

STATEMENT OF PROFIT OR LOSS		
For the year ended 31st December 2020		
For the year / period ended	In Sri Lanka Rupees Thousands	
	For the Year Ended 31 December 2020 (Audited)	For the Nine Months Ended 31 December 2019 (Audited)
Interest income	214,700	198,179
Interest expense	(67,090)	(48,102)
Net interest income	147,610	150,077
Fee and commission income	1,961	60,043
Fee and commission expense	-	-
Net fee and commission income	1,961	60,043
Net gains / (losses) from trading	283	379
Net gain/(loss) from financial instruments designated at fair value through profit or loss	-	-
Net gain/(loss) from financial instruments	-	-
Other operating income	18,846	9,490
Total operating income	168,700	219,989
Impairment expenses for loans and advances and other losses		
Individual impairment	(14,672)	(1,860)
Collective impairment	(48,472)	(103,926)
Others	(195)	(115)
Net operating income	105,361	114,088
Personnel expenses	(136,865)	(125,902)
Depreciation and amortisation	(41,099)	(28,244)
Other expenses	(113,696)	(103,718)
Operating loss before taxes on financial services	(186,299)	(143,776)
Taxes on financial services	-	-
Operating loss after taxes on financial services	(186,299)	(143,776)
Share of profits of associates and joint ventures	-	-
Loss before tax for the year / period	(186,299)	(143,776)
Income tax reversal / (expense)	86,780	110
Loss for the year / period	(99,519)	(143,666)
Basic loss per share (Rs.)	(0.98)	(1.61)

STATEMENT OF OTHER COMPREHENSIVE INCOME		
For the year ended 31 December 2020		
For the year / period ended	In Sri Lanka Rupees Thousands	
	For the Year Ended 31 December 2020 (Audited)	For the Nine Months Ended 31 December 2019 (Audited)
Loss for the year / period	(99,519)	(143,666)
Other comprehensive income, net of tax		
Item that will not be reclassified to profit or loss:		
Changes in the fair value of equity investments at fair value through other comprehensive income	118	1,634
Remeasurement of defined benefit obligation	(374)	(192)
Deferred tax effect on other comprehensive income	92	(110)
Other comprehensive income for the year / period, net of tax	(164)	1,332
Total comprehensive income for the year / period, net of tax	(99,683)	(142,334)

STATEMENT OF FINANCIAL POSITION		
As at 31st December 2020		
As at	In Sri Lanka Rupees Thousands	
	As at 31 December 2020 (Audited)	As at 31 December 2019 (Audited)
Assets		
Cash and cash equivalents	648,006	129,419
Placements with financial Institutions	1,163,518	647,360
Securities purchased under repurchase agreements	77,722	76,221
Financial assets at fair value through profit or loss	1,513	1,286
Loans and receivables - Leases	42,356	50,113
Loans and receivables - Hire purchase	-	-
Loans and receivables - Other	763,976	973,516
Financial assets at fair value through other comprehensive income	2,098	1,980
Financial investments at amortised cost	2,186	2,085
Other assets	194,418	256,948
Current tax receivable	6,255	6,255
Right-of-use assets	24,100	30,934
Property, plant and equipment	77,555	88,445
Intangible assets	99,699	82,572
Deferred tax asset	123,820	36,948
Total assets	3,227,222	2,384,082
Liabilities		
Financial liabilities at amortised cost - Due to customers	1,064,175	818,869
Retirement benefit obligations	8,429	7,900
Lease liabilities	24,966	29,803
Other liabilities	75,780	73,848
Total liabilities	1,173,350	930,420
Equity		
Stated capital	2,374,509	1,673,165
Statutory reserve fund	11,361	11,361
Fair value through other comprehensive income	1,577	1,471
Accumulated losses	(333,575)	(232,335)
Total equity	2,053,872	1,453,662
Total equity and liabilities	3,227,222	2,384,082
Net assets per share (Rs.)	18.88	15.92
Contingent liabilities and commitments	302,457	225,052

