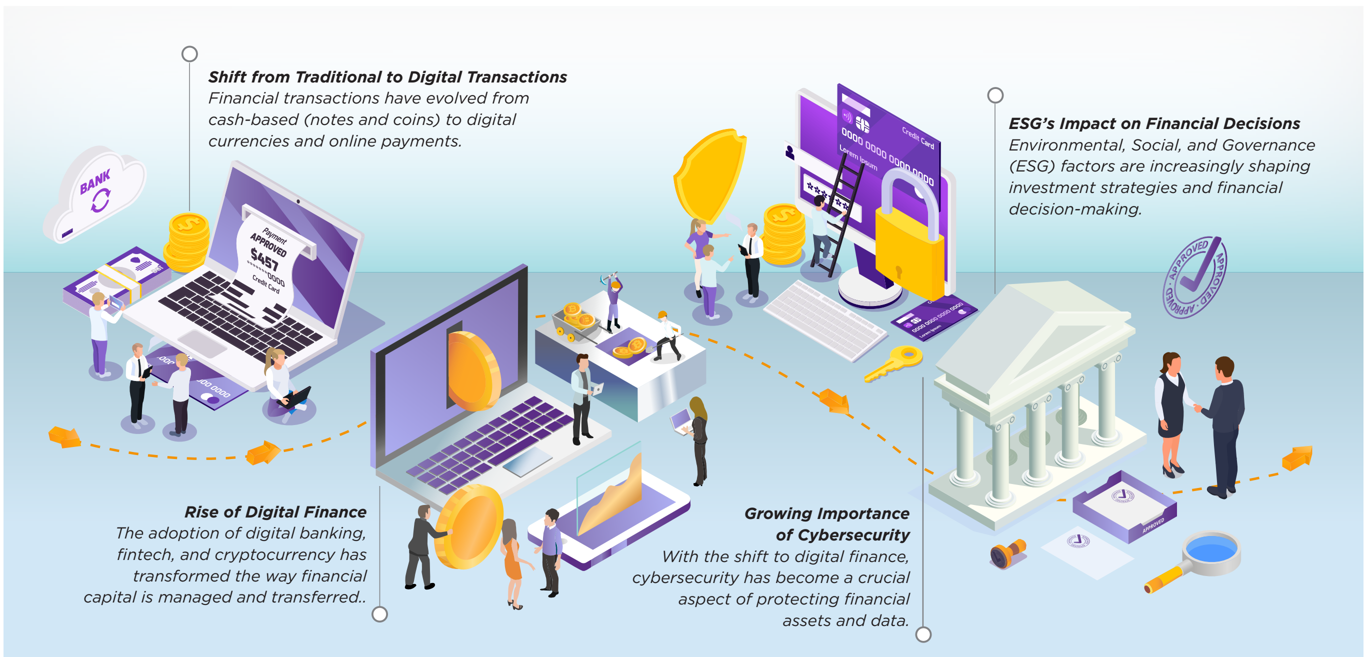
FINANCIAL CAPITAL

GRI	2-23	2-27	3-3
<IR>	2C		
UNGC	1	2	

EVOLUTION AND MANAGEMENT OF FINANCIAL CAPITAL IN THE DIGITAL ERA

Financial capital is the cornerstone of a company's operations and growth. It fuels investment, drives innovation, and enables expansion, steering the organization toward its strategic objectives. Like any resource, financial capital has evolved over time—from physical coins and paper currency to digital transactions and cryptocurrencies. This transformation necessitates a shift in how we manage financial resources. With the rise of digital finance, companies must adopt stringent control procedures, enhanced financial oversight, and adaptive management strategies to ensure security, efficiency, and sustainability in an ever-changing financial landscape.



CHALLENGE TO CHANGE PROCESS

SLI strategically employs financial capital to navigate challenges, converting them into opportunities for innovation and growth through prudent investments, risk management, and value-driven financial strategies.

