ANNUAL REPORT - 2021

Breaking the Glass Ceiling
Towards New Horizons

BERENDINA

BERENDINA MICRO INVESTMENTS COMPANY LIMITED

BREAKING THE GLASS CEILING TOWARDS NEW HORIZONS

Like the rest of the Nation, our clients were confined to their residences during the difficult times and were undergoing mental stress and physical limitations. At the back of their minds, the world they used to see and enjoy ran like a movie strip but it deprived them from enjoying it due to barriers on opportunities. It was like looking up from a glass ceiling. We realized in order to look at greater heights, to move to greater avenues and to surpass the challenges, we had to break that blocking glass ceiling. Our goals are integrated around stakeholder sustainability with the revolutionary Vision of **"Creating an empowered, equitable society where poverty does not exist."**

The leadership, direction, and assistance provided by Berendina to reap benefits in the new normal enabled our stakeholders to reach greater heights in new horizons by breaking the glass ceiling. We helped our clients to identify the opportunities, encouraged and supported them to venture into these while providing livelihood support during the difficult times. In return, the continuous commitment and devoted actions by our clients and equally by our staff shattering the barriers and limits, positioned Berendina to be placed in greater heights during 2021. Our theme ***"Breaking the Glass Ceiling Towards New Horizons"*** reflects the efforts made by Berendina to conquer the challenges and its greater achievements during the year 2021!

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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 twelve high poverty districts and to serve a minimum of 93,000 families consisting a minimum of 30% of minority communities, 20% of marginalized communities and providing at least 75% of loans to female borrowers, to reduce poverty by 10% among existing borrowers, to introduce a minimum of 60% of the clients to savings and to become the market leader in the sustainable EDS Sector, by the end of 2021.

OBJECTIVES

1. Further growing the organization by increasing active borrowers and deposit holders by introducing customer-centric financial services.
2. Using new technology to optimize 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. Minimizing 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 the 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 and Compliance Policy in order to act as a responsible organization.
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

Berendina Micro Investments Company Limited (BMIC) presents its Integrated Annual Report for 2021 compiled under the six-capital management reporting structure to provide our stakeholders with the information needed to make an informed assessment of the Company's ability to create value over the years. The report presents comprehensive yet concise information relating to our Vision, Mission, strategy, value creation model, risk management, governance, performance and prospects in addition to the audited financial statement.

Despite having many challenges and obstacles, BMIC was able to make 2021 a year of success by "Breaking through the glass ceiling". As the first licensed microfinance institution regulated by the Central Bank of Sri Lanka (CBSL), BMIC ensures working towards its Vision of creating an empowered, equitable society where poverty does not exist. The unique values of BMIC such as Integrity, Accountability, Innovativeness, Inclusiveness, Respectfulness, Empowerment, and Transparency are the key driving force towards the Vision.

Scope and Boundary

This report covers the operations of BMIC for the period from 1st January 2021 to 31st December 2021. We adopt an annual reporting cycle for financial and non-financial reporting; the most recent Annual Report, covering the financial year ending 31st December 2020 is available on our website www.berendina.org. The continuing COVID 19 global pandemic has affected the operations of BMIC throughout the year making 2021 also one of the most challenging years in Berendina History. Regardless of challenges, BMIC has risen through the bounds becoming stronger due to appropriate strategic decisions. This report does not carry restatements of information provided in previous reports.

Standards and Principles of Preparation

The Financial Statements presented on pages 104 to 142 of this report, have been prepared in compliance with the Sri Lanka Financial Reporting Standards and the requirements of the Companies Act No.7 of 2007. The narrative on Corporate Governance is stated on pages 84 to 91.

Target Audience

This report is prepared for all the stakeholders and contains information relevant to all the stakeholders including investors, 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 in 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. KPMG, Chartered Accountants. Their assurance on the Financial Statements is presented on page 105 to 106 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 term.

Contact Details for Questions Regarding the Report

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

Name: Ms. Dilhara Jayasinghe
Position: Assistant Manager – Compliance & Corporate Relationship
Address: No. 44/3, 3rd Floor, Nawala Road, Narahenpita, Sri Lanka
E-mail: mgrccr@berendina.org

About This Report

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 physically & online, employee surveys, performance review, open door culture, whistle blowing policy and process, Gender and Anti-harassment policy, Child protection policy and exit interviews	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, job security, ethical work practices, expressing their concerns and satisfaction	Salaries on par with industry, providing training opportunities, 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, life and health insurance
Employees	Maintaining a high level workforce morale and efficiency	Intra-net/Regular staff meetings, staff capacity development	On a regular basis	Attractive remuneration, opportunities lean and career development staff recognition and appreciation	Salaries in par with industry, provision of other allowances and best staff selection and rewarding, scholarships for further education and appreciation of longer period of service
Customers	Create product awareness, Creation of new products, make changes in the existing product portfolio in accordance with customer needs	Village level discussions / meetings and print media / videos	As necessary	Innovative and beneficial products and services compared to competitors, better understanding of the product to make most appropriate credit decisions	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 11 districts 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, customized products to suit customer needs	Efficient customer assistance/ helplines at the branch level and at the Head Office level, partnering with LMFPA for the complaint handling mechanism
Customers	Maintain customer interaction (customer relations)	Interaction at cluster meetings as well as individually at village level, customer perception surveys on product impact	Monthly as well as when necessary	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
Shareholders	Reaching the Vision & Mission of BMIC	Shareholders' meeting and field visits	Quarterly, biannual, annually as well as when necessary.	Positive impact on client life, proper governance and sustainability of the organization	Strategy formulation and implementation in line with vision & mission.
Funding Partners	Maintaining cordial and effective relations with the funding partners, creating opportunities for future funding	Dissemination of information on our achievements and strategies, invitation for award ceremonies and events	As necessary as well as annually	Positive impact on client life and community and on time servicing to lenders	Assessment of poverty reduction among clients using the Poverty Probability Index (PPI), impact assessment survey and on time repayments and reporting
Regulators and the Government	Maintaining compliance requirements	Submission of information, documentation and payments as per regulators' stipulations.	On a regular basis	Maintaining liquidity, solvency and capital adequacy. Ontime payment of statutory obligations.	Submission of statutory returns on time and on time payments of statutory payments
Community	Executing social responsibility	Maintaining a dialogue with community	On a regular basis	Contribution to community welfare and environment protection.	Maintaining a clear line of communications and fulfilling Company responsibilities as a responsible corporate citizen

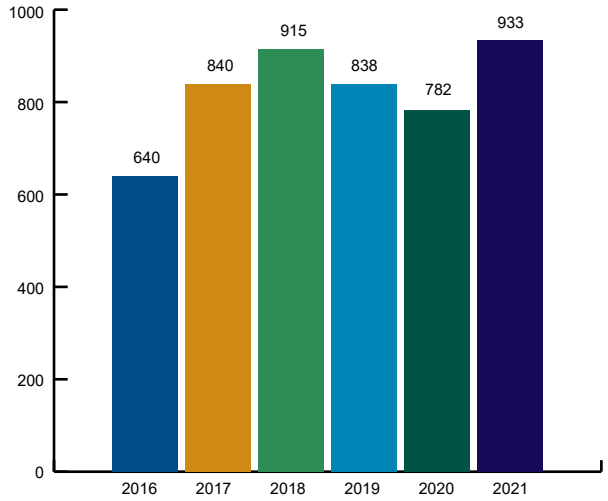
Financial Highlights

For the Year Ended 31st December	2021 Total	2020 Total	Change (%)
Financial Performance			
Gross Income (LKR)	933,029,756	781,969,422	19%
Interest Income (LKR)	906,928,659	749,042,337	21%
Interest Expense (LKR)	141,726,344	165,773,782	-15%
Profit Before Income Tax (LKR)	142,944,173	39,009,991	266%
Income Tax Expense (LKR)	71,486,662	26,051,139	174%
Total comprehensive income for the year (LKR)	73,031,633	10,990,026	565%
Financial Position at the Year End			
Loans and Receivables (LKR)	2,842,433,185	2,818,592,823	1%
Borrowings (LKR)	1,201,854,635	1,402,940,811	-14%
Total Equity (LKR)	1,116,408,862	1,014,753,717	10%
Total Assets (LKR)	3,067,401,387	3,064,765,081	0%
Investor Information			
Earnings Per Share (LKR)	0.94	0.17	
Net Assets Per Share (LKR)	11.95	10.99	
Key Performance Indicators			
Portfolio at Risk (1 Day)	7.47%	11.86%	
Portfolio at Risk (30 Days)	5.84%	10.44%	
Gross Interest Margin (%)	29%	25%	
Net Interest Margin (%)	25%	19%	
Return on Assets (%)	2.34%	0.42%	
Return on Equity (%)	6.7%	1.3%	
Interest Cover (Times)	2.01	1.24	
Debt : Equity Ratio (Times)	1.08	1.38	
Operational Results of the Year			
New Advances Disbursed (LKR)	2,676,615,500	2,379,757,500	
Borrowing Obatained (LKR)	608,000,000	1,220,323,795	
Operational Self Sufficeincy Before Tax (OSS)	108%	102%	
Financial Self sufficeincy (FSS)	100%	111%	
Capital Expenditure Incurrred (LKR)	6,478,199	5,001,898	

Financial Highlights

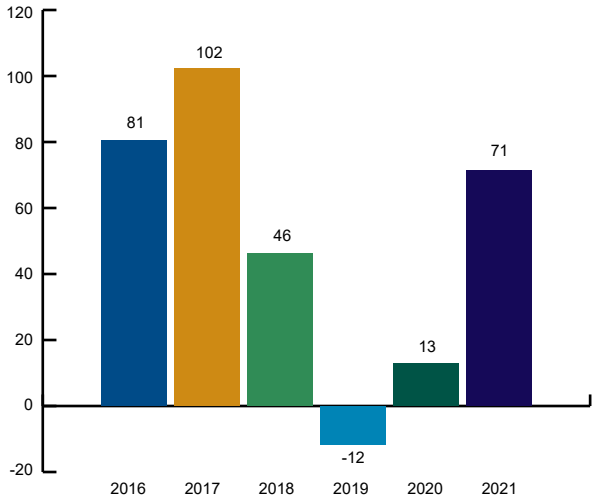
Gross Income

LKR Mn



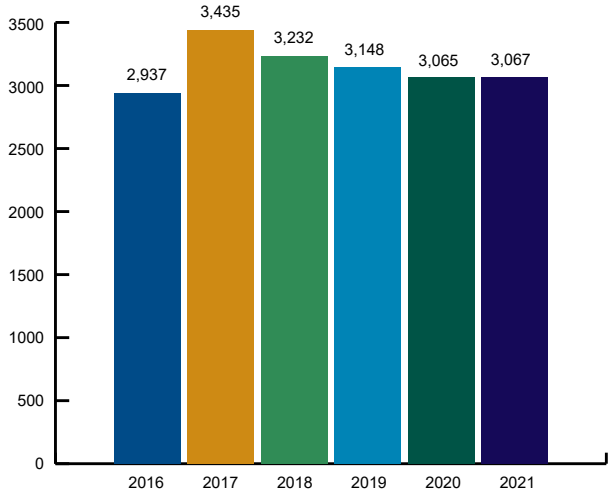
Profit After Tax

LKR Mn



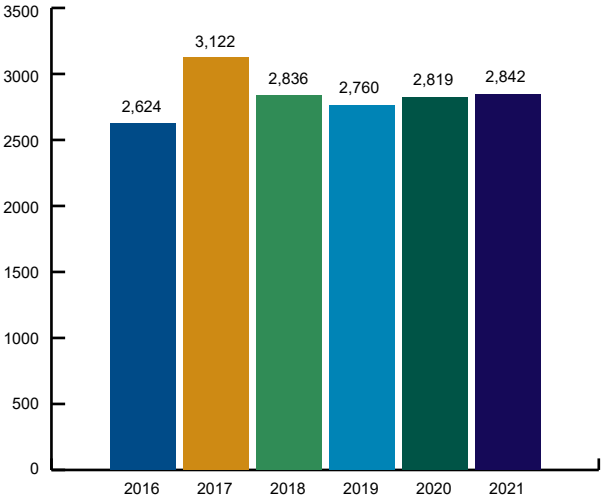
Total Assets

LKR Mn



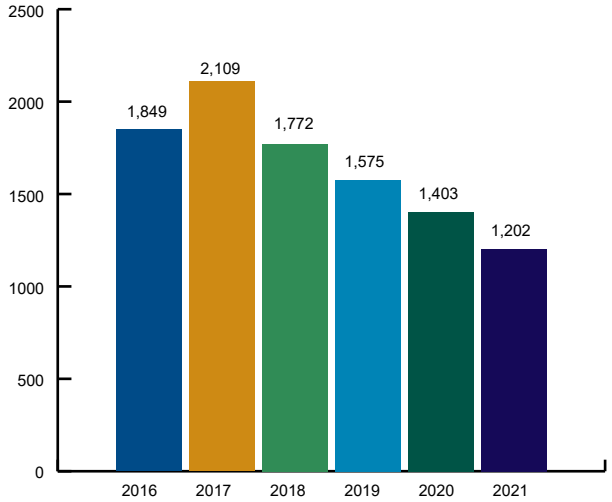
Loans and Receivables

LKR Mn



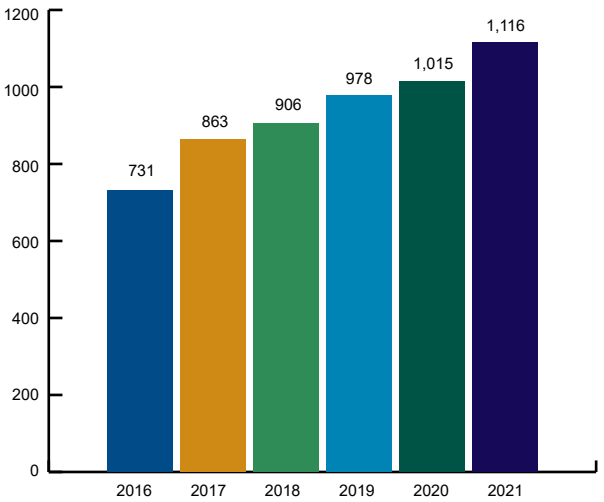
Interest Bearing Borrowings

LKR Mn



Total Equity

LKR Mn



Non-Financial Highlights

Human Capital

Equal Opportunity Employees
372
Staff Participation for Trainings
2,008

Customer Capital

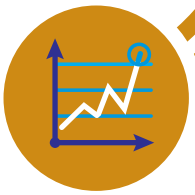
Active Borrowers
65,930
Female Borrowers
89%
EDS Training Participation
4,676
Loan Disbursement
LKR 2.68 billion
No. of Savers
32,202

Social and Responsibility Capital

Poverty Outreach
36.0%
Bright Students' Scholarship
LKR 7.3 Million
Suwasahana Benefit
LKR 9.03 Million

Manufactured Capital

Operating Districts
11
No. of Branches
30
Operating Estates
51



Natural Capital

Follow-ups on
37 Biogas digesters
Follow-ups on
10 Wastewater Treatment Plants

OVERVIEW

About BMIC

Berendina Micro Investments Company Limited (BMIC) was incorporated in the year 2014 as a sister Company of Berendina Microcredit Institute (Guarantee) Limited (BMI), mainly to surpass the bottlenecks that arose in the fund-raising process. This establishment was relaunched in September 2017 as the sole microfinance arm of Berendina and successor of BMI operations since the year 2007. The rationale was three-fold: first, it was in adherence to the regulatory requirement laid out by the Central Bank of Sri Lanka to standardize microfinance entities as public companies and corporate businesses; Second, to broaden the benefits to BMIC clients by placing extra emphasis on the requirement for meaningful 'investments' ensuring prudent credit investments by borrowers; Third, to highlight the positive sense of the phrase 'micro investments' where it focuses on empowering society as opposed to the negative connotation associated with 'microfinance.' BMIC follows a triple bottom line approach, namely, People, Planet & Profit.

BMIC remains committed to uplifting underprivileged communities through financial inclusion and job creation by providing microfinance services and Enterprise Development Services (EDS). Over the decade, Berendina Development Services (Guarantee) Limited (BDS) has remained as our principal fund provider. Envisioning prosperity for the impoverished segments of society, BMIC employs a dual strategy to extend financial and non-financial assistance to identified communities to progress on an upward and sustainable trajectory. The two-pronged approach involves financial services which include Micro Credit & Micro Savings together with Enterprise Development Services.

MICRO CREDIT

Micro Credit services strive to assist BMIC clients in establishing new business ventures and supporting existing businesses to expand, diversify, and build up the family asset base. BMIC disburses small-sized, medium-tenured loans through the Micro Credit program at low-interest rates. Following a strict criterion based on the Poverty Probability Index (PPI) as well as the 'per head family income' indicators, BMIC selects poorer families (clients) with repayment capacity needing assistance and funds for a variety of purposes, including the development of micro-enterprises, agriculture and dairy sector development, construction, and renovation of houses. The credit service is available for people living in both villages and estates (plantations).

What We Do

BMIC CREDIT CHANNELS

BMIC uses three different modes of delivery and recovery for its credit facilities. The most commonly used method is 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). Further, individual loans are also disbursed by BMIC.

• Cluster-Based Lending

The model involves a cluster of 30 clients comprising ten 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 creditworthiness of each member. Once the loan is given, regular follow-ups are carried out on how the loan is being utilized. This approach allows the organization to deal with well-defined, recognized groups and enables wider coverage as well as better monitoring. A cluster meets monthly for a period of less than 1 hour which is a place of education for clients about BMIC services. They also repay loans and submit new loan applications. During the year under review, BMIC has catered to 71,737 active clients who include 63,978 of cluster clients.

• Lending Through Plantation Co-operative

BMIC provides 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. BMIC served 7,759 estate clients through 51 EWHCS and through clusters during the year under review.

• Direct Individual Lending

BMIC considered providing individual loans for customers who dropped out due to various reasons such as the unwillingness of those clients to provide a guarantee to other group members and the lack of time to attend cluster meetings due to other engagements, including their business work and employment. An individual loan product was introduced for such dropout clients to address this issue and support these creditworthy people. Further, this facility has been extended to new potential clients who are already engaged in small businesses and need financial services to develop their business in the branch operational areas. As of year-end BMIC served 637 individual clients.

ENTERPRISE DEVELOPMENT SERVICES (EDS)

The credit plus component of BMIC, the Enterprise Development Services (EDS), focuses on providing a broad spectrum of skills that will usher in long-term prosperity by developing the productive skills of BMIC clients and their family members. EDS programs provide a range of skills such as technical skills, business management skills, financial literacy, and leadership skills. EDS programs also provide inspiration and motivational training to these underprivileged communities in rural and plantation communities. BMIC staff provides business counseling services, market linkages to clients who require such services. Environment protection activities are carried out after identifying any harmful effects in the client's industry portfolio. Accordingly, mitigation actions such as the construction of biodigesters, wastewater treatment tanks, and community awareness programs are carried out under EDS.

COLLATERAL SAVING

BMIC introduced savings products to its clients only after obtaining the microfinance license from the Central Bank of Sri Lanka. The prime importance of introducing savings to clients is to encourage the habit of saving among the clients. This will lead them to become financially independent and thus improve their quality of life, thus paving the path to alleviating poverty.

BMIC started taking collateral savings from clients in new branches opened in 2019 in Nuwara Eliya and Welimada as a pilot project. Along with the client's monthly loan installment, an additional amount of LKR 200 per month was collected from each client under this scheme and credited to their savings account. A nominal interest of 5% per annum (5.12% Annual Effective Rate) calculated on the daily balance is credited to the client's savings account at the end of each month. In 2020, the initially implemented pilot project was expanded to 5 other branches and in 2021, the savings project was implemented in all 30 branches.

BMIC Partnerships

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

• Etimos

Etimos is a transnational cooperative consortium based in Italy consisting of over 280 organizations across the globe. BMIC partnered with Etimos in 2009 to obtain bulk loans for microfinance lending.

• Stromme Micro Credit (Gte) Limited (SMCGL)

SMCGL is the leading not-for-profit wholesale lender 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 organization. SMCGL was a donor providing grants for many environmental protection initiatives of BMIC such as biogas production and waste water treatment tanks for vehicle service stations.

• Hatton National Bank (HNB)

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

• HelpAge

BMIC expanded its coverage to senior citizens, another under-served community under a partnership with HelpAge in 2013. The partnership has the primary objective of empowering senior citizens through microfinancing. The funds obtained through this partnership have been utilized to provide loans towards income-generating ventures for senior citizens aged above 63 years.

• Grameen Credit Agricole Microfinance Foundation (GCAMF)

The partnership between BMIC and Grameen Credit Agricole Microfinance Foundation in Luxembourg commenced from the year 2012. They provided Stand by Letter of Credit as a guarantee to DFCC Bank to facilitate loans to BMIC and have assisted BMIC by providing technical support for staff capacity development. Further, from the year 2015 to 2018, BMIC received direct funding from GCAMF, and again in 2018, they provided a guarantee to a loan provided by SMCGL to BMIC which was duly settled in 2021.

• Whole Planet Foundation (WPF)

BMIC has been in a partnership with WPF since 2016. The partnership strengthens BMIC by having a dedicated contribution of funds for setting up new branches. Kaluwanchikudy and Welimada branches were established under funding from WPF. The grant given by WPF has increased the equity and profitability of BMIC. Further, WPF also provided technical advice to BMIC.

• International Executive Service Corps (IESC)

IESC is a nonprofit organization dedicated to equitable, sustainable economic growth in developing countries. BMIC entered into an agreement with IESC in 2021 with their USAID-funded Farmer-to-Farmer Program in Sri Lanka. The project is funded by the U.S. Agency for International Development (USAID). Farmer-to-Farmer initiatives generate rapid, sustained, and broad-based economic growth in the agricultural sector. IESC works in the areas of trade and enterprise, information communication and applied technologies, financial services, tourism, and public sector and business enabling environment. IESC is the lead implementer on the USAID-funded Youth Employment and Business Start-up Project (YouLead).

• Handicap International Federation

BMIC entered into an agreement with Handicap International Federation in 2019, known as Humanity & Inclusion non-profit organization in order to provide small grants for Integrated Economic Development of Central and Uva Provinces of Sri Lanka.

Memberships

BMIC obtained memberships in key national and international microfinance industry associations during the past decade. These associations enabled BMIC to strengthen its network, share knowledge and improve visibility. BMIC is a member of the Lanka Microfinance Practitioners' Association (LMFPA), the coordinating body for microfinance activities in the country. BMIC's association with the Banking With The Poor Network (BWTP) has enhanced organizational 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). BMIC is also an endorser of Smart Campaign.

VALUES

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

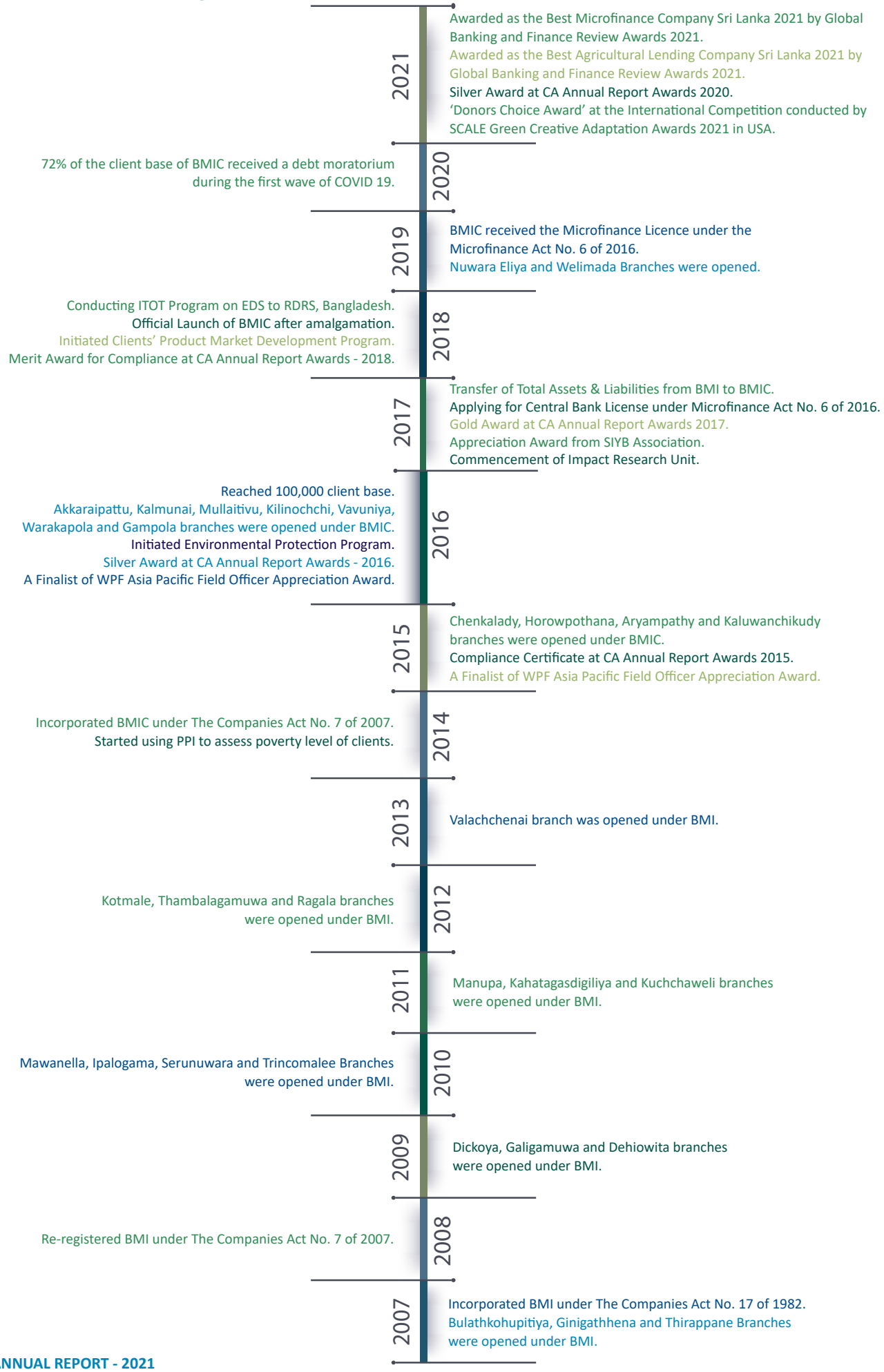
CULTURE

- Stakeholder engagement
- Non-discrimination based on religion, race and ethnicity
- Respect gender equality
- Participatory decision making
- Zero tolerance on mismanagement and frauds
- Low organizational 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

Our Journey - Milestones



Timeline of Activities - 2021

Expansion of the collateral savings product to all 30 branches

Being a licensed microfinance company in Sri Lanka, BMIC started micro-savings in 2019 as a pilot project. In 2020, BMIC expanded the pilot project to five other branches. In 2021, BMIC expanded the collateral savings product to all 30 branches. This helps our customers to build their savings habits and be more financially independent. Savings act as a safety net during difficult times for clients.

Participation in a workshop organized by EU-Sri Lanka Development Cooperation

BMIC officials participated in a workshop organized by EU-Sri Lanka Integrated Economic Development Project (Central and Uva) to strengthen early warning dissemination mechanism while ensuring business continuity and to improve the early warning mechanism with the private sector engagement (SME/ Farmers).

JANUARY

MARCH

2021

FEBRUARY

APRIL

Whole Planet Foundation (WPF) Field Officer Appreciation Award

Field officer Mr. Davakale Gedara Sanath Jayalath nominated by BMIC was selected as a finalist at the WPF Field Officer Appreciation Award. This certificate was awarded for his outstanding contribution to BMIC and the clients served by the organization.

Nutrition Program for Preschool children

The Berendina Branch in Dickoya held a Nutrition Program for Pre-School Children in the Dickoya Area on April 16, 2021. The Berendina staff organized this with the help of its cluster members. A total of 110 children benefited at this event, and every one of them received a meal.

Alternative usage of EDS coupons

EDS coupons are issued to BMIC clients to utilize for enterprise development services, specially to participate in training programs depending on their requirements. These coupons can be used to set off the last loan installment as well. BMIC introduced alternative usage of EDS coupons as a means of purchasing inputs for agriculture activities from selected shops in order to support the farmers. This intervention was piloted in Ragala and Kahatagasdigiliya branches in 2021. Agriculture inputs to the value of LKR 1,748,600 were purchased by 738 farmers by using these vouchers.

MAY

JULY

2021

JUNE

AUGUST

Assistance program for COVID 19 impacted clients

BMIC together with the financial contribution of Berendina Development Services rolled out an assistance program for COVID 19 impacted clients for them to cope with the situation. Accordingly, a total of 1,622 clients received LKR 2,000 each.

Enterprise Development Services - Training of Trainers Program

A Training of Trainers program was conducted for the Enterprise Development Team of BMIC to introduce the new training program for youth. This training was conducted by YOULEAD in response to the partnership agreement signed between BMIC and YOULEAD. The training was conducted in two phases. 1st phase was a 5-days online program in July and 2nd phase was a 3-days physical training in December.

BMIC received two international Awards - Best Microfinance Company in Sri Lanka 2021 & Best Agricultural Lending Company in Sri Lanka 2021

'The Best Microfinance Company in Sri Lanka 2021' award was conferred on BMIC by The Global Banking & Finance Review. Further, the Award for best Agricultural Lending Company in Sri Lanka 2021 was also received by BMIC from the same organization - The Global Banking & Finance Review.

BMIC offered 2nd Moratorium for BMIC clients impacted by COVID 19

During the first COVID 19 outbreak in 2020, BMIC offered a loan moratorium up to a period of 6 months and 72% of its clientele benefitted from this facility. Due to the disastrous impact of COVID 19 spread in 2021 affecting many business activities of its clients, BMIC decided to offer a second moratorium for its clients who were unable to make their repayments in lockdown periods. Accordingly, 19,106 clients benefitted from the second moratorium for the outstanding balance of LKR 889 Million in 2021.

SCALE Creative Green Adaptation Award

Berendina Micro Investments Company Limited has been chosen as the winner of the Donor's Choice Award of SCALE Green Creative Adaptation Award for the year 2021 for the adaptation of the BIOGAS project among microfinance clients.

SEPTEMBER NOVEMBER

2021

OCTOBER DECEMBER

BMIC organized a Virtual Session in October with global partners of WPF

A joint session by three partners of Whole Planet Foundation; (Berendina Micro Investments Company Limited - Sri Lanka, Aflore - Colombia and Fundación Paraguaya - Paraguay), presented the experience in responding to the COVID 19 pandemic. BMIC and Fundación Paraguaya were in the traditional Microfinance operational models and Aflore - Colombia was moved into Fintech based microfinance model during the pandemic and many insightful learnings were presented at the virtual session. This session covered the different country contexts that helped enhance the resilience of microfinance clients in the three countries and how the clientele of MFIs responded to the pandemic in different contexts under the two different microfinance models.

Berendina bags Silver Award at the CA Sri Lanka 56th Annual Report Awards

BMIC won the Silver award at the 56th Annual Report Awards Ceremony organized by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka), under the category of Finance Companies and Leasing Companies (total assets up to LKR 20 Billion).

BERENDINA
"BMIC was awarded as the Best Microfinance Company in Sri Lanka 2021 and the Best Agricultural Lending Company in Sri Lanka 2021 by Global Banking and Finance Review."

Chairman's Message

The year 2021, was indeed a very challenging yet a successful year for Berendina and its stakeholders. I am pleased to present the Annual Report and the Audited Financial Statements of Berendina Micro Investments Company Limited (BMIC) for the year ended 31st December 2021, and it is my pleasure to pen this message as its Chairman.

Amid all the challenges, including several lockdowns, and travel restrictions due to COVID 19 pandemic, BMIC rebounded its financial performance during the year 2021. Consequently, the company recorded a after tax profit of LKR 71.5 Million in 2021 with a marginal increase in the portfolio although the operations of BMIC were hampered throughout the year owing to several lockdowns and travel restrictions.

The poverty alleviation focus of the company led it to expand its benefits to the clients in 2021 as well. One facility was the loan moratorium for clients who lost their income due to the pandemic. BMIC offered its first moratorium facility in 2020 and more than 72% of the clients obtained this facility. The second moratorium facility was offered again in 2021 as a concessionary measurement to the clients who could not serve the loan installments during lockdown periods. Accordingly, 29% clients benefitted from this second moratorium in 2021 and the total value of loans under this moratorium facility was LKR 871 Million. During the year BMIC gave an allowance to cover the loss of income for 1,622 clients who became COVID positive.

SRI LANKA'S MICROFINANCE LANDSCAPE

Sri Lankan licensed microfinance sector as a whole also rebounded in 2021, recorded a growth of 27.2% of its assets base, and reached LKR 8.4 billion at the end of the year. However, the spillover effects of the COVID 19 pandemic continued to result in adverse performance in the microfinance sector as a whole owing to halting of operations, impact on recoveries, and disruptions to the income earning sources of low-income earners. This has directly impacted the loan disbursements and recoveries of the microfinance sector. As a novel solution to customer complaints and inquiries, LMFPA introduced a "Microfinance Helpline" for the general public to lodge their complaints or inquiries. This enabled the MFIs and Association to take corrective actions if required in a timely manner before it became a social issue. The objective of this helpline was to curb incidents of malpractices portrayed in the microfinance industry and address the grievances of the affected parties in a transparent manner.

FOCUS ON POVERTY ALLEVIATION

BMIC is well known for its "Credit Plus Approach" which enables BMIC to stand strong and support the client base in various aspects not limited to financial assistance. Furthermore, being a licensed microfinance company in Sri Lanka, BMIC is eligible to obtain collateral savings from clients. This enables clients to strengthen their savings habits and improve their financial status. In 2021, BMIC successfully implemented the saving operations for

all 30 branches which were previously under pilot project level in 2019 & 2020. The array of additional services which is affiliated with the coupon system is identified as “Enterprise Development Services” (EDS) and BMIC has a separate division for EDS consisting of EDS officers in every branch.

EDS, which is a unique service of BMIC is provided to all customers in need. These services enabled them to improve their skills, knowledge, and attitudes and to enhance their entrepreneurial capabilities. During the year, the Company provided 269 training programs for 4,676 clients including technical training, financial literacy training, Start and Improve Your Business (SIYB), and soft skills development programs. However, the pandemic situation highly impacted the training programs as well as the other programs implemented by BMIC, which caused a decrease in the number of training programs compared to the previous year.

BMIC also provides the ‘Suwasahana Benefits Scheme’ for its clients which is financial assistance for them in their emergencies such as illnesses or funerals. The scheme consists of a daily allowance for the hospitalization of the client, client’s spouse, or an infant below one-year-old and funeral allowance in the event of a death of a client or an immediate family member. During the year under review, LKR 9.03 Million of Suwasahana benefits were distributed among 2,792 clients. Further, BMIC also provided LKR 7.3 Million worth of scholarships for 604 students during the year under the Bright Students’ Scholarship (BSS) program for the competent students of clients during their period of study for the Advanced Level Examination.

COMPANY PERFORMANCE

The year 2021 was a challenging yet achieving year for BMIC. In the previous year, most of the challenges were unforeseeable. However, unlike in the previous year, in 2021 the circumstances were somewhat known to the organization. Hence the resilient actions were performed well in 2021. Further strengthening the strategic direction of the company led to achieving a total comprehensive income for the year after transfering to statutory reserve of LKR 69.38 Million against LKR 10.44 Million in 2020. The loan portfolio showed a marginal increment of 3% in 2021 reaching LKR 3.09 billion in 2021 compared to LKR 3 billion in 2020. The total customers showed a marginal reduction of 6% compared to 2020. The interest income which is the prime source of income increased by 21% to LKR 907 Million in 2021 from LKR 749 Million in 2020. PAR (30 Days) also exhibited a significant reduction from 10.44% in 2020 to 5.84% in 2021.

Furthermore, the year 2021 was a year of awards for BMIC as the company was bestowed several awards during the year. BMIC was awarded as the Best Microfinance Company in Sri Lanka 2021 and the Best Agricultural Lending Company in Sri Lanka 2021 by Global Banking and Finance Review. In addition, BMIC received the ‘Donors Choice Award’ at the International Competition conducted by SCALE Green Creative Adaptation Awards 2021 in the USA. Furthermore, BMIC also received the Silver Award at the 56th Annual Report Awards by the Institute of Chartered Accountants of Sri Lanka under the category of Finance Companies and Leasing Companies (total assets up to LKR 20 billion).

CHALLENGES

The continuation of several health measures and social restrictions further worsens the negative impact on the microfinance sector. Since most of the clients engage with small businesses and are self-employed, they were not able to carry out their income generation activities as usual. This situation directly impacted the loan recoveries and disbursements, especially during the island-wide lockdown situation. Therefore, BMIC continued offering various assistance to clients and even provided a second moratorium in 2021 to cope with the situation. Clients who requested a moratorium facility, got the 3 months moratorium in 2021 covering the lockdown months as they could not serve the loan installments. From time to time, lockdown and travel restrictions affected the growth forecasts of the company and operations to a complex level.

The cluster method is the most common method used by BMIC to keep in touch with its clientele and do monthly recoveries. However, due to social distance requirements, the cluster method was further hindered. Accordingly, most of the conventional ways of operations had to be changed and implement novel practices such as recoveries through electronic transactions, conducting some of the training as virtual training programs, virtual staff meetings, etc.

Employees of BMIC also had to face several challenges with these novel practices and disruptions of the operational activities. BMIC directed its employees for several capacity-building programs and for mindfulness programs in order for them to better manage challenges.

GOING AHEAD

We are expecting another challenging year in 2022 due to potential economic challenges with high inflation and volatility in the foreign exchange market. Experiencing negative impacts on our clientele as well as for the company is expected owing to these weak economic conditions in Sri Lanka. There is a possibility that another COVID 19 wave could also affect the company adversely.

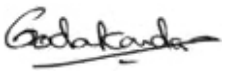
The key focus of BMIC will be revolving around client protection and sustainability of the company. BMIC expects to increase its penetration in the plantation community and community-based lending in 2022.

Furthermore, BMIC focuses on implementing the Business Continuity Plan in place during 2022 supported by a vulnerability testing to identify possible challenges. In addition, BMIC expects to enhance the company's digital footprint and initiate digitalization.

ACKNOWLEDGMENT

I would like to convey my sincere appreciation to the Board of Directors for the immense support extended to the BMIC team and to me throughout this challenging year to stand as a strong microfinance company. I also wish to express my sincere gratitude to Berendina Stitching for their continuous support and guidance since the inception of BMIC. I also take this opportunity to thank Berendina Development Services (BDS) for joining hands, frequently working with us. I am also thankful to all our loan and grant funding partners and technical assistance providers for consistently supporting the business.

I also wish to express my thanks to our team of staff for their endless commitment to the organization, which enabled it to move forward confidently with innovative ideas based on client-centric products and services. Finally, I thank our clientele for being pillars of the success of our progress and their continued faith in BMIC over the period.



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Godakandage Jagath Chandana
Chairman

20 April 2022
Colombo

Managing Director's Review

I am pleased to present the Annual Report and the Audited Financial Statements of Berendina Micro Investments Company Limited (BMIC) for the year ended 31st December 2021. The financial year 2021 was another challenging year for BMIC. Amid all the challenges, BMIC achieved satisfactory performance during the year reflecting the successful strategic directions taken by the company during the year. BMIC was forced to outperform innovatively. We could reap benefits of several resilient building programs undertaken last year and this year to overcome challenges of the pandemic. BMIC achieved a year-end profit after tax of LKR 71.46 Million in 2021. Timely strategic moves, the customer-centric approach, and employee commitment were the main pillars of the success of BMIC during the year under review.

GLOBAL ECONOMY

The year 2021 experienced the spillover effects from COVID-related challenges faced by the world in 2020. These worldwide spillovers continued through commodity markets, trade and financial channels. As per the International Monetary Fund (IMF), the global growth of 5.9% in 2021 is expected to slow down to 4.4% in 2022. The year ended with positive sentiments but less optimism than mid-year. At the end of the year 2021, half of the global population was fully vaccinated against COVID 19.

