Complied
A.5.6	Alternate Director	The requirement for appointing an Alternate Director has not arisen.	Not Applicable
A.5.7 & A.5.8	Senior Independent Director	The Chairman and the CEO are two separate persons in the Company.	Not Applicable
A.5.9	Meetings with Non-Executive Directors	No meetings were held by the Chairman with the Non-Executive Director.	Not Complied
A.5.10	Concerns recorded in Board Meeting Minutes	All the Board Meetings discussions are recorded as minutes and tabled in the following Board Meeting.	Complied
A.6.1	Information to the Board by Management	The management provide the information in appropriate and timely manner to the Board. The Chairman also ensures all information is briefed to all Directors.	Complied
A.6.2	Notice of Board Meeting and Minutes	The notice of Board Meetings is provided to Directors before 7 days and the minutes of the meeting are shared within two weeks after the meeting.	Complied
A.7.1	Nomination Committee	The Board as a whole decides on the selection of new Directors.	Not Complied
A.7.2	Assessment of Board Composition	The Board annually assesses the Board composition, to ascertain whether the combined knowledge and experience of the Board matches the strategic demands facing the Company and results are considered for new Board appointments and re-election of Directors.	Complied
A.7.3	Disclosure of details of new Directors to Shareholders	No new directors were appointed during the period.	Not Applicable
A.8.1	Re-appointment of Non-Executive Directors	Non-Executive Directors are re-appointed annually in AGM.	Complied
A.8.2	Election of Directors	Executive Directors are re-appointed annually in AGM.	Complied

# Corporate Governance

Rule Reference	Principal	Compliance Status	Extent of Adoption
A.8.3	Resignation of Directors	Resignation of a Director has not arisen.	Not Applicable
A.9.1 & A.9.2	Appraisal of Board Performance	The Company review the performance of the Board and its committees annually.	Complied
A.9.3	Mode of Board performance appraisal	Annual self-evaluation of the Board and its Committees are conducted annually.	Complied
A.9.4	Disclosing the Performance Evaluations in Annual Report	The Company has not disclosed how the evaluations have been conducted in the Annual Report.	Not Complied
A.10.1	Disclosure of details of Directors in the Annual Report	The name, qualifications and a brief profile including nature of expertise of all the Directors have been set out on pages 64 and 65 of this report.	Complied
A.11.1	Financial and non-financial targets for the CEO	At the commencement of the financial year, reasonable financial and non-financial targets for the CEO are set by the Board in consultation with the CEO in line with the short, medium and long-term objectives of the Company.	Complied
A.11.2	Evaluation of the performance of CEO	Performance of the CEO is evaluated annually base and the variances are identified with adequate reasons.	Complied
<b>B. Directors' Remuneration</b>			
B.1.1	Remuneration Committee	Remunerations and Fees of all the Directors are decided and approved in the AGM by the shareholders.	Partially Complied
B.1.2	Composition of the Remuneration Committee	All the Directors participate for the AGM and one half of Directors are Non-Executive Directors.	Complied
B.1.3	Remuneration Committee disclosures in the Annual Report	As there is no remuneration committee and the remunerations of the Directors are decided at the AGM, no disclosure has made in the Annual Report.	Not Complied
B.1.4	Remuneration of Non-Executive Directors.	Remuneration of Non-Executive Directors are also decided and approved in the AGM by shareholders.	Partially Complied
B.1.5	Consultation of the Chairman or the CEO and access to professional advice	Remuneration of Executive Directors are decided with the consultation of the Chairman and/or CEO and professional advices are taken where necessary.	Complied
B.2.1& B.2.2	Remuneration of Executive Directors	The remuneration framework of the Executive Directors has been designed to attract, retain and motivate them of the quality required and avoid paying more than what is necessary for the purpose and promote long term success of the Company.	Complied
B.2.3	Positioning remuneration levels of the Company	The remuneration levels of the Company takes account of such levels in comparable companies while paying attention to its relative performance.	Complied
B.2.4	Comparison of Remuneration within the Group	This is not applicable as there are no units comparable for this purpose within the Group.	Not Applicable
B.2.5	Inclusion of performance-related elements in the Executive Directors' remuneration	Executive Directors' remuneration has designed and tailored to align their interests with those of the Company	Complied
B.2.6	Executive Share Options	No Executive share options are available for Directors.	Not Applicable

# Corporate Governance

Rule Reference	Principal	Compliance Status	Extent of Adoption
B.2.7	Designing the remuneration of Directors	Performance related remuneration schemes for Directors are designed based on the provisions set out in Schedule E.	Partially Complied
B.2.8	Early termination of Directors	Such situation has not arisen during the year.	Not Applicable
B.2.9	Early termination where compensation commitment not included in the initial contract	Such situation has not arisen during the year.	Not Applicable
B.2.10	Remuneration for Non-Executive Directors	Non-Executive Directors' remuneration has been calculated to reflect time commitment, responsibilities of their role and market practices. No share options available for Non-Executive Directors.	Complied
B.3.1	Disclosure of remuneration	Directors remuneration policies are not mentioned as the remuneration of Directors are decided at AGM. HR Committee Report has included for employee remuneration policies settings.	Not Complied
<b>C. Relations with Shareholders</b>			
C.1.1	Sharing AGM documents	The Company share its AGM Notice of Meeting and all other related documents to shareholders as determined by the statute, before the meeting.	Complied
C.1.2	Separate resolutions for separate issues	According to the Articles of Association of the Company, the Accounts are proposed to adopt and will be recorded in the AGM minutes.	Complied
C.1.3	Use of proxy votes	The Company has adopted a methodology to count all proxy votes and to indicate the level of proxies lodged on each resolution if any.	Partially Complied
C.1.4	Availability of Board Sub-committee Chairmen at the AGM	The Chairman of the Board ensures that Chairmen of all Sub-committees namely, Audit Committee and HR Committee are available at the AGM on request to answer questions raised at the AGM. However, only the Chairman of HR Committee is presented at the AGM.	Complied
C.1.5	Procedure of voting at General Meetings	Notice and the summary of the procedures governing voting at the meeting including any other business to be transacted at the meeting are circulated to the shareholders along with the Annual Report.	Complied
C.2.1	Channel to reach all shareholders of the Company	Annual Report is the main channel of communication with sole shareholder BDS and it is shared with the shareholder in a timely manner.	Complied
C.2.2	Policy and Methodology for communication with shareholders	The Company has adopted an open communication policy with its shareholders by making them available timely, relevant and accurate information with fair disclosures	Complied
C.2.3	Disclosure of Implementation of the above Policy and Methodology	Printed Annual Reports are sent along with the Notice of the AGM. Annual Report is published in the Company website.	Complied
C.2.4	Contact person for communication	The Directors and the Senior Management could be contacted by the shareholders. The contact details are available in the Company's website and in the Annual Report. Also for any questions, requests and comments, shareholders may at any time contact Company Secretary/the person mentioned in the Annual Report on page 4 of this report.	Complied

# Corporate Governance

Rule Reference	Principal	Compliance Status	Extent of Adoption
C.2.5	Make Directors aware regarding major concerns	Directors are well aware about the major issues and concerns of shareholders.	Complied
C.2.6	Communication by the shareholders with the Company	The Company Secretary receives all the correspondence and delivers to the Board or relevant individual Director at the earliest possible time.	Complied
C.2.7	The process for responding to shareholders' matters	Through the Company's Board Secretary, the Board or individual Director/s will respond to shareholders' matters.	Complied
C.3.1	Major transactions	Assets and Liabilities transfer from BMI to BMIC was taken place on 30th September 2017 after obtaining the approval from the shareholder by a special resolution after issuing an ordinary resolution by the Directors of the Company.	Complied
C.3.2	Major and Material Transactions in Public Listed Companies	BMIC is not a Public Listed Company.	Not Applicable
<b>D. Accountability and Audit</b>			
D.1.1& D.1.2	Board's responsibility for statutory and regulatory reporting	Annual Financial Statements and reports required as per statutory requirements have been presented as per the requirements of the Companies Act No. 07 of 2007.	Complied
D.1.3	Declarations in the Directors' Report	The Chief Financial Officer and the CEO with another Director have certified the financial statements.	Complied
D.1.4 & D.1.5	Declaration by the Directors and Responsibility of the Board for preparation and presentation of Financial Statements	This has included in the Statement of Directors Responsibilities for Financial Reporting on page 89 of this report.	Complied
D.1.6	Management Discussion & Analysis	Management Discussion and Analysis is on pages 30 to 62 of this report.	Complied
D.1.7	Requirement for calling EGM if the net assets fall below 50% of the shareholders' funds	Such situation has not arisen during the year.	Not Applicable
D.1.8	Disclosure of Related Party Transactions	Related Party Transactions are disclosed under Note 26 in the Financial Statements on pages 113 to 114 of this report.	Complied
D.2.1	Annual review of risks and the effectiveness of the internal control system	The Board monitors the Company risk management and internal control systems monthly and take effective actions where relevant.	Complied
D.2.2	Assessment of Risks	Risk Management Review is on pages 82 to 84 of this report.	Complied
D.2.3	Internal Audit Function	There is an internal audit function in the Company.	Complied
D.2.4	Audit Committee	Internal Audit Committee Report is on page 85 of this report.	Complied
D.2.5	Directors' responsibilities on internal control	Directors' Statement on Internal Control is on page 90 of this report.	Complied
D.3.1	Composition of Internal Audit Committee	The Chairperson of the Committee is an external consultant who is independent. Internal Audit Committee Report is on page 85 of this report.	Partially Complied

# Corporate Governance

Rule Reference	Principal	Compliance Status	Extent of Adoption
D.3.2	Duties of the Audit Committee & Terms of Reference	The Audit Committee monitors and reviews the scope and results of the audits and its effectiveness, independence and objectivity of the Auditors. There is a separate Terms of Reference for the Internal Audit Committee which is reviewed annually.	Complied
D.3.3	Disclosures of the Audit Committee	The members of the Audit Committee are given in the Audit Committee Report on page 85 of the report.	Complied
D.4.1	Related party and related party transactions	Related party and related party transactions are defied as LKAS 24.	Complied
D.4.2	Related Party Transactions (RPT) Review Committee	No related party transactions review committee has established in the Company.	Not Complied
D.4.3	Authority & Duties of RPT Review Committee	There is no Terms of Reference, since there is no RPT Review committee. However, the transactions are recorded in accordance with LKAS 24.	Partially Complied
D.5.1	Code of Business Conduct and Ethics	There is a code of business conduct and ethics using operational manuals and finance manuals. Apart from those manuals, circulars and memos are used to inform changes in the code of business conduct and ethics. The Company also adhere to all laws and regulations.	Complied
D.5.2	Material and price sensitive information	The Company has processes to ensure material and price sensitive information is promptly identified and reported in accordance with the relevant regulations.	Complied
D.5.3	Share purchasing process	No shares are issued to director, key management personnel or any other employee involved in financial reporting.	Not Applicable
D.5.4	Chairman's affirmation	The Chairman of the Company affirm that no breach of code of business conduct and ethics have violated and the code of business conduct and ethics has introduced throughout the organisation.	Complied
D.6.1	Corporate governance disclosures	The corporate governance of the Company is on the pages 70 to 81 of this report.	Complied
<b>E. Institutional Investors</b>			
E.1.1	Shareholder views to the Board	The Company is not a listed company; however, shareholders' concerns are communicated to the Company Board by the Chairman.	Not Applicable
E.2	Evaluation of governance disclosures	Governance disclosures are evaluated periodically including board structure and composition, etc.	Complied
<b>F. Other Investors</b>			
F.1	Investing/divesting decision	The Company is not a listed entity. Therefore, only known parties can purchase shares.	Not Applicable
F.2	Shareholder voting	Sole shareholder participates in AGM and express single voting.	Complied

# Corporate Governance

Rule Reference	Principal	Compliance Status	Extent of Adoption
<b>G. Internet of Things and Cyber Security</b>			
G.1	Cyber risks	The Company's IT division continuously identifies the cyber risks and update the Board and the staff. Also, proactive actions are taken whenever it is necessary to do so.	Complied
G.2	Chief Information Security Officer (CISO)	There is no CISO in the Company, however, policies to protect from cyber risk are introduced by the IT Department.	Partially Complied
G.3	Cyber risk discussions at the Board meetings	Whenever necessary, cyber risks and other related matters are discussed in the board meetings.	Complied
G.4	Periodic Review	Independent periodic reviews of cyber risk management are not conducted in the Company	Not Complied
G.5	Process of identifying cyber security risk	The process has not disclosed in the Annual Report.	Not Complied
<b>H. Environment, Society and Governance (ESG)</b>			
H.1.1	Disclosure of environmental, social and governance factors (ESG Factors)	All the environmental, social and governance factors that affect the Company are discussed under Management Discussion and Analysis on pages 30 to 62 in this report.	Complied
H1.2.1	Environmental governance	The Company has a separate environmental officer who conducts environmental protection programmes within the Company and with the clients. Natural Capital on pages 59 to 62 of the report further elaborate the activities.	Complied
H1.3.1	Social Factors	Social factors implemented by the Company are included in Management Discussion and Analysis on the pages 30 to 62 of the report.	Complied
H.1.4.1	Governance Structure	The Company has its own governance structure to support its ability to create value and manage risks.	Complied
H.1.5.1	Board's role on ESG factors	ESG reporting is periodically completed.	Complied

# Risk Management Review

BMIC understands the importance of performing risk assessments periodically to mitigate any risks involved in its overall risk management process. Therefore, BMIC considers comprehensive risk assessment to be a critical part of identifying and addressing the BMIC strategy, operational model, external environment and financial concerns.