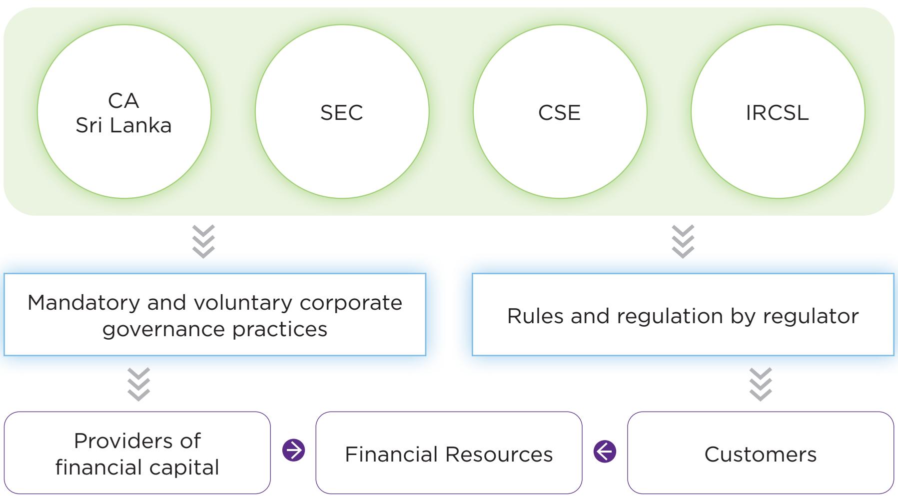
The Resources We Used	The Steps We Took	The Results We Achieved
Financial resources at the beginning of the year	Management of financial capital	Financial resources at the end of the year

1. GOVERNANCE OF FINANCIAL CAPITAL

The company has complied with many mandatory and voluntary governance frameworks, all of which emphasize safeguarding the interests of financial capital providers. In an effort to protect customers' interests, regulators have implemented stringent rules and regulations stipulating how life insurers should manage their financial resources. Our company has duly complied with these requirements, ensuring robust financial oversight and management.

Effective governance of financial capital involves a multifaceted approach. It includes adherence to regulatory standards, transparent reporting practices, and the implementation of risk management strategies. By aligning with these frameworks, the company not only secures the trust of its investors but also fosters a stable financial environment conducive to sustainable growth.

Furthermore, the governance of financial capital extends beyond compliance. It encompasses ethical decision-making, accountability, and continuous improvement in financial practices. As we navigate the complexities of modern finance, our commitment to these principles remains unwavering, ensuring that we not only meet regulatory expectations but also uphold the highest standards of integrity and excellence in financial management.



2. MANAGEMENT OF FINANCIAL CAPITAL

Management of financial resources is one of the core business activities as we manage funds for long-term insurance commitments. In delivering this key objective, we place considerable emphasis on managing long-term assets and liabilities, cash flow management, and segregation of financial resources between policyholder and shareholder funds.

Furthermore, financial risk management is crucial given the challenging operating environment. We have given special consideration to the management of financial resources during our corporate planning cycle to formulate a solid strategy for managing these aspects. By effectively balancing and mitigating financial risks, we strive to ensure the stability, security, and growth of our financial capital. This rigorous approach allows us to meet our long-term commitments and reinforces our dedication to providing sustained value to both policyholders and shareholders.

2.1 Capital and liquidity management

In order to strengthen its capital position, SLI used two financing methods as described below:

Financial re-insurance

In March 2020, the Company entered into a Financial Reinsurance transaction of USD 15 million with Münchener Rückversicherungs-Gesellschaft – MunichRe, one of the top providers of reinsurance, primary insurance, and insurance-related risk solutions in the world. This arrangement leverages the top-quality portfolio of the Company and is viewed as an innovative, market-leading transaction in the South Asian Life and Health Reinsurance arena.

Tier II Subordinated Debt

In addition to the financial reinsurance transaction, Softlogic Life has further bolstered its capital position through a significant Tier II Subordinated Debt transaction. Development Financial Institutions, including the Finnish Fund for Industrial Cooperation Ltd (Finnfund) and the Norwegian Investment Fund for Developing Countries (Norfund), have collectively signed a USD 15 million Tier II Subordinated Debt deal with the company. This strategic move not only enhances the company's financial flexibility but also underscores the confidence of renowned international investors in Softlogic Life's robust financial management and future prospects.

Dividend policy

According to the dividend policy of the company, it distributes 50% of profit after tax as dividend.

