

DIALOG FINANCE PLC

**CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE FIRST QUARTER ENDED
31 MARCH 2020**

DIALOG FINANCE PLC**Statement of financial position**

(all amounts in Sri Lanka Rupees thousands)

	31 Mar 2020 (Unaudited)	31 Dec 2019 (Audited)
ASSETS		
Cash and cash equivalents	1,175,571	129,419
Placements with banks and financial institutions	481,031	647,360
Securities purchased under repurchase agreements	76,774	76,221
Financial assets at fair value through profit or loss	693	1,286
Financial assets at amortised cost - loans and advances	872,049	1,023,629
Financial assets at fair value through other comprehensive income	1,980	1,980
Financial investments at amortised cost	2,047	2,085
Other assets	206,325	256,948
Current tax receivable	6,255	6,255
Right-of-use assets	28,034	30,934
Property, plant and equipment	83,584	88,445
Intangible assets	82,887	82,572
Deferred tax assets	36,948	36,948
Total assets	3,054,178	2,384,082
LIABILITIES		
Financial liabilities at amortised cost - due to customers	863,734	818,869
Retirement benefit obligations	8,254	7,900
Lease liabilities	27,697	29,803
Other liabilities	71,860	73,848
Total liabilities	971,545	930,420
EQUITY		
Stated capital	1,673,165	1,673,165
Shares pending allotment	701,345	-
Statutory reserve fund	11,361	11,361
Fair value through other comprehensive income reserve	1,471	1,471
Accumulated losses	(304,709)	(232,335)
Total equity	2,082,633	1,453,662
Total equity and liabilities	3,054,178	2,384,082
Net assets per share (Rs.)	22.80	15.92
Commitments and contingencies	277,590	225,052

The notes on pages 5 to 10 form an integral part of these financial statements.

CERTIFICATION

We certify that the above Interim Financial Statements are in compliance with the requirements of the Companies Act No: 7 of 2007 and give true and fair view of the state of affairs of Dialog Finance PLC as at 31 March 2020 and its loss for the period ended 31 March 2020.

Signed

.....

Head of Finance

Date: 13/05/2020

Signed

.....

Director/Chief Executive Officer

Date: 13/05/2020

The Board of Directors is responsible for the preparation and presentation of these financial statements.

Signed for and on behalf of the Board of Directors by,

Signed

.....

Director

Date: 13/05/2020

Signed

.....

Director

Date: 13/05/2020

DIALOG FINANCE PLC**Statement of profit or loss and other comprehensive income**

(all amounts in Sri Lanka Rupees thousands)

	Three months ended 31 Mar		
	2020 (Unaudited)	2019 (Unaudited)	Change %
Interest income	56,382	53,600	5
Less: Interest expense	(18,472)	(22,216)	(17)
Net interest income	37,910	31,384	21
Fee and commission income	356	20,289	(98)
Net losses from trading	(537)	(117)	359
Other operating income	4,040	2,599	55
Total operating income	41,769	54,155	(23)
Less: Impairment charges and other losses	(33,381)	(33,009)	1
Net operating income	8,388	21,146	(60)
Less: Operating expenses			
Personnel expenses	(37,093)	(40,056)	(7)
Depreciation and amortisation	(10,862)	(9,105)	19
Other expenses	(32,807)	(35,730)	(8)
Operating loss before taxes on financial services	(72,374)	(63,745)	14
Tax reversal on financial services	-	1,475	(100)
Loss before tax for the period	(72,374)	(62,270)	16
Income tax reversal / (charge)	-	-	-
Loss for the period	(72,374)	(62,270)	16
Other comprehensive income			
Other comprehensive income that will not be reclassified to profit or loss:			
Actuarial gains on defined benefit plans	-	1,311	(100)
Deferred tax effect on actuarial gains on defined benefit plans	-	(367)	100
Other comprehensive income, net of tax	-	944	(100)
Total comprehensive income for the period, net of tax	(72,374)	(61,326)	18
Loss per share (Rs.)	(0.79)	(0.86)	

