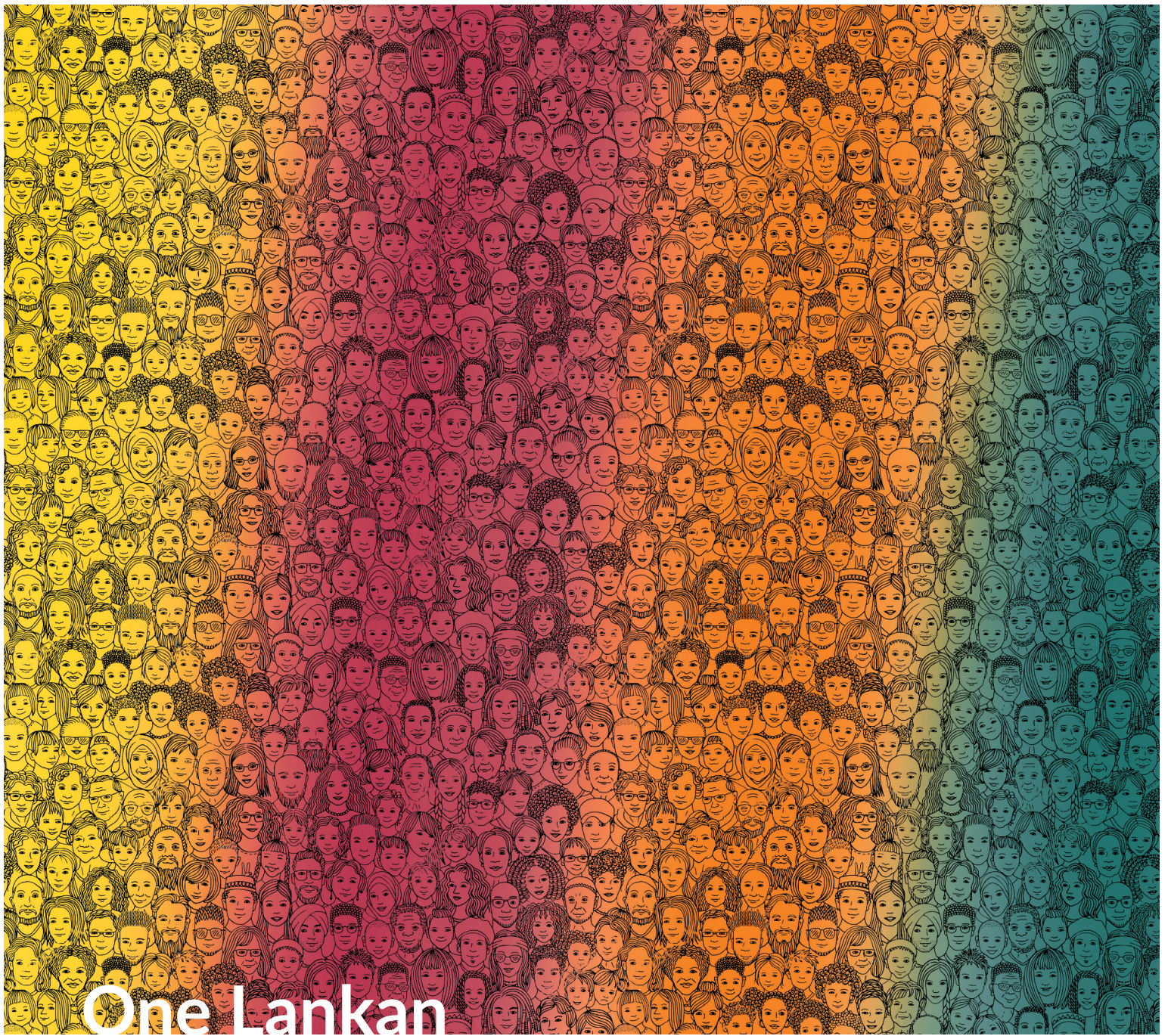


One Lankan

**SOFTLOGIC LIFE INSURANCE PLC**  
Integrated Annual Report 2020





Softlogic Life is powered by the innate strength of the Sri Lankan spirit. It is this strength that enables our nation and our Company to progress against all odds.

In a year full of uncertainty, we are proud to report the strides we've made on our journey to becoming Sri Lanka's most preferred insurance provider. Over one million Sri Lankans are now part of our momentum; choosing our protection and care for a million reasons.

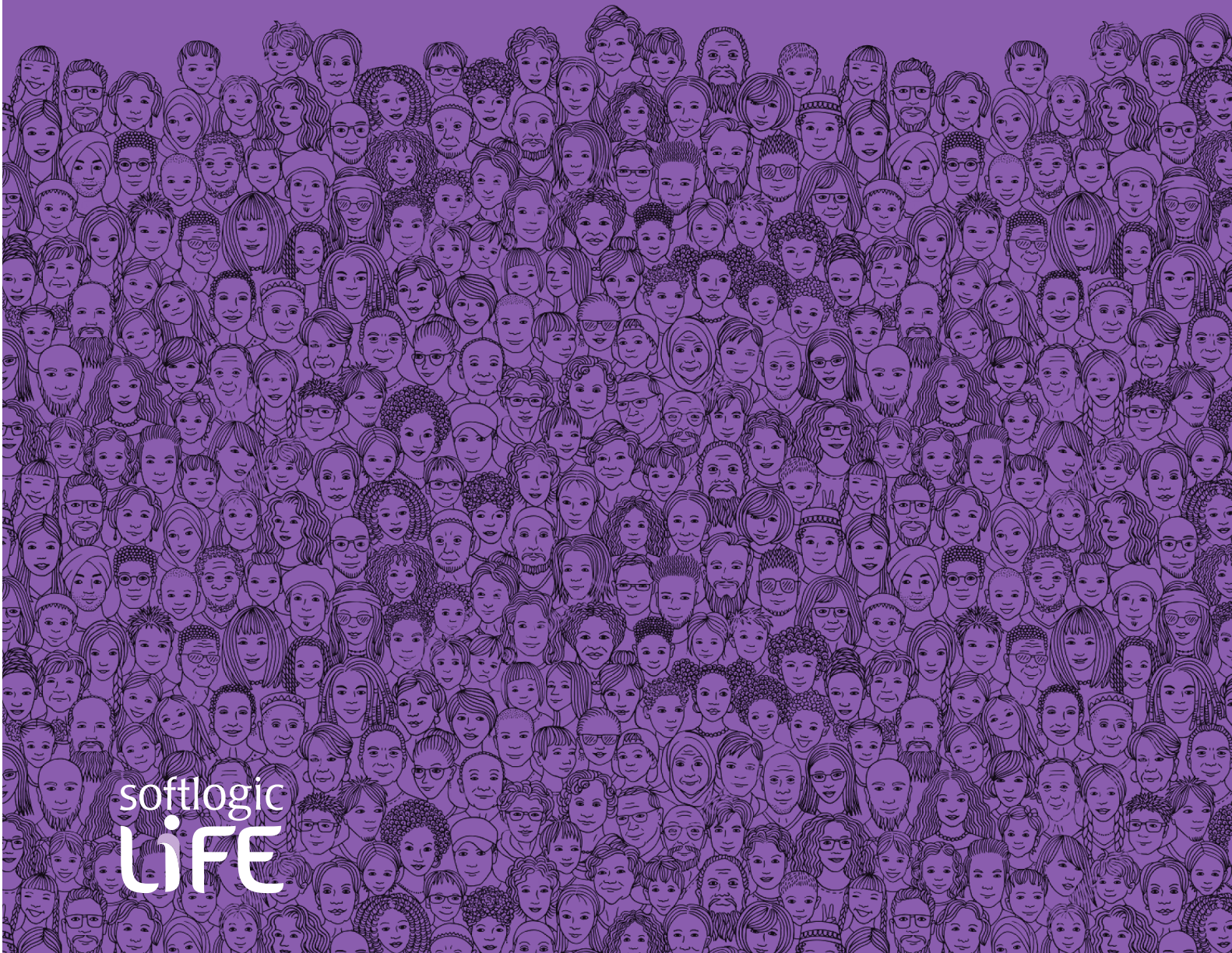
Our dynamic portfolio of products and services is designed to safeguard and empower those people with a million reasons to face the future with positivity. And our agility to evolve with the changing times means we are well prepared to align ourselves with the nation's growth ambitions.

As a truly Sri Lankan entity, we venture into the future with the optimism and strength that's distinctive to every Sri Lankan; united as one nation, under one flag.

**One Lankan. A Million Reasons.**

# One Lankan. A Million Reasons.

Softlogic Life now empowers and protects over a million customers,  
assuring them with a million reasons to live life to the fullest.



softlogic  
LIFE

# A million Lives Covered

---

Recorded a top line  
revenue growth of

**25%** in  
**2020**

---

Serving over

**One  
million**

Customers

---

**+86%**

Claims paid within  
one day

---

---

**2,060  
billion**

worth of lives covered

---

---

**29%**

Five-year CAGR of  
Gross Written Premium

---

With over

**20** years

of industry  
experience

---

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### ONLINE REFERENCES:

You can find more detailed information regarding Softlogic Life's performance from our online Annual Report. Providing our reports online allows us to reduce the paper we print and distribute. Visit at : <http://www.softlogiclife.lk>



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# 1<sup>st</sup> TIME IN SRI LANKA >>>



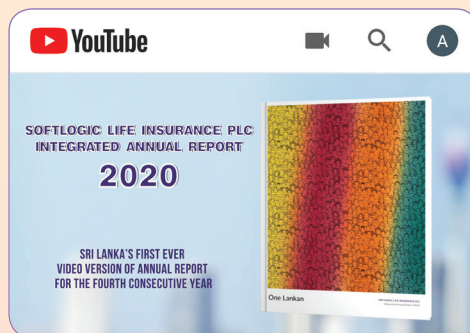
## <IR> ASSURANCE

We are proud to be the first entity in Sri Lanka to obtain external assurance on Integrated reporting practices reflecting our commitment to transparent and objective reporting towards shareholders and other key stakeholders.



## VIDEO VERSION OF ANNUAL REPORT

We proud to present our video version of annual report for the fourth consecutive year.







# One Establishment

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# ABOUT OUR INTEGRATED REPORT

GRI 102-46 | 102-48 | 102-50 | 102-51 | 102-52

Softlogic Life is proud to present its Annual Integrated Report 2020 which provides comprehensive and concise information on the performance of the company for the period ended 31st December 2020 which also is the 21st year of its operations.

## WELCOME TO OUR 08TH INTEGRATED ANNUAL REPORT

The Integrated reporting journey from the year 2013, provides a holistic view of the Company's ability to create value in short, medium and long term and the ability to create competitive sustainable value to our key stakeholders for the 8th consecutive year. This report is prepared in accordance with the international integrated reporting framework of the International Integrated Reporting Council (IIRC) and amendment thereto together with our regular financial reporting.

## OUR INTEGRATED THINKING

An integrated assessment done on the six capitals by collaborating all functions and the all available resources of the company and we design our strategy and the internal materiality process to determine the content and structure of this report. Our integrated thinking is embedded in our business model which best present how we create value over short medium and long term is presented on 18.

## STRATEGIC ORIENTATION

This annual report provides the Company's current and future strategies which are aimed at its sustainable growth and gives insights to its stakeholders.

## Our journey of integrated reporting



## NON-FINANCIAL INFORMATION

Creating a wider understanding of a Company's position, performance and strategy and enhancing the transparency, this report discloses non-financial information where relevant and appropriate.

## COMPARATIVE INFORMATION

This report presents comparative information where necessary for better presentation and complies with regulations.

## BOUNDARY AND SCOPE

This Integrated Annual Report covers the performance of Softlogic Life for the 12-month period ended 31st December 2020 and material events up to the approval of the report by the Company's Board of Directors on 8 March 2021.

During the period under review, there were no significant changes in the organisation type, structure, ownership no changes on reporting financial or non-financial information other than disclosures made in 171 pages. However our business model was modified as necessary to respond the impact of prevailing pandemic which are discussed in detailed on Page 18.

## FUTURE REPORTING PERIODS

When reporting on our story we have reported information into three reporting periods namely "Short term", "Medium term" and "Long term" where applicable. For this purpose, the management considered year 2021 as Short term future, year 2022 and 2023 as Medium term and beyond 2023 as long term future.

**Icon Navigation**

Capitals

Financial Capital

Manufactured Capital

Natural Capital

Human Capital

Intellectual Capital

Social and Relationship Capital

Stakeholders

Investors

Customers

Employees

Sales Staff

Re-Insurers

Government & Regulator

Suppliers

Community

Environment

Financial Capital disclosures

Commentary

Key challenges

Key strategies

Key Value drivers

Critical success factors

## REPORTING FRAMEWORK

In the preparation of this report, we have referred to the following frameworks:

Mandatory Reporting Frameworks And Guidelines	Voluntary Reporting Frameworks And Guidelines
<b>Financial Reporting</b> <ul style="list-style-type: none"> <li>Sri Lanka Accounting Standards (SLFRSs/ LKASs)</li> <li>The Regulation of Insurance Industry Act No. 43 of 2000 and amendments thereto;</li> <li>Statement of Recommended Practice (SoRP)</li> <li>Regulations and Directions issued by the Insurance Regulatory Commission of Sri Lanka (IRCSL)</li> <li>Companies Act No. 07 of 2007 and amendment thereto</li> </ul>	<b>Integrated Reporting</b> <ul style="list-style-type: none"> <li>International Integrated Reporting Council's (IIRC) Integrated Reporting &lt;IR&gt; and amendment thereto Framework (<a href="http://www.theiirc.org">www.theiirc.org</a>)</li> <li>A Preparer's Guide to Integrated Reporting by The Institute of Chartered Accountants of Sri Lanka</li> <li>The guidelines for presentation of Annual Reports 2021 issued by CA Sri Lanka</li> <li>Handbook on integrated corporate reporting issued by CA Sri Lanka</li> </ul>
<b>Corporate Governance Reporting</b> <ul style="list-style-type: none"> <li>Listing Rules of the Colombo Stock Exchange</li> <li>Laws and Regulations of the Companies Act No. 7 of 2007</li> <li>Securities and Exchange Commission of Sri Lanka Act No. 36 of 1987 (as amended)</li> <li>Corporate governance framework for insurers issued under section 96A of the Regulations of the Insurance Industry Act, No 43 of 2000 by IRCSL.</li> </ul>	<ul style="list-style-type: none"> <li>Code of best practices on Corporate Governance 2017 (CA Sri Lanka)</li> </ul>
<b>Assurance</b> <ul style="list-style-type: none"> <li>Sri Lanka Auditing Standards (SLAuSs)</li> <li>Sri Lanka Standard on Assurance Engagements SLSAE 3000; Assurance Engagements other than Audits or Review of Historical Financial Information, issued by CA Sri Lanka</li> </ul>	<b>Sustainability Reporting</b> <ul style="list-style-type: none"> <li>GRI Standards published by the Global Reporting Initiative, 'In accordance' - Core guidelines (<a href="http://www.globalreporting.org">www.globalreporting.org</a>)</li> <li>Guidance on ESG Reporting by the Colombo Stock Exchange.</li> <li>Sustainable development goals (SDGs) and UNGC of United Nations</li> <li>Disclosure on Gender Parity Reporting (CA Sri Lanka)</li> </ul>

## LINKING INFORMATION TO BETTER UNDERSTAND OUR INTEGRATED STORY


In our annual report we have provided separate identification numbers as mentioned below for matters arising from environmental analysis and stakeholder engagement which are then assessed for materiality and considered for strategy setting and discussed in the annual report.

- Opportunities are identified from O1 to O17
- Risks are identified from R1 to R24
- Strengths are identified from S1 to S8
- Weaknesses are identified from W1 to W8
- Stakeholder Concerns are identified from SHC1 to SHC30

# ABOUT OUR INTEGRATED REPORT

## IMPROVEMENTS TO THE REPORT

Every year, we seek to improve the relevance, readability, ease of use of the financial information and meaningfulness of our annual report while ensuring that we comply with the latest global and local developments in corporate reporting. This year's report features several key improvements such as:





### Content of the Report

- Statement of value creation is linked to each capital for better understanding
- Statement of capital position is included under the relevant capitals for better assessment of the capital.
- Opportunities, threats, stakeholder engagement, strengths and weaknesses have been coded and linked to relevant topics to showcase our integrated thinking.

### <IR> Assurance

- Obtained the External Assurance for Integrated Reporting which shows the transparency of our reporting **first time in Sri Lanka**



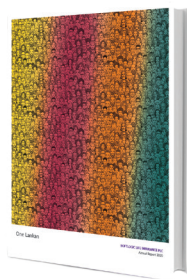


### User friendliness

- Video version of 2020 annual report introduced by SLI for the first time in Sri Lanka for the fourth consecutive year
- Online Information is provided through QR codes for electronic browsing of the additional content
- Improvement to the graphical presentation

## COMMITMENT TO NATURAL RESOURCES

As part of our ongoing commitment to conserve our sustainability practices, we printed limited copies of this report which are available on request. However, all shareholders will receive this report in the form of a CD ROM. Further, our report can be accessed in the following formats.



Printed integrated annual report



Video version of annual report



Online HTML



Mobile format



Portable digital format

**MATERIALITY DETERMINATION PROCESS**

In determining the content to be included in this report, the Company considered matters which are deemed to be material to the business and its stakeholders and the impact in the short, medium and long term on the Company’s ability to create value. This Materiality Determination process is describing in Pages 49 to 50 of this annual report.

**AWARDS AND RECOGNITION FOR THE 2019 ANNUAL REPORT**

Each year, we have been consistently raising the bar with regard to the quality of our reports. We humbly acknowledge that these awards and accolades were granted to us due to our unwavering commitment on presenting a Report which ensures completeness, comparability, accuracy, consistency, clarity, balance, credibility and reliability continuously.

Our most recent report received many awards and accolades including 3 awards at the 24th SAFA best presented Annual reports awards organised by the South

Asian Federation of Accountants hosted by CA Sri Lanka. More information is provided in Page 14 of this annual report.

**EXTERNAL ASSURANCE**

The Board sought assurance on the Financial Statement information and integrated reporting included in this report from Messrs. KPMG who have expressed an opinion on the true and fair view of the annual financial statements as shown on Pages 248 to 251, The external assurance obtained on Integrated Reporting and the sustainability indicators are provided on Pages 59 to 60 and Pages 131 to 132 respectively. The Board of Directors does not have any relationship with KPMG, apart from the above engagement as the Independent External Auditor of the Company.

**STATEMENT ON FUTURE ACTIONS**

This report may contain forward-looking statements with respect to the Group’s future performance and prospects. While these statements reflect our future expectations, it is important to remain mindful that a number of risks,

uncertainties and other important factors could cause actual results to differ materially from our expectations.

**FEEDBACK**

Your comments or questions on this Report are welcome and we invite you to communicate your feedback. A Feedback form is attached with this Report as annexure 3. You may direct your feedback to the designated person below.



**Nuwan Withanage**

Chief Financial Officer  
Softlogic Life Insurance PLC  
Level 16, One Galle Face Tower,  
Colombo 2, Sri Lanka.



nuwan.withange@softlogiclife.lk

**RESPONSIBILITY FOR SUSTAINABILITY PRACTICES**

The Board of Directors of the Company are responsible for sustainability practices and disclosures made in this Report and acknowledges its responsibility to ensure the integrity of this report. In our view we have prepared the annual report complying with all material aspects of amended IR framework published in January 2021. In assessing compliance with IR framework the management evaluated the report against the Guiding Principles and Content Elements stipulated in the framework. The board have applied collective mind to the preparation and presentation of this integrated report and believes that the best of our knowledge this integrated report fairly discussed all material issues.

Sgd  
**Nuwan Withanage**  
Chief Financial Officer

Sgd  
**Iftikar Ahamed**  
Managing Director

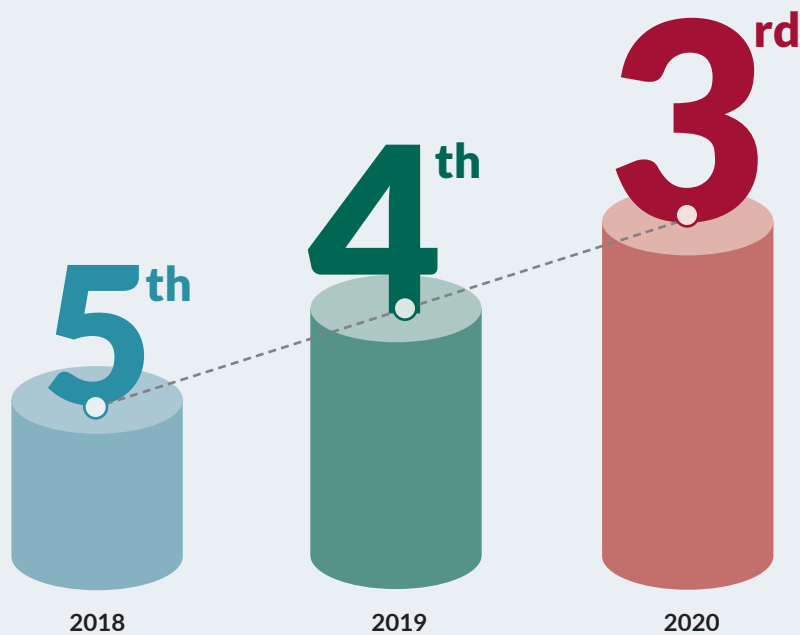
Sgd  
**Ashok Pathirage**  
Chairman

(On behalf of the Board of Directors)

# ABOUT US

Softlogic Life Insurance PLC is one of the most exponentially growing Life Insurance solutions providers in the country. We are in the business of protecting people and we strive to elevate quality of life by embracing creativity and disruptive innovation.

Continuous Increase of Industry position



### Our Unique Value Propositions

The Company enjoys the unique positions in the market as the,

- Sri Lanka's best health insurer
- Sri Lanka's fastest-growing insurer
- Most innovative insurer in Sri Lanka
- Sri Lanka's First Micro Insurance provider in Life Insurance Industry
- Sri Lanka's Fastest claim settler

GRI 102-1 | 102-2 | 102-7

### Our Key Numbers

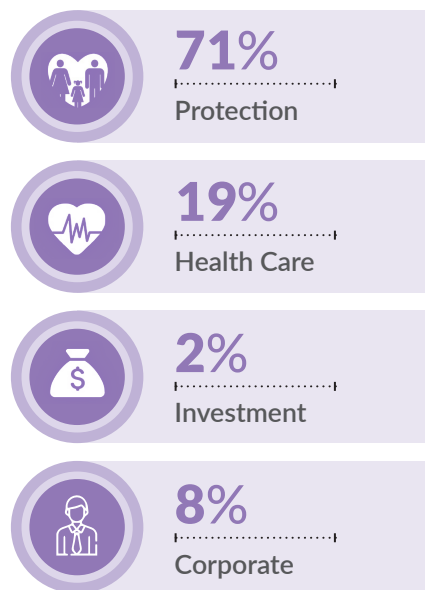
**Rs.15,660 Mn**  
Gross Written Premium

**Rs.2,130 Mn**  
Profit Before Tax (PBT)

**15.2%**  
Market Share

**Rs.4.06**  
Earnings per Share (EPS)

### Our Products



## Vision

To revolutionise insurance in Sri Lanka through world-class innovations and deliver extraordinary stakeholder value.

## Mission

We exist to nurture your well-being, so you can enjoy life today.

## Values

- » Caring for you every step of the way as a partner for life.
- » Never leaving space to compromise on our Authenticity.
- » Being Courageous to challenge the status quo to give customers the best solution.
- » Nurturing the spirit of Innovation to upgrade customer life styles.
- » We bring together world-class solutions to Simplify the customer's life.

### Our Resources

**897**

Employees

**3,025**

Sales Staff

**3**

Distribution Channels

**Rs.12.7 Bn**

Capital Employed

**Rs.27.3 Bn**

Investment Fund

**+1 Mn**

No of Customers

**Rs.2.7 Bn**

Brand Value

**3,314**

No of Business Partners

### Our Social Impact

**Rs.3 Mn**

Invested in key CSR Initiatives

**345,672**

No. of customers served through micro insurance

### Our Presence

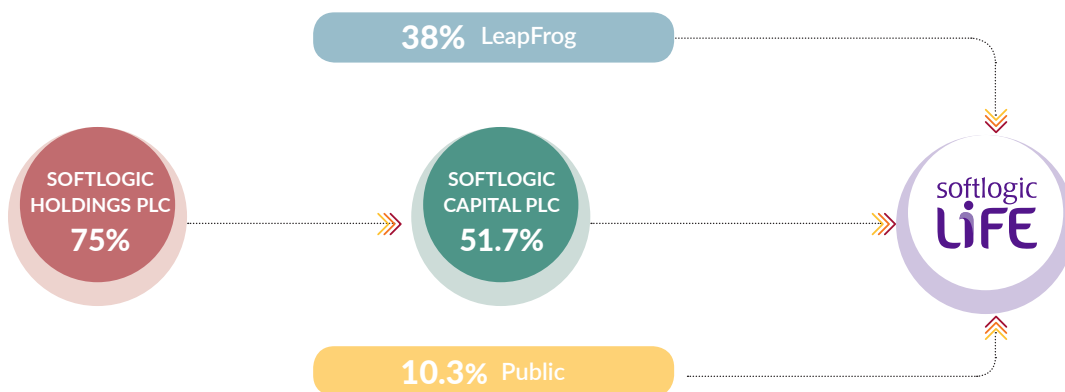
**100**

No of Branches

**Rs.132 Mn**

Investment in New Fixed Assets

## Ownership Structure



## ABOUT US

### ALIGNING OUR BUSINESS ACTIVITIES TO THE UNITED NATION SUSTAINABILITY DEVELOPMENT GOALS (UNSDG)

The most relevant SDGs are integrated into our business processes by linking SDGs in strategy setting and we believe this enables the company to be well-equipped to tackle future challenges and embrace possibilities in a rapidly-changing world. At SLI, we consider our impact on the macro and micro environment in which we operate, according to the UNSDG goals. Impact to UNSDG from our future strategy is mapped in the Strategy and Resource Allocation on page 51.