Share buyback

Share buyback is a key component of our capital management strategy. To enhance capital efficiency and maximize shareholder value, the company repurchased shares worth of Rs 6 billion. This strategic decision not only strengthened shareholder returns but also safeguarded customer obligations, allowing us to close the year with a strong and healthy financial position.

Regulatory capital performance

The detailed analysis below demonstrates that the company has consistently met regulatory requirements while effectively managing its liquidity position, ensuring financial stability and operational efficiency.

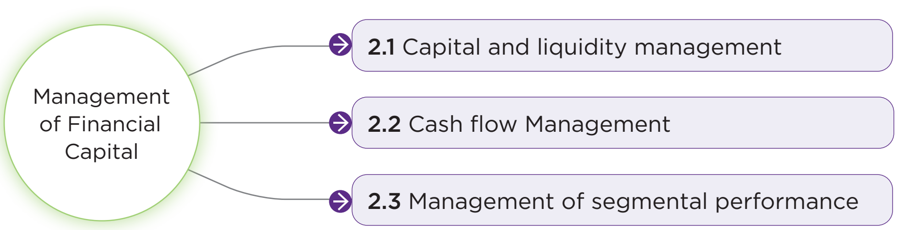


Table 18: Capital Adequacy Ratio (CAR)

Rs Mn	2024	2023	2022
Total Available Capital (TAC) (Rs Mn)	**31,892**	37,107	32,302
Risk Based Capital requirement(RCR) (Rs Mn)	**10,704**	10,113	11,262
Risk Based Capital Adequacy Ratio (CAR) %	**298**	367	287
Required minimum Capital Adequacy Ratio (CAR) Ratio %		**120**	

The Statement of Solvency is prepared in accordance with Solvency Margin (Life Insurance) Rules 2015 and amendments thereto. The Company maintained healthy Solvency Margins throughout the year, well above the stipulated solvency margin requirement, adding a greater degree of confidence to the security of policyholders' liability.

The Company consistently exceeded the regulatory Capital Adequacy Ratio (CAR) requirement of 120%, demonstrating its robust financial management. In 2023, the CAR ratio was maintained at three times the required level, reflecting a solid capital position. In 2024, the Company strategically executed a share buyback worth Rs. 6 billion to effectively utilize excess capital and enhance shareholder value. Even after this significant capital distribution, the CAR ratio remained at a strong 298%, nearly two and a half times the regulatory requirement.

This highlights the Company's ability to optimize capital usage while ensuring financial strength and policyholder protection. The maintenance of a high solvency buffer despite capital adjustments reflects the Company's prudent risk management approach, reinforcing its commitment to sustainable financial health and long-term stability.

Table 19: Statement of Approved Assets

Rs Mn	2024	2023	2022
Approved assets maintained in business (Rs Mn)	**36,348**	37,888	30,787
Life Insurance fund (Rs Mn)	**31,909**	27,036	24,469
Approved assets in excess of the insurance fund (Rs Mn)	**4,439**	10,852	6,319
Approved assets as a % of insurance fund	**114**	140	126
Required Ratio %		**100**	

The above numbers were calculated as per Section 25 (1) of the regulation of Insurance Industry Act No.43 of 2000 and the determination made by the IRCSL in terms of the said Act. It is observed that the Company comfortably met the approved asset criteria throughout the year.

Table 20: Investment in Government Securities as % of Life Fund

Rs Mn	2024	2023	2022
Life Insurance fund (Rs Mn)	**31,909**	27,036	24,469
Investment in government securities (Rs Mn)	**22,573**	26,014	16,319
Investment in government securities as % of Life fund	**71**	96	67
Required Ratio %		**30**	

The above analysis shows how the Company maintained a portfolio of government securities above the required level, emphasizing our risk mitigation actions within the market of ever increasing risk. This strategic allocation not only ensures compliance with regulatory requirements but also fortifies the Company's financial stability. By maintaining investments in government securities significantly higher than the minimum percentage required, we demonstrate a proactive approach to safeguarding our policyholders' interests amidst volatile market conditions.

Capital Structure

Company's capital structure analysis in below table 21.