The Board of Directors bears the ultimate responsibility for oversight of risk management of BMIC and determines the risk treatments and reviews the governance structure, policy framework, risk management processes and other matters related to the effective management of risk on a regular basis.



## 1. RISK IDENTIFICATION

BMIC is exposed to a number of risks which comes with the potential to impact the organisational ability to achieve strategic goals including financial performance. Identifying the different types of risks and their attendant consequences is vital for a smooth run of an organisation. Having a risk management framework helps to maintain the balance between risk and reward, reduce possible unwelcome surprises, allow strategic planning and timely response permitting BMIC to make use of the scarce resources in an effective manner.

## 2. RISK ANALYSIS

Risk assessment framework includes discussions with employees at all levels and departments of BMIC. The employees are requested to recognise what they perceive as key risks within their areas, while gathering ideas of ways to effectively address or mitigate them. Special attention is paid to those risks that can have a significant likelihood of occurrence. Mapping the risks based on their likelihood of occurrence and the potential impact if they occur, is a key part of risk analysis.

## 3. RISK TREATMENT

The history, culture, ethics, policies, ongoing compliance and employee intent are some factors that are taken into consideration, while assessing the likelihood and impact of the risks. Categorising the probability of a risk occurrence is made using the scale minor, moderate or severe. Such rating has allowed BMIC to protect its reputation aptitude and demeanor from any impediment.

## 4. RISK MONITORING AND REVIEW

BMIC has segregated duties regarding oversight of assets, reporting and payments to have sufficient verification and balances to protect against fraud or misuse of assets. BMIC pays effective consideration to controls over payments and having an appropriate reconciliation process by keeping track of inventory, reimbursement of travel expenses and similar matters. Whilst some risks can be managed by the organisation, there are other, Macroeconomic risks and Macro prudential regulatory and legal risks that need to be monitored in order to assess their impact.

A periodic risk assessment of the BMIC has identified the following as potential risks and steps to mitigate them.

# Risk Management Review

Identified Risk	Describe Identified Risk	Mitigation Activities
Credit Risk	Credit risk is simply defined as the potential that a borrower or counter party will fail to meet their obligations in accordance with agreed terms. This comprise of counter party risk, concentration risk and settlement risk. Management of credit risk is critical to BMIC and our approach is to enhance value through credit risk management beyond mere regulatory compliance. It is managed through the credit risk management framework approved by the Board.	<ul style="list-style-type: none"> <li>Strict evaluation of client's credit worthiness with emphasis on payment capacity.</li> <li>Special attention given to the "Credit Assessment" criteria in staff training curriculum, especially for Microfinance Officers.</li> <li>A comprehensive MIS which supports a wide area of credit, EDS and other critical information analysis.</li> <li>Consistent follow-up and strong recovery system that ensures and maintains a lower NPL.</li> <li>Follow a strong delinquency management system.</li> <li>Conducting monthly progress review meetings.</li> <li>Prioritising build up financial literacy of clients.</li> </ul>
Market Risk	Market risk is the potential of an adverse impact on the earnings or capital due to changes in interest rates, foreign exchange rates, commodity prices or equity and debt prices. BMIC is more exposed to interest rate risk due to loans and receivables and borrowings.	<ul style="list-style-type: none"> <li>The Board regularly monitors financial, economic and industry indicators to keep abreast of interest rate volatilities in order to minimise the impact on operational performance.</li> </ul>
Strategic Risk	Strategic risks are typically external or affect the most senior management decisions. As such, they are often missed from many risk registers. The Board has a responsibility to make sure all these types of risks are included in their key strategic discussions	<ul style="list-style-type: none"> <li>Three times per year the Board of Directors gathered and discussed particular matters that impact the organisation and its decisions. The Board members are involved in key operational decisions also on day-to-day basis.</li> </ul>
Reputation Risk	Reputation risk is a risk of loss resulting from damages to a firm's reputation, in lost revenue, increased operating, capital or regulatory costs or destruction of shareholder value, consequent to an adverse or potentially criminal event even if the Company is not found guilty. Adverse events typically associated with reputation risk include ethics, safety, security, sustainability, quality, and innovation. Reputational risk can be a matter of corporate trust and this type of risk can be informational in nature that may be difficult to realise financially.	<ul style="list-style-type: none"> <li>Monitoring and evaluating the compliance of statutory and legal requirement by Deputy Managing Director and senior managers.</li> <li>A separate communication department to handle organisation's corporate communication under the direct supervision of the BOD</li> <li>Maintain a comprehensive complaint handling process overseen by senior managers at branch level</li> </ul>
Liquidity Risk	Liquidity risk is the inability to meet contractual and contingent financial obligations as they fall due, without incurring unacceptable losses which result in asset and liability mismatches. Therefore, assess the need for funds to meet obligations and to ensure the availability of adequate funding to fulfil those needs at the appropriate time, both under normal and stressed conditions	<ul style="list-style-type: none"> <li>Cash flows and projections are monitored on weekly, monthly and annual basis</li> <li>Weekly analyse the variance in liquidity position</li> <li>Built up good relationship with funding partners</li> <li>Vigilant deposit and borrowing monitoring and managing process</li> </ul>

# Risk Management Review

Identified Risk	Describe Identified Risk	Mitigation Activities
Operational Risk	BMIC is exposed to operational risk as it is inherent in all products and processes. Operational risk is defined as the risk of losses stemming from inadequate or failed internal processes, people and systems or from external events such as natural disasters, social or political events as well as legal risk.	<ul style="list-style-type: none"> <li>• A comprehensive operational manual in place to maintain operational processes and procedures systematically.</li> <li>• Internal control procedures, policy documents and guidelines are circulated and maintained at all branches.</li> <li>• Annually review all policies and procedures by management team with consultation of BOD and made amendments if necessary.</li> <li>• Internal control processes are audited by internal audit team to mainly cover the scope of there liability of financial information, verify customers outstanding balances, safeguard assets, loan disbursement, recovery and documentation process.</li> <li>• Obtain monthly IT backup and regular system audits carried out by internal audit team. New system implementation process going on to mitigate identified current system weaknesses.</li> <li>• A financial and non-financial incentive system properly designed based on performance and loyalty and made attractive provident fund contribution.</li> <li>• Enabling a learning environment which employees can identify their personal potential and achieve them successfully by sponsoring technical and softskills trainings.</li> <li>• Proper grievance handling procedures and exit interviews to mitigate staff turnover.</li> <li>• The BOD and senior management continuously monitor the changes of statutory and regulatory requirements and ensure the BMIC meets such requirements on time.</li> </ul>

# Report of the Board Internal Audit Committee

The Internal Audit Committee was formed in July 2016 under the name of Management Audit Committee (MAC), consisting of four members appointed by the Board of Directors.

The audit committee consists of the Chairman & three members appointed by the Board, with appropriate skills & expertise, of whom at least one member is external and independent of the Company. The Board annually review the composition of the members of MAC and make necessary changes if required. The present MAC is composed of an external Consultant as the Chairperson, Deputy Managing Director, Head of Finance and the Manager Internal Audit who acts as the Secretary of the audit committee.

During the year 2017 the MAC focused mainly on the following.

- Finalising the branch internal audit reporting & follow up process.
- Review and approve the internal audit plan, staffing and organisation of the function.
- Meeting with internal auditors and discussing matters of concern that arise.
- Monitoring internal and external audit reviews and escalating critical issues to the Board of Directors.

The audit committee meets once a quarter and the minutes of the Committee meetings are tabled at the Board meeting following the Audit Committee meeting. In 2017, MAC met during the months of February, May, August & November.

During the year the Internal Audit department carried out 157 Branch Audits averaging to approximately 5 audits per Branch and two Head Office Audits.



P Harshini Andradi  
*Chairperson*  
Management Audit Committee

# Report of the Human Resource Committee

The HR committee was formed by the BOD in 2017 with the objective of addressing HR related matters and issues and take necessary decisions on time. The Committee is headed by the Managing Director.

## COMPOSITION OF THE COMMITTEE

The committee appointed by the Board of Directors comprises the following members,

Mr. H A Anura – Managing Director/CEO

Mr. T D C Fernando – Deputy Managing Director

Mr. C N Priyankara – Head of Finance

Mr. S M K R Subasinghe – Head of HR & Administration

Mr. A A M Samaranayake – Senior Executive - HR

## COMMITTEE MEETINGS

The committee meets as often as necessary and before the Board meetings to make recommendations on matters pertaining to staff remuneration of the senior management & compensation, increments & staff promotions and other policy level HR matters. Also the certain specific matters that the Board refers for review by the committee.

## COMMITTEE FUNCTIONS & RESPONSIBILITIES

The functions of the committee include review of HR policies, remuneration of senior management, staff development, capacity building, addressing of all HR related issues, and on specific matters referred to the committee by the Board of Directors.

All HR related critical matters which needs to get approval from the Board, should refer to the committee and discuss before submit to the Board.

The committee has involved and initiated to develop a staff grading system in 2017 and implemented since last year. Further, the committee contributed to review staff benefits in greater extent, and as a result of that it has increased staff allowances and incentives. A new staff loan scheme was also introduced in addition to existing staff loan types. Staff training & development was another area that the committee had actively involved into improve staff capacity and soft skills in various disciplines through leading staff development trainers in the country.



H Athapaththuge Anura  
*Chairman*  
Human Resource Committee

# **FINANCIAL STATEMENTS**



# Financial Calendar

Obtained a term loan of LKR 10 Million from SMCGL	1st January 2017
Obtained a term loan of LKR 10 Million from SMCGL	1st February 2017
Obtained a term loan of LKR 10 Million from SMCGL	1st March 2017
Issued 1,800,000 shares at LKR 10 each to BDS	16th March 2017
Obtained a term loan of LKR 65 Million from BDS	24th March 2017
Held the 1st Annual General Meeting of the Company	30th March 2017
Authorization for issue of Audited Financial Statements for 2016	30th March 2017
Obtained a term loan of LKR 100 Million from DFCC Bank	30th March 2017
Obtained a term loan of LKR 10 Million from SMCGL	3rd April 2017
Obtained a term loan of LKR 10 Million from SMCGL	2nd May 2017
Obtained a term loan of LKR 150 Million from HNB	15th May 2017
Obtained a term loan of LKR 13 Million from SMCGL	1st June 2017
Obtained a term loan of LKR 70 Million from BDS	13th June 2017
Obtained a term loan of LKR 10 Million from SMCGL	3rd July 2017
Obtained a term loan of LKR 250 Million from SLSB	10th July 2017
Obtained a term loan of LKR 10 Million from SMCGL	1st August 2017
Obtained a term loan of LKR 70 Million from BDS	30th August 2017
Obtained a term loan of LKR 10 Million from SMCGL	4th September 2017
Transferred Entire Assets & Liabilities from BMI	30th September 2017
Obtained a term loan of LKR 10 Million from SMCGL	2nd October 2017
Obtained a term loan of LKR 20 Million from BDS	6th October 2017
Signed for a term loan facility of LKR 100 Million with SMCGL	10th October 2017
Obtained a term loan of LKR 10 Million from SMCGL	2nd November 2017
Obtained a term loan of LKR 15 Million from BDS	9th November 2017
Issued 55,000,000 shares at LKR 10 each to BDS	17th November 2017
Obtained a term loan of LKR 10 Million from SMCGL	4th December 2017
Signed for a term loan facility of LKR 150 Million with HNB	8th December 2017
Obtained a term loan of LKR 47 Million from BDS	29th December 2017

# Statement of Directors' Responsibilities for Financial Reporting

The responsibilities of the Directors in relation to the Financial Statements of the Company prepared in accordance with the provisions of the Companies Act No. 7 of 2007 are set out in the following statement. The responsibilities of the External Auditor in relation to the Financial Statements are set out in the Report of the Auditors given in page 93 of the Annual Report.

