



# FINANCIAL CAPITAL

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## MANAGEMENT APPROACH

Our financial management approach is governed by a robust risk management framework and investment policy that prioritises capital preservation, liquidity, and sustainable long-term returns, even within Sri Lanka's volatile economic context. We track our performance through key indicators such as solvency margins, regulatory capital adequacy ratios, and the consistent growth in our life fund and investment portfolio, ensuring we can meet all future claims and policyholder benefits.



### Gem Mining

Gem mining begins with faith, the quiet belief that something valuable lies hidden beneath the surface. It takes patience, courage, and careful judgement to bring a gem into the light. Not every stone shines immediately; it must be examined, refined, and protected before its true worth is revealed. Financial capital works in much the same way. It is built over time, strengthened through wise decisions, and safeguarded with care, transforming potential into lasting security for the future.

Acquisition of **First Subsidiary** to fuel the growth inorganically

Subordinate debt of **\$15 Mn** Raise during the year to capitalise future growth opportunities

## VALUE DRIVERS TO STRATEGIC IMPACT

### GOVERNANCE FRAMEWORK



#### Strategic Capital Infusion

- Retained Earnings
- Financial Reinsurance
- Cautious Dividend Policy
- Debt-Free Capital Structure



#### Value Addition Mechanisms

- Financial Reinsurance
- Cautious Dividend Policy
- Proactive Identification, Balancing & Mitigation of Financial Risks
- Liquidity Management
- Forward-Thinking Strategy to Protect Policyholders



#### Performance Milestones

- Safeguarding Financial Strength
- Effective Cash Flow Management
- Disciplined Capital Allocation
- Prudent Asset-Liability Management
- Financial Resilience



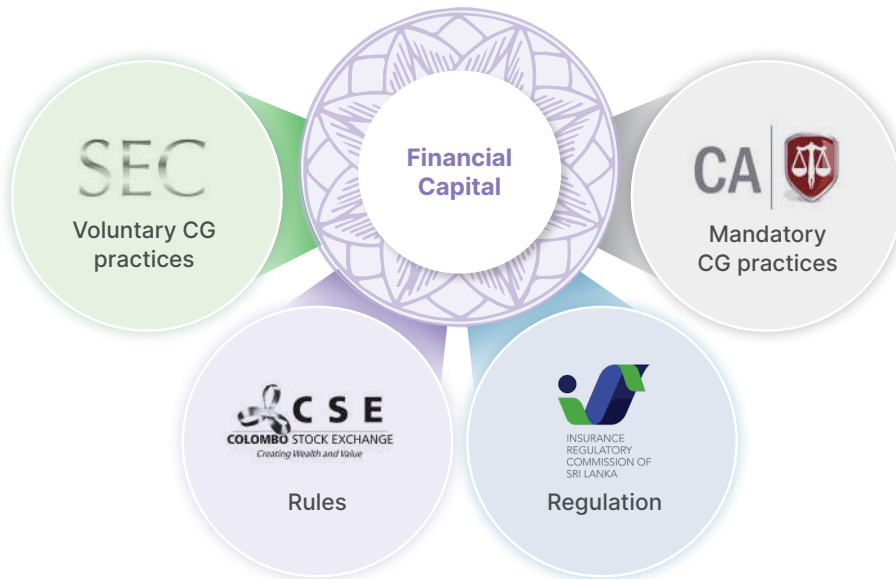
#### Strategic Impact

- Customer Retention
- Investor Confidence
- Sustained Value to Policyholders & Shareholders
- Long-Term Stability

**1. GOVERNANCE OF FINANCIAL CAPITAL**

The Group adheres to a wide range of mandatory and voluntary corporate governance frameworks, all of which underscore the protection of the interests of providers of financial capital. In the life insurance sector, regulators have established stringent rules governing the management of financial resources to safeguard policyholders’ interests. The Company has consistently complied with these regulatory requirements, ensuring strong financial oversight and disciplined financial management.