DIALOG FINANCE PLC**Statement of changes in equity**

(all amounts in Sri Lanka Rupees thousands)

	Stated capital	Retained earnings / Accumulated losses	Statutory reserve fund	General reserve	Fair value through other comprehensive income reserve	Shares pending allotment	Total
Balance at 1 April 2019	909,038	(86,851)	11,361		-	-	833,548
Loss for the period	-	(143,666)	-	-	-	-	(143,666)
Other comprehensive income, net of tax	-	(139)	-	-	1,471	-	1,332
Total comprehensive income for the period	-	(143,805)	-	-	1,471	-	(142,334)
Rights issue during the period	764,127	-	-	-	-	-	764,127
Rights issue expenses	-	(1,679)	-	-	-	-	(1,679)
Balance at 31 December 2019	1,673,165	(232,335)	11,361	-	1,471	-	1,453,662
Balance at 1 January 2020	1,673,165	(232,335)	11,361	-	1,471	-	1,453,662
Loss for the period	-	(72,374)	-	-	-	-	(72,374)
Shares pending allotment	-	-	-	-	-	701,345	701,345
Balance at 31 March 2020	1,673,165	(304,709)	11,361	-	1,471	701,345	2,082,633
Balance at 1 April 2018	309,889	28,767	11,361	60,000	-	-	410,017
Impact of adopting SLFRS 9 at 1 April 2018	-	(45,926)	-	-	-	-	(45,926)
Restated balance under SLFRS 9 at 1 April 2018	309,889	(17,159)	11,361	60,000	-	-	364,091
Rights issue during the period	599,149	-	-	-	-	-	599,149
Loss for the period	-	(67,140)	-	-	-	-	(67,140)
Balance at 31 December 2018	909,038	(84,299)	11,361	60,000	-	-	896,100
Balance at 1 January 2019	909,038	(84,299)	11,361	60,000	-	-	896,100
Loss for the period	-	(62,270)	-	-	-	-	(62,270)
Other comprehensive income, net of tax	-	944	-	-	-	-	944
Total comprehensive expense for the period	-	(61,326)	-	-	-	-	(61,326)
Transferred to retained earnings	-	60,000	-	(60,000)	-	-	-
Rights issue expense	-	(1,226)	-	-	-	-	(1,226)
Balance at 31 March 2019	909,038	(86,561)	11,361	-	-	-	833,548

The notes on pages 5 to 10 form an integral part of these financial statements.

DIALOG FINANCE PLC**Statement of cash flows**

(all amounts in Sri Lanka Rupees thousands)

	Three months ended 31 Mar	
	2020	2019
	(Unaudited)	(Unaudited)
Cash flows from operating activities		
Loss before income tax	(72,374)	(62,270)
Adjustment for,		
Interest expenses	18,472	22,216
Depreciation and amortization	10,862	9,105
Provision for retirement benefits obligation	468	732
Net loss from financial assets at fair value through profit or loss	537	117
Interest on lease liability	1,067	2,475
Profit on disposal of property plant and equipment	-	(400)
Impairment charges and other losses	33,381	33,009
	(7,587)	4,984
Operating (loss) / profit before working capital changes		
Decrease / (Increase) in loans and advances	118,199	(34,833)
Decrease in other assets	50,865	80,365
Increase in deposits from customers	42,545	163,101
Decrease in trade and other payables	(1,988)	(378,267)
	202,034	(164,650)
Cash generated from / (used in) operations		
Interest paid	(16,152)	(21,710)
Payment of retirement gratuity	(114)	(471)
	185,768	(186,831)
Net cash generated from / (used in) operating activities		
Cash flows from investing activities		
Acquisition of property plant and equipment	(84)	(39,384)
Proceeds from sale of property plant and equipment	-	400
Acquisition of intangible assets	(3,574)	-
Net Investment in treasury bills	38	(35)
Net cash flows from securities purchased under repurchased agreement	(553)	(3,053)
Net placements with banks and financial institutions	166,329	186,865
Proceeds from sale of financial assets at fair value through profit or loss	56	-
	162,212	144,794
Net cash generated from investing activities		
Cash flows from financing activities		
Proceeds from the rights issue -pending allotment	701,345	-
Repayment of lease liability	(3,173)	(3,385)
	698,172	(3,385)
Net cash generated from / (used in) financing activities		
Net increase / (decrease) in cash and cash equivalents	1,046,152	(45,422)
Cash and cash equivalents at the beginning of the period	129,419	137,126
	1,175,571	91,704
Cash and cash equivalents at the end of the period		
Analysis of cash and cash equivalents at the end of the period		
Cash and bank balances	1,175,590	91,718
Less: Impairment provision	(19)	(14)
	1,175,571	91,704