SLI is a member of “Business Call to Action”, a sure confirmation of our company’s leadership in and commitment to inclusive and sustainable initiatives at the base of the economic pyramid.

**Theme :-** Enhance quality of lives of Sri Lankans by providing them with relevant, innovative and affordable life insurance solutions and livelihood opportunities.

**Objectives:-**

- By 2024, SLI will provide access to a life insurance policy 2.4 million low-income people in Sri Lanka.
- By 2024, SLI will provide livelihood opportunities to extra 3,000 low-income people as distributors of insurance policies in Sri Lanka.

**Action:-** Introduction of Postal Insurance product

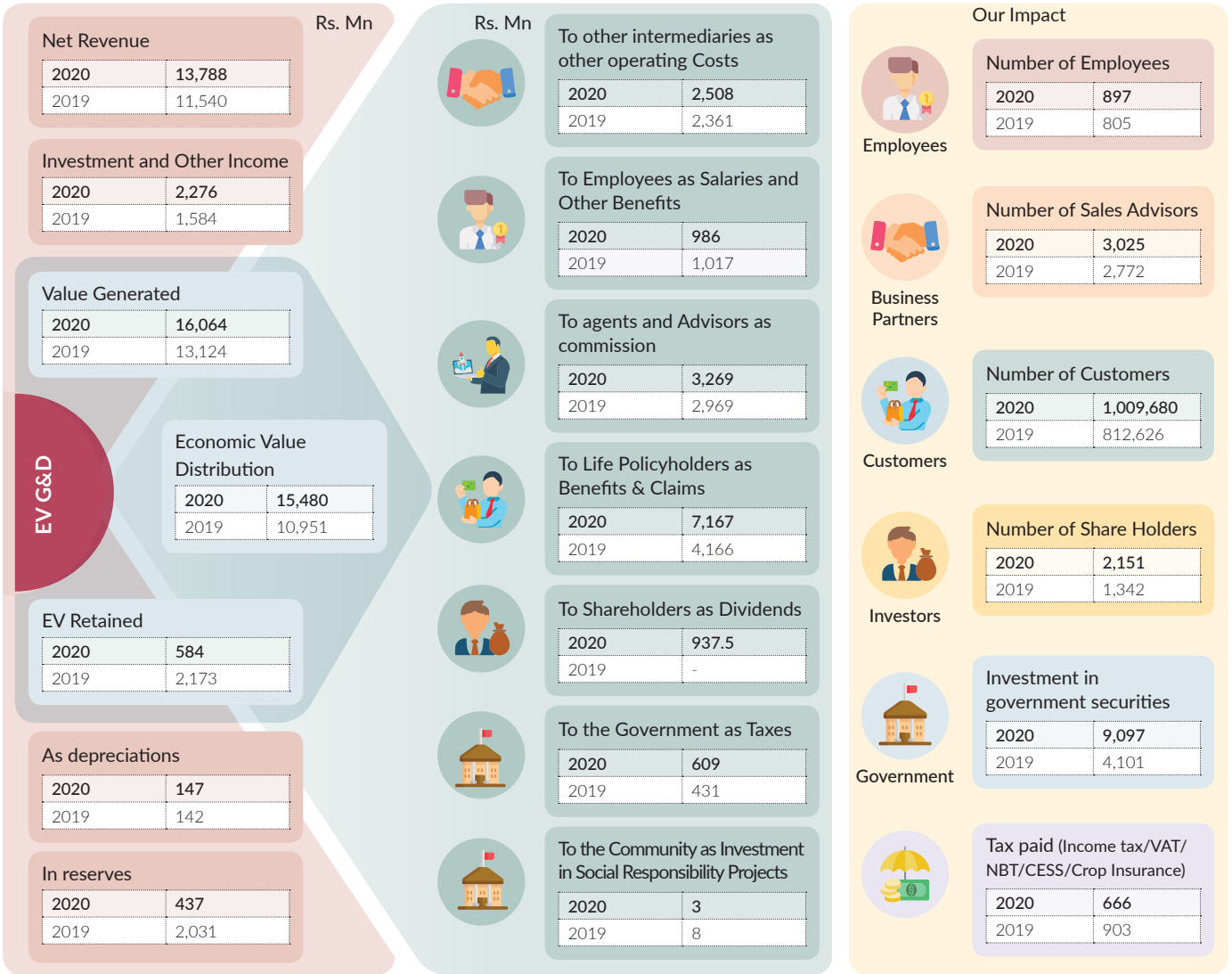
### Our Awards



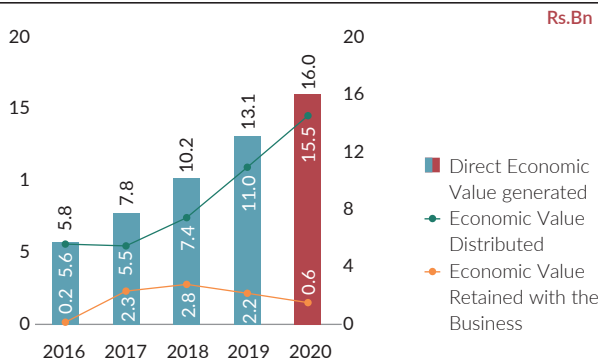


**DIRECT ECONOMIC VALUE GENERATED AND DISTRIBUTED TO NATIONAL ECONOMY**

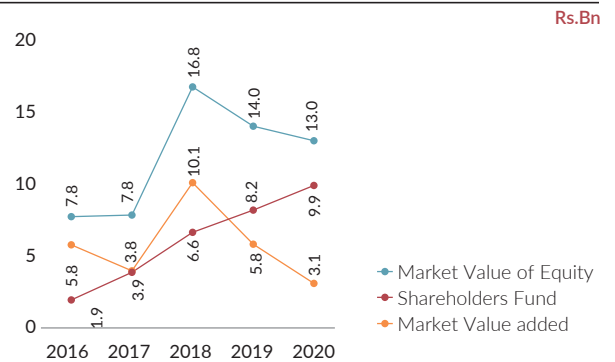
The creation and the distribution of the Economic Value Generated and Distributed (EV G&D) provide the economic profile of Softlogic Life and shows how the Company has created and distributed the wealth to its stakeholders. We are contributing to national economic development while managing the interests of our stakeholders.



**G02-ECONOMIC VALUE ADDED**

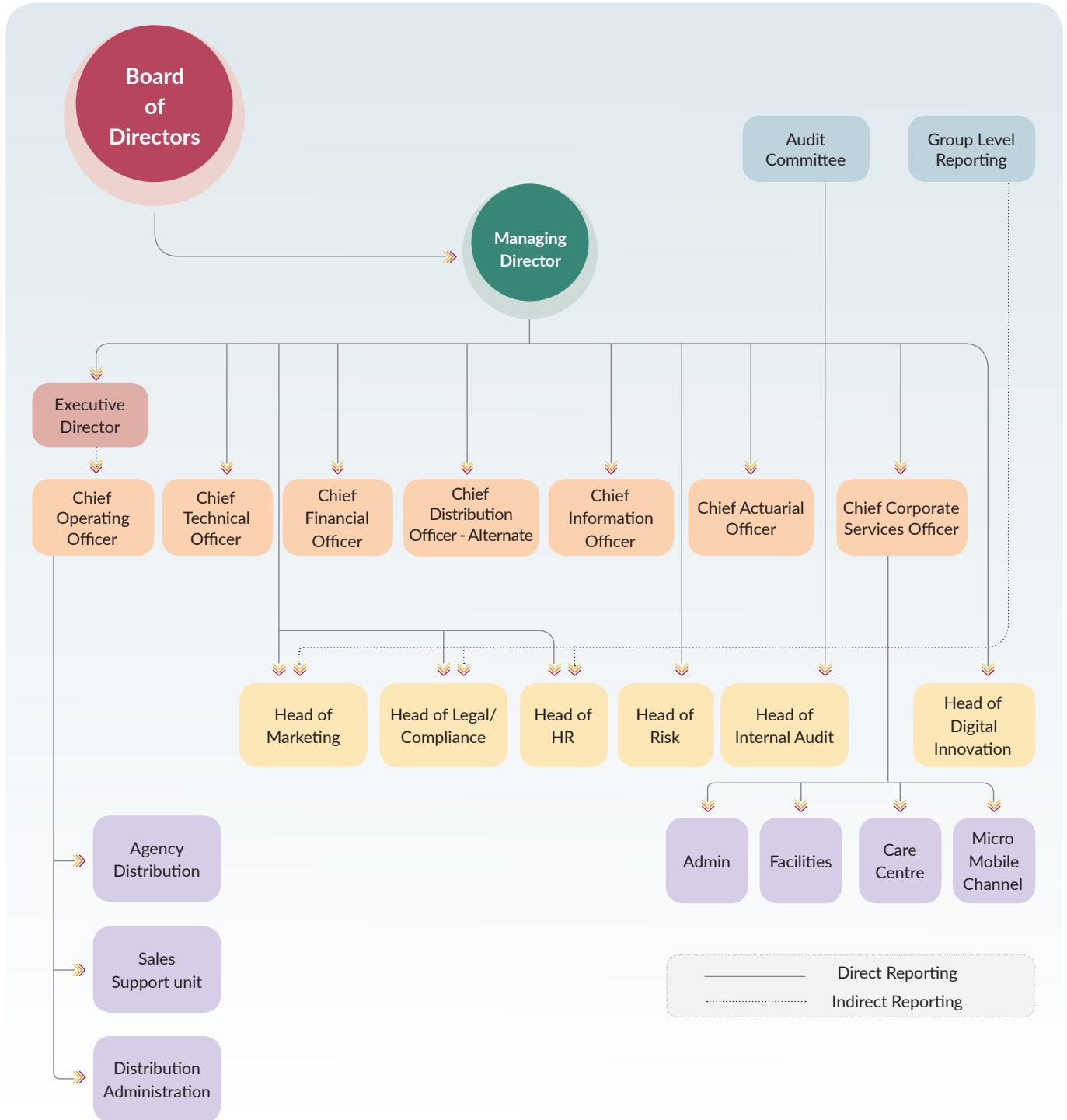


**G03-MARKET VALUE ADDED**



# ABOUT US

## ORGANISATIONAL STRUCTURE



# OUR HISTORY



**1999**

1999 - Launch of Softlogic Life Insurance PLC (Formally known as Asian Alliance Insurance PLC)



**2000**

Commencement of Life Insurance Business



**2017**

Launch of Sri Lanka's first video version of the Annual Report

**2018**

Crossed GWP of Rs. 10 Bn mark and fastest to reach within 19 years

"Leapfrog Investments" invested 19% stake



**2020**

2020 - Ranked **3<sup>rd</sup>** largest entity in the Life Insurance Industry by achieving the highest GWP of Rs. 15.6 Bn

USD 30Mn (LKR 5.6Bn) invested towards Softlogic Life's growth by Finnfund, NorFund and Munich Re.

"Leapfrog Investments" increase its investment to 38% stake by taking ownership from DEG



**softlogic**  
**2011**

Acquisition of the Company by the Softlogic Group



**2012**

DEG and FMO invested by each taking a 19% stake

**2016**

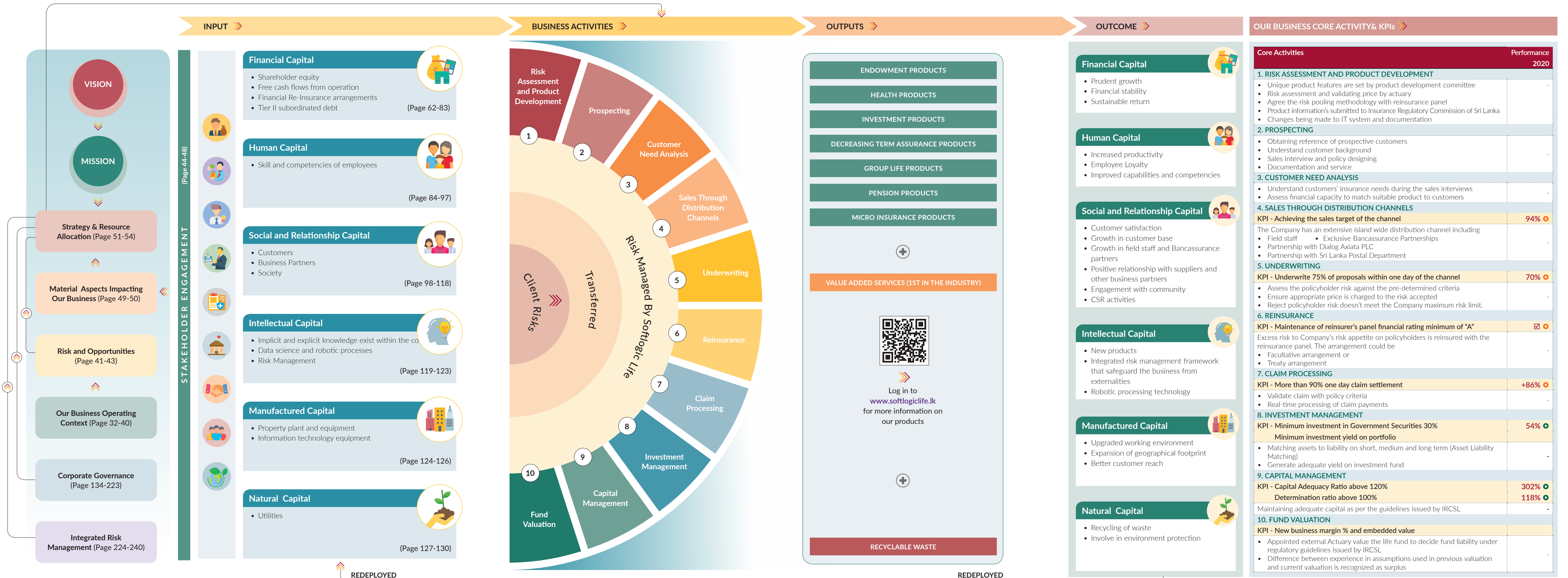
Divestment of General Insurance business and rebranding of the Company as Softlogic Life



**2019**

Softlogic Life positioned as the **4<sup>th</sup>**-largest entity in the Life Insurance industry by achieving the highest-ever topline of Rs. 12.5 Bn. Softlogic Life made it to the Forbes Asia's Best Under A Billion 2019 list





\*Statement of value creation and statement of capital position is included under relevant capital report for better assessment of the capital on page 62 to 130.

Core Activities	Performance 2020
<b>1. RISK ASSESSMENT AND PRODUCT DEVELOPMENT</b>	
<ul style="list-style-type: none"> <li>Unique product features are set by product development committee</li> <li>Risk assessment and validating price by actuary</li> <li>Agree the risk pooling methodology with reinsurance panel</li> <li>Product information's submitted to Insurance Regulatory Commission of Sri Lanka</li> <li>Changes being made to IT system and documentation</li> </ul>	-
<b>2. PROSPECTING</b>	
<ul style="list-style-type: none"> <li>Obtaining reference of prospective customers</li> <li>Understand customer background</li> <li>Sales interview and policy designing</li> <li>Documentation and service</li> </ul>	-
<b>3. CUSTOMER NEED ANALYSIS</b>	
<ul style="list-style-type: none"> <li>Understand customers' insurance needs during the sales interviews</li> <li>Assess financial capacity to match suitable product to customers</li> </ul>	-
<b>4. SALES THROUGH DISTRIBUTION CHANNELS</b>	
<b>KPI - Achieving the sales target of the channel</b>	<b>94%</b> <span style="color: green;">●</span>
The Company has an extensive island wide distribution channel including	
<ul style="list-style-type: none"> <li>Field staff</li> <li>Exclusive Bancassurance Partnerships</li> <li>Partnership with Dialog Axiata PLC</li> <li>Partnership with Sri Lanka Postal Department</li> </ul>	-
<b>5. UNDERWRITING</b>	
<b>KPI - Underwrite 75% of proposals within one day of the channel</b>	<b>70%</b> <span style="color: green;">●</span>
<ul style="list-style-type: none"> <li>Assess the policyholder risk against the pre-determined criteria</li> <li>Ensure appropriate price is charged to the risk accepted</li> <li>Reject policyholder risk doesn't meet the Company maximum risk limit.</li> </ul>	-
<b>6. REINSURANCE</b>	
<b>KPI - Maintenance of reinsurer's panel financial rating minimum of "A"</b>	<input checked="" type="checkbox"/> <span style="color: green;">●</span>
Excess risk to Company's risk appetite on policyholders is reinsured with the reinsurance panel. The arrangement could be	
<ul style="list-style-type: none"> <li>Facultative arrangement or</li> <li>Treaty arrangement</li> </ul>	-
<b>7. CLAIM PROCESSING</b>	
<b>KPI - More than 90% one day claim settlement</b>	<b>+86%</b> <span style="color: green;">●</span>
<ul style="list-style-type: none"> <li>Validate claim with policy criteria</li> <li>Real-time processing of claim payments</li> </ul>	-
<b>8. INVESTMENT MANAGEMENT</b>	
<b>KPI - Minimum investment in Government Securities 30%</b>	<b>54%</b> <span style="color: green;">●</span>
<b>Minimum investment yield on portfolio</b>	
<ul style="list-style-type: none"> <li>Matching assets to liability on short, medium and long term (Asset Liability Matching)</li> <li>Generate adequate yield on investment fund</li> </ul>	-
<b>9. CAPITAL MANAGEMENT</b>	
<b>KPI - Capital Adequacy Ratio above 120%</b>	<b>302%</b> <span style="color: green;">●</span>
<b>Determination ratio above 100%</b>	<b>118%</b> <span style="color: green;">●</span>
Maintaining adequate capital as per the guidelines issued by IRCSL	-
<b>10. FUND VALUATION</b>	
<b>KPI - New business margin % and embedded value</b>	
<ul style="list-style-type: none"> <li>Appointed external Actuary value the life fund to decide fund liability under regulatory guidelines issued by IRCSL</li> <li>Difference between experience in assumptions used in previous valuation and current valuation is recognized as surplus</li> </ul>	-

# SOFTLOGIC LIFE BUSINESS MODEL

Insuring and managing risk is central to what we do. Understanding, measuring and modeling risks helps us to price risk fairly and offer competitive premiums to customers who also look to us to provide expertise aimed at mitigating their risk.

## CORE ACTIVITY – RISK MANAGEMENT

The business of insurance is the assumption and spreading of risk to mitigate adverse financial consequences for clients and shareholders. Softlogic Life assumes risks transferred to it by clients and risks from being in business. Softlogic Life's primary capability is to manage insurance risk and other risk types that may impact on the client or Company. Just as a client's risk appetite is assessed during the advice stage, the board adopts a risk appetite for SLI itself. Managing the business within this accepted range is a key element of our value creation journey.

## BUSINESS MODEL

The company use its financial, human, relationship and other capitals as inputs for the business process which result in an output which is our diverse product portfolio and out comes as identified in the business model. The inputs are measured at the start of the year and transformed capital is assessed at the end of the year. The assessment is provided on statement of capital position under each capital report from page 62 to 130.

## OUR DIFFERENTIATION

Innovation is the key differentiator of SLI in the market where company introduced many industry first processes and technologies in Sri Lanka as sumerised on the page 102. Further our multi-channel distribution strategy also brought us uniqueness in terms of serving over one million customer base who represent different market segments.

## BUSINESS PROCESS

We understand our customers better before selling the products by ensuring they get best protection as they desire. We follow stringent risk assessment procedures before the underwriting of insurance policy. Our reinsurance guideline ensure that we will not be insolvent in catastrophic event and provide comfort for the claims we settle for our customers. The fund collected from customers are invested to earn high yield and capital management framework ensure adequate liquidity at any given time. The life fund (Policyholder liability) is valued by independent actuary and assure existing assets are adequate to settle future liabilities.

## PROCESS CHANGES DUE TO PANDEMIC

The company accelerate its digital strategy during the year to respond impact from COVID-19. As a result, we convert many of our core activities in to digital platform fully / partially as appropriate. Using video conferencing to conduct sales interviews, online system in place to process customer claims, Majority of our employees stick in to work from home option, increase auto underwriting etc. are few items that have significant impact from our digital journey.

## INNOVATION AND ADOPTABILITY

Adoptability of the business model is tested practically during 2020 as Covid impacted the business in every angle. However our quick fix and go business model (Adoptability) allowed us to record 25% growth over last year despite the challenges post by Covid -19 pandemic. We have created innovation driven culture within our organization and was able to introduced many industry first innovations as listed in page 102 of this report.

## DEVELOPING OUR PEOPLE

In light of above innovation driven culture and rapid changes we do within our business process to set new benchmark in the industry the management has acknowledge the fact that we should develop our people regularly and keep them ready to accept new challenge tomorrow. Our effort on people development is discussed in detailed under Human Capital on page 84.

## ENGAGE WITH OUR STAKE HOLDERS

We are aware that our action will directly affect our stakeholders in many ways. There for we have established structured process to regularly engage with our stakeholders which is describe in detail on page 44 of this report.

## OUR STRATEGIC VALUE PROPOSITION

Our unique business model gave us separate identity in the insurance industry in Sri Lanka generating strategic value propositions which provide competitive edge. Our key value propositions are given on page 12 of this report.



Log in to  
[www.softlogiclifelife.lk](http://www.softlogiclifelife.lk)  
for more information on  
our Business Model

# FINANCIAL HIGHLIGHTS

Financial Performance and Ratios		2020	2019	(%)
Gross Written Premium	Rs.million	15,660	12,531	25
Net Earned Premium	Rs.million	13,788	11,540	19
Underwriting results (Operating profit)	Rs.million	6,951	5,575	25
Earnings Before interest, tax, depreciation & amortization (EBITDA)	Rs.million	2,450	2,866	(15)
Profit Before Taxation (PBT)	Rs.million	2,130	2,604	(18)
Income Tax Expense/ (Income)	Rs.million	609	431	41
Profit After Taxation (PAT)	Rs.million	1,521	2,173	(30)
Gross Dividends **	Rs.million	937.5	-	100
Retained Profits	Rs.million	584	2,173	(73)
<b>Financial Position as at the Year End</b>				
Financial Investments	Rs.million	27,368	14,911	84
Total Debt	Rs.million	2,852	Nil	Nil
Total Assets	Rs.million	33,206	20,683	61
Equity and Reserves	Rs.million	9,936	8,219	21
Insurance Contract Liabilities	Rs.million	17,484	10,377	68
Total Liability	Rs.million	23,270	12,464	87
<b>Share Information</b>				
Market value per share				
- Highest value recorded during the year	Rs.	38.6	50.4	(23)
- Lowest value recorded during the year	Rs.	20	30	(33)
- Value as at end of the year	Rs.	34.8	37.5	(7)
No of shares in issue	million	375	375	-
Market Capitalisation	Rs. million	13,050	14,063	(7)
<b>Profitability Ratios</b>				
Underwriting Margin /Gross Profit/Operating profit Margin	%	44.4	44.5	(0.1)
Return on Total Assets *	%	6.1	11.4	(5.3)
Return on Capital Employed (ROCE)	%	32.2	54.9	(22.7)
Investment Yield	%	10.0	11.5	(1.5)
<b>Liquidity Ratios</b>				
Current Ratio	Times	22.2	65.6	(43.4)
Quick Assets Ratio	Times	4.8	3.9	0.9
<b>Equity Ratios</b>				
Net Assets value per share	Rs.	26.5	21.9	20.9
Basic Earnings per share (EPS)/ Diluted Earning Per Share	Rs.	4.1	5.8	(29.9)
Dividend per share (DPS)**	Rs.	2.5	-	100
Effective Dividend rate (Dividend Yield)**	%	7.2	-	7.2
Dividend Payout Ratio**	%	61.6	-	61.6
Dividend cover**	Times	1.62	N/A	100
Price Earnings Ratio	%	8.6	6.5	2.1
Earning Yield Ratio	%	11.7	15.5	(3.8)
Return on Equity	%	21.3	37.9	(16.6)

Financial Performance and Ratios		2020	2019	(%)
<b>Efficiency Ratios</b>				
Total Asset Turnover ratio *	Times	0.64	0.79	(19)
Fixed Asset Turnover Ratio	Times	23.4	19.4	21
<b>Debt Ratios</b>				
Debt to Asset Ratio	%	8.6	-	8.6
Debt to Equity Ratio	%	28.7	-	28.7
Interest cover	Times	14.2	N/A	14.2
Equity Assets Ratio	%	30	40	(10)
<b>Industry Specific Ratios</b>				
Capital Adequacy Ratio (Minimum requirement 120%)	%	302	182	120
Determination Ratio (Minimum requirement 100%)	%	118	109	9
Investment in Government Securities (Minimum 30%)	%	54	42	12
Investments Supporting One-off Surplus (Restricted Regulatory Reserve) - Minimum requirement Rs. 798 Mn	Rs.million	839	829	1
Net Claims Ratio (with maturities and surrenders)	%	25.9	26.0	(0.1)
Net Claims Ratio (with Group life and DTAP)	%	20.2	18.1	2.1
Net Claims Ratio Endowment (without Group life and DTA)	%	10.1	9.7	0.4
Total Expense ratio	%	47.7	53.8	(6.1)
Combined ratio	%	73.6	79.8	(6.2)
Acquisition cost to GWP	%	20.9	23.7	(2.8)
Operational expenses Ratio	%	21.2	26.1	(4.9)
Reinsurance Expense Ratio	%	12.0	7.9	4.1
<b>Key Value Drivers</b>				
Annualised New Business Premium	Rs.million	3,880	3,967	(2.2)
Average Premium Per Policy (Endowment)	Rs.	136,852	137,032	(0.1)
Premium Persistency Ratio Year 1	%	83	85	(2)
Premium Persistency Ratio Year 2	%	65	64	1
Premium Persistency Ratio Year 3	%	52	52	-

## FINANCIAL GOALS AND ACHIEVEMENTS

Indicator (%)	Goal	Achievement	
		2020	2019
Gross Written Premium Growth	Over 20%	25	25
Annualised New Business Premium Growth	Over 25%	(2)	19
Profit After Tax growth	Over 15%	(30)	138
Return On Equity	Over 20%	21	38

\* Adjusted for Deferred Tax

\*\* Subject to regulatory approval

# YEAR AT A GLANCE

## JAN

### • Townhall Meetings

Softlogic Life kicked off the year 2020 with Town Hall meetings with all the staff to communicate the Company's strategy and objectives.