Table 21: Leverage and Capital Structure

Rs Mn	2024	%	2023	%
Stated capital	**1,063**	**8%**	1,063	6%
Restricted regulatory reserve	**798**	**6%**	798	4%
Other reserves	**(764)**	**-6%**	(2,145)	-12%
Retained earnings	**9,258**	**69%**	13,618	75%
Total equity	**10,355**	**77%**	13,333	73%
Loans and borrowings	**3,016**	**23%**	5,015	27%
Total Capital Employed	**13,371**	**100%**	18,348	100%

Total capital employed stood at Rs. 13 billion compared to Rs 18 billion last year, resulting in the partial settlement of loan and borrowings during the year. Retained earnings have dropped by Rs 4.4 billion as a result of a share buy-back of Rs 6 billion and dividends paid, which is partly offset by PAT of Rs 4.5 billion recorded this year. Out of the total capital employed, equity capital represents 77%, showcasing a healthy capital position.

Debt to equity ratio

Financial leverage, measured as the debt-to-equity ratio, represents a healthy 29.1%. Compared to previous year 37.6% it shows significant drop due to partial settlement of outstanding debt during the year.

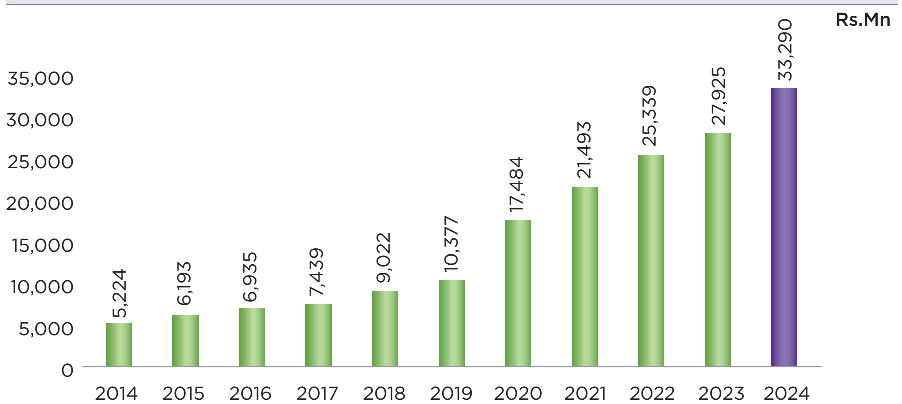
Financial risk management

Financial risk evaluation and management practices established are discussed in page no 354 to 380.

Insurance contract liabilities

The Life Insurance contract liabilities refer to the reserves built to meet the future claims and maturities of Life Insurance policyholders. Life Insurance contract liabilities of the Company stood at Rs. 33.3 billion in 2024, with an increase of 19% compared to 2023.

INSURANCE CONTRACT LIABILITY



Actuarial Valuation of Insurance Contract liability

According to the regulatory requirement, insurance contract liabilities are required to be valued by the actuary. The valuation of the Life Fund was conducted by the appointed independent Consultant Actuary Mr. M. Kunj Behari Maheshwari from Towers Watson India Private Limited, a Willis Towers Watson. Details of the actuarial report appear on Page 268 of this annual report.

Table 22: Insurance Contract Liabilities

Rs Mn	2024	2023	G%
Insurance contract liabilities	**31,234**	**26,145**	19%
Surplus Created due to, Change in Valuation method from NPV to GPV - Participating Fund	**1,057**	**1,057**	0%
Claims Payables	**1,000**	**724**	38%
Total	**33,290**	**27,926**	19%

Surplus Created due to Change in Valuation method from NPV to GPV – Participating fund

As per the directions 16 issued by the Insurance Regulatory Commission of Sri Lanka (IRCSL), the surplus created due to change in valuation method from NPV to GPV in the participating fund is retained as a separate reserve under insurance contract liabilities. This ensures that the financial benefits are adequately preserved and accounted for in alignment with regulatory standards.

Liability Adequacy Test (LAT) Valuation

The Liability Adequacy Test (LAT) was conducted for the Life Insurance Reserves as required by SLFRS 4 – Insurance Contracts, to identify whether the recorded reserves are adequate to meet future liabilities. The actuary concluded that there is no requirement to provide additional reserves as the reserve available is sufficient to meet future policyholders' liabilities. Refer page 269 for actuaries report on LAT.