The notes on pages 5 to10 form an integral part of these financial statement

DIALOG FINANCE PLC

Financial reporting by segment

(all amounts in Sri Lanka Rupees thousands)

For the three months ended 31 March	Leasing and Hire purchase		Treasury / Investments		Margin Trading		Other loan and advance		Device Financing		Unallocated		2020	Total 2019
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019		
Net interest income	1,493	2,130	6,821	8,761	2,076	1,415	15,415	384	12,105	18,694	-	-	37,910	31,384
Net fees and commission income	10	26	-	-	-	-	395	707	(49)	19,556	-	-	356	20,289
Net other income / (expense)	296	583	(537)	(112)	-	-	3,694	1,444	-	-	50	567	3,503	2,482
Operating income by segment	1,799	2,739	6,284	8,649	2,076	1,415	19,504	2,535	12,056	38,250	50	567	41,769	54,155
Total operating income	1,799	2,739	6,284	8,649	2,076	1,415	19,504	2,535	12,056	38,250	50	567	41,769	54,155
Impairment reversal / (expense)	1,457	11,687	-	43	(6)	558	(7,152)	13,799	(27,680)	(59,096)	-	-	(33,381)	(33,009)
Net operating income	3,256	14,426	6,284	8,692	2,070	1,973	12,352	16,334	(15,624)	(20,846)	50	567	8,388	21,146
Operating expenses	(1,548)	(3,290)	-	-	(2,407)	(1,799)	(18,424)	(9,338)	(10,428)	(21,303)	-	-	(32,807)	(35,730)
Depreciation and amortisation	(512)	(838)	-	-	(797)	(458)	(6,100)	(2,380)	(3,452)	(5,428)	-	-	(10,862)	(9,105)
Segment result	1,196	10,298	6,284	8,692	(1,134)	(284)	(12,172)	4,616	(29,504)	(47,577)	50	567	(35,281)	(23,689)
Personnel expenses													(37,093)	(40,056)
Loss from operations													(72,374)	(63,745)
Tax reversal on financial services													-	1,475
Loss for the period													(72,374)	(62,270)
Other information														
Balance at 31 March														
Segment assets	41,139	92,270	849,104	335,322	63,983	50,445	489,725	261,866	277,201	597,390	1,333,026	294,731	3,054,178	1,632,024
Total assets	41,139	92,270	849,104	335,322	63,983	50,445	489,725	261,866	277,201	597,390	1,333,026	294,731	3,054,178	1,632,024
Segment liabilities	45,833	73,531	-	-	71,283	40,200	545,601	208,683	308,828	476,063	-	-	971,545	798,477
Total liabilities	45,833	73,531	-	-	71,283	40,200	545,601	208,683	308,828	476,063	-	-	971,545	798,477

DIALOG FINANCE PLC

Notes to the condensed interim financial statements

(all amounts in the notes are in Sri Lanka Rupees thousands unless otherwise stated)

1 Basis of preparation

The condensed interim financial statements for the three months ended 31 March 2020 of the Company have been prepared in accordance with Sri Lanka Accounting Standard LKAS 34, 'Interim Financial Reporting'. The condensed interim financial statements should be read in conjunction with the audited financial statements for the nine months ended 31 December 2019.