## FEB

### • Alternate Channel Sales Awards 2020

Softlogic Life recognises trailblazers at inaugural Alternate Channel Sales Awards 2020.



### • MDRT qualifiers

Softlogic Life records the highest number of MDRT qualifiers.



## MAR

### • Became the 3rd largest insurer in the industry

Softlogic Life positioned as the third-largest entity in the Life insurance industry by the end of the first quarter of 2020, proving it to be the fastest-growing Life Insurer in Sri Lanka.

### • Revamped digital platform of the Company

To help policyholders avoid social interactions, Softlogic Life enabled the digital submission of claim documents through a care line; policyholders can also pay their premiums online through the Company's website and LifeUp app



## MAY

### • Declared to accept medical related costs of COVID-19

Going the extra mile as a responsible entity, Softlogic Life decided to cover medical-related costs of COVID-19 from testing to treatments, thus providing protection to policyholders

### • Brand Finance - Moving up 25 Ranks in a span of just 3 years

Softlogic Life is ranked No.37 among the Brand Finance Top 100 Most Valuable Brands in Sri Lanka 2020 and is also the 2nd Best Ranked Life Insurer and the youngest Brand among the top 50 Brands.

## MOST SIGNIFICANT EVENTS DURING THE YEAR

### • USD 15Mn invested towards Softlogic Life's growth by Finnfund and NorFund

Finnfund and Norfund have collectively signed a USD 15Mn Tier II Subordinated debt transaction with Softlogic Life to further develop the business objectives of the Company.

### • Softlogic Life Insurance PLC inked a landmark deal with Development Financial Institution, Münchener Rückversicherungs-Gesellschaft – MunichRe

Softlogic Life concluded a Financial Reinsurance transaction of USD 15 Mn in March 2020 with Münchener Rückversicherungs-Gesellschaft – MunichRe.





**JUL**

• **Ranked 7th Most Transparent Company in Sri Lanka**

Softlogic Life was honoured to be recognised as the 7th Most Transparent Company in Sri Lanka and best among insurance companies from Transparency International Sri Lanka 2020 Top 50 among listed companies in the CSE.

• **Asia Trust Life Agents & Awards 2020**

Our very own sales team member, Lahiru Maduranga, became the only Sri Lankan to be nominated among top 5 in the Asia Trust Life Agents & Awards 2020 in the Rookie Insurance Agency Leader of the Year category.



**AUG**

• **Softlogic Life opens state-of-the-art Premier Customer Centre**

In the journey of “Enhancing the Quality of Life of Sri Lankans” Softlogic Life opened a brand new premier customer Centre at Colombo 07 to serve customers better.



**DEC**

• **Highest ever top line and operational profitability**

The Company recorded its highest-ever top line of Rs. 15.6 Bn and achieved 25% of growth.



• **Awards and Accolades**

Won many awards including 3 awards at the South Asian Federation of Accountants (SAFA) Annual Report Awards; and 2 awards from Smarties Apac Mobile Marketing Awards and many more.

Details are provided on Page 14.



**SIGNIFICANT CHANGES IN THE BUSINESS PROCESS**

**What we did-** Introduction of digital processes within our business process to operate in a contactless environment. Accordingly, we deployed working from home (WFH) arrangement; clients are allowed to send their claims digitally through the ‘Claim it’ system; sales agents are allowed to send policy proposals online with digital underwriting and PCU agents can issue online receipt through the online system, deposit collections through ATMs

**Value Creation to Company**

- Effectiveness and efficiency of staff delivering time savings
- Digital submission of claim documents helped to maintain a paperless work flow

**Value Creation to Customers**

- Speedy service
- Improve customer service and flexibility

**Value Creation to Employees / Sales staff / PCU officers**

- Protection of the health of our people



# One Voice

## EXECUTIVE STATEMENTS

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## CHAIRMAN'S REVIEW



**Rising to take its rightful place as the third-largest life insurance Company, growing its market share to 15.2% by year end, and delivering a robust balance sheet, Softlogic Life has proved its credentials as an industry leader in the making.**

Dear Stakeholders,

I take pride in welcoming you to the 22nd Annual General Meeting of the Company and sharing with you the Annual Report for the year 2020. Amidst a global pandemic that cast its shadow through the year under review, Softlogic Life proved to be a beacon of inspiration of how resilient organisations weather a storm and emerge stronger.

### YEAR-ON-YEAR GROWTH AMIDST A GLOBAL PANDEMIC

Despite investing in the life insurance industry a mere six years ago, Softlogic Life has successfully achieved a CAGR of around 29% within five short years as compared to industry CAGR of about 13%. This is a significant achievement for the Company considering the contraction in the local economy in the year 2020 as a result of the COVID-19 outbreak and measures such as lockdowns implemented to combat the pandemic.

Already during the year, Softlogic Life became the only insurer in the country to cover in excess of one million lives in Sri Lanka, which marks a milestone in

our journey to reach the pinnacle of the life insurance industry and our bid to extend protection to all Sri Lankans.

Yet another noteworthy achievement during the year under consideration was that Softlogic Life moved up to the third position in the life insurance market. In a year where disruption has been the theme for the wider economy, for Softlogic Life to improve its market position and gain market share is nothing short of extraordinary. These accomplishments were facilitated by the strategies we deployed and the strong execution of those strategies, which enabled the Company to sustain the momentum despite the prevailing macro challenges.

### POWERHOUSE FINANCIAL PERFORMANCE

Rising to take its rightful place as the third-largest life insurance company, growing its market share to 15.2% by year end, and delivering a robust balance sheet, Softlogic Life has proved its credentials as an industry leader in the making. The Company reported the Profit Before Tax (PBT) of Rs. 2.1 Bn in 2020 compared to Rs. 2.6 Bn in 2019.

A 19% growth in net earned premium and 44% growth in investment income was a substantial achievement. Profit After Tax (PAT) is reported as Rs. 1.5 Bn in 2020 whereas it was Rs. 2.1 Bn in 2019. The Company's total assets increased by 61% to Rs. 33.2 Bn in 2020 compared to Rs. 20.6 Bn in the preceding year. Growth in financial investment of Rs. 12.4 Bn was the main contributing factor for the increase in total assets. The Company's Net Assets per Share was reported at Rs. 26.50 as at 31st December 2020 compared to Rs.21.92 as at 31 December 2019. Return on capital was reported as 21.3% in 2020 compared to 37.9% in the previous year.

The Company's capital adequacy ratio (CAR) of 302% in 2020 was above the regulatory requirement of 120% and its capital profile was further augmented due to funding of LKR 2.8Bn by way of a Financial Reinsurance transaction with Munich Re, one of its leading Reinsurance partners and Tier II capital infusion of Rs. 2.8 Bn by Ffund and Norfund due to Softlogic Life's potential to leverage on the operational synergies with the Softlogic Group is envisaged to usher in further gains.

## CHAIRMAN'S REVIEW

### DIVIDEND

The Company declared interim dividend of Rs. 2.50 per share amounting to a total pay-out of Rs. 937.5 Mn for the year 2020 subject to regulatory approval.

### SUSTAINABLE STRATEGY AND MEDIUM TO LONG TERM PLANS

At Softlogic Life, sustainability is everything in the journey towards the top and it is evident from the impressive growth that the Company has continually maintained new channel innovations and expansions allowing us to extract growth from across the economy while diversifying the risk component significantly.

The Company has concluded its corporate plan 2021 -2023 which is the process of setting up of short to medium term strategy and decided to use the opportunity of under penetration that exists in the Life Insurance market which is 0.6%. The Company will continue with the rapid profitable growth strategy which counts a growth rate of over 20% to capture the insurance market rapidly. In terms of profitability, the focus is to achieve sales growth via profitable product portfolio. The Management brought in important initiatives to the table to reduce the year-on-year operating expense ratio which will enable consistent profit growth over the planning period.

In our long term strategy, we will focus on operational excellence blending with technology to provide an exceptional customer experience in our journey towards delivering extraordinary stakeholder value while focusing on risk management.

### FUTURE OUTLOOK

The pandemic has demonstrated that people need to plan for unforeseen events and there is no doubt that the life insurance industry has gained much traction as a result. The time is ripe

for the regulator to leverage on this momentum by putting in place enabling guidance to expand the industry. The government is prioritising digitalisation and electronic contracts and Softlogic Life, which offers contactless transactions for its customer base, is well positioned to lead this digitalisation drive in the industry.

Looking at emerging risks ahead, volatility in financial markets and a low growth economy could be real threats that would stifle Sri Lanka economy's recovery to anywhere close to pre-2019 levels, before the Easter attack, which would take several years to achieve provided the pandemic is under control or eliminated. The access to vaccinations and getting a majority of the population vaccinated will also dictate the nation's economic recovery.

I am pleased to stress the positive approach the Company adopted to the challenges in 2020 which is reflected in the 25% growth we achieved during the year under review. In the preceding year, Easter attacks notwithstanding, Softlogic Life once again achieved 25% growth which shows the accelerated trajectory the Company is currently on, as growing at this rate in a low performing economy is no mean task. This gives rise to the thought that when economic growth picks up pace, the Company can expect a much more robust growth.

Softlogic Life is committed to sustainable growth and we ensure that the objectives are achievable in a meaningful way without compromising on our sustainability mindset as we ensure our services are scalable and add value to stakeholders while managing costs of doing business. Our unique mix of products and diverse distribution channels help us achieve an overall sustainable balance. Diversification of channels has allowed us to offset and compensate business across channels,

thereby helping secure profitability in the most trying circumstances.

As a company with sustainability embedded in our DNA, Softlogic Life covers medical-related costs of COVID-19 - from testing to treatments to provide protection for policyholders when they need it the most.

As one of the most digitalised insurance companies, we hold the unique advantage of in-house IT expertise with deep domain knowledge. Our digital strategy is about accessibility, relevance and state-of-the-art technology that is appropriate to the business and in the end meaningful to our policyholders. During the year under review, we launched a unique application called 'Claim It', which automatically reads an invoice - be it a hospital bill or any other type of medical invoice - and translates it back to the different ailments or sicknesses the medicines were used for, and then read that back to the policy conditions to understand which part of the policy actually covers the illnesses and what limits are applicable to each area. Claim IT can also approve payments which are then interfaced to the CEFT banking payment mechanism, so that the customer gets paid - all in one easy application. Majority of our claims propositions are now handled via the digital platform. We believe this is a competitive advantage and will hold us in good stead going forward.

We believe the Softlogic Group's main business verticals - healthcare, retail, leisure and financial services - are a bonanza for Softlogic Life in terms of accessing a captive customer data base since the group is engaged in lifestyle businesses which attract Sri Lanka's emerging middle class. We are building deep insights in understanding customer trends and offering customer insights that will assist in acquiring and retention of customers.



We continue to evolve and shape our go-to-market digital strategy to ensure we are able to leverage on the customer need for digital insurance products. The Company has already embarked on exploring how incorporation of technologies such as artificial intelligence, big data, robotic process automation and artificial intelligence and so on could enhance customer convenience, speed and efficiency. Technology backed digital applications launched by Softlogic Life are seeing a steady uptake among customers which reflects the latent demand that exists for digital products.

### FOUNDATION OF GOOD GOVERNANCE

Operating to the highest standards of governance, Softlogic Life remains agile and responsive to evolving developments in the regulatory, business and internal environments to ensure it remains fully compliant at all times. The Company's robust corporate governance mechanisms provide the limits within which we create value for shareholders. Comprehensive details on Corporate Governance and Integrated Risk Management are provided on pages 134 to 240.

As a testimonial to accountability, Softlogic Life was ranked as the 7th most transparent listed company on the Colombo Stock Exchange as well as the most transparent insurance company in Sri Lanka by Transparency International Sri Lanka (TISL) in its latest report titled 'Transparency in Corporate Reporting (TRAC): Assessing the Top 50 Listed Companies in Sri Lanka'. Softlogic Life has scored a TRAC score of 7.9, making it the only insurance company in Sri Lanka to be included in the Top 10 list, which speaks volumes for our governance framework. In yet another affirmation, our corporate governance practices were recognised when we

became the only Sri Lankan company to get three accolades from South Asian countries by the South Asian Federation of Accountants (SAFA) for our Annual Report 2019.

The Company obtained the assurance report on Integrated Reporting and became the first Company to do so in Sri Lanka. This initiative reconfirms our attitude to always establish the right governance framework within the Company.

### APPRECIATION

I take this opportunity to thank my fellow directors on the Board for their support and advice which helped us navigate an unprecedented year. Our diverse Board consisting of local and international directors bring a holistic point of view to managing Softlogic Life and we are truly grateful for the enrichment that this diversity brings to strategic decision-making. Our management team is also one of the best in the country as can be evidenced by the Company's strong progress. We are grateful to have industry-best professionals who are driving our success year after year. The regulator needs to be commended for maintaining a steady hand in guiding the insurance industry amid a challenging external environment. I have the fullest confidence that we will sustain our 'One Lankan' spirit well into the future.

Sgd.

**Ashok Pathirage**

Chairman

Colombo, Sri Lanka.  
08 March 2021

## MANAGING DIRECTOR'S REVIEW



**Softlogic Life has carefully crafted insurance solutions that are relevant to different segments of our society and we believe there is tremendous room to grow and expand into many other untapped segments.**

The year 2020 will be remembered as a turning point in history when the COVID-19 pandemic outbreak around the world disrupted lives and economies in unimaginable ways.

It gives me immense pride that we, at Softlogic Life, being the third largest Insurance Company in the country, took it upon ourselves to assure our policyholders that we would honour any death claims related to COVID-19 irrespective of whether we received reinsurance support. I am proud to state that this assurance to our policyholders was the first of its kind in the industry, which displayed exemplary industry leadership, extending the utmost confidence and peace of mind for customers that their selected insurance partner was with them when it really mattered. This stance sets out from the outset what our empathetic response to the 2020 pandemic would be.

### COMPANY PERFORMANCE

Despite facing severe headwinds arising from the pandemic, Softlogic Life grew by a strong 25% during the financial year 2020, sustaining its performance from the preceding year. More significantly, we achieved up to 94% of our top line target for the year, which can be considered a phenomenal achievement

considering the mobility constraints and uncertain operating conditions that prevailed through much of the year - with almost half the year witnessing severe interruption in normal business activity. Softlogic Life also succeeded in expanding its market share from 14.1% in 2019 to 15.2% in 2020, successfully doubling share of the market within a mere five years.

Despite the strong performance, the Company had to surmount many challenges. The pressure to stimulate investment caused many economies around the world to drop interest rates substantially. In Sri Lanka too, a drop of almost 350 basis points was witnessed by year-end. While this was beneficial for business activity in general, it had adverse impact on the financial valuation of insurance companies as liability valuations increase when interest rates reduce. Moreover, funds that insurance companies garner in terms of the new business also get invested at lower rates.

### OUR MULTI-CHANNEL STRATEGY

Amidst the mobility constraints as a result of the pandemic, we were faced with the challenge of optimising our distribution channels, namely, Agency, Alternate and Micro. Since the agency channel relies on one-to-one

interactions with customers, it saw heavy disruption due to lockdowns and social distancing measures. Despite this, the channel carved out a reasonable 8% growth.

Meanwhile, our Alternate channel offset the lower performance from Agency channel by recording a phenomenal growth of 72%.

This phenomenal achievement of covering over one million lives is naturally the theme of this year's annual report as it reflects the profitability and caring proposition of the Company. Softlogic Life has carefully crafted insurance solutions that are relevant to different segments of our society and we believe there is tremendous room to grow and expand into many other untapped segments.

As a result of curfews and the interruption in business, customers were unable to pay premiums on time as livelihoods and incomes were disrupted. As a result, we saw many policies lapsing during the year under review. Nevertheless, the Company complied with the regulator's directive to offer a grace period of four months for payment of premiums. Although Softlogic Life too saw a significant lapsation at one point in

terms of policies in force, the Company staged an impressive recovery that mitigated any long term impact.

### Our People

As a result of lockdown and social distancing measures, the majority of our staff worked from home for almost half the year, which, while it may sound ideal, is not always an easy proposition. But overall our team did a wonderful job, displaying exemplary team spirit in getting the what was required done. The Board of Directors and the management of the Company are very appreciative of their efforts to ensure that sales distribution, operations and customer support remained smooth and well-oiled regardless of external pressures. I believe our people remain our greatest strength and that we simply have the best team in the market.

### MEDIUM / LONG TERM STRATEGY

Given our positive outlook for 2021 and beyond, we expect to grow by 20% in the short-term and by 18% -20% in the medium to long term.

We believe in a dynamic positioning of business, a strategic distribution model so that customers can access the product that they want, at the price they want, and the place they want will be key. The Company must be agile and flexible to continually modify, change and invent and strategies with regard to its distribution channels. Our culture of learning and innovation, and encouraging employees to learn from their failures has helped us improve as we go along.

### Leveraging on Digitalisation

The Company has launched trademark technologies in the Life Insurance business with applications such as LifeUp Mobile Application, E-Advisor, IME and many other such technologies that have facilitated the modern customer experience a shift towards the digital space. The Company continues exploring these new opportunities unfolding in the digital space.

### Risks and Opportunities

Volatility in financial markets remains a key threat which combined with and any further lockdowns or interruptions to the business activity could have negative impacts. We are looking forward to normalisation of activity coming into 2021. The economy needs to recover and expand, to get back into positive numbers with growth at around 5.3% in 2021, with a revival in sectors that have been hit hard, such as tourism and leisure. Moreover, people at the bottom of the pyramid need to be helped back on their feet as they are the masses that make up the foundation of our economy.

Future growth prospects for life insurance remain strong, that is further evidenced by the funding we received in 2020. This reflected the confidence by foreign investors with exposure in a number of other developing markets and being able to assess that the Sri Lankan insurance industry has potential - and that within that industry, Softlogic Life has substantial potential.

### LOOKING AHEAD

The COVID-19 pandemic is expected to recede, especially with the introduction of vaccines, and we are really looking forward to the economy moving forward. We think that there could be pent up demand that will trigger growth at a fairly rapid pace as the economy is coming off a low base number in 2020.

As for Softlogic Life, we are ambitiously targeting a high growth momentum for 2021 based on the positive prospects laid down in the Government's vision 'Vistas of Prosperity and Splendour' in which per capita income of US\$6,500 is targeted in five years. As a Company that has probably the strongest momentum in the market right now, we expect to be perfectly positioned to benefit from a high performing economy. We will continue to retool, develop, improve and enhance our business along the way to gain substantially from an economy of that size. Towards this end, we have

aligned ourselves with the government's medium-term vision.

Another key realisation is that insurance is notional until the time the customer makes a claim – the moment of truth to assess whether their insurer comes through for them. Softlogic Life takes this very seriously, positioned on the platform of being the most caring life insurer. So, when our policyholder for example is admitted to hospital, we make sure that the journey that the customer goes through with insurance is hassle-free and simple. Our customer service is a key pillar is how we bring our promise to life. Over the years, we have honed our customer response by looking very closely at feedback, complaints and suggestions from customers, analysing data and statistics to see how we can continue to improve on meeting customer aspirations.

### Appreciation

I am extremely grateful to the Chairman and Board of Directors for their guidance and direction. We have a very diverse Board and their views, inputs and feedback are highly valuable and have helped us in terms of our strategies. I would like to thank the Chairman, Director General and staff of IRCSL for their support. We remain obligated to other stakeholders such as insurance brokers, reinsurers and customers for their unwavering faith in us. Our performance this year was the result of the dedication and hard work by each and every team member guided by probably the best senior management team in the industry. We should all be proud of what we have achieved together in a year that will certainly be remembered for a long time to come.

Sgd.  
**Iftikar Ahamed**  
Managing Director

Colombo, Sri Lanka.  
08 March 2021

## EXECUTIVE DIRECTOR'S REVIEW



Year after year, the Company has demonstrated its resilience and ability to win under any circumstances and 2020 was no different. In the midst of a global pandemic, the Company recorded Rs. 15.6 Bn in GWP which at 25% growth, reflecting the powerful financial performance delivered to shareholders.

### CHANNEL PERFORMANCE

The Agency channel, which is the mainstay of the Company's distribution strategy and which contributes 64% of the total revenue usually, grew more modestly at 8% over the previous year. This channel was impacted by lockdowns, social distancing measures and movement restrictions imposed by the government to curb the spread of COVID-19. Meanwhile, the Alternate channel, which delivers a contribution of 33%, grew stridently during the year, growing from Rs. 3 Bn in 2019 to Rs. 5.1 Bn in 2020, recording a growth of as much as 72% over the preceding year.

### STRATEGIES DRIVING KPIS

We are proud of the persistency of our policies which reflect the strong strategies in place, with a focus on continuation of existing business and collections to retain the customer base. There was a keen emphasis on renewal inflows to generate revenue. Despite the downturn in the economy in the year under review,

we achieved 83% first year retention as against 85% we had planned for. Moreover, we exceeded second-year retention beyond the planned 63% to achieve 65% in 2020.

We placed a strong focus on premium collections and since it was difficult to visit customers due to social distancing norms, we activated a digital platform to facilitate collections through arrangements with banks.

During the year we included leading Ayurvedic hospitals under our hospitalisation claims structure to promote local indigenous medicine. Customers can now opt for Ayurvedic treatments if they wish while enjoying our insurance cover.

The dire macro-economic conditions during the year called for stringent cost controls across all functions and only three new branches were opened, which makes our performance all the more commendable as it was achieved with the existing distribution network and the staff.

### A YEAR OF DIGITAL TRANSFORMATION

The manner of doing business has changed in the new normal as the Agency sales force switched to garnering business on a digital platform. Our entire six step selling process until the completion of

the proposal was brought on to the digital platform, where we minimised the personal interaction with the customer, but still maintain our good relationships.

I believe our digital platform which is developed internally by our IT team is a real breakthrough initiative in the industry. It has totally digitalised the agency selling process and is very valuable amidst the on-going pandemic.

Despite transforming many processes onto the digital platform, the Company sustained its engagement with communities by supporting students from underprivileged schools in rural areas under the WIN programmes. So far, the Company has donated 300,000 certificates to underprivileged schools to help motivate children.

### OUTLOOK

The future prospects for the Company look bright as having forged through tough times and being able to stay on course brings us great confidence, whilst the fulfilment of our digital capacity ensures the ability to get through similar situations. At the same time, we are one of the best-placed companies to benefit from a post COVID-19 recovery based on the momentum that we have created.

### ACKNOWLEDGEMENT

I would like to thank the Chairman and Board of Directors, the Managing Director and staff for all guidance in enhancing our distribution. This year's performance is nothing short of heroic amidst uncertain macro conditions which reflects the strong people and processes reposed within the Company, which will help us sustain growth momentum well into the future.

Sgd.

**Chula Hettiarachchi**  
Executive Director

Colombo, Sri Lanka.  
08 March 2021





# One Spirit

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# OUR BUSINESS OPERATING CONTEXT

Our external business environment is analysed using PESTEL framework to identify Risks and Opportunities that will have significant impact on our value creation over short, medium and long term.