Total assets

Total assets experienced a growth of 4%, increasing to Rs 53.6 billion from Rs 51.3 billion in 2023. This marginal increase reflects the impact of strategic financial decisions undertaken during the year. While asset growth is typically influenced by various operational and investment activities, the relatively lower increase in total assets was primarily attributed to asset distribution through the share buyback program. This initiative, aimed at optimizing capital structure and enhancing shareholder value, led to a redistribution of resources, thereby moderating the overall asset expansion. Despite this, the company maintained a strong financial position, with a steady asset base supporting ongoing business operations and future growth initiatives. The measured approach to asset management reflects a balance between returning value to shareholders and sustaining financial stability. This prudent strategy ensures that the company remains well-positioned to navigate market conditions while continuing to generate long-term value for stakeholders.

Assets composition and liquidity

Detailed break up financial investments is provided under financial statements no 29 on page 312 while its maturity profile is available under note 48.4.3.1 of page 370.

2.2 Cash flow management

Management of cash flow is of paramount importance for us to build customer confidence by paying claims on time, while settling dues to other stakeholders in a timely manner. The table below analyses how we have managed the cash flow during the year. The effective management of our cash flow has enabled us to maintain a stable and liquid financial position, even amidst the challenges faced during the year. This strategic approach ensures that we are well-positioned to meet both our policyholders' claims and our obligations to other stakeholders.

Rs Mn	2024	2023	G%
Net cash generated from operating activities	**6,147**	1,688	264%
Net cash flows used in investing activities	**5,330**	292	1726%
Cash flows from financing activities			
Repurchase of ordinary voting shares	**(6,000)**	-	100%
Dividend paid to equity holders	**(2,830)**	(1,313)	116%
Repayment of long term borrowings	**(1,454)**	-	100%
Principal Payment of lease liabilities	**(414)**	(376)	10%
Net increase / (Decrease) in cash and cash equivalents	**778**	291	167%

Net operating cash flow surged to Rs 6 billion, a significant increase from Rs 1.7 billion in 2023, reflecting a 264% growth. This substantial rise was primarily driven by the growth in Gross Written Premium (GWP), along with the benefit of lower claims ratios compared to the previous year. During the year, the company realized net investments worth Rs 5.3 billion, which were strategically utilized for Share buyback: Rs 6 billion, Dividend payments: Rs 2.8 billion and Loan settlement: Rs 1.5 billion As a result, the company recorded a net cash increase of Rs 778 million for the year.

2.3 Management of segmental performance

The company meticulously monitors its operational efficiency through two key segments: the 'Policyholder Fund' and the 'Shareholder Fund'. These segments act as critical benchmarks for strategic direction. By delving into the financial intricacies, the following summary provides a comprehensive overview of the company's financial position and operational performance across these segments. This analysis offers stakeholders valuable insights into the company's overall performance, efficiency, and future trajectory.

Table 23: Segmental information

Rs Mn	Policyholder Fund		Shareholder Fund		Company	
	2024	2023	2024	2023	2024	2023
Net Revenue	**36,207**	29,619	**2,238**	2,179	**38,444**	31,799
Profit Before Tax	**4,287**	3,015	**2,045**	182	**6,332**	3,197
Total Assets	**39,927**	39,400	**13,668**	11,939	**53,594**	51,339
Cash flows from operating activities	**(4,148)**	2,282	**10,295**	(594)	**6,147**	1,688

Policyholder funds reflect the financial results of our interactions with customers, ranging from the sale of insurance policies to claim payments or maturities. Surplus evaluation occurs post-actuarial valuation, verified by external actuaries as detailed on page 268. Comprehensive analysis of this segment, covering key risks, strategies, performance assessment, and key value drivers, is presented on page 380. Further scrutiny of financial details, encompassing income statements, financial position, and cash flows, is available on pages 275 to 279.