As per the provisions of the sections 150 (1), 151, 166 (1), 167 (1) and 168 of the Companies Act No. 7 of 2007 the Directors are required to prepare Financial Statements that give a true and fair view of the financial position for each financial year and place them before the Annual General Meeting. The Financial Statements comprise the Statement of Financial Position as at end of the financial year, the Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows for the year ended and notes thereto.

The Financial statements are prepared by Senior Accountant under the supervision of Head of Finance. The Directors confirm that the Financial Statements of the Company give a true and fair view of:

1. The state of affairs of the Company as at 31st December 2017; and
2. The financial performance of the Company for the financial year ended 31st December 2017.

The Board of Directors accepts the responsibility of the integrity and objectivity of the Financial Statements presented in this Annual Report. The Directors confirm that in preparing these Financial Statements;

1. The appropriate accounting policies have been selected and applied in a consistent manner and material departures, if any, have been disclosed and explained;
2. Judgments and estimates have been made which are reasonable and prudent; and
3. All applicable Accounting Standards, as relevant, have been complied with.

The Directors are also required to ensure that the Company has adequate resources to continue in operation to justify applying the going concern basis in preparing these Financial Statements. Further, the Directors have a responsibility to ensure that the Company has maintained sufficient accounting records to disclose, with reasonable accuracy in the financial position of the Company.

The Financial Statements prepared and presented in this Report are consistent with the underlying books of account and are in conformity with the requirements of Sri Lanka Accounting Standards (SLFRSs), Companies Act No. 7 of 2007, Sri Lanka Accounting and Auditing Standard Act No. 15 of 1995 and amendments thereto, the Code of Best Practice on Corporate Governance issued jointly by the Institute of Chartered Accountants of Sri Lanka (ICASL) and the Securities Exchange Commission of Sri Lanka (SEC).

The Directors have also instituted effective and comprehensive systems of Internal Control for identifying, recording, evaluating and managing the significant risks faced by the Company throughout the year and it is being under regular review of the Board of Directors. This comprises internal reviews, internal audit and the whole system of financial and other controls required to carry on the business in an orderly manner, safeguard its assets, prevent and detect frauds and other irregularities and secure as far as practicable the accuracy and reliability of the records. The results of such reviews carried out during the year ended 31st December 2017 are given in page 90 of the Annual Report, "Directors' Statement on Internal Control".

Directors are required to prepare the Financial Statements and to provide the Company's external auditor, Messrs Ernst & Young, Chartered Accountants, with every opportunity to carry out whatever reviews and sample checks they may consider appropriate and necessary for expressing their independent audit opinion on the Financials.

The Directors to the best of their knowledge and belief, are satisfied that all statutory payments in relation to all relevant regulatory and statutory authorities which were due and payable by the Company as at the Statement of Financial Position date have been paid or where relevant provided for. The Directors are of the view that they have discharged their responsibilities as set out in this statement.

By order of the Board

Company Secretary  
Corporate Services (Private) Limited  
23rd March 2018

# Directors' Statement on Internal Control Over Financial Reporting

## REQUIREMENT

The 'Code of Best Practice on Corporate Governance 2017 (The Code) issued jointly by the Securities and Exchange Commission and The Institute of Chartered Accountants of Sri Lanka recommends, Board to present a statement on internal controls.

## RESPONSIBILITY

Maintaining a sound system of internal controls to safeguard stakeholders' investment and the Company's assets is the responsibility of the Board of Directors. The Board identifies significant risks on an ongoing basis and ensures the implementation of appropriate systems to evaluate and manage identified risks.

## KEY FEATURES OF PROCESS ADOPTED IN APPLYING AND REVIEWING THE DESIGN AND EFFECTIVENESS OF THE INTERNAL CONTROL SYSTEM ON FINANCIAL REPORTING

The Board established internal control system assist on ensuring the effectiveness of the Company's operations and that the Company's operations are in accordance with corporate objective, strategy and annual budget, policies, business environment and internal operating conditions. The Company internal audit function provides comfort on the efficiency and effectiveness of the Internal Control System. It monitors compliance with policies and procedures and highlights significant findings in respect of noncompliance.

The frequency of audits of branches is determined by the level of risk assessed. The board reviews internal control issues identified by the Company Internal Auditors, External Auditors, regulatory authorities and the management, and evaluates the adequacy of internal control system.

## CONFIRMATION STATEMENT

The Board of Directors of Berendina Micro Investments Company Limited confirm that the financial reporting system has been designed to provide reasonable assurance regarding the reliability of financial reporting and that the preparation of Financial Statements for external purposes has been done in accordance with Sri Lanka Accounting Standards (SLFRSs/LKASs) and Companies Act No. 7 of 2007.



Chairman



Managing Director/CEO



Chairperson  
Management Audit Committee

23<sup>rd</sup> March 2018  
Colombo

# Annual Report of the Board of Directors on the Affairs of the Company

The Board of Directors of Berendina Micro Investments Company Limited have the pleasure in submitting their report together with the audited Financial Statements of the Company for the year ended 31st December 2017.

Berendina Micro Investments Company Limited was incorporated as a public limited liability Company, under the Companies Act No. 7 of 2007. The Company was registered on 20th November 2014 with the registration number of PB 5235.

## PRINCIPLE ACTIVITIES OF THE COMPANY AND THE REVIEW OF PERFORMANCE DURING THE YEAR

The principal activities of the Company during the year were providing Micro Loan facilities for Asset building, Business starting, Business expansion, Agriculture etc. combined with Enterprise Development Services. The aim of the Company is to build a sustainable microfinance organisation by providing financial technical assistance to the most vulnerable segment of the society in an efficient and productive manner.

The Chairman's review on pages 20 to 23 of this report provides an overall assessment of the operational and financial performance of the Company, whilst a detailed analysis of the operational and financial results provided in Financial Capital Section on pages 42 to 45 of this report.

## FINANCIAL STATEMENTS

The complete Financial Statements of the Company prepared in accordance with Sri Lanka Accounting Standards comprising Sri Lanka Financial Reporting Standards by the Institute of Chartered Accountants of Sri Lanka and in compliance with the requirements of section 51 of the Companies Act No. 07 of 2007 inclusive of specific disclosures, duly signed by two Directors on behalf of the Board and the Auditors are given on pages 93 to 122.

## AUDITOR'S REPORT

The Auditor's Report on the Financial Statements is provided in page 93.

## ACCOUNTING POLICIES

The Financial Statements of the Company have been prepared in accordance with Sri Lanka Financial Reporting Standard issued by the Institute of Chartered Accountants of Sri Lanka. The accounting policies adopted in preparation of Financial Statements are provided in pages 100 to 104.

## FINANCIAL RESULTS

	2017 LKR	2016 LKR
Gross Income	324,602,913	85,756,433
Net Interest Income	206,917,343	39,563,366
Profit Before Tax	74,689,934	1,536,370
Profit After Tax	38,872,528	(2,085,884)
Loans and Receivables	3,121,810,223	390,400,858
Total Assets	3,434,952,540	453,715,165
Total Equity	862,785,811	221,323,493

## DIRECTORATE

The names of the Directors who held office as at the end of the accounting period are given below and their brief profiles appear on pages 64 and 65.

Mr. G J Chandana – Chairman

Mr. H A Anura – Managing Director/CEO

Mr. T D C Fernando – Deputy Managing Director

Ms. J G V Shankar – Independent Director

## DIRECTORS' RESPONSIBILITY OF FINANCIAL REPORTING

The Directors are responsible for preparation of Financial Statements of the Company to reflect a true and a fair view of the state of its affairs.

## AUDITORS & TAX CONSULTANTS

Messers Ernst & Young, Chartered Accountants served as the Auditors during the year under review whilst Amarasekera & Company provided non-audit/tax compliance services. As far as the Directors are aware, the Auditors & Tax consultants do not have any other relationship or interest in contracts with the Company.

## RELATED PARTY'S TRANSACTIONS WITH THE COMPANY

Transactions of related parties with the Company are set out in Note 26 to the Financial Statements on pages 113 to 114.

## PROPERTY, PLANT & EQUIPMENT

Details and movements of Property, Plant & Equipment owned by the Company are given in Note 13 to the Financial Statements on page 109.

# Annual Report of the Board of Directors on the Affairs of the Company

## INVESTMENT

Details of investments made by the Company as at 31<sup>st</sup> December 2017 are given in Note 11 to the Financial Statements on page 108

## PROVISIONS

The basis adopted for the provisioning is disclosed in Note 2.6.6 on pages 101 to 102 of the Financial Statements.

## INTERNAL CONTROL AND RISK MANAGEMENT

The Board has taken necessary steps to ensure implementation and monitoring of an effective and comprehensive internal control system covering financial, operational and compliance controls. The Internal Auditors are responsible to review and report on the efficiency of the internal control system and other regulations and the Company's accounting and operational policies and send a report directly to the Board.

A proper risk management process is in place to identify and manage the risks that are associated with the business and the operation of the Company. The directors are time to time reviewing this process through internal auditors. The Risk Management Report on pages 82 to 84 sets out the current management approach adopted by the Company to identify and manage the risks.

## COMMITMENT AND CONTINGENCIES

To the best of knowledge and information available to the Board, there were no material contingencies and commitments as at the reporting date.

## STATUTORY PAYMENTS

The Directors, to the best of their knowledge and belief, are satisfied that all statutory dues have been paid up to date, or where relevant provided for in the Financial Statements.

## 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 disclosure or adjust to the Financial Statements.

## CORPORATE GOVERNANCE

The Company's corporate governance report, which states the compliances and the best practices adopted, is on pages 70 to 81 of this report.

## ANNUAL GENERAL MEETING

The Annual General meeting will be held on 23rd March 2018 at No. 44/3, 3rd Floor, Narahenpita Road, Nawala, Sri Lanka at 12:30 p.m. The Notice of the Annual General Meeting appears on page 130 of the Annual Report.

This report is signed by two directors and secretary of the Company as an acknowledgment of content.



Chairman



Managing Director/CEO



Company Secretary  
Corporate Services (Private) Limited

# Independent Auditor's Report



Ernst & Young  
Chartered Accountants  
201 De Saram Place  
P.O. Box 101  
Colombo 10  
Sri Lanka

Tel : +94 11 2463500  
Fax Gen : +94 11 2697369  
Tax : +94 11 5578180  
eysl@lk.ey.com  
ey.com

WRHF/RM/MFI

## TO THE SHAREHOLDERS OF BERENDINA MICRO INVESTMENTS COMPANY LIMITED

### Report on the Financial Statements

We have audited the accompanying Financial Statements of Berendina Micro Investments Company Limited ("Company"), which comprise the statement of financial position as at 31 December 2017, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### Board's Responsibility for the Financial Statements

The Board of Directors ("Board") is responsible for the preparation of these Financial Statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal control as Board determines is necessary to enable the preparation of Financial Statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these Financial Statements based on our audit. We conducted our audit in accordance with Sri Lanka Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the Financial Statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Financial Statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Financial Statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the Financial Statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the

purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Board, as well as evaluating the overall presentation of the Financial Statements.

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

### Opinion

In our opinion, the Financial Statements give a true and fair view of the financial position of the Company as at 31 December 2017, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

### Report on Other Legal and Regulatory Requirements

As required by section 163 (2) of the Companies Act No. 07 of 2007, we state the following:

- (a) The basis of opinion and scope and limitations of the audit are as stated above.
- (b) In our opinion:
  - 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, and
  - the Financial Statements of the Company, comply with the requirements of section 151 of the Companies Act 07 of 2007.