Unfavorable circumstances of the Russian-Ukraine war will impact subduing the growth and increasing inflation. Since the food prices and fuel prices have increased significantly, it impacts on low-income countries is much higher as many such countries have limited fiscal policy space to cushion the impact of the war on their economies. Global pandemic disruptions have highlighted the productivity of novel ways of working. Therefore, countries should look to harness positive structural change wherever possible, embracing digital transformation and retooling and reskilling workers to meet challenges.

LOCAL ECONOMY

As per the Central Bank of Sri Lanka, the country is undergoing its worst economic crisis situation due to critically low levels of official reserves, external debt payments, accelerated inflation, very critical lower fiscal space, power and fuel crisis, and political instability. In 2021, Sri Lanka recorded a GDP growth of 3.7% compared to a contraction of -3.6% in 2020. Accordingly, per capita GDP increased marginally to USD 3,815 in 2021 from USD 3,695 in 2020. A marginal reduction in the unemployment rate was recorded which was 5.1% in 2021 against 5.5% in 2020. Nevertheless, labor force participation decreased to 49.9% in 2021 compared to 50.6% in 2020 due to the increase in the labor force and inactive population. Furthermore, in 2021 the current account deficit was significantly widened to USD 3.3 Billion from USD 1.2 Billion in 2020. Consequently, Gross Official Reserves also declined in 2021 to USD 3.1 billion from USD 5.7 Billion in 2020. Government revenue slippages and government expenditure overruns led to worsening the budget deficit escalating Government debt stock to 104.6% in 2021 compared to 100.6% in 2020.

The general price level followed an overall increasing trend during 2021 with a notable rise towards the latter part of the year resulting in an increase in both the Colombo Consumer Price Index (CCPI) and National Consumer Price Index (NCPI). CCPI increased to 12.1%

"BMIC won the 'Donors Choice Award' at the International Competition conducted by SCALE Green Creative Adaptation Awards 2021 in the USA for our innovative sustainable approach in Biogas Production among clients who are into dairy farming."

in 2021 from 4.2% in 2020 while NCPI increased to 14% in 2021 from 4.6% in 2020. Inflation increased significantly in early 2022. The monthly Average Weighted Prime Lending Rate also increased in 2021 and stood at 8.33% at the end of the year compared to 5.74% in 2020. The Average Weighted Deposit Rate marginally decreased to 4.94% in 2021 against 5.80% in 2020. The Central Bank of Sri Lanka currently focuses on several policy measures and structural changes to rebound the economy.

MICROFINANCE SECTOR OVERVIEW AND CHALLENGES

The microfinance sector in Sri Lanka provides a direct contribution to the economy by enhancing the provision of financial services to the marginal population in the country. There are four microfinance companies licenced by the Monetary Board of the Central Bank of Sri Lanka under the Microfinance Act No. 6 of 2016. Thirty (30) NGOs are issued registrations for microfinance by NGO secretariat under the same Microfinance Act. The Samurdhi program implemented by the Government was also in the forefront of microfinance in Sri Lanka. The cooperative movement is another larger set of organizations involved in microfinance. There are two development banks, Regional Development Bank and SANASA Development Bank providing microfinance to a significant clientele. The other segment was the unregulated MFIs which included public and private companies and a few NGOs. There are a few finance companies licensed by the Central Bank under the Finance Business Act No 42 of 2011 involved in microfinance. LMFPA acts as the apex body of microfinance institutions, and under LMFPA, there are 55 member MFIs which include all the types of above mentioned legal entities. During the year under review, LMFPA has introduced a helpline for microfinance clients to lodge their complaints and raise queries. The objective of this helpline is to curb incidents of malpractices portrayed in the microfinance industry and address the grievances of the affected parties in a transparent manner.

In 2021, the asset base of LMFCs increased to LKR 8.4 Billion from LKR 6.6 Billion in 2020 recording a 27.2% growth. The total deposit base of the sector grew by 11% in 2021 from LKR 488 Million in 2020 to LKR 544 Million in 2021.

The adverse circumstances faced by the industry in past years such as portfolio deterioration due to the government debt relief program in 2018, negative impacts of Easter Sunday attack in 2019, and COVID 19 impact in 2020 continued in 2021 as well. Microfinance clients' livelihood and income sources were impacted significantly due to several public health measures. The negative effect on income level of clients, impacted on lowering the repayment rates. MFIs experienced cash flow rigidity throughout the year together with operations disruptions. In addition to that, most of the local funding sources are now not operating making MFIs into a financially distressed situation. International borrowing also does not seem favourable owing to high foreign exchange rate volatility. Therefore, the funding opportunities remain in a miserable situation for the microfinance sector.

POSITION OF BMIC

BMIC works towards the Vision of creating an empowered, equitable society where poverty does not exist. This Vision allows the company to create a unique strategic direction that revolves around a "customer-centric approach." The value creation model of BMIC considers all stakeholders and the wellbeing of clients in particular which makes BMIC an exemplary institution in the sector.

Notwithstanding the fact that the microfinance sector has been criticized during the last few years for the higher interest rates charged, BMIC has been able to maintain its comparably lower interest rates in 2020 too. BMIC provided loans at an interest rate of 10% - 15% (flat basis) which is equivalent to 18% - 27% on a declining balance basis. As per microfinance direction No. 2 of 2019, every LMFC has to charge an all-inclusive effective annual interest rate of less than 35%. BMIC charges an interest rate much lower than the cap rate introduced by the Central Bank of Sri Lanka which is a unique feature of BMIC. As a customer-centric organization, BMIC ensures the poor have access to finance facilities at the lowest possible cost. Furthermore, BMIC conducts client awareness programs on financial literacy in order to ensure that clients have the required awareness of the interest rates including the real meaning of the effective interest rate. BMIC provided 5.12% effective annual interest rate for the deposits of collateral savings which was much higher than the savings interest rates provided by banks and other financial institutes.

Protecting clients from over-indebtedness is a long-due challenge to the microfinance sector and this situation is being controlled by BMIC in the form of a self-declaration from the clients including information about the loans obtained from other lenders. However, the Company is now having discussions with relevant authorities to get CRIB access. Moreover, even with the access to CRIB for LMFCs, it might not be beneficial for the

microfinance sector as the full microfinance sector is not reflected in the CRIB data base due to the fact that the majority of microfinance lenders including Samurdhi and Cooperatives are not reporting to the CRIB in the current context.

Enhancing the living standards of the clients is the ultimate objective of any microfinance institution. Therefore, BMIC has diversified its operations beyond micro-credit facilities into a few other dimensions such as Enterprise Development Services which is another unique feature of BMIC. This ensures higher utilization and impact of credit facilities. The credit plus approach of BMIC enhances the entrepreneurial capabilities and skill development of clients which encourages them to be more financially inclusive. Even during this challenging year, BMIC was able to conduct the EDS activities including training sessions.

Beyond providing credit facilities, savings facilities, and enterprise development services, BMIC provides number of additional benefits to its clients. BMIC clients are eligible to receive 'Suwasahana' cash benefits in the event of a funeral in the client's family and in events of hospitalization. A total of 2,792 clients benefitted with LKR 9.03 Million under the Suwasahana scheme in 2021. Additionally, BMIC conducts a Bright Student Scholarship Programme to provide financial support to the bright children of clients who are pursuing the G.C.E. A/L examination. This is being paid for a period of two years and for an additional one year in the event of a second attempt at the examination. Accordingly, during the year under review LKR 7.3 Million was provided as scholarships for 604 students under this program.

OUR SUSTAINABLE DEVELOPMENT MODEL

Berendina, the group in which BMIC is one organization, is dedicated towards alleviating poverty with different interventions, microfinance being one among them. BMIC does not carry out microfinance purely as a commercial activity but as a tool for poverty alleviation. Berendina group goes beyond microfinance embedded with credit plus services provided by BMIC. BMIC's shareholders are Berendina Stichting (BS) and Berendina Development Services (BDS).

Berendina Development Services Gte. Ltd, works toward uplifting the lives of marginalized people who cannot be benefitted from microfinance but could be further marginalized due to credit programs. These segments in society include the extremely poor, elders, patients with chronic and long-term diseases, estate workers, differently abled and youth. BDS engaged in four different strategies such as livelihood development, water and sanitation, youth engagement and employment, and advocacy and lobbying. The main donor for BDS is Berendina Stichting in the Netherlands.

Berendina Stichting (BS) owns, 75% of the legal ownership of BMIC. Berendina Development Services (BDS) owns 25% of the ownership of BMIC. Berendina Stichting (BS) was incorporated in the Kingdom of Netherlands with the objective of alleviation of poverty and empowering marginalized and vulnerable communities. BS is the founder and main funder of Berendina organization including BMIC in Sri Lanka. However, BDS has 100% dividend rights ensuring the profits earned by BMIC will be utilized in Sri Lanka for uplifting the living standards of the poor and vulnerable communities in Sri Lanka by both BMIC and BDS. This strategy is already in place and will be a key strategy for the long-term financial sustainability of all the interventions of Berendina in Sri Lanka.

PERFORMANCE OF THE YEAR

During the year under review, BMIC had to operate in a turbulent environment owing to the sudden operations disruptions and challenges associated with the pandemic. Amid all the negativities BMIC was able to achieve satisfactory financial and non-financial achievements during the year as a result of timely strategic interventions made by the company. In addition to that, BMIC continued its support mechanisms towards the client base ensuring they are less impacted by the pandemic. As stated, BMIC provided a second moratorium and all other benefits such as hospitalization benefits, funeral grants, special loan write-offs, Bright Students Scholarships, and many training programs to face the challenge.

The financial year 2021 ended with a total comprehensive income for the year after transfering to statutory reserve of LKR 69.38 Million compared to the profit of LKR 10.44 Million in 2020. The PAR (30 Days) reduced to 5.84% in 2021 from 10.44% in 2020. The total loan portfolio exhibited a marginal increase of 3% and the portfolio stood at LKR 3.09Billion at the end of the year 2021. However, active borrowers reduced slightly and there were 65,930 active borrowers at the end of the year. Total assets increased marginally by 0.09% in 2021 which stood at LKR 3.07 Billion in 2020 while total equity increased by 10% which stood at LKR 1.12 Billion in 2020. Total income increased by 19% and reached LKR 933 Million in 2021 compared to LKR 782 Million in 2020.

Due to the COVID pandemic, physical training programs were disrupted in 2021. BMIC provided 269 training programs to 4,676 clients. In 2021 the highest number of training programs were conducted under the 'Success in Money Management' category which is the advanced version of financial literacy training. A total number of 1,695 clients benefited from the 'Success in Money Management' training.

The savings operations of BMIC started in 2019 with 2 branches as a pilot project and then expanded to 5 more branches in 2020, were further expanded to all the branches in 2021. The product was very easy for clients and BMIC to operate. A monthly deposit of LKR 200 by the client together with the monthly loan installment repayment was implemented to build the savings culture among our clientele which will have many other benefits for clients as well as BMIC in the longer term. Number of clients having savings accounts with BMIC and savings balance was increased to 32,202 clients and LKR 44.2 Million, respectively, at the end of 2021.

Encouragingly, BMIC was able to secure several awards during the year 2021. BMIC was awarded as 'The Best Microfinance Company in Sri Lanka 2021' and 'The Best Agricultural Lending Company in Sri Lanka 2021' by Global Banking and Finance Review. Furthermore, BMIC won the 'Donors Choice Award' at the International Competition conducted by SCALE Green Creative Adaptation Awards 2021 in the USA for our innovative sustainable approach in Biogas Production among clients who are into dairy farming. BMIC follows the triple bottom line approach dedicated to the green concept which consists of People, Planet, and Profit under the theme of "Save the Environment for Today and Future" in all its activities. This is indeed a milestone achievement by the company being the only Sri Lankan Company to win an award at this international competition. Moreover, BMIC bagged Silver at the 56th Annual Report Awards by Chartered Accountants of Sri Lanka (CA Sri Lanka), under the category of Finance Companies and Leasing Companies (total assets up to LKR 20 Billion).

MOVING CLIENTS OUT OF POVERTY TOWARDS PROSPERITY

The Vision of BMIC is to "Create an empowered and equitable society where poverty does not exist" and the key measurement tool that BMIC uses to verify the level of poverty focus of the organization and the level of clients becoming less poor while being with BMIC is the Poverty Probability Index (PPI), which is a renowned tool used to measure poverty outreach globally. BMIC measures the poverty status of clients at the entry and at each successive loan cycle, using PPI and tracks the poverty reduction when the clients move from one loan cycle to the other.

Since the adverse impacts of the COVID pandemic continued in 2021 as well, the new client enrollment was very marginal and most of the clients served during 2021 were repeated borrowers and, therefore, there is a slight decrease in poverty outreach. PPI data reveals that the poverty outreach at the 200% national poverty line is reduced to 36% in 2021 from 37% in 2020. However, the PPI analysis indicates borrower movement from high poverty levels to low poverty levels in repeat loan cycles. This indicates that the BMIC loans and other services have positively contributed to reduce poverty while the other factors beyond BMIC interventions could also contribute to this progression of clients.

GREEN MICROFINANCE

BMIC follows the triple bottom line approach, people, planet, and profit. Being focused on poverty alleviation, all these aspects are considered with the intention of improving the living standards of the poor and eliminating the causes of poverty including environmental degradation due to depletion of natural resources and the adverse environmental impacts from various human actions. While encouraging eco-friendly businesses by clients, BMIC provides various awareness programs, guidance, and support to convert harmful activities into economic value addition activities in a nature friendly manner. Building waste water treatment tanks for industries making affluent water, Biogas Digesters as a renewable energy source and to make organic fertilizer (compost) among Dairy farmers are some examples of such value-adding activities. Furthermore, the Company ensures that waste paper is appropriately recycled to reduce the ecological footprint of paper usage.

OUR HUMAN RESOURCE

BMIC is proud of its innovative, focused, and passionate team of employees for being the backbone of the company while providing value to the community as a whole. Notwithstanding the challenging operating environment, the employees have contributed immensely to the success journey of Berendina throughout the years. BMIC always believes in employee engagement to the core strategy of the company and values employee suggestions and feedback when crafting strategic direction. The open-door policy of the company leads to realizing employee engagement.

Employee capability development is a key focus area of the company. Accordingly, BMIC offers scholarships for professional education of employees. Additionally, 51 training programs were conducted for 2,008 staff participants during the year under review.

Apart from the special benefits provided by the company including medical insurance coverage, an additional contribution to the EPF (at 25% of the salary), etc., BMIC focused on the health and safety of employees to combat the COVID pandemic. Accordingly, flexible working rosters, virtual meetings, and health and precautionary guidelines, paying an additional allowance for COVID patients among the staff were further continued during the year.

Furthermore, several policies such as the Gender and Anti-Harassment policy and Whistleblower program have already been implemented to safeguard the employees from possible internal and external vulnerabilities.

FUTURE DIRECTIONS

The coming years will be more and more challenging for BMIC as Sri Lanka is now battling with its worst economic crisis. Therefore, BMIC will make necessary strategic decisions to ensure the company's sustainability and improve resilience of its key stakeholders such as clients and employees. Furthermore, the company will finalize its Business Continuity Plan in 2022. BMIC is now engaged with vulnerability assessments to identify any improvements that will be considered in the coming years. In addition to that, BMIC will move toward with a digitalization strategy for the company. With the gradual increment of the savings portfolio, BMIC could eventually consider reducing the loan interest rates for clients in time to come.

ACKNOWLEDGMENT

I would like to take this opportunity to convey my sincere gratitude to our Chairman Mr. Jagath Chandana Godakandage and our Board of Directors for their tremendous support and guidance extended towards me and the BMIC team at this difficult time to overcome the challenges and take the organization forward.

I would also like to extend my sincere gratitude to our shareholders, Berendina Stichting (BS) and Berendina Development Services (BDS) for the immense support and guidance given to us and for being the main funding partners of BMIC. I also thank our funding partners (WPF, HNB, Etimos, HelpAge), our technical assistance providers (SMCGL, USAID Catalyze Sri Lanka GCAMF, UNDP, and HI), and our network partners (LMFPA, SIYB, SLEvA, BWTP) for contributing in several ways during the year under review. I am also grateful for the BMIC staff's unfailing commitment that enabled us to move confidently amidst all uncertainties towards our goals in this difficult year in particular. I would also like to thank the Governor of the Central Bank of Sri Lanka and the Director and the officials of the Department of Supervision of Non-Bank Financial Institutions for their support and guidance provided at all times.

I conclude by conveying my sincere gratitude to all our loyal clients whose betterment is our prime pride.

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Hewa Athapaththuge Anura
Managing Director/CEO

20 April 2022
Colombo

Breaking Barriers

Sooriyakumar Jesintharani is one of our clients from Valachchenai. She is successfully running the tailoring business registered under the name - Jesintha Tailoring Shop. The business was initiated by her late husband who was professionally a tailor. She has a daughter and a son who are both schooling at present.

Jesintharani was one of the oldest clients of Berendina Valachchenai branch which commenced operations in 2015. She took the first loan of LKR 30,000 in the same year and invested in the tailor shop. Her second loan of LKR 60,000 and third loan of LKR 50,000 were utilized to purchase sewing machines. Everything was going very smoothly until her husband met with a fatal accident and lost his life in 2018.

“I felt the whole world crumbled over me”, recalls Jesintharani. “I lost all hope of life. I didn’t know what to do. Berendina came forward and through Loan Recovery Fund (LRF), set off my balance dues. It was a lease of a life line”, remembers Jesintharani. Taking into serious consideration the entrepreneurial skills of Jesintharani, Berendina reconsidered to offer a loan of LKR 100,000 to restart the business, paving way for a steady income generation for Jesintharani’s family as well as other employees.

This move drove Jesintharani along the path of success. Her business is now fully established with 5 full time employees and 3 part-time employees. The business is running very successfully with routine dress orders, school uniform orders, maternity frock orders as well as production of soft toys. Her products are also featured in Berendina managed ekade.lk, bringing online customers from Sri Lanka as well as from other countries. “I sincerely appreciate Berendina for supporting me during my difficult days and for giving me hope,” says Jesintharani who further elaborates, “my monthly net income through this business is now LKR 120,000. I have enough assets of my own including 04 sewing machines, one ZigZag machine as well as 05 almirahs. The social stigma as a young Widow doesn’t bother me now as my family is now well respected by society. I can look after my children very well and I am happy to offer employment opportunities to my village people.”

MANAGEMENT DISCUSSION AND ANALYSIS

Operating Environment

GLOBAL ECONOMY

As per the Global economic prospects published by the World Bank Group, global growth rebounded to an estimated 5.5% in 2021, owing to the relaxations of health and safety measures in many countries. Notwithstanding this annual increase, resurgences of the COVID-19 pandemic and widespread supply bottlenecks weighed appreciably on global activity in the second half of 2020. As a result of continued COVID -19 impact, diminished fiscal support, lingering supply disruptions, etc., would lead to further decelerate the growth to 4.1% in 2022, followed by a further softened growth rate of 3.2% in 2023. However, emerging and developing economies are expected to suffer substantial scarring to output from the pandemic, with growth trajectories not strong enough to return investment or output to pre-pandemic trends. During the year under review, the economic activities of South Asia have recovered, including Sri Lanka. However, per capita income in Sri Lanka is expected to fall further in comparison to advanced economies during 2021 -2023.

Nevertheless, the recent developments in terms of the war in Ukraine have triggered a costly humanitarian crisis that demands a peaceful resolution. At the same time, economic damage from the conflict is expected to contribute to a significant slowdown in global growth in 2022 and increased inflation.

SRI LANKAN ECONOMY

Sri Lankan Economy rebounded in 2021, recording Annual GDP growth of 3.7% compared to the deepest recession of -3.6% recorded in 2020. All three major economic activities, namely, Agriculture, Industry, and services, expanded during 2021. As per the Central Bank of Sri Lanka, the overall size of the economy expanded to US dollars 84.5 billion in 2021 from US dollars 81 billion in the previous year. Per capita GDP grew to US dollars 3,815 in 2021 from US dollars 3,695 in 2020. However, the economically inactive population increased by 3.7% to 8.6 Million in 2021.

National Consumer Price Index (NCPI) based core inflation accelerated to 10.8 %, year-on-year, by the end of 2021 compared to 4.7% at the end of 2020. According to the Annual Report, 2021 published by CBSL, the strong proactive policy measures taken by the Central Bank are expected to arrest further build-up of demand-driven inflationary pressures and adverse inflation expectations, supporting to revert inflation rates towards the target range in the period ahead.

The deficit in current accounts further widened in 2021, reflecting the expansion in the trade deficit and the reduction in workers' remittances. The overall balance of the BOP recorded a significant shortage of around US dollars 4.0 billion in 2021. Sri Lanka's total external debt increased to US dollars 50.7 billion by the end of 2021 from US dollars 49.0 billion as of 2020. Limited foreign currency liquidity led the rupee to be in a volatile situation. The considerable pressures witnessed in the domestic foreign exchange market caused a large overshooting, subsequent to the allowing of more flexibility in exchange rate determination. The budget deficit to GDP increased to 12.2% in 2021 compared to 11.1% in 2020. The unemployment rate declined during the year due to the steady recovery in the economy. However, increased labor force and an inactive population led to a decline in the labor force participation. The unemployment rate stood at 5.1% in 2021, whereas it was 5.5% in 2020.

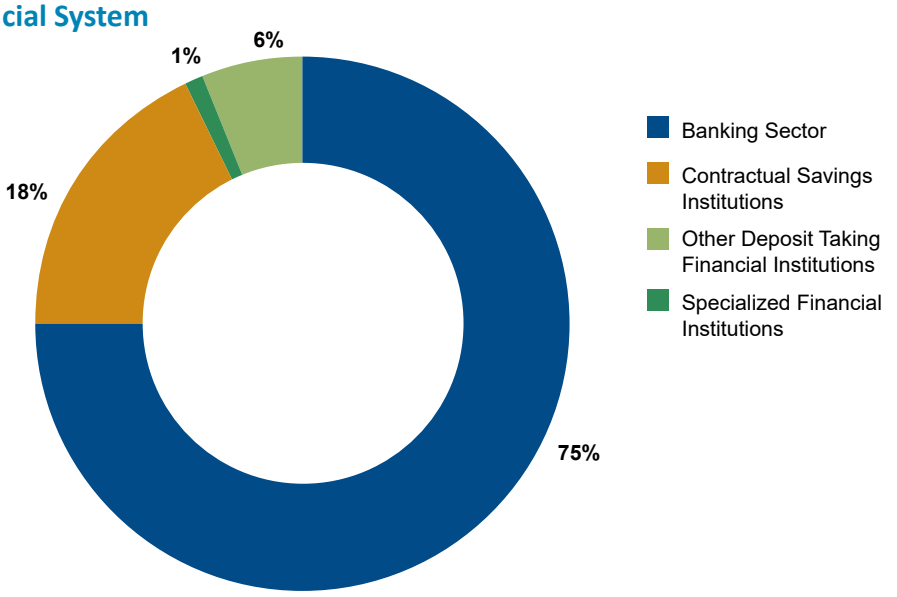
The external sector of Sri Lanka had to face many challenges in 2021, such as the widening current account deficit, depletion of gross official reserves due to government debt, depreciation of the local currency, etc. The trade deficit widened to USD 3.3 Billion in 2021 compared to USD 1.2 Billion in 2020. The Sri Lankan rupee was kept stable during the year 2021. However, CBSL had to float the exchange rate in early 2022 due to external pressure and adverse developments in local and international markets. Consequently, the Sri Lankan rupee, which depreciated by 7% in 2021, depreciated significantly by 33 % by the end of March 2022.

Government revenue fell to a historic low level of 8.7% of GDP in 2021, which was 9.1% in 2020. This is mainly due to the reduction of tax revenue owing to tax relaxation in late 2019 and early 2020, slower economic revival than expected, and continuation of import restrictions.

FINANCIAL SECTOR PERFORMANCE

The financial sector performed stably to aid the country's macroeconomic challenges. The financial system of the country mainly consists of Banking sector, Other deposit taking financial institutions, Specialized financial institutions and contractual savings institutions.

Total Assets of the Financial System



However, banks had to face a shortage of foreign currency liquidity as a result of low foreign currency inflows experienced by the country. The performance of the Licensed Finance Companies (LFCs) and Specialised Leasing Companies (SLCs) sector recorded a considerable improvement in terms of credit growth and profitability on an overall basis. To ensure flexibility in adapting to the new normal and to provide continuous support to the COVID-19-affected economy, the Central Bank relaxed some of the regulations pertaining to financial institutions under its purview during the period under review. The performance of financial markets was mixed during 2021. Money market liquidity, which remained at a surplus level during the first seven months of 2021, turned to a deficit as a result of foreign debt repayments and the reversal of the accommodative monetary policy stance. The domestic foreign exchange (FX) market liquidity was severely affected due to the slow recovery of tourism and earnings from subdued remittances, slow conversion of export proceeds, increased import expenditure, and sovereign rating downgrades.

MICROFINANCE SECTOR PERFORMANCE

Four microfinance companies have registered under the Microfinance Act, No. 6 of 2016 and have received the license from the Monetary Board of the Central Bank. As per the CBSL Annual report, Licensed Microfinance Sector recorded a 27.2% growth of assets base reaching to LKR 8.4 billion at the end of 2021. Microfinance Loans and Advances amounted to LKR 6.3 billion as of the end of 2021 in comparison to the LKR 5.3 billion at the end of 2020, reporting a growth of 14.8%.

The total deposits of microfinance sector grew by 11% in 2021 which stood at LKR 544 Million in 2021 compared to LKR 488 Million in 2020. The NPLs of the sector recorded a rate of 16.8%. Total deposits of the microfinance sector recorded a growth of 27.2% in 2021 from LKR 488 Million in 2020 to LKR 544 Million in 2021. The debt-to-equity ratio increased to 2% by the end of 2021, with the increase of equity from 1.9% recorded at the end of 2020. In order to utilize the available liquid assets to meet operational costs during the COVID-19 pandemic, the Monetary Board continued its decision to withdraw the requirement for LMFCs to maintain liquid assets as per the Microfinance Act No. 6 of 2016. The core capital level of the sector remained at LKR 2.7 billion, and all LMFCs were in compliance with the minimum prudential regulations on core capital.

The microfinance sector consists of 4 licensed microfinance companies, 23 registered NGOs under NGO secretariat and many non-regulated companies and NGOs, cooperative societies, and Samurdhi program. Lanka Microfinance Practitioners' Association (LMFPA) is a network formed by several Microfinance Practitioners including some Banks and finance companies in Sri Lanka to enhance the quality of financial services to grass-root communities. As per the annual report published by LMFPA, the self-employment and livelihoods of microfinance clients were seriously affected due to lockdowns that were imposed to curtail the spread of COVID pandemic. Therefore, many MFIs, including LMFPA members were affected severely owing to these adverse circumstances. Even though it was not mandatory to provide moratoriums to microfinance clients, many MFIs continued granting the moratoriums for required clients as a concessionary measure. In addition, difficulty in accessing funding opportunities by microfinance companies was highlighted

in the Annual Report of LFMPA as a serious bottleneck for the performance of the sector. Furthermore, a helpline was launched with the intermediation of LMFPA during the year. This helpline was introduced to take corrective actions for customer grievances in a transparent manner.

COMPANY PERFORMANCE

BMIC rebounded from the negative impacts it had in 2020 and performed better in 2021. BMIC granted the second moratorium to requested clients in the latter part of 2021, considering COVID 19 impacted businesses. Accordingly, 19,106 clients benefitted from the second moratorium, which amounted to LKR 871 Million and it is 28% of the portfolio. The first moratorium was granted in 2020 for 72% of the total portfolio.

While continuing its concessionary measurements to clients, BMIC was able to achieve significant achievements during the year 2021. The company rebounded its performance in 2021 and ended the year with a total comprehensive income for the year after transfering to statutory reserve of LKR 69.3 Million against LKR 10.4 Million in 2020. During the year under review, BMIC was able to perform better owing to the timely strategic measures to prevent the negative impact of the COVID 19 pandemic. Such concessionary actions included prioritization of disbursements for needy sectors, continuous communication with clients, moratoriums, livelihood development support, etc. Therefore, BMIC responded to these adverse circumstances well in advance and performed best amid many challenges.

The gross income of the company increased to LKR 933 Million compared to LKR 781 Million in 2020. The portfolio of the company also recorded a slight increase against the previous year, in addition to the significant financial performance of the company. Moreover, company achieved non-financial achievements as well during the year under review. Several awards were received by the company, including the “Best Microfinance Company in Sri Lanka 2021” and “Best Agricultural Lending Company in Sri Lanka 2021” by the Global Banking and Finance Review Awards in UK. BMIC was able to bag the ‘Donors Choice Award’ at the International Competition conducted by SCALE Green Creative Adaptation Awards 2021 in USA. In addition, BMIC won the Silver Award at the 56th Annual Report Awards organized by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka), under the category of Finance Companies and Leasing Companies (total assets up to Rs. 20 Billion).

OUTLOOK

From the latter part of 2021 onwards, Sri Lanka is experiencing its worst economic crisis, and all businesses, including BMIC, operate in a turbulent environment. This affects many aspects of the organization, such as impacts in income-generating sources of clients of BMIC, implications on import-oriented businesses of clients due to foreign exchange crisis, lack of adequate raw materials, lack of fertilizer and price hike of the input materials, etc.

Therefore, the coming years will definitely be very challenging for the company and, of course, for the Sri Lankan people. Skyrocketing prices, high inflation, food scarcity, fuel crisis, political instability, depreciation of rupee value, interest rate hike, etc., will affect to worsen the situation of Sri Lanka further. Consequently, it is expected to deteriorate the repayment capabilities of microfinance clients, increased NPL and lower disbursements. The country’s situation will be adversely impacted further by any possible global challenges, including another potential wave of COVID 19 and price hikes due to international political instability.

BMIC will develop a strategic direction for the company to overcome the negative impacts of local and international challenges and to perform well. BMIC ensures working towards its Vision “Create an empowered, equitable society where poverty does not exist.”

FINANCIAL CAPITAL
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MANUFACTURED CAPITAL
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NATURAL CAPITAL
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HUMAN CAPITAL
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SOCIAL RESPONSIBILITY CAPITAL
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CUSTOMER CAPITAL
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Our Capitals

Value Creation Model

Vison | **Mission**

INPUTS

MANUFACTURED CAPITAL
- Increasing the value of the loan cycle
- Expansion of the collateral savings product to all 30 branches
- Relaxation of the requirement of the CRIB report
- Operational staff were trained on stringent loan assessments under the COVID pandemic & economic downturn

FINACIAL CAPITAL
- Increasing grant funding
- Adhering to new tax rules
- Application of cost reduction approach
- Strengthening treasury management

CUSTOMER CAPITAL
- Customer focused products
- Increased brand image as a licensed microfinance company
- Introducing micro savings
- Expansion of client benefits

SOCIAL & RESPONSIBILITY CAPITAL
- Extended support to our clients through EDS
- Improved the established customer complaint handling system at the Head Office level
- Scholarships for A/L students and Suwasahana benefits
- Assisted clients in difficult times due to COVID 19 pandemic
- Provided loan Moratorium during the COVID 19 pandemic

HUMAN CAPITAL
- Focus on staff training and development
- Focus on staff health & safety
- Staff compensation & benefits
- Unbiased recruitment process
- Retention strategies
- Transparent management approaches
- Maintain staff morale, satisfaction and efficiency

NATURAL CAPITAL
- Environmental impact assessment of enterprises
- Environmental awareness programs
- Continuing environmental protection measures
- Conducting occupational safety awareness programs
- Sharing the best green practices for competition and with others

VALUE IN

PROCESS

BUSINESS CONTEXT

EXTERNAL VARIABLES IMPACTING VALUES
- Political instability
- Natural calamities
- Global rebound in trade
- Investment recoveries in advanced economies
- Unemployment and decent work deficits
- Regularity changes in the local front

PURPOSE
- Alleviation of poverty
- Improvement of financial literacy among rural community
- Generation of employment
- Increasing entrepreneurship
- Improvement of client saving habits
- Reducing vulnerability of poor people for uncertainties
- Education for children

OUR PROFIT FORMULA

Revenue
- Interest income
- EDS income
- Investment income
- Miscellaneous income

Expenses
- Interest and similar expenses
- Personnel expenses
- Other operating expenses
- Taxes

VALUE PROPOSITION

CLIENT

Ensure that client has access to quality microfinance and EDS at the lowest possible cost

EMPLOYEES

Ensure their professional development through training and learning culture
Ensure their work life balance

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
- Unhealthy Government policy decisions

STRATEGIC PRIORITIES

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

OUR PRODUCTS

- Micro Credit
- Enterprise Development Services (EDS)

COMMUNITY	FUNDING PARTNERS
BMIC itself benefits the society through its services and contribute to sustainability of BDS & BEC programmes through funding	Ontime repayments and reporting

VALUE OUT

MANUFACTURED CAPITAL

- The value of the 1st loan was increased to Rs 100,000 from Rs 50,000
- Customers had easy access to savings even with a small amount
- Able to serve more clients who had sound loan discipline with BMIC.
- Able to maintain the quality of the loan portfolio at a reasonably higher level even with challenges

FINACIAL CAPITAL

- Recording of net profit
- Gross income increased by 19%
- cost reduced
- Reduction of operating cost
- Loan portfolio increased by 2.9%
- Decreased investment income as excess funds were used to early settle some borrowings
- Increasing equity and earnings per share

CUSTOMER CAPITAL

- Disciplined cluster meetings
- Direct customer hotline for their queries
- Ekade. lk
- Increased the collateral saving to 44 Mn from 32,202 savers

SOCIAL & RESPONSIBILITY CAPITAL

- 51 staff training were conducted for 2,008 participants
- On time payments of staff salary and all staff benefits without a pay cut. Additional fixed allowances are paid.
- Staff promotions and increments were given as per the policy.
- Staff allowances and benefits were increased and continued
- Continuously focused on Gender and Anti-harassment & Anti sexual harassment, Child protection policies, and whistleblower mechanism
- Staff issues and financial hardships were addressed in a timely manner

HUMAN CAPITAL

- Trainings for 882 employees
- Profit share among staff
- Promotions & Increments under staff grading system

NATURAL CAPITAL

- Harmful enterprises were identified
- Promoting environmental conscious behavior
- Followed up on the performance of constructions built in the past
- Increasing conscious behavior on occupational safety
- Won Global Award

Funding Partners

Clients

Employees

Community

Environment

Manufactured Capital

Value Creation Activities in 2021

- Increasing the value of the loan cycle
- Expansion of the collateral\ savings product to all 30 branches
- Relaxation of the requirement of the CRIB report
- Operational staff were trained on stringent loan assessments under COVID pandemic & economic downturn

Outcome

- The value of the 1st loan was increased to Rs. 100,000 from Rs. 50,000
- Customer had an easy access for savings even with small amount
- Able to serve more clients who had sound loan discipline with BMIC
- Able to maintain quality of the loan portfolio at reasonably higher level even with challenges

Challenges

- Loan size increases may not be sufficient to desired purpose due the increase in price of raw material.
- Difficulties in continuing the momentum for savings due to the economic conditions.
- Controlling over indebtedness and identifying clients with bad credit history continues to challenge the credit portfolio.
- Dissatisfaction of clients due to approving less loan amount or loan rejection.

In effective and efficient fulfilling of goals and objectives of BMIC, its manufactured capital which consists of the physical, material and technological infrastructure has made a significant contribution. Our physical infrastructure comprises of a network of 30 branch offices located in 11 districts and the Head Office in Colombo. Material infrastructure consists of client loan portfolio, collateral savings portfolio and EDS product portfolio while digital infrastructure consists of the Core Banking System and other information and communication technology facilities. All these infrastructure facilities enhance the value and quality of the services we provide to our customers.

In the year 2020, the manufacturing capital was re-aligned and customized in response to the pandemic to suit the needs of the organization. These same measures were continued in year 2021 as the threat of the pandemic was present where curtailing the spread of the virus was a top priority. The measures that were implemented in response to the Covid 19 pandemic consisted of discouraging visits by clients to the branch offices unless otherwise essential. The customer service areas were separated with transparent polythene. Seating arrangements for clients as well as for staff with adequate space for social distancing were introduced, hand washing and temperature checking were introduced, with hand sanitizer and face shields being provided to all staff on company's cost. Customer training programmes, which is a key product of BMIC, along with cluster meetings, which is the main mode of communication with clients, were also suspended in line with the Government health regulations in combating the pandemic.

PHYSICAL INFRASTRUCTURE

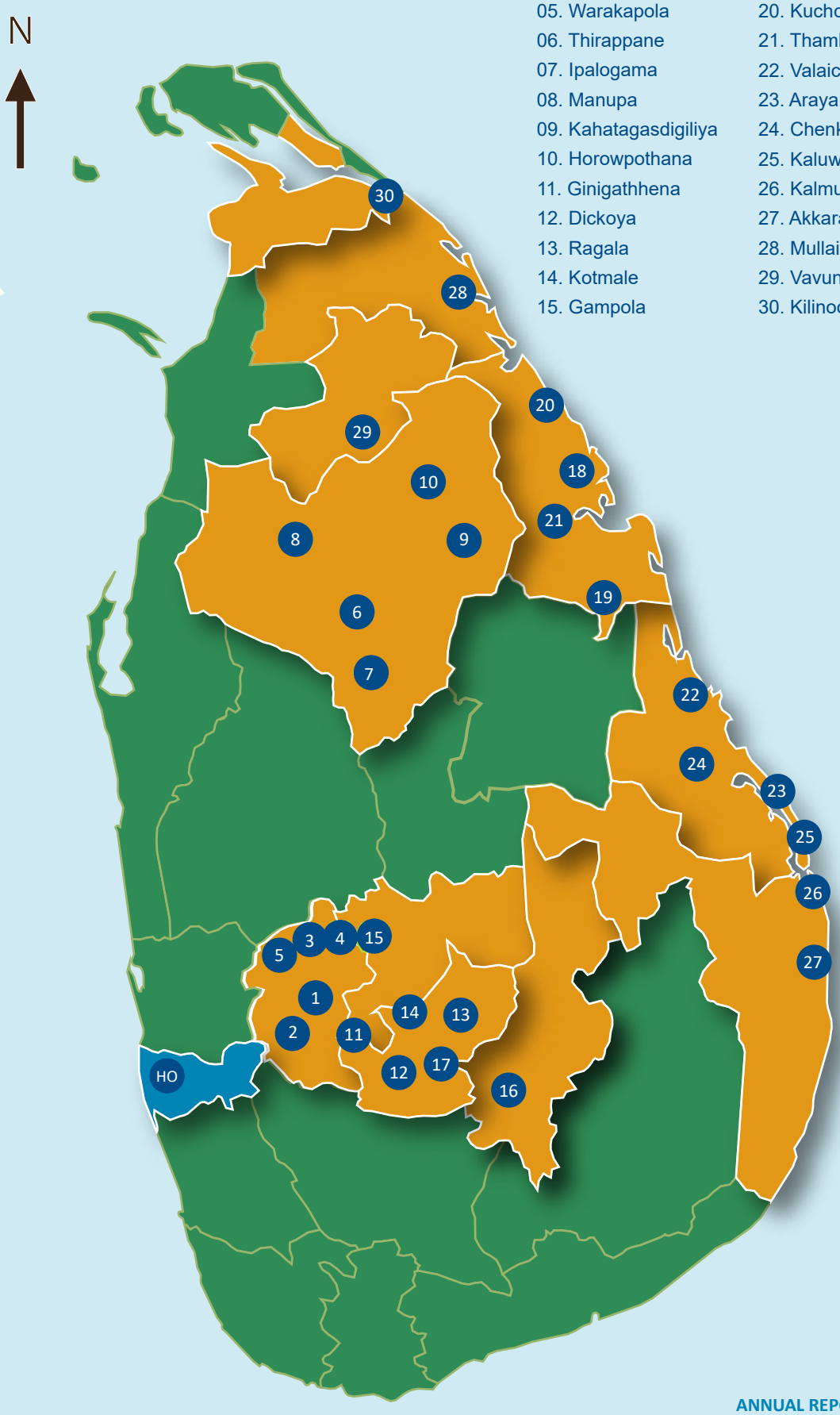
Branch Network

During the year under review, BMIC branch network provided services to 3,979 clusters in all the 11 districts and 51 plantation estates located in Nuwara Eliya and Badulla districts. There were 65,930 active borrowers who received our services through the branch network that we operate. Even though there were plans to open new branches in years 2020 and 2021, these plans had to be postponed due to the economic downturn and other practical difficulties experienced due to the Covid 19 Pandemic. Our present branch network locations facilitate us to serve the customers at the locations which is closest to their residence, workplace or business.