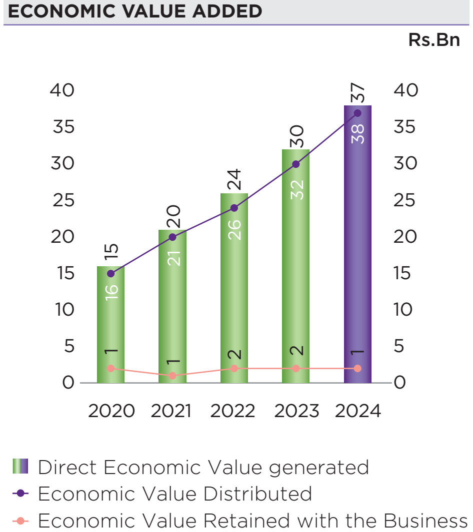
The Shareholder Fund is established to acknowledge the surplus generated by policyholder funds. Its primary function is investment management, governed by the company's investment management policy and overseen by the board of investment committee. Shareholder dividends are declared through this fund.

3. SEGMENT STRATEGIES AND RISK MANAGEMENT

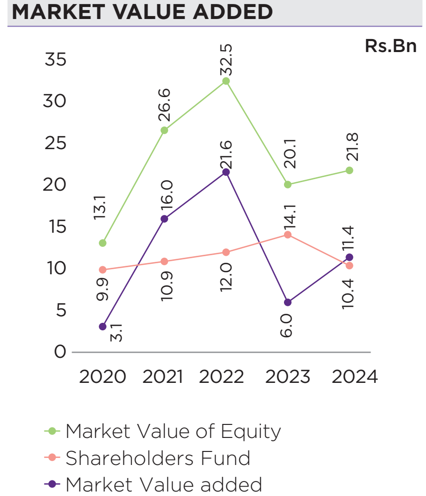
The Policyholder Fund is strategised under four strategic pillars as discussed on page 91. Risks and opportunities are identified on pages 52 to 90. Further financial risk management concerning its investment portfolio and insurance risk is detailed on pages 72 to 79.

The Shareholder Fund is created to separate shareholder value creation from policyholders in monetary terms. Hence, increasing policyholder value eventually increases shareholder value as well. However, risk management may differ based on the financial instruments the Shareholder Fund carries, which is also covered under financial risk management on page 359.

ECONOMIC VALUE ADDED



MARKET VALUE ADDED



- **Economic Value Added (EVA)** reflects the company's ability to generate value beyond its economic costs. It is derived from the direct economic value generated and the value distributed, with the retained amount indicating financial sustainability.
- **Market Value Added (MVA)** measures the market's perception of the company's performance by comparing the market value of equity with shareholders' funds. A higher MVA indicates strong investor confidence and value creation.

4. FUTURE FOCUS

Short term target	Medium to long term view
GWP growth – >15 %	GWP growth – >15 %
ROE – >20%	ROE – >20%
Capital Adequacy Ratio – >160%	Capital Adequacy Ratio – >160% (Regulatory requirement 120%)
	Maintain adequate liquidity level with prudent risk management

Sustainable Performance

The Company has implemented many initiatives in line with our strategic objective of delivering sustainable profitable growth in the medium to long-term. These actions are discussed in Operational Review on page 38 and strategies are provided on page 91. We focus on maintaining strong financial performance through disciplined risk management and innovative solutions tailored to meet market demands. Additionally, our agility in adapting to regulatory changes and evolving market conditions underscores our commitment to long-term value creation for our stakeholders.

Financial risk management

The Company's robust risk management framework laid out on Page 56 of this report will protect our financial capital from being diminished due to internal and external events that could disturb the value creation process of the Company. We will further improve our risk management framework to capture all significant risks around us. Our risk management framework is illustrated on page 56.

Implementation of SLRS 17

The implementation of SLFRS 17 will have a significant impact on the insurance industry. Unlike previous standards, SLFRS 17 extends beyond financial reporting to include actuarial valuation, asset liability management, and risk management. The implications and requirements of SLFRS 17 will be felt across virtually every aspect of the insurance organization. These impacts range from the measurement of insurance contracts to recognition in financial statements and key metrics used to evaluate business performance. It is crucial for shareholders and other users of financial statements to understand SLFRS 17 and its implications moving forward.