Insurance Industry Regulatory Requirement	Compliance	Impact to SLI	Opportunity/Risk
<b>Circular # 43 – Issuing insurance policies in three languages</b> All insurance companies to have insurance policies in three languages (Sinhala, Tamil and English)	Ongoing	○	O1: No customer disputes
<b>Direction 17 – Amendments to Corporate Governance Guidelines</b> <ul style="list-style-type: none"> <li>Exemption from the Rule on Tenure for a Director representing Major Shareholder.</li> <li>Technical Director is permitted to remain in office till the age of 75 and subject to conditions provided in the Rules.</li> <li>A Director who completed 9 years as at 1st July 2019 or completed such terms prior to 30th June 2021, was permitted via transitional provision to continue for a further maximum period of 2 years from 1st July 2019</li> <li>Age of a person who serves as director shall not exceed 70 years. Transitional provisions for above are provided with specified dates of expiry of directorship</li> <li>Disclose requirements in an Annual Report</li> <li>Non-compliance to be rectified within three months and inform IRCSL</li> </ul>	Ongoing	○	-
<b>Direction #22 – Procedure to be followed when conducting inquiries in relation to insurance agents</b> Detailed procedure for the conduct of inquiries against agents were informed from this direction	Ongoing	○	-
<b>Direction #21 – Unfair practices of Banks, Finance and Leasing companies towards insurance agents by forcefully changing existing agent codes.</b> Insurance companies were directed to not change existing agency codes, unless there is a written consent of the agent.	Ongoing	○	-
<b>FIU Guidelines No. 03/2020</b> Guidelines for Non Face-to-Face Customer Identification and Verification using Electronic Interface Provided by the Department for Registration of Persons	Ongoing	○	-

Update of Accounting Standards	Compliance	Impact to SLI	Opportunity/Risk
<b>Amendment to SLFRS 16 – Leases</b> <ul style="list-style-type: none"> <li>Application of the initial application of COVID-19 related Rent Concessions</li> </ul>	☑	○	-
<b>Re-assessment of Discount Rate used in valuing insurance contract liability</b> <ul style="list-style-type: none"> <li>CA Sri Lanka issued a clarification note on estimating discounting factor for liability valuation.</li> </ul>	☑	●	O2: Stable Profitability
<b>Implementation of SLFRS 17</b> SLFRS 17 will enforce w.e.f 1 January 2023 requiring many changes to business processes including system architecture.	N/A	○	R1: Risk of Compliance

Political & Legal factors (P)(L)	Other Regulations (Tax Amendments)		Impact	Opportunity/ Risk
	<b>Corporate Income Tax</b>		●	O3 – improved future profitability
	<ul style="list-style-type: none"> <li>Income Tax Rate has been reduced to 24% from 28% on the income of a Company</li> </ul>			
	<b>Personal Income Tax</b>		●	O4: The increase in disposable income of individuals will positively impact to life insurance business.
	<ul style="list-style-type: none"> <li>The progressive rate structure will be 6% &amp; 12% having the equal tax slabs of Rs. 3,000,000/- each and maximum rate of 18%.</li> <li>Medical insurance premiums, investments in government securities, Interest on housing loans and investment shares of listed companies of up to Rs100,000 per month to be deductible in calculating the income for tax purposes.</li> </ul>			
	<b>Amendments to other taxes</b>		●	
<ul style="list-style-type: none"> <li>Requirement for deduction of WHT (Including PAYE) on Rent, Specified Fee, Dividend and Interest is removed.</li> </ul>				
<b>New Levies Introduced</b>		●	R2: Reduction of future profitability	
<ul style="list-style-type: none"> <li>Companies which are employing more than 50 to contribute 0.25% of revenue to fund a Covid Unemployment Insurance Scheme. This will result in a negative impact on the profitability of the Company.</li> </ul>				
<b>Dividend Income</b>		●	O5: Opportunity to attract foreign Investors	
<ul style="list-style-type: none"> <li>Exempt the tax on dividends of Non Residents for three years if such dividends are reinvested on expansion of their businesses or in the money or stock market or in Sri Lanka International sovereign bonds</li> </ul>				

● Positive ● Negative ● Neutral

Economic factors (E)	Global Economic Environment Outlook	2022 (F)	2021 (F)	2020 (F)	2019 (F)	Commentary	Opportunity/ Risk
	Real GWP growth	4.2 %	5.2%	-4.4%	2.8%	On a global outlook, due to the COVID-19, a global recession was declared by IMF and it is likely to be worse than the financial crisis of 2008. It is estimated that the global economic activities will decline by 1.9% and are expected to GDP forecasts to revert to pre-virus levels only by late 2021 for the US and Europe.  Source: International Monetary Fund (IMF)	O6: economic recovery and growth
	Inflation	3.2%	3.4%	3.2%	3.5%		
	GDP per Capita (USD)	12,383	11,773	10,954	11,557		

## OUR BUSINESS OPERATING CONTEXT



Advanced Economies, Emerging Markets and Developing Economies (real gdp g)	2022 (F)	2021 (F)	2020 (F)	2019 (F)	Commentary	Opportunity/Risk
Advanced Economies	2.9%	3.9%	-5.8%	1.7%	No country has escaped the health, economic, and social impacts of the COVID-19 crisis. Tourism-dependent economies, oil exporting countries, and other commodity exporters have seen larger downward revisions.  Source: International Monetary Fund (IMF)	O7: economic recovery and growth
Emerging markets and Developing Economies	5.1%	6%	-3.3 %	3.7%		
Sri Lankan Economy Outlook	2022 (F)	2021 (F)	2020 (F)	2019 (F)	Impact to SLI	Opportunity/Risk
Real GDP Growth	5.0%	5.3%	-4.6%	2.3%	It is expected to expand both the prospective and existing life insurance customer base in 2021 due to the positive relationship between life insurance penetration and growth of per capita.	O8: Future growth potential (market penetration and product development strategy)
Inflation	4.9%	4.6%	4.7%	4.3%	Inflation is expected to stay at 4.7% in 2020 from a 4.3% in 2019 driven by high food prices and supply chain disruptions, followed by a marginal decline in 2021 to 4.6%. The tax concessions introduced before the outbreak are expected to mitigate pricing pressures.  Lower inflation provides positive sentiment to life insurance due to increase in real disposable income.	
Interest Rates (1 Year T Bill)	N/A	N/A	5.05%	8.45%	The low interest rates increase the present value of liabilities against the positive fair value against could be expected from interest sensitive assets and equity instruments. However, due to Asset and liability mismatch there will be negative net impact on the bottom line.	RO3: Profit volatility in long run
Exchange Rates (USD/ LKR)	N/A	N/A	LKR 187.2	LKR 181.3	Exchange rate movements could adversely impact payments to reinsurers and claims paid out in foreign currency. There is no impact from reinsurance as all the agreements are entered in local currency.	
<p>Commentary: - The Government has taken many decisions such as reduction of policy rates, introduction of new tax reforms in order to support the businesses and individuals affected by the pandemic and to ensure a speedy revival in economic activity. The potential impact from COVID-19 is unlike any other the country has faced, and the economy is likely to face a contraction in 2020 due to many sectors being at a standstill.</p>						



Social factors (S)

**25%**  
Of population is aged by 2050 (Report by UNFPA)

**76**  
Average life expectancy of Sri Lankan (Source: World Bank)

**\$5,000**  
By 2025 (Source: IMF)

**+7%**  
Urbanisation (Source: World Bank)

Social Factor	Analysis	Impact to SLI	Opportunity / Risk
Impact from COVID-19	<p>The COVID-19 outbreak has made an unprecedented threat on the smooth functioning of the country and created many challenges to the policy makers with the presence of liquidity crisis, employment layoffs, disturbances in international trade, and bans on travel and tourism.</p> <p>However, the direct health impacts are significantly low in Sri Lanka compared to the other regions of the world. The impact of the ongoing pandemic severely affected and further worsened the livelihood of individuals and families in the country with the enforcement of continued island wide curfew, cross-border mobility restrictions, lockdown of the country and regulations such as social distancing and other health precautions.</p>	Deaths from COVID-19 have been concentrated among older adults, who tend to have weaker immune systems. The insured population, in contrast, is typically 30–65 years old. the strategic decisions made by SLI to serve the different customer segments in the society by offering diversified insurance products, enabled SLI to minimise the negative impact from the pandemic and to perform well compared to competitors.	<p>O9: People realise the risk of life and value of having life insurance</p> <p>R4: Future claims might increase if death ratio is increased due to Covid</p>
Population & Age Distribution	Elderly population of Sri Lanka is increasing year by year due to the free and advanced medical facilities, support from government for the Sri Lankan health services and a dip in births.	These changes create demand for health, pension and retirement products.	O10: Opportunity to market development strategy and introduced new products.
Safety and Health Consciousness	This is because of how health-conscious the country has become, and also due to improvements in technology and healthcare.	The longer the customer lives, we have opportunity to serve his changing demands throughout the life cycle.	
Per Capita Income	Sri Lanka's Nominal GDP Per Capita is projected to stand at 5,095 USD in 2025.	Increasing disposable income of courses people to buy insurance products	O11: Future growth potential
Urbanisation	Sri Lanka was the country in the region with the fastest expansion of urban area, relative to urban population, with a ratio of more than seven. While the country's total urban area grew at a rate close to that of the region overall, its urban population growth rate was much slower than the region overall.	This impacts the company's distribution strategy	O12: Distribution channel strategy realign

# OUR BUSINESS OPERATING CONTEXT

Environmental factors (E)



The Company carefully evaluated the environmental standards required to operate in the market we represent. Some of the environmental factors that a service provider should consider beforehand are:

- Recycling
- Waste Management
- Attitudes towards “Green” and “Ecological” concepts when doing promotional campaigns
- Support for renewable energy

The efforts of Softlogic Life for the environment protection and sustainability development of the country during the year are discussed in the Natural Capital section on Pages 127 to 130.

Technological factors (T)



Digital Trend	Description	Impact to SLI	Opportunity / Risk
<b>Robotic Process Automation (RPA)</b>	This refers to software that can be easily programmed to do basic tasks across applications just as human workers do.	SLI is the first insurer to introduce RPA in Sri Lanka on <ul style="list-style-type: none"> <li>• Underwriting</li> <li>• Bank reconciliation</li> <li>• Claim settlement</li> </ul> and we are in the process of rolling same for our non-value adding recurring processes.	O13: Obtain expense efficiency
<b>Big data and Predictive Analytics</b>	Big data and advanced analytics help to manage, analyses and understand data and make forecasts.	<ul style="list-style-type: none"> <li>• To make data-driven decisions to drive profitability of the business.</li> <li>• Improve underwriting process by correctly predicting the risk we accept.</li> </ul>	O14: Risk optimisation and efficiency improvement (Improved underwriting capability and product feature optimization)
<b>Machine Learning (ML)</b>	This is an application of artificial intelligence (AI) that provides systems the ability to automatically learn and improve from experience without being explicitly programmed.	<ul style="list-style-type: none"> <li>• Early identification of possible policies that can lapse and take precautionary actions.</li> <li>• Reduce fraud in claims data and malicious activities in payment systems.</li> <li>• Make personalised offers based on the behavioural analysis of customers.</li> </ul>	
<b>Augmented Reality / Virtual Reality (AR/VR)</b>	AR adds digital elements to a live view often by using the camera on a smartphone.  VR implies a complete immersive experience that shuts out the physical world.	<ul style="list-style-type: none"> <li>• A superior experience to customers to improve customer knowledge of insurance products.</li> <li>• Applies in remote claims handling process.</li> <li>• Provides product training to sales staff.</li> </ul>	O15: Risk optimization and efficiency improvement

Technological factors (T)	Digital Trend	Description	Impact to SLI	Opportunity / Risk
	 	<b>Cyber Risks</b>	As new threats develop in today's tech-rich world, trends in cybersecurity respond to shifting needs. In the last several years, high-profile attacks have exposed weaknesses in the current cybersecurity landscape, pointing to opportunities for improvement.	<ul style="list-style-type: none"> <li>Increasing cyber risk due to our transformation of operations on to online platforms.</li> </ul>
	<b>Growing Internet and Mobile Penetration</b>	Approximately 4.66 billion people around the world use the internet at the start of 2021 – that's close to 60 percent of the world's total population. The trend is not much different to the situation in Asian countries.	We see this trend as a business opportunity which allows us to expand our distribution channels.	O16- Growth prospects for Micro insurance channel

The Company's strengths, weaknesses, opportunities and threats are analysed using SWOT analysis. This is an annual activity which is linked with our annual strategy review and budgeting process.

**STRENGTHS**

- S1 Skilled, far-sighted and experienced Senior Management which is always willing to accept the challenges
- S2 Strong Financial position
- S3 Dedicated, loyal and Passionate young team
- S4 Strong and well-known brand among society and higher social media presence
- S5 Stable Agency Channel, fast growing alternate and Micro channel
- S6 Strong reinsurance panel
- S7 Solid branch network which is spread island wide
- S8 Divers product portfolio that serves a wide array of customer needs

**WEAKNESS**

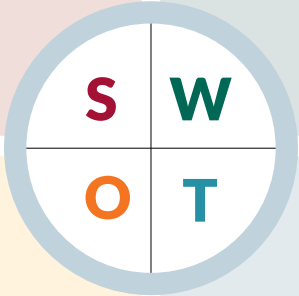
- W1 Manual intervention in some business processes – Currently undergoing technical advancements
- W2 Need of a competent second layer for some key departments
- W3 High attrition among sales force

**OPPORTUNITY**

Opportunities are identified through PESTEL analysis as well as stakeholder engagement on Page 32 and Page 44 respectively.

**THREATS**


Threats are identified through PESTEL analysis as well as stakeholder engagement on Page 32 and Page 44 respectively.



# OUR BUSINESS OPERATING CONTEXT

## INSURANCE INDUSTRY OVERVIEW AND ATTRACTIVENESS

### Global Insurance Industry Overview


6%   
**\$2,916 bn**  
 Total premium written in 2019

Insurance demand was slow sharply in 2020 due to the pandemic. It is expected that Global life premiums will contract by 6% and non-life by 0.1%. In life, saving products will be hardest hit; in non-life, travel and trade related lines will suffer most. Due to prevailing and lower interest rates, savings products will be more affected, while mortality related covers will be more stable.

#### Outlook

It is expected that the COVID-19 crisis will have a severe negative impact on growth in the global life insurance sector in the short to medium term and premiums will decrease by an annual average of more than 1.5% in real terms over the next two years. Alongside with more protracted recovery in the global economy and with high rising risk awareness factors, economy will continue with high penetration rates.

### Regional Review 2020 & Outlook – Advanced Markets

3%   
**\$2,299 bn**  
 Total premium written in 2019

With economic recession projected for most countries in advanced markets, expect that life premiums will shrink sharply (around 3%) during 2020-2021. A subsequent recovery in 2021 will not fully offset the drop and profitability will remain under pressure because of low interest rates.

#### Outlook

The growth pullback in advanced markets will be smaller, but it forecast the largest annual contraction of close to 1% in premium volumes terms through 2021 and this is expected to rise through mitigating strategies and rising awareness.

### Regional Review 2020 & Outlook

3%   
**\$618 bn**  
 Total premium written in 2019

It is estimated that total premium volumes in emerging markets will outperform (excluding China) in both sectors during 2020 and return to positive growth of more than 7% in 2021 mainly due to the government support under the rural revitalisation strategy and rising risk awareness.

#### Outlook

It is expected that Life premium growth in the emerging markets will bounce back to the pre Covid situation and the recovery will mainly be driven by China. The fast adoption of digital distribution channels, further liberalisation of the life sector and rising risk awareness will support the recovery.

### Regional Review 2020 & Outlook – Emerging Europe and Central Asia

3%   
**\$20.4 bn**  
 Total premium written in 2019

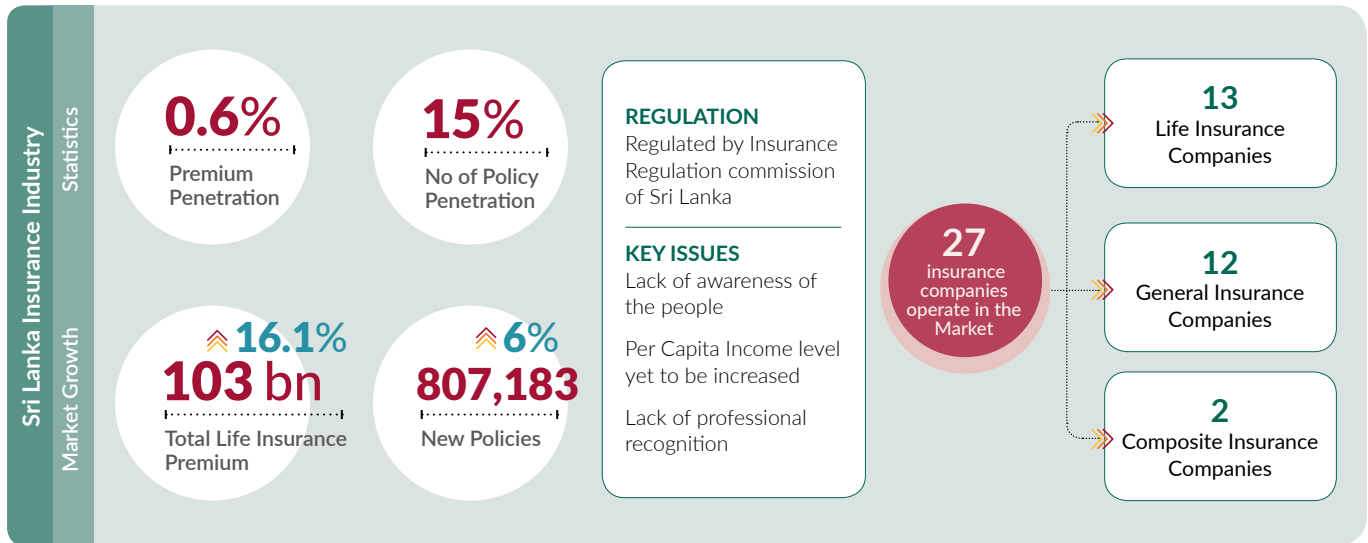
Premiums in emerging Europe and Central Asia will decline strongly this year, given proximity and trade dependence on Western Europe and deep recession in Russia and Turkey. Mainly due to a sharp turnaround in Russia given economic slowdown there, and the weakness in savings business in the EU-member countries, growth contracted in emerging Europe and Central Asia.

#### Outlook

It is expected that the economic activity picks up with the effective fiscal and monetary policy decisions which address the issues raised through the recession faced by the economy.

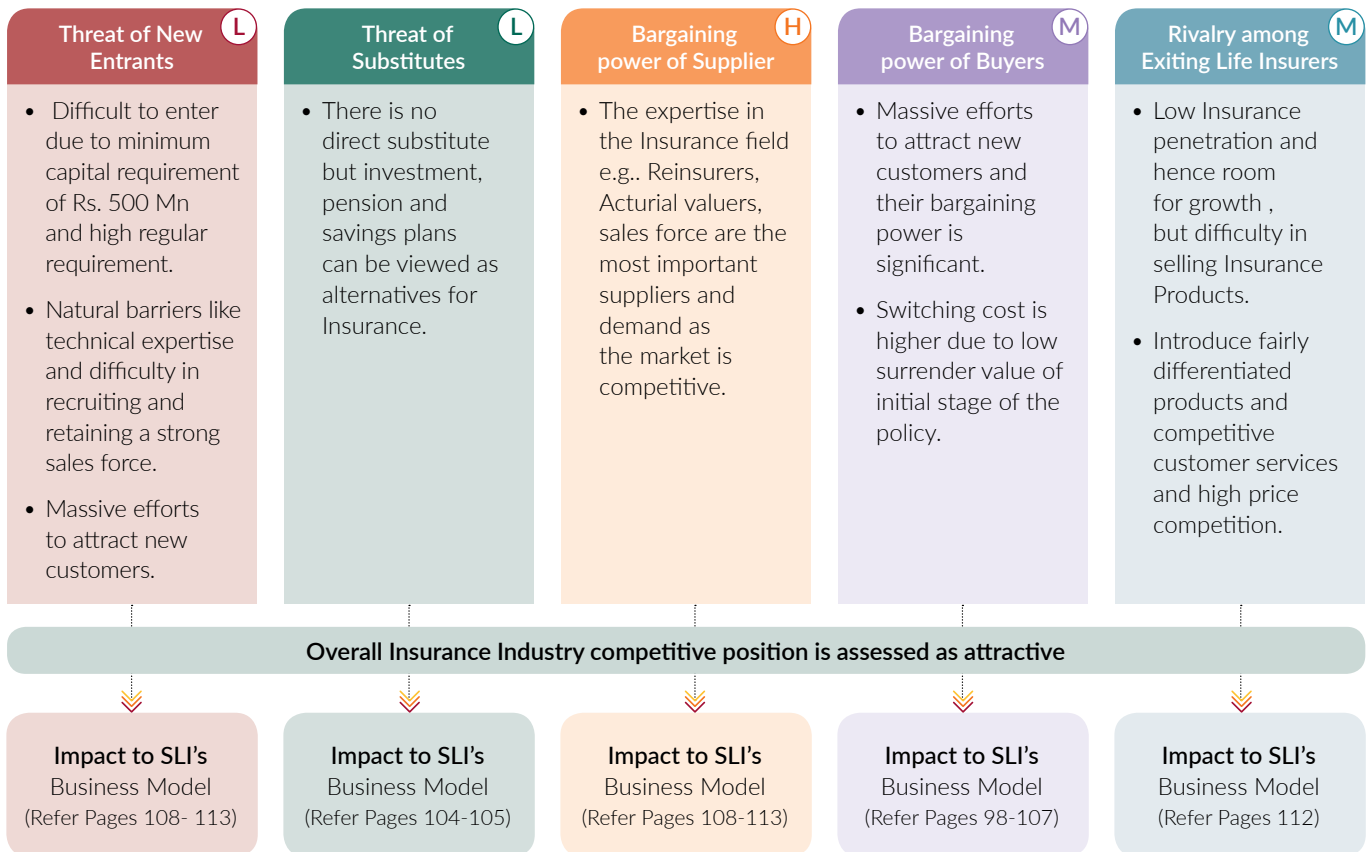
(Source: Swiss Re Institute/Sigma report/No4/2020) – 2020 information not published





**INSURANCE INDUSTRY ATTRACTIVENESS**

Life Insurance industry is analysed using the “Five Forces Analysis” that can assist in determining the competitive intensity and potential attractiveness of the insurance industry in Sri Lanka. In doing so, the Life Insurance industry is considered as the most attractive industry (O17).



(L) Low Impact    (H) High Impact    (M) Moderate Impact

## OUR BUSINESS OPERATING CONTEXT

### SLI COMPETITIVE MARKET POSITION AGAINST THE INDUSTRY

Industry position over last 3 years

#### G04-MARKET SHARE



### ECONOMIC IMPACT ON INSURANCE INDUSTRY

Insurance industry of Sri Lanka remain with positive outlook due to various social, political and technological factors. Sri Lanka is having strong government with majority powers which ensure solid policy framework for foreseeable future. The thundering impact on economy will be ease during 2021 as government is continue to open the economy despite the challenges pose by COVID-19. Further government started vaccination of general public and planning to cover half of the population during 2021. All these positive facts support prospects of insurance industry.

#### Opportunity within the Industry

**O18:** Bancassurance distribution channel is underutilized in Sri Lanka compared to regional peers.

**O19:** Life insurance penetration is very low (0.6%) compared to regional average of 2%.

### LIFE INSURANCE INDUSTRY FUTURE OUTLOOK

Insurers have taken up a range of new investments and initiatives. The top priorities include cost reduction, especially in light of rising compliance costs and increased regulatory focus, digitization of the sales force and more effective use of technology generally. Technology is critical to success on both the bottom and top lines; that is, automating processes can help reduce expenses, while better customer experiences and more productive agents can lead to more revenue. Technology alone is not enough. New skills and expertise are also high on the strategic agenda for life and non-life insurers alike. The combination of the right talent and powerful technology will enable Asia-Pacific insurers to seize huge growth opportunities on the horizon and successfully navigate new and existing risks.

# RISK AND OPPORTUNITIES

## MANAGEMENT APPROACH

Risk and opportunities are identified within our business context and assess each year in line with the annual budgeting cycle. Summary of findings and the Company's action are comprehensively discussed and presented to the Board for approval. Our risk identification process is presented below.

## RISK AND CHALLENGES

The process helps to identify risks and opportunities within our operating environment which could materially affect our value creation process. During the year under review, the company concentrated on following risks that are internal to the organization as well as exist in the external environment.