All the BMIC branches were established according to the "Standard Branch Model" consisting of one Enterprise Development Officer (EDO), two Accounts and Administrative Officers (AAOs), five Field Officers, Office Assistant and a Branch Manager. In a few selected branches an Assistant Branch Manager was appointed to increase and expand the loan portfolio with an additional field officer and to support the branch manager in carrying out the day to day operations in the branch. During the year 2021 Kilinochchi branch expanded its operations to a 6th FO area with an Assistant Branch Manager (ABM). Ragala, Dickoya, Galigamuwa, Bulathkohupitiya, Kahatagasdigiliya and Ipalogama are the other branches with an Assistant Branch Manager position. Altogether there are 7 branches operating with ABMs and six field officers.

Our Branch Locations

01. Bulathkohupitiya
02. Dehiowita
03. Galigamuwa
04. Mawanella
05. Warakapola
06. Thirappane
07. Ipalogama
08. Manupa
09. Kahatagasdigiliya
10. Horowpothana
11. Ginigathhena
12. Dickoya
13. Ragala
14. Kotmale
15. Gampola
16. Welimada
17. Nuwara Eliya
18. Trincomalee Town
19. Serunuwara
20. Kuchchaweli
21. Thambalagamam
22. Valaichchenai
23. Arayampathy
24. Chenkalady
25. Kaluwanchikudy
26. Kalmunai
27. Akkaraipattu
28. Mullaitivu
29. Vavuniya
30. Kilinochchi



When selecting a branch location, BMIC mainly focused on useful and effective demand for BMIC services, particularly high poverty districts and high poverty divisions within those districts. Further BMIC focused its attention on factors such as customer convenience and the ability to function and carry out its operations effectively and efficiently.

MATERIAL INFRASTRUCTURE

Loan Product Portfolio

Our product portfolio is designed with a customer centric focus and is offered through three delivery channels. The main and most popular channel is the cluster or the group channel where individuals obtain loans in a small group of 3 persons guaranteeing each other's loans. In the plantation sector BMIC offers loans to estate workers through the Estate Workers' Housing Cooperative Societies (EWHCS) which are established for the welfare of the workers in the estate who are members of the society. EWHCS are established under the Cooperative Societies Act and is a better legal structure compared to the cluster which has no such legal backing.

The following are the seven loan products offered to cluster and EWHCS members:

- Business Loans: provided to start a business and enhance the existing business
- Cultivation Loans: provided to commence and enhance 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 durable assets and fulfill educational needs of the children, etc.
- Senior Citizen Loans: provided for income generation purposes (Senior citizens are those above 63 years of age). Other loan products of BMIC are provided only to those who are less than 63 years of age.
- Sanitary Loans: provided with the focus of uplifting sanitary facilities of estate community by building private latrines.
- Plantation Worker Household Asset Acquisition Loans: provided to the estate community to purchase their basic household assets in times of need.

The other delivery channel that BMIC uses is to give loans on individual basis. An individual loan product was introduced by BMIC in June 2019 to clients who had a higher repayment capacity but who dropped out from cluster membership due to not being able to attend cluster meetings and preferred an individual loan rather than a group loan. The individual loan product was initially introduced to cater to such clients but later it was extended to include new clients with an enhanced upper credit limit of LKR 300,000/-.

Under the individual loan scheme, BMIC introduced another loan product named "Enterprise Development Loan" (EDL) to bridge the financing shortfalls of the existing small entrepreneurs among the BMIC clientele. This product was also extended along the direct individual delivery channel and aims towards financing working capital requirements, expansion or diversification needs of entrepreneurs. The maximum loan size is LKR 500,000. This initiative helps the expansion of businesses while creating more employment opportunities within the rural community.

Saving Product Portfolio

BMIC became a licensed microfinance company in 2019 which provided the legal framework for BMIC to commence deposit taking in the form of collateral savings from its clients. This was initially started as a pilot project in the newly opened branches in Nuwara Eliya and Welimada in 2019 and later expanded to cover all the branches from January 2021. LKR 200 is collected as a collateral savings with each loan instalment during the tenure of the loan and in return clients are paid an interest at the rate of 5% per annum (5.12% annual effective rate).

EDS Product Portfolio

BMIC has adopted the credit plus approach from its inception where the clients are provided with Enterprise Development Services (EDS) in addition to credit facilities. EDS are provided to the needy clients who are willing to start new businesses or expand the existing businesses. The Enterprise Development Services products include:

- Type A services: These are fee levied trainings provided by BMIC, which support to enhance the productive skills of clients. These trainings incude Agriculture & Livestock trainings, trainings on various services and industries, exposure visits, financial literacy and success in money management training, Improve Your Business training, Viyapara Jaya (Business Victory) training and motivational training.
- Type B services: BMIC provides business support

services free of charge such as business follow-up services and counseling, provision of business information, facilitation of business registration, facilitation of livestock insurance, referring clients to other trainings and training follow ups to improve the business ventures of rural level people.

- Type C services: BMIC initiates special projects under the category of Type C services. A project that is started by an individual or a group of people by using new products, adopt new technology to reach new markets and use untapped resources while creating ten or more business opportunities or employment opportunities, is identified as a C type project.
- Type D services: BMIC initiated this service to strengthen the strategy to create and improve market linkages where rural producers can supply their goods in a regular manner and ensure increase in business income and opportunities for expansion. In order to further increase market linkages BMIC introduced the e-commerce platform called ekade.lk where products of rural producers are sold online.
- Type E services: BMIC follows a triple bottom line approach: people, planet and profit. Protecting the environment from the adverse impacts of clients' businesses are of utmost importance to BMIC. Accordingly, provision of technology and guidance and motivation for clients to convert their business into an enhanced environment friendly activity is implemented through E type services. Some examples are construction of waste water treatment tanks in motor vehicle service stations, construction of biogas digesters for diary projects, provision of industrial safety equipment and provision of awareness programs for businesses with potential for various hazards not limited to the environment.

DIGITAL INFRASTRUCTURE

BMIC realized the importance of having a strong IT system to support the organization in its business objectives and the strategy.

ERP System

The ERP system which is called 'Trust Systems and Software' includes a core banking module having savings and credit modules integrated with enterprise services module, fixed assets, inventory, HR and payroll together with accounting for all these functions. By the end of 2021, all the BMIC branches and Head Office operated on the live platform under this system for the third consecutive year. The operational activities were enhanced by enabling easy decision making by the management with up-to-date information and in-depth data analysis. The efficiency and effectiveness of BMIC were increased due to higher staff productivity and reduction in duplication of work. In 2019, a pilot was initiated to introduce handheld devices with printing facility for all field level staff to increase the field level operational efficiency. This pilot was expanded in the Aryampathi branch with 5 Field Officers and EDS during the 2021. During the Covid-19 pandemic situation, BMIC staff was able to work from home and the management was able to make business decisions by looking at the real time information due to this comprehensive ERP system. BMIC also was able to accommodate moratorium provided to the 2nd time for clients in the system. Thus, this system implementation was a timely and useful intervention during the pandemic.

Five (5) Fiber links were provided for 5 branches increasing the internet speed significantly. Meanwhile, BMIC has started the UAT (User Acceptance Testing) of the enhanced saving module in 2021.

IT Security

BMIC has updated its internal security tools and virus guard constantly. The IT policy document is in place with regular updates covering all the security aspects. BMIC purchased the Kaspersky end point protection 2021 cloud based solution in order to increase the security of communication infrastructure.

COMMUNICATIONS

BMIC has recognized the importance of effective communication to enhance awareness among all the stakeholders of the company regarding its affairs. This involves creation of awareness among clients about the products and services, communicating with staff, board of directors and external stakeholders of the company. There were a number of media campaigns in both electronic and print media undertaken during the year under review.

Connecting with Clients

BMIC follows a set of action steps in order to approach the relevant clientele in the operational areas.

- BMIC Field Officers are assigned to the Grama Niladhari Divisions based on the number of potential clients living in those Grama Niladhari Divisions. All the Field Officers are given a reasonable number of families since they can provide a professional and timely service to them throughout the time.

This overall effort is spearheaded by the Field Officer together with the Branch Manager and Area Manager.

- Initially, BMIC enters into new areas by engaging respectable key individuals in the Grama Niladhari Division. Further, awareness is created in villages through posters, banners and leaflets. Following this, a common awareness creating meeting is held prior to the formation of clusters.
- Interested villagers are organized into a group called a "cluster" which is 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 the participants. In addition, at each cluster meeting, the EDO or the Field Officer provides information about upcoming EDS training programs organized by the branch.
- Further, in order to increase the number of participants for EDS programs, special awareness programs called "Village Awareness Programs" are organized on a regular basis.
- A video documentary is shown to the clients prior to loan disbursement. This educational video demonstrates about the services offered by BMIC, roles and responsibilities of both client and BMIC and finally how best the client can utilize the loan and EDS to start and improve sustainable income generating activities and thereby improve their living standards.
- A complaint handling system has been established directly linked to the corporate management at the Head Office. Clients' complaints have now been centralized 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.
- BMIC also conducts "Best Entrepreneur Awards" Ceremony 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 members of the rural community.
- Selecting the "Best cluster "is a once in two years program and is another important way of connecting with clients. In this program the best cluster in the branch is selected based on predefined criteria and a cash reward is awarded in recognition of their efforts and team work.
- However, due to the pandemic and the health guidelines issued by the Government most of the activities which are carried out for connecting with clients could not be performed in 2020 and 2021. Instead of the usual activities, new methods were adopted to suit the new normal atmosphere.
- Constant communications were maintained with the members of the cluster through the cluster leader by way of phone calls and SMS both from head office and the branch during the lockdown period in 2021 as was in the previous year.

Connecting with staff

Staff communications were continued in the usual manner as the branches functioned in most of the months in the year. Communication between the branches and head office was continued using zoom and other electronic platforms throughout the year.

Connecting with Key External Parties

BMIC ensures its constant presence in key networking institutions, representative bodies and lobbying groups related to microfinance and enterprise development both locally and globally. These include:

Lanka Microfinance Practitioners' Association (LMFPA)

Lanka Microfinance Practitioners' Association

BMIC is a leading member of the LMFPA which is 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 the President of LMFPA up to September 2021.

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

SIYB Sri Lanka
WE SET THE STANDARDS IN MANAGEMENT TRAINING

BMIC is also a member of the SIYB Association of Sri Lanka, an International Labour Organization (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. The Enterprise Development Manager of BMIC serves as the Treasurer to the SIYB.

Sri Lanka Evaluation Association (SLEvA)

BMIC has been a member of SLEvA since in 2017. SLEvA is an association with more than 200 monitoring and evaluation specialists and member organizations. SLEvA also helps BMIC to train its employees through workshops, mini trainings and conferences.

Banking With The Poor Network (BWTP)

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

TOOLS OF ENGAGEMENT

BMIC carries out its Vision and Mission to various segments of the society through effective utilization of 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 of the company. Further, we use our corporate website, Facebook page, YouTube Channel, Twitter and digital newsletters as digital media to communicate with the stakeholders. In addition, BMIC has produced a video for Best Entrepreneur Awarding Ceremony to make BMIC clients aware of the importance of entrepreneurship and encourage them to involve in more and more entrepreneurial activities.

Hard Work Pays Off

"Earning a net profit over LKR 75,000 a month having come through a long journey and our family's hard work, equally supported by Berendina", commended Mrs. Dasanayake, who lives in Ipologama. When visiting her banana cultivation, nothing can be seen other than prosperity. She is happily married to Kumara and has 2 daughters and a son. The family has been fully involved in banana cultivation for a long time.

When Dasanayake and her husband were looking out for some financial opportunity to expand their cultivation activities, she selected Berendina and became a client of Ipologama branch as she knew the organization has been supporting many farmers in her village. She took her first loan of LKR 30,000 in 2012 to use for ¼ acre of Banana cultivation. She went for another 4 loans amounting to LKR 60,000, LKR 100,000, LKR 130,000 and LKR 200,000 within 9 years' period to expand their cultivation activities. These loans were invested to buy new plots of land, fertilizers, pesticides as well as plants. Right now the cultivation area stands impressively in an extent of 4 acres.

"I also participated in Financial Literacy, Viyapara Jaya, SIM and SIYB training conducted by Enterprise Development Services (EDS) of Berendina" noted Dasanayake. "These trainings gave me additional but important knowledge of managing home finance." She further states, "it's the timely support by Berendina offering us loans over 9 years that helped us to break all barriers and improve our cultivation activities in a big scale while overcoming all challenges like fertilizer issues, country lockdown and business challenges."

Financial Capital

Value Creation Activities in 2021

- Increasing grant funding
- Adhering to new tax rules
- Application of cost reduction approach
- Strengthening treasury management

Outcome

- Recording of net profit
- Gross income increased by 19%
- Borrowing cost reduced
- Reduction of operating cost
- Loan portfolio increased by 2.9%
- Decreased investment income as excess funds were used to early settle some borrowings
- Increasing equity and earning per share

Challenges

- Challenging economic conditions in Sri Lanka
- Covid 19 Global crisis

The financial year of 2021 was the third consecutive challenging year for BMIC in which the business operations of the Company were affected. It was due to the COVID 19 pandemic situation that prevailed from February 2020, the challenges from 2018 due to the debt write-off program of the government, and the Easter Sunday attack in 2019. Despite these challenges BMIC has been able to improve its financial performance marginally. However, the timely strategic interventions of the company led to increase the profit for the year in comparison to 2020. Accordingly, the financial year 2021 recorded a profit of LKR 73.0 Million against the profit of LKR 10.9 Million in 2020.

ANALYSIS OF INCOME

The gross income of the company increased by 19.2% from LKR 782 Million in 2020 to LKR 933 Million in 2021 due to increases in loan repayments and EDS operations compared to 2020. The interest income on loans for the year 2021 recorded an increase of 20% and stood at LKR 907 Million whereas the interest income on loans for the year 2020 was LKR 749 Million. The interest income on investments, declined by 53% compared to the year before, mainly due to the maturity of the fixed deposit kept under lien for the borrowing. The company moved from the flat interest rate method to the declining balance method for the new loans disbursed with effect from August 2020. This had a positive impact on the interest income in 2021 as well.

The COVID 19 crisis impacted the Company's operations in 2021 in the following manner:

The Company was unable to carry out expected total loan recoveries and disbursements from May to September due to country-wide lockdown and interprovincial travel restrictions status. The clients who were engaging in agriculture activity were affected due to the lack of chemical fertilizers as a result of the green agriculture policy of the Government.

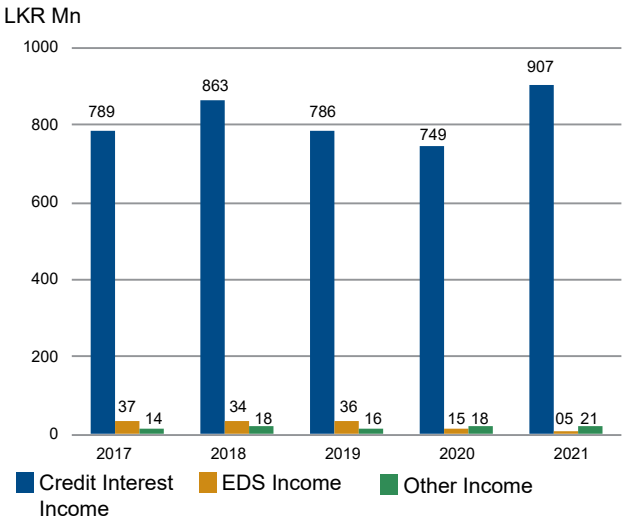
As a result of lockdown periods, the income sources of clients were affected significantly and they had difficulties in repaying on average two to six scheduled installments. Hence, The Company voluntarily provided up to 6 months moratorium to its loan clients who applied for the moratorium including the clients who obtained moratorium in 2020 too. However, there was no significant impact on the revenue of the Company since interest was charged for the extended period of moratorium. The average balance tenure of moratorium-provided loans was less than 12 months. This factor too was a reason for not having a significant financial impact due to the moratorium extended to the clients.

Notes to the financial statements of the company illustrate the impact of the above economic crisis on financial performances in the year under review.

The Company's Enterprise Development Services (EDS)

were affected as public gatherings and meetings were restricted according to health guidelines. However, EDS normally contributes only 5% of the gross income of the Company. EDS income recorded a reduction from LKR 15 Million to LKR 5 Million during the year under review as EDS was halted due to the COVID 19 pandemic.

Income Composition



ANALYSIS OF EXPENDITURE

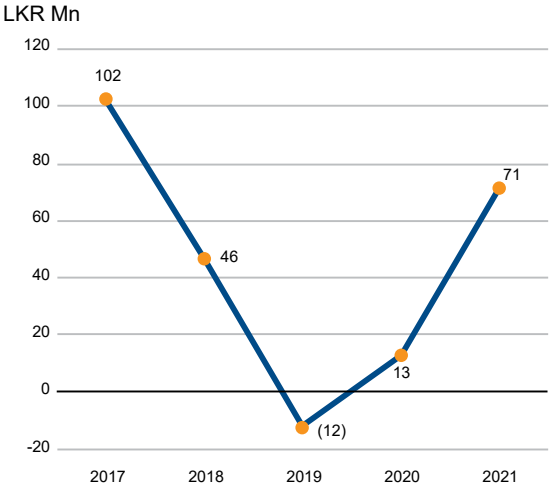
The total overhead expenditure of the company other than impairment provision for loans and receivables and all taxes increased marginally by 1.4% and stood at LKR 561 Million in 2021, whereas it was LKR 553 Million in 2020. The personnel expenses of the Company increased by 14.2% due to the annual salary increments and other allowances paid for the staff and administrative costs decreased by 2.7%. The provision for the impairment of loans and receivables increased mainly due to the increasing delinquent loan portfolio and accordingly, impairment charges increased by 13.3% compared to the previous year.

The interest and similar expenses of the Company decreased by 14.5% from LKR 166 Million in 2020 to LKR 142 Million in 2021 as shown in Figure on Income Composition. There is a significant change in contribution to the government revenue in the form of taxes and it was LKR 133 Million and the same was LKR 68 Million in the previous year. Loan loss provision (Impairment) as per SLFRS 09 was claimed for the purpose of income tax computation in 2020 but it was not allowed in 2021 as the company was entitled to claim only the provision as per CBSL directions. As a result of changing the above tax claimable loan loss provision and increase in the taxable profit, the contribution to the government taxes increased by 196% in the current year. The usual disallowing of personnel expenses for the calculation of Value Added Tax on Financial Services led the Company to pay a significant amount of Value Added Taxes.

PROFITABILITY

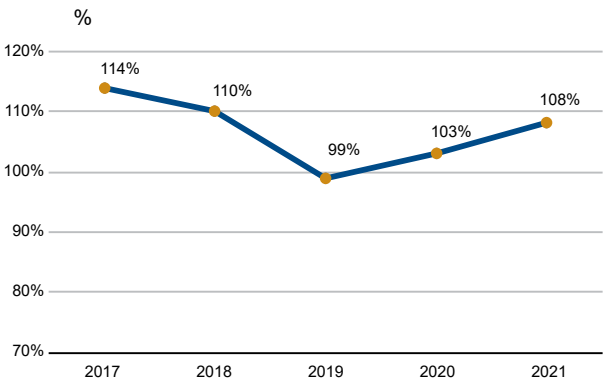
During the year under review, BMIC recorded a profit after tax of LKR 71.46 Million compared to the profit of LKR 12.96 Million in 2020. Having the Vision of creating an equitable society where poverty does not exist, the Company ensures earning sustainable revenue and profitability to provide extended support to the Community.

Profit After Tax



Operational Self Sufficiency (OSS) after taxes for the financial year 2021 was 108% whereas it was 103% in the previous financial year.

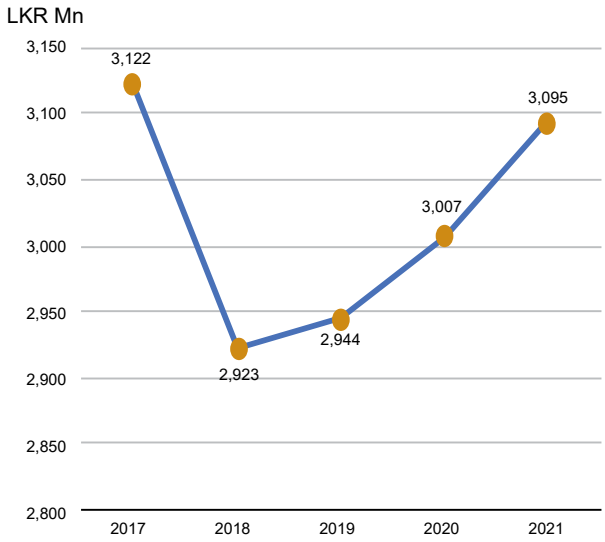
Operational Self Sufficiency (OSS) after tax



LOAN PORTFOLIO

The outstanding loans and receivables balance (excluding staff loans and interest receivables) as at 31 December 2021 were LKR 3,095 Million and recorded a marginal increase of 2.91% compared to 2020. This marginal growth resulted due to limiting the loan disbursement for existing clients under the pandemic situation.

Loan Portfolio

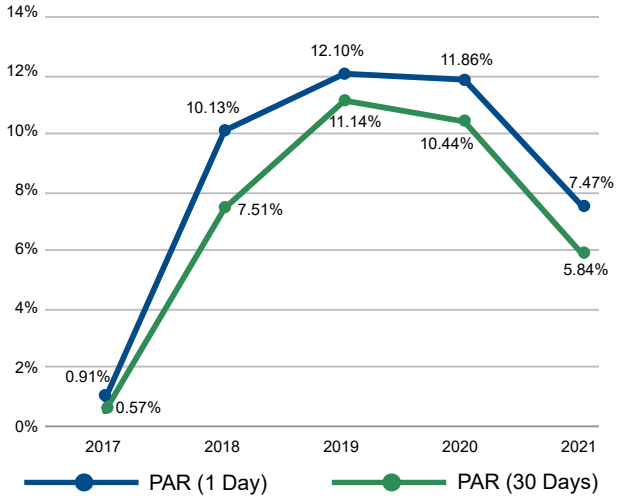


As a result of the quick and methodical actions taken by the management of the Company such as maintaining the quality of the portfolio by tightening the loan assessment process to ensure the disbursement of healthy loans, implementing attractive performance based staff incentive schemes, improving credit quality management process, implementing new recovery strategies, and continuing staff capacity development to smoothen the operations, have contributed to reducing the impact of non-performing loan portfolio. However, the total value of the arrears clients began to increase after April 2021 as a result of the lockdown due to the pandemic.

Moreover, sluggish economic growth, the drop in the performance in the tourism sector and related industries and increased unemployment rate negatively affected by deteriorating the repayment capacity of the clients and in turn reduced the quality of the loan portfolio. Therefore, the Company made adequate provisions as per accounting standards for those impaired loans and receivables in order to cover possible future losses.

The policy to write-off loans that were due for more than 540 days had been continuously practiced during the last few years including the year under review and accordingly, write-off ratio of the company reduced to 3.65% from 4.76% in the previous year. LKR 113 Million was written off in the year 2021 whereas it was LKR 140.4 Million in 2020. BMIC PAR (30 days) stood at 5.84% at the end of the year recording a significant decline from the PAR (30 days) 10.44% in 2020.

PAR

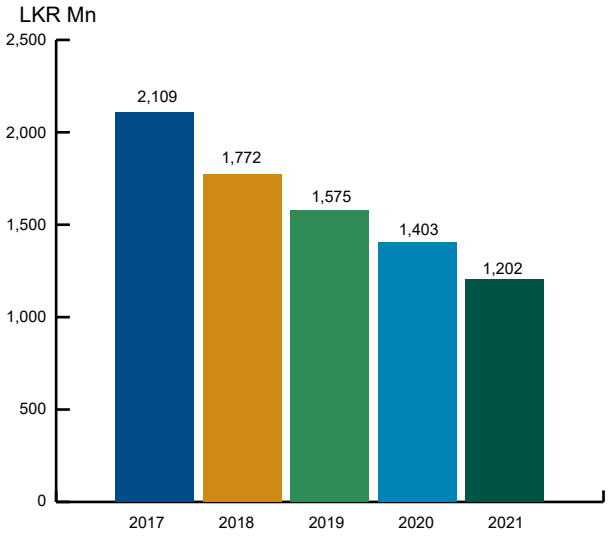


EQUITY AND LIABILITIES

Total equity of the Company as at 31 December 2021 stood at LKR 1,116 Million. The funds and reserves of BMIC rose by 16% to LKR 205 Million due to the grant of LKR 28.6 Million received from WPF to fund the disbursement of loans of some designated branches of BMIC.

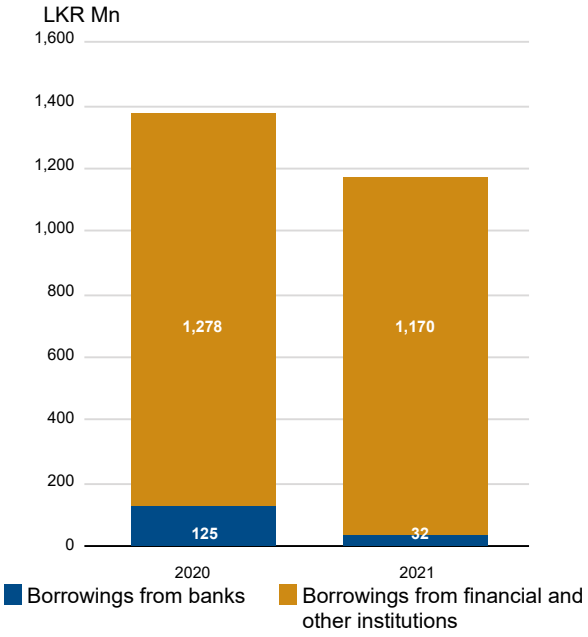
Net interest-bearing borrowings of BMIC in 2021 amounted to LKR 1,202 Million which was 14.3% reduction compared to the previous year amount LKR 1,403 Million. This is mainly due to the reduction in disbursements and settling off some expensive borrowing during the year. The trust and confidence built over the years by the Company were maintained during 2021 too by repaying due loans on time. Certain loans were fully settled in mid-year because of the availability of excess funds. BMIC mostly relied on local fund providers during the year including BDS, HNB, and SMCGL as primary fund providers.

Interest Bearing Borrowings



Reduction of the Average Weighted Prime Lending Rate (AWPLR) throughout the year as a result of government monetary policies, benefited BMIC to reduce the cost of funds owing to the lower borrowings interest rates.

Funding Diversification



BMIC as the first Licenced Micro Finance Company under the Microfinance Act No. 6 of 2016 in Sri Lanka, commenced the promotion of savings habits among our clients by accepting collateral deposits as permitted under the Directions of the CBSL.

The compulsory savings deposit product was introduced to new loan clients as a pilot project in two of the branches in 2019. During 2020, it was further extended to five more branches. Further, collateralized savings deposits were implemented in all the branches with effect from 1st January 2021. The customers are required to save LKR 200 per month (It was LKR 100 until February 2020) in their savings accounts. A monthly deposit to the savings account is collected along with the normal monthly loan instalment. The initial collateralized savings deposits of 5% and 10% were introduced only for individual loans and EDL loans apart from a monthly contribution of LKR 200. Total deposits accepted by the company as of 31 December 2021 were LKR 44 Million while it was LKR 4.4 Million as of 31 December 2020.

FUTURE OUTLOOK

The outbreak of COVID-19 and the economic crisis in Sri Lanka will significantly impact the Company's performance negatively in 2022. Especially rising commodity prices, political instability in the country, and unavailability of fuel and essential medical items as a result of the foreign currency crisis, will worsen the economic and social conditions of the country. However, the company will formulate and implement appropriate strategies to survive in this difficult situation while ensuring the betterment of its stakeholders.

Hard Working Hands of Prosperity

Sudarsan Pottery is a famous shop in Kilinochchi when it comes to pottery items. It belongs to one of our successful clients Mrs. S. Subajini. Her husband Mr. Sudarshan is a skilled expert in making clay products and is involved in pottery business as his income generation activity. The lovely couple has 2 daughters. The family had undergone unmatched difficulties during the separatist war that ended in 2009, being displaced in different locations as well.

Subajini received her first loan in 2020 amounting to LKR 40,000 and invested in the pottery business. Subsequently, her second loan of LKR 100,000 in 2021 was used to build the furnace of the pottery and hopes to go for a new loan of LKR 150,000 in 2022 to purchase a pot making machine.

“Everyone was scared during the uncertain period during the Covid-19 outbreak,” recalls Subajini and further states “but I and my husband decided that it was the right period to make necessary improvements in our business activity. So, we took the loan and used it to build the new furnace much needed for pottery. While everyone was locked inside their houses during 2020, Berendina came to our doorstep and gave us a much needed dry ration pack to have a decent meal. That’s how Berendina cares for each and every client irrespective of their status.”

At present, Sudarsan Pottery has one full time and another part time employee involved in the production work, alongside Sudarshan. The business brings them a monthly net income of LKR 60,000 making the couple to lead a happy life and support their daughters’ educational needs.

Customer Capital

Value Creation Activities in 2021

- Customer focused products
- Increased brand image as a licensed microfinance company
- Introducing micro savings
- Expansion of client benefits

Outcome

- Disciplined cluster meetings
- Direct customer hotline for their queries
- Ekade.lk
- Increased the collateral saving to LKR 44 Million from 32,202 savers

Challenges

- Spill over effects of government loan write off programme
- Difficulty of tracking Multiple borrowing
- Portfolio Deterioration
- Poor repayment capacity of clients due to weakened economy

Customer wellbeing and satisfaction are considered the most important objectives of BMIC. The customer is central to the existence of the organization. The operations of BMIC are fully focused on customer requirements and the customer is the prime factor for business sustainability. Fostering customer relationships is vital through fulfilling their needs to retain and attract customers while addressing gaps between services provided and customer requirements.

CORE SERVICES

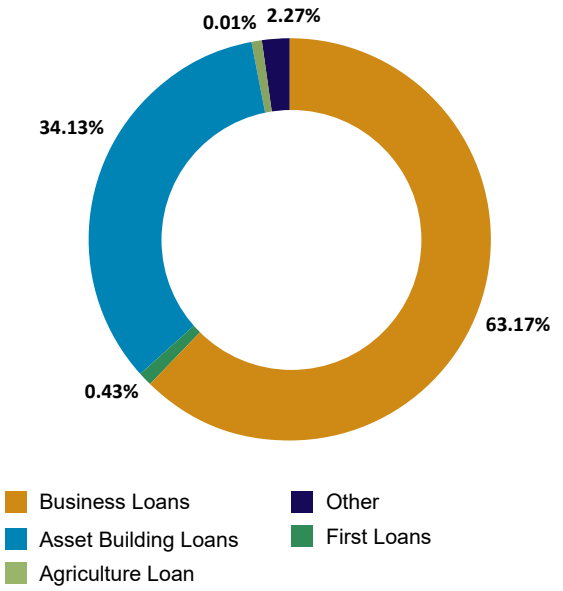
Our core services include Micro Credit bundled with Enterprise Development Services (EDS) to uplift entrepreneurial capacities of our customers, and micro savings introduced after receiving the microfinance license from the Central Bank of Sri Lanka in year 2019.

Micro Credit

BMIC micro credit service includes an array of facilities to address diverse customer requirements under income generating and asset building purposes. Loans for business startups and business expansions, enterprise development loans, agriculture loans and loans for dairy management are sub categories of Income Generation Loans. Asset Building Loans include loans for renovating houses, household asset acquisition and for building sanitary facilities and further allows to utilize the loan product to meet the educational expenses of children of the customers.

Being a customer focused Microfinance Company, we are committed to addressing the finance needs of customers and accordingly customize and introduce specific micro credit products. Our Senior Citizen Business Loans provided for those who are above 63 years of age and Household Assets Acquisition Loans for the estate community provided during the festival seasons are our extraordinary micro credit products usually not served by other MFIs. Currently many MFIs do not provide seasonal agricultural loans with balloon repayment facility due to the high cost of such loans and operational difficulties whereas BMIC provides this product. Further, with a view to retain individuals with a good repayment capacity, but does not want to be a part of the group loan mechanism, an individual loan product has been introduced. This product caters to the demand of individual loans which is not possible under the cluster based approach, and it can be used for income generation or asset building purposes.

Loan Disbursements - 2021



Within the year, we disbursed a total of 31,119 loans amounting LKR 2.68 Billion of which 66% loans supported in generating income and 34% funded to build household assets of our clientele. During the year 2021, BMIC was able to secure two international awards as Best Micro Finance Company Sri Lanka and Best Agriculture Lending Company Sri Lanka from the Global Banking & Finance Review magazine in UK. These awards further confirm the client-centric approach of BMIC lending operation.

Enterprise Development Services (EDS)

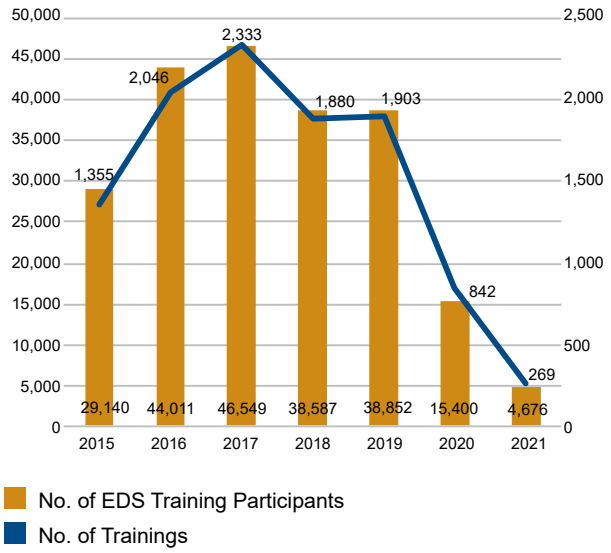
Our clients are facilitated with credit plus services under five different EDS product types: Type A, Type B, Type C, Type D and Type E with the objective of developing technical and entrepreneurial skills and capacity, enhanced financial literacy and several other aspects of our clients and their businesses.

Type A services include six different training types such as agriculture and livestock technical training, technical training for non-agriculture enterprises, exposure visits, life skills development training focusing on financial literacy, soft skills trainings and entrepreneurship development training products, namely, Viyapara Jaya and Start and Improve Your Business (SIYB). While technical trainings support learning about technical aspects in starting or expanding the enterprises, life skills development trainings enhance clients' understanding and knowledge on aspects such as interest rates, family budgeting and savings which are crucial for ensuring effective management of their income, expenditure, investments and protecting the clients from over-indebtedness. Moreover, soft skills trainings related to 'motivation' conducted by leading trainers in the country enhance self-confidence levels of our clients to meet various challenges in business as well as in client's life. Exposure visits enable clients to see and experience model farms, research institutes and industries and learn appropriate technology, tools and techniques useful for their business activities. Even under the COVID situation 4,676 clients obtained these training services through 269 training programs.

Type B services consist of business counselling, business follow-up, facilitation of business registration, creation of market linkages, facilitation of livestock insurance and provision of business information, directing clients to relevant training programs provided free of charge by other government and non-government organizations. Enterprise Development Officers (EDOs) are equipped with knowledge and experience to provide these services and assist in coordinating with relevant parties. There were 3,493 clients that benefitted from these services during the year 2021.

Type C Services: Projects which are initiated by an individual or a group of people who make a new product or a service, or expand existing business using new or existing technology or for a new market while creating ten or more business opportunities or employment opportunities for local individuals. Type C services create new opportunities for the particular business community. 5,197 clients actively continued C type projects during the year.

EDS - Type A services



Type D services help to create market linkages for our business loan clients to enhance markets for their products. Only very few clients benefitted from this service as it was hardly possible for BMIC to conduct marketing events such as trade fairs or facilitate client participation in trade fairs conducted by external parties. Our ecommerce platform "ekade.lk" website is developed with advanced ecommerce features with funding support of the European Union under the project of "Integrated Economic Development of Central and Uva Provinces of Sri Lanka" implemented by ACTED and Handicap International Federation. Rural producers joined and published their products in ekade.lk.

Type E Services support and facilitate BMIC's triple bottom line approach. Under this service category the Company provides a series of interventions to safeguard the environment including identification of enterprises that generate adverse environmental impacts and implementing mitigation measures to minimize these adverse impacts. Accordingly, identification of potential greener businesses, implementation of mechanisms

to convert waste into economically valuable products, creating awareness among BMIC clients and the general public on environmental conservation, conducting environmental protection activities together with BMIC clients and monitoring the environmental conservation projects implemented in previous year in collaboration with government, private and non-government organizations are carried out. This learning was shared with the international community. BMIC won Donor's Choice Award in 2021 SCALE Green Creative Adaptation Award for the Bio gas promotion initiative.

Micro Savings

Since obtaining the microfinance license in 2019, BMIC was permitted to obtain collateral deposits from its borrowers. The prime importance of introducing savings products to clients was to encourage the habit of savings among clients leading to become a financially independent individual and improve the living standard paving the path to alleviate poverty.

The savings product consisted of savings collected with loan recoveries on a monthly basis. A new product was introduced as an initial collateral savings deposit for the Individual and Enterprise Development Loan clients. The percentage of savings collected as the initial collateral deposit from these two categories of clients varies from 5% - 10% of the loan amount. Having client savings reduces the risk on loans where it acts as a cash security against the loan. In order to encourage the clients to save more, savings are paid an interest of 5% per annum (5.12% effective rate), which was much higher than the market savings rate in year 2021. This interest is calculated on a daily basis and credited to client's account at the end of each month.

As at year end, 32,202 BMIC clients had saved LKR 44,239,312/- as collateral savings.

CUSTOMER FEEDBACK AND IMPACT ASSESSMENT

Collecting and responding to customer feedback is an important aspect in business continuation and sustainability of BMIC, because the feedback of customers is necessary to improve the value generated to our customers. Conducting cluster-based lending operations through monthly cluster meetings with the participation of cluster members is the key source of collecting customer feedback by our Field Officers, Branch Managers and Area Managers. Cluster meetings are interactive sessions enabling the clients to express their satisfaction, dissatisfaction, grievances, suggestions and any other concerns which are later discussed at branch level and remedial action taken. Issues and concerns needing the attention of the senior management are forwarded to the management level at Head Office based on the gravity of the issue.

Cluster leader conferences which are conducted once in every two years create an opportunity for cluster leaders who represent their cluster members to express their concerns and provide feedback at branch level. Further, impact assessment studies are conducted internally as well as by external parties on the impact of BMIC products and services on business initiation, business expansion, acquisition of household assets, increasing quality of life and thus reach out of poverty.

An international tool assessing the level of poverty: Poverty Probability Index (PPI) is implemented by BMIC to assess the reduction of poverty status of clients when they move from one loan cycle to the next. The data is collected from each client before loan disbursement in each loan cycle. Assessment of poverty levels of customers and their moving out of poverty is measured on annual basis.