As part of our commitment to educate relevant stakeholders, we periodically release technical updates and provide video content regarding the impacts of SLFRS 17 on Softlogic Life. Please refer to page 377 of this annual report to review the risks and challenges we face in terms of implementing SLFRS 17. Additionally, further content is available online to reach a wider audience of users.

SLFRS 17 Implementation impact on financial statement

Video version of impact SLFRS 17

Impact of changes in Sri Lanka Financial Reporting Standards

There are new and amended standards and interpretations that have been issued but are not yet effective as of the date of issuance of the Company's financial statements. Details are provided on page 284 of this report.

Horizontal and vertical analysis

Horizontal and vertical analysis on the statement of financial position and income statement over five years is presented on page 400. These analyses provide insight into the trends and financial health of the company by comparing financial data across different periods and breaking down each item as a percentage of the total. This comprehensive approach aids in understanding the company's financial trajectory and pinpointing areas of strength and potential concern.

Strategic planning and performance management

Strategic planning and performance management are fundamental pillars in ensuring sustained growth, long-term resilience, and financial stability. These components are critical in navigating an increasingly dynamic and competitive business environment, allowing organizations to adapt to emerging trends, mitigate risks, and capitalize on new opportunities. As a key driver of future financial capital value generation, our management team remains committed to continuously assessing the operational landscape, identifying potential challenges, and leveraging strategic insights to steer the business toward sustainable success.

To achieve this, we meticulously monitor internal and external factors that influence our business, ensuring our strategy remains relevant and responsive. By proactively analysing market trends, regulatory changes, and economic conditions, we are able to formulate a comprehensive business strategy that not only enhances operational efficiency but also drives long-term value creation across all areas of our operations.

Furthermore, our structured approach to strategic planning is complemented by a well-defined resource allocation framework, ensuring that investments, human capital, and operational capacities are aligned with our overarching objectives. This enables us to optimize performance, maximize shareholder value, and maintain a strong financial position.

For a more in-depth analysis of the external environment shaping our business decisions, please refer to Page 65, where we provide a detailed overview of our Environment Analysis. Additionally, the Strategy and Resource Allocation process is outlined on Page 91, offering insights into how we align our resources effectively to achieve our strategic objectives and sustain growth.

Simplified insurance financials

Insurance accounting is different from the accounting for a manufacturing or trading organization, due to the uniqueness of the business and terminology associated with the transactions. We have provided a detailed explanation of our financials for better understanding on page 394.

Taking a further step to familiarize insurance financials to stakeholders, we have introduced a gamification option. It is another revolutionary advancement we have brought to the industry, serving the communities surrounding us.

5. FINANCIAL CAPITAL CONTRIBUTION TO VALUE CREATION (TRADE OFF)

Financial capital is a key driver of our strategic priorities, enabling growth, innovation, and operational efficiency. Investments are directed towards digital transformation, customer-centric products, sustainability, and engagement initiatives to enhance service quality and long-term competitiveness. Funding is also allocated to product development and salesforce support, ensuring better customer acquisition and retention.

Relevance to Strategy

Financial resources are central in driving all our strategic pillars. Financial resources have been allocated to each strategic pillar based on the priority the management set for activities identified under each strategic pillar.

- Digital Transformation and Insurtech
- Personalization & Customer-Centric Products and Services
- Sustainability and ESG
- Customer engagement and preventive health

Creating a Value

Financial resources have been used in key value creating activities as describe below

- Cost incurred in product development and service quality enhancement resulted attraction of new customers.
- Employees, sales staff is well paid to keep them motivate and increase organization value.
- Investment in digital transformation including implementation of AI, RPA etc. enhance organizational value.

Connectivity and Trade-offs

The organization continues to balance stakeholder expectations and strategic priorities:

HUMAN CAPITAL:

- Payment of remuneration and spending on training and development .

+ Increase service quality and innovation increase GWP

SOCIAL & RELATIONSHIP CAPITAL:

- Acquisition cost paid to field and sales staff and claims paid to customer deplete financial resources

+ Generate more cash flows due to new customer acquisition

INTELLECTUAL CAPITAL:

- Investment in new technologies and brand building