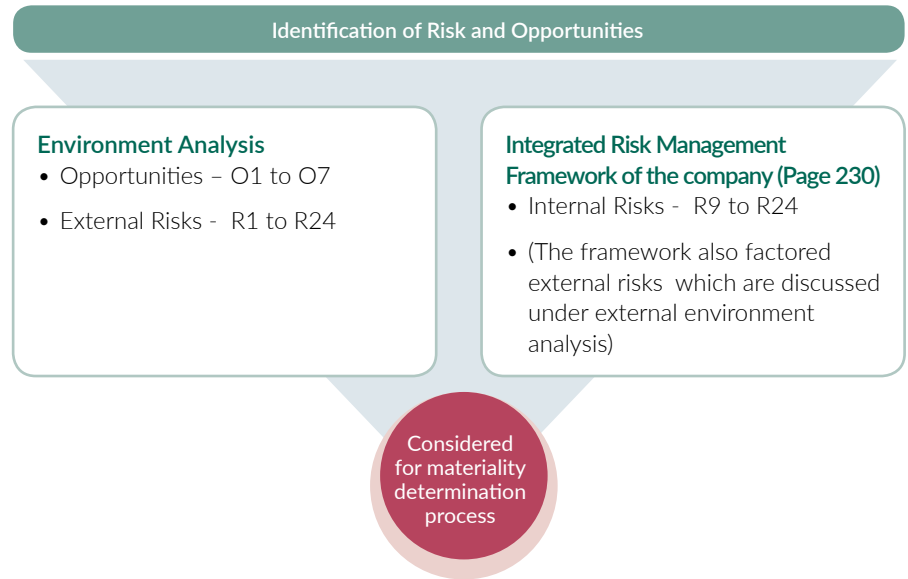


Table 01: Internal and external risks of SLI

Risk		Risk Assessment and SLI response
<b>External Risk</b>		
R06	Economic and Political Risk	Refer Integrated Risk Management on Page 224 for a detailed description
R07	Increased Regulatory / Compliance Requirements	
R08	Cybersecurity	
<b>Internal Risks</b>		
R09	Mortality Risk	Refer Integrated Risk Management on Page 224 for a detailed description
R10	Morbidity Risk	
R11	Underwriting Risk	
R12	Reinsurance Risk	
R13	Interest Rate Risk	
R14	Foreign Exchange Risk	
R15	Equity Risk	
R16	Credit Risk	
R17	Liquidity Risk	
R18	Co-operation and awareness of common direction	
R19	Minimum Capital Adequacy Ratio	
R20	Business Continuity and Continuity of Critical Systems	
R21	Occupational Health and Safety	
R22	Internal Controls	
R23	Staff Turnover	
R24	Reputation Risk	

# RISK AND OPPORTUNITIES

## REALIZING OPPORTUNITIES

Opportunities identified in our review of operating environment help management to take accurate strategic decisions, which are analysed in-detailed in the below

Opportunity	Impact to SLI	Impact to SLI strategy	Analysis	SLI response																	
<b>O8</b>	GDP Growth from 2021 onwards	The positive economic outlook creates positive business sentiments and growth potential	High	<p><b>G05-FORECASTED GDP GROWTH</b> %</p> <table border="1"> <caption>Forecasted GDP Growth (%)</caption> <tr><th>Year</th><td>2021</td><td>2022</td><td>2023</td><td>2024</td><td>2025</td></tr> <tr><th>Value</th><td>5.3</td><td>5.0</td><td>4.6</td><td>4.7</td><td>4.8</td></tr> </table>	Year	2021	2022	2023	2024	2025	Value	5.3	5.0	4.6	4.7	4.8	<ul style="list-style-type: none"> <li>Product Diversification (Refer SLI product development strategy on Page 104)</li> <li>Focus on niche markets (e.g. Introducing Postal product)</li> </ul>				
Year	2021	2022	2023	2024	2025																
Value	5.3	5.0	4.6	4.7	4.8																
<b>O9 &amp; O10</b>	Growing ageing population and increased Safety and Health Consciousness	<p>Life expectancy has increased to 77 years while the birth rate has reduced to 15 per 1000.</p> <p>The ageing population increase in Sri Lanka thus leads to higher demand for health related products</p>	High	<p><b>G06-POPULATION AGED 60 YEARS OR OVER</b> %</p> <table border="1"> <caption>Population Aged 60 Years or Over (%)</caption> <tr><th>Year</th><td>2022</td><td>2032</td><td>2042</td><td>2052</td></tr> <tr><th>Value</th><td>16.3</td><td>19.9</td><td>23.2</td><td>24.5</td></tr> </table>	Year	2022	2032	2042	2052	Value	16.3	19.9	23.2	24.5	<ul style="list-style-type: none"> <li>Market positioning as “Best Health Insurer in Sri Lanka”</li> <li>Amended Company’s product development strategy to cater to different levels of income and the need analysis based on the lifestyle of future customers (Refer market segmentation strategy on Page 106)</li> </ul>						
Year	2022	2032	2042	2052																	
Value	16.3	19.9	23.2	24.5																	
<b>O16</b>	Low banc-assurance channel utilisation	Bancassurance channel in Sri Lanka is underutilised as the industry runs on an agent-based model. With over 5,932 licensed commercial bank branches in 2018 island-wide, we could optimise existing channels to boost premiums and reduce acquisition expenses. Accessing customers will be much easier when we work together with reputed banks.	High	<p><b>G07-BANCASSURANCE CHANNEL</b> %</p> <table border="1"> <caption>Bancassurance Channel Utilization (%)</caption> <tr><th>Country</th><td>Sri Lanka</td><td>Vietnam</td><td>India</td><td>Philippines</td><td>Singapore</td><td>Hongkong</td><td>South Korea</td></tr> <tr><th>Value</th><td>4</td><td>2</td><td>21</td><td>35</td><td>37</td><td>49</td><td>52</td></tr> </table>	Country	Sri Lanka	Vietnam	India	Philippines	Singapore	Hongkong	South Korea	Value	4	2	21	35	37	49	52	<ul style="list-style-type: none"> <li>The Company strategically partnered with many leading banks to expand the Bancassurance channel. We expect a further increased contribution to the topline from Bancassurance channel in 2021. Our partnership with banks has been further explained under Social and Relationship Capital on Pages 108 to 113.</li> </ul>
Country	Sri Lanka	Vietnam	India	Philippines	Singapore	Hongkong	South Korea														
Value	4	2	21	35	37	49	52														
<b>O17</b>	Low life insurance penetration	The persistently low level of insurance penetration % to GDP in the local market continues to prevail as compared to the other Asian countries. This could be a result of untapped market segments and disposable income groups in the industry, as well as the lower level of unawareness / misconstrued perception of the Insurance Industry in rural areas and unavailability of relevant product propositions.	High	<p><b>G08-LOW INSURANCE PENETRATION</b> %</p> <table border="1"> <caption>Life Insurance Penetration % to GDP</caption> <tr><th>Country</th><td>Sri Lanka</td><td>India</td><td>Malaysia</td><td>Thailand</td><td>Indonesia</td><td>Philippines</td><td>Vietnam</td></tr> <tr><th>Value</th><td>0.6</td><td>2.8</td><td>3.4</td><td>3.3</td><td>1.4</td><td>1.2</td><td>1.4</td></tr> </table>	Country	Sri Lanka	India	Malaysia	Thailand	Indonesia	Philippines	Vietnam	Value	0.6	2.8	3.4	3.3	1.4	1.2	1.4	<ul style="list-style-type: none"> <li>Product strategy to cover customers’ life-cycle considering their social status</li> <li>Distribution strategy focusing on different segments in the market</li> </ul>
Country	Sri Lanka	India	Malaysia	Thailand	Indonesia	Philippines	Vietnam														
Value	0.6	2.8	3.4	3.3	1.4	1.2	1.4														

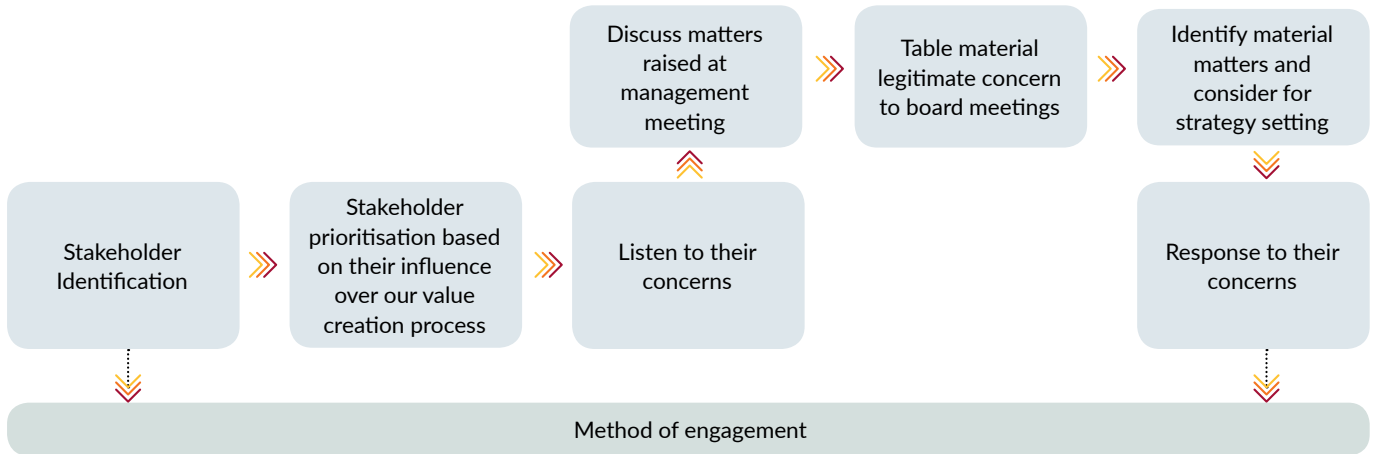
Opportunity	Impact to SLI	Impact to SLI strategy	Analysis	SLI response																								
<b>O14</b> Growing mobile and internet penetration	Mobile penetration in Sri Lanka is around 150%, which provides a distribution channel for Insurance products since most of the advanced features are now available on mobile phones.	High	<p><b>G09-GROWING MOBILE &amp; INTERNET PENETRATION</b> Rs. Mn/%</p> <table border="1"> <caption>G09-GROWING MOBILE &amp; INTERNET PENETRATION</caption> <thead> <tr> <th>Year</th> <th>Population (Rs.Mn)</th> <th>Mobile Cellular Subscription (Rs.Mn)</th> <th>Penetration (%)</th> </tr> </thead> <tbody> <tr> <td>2015</td> <td>21</td> <td>24</td> <td>15</td> </tr> <tr> <td>2016</td> <td>21</td> <td>26</td> <td>120</td> </tr> <tr> <td>2017</td> <td>21</td> <td>28</td> <td>130</td> </tr> <tr> <td>2018</td> <td>22</td> <td>33</td> <td>150</td> </tr> <tr> <td>2019</td> <td>22</td> <td>29</td> <td>130</td> </tr> </tbody> </table>	Year	Population (Rs.Mn)	Mobile Cellular Subscription (Rs.Mn)	Penetration (%)	2015	21	24	15	2016	21	26	120	2017	21	28	130	2018	22	33	150	2019	22	29	130	<ul style="list-style-type: none"> <li>Expand micro insurance channel where the selling process done through mobile platform.</li> <li>Focus on social media marketing</li> </ul>
Year	Population (Rs.Mn)	Mobile Cellular Subscription (Rs.Mn)	Penetration (%)																									
2015	21	24	15																									
2016	21	26	120																									
2017	21	28	130																									
2018	22	33	150																									
2019	22	29	130																									
<b>O12</b> Robotic Process Automation	Insurance customers are focused on digital modes of interaction, insurers must zero in on digital go-to-market techniques in order to attract them. Further, they must digitally re-engineer their own internal operating models and embrace new technologies in order to attract new digital consumers—and retain the best talent.	High	Digital proposals	Many digital transformations implemented including <ul style="list-style-type: none"> <li>Digital proposal</li> <li>Auto Underwriting</li> <li>Online payment facility</li> <li>Social media campaign</li> <li>RPA for bank reconciliation</li> <li>RPA for cheque printing with plans to widen it further</li> </ul>																								
<b>O13</b> Augmented Reality & Virtual Reality			Digital underwriting																									
<b>O13</b> Big data and Predictive Analytics			Digital policy issuance																									
<b>O13</b> Machine Learning			Digital collection mode																									
			Digital claim payments																									

Opportunity	Impact to SLI	Impact to SLI strategy	SLI response
<b>O4</b> Reduction of tax rate of corporates	Increase future profitability	Medium	<ul style="list-style-type: none"> <li>Continue focus of fair return to shareholders</li> <li>Focus on attracting new investors to the market</li> </ul>
<b>O15</b> Industry attractiveness	Future growth prospects	Medium	<ul style="list-style-type: none"> <li>Growth strategy</li> </ul>
<b>O11</b> Urbanization	Potential new customer segments	Medium	<ul style="list-style-type: none"> <li>Distribution strategy</li> </ul>

# STAKEHOLDER ENGAGEMENT

GRI 102-21 | 102-40 | 102-42 | 102-43

Through stakeholder engagement and collaboration, SLI is committed to understanding and being responsive to the interests and expectations of stakeholders and in partnering with them to find lasting solutions for shared value creation. Proactive, ongoing stakeholder engagement is increasingly integrated into the Company's business practices. Stakeholder management is viewed as a risk mitigation function and more importantly, one that seeks to create shared value for the broader society while addressing the needs and legitimate expectations of key stakeholders. The figure below summarises the stakeholder engagement process and outcomes for the year under review.



## Our relationship with stakeholders during the pandemic

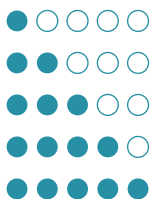
The Company took many initiatives to engage with our stakeholders without compromising on the quality of the relationship. In most of the situations we had to prioritise our existing digital engagement platform to connect with them. The Company introduced new digital communication platforms where our existing methods were not practical in the pandemic. Our new methods of engagements are summarised in below.

## STAKEHOLDER IDENTIFICATION AND PRIORITIZATION

can influence our value creation process. We prioritise our stakeholders based on their power and their interest in our business strategy. Accordingly, we identified that the most impactful stakeholder as the investor. Other are presented below in sequential order from high to low.



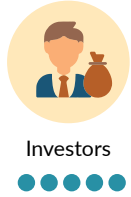
Engagement Quality Assessment



- Weak** - Improvement actions not identified
- Average** - Improvement actions are identified and yet to be implemented
- Good** - Improvement actions are identified and implemented
- Very Good** - look for options to further improve relationship
- Excellent** - Concern about maintaining relationship

**STAKEHOLDER ENGAGEMENT IN OUR STRATEGY SETTING**

Our Stakeholders provide strategic inputs to our corporate strategy which we identify during engagements with them. We have identified their legitimate concerns ( SHC O1- SHC 30) as provided below and consider them for our future strategy.



**Matters with increased priority**

Their Concern	Our Response
Sustainable return <b>SHC1</b>	Our performance (Refer Page 62 for Financial Review)
Business risk management <b>SHC2</b>	Integrated risk management framework (Refer Page 230)

**Why did priority increase?**  
They were more concerned about how the Company manages the business impact of COVID-19 and continue to provide sustainable returns.

**Other matters**

Their Concern	Our Response
Transparency of management action <b>SHC3</b>	Strong Corporate Governance (Refer Page 134)
Comply with regulatory and legal requirement <b>SHC4</b>	
Timely communication <b>SHC5</b>	Financial calendar (Refer Page 246)

**Engagement with Investors**

**Most Preferred channels in 2020 & frequency (Digital Channels)**

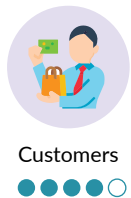
- Online Annual General Meetings ..... Annually
- Interim Financial Statements through CSE ..... Quarterly
- Announcements to CSE ..... As necessary
- Press conference and media releases..... As necessary
- Corporate Website - ..... As necessary

**Conventional Channels**

- Printed annual reports
- One-to-one Meetings

**Strategic Direction**

Strategic focus of relationship with investors and future prospects discussed in detailed under Financial Capital on Page 62.



**Matters with increased priority**

Their Concern	Our Response
Accessibility of the services <b>SHC6</b>	Improved digital platforms to provide regular services (Refer Page 102)
Satisfaction (Quality of service) <b>SHC7</b>	Customer satisfaction survey (Refer Page 104)

**Why did priority increase?**  
Customers expected uninterrupted quality of service during the pandemic situation.

**Other matters**

Their Concern	Our Response
Ease of buying product <b>SHC8</b>	Available methods to buy our products (Refer Page 102)
Products to meet evolving needs <b>SHC9</b>	New products introduced (Refer Page 105)
Grievance handling mechanism <b>SHC10</b>	Grievance handling process (Refer Page 107)

**Engagement with customers**

**Most Preferred channels in 2020 & frequency (Digital Channels)**

- LifeUp App to perform transactions digitally..... As necessary
- Corporate Website Information ..... Regularly
- Media campaigns/ Advertisements ..... Regularly
- Use of social media such as WhatsApp, Facebook ..... Regularly
- Contact through Call centre..... Regularly

**Conventional Channels**

- Interactions at customer centres
- Direct customer Feedback

**Strategic Direction**

Strategic focus of relationship with investors and future prospects discussed in detail under Social & Relationship Capital on Page 98 to 107.

# STAKEHOLDER ENGAGEMENT



Employees



### Matters with increased priority

Their Concern	Our Response
Job security and rewarding career <b>SHC11</b>	HR governance and career development (Refer Page 96)
Health concerns (actions taken to disinfect work place) <b>SHC12</b>	Actions taken to prevent COVID-19 at work place and new normal working environment (Page 86)

#### Why did priority increase?

Employees were highly concerned about their job security given the fact that business was impacted by pandemic. They were also keen about measures taken by the Company with regard to employee's health.

### Other matters

Their Concern	Our Response
Enhancement of skills and knowledge. <b>SHC13</b>	Training and professional development (Refer Page 89)
Competitive remuneration <b>SHC14</b>	Fair pay and other benefits (Refer Page 91)
Ensure a healthy work life balance. <b>SHC15</b>	Employee Engagement activities (Refer Page 88 to 97)
Diverse and inclusive. <b>SHC16</b>	Gender parity (Refer Page 95)
Build ownership by engaging employees in our business strategies <b>SHC17</b>	Employee Engagement activities (Refer Page 88 to 97)

### Engagement with employees

#### Most Preferred channels in 2020 & frequency (Digital Channels)

- HR portal for all HR related matters..... Regularly
- Online town hall meeting to communicate Company's future plan ..... Annually
- Softlogic Life employee Facebook group/ WhatsApp, Viber ..... Regularly
- Regular E-mail updates..... Regularly

#### Conventional Channels

- Employee direct meeting

### Strategic Direction

Strategic focus of relationship with employees and future prospects discussed in detail under Human Capital on Page 84.



Re-insurers



### Matters concerned

Their Concern	Our Response
Underwrite appropriate risk <b>SHC23</b>	Well established underwriting process including auto underwriting (Refer Page 102)
Timely premium payment <b>SHC24</b>	On time settlements

### Engagement with Re-insurers

#### Most Preferred channels in 2020 & frequency (Digital Channels)

- Online meeting ..... As necessary
- E-mail communication..... As necessary

#### Conventional Channels

- Physical meeting

### Strategic Direction

Strategic focus of relationship with Re-insurers and future prospects discussed in detail under Social & Relationship capital on Page 108.





Sales Staff



**Matters with increased priority**

Their Concern	Our Response
Sufficient income during the months of low new business generated due to COVID-19 <b>SHC18</b>	Financial assistance during COVID-19 impacted period (Refer Page 109)

**Why did priority increase?**

The main income of sales staff is commission they earn on the new policies they introduced. The country locks down was lead them to earn very low income and they expected financial support during difficult times.

**Other matters**

Their Concern	Our Response
Adequate training <b>SHC19</b>	Training & development (Refer Page 109)
Competitive income <b>SHC20</b>	Competitive benefit paid to field staff (Refer Page 110)
Career progress <b>SHC21</b>	Structured career path (Refer Page 110)
Rewards and recognition <b>SHC22</b>	Rewards and recognition structure (Refer Page 110)

**Engagement with Investors**

**Most Preferred channels in 2020 & frequency (Digital Channels)**

- E-advisor platform to introduce new policies digitally. .... Regularly
- "PCU app" to record and track all collections related transactions..... Regularly
- Online sales review meeting ..... As necessary
- Dedicated HR e-mail to communicate any other matter ..... As necessary
- Regular E-mail updates..... Regularly

**Conventional Channels**

- Physical meeting

**Strategic Direction**

Strategic focus of relationship with sales staff and future prospects discussed in detail under Social & Relationship Capital on Page 108.



Government and Regulators



**Matters concerned**

Their Concern	Our Response
Compliance with applicable laws and regulations <b>SHC25</b>	Internal controls and corporate governance mechanism (Refer Page 134 to 240)
Good corporate governance and business ethics <b>SHC26</b>	Strong governance practices within the Company. (Refer Page 134 to 240)

**Engagement with Government and Regulators**

**Most Preferred channels in 2020 & frequency (Digital Channels)**

**Conventional Channels**

- Online tax return submission..... Regularly
- IRD Web site information..... As necessary

**Conventional Channels**

- Directives and Circulars
- On-site review by IRCSL
- Training and workshops organised by regulators
- Meeting / discussion with Government and Regulators
- Submission of returns and status reports

**Strategic Direction**

Strategic focus of relationship with Government & regulators and future prospects discussed in detail under Social & Relationship Capital on Page 108 to 113.

# STAKEHOLDER ENGAGEMENT

GRI 102-21 | 102-40 | 102-43 | 102-44



Suppliers



Listen to their concerns	Importance compared to previous year	Response to their concerns	Method of engagement and Frequency
Timely settlements <b>SHC27</b>	No change	On time settlements (Refer Page 112)	• Business meeting - As necessary

More information on strategic direction is provided on Page 108



Community



Listen to their concerns	Importance compared to previous year	Response to their concerns	Method of engagement and Frequency
Employment Opportunity <b>SHC28</b>	No change	<ul style="list-style-type: none"> <li>• We recruited 222 staff during the year, covering many districts in Sri Lanka (Refer Page 94).</li> <li>• Our community development programs are discussed in detail on Pages 115 to 116 of this report.</li> </ul>	<ul style="list-style-type: none"> <li>• Community projects - CSR calendar.</li> <li>• Call centre conversations - As necessary.</li> <li>• Interact through branch network - As necessary.</li> <li>• Social media and Corporate Website - As necessary.</li> </ul>
Company's contribution to help under-developed communities in Sri Lanka <b>SHC29</b>			

More information on strategic direction is provided on Page 114



Environment



Listen to their concerns	Importance compared to previous year	Response to their concerns	Method of engagement and Frequency
Reducing adverse impact on society and environment <b>SHC30</b>	No change	<ul style="list-style-type: none"> <li>• Recycling of paper.</li> <li>• Eco-friendly practices (Refer Page 128 to 130 for Natural Capital Management).</li> </ul>	

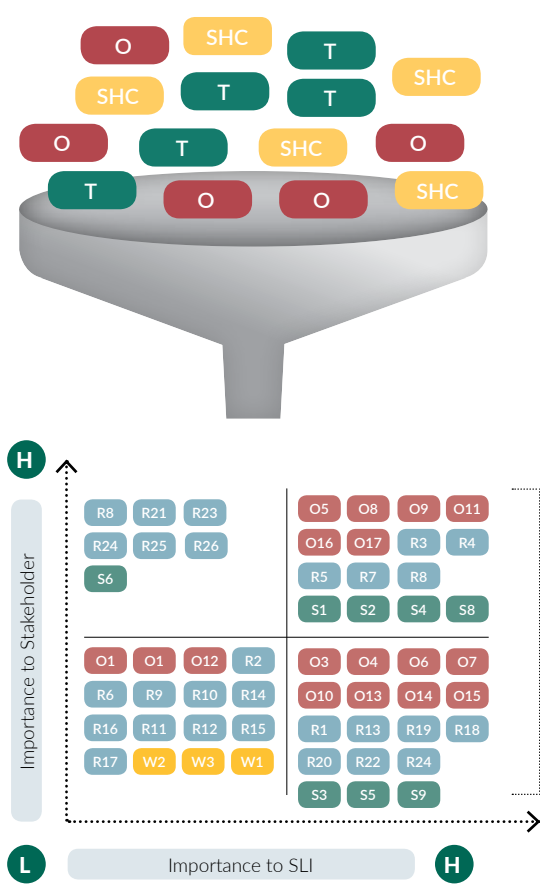
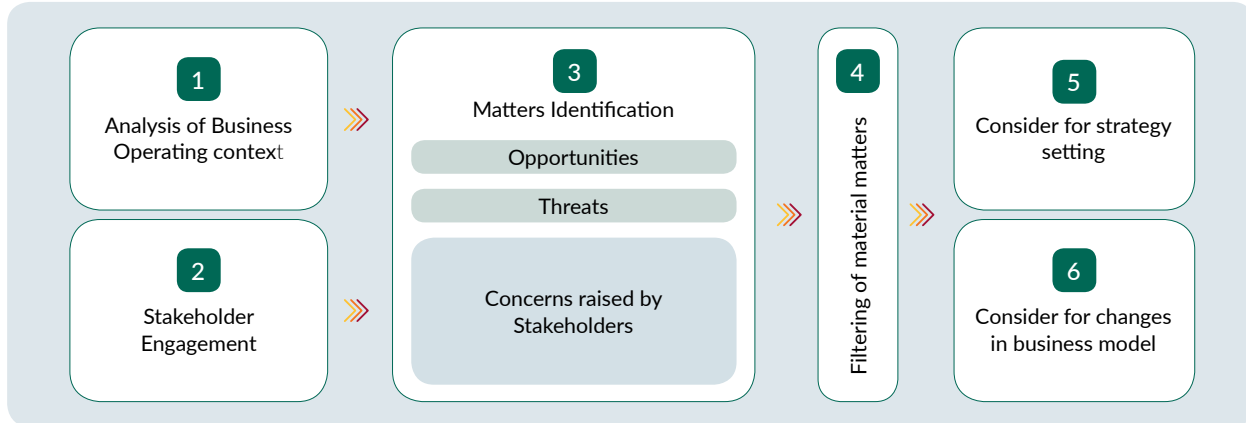
More information on strategic direction is provided on Page 127

### GOVERNANCE OF STAKEHOLDER ENGAGEMENT.

Stakeholder engagement is governed through company's governance structure and actions taken by governance body is provided on page 194.

# MATERIAL MATTERS

We define material matters as matters could have an impact on our value creation process. We respond to material matters by aligning our strategy accordingly. Our response to material matters is summarised in Detail Review of capitals. Our Material Matters Determination Process is presented below.



**MATERIALITY DETERMINATION**  
 We recognize a matter as material if

1. It has a significant impact on our strategic direction
2. It has a significant impact on our value creation process
3. It is recognised as a significant risk as per the Company's risk management framework
4. It is a concern of the shareholder based on the priority of the shareholder

**Material matters which are considered for strategy setting and to which the Company responded within its business process**

## INVOLVEMENT OF BOARD OF DIRECTORS

Executive managements including managing directors identify matters that have an impact on our business and report to the board regularly. The Board approves strategic directions based on the evaluations of such matters which are most material in the given context.

## IMPACT OF COVID-19 PANDEMIC

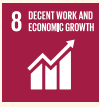




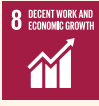
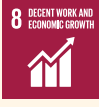
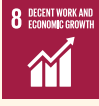

In the process of deciding our material issues below we considered the past and future impact of the current pandemic situation. Accordingly, our material matters matrix below either included new issues need to address or amended existing issues to reflect such an impact. Materiality estimation of issues from the previous year is significantly changed.