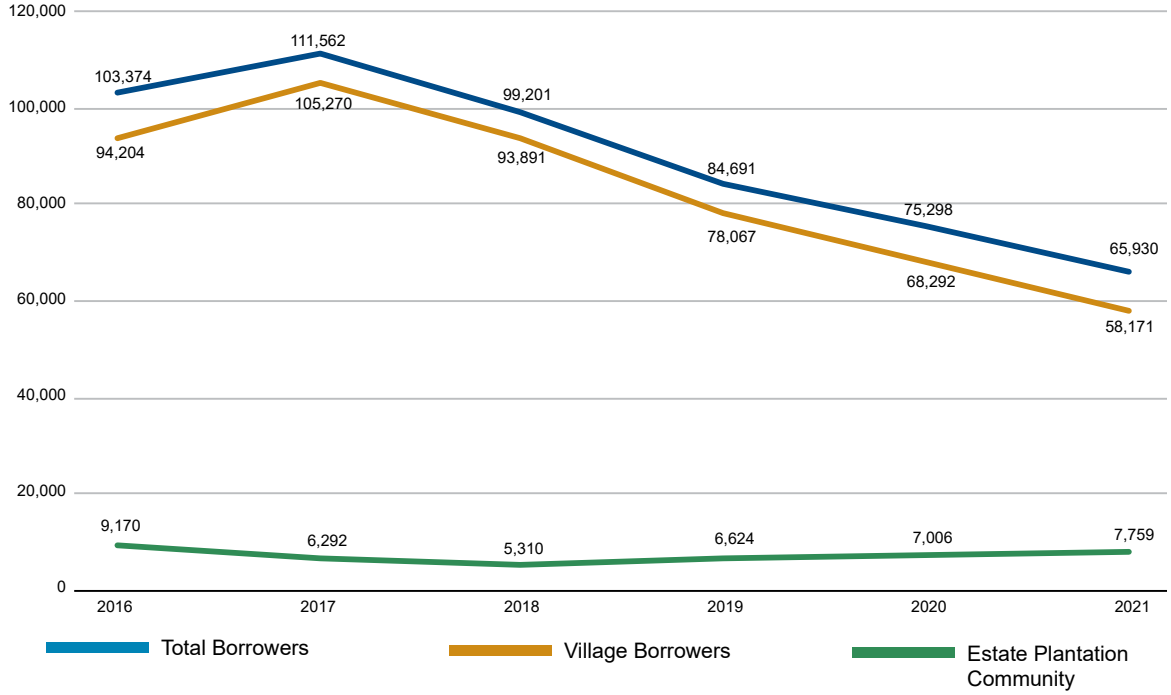
CUSTOMER CARE

Micro Credit Customer Base

Our clientele is widespread in 30 branches located in 11 poverty-stricken districts which also include the estate community (10% of total credit borrowers) living in 51 estates of which the majority is in Nuwara Eliya district. BMIC adopted Community Based Organizations (CBO) lending methodology for plantation areas where loans were channeled through the estate worker cooperative society in each estate. But, as per CBSL directions under the Microfinance Act No. 6 of 2016, BMIC had to limit estate loan disbursements to LKR 2 Million per Community Based Organization (CBO) after obtaining the Microfinance license from CBSL which is a major barrier in reaching and financing the estate communities. Nevertheless, BMIC has adopted different / novel products and approaches to overcome this barrier.

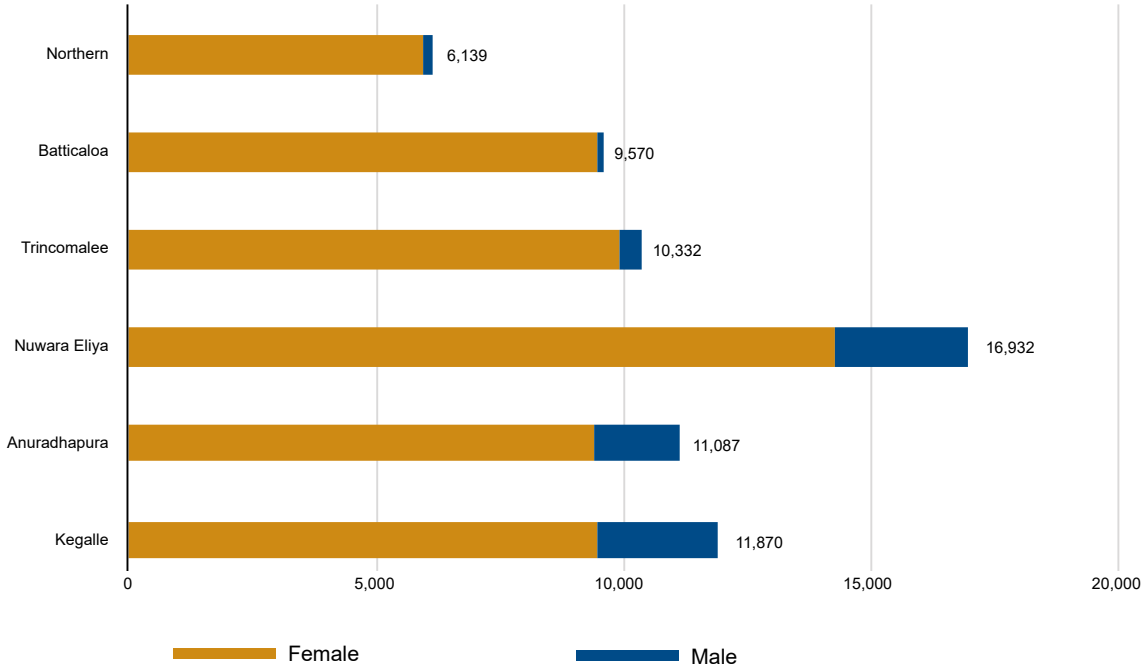
As at 31st December 2021, there were 65,930 borrowers with a capital outstanding of LKR 3 Billion under the BMIC portfolio.

Micro Credit Borrowers



As BMIC focuses on alleviating poverty and improving living standards of its customers, we encourage women in entrepreneurial business and thus, the majority (88%) of our clientele is female borrowers. Our clientele is managed under six different regions and the largest region is Nuwara Eliya due to inclusion of estate borrowers as well as having 7 branches. Other regions have only 5 branches and the second and third largest were Kegalle and Anuradhapura regions, respectively. Northern region having only 3 branches recorded the lowest number of borrowers.

Region Wise Borrower Composition



EDS Customer Base

When compared to last year, the total EDS beneficiaries have reduced drastically due to the adverse impact of COVID 19 pandemic. This is a 45% reduction from that of last year. Type A service was the highest contributing product to the EDS portfolio.

EDS Service Types	2021	2020
Type A Services		
No. of Trainings	269	842
No. of Participants	4,676	15,400
Type B Services		
No. of Participants	3,493	3,864
Type C Services		
No. of Projects	102	102
No. of Clients	5,197	8,630
Type D Services		
No. of Clients (ekade.lk)	51	68
No. of Beneficiaries	61	120
Type E Services		
No. of Bio Gas Units	0	5
No. of Waste Water Treatment Tanks	0	3
Total Participants	**13,478**	**28,090**

The highest number of customers that participated in the Type A training in 'Success in money management', amounted to 1,695 participants. The second highest customer participation was in Financial Literacy trainings with 1,053 clients. The lowest customer participation was in Non-Agriculture technical training.

Alternative usage of EDS coupons

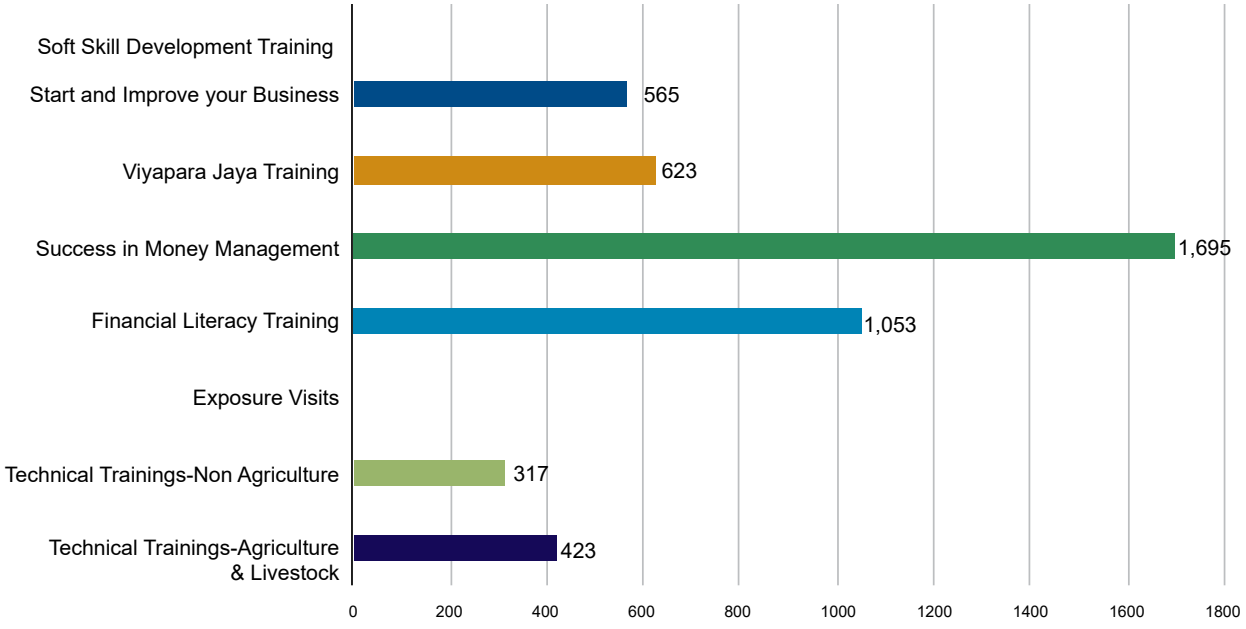
Enterprise development service coupons are issued for BMIC clients to use them for paying the fee of the enterprise development services, specially to participate in training programs based on their needs. Further, clients can set off the unused coupons for the final loan installment. BMIC introduced a new form of usage of EDS coupons to facilitate opportunities for the BMIC clients to get alternative services using the EDS coupons. This is to use them for purchasing inputs for agriculture activities from selected shops in the area. This intervention was piloted in Ragala and Kahatagasdigiliya branches in 2021. BMIC introduced EDS vouchers to purchase agriculture inputs from the shops, and clients were able to purchase the EDS vouchers by using coupons.

Agriculture inputs to the value of LKR 1,748,600 were purchased by 738 farmers by using the vouchers. Following table shows the branch wise support provided.

Value of vouchers provided by using coupons

Branch	No of farmers	Value of vouchers provided
Ragala	537	1,388,800
Kahatagasdigiliya	131	359,800
Total	**668**	**1,748,600**

Composition of Type A Services



CUSTOMER CONVENIENCE

In order to ensure customer convenience, we conduct all our business operations including cluster meetings, loan recoveries, accepting savings and proving EDS services in the village as much as possible with a view to bringing services close to clients' residences. Only loan disbursement is carried out at our branches as it is important to ensure that the proceeds of the loan reaches the correct beneficiary. These door-step services which are carried out in the villages include the initial registration of the client, awareness meetings, loan assessments, signing and accepting loan documents, loan recovery, delivery of Suwasahana cash benefits and EDS services.

EDS coupon system further backs customer convenience by enabling clients to pay the training fee over a period of time in small installments instead of paying upfront and this can be considered as the best solution to avoid bulk cash outflow at once from customer's hand.

ADDITIONAL CUSTOMER BENEFITS

Being a customer centric organization, BMIC provides a wide array of customer benefits. Loan Risk Fund (LRF) which is implemented by BMIC from its inception is a major benefit provided for any of our customers to help them in extremely difficult situations. LRF is built by collecting 2% from each loan amount at the time of disbursing the loan. The clients or the family members of the clients can take advantage of the fund at the times of client death, spouse death, permanent disability or long-term illnesses of the client or breadwinner of the family to write off the entire loan outstanding including the interest using the LRF.

"Suwasahana" is another popular benefit among our clients which is provided as a monetary assistance during hospitalization and funerals. In the event of hospitalization of the client or the spouse of the client or a child of the client (less than one year), LKR 300 is paid per day up to 10 days per year while LKR 6,000 is paid in the event of death of a client's family member to cover funeral expenses.

Branches of BMIC were allocated a fund value of LKR 50,000 to conduct various social services in the branch area including renovations of common facilities in the village, conduct educational seminars for students and any other community development services. Both in 2020 and 2021, COVID 19 was a major challenge for BMIC clients. As a responsible organization, BMIC was able to roll out many concessionary programs to increase the resilience of clients to the pandemic. In 2020, BMIC granted a moratorium up to 6 months and 72% of clients received this moratorium. In 2021 too, BMIC offered up to 6 months moratorium facility for clients who were unable to make their repayments during lockdown periods. Accordingly, 19,106 clients were given this facility. Additionally, BMIC together with its local shareholder, Berendina Development Services, conducted a livelihood program, where clients were supported to revive their business from the COVID 19 impact.

Our well diversified customer benefits also support for the education of our clients' children. Under Bright Students' Scholarship (BSS) program, we sponsor the bright children of clients who are students in secondary schools (Advanced Level education). The students in Arts, Commerce and Technology streams are given LKR 1,000 and students in Science and Math streams are given LKR 1,500 every month for a period of two years and 3 years for students attempting the second time.

During the Covid 19 crisis, farmer community had many difficulties in purchasing agriculture inputs specially due to the lack of working capital. BMIC introduced the alternative usage of EDS coupons to purchase agriculture inputs and 738 farmers used the EDS vouchers to the value of LKR 1,748,600. BMIC team successfully implemented these projects to support the farmers and this service was appreciated by farmers to a great extent.

CUSTOMER GRIEVANCES HANDLING

Effective customer management is one of the key driving forces toward achieving Berendina's three-decade-long success. We consider customer complaints as guidance from customers towards the organization since complaints help to improve the value creation process by addressing customer concerns. We have provided customers a space to raise complaints or any grievance at the field level and also at the Head Office level. Customers can either make such complaints directly to the Branch Manager or the Head Office. Contact numbers of branches have been shared with all customers to raise their concerns at the field level or they can reach the head office. The dedicated customer hotline at Head Office uninterruptedly handles customer complaints during office hours and the customers can make their complaints both in Sinhala and Tamil languages. The concerns expressed are communicated to relevant authorities and possible

solutions are provided within a very short time period. Complaints made to the head office are being recorded for ensuring quality in handling such complaints.

In addition, customers can lodge their complaints through the 'Microfinance Help Line' the general hotline introduced for the microfinance industry by the Microfinance Industry Association. This helpline was introduced by LMFPA in consultation with the State Ministry of Samurdhi, Household Economy, Microfinance, Self-Employment and Business Development, as a proactive measure to address any issues or grievances faced by microfinance clients.

CUSTOMER PRIVACY

Under our privacy policy, we refrain from disclosing any information relating to our customers to any third party excluding the government regulatory authorities. When disclosing their information that is required for any specific purpose, we obtain prior written consent from the customer to ensure customer privacy and confidentiality.

COMPLIANCE

As a licensed microfinance company under the Microfinance Act No. 6 of 2016, we comply with rules and regulations stipulated by the Central Bank of Sri Lanka. In addition, we also adhere to all other rules, regulations, directives and guidelines stipulated by other regulatory bodies including the Registrar of Companies, Department of Inland Revenue and the Labor Department. As a member of LMFPA, we also comply with the Code of Conduct issued by the Association.

CHALLENGES

Covid 19 Pandemic continued to challenge operations during the year 2021. Even though the operations in the branches were continued despite several ad hoc lockdowns and social distancing health guidelines, it affected business severely.

The overall economy had a downturn affecting all clients reducing their income and wellbeing compared to the previous years. Tourism sector, which was the worst hit industry was showing signs of recovery with international and domestic travel restrictions been relaxed at the end of the year giving us a brighter hope in the coming year.

Peace of Mind under a Completed Dwelling

Anbalagan Moganeswari has a complete house now. A client of Trincomalee Branch of Berendina, she has 2 sons and a daughter, and all of them are schooling. Her husband Anbalagan is employed abroad working as an electrician. Living in a shackled house was no guarantee for the security of her small family with her husband living in abroad, Moganeswari was always in deep thought on how she could overcome this challenge. The family had to face constant issues during rainy seasons when rainwater flooded the house due to the house being at a lower level from ground level as well as through the damaged roof.

Moganeswari's hope started to realize after she became a client of Berendina in 2010. In fact, she is one of the long standing clients of Berendina, continuously taking loans to complete her house perfectly as it stands now. Her first loan was LKR 30,000 while her sixth loan was LKR 100,000. She utilized the loan amounts and the remittance from her husband sent from abroad wisely to complete the house building. "I had a perfect plan" Moganeswari continues to say "while my husband's remittance was not that enough to build our house, I was looking for someone to financially support to build my house and provide a safe dwelling for my family, but unfortunately, no one was there. Berendina came into our lives and made a big change."

Moganeswari utilized each loan cycle to raise the floor level of the house, building walls, completing rooms and kitchen, roofing work as well as color wash. "I also went for Viyapara Jaya and Financial Literacy trainings provided by Berendina. These trainings helped me to manage family expenses and think of new income generation activities," describes Moganeswari, who has now rented the upstairs portion of house to earn additional income. "I feel my barriers of life are broken now thanks to the constant support from Berendina", exclaims Moganeswari who is awaiting to receive a new loan from Berendina to commence a home-based business.

Social and Responsibility Capital

Value Creation Activities in 2021

- Extended support to our clients through EDS
- Improved the established customer complaint handling system at Head Office level
- Scholarships for A/L students and Suwasahana benefits
- Assisted clients in difficult times due to COVID 19 pandemic
- Provided loan Moratorium during the COVID 19 pandemic

Outcome

- Provided quick solutions to customer complaints
- Increased resilience of clients for vulnerabilities
- Relaxation of financial burden of customers
- Poverty reduction among the clients

Challenges

- Facing difficulties in day-to-day operations during COVID 19
- Not being able to conduct EDS for particular period during the year due to COVID
- Limitations of the research tools
- Limitations in reaching out to every client to get their ideas.

Social and responsibility capital entails the long-lasting mutual networks and relationships built up with an array of stakeholders with the prime objective of ensuring long-term sustainability within the community. Throughout the years, BMIC has been able to develop mutual relationships with various stakeholders including clients, funding agencies and other partners.

CUSTOMER RELATIONS

CUSTOMER SUPPORT

BMIC adopts a credit plus approach where the clients are provided with Enterprise Development Services (EDS) and collateral savings in addition to the credit facilities. EDS are provided to the needy clients who are willing to start new businesses or expand the existing businesses. The clients are provided with an array of training in subject areas such as business management, technical skills, financial literacy, capacity enhancement in personality development and motivation adding value to the clients in terms of personal and business prospects.

The services of EDS are designed to enhance the clients' skills in key areas including technical competency, business capability, networking with market players, product marketing, environmental compliance, legal requirements, etc. To build up these skills and competencies among our clients, we provide them with multiple services such as trainings, business counselling, business follow-up, facilitating business registration, providing business information, facilitating livestock insurance, networking including market linkages for both inputs and outputs of the business as well as protecting the environment from pollution caused by enterprises.

In 2018, we established the Marketing Division under EDS Department with the intention of creating market linkages to expose rural producers and products into new market ventures. Strategies were developed to link rural products with the local and national market, based on which the concept of online marketing platform was initiated. Following this, BMIC entered into e-commerce and launched a rural product marketing website called www.e-kade.com in June 2019. This platform shifted to LK web domain and changed its name to www.ekade.lk which was made available for Sri Lankan rural producers enabling them to market their high-quality products throughout the country as a mode of transforming rural traditional marketing channels into modern upgraded marketing channels. Strategies and activities were revised focusing on bringing agricultural non-perishable products to this platform. Further, it is expected to study the feasibility for expanding the online marketing platform to international markets during the next few years.

The collateral savings product was introduced in 2019 as a pilot in two branches and the pilot was further expanded to cover seven branches during 2020 as this product became more popular among the clientele. This was rolled out across the BMIC branches from the inception of 2021. This has led to generate and improve savings

habits of clients which is an important aspect of their socio-economic development. There are 32,202 BMIC clients having savings accounts in BMIC with savings amounting to LKR 44.2 Million as at the end of 2021.

Therefore, our Credit plus services significantly contributed towards poverty alleviation with enhancement of knowledge on entrepreneurial activities and financial management which makes BMIC different to other MFIs in the country.

CUSTOMER OUTREACH

BMIC carried out its activities in 30 branches supported by the Head Office in Colombo. The branches are located across six regions in the country namely, Anuradhapura, Nuwara Eliya, Kegalle, Batticaloa, Trincomalee and Northern region. We first select the poverty-stricken divisions in each region and we establish branches in identified areas. Each region consists of 4-5 branches. The branch is operated with a Branch Manager, 6-7 Field Officers, 2 Accounts and Admin Officers, an Enterprise Development Officer and a Staff Assistant. During the COVID 19 pandemic period, BMIC used different strategies to reach new customers because conducting village awareness meetings was not safe during that time. The key strategy for reaching the clients during that period was providing leaflets and conducting pocket meetings only with a few clients while following strict safety measures.

CUSTOMER FEEDBACK

Realizing that customers are the key to our success, we always respect and respond to their feedback and receive their suggestions, complaints and criticisms regarding our products and services to improve them in accordance with client needs and preferences.

We obtain client feedback through several mechanisms including cluster meeting discussions at field level, through telephone and written form. Customers can make their grievances to the branch manager in writing or by phone. There is a dedicated customer hotline number for customers to make complaints and provide feedback which is handled by a dedicated officer based in the head office which is explained in the section “Customer complaints” below. Branch telephone numbers and hotline number are provided in the customer card. The information received through various ways from customers is used in an efficient way to improve the services of BMIC.

CUSTOMER BENEFITS

BMIC clients are provided with special benefits via Suwasahana Scheme in the event of a funeral in the family, amounting to LKR 6,000 per funeral, if the funeral takes place at the client’s house and LKR 3,000 if it takes place at a different place. Further, hospitalization benefit of cash amounting to LKR 300 per day for 10 days per year for the hospitalization of client, spouse and one-year-old child is paid to clients having over 80% cluster attendance, satisfactory cluster repayments and there are no arrears in the loan. During the year under review, LKR 9.02 Million were paid as benefits among 2,792 clients under the Suwasahana Scheme. Among them, LKR 3.59 Million were given to 1,827 clients for hospitalization while 965 clients were given LKR 5.42 Million for funeral expenses. Furthermore, BMIC provides the facility of loan set off against Loan Risk Fund (LRF) in instances where the client or spouse death or having a severe illness or disabilities. Accordingly, during the year BMIC has settled off LKR 28.31 Million loan outstanding from the LRF covering 670 clients.

When the clients are faced with natural disasters such as droughts and landslides, they are provided with a grace period for their loan repayment due to difficulties faced under such circumstances. With the COVID 19 pandemic BMIC provided loan moratorium facility for up to 6 months in the year under review. Accordingly, 19,106 clients obtained this facility which was 29% of the total client base.

BMIC being a client centric organization decided to provide financial assistance to the clients who were tested positive or if their family member tested positive for COVID 19. Accordingly, BMIC provided financial assistance to 1,622 clients and each of them received a grant of LKR 2,000 as financial assistance.

Bright Student Scholarship Program is another benefit provided by BMIC for its clients with children pursuing G.C.E. A/L through which the students in Arts and Commerce streams are provided LKR 1,000 and students in the Science stream and Mathematics are provided LKR 1,500 each month for a period of two years or for 3 years in case of students repeating the exam. In the year 2020, BMIC supported 604 students and has paid LKR 7.3 Million for those students.

BMIC allocates LKR 1.5 Million as a social fund for all branches (LKR 50,000 per branch) annually to conduct social development activities in the branch areas. Accordingly, all branches have conducted socially

beneficial activities such as donations to libraries, schools, religious places, client welfare activities and educational programs. In addition, branches utilize this fund for activities such as relief activities for COVID 19, distribution of dry food rations for required clients, distribution of Personal Protection Equipment, renovation of public places such as bus halts, common halls, food item donations for children's homes and elderly homes, etc. These activities help to enhance the relationship with clients and positive client engagement for BMIC activities which will thus reflect a positive impact on society.

CUSTOMER CENTRIC PRODUCTS

We always focus on developing customer centric products in order to foster the demand driven nature of our work and to ensure enhanced client relationship. BMIC conducted a telephone survey with community-based organizations with the objective to develop a loan product based on their requirement. This is in the development stage and it will be launched in 2022.

CUSTOMER COMPLAINTS

The main objective of this service is to establish a formal and appropriate complaint procedure to address the complaints and grievances of BMIC clients efficiently in order to strengthen the relationship between the company and clients. The complaint handling system linked to the corporate management at the Head Office level has been established with the intention of permitting clients to voice their complaints and grievances directly via a dedicated telephone hot line. These complaints are brought to the attention of the top management where appropriate solutions are provided to issues and problems within a short period of time.

During the year under review, different types of complaints were received including delay in issuing loans, rejection of loans, issues with group members due to inability to pay the loan installment on time, delay in payment of Suwashahana benefits, delay in BSS payments, etc. These complaints were communicated to the relevant authorized personnel of BMIC in the senior management and resolved within a short time.

Accordingly, BMIC was able to rectify all client complaints/ queries within an average of 6 days. During the year under review, BMIC has received 43 complaints/queries and all were addressed.

Complaint category	Total No. of complaint / queries received	No. of complaints resolved	No. of days taken to solve (average)
Loan (delay or reject)	29	29	4
Suwasahana facilities	2	2	7
other	12	12	6
	43	43	
Average Days taken to resolve the matters			**6**

CUSTOMER PRIVACY

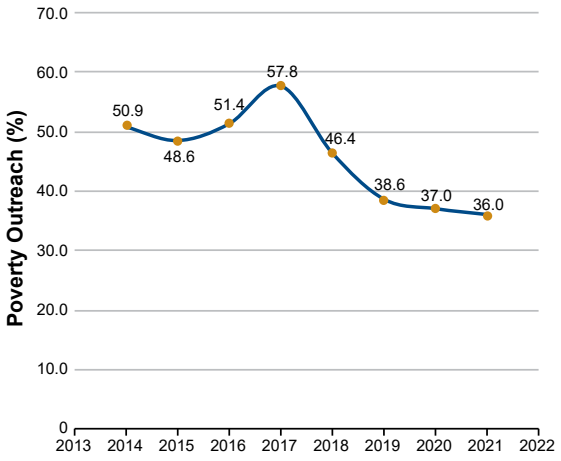
As a policy, we refrain from disclosing any information relating to our customers to any third party unless the law of the country requires us to do so.

BMIC POVERTY OUTREACH

With the Vision of creating an equitable society where poverty does not exist, we assist our clients to reach out of poverty through the credit plus approach. We continuously track the reach out of poverty by our clients to assess the impact of the services provided. BMIC uses the Poverty Probability Index (PPI), an internationally recognized poverty measurement tool for this purpose.

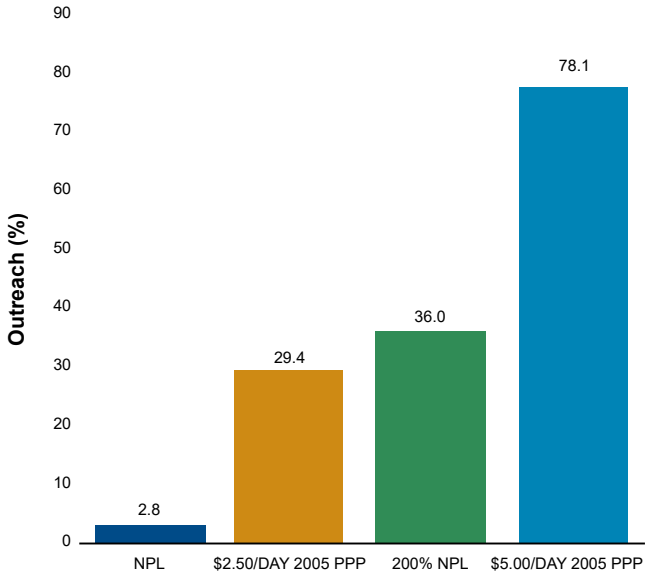
PPI assesses the percentage of people at different levels of poverty among the BMIC clientele. It provides an assessment of progression of people out of poverty from one loan cycle to the next. The data for this assessment were collected from all the thirty branches located in the six BMIC regions.

Poverty outreach (%)



The overall poverty outreach is defined as the proportion of clients living below the given poverty line. Percentage of our clients under 200% national poverty line (NPL) over the years from 2013 to 2021 are depicted in above Table. There is a slight drop in poverty outreach of BMIC under 200% NPL from 37% to 36% from 2020 to 2021. There are a few reasons for this decrement. One among those being the year with the COVID pandemic, BMIC focused more on maintaining existing clientele instead of reaching out to new clients.

Poverty outreach line in 2021

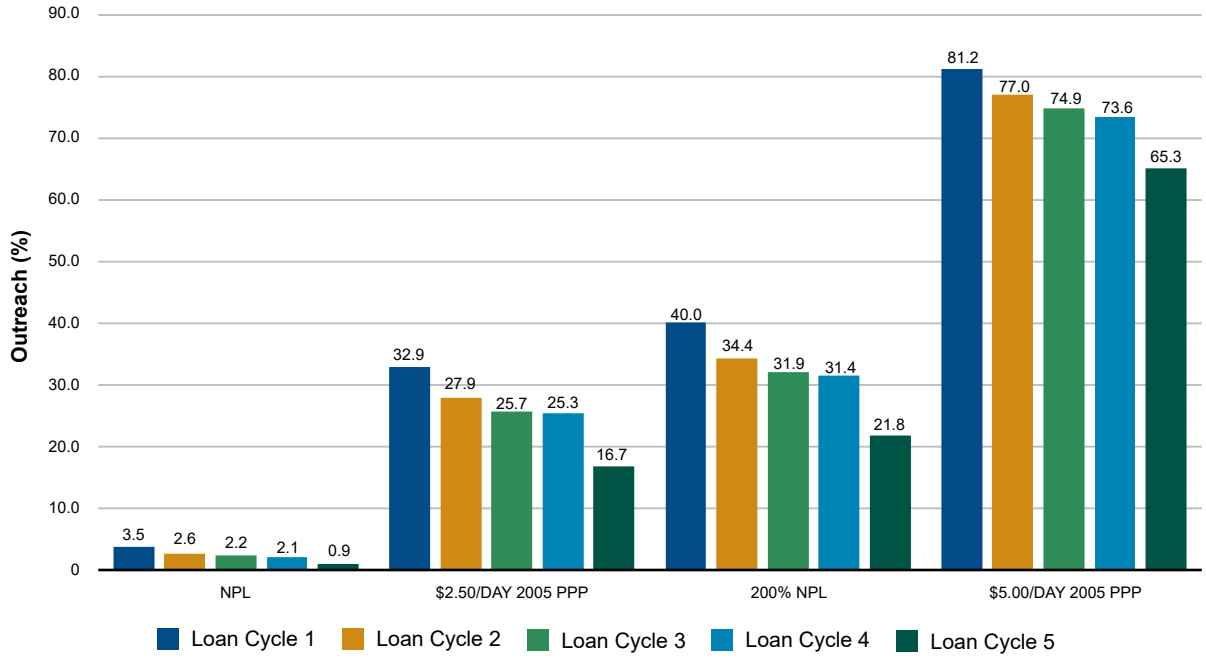


The BMIC poverty outreach with respect to different poverty outreach lines in 2021 were calculated. We used National Poverty Line (NPL), US $2.50/day 2005 PPP, 200% NPL and US $5.00/day 2005 PPP line to measure the poverty outreach of the clients.

The analysis reflects that 2.8% of the BMIC clients are below the national poverty line (NPL) where as 29.4% of the clients are below US $2.50/day 2005 PPP international poverty line, 36% of the clients are below 200% NPL and 78.1% of the clients are below US $5.00/day 2005 PPP international poverty line.

BMIC clients reflect a positive trend of reducing their poverty levels when moving from one loan cycle to the next loan cycle. This positive trend indicates that those clients improved the overall wellbeing of their families by using our credit plus services for establishing micro enterprises, increasing incomes and acquisition of assets. The following graph illustrates the reduction of poverty levels among BMIC clients while moving from one loan cycle to the next with reference to different poverty lines.

Poverty outreach comparison with loan cycles



Furthermore, this accumulated positive movement in poverty reduction reflects the direct and indirect interventions by the private and public sector contribution in overall national development, impact of the other poverty reduction programs, etc., apart from the contributions of BMIC interventions.

BUSINESS RELATIONS

Ensuring healthy business relations with customers, BMIC clients were contacted during the lock down through SMS and telephone calls regularly in addition to the regular client visit by BMIC staff at different levels.

BMIC also ensures periodical communication with relevant stakeholders. Accordingly, depending on stakeholder requirements, BMIC reports to them in an orderly manner which varies from monthly, quarterly, bi-annually to annual reporting. Also, information is provided to Lanka Microfinance Practitioners' Association. Further, we comply with statutory payment obligations such as taxes and provident fund for staff in accordance with Sri Lankan laws and regulations.

Climbing Up towards the Winning Line

Indra Priyadarshini hails from Battalagala Estate Upper Division in Dickoya. She is married to Mathiyalagan who works as a laborer in the Estate and the couple has 2 daughters and a son. The couple led a challenging life due to solely depending on Mathiyalagan's meager income. Being an enterprising woman, Indra always wanted to start a separate income generation activity that would greatly contribute for her family needs.

The new path for a productive income generation activity commenced after Indra became a client of Berendina in 2015. She took her first loan of LKR 30,000 in the same year to purchase a sewing machine. While continuing her tailoring business, Indra thought of commencing a small grocery shop adjoining her house premises since she knew selling grocery products in Estates can generate a substantial income than a tailoring business. Eventually, she took her second loan of LKR 50,000 in 2017 to start a small grocery shop.

Experiencing continuous success, Indra wanted to expand her grocery shop. "During lockdowns in 2021, my grocery shop was patronized by estate people as they could find the needy items near their homes," recalls Indra and further states "I went for my third loan of LKR 100,000 in 2021 and invested in the shop extension due to the confidence that I can overcome the hurdles in running a grocery shop successfully." Participating in tailoring and Vijapara Jaya training programs organized by Enterprise Development Services (EDS) gave additional knowledge and skills for Indra to continue her income generation activities.

At present, Indra generates a gross income of LKR 60,000 in her income generation activities with a profit in hand of LKR 25,000 per month. One person was hired as a part time employee in her grocery shop. "I lead a respectful life now", says Indra happily. "My grocery shop generates a steady income now. I can spend on my children's educational expenses without borrowing from others. Thank you Berendina for making my life prosper", ends Indra.

Human Capital

Value Creation Activities in 2021	Outcome	Challenges
• Focus on staff training and development	• 51 staff trainings were conducted for 2,008 participants	• Resigning of trained experienced staff to accept Government and private sector job offers
• Focus on staff health & safety	• On time payments of staff salary and all staff benefits without pay cut. Additional fixed allowances are paid.	• Negative image on microfinance industry
• Staff compensation & benefits	• Staff promotions and increments were given as per the policy.	• Recruitment of capable and skilled staff
• Unbiased recruitment process	• Staff allowances and benefits were increased and continued.	• Maintaining work-life balance due to Covid – 19 pandemic.
• Retention strategies	• Continuously focused on Gender and Anti-harassment & Anti sexual harassment, Child protection policies and whistleblower mechanism	
• Transparent management approaches	• Staff issues and financial hardships were addressed in a timely manner	
• Maintain of staff morale, satisfaction and efficiency		

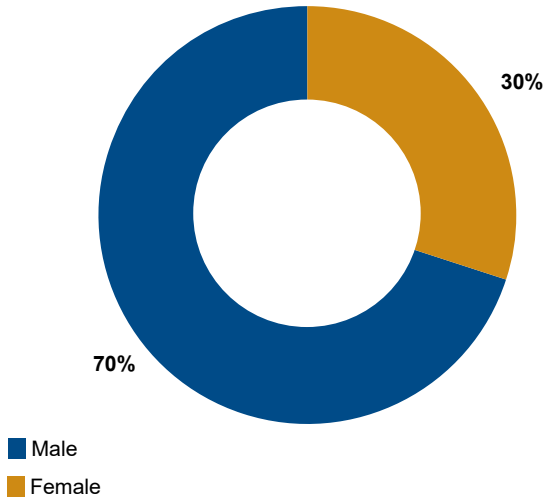
The Employees are considered an asset to a company under Human Capital and it is described as knowledge, skills and other intangible values held by employees which are not transferable. The investment in employees greatly influences the success of an organisation in many ways. Education, Training & Development, Skills, Problem solving ability, loyalty are several key elements of Human Capital.

BMIC is one of the organisations which believes that employees are one of the main assets in the company and heavily depends on its human values in the nature of the business in which it is engaged. Principally, BMIC is much proven and committed to the enhancement of its human values by investing in various means throughout the period in order to achieve a most efficient and productive workforce.

As at 31st December 2021, BMIC's total employee count was 372 out of which 49% were in the permanent cadre (181 staff). More than 36% of our employees have been with the Company for more than 5 years and this reflects loyalty as well as the invaluable industry experience of our team. More than 91.7% BMIC workforce live and work outside the Colombo district, thus contributing to employment generation in rural areas.

The overall gender distribution of the company remained at 70:30 (male to female). Gender wise total staff distribution is as follows.

Staff Distribution by Gender



The following Table provides details of the staff in BMIC.

Staff Category	Female	Male	Total
Branch Staff			
Field Officers	11	153	164
Branch Accounts & Admin Staff	50	8	58
Branch Managers / Assistant BMs	2	34	36
Area Managers / Assistant AM	0	6	6
Enterprise Development Officers	3	23	26
Office Assistants	25	4	29
Total Branch staff	**91**	**228**	**319**
Head Office Staff			
Senior Managers	1	4	5
Managers	1	7	8
Assistant Managers	3	1	4
Senior Executives	2	2	4
Executives	14	14	28
Non-Executives	1	3	4
Total head office staff	**22**	**31**	**53**

EMPLOYEE PROFILE

BMIC staff consists of both permanent and contract employees. Contract employees are eligible to become permanent after two years. Both staff categories remain equally eligible for compensations and benefits.

RECRUITMENT PROCESS

As an employer whose goal is to retain and attract employees of the highest calibre for all aspects, BMIC has in place policies and procedures to ensure that recruitment of employees follow a standard process to ensure non-discrimination.

The company also has in place a detailed policy for recruitment which ensures the initial selection process of screening candidates on their suitability for the job roles. In this process, the primary step is the communication of vacancies to the Company's Human Resource Department by the respective Heads of Departments where a draft vacancy notice is developed stating the job profile including educational and professional qualifications that are required.

A thorough interview process is followed in order to ensure right candidates are selected for the right job. In addition to personnel references, the LMFPA fraudulent employee database is also checked before the recruitment is finalised.

During the year under review, the Company recruited a total of 91 employees mainly for employee replacement as there was no expansion of business activities during 2021 due to the experience of Covid – 19 pandemic situations.

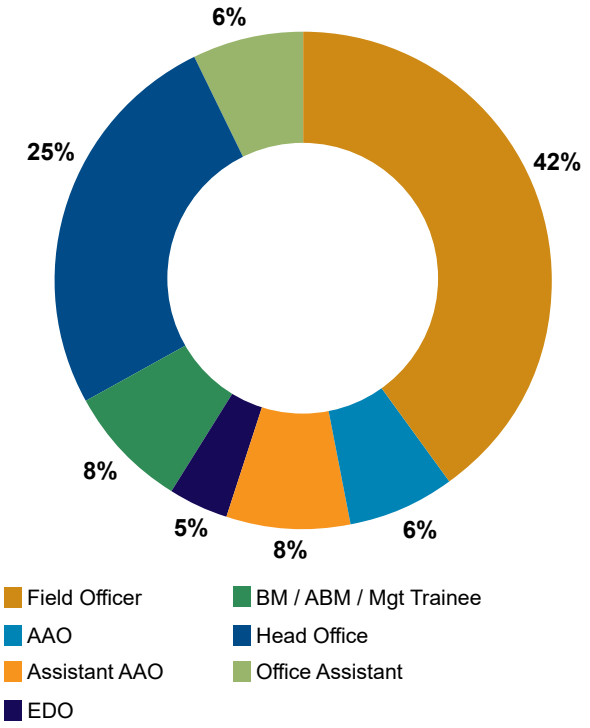
EMPLOYEE TURNOVER

During the year under review, the turnover ratio of the staff who served the Company for more than three months was 16.75%. The staff turnover ratio in 2021 decreased compared to 2020 which was marked as 21.8%. Moving to another organisations due to various reasons and resigning to accept government job offers were main reasons for staff voluntary resignations in 2021.

The staff turnover (voluntary resigned staff over 3 month's service) category-wise is illustrated in Figure.