There were no changes to the accounting policies since the publication of the audited financial statements for the nine months ended 31 December 2019.

2 Change of balance sheet date

The Company has changed its balance sheet date from 31 March to 31 December, in order to align balance sheet date of the Company with that of its holding company, Dialog Axiata PLC.

3 Events after the reporting period

No material events occurred after the balance sheet date that require adjustments to or disclosure in the financial statements other than those disclosed in note 5.

4 Significant unusual events or transactions affecting assets, liabilities, equity, net income or cash flows

COVID - 19 pandemic has resulted in a substantive shift in management's focus towards ensuring the continued safety of people, uninterrupted services to customers, compliance with guidelines issued by various government authorities and continuity of critical business operations in line with our re-assessed business continuity plan.

The outbreak and the associated developments impacted the business, our customers and staff due to restrictions on movement and economic slowdown. The Company remains committed to support the personal and corporate customers, in accordance with the relief measures in the form of debt moratoriums, published by the CBSL to assist businesses and individuals affected by COVID - 19.

The current unprecedented situation is yet evolving and the future impact will heavily depend on the duration of current restrictive environment and time taken for economic activity to rebound to pre COVID - 19 levels. Lower lending and transaction volumes due to volatility or weakness in the capital market, will also be key determinants of the future impact on our business. Based on present trends, we expect an adverse impact on expected credit losses resulting from weakening economic growth and related macroeconomic factors. The Board of Directors and management are in the process of developing strategies to minimize the negative impact on the Company and is committed to take steps which are deemed necessary to support economic growth whilst ensuring business growth within the applicable regulatory framework.

The Company does not consider it practical to provide a quantitative estimate of the potential impact in the current context.

5 Contingent liabilities

There were no material contingent liabilities as at the reporting date which require adjustments to / or disclosures in the financial statements.

6 Proposed rights issue

The Board of the Directors of the Company resolved on 14 October 2019 to issue up to 17,446,388 shares by way of a Rights Issue for which shareholder approval was obtained at an Extraordinary General Meeting held on 2 March 2020. The purpose of the Rights Issue is to increase the core capital in compliance with the Finance Business Act (Minimum Core Capital) No 02 of 2017 issued by the Central Bank of Sri Lanka. These shares are to be issued at a price of Rs. 40.20 per ordinary share, and the proportion in which shares are to be issued is 17 (Seventeen) new ordinary shares for every 89 (Eighty Nine) ordinary shares held.

The Rights Issue was scheduled to be completed in March 2020. The Company received rights issue subscription funds amounted to Rs. 701 million from its shareholders in March 2020. However, the Company was unable to conclude the Rights Issue during March 2020 due to the market holidays declared by the Colombo Stock Exchange ('CSE') from 23 March 2020 onwards in view of the curfew in the Colombo district. The formalities pertaining to the Rights Issue shall duly reconvene upon the CSE re-opening the market for trading.

DIALOG FINANCE PLC

Notes to the condensed interim financial statements (Continued)

7 Fair value of financial instruments

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

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

Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities

Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable

Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

	Measurement criteria and the fair value					
	Level 1		Level 3		Total	
	31 Mar 2020	31 Dec 2019	31 Mar 2020	31 Dec 2019	31 Mar 2020	31 Dec 2019
Financial assets						
Financial assets at fair value through profit or loss	693	1,286	-	-	693	1,286
Financial assets at fair value through other comprehensive income	-	-	1,980	1,980	1,980	1,980

8 Market price per share

For the three months ended 31 March	2020	2019
	Rs.	Rs.
- Highest	42.70	49.90
- Lowest	30.10	33.10
- Last traded	35.00	35.50