## OUR MATERIAL MATTERS

The table O2 summarizes our material matters. The underline matters used to derive a material matters are discussed in the relevant sections and number reference is provided in the table.

# MATERIAL MATTERS

Table 02 :- Our Material Matters

Underline Matters Considered	Material Matters	Our Response / Topic Discussed	Guiding GRI Principle	UNSDG	Change in Materiality
SHC1-5,O8, O10,O11, O14,O15	Deliver sustainable financial results	Sustainable strategy setting process (Refer Page 51 to 54)  Growth strategies implemented (Refer Page 67)	201-1		↑
SHC6-10,O1,	Provide superior customer service	Our best in class service (Refer Page 102) Innovative solutions used for customer service (Refer Page 102) Diversified product portfolio (Refer Page 104)	418-1	 	=
SHC12	Concern on employee health	Safety measures taken to protect our employees (Refer Page 86)	401-1 401-2		↑
	Continuous employee engagement and motivation	HR strategy (Refer Page 84)	401-3 404-1 404-2		↑
SHC11, SHC13-17	Employee retention becomes challenging	HR strategy (Refer Page 84)	404-3 405-1 405-2		=
SHC18-22,W3,	Sales staff retention becomes challenging	Sales staff management strategy (Refer Page 108)	406-1 412-1 412-2 412-3		↑
SHC2	Effective Risk Management	Integrated risk management framework (Refer Page 224 to 240)	102-30		↑
SHC3-4	Sound Corporate Governance framework	Effective Corporate Governance structure (refer Page 134 to 223)	102-18 102-22 102-23 102-24		=
	Liquidity management	Financial re-insurance and Tier II capital infusion arrangements (Refer Page 79)	201-1		↑
R2, R3,R4,R5	Establishing a solid strategy within the volatile market conditions mainly affected by pandemic	Strategy setting process (Refer Page 51 to 54)	102-14 102-15		↑
R3	Cybersecurity	Employee awareness Periodical IT system audit by external expertise			=
O12,O13	Adoption of fast moving technological development	Advanced technologies integrated in to our business and its future prospects (Refer Page 123)			=
R5	Intensive market competition	Strategy setting process (Refer Page 51 to 54)	417-3		=
R1	Implementation of SLFRS 17	Dedicated internal team driving implementation project			=

# STRATEGY & RESOURCE ALLOCATION

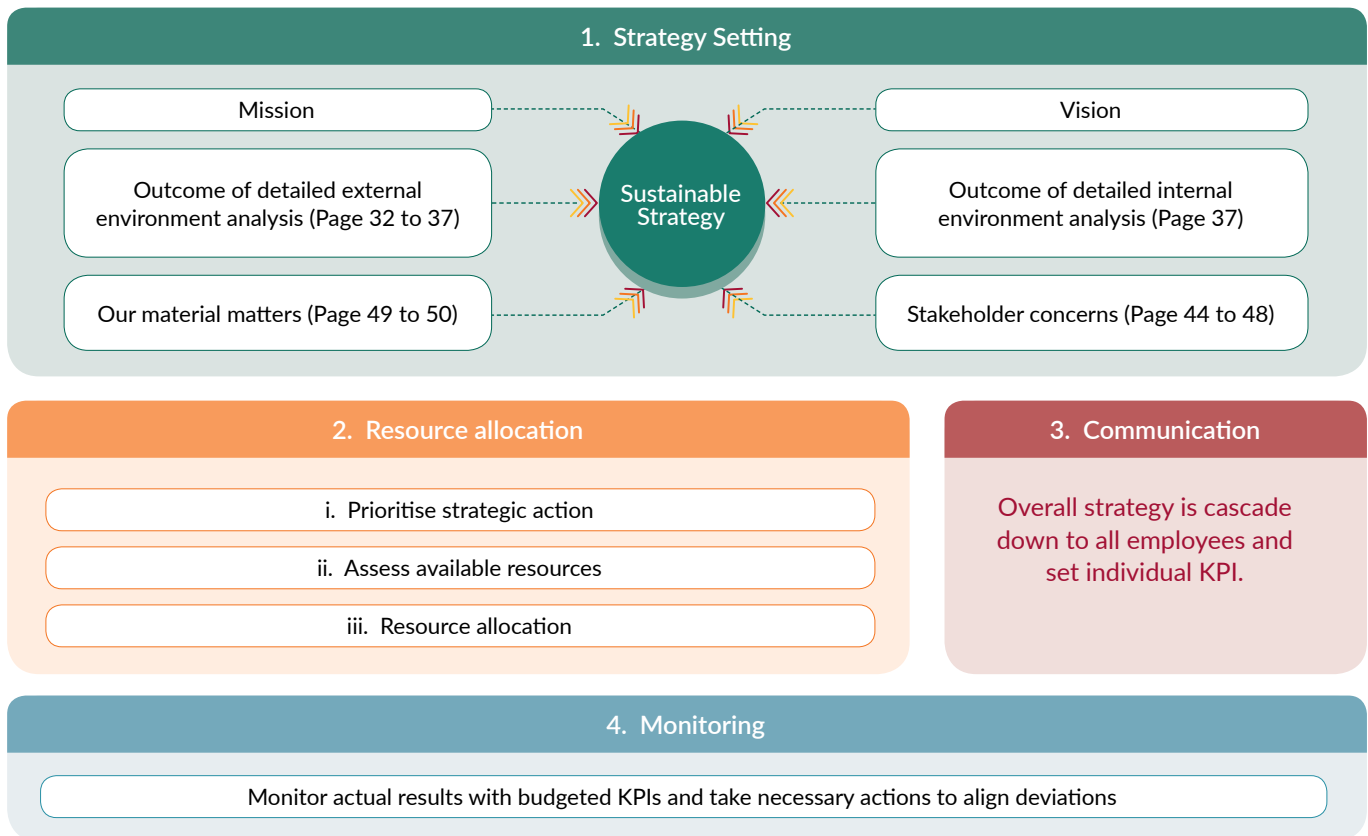
We planned our strategy and allocate resources to achieve strategic objectives which are set within a broader scope in order to accomplish our vision and mission. While strategic objectives remain unchanged, we assess our operating environment annually and revise short to medium term strategy and KPIs as necessary. We align our strategy with UNSDG and GRI principles as much as possible. The Board of Directors review the process annually and approve it before execution (Refer Performance Governance on page 198).

The pandemic impacted our strategy setting on multiple fronts and we had to realign and adjust our strategies accordingly. Those changes are highlighted in the strategy mapping table 03. SLI strategy and resource allocation can be identified in four phases of activities as graphically presented in figure 01.

## RESOURCE ALLOCATION

Required resources to execute the identified strategies below were carefully evaluated, allocated and approved by the Board of Directors for the period 2021 to 2023 during the annual budget preparation cycle.

Figure 01 :- SLI strategy and resource allocation process



## SUSTAINABILITY STRATEGY

Softlogic Life’s strategy setting is based on the key pillars of sustainability. The Company evaluates its strategic objectives regularly and takes necessary action to cope with changes in the external environment, ensuring we provide sustainable value creation over the short, medium and long terms.

## PERFORMANCE GOVERNANCE

Refer Page 198 for more details on board level engagement in performance governance practices.

## MANAGEMENT OF STRATEGIC RISK

Our integrated risk management process presented from Page 224 to 240 is included in our strategic risk management aspect.



## STRATEGY & RESOURCE ALLOCATION

Table 03 :- Strategy Mapping

Strategic Objective	Most Caring Life Insurer			Smart IT Digitization																										
	S	M	L	S	M	L																								
<b>Basis for the strategy and prioritisation</b>	Life insurance being a service which purely depends on the trust that the customer places in us, it is of paramount importance that we build a strong bond with our customers. Accordingly, the management will focus more on customer care in the short to medium term and believes that once the internal culture and process are built, the required long term focus will be low as it is. The management will keep upgrading the culture and process to cope with internal and external environment changes.			Digitalisation is a key disruptor for every business which has multiple impacts on the insurance landscape. The Company's' digital journey is a key aspect when we reach out to new generations such as the millennial. Keeping this in mind the management will put equal effort in the short, medium and long term on the Company's digital strategy																										
<b>Short term strategies</b>	Improve customer service level at every touch point and increase customer satisfaction levels by 1. Awareness / development programme for all staff of the Company, emphasising the importance of positive engagement at every customer touch point. 2. Introduction of new products which serve customer needs of emerging value propositions of different market segments 3. Further increase the customer touch points.			Adopt latest technology within the business and take advantage of differentiation over competitors. When implementing new technology, we assess its impact on: 1. Enhancing customer service 2. Increasing productivity of staff 3. Supporting lean management 4. Cost/benefit of implementing the strategy																										
<b>Resource allocation</b>	1. Provide training to employees. Organization-wide training calendar to introduced. Dedicated customer care team to attend customers' requirements. 2. Well-trained product development committee with the participation of all the key departments of the Company. 3. Increased branch network with 03 new branches and CRM activities by customer care team.			Internal IT team is assigned the responsibility of driving the digital journey of the Company. The team consists of highly professionally qualified and well-experienced IT professionals.																										
<b>Alteration due to pandemic</b>	Increased focus on digital customer engagement methods			Emphasis on short term focus was increased with plans to move many internal processes to the digital platform.																										
<b>KPI for 2021 and 2020 update</b>	<table border="1"> <thead> <tr> <th>KPI</th> <th>2021 (Target)</th> <th>2020 (A)</th> <th>2020 (Actual)</th> </tr> </thead> <tbody> <tr> <td>Customer satisfaction survey</td> <td>To be conduct</td> <td>○</td> <td>95.5%</td> </tr> <tr> <td>2nd Year retention</td> <td>66%</td> <td>●</td> <td>65%</td> </tr> <tr> <td>One-day claim settlement %</td> <td>90%</td> <td>○</td> <td>80+%</td> </tr> <tr> <td>Customers discharged within one hour</td> <td>90%</td> <td>○</td> <td>89%</td> </tr> <tr> <td>New products</td> <td>2</td> <td>○</td> <td>1</td> </tr> </tbody> </table>			KPI	2021 (Target)	2020 (A)	2020 (Actual)	Customer satisfaction survey	To be conduct	○	95.5%	2nd Year retention	66%	●	65%	One-day claim settlement %	90%	○	80+%	Customers discharged within one hour	90%	○	89%	New products	2	○	1	<b>Target for 2021</b> <ul style="list-style-type: none"> <li>70% of claims to be automated</li> <li>75% of OPD claims processed through online portal</li> <li>75% of proposal auto underwriting</li> <li>Increase slip payment rate of claims to 80%</li> </ul> <b>Target for 2020 and its performance</b> <ul style="list-style-type: none"> <li>Implementing RPA for bank reconciliation – Done</li> <li>Implementing RPA for claim cheque printing – Done</li> </ul>		
KPI	2021 (Target)	2020 (A)	2020 (Actual)																											
Customer satisfaction survey	To be conduct	○	95.5%																											
2nd Year retention	66%	●	65%																											
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Customers discharged within one hour	90%	○	89%																											
New products	2	○	1																											
<b>Key impacts on strategy</b>	O1,O4,O9,O10,O16,S2,S5,S7,S8,SHC6,SHC7,SHC8,SHC9,R24			O13,O15,O16,S2,W1,SHC8,SHC9,SHC23,R8																										
<b>Medium term focus</b>	Maintain our relevance in the business by regular review of customer behavioural changes and align our business model quickly to capitalize new opportunities created.			Digitisation of key business processes to eliminate non value addition activities and improve the turnaround time.																										
<b>Long-term view</b>	Enhance our customer care activities to cover the life-cycle of the customers through customer journey mapping. Further, we will become the benchmark for the insurance industry in Sri Lanka as well as globally by linking customer care into the Company's value creation process.			The Company is on a digital transformation journey, rendering every activity within the organization influenced by digitalization. We will be on par with rapid global digital transformation. This will create value to the Company in terms of market development and market penetration strategy, and help in being lean and fast in our operations and resource optimization																										
<b>SDG</b>																														

King of Data			Phenomenal Sales			Lean and Fast																																						
S	M	L	S	M	L	S	M	L																																				
<p>Even though in the international context data analytics is business as usual, it is an emerging trend in the insurance sector in Sri Lanka. The management will embark onto it immediately, identifying the future value that can be added to the business. The management believes data analytics is important in covering the short, medium and long term.</p>			<p>Once we implement our strategy to achieve the strategic objective mentioned above (1-3) we believe it would strengthen our revenue growth effortlessly. However, we are conscious of competitor action which will directly impact our revenue growth. Considering the time competitors will take to react, the management gave them priority in the short term and pushes its power towards the medium to long terms.</p>			<p>To cope with the rapid rate with which the world is changing at, we understand that our processes need to be as quick as possible. Further, in executing our strategy we use our resources which are limited. Therefore, lean management will be key forever. Accordingly, the management believes it is equally important in the short, medium and long terms to be lean and fast.</p>																																						
<p>Introduce data analytics key activities of the business such as Underwriting, claim processing etc. and drilldown to other areas.</p>			<ul style="list-style-type: none"> <li>• Step into new distribution channels</li> <li>• Introduction of new products</li> <li>• Focus on untapped markets</li> <li>• Diversified product portfolio that matches each customer group in society</li> </ul>			<ul style="list-style-type: none"> <li>• Automating internal processes</li> <li>• Staff development and productivity improvement</li> </ul>																																						
<p>Dedicated team is identified and provided with required resources to implement the strategy. The team is a mix of IT professionals, data scientists and network engineers.</p>			<ul style="list-style-type: none"> <li>• 3,025 of existing and 1,173 of new sales staff who engage in one-to-one selling of conventional insurance products.</li> <li>• 75 staff engage in selling other product portfolios of the Company using multiple business channels</li> </ul>			<p>Internal IT team is assigned with the responsibility to drive the digital journey of the Company. The team consists of highly professionally qualified and well-experienced IT professionals.</p>																																						
<p>The usual patterns of data was changed drastically due to pandemic therefore management will have to be conscious when analysing data.</p>			<p>Channel mix significantly shifted from individual selling to corporate customers, single premium policies and online and digital products.</p>			<p>Automating manual process was highly prioritised.</p>																																						
<p>Identification of emergent trends with in the portfolio and take actions to ensure sustainable value creation.</p>			<table border="1"> <thead> <tr> <th>KPI</th> <th>2021 (Target)</th> <th>2020 (A)</th> <th>2020 (Actual)</th> </tr> </thead> <tbody> <tr> <td>GWP growth</td> <td>Above 20%</td> <td>●</td> <td>25%</td> </tr> <tr> <td>ANBP growth</td> <td>Above 25%</td> <td>○</td> <td>-2%</td> </tr> <tr> <td>Channel Mix</td> <td></td> <td>○</td> <td></td> </tr> <tr> <td>Agency</td> <td>66%</td> <td>○</td> <td>64%</td> </tr> <tr> <td>Non Agency</td> <td>34%</td> <td></td> <td>36%</td> </tr> </tbody> </table>			KPI	2021 (Target)	2020 (A)	2020 (Actual)	GWP growth	Above 20%	●	25%	ANBP growth	Above 25%	○	-2%	Channel Mix		○		Agency	66%	○	64%	Non Agency	34%		36%	<table border="1"> <thead> <tr> <th>KPI</th> <th>2021 (Target)</th> <th>2020 (A)</th> <th>2020 (Actual)</th> </tr> </thead> <tbody> <tr> <td>Expense Ratio</td> <td>43.4%</td> <td>●</td> <td>42%</td> </tr> <tr> <td>GWP per employee</td> <td>20 Mn</td> <td>○</td> <td>17.5 Mn</td> </tr> </tbody> </table> <p>Introduction of real time settlement of claims (CEFT) system in 2020 - Done</p>			KPI	2021 (Target)	2020 (A)	2020 (Actual)	Expense Ratio	43.4%	●	42%	GWP per employee	20 Mn	○	17.5 Mn
KPI	2021 (Target)	2020 (A)	2020 (Actual)																																									
GWP growth	Above 20%	●	25%																																									
ANBP growth	Above 25%	○	-2%																																									
Channel Mix		○																																										
Agency	66%	○	64%																																									
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Expense Ratio	43.4%	●	42%																																									
GWP per employee	20 Mn	○	17.5 Mn																																									
<p>O10,O14,O16,SHC23</p>			<p>O4,O7,O8,O9,O10,O11,O12,S4,S5,S7,S8,W3</p>			<p>O13,O14,S7,SHC24,SHC27,SHC1,R23</p>																																						
<p>Data analytics will be decentralised to critical departments.</p>			<p>The Company will focus on new distribution channels and new market segments.</p>			<ul style="list-style-type: none"> <li>• Automating internal processes</li> <li>• Staff development and productivity improvement</li> </ul>																																						
<p>Data analytics will be the driving factor of our business in future where we will be providing more customised products and services that customers exactly need. Data will be the basis on which we will manage our business in a sustainable manner.</p>			<p>The Company is expecting to maintain the current growth momentum in the future as well. For this purpose, our strategies will be realigned to the changes in the operating environment as necessary.</p>			<p>Lean and fast will be embedded in our culture by shaping all our future strategic decisions linked to value creation.</p>																																						
						 																																						

## STRATEGY & RESOURCE ALLOCATION

Strategic Objective	Governance			Risk management		
	S	M	L	S	M	L
<b>Basis for the strategy and prioritisation</b>	Our contracts with customers are naturally of a long term nature. Therefore, strong governance is of paramount importance as we manage our customer's wealth. On this basis the management thinks it is important at all times to have best governance within the organisation.			The environment we operate in is changing fast while creating many risks in terms of our strategy execution. Accordingly, the management prioritises it similarly in the short, medium and long terms		
<b>Short term strategies</b>	Ensure strong corporate governance practices within the Company by fulfilling all regulatory requirements.  (Refer Page 134 to 240 for detailed corporate governance strategy and related information).			Being proactive towards emerging risks-internal and external.  (Refer Page 224 for detailed integrated risk management strategy and related information)		
<b>Resource allocation</b>	Strengthened governance body comprising a wide array of skills to manage the business.			<ul style="list-style-type: none"> <li>Dedicated risk assessment department which diligently evaluates trending risk and report to the Board.</li> <li>Board risk committee who evaluates and takes proactive action.</li> </ul>		
<b>Alteration due to pandemic</b>	Not applicable			Risk grid is updated with new risk -'Pandemic'		
<b>KPI for 2021 and 2020 update</b>	<b>Target for 2021</b> <ul style="list-style-type: none"> <li>No non compliances in 2021</li> </ul> <b>Target for 2020 and its performance</b> <ul style="list-style-type: none"> <li>There were no non compliances in 2020</li> </ul>			<b>Target for 2021</b> <ul style="list-style-type: none"> <li>Updated risk heat map and discussion in the risk committee of the Company.</li> </ul> <b>Target for 2020 and its performance</b> <ul style="list-style-type: none"> <li>Risk committee is gathered, discussed and necessary action taken based on the risk heat map.</li> </ul>		
<b>Key impacts on strategy</b>	O3,R1 to 26, SHC2,SHC3,SHC4,SHC10,SHC25,SHC26			R1 to 26, SHC2, SHC4		
<b>Medium term focus</b>	Maintaining strong governance practices			Maintaining proactive risk management approach		
<b>Long-term view</b>	Governance practices will be evolving within the organisation to maintain sustainable business practices.			Risk management policies and practices will be strengthened in future to face developing risks and challenges for the entity's value creation. Proactive risk management mechanism will be adopted to ensure sustainable value creation.		
<b>SDG</b>						

- Achieved
- Not achieved

- S** Short term
- M** Medium term
- L** Long term

### FINANCIAL OBJECTIVES

Our financial objectives are provided in table 04 on page 58.



# PERFORMANCE SUMMARY

## Financial performance

Summary of financial performance over last five years are provided below;

Rs. Mn	2020	2019	2018	2017	2016
Gross Written Premium	15,660	12,531	10,005	7,531	5,636
Profit After Tax*	1,521	2,172	3,336	2,325	967
Net Assets	9,936	8,219	6,671	3,886	1,962
Insurance contract liabilities (Life fund)	17,484	10,377	9,022	7,439	6,935
Total Assets	33,206	20,683	17,333	12,478	9,918

\*Including deferred tax

Refer page 252 to 256 for detailed financial statements and related notes and page 257 to 353 for ten-year comparison of our financials. Financial Highlights are provided on page 20.

Value created to investors are summarised below under various performance indicators.



Investors

		2020	2019	2018
Net assets per share	Rs.	26.5	21.9	17.8
Price earnings ratio	Times	8.6	6.5	5.0
Dividend per share**	Rs.	2.50	-	1.45
Return on capital employed *	%	32.2	39.7	22.7
Market capitalization	Rs. Mn	13,050	14,063	16,800

\*Adjusted for deferred tax

\*\*Subject to regulatory approval

**Rs.3,114 Mn**

Market value added

**Rs.16,064Mn**





Direct Economic Value  
Generated

Economic value added and market value added are provided on page 15 of this report

## TRADEOFF BETWEEN CAPITALS

Below figure shows material tradeoff between financial capital and other capitals highlighting financial capital value eroded and value creation.

Figure 02:- Material tradeoff between financial and other capitals

	 Human Capital	 Social and Relationship capital	 Intellectual capital	 Manufactured capital
<b>Financial value creation</b>	<ul style="list-style-type: none"> <li>Productivity increased to Rs. 17.5 Mn (2019 – Rs.15.6 Mn) per employee</li> <li>Creating value of Rs. 1,704 Mn</li> </ul>	Recorded GWP of Rs. 15.6 Bn with 25% growth and operational expense ratio improved to 21% (2019 – 26%)	Introduced technological advancement as provided on page 123	Island wide branch network of 100 improved customer accessibility and customer service.
<b>Financial capital utilised</b>	Rs. 986 Mn employee benefit paid	<ul style="list-style-type: none"> <li>Rs. 4.1 Bn claims paid</li> <li>Rs. 3.3 Bn fees paid to sales staff</li> <li>Rs. 1.8 Bn re-insurance premium paid</li> <li>Rs. 2.5 Bn to other business partners</li> </ul>	<ul style="list-style-type: none"> <li>Rs. 21.4 Mn invested on new technologies</li> <li>Rs. 5.8 Mn as training paid</li> </ul>	Rs. 132 Mn invested in fixed assets

Detailed capital performance is provided from page 62 to 130 of this report.

# CORPORATE GOVERNANCE AND RISK MANAGEMENT SUMMARY

Our Corporate Governance framework ensures balancing and aligning the interests of the stakeholders with the management of the company. It is built on a strong, comprehensive and integrated structure which focuses on long term sustainability of the business model and value creation. This framework is built on 3 core principles - Leadership, Stakeholder Engagement and Accountability & Assurance.

## CORPORATE GOVERNANCE STRUCTURE OF SOFTLOGIC LIFE

	Leadership	Shareholder Engagement	Accountability and Assurance
Concept	Leadership provides the strategic direction to the Company and includes Board of Directors and Executive Management. (page 134 and 140)	Manage stakeholder interest through effective governance execution. (page 194)	Explains the governance of the assurance environment, regulatory compliance and Risk Management. (page 224)
Components	<ul style="list-style-type: none"> <li>Board of Directors</li> <li>Code of conduct</li> <li>Remuneration policies</li> <li>Executive Management</li> <li>Board sub committees and executive management committees</li> </ul>	<ul style="list-style-type: none"> <li>Actuarial Governance</li> <li>Operations Governance</li> <li>Risk Governance</li> <li>Performance Governance</li> <li>Investment Governance</li> <li>IT Governance</li> <li>Sustainability Governance</li> </ul>	<ul style="list-style-type: none"> <li>Assurance Framework</li> <li>Regulatory and statutory governance</li> <li>Integrated Risk Management</li> </ul>

## HOW CORPORATE GOVERNANCE ASSURE LONG TERM SUSTAINABILITY OF STRATEGIC OBJECTIVES

Governance framework components are placed to cover the company's short, medium and long-term strategies, executed through the 5 Strategic objectives of the company as below;

Strategic Objectives	Governance Component	Page No.
<b>Most Caring Life Insurer</b>	• Board of Directors and Corporate Management	134-140
	• Operations Governance	197
	• Actuarial Governance	194
	• Performance Governance	198
<b>Smart IT Digitization</b>	• IT Governance	199
	• IT Steering Committee	200
	• Product Development Committee	193
<b>Kings of Data</b>	• IT Governance	199
<b>Phenomenal Sales</b>	• Performance Governance	198
	• Code of Conduct	163
	• Sales Governance Policy	144
	• Remuneration policy of the Board and Management	186
<b>Lean and Fast</b>	• Operations Governance	197

## INTEGRATED RISK MANAGEMENT

Risk Management is a key function of the company that protects the value of the business and enabling informed decision making based on defined risk appetite and manage expected returns, which in turn ensures the achievement of strategic plans and day-to-day business activities.

The Enterprise Risk Management (ERM) framework, based on the ISO 31000:2018 international standard, which is adopted by the company, enable to proactively detect risks and opportunities to the objectives of the company, monitor them and asses their likelihood and impact as well as to determine a response strategy, this enable the company to protect and create value for all stakeholders of the company.