Staff Category	Voluntary Resignation (over 3 months service)	Staff Category Resignation Turnover
Field Officer	26	15.7%
AAO	4	13.4%
Assistant AAO	5	17.6%
EDO	3	11.4%
BM / ABM / Mgt Trainee	5	13.9%
Head Office	16	24.1%
Office Assistant	4	13.7%
TOTAL	**63**	
Overall BMIC Staff Turnover - 2021		**16.75%**

Staff Turnover in Categories



EMPLOYEE RETENTION

Effective employee retention strategies are critical in making employees feel valued and appreciated, which in turn would motivate them to remain with the Company. Several steps were taken during the year to improve staff retention. Particularly, a special fixed allowance for all field staff has been given appreciating their commitment and dedication made during past period in order to maintain smooth field operations while facing many challenges due to Covid – 19 pandemic. Also, the Company has paid staff salaries and all other benefits on time without any reduction irrespective of the challenges for continuing the field operations as planned under the pandemic situation. A reasonable performance-based incentive was also paid to the field staff even for the period operations were halted. In addition to all these, annual salary increments, and promotional opportunities were also provided as usual appreciating the contribution and commitment of staff who worked during the time with all difficulties and health risks.

STAFF GRADING POLICY

Developing a staff grading policy for head office staff in view of establishing a formal mechanism to ensure fairness and consistency by measuring all job roles against the standard criteria for better career prospects of staff within the Company has been drafted. Benchmarking of salary and increment, staff promotional prospects in career advancement are the key objectives of the Berendina grading policy. The draft of the policy was done by an experienced professional HR consultant and further improved by the management team. This policy will be implemented once approval is granted by the Board of Directors after necessary improvements. The grading policy for field staff was introduced in 2017 and implemented successfully and has achieved its objectives.

COMPENSATION AND BENEFITS

BMIC practices equal opportunity employment and rewards employees solely based on their performance, skills, and experience levels. Accordingly, the Company recognises that in addition to the basic salary, both monetary and non-monetary reward schemes are also required in retaining skilled employees and maintaining their motivational levels. Thus, BMIC has developed a reward and remuneration system which consists of a salary component as well as monetary and non-monetary rewards. In addition to the monthly salary, monetary rewards consist special fixed allowances, performance-based incentives, reimbursement of motorcycle running expenses including reasonable amount of home to office travel, field subsistence, over-time payments, fixed allowances for staff expenses (boarding allowance, phone allowance, etc.) as well as statutory commitments of EPF, ETF and gratuity payments to employees. The Company contributes 15% to EPF and 3% to ETF while employees contribute 10% to EPF which is deducted from their monthly salaries. In addition, BMIC also makes gratuity payments to employees who have completed five years or more of service with the Company on their resignation or retirement, according to the country's labour laws. Maternity leave is also offered to all entitled female employees in accordance with the provisions in the Shop and Office Employees Act. In addition to compensation and benefits prescribed by regulations, BMIC provides employees with a range of compensation and benefits aligned to the Company's benefit schemes including a 10-year service appreciation with a cash award for long serving employees. The employees are also provided with the opportunity to encash all the unutilized casual leave by the end of the year.

All staff members who complete over one year of service are given a cost-of-living allowance, which is calculated on basis of consumer price index. The fixed allowances such as accommodation allowance and phone allowance are paid on need basis. Motorcycle revenue and emission test cost are also reimbursed for field staff. The field staff members are also given helmets for Motorcycle riding, raincoats, boots and bags for field usage free of charge.

A range of insurance policies is offered to all BMIC staff members including a health insurance policy which covers all medical expenses including OPD and hospitalization as well as a personal accident policy and life insurance policy which provide death benefits up to LKR 2 Million and WCI policy. The motorcycle insurance policy is provided by the Company.

The field staff were provided a special payment for working during weekends and holidays in view of compensating and encouraging employees for their additional effort to streamline field operations affected due to Covid -19 pandemic situation.

As for the staff loan schemes, they are provided with personal loans up to LKR 200,000 by the Company. The interest of external bank loans at the rate of 8% p.a. up to LKR 500,000 is paid on a monthly basis for a maximum period 5 years. In addition to motorcycle loans, distress loans, laptop loans and festival advances are offered.

BENEFITS PROVIDED TO THE PERMANENT AND CONTRACT STAFF

Employment Type	Distress Loan	Personnel Loan	Motor cycle Loan	Festival Advance	Study Scholarships	Insurance Benefits	Casual Leave Encashment
Permanent	√	√	√	√	√	√	√
Casual	√	×	√	√	√	√	√

There are some more benefits provided to the staff including marriage allowance of LKR 10,000 and funeral allowance of LKR 15,000 which is paid in the event of a demise of an employee's close family member. Further, the company organises a staff annual get together and sponsors for an annual trip for the staff and the family.

MANAGEMENT APPROACH

The Company respects the right of every employee and fosters a culture where employees are freely able to express their opinions and to provide their inputs to improve the business process. Employees are also encouraged to take on responsibilities and are empowered to work under minimal supervision. The Company practices equal opportunity employment and does not discriminate based on religion, caste, gender or ethnicity.

In order to ensure all employees are aware of and have information about the Company's Human Resource policies, processes and procedures, BMIC issues circulars and guidelines with relevant details from time to time.

Moreover, BMIC practices an open-door policy which facilitates all employees having easy and direct access to management at all levels including the MD and Chairman.

GENDER & ANTI-HARASSMENT POLICY

As part of the effort to further strengthen adherence to the two important policies on Gender and Anti-harassment which were introduced in 2019, staff awareness trainings were conducted covering all staff in the company. These awareness trainings and workshops were conducted by well experienced and recognised resource personnel in relevant subject areas.

GENDER & ANTI-HARASSMENT AWARENESS POSTER DISPLAYED AT BRANCH OFFICES

BMIC is committed to support gender equality and fostering a harassment-free workplace where all employees are treated with respect, dignity and justice. BMIC does not tolerate any form of harassment including sexual harassment at any level. Employees found to have harassed another employee are subject to prompt disciplinary action.

CODE OF CONDUCT

The Code of Conduct which is developed by the LMFPA for the field staff of all microfinance organisations in Sri Lanka, was actively followed by BMIC. These set guidelines are practised across all staff categories in the field operation and all field staff have signed and acknowledged the Code of Conduct document. LMFPA Code of Conduct is an important document defining core values and fair practices to ensure a high level of professionalism, ethical conduct and good governance from microfinance practitioners and their employees. This Code of Conduct mainly focused on the following principal values and conduct:

- Avoid over Indebtedness
- Maintain Transparency
- Acceptable Loan Disbursement and recovery practices
- Maintaining Healthy Competition
- Ensuring clients feedback
- Information sharing
- Maintenance Quality of Staff

In addition, BMIC has initiated drafting a Code of Conduct policy document for Company staff. An experienced and professional legal/HR consultant was given this task of developing a comprehensive Code of Conduct for BMIC.

STAFF CARING UNDER COVID – 19

Timely measures and controls were taken by the Company during third and fourth Covid – 19 outbreak cycles that took place in 2021, for the safety and well-being of all employees by taking all precautions as advised by the Government health authorities. In terms of staff health precautions, the Company provided safety materials of hand sanitizers, face masks, face shields, etc., to all employees throughout the period and flexible work arrangements including work from home option as required. Further, travel expenses for hired vehicles were reimbursed for staff on need basis and special transport facilities were arranged for certain staff in order to avoid the use of public transport. Additionally, Company had provided a cash grant to all Covid – 19 positive employees and reimbursement of PCR/Antigen test expenses. Some identified staff categories were given a special allowance for working during the lockdown period on account of the additional risk they took on behalf of the Company.

The staff were also encouraged and directed to participate in online training programs organised by various institutes. Working procedures under the new normal situation were developed, giving instructions and guidance to ensure health and safety measures, as and when required and released as circulars to staff from time to time.

During the year under review, BMIC operated under a totally different environment as a result of Covid – 19 work and travel restrictions. It affected the Company's financial and operational performance. Despite all these challenges, the Company paid full salary and allowances to all employees on time without any pay-cut or reduction throughout the year. Not only the staff salary and allowances, but all other staff benefits and employee payments of incentives, due salary increments with arrears, staff promotions were also provided despite the situation that prevailed. Staff also responded responsibly and contributed very positively by working from home during lockdown periods to run Company operations by minimising the adverse impact as much as possible.

TRAINING AND DEVELOPMENT

Training and development are considered as a long-term strategic goal for the development of Human Capital in the organisation. The Company believes that career progression in the form of promotions is a key method to employee success and for developing their career path by improving their knowledge and skills. As such, employees are provided with job specific trainings conducted by competent trainers which help them to obtain knowledge, exposure and personal growth which in the longer term contribute to the Company's success. As part of the Company's ongoing training and development initiatives, 22 training programs were conducted by competent external resource persons during the year under review. These programs ranged from motivational, technical and professional skills development to soft skills development workshops. There were 29 internal training programs conducted within the year ranging from Induction Training for new staff to Credit, EDS, and Gender & Anti-Harassment policy and training on developing personal skills such as advanced excel training and effective business writing.

In summary, there were 51 staff development programs conducted for 2,008 staff participants in the year under review.

No	Type of Training	Number of Programs	Number of staff participated
Technical Trainings			
1	Induction Training	5	68
2	Operational Manual Training	3	57
3	Debt collection-Recovery	2	215
4	Gender & Anti-harassment Policy	2	138
5	Credit Appraisal (Improved version)	6	57
6	Products Training for field staff	1	198
7	Advanced Excel Training	4	153
8	Training on TSS	9	117
9	Whistleblower program Awareness Training	2	352
10	Training for on-line meeting apps (Zoom and Teams)	2	90
Soft Skill Development Programs			
11	How to keep teams Motivated during this time	4	57
12	Challenges & Strategies for MFIs during Covid 19	5	301
13	Effective Business writing	1	1
TOT Programs			
14	Enterprise Development – TOT program	1	27
15	Financial Literacy (FL) – Refresher Program	2	111
16	Vyapara Jaya	1	53
Study Programs (Certificate & Diploma)			
17	Diploma in Micro Finance (On-line course)	1	13
	Total	**51**	**2,008**

The foreign exposure tour for best performed employees organized every year by the Company was not provided in 2021 due to the Covid – 19 pandemic situations.

Staff members are provided with financial assistance to pursue professional education (up to postgraduate level) in subject streams related to their scope of employment or the job role. They are given the course fee as per the Company policy. Out of the total amount, 50% is given at the beginning while the balance is given at the end of the course after submission of the certificate.

NEW INITIATIVES

Steps were taken to draft a Code of Conduct policy for Company employees as part of compliance requirement. Its initial arrangements have been done and one leading HR related legal advisor was given the responsibility to draft the policy document. Also, during the year a new policy called 'staff relative policy' has been drafted and submitted for BOD review.

The staff appraisal tools and techniques were improved and a point test was conducted as a mid term review in 2021.

CHALLENGES FACED

A significant number of trained and experienced employees resigned from BMIC to accept Government jobs and private sector jobs. Though the resignation turnover during the year under review is less than previous year, the filling of vacant positions was a challenge to find people for replacement with required knowledge, skills and right attitudes. This issue was further aggravated with certain restrictions and limitation for travelling and people movements as precautionary measures to control Covid – 19 outbreak. In order to overcome this challenge, practically viable short-term approaches were adopted continuing the operation with minimum negative impact.

FUTURE OUTLOOK

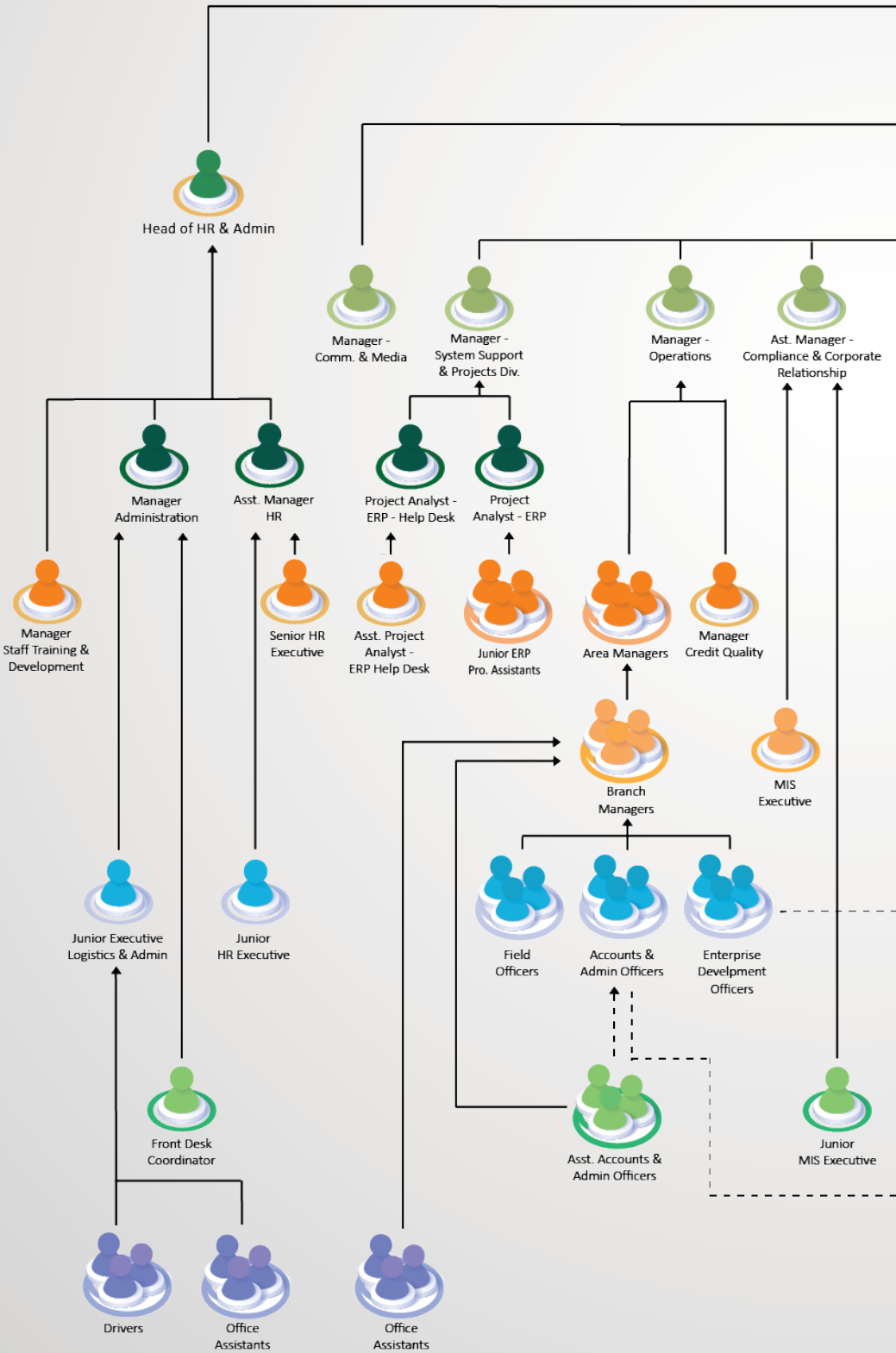
An assignment for preparation of a staff grading system for Head office staff was in the final stage at the end of the year under review and BMIC plans to introduce it in 2022. In addition, the staff relative policy which was drafted during the year under review will be implemented after obtaining formal approval from the Board of Directors.

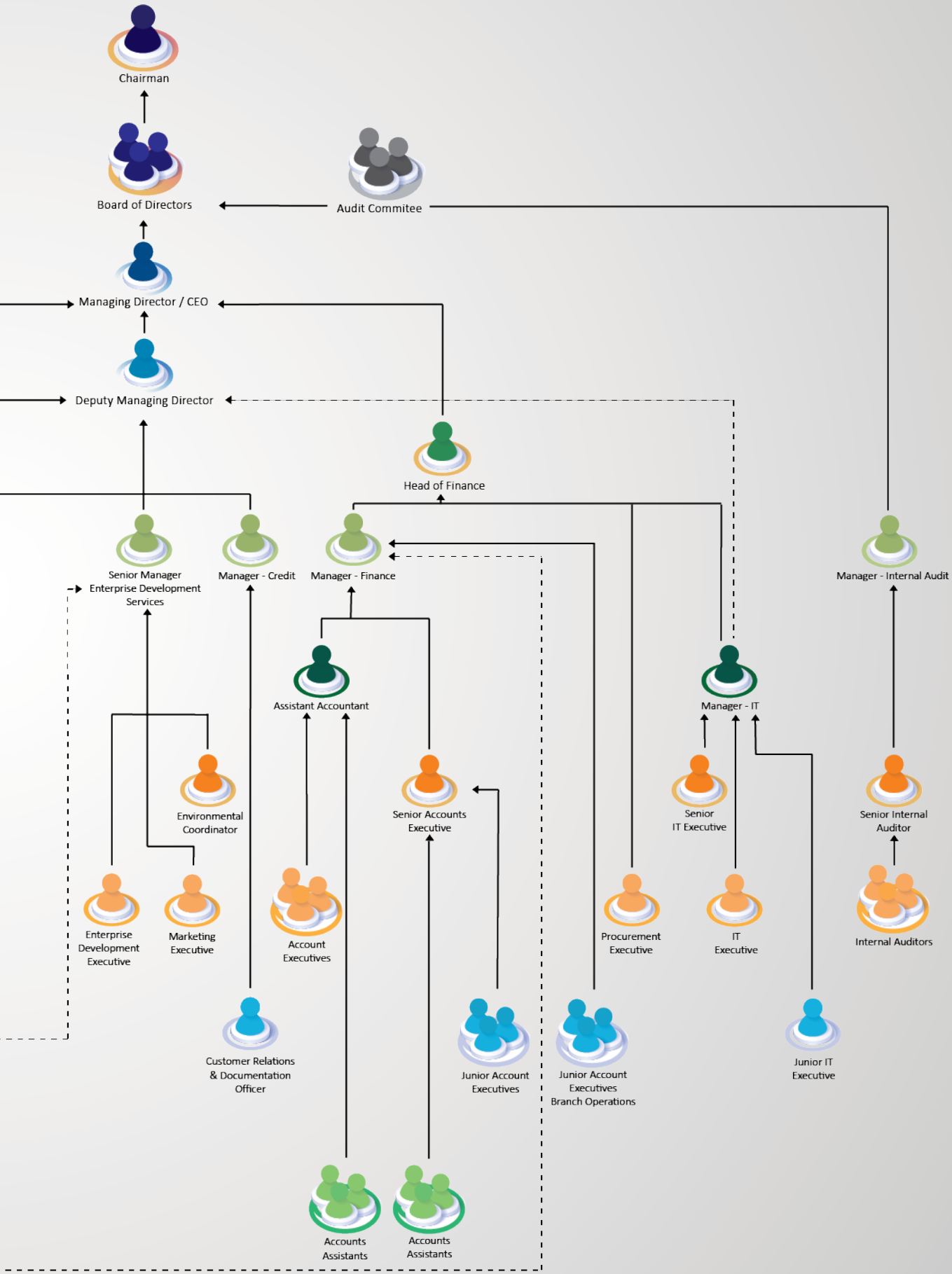
The requirement of developing a comprehensive HR policy is one of the key highlights of the HR department and will focus on same as a high priority in 2022 to start on preparatory work.

Training and development will continue to be a focused area where increased resources will be deployed to enhance employees' knowledge on their job roles and improve their personal soft skills.

Developing a more engaged, dedicated and loyal workforce is one of the key concerns of focus despite some major challenges such as the retention of skilled employees, negative attitudes and poor discipline among young employees.

Organizational Structure




Chairman
Board of Directors
Audit Commitee
Managing Director / CEO
Deputy Managing Director
Head of Finance
Senior Manager Enterprise Development Services
Manager - Credit
Manager - Finance
Manager - Internal Audit
Assistant Accountant
Manager - IT
Environmental Coordinator
Senior Accounts Executive
Senior IT Executive
Senior Internal Auditor
Enterprise Development Executive
Marketing Executive
Account Executives
Procurement Executive
IT Executive
Internal Auditors
Customer Relations & Documentation Officer
Junior Account Executives
Junior Account Executives Branch Operations
Junior IT Executive
Accounts Assistants
Accounts Assistants

Treading Steadily on a Successful Journey

Dasaratha Pathmanathan Dasaratha's family has been involved in the footwear business for a long time as their income generation activity. She is one of the very successful clients of the Berendina Kalmunai Branch. She is happily married to Mr. Ravindrakumar and has 2 sons, both of them schooling now.

Before 2018, their footwear business consisted of buying bulk products from other manufacturers and selling in retail. Later on, Mr. Ravindrakumar worked as an employee in a footwear production shop. He learned all the skills needed for manufacturing footwear and became a skilled person. But the couple were short of funds to venture into their own business. In such a challenging situation, Dasaratha became a client of Berendina and took her First loan of LKR 50,000 in 2018 for purchasing footwear in bulk for selling in retail and bought shoe model molds to start production on their own. Tasting success, she went for her second loan in 2019 amounting to LKR 100,000 for purchasing raw materials for producing court shoes, nursing shoes, design wear for ladies and gum mixtures. Named as T. J. R. Best Quality, their shop became famous in their area bringing in customers continuously.

"When I want to go for the third loan of LKR 100,000 in 2021, many were advising not to go for the loan as the country's business environment was not conducive," recalls Dasaratha. "But I thought it's time to break these myths as no one is going to walk barefooted because of the country's situation". Berendina also supported their business by helping them to get their business registered, establishing market linkages and guiding them to purchase raw materials at wholesale price from reputed dealers.

Dasaratha's footwear business is running very successfully having dedicated customers. Their products are sold with guarantee for long lasting use. Their products are featured in Berendina managed ekade.lk due to the fact of unmatched quality, durability and selling at an affordable price. Currently, two are employed full time in their production business and Dasaratha earns a monthly net profit of LKR 40,000. Dasaratha stated happily "All was possible because Berendina is always with us." She went on to say "I have won many regional awards on footwear business; now I have enough money to spend on my children's education; I also bought a scooter motorcycle; that's not all, I have started saving money for the future needs of my children."

Natural Capital

Value Creation Activities in 2021

- Environmental impact assessment of enterprises
- Environmental awareness programs
- Continuing environmental protection measures
- Conducting occupational safety awareness programs
- Sharing the best green practices for competition and with others

Outcome

- Harmful enterprises were identified
- Promoting environmental conscious behavior
- Followed up the performance of constructions built in the past
- Increasing conscious behavior on occupational safety
- Won Global Award

Challenges

- Adaptation of alternative methods of conducting operations and budget limitation
- Travel restrictions and lockdowns
- Higher prices of construction materials discourage new constructions
- Limited participation due to health measures

Natural capital is the stock of renewable and non-renewable resources that provides benefits to the people and the economy. It consists of assets including water, forests, clean air and ecosystem services which support people everywhere in terms of healthy lives and underpinning economic activity. During the past decades, natural resources have been depleted as a result of anthropogenic and natural factors posing threats to environmental sustainability. Hence, involving in environmental conservation is more important in this decade to restore the environmental balance. Thus, companies have to pay attention to reducing the adverse environmental impacts and implement strategies to preserve the natural environment from negative externalities generated by their processes with the aim of achieving long term sustainability. As a responsible organization with an environmental focus, BMIC involves in both these aspects to conserve the environment.

BMIC APPROACH

BMIC follows the triple bottom line approach: people, planet and profit in order to ensure poverty alleviation in eliminating causes which lead to poverty such as depletion of natural resources, creating adverse environmental impacts in the process of business and use of products which contribute to environment pollution. BMIC identifies enterprises which lead to adverse impacts on the natural environment and implements protection measures, identifies potential greener businesses and promotes the use of waste as resources for creating economic value, creates awareness among clients and the general public to conserve the environment, implements occupational health and safety programs for businesses to mitigate adverse health impacts related to livelihood activities together with the government, private institutes and Non-Government Organizations to secure the long term sustainability of enterprises.

Also, BMIC implements energy saving and environment protection activities within the organization's day to day operations in Head and Branch office operations, decreasing the paper work by increasing digital documentation, recycling and reusing papers, encouraging the use of daylight, using staircases instead of using elevators. All the new staff are trained on environment and energy saving concepts when they join the organization.

BMIC encourages eco-friendly businesses in order to save the environment for future generations. It educates clients on eco friendliness and energy saving to convert businesses to greener and sustainable ventures. BMIC contributes to the "Roadmap for sustainable finance in Sri Lanka" being implemented by the Central Bank of Sri Lanka to minimize the risks on environment, health and safety in enterprises by achieving the objectives of the 'Triple bottom line' of microfinance.

ASSESSMENT OF ENTERPRISES TO IDENTIFY ENVIRONMENTAL IMPACTS

BMIC has a dedicated environmental unit under Enterprise Development Services led by the Environmental Coordinator from the Head Office to adhere to the Company policy on promoting environmentally friendly enterprises and secure the health and safety measures of the enterprises supported by the company. Anyhow, the feasibility of loan assessments done by the branches show that BMIC has a reduced number of harmful enterprises. The feasibility assessments and enterprises identified with environmental issues are reported to Head Office to assess the magnitude of their negative externalities to control pollution and run the business sustainably. BMIC guides and supports financially and technically to implement mitigation plans for remedying the identified threat. The organization also has incorporated the greener environmental concept in existing training programs and exposure visits focusing on organic cultivation, environmental conservation mechanism, waste management, energy savings, traditional crops cultivation and health and safety measures.

The year 2021 was a most challenging year for field operations and project activities due to COVID-19 pandemic. The number of proposed projects, physical visits for enterprises and training programs were limited due to the lockdowns and curfew. The challenging calamity hindered the regular process of assisting clients to construct environment protection and energy saving plants such as waste water treatment systems and biogas units. These types of activities were supported in the past years and even in 2020. However, during the year under review, no such constructions were supported by BMIC but the clients who were supported in the past were guided to run the business while properly using the constructions.

ENVIRONMENTAL AND SAFETY PROTECTION MEASURES TO REDUCE NEGATIVE IMPACT OF ENTERPRISES

Prior to the implementation of environmental conservation or safety strategy for any type of enterprise, BMIC evaluates four criteria including significance of environmental or health impacts, enterprise stability, ownership of the land in which the business is located and client's willingness to invest in the project.

BIOGAS DIGESTERS TO TRANSFORM RENEWABLE ENERGY TECHNOLOGY IN THE DAIRY SECTOR

Although dairy management is one of the main livelihoods among rural people, majority of them lack sufficient knowledge on how to utilize the waste from a dairy farm in a useful manner. BMIC introduced generating biogas as a source of energy using the waste from cattle sheds as an environmentally and economically friendly alternative.

The Bio energy project was piloted to address the issues of dairy farms in 2018 with the greater involvement of the beneficiary with respect to both financial and physical work contribution. The project was initiated with 35% financial contribution by the beneficiary and the balance funded by BMIC with technical support to construct the biogas units. This approach was innovative and creative because no other MFI in Sri Lanka has implemented such projects before. BMIC expanded the project to all its operational areas to support the dairy farmer beneficiaries using the same methodology.

During the latter part of 2018, BMIC approached the United Nations Development Programme (UNDP) to get donor support to construct 30 domestic biogas units in 2019. UNDP accepted the request with 30% financial assistance under the "Nationally Appropriate Mitigation Actions" (NAMA) project by looking at the work, success rate, technical expertise and innovative methodology of BMIC. The beneficiaries of BMIC contributed 35% of the project cost and the balance 35% was supported by BMIC.

As a succession to the project, Stromme Micro Credit Guarantee Limited (SMCGL) funded for another 5 biogas projects implemented with 30% financial support. For all 35 projects, beneficiaries contributed 35% of the cost and the balance 35% was borne by BMIC. This was an effective solution to cover the project cost with the support of donors, the implementing organization (BMIC) and the beneficiaries who were farmers. The contribution from farmers ensured the advantages of the projects because they have contributed financially and it created ownership towards the results of the projects. BMIC further supported these clients in 2021 to continue the progress due to the energy and agriculture crisis that prevailed in the year.

The issues in dairy and agriculture sectors were addressed by the intervention of biogas units. The waste (cow dung, urine, etc.,) of two cows is sufficient

to produce biogas to meet the daily gas requirement of a household. These dairy farmers did not use the waste of dairy farms effectively and lack of waste management created various issues such as odor, infestation with flies and pollution of water sources such as wells and streams in the area. The dairy farms that were supported are effectively using the waste generated and are converting it as energy (gas). Farmers are using the slurry as organic fertilizer and some farmers also sell the slurry.

In addition, Biogas technology reduces the burning of fossil fuels. It saves petroleum resources for use in the future. Also, Biogas production has the potential to reduce deforestation due to reducing the fuel wood demand. When reducing deforestation, it leads to reduction in soil erosion and depletion of soil and saves water resources. Therefore, BMIC has implemented "Climate smart adaptation" over many sectors.

Majorly vegetable cultivations, tea smallholders and home gardens are benefiting from organic fertilizer generated in the biogas process as a secondary product known as slurry. Biogas production offers a considerable opportunity for rural communities and contributes to positive changes and increase in agricultural production. The by-product of the biogas generation process is an enriched organic product, which is a perfect supplement to, or substitute for, chemical fertilizers. The fertilizer discharge from the digester can accelerate plant growth and resilience to diseases, whereas commercial fertilizers contain chemicals that have toxic effects and can cause food poisoning.

As per the case study on the tea estate, they are applying biogas slurry to tea cultivation to get an additional income of LKR 3,500 – 4,000 per month.

The availability of permanent cooking energy in a household with a well-functioning biogas unit, has an effect on family nutritional patterns. Because easy access to energy facilitates the availability of warm meals and it may increase the quality of meals too. Water may be boiled more regularly prior to drinking, thus reducing water-borne diseases, especially in children. Moreover, self-employment activities for producing snacks, sweets and curd create other opportunities because there are some beneficiaries who have newly started these types of businesses as a result of biogas projects.

BMIC won the Global SCALE creative Green Adaptation Award 2021 under donor choice category for the implementing of bio gas units and supporting the clients continuously. It's a milestone achievement for BMIC.

WASTE PAPER RECYCLING PROGRAM TO REDUCE ECOLOGICAL FOOTPRINT OF PAPER USAGE

In each and every company, paper usage is a very common practice and would create adverse impacts if not handled in a sustainable manner. Realizing this fact, BMIC promoted "paper to paper" concept instead of "tree to paper" concept by launching a waste paper recycling program at head office level in collaboration with Neptune Recyclers (Pvt) Limited, a local recycling company, to reduce the ecological footprint of paper usage. BMIC has recycled nearly 2 metric tons of wastepaper since 2017. For this year, paper wastage was less, due to limited office work and staff being assigned to work from home under the COVID situation.

EFFECTIVE MICROORGANISMS (EM) APPLICATION FOR LIVESTOCK SECTOR

Most of the farmers who have been involved in piggery farms in Allogallewa village at Anuradhapura had faced bad odor as a major concern in continuing farming activities which led to environment pollution and adversely impacted the livestock activity. BMIC found EM as a solution to control the bad odor problem and BMIC provided EM to selected farmers free of charge as a pilot effort to experiment the effectiveness of this solution. 3 farmers were provided EM free of charge and the effectiveness of EM was experimented. Farmers positively responded after using the EM for a period of time. Based on the result, BMIC has conducted an awareness programme for 30 farmers in the same village on January 2021 with support from the Sarvodaya district center in Anuradhapura.

Later, Farmers were directly connected with the merchant to buy EM as a result of the awareness programme.

SCALE CREATIVE GREEN ADAPTATION DONOR CHOICE AWARD 2021

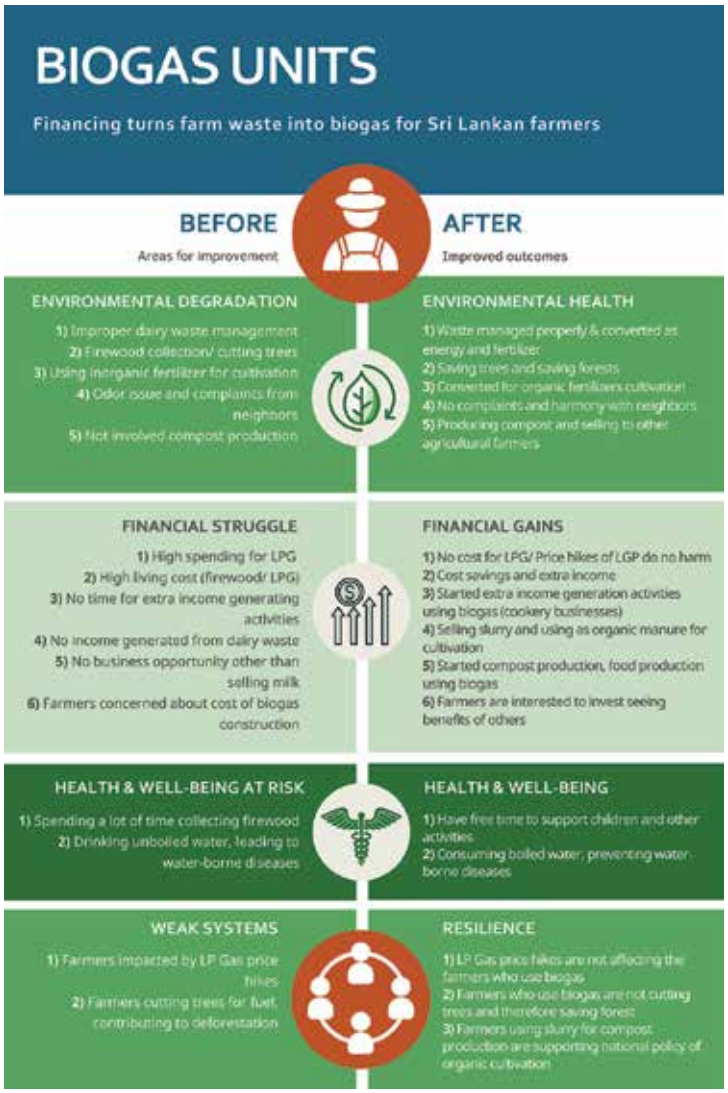
BMIC is the winner of Donor Choice Award in the global level SCALE Creative Green Adaptation competition conducted by USAID and Strengthening Capacity in Agriculture Livelihoods and Environment in 2021.

BMIC contested with the concept of 'Innovative Sustainable Approach for Bio gas Production among Small Dairy Farmers in Sri Lanka.'' Dairy farming is an important part of agriculture and the livelihood of most people in rural areas. However, many farmer beneficiaries were unaware of how to dispose of the animal waste and reap benefits from it. BMIC being a unique organization is not just involved in Micro Investments but also in promoting Green Technology following the triple bottom line. The whole world is facing the imminent threat of Global warming due to over-use of fossil fuels. Therefore, BMIC intervened to introduce alternative energy for dairy farms and constructed 37 biogas units in operational areas as an answer to renewable energy with help from Berendina.

35% of the total cost of the project is contributed by the beneficiaries, whereas another 35% is provided by BMIC, the remainder is supported by our donors UNDP and Stromme Micro Credit company.

As in all good things, this project also had to endure and persist in adversity. Berendina's Guidance and the perseverance of beneficiaries have brought out many benefits and a much better lifestyle for them. Using Biogas to reduce the use of Electricity and LP gas in households, using the remaining of the animal waste to make organic fertilizer and make an extra income along with the positive health impacts, are just a few of the long-term benefits of this project. Life gets much better with this project and we plan to expand it further.

BMIC presented this innovative approach among the global participants in an online conference. SCALE team published the following material in the publications.



CORPORATE STEWARDSHIP

Profiles of Board of Directors

Godakandage Jagath Chandana – Chairman

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 worked as an Independent Consultant for local and international organizations in enterprise development. He has more than 34 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

H Athapaththuge Anura – Managing Director

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 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 33 years of extensive management and consultancy experience in microfinance and enterprise development services, for local and international organizations including the World Bank, Asian Development Bank, United Nations Development Program, Women's World Banking, and Mix Market. Mr. Anura has been the president of LMFPA for 3 years and was a Director for many years in the past.

Current Appointments

Chairman – Berendina Development Services (Guarantee) Limited
Chairman – Berendina Employment Center (Guarantee) Limited
Chairman – Berendina Microcredit Institute (Guarantee) Limited
Vice President – South Asian Micro Entrepreneurs Network
Committee Member – Inter-Regulatory Committee for Sustainable Finance in Sri Lanka

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 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, USA. 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, prior to assuming his present position. He had been a Board Member and the Treasurer of the Lanka Microfinance Practitioners' Association for the years 2014/2015 and 2015/2016. He has experience in the field of Auditing, Accounting & Finance and Microfinance in the private and 'NGO' sector establishments for over 21 years and has attended many national & international microfinance conferences and events.

J G Vinodini Shankar – Independent Non-Executive Director

Appointed to the Board on 16th June 2015

Skills & Experience

Ms. Vinodini has more than 20 years of experience in both Sri Lanka and Myanmar in finance, procurement, compliance monitoring, and successfully rolling out integrated business ERP systems. Ms. Vinodini is an Associate Member of the 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 and a Certificate in Intelligent Investing from the University of California Berkeley. Before assuming her duties as a Director of BMIC, she was the General Manager – Finance, Admin, and HR for Berendina Group and also worked as the CFO at Early Dawn microfinance in Myanmar and as Finance Manager for a multinational company for 11 years. She also served as a part-time consultant for BMIC for a few years before being appointed as a Director.

Sarath C Fernando – Independent Non-Executive Director

Appointed to the Board on 9th May 2019

Skills & Experience

Mr. Sarath has 39 years of experience in the banking sector including HNB, NTB, PAB and RDB. He is a fellow member of IBSL, SLIM and the Australian Sales and Marketing Institute. He holds an MBA from the Postgraduate Institute of Management (PIM), University of Sri Jayewardenepura. He also has a Postgraduate Diploma in Marketing, Diploma in Banking, Diploma in Bank Management. He is also a member of the Sri Lanka institute of Marketing's elite panel of lecturers for developing Sri Lankan entrepreneurs. He was a former President of Sri Lanka Institute of Marketing (SLIM), the Secretary-General of Asia Pacific Marketing Federation in 2006, a committee member of World Marketing Federation in 2006 and 2007 and the chief examiner of the Institute of Bankers' Sri Lanka (IBSL) for Marketing from 1999 to 2009. Mr. Sarath is also a lecturer and a presenter for banking, marketing, and management subjects in Sri Lanka and abroad.

P Harshini Andradi – Independent Non-Executive Director

Appointed to the Board on 9th May 2019 (resigned WEF 28.02.2022)

Skills & Experience

Ms. Harshini has more than 27 years of professional experience in the Banking & Financial Services industry and has headed the Finance functions of several Licensed Commercial Banks (local & in Branches of foreign banks). She is an ACMA-UK and holds a Master of Business Administration (MBA) from the Postgraduate Institute of Management (PIM), University of Sri Jayewardenepura. She also holds a B. Com Special (Hons) Degree from the University of Sri Jayewardenepura. She served as a consultant to BMIC from March 2016 until May 2019.