Beyond regulatory compliance, the governance of financial capital is guided by principles of ethical conduct, accountability, and continuous enhancement of financial practices. As the financial landscape continues to evolve, the Company remains firmly committed to these principles, ensuring that it not only meets regulatory expectations but also upholds the highest standards of integrity, prudence, and excellence in financial management.



**2. MANAGEMENT OF FINANCIAL CAPITAL**

The management of financial resources is a core business activity, reflecting the Company’s responsibility to meet long-term insurance obligations. In fulfilling this responsibility, significant emphasis is placed on the effective management of long-term assets and liabilities, prudent cash flow management, and the clear segregation of financial resources between policyholder and shareholder funds.

Given the challenging operating environment, robust financial risk management remains a critical priority. During the corporate planning cycle,

the Company gives focused attention to the management of financial resources, ensuring that strategies are carefully developed to address these complexities.

Through the proactive identification, balancing, and mitigation of financial risks, the Company seeks to preserve the stability, security, and sustainable growth of its financial capital. This disciplined approach enables the Company to meet its long-term commitments while reinforcing its commitment to delivering sustained value to both policyholders and shareholders.

- 2.1** Capital and liquidity management
- 2.2** Cash flow Management
- 2.3** Management of segmental performance

**2.1 Capital and liquidity management - strengthening resilience and optionality**

The Group has bolstered its capital position organically by adopting a cautious dividend policy and externally through creative financing strategies. These initiatives include Sri Lanka’s inaugural financial re-insurance arrangement as well as a subordinate debt scheme.

**2.1.1 Dividend policy**

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

**2.1.2 Tier II Subordinated Debt**

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.

During 2025 the Group fully settle the loan as per the agreement and the investor confident build resulted to renewing agreement for same value for further 5 years. As at the reporting date, however, the renewed facility had not yet been drawn down. 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.

## FINANCIAL CAPITAL

### 2.1.3 Key value driver

Liquidity management is a key priority and highly regulated through various laws and regulations. We regularly monitor and report to IRCSL quarterly basis.

#### 2.1.3.a Capital Adequacy Ratio (CAR)

Table 25: Capital Adequacy Ratio (CAR)

Rs Mn	2025	2024	2023
Total Available Capital (TAC) (Rs Mn)	32,425	31,892	37,107
Risk Based Capital requirement (RCR) (Rs Mn)	13,229	10,704	10,113
Risk Based Capital Adequacy Ratio (CAR) %	245	298	367
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 policyholder's liability.

The Company has consistently surpassed the regulatory Capital Adequacy Ratio (CAR) requirement of 120%, underscoring its prudent financial stewardship and robust risk management framework throughout periods of organic growth and strategic expansion. In 2025, Softlogic Life maintained a CAR of 245%, representing more than double the minimum regulatory threshold even after completing the acquisition of Softlogic Insurance Lanka Limited for a purchase consideration of Rs. 1,426 million. This exceptional capital discipline demonstrates the strength of the Company's balance sheet and its capacity to deploy capital for value accretive opportunities while preserving substantial buffers against unforeseen contingencies. The maintenance of such a strong CAR post acquisition is further testament to the Company's solid liquidity position and its ability to fund strategic initiatives without compromising regulatory compliance or policyholder security. This financial resilience provides the Group with significant headroom to support future growth aspirations, navigate macroeconomic uncertainties, and deliver sustainable long-term value to shareholders and policyholders alike.

This performance showcases the Company's ability to manage capital efficiently while safeguarding financial strength and policyholder interests. Maintaining a high solvency buffer despite capital changes reflects prudent risk management and underscores the Company's commitment to sustainable financial health and long term stability.

#### 2.1.3.b Statement of Approved Assets

Table 26: Statement of Approved Assets

Rs Mn	2025	2024	2023
Approved assets maintained in business (Rs Mn)	40,907	36,348	37,888
Life Insurance fund (Rs Mn)	36,147	31,909	27,036
Approved assets in excess of the insurance fund (Rs Mn)	4,760	4,439	10,852
Approved assets as a % of insurance fund	113	114	140
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.