Note: Amounts stated are in net of impairment and depreciation

SELECTED PERFORMANCE INDICATORS (AS PER REGULATORY REPORTING)		
As at 31st December 2020		
Item	As at 31 December 2020	As at 31 December 2019
Regulatory Capital Adequacy		
Core capital (Tier I capital), Rs. '000	2,052,290	1,380,695
Tier I capital (after adjustments), Rs. '000	1,844,209	1,261,176
Total capital Base, Rs. '000 (Tier I capital + Tier II capital)	1,844,290	2,196,334
Core capital adequacy ratio, as a % of risk weighted assets (Minimum requirement - 6.5%)	92.71%	57.42%
Total capital adequacy ratio, as a % of risk weighted assets (Minimum requirement - 10.5%)	92.71%	57.42%
Capital funds to deposit liabilities ratio (Minimum requirement, 10%) (Note (a))	177.76%	204.36%
Note (a) - The capital funds to deposit liabilities ratio is computed on the following basis: Capital funds as a percentage of average of quarter end deposit liabilities during the year.		
Assets Quality (quality of loan portfolio)		
Gross non - performing accommodations, Rs.'000	73,645	508,399
Gross non - performing accommodations ratio, %	8.30%	34.94%
Net - non performing accommodations ratio, %	1.30%	7.66%
Profitability (%)		
Net Interest margin	5.33%	8.69%
Return on assets (before taxes)	-6.44%	-8.99%
Return on equity (after taxes)	-4.83%	-14.35%
Regulatory Liquidity (Rs. '000)		
Required minimum amount of liquid assets (Note (b))	70,590	86,820
Available amount of liquid assets	1,890,909	678,027
Required minimum amount of government securities (Note (c))	36,765	62,535
Available amount of government securities	78,963	75,091
Note (b) - Required minimum amount of liquid assets equals to 10% of the outstanding value of the time deposits and borrowings as at 31 December 2020 and 31 December 2019 respectively.		
Note (c) - Required minimum amount of government securities equals to 7.5% of the average of month end deposit liabilities and borrowings of the twelve months of preceding financial year.		
Memorandum Information		
Number of employees	44	164
Number of branches	02	02
Number of service centers	-	-
Number of pawning centers	-	-

Certification:

We, the undersigned, being the Directors, Chief Executive Officer and the Head of Finance of Dialog Finance PLC certify jointly that:

(a) the above statements have been prepared in compliance with the format and definitions prescribed by the Central Bank of Sri Lanka (CBSL);

(b) the information contained in these statements have been extracted from the unaudited financial statements of the Licensed Finance Company unless indicated as stated.

(Signed) Head of Finance
18 February 2021

(Signed) Chief Executive Officer
18 February 2021

(Signed) Director
18 February 2021

(Signed) Director
18 February 2021

Licensed by the Monetary Board of the Central Bank of Sri Lanka under the Finance Business Act No. 42 of 2011
Date of Incorporation - 25th November 1981.



Independent auditor's report

To the Shareholders of Dialog Finance PLC

Report on the audit of the financial statements

Our opinion

The audit procedures performed to assess the adequacy of the impairment allowance for credit losses on loans and advances to customers in line with SLFRS 9 adopted, included the following:

- the statement of financial position as at 31 December 2020;
- the statement of profit or loss and other comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

What we have audited

The financial statements of the Company, which comprise:

- the statement of financial position as at 31 December 2020, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Basis for opinion