Corporate Management Team

Kapila Subasinghe
Head of Human Resources and Administration

Saman Manathunga
Acting Head of Finance

Amal I Dissanayake
Manager - Operations

Rajany Yoganathan
Manager - Credit

R Rajesh Kanna
Senior Manager - Enterprise Development Services

J K S Dilhara
Assistant Manager - Compliance & Corporate Relationship

P W Indika Darshana
Internal Audit Manager

Chathura D Wijeratne
Manger - System Support and Projects Division

Daham Gunasekara
Manager - Administration

Sirajul Anam
Manager - Communications & Media

Dakshina Chandrasekara
Manager - Information Technology

K P S Dhammika
Manager - Field Staff Training and Development

P H M Kalishka
Senior Internal Auditor

Kasun P Dissanayake
Environmental Coordinator

M Samaranayake
Assistant Manager -Human Resources

Ushani Senarath
Assistant Accountant

Saraniya G
Project Analyst - ERP

V Sangeeth
Project Analyst - ERP Help Desk

Lakmal Premasiri
Senior IT Executive

Anuradha M Perera
Senior Accounts Executive

Sarbdeen Viswaj
Internal Auditor

Tharindu Gunarathne
Internal Auditor

Praveen Smith
Internal Auditor

Regional Management Team

L A S P Wijesundara
Senior Area Manager
Anuradhapura Region

ANURADHAPURA

A A E L D Amarasinghe
Senior Branch Manager
Thirappane

P A S Swarnathilaka
Senior Branch Manager
Ipalogama

N S A Hettiarachchi
Branch Manager
Kahatagasdigiliya

Y A M S Jayasinghe
Asst. Branch Manager
MaNuPa

T M A P Jayathilaka
Branch Manager
Horowpothana

V R Kumara
Area Manager
Kegalle Region

KEGALLE

W M U I B Weerasuriya
Senior Branch Manager
Dehiowita

J P Y R Jayasinghe
Senior Branch Manager
Galigamuwa

W A P D K Wanigasundara
Senior Branch Manager
Bulathkohupitiya

T G E Sarathchandra
Branch Manager
Mawanella

J A P R Kumara
Asst. Branch Manager
Warakapola

E Thiruchelvam
Senior Area Manager
Trincomalee Region

TRINCOMALEE

G Gajarooban
Branch Manager
Trincomalee

D E R Reagan
Branch Manager
Kuchchaveli

S Kirisanth
Asst. Branch Manager
Thampalakamam

P Vathanan
Branch Manager
Serunuwara

J R Costa
Branch Manager
Valachchenai

B Prathileepan
Area Manager
Batticaloa Region

BATTICALOA

B Vithurshana
Senior Branch Manager
Arayampathy

S Senthuran
Branch Manager
Chenkalady

S Manikkarajah
Branch Manager
Kaluwanchikudy

K Kopikaran
Asst. Branch Manager
Kalmunai

B Thileepan
Asst. Branch Manager
Akkaraipaththu

N M Chathuranga D Nawarathna
Area Manager / Manager - Credit Quality
Nuwara Eliya Region

NUWARA ELIYA

G D Liyanagama
Act. Asst. Area Manager
Nuwara Eliya Region

S T Prasanna
Senior Branch Manager
Dickoya

R M A Kumara
Asst. Branch Manager
Welimada

W G N B Weligampola
Branch Manager
Gampola

P A U P I Premarathne
Asst. Branch Manager
Nuwara Eliya

U D G D Nanayakkara
Senior Branch Manager
Ginigathhena

M P D D K Wijesignhe
Branch Manager
Kothmale

D G S Jayalath
Asst. Branch Manager
Ragala

R Rajeswaran
Area Manager
Northern Region

NORTH

S Vithush
Branch Manager
Kilinochchi

K Niranjan
Branch Manager
Mullaitivu

P Sajeenthiran
Branch Manager
Vavuniya

No Barriers in the path of Success!

Starting with just a few cows and having a big herd of 20 at present, was not an easy task for anyone involved in the dairy business, but our client Mrs. S. A. D. Subasinghe achieved it. It was a journey of hope started in 2015 when she became a client of ours. Hailing from the rural setting in Aliwanguwa, Upuldeniya, Kahatagasdigiliya, her husband Mr. Thilakaratne has been involved in the dairy business activity and was earning a meager income.

Mrs. Subasinghe got her first loan of LKR 30,000 in 2015 to purchase a cow to add to the existing heard of 5. Her second loan of LKR 60,000 in 2017 and third loan of LKR 100,000 in 2018 were invested in the dairy business. “I was lucky enough to be selected to have a Biogas unit installed at my premises with the support of Berendina”, exclaims Subasinghe who was one of the clients to have a Bio Gas unit installed at their premises in 2019. “It greatly supports for my energy needs while most of the people in the country are facing fuel issues. We sell the slurry of the unit to farmers for home gardening purposes,” says Subasinghe.

Year 2021 was a challenging year for Subasinghe as well, as the country was just breathing fresh air after Covid-19 outbreak. While many were struggling to see the light of hope, Subasinghe went for her fourth loan of LKR 150,000 in 2021 as she knew there was always opportunity for her dairy business. With all issues related to purchasing milk powder in the country building up everywhere, Subasinghe started to thrive in her dairy business. At an average she obtains 35 liters of milk daily and earns a monthly income of LKR 52,500. “My appreciation goes to Berendina” notes Subasinghe who went on to say, “the support and guidance I received from the company made me succeed financially and lead a contented life. If you are willing and dedicated, you can break any barriers to become successful in life.”

Corporate Governance

The Governance Environment of the Company

- **Companies Act No. 7 of 2007**
- **Microfinance Act No. 6 of 2016**
- **Inland Revenue Act No. 10 of 2006**

- Rules & Directions issued by the Monetary Board of the Central Bank of Sri Lanka
- EPF Act No. 15 of 1958
- ETF Act No. 46 of 1980
- Shop and Office Employees Act No. 19 of 1954 and its amendments
- Sri Lanka Accounting and Auditing Standards (LKASs)
- Sri Lanka Financial Reporting Standards (SLFRSs)
- All other applicable Regulations

- Articles of Association of the Company
- Organizational Structure
- Terms of References of Board Sub-Committees
- Risk Management Framework
- Operations and Finance Manuals
- Board Approved Policies
- Internal Audit Charter
- Circulars and Memos

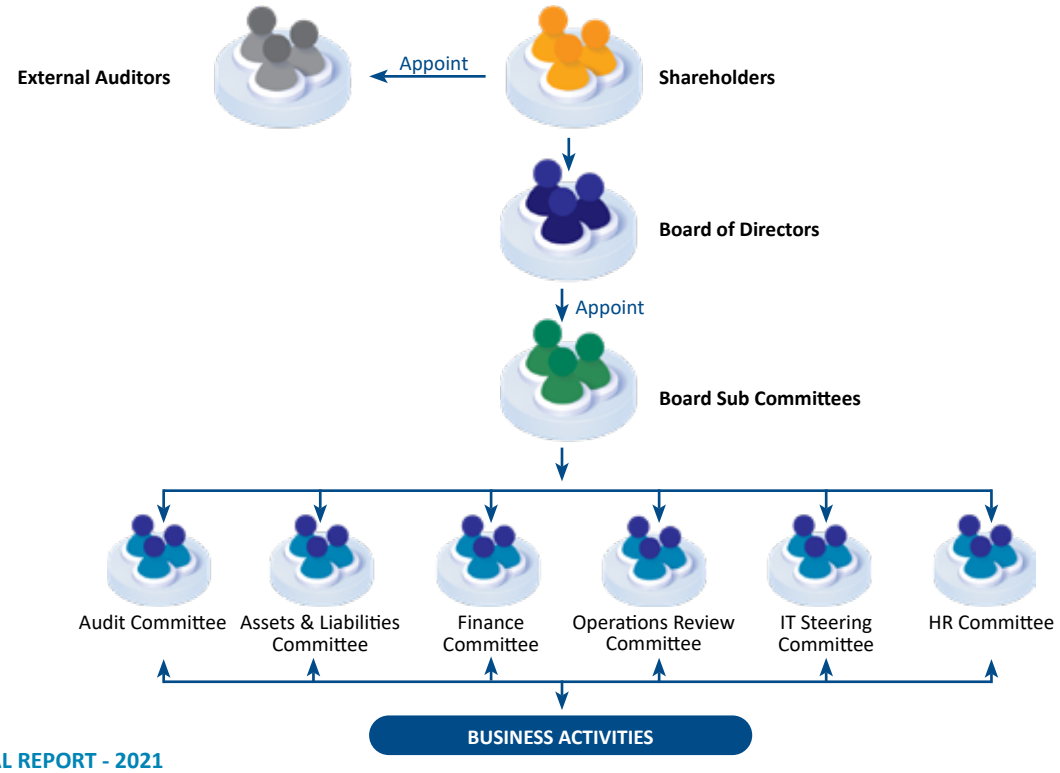
- Termination of Employment Act No. 45 of 1971
- Gratuity Act No. 12 of 1983
- Code of Best Practice on CG issued jointly by CA Sri Lanka and SEC – 2017
- Code of Conduct issued by LMFPA

Internal Governance Structure

The internal governance structure of BMIC is embedded within the organization 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. The Shareholders
2. The Board of Directors
3. Board appointed Sub-Committees
4. Employee Empowerment

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



Corporate Governance

Shareholders

BMIC's highest governing body is the Shareholders. BMIC has two Shareholders, namely, Berendina Stichting (BS) holding 75% shares, and Berendina Development Services (BDS) holding 25% shares. Shareholders exercise their influence through Annual General Meeting (AGM) and through resolutions. The AGM resolves:

- Adopting the Annual Report and the Audited Financial Statements
- Appointing the External Auditors
- Fixing Directors' Fees and Remunerations

Shareholders had a quarterly meeting with Directors to discuss progress, issues and challenges and actions to be taken to mitigate issues and challenges while sudden major issues and concerns were discussed at times required which was a useful strategy during turbulent times due to COVID panademic.

The Board of Directors

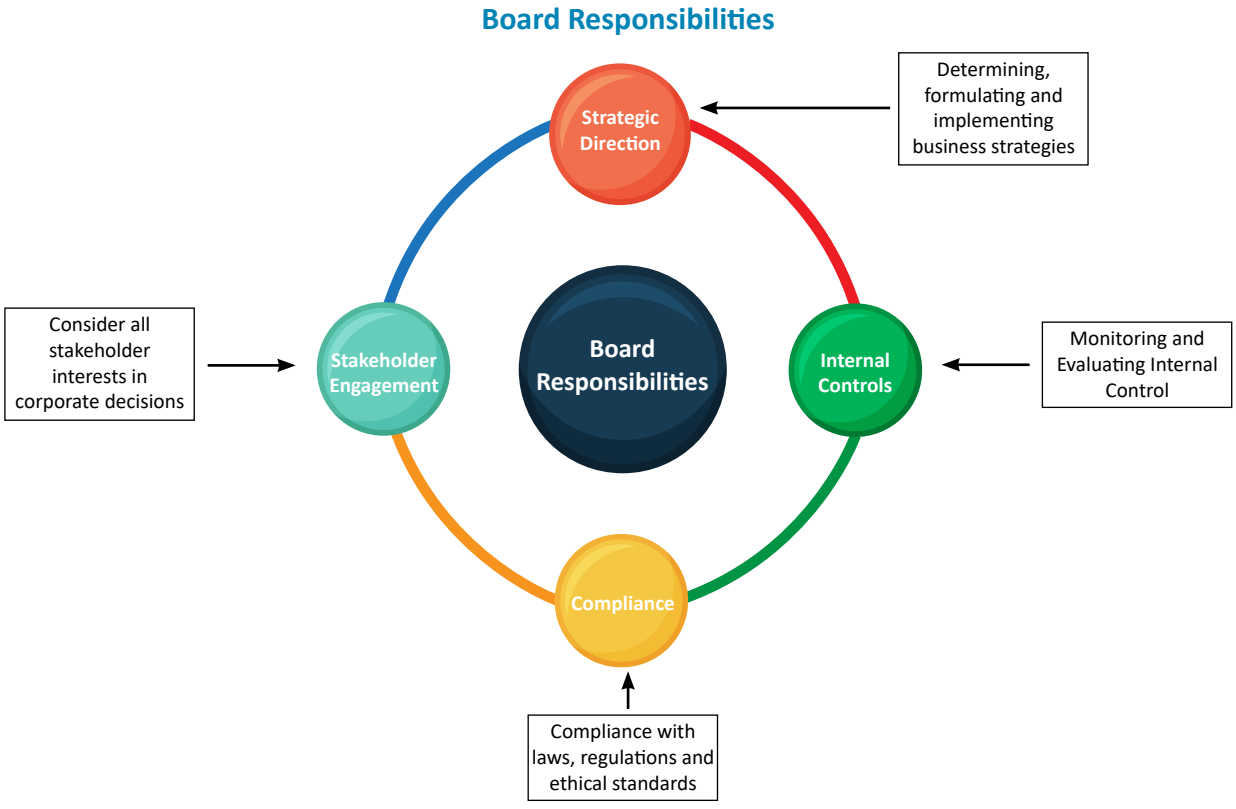
The Board of Directors of BMIC is committed towards achieving the Company strategy and ensures the practice of good corporate governance while maintaining transparency to our stakeholders including shareholders, customers, employees and relevant government authorities. In carrying out its responsibilities, the Board promotes a culture of openness and constructive dissent.

Board Responsibilities

Determining, formulating and implementing business strategies

The Board is responsible for determining, formulation and implementation of business strategies with the participation of the Corporate Management Team, with Area Managers and Branch Managers. Decisions are taken in a participatory manner. Developing and implementing the 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 Annual Business Plan is designed in line with the overall business strategy for the year based on the 5-year Business Plan. The Annual Business Plan and financial budget are approved by the Shareholders. The progress of the programs and financial statements are evaluated against the approved plan on a quarterly basis.

With the continuation of the COVID 19 pandemic effects the year 2021 also made it a very challenging year for BMIC. However, the company was able to perform well due to the timely strategic measures by the Board and corporate management. As the pandemic was not a new thing in 2021, BMIC was able to roll out strategies for client revival while achieving the defined objectives.



Corporate Governance

Considering the economic and market conditions, BMIC determined the strategic direction of the company and maintained effective alignment with operating environmental changes.

Monitoring and evaluating internal control

The Board of Directors is responsible for ensuring the adequacy and integrity of the organization's internal policies, procedures and controls. Board members regularly review the progress of the operations, and they monitor whether the internal controls, integrity of information and risk management policies are in place. Performance against strategies are being evaluated regularly and corrective adjustments are initiated when required. The internal audit team directly reports to the Audit Committee while the external auditors directly report to both local and foreign Shareholders, BDS and BS. In addition, external consultants are regularly engaged to advise upon and present a balanced view on the organization'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 its operations while taking relevant measures to comply with all applicable laws and regulations. The compliance review committee consisting of the Managing Director, an independent director and Compliance Officer is responsible to review all the compliances towards stakeholders in line with applicable laws, regulations and directions issued by the Monetary Board of the Central Bank of Sri Lanka and to report to the Board. The Company has appointed a tax consultancy firm to advise the company on implications of tax regulations and ensure the company meets the required tax compliances.

Consider all stakeholder interests in corporate decisions

The Board of Directors ensures minimal or no negative aspects toward stakeholders in the corporate decision-making process. The unique culture of BMIC ensures to consult all possible stakeholders before making decisions and consider their viewpoints and their interests when making corporate decisions. BMIC gives the opportunity to express their views and this participatory approach enables the company to make corporate decisions effectively.

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 (SLFRSs and LKASs) 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 LKASs) 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 pages 105 and 106 of this Report.

Access to advice and services of the Company Secretary

All the Directors have access to the advice and services of the Company Secretary. The Secretary ensures that Board procedures are followed and are complied 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 No. 7 of 2007 and only the Board has the authority to change the Secretary.

The Board Composition

As at 31st December 2021, the Board of Directors comprised of two Executive Directors and one Non-Independent Non-Executive Director and three Independent Non-Executive Directors.

Name of the Director	Date of Appointment	Status
1. Mr. G. J. Chandana	01st June 2017	Non-Executive Non-Independent Director
2. Mr. H. A. Anura	20th November 2014	Executive Director
3. Mr. T. D. C Fernando	20th November 2014	Executive Director
4. Ms. J. G. V. Shankar	16th June 2015	Non-Executive Independent Director
5. Mr. S. C. Fernando	9th May 2019	Non-Executive Independent Director
6. Ms. P. H. Andradi	9th May 2019	Non-Executive Independent Director

Corporate Governance

Changes of the Board

There were no changes to the composition of the Board during the year 2021.

Ms. Kumudini Saravanamuttu was appointed as an independent non-executive director of the Company with effect from 1st January 2022, as per section 3 of the Direction, No 6 of 2016 on Assessment of Fitness and propriety of Directors and Chief Executive Officer / General Manager. The Central Bank of Sri Lanka has granted prior approval for the said appointment on 26th November 2021.

Ms. Harshini Andradi tendered her resignation as an Independent Non-Executive Director of the Company with effect from 28th February 2022 due to her personal commitments. The Central Bank of Sri Lanka (CBSL) granted the prior approval for Ms. Harshini's resignation in terms of Direction No. 3.1 of the Microfinance Act Directions No. 02 of 2017 on Structural Changes.

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 independence of the Board decision making.

Board Skills

The Board is experienced in microfinance, banking, small enterprise development, social and livelihood development, socio economic development, financial management, marketing and other related fields, 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 decision making, the Board seeks independent professional advice for finance, tax, legal, HR and IT when deemed necessary.

Board Meetings

Attendance at Board Meetings	G.J. Chandana	H.A. Anura	T.D.C. Fernando	J.G.V. Shankar	S.C. Fernando	P.H. Andradi
Executive		√	√			
Non-Executive	√			√	√	√
Independent				√	√	√
Non-Independent	√	√	√			
25.02.2021	√	√	√	√	√	√
28.04.2021	√	√	√	√	√	√
29.06.2021 & 05.07.2021	√	√	√	√	√	√
30.08.2021 & 09.09.2021	√	√	√	√	√	√
29.10.2021, 16.11.2021 & 19.11.2021	√	√	√	√	√	√
29.12.2021 & 06.01.2022	√	√	√	√	√	√
02.07.2020 and 16.07.2020	√	√	√	√	√	√
26.08.2020	√	√	√	√	√	√
30.10.2020	√	√	√	√	√	√
28.12.2020 and 04.01.2021	√	√	√	√	√	√
√-**Present**						

Board Appointed Sub-Committees

Audit Committee (AC)

Audit Committee of BMIC is responsible to the BOD to ensure that there is a framework for accountability; for examining and reviewing all systems and methods of control both financial and otherwise including risk analysis and risk management; and for ensuring the company complies with all aspects of the law, relevant regulations and good practice. Further, the Audit Committee has several other key responsibilities such as recommending to the Board of Directors a framework of effective audit coverage, having reviewed the internal and external audit processes, reviewing and approving the internal audit plan, staffing and organization of the function, and meeting with internal auditors and management to discuss matters of concern that may arise and to ensure that regular audits are carried out on Operational and financial risks. The review of the external audit report is also a function of Internal Audit committee. The audit committee consists of 4 members appointed by the Board, with appropriate skills and expertise, of whom at least 2 members are external and independent of the company.

Corporate Governance

Assets and Liabilities Management Committee (ALCO)

The ALCO was formed by the Board of Directors for the purpose of assisting the Board of Directors with discharging its oversight responsibilities in overseeing all matters specified in the Terms of Reference. The Chairman and members were appointed as per the approved Terms of Reference. ALCO has no direct authority unless specifically given by the Board of Directors. The prime purpose of the ALCO is to oversee the assets & liability position, interest rate risk, liquidity, fund management and investment portfolio functions of the Company.

Finance Committee

The fundamental responsibilities of the Finance Committee are to oversee financial reporting and to oversee the processes and internal controls of the finance department. Moreover, the Committee is responsible to review the actions and judgements of management in relation to the periodic financial statements prepared to monitor the financial performance of the BMIC and to provide specific support to Board of BMIC before Annual audited financial statements are approved by the Board of BMIC. The Committee advises, and reports to the Board of BMIC. Further, the Finance Committee is authorized by the BMIC Board, to assist/monitor the implementation of appropriate processes to strengthen the internal controls in Finance Department and in financial reporting of BMIC. Membership of Finance Committee comprises minimum two Board members including minimum one Independent Board member (One of them to be appointed as Chairperson), Head of Finance and Finance Manager and Assistant Accountant (Secretary).

Operations Review Committee

Operations Review Committee was established with the intention of overseeing the Operational functions of the Company and to monitor the risks and controls of the existing Credit, EDS and Savings Operations, review proposals submitted for introduction of new products and processes or changes to current processes and recommend implementation of significant changes to the Board of Directors. Also, the Operations Committee shall review client grievances and remedial actions taken, on a periodic basis. The Operations Committee has the authority to decide on required changes to current processes to improve efficiency and controls. Also, the committee needs to study the changes in Macroeconomic factor and industry specific challenges, assess the impact on the organization and recommend appropriate action / strategies to the BOD to align the organization with any significant changes in the environment. The Operations Committee consists of 5 members including two Directors.

IT Steering Committee

BMIC established the IT steering committee with the objective of providing strategic direction and leadership to ensure that BMIC adopts best practices with regard to the use of ICT in the company. Accordingly, the IT Steering committee identifies appropriate ICT strategies for BMIC and provides recommendations to the Board of Directors with regard to ICT aspects of the organization which could benefit the organization with present and future business progress.

HR Committee

The key responsibilities of the HR Committee of BMIC are to review and make recommendations to the Board of Directors on HR Strategies and policies pertaining to staffing, compensation, benefits, workforce requirements and related issues of strategic importance that affect the key objectives of the organization. HR committee is also responsible to review and monitor the planned annual HR activities and provide necessary directions and guidance for effective implementation, to review and recommend major and critical structural and organizational changes to the Board, to review and monitor the implementation of staff training and capacity development plans to reach professional and career potential within the context of the strategic objectives of Berendina.

HR Committee includes three Directors, Head of HR and Manager - HR.

Corporate Governance

Attendance at Sub Committee Meetings							
	Date	G.J. Chandana	H.A. Anura	T.D.C. Fernando	J.G.V. Shankar	S.C. Fernando	P.H. Andradi
Audit Committee	10.03.2021 & 18.03.2021		√	√	√		√
	08.06.2021		√	√	√		√
	10.09.2021		√	√	√		√
	22.12.2021		√	√	√		√
Assets and Liabilities Committee	29.01.2021			√		√	√
	01.02.2021			√		√	√
	22.03.2021			√		√	√
	22.04.2021			√		√	√
	24.05.2021			√		√	√
	22.06.2021			√		√	√
	22.07.2021			√		√	√
	24.08.2021			√		√	√
	23.09.2021			√		√	√
	22.10.2021			√		√	√
	30.11.2021			√		√	√
	20.12.2021			√		√	√
Finance Committee	22.01.2021		√		√		√
	24.02.2021		√		√		√
	24.03.2021		√		√		√
	24.04.2021		√		√		√
	23.05.2021		√		√		√
	25.06.2021		√		√		√
	26.07.2021		√		√		√
	26.08.2021		√		√		√
	29.09.2021 & 04.10.2021		√		√		√
	28.10.2021		√		√		√
	29.11.2021		√		√		√
	23.12.2021		√		√		√

Attendance at Sub Committee Meetings							
	Date	G.J. Chandana	H.A. Anura	T.D.C. Fernando	J.G.V. Shankar	S.C. Fernando	P.H. Andradi
Operations Review Committee	19.01.2021		√	√			
	17.02.2021		√	√			
	17.03.2021		√	√			
	21.04.2021		√	√			
	28 & 30.06.2021		√	√			
	20.07.2021		√	√			
	25 & 27.08.2021		√	√			
	21.09.2021		√	√			
	21.10.2021		√	√			
	22.11.2021		√	√			
	21.12.2021		√	√			
IT Steering Committee	25.01.2021		√	√			
	22.02.2021		√	√			
	22.03.2021		√	√			
	23.04.2021		√	√			
	24.05.2021		√	√			
	22.06.2021		√	√			
	28.07.2021		√	√			
	24.08.2021		√	√			
	23.09.2021		√	√			
	22.10.2021		√	√			
	30.11.2021		√	√			
	24.12.2021		√	√			
HR Committee	11.01.2021	√	√	√			
	04.05.2021	√	√	√			
	20.08.2021	√	√	√			

Corporate Governance

Employee Empowerment

BMIC places its employees in the forefront for the growth and development of the organization. Policies, processes and systems are in place to ensure effective recruitment, development and retention of this vital stakeholder.

Senior management is 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 instil 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 in 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.

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 workplaces which are free from physical, verbal or sexual harassment. Women employees are treated with equal opportunities and are given a fair consideration at the time of the recruitments. BMIC also has a gender and anti- harassment policy within the company to ensure all the staff members are treated equally with respect.

Integrated Governance

Human Resource Governance

BMIC's human resource governance is designed in a manner that enables accessibility by any employee to every level of management. BMIC provides equal opportunity to staff at all levels of the organization'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 organization.

Performance Management

The Performance Management System is at the heart of many supportive human resource management processes such as learning and development, career development, succession planning, talent development and 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. BMIC has a policy to prioritize internal staff members for job openings. However, these were not possible in the year 2021 due to the pandemic.

Channels to Reach All Stakeholders of the Company

Principal Activities

The principal activities of the company consist of providing micro loan facilities for Business start-up, Business development, Asset Building, Agriculture, etc., together with Enterprise Development Services such as providing training and advice for micro and small entrepreneurs, and also Collateral Saving facilities. The aim of Berendina Micro Investments Company Limited (BMIC) is to increase income and living standards of poor and low-income communities in Sri Lanka by providing comprehensive micro finance solutions.

Financial Reporting

The Board of Directors is responsible for preparation and fair presentation of the Financial Statements in accordance with Sri Lanka Financial Reporting Standards (LKASs/SLFRSs).

Auditor's Report

The Auditor's Report on the Financial Statements of the BMIC is given on pages 111 and 120 of this Report.

Related Party Transactions

BMIC considers its Board of Directors as the key management personnel. Details of related party transactions are described in the Financial Statements of BMIC under the Note 26 on pages 132 to 133 of this Report.

Internal Control

"The Directors' statement on internal control" acknowledges their responsibility for a sound system of internal control which is given on Page 100 of this report.

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 BMIC has adequate resources to continue its operational existence for the foreseeable future.

Regulatory and Accounting Benchmarks

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

The Board of Directors also took all reasonable steps in ensuring that financial statements were prepared in accordance with the Sri Lanka Accounting Standards (SLFRSs/LKASs) 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 has fully complied with all the mandatory rules and regulations stipulated by the Microfinance Act No. 6 of 2016 and the directions issued by CBSL under the said Act and the Companies Act No. 7 of 2007.

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.

Risk Management Review

The risk management function of BMIC plays a pivotal role in the company and risk is being overviewed by the BOD of BMIC. The risk management process of BMIC has four key functions as follows:

1. Risk Identification

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

2. Risk Analysis

The risk assessment framework includes discussions with employees at all levels and departments of BMIC. The employees are requested to recognize what they perceive as key risks within their areas while gathering ideas on ways to effectively address or mitigate them. Further, information is gathered by the Board of Directors and Senior Management from various sources to assess the industry level risks. All the subcommittees look at different aspects of the risk exposures of BMIC. ALCO, Internal Audit and Finance Committees take a higher responsibility in risk management than other sub committees. 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. The internally developed risk matrix allows BMIC to analyze the current and potential risks in a systematic way. Overall risk assessment is based on aspects such as credit risk, market risk, strategic risk, operational risk and liquidity risk.

3. Risk Treatment

The history, culture, ethics, policies, ongoing compliance, and employee intent are some factors that are considered while assessing the risks' likelihood and impact. Categorizing the probability of risk occurrence has been identified using the scale minor, moderate or severe. Such rating has allowed BMIC to treat the risk as appropriate and transfer, reduce, accept and avoid the risks to protect BMIC from being exposed to reputation risk, aptitude risk, 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 expenses and similar matters. While some risks can be managed by the organization, 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 counterparty will fail to meet their obligations in accordance with agreed terms. This comprises counterparty 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. It is managed through the credit risk management framework approved by the Board.	• Strict evaluation of clients' credit worthiness with emphasis on payment capacity. • Obtaining client self-declaration on available loan facilities before issuing a new loan. This has helped to avoid over-indebtedness. • Special attention is given to the "Credit Assessment" criteria in the training curriculum, especially for Field Officers. • A comprehensive MIS function that supports a wide area of credit analysis, EDS, and other critical information analysis. • Obtaining CRIB clearance for bigger loans. • Consistent follow-up and strong recovery system that ensures and maintains a lower NPL. • Follow a robust delinquency management system. • Conducting monthly progress review meetings with branches. • Prioritizing build-up of Financial Literacy of clients.
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 loan receivables, and borrowings.	• The Board and the Sub Committees regularly monitor financial, economic and industry indicators to keep abreast of interest rate volatilities in order to minimize the impact on operational performance. • Maintain the balance between fixed and floating interest rates in the borrowing portfolio. • ALCO is monitoring and advising the management and BOD on how to mitigate market risks including interest rate risks. • Scenario planning and projections are regularly reviewed by the BOD to ensure BMIC follows most suitable strategies.
Strategic Risk	Strategic risks are typically internal and external events that affect the achievement of the strategic goals of the company. Strategic risks are severe as it affects both the short and long term. The Board has a responsibility to make sure all these types of risks are included in their key strategic discussions.	• The Board of Directors gathered and discussed particular matters that impact the organization and make decisions to mitigate such risks. The Board members contribute to key operational decisions also as and when required.
Reputation Risk	Reputation risk is a risk of loss resulting from damages to a firm's reputation, when the company fails to meet the expectations of stakeholders. Adverse events typically associated with reputation risk include ethics, safety, security, sustainability, quality, compliance 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 remedy financially.	• Monitoring and evaluating the compliance to regulatory, legal, and statutory requirements by the Board of Directors and Senior Managers. • Maintain and monitor compliance in accordance with the Microfinance Act No. 6 of 2016 and CBSL directions under the Act. • A separate communication department to handle the organization's corporate communication under the direct supervision of the Managing Director.

Risk Management Review

Identified Risk	Describe Identified Risk	Mitigation Activities
Reputation Risk		• Maintain a comprehensive client complaint handling process overseen by the Credit Manager at the Head Office. • Availability of whistleblowing mechanism implemented by an independent party for employees to make known any issue for the quick attention of the BOD.
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 ensure the availability of adequate funding to fulfill those needs at the appropriate time, both under normal and financially stressed conditions.	• Cash flows and projections are monitored on a weekly, monthly and annual basis. • Weekly analyze the variance in liquidity position. • Building up a good relationship with funding partners. • Vigilant deposit and borrowing monitoring and managing process. • Monitor and maintain the Liquidity Asset Ratio (LAR) as per the Central Bank directions.
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.	• A comprehensive operational manual is in place to maintain operational processes and procedures systematically. • Internal control procedures, policy documents, and guidelines are circulated and maintained at all branches. • Annually review all policies and procedures by the management team in consultation with the BOD and make amendments if necessary. • Internal control processes are audited by the internal audit team to mainly cover the scope of their liability of financial information, verify customers' loan outstanding balances, savings balances, safeguard assets, loan disbursement, recovery and documentation process. • Obtain daily and monthly data backup and regular system audits carried out by the internal audit team. • A financial and non-financial incentive system properly designed based on performance and having an attractive provident fund contribution. • Enabling a learning environment in which employees can identify their personal potential and achieve them successfully by sponsoring technical and soft skills training. • Proper grievance handling procedures and exit interviews to mitigate staff turnover. • The BOD and senior management continuously monitor the changes in statutory and regulatory requirements and ensure BMIC meets such requirements on time.

Internal Audit Committee Report

The Audit Committee of Berendina Micro Investments Company Limited assists the Board in its general oversight of financial reporting, internal controls and functions relating to internal and external audits.

The Audit Committee comprises two Independent Non-Executive Directors and two Executive Directors. It is chaired by an Independent Non-Executive Director, who conducts Committee proceedings in accordance with the Committee's Terms of Reference approved by the Board. The Manager Internal Audit acts as the Secretary to the Audit Committee.

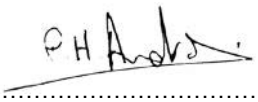
Manager Internal Audit ensures periodic audits are carried out in Branches and Head Office as planned. He also coordinates special audits when required and advises the Board of Directors on control of any weaknesses detected.

During the year 2021, the Audit Committee focused mainly on the following:

- Review internal and external audit reports and escalation of any critical issues to the Board of Directors.
- Review frauds and malpractices reported by the regional auditors and other staff members and recommend preventive measures.
- Ensuring guidelines on fraud control procedures and detection methods are updated regularly.
- Ensuring documentation of processes and auditing of Head Office departments.
- Review and approve the internal audit scope covering operational procedures.
- Ensuring implementation of mitigation actions to strengthen the internal controls under remote working environment during the Covid 19 lockdown periods.

The Audit Committee meets once a quarter, and in 2021 the Internal Audit Committee met in March, June, September and December.

The Internal Audit Department carried out 103 Branch Audits during the year, averaging approximately three audits per branch. In addition, client balance confirmation audits and Head Office review audits were also completed. During the year, field audits had to be limited due to lockdown from time to time. Therefore, during the lockdown periods, system-based audits were carried out. The Internal Audit department also conducted several investigations and special audits.



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P. Harshini Andradi
Chairperson
Internal Audit Committee

20 April 2021
Colombo

HR and Administration Committee Report

The HR and Admin committee met three times in 2021.

Composition of the Committee

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

Managing Director (Chairman of the committee)
Chairman
Deputy Managing Director
Head of HR & Administration
Assistant Manager, Human Resources

Committee Meetings

The committee meets on a quarterly basis as per the annual meeting calendar. The HR and Administration related matters are taken for discussion as per the meeting agenda. The decisions taken at the meeting and key discussion points and recommendations are submitted to the next immediate Board meeting for necessary information, advice and approval. In addition, the draft proposals of new HR developments, policy improvements and updates, key HR and Admin related issues, compliance requirements of activities are considered and guidance provided to the HR and Admin staff to finalize and implement the same in an effective manner.

Committee Functions & Responsibilities

During the year under review, the following functions and activities were carried out according to the TOR of the HR and Admin committee.

1. Review and make recommendations to the Board of Directors on HR related strategies and policies that pertain to staffing, compensation & remuneration, benefits, workforce requirements and other major areas.
2. Review and monitor the planned annual HR activities and provide necessary directions and guidance for effective implementation.
3. Review and recommend major and critical structural and organizational related changes to the BOD.
4. Review the progress of implementation of staff training and capacity development plans.
5. Asses the risks to which the HR functions are exposed and provide inputs and any other risks related to HRM that may arise from time to time.
6. Review of HR related activities, compliance and provide advice and directions to achieve set objectives and plans in line with best practices in HRM.

During 2021, HR committee was involved in developing the concept of staff relative policy, staff career path together with a grading policy for head office staff and a scheme for special payment for staff unable to get promotion to the next level in the career path. Also an effort was made to strengthen the whistleblower mechanism introduced during the previous year as an independent and transparent platform to motivate the staff for making complaints against any type of harassment, malpractices, frauds and resource misuse.

As in the previous year (2020), the HR committee made a significant contribution and continuous focus on safety, hygiene and well-being of staff against Covid – 19 pandemic situations and relevant implications due to work restrictions by providing various incentives, resource allocation and relief ensuring smooth work – safety balance. Allowing the staff to work from home at all possible times, payment of special transport allowances for use of hired vehicles for travelling to office, organizing motivational activities for staff during lockdown times, providing safety material and equipment for staff, timely payment of staff compensation and incentives were a few among many such initiatives.

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Hewa Athapaththuge Anura
Chairperson
Human Resource Committee

20th April 2022
Colombo

Financial Statements

Financial Calendar

Obtained a prime loan of LKR 20 Million from BDS	29-Jan-2021
Obtained a prime loan of LKR 10 Million from BDS	29-Jan-2021
Obtained a prime loan of LKR 18 Million from BDS	8-Feb-2021
Obtained a prime loan of LKR 75 Million from BDS	23-Feb-2021
Obtained a prime loan of LKR 18 Million from BDS	24-Mar-2021
Obtained a prime loan of LKR 42 Million from BDS	24-Mar-2021
Obtained a prime loan of LKR 30 Million from BDS	29-Mar-2021
Obtained a prime loan of LKR 5 Million from BDS	7-Apr-2021
Obtained a prime loan of LKR 30 Million from BDS	8-Apr-2021
Obtained a prime loan of LKR 30 Million from BDS	29-Apr-2021
Obtained a prime loan of LKR 35 Million from BDS	30-Apr-2021
Held the 5th Annual General Meeting of the Company	12-May-2021
Obtained a prime loan of LKR 30 Million from BDS	27-Oct-2021
Obtained a prime loan of LKR 20 Million from BDS	29-Oct-2021
Obtained a prime loan of LKR 90 Million from BDS	23-Nov-2021
Obtained a prime loan of LKR 30 Million from BDS	29-Nov-2021
Obtained a prime loan of LKR 80 Million from BDS	17-Dec-2021
Received LKR 28,623,512 as the half of the 2nd tranche of WPF Grant	22-Dec-2021
Obtained a prime loan of LKR 45 Million from BDS	29-Dec-2021

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 on pages 105 and 106 of the Annual Report.

As per the provisions of 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 the 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 Head of Finance prepares the Financial Statements. 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 2021; and
2. The financial performance of the Company for the financial year ended 31st December 2021.

The Financial Statements of the Company have been certified by the Chief Executive Officer, two Directors on behalf of the Board, and the Finance Manager.

The Board of Directors accepts the responsibility for 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;
3. All applicable Accounting Standards, as relevant, have been complied with; and
4. Financial statements of the company provide the required information as per the Microfinance Act No 6 of 2016.

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 has been under regular review by the Board of Directors. This comprises internal reviews, internal audits, 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 2021 are given on page 100 of the Annual Report, "Directors' Statement on Internal Control over Financial Reporting."

Directors are required to prepare the Financial Statements and provide the Company's External Auditor, Messrs KPMG, 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.

To the best of their knowledge and belief, the Directors 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
20 April 2022
Colombo

Directors' Statement on Internal Control Over Financial Reporting

Requirement

The 'Code of Best Practice on Corporate Governance 2017' (principle D.1.5) issued by the Institute of Chartered Accountants of Sri Lanka recommends that the Annual Report of the Company should contain a Statement on Internal Control.

Responsibility

Maintaining a sound system of internal controls to safeguard stakeholders and the Company's assets is the responsibility of the Board of Directors (the Board). The Board is responsible for the adequacy and effectiveness of the system of internal controls in place at Berendina Micro Investments Company Limited. The Board identifies significant risks on an ongoing basis and ensures the implementation of appropriate strategies to evaluate and manage identified risks. However, the system is designed to address the Company's key risk areas within an acceptable risk profile. Accordingly, the system of internal controls can only provide reasonable but not absolute assurance against material misstatements of financial information or financial losses or fraud.

Key Features of Process Adopted in Applying and Reviewing the Design and Effectiveness of the Internal Control System on Financial Reporting

The Board continuously assesses the adequacy of the internal controls by analysing fraud occurrences, errors and procedure violations reported by the Internal Audit Team, the External Auditors, Regulatory Authorities, Management and staff.

The Board has established Specialised Board sub-committees to ensure the effectiveness of the company's day-to-day operations and make sure that all such operations are performed in line with the corporate objectives and strategies. Policies and procedures covering functional areas of the Company are recommended by the Board-appointed Committees and are approved by the Board.

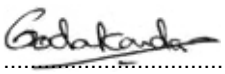
The Internal Audit Department of the Company monitors compliance with policies and procedures and their suitability of design and effectiveness on an ongoing basis. The annual audit plan is reviewed and approved by the audit committee.

The company continuously assesses system controls adequacy and works to improve any weaknesses. To enhance control mechanisms, new procedures are introduced, and existing procedures are modified periodically.

To ensure that the changes to the procedures and controls are adhered to, the verification of the same is incorporated into the quarterly audit scope approved by the Audit Committee. The frequency and scope of Branch Audits and Head Office Audits are determined based on the level of risks assessed. All significant findings identified by the Internal Audit Department are submitted to the Board Audit Committee for review at their periodic meetings. The Audit Committee reviews the internal control issues identified by the Internal Audit Department, the External Auditors and the management evaluates the effectiveness of the risk management and internal control systems.

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) and Companies Act No. 7 of 2007.



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Godakangdage Jagath Chandana
Chairman

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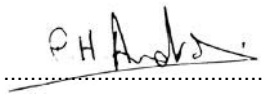
Hewa Athapaththuge Anura
Managing Director/CEO



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P Harshini Andradi
Chairperson Audit Committee

20 April 2021
Colombo

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

The Board of Directors of Berendina Micro Investments Company Limited (BMIC) has the pleasure of submitting the report by the Directors relating to the company's state of affairs together with the Audited Financial Statements of the Company for the year ended 31st December 2021.

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 PB 5235. The registered office of the Company is located at No. 44/3, 3rd Floor, Narahenpita Road, Nawala, Sri Lanka.

On 5th April 2019, the Monetary Board of the Central Bank of Sri Lanka issued the microfinance license to BMIC to carry on microfinance business under the Micro Finance Act No. 06 of 2016. As required under section 4 (5) of the Microfinance Act No. 06 of 2016, the license has been duly renewed for the year 2021.