### 2.1.3.c Investment in Government Securities as a percentage of the Life Fund

Table 27: Investment in Government Securities as % of Life Fund

Rs Mn	2025	2024	2023
Life Insurance fund (Rs Mn)	36,147	31,909	27,036
Investment in government securities (Rs Mn)	28,601	22,573	26,014
Investment in government securities as % of Life fund	79	71	96
Required Ratio %	30		

The analysis above explains how the Company kept its holdings in government securities well above the mandatory minimum, highlighting our focus on managing risks in an increasingly uncertain market. This choice not only meets regulatory standards but also strengthens the Company's financial position. By investing much more than required in government securities, we show a forward-thinking strategy to protect our policyholders' interests during times of market volatility.

### 2.1.3.d Subsidiary performance

We have successfully implemented our best practices and compliance framework within the newly acquired subsidiary. Consequently, the following results were achieved with respect to regulatory ratios for the year 2025, ensuring full compliance with all regulatory requirements.

Table 28: Regulatory ratios of subsidiary

%	2025	Regulatory requirement	Compliance
Capital Adequacy Ratio (CAR) %	161	120	●
Statement of Approved Assets %	110	100	●
Investment in government securities as % of Life fund	109	30	●

### 2.1.4 Impact to Capital Structure

Company's capital structure analysis in below table 29.

Table 29: Leverage and Capital Structure

Rs. Mn	2025	%	2024	%
Stated capital	1,063	8	1,063	8
Restricted regulatory reserve	1,516	11	798	6
Other reserves	(820)	-6	(764)	-6
Retained earnings	11,909	87	9,258	69
Total equity	13,668	100	10,355	77
Loans and borrowings	-	-	3,016	23
Total Capital Employed	13,668	100	13,371	100

The capital structure is impacted due to the financing methodologies we use to finance future expansions. Above table showcase composition of the capital employed as at 31 December 2025. We assess financial leverage through Debt to Equity Ratio in assessing long term corporate planning and capital optimisation.

#### Debt-to-equity ratio

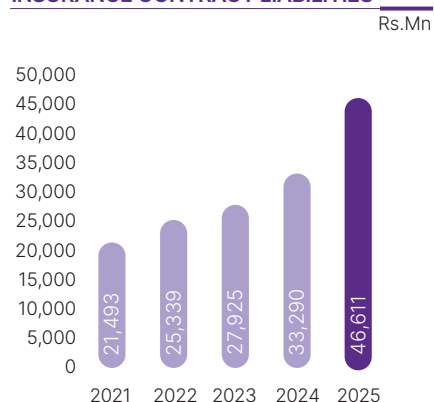
Over the year, the company paid off its entire outstanding loan, resulting in the business being fully funded by equity.

## FINANCIAL CAPITAL

### 2.1.5 Managing Insurance contract liabilities (Long term liabilities)

Insurance contract liabilities represent the present value of future obligations to policyholders, reflecting the underlying product mix, experience assumptions, and valuation methodologies applied during reporting. In 2025, these liabilities increased to Rs. 46.6 billion from Rs. 33.3 billion in the prior year, demonstrating strong underlying momentum in the Company's core insurance operations. This growth was driven primarily by robust new business generation throughout the year, alongside the accumulation of life funds resulting from the acquisition of a subsidiary during the period. The integration of acquired portfolios contributed meaningfully to the expanded liability base, reinforcing Softlogic Life's market position and long term policyholder commitments. The increase further underscores the Company's capacity to underwrite sustainable, value creating business while maintaining disciplined actuarial assumptions and robust capital buffers to support future obligations and strategic growth initiatives.

#### INSURANCE CONTRACT LIABILITIES



### 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. Details of the actuarial report appear on Page 308 of this annual Report.

Table 30: Insurance Contract Liabilities

Rs. Mn	2025	2024	G%
Insurance contract liabilities	45,176	31,234	45
Surplus Created due to, Change in Valuation method from NPV to GPV - Participating Fund	339	1,057	(68)
Claims Payables	1,097	1,000	10
Total	46,611	33,290	40

### 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 309 for actuaries report on LAT.

### 2.1.5.a Assets to support long term liability

The Group's total assets increased by 28% to Rs 68.5 billion in 2025 from Rs 53.5 billion in 2024. Of these assets, 83% are financial assets backing insurance contract liabilities, with a substantial surplus over liabilities. This demonstrates our strong financial position and ensures high security for policyholders.