Our Integrated Risk Management include following aspects

Softlogic Life's approach to Risk Management (Page 224)
Risk Management During COVID - 19 (Page 226)
Identifying risk environment and how Softlogic Life aligning risk management strategy with Company strategic objective (Page 227)
Risk Performance and Highlights at Softlogic Life through 2020 (Page 228)
Risk Appetite and Tolerance (Page 229)
Risk Landscape of the Company (Page 231)

# FUTURE OUTLOOK

## ECONOMIC OUTLOOK

Sri Lanka has a strong government with majority powers which ensures solid policy framework for the foreseeable future. The thundering impact on the economy will ease during 2021 as the government is continuing to open the economy despite the challenges posed by COVID-19. Further, the government started vaccinations of the general public and plans to cover half of the population during 2021. Accordingly, we expect the economy to stage a gradual recovery in 2021 after experiencing its worst-ever recession in 2020. However, factors such as increasing rupee depreciation, unstable inflation could be assumed as risk factors.

## INDUSTRY OUTLOOK

The Insurance industry of Sri Lanka remains positive with an economic outlook of the country. The social trends such as ageing population, high mobile penetration etc open doors for insurers to grab many opportunities around that to grow the insurance market. In addition to an underpenetrated level in the market, people are realising real life risk due to the sudden impact from the pandemic and urge the requirement to have life insurance cover which result in further demand for life insurance. Technology is taking a leap on all other factors becoming one of the driving factors of the Insurance industry in which SLI has already excelled.

## RISK AND OPPORTUNITIES

Our future strategies will mostly be tied up with digital parameters and in return we will be impacted by cyber risks of a high risk profile, including cyber risk and all other significant risks. Our

responses are provided on Page 224. With a more positive outlook there are plenty of opportunities around us. Material items such low penetration, ageing population etc have been picked on Page 42.

## FUTURE OF SOFTLOGIC LIFE

The Company has set its future strategy with strong confidence that the environment we operate in will largely support growth whereas there will be areas of challenges that the Company has to respond accordingly. We set our strategy by deeply analysing the future operating environment to make sure we deliver what is expected of us. Resources that are required to execute our strategies were also planned to ensure proper execution. Our detailed strategy and resource allocation are provided on Pages 51 to 54.

The Company will be pursuing its vision to “Revolutionise insurance in Sri Lanka through world-class innovation and deliver extraordinary stakeholder value” through industry-first innovation and products. This is further supported through our strategic pillars of “Smart IT digitisation” and “King of Data” which are elaborated in detail on Page 52. The Company will sustain growth momentum through distribution channel expansion and market penetration strategy.

Explained above is our overall future view to further break down to individual capital levels on which our performance is based. Future outlook on performance of individual capitals is provided on capital performance reviews as provided in the table below.

Capital Report	Page No
Financial Capital	62
Human Capital	84
Social and Relationship Capital	98
Intellectual Capital	120
Manufactured Capital	124
Natural Capital	127

Our sustainability of strategy has been proven in terms of business results with a clear track record. Our future strategies have also been set in a sustainable manner linking those to our internal sustainability performance metrics and sustainability practices proposed by external authorities such as UNSDG and GRI standards.

As we navigate the future, we will remain focussed on key performance indicators set out for 2021 and beyond. The table 04 below provides most critical KPIs which we are planning to achieve in 2021 while executing our strategy.

## FUTURE OUTLOOK

### LEGAL AND REGULATORY COMPLIANCE

The Company's future outlook is provided above complies with existing legal and regulatory boundaries of SLI.

### Our performance in 2020 as against 2020 targets and 2021 targets

**Table 04 :- Performance dash board 2020 and target for 2021**

Financial Performance	2020 Actual	2020 Target	Achievement	2021 Target
Return on Equity	21	30	○	20
Market Capitalisation	13,050	19,000	○	15,660
GWP Performance	15,660	15,000	●	18,727
Profit After Tax	1,521	1,750	○	1,834
Annualised New Business Premium (ANBP)	3,880	4,900	○	5,000
Average Premium Per Policy	136,852	152,900	○	124,356
Persistency (Year 1)	83	85	○	85
Persistency (Year 2)	65	65	●	65
Persistency (Year 3)	52	52	●	51
Market Share	15.2	15.4	○	16.7%
Claims Ratio	10	17.6	●	21%

- Achieved
- Partially achieved

# INDEPENDENT LIMITED ASSURANCE REPORT



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(Chartered Accountants)  
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## TO THE DIRECTORS OF SOFTLOGIC LIFE INSURANCE PLC

We have been engaged by the directors of Softlogic Life Insurance PLC ("the Company") to provide limited assurance in respect of the Integrated Report for the year ended 31 December 2020. (the "Integrated Report"). The criteria used as a basis of reporting is the content elements of the International Integrated Reporting Council (IIRC)'s Integrated Reporting Framework (<IR> Framework) as disclosed in this Integrated Report.

## BASIS FOR CONCLUSION

We conducted our work in accordance with the Sri Lankan Standard on Assurance Engagements SLSAE 3000 (Standard). In accordance with the Standard we have:

- used our professional judgement to plan and perform the engagement to obtain limited assurance that we are not aware of any material misstatements in the Company's Integrated Report, whether due to fraud or error;
- considered relevant internal controls when designing our assurance procedures, however we do not express a conclusion on their effectiveness; and
- Ensured that the engagement team possess the appropriate knowledge, skills and professional competencies.

## OUR CONCLUSION

Our conclusion has been formed on the basis of, and is subject to, the matters outlined in this report. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusions.

We have not been engaged to provide an assurance conclusion on the fitness for purpose or the operating effectiveness of the Company's strategy or how the Company creates value, including the governance, strategic management and other key business processes. The procedures we have performed in relation to the Company's strategy and how the Company creates value are outlined below.

## Limited Assurance Integrated Report

Based on the limited assurance procedures performed and evidence obtained, as described below, nothing has come to our attention that causes us to believe that the Integrated Report, as defined above, for the year ended 31 December 2020, has not in all material respects, been prepared in accordance with the Content Elements of the IIRC's International Integrated <IR> Framework.

## BOARD OF DIRECTORS AND MANAGEMENT'S RESPONSIBILITY

The Board of Directors and Management are responsible for:

- determining that the criteria is appropriate to meet the needs of intended users, being the company's members and any other intended users.
- preparing and presenting the Report in accordance with the criteria set out in the IIRC's <IR> Framework. This includes disclosing the criteria, including any significant inherent limitations.
- ensuring the Company's strategy is well presented in the Company's Integrated

Report and reflects how the Company creates value as they operate in practice

- identifying stakeholders and stakeholder requirements;
- identifying material issues and reflecting those in the Company's Integrated Report; and
- preparation and fair presentation of the Integrated reporting information; Design and implementation of internal controls that the company determines necessary to enable the preparation and presentation of the Integrated Report that is free from material misstatement, whether due to fraud or error.
- Informing us of any known and/or contentious issues relating to the Integrated Report.
- Preventing and detecting of fraud and for identifying and ensuring that the Company complies with laws and regulations applicable to its activities;
- Process to ensure that the Company personnel involved with the preparation and presentation of the integrated reporting information are properly trained, systems are properly updated and that any changes in reporting is relevant to the integrated report information encompass all significant business units. This responsibility also includes informing us of any changes in the Company's operations.
- The responsibility also includes informing changes in the Company's Operations since the date of our most recent assurance report on the Integrated reporting information.

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

M.R. Mihular FCA  
T.J.S. Rajakarier FCA  
Ms. S.M.B. Jayasekara ACA  
G.A.U. Karunaratne FCA  
R.H. Rajan FCA  
A.M.R.P. Alahakoon ACA  
P.Y.S. Perera FCA  
W.W.J.C. Perera FCA  
W.K.D.C. Abeyratne FCA  
R.M.D.B. Rajapaksa FCA  
M.N.M. Shameel ACA  
C.P. Jayatilake FCA  
Ms. S. Josephi FCA  
S.T.D.L. Perera FCA  
Ms. B.K.D.T.N. Rodrigo FCA  
Ms. C.T.K.N. Perera ACA  
Principals - S.R.I. Perera FCMA(UK), LLB, Attorney-at-Law, H.S. Goonewardene ACA, Ms. P.M.K.Sumanasekara FCA

# INDEPENDENT LIMITED ASSURANCE REPORT



## OUR RESPONSIBILITY

Our responsibility is to perform a limited assurance engagement in relation to the Integrated Report and to issue an assurance report that includes our conclusions.

We conducted our assurance engagement in accordance with Sri Lanka Standard on Assurance Engagements SLSAE 3000: Assurance Engagements other than Audits or Reviews of Historical Financial Information (SLSAE 3000) issued by the Institute of Chartered Accountants of Sri Lanka.

We have complied with the independence and other ethical requirements of the Code of Ethics issued by the Institute of Chartered Accountants of Sri Lanka.

SLSAE 3000 requires that we plan and perform the engagement to obtain limited assurance about whether the Integrated Report is free from material misstatement.

## LIMITED ASSURANCE ON THE INTEGRATED REPORT

Our limited assurance engagement on the Integrated Report consisted of making enquiries, primarily of persons responsible for the preparation of the Integrated Report, and applying analytical and other procedures, as appropriate. These procedures included:

- Interviews with executives, senior management and relevant staff to understand the internal controls, governance structure and reporting process relevant to the Report;
- Reviewing of the relevant internal policies and procedures developed by the Company, including those relevant to determining what matters most to the Company's stakeholders, how the Company creates value, the Company's external environment, strategy, approaches to putting members first, governance and reporting.

- Reviewing the description of the Company's strategy and how the Company creates value in the Report and enquiring of management as to whether the description accurately reflects their understanding;
- Assessing of the suitability and application of the Content Elements of the <IR> Framework in the Report;
- Assessing of the alignment between the Company's strategy, the disclosures on how the Company creates value and what matters most to the Company's stakeholders.
- Reviewing Board minutes to ensure consistency with the content of the Report.
- Reviewing the Report in its entirety to ensure it is consistent with our overall knowledge obtained during the assurance engagement.
- Obtaining a letter of representation from management dated 08 March 2021 on the content of the Company's Integrated Report.

The procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement, and consequently the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed. Accordingly, we do not express a reasonable assurance conclusion on the Integrated Report.

Misstatements, including omissions, are considered material if, individually or in the aggregate, they could reasonably be expected to influence relevant decisions of the Company.

## LIMITATIONS OF OUR REVIEW

The Integrated Report includes prospective information. Inherent to prospective information, the actual

future results are uncertain. We do not provide any assurance on the assumptions and achievability of prospective information in the Integrated Report.

## PURPOSE OF OUR REPORT

In accordance with the terms of our engagement, this assurance report has been prepared for the Company for the purpose of assisting the Directors in determining whether the Company's Integrated Report is prepared in accordance with the IIRC's International <IR> Framework and for no other purpose or in any other context.

## RESTRICTION OF USE OF OUR REPORT

This report has been prepared for the Company for the purpose of providing an assurance conclusion on the Integrated Report and may not be suitable for another purpose. We disclaim any assumption of responsibility for any reliance on this report, to any person other than the Company, or for any other purpose than that for which it was prepared.

Our report should not be regarded as suitable to be used or relied on by any party wishing to acquire rights against us other than the Company, for any purpose or in any other context. Any party other than the Company who obtains access to our report or a copy thereof and chooses to rely on our report (or any part thereof) will do so at its own risk. To the fullest extent permitted by law, we accept or assume no responsibility and deny any liability to any party other than the Company for our work, for this independent assurance report, or for the conclusions we have reached.

**CHARTERED ACCOUNTANTS**

Colombo

08 March 2021



# One Purpose

## MANAGEMENT DISCUSSION & ANALYSIS

### OUR PERFORMANCE

Financial Capital 62

Human Capital 84

Social and Relationship Capital

Customers 98

Business Partners 108

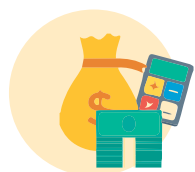
Community 114

Intellectual Capital 119

Manufactured Capital 124

Natural Capital 127

Independent Assurance Report on  
Sustainability Report 131



## FINANCIAL CAPITAL

### STATEMENT OF VALUE CREATION - FINANCIAL CAPITAL

	Unit	2020	2019	G%	
 Performance	Gross Written Premium Growth	%	25.0	25.2	-0.2
	Total Net Revenue Growth	%	22.4	28.3	-5.9
	Debt Service Cover	Times	14.2	24.2	-41.3
	Net Operating Cash	Rs. Mn	9,059	3,213	182
	PBT Growth	%	-18	138	-156
	PAT Growth	%	-30	-34.9	4.9
	Return on Capital Employed*	%	32.2	54.9	22.7
	Market Value Per Share	Rs.	34.8	37.5	-7.2
 Outcome	Capital Adequacy Ratio	%	302	182	120
	Market Share	%	15.2	14.1	1.1
	Market Price Growth	%	-7.2	-16.3	9.1
	Dividend Yield**	%	7.2	N/A	7.2

\*Adjusted for differed tax

\*\*Subject to regulatory approval

### Statement of financial capital position

Measurement Criteria	Unit	31. Dec 2020	31. Dec 2019	G%
Total Equity	Rs. Mn	9,936	8,219	21
Financial investments	Rs. Mn	27,368	14,911	84
Market capitalisation	Rs. Mn	13,050	14,063	-7
Total Assets	Rs. Mn	33,206	20,682	61
Insurance contract liabilities	Rs. Mn	17,484	10,377	68



### Steering to the future >>>

#### Short term target

- GWP growth - 20%+
- Operational profit growth - 24%+
- Expense ratio - 20.6%
- ROE - 20%+
- Capital Adequacy Ratio - 120%+ (Regulated)
- Approved assets - 100%+ (Regulated)

#### Medium term view

- GWP growth - 18%+
- Operational profit growth - 15%+
- Expense ratio - 18.6%
- ROE - 25%+
- Capital Adequacy 120%+
- Compliance with SLFRS 17.

#### Long term vision

- Continue growth momentum through innovative distributions and products.
- Improve expense efficiency to maximise future profitability by replacing standard and recurring processes with new technology.
- Maintain adequate liquidity level with prudent risk management



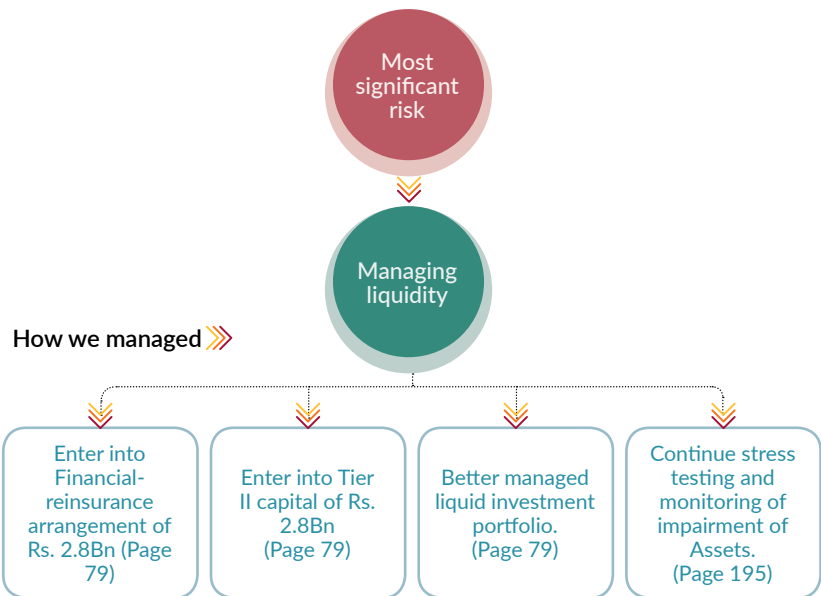
What our Financial Capital includes?	How it creates value
<p>Our financial capital includes our monetary resources, which have been contributed by our investors and are being enhanced through our business activities, which is embedded in our business model.</p> <ul style="list-style-type: none"> <li>• Share capital</li> <li>• Other reserves</li> <li>• Financial investments</li> </ul>	<p>It injects our business model resulting in the enhancement of financial capital. Enhanced value is used to pay dividends to shareholders, retaining it in business for growth strategies after utilising it for creation/enhancement of other capitals. (Detail trade off with other capitals are provided below)</p> <ul style="list-style-type: none"> <li>• Retain earning</li> <li>• Insurance contract liabilities</li> <li>• Other source of funds</li> </ul>

**Our action in the pandemic**



**Caring for our people / customers / Sales staff**

- Explicitly declared the acceptance of policyholder claims incurred due to COVID-19.
- We provided an extension of 3 months to policyholders for the payment of policy premiums to customers impacted by the COVID-19.
- Provided financial assistance to sales staff whose income was affected due to lock down.
- Strengthen working conditions by taking additional precautionary measures



**Other risks/challenges specific to managing financial capital and our response**

Intense competition and competitor actions brought additional pressure to achieve the Company's revenue targets	<ul style="list-style-type: none"> <li>• Introduction of unmatched superior products to cater to competition</li> <li>• Unique customer centric service (i.e one-day death claim settlement) with personalised customer service</li> <li>• Training and development to strengthen our selling process</li> <li>• Unique marketing campaign (i.e: highlights of Life Insurance as propositions other than death benefits) to position the brand in the market</li> </ul>
Unhealthy price war shrinks product margin on corporate business and negatively affect profitability of the Company	<ul style="list-style-type: none"> <li>• Introduction of product / service differentiation</li> <li>• Optimisation of Reinsurance expenses by better negotiation with reinsurers</li> </ul>
Managing premium persistency (retention) at expected level	<ul style="list-style-type: none"> <li>• Collection campaigns specifically focus on policies not collected during the lock down period</li> <li>• Use of digital engagement platforms</li> </ul>
Managing expenses to support the business impact from new business drops in regular premiums	<ul style="list-style-type: none"> <li>• Expense budgets were revised to incur only essential expenses</li> </ul>
Low interest rate environment negatively pressurised the liability valuation impacted on profitability and negatively impacted the attraction of insurance products	<ul style="list-style-type: none"> <li>• Emphasis reduction of Asset Liability mismatch</li> </ul>

# FINANCIAL CAPITAL

The Diagram below shows the material trade off between financial capital and other capitals and its impact on stakeholders

Value Creation by capitals other than Financial Capital	Financial capital disbursed
<b>Social and relationship capital</b>	
1,009,680 active customers portfolio and 3,314 no of business partners generated Rs. 15.7 bn revenue	Rs. 2.06 Bn worth of lives covered
3,025 field staff reached 588,876 new customers	Rs. 3.3 Bn paid as benefits to sales staff
Actuarial partners brought business specific knowledge for product development / Capital optimization and fund valuation	Fees paid to Actuarial partners for their services rendered.
Re insurers shared part of our portfolio risk	Rs. 1,873 Mn re-insurance premium incurred
Other suppliers provided their products and services on time with quality to run our operation effectively	Settlement of dues of suppliers on time.
<b>Human capital</b>	
897 staff contributed to generate and manage financial resources in various capacities.	Rs. 986 Mn paid as benefits to employees
Increased employee productivity to Rs. 17.5 Mn GWP per employee.	
<b>Intellectual capital</b>	
The knowledge and capabilities of our workforce are used to generate financial results in many ways such as selling, product development, and marketing, etc.	<ul style="list-style-type: none"> <li>Rs. 5.8 Mn invested in training and development.</li> <li>Rs. 21.4 Mn invested in new technologies to upgrade our IT systems and new developments</li> </ul>
<b>Manufactured capital</b>	
Branch network increased accessibility for customers and widened our geographical footprint, thus contributing to revenue increase.	<ul style="list-style-type: none"> <li>Rs. 132 Mn invested in fixed assets</li> <li>03 branches opened</li> <li>03 branches relocated</li> </ul>
<b>Natural capital</b>	
Natural resources play silent role in any activity we do. We recognised the value of such resources used electricity, water etc.	<ul style="list-style-type: none"> <li>Investment in environmental protection initiatives.</li> <li>Driving eco-friendly business</li> </ul>

## Our Strategy During Pandemic

Liquidity Focus	Growth Focus	Bottom Line Focus
Improve liquidity by Financial reinsurance arrangement and Tier ii capital infusion worth \$ 30 Mn	More focus on existing business portfolio of endowment business rather than new business	Expense efficiency is increased by revised resource allocation in line with top line achievement.
	Concentrated on single premium business which has potential to grow significantly due to low interest rate environment	
	Digital distribution channels were further strengthened to harness the benefit of emerging social factor of "contact less operation"	

**OUR MANAGEMENT APPROACH**

In the formation of our strategy, financial capital requirements are forecast and an accompanying financial capital plan is formulated. Assuming no significant unforeseen events occur, we are comfortable that our strategy will not be constrained by the lack of available financial capital.

In managing our financial capital, we closely monitor our inflows and outflows on a monthly basis and use budgeting as a controlling mechanism. The performance indicators are tabled at regular management meetings and Board meetings. Future action plans were debated and agreed upon, aligning those to the short /medium term strategy of the Company. Monthly financial reports were prepared in accordance with financial reporting frameworks adopted, as described in the 'Reporting Frameworks' on Page 9 and circulated to the senior management and the Board of Directors.

We strongly believe that real sustainability should be visible in the form of business results, i.e financial and operational. Our sustainability journey has a strong meaning to us because produce better and better results every year providing example to sustainability.

**CREATING VALUE FOR INVESTOR**

We are the stewards of our investors' financial capital and we value their trust and confidence. Consistent and effective engagement with investors, with the objective of aligning their expectations with our strategy and targets, helps ensure that our share price fairly reflects our value creation opportunity. The value created to investors is summarised under "Investor Relation" section of this report on Page 361.

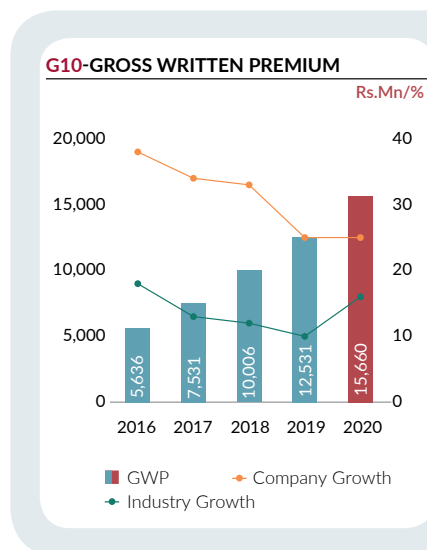
**OVERVIEW**

The company successfully concluded the year 2020 with remarkable results despite very challenging environment. The year showcased robustness of our sustainability and risk management practices embedded within the business. The management continued to focus on the factors within our control, which included driving operational improvements, stringent cost controls and driving the business at sub unit level which are segregated based on the

geographical area. This, combined with the all-encompassing changes we have introduced to ensure greater efficiency, effectiveness and competitiveness, underpinned our excellent performance. The Company consistently improved its turnover, surpassing industry average growth rates of 13% during the last five years by achieving 5-year average growth of 29% and demonstrated a consistently exceptional sustainable performance.

**STRATEGIC ANALYSIS OF INCOME STATEMENT**

Description - Rs. Mn	2020	2019	Growth %
Gross Written Premium / Revenue	15,660	12,531	25%
Reinsurance Expenses	(1,873)	(991)	89%
Net Earned Premium	13,788	11,540	19%
Investments Income and Other Operating Revenue	2,276	1,584	44%
Net Benefits and Claims	(3,567)	(2,996)	19%
Change in Insurance Contract Liability	(3,600)	(1,170)	208%
Underwriting and Net Acquisition Cost	(3,269)	(2,969)	10%
Operating, administration and finance expenses	(3,497)	(3,386)	3%
Profit Before Tax	2,130	2,604	-18%
Profit After Tax Reported	1,521	2,173	-30%



It is a phenomenal achievement that, our industry rank went up by 2 positions to become the **3rd largest life insurer** in Sri Lanka during the last two years.

## FINANCIAL CAPITAL

### GROSS WRITTEN PREMIUM (GWP)



#### COMMENTARY

Softlogic Life became the 3rd largest insurer in Sri Lanka by recording a growth of 25% in 2020 against the industry average growth of 16%. This was possible only because the Company understands the customer better and provides insurance solutions they need - combining it with incomparable customer service innovations. The Company achieved a mammoth GWP of Rs. 15.6 Bn - re-emphasising the sustainability of our business strategy which is represented in numbers by way of a five year GAGR of 29% against industry average of 13%. Refer Note 8 on Page 297 for financial evaluation and risk management of GWP.

“The management regularly reviews GWP composition and business class wise performance to drive the profitability of the Company and sets strategies and drive the business at distribution channel level”

The Company’s GWP can be categorised to First-Year Premium (FYP), Renewal Premium (RP), Single Premium and Group Life representing the premium charge to underwrite the risk associated with those products and attached profit margin. FYP recorded a growth of 4% where growth movement was slow down due to the negative impact on one to one selling process posed by the country wide lock down and travel restriction. However, the Company was able to grow renewal premium by 13% (despite industry average growth of 8%) which represents 45% of total GWP. Single premium contribution significantly increased during the year representing 23% of GWP due to the lower interest rate environment.

#### CHANNEL WISE PERFORMANCE

The Company operates three main channels: Agency channel (agency model), Alternate channel (which mainly focuses on Bancassurance/ corporate life insurance solutions) and the Micro and Mobile which predominantly focuses on Micro insurance. According to the table 05 below, dependency on the Agency Channel dropped from 75% to 64% during the year due to remarkable growth recorded by Alternate and Micro channels’ 72% and 159% respectively against a slow growth of 8% recorded by the Agency channel. It visualises our sustainable strategy and risk management as negative impact on one channel will not hold the growth of the Company. Alternate channel, formed four years ago, recorded Rs. 5 Bn GWP and is a standalone distribution channel of Softlogic Life - now bigger than 9 life insurance companies in Sri Lanka. Micro channel which follows technology driven sales processes showed its business viability by growing 159% during the pandemic situation.