Principle Activities of The Company and The Review of Performance During the Year

The principal activities of the Company during the year consisted of providing micro loan facilities for business startups, business development, asset building, agriculture, and dairy sector development combined with Enterprise Development Services (EDS) and accepting collateral deposits from clients. Berendina Micro Investments Company Limited aims to increase the income and living standards of poor and low-income communities in Sri Lanka with the objective of alleviating poverty in Sri Lanka.

The Chairman's Message on pages 18 to 21 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 is provided in the Financial Capital Section on pages 43 to 46 of this report.

Financial Statements

The Financial Statements of the Company have been prepared in accordance with Sri Lanka Accounting Standards comprising Sri Lanka Financial Reporting Standards laid down by the Institute of Chartered Accountants of Sri Lanka. The financial statements are duly signed by the Chief Executive Officer and two Directors on behalf of the Board and the Finance Manager. Financial Statements of the company are given on pages 105 to 142.

Auditor's Report

The Auditor's Report on the Financial Statements is provided in pages 105 and 106.

Accounting Policies and Changes During the Year

The Financial Statements of the Company have been prepared in accordance with Sri Lanka Financial Reporting Standards issued by the Institute of Chartered Accountants of Sri Lanka. The accounting policies adopted in preparation of Financial Statements are provided in pages 111 to 120.

	2021 LKR	2020 LKR
Gross Income	933,029,756	781,969,422
Net Interest Income	765,202,315	583,268,555
Profit Before VAT and Income Tax	204,919,317	81,176,814
Profit / (Loss)	69,380,052	10,990,026
Loans and Receivables	2,842,433,185	2,818,592,823
Total Assets	3,067,401,387	3,064,765,081
Total Equity	1,116,408,862	1,014,753,717

Taxation

As per Sri Lanka Accounting Standard - LKAS 12 (Income Taxes), tax expense is the aggregate amount included in determination of profit or loss for the period in respect of current and deferred taxation. Income tax expense is recognized in the statement of comprehensive income, except to the extent it relates to items recognized directly in equity or other comprehensive income in which case it is recognized in equity or in other comprehensive income. Details of taxation are presented in Note 2.7.1 to the financial statements.

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

Reserves

The reserves of the Company with the movements during the year are given in Note 20 to the financial statements.

Dividends

The company has not declared dividends during the year ended 31st December 2021 and for the year ended 31st December 2020.

Property, plant and equipment

The total capital expenditure on Property, Plant and Equipment of the company amounted to LKR 4,997,695 for the year ended 31st December 2021. The property, plant, and equipment details are presented in Note 13 to the Financial Statements.

Shareholding and Share Information

Berendina Stichting (BS) owns, 75% of the ownership of BMIC Berendina Development Services (BDS) owns 25% of the ownership.

Berendina Stichting (BS) is a foundation duly incorporated on 08 April 1987 with the objective of alleviation of poverty and the empowerment of marginalized and vulnerable communities. It is registered in the Kingdom of Netherlands under Book 2 of the Dutch Civil Code (Dutch Companies Act) and registered at the Company Registry of the Dutch Chamber of Commerce under No. 41206437. Its registered office is at Kingsfordweg 151, 1043 GR, Amsterdam, Netherlands. BS is the founder and main funder of Berendina organization in Sri Lanka.

BDS is the development arm of the Berendina group dedicated to uplifting the lives of economically inactive poor people in Sri Lanka. BDS has 100% dividend rights of BMIC ensuring the profits earned by BMIC will be utilized in Sri Lanka for uplifting the living standards of the poor and vulnerable communities in Sri Lanka by both BMIC and BDS.

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 76 and 77.

Mr. G Jagath Chandana – Chairman
Mr. H A Anura – Managing Director/CEO
Mr. T D Charith Fernando – Deputy Managing Director
Ms. J G V Shankar – Non-Executive Independent Director
Mr. S C Fernando – Non-Executive Independent Director
Ms. P Harshini Andradi – Non-Executive Independent Director (resigned w.e.f. 28th February 2022)
Ms. Kumudini Saravanamuttu – Non-Executive Independent Director (appointed w.e.f. 01.01.2022)

Directors' Remuneration

Directors' remunerations paid by the company are given under the Note 26.1.1 to the Financial Statements on page 132.

Interests register/ Directors' interest in transactions

In compliance with the Companies Act No. 07 of 2007, the Company Secretary, Corporate Services (Private) Limited maintains an interest register on behalf of the Company, which is available for inspection.

Directors' Responsibility of Financial Reporting

In terms of Sections 150 (1), 151,152 (1), and 153 (1) and (2) of the Companies Act No. 07 of 2007, the Board of Directors of the Company is responsible for the preparation of the Financial Statements of the Company which reflect a true and fair view of the financial position and performance of the Company.

Register of Directors and Secretaries

Company secretary of BMIC maintains the register of Directors and Secretaries which contains the present name and surname, former name or surname (if any), usual residential address and business occupation of each Director.

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

Outstanding Litigation

In the opinion of the Directors, there were no pending litigations of the company except under the normal course of business as of 31st December 2021, and no significant commitments existed in the company as of 31st December 2021.

Going Concern

The Board of Directors has reviewed the Company's business plans and is satisfied that the company has adequate resources to continue its operations in the foreseeable future. Financial statements of the company are prepared based on the assumption that the entity is a going concern and will continue in operation for the foreseeable future.

Auditors and Tax Consultants

Messrs KPMG, 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 and 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 132 to 133.

Donations

No donation was made during the financial year ended 31st December 2021.

Auditors' relationship or interest with the Company

Messrs. KPMG, Chartered Accountants served as the Auditors during the year under review. As far as the Directors are aware, the Auditors do not have any other relationship or interest in contracts with the Company.

Auditor's Remuneration

A total amount of LKR 1,592,705 is payable by the company to Auditors of the Company, Messrs. KPMG, Chartered Accountants for the year as audit fees and expenses.

Investment

Details of investments made by the Company as at 31st December 2021 are given in Note 11 to the Financial Statements on page 123.

Provisions

The basis adopted for provisioning is disclosed in Note 2.7.9 of the Financial Statements on page 119 of the financial statements.

Internal Control and Risk Management

The Board has taken necessary steps to ensure the 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, other regulations, the Company's accounting, and operational policies and send a report directly to the Board of Directors.

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 review this process from time to time through Internal Auditors.

Audit Committee, Finance Committee, and Assets and Liabilities Committee (ALCO) are subcommittees chaired by independent directors to monitor and mitigate risks of the company.

The Risk Management Report on pages 92 to 94 sets out the current management approach adopted by the Company to identify and manage risks.

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

Commitment and Contingencies

To the best of the 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

There were no material events occurring after the reporting date that require adjustment or disclosure in the financial statements of the Company other than the following events:

Ms. Kumudini Saravanamuttu was appointed as an Independent Non-executive Director of the Company with effect from 1st January 2022. As per section 3 of the Direction, No. 6 of 2016 on Assessment of Fitness and propriety of Directors and Chief Executive Officer / General Manager, the Central Bank of Sri Lanka has granted prior approval for the said appointment on 26th November 2021.

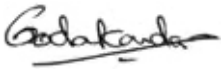
Ms. Harshini Andradi tendered her resignation as an Independent Non-Executive Director of the Company with effect from 28th February 2022 due to her personal commitments. The Central Bank of Sri Lanka (CBSL) granted prior approval for Ms. Andradi's resignation in terms of Direction No. 3.1 of the Microfinance Act Directions No. 02 of 2017 on Structural Changes.

Corporate Governance

The Company's Corporate Governance Report which states the compliances and the best practices adopted is on pages 84 to 91 of this report.

Annual General Meeting

The Annual General Meeting will be held as a hybrid meeting at Berendina Micro Investments Company Limited Head Office, No. 44/3, 3rd Floor, Narahenpita Road, Nawala, Sri Lanka, on 25th May 2022 at 1.30 p.m. The Notice of the Annual General Meeting appears on page 150 of the Annual Report. This Report is signed by two Directors and Secretary of the Company as an acknowledgment of content.



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Godakandage Jagath Chandana
Chairman

.....

Hewa Athapaththuge Anura
Managing Director/CEO

.....

Company Secretary
Corporate Services (Private) Limited

20 April 2021
Colombo

Independent Auditor's Report

KPMG
(Chartered Accountants)
32A, Sir Mohamed Macan Markar Mawatha,
P. 0. Box 186,
Colombo 00300, Sri Lanka.

Tel : +94 - 11 542 6426
Fax : +94 - 11 244 5872
+94 - 11 244 6058
Internet : www.kpmg.com/lk

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF BERENDINA MICRO INVESTMENTS COMPANY LIMITED

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Berendina Micro Investments Company Limited ("the Company"), which comprise the statements of financial position as at 31 December 2021, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2021, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards (SLFRSs).

Basis for Opinion

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

Other Information

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

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

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

KPMG, a Sri Lankan partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

M.R. Mihular FCA, T.J.S. Rajakariar FCA, Ms. S.M.B. Jayasekara ACA, G.A.U. Karunaratne FCA, R.H. Rajan FCA, P.Y.S. Perera FCA, W.W.J.C. Perera FCA, W.K.D.C Abeyrathne FCA, R.M.D.B. Rajapakse FCA, M.N.M. Shameel ACA, C.P. Jayatilake FCA, Ms. S. Joseph FCA, S.T.D.L. Perera FCA, Ms. B.K.D.T.N. Rodrigo FCA, Ms. C.T.K.N. Perera ACA
Principals - S.R.I. Perera FCMA(UK), LLB, Attorney-at-Law, H.S. Goonewardena ACA

Independent Auditor's Report

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

Report on Other Legal and Regulatory Requirements

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

CHARTERED ACCOUNTANTS
Colombo, Sri Lanka
30 March 2022

Statement of Comprehensive Income

For the year ended 31 December	Notes	2021 LKR	2020 LKR
Gross income	3	**933,029,756**	**781,969,422**
Interest income	4	906,928,659	749,042,337
Less: Interest and similar expenses	5	141,726,344	165,773,782
Net interest income		765,202,315	583,268,555
Fee, commission and other income	6	26,101,097	32,927,085
Total operating income		791,303,412	616,195,640
Less: Impairment charges for loans and receivables	12.2	167,070,782	147,517,006
Net operating income		624,232,630	468,678,634
Less:			
Personnel expenses	7	291,153,253	254,974,900
Depreciation of property, plant and equipment and right of use assets	13	20,297,401	21,240,137
Amortization of intangible assets	14	1,511,398	2,013,894
Other operating expenses	8	106,351,261	109,272,889
Operating profit before value added tax and nation building tax on financial services		204,919,317	81,176,814
Less:			
Value added tax on financial services		62,106,917	42,166,823
Over provision of value added tax on financial services		(131,773)	
Profit for the year before income tax		**142,944,173**	**39,009,991**
Less: Income tax expense	9	71,486,662	26,051,139
Profit / (loss) for the year		**71,457,511**	**12,958,852**
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Actuarial (loss) / gain on defined benefit plan	18	2,071,213	(2,734,480)
Deferred tax reversal / (charge) on other comprehensive income	15	(497,091)	765,654
Total other comprehensive income for the year		**1,574,122**	**(1,968,826)**
Total comprehensive income for the year before transferring to statutory reserve		**73,031,633**	**10,990,026**
Transfer to statutory reserve		(3,651,582)	(549,501)
Total comprehensive income for the year after transferring to statutory reserve		**69,380,051**	**10,440,525**
Basic earnings per share	31	0.94	0.17

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

Statement of Financial Position

As at 31 December	Notes	2021 LKR	2020 LKR
ASSETS			
Cash and cash equivalents	10	52,373,931	40,753,170
Balances with banks and financial institutions	11	6,870,218	8,078,184
Loans and receivables	12	2,842,433,185	2,818,592,823
Property, plant and equipment	13.1	14,532,618	17,853,917
Right-of-use assets	13.3	19,875,281	29,134,576
Intangible assets	14	2,387,425	2,398,319
Deferred tax assets	15	5,457,002	7,172,462
Other assets	16	123,471,727	140,781,630
Total assets		**3,067,401,387**	**3,064,765,081**
EQUITY AND LIABILITIES			
LIABILITIES			
Interest bearing borrowings	17	1,201,854,635	1,402,940,811
Post employment benefit obligation	18	31,737,907	30,608,310
Other liabilities	19	673,160,671	612,030,654
Saving deposits from customers		44,239,312	4,431,589
Total liabilities		**1,950,992,525**	**2,050,011,364**
EQUITY			
Funds and reserves	20	204,923,697	176,300,185
Stated capital	21	763,461,750	763,461,750
Statutory reserve		4,201,083	549,501
Retained earnings		143,822,332	74,442,281
Total equity		**1,116,408,862**	**1,014,753,717**
Total equity and liabilities		**3,067,401,387**	**3,064,765,081**

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

The Finance Manager certifies that the financial statements have been prepared in compliance with the requirements of the Companies Act No. 07 of 2007.

.....
Finance Manager

The Board of Directors is responsible for the preparation and presentation of these financial statements in accordance with Sri Lanka Accounting Standards (SLFRSs).

Approved and signed for and on behalf of the Board of Directors;

.....	.....	.....
Chief Executive Officer	**Director**	**Director**

30 March 2022
Colombo

Statement of Changes in Equity

As at 31 December	Unrestricted funds LKR	Restricted funds LKR	Stated capital LKR	Statutory reserve LKR	Retained earnings LKR	Total equity LKR
Balance as at 01 January 2020	865,800	149,348,645	763,461,750	-	64,001,756	977,677,951
Profit for the year					12,958,852	12,958,852
Transfer to statutory reserve				549,501	(549,501)	-
Other comprehensive income (Net of tax)	-	-	-	-	(1,968,826)	(1,968,826)
Received during the year	-	26,085,740	-	-	-	26,085,740
Balance as at 31 December 2020	**865,800**	**175,434,385**	**763,461,750**	**549,501**	**74,442,281**	**1,014,753,717**
Profit for the year	-	-	-	-	71,457,511	71,457,511
Transfer to statutory reserve	-	-	-	3,651,582	(3,651,582)	-
Other comprehensive income (Net of tax)	-	-	-		1,574,122	1,574,122
Received during the year	-	28,623,512	-	-	-	28,623,512
Balance as at 31 December 2021	**865,800**	**204,057,897**	**763,461,750**	**4,201,083**	**143,822,332**	**1,116,408,862**

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

Statement of Cash Flows

For the year ended 31 December	Notes	2021 LKR	2020 LKR
Cash flows from operating activities			
Profit before tax		142,944,173	39,009,991
Adjustments for:			
Depreciation of property, plant and equipment and right-of-use assets	13	20,297,401	21,240,137
Amortization of intangible assets	14	1,511,398	2,013,894
Impairment charges for loans and receivables	12.2	167,070,782	147,517,006
Interest expense	17.1	134,356,643	158,141,024
Interest expenses on right-of-use assets		4,245,391	5,293,784
Net foreign exchange		-	7,393
Loss / (gain) on fixed assets disposal		11,042	1,123
Charges for defined benefit liability	18	6,928,327	7,293,701
VAT on financial service charges		62,106,917	42,166,823
Operating cash flows before working capital changes		**539,472,074**	**422,684,876**
Changes in operating assets and loans & receivables		(173,601,242)	(193,487,259)
Changes in operating liabilities		35,674,411	20,092,783
VAT and NBT payment		(74,545,059)	(40,612,037)
Gratuity payments		(3,727,517)	(1,885,397)
Interest paid		(135,622,976)	(147,161,073)
Income tax payment		(23,592,132)	(9,254,995)
Net cash flows generated from operating activities		**164,057,559**	**50,376,898**
Cash flows from investing activities			
Purchase of property, plant and equipment	13.1	(4,977,695)	(5,001,898)
Purchase of intangible assets	14	(1,500,504)	-
Sale proceeds on fixed assets disposal		4,751	-
Net investment made in fixed deposits		1,207,966	48,011,965
Net cash flows (used in) / generated from investing activities		**(5,265,482)**	**43,010,067**
Cash flows from financing activities			
Net capital repayments of borrowings		(199,819,842)	(182,845,723)
Lease payments		(15,782,709)	(15,573,015)
Proceeds from customers deposit		39,807,723	4,077,278
Proceeds from funds	20	28,623,512	26,085,740
Net cash flows used in financing activities		**(147,171,316)**	**(168,255,720)**
Net decrease in cash and cash equivalents during the year		**11,620,761**	**(74,868,755)**
Cash and cash equivalents at the beginning of the year		40,753,170	115,621,925
Cash and cash equivalents at the end of the year	10	**52,373,931**	**40,753,170**

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

Notes to the Financial Statements

1. Reporting entity

1.1 General information

Berendina Micro Investments Company Limited ("the Company") is a public limited liability company incorporated in and domiciled in Sri Lanka under Companies Act No. 07 of 2007. It is a licensed microfinance company approved to carry on microfinance business, by the Monitory Board of the Central Bank of Sri Lanka under the Microfinance Act No. 06 of 2016.

The registered office of the Company 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 business start-up, business development, asset building, agriculture, diary etc. combined with Enterprise Development Services such as training and advice for micro and small entrepreneurs and accepting collateral deposits from its customers. The aim of Berendina Micro Investments Company Limited is to increase income and living standards of poor and low-income communities in Sri Lanka.

The Monetary Board of the Central Bank of Sri Lanka issued the license to the Company to carryon microfinance business on 5 April 2019. As required under section 4 (5) of the Microfinance Act No. 06 of 2016, the license has been renewed duly and timely.

1.3 Parent entity and changes in ownership of the Company

Berendina Stichting (BS), Berendina Development Services (Guarantee) Limited (BDS) and Berendina Micro Investments Company Limited (BMIC) entered into a shareholders' agreement on 11 November 2019 to transfer 75% of legal ownership of BMIC to BS.

In accordance with this agreement on 14 January 2020, BMIC converted seventy-five percent (75%) of its issued shares held by BDS into a special class of shares (Class A shares) which do not have dividend rights, and the same was transferred by BDS to BS on 16 January 2020 on receipt of consideration for the same on 14 January 2020.

The Company's new parent undertaking Berendina Stichting (BS) is a foundation duly incorporated on 08 April 1987 with the objective of alleviation of poverty and the empowerment of marginalized and vulnerable communities. It is registered in the Kingdom of Netherlands under Book 2 of Dutch Civil Code (Dutch Companies Act) and registered at the Company Registry of the Dutch Chamber of Commerce under No. 41206437. Its registered office is at Kingsfordweg 151, 1043 GR, Amsterdam, Netherland.

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 "SLFRSs") 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.

2.2 Comparative information

The accounting policies have been consistently applied by the Company and are consistent with those used in the previous period.

2.3 Responsibility for financial statements

The Management is responsible for the preparation and presentation of the financial statements in accordance with Sri Lanka Accounting Standards and as per the provisions of the Companies Act No. 07 of 2007.

This responsibility includes; designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

2.4 Approval of financial statements by the board of directors

The financial statements of the Company as at and for the year ended 31 December 2021 were authorized for issue by the board of directors in accordance with the resolution of the directors on 30 March 2022.

Notes to the Financial Statements

2.5 Basis of measurement

The financial statements of the Company have been prepared on the historical cost basis, except for the following material items in the statement of financial position.

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

2.6 Significant accounting judgments, estimates and assumptions

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

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

Coronavirus (COVID-19) pandemic

The ongoing COVID-19 pandemic has increased the estimation uncertainty in the preparation of these financial statements. The estimation uncertainty is associated with the extent and duration of the expected economic downturn (and forecasts for key economic factors including GDP, employment and house prices). This includes the disruption to capital markets, deteriorating credit, liquidity concerns, increasing unemployment, declines in consumer discretionary spending, reductions in production because of decreased demand, and other restructuring activities.

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

2.6.1 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.

Further information about the impact of COVID-19 is included in Note 32 to the financial statements.

2.6.2 Impairment losses on loans and receivables

The Company adopts SLFRS 09 for impairment provision for its loan portfolio. Loss allowances for loans and receivables are always measured at an amount equal to lifetime ECLs.

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

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

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

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

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

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

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

Notes to the Financial Statements

Measurement of ECLs

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

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

Credit-impaired financial assets

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

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

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

Presentation of allowance for ECL in the statement of financial position

Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets.

For debt securities at FVOCI, the loss allowance is charged to profit or loss and is recognized in OCI.

Write-off

The gross carrying amount of a financial asset is written off when the Company has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. For individual customers, the Company has a policy of writing off the gross carrying amount when the financial asset is 730 days past due based on historical experience of recoveries of similar assets (Less than 730 days past due is also considered in certain cases where Management determines based on its judgments on recoverability). However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Company's procedures to recovery of amounts due.

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

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

2.6.3 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.

2.6.4 Useful lives of property plant and 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.

2.6.5 Useful lives of intangible assets

The Company reviews the residual values, useful lives and methods of amortization of assets as at each reporting date. Judgment by the Management is exercised in the

Notes to the Financial Statements

estimation of these values, rates, methods and hence they are subject to uncertainty.

2.7 Significant accounting policies

A number of new standards are effective from 01 January 2021, but they do not have a material effect on the financial statements.

The accounting policies set out below have been applied consistently to all periods presented in the financial statements of the Company, unless otherwise indicated. These accounting policies have been applied consistently by the Company.

2.7.1 Taxation

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

a) Current taxes

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

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

b) Deferred taxation

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

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

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

Temporary differences in relation to a right- of - use asset and lease liability for a specific ease are regarded as a net package (the lease) for the purpose of recognizing deferred tax

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

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

c) Value added tax on financial services (VAT on FS)

VAT on Financial Services is calculated in accordance with the amended VAT Act No. 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%.

2.7.2 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.

Notes to the Financial Statements

2.7.3 Property, plant and equipment

Cost

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

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

Depreciation

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

The estimated useful lives of property, plant and equipment are as follows;

The class of intangible assets	:	Useful life
Furniture and fittings	:	5 Years
Office equipment	:	8 Years
Computers equipment	:	4 Years
Motor vehicle	:	4 Years

De-recognition

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

2.7.4 Lease

Definition of a lease

The Company assesses whether a contract is or contains a lease based on the definition of a lease. At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company uses the definition of a lease in SLFRS 16.

As a lessee

At commencement or on modification of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices. However, for the leases of property the Company has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right to use asset is measured at cost less any accumulated depreciation, any accumulated impairment and less adjusted for re-measurement of the lease liability.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Company by the end of the lease term or the cost of the right-of-use asset reflects that the Company will exercise a purchase option . In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

Notes to the Financial Statements

The Company determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

Lease payments included in the measurement of the lease liability comprise the following

- Fixed payments, including in-substance fixed payments;
- Variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- Amounts expected to be payable under a residual value guarantee; and
- The exercise price under a purchase option that the Company is reasonably certain to exercise, lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, if the Company changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in statement of other comprehensive income if the carrying amount of the right; of-use asset has been reduced to zero.

The Company presents right-of-use- assets that do not meet the definition of investment property in right-of-use- assets and lease creditor in other liabilities in the statement of financial position.

2.7.5 Financial instruments

Recognition and initial measurement

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

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

Financial assets - Classification and subsequent measurement

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

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

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

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

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

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

Financial assets - Business model assessment

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

Notes to the Financial Statements

The information considered includes:

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

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

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

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

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

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

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

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

Notes to the Financial Statements

Financial assets - Subsequent measurement and gains and losses

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

2.7.6 Saving deposits from customers

In June 2019, the Company commenced accepting collateralized savings deposits in accordance with Direction No. 01 of 2019 issued by the Monetary Board of the Central Bank of Sri Lanka under Section 11 of the Microfinance Act No. 06 of 2016.

The compulsory saving deposit product was introduced to new loan clients as a pilot project in two of the branches in 2019. During 2020, it was further extended to another five branches. Further, with effect from 1st January 2021 collateralized savings the deposits was implemented in all the branches for all new loans. The customers were required to save LKR 200 per month (It was LKR 100 until February 2020) in their savings accounts. Monthly deposit to the saving account is collected along with the normal monthly loan instalment. The initial collateralized savings deposits of 5% and 10% introduced only for individual loans apart from monthly contribution of 5%.

Saving deposits are initially recognized at fair value net of transaction costs. Subsequent to initial recognition, deposits are measured at their amortized cost using the effective interest rate (EIR) method. The interest paid/ payable on these deposits is recognized in the statement of comprehensive income.

2.7.7 Intangible assets

Basis of recognition

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

Basis of measurement

Intangible assets acquired separately are measured as initial recognition at cost. Following initial recognition intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. The useful life of intangible assets is assessed to be either finite or indefinite. Intangible assets with finite useful life are amortized over the useful life and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

The amortization period and the method for an intangible asset with a finite useful life is reviewed at least at each financial year end. Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash generating unit level.

Subsequent expenditure

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

De-recognition

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

Notes to the Financial Statements

Amortization

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates. The amortization expenses on intangible assets with finite lives are recognized in the statement of comprehensive income.

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

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

2.7.8 Post-employment benefit obligations

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.

The rate of interest, salary incremental rate, staff turnover and retirement age have been adjusted in the gratuity computation. Actuarial gains and losses for defined benefit plans are recognized in full in the period in which they occur in other comprehensive income.

The gratuity liability is not externally funded.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefits that relates to past service or the gain or loss on curtailment is recognized immediately in profit or loss. The Company recognizes gain or losses on the settlement of a defined plan when the settlement occurs

Defined contribution plans - Employees' Provident Fund (EPF) and Employees' Trust Fund (ETF)

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

2.7.9 Provisions

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

2.7.10 Other non-financial assets

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

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.

2.7.11 Other non-financial liabilities

Other non-financial liabilities are recognized at their nominal amount.

2.7.12 Revenue recognition

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

Notes to the Financial Statements

Interest income and expenses

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

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

Fee and commission income

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

Other income

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

2.7.13 Expenses recognition

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

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

Lease payments associated to the underlying asset is low value, short term contract or no contract are recognized as an expense under the operating lease expenses on either a straight-line basis or another systematic basis over the lease term. Interest cost of the right to use asset is recognized as a finance.

2.7.14 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.

2.7.15 Related party disclosures

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

2.7.16 Commitments and contingencies

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

2.8 Effect of Sri Lanka Accounting Standards issued, but not effective

The new amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Company's Financial Statements are disclosed below. The Company intends to adopt these standards, if applicable, when they become effective

- Amendments to "Property, Plant & Equipment" (LKAS 16): Proceeds before Intended Use
- Amendments to ''Business Combinations'' (SLFRS 3): Updating a reference to conceptual framework
- SLFRS 17 Insurance Contracts and amendments to SLFRS 17 Insurance Contracts.
- Classification of Liabilities as Current or Non – current (Amendments to LKAS 1).
- COVID-19-Related Rent Concessions (SLFRS 16)
- Definition of Accounting Estimates (Amendments to LKAS 8).
- Annual Improvements to SLFRS Standards 2018-2020

3. GROSS INCOME

For the year ended 31 December	Notes	2021 LKR	2020 LKR
Interest income	4	906,928,659	749,042,337
Fee, commission and other income	6	26,101,097	32,927,085
Gross income		**933,029,756**	**781,969,422**

4. INTEREST INCOME

For the year ended 31 December	2021 LKR	2020 LKR
Interest from loans and advances	902,649,024	739,906,797
Interest income from bank deposits	4,279,635	9,135,540
	906,928,659	**749,042,337**

5. INTEREST AND SIMILAR EXPENSES

For the year ended 31 December	Notes	2021 LKR	2020 LKR
Interest on long term borrowings	17.1	134,356,643	158,141,024
Bank charges		1,489,685	1,294,446
Guarantee fee for loans		-	297,924
Exchange loss and loan processing charges		-	61,393
Interest on staff security fund		531,296	632,987
Interest on customer deposits		1,103,329	52,224
Interest expense on right-of-use assets		4,245,391	5,293,784
		141,726,344	**165,773,782**

6. FEE, COMMISSION AND OTHER INCOME

For the year ended 31 December	Notes	2021 LKR	2020 LKR
Written-off loans recoveries		13,363,623	720,412
Enterprise Development Service (EDS) income		5,100,762	15,245,250
Miscellaneous income	6.1	7,636,712	16,961,423
		26,101,097	**32,927,085**

6.1 MISCELLANEOUS INCOME

For the year ended 31 December	2021 LKR	2020 LKR
Grant income from Berendina Stichting	6,867,892	5,406,601
EDS coupon clearing income	-	9,545,600
Other miscellaneous income	768,820	2,009,222
	7,636,712	**16,961,423**

7. PERSONNEL EXPENSES

For the year ended 31 December	Notes	2021 LKR	2020 LKR
Salaries and other benefits		251,723,443	221,622,716
Defined contribution plan-EPF and ETF		32,501,483	26,058,483
Defined benefit plan-Gratuity	18	6,928,327	7,293,701
		291,153,253	**254,974,900**

8. OTHER OPERATING EXPENSES

For the year ended 31 December	2021 LKR	2020 LKR
Office administration and establishment expenses	99,845,689	97,986,629
Enterprise Development Service (EDS) expenses	2,152,427	6,893,483
Professional and legal expenses	2,760,440	2,899,262
Auditor's remuneration	1,592,705	1,493,515
	106,351,261	**109,272,889**

9. INCOME TAX EXPENSE

For the year ended 31 December	Notes	2021 LKR	2020 LKR
Current tax		74,354,703	27,686,988
(Over) / Under provision of current taxes		(4,086,410)	1,309,967
Deferred tax charge/(reversal)	15	1,218,369	(2,945,816)
		71,486,662	**26,051,139**

9.1 TAXABLE INCOME

For the year ended 31 December	2021 LKR	2020 LKR
Accounting profit before tax	142,944,173	46,508,028
Aggregated disallowed items	262,074,125	77,014,370
Aggregated allowable items	(95,207,036)	(24,640,296)
Adjusted profit from trade	309,811,262	98,882,102
Total statutory income	**309,811,262**	**98,882,102**
Taxable income	**309,811,262**	**98,882,102**

9.2 STATUTORY TAX RATE

Income tax rate @	24%	28%
Tax liability for the year	74,354,703	27,686,989
Current income tax expenses	**74,354,703**	**27,686,989**

As per the announcement dated 12 February 2020, income tax rate applicable has been reduced to 24% with effect from 01 January 2020. However, as the said amendment enacted in 2021, hence the current income tax expense was calculated at the rate of 28% for the year ended 31 December 2020 and 24% for the year ended 31 December 2021.

10. CASH AND CASH EQUIVALENTS

As at 31 December	2021 LKR	2020 LKR
Petty cash	173,047	107,192
Cash in hand	3,526,061	2,848,862
Cash at bank	48,674,823	37,797,116
Cash and cash equivalents for the purpose of statement of cash flows	**52,373,931**	**40,753,170**

11. BALANCES WITH BANKS AND FINANCIAL INSTITUTIONS

As at 31 December	2021 LKR	2020 LKR
Sri Lanka Savings Bank	-	3,215,250
Hatton National Bank	6,728,233	4,450,685
Interest receivables	141,985	412,249
	6,870,218	**8,078,184**

12. LOANS AND RECEIVABLES

As at 31 December	Notes	2021 LKR	2020 LKR
Loan receivables	12.1	3,133,464,058	3,055,559,474
Less : Collective allowance for impairment	12.2	(291,030,873)	(236,966,651)
		2,842,433,185	**2,818,592,823**

12.1. LOANS AND RECEIVABLES - ANALYSIS BY PRODUCT

As at 31 December	2021 LKR	2020 LKR
Income generation loans	1,966,501,848	2,056,806,765
Assets building loans	1,128,415,600	950,495,299
Staff loan	15,340,091	18,119,951
Interest receivables	23,206,519	30,137,459
	3,133,464,058	**3,055,559,474**

12.2. MOVEMENT IN IMPAIRMENT CHARGE DURING THE YEAR

As at 31 December	2021 LKR	2020 LKR
Balance as at 01 January	236,966,651	229,906,299
Written off during the year	(113,006,560)	(140,456,654)
Charge for the year	167,070,782	147,517,006
Balance as at 31 December	**291,030,873**	**236,966,651**

12.3. MOVEMENT IN IMPAIRMENT CHARGE DURING THE YEAR 2021

As at 31 December	Stage 01 LKR	Stage 02 LKR	Stage 03 LKR	Total ECL LKR
Balance as at 01 January	29,782,294	22,213,164	184,971,193	236,966,651
Written off during the year	-	-	(113,006,560)	(113,006,560)
Charge for the year	140,794,612	(19,332,657)	45,608,827	167,070,782
Balance as at 31 December	**170,576,906**	**2,880,507**	**117,573,460**	**291,030,873**

13. PROPERTY, PLANT AND EQUIPMENT AND RIGHT-OF-USE ASSETS

13. 1. PROPERTY, PLANT AND EQUIPMENT

As at 31 December 2021	Office Equipment LKR	Computers and Network LKR	Furniture and Fittings LKR	Motor Vehicle LKR	Total 2021 LKR
Cost					
Balance as at 01 January 2020	10,567,285	22,099,963	18,820,543	23,095,000	74,582,791
Additions	1,177,274	3,553,796	64,835	181,790	4,977,695
Scrap and disposals	(160,811)	-	(155,782)	-	(316,593)
Balance as at 31 December 2021	**11,583,748**	**25,653,759**	**18,729,596**	**23,276,790**	**79,243,893**
Accumulated depreciation					
Balance as at 01 January 2020	6,374,912	17,013,932	15,655,208	17,684,822	56,728,874
Charge for the year	1,174,830	2,859,421	1,424,629	2,824,321	8,283,201
Accumulated depreciation on scrap and disposed assets	(145,031)	-	(155,769)	-	(300,800)
Balance as at 31 December 2021	**7,404,711**	**19,873,353**	**16,924,068**	**20,509,143**	**64,711,275**
Net book value as at 31 December 2021	**4,179,037**	**5,780,406**	**1,805,528**	**2,767,647**	**14,532,618**

As at 31 December 2020	Office Equipment LKR	Computers and Network LKR	Furniture and Fittings LKR	Motor Vehicle LKR	Total 2020 LKR
Cost					
Balance as at 01 January 2019	10,043,283	21,716,356	18,808,668	19,220,000	69,788,307
Additions	524,002	591,021	11,875	3,875,000	5,001,898
Scrap and disposals	-	(94,053)	-	-	(94,053)
Adjustments: Classification error corrections	-	(113,361)	-	-	(113,361)
Balance as at 31 December 2020	**10,567,285**	**22,099,963**	**18,820,543**	**23,095,000**	**74,582,791**
Accumulated depreciation					
Balance as at 01 January 2019	5,148,333	14,127,671	13,300,246	15,428,008	48,004,258
Charge for the year	1,226,579	3,092,552	2,354,962	2,256,814	8,930,907
Accumulated depreciation on scrap and disposed assets	-	(92,930)	-	-	(92,930)
Adjustments: Classification error corrections	-	(113,361)	-	-	(113,361)
Balance as at 31 December 2020	**6,374,912**	**17,013,932**	**15,655,208**	**17,684,822**	**56,728,874**
Net book value as at 31 December 2020	**4,192,373**	**5,086,031**	**3,165,335**	**5,410,178**	**17,853,917**

13.2

The value of fully depreciated assets as at 31 December 2021 is Rs. 55,738,597/- (2020 : Rs. 36,814,338/-).

13.3. RIGHT-OF-USE ASSETS

	2021 LKR	2020 LKR
Cost		
Balance as at 01 January	52,554,870	44,645,433
Additions	2,754,905	7,909,437
Balance as at 31 December	55,309,775	52,554,870
Less: Accumulated amortization		
Balance as at 01 January	23,420,294	11,111,064
Charged for the year	12,014,200	12,309,230
Balance as at 31 December	**35,434,494**	**23,420,294**
Net book value as at 31 December	**19,875,281**	**29,134,576**

14. INTANGIBLE ASSETS

As at 31 December	2021 LKR	2020 LKR
Cost		
Balance as at 01 January	10,825,856	10,712,495
Additions	1,500,504	-
Adjustments: Transferred from property, plant and equipment	-	113,361
Balance as at 31 December	**12,326,360**	**10,825,856**
Amortization		
Balance as at 01 January	8,427,537	6,300,282
Amortization for the year	1,511,398	2,013,894
Adjustments: Transferred from property, plant and equipment	-	113,361
Balance as at 31 December	**9,938,935**	**8,427,537**
Net book value as at 31 December	**2,387,425**	**2,398,319**

15. DEFERRED TAXATION

As at 31 December	Statement of Financial Position		Income Statement		Other Comprehensive Income	
	2021 LKR	2020 LKR	2021 LKR	2020 LKR	2021 LKR	2020 LKR
Deferred tax liability						
Accelerated depreciation allowances for tax purposes on property, plant and equipment and intangible assets	2,096,555	1,190,207	(906,348)	75,335	-	-
Net right-of-use of assets	63,541	207,658	144,117	457,534	-	-
	2,160,096	1,397,865	(762,231)	532,869	-	-
Deferred tax assets						
Post employment benefit obligation	7,617,098	8,570,327	(456,138)	2,412,947	(497,091)	765,654
	7,617,098	8,570,327	(456,138)	2,412,947	(497,091)	765,654
Deferred tax reversal / (charge)			**(1,218,369)**	**2,945,816**	**(497,091)**	**765,654**
Net deferred tax assets	**5,457,002**	**7,172,462**				

	Property, Plant and Equipment LKR	Post employment benefit	Net right-of-use of assets LKR	Total LKR
As at 01 January 2021	(1,190,207)	8,570,327	(207,658)	7,172,462
Charge (credit) to profit or loss for the year	(776,870)	(817,053)	123,529	(1,470,394)
Reversal of deferred tax	(129,478)	(136,176)	20,588	(245,066)
As at 31 December 2021	**(2,096,555)**	**7,617,098**	**(63,541)**	**5,457,002**

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

The deferred tax asset / (liability) recognized on temporary differences are as follows;

	2021		2020	
	Temporary difference LKR	Tax effect LKR	Temporary difference LKR	Tax effect LKR
On property, plant and equipment and intangible assets	(8,735,646)	(2,096,555)	(4,250,739)	(1,190,207)
On post employment benefit obligation	31,737,908	7,617,098	30,608,311	8,570,327
On net right-of-use of assets	(264,753)	(63,541)	(741,637)	(207,658)
	22,737,509	**5,457,002**	**25,615,935**	**7,172,462**

The deferred tax has been calculated at the rate of 24% and 28% for the year ended 31 December 2021 and 2020 respectively. The deferred tax rate change from 28% to 24% has been adjusted in 2021 which is amounting Rs.245,066.