### 2.1.5.b Assets composition and liquidity

Detailed break up financial investments is provided under financial statements no 30 on page 361 while its maturity profile is available under note 49.4.3.1 of page 420.

## 2.2 Cashflow management

Effective cash flow management is essential in fostering customer confidence, as it enables the prompt payment of claims and the timely settlement of obligations to all stakeholders. The following table presents an analysis of our cash flow management throughout the year. Our disciplined approach has supported the maintenance of a stable and liquid financial standing despite the challenges encountered during this period. This strategy ensures our continued ability to fulfil both policyholder claims and commitments to other stakeholders.

**Table 31: Summarised cashflow activities**

Rs. Mn	2025	2024	G%
Net cash generated from operating activities	7,308	6,150	19
Net cash flows used in investing activities	(1,211)	5,330	(123)
<b>Cash flows from financing activities</b>			
Repurchase of ordinary voting shares	-	(6,000)	(100)
Dividend paid to equity holders	(1,424)	(2,830)	(50)
Repayment of long term borrowings	(3,018)	(1,454)	108
Principal Payment of lease liabilities	(447)	(414)	8
<b>Net increase / (Decrease) in cash and cash equivalents</b>	<b>1,209</b>	<b>781</b>	<b>55</b>

Operating cash flow reached Rs 7,308 million, representing a 19% increase from Rs 6,150 million reported in the previous year. This growth is primarily attributable to improved business performance. Net investment cash outflow was Rs 1,211 million in 2025, a significant reduction compared to 2024, mainly due to the acquisition of subsidiary during the year. In terms of financing activities, the company fully settled its outstanding long-term borrowings amounting to Rs 3,018 million and paid dividends to shareholders totalling Rs 1,424 million. As a result, the Group recorded a net cash increase of Rs 1,209 million, reflecting effective cash flow management.

**2.3 Management of segmental performance**

The company systematically evaluates its operational efficiency using two principal segments: the Policyholder Fund and the Shareholder Fund. These segments serve as essential indicators for establishing strategic direction. The ensuing summary presents a detailed assessment of the company's financial position and operational results within these segments. This analysis provides stakeholders with informed perspectives regarding the company's performance, efficiency, and anticipated development.

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.

**2.3.1 Segment strategies and risk management**

The Policyholder Fund is strategised under four strategic pillars as discussed on page 65. Risks and opportunities are identified on pages 71 to 199. Further

**Table 32: Segmental information**

Rs. Mn	Policyholder Fund		Shareholder Fund		Company	
	2025	2024	2025	2024	2025	2024
Net Revenue	43,290	36,207	1,619	2,238	44,909	38,444
Profit Before Tax	5,283	4,287	1,333	2,045	6,616	6,332
Total Assets	54,542	39,927	14,012	13,668	68,554	53,594
Cash flows from operating activities	4,511	(4,148)	2,797	10,295	7,308	6,147

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 308. Comprehensive analysis of this segment, covering key risks, strategies, performance assessment, and key value drivers, is presented on page 430. Further scrutiny of financial details, encompassing income statements, financial position, and cash flows, is available on pages 315 to 320.

financial risk management concerning its investment portfolio and insurance risk is detailed on pages 406.

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 400.



SLI introduced a gamification feature to help stakeholders better understand insurance financials, creating greater industry engagement and broader community value.



## FINANCIAL CAPITAL

### Sustainable Performance

At Softlogic Life, sustainable performance underpins the stewardship of our financial capital. As a life insurer with long-term obligations, we remain focused on delivering profitable growth while maintaining strong solvency, liquidity, and regulatory compliance. Through disciplined capital allocation, prudent asset–liability management, and proactive risk management, we aim to preserve financial resilience. Innovation in products and digital capabilities will support quality earnings and capital generation. By maintaining capital buffers above regulatory requirements and adapting swiftly to market and regulatory changes, we are well-positioned to protect policyholders and create enduring value for shareholders. Refer page 65 to read our strategic direction.