05th March 2018  
Colombo

Partners: W R H Fernando FCA FCMA M P D Cooray FCA FCMA R N de Saram ACA FCMA Ms. N A De Silva FCA Ms. Y A De Silva FCA W K B S P Fernando FCA FCMA  
Ms. K R M Fernando FCA ACMA Ms. L K H Fonseka FCA A P A Gunasekera FCA FCMA A Herath FCA D K Hulangamuwa FCA FCMA LLB (Lond) H M A Jayasinghe FCA FCMA  
Ms. A A Ludowyke FCA FCMA Ms. G G S Manatunga FCA Ms. P V K N Sajeewani FCA NM Sulaiman ACA ACMA B E Wijesuriya FCA FCMA  
Principal T P M Ruberu FCMA FCCA

A member firm of Ernst & Young Global Limited

# Statement of Comprehensive Income

Year ended 31st December	Notes	2017 LKR	2016 LKR
Gross income	3	324,602,913	85,756,433
Interest income	4	297,941,343	74,717,553
Less: Interest and similar expenses	5	91,024,000	35,154,186
Net interest income		206,917,343	39,563,366
Fee, commission and other income	6	26,661,570	11,038,880
Total operating income		233,578,913	50,602,247
Less: Impairment charges for loans and receivables	12.2	5,926,864	1,969,016
Net operating income		227,652,048	48,633,230
Less: Personnel expenses	7	92,516,828	28,959,268
Less: Depreciation of property, plant & equipment	13	4,516,863	2,602,090
Less: Amortisation of intangible assets	14	390,022	19,271
Less: Other operational expenses	8	55,538,351	15,515,732
Operating profit before value added tax and nation building tax on financial services		74,689,984	1,536,870
Less: Value added tax and nation building tax on financial services		20,875,574	2,437,531
Less: Nation building tax on other services		445,455	-
Profit/(Loss) for the year before income tax		53,368,955	(900,661)
Less: Income tax expense	9	18,665,676	1,202,119
Profit/(Loss) for the year		34,703,279	(2,102,780)
Other comprehensive income (OCI)			
Other comprehensive income not to be reclassified to profit or loss in subsequent periods			
Actuarial gain/(loss) on defined benefit plans	18	5,790,624	13,200
Deferred tax (charge)/reversal on other comprehensive income	15	(1,621,375)	3,696
Other comprehensive income for the period net of tax		4,169,249	16,896
Total comprehensive income for the period net of tax		38,872,528	(2,085,884)

The Accounting Policies and notes to the Financial Statements from page 98 to 122 form an integral part of the Financial Statements.

# Statement of Financial Position

As at 31st December	Notes	2017 LKR	2016 LKR
<b>ASSETS</b>			
Cash and cash equivalents	10	108,341,645	11,156,040
Balances with banks and financial institutions	11	42,068,454	21,513,012
Loans and receivables	12	3,121,810,223	390,400,858
Property plant and equipment	13	27,924,710	8,398,005
Intangible assets	14	4,758,953	165,729
Deferred tax assets	15	2,583,614	4,845,069
Other assets	16	127,464,940	17,236,450
<b>Total assets</b>		<b>3,434,952,540</b>	<b>453,715,165</b>
<b>EQUITY AND LIABILITIES</b>			
<b>LIABILITIES</b>			
Interest bearing borrowings	17	2,108,845,131	195,174,000
Post employment benefit obligation	18	13,579,107	554,788
Other liabilities	19	449,742,491	36,662,884
		<b>2,572,166,729</b>	<b>232,391,672</b>
<b>EQUITY</b>			
Funds and reserves	20	86,993,090	52,403,300
Stated capital	21	748,028,210	180,028,210
Retained Earnings		<b>27,764,511</b>	<b>(11,108,017)</b>
		<b>862,785,811</b>	<b>221,323,493</b>
<b>Total liabilities and equity</b>		<b>3,434,952,540</b>	<b>453,715,165</b>

The Chief Financial Officer certifies that the Financial Statements have been prepared in compliance with the requirements of the Companies Act No. 07 of 2007.



Chief Financial Officer

The Board of Directors is responsible for the preparation and presentation of these Financial Statements. Signed for and on behalf of the Board by;



Managing Director/CEO



Deputy Managing Director

The Accounting Policies and notes to the Financial Statements from page 98 to 122 form an integral part of the Financial Statements.

5th March 2018  
Colombo

# Statement of Changes In Equity

	Unrestricted Funds	Restricted Funds	Assets and Liabilities Transfer Reserve Account	Stated Capital	Accumulated Profit	Total Equity
	LKR	LKR	LKR	LKR	LKR	LKR
Balance as at 1st January 2016	865,800	33,475,000	-	120,028,210	(9,022,133)	145,346,877
Issues of shares for cash	-	-	-	60,000,000	-	60,000,000
Profit/(loss) for the year	-	-	-	-	(2,102,780)	(2,102,780)
Other comprehensive income (net of tax)	-	-	-	-	16,896	16,896
Received during the year	-	18,062,500	-	-	-	18,062,500
Balance as at 31st December 2016	865,800	51,537,500	-	180,028,210	(11,108,017)	221,323,493
Profit for the year	-	-	-	-	34,703,279	34,703,279
Issues of shares for cash	-	-	-	18,000,000	-	18,000,000
Balance transfer from BMI	-	-	565,433,540	550,000,000	-	1,115,433,540
Issues of shares from transfer	-	-	(550,000,000)	-	-	(550,000,000)
Other comprehensive income (net of tax)	-	-	-	-	4,169,249	4,169,249
Received during the year	-	19,156,250	-	-	-	19,156,250
Balance as at 31st December 2017	865,800	70,693,750	15,433,540	748,028,210	27,764,511	862,785,811

The Accounting Policies and notes to the Financial Statements from page 98 to 122 form an integral part of the Financial Statements.

# Statement of Cash Flow

Year ended 31st December	Notes	2017 LKR	2016 LKR
<b>Operating activities</b>			
Profit before tax		53,368,955	(900,661)
<b>Adjustments for:</b>			
Depreciation of property, plant & equipment	13	4,516,863	2,602,090
Amortisation of intangible assets	14	390,022	19,271
Impairment charges for loans and receivables	12.2	5,926,864	1,969,016
Interest expense	17.1	88,222,453	33,705,359
Net foreign exchange difference		1,085,820	999,688
Loss/(Gain) on fixed assets disposal		(3,031,956)	81,453
Charges for defined benefit liability	18	1,540,290	402,487
VAT and NBT on financial service charges		21,321,029	2,437,531
<b>Operating loss before working capital changes</b>		<b>173,340,340</b>	<b>41,316,234</b>
Changes in operating assets		(61,874,542)	(205,144,999)
Changes in operating liabilities		49,807,218	21,486,472
VAT and NBT payment		(16,807,163)	(2,194,125)
Gratuity payments		(272,859)	-
Interest paid		(86,316,341)	(33,421,875)
Income tax payment/increase the liability		(6,687,096)	(1,554,709)
<b>Net cash used in operating activities</b>		<b>51,189,558</b>	<b>(179,513,001)</b>
<b>Investing activities</b>			
Purchase of property, plant & equipment	13	(9,584,060)	(2,496,299)
Sale proceed on fixed assets disposal		3,077,680	-
Acquisition of intangible assets	14	-	(185,000)
Net Investment made in fixed deposits		22,131,127	149,325,755
<b>Net cash flows used in investing activities</b>		<b>15,624,747</b>	<b>146,644,456</b>
<b>Financing activities</b>			
Net proceed from borrowings		(12,879,478)	(48,549,687)
Proceed from issue of shares		18,000,000	60,000,000
Proceed from funds	20	19,156,250	18,062,500
<b>Net cash flows generated from financing activities</b>		<b>24,276,772</b>	<b>29,512,813</b>
<b>Net increase in cash and cash equivalents</b>		<b>91,091,077</b>	<b>(3,355,732)</b>
Cash and cash equivalents at the beginning of the year		11,156,040	14,511,772
Cash and cash equivalents transfer from BMI		6,094,528	-
<b>Cash and cash equivalents at the end of the year</b>	10	<b>108,341,645</b>	<b>11,156,040</b>

The Accounting Policies and notes to the Financial Statements from page 98 to 122 form an integral part of the Financial Statements.

# Notes to the Financial Statements

## 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 microfinance organisation 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 18th September 2017, approved the sale, transfer and assignment of all assets and liabilities of the Company to BMIC with effect from 30th September 2017.

The Board of Directors & Shareholders of BMIC, by the resolutions passed on 22nd September 2017, approved the Company taking over the entire business undertaking of BMI effective from 30th September 2017. BMIC will continue to carry on the microfinance business currently conducted by BMI. An application has been made to the Monetary Board of Central Bank of Sri Lanka on 30th October 2017 for a license to carry on microfinance business as required by the Microfinance Act No. 6 of 2016. The transfer of Assets & Liabilities was duly effected by BMI & BMIC in accordance with the Asset Sale and Purchase agreement signed on 29th 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. 07 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 current period comprise results for the period from 1st January 2017 to 31st December 2017 (BMIC) including result from the period from 1st October 2017 to 31st December 2017 of the merged Company (BMI) result, while the comparative information given are for the period from 1st January 2016 to 31st December 2016 (BMIC). In this circumstance the comparative figures in the Statement of Financial Position, Statement of Comprehensive Income, Statement of Cash Flow, Statement for Changes in Equity and related notes are not comparable with the figures for the current period.

### 2.2 Responsibility for Financial Statements

The Board of Directors 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 31st December 2017 were authorised for issue by the Board of Directors in accordance with the resolution of the Directors on 5th March 2018.

### 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	Recognised at the present value of the defined benefit obligation

### 2.5 Significant Accounting Judgements, 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.

# Notes to the Financial Statements

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised 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 recognised in the Financial Statements of the Company are as follows.

## 2.5.1 Common Control Business Combination

Common control business combinations are accounted using SLFRS 3 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 30th 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 Microfinance 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.

Accordingly,

- The net assets of the two entities are consolidated using the existing book values.
- No amount is recognised 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 unrealised income or expenditure arising from intra group transactions are eliminated in preparation of the Consolidated Financial Statements.

Refer Note 30 for further details.

## 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 Impairment Losses on Loans and Receivables

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 categorising 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.

## 2.5.4 Post-Employment Benefit Obligations

The Post employment benefit obligation and the related charge for the year are determined using projected unit credit method. The method valuations involve making assumptions about 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.

## 2.5.5 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.

## 2.5.6 Useful – Lives of Intangible Assets

The Company reviews the residual values, useful lives and methods of amortisation 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.

# Notes to the Financial Statements

## 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 recognised in the Statement of Comprehensive Income, except to the extent it relates to items recognised directly in equity or other comprehensive income in which case it is recognised 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 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 realised simultaneously.

A deferred tax asset is recognised 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 utilised. 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 realised.

The net increase in the carrying amount of deferred tax liability net of deferred tax asset is recognised as deferred tax expense and conversely any net decrease is recognised 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. 07 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 1st 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; 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 & 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 & Equipment are initially recorded at cost.

The Cost of Property, Plant & 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 recognised 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 & Equipment are as follows:

# Notes to the Financial Statements

The class of tangible assets	Useful life
Furniture and Fittings	5 Years
Office Equipment	8 Years
Computers Equipment	4 Years
Motor Vehicle	4 Years

## Derecognition

Items of Property, Plant & Equipment are derecognised upon disposal or when no future economic benefits are expected from its use. Gain or loss arising on derecognition of an item of Property, Plant & Equipment is determined as the difference between the sales proceed and the carrying amount of the asset and is recognised in the Statement of Comprehensive Income.

## 2.6.4 Intangible Assets

### Basis of Recognition

An Intangible Asset is recognised 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 amortisation 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 amortised over the useful life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation 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.

### Derecognition

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

### Amortisation

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation 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 amortisation period or method, as appropriate, and treated as changes in accounting estimates. The amortisation expenses on intangible assets with finite lives are recognised in the Statement of Comprehensive Income.

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

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

## 2.6.5 Post-Employment Benefit Obligations

### (a) Defined Benefit Plan – Gratuity

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.

Actuarial gains and losses for defined benefit plans are recognised 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.

## 2.6.6 Provisions

Provisions are recognised 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.

# Notes to the Financial Statements

As per the Asset sale & purchase agreement dated 29th September 2017 entered into between BMI & BMIC, BMIC undertakes that, with effect from 30th 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 realisable value.

## 2.6.8 Other Non-Financial Liabilities

Other Non-Financial Liabilities are recognised 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.

## 2.6.10 Financial Instruments – Initial Recognition and Subsequent Measurement

The Company's financial instruments consist of loans and receivables and other financial liabilities, of which accounting policies on subsequent measurement, impairment and re-recognition are set out below;

### (i) Financial Assets

Financial assets within the scope of LKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets, as appropriate and determine the classification of its financial assets at initial recognition. All financial assets are recognised initially at fair value plus, in the case of assets not at fair value through profit or loss, directly attributable transaction costs.

### Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the Effective Interest Rate method (EIR), less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in the Statement of Comprehensive Income. The losses arising from impairment are recognised in the Statement of Comprehensive Income. Loans and receivables are presented in the Statement of Financial Position.

### Derecognition

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when,

- i. The rights to receive cash flows from the asset have expired
- ii. The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either
  - (a) The Company has transferred substantially all the risks and rewards of the asset, or
  - (b) The Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

### Impairment of Financial Assets

The Company assesses at each Reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that loss event has an impact on the estimated future cash flows of the financial asset or the Group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

# Notes to the Financial Statements

## Financial Assets Carried at Amortised Cost

For financial assets carried at amortised cost, the Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate.

## (ii) Financial Liabilities

Financial liabilities within the scope of LKAS 39 are classified as interest bearing loans and borrowings, trade and other payables as appropriate. The Company determines the classification of its financial liabilities at initial recognition.

The Company classifies financial liabilities as other financial liabilities in accordance with the substance of the contractual arrangements at the definitions of financial liabilities.

The Company recognises financial liabilities in the Statement of Financial Position when the Company becomes a party to the contractual provision of the liability.

## Other Financial Liabilities

Other financial liabilities including interest bearing loans and borrowings are initially measured at fair value less transaction cost that are directly attributable to the acquisition and subsequently measured at amortised cost using the EIR method.

Amortised cost is calculated by taking in to account any discount or premium on the issue and costs that are an integral part of the EIR.

## Derecognition of Financial Liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of the existing liability are substantially modified, such an exchange of modification is treated as a derecognition of

the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognised in the Statement of Comprehensive Income.

## (iii) Fair Value Measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability or
- In the absence of a principal market, in the most advantageous market for the asset or liability
- The principal or the most advantageous market must be accessible by the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the Financial Statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable for the purpose of fair value disclosures, the group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

# Notes to the Financial Statements

## 2.6.11 Revenue Recognition

Revenue is recognised 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 recognised 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 recognised as related services are performed.

### (c) Other Income

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

## 2.6.12 Expenses recognition

Expenditure is recognised 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 & 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.

## 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 recognised 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 31st December 2017. Accordingly, these accounting standards have not been applied in the preparation of the Financial Statements for the year ended 31st December 2017.

### SLFRS 9 – Financial Instruments:

In July 2014, the Chartered Accountants of Sri Lanka issued SLFRS 9 Financial Instruments (On par with International Accounting Standards Board), the standard that will replace LKAS 39 for annual periods on or after 1st January 2018, with early adoption permitted. The Company plans to adopt the new standard on the required effective date.

The Company is in the process of identifying gap and will calibrating models/solutions based on the diagnostic findings.

Impairment of Financial Assets SLFRS 9 will also fundamentally change the loan loss impairment methodology. The standard will replace LKAS 39's Incurred Loss approach with a forward-looking Expected Loss (ECL) approach. The Company will be required to record an allowance for expected losses for all loans and other debt financial assets not held at FVPL, together with

# Notes to the Financial Statements

loan commitments and financial guarantee contracts. The Impairment methodology under SLFRS 9 requires impairment to be assessed under 3 stages.

## Stage 01

Under LKAS 39 the Company has been recording an allowance for Incurred but Not Identified (IBNI) impairment losses. These are designed to reflect impairment losses that had been incurred in the performing portfolio but have not been identified.

Under SLFRS 9, the impairment of financial assets that are not considered to have suffered a significant increase in their credit risk will be measured on a 12-month ECL basis.

## Stage 02

SLFRS 9 requires financial assets to be classified in Stage 2 when their credit risk has increased significantly since their initial recognition. For these assets, a loss allowance needs to be recognised based on their lifetime ECLs. Since this is a new concept compared to LKAS 39, it will result in increased allowance as most such assets are not considered to be credit impaired under LKAS 39.

## Stage 03

Financial assets will be included in Stage 3 when there is objective evidence that the loan is credit impaired. Loans in Stage 3, where the Company calculated the LKAS 39 impairment on an individual basis are not expected to be significantly different, but collateral values will be adjusted to reflect the amounts that can be expected to be realised.

## Classification & Measurement

From a classification and measurement perspective, the new standard will require all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics. The LKAS 39 measurement categories will be replaced by: Fair Value through Profit or Loss (FVPL), Fair value through Other Comprehensive Income (FVOCI) and amortised cost.

The accounting for financial liabilities will largely be the same as the requirements of LKAS 39, except for the treatment of gains or losses arising from an entity's own credit risk relating to liabilities designated at FVPL.

## SLFRS 15 – Revenue from Contracts with Customers

SLFRS 15 is effective for periods beginning on 1st January 2018 with early adoption permitted. SLFRS 15 defines principles for recognising revenue and will be applicable to all contracts with customers. However,

interest and fee income integral to financial instruments and leases will continue to fall outside the scope of SLFRS 15 and will be regulated by the other applicable standards (e.g., SLFRS 9, and SLFRS 16 Leases).

SLFRS 15 establishes a five-step model to account for revenue arising from contracts with customers. Revenue under SLFRS 15 will need to be recognised as goods and services are transferred, to the extent that the transferor anticipates entitlement to goods and services. The standard will also specify a comprehensive set of disclosure requirements regarding the nature, extent and timing as well as any uncertainty of revenue and corresponding cash flows with customers. The entity does not anticipate early adopting SLFRS 15.

A preliminary evaluation of the existing contracts which falls mainly under fee and commission based income of the Company has been performed in relation to the adoption of SLFRS 15. The Company's current assessment has not revealed a significant change to the revenue recognition pattern. However, the Company is currently in the process of evaluating and quantifying the accounting impact and any impacts on the current systems and processors will be modified where necessary.

## SLFRS 16 – Leases

SLFRS 16 provides a single lessee accounting model, requiring leases to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value even though lessor accounting remains similar to current practice. This supersedes: LKAS 17 Leases, IFRIC 4 determining whether an arrangement contains a lease, SIC 15 Operating Leases- Incentives; and SIC 27 Evaluating the substance of Transactions Involving the Legal form of a Lease. Earlier application is permitted for entities that apply SLFRS 15 Revenue from Contracts with Customers.

SLFRS 16 also requires lessees and lessors to make more extensive disclosures than under LKAS 17.

SLFRS 16 is effective for annual periods beginning on or after 1st January 2019. Early application is permitted, but not before an entity applies SLFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

In 2018, the Company will continue to assess the potential effect of SLFRS 16 on its consolidated Financial Statements.

The impact on the implementation of the above standard has not been quantified yet.

# Notes to the Financial Statements

## 3. GROSS INCOME

Year ended 31st December	Notes	2017 LKR	2016 LKR
Interest income	4	297,941,343	74,717,553
Fee and commission and other income	6	26,661,570	11,038,880
Gross income		324,602,913	85,756,433

## 4. INTEREST INCOME

Year ended 31st December	2017 LKR	2016 LKR
Interest from loans and receivables	295,616,717	60,644,502
Interest income from bank deposits	2,072,956	14,073,051
Staff loan interest	251,670	-
	297,941,343	74,717,553

## 5. INTEREST AND SIMILAR EXPENSES

Year ended 31st December	Notes	2017 LKR	2016 LKR
Interest on long term borrowings	17.1	88,222,454	33,705,359
Bank charges		1,128,145	412,140
Loan processing charges		404,805	-
Interest on staff security fund		182,776	37,000
Exchange loss on foreign loan		1,085,820	999,688
		91,024,000	35,154,186

## 6. FEE, COMMISSION AND OTHER INCOME

Year ended 31st December	2017 LKR	2016 LKR
Written-off loans recoveries	330,898	-
Administrative funds receipt	-	130,500
Enterprise development service income	14,889,050	6,045,700
Miscellaneous income	5,250,622	956,230
Documentation charges	6,191,000	3,906,450
	26,661,570	11,038,880

## 7. PERSONNEL EXPENSES

Year ended 31st December	Notes	2017 LKR	2016 LKR
Salaries and other benefits		82,986,989	25,890,452
Defined contribution plan – EPF & ETF		7,989,549	2,666,329
Defined benefit plan – Gratuity	18	1,540,290	402,487
		92,516,828	28,959,268

# Notes to the Financial Statements

## 8. OTHER OPERATING EXPENSES

Year ended 31st December	2017 LKR	2016 LKR
Office administration and establishment expenses	45,084,163	12,460,499
EDS service expenses	7,124,263	2,576,429
Professional and legal expenses	2,499,316	379,324
Auditor's remuneration	830,608	99,480
	55,538,351	15,515,732

## 9. INCOME TAX EXPENSE

Year ended 31st December	Notes	2017 LKR	2016 LKR
Current tax		15,919,894	2,561,295
Deferred tax charge/(reversal)	15	2,745,782	(1,359,176)
		18,665,676	1,202,119

### 9.1 Taxable Income

Accounting profit/(loss) before tax		53,368,955	(900,661)
Aggregated disallowed items		27,589,537	7,519,962
Aggregated allowable items		(8,417,747)	(16,968,057)
Adjusted profit from trade		72,540,745	(10,348,756)
Interest income		2,072,956	14,073,051
Total statutory income		74,613,701	14,073,051
Less: Allowable losses		(17,756,936)	(4,925,568)
Taxable income		56,856,765	9,147,483

### 9.2 Statutory Tax Rate

Tax liability for the year @ Normal rate – 28%		15,919,894	2,561,295
Current income tax expenses		15,919,894	2,561,295

Income tax is calculated at the rate mentioned as above of the assessable profit for the period.

## 10. CASH AND CASH EQUIVALENTS

As at 31st December	2017 LKR	2016 LKR
Favorable cash & cash equivalents		
Cash in hand	3,049,612	61,978
Savings account with banks	37,178,651	5,745,318
Current account with banks	68,113,381	5,348,744
Cash and cash equivalents for the purpose of statement of cash flows	108,341,645	11,156,040

# Notes to the Financial Statements

## 11. BALANCES WITH BANKS & FINANCIAL INSTITUTIONS

As at 31st December	2017 LKR	2016 LKR
Investments in fixed deposits		
Sri Lanka Savings Bank	41,780,000	-
Lanka Orix Finance Company PLC	-	20,000,000
Interest receivables	288,454	1,513,012
	42,068,454	21,513,012

## 12. LOANS AND RECEIVABLES

As at 31st December	Notes	2017 LKR	2016 LKR
Loans receivables	12.1	3,163,177,649	393,569,875
Less: Collective allowance for impairment	12.2	(41,367,426)	(3,169,016)
		3,121,810,223	390,400,858

### 12.1 Analysis – (By Product)

As at 31st December	2017 LKR	2016 LKR
Business Development Loan	1,189,779,814	48,479,574
Business Starting Loan	864,516,468	270,313,969
Assets Building Loan	522,809,794	67,630,050
Business Expansions Loan	494,833,864	-
Estate Festival Loan	21,837,473	-
Dairy Loan	16,009,229	924,818
Agriculture Loan	11,415,966	1,691,655
Staff Loans	21,688,042	2,669,808
Emergency Loan	19,498,930	1,860,000
Sanitary Loan	788,071	-
	3,163,177,649	393,569,875

### 12.2 Movement in Impairment Charge during the Year

	2017 LKR	2016 LKR
As at 1st January	3,169,016	1,200,000
Balance transfer from BMI	33,359,987	-
Written off during the year	(1,088,442)	-
Charge for the year	5,926,864	1,969,016
As at 31st December	41,367,426	3,169,016

# Notes to the Financial Statements

## 13. PROPERTY, PLANT & EQUIPMENT

### 13.1

As at 31st December 2017	Office Equipment LKR	Computers and Network LKR	Furniture and Fittings LKR	Motor Vehicle LKR	Total LKR
<b>Cost</b>					
Balance as at 01st January 2017	1,028,870	2,169,798	2,098,170	7,025,000	12,321,839
Additions	205,102	836,900	957,059	7,585,000	9,584,060
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)	(3,813,579)
<b>Balance as at 31st December 2017</b>	<b>8,041,828</b>	<b>13,961,686</b>	<b>15,172,590</b>	<b>31,098,400</b>	<b>68,274,504</b>
<b>Less: Accumulated depreciation</b>					
Balance as at 01st January 2017	149,412	512,033	481,659	2,780,729	3,923,833
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)
<b>Balance as at 31st December 2017</b>	<b>2,908,041</b>	<b>8,361,615</b>	<b>8,146,113</b>	<b>20,934,025</b>	<b>40,349,794</b>
<b>Net book value as at 31st December 2017</b>	<b>5,133,787</b>	<b>5,600,072</b>	<b>7,026,477</b>	<b>10,164,375</b>	<b>27,924,710</b>

### 13.2

As at 31st December 2016	Office Equipment LKR	Computers and Network LKR	Furniture and Fittings LKR	Motor Vehicle LKR	Total LKR
Balance as at 01st January 2016	651,890	1,144,020	1,095,220	7,025,000	9,916,130
Additions	467,570	1,025,778	1,002,951	-	2,496,299
Disposals	(90,591)	-	-	-	(90,591)
<b>Balance as at 31st December 2016</b>	<b>1,028,870</b>	<b>2,169,798</b>	<b>2,098,170</b>	<b>7,025,000</b>	<b>12,321,839</b>
<b>Less: Accumulated depreciation</b>					
Balance as at 01st January 2016	47,535	122,596	136,270	1,024,479	1,330,880
Charge for the year	111,014	389,437	345,389	1,756,250	2,602,090
Accumulated depreciation on disposed assets	(9,137)	-	-	-	(9,137)
<b>Balance as at 31st December 2016</b>	<b>149,412</b>	<b>512,033</b>	<b>481,659</b>	<b>2,780,729</b>	<b>3,923,833</b>
<b>Net book value as at 31st December 2016</b>	<b>879,458</b>	<b>1,657,766</b>	<b>1,616,512</b>	<b>4,244,271</b>	<b>8,398,005</b>

### 13.3

The Company acquired property, plant & equipment to the aggregate value of LKR 9,584,060 for the year ended 31st December 2017. (2016 – LKR 2,496,299).