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

Independence

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.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Impairment of loans and advances Refer to the accounting policy Section 5.3: Impairment of financial assets and Notes 10 and 22 to the financial statements. As at 31 December 2020, total gross amount of loans and advances amounted to LKR 879 Million, with a total allowance for impairment of LKR 73 Million. Total net amount of loans and advances contribute 25% to the total assets. The Company uses the Expected Credit Loss model (ECL) to determine the impairment allowance for loans and advances to customers. The impairment of loans and advances using the ECL model was considered as a key audit matter due to factors such as: - The ECL model involves complex calculations with key variables requiring significant management judgment. - The magnitude of the reported amounts of loans and advances to customers and the impairment allowances thereof. - The determination of loss rates on a number of new products being based on limited historical information.	The audit procedures performed to assess the adequacy of the impairment allowance for credit losses on loans and advances to customers in line with SLFRS 9 adopted, included the following: - Understanding, evaluating and testing the design and operating effectiveness of controls in the lending and credit risk mitigation process; - Assessing the appropriateness of the criteria used by management to determine whether the customer credit facilities are impaired; - Assessing the appropriateness of the design and implementation of the ECL model, including the reasonableness of the significant assumptions made by management and the quality of observable data, which included, cash flow estimates, discount rates and expected recoveries when defaults occur; - Comparing the macro-economic and other forward-looking information used and updated by the management, against reliable publicly available information of the current economic environment; - Checking the underlying calculations and data on a sample basis for accuracy and completeness; - Assessing the accuracy and sufficiency of disclosures relating to impairment allowance for credit losses on loans and advances to customers as at the year end. Based on the procedures performed above, the assumptions and judgments made by the management was considered to be reasonable.
Recognition of deferred tax asset on tax losses carried forward. Refer to the accounting policy Section 5.16 (a): Income tax and Notes 15 and 29 to the financial statements. The net deferred tax asset as at 31 December 2020 amounted to LKR 124 Million with a deferred tax asset on carried forward tax losses of LKR 123 Million. Additional deferred tax asset recognised and credited in the statement of profit or loss and other comprehensive income during the year relating to the carried forward tax losses amounted to LKR 112 Million. The recognition of deferred tax assets on tax losses carried forward was considered as a key audit matter due to factors such as: - The history of recent losses requiring convincing other evidence that sufficient taxable profit will be available in the future against which the unused tax losses can be utilized before the time period on carry forward tax losses expire. - The magnitude of the reported amounts in the statement of financial position as net deferred tax assets and in the statement of profit or loss and other comprehensive income as income tax reversal. - Estimation of future taxable profits which involves significant management judgment and assumptions.	The audit procedures performed to assess the recognition of the deferred tax asset arising on tax losses carried forward, included the following: - Evaluating the control environment relating to the deferred tax calculation process by confirming the independent preparation and review of the calculation; - Checking the data used in the calculation by agreeing to the future profit forecasts against the board approved business plans and projections; - Agreeing the tax rates used to the substantially enacted tax rates applicable to the Company; - Checking the reasonability of the business plans by considering the past performance against business plans relating to prior periods, worst case scenarios presented by management and sensitivity analysis; - Assessing the consistency of the underlying assumptions used and testing the arithmetical accuracy of the calculation; - Understanding management's assessment on utilisation of the unused tax losses against future taxable profits that would be available by discussion with those charged with governance and the senior management; - Assessing the accuracy and sufficiency of disclosures relating to the deferred tax asset in the financial statements. Based on the procedures performed, the judgments and estimates made by the management were considered to be reasonable.

Other information

Management is responsible for the other information. The other information comprises the information included in the Annual Report for the year ended 31 December 2020 ("the Annual Report") (but does not include the financial statements and our auditor's report thereon). The Annual Report is expected to be made available to us after the date of this auditor's report.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of management and those charged with governance for the financial statements

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

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

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

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.

As part of an audit in accordance with SLAuSs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with ethical requirements in accordance with the Code of Ethics regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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
CA Sri Lanka membership number: 2857
COLOMBO
18 February 2021

PricewaterhouseCoopers, P. O. Box 918, 100 Braybrooke Place, Colombo 2, Sri Lanka
T: +94 (11) 771 9700, 771 9838, F: +94 (11) 230 3197, www.pwc.com/lk

Partners DT S H Mudalige FCA, CS Manoharan FCA, Ms S Hadgie FCA, Ms S Perera ACA, N R Gunasekera FCA
T U Jayasinghe FCA, H P V Lakdeva FCA, M D B Boyagoda FCA, Ms W D A S Perera ACA

PricewaterhouseCoopers is a member firm of PricewaterhouseCoopers International Limited, each member firm of which is a separate legal entity.