### Financial risk management

Softlogic Life's robust risk management framework safeguards our financial capital against internal and external risks that could disrupt value creation. As a life insurer with long-term commitments, we continuously strengthen our enterprise risk management processes to identify, assess, and mitigate financial, insurance, market, credit, and liquidity risks. Maintaining capital buffers above regulatory requirements remains a key priority. We will further enhance our risk governance, monitoring systems, and stress-testing capabilities to respond proactively to evolving market conditions and regulatory developments, ensuring sustained financial resilience and long-term stability for policyholders and shareholders. Our risk management framework is illustrated on page 107.

### Implementation of SLFRS 17

Softlogic Life continues to make steady progress in implementing SLFRS 17, ensuring full compliance with the revised insurance accounting framework. The implementation

extends beyond financial reporting, impacting actuarial valuation, systems, data governance, and performance measurement. Dedicated project teams, supported by actuarial and technical experts, are strengthening processes, controls, and reporting capabilities to meet the new standard's requirements. The Company remains committed to transparent stakeholder communication and operational readiness, ensuring that the transition enhances financial clarity, comparability, and long-term value creation. For a detailed update on the project's advancement, please refer to page 451.

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 428 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.



### 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 325 of this report.

### 4. HORIZONTAL AND VERTICAL ANALYSIS

To reinforce analytical depth, the Company applies both horizontal and vertical analysis of its financial statements. Horizontal analysis

compares line by line performance across periods, revealing trends in revenue growth, cost behaviour, investment returns, and retained earnings. Vertical analysis standardises individual items as a percentage of a financial statement total for example, total assets or total revenue providing insights into structural shifts in the balance sheet and income statement. Together, these methods strengthen financial narrative clarity and support more informed capital allocation decisions (as discussed on page 462-464 of this annual report).

### 5. STRATEGIC PLANNING AND PERFORMANCE MANAGEMENT

At Softlogic Life, strategic planning and performance management remain integral to safeguarding financial capital and delivering sustainable growth. Operating in a dynamic and competitive environment, we continuously assess market trends, regulatory developments, and economic conditions to ensure our strategy remains resilient and forward-looking.

Our disciplined planning framework integrates capital management, risk oversight, and performance targets, enabling informed decision-making and optimal resource allocation. By aligning investments, human capital, and operational capacity with long-term objectives, we strengthen earnings quality, preserve capital adequacy, and enhance return on equity. This structured approach ensures sustained value creation for policyholders and shareholders while reinforcing financial stability and organisational resilience.

### 6. SIMPLIFIED INSURANCE FINANCIALS

Insurance accounting is different from the accounting for a manufacturing or trading organisation, 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 445.

## 6 FUTURE OUTLOOK AND STRATEGIC PRIORITIES

Strategic Pillar	Short-Term Impact	Long-Term
<b>Preventive Health &amp; Wellness</b>	Allocate capital to health & protection solutions and technology adoption for wellness capabilities.	Fund actuarially sound preventive health insurance solutions that grow the life fund while improving policyholder outcomes.
<b>Personalised Products &amp; Services</b>	Sustain GWP growth above 20% via personalised products, and data-driven customer acquisition.	Maintain ROE above 20% by deploying capital into high-yield, personalised product lines.
<b>Digital Transformation &amp; InsurTech</b>	Allocate capital to AI systems, automation, and InsurTech to enhance underwriting, claims, and scalability.	Build a financially self-sustaining digital ecosystem where AI-driven efficiency gains reduce the cost-to-income ratio and fund next-generation capabilities.
<b>Sustainability &amp; ESG</b>	Embed ESG-aligned investment screening into the shareholder fund strategy.	Strengthen the integration of sustainability factors across the investment portfolio.

## 7. CONTRIBUTION TO VALUE CREATION (TRADEOFF)

FC enables growth, innovation, and efficiency by fuelling digital transformation, customer-focused products development, sustainability and sales force initiatives that enhance service quality, competitiveness, customer acquisition, and retention.