Value of fully depreciated assets is LKR 22,081,039 included in the above cost of assets which transferred from BMI as of 31st December 2017.

# Notes to the Financial Statements

## 14. INTANGIBLE ASSETS

	As at 31st December	2017 LKR	2016 LKR
Gross carrying amounts			
Balance as at 1st January		185,000	-
Additions		-	185,000
Balance transfer from BMI		7,695,551	-
Balance as at 31st December		7,880,551	185,000
Less: Accumulated amortisation & impairment			
Balance as at 1st January		19,271	-
Amortisation		390,022	19,271
Balance transfer from BMI		2,712,305	-
Balance as at 31st December		3,121,598	19,271
Net book value as at 31st December		4,758,953	165,729

## 15. DEFERRED TAXATION

As at 31st December	Statement of Financial Position		Income Statement		Other Comprehensive Income	
	2017 LKR	2016 LKR	2017 LKR	2016 LKR	2017 LKR	2016 LKR
Deferred tax liability						
Accelerated depreciation allowances for tax purposes on property plant and equipment	1,218,536	276,818	(941,718)	(53,814)	-	-
	1,218,536	276,818	(941,718)	(53,814)	-	-
Deferred tax assets						
Post employment benefit obligation	1,696,448	155,341	3,162,482	105,305	(1,621,375)	3,696
Brought forward taxable losses	-	4,966,547	(4,966,547)	1,307,685	-	-
Balance transfer from BMI	2,105,702	-	-	-	-	-
	3,802,150	5,121,887	(1,804,064)	1,412,990	(1,621,375)	3,696
Deferred tax (charge)/reversal			(2,745,782)	1,359,176	(1,621,375)	3,696
Net deferred tax assets/(liabilities)	2,583,614	4,845,069				

## 16. OTHER ASSETS

	As at 31st December	2017 LKR	2016 LKR
Other financial assets			
Refundable deposit		2,713,640	8,900
Other receivable		113,783,578	15,843,611
		116,497,218	15,852,511
Other non-financial assets			
Pre-paid expenses		7,466,468	1,041,179
Other advances and receivable		1,097,828	42,550
Stationary stock		2,403,426	300,210
		127,464,940	17,236,450

# Notes to the Financial Statements

## 17. INTEREST BEARING BORROWINGS

As at 31st December	2017 LKR	2016 LKR
Borrowings from banks	912,283,300	-
Borrowings from financial and other institutions	1,196,561,831	195,174,000
	2,108,845,131	195,174,000

### 17.1 Movement in Interest Bearing Borrowings

	As at 01.01.2017 LKR	Balance Transfer from BMI LKR	Loan Obtained LKR	Repayments LKR	Loan Interest Charged LKR	As at 31.12.2017 LKR
Banks borrowings	-	820,308,477	195,000,000	132,778,486	29,753,309	912,283,300
Financial and other institutions borrowings	195,174,000	1,103,250,199	112,000,000	272,331,512	58,469,144	1,196,561,831
	195,174,000	1,923,558,676	307,000,000	405,109,998	88,222,453	2,108,845,131

## 18. POST EMPLOYMENT BENEFIT OBLIGATION

As at 31st December	Note	2017 LKR	2016 LKR
As at 1st January		554,788	165,500
Amount recognise in income statement	18.1	1,540,290	402,487
Amount recognise in other comprehensive income		(5,790,624)	(13,200)
Payments made during the year		(272,859)	-
Balance transfer from BMI		17,547,512	-
As at 31st December		13,579,107	554,788

### 18.1 Amount Recognise in Income Statement

Year ended 31st December	2017 LKR	2016 LKR
Current service cost	947,290	382,627
Interest cost	593,000	19,860
	1,540,290	402,487

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

	2017	2016
Rate of interest	10%	12%
Salary increment rate	9%	10%
Staff turnover	20%	9%
Retirement age	55 years	55 years

# Notes to the Financial Statements

## 18.3 Sensitivity of Assumptions Employed in Computation

A quantitative sensitivity analysis for significant assumption as at 31st December 2017 is as shown below:

Assumptions Sensitivity Level	Discount Rate		Future Salary	
	1% Increase	1% Decrease	1% Increase	1% Decrease
Impact on defined benefit liability	(545,264)	592,701	619,571	(579,745)

## 19. OTHER LIABILITIES

	As at 31st December	2017 LKR	2016 LKR
Financial liabilities			
Payables to vendor		1,382,427	169,550
Other financial liabilities		393,003,319	33,394,785
		394,385,746	33,564,335
Non-financial liabilities			
Income tax payable		24,663,743	1,261,898
Finance VAT payable		3,877,836	181,381
Nation building tax payable		879,437	62,025
Other payables		25,935,730	1,593,245
		449,742,491	36,662,884

## 20. FUNDS AND RESERVES

	As at 31st December	Note	2017 LKR	2016 LKR
Unrestricted funds		20.1	865,800	865,800
Restricted funds		20.2	70,693,750	51,537,500
Assets and liability transfer reserve account			15,433,540	-
			86,993,090	52,403,300

### 20.1 Unrestricted Funds

Balance at beginning of the year		865,800	865,800
Balance at end of the year		865,800	865,800
Total unrestricted funds		865,800	865,800

### 20.2 Restricted Funds

Whole Planet Foundation			
Balance at beginning of the year		51,537,500	33,475,000
Received during the year		19,156,250	18,062,500
Balance at end of the year		70,693,750	51,537,500
Total restricted funds		70,693,750	51,537,500

# Notes to the Financial Statements

## 21. STATED CAPITAL

As at 31st December	Note.	2017 No.	2016 No.	2017 LKR	2016 LKR
Fully paid ordinary shares	21.1	74,802,821	18,002,821	748,028,210	180,028,210
Balance at beginning of the year		18,002,821	12,002,821	180,028,210	120,028,210
Issue of shares for cash		1,800,000	6,000,000	18,000,000	60,000,000
Issue of shares for net assets transfer from BMI		55,000,000	-	550,000,000	-
Balance at end of the year		74,802,821	18,002,821	748,028,210	180,028,210

## 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 maximise 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 LKR 862,785,811 as at 31st December 2017 and it was LKR221,323,493 as at 31st December 2016.

## 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 and members of the Corporate Management of the Company have been classified as KMPs of the Company.

# Notes to the Financial Statements

## 26.1.1 Key Management Personnel Compensation

Year ended 31st December	2017 LKR	2016 LKR
Short term employment benefits		
Short term employee benefits	2,074,250	200,000
	2,074,250	200,000

\* 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 Transactions with Parent Company

Year ended 31st December	2017 LKR	2016 LKR
Berendina Development Services (Gte) Ltd.		
Balance of the investment (shares)	748,028,210	180,028,210
Inter company loan (due to BDS )	793,257,072	-
Amount due from – Shared expenses	152,394	(28,218)
Issue of shares for net assets transfer from BMI (During the year)	550,000,000	-
Proceeds from issue of shares (During the year)	18,000,000	60,000,000

### 26.2.2 Terms and Conditions of Transactions with Related Parties

Outstanding balances from Amount 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.

Borrower	Loan Amount LKR Million	Guarantee	
		Amount LKR Million	Type
Sri Lanka Savings Bank	250	250	Corporate Guarantee
Sri Lanka Savings Bank	200	200	Corporate Guarantee
Etimos Asia Pte Ltd.	100	50	Corporate Guarantee
Etimos Asia Pte Ltd.	100	50	Corporate Guarantee

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

## 27. FAIR VALUES

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.

# Notes to the Financial Statements

"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.

	Fair Value Hierarchy	As at 31st December 2017		As at 31st December 2016	
		Carrying Value LKR	Fair Value LKR	Carrying Value LKR	Fair Value LKR
Financial assets					
Cash and cash equivalents		108,341,645	108,341,645	11,156,040	11,156,040
Balances with banks and financial institutions		42,068,454	42,068,454	21,513,012	21,513,012
Loans and receivables	Level 2	3,121,810,223	3,147,808,410	390,400,858	380,404,361
Other financial assets		116,497,218	116,497,218	15,852,511	15,852,511
<b>Total</b>		<b>3,388,717,540</b>	<b>3,414,715,727</b>	<b>438,922,422</b>	<b>428,925,925</b>
Financial liabilities					
Interest bearing borrowings	Level 2	2,108,845,131	2,058,564,395	195,174,000	178,562,143
Other financial liabilities		394,385,746	394,385,746	33,564,335	34,282,572
<b>Total</b>		<b>2,503,230,877</b>	<b>2,452,950,140</b>	<b>228,738,335</b>	<b>212,844,714</b>

(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

	As at 31st December 2017			As at 31st December 2016		
	Less than One Year LKR	More than One Year LKR	Total Carrying Value LKR	Less than One Year LKR	More than One Year LKR	Total Carrying Value LKR
Assets						
Cash and cash equivalents	108,341,645	-	108,341,645	11,156,040	-	11,156,040
Balances with banks and financial institutions	-	42,068,454	42,068,454	21,513,012	-	21,513,012
Loans and receivables	1,116,716,559	2,046,461,090	3,163,177,649	244,853,778	148,716,096	393,569,875
Property, plant & equipments	-	27,924,710	27,924,710	-	8,398,005	8,398,005
Intangible assets	-	4,758,953	4,758,953	-	165,729	165,729
Deferred tax assets	-	2,583,614	2,583,614	-	4,845,069	4,845,069
Other assets	49,519,583	77,945,357	127,464,940	11,249,711	5,986,739	17,236,450
<b>Total assets</b>	<b>1,274,577,787</b>	<b>2,201,742,179</b>	<b>3,476,319,966</b>	<b>288,772,542</b>	<b>168,111,639</b>	<b>456,884,181</b>

# Notes to the Financial Statements

	As at 31st December 2017			As at 31st December 2016		
	Less than One Year LKR	More than One Year LKR	Total Carrying Value LKR	Less than One Year LKR	More than One Year LKR	Total Carrying Value LKR
Liabilities						
Interest bearing borrowings	973,824,360	1,135,020,771	2,108,845,131	97,500,000	97,674,000	195,174,000
Post employment benefit obligation	-	13,579,107	13,579,107	-	554,788	554,788
Other liabilities	128,694,287	321,048,205	449,742,491	17,032,770	19,630,114	36,662,884
	1,102,518,646	1,469,648,083	2,572,166,729	114,532,770	117,858,902	232,391,672

## 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 counter party 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.