16. OTHER ASSETS

As at 31 December	2021 LKR	2020 LKR
Other financial assets		
Refundable deposit	2,582,140	2,586,640
Other receivable	578,889	3,106,754
EDS coupon receivable	112,716,924	125,107,586
	115,877,953	**130,800,980**
Other non-financial assets		
Pre-paid expenses	6,720,314	5,759,050
Other receivable and stationary stock	873,460	4,221,600
	7,593,774	**9,980,650**
	123,471,727	**140,781,630**

17. INTEREST BEARING BORROWINGS

As at 31 December	2021 LKR	2020 LKR
Borrowings from banks	31,825,592	124,654,041
Borrowings from financial and other institutions	1,170,029,043	1,278,286,770
	1,201,854,635	**1,402,940,811**

17.1. MOVEMENT IN INTEREST BEARING BORROWINGS

As at 31 December	2021 LKR	2020 LKR
Banks borrowings		
Balance as at 01 January	124,654,041	333,423,610
Loan repayments	(98,889,231)	(241,298,171)
Loan interest charged	6,060,781	32,528,602
Balance as at 31 December	**31,825,591**	**124,654,041**

Financial and other institutions borrowings		
Balance as at 01 January	1,278,286,770	1,241,375,580
Loan obtained during the year	608,000,000	1,220,323,795
Loan repayments	(844,553,588)	(1,309,025,027)
Loan interest charged	128,295,862	125,612,422
Balance as at 31 December	**1,170,029,044**	**1,278,286,770**

18. POST EMPLOYMENT BENEFIT OBLIGATION

As at 31 December	Notes	2021 LKR	2020 LKR
Balance as at 01 January		30,608,310	22,465,526
Amount recognized in statement of comprehensive income	18.1	6,928,327	7,293,701
Amount recognized in other comprehensive income		(2,071,213)	2,734,480
Payments made during the year		(3,727,517)	(1,885,397)
Balance as at 31 December		**31,737,907**	**30,608,310**

18.1. AMOUNT RECOGNIZED IN STATEMENT OF COMPREHENSIVE INCOME

As at 31 December	2021 LKR	2020 LKR
Current service cost	4,938,787	4,934,821
Interest cost	1,989,540	2,358,880
	6,928,327	7,293,701

18.2. THE PRINCIPAL ASSUMPTIONS USED FOR COMPUTE THE GRATUITY LIABILITY ARE AS FOLLOWS:

As at 31 December	2021	2020
Rate of interest	10.50%	6.5%
Salary increment rate	7.57%	8.81%
Staff turnover	16.75%	22.00%
Retirement age	60 years	55 years

18.3. SENSITIVITY OF ASSUMPTIONS EMPLOYED IN COMPUTATION

A quantitative sensitivity analysis for significant assumption as at 31 December 2021 is shown below:

Assumptions	Discount rate		Salary increment rate	
Sensitivity level	1% increase	1% decrease	1% increase	1% decrease
Impact on defined benefit liability	(1,294,359)	1,411,875	1,499,560	(1,396,034)

19. OTHER LIABILITIES

As at 31 December	Notes	2021 LKR	2020 LKR
Financial liabilities			
Other financial liabilities		35,562,738	23,481,704
Lease Creditor - Right-of-use assets	19.1	19,610,528	28,392,939
Loan risk fund		348,025,636	313,839,768
EDS coupon liability		185,377,550	189,289,021
		588,576,452	**555,003,432**
Non financial liabilities			
Income tax payable		74,354,703	27,678,542
Finance VAT and NBT payable		(9,911,123)	2,527,019
Other payables		20,140,639	26,821,661
		84,584,219	**57,027,222**
		673,160,671	**612,030,654**

19.1 LEASE CREDITOR - RIGHT-OF-USE ASSETS

As at 31 December	2021 LKR	2020 LKR
Balance as at 01 January	28,392,939	30,762,735
Additions	2,754,907	7,909,435
Interest amortized	4,245,391	5,293,784
Repayments	(15,782,709)	(15,573,015)
Balance as at 31 December	**19,610,528**	**28,392,939**
Amount recognized in statement of comprehensive income		
Interest on lease liabilities	4,245,391	5,293,784
Amortization of right-of-use assets	12,014,200	12,309,230
Amount recognized in statement of cash flows		
Total cash outflows for leases	15,782,709	15,573,015

20. FUNDS AND RESERVES

As at 31 December	Notes	2021 LKR	2020 LKR
Unrestricted funds	20.1	865,800	865,800
Restricted funds	20.2	204,057,897	175,434,385
		204,923,697	176,300,185
20.1. Unrestricted Funds			
Balance as at 01 January		865,800	865,800
Balance as at 31 December		865,800	865,800
Total unrestricted Funds		**865,800**	**865,800**

Nature and purpose of reserves

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

20.2. Restricted Funds			
Whole Planet Foundation			
Balance as at 01 January		175,434,385	149,348,645
Received during the year		28,623,512	26,085,740
Balance as at 31 December		**204,057,897**	**175,434,385**
Total restricted funds		**204,057,897**	**175,434,385**

Nature and purpose of reserves

The fund was set up for the purpose of loan disbursement of Kaluwanchikudy, Welimada, Kotmale, Ragala, Aryampathy, Kalmunai and Akkaraipattu branches.

21. STATED CAPITAL

As at 31 December	Note	2021 No.	2020 No.	2021 LKR	2020 LKR
Fully paid ordinary shares	**21.1**	**76,346,175**	**76,346,175**	**763,461,750**	**763,461,750**

21.1. FULLY PAID ORDINARY SHARES

Balance as at the beginning of the year	76,346,175	76,346,175	763,461,750	763,461,750
Balance as at the end of the year	**76,346,175**	**76,346,175**	**763,461,750**	**763,461,750**

21.2. RIGHTS OF ORDINARY SHAREHOLDERS

The holders of ordinary shares are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

On 14 January 2020, BMIC converted seventy-five percent (75%) of its issued shares currently held by BDS into a special class of shares (Class A shares) which do not have dividend rights, and the same was transferred by BDS to BS on 16 January 2020 on receipt of consideration for same on 14 January 2020.

21.3. DIVIDENDS

The Company has not declared dividends during the year ended 31 December 2021 and 2020.

22. CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

22.1 CAPITAL COMMITMENTS

There were no material capital commitments as at the reporting date that require adjustments or disclosure in the financial statements of the Company.

22.2 CONTINGENT LIABILITIES

There were no material contingent liabilities outstanding as at the reporting date that require adjustments or disclosure in the financial statements of the Company.

23. EVENTS OCCURRING AFTER THE REPORTING DATE

There were no material events occurring after the reporting date that require adjustment or disclosure in the financial statements of the Company other than the following events,

Ms. Kumudini Saravanamuttu was appointed as an independent non-executive director of the Company with effect from 1st January 2022. As per section 3 of the Direction, No 6 of 2016 on Assessment of Fitness and propriety of Directors and Chief Executive Officer / General Manager, the Central Bank of Sri Lanka has granted prior approval for the said appointment on 26th November 2021.

Ms. Harshini Andradi tendered her resignation as an Independent Non-Executive Director of the Company with effect from 28th February 2022 due to her personal commitments. The Central Bank of Sri Lanka (CBSL) granted the prior approval for Ms. Harshini's resignation in terms of Direction No. 3.1 of the Microfinance Act Directions No. 02 of 2017 on Structural Changes.

24. ASSETS PLEDGED

Fixed deposits represents the mandatory deposit as per the borrowing agreements and not available for use until the loans are settled.

25. CAPITAL MANAGEMENT AND RELATED COMPLIANCES

The primary objective of the Company's capital management is to ensure that it maintains healthy capital ratios in order to support its business and maximize shareholders' value while ensuring related regulatory compliances. 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 stood at LKR 1,116,408,862/- as at 31 December 2021 and it was LKR 1,014,753,717/- as at 31 December 2020. As per regulations of Central Bank of Sri Lanka applicable to licensed microfinance companies, The Company has complied with minimum core capital requirement of LKR 150 Million (As at 31 December 2021, Core Capital is LKR 911 Million).

STATUTORY RESERVE

As per the Central Bank Direction issued under Section 11 of the Microfinance Act, No. 06 of 2016;

Every Licensed Microfinance Company (LMFC) 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.

1. 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
2. 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.

The Company has complied to the above requirement by transferring 5% of net profit after tax, before dividends to a statutory reserve.

26. RELATED PARTY DISCLOSURES

Details of significant related party disclosures are as follows;

26.1 TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL (KMP) AND THEIR FAMILY MEMBERS

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

26.1.1 KEY MANAGEMENT PERSONNEL COMPENSATION

As at 31 December	2021 LKR	2020 LKR
Short term employment benefits		
Short term employee benefits	17,763,856	16,791,744
	17,763,856	16,791,744

Further, the Company has not provided any non cash benefits to key management personnel in terms of employment contracts with them.

The 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

Name of the related party	Relationship	Nature of the transaction	During the year transaction 2021 LKR	Balance 2021 LKR	During the year transaction 2020 LKR	Balance 2020 LKR
Berendina Development Services (Guarantee) Limited	Common Directors	**Shared expenses**				
		Balance brought forward		466,280		239,408
		Shared expenses	4,992,486		3,568,956	
		Amount received	(5,234,170)	(241,684)	(3,342,084)	226,872
		Balance carried forward		224,595		466,280
		Borrowings				
		Balance brought forward		1,091,284,132		946,626,178
		Amount borrowed - capital	608,000,000		1,220,323,795	
		Amount settled - capital	(671,090,480)	(63,090,480)	(1,075,665,841)	144,657,954
		Balance carried forward		1,028,193,652		1,091,284,132
		Share capital				
		Balance brought forward		190,865,438		190,865,438
		Issue of shares for net assets transfer from BMI	-	-	-	-
		Balance carried forward		190,865,438		190,865,438

Name of the related party	Relationship	Nature of the transaction	During the year transaction 2021 LKR	Balance 2021 LKR	During the year transaction 2020 LKR	Balance 2020 LKR
Berendina Employment Centre (Guarantee) Limited	Common Directors	**Shared expenses**				
		Balance brought forward	-	-	-	666,242
		Shared expenses	-		1,997,567	-
		Amount received	-	-	(2,663,809)	(666,242)
		Balance carried forward	-	-	-	-
Berendina Stichting	Parent Company	**Reimbursement of expenses**				
		Amount received	6,867,892	6,867,892	6,576,635	6,576,635
		Share capital				
		Balance brought forward		572,596,313		572,596,313
		Issue of shares		-		-
		Balance carried forward		572,596,313		572,596,313

26.2.2 TERMS AND CONDITIONS OF TRANSACTIONS WITH RELATED PARTIES

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

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

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

Lender	Loan Amount LKR	Guarantee LKR	Loan Outstanding as at 31 December 2021 LKR
Consorzio ETIMOS S.C.	100 Million	50 Million BDS Corporate Guarantee	22,192,213
Consorzio ETIMOS S.C.	100 Million	50 Million BDS Corporate Guarantee	54,404,434

27. FAIR VALUE

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

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

Level 1: Quoted (unadjusted) prices in active markets for identical assets or liabilities.

Level 2: Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3: Techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data.

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

	As at 31 December 2021		As at 31 December 2020	
	Carrying Value LKR	Fair Value LKR	Carrying Value LKR	Fair Value LKR
Financial assets				
Cash and cash equivalents	52,373,931	52,373,931	40,753,170	40,753,170
Balances with banks and financial institutions	6,870,218	6,870,218	8,078,184	8,078,184
Loans and receivables	2,842,433,185	2,842,433,185	2,818,592,823	2,818,592,823
Other financial assets	115,877,953	115,877,953	130,800,980	130,800,980
Total	**3,017,555,287**	**3,017,555,287**	**2,998,225,157**	**2,998,225,157**
Financial liabilities				
Interest bearing borrowings	1,201,854,635	1,054,591,728	1,402,940,811	1,309,864,132
Other financial liabilities	588,576,452	588,576,452	555,003,432	555,003,432
Saving deposits from customers	44,239,312	44,239,312	4,431,589	4,431,589
Total	**1,834,670,399**	**1,687,407,492**	**1,962,375,832**	**1,869,299,153**

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) 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.

28. MATURITY OF ASSETS AND LIABILITIES

	As at 31 December 2021			As at 31 December 2020		
	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
Assests						
Cash and cash equivalents	52,373,931	-	52,373,931	40,753,170	-	40,753,170
Balances with banks and financial institutions	6,870,218	-	6,870,218	8,078,184	-	8,078,184
Loan and receivables (Gross)	2,039,328,062	1,094,135,996	3,133,464,058	1,850,405,624	1,205,153,850	3,055,559,474
Property, plant and equipment	-	34,407,899	34,407,899	-	46,988,493	46,988,493
Intangible assets	-	2,387,425	2,387,425	-	2,398,319	2,398,319
Deferred tax assets	-	5,457,002	5,457,002	-	7,172,462	7,172,462
Other assets	75,802,817	47,668,910	123,471,727	90,738,596	50,043,034	140,781,630
Total assets	**2,174,375,028**	**1,184,057,232**	**3,358,432,260**	**1,989,975,574**	**1,311,756,158**	**3,301,731,732**
Liabilities						
Interest bearing borrowings	461,265,335	740,589,300	1,201,854,635	391,728,870	1,011,211,941	1,402,940,811
Post employment benefit obligation	-	31,737,907	31,737,907	-	30,608,310	30,608,310
Other liabilities	254,091,448	419,069,223	673,160,671	252,349,499	359,681,155	612,030,654
Saving deposits from customers	2,211,966	42,027,346	44,239,312	-	4,431,589	4,431,589
Total liabilities	**717,568,749**	**1,233,423,776**	**1,950,992,525**	**644,078,369**	**1,405,932,995**	**2,050,011,364**

29. RISK MANAGEMENT

29.1 INTRODUCTION

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

- Credit risk
- Liquidity risk
- Market risk

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

29.2 CREDIT RISK

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

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

The Company establishes an allowance for impairment that represents its estimate of incurred losses in respect of receivables in terms of loans and receivables. The Company policy on impairment consists of allowance for a collective

impairment established for similar receivables in term of their credit risk on product basis where the loss event has occurred but not yet identified. The collective impairment is determined based on the historical data of payments statistics for similar financial assets.

CREDIT QUALITY ANALYSIS

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

SIGNIFICANT INCREASE IN CREDIT RISK

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

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:

- the remaining lifetime probability of default (PD) as at the reporting date; with
- the remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure (adjusted where appropriate for changes in prepayment expectations).

The Company uses three criteria for determining whether there has been a significant increase in credit risk:

- a quantitative test based on movement in PD;
- qualitative indicators; and
- a backstop of 30 days past due

The assessment of whether credit risk on a financial asset has increased significantly will be one of the critical judgements used in expected credit loss model prescribed in SLFRS 9 – "Financial Instruments". The criteria for determining whether credit risk has increased significantly vary with the portfolio and include qualitative factors. Using management credit judgement and, where possible, relevant historical experience, the Company may determine that an exposure has undergone a significant increase in credit risk based on particular qualitative indicators that it considers are indicative of such and whose effect may not otherwise be fully-reflected in its quantitative analysis on a timely basis. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. The Company monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews.

Loans and receivables with a contractual amount of Rs.113 Million written off during 2021.

EXPECTED CREDIT LOSSES

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

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

Explanation of the terms of 12 - month ECL and lifetime ECL included in Note 2.6.2

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

As at 31 December 2021	Note	12-month ECL LKR	Life time ECL - Not credit impaired LKR	Life time ECL - credit impaired LKR	Total LKR
Cash and cash equivalents	10	52,373,931	-	-	52,373,931
Balances with banks and financial institutions	11	6,870,218	-	-	6,870,218
Loan and receivables (Gross)	12	2,952,867,726	7,232,393	173,363,939	3,133,464,058
Other financial assets	16	115,877,953	-	-	115,877,953

As at 31 December 2020	Note	12-month ECL LKR	Life time ECL - Not credit impaired LKR	Life time ECL - credit impaired LKR	Total LKR
Cash and cash equivalents	10	40,753,170	-	-	40,753,170
Balances with banks and financial institutions	11	8,078,184	-	-	8,078,184
Loan and receivables (Gross)	12	2,741,623,473	57,329,711	256,606,290	3,055,559,474
Other financial assets	16	130,800,980	-	-	130,800,980

IMPAIRMENT ALLOWANCE FOR LOANS AND ADVANCES TO CUSTOMERS

	31 December 2021 LKR	31 December 2020 LKR
Loans and advances		
Gross loans and advances : Stage 01	2,952,867,726	2,741,623,473
Stage 02	7,232,393	57,329,711
Stage 03	173,363,939	256,606,290
Gross Loans and advances	**3,133,464,058**	**3,055,559,474**
Less expected credit loss : Stage 01	170,576,905	29,782,293
Stage 02	2,880,508	22,213,164
Stage 03	117,573,460	184,971,194
Total expected credit loss	**291,030,873**	**236,966,651**
Total Loans and advances - Net	**2,842,433,185**	**2,818,592,823**

29.2.1 FAIR VALUE OF COLLATERAL AND CREDIT ENHANCEMENTS HELD

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

	As at 31 December 2021		As at 31 December 2020	
	Maximum exposure to credit risk LKR	Net exposure LKR	Maximum exposure to credit risk LKR	Net exposure LKR
Cash and cash equivalents	52,373,931	48,674,823	40,753,170	37,797,116
Balances with banks and financial institutions	6,870,218	6,870,218	8,078,184	8,078,184
Loan and receivables (Net)	2,842,433,185	2,842,433,185	2,818,592,823	2,818,592,823
Other financial assets	115,877,953	115,877,953	130,800,980	130,800,980
	3,017,555,287	**3,013,856,179**	**2,998,225,157**	**2,995,269,103**

29.2.2 CREDIT QUALITY BY CLASS OF FINANCIAL ASSETS (A)

As at 31 December 2021	Neither past due nor impaired LKR	Past due but not impaired LKR	Credit impaired LKR	Unclassified LKR	Total LKR
Assets					
Cash and cash equivalents	52,373,931	-	-	-	52,373,931
Balances with banks and financial institutions	6,870,218	-	-	-	6,870,218
Loan and receivables (Gross)	2,902,412,970	57,687,149	173,363,938	-	3,133,464,058
Other financial assets	115,877,953	-	-	-	115,877,953
Total financial assets	**3,077,535,072**	**57,687,149**	**173,363,938**	**-**	**3,308,586,160**

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
Loan and receivables	50,454,756	5,537,642	1,694,751	173,363,938	231,051,088
	50,454,756	**5,537,642**	**1,694,751**	**173,363,938**	**231,051,088**

(B)

As at 31 December 2020	Neither past due nor impaired LKR	Past due but not impaired LKR	Credit impaired LKR	Unclassified LKR	Total LKR
Assets					
Cash and cash equivalents	40,753,170	-	-	-	40,753,170
Balances with banks and financial institutions	8,078,184	-	-	-	8,078,184
Loan and receivables	2,698,780,028	100,173,157	256,606,289	-	3,055,559,474
Other financial assets	130,800,980	-	-	-	130,800,980
Total financial assets	**2,878,412,362**	**100,173,157**	**256,606,289**	**-**	**3,235,191,808**

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
Loan and receivables	42,843,446	36,798,657	20,531,054	256,606,289	356,779,446
	42,843,446	**36,798,657**	**20,531,054**	**256,606,289**	**356,779,446**

29.2.3 CASH AND CASH EQUIVALENTS

Out of the cash and cash equivalents held by the company of LKR 52.4 Million, the company held cash and cash equivalents of LKR 48.7 Million as balances in bank accounts (Note No. 10) as at 31 December 2021. These balances were held in licensed commercial banks and in a licensed specialized bank. Some of these banks are rated at least AA-(lka) to AA+(lka) based on Fitch Ratings. Other banks are rated at least (SL)BBB- to (SL)AAA based on ICRA Lanka Ratings.

29.3 LIQUIDITY RISK

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

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

A) EXPOSURE TO LIQUIDITY RISK

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

B) MANAGEMENT OF LIQUIDITY RISK

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

29.3.1

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

(a)

As at 31 December 2021	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	1,201,854,635	1,367,285,253	-	142,953,239	416,773,815	807,558,200
Other financial liabilities	588,576,452	609,308,651	-	54,254,301	176,494,546	378,559,804
Saving deposits from customers	44,239,312	44,239,312	442,393	663,590	1,105,983	42,027,346
	1,834,670,399	**2,020,833,217**	**442,393**	**197,871,129**	**594,374,344**	**1,228,145,350**

(b)

As at 31 December 2020	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	1,402,940,811	1,692,642,468	-	143,692,805	373,381,157	1,175,568,506
Other financial liabilities	555,003,432	555,003,432	-	52,958,777	152,042,941	350,001,714
Saving deposits from customers	4,431,589	4,431,589	-	-	-	4,431,589
	1,962,375,832	**2,252,077,489**	**-**	**196,651,582**	**525,424,098**	**1,530,001,809**

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.

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

INTEREST RATE RISK

Interest rate risk represents exposures to instruments where values vary with the level or volatility of interest rates. Interest rate risk exists in interest-bearing assets, due to the possibility of a change in the asset's and liability's value resulting from the variability of interest rates. As at the balance sheet date following assets and liabilities were available with variable interest rates.

Instrument	Balance as at 31 December 2021	Interest rate	Category
Interest bearing borrowings	LKR 32 Million	AWPLR + Fixed margin	Liability
Money market savings	LKR 23 Million	Weekly renewable	Assets

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.

(a)

As at 31 December 2021	On demand LKR	Less than 3 Months LKR	4 to 12 Months LKR	1 to 5 Years LKR	Total LKR
Interest earning assets					
Cash and cash equivalents	52,373,931	-	-	-	52,373,931
Balances with banks and financial institutions	-	-	6,870,218	-	6,870,218
Loan and receivables	-	458,848,814	1,580,479,248	1,094,135,996	3,133,464,058
Other financial assets	-	17,334,054	52,002,159	46,541,740	115,877,953
Total interest earning assets	52,373,931	476,182,868	1,639,351,625	1,140,677,736	3,308,586,160
Interest bearing liabilities					
Interest bearing borrowings	-	111,516,486	349,748,849	740,589,300	1,201,854,635
Other financial liabilities	-	43,931,918	131,795,755	412,848,779	588,576,452
Saving deposits from customers	442,393	663,590	1,105,983	42,469,740	44,239,312
Total interest bearing liabilities	442,393	156,111,994	482,650,586	1,195,907,819	1,834,670,399
Gap in interest earning assets and interest bearing liabilities - net assets / (liabilities)	51,931,538	320,070,874	1,156,701,039	(55,230,083)	1,473,915,761

(b)

As at 31 December 2020	On demand LKR	Less than 3 Months LKR	4 to 12 Months LKR	1 to 5 Years LKR	Total LKR
Interest earning assets					
Cash and cash equivalents	40,753,170	-	-	-	40,753,170
Balances with banks and financial institutions	-	3,518,320	4,559,864	-	8,078,184
Loan and receivables	-	501,772,957	1,348,632,667	1,205,153,850	3,055,559,474
Other financial assets	-	20,502,255	61,506,766	48,791,959	130,800,980
Total interest earning assets	40,753,170	525,793,532	1,414,699,297	1,253,945,809	3,235,191,808
Interest bearing liabilities					
Interest bearing borrowings	-	108,011,562	283,717,308	1,011,211,941	1,402,940,811
Other financial liabilities	-	43,931,918	131,795,755	379,275,759	555,003,432
Saving deposits from customers	-	-	-	4,431,589	4,431,589
Total interest bearing liabilities	-	151,943,480	415,513,063	1,394,919,289	1,962,375,832
Gap in interest earning assets and interest bearing liabilities - Net assets	40,753,170	373,850,052	999,186,234	(140,973,480)	1,272,815,976

30 LOAN RISK FUND

The maximum value that can be utilized to write off the loan outstanding of the eligible customers under the loan risk fund is limited to LKR 348,025,636/- (2020 - LKR 313,839,768/-). The total loan portfolio of the Company as at 31 December 2021 is LKR 3,089,635,095/- (2020 - LKR 3,007,302,064/-).

31 EARNINGS PER SHARE

31.1 BASIC EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit for the year attributable to the ordinary shareholders by the weighted average number of ordinary shares outstanding during the year as per the requirement of the Sri Lanka Accounting Standards (LKAS 33) - “Earnings per share”.

	2021 LKR	2020 LKR
Profit / (loss) attributable to ordinary shareholders	71,457,511	12,958,852
Weighted average number of ordinary shares	76,346,175	76,346,175
Basic earnings / (loss) per share (LKR)	**0.94**	**0.17**

31.2 DILUTED EARNINGS PER SHARE

Diluted earnings per share is calculated by dividing profit for the year attributable to the ordinary shareholders by the weighted average number of ordinary shares after adjustment for the effects of all dilutive potential ordinary shares.

At present, the Company has no dilutive potential ordinary shares as such calculation of diluted earnings per share will not apply.

32 IMPACT OF COVID 19

Due to the occurrence of the 3rd wave of COVID- 19 which started in the month of May 2021 affected on the business operations of the Company. However financial and operational data indicated that the Company did not have significantly impact from the crisis. COVID 19 crisis impacted the Company's operations in following manner within the year 2021:

- The Company was unable to carry out expected total loan recoveries and disbursements from May to September month due to country wide locked down and interprovincial travel restrictions status.

- The Company's Enterprise Development services (EDS) were affected as public gatherings and meetings were restricted according to heath guidelines. However, EDS normally contributes only 5% of the gross income of the Company.

- The Company voluntarily provided 2-3 months moratorium to its loan clients who applied for the moratorium in 2021 too. This moratorium largely coincided with the country wide locked down period. There was no significant impact to the revenue of the Company since interest was charged for the extended period. The average balance tenure of moratorium given loan was less than 12 months. This factor too was a reason for not having significant financial impact due to moratorium extended to the clients.

- The clients who were engaging in the agriculture activity were affected due to the lack of Chemical fertilizers as a result of the green agriculture policy of the Government.

Some industries such as tourism, food processing, garments, foreign employment were badly affected by COVID 19. The clients and their families whose income is generated directly or indirectly from these sectors are finding it difficult to repay their loans as per the scheduled plans. For such clients we provided Moratorium up to 6 months during the year and Company is closely monitoring the repayment of these clients. Based on the assessment further concessions or alternative income generating options will be provided under the programs conducted by enterprise development services (EDS).

On the other hand there were some clients such as mobile vegetable sellers, whose income levels increased, and such clients were able to settle their arrears in advance.

The recovery of clients other than clients attached to the affected industries, indicate normal trends.

Suplimentary Information

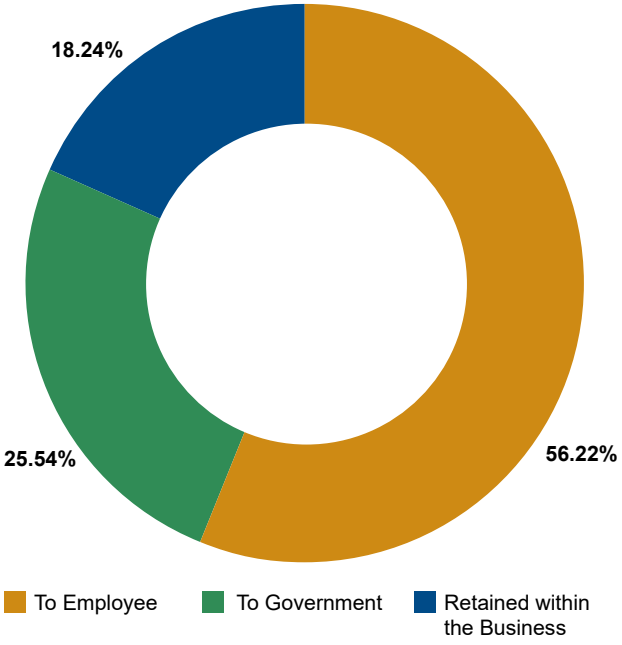
Value Added Statement

	31 December 2021 LKR	31 December 2020 LKR	Change %
Value Added			
Gross Income	933,029,756	781,969,422	19.32%
Less			
Interest and similar expenses	(141,726,344)	(165,773,782)	-14.51%
Payment towards support services	(106,351,261)	(109,272,889)	-2.67%
Impairment charges for loans and receivables	(167,070,782)	(147,517,006)	13.26%
	517,881,369	359,405,745	44.09%

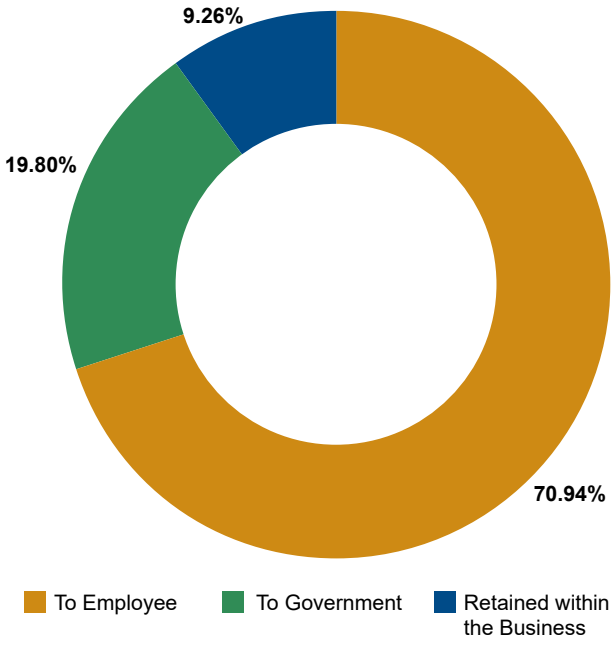
DISTRIBUTION OF VALUE ADDITION

	2021		2020		Change
	LKR	% share	LKR	% share	
To employees as Remuneration	255,622,640	49.36%	214,279,070	59.62%	
Other benefit and development cost	35,530,613	6.86%	40,695,832	11.32%	
To government as Income taxation	70,268,293	13.57%	28,996,955	8.07%	
VAT on financial services	61,975,144	11.97%	42,166,823	11.73%	
Retained within the business as Depreciation for replacement of assets and deffered taxation	23,027,168	4.45%	20,308,213	5.65%	
Reserve	71,457,511	13.80%	12,958,852	3.61%	
	517,881,369		359,405,745		

Distribution of Value Addtion - 2021



Distribution of Value Addtion - 2020



Capital Adequacy

Capital Adequacy - Core Capital of the Company

Under Section 11 of the Microfinance Act, No.06 of 2016 and Direction No.01 of 2016 issued on 27th October 2016, every Licensed Microfinance Company (LMFC) shall, at all times, maintain a core capital at a level not less than LKR100 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. The Company maintains a core capital of LKR 912 Million which far exceeds the stipulated requirement by the regulation.

Description	31 December 2021 LKR	31 December 2020 LKR
Issued and fully paid ordinary shares	763,461,750	763,461,750
Statutory Reserve	4,201,083	549,501
Funds & Reserves - Unrestricted funds	865,800	865,800
Retained profit or (loss) as shown in last audited statement of accounts	74,442,281	64,001,756
Contribution from Current year's profit / (loss)	69,380,051	10,440,525
Core Capital	**912,350,965**	**839,319,332**

Statutory Reserve

The Company is required to maintain the statutory reserve under Section 11 of the Microfinance Act No 06 of 2016 and Direction No.02 of 2016 issued on 27th October 2016.

Every Licensed Microfinance Company is required to 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.

The Company transferred an amount to statutory reserve of 3,651,582 for the year ended 31st December 2021, since the Company ended up with a net profit of 73,031,633 in 2021.

Liquid Assets Ratio (LAR)

The Company is required to maintain the liquid assets ratio under Section 11 of the Microfinance Act No 06 of 2016 and Direction No.04 of 2016 issued on 27th October 2016. As per the Direction every Licensed Microfinance Company is required, at all times, to maintain minimum average monthly liquid assets at not less than Fifteen percent (15%) of its total monthly deposit liabilities.

In June 2019, the Company commenced accepting collateralized savings deposits in accordance with Direction No. 01 of 2019 issued by the Monetary Board of the Central Bank of Sri Lanka under Section 11 of the Microfinance Act No. 06 of 2016.

The compulsory saving deposit product was introduced to new loan clients as a pilot project in two of the branches in 2019. During 2020, it was further extended to another five branches. Further, with effect from 1st January 2021 collateralized savings the deposits were implemented in all the branches for all new loans. The customers were required to save LKR 200 per month (It was LKR 100 until February 2020) in their savings accounts. Monthly deposit to the saving account is collected along with the normal monthly loan instalment. The initial collateralized savings deposits of 5% and 10% introduced only for individual loans apart from monthly contribution of 5%.

Due to the low amount of deposits mobilized during the year the Liquid Assets ratio was way above the stipulated ratio of 15%.

Description	2021 Amount LKR ('000s)
Total deposits as at 31st December	44,239
Average statutory liquid assets for the month of December (Maintenance Period)	69,401
Cash	2,630
Balance in the current accounts in the commercial banks free from any bankers lien or charge	26,575
Balance in the deposit accounts in the commercial banks free from any bankers lien or charge	40,196
Liquid Assets Ratio	157%

Shareholder Information

STATED CAPITAL

	2021 (LKR)	2020 (LKR)	2021 (No.)	2020 (No.)
Fully paid ordinary shares – (Beginning of the year)	763,461,750	763,461,750	76,346,175	76,346,175
Share issue during the year for cash	-	-	-	-
Share issue during the year for net assets transfer from BMI	-	-	-	-
Fully paid ordinary shares – (End of the year)	763,461,750	763,461,750	76,346,175	76,346,175

SHAREHOLDER DETAILS

Name of the Shareholder	No. of shares		Value (Rs.)		Ownership as a %	
	2021	2020	2021	2020	2021	2020
Berendina Development Services (Gte) Ltd	19,086,544	19,086,544	190,865,440	190,865,440	25%	25%
Berendina Stichting	57,259,631	57,259,631	572,596,313	572,596,313	75%	75%

DIRECTOR SHAREHOLDING

Name of the Director	2021		2020	
	Value (LKR)	Percentage (%)	Value (LKR)	Percentage (%)
Hewa Athapaththuge Anura	Nil	0%	Nil	0%
Thebuwange Duminda Charith Fernando	Nil	0%	Nil	0%
Josef Gomathi Vinodini Shankar	Nil	0%	Nil	0%
Jagath Chandana Godakandage	Nil	0%	Nil	0%
Sarath Chandra Fernando	Nil	0%	Nil	0%
Ponnahennedige Harshini Andradi	Nil	0%	Nil	0%

10 Year Summary

Operational Results	2012 LKR	2013 LKR	2014 LKR	2015 LKR	2016 LKR	2017 LKR	2018 LKR	2019 LKR	2020 LKR	2021 LKR
Total Income	204,919,596	300,829,393	384,175,615	478,631,357	640,332,324	839,793,973	914,737,460	838,174,865	781,969,422	933,029,756
Depreciation	3,347,721	6,941,838	7,382,441	8,530,467	9,292,406	9,435,330	11,504,435	22,471,091	23,254,031	21,808,799
PBT	8,044,197	37,673,209	55,895,390	80,013,617	101,034,064	138,615,709	114,305,109	13,294,480	39,009,991	142,944,173
Taxation	6,536,543	(2,430,590)	9,888,560	11,584,607	20,506,302	36,372,013	67,951,154	24,868,760	26,051,139	71,486,662
PAT	1,507,654	40,103,799	46,006,830	68,429,010	80,527,762	102,243,696	46,353,955	-11,574,280	12,958,852	71,457,511
Share Capital	-	-	-	120,028,210	180,028,210	748,028,210	763,461,750	763,461,750	763,461,750	763,461,750
Reserves										
Retained Earnings	5,296,238	45,400,036	91,406,866	161,415,060	240,762,466	27,764,510	71,372,054	64,001,756	74,442,281	143,822,332
Funds & Reserves	183,682,558	252,245,350	256,518,831	291,759,231	309,821,731	86,993,090	71,559,550	150,214,445	176,849,686	209,124,780
Liabilities										
Current Liabilities	395,131,852	489,490,202	444,974,102	1,328,012,514	838,017,875	1,102,518,647	1,039,625,182	1,086,390,042	644,078,369	717,568,749
Long term Liabilities	629,911,588	708,988,585	982,239,279	520,938,316	1,368,523,254	1,469,648,083	1,286,149,210	1,084,239,898	1,405,932,995	1,233,423,776
Assets										
PPE	17,155,054	14,063,240	16,821,343	21,375,538	23,695,823	27,924,708	23,843,093	21,784,049	17,853,917	14,532,618
Loans & Receivables	1,145,509,842	1,392,071,332	1,631,731,019	2,022,594,339	2,624,278,875	3,121,810,225	2,835,656,223	2,759,790,703	2,818,592,823	2,842,433,185
Other Assets	51,357,340	89,989,601	126,586,717	378,183,454	289,178,838	285,217,607	372,668,430	366,733,138	228,318,341	210,435,584

Glossary

A change in Accounting Estimate
An adjustment of the carrying amount of an asset or liability, or related expense, resulting from reassessing the expected future benefits and obligations associated with that asset or liability.

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.

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

Collateral & Credit Enhancement
Collateral is a property or other asset that a borrower offers as a way for a lender to secure the loan.
Credit enhancement is a method whereby a company attempts to improve its debt or credit worthiness.

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

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

Deferred Tax Asset
Amounts of income taxes recoverable in future periods in respect of;
a) deductible temporary differences,
b) the forward of unused tax losses,
c) 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.

Derecognition
Removal of a previously recognized financial asset or financial liability from an entity's statement of financial position.

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.

Fair Value less cost to sell
Price that would be received from selling the asset less any costs required and needed to make the sale.

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

Funds & Reserves
A fund is a source of money that is allocated for a specific purpose. Reserve is any part of shareholders' equity, except for basic share capital.

Going Concern Basis
Assumption that the entity is a going concern and 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 recognized.

Historical Cost
Amount of cash or cash equivalents paid or the fair value of the consideration given to acquire assets at the time of their acquisition or the amount of proceeds received in exchange for the obligation, or in some circumstances at the amounts of cash or cash equivalents expected to be paid to satisfy the liability in the normal course of business.

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

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.

Liquidate
Liquidate means to convert assets into cash or cash equivalents by selling them on the open market.

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

Non-controlling Interest
Equity in a subsidiary not attributable, directly or indirectly, to a parent.

Parent
An entity that controls one or more entities.

Present Value
Present value (PV) 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.

Realizable Value
Net realizable value (NRV) is the value of an asset that can be realized 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.

Remuneration
Remuneration is payment or compensation received for services or employment.

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.

Straight Line Method
Default method used to gradually reduce the carrying amount of a fixed asset over its useful life

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.

Unrestricted Funds
Money given to a non-profit organization by a donor that the organization is free to use as they see fit.

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.

Defined Benefit Plans
Defined benefit plans are post -employment benefit plans other than defined contribution plans.

Post-Employment Benefit Plans
Post-Employment benefit plans are formal or informal arrangement under which an entity provides post -employment benefit for one or more employees.

Current Service Cost
Current service cost, which is the increase in the present value of the defined obligation resulting from employee service in the current period.

Notice of Meeting

BERENDINA MICRO INVESTMENTS COMPANY LIMITED

NOTICE OF MEETING

Notice is hereby given that the Annual General Meeting ("AGM") of Berendina Micro Investments Company Limited (the "Company") will be held at the Board Room of the Company, No. 44/3, 3rd Floor, Narahenpita Road, Nawala on Wednesday, the 25th day of May 2022 at 1.30 p.m. (SL time) for the following purposes:

AGENDA

1. To receive and consider the annual report of the board of directors together with the audited financial statements of the Company for the year ended 31st December 2021 and the report of the Auditors thereon.

2. To consider and approve the directors' remuneration and fees.

3. To re-appoint KPMG Chartered Accountants, who are deemed to be re-appointed as auditors of the Company until the conclusion of the next AGM of the Company in terms of section 158 (1) of the Companies Act, to audit the financial statements of the Company for the year ending 31st December 2022 and to authorise the directors to determine their remuneration therefor.

By order of the Board

Corporate Services (Private) Limited
Secretaries
08th April 2022
Colombo.

Encl: 1. Financial Statements for the year ended 31st December 2021
2. Proxy Form

Form of Proxy

We ..... of ..... being a shareholder of BERENDINA MICRO INVESTMENTS COMPANY LIMITED do hereby appoint ..... of ..... or failng him ..... of ..... as our proxy to attend and vote at the Annual General Meeting of the Company to be held on the 25th day of May 2022 and at any adjournment thereof.

Signed this ..... day of 2022

Name of the Shareholder : .....

.....

*Signature/s

INSTRUCTIONS AS TO COMPLETION

1. The instrument appointing a proxy may be in writing under the hands of the appointor or of its attorney duly authroised in writing or if such appointor 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 time appointed for the holding of the meeting.

Corporate Information

Name
Berendina Micro Investments Company Limited

Share Holding
Berendina Stichting
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 business as defined in the Microfinance Act

Board of Directors
Mr. Godakandage Jagath Chandana
Mr. Hewa Athapaththuge Anura
Mr. Thebuwanage Duminda Charith Fernando
Ms. Josef Gomathi Vinodini Shankar
Mr. Sarath Chandra Fernando
Ms. Ponnahennedige Harshini Andradi

Secretaries
Corporate Services (Private) Limited
No. 216, De Saram Place, Colombo 10, Sri Lanka

Auditors
KPMG Chartered Accountants
32A, Sir Mohamed Macan Markar Mawatha, P.O. Box 186, Colombo 3, Sri Lanka

Bankers
People's Bank
Bank of Ceylon
Sampath Bank PLC
Hatton National Bank PLC
DFCC Bank PLC
Commercial Bank PLC

Berendina Micro Investments Company Limited

No: 44/3, 3rd Floor, Narahenpita Road,

Nawala, Sri Lanka