9 The Finance business Act (Minimum Core Capital) Direction No.02 of 2017

The Company has not complied with Section 1.1 of the Finance Business Act (Minimum Core Capital) Direction No.02 of 2017 which requires the Company to maintain a Rs.2 billion unimpaired core capital by 1 January 2020. An extension was granted by the Central Bank of Sri Lanka (CBSL) to complete the proposed rights issue by 25 March 2020. Subsequently the Colombo Stock Exchange (CSE) halted trading in view of the curfew imposed by the Government as a measure to curb the COVID -19 outbreak which directly effects the Company's timeline to conclude the Rights Issue. The CBSL has granted the Company a further extension of the deadline until the prevailing situation returns to normalcy and CSE resumes trading. However, a cap of Rs.1 billion on total deposits including accrued interest payable was imposed on 28 January 2020 until the Company meets the minimum core capital requirement as per the above direction.

Notwithstanding the above, as a relief measure granted to LFCs to support COVID -19 affected segments, CBSL by Circular No. 24/01/015/0004/016 dated 31 March 2020, deferred the enhancement of minimum core capital requirement for LFC of Rs. 2 billion as at 1 January 2020 until 31 December 2020, provided that the LFCs maintain a minimum core capital above Rs. 1 billion. The Company as at date of the said Circular, is above the Rs. 1 billion threshold and therefore is currently compliant with the captioned Direction.

DIALOG FINANCE PLC

Notes to the condensed interim financial statements (Continued)

10 Twenty largest shareholders of the Company

Name of Shareholders	No. of shares	% Holding
1 Dialog Axiata PLC	90,309,767	98.88%
2 J.B.Cocoshell (Pvt) Ltd	209,496	0.23%
3 Mr.R.C.J Goonewardene	146,155	0.16%
4 Mrs.A.A.Raaymakers	25,000	0.03%
5 Mr.P.S.M Fernando	22,601	0.02%
6 Mr.L.C.Y Welikala	22,600	0.02%
7 Mr. R.E Rambukwella	22,476	0.02%
8 People's Leasing & Finance PLC /C.D.Kohombanwickramage	17,820	0.02%
9 Mr.K.N.Nandasiri / T.B.Ratna Sujeeva Tennakoon Banda	17,600	0.02%
10 Mr.B.C.N Mendis	14,727	0.02%
11 Mr.B.C.V Mendis	13,727	0.02%
12 Mr.S.L Paranamange	13,700	0.01%
13 Mr.T Thiruththanigainathan	12,344	0.01%
14 Mr.R.L.G Fernando	12,000	0.01%
15 Mr.N.S Wijesekara	11,813	0.01%
16 Mr.O.W.D Yasapala	11,000	0.01%
17 Mr.G.D.M Ranasinghe/ Mr.O.R.K Ranasinghe	10,000	0.01%
17 Mr.H.V.S.M Navaratne	10,000	0.01%
19 Mr.T.D Mahaliyana	9,940	0.01%
20 Bansei Securities Capital (Pvt) Ltd/ R.C.J. Goonewardene	8,087	0.01%
	90,920,853	99.54%
Others	416,121	0.46%
Total	91,336,974	100.00%

11 Directors' shareholdings

None of the Directors and their close family members held any shares in the Company as at 31 March 2020.

12 Public shareholdings

Information pertaining to public shareholding is as follows:

	31 Mar 2020	31 Mar 2019
Public holding percentage	1.12%	1.12%
Number of public shareholders	743	779
Float adjusted market capitalisation (Rs.)	35,804,094	28,720,165

- (a) The Company is not compliant with the Minimum Public Holding requirement under option 2 of Rule 7.13.1(b) of the Listing Rules of the Colombo Stock Exchange ("CSE"). Accordingly, the Company was transferred to the Second Board on 10 February 2020.