#### 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 31st December 2017		As at 31st December 2016	
	Maximum Exposure to Credit Risk LKR	Net Exposure LKR	Maximum Exposure to Credit Risk LKR	Net Exposure LKR
Cash and cash equivalents	108,341,645	105,292,033	11,156,040	11,094,062
Balances with banks and financial institutions	42,068,454	42,068,454	21,513,012	21,513,012
Loans and receivables	3,163,177,649	3,163,177,649	393,569,875	393,569,875
Other financial assets	116,497,218	116,497,218	15,852,511	15,852,511
	3,430,084,966	3,427,035,354	442,091,438	442,029,460

# Notes to the Financial Statements

## 29.2.2 Credit Quality by Class of Financial Assets

(a)

As at 31st December 2017	Neither Past Due Nor Impaired LKR	Past due but Not Impaired LKR	Individually Impaired LKR	Total LKR
<b>Assets</b>				
Cash and cash equivalents	108,341,645	-	-	108,341,645
Balances with banks and financial institutions	42,068,454	-	-	42,068,454
Loans and receivables	3,134,746,127	28,431,522	-	3,163,177,649
Other financial assets	116,497,218	-	-	116,497,218
<b>Total financial assets</b>	<b>3,401,653,445</b>	<b>28,431,522</b>	-	<b>3,430,084,966</b>

### Age Analysis of Past due But Not Impaired Loans by Class of Financial Assets

Description	Overdue				
	Less than 31 Days LKR	31 to 60 Days LKR	61 to 90 Days LKR	More than 90 Days LKR	Total LKR
Loans and receivables	10,581,363	2,913,336	1,738,894	13,197,930	28,431,522
	10,581,363	2,913,336	1,738,894	13,197,930	28,431,522

(b)

As at 31st December 2016	Neither Past Due Nor Impaired LKR	Past due but Not Impaired LKR	Individually Impaired LKR	Total LKR
<b>Assets</b>				
Cash and cash equivalents	11,156,040	-	-	11,156,040
Balances with banks and financial institutions	21,513,012	-	-	21,513,012
Loans and receivables	393,425,875	144,000	-	393,569,875
Other financial assets	15,852,511	-	-	15,852,511
<b>Total financial assets</b>	<b>441,947,438</b>	<b>144,000</b>	-	<b>442,091,438</b>

### Age Analysis of Past due but Not Impaired Loans by Class of Financial Assets

Description	Overdue				
	Less than 31 Days LKR	31 to 60 Days LKR	61 to 90 Days LKR	More than 90 Days LKR	Total LKR
Loans and receivables	25,400	103,600	-	15,000	144,000
	25,400	103,600	-	15,000	144,000

# Notes to the Financial Statements

## 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 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. The company treasury manages the liquidity position as per the treasury policies and procedures of the Company.

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

(a)

As at 31st December 2017	Carrying Amounts LKR	Gross Nominal Outflow LKR	On Demand LKR	Up to 3 Months LKR	3 to 12 Months LKR	More than 1 Year LKR
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

(b)

As at 31st December 2016	Carrying Amounts LKR	Gross Nominal Outflow LKR	On Demand LKR	Up to 3 Months LKR	3 to 12 Months LKR	More than 1 Year LKR
Interest bearing borrowings	195,174,000	226,332,000	-	-	120,486,000	105,846,000
Other financial liabilities	33,564,335	33,564,334	-	3,669,437	10,096,042	19,798,856
	228,738,335	259,896,334	-	3,669,437	130,582,042	125,644,856

## 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 optimising the return.

### 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.

# Notes to the Financial Statements

(a)

As at 31st December 2017	On Demand	Less than 3 Months	4 to 12 Months	1 to 5 Years	Total as at 31st December 2017
	LKR	LKR	LKR	LKR	LKR
<b>Interest earning assets</b>					
Cash and cash equivalents	108,341,645	-	-	-	108,341,645
Balances with banks and financial institutions	-	-	-	42,068,454	42,068,454
Loans and receivables	-	325,708,996	791,007,563	2,046,461,090	3,163,177,649
Other financial assets	-	10,245,185	20,490,370	85,761,664	116,497,218
<b>Total interest earning assets</b>	<b>108,341,645</b>	<b>335,954,181</b>	<b>811,497,932</b>	<b>2,174,291,208</b>	<b>3,430,084,966</b>
<b>Interest bearing liabilities</b>					
Interest bearing borrowings	-	235,026,233	738,798,127	1,135,020,771	2,108,845,131
Other financial liabilities	-	22,582,276	54,842,671	316,960,798	394,385,746
<b>Total interest bearing liabilities</b>	<b>-</b>	<b>257,608,509</b>	<b>793,640,798</b>	<b>1,451,981,569</b>	<b>2,503,230,877</b>
Gap in interest earning assets and interest bearing liabilities – net assets/(liabilities)	108,341,645	78,345,672	17,857,134	722,309,638	926,854,090

(b)

As at 31st December 2016	On Demand	Less than 3 Months	4 to 12 Months	1 to 5 Years	Total as at 31st December 2016
	LKR	LKR	LKR	LKR	LKR
<b>Interest earning assets</b>					
Cash and cash equivalents	11,156,040	-	-	-	11,156,040
Balances with banks and financial institutions	-	21,513,012	-	-	21,513,012
Loans and receivables	-	61,213,445	183,640,334	148,716,096	393,569,875
Other financial assets	-	2,466,443	7,399,329	5,986,739	15,852,511
<b>Total interest earning assets</b>	<b>11,156,040</b>	<b>85,192,900</b>	<b>191,039,663</b>	<b>154,702,835</b>	<b>442,091,438</b>
<b>Interest bearing liabilities</b>					
Interest bearing borrowings	-	-	97,500,000	97,674,000	195,174,000
Other financial liabilities	-	3,669,437	10,096,042	19,798,857	33,564,335
<b>Total interest bearing liabilities</b>	<b>-</b>	<b>3,669,437</b>	<b>107,596,042</b>	<b>117,472,857</b>	<b>228,738,335</b>
Gap in interest earning assets and interest bearing liabilities – net assets/(liabilities)	11,156,040	81,523,463	83,443,621	37,229,978	213,353,103

## 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 31st December 2017		As at 31st December 2016	
	Increase/Decrease in Interest Rate %	Effect on Profit Before Tax LKR	Increase/Decrease in Interest Rate %	Effect on Profit Before Tax LKR
Interest rate	+ 1	8,854,867	+ 1	2,101,841
Interest rate	- 1	(8,854,867)	- 1	(2,101,841)

# Notes to the Financial Statements

## 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 31st December 2017, the company holds 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 European Central Bank 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 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 installment 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 31st December 2017		As at 31st December 2016	
	Change in Currency Rate in % %	Effect on Profit Before Tax LKR	Change in Currency Rate in % %	Effect on Profit Before Tax LKR
EURO	+1	966,120	+1	(1,932,240)
EURO	-1	(966,120)	-1	1,932,240

## 30. ASSETS AND LIABILITIES TRANSFER TO BMIC

Berendina Microfinance Institute (gte) Ltd has been transferred its all assets and liabilities to BMIC with effect from 30th September 2017 as follow:

	Total LKR
<b>Assets</b>	
Cash and cash equivalents	6,094,528
Balances with banks and financial institutions	42,686,569
Loans and receivables	2,582,777,460
Property, plant & equipment	14,505,231
Intangible assets	4,983,246
Deferred tax assets	2,105,702
Other assets	202,912,717
	2,856,065,452
<b>Liabilities</b>	
Interest bearing borrowings	1,923,558,676
Post employment benefit obligation	17,547,512
Other liabilities	349,525,724
	2,290,631,912
<b>Net assets transferred amount</b>	<b>565,433,540</b>

# Notes to the Financial Statements

## 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 followed.

This is merely a disclosure to understand the company performance if the two entities were combined on 1st January 2016.

### Statement of Comprehensive Income

Year ended 31st December	2017 LKR	2016 LKR
<b>GROSS INCOME</b>	<b>839,793,973</b>	640,332,324
Interest income	789,425,463	597,400,087
Less: Interest and similar expenses	254,288,086	199,427,229
<b>Net Interest Income</b>	<b>535,137,377</b>	397,972,858
Fee, commission and other income	50,368,509	42,932,236
<b>Total Operating Income</b>	<b>585,505,887</b>	440,905,094
Less: Impairment charges for loans and receivables	13,013,191	7,605,809
<b>Net Operating Income</b>	<b>572,492,695</b>	433,299,285
Less: Personnel expenses	237,609,633	189,860,755
Less: Depreciation of property, plant & equipment	8,624,037	9,051,802
Less: Amortization of intangible assets	811,294	240,604
Less: Other operational expenses	130,060,111	98,451,208
<b>Operating profit before value added tax and nation building tax on financial services</b>	<b>195,387,621</b>	135,694,917
Less: Value added tax and nation building tax on financial services	55,746,823	34,660,853
Less: Nation building tax on other services	1,025,090	-
<b>Profit/(Loss) for the year before income tax</b>	<b>138,615,709</b>	101,034,064
Less: Written off remaining net assets balance after transfer of assets and liabilities	-	
Less: Income tax expense	36,372,013	20,506,302
<b>Profit/(Loss) for the year</b>	<b>102,243,696</b>	80,527,762
<b>Other comprehensive income (OCI)</b>		
Other Comprehensive Income not to be reclassified to Profit or Loss in subsequent periods		
Actuarial gain/(loss) on defined benefit plans	2,963,319	(1,055,774)
Deferred tax (charge)/reversal on other comprehensive income	(1,960,651)	(124,581)
	1,002,668	(1,180,355)
<b>Other comprehensive income for the period net of tax</b>		
<b>Total comprehensive income for the period net of tax</b>	<b>103,246,364</b>	79,347,406

# Notes to the Financial Statements

## Statement of Financial Position

	As at 31st December	2017 LKR	2016 LKR
<b>ASSETS</b>			
Cash and cash equivalents		108,341,645	99,682,194
Balances with banks and financial institutions		42,068,454	64,732,115
Loans and receivables		3,121,810,223	2,624,278,875
Property plant and equipment		27,924,710	23,695,823
Intangible assets		4,758,953	689,896
Deferred tax assets		2,583,614	5,780,016
Other assets		127,464,940	118,294,617
<b>Total assets</b>		<b>3,434,952,540</b>	<b>2,937,153,536</b>
<b>EQUITY AND LIABILITIES</b>			
<b>LIABILITIES</b>			
Interest bearing borrowings		2,108,845,131	1,849,218,743
Obligation under finance lease		-	898,303
Post employment benefit obligation		13,579,107	11,796,653
Other liabilities		449,742,491	344,627,431
		<b>2,572,166,729</b>	<b>2,206,541,129</b>
<b>EQUITY</b>			
Funds and reserves		86,993,090	309,821,731
Stated capital		748,028,210	180,028,210
Retained Earnings		27,764,511	240,762,466
		<b>862,785,811</b>	<b>730,612,407</b>
<b>Total liabilities and equity</b>		<b>3,434,952,540</b>	<b>2,937,153,536</b>

# SUPPLEMENTARY INFORMATION



# Value Added Statement

	2017 LKR	2016 LKR	Change
Value Added			
Gross Income	839,793,973	640,332,324	31%
Less			
Interest and similar expenses	(254,288,086)	(199,427,229)	28%
Payment towards support services	(130,060,111)	(98,451,208)	32%
Impairment charges for loans and receivables	(13,013,191)	(7,605,809)	71%
	<b>442,432,585</b>	<b>334,848,078</b>	<b>32%</b>

## DISTRIBUTION OF VALUE ADDITION

	2017		2016		Change
	LKR	% share	LKR	% share	
<b>To employees as</b>					
Remuneration	191,155,255	43.21%	156,072,052	46.61%	22%
Other benefit and development cost	46,454,377	10.50%	33,788,703	10.09%	37%
<b>To government as</b>					
Income taxation	35,136,262	7.94%	22,377,934	6.68%	57%
VAT and NBT on Financial Services and NBT on other services	56,771,912	12.83%	34,660,853	10.35%	64%
<b>Retained within the business as</b>					
Depreciation for replacement of assets and deferred taxation	10,671,082	2.41%	7,420,774	2.22%	44%
Reserve	102,243,696	23.11%	80,527,762	24.05%	27%
	<b>442,432,585</b>		<b>334,848,078</b>		<b>32%</b>

**Distribution of Value Addition -2017**



■ To Employee ■ To Government ■ Retained within the Business

**Distribution of Value Addition -2016**



■ To Employee ■ To Government ■ Retained within the Business

# Capital Adequacy

## CORE CAPITAL OF THE COMPANY

Under the Section 11 of the Microfinance Act, No. 6 of 2016 and direction No. 6 of 2016 issued on 27th October 2017, every Licensed Microfinance Company (LMFC) shall, at all times, maintain a core capital at a level not less than LKR 100 Million with effect from 15th January 2018 and maintain a core capital at a level not less than LKR 150 Million from 15th January 2019. Even though the regulation does not apply to the Company yet, the Company maintains a core capital of LKR 791 Million which far exceeds the stipulated requirement by the regulation.

Description	31st December 2017 LKR	31st December 2016 LKR
Issued and fully paid ordinary shares	748,028,210	180,028,210
Funds & Reserves	15,433,540	
Retained loss as shown in previous year audited financial statement	(11,108,017)	(9,022,133)
Current year's profit /(loss)	38,872,528	(2,085,884)
Core capital	791,226,261	168,920,193

### Note:

The transfer of Assets & Liabilities from BMI to BMIC was duly effected in accordance with the Asset Sale and Purchase agreement signed on 29th of September 2017. BMIC issued LKR 550 Million worth of shares to Berendina Development Services (Guarantee) Limited as consideration of the above transaction.

## STATUTORY RESERVE

The Company would be required to maintain the statutory reserve under section 11 of the Microfinance Act. No.6 of 2016 once the Company is recognised as a Licensed Microfinance Company by the Central Bank of Sri Lanka.

Every Licensed Microfinance Company shall maintain a statutory reserve and shall, out of the net profits after the payment of tax of each year, before any dividend is declared, transfer to such reserve fund;

(a) a sum equivalent to not less than Five percent (5%) of such profits until the amount of the said statutory reserve is equal to fifty percent (50%) of the stated capital of such LMFC; and

(b) a further sum equivalent to not less than Two Point Five percent (2.5%) of such profits until the amount of the said statutory reserve is equal to the stated capital of such LMFC.

# Shareholder Information

## STATED CAPITAL

Description	Number of Shares 2017	2017 Value LKR	Number of Shares 2016	2016 Value LKR
Fully paid ordinary shares – (Beginning of the year)	18,002,821	180,028,210	12,002,821	120,028,210
Shares issued during the year for cash	1,800,000	18,000,000	6,000,000	60,000,000
Shares issued during the year for net assets transfer from BMI	55,000,000	550,000,000	-	-
Fully paid ordinary shares – (End of the year)	7,402,821	748,028,210	18,002,821	180,028,210

## SHAREHOLDER DETAILS

Name of the Shareholder	No. of Shares	Value (LKR)		Ownership as a %	
		2017	2016	2017	2016
Berendina Development Services (Guarantee) Limited	74,802,821	748,028,210	180,028,210	100%	100%

## DIRECTOR SHAREHOLDING

Name of the Director	2017		2016	
	Value (LKR)	Percentage (%)	Value (LKR)	Percentage (%)
Godakandage Jagath Chandana	Nil	0%	Nil	0%
Hewa Athapaththuge Anura	Nil	0%	Nil	0%
Thebuwanage Duminda Charith Fernando	Nil	0%	Nil	0%
Josef Gomathi Vinodini Shankar	Nil	0%	Nil	0%

# Ten Year Summary

Operational Results	2008 LKR	2009 LKR	2010 LKR	2011 LKR	2012 LKR	2013 LKR	2014 LKR	2015 LKR	2016 LKR	2017 LKR
Gross income	17,763,324	39,223,826	72,002,121	129,682,407	204,919,596	300,829,393	384,175,615	478,631,357	640,332,323	839,793,973
Depreciation	309,437	1,558,038	1,990,881	2,829,996	3,347,721	6,941,838	7,382,441	8,530,467	9,292,406	9,435,331
Profit before tax	(245,294)	189,397	4,516,005	6,732,830	8,044,197	37,673,209	55,895,390	106,017,328	135,694,917	195,387,621
Taxation	-	86,335	4,357,254	4,954,035	6,536,534	2,430,590	9,888,560	11,584,607	20,506,302	36,372,013
Profit after tax	(245,294)	103,061	158,750	1,778,795	1,507,654	40,103,799	46,006,830	70,596,479	79,347,407	103,246,363
Share capital	-	-	-	-	-	-	-	-	120,028,210	180,028,210
Reserves	Retained earnings	102,585	1,851,039	2,009,789	3,788,584	5,296,238	45,400,036	91,406,866	161,415,060	240,762,466
	Funds & reserves	95,676,482	104,050,287	110,135,987	128,400,018	183,682,558	252,245,350	256,519,831	291,759,231	309,821,731
<b>Liabilities</b>										
Current liabilities	12,473,337	50,530,333	127,744,756	235,792,848	395,131,852	489,490,202	444,974,102	1,328,012,514	838,017,875	1,102,518,646
Long term liabilities	69,958,974	140,080,010	285,146,924	399,506,589	629,911,588	703,988,585	982,239,279	520,938,316	1,368,523,254	1,469,648,083
<b>Assets</b>										
Property, plant & equipment	1,774,652	5,003,824	4,637,006	11,365,244	17,155,054	14,063,240	16,821,343	21,375,538	23,695,822	27,924,710
Loans & receivables	164,663,229	261,747,966	474,891,948	714,735,072	1,145,509,842	1,392,071,332	1,631,731,019	2,022,594,339	2,624,278,875	3,121,810,223
Other assets	11,773,497	29,759,879	45,508,502	41,387,723	51,357,340	89,989,601	126,586,717	378,183,454	289,178,839	285,217,607
<b>Ratios</b>										
Operational Self Sufficiency (OSS)	100%	99%	107%	107%	106%	117%	115%	120%	119%	120%
Yield on gross loan Portfolio	13%	15%	18%	20%	21%	23%	24%	25%	26%	27%
Operating expenses on Gross loan portfolio	15%	18%	18%	21%	21%	21%	22%	20%	22%	22%
Debt to equity	0.42	0.61	0.76	0.80	0.83	0.78	0.78	0.73	0.72	0.71

# Glossary

## Accounting Policies

Specific Principles, bases, conventions, rules and practices applied by an entity in preparing and presenting Financial Statements.

## Accrual Basis

Recognition of the effects of transactions and other events when they occur without waiting for receipt or payment of cash or cash equivalent.

## Actuarial Gain or Losses

Changes in the present value of the defined benefit obligation resulting from:

- a) experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred); and
- b) the effects of changes in actuarial assumptions.

## Amortisation

Systematic allocation of the depreciable amount of an intangible asset over its useful life.

## Cash Equivalents

Liquid investments with original maturity periods of three months or less.

## Collateral

Collateral is a property or other asset that a borrower offers as a way for a lender to secure the loan.

## Commitments

Binding agreements for the exchange of a specified quantity of resources at a specified price on a specified future date or dates.

## Contingent Liabilities

Conditions or situations at the reporting date, the financial effects of which are to be determined by the future events which may or may not occur.

## Core Capital

The part of a financial institution's capital that comprises equity and disclosed reserves.

## Credit Enhancement

Credit enhancement is a method whereby a Company attempts to improve its debt or credit worthiness.

## Deferred Tax Asset

Amounts of income taxes recoverable in future periods in respect of; deductible temporary differences, the forward of unused tax losses and the carry forward of unused tax credits.

## Deferred Tax Liability

Amounts of income taxes payable in future periods in respect of taxable temporary differences.

## Defined Benefit Plans

Retirement benefit plans under which amounts to be paid as retirement benefits are determined by reference to a formula usually based on employees' earnings and/or years of service.

## Depreciation

Systematic allocation of the depreciable amount of an asset over its useful life.

## Effective Interest Rate

Rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instruments or when appropriate, a shorter period to the net carrying amount of the financial assets or financial liability.

## Fair Value

Price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants as the measurement date.

## Financial Instruments

Any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

## Reserves

Reserve is any part of shareholders' equity, except for basic share capital.

## Going Concern Basis

Assumption that the entity will continue in operation for the foreseeable future.

## Goodwill

An asset representing the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognised.

## Impairment loss

Amount by which the carrying amount of an asset or a cash-generating unit exceeds its recoverable amount.

## Intangible Assets

An intangible asset is an identifiable non-monetary asset without physical substance.

## Internal Control

Internal controls are the mechanisms, rules and procedures implemented by a Company to ensure the integrity of financial and accounting information, promote accountability and prevent fraud.

## Loans & Receivables

Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

## Net Realisable Value

Net realisable value is the value of an asset that can be realised upon the sale of the asset, less a reasonable estimate of the costs associated with either the eventual sale or the disposal of the asset in question.

## Parent

An entity that controls one or more entities.

## Present Value

Present value is the current value of a future sum of money or stream of cash flows given a specified rate of return.

## Purchase Consideration

Transfer of assets or equity interests as part of the exchange for control of the acquiree.

## Residual Value

The residual value is the estimated value of a fixed asset at the end of its lease or at the end of its useful life.

## Restricted Funds

A restricted fund is a reserve of money that can only be used for specific purposes.

## Retained Earnings

Retained earnings are the cumulative net earnings or profit of a firm after accounting for dividends.

## Stated Capital

Nominal value (or "par" value) of all the outstanding shares of a Company.

## Temporary Differences

Differences between the carrying amount of an asset or liability in the statement of financial position and its tax base.

## Unit Credit Method

An actuarial valuation method that sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

## Value In Use

Present value of the future cash flows expected to be derived from an asset or cash-generating unit.

## Working Capital

Capital required to finance the day to day operations computed as the excess of current assets over current liabilities.

## Material Misstatement

A material misstatement is untrue information in a financial statement that could affect the financial decisions of one who relies on the statement.

## Risk Assessments

A systematic process of evaluating the potential risks that may be involved in a projected activity or undertaking.

# Notice of Meeting

NOTICE is hereby given that the Annual General Meeting of Berendina Micro Investments Company Limited will be held at No.44/3,3rd Floor, Narahenpita Road, Nawala, Sri Lanka on Friday 23rd March, 2018 at 12.30 p.m. for the following purposes:

## AGENDA

1. To read the notice conveying the Meeting.
2. To receive Annual Progress Report.
3. To receive and consider the report of the Directors and the statement of Audited Accounts for the financial year ended 31st December, 2017 and the Report of the Auditors thereon.
4. Election of Directors in terms of the Articles of Association of the Company and deciding directors' remuneration and fees.
5. To appoint Auditors for the ensuing year and to authorize the Directors to determine their remuneration.

By order of the Board



Corporate Services (Private) Limited,  
216,  
de Saram Place,  
Colombo 10,  
7<sup>th</sup> March 2018

Encl.      1. Financial Statements for the year ended 31st December, 2017.  
              2. Proxy Form.

NOTE:

1. A member entitled to attend and vote at the Meeting is entitled to appoint a proxy to attend and vote instead of him.
2. A proxy need not be a member of the Company.

# Form of Proxy

I/We, ..... of ..... being a shareholder/shareholders of Berendina Micro Investments Company Limited hereby appoint ..... of ..... or failing him ..... as my/our proxy to attend and vote at the Annual General Meeting of the Company to be held on the 23rd day of March 2018 at 12.30 pm and at any adjournment thereof.

Signed On this [.....] day of [.....] 2018

Name of the Shareholder: .....

Signature

## INSTRUCTIONS AS TO COMPLETION

1. The instrument appointing a proxy may be in writing under the hands of the appointer or of its attorney duly authorised in writing or if such appointer is a corporation under its common seal or the hand of its attorney or duly authorised person.
2. The instrument appointing a proxy and the Power of Attorney or other authority, if any, under which it is signed or a notarially certified copy of that Power of Attorney or other authority will have to be deposited at the Office of the Company Secretaries, CORPORATE SERVICES (PRIVATE) LIMITED of 216, de Saram Place, Colombo 10, not less than 48 hours before the time appointed for the holding of the meeting.



# CORPORATE INFORMATION

## NAME

Berendina Micro Investments Company Limited

## SHARE HOLDING

Berendina Development Services (Guarantee) Limited

## LEGAL FORM

A Public Limited Liability Company incorporated under the Companies Act No. 7 of 2007

## DATE OF INCORPORATION

20th November 2014

## REGISTRATION NUMBER

PB 5235

## REGISTERED OFFICE & HEAD OFFICE

No. 44/3, Narahenpita Road, Nawala, Sri Lanka

## PRINCIPAL ACTIVITIES

Provision of microfinance and enterprise development services

## BOARD OF DIRECTORS

Mr. Godakandage Jagath Chandana

Mr. Hewa Athapaththuge Anura

Mr. Thebuwanage Duminda Charith Fernando

Ms. Josef Gomathi Vinodini Shankar

## SECRETARIES

Corporate Services (Private) Limited

No. 216, De Saram Place, Colombo 10, Sri Lanka

## AUDITORS

Ernst & Young Chartered Accountants

No. 201, De Saram Place, Colombo 10, Sri Lanka

## BANKERS

People's Bank

Bank of Ceylon

Sampath Bank PLC

Hatton National Bank PLC

DFCC Bank PLC

Commercial Bank PLC

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Annual Report

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