DIALOG FINANCE PLC**Notes to the condensed interim financial statements (Continued)****13 Rights issue funds utilisation as at 31 March 2020****13.1 Right issue - April 2019**

Objective number	Objective as per circular	Amount allocated as per circular Rs.	Proposed date of utilisation as per circular	Amount allocated from proceeds Rs. (A)	% of total proceeds	Amounts utilised Rs. (B)	% of utilisation against allocation (B/A)	Clarification if not fully utilised including where the funds are invested
1	To utilise for lending purpose	762,586,320	Financial year 2019/20	762,446,843	99.78%	45,371,164	6%	Remaining funds are placed with banks and financial institutes
2	Expenses relating to the R/I	1,540,000	Financial year 2019/20	1,679,477	0.22%	1,679,477	100%	-

DIALOG FINANCE PLC**Selected performance indicators**

Item	As at 31 Mar 2020	As at 31 Mar 2019
Regulatory capital adequacy		
Core capital (Tier I capital), Rs. '000	2,065,785	909,795
Tier I capital (after adjustments), Rs. '000	1,945,950	811,790
Total capital base, Rs. '000	1,945,950	811,790
Risk weighted assets, Rs. '000	1,981,895	1,820,541
Core capital adequacy ratio		
(As a % of risk weighted assets - Minimum requirement – 2020 - 6.5%, 2019 – 6%)	98.19%	44.59%
Total capital adequacy ratio		
(As a % of risk weighted assets - Minimum requirement – 2020 - 10.5%, 2019 - 10%)	98.19%	44.59%
Capital funds to deposit liabilities ratio		
(Minimum requirement, 10%)	271%	105%
Assets quality (quality of loan portfolio)		
Gross non-performing accommodations, Rs. '000	560,829	329,675
Gross non-performing accommodations ratio, %	41.82%	24.84%
Net-non-performing accommodations ratio, %	8.18%	7.04%
Profitability		
Interest margin, %	6.57%	8.79%
Return on assets (before taxes), %	-8.76%	-6.93%
Return on equity (after taxes), %	-13.94%	-13.77%
Regulatory liquidity (Rs. '000)		
Required minimum amount of liquid assets	91,000	63,329
Available amount of liquid assets	1,746,474	212,226
Required minimum amount of government securities	55,147	61,582
Available amount of government securities	76,761	81,742
Memorandum information		
Number of employees	149	175
Number of branches	2	2

Corporate Information

Name of the Company

Dialog Finance PLC

Legal Form and Stock Exchange Listing

A Public Quoted Company with Limited Liability which was quoted on the Diri Savi Board of the Colombo Stock Exchange on 4th October 2011 and subsequently transferred to the Second Board on 10th February 2020.

Date of Incorporation

25 November 1981

Company Registration No.

PB 765 PQ

Board of Directors

Dr. Hans Wijayasuriya - Chairman

Mr. Supun Weerasinghe

Mr. Roshan Hettiaratchi

Mr. Priyan Edirisinghe

Mr. Sheyantha Abeykoon

Mr. Asanga Priyadarshana - CEO / Director

Registered Office

No. 475, Union Place, Colombo 2

Principal Office

2nd Floor, Parkland 01, No. 33, Park Street, Colombo 02.

Tel : + 94 11 4317317

Fax :+ 94 11 4317335

E-mail: financialservice@dialog.lk

Bankers

Seylan Bank PLC

Commercial Bank of Ceylon PLC

Nations Trust Bank PLC

Bank of Ceylon

Cargills Bank Ltd

People's Bank

Hatton National Bank PLC

National Development Bank PLC

Auditors

Messrs. PricewaterhouseCoopers

Chartered Accountants

100, Braybrooke Place

Colombo 02, Sri Lanka

Credit Rating

AA (Ika) was affirmed by Fitch Ratings Lanka Ltd

Tax Payer Identification Number (TIN)

104079687