Table 05:- Channel Mix

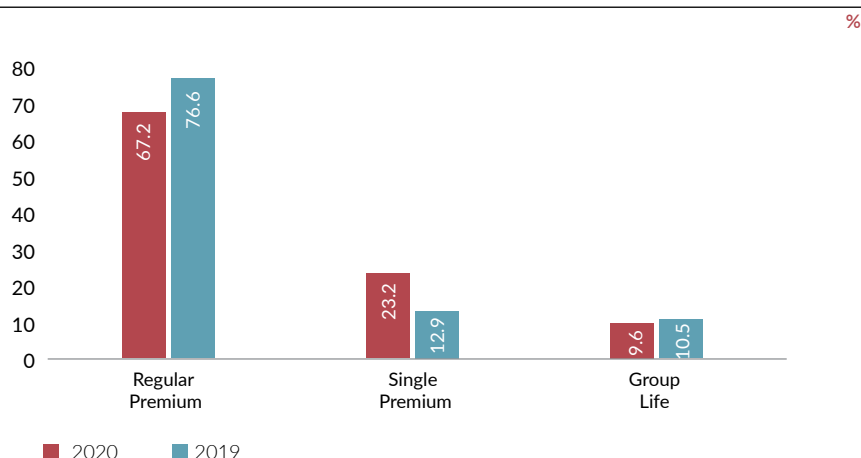
Channel	2020 (Rs. Mn)	2019 (Rs. Mn)	G%	Mix 2020	Mix 2019
Agency	10,060	9,354	8%	64%	75%
Alternate	5,169	3,011	72%	33%	24%
Micro & Mobile	431	167	159%	3%	1%
Total	15,660	12,532	25%	100%	100%

#### Segmental GWP analysis and class wise performance

During the year 2020 endowment products made the highest contribution to GWP amounting to 65% (2019 - 75%) and non-endowment products contributed to 35% (2019 - 25%) representing DTA, Group Life, Investment and Micro products. A detailed product mix is provided in Graph 11 below).

DTA product contribution to GWP is 23% (2019 - 12%) with an exciting growth of 136% and became the 2nd largest single premium business producer in the market. Micro & Mobile channel contributed 3% (2019 - 1%) to overall GWP. Details of segmental analysis are provided in the table 5.

#### G11-GWP CLASS WISE COMPOSITION 2020 VS 2019





### KEY CHALLENGES IN 2020

- The Pandemic situation slowed down new business growth in endowment policies due to travel / medical restrictions hence achieved 79% new business targets.
- The Company provided many relief measures to customers such as additional period to pay premiums, coverage of claims during extended credit period etc which resulted in a negative impact on the liquidity level as there was a slow down of cash.
- Increase in Policy lapses were noted especially during the lockdown period.
- Low interest rate environment negatively impacted profitability.



### KEY STRATEGIES EXECUTED IN 2020

#### Market penetration strategy (Market leader in terms of number of customers insured)

Our strong growth momentum over the last seven years was mainly supported by our market penetration strategy. Accordingly, we expanded our branch network to cater wide customer base increasing accessibility to the customer. During the year we opened 03 new branches under Agency Channel in strategic locations while increasing the total branch network to 100. Alternate Distribution Channel also contributed to market penetration strategy by onboarding 35 financial institutions to our DTA partnership portfolio allowing us to cover 502,772 lives as at 31 December 2020. We used the digital platform to reach the micro segment of the country the affordable prices via mobile insurance products with the partnership of Dialog and we attracted new customers and closed the year with 1,009,680 active customer base.

Multi-channel strategy paid the dividends in 2020 where the Company was able to cover the slow growth of Agency channel from Alternative channel.

#### Product development strategy

##### (Our well-diversified product portfolio benchmarks us with global insurance market)

Product development strategy is one of the main items in our untiring efforts in excellent customer service. Our tight engagement with customers allows us to understand exactly what the customer needs and we diversify our product portfolio to suit those requirements. Over the period we have expanded our products from conventional endowment product to investment, health, DTA, group life products etc. During the year we introduced 02 new products aligning our products further to cater to emerging customer needs and revamped one product to improve marketability. Refer Page 104 for our product portfolio.

#### Focus on existing customers

##### (Customer first culture makes our differentiation in serving customers better)

The year 2020 brought many challenges for us to reach new customers such as travel restrictions, people makes scared to directly contact an external party etc These held us back from generating new business. As a result, we increased focus on our existing customers and ensured they continued their policies with timely premium payments. We provided relief to customers to ensure policyholder protection where we were able to activate lapsed policies at the all end of 2020 through policy revival campaign and thus recorded 13% renewal premium growth.

#### Digital means of customer engagement

##### (Innovations define our success)

Keeping focus on existing and new customers the Company strengthened its digital space further by allowing sales staff to conduct overall sales process to policy underwriting on a digital platform. Re-emphasising our commitment on superior customer service, we also launched a new digital platform called "Claim It" which allow customers to intimate their claims online and get paid online. The system was integrated with a back end process to approve the claim and make the payment automatically through Robotic Process Automation. These strategies helped to recover business fast after the 1st wave of COVID-19. During the year digital underwriting increased to 80% (2019 - 60%).

#### Digitalisation of PCU operation

##### (We have a well-trained force to care for our customers during their lifetime)

Softlogic Life's unique business model of premium follow-up from the second year of the policy by our specialised unit of PCU (Policy Conservative Unit) aids the effective follow-up of renewing premiums. Responding to COVID-19 related challenges on premium collection. The Company developed a mobile base collection platform empowering PCU officers to issue real time digital receipts to customers and deposit collections through ATMs. The process made huge success by recording 13% growth on renewal premiums while safeguarding the health of our staff.

#### Industry-first innovation

(We were the 1st to introduce innovation to the insurance industry at global standards and raise the bar higher) Industry-first innovations help us lead in superior customer service which is instrumental for enhancing our competitive position and to achieve revenue growth. (Refer Pages 102 for our innovative solutions). Over the years, we have introduced many innovations linking our strategy with our vision and mission. The careful evaluation and implementation of innovation strategy maintained our strong position amid industry competition. This was also a part of our excellent customer care strategy.

## FINANCIAL CAPITAL



### KEY VALUE DRIVERS OF GWP PERFORMANCE

In the life insurance business, GWP achievement mainly depends on the performance of key value drivers. The key value drivers have maintained sustainable growth that surpasses the industry over the last nine years. Details of key value drivers for the last five years are provided in the table below, comparing historical years as well as industry average:

Description	2020	2019	2018	2017	2016	Change 2020 to 2019	Industry Average
Annualized New Business Premium (ANBP) Rs. million	3,880	3,967	3,325	2,706	2,182	(2.0%)	N/A
Average Premium Per Policy (Rs.)	136,852	137,032	128,887	113,375	99,573	(0.1%)	Rs. 38,000/ **48,000
Persistency Ratio Year 1 (%)	83	85	84	84	83	(2.0%)	*60
Persistency Ratio Year 2 (%)	65	64	63	64	66	1.0%	
Persistency Ratio Year 3 (%)	52	52	55	59	57	0%	
Average Annual ANBP per Agent Rs. million	1.3	1.4	1.4	1.5	1.4	(10.4%)	

\*\* Extracted from the Industry Lapse Study 2017

\* Endowment products

### Commentary on Key Value Drivers

#### Annualised New Business Premium

ANBP is considered as the quantum of new business the generated for a period of 12 months. During the year The Company recorded de-growth of 2% compared to last year due to the pandemic situation as we shifted strategy to focus on existing business collection rather than canvassing new business. (Refer Page 67 for 2020 strategy). However, there was a remarkable improvement in new business production during the 2nd half of the year.

#### Average Premium Per Policy/ Average Policy Value

This demonstrates the quality of the business we underwrite, as studies show that policies with higher value tend to have higher premium persistency (higher retention). During the year the Company able to maintain Average Policy Value at the same level as it was in 2019 which is significantly above the industry average of Rs. 38,000- 48,000 range.

#### Premium Persistency/ Retention Ratio (Year 1 - 3)

In the Life Insurance industry, premium persistency means the payment of premium over the policy period without any overdue. First year persistency stood at 83% which is a 2% drop compared to 2019. As stated in 2020 strategy on Page 67 this was due to a strategic decision we took to focus on renewal business. Our strategy is reflected in numbers on 2nd year and 3rd year persistency by recording 65% and 52% respectively with 1% in the growth of 2nd year ratio. This is a result of the unique premium collection follow-up done by the PCU from year 2 onwards of the policy.

This is further supported by the policy revival campaign launch with a view of activating policies which lapsed due to the pandemic situation.

#### Average ANBP per agent and capacity

Productivity of the Agency channel is a vital value driver to the Company. During the year, ANBP per Agent was recorded at Rs. 1.3 Mn per agent, a minor drop compared to the previous year. The reduction was a result of low ANBP achievement in 2020.

**PERFORMANCE OF GWP IN RELATION TO INDUSTRY**

Criteria	Commentary	Analysis																																				
<p><b>Total GWP (Sustainable GWP growth)</b></p>	<p>The Company recorded an impressive growth of 25% in the year 2020, which is well above the industry growth of 16%. Softlogic Life was able to deliver results well above the industry average growth during the last five years as shown in Graph 12. Accordingly, the Company was able to deliver a five-year compound growth of 29%, while industry average was 13% for the same period.</p>	<p><b>G12-INDUSTRY AVERAGE GROWTH VS SOFTLOGIC LIFE GROWTH 2016-2020</b></p> <table border="1"> <caption>G12-INDUSTRY AVERAGE GROWTH VS SOFTLOGIC LIFE GROWTH 2016-2020 (%)</caption> <thead> <tr> <th>Year</th> <th>Market Growth</th> <th>Company Growth</th> </tr> </thead> <tbody> <tr> <td>2016</td> <td>18</td> <td>38</td> </tr> <tr> <td>2017</td> <td>13</td> <td>34</td> </tr> <tr> <td>2018</td> <td>12</td> <td>33</td> </tr> <tr> <td>2019</td> <td>10</td> <td>25</td> </tr> <tr> <td>2020</td> <td>16</td> <td>25</td> </tr> </tbody> </table>	Year	Market Growth	Company Growth	2016	18	38	2017	13	34	2018	12	33	2019	10	25	2020	16	25																		
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2020	16	25																																				
<p><b>Market share (continuous market share increase)</b></p>	<p>The Company increased its market share by 1.1%, during the year reaching 15.2% compared to 14.1% recorded in 2019. SLI is the only Company that recorded consistent market share growth over the last five years as presented in Graph 13.</p> <p>According to this, The Company doubled its market share within a short period of five years.</p>	<p><b>G13-MARKET SHARE MOVEMENT OF TOP FIVE PLAYERS IN THE INDUSTRY (2015-2019)</b></p> <table border="1"> <caption>G13-MARKET SHARE MOVEMENT OF TOP FIVE PLAYERS IN THE INDUSTRY (2015-2019) (%)</caption> <thead> <tr> <th>Player</th> <th>2016</th> <th>2017</th> <th>2018</th> <th>2019</th> <th>2020</th> </tr> </thead> <tbody> <tr> <td>Ceylinco Life</td> <td>-1.4</td> <td>-1.6</td> <td>0.2</td> <td>-1.1</td> <td>0.3</td> </tr> <tr> <td>SLIC</td> <td>0.8</td> <td>-1.2</td> <td>-1</td> <td>0.3</td> <td>2</td> </tr> <tr> <td>AIA</td> <td>0.2</td> <td>0.2</td> <td>-0.2</td> <td>-0.3</td> <td>-2</td> </tr> <tr> <td>Softlogic Life</td> <td>1.3</td> <td>1.6</td> <td>1.9</td> <td>1.6</td> <td>1.1</td> </tr> <tr> <td>Union Assurance</td> <td>0.1</td> <td>1.1</td> <td>-0.1</td> <td>-0.9</td> <td>-0.3</td> </tr> </tbody> </table>	Player	2016	2017	2018	2019	2020	Ceylinco Life	-1.4	-1.6	0.2	-1.1	0.3	SLIC	0.8	-1.2	-1	0.3	2	AIA	0.2	0.2	-0.2	-0.3	-2	Softlogic Life	1.3	1.6	1.9	1.6	1.1	Union Assurance	0.1	1.1	-0.1	-0.9	-0.3
Player	2016	2017	2018	2019	2020																																	
Ceylinco Life	-1.4	-1.6	0.2	-1.1	0.3																																	
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AIA	0.2	0.2	-0.2	-0.3	-2																																	
Softlogic Life	1.3	1.6	1.9	1.6	1.1																																	
Union Assurance	0.1	1.1	-0.1	-0.9	-0.3																																	
<p><b>Industry Ranking</b></p>	<p>With continuous market share increase over the last six years we moved up to being the 3rd largest life insurer in Sri Lanka in 2020 following the one position up in 2019. With this we became a force to be reckoned with in the Insurance industry and considered to be the fastest- growing Insurance company in the country.</p>	<p><b>G14-MARKET SHARE</b></p> <table border="1"> <caption>G14-MARKET SHARE (%)</caption> <thead> <tr> <th>Year</th> <th>Market Share (%)</th> <th>Ranking</th> </tr> </thead> <tbody> <tr> <td>2016</td> <td>8.9</td> <td></td> </tr> <tr> <td>2017</td> <td>10.5</td> <td></td> </tr> <tr> <td>2018</td> <td>12.5</td> <td>5</td> </tr> <tr> <td>2019</td> <td>14.1</td> <td>4</td> </tr> <tr> <td>2020</td> <td>15.2</td> <td>3</td> </tr> </tbody> </table>	Year	Market Share (%)	Ranking	2016	8.9		2017	10.5		2018	12.5	5	2019	14.1	4	2020	15.2	3																		
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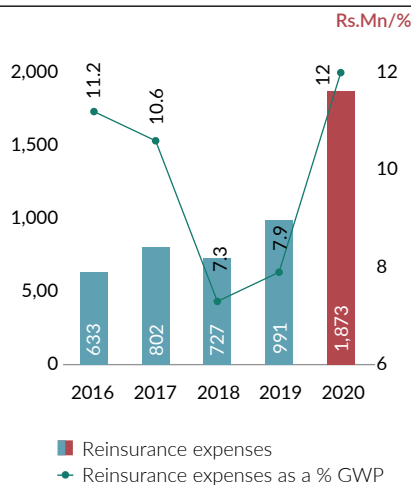
# FINANCIAL CAPITAL

Criteria	Commentary	Analysis				
		%	Softlogic Life Mix		Industry Mix	
Channel performance/contribution	The agency Channel contributed 66% (2019 - 75%) of GWP being the largest contributor. However, we see a trend of the Agency Channel contribution being diluted over the last three years with the growth of non-agency channels which contributed 34% (2019 - 25%) to the Company's GWP. This mitigated Company's risk of dependency on one distribution	2020	2019	2020	2019	
		Agency Channel	66	75	78	85
		Direct Channels	34	25	22	15
		Total	100	100	100	100

### REINSURANCE EXPENSES

Insurance companies often transfer some component of the risk they accept from customers to reinsurance companies according to the risk management policy of the Company. In return for accepting this risk by the reinsurers, they are paid a part of the premium received from customers. Hence, this expense is referred to as Reinsurance expense.

#### G15-REINSURANCE EXPENSES AS A % GWP



### COMMENTARY

The Company paid Rs. 1,873 Mn as RI expenses during the year, accounting for 11.9% of the GWP. The ratio is significantly higher than the ratio of 7.9%. The increase is a result of Quarter share agreement (Fin re agreement) entered in to with Munich-re. The Company received upfront re-insurance commission of USD 15 Mn as profit commission under the Fin-re agreement.

Refer Note 9 on Page 298 for Financial Evaluation and Risk Management on Pages 274.

### KEY STRATEGIES EXECUTED IN 2020

- The Company continues to evaluate the premium charge by re-insurers against the portion of the risk they cover. During the year, the Company was able to further optimise reinsurance outgo.
- The Reinsurance Panel was further strengthened by on boarding AXA XL a global giant of insurance business. The Good Health portfolio is re insured with AXA XL Insurance

The Company firmly believes in offering an industry-best Reinsurance panel in terms of strength and diversity that will add great value to our customers as well as to the Company.

### KEY CHALLENGES IN 2020

- As a leading innovative company in the market, SLI introduces many new products to the market as a first mover. It was challenging for us to convince Reinsurers of the behaviour of the product in the Sri Lankan market context and assess risk experience. This result in Reinsurers charging us comparatively higher premiums at initial stages.
- The Company has on board the world's largest reinsurance panel with diverse experience and capacity. Since the insurance market in Sri Lanka is not significant enough for them, we were disadvantaged in discussing terms of arrangement. However the Company was able to prove the future prospects





### KEY VALUE DRIVERS

The Company monitors the Reinsurance expense as a % to GWP, at participative and non-participative fund level as well as product class level, while accurately managing the portfolio risk through reinsurance arrangements and optimising the portfolio. Details of reinsurance experience is a key driver of the annual reinsurance negotiations and company conduct annual reinsurance study before as well



### CRITICAL SUCCESS FACTOR

The Company maintains a trustworthy and transparent relationship with its reinsurers, which in turn provides comfort to the Company to implement its business strategies smoothly and improves the confidence level of customers as their future benefits are backed by the world's largest multinational reinsurers in addition to the local Company. Further, we have a mutual understanding with our reinsurers to monitor profit margin of reinsurers to diverse these benefits to our customers where possible without harming our sustainable relationship.

### INVESTMENT AND OTHER OPERATING REVENUE

Investment income generated from assets held against insurance contract liabilities is included here. SLI investment strategy optimise the return while managing the risk within the Company's risk appetite.

### Investment and Other Operating Revenue

Description	Rs. - Mn	2020	2019	G%	2018
Finance Income		1,634	1,219	34	954
Net Realised Gains		171	124	38	96
Net Fair value (Losses) / Gains		464	232	100	(98)
<b>Total Investment Income</b>		<b>2,270</b>	<b>1,575</b>	<b>44</b>	<b>952</b>
Other Operating Income		6	10	-33	1
<b>Total Investment and Other Operating Revenue</b>		<b>2,276</b>	<b>1,584</b>	<b>44</b>	<b>953</b>



### COMMENTARY

This represents the income generated from the investment portfolio that the Company manages in order to match the liabilities of the Company. The Company has marked an excellent performance of achieving 44% growth over 2019. The growth is supported by growth in new business and new capital infusion. Finance income grew by 34% which represents gains from fund base growth of fixed income securities.

Due to the lower interest rate environment the Company recorded fair value gains from the treasury bond portfolio of Rs.347.6 mn.



### KEY CHALLENGES IN 2020

- The financial market was heavily affected from the pandemic and low performances were persistent throughout the year.
- To boost economic activities government reduced primary market rated by 350 basis points forcing us to invest our fresh cash flows at low yield.
- The equity market also did not performed well during the year and showed minor growth in the ASPI over last year resulting in our trading portfolio reporting tiny yield.



### KEY STRATEGIES EXECUTED IN 2020

- Operational cash flows were locked in corporate debts as available in the market depending on the credit quality of the instruments while remaining is channel to instruments with shorter tenure expecting rate increase in future.



### KEY VALUE DRIVERS

The Company monitored expected yields of the investment before embarking on new investments along with the Cash Flow Matching and ensured that the expected yield did not fall below the yield's long term expectation. Maturity matching is the basis to decide the tenure of the investment. In order to achieve the expected profitability, overall investment strategy is designed to fund level.

## FINANCIAL CAPITAL

### NET INSURANCE BENEFITS AND CLAIMS

In the Life insurance business, the main expense is claim expense. Insurance claim expense includes claims due to death, disability or hospitalisation, which are categorised as pure claims. Further, Life insurance policyholders are entitled to maturity proceeds and interim payments (i.e. payments made before the expiry of the policy) and so on. In addition, policyholders may request to surrender (cancel) their policies before the maturity period of the policy. The Company recovers part of their claim expense from their reinsurance partners according to the reinsurance arrangement.

Details of claims and benefits are categorised based on their nature as follows:

**Table 06: Claims and Benefits**

Rs. Mn	2020	2019
<b>Net Claims</b>		
Death, Disability and other riders including hospitalisation benefits - Endowment products	904	850
Death and other riders - Group Life	994	918
Death - Decreasing Term Assurance (DTA)	494	278
<b>Total Regular Claims</b>	<b>2,789</b>	<b>2,046</b>
<b>Net Benefits</b>		
Maturities / Surrenders - Investment products	145	246
Maturities - Endowment products	296	323
Policy Surrenders - Endowment products	336	343
Policy Refunds -DTA	398	39
<b>Total net Benefits</b>	<b>1,175</b>	<b>950</b>
<b>Total Net Benefits and Claims</b>	<b>3,567</b>	<b>2,996</b>



### KEY CHALLENGES IN 2020

- We experienced significant medical inflation resulting in full utilisation of claim limits of the policies.
- Increasing trend of Non-Communicable Disease (NCD) resulted in higher claims



### KEY STRATEGIES EXECUTED IN 2020

At Softlogic Life we believe that one of the key success factors towards customers is speedy claim settlement as well as paying fairly while eliminating bogus claims through our robust claim process. Keeping the impact from pandemic in mind the Company deployed a dedicated claim submission digital platform "Claim it". During the year we continued to maintain our industry first process innovation of "One-day claim settlement" by achieving 86% claims being paid within one day.

We continuously improve the time taken to discharge a customer with a view the providing superior customer service. During the year 89% of customers were discharged in less than one hour.



### COMMENTARY

Net benefits and claims expenses are the main costs of the insurance business, which includes gross benefits and claims expenses adjusted to reinsurance recovery received for the period.

The net claims stood at Rs. 3,567 Mn in 2020, which is 19% growth compared 2019 mainly due to the volume increase of the year and refunds of DTA as shown in table 06.

### Death, Disability and other riders including Hospitalisation - Endowment products

This records only 6% increase compared to 2019 as a result of the country wide lock down period and lower pattern of health related claims as lower probability of health infections due to the lower exposure to society and additional precaution as wearing a mask etc.

### Death and other riders - Group Life and DTA

The Company's strategy of multichannel distribution placed additional focus on developing the Group Life business and DTA business resulting in a increase in GWP of DTA and GLP by 128% during the year. Hence claims also correlated to volume increase and continue to improve claim experience.



### KEY VALUE DRIVERS

The Company monitors claim settlement status and service levels on a regular basis in order to ensure that we settle our claims within a day. Further, we monitor claim ratios under each product / rider category level to identify areas where re insurance efficiency improvement is required.



**CRITICAL SUCCESS FACTOR**

Speed and transparency in the claims settlement process which are widely recognised by the insurance industry was further proved by the recent accolades. Accordingly, our human capital, internal process and technological infrastructure played a critical role in creating this competitive edge in claims processing, which is considered a revolutionary improvement in the life insurance market in Sri Lanka.



**COMMENTARY**

The cost of underwriting and net acquisition cost reached Rs. 3,269 Mn which is 20.8% to GWP against ratio of 23.6% recorded last year. Acquisition cost to GWP ratio decreased by 3% against the previous year mainly due to lower new business growth in endowment products.

Details of analysis of the last 5 years acquisition cost is provided in Graph 16” net acquisition cost”. Refer Page 73 for detailed analysis of acquisition cost ratios.



**KEY CHALLENGES IN 2020**

- During the lock down period the income of sales staff were dropped significantly due to low new business generation. In order to support them financially the Company provided commission advance during the year based on their recent income pattern.



**KEY STRATEGIES EXECUTED IN 2020**

We pay competitive rates of commission and incentives to attract and retain quality business producers and continuously benchmark the industry in deciding the package for our intermediaries. We use commission and incentive structure as strategic tools to drive our business towards the correct direction and during the year management revised incentive structures to improve productivity ratios.



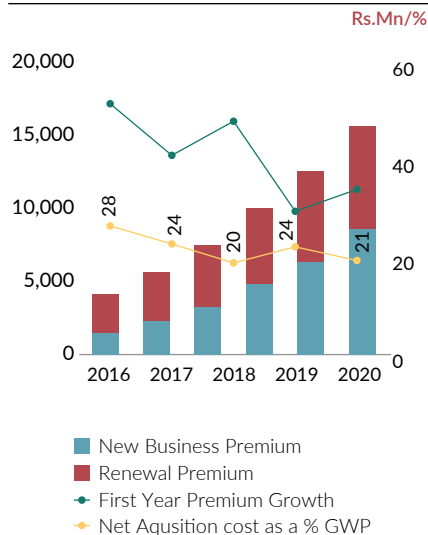
**KEY VALUE DRIVERS**

Details of Acquisition cost % to GWP and business mix are monitored regularly against the budgets and previous year’s actuals.

**UNDERWRITING AND NET ACQUISITION COST**

Underwriting and policy acquisition costs (including reinsurance commission income) represents the amount of commission and incentives incurred by insurance companies on intermediaries to acquire a business less any commission income due from reinsurers for placing business with them. The acquisition costs include commissions and other variable costs directly connected with acquiring new business as well as renewal of insurance policies.

**G16-NET ACQUISITION COST**



**OPERATING, ADMINISTRATION, FINANCE AND OTHER EXPENSES**

Details of expenses are provided in the following table.

Rs. Mn	2020	2019	Mix 2020	Mix 2019	G%
Staff related expenses	986	1,017	28%	30%	-3
Administration and Establishment Expenses	1,824	1,679	52%	50%	9
Selling Expenses	368	430	11%	13%	-14
Depreciation / Amortisation	147	142	4%	4%	3
Finance cost	172	118	5%	3%	46
<b>Total Expenses</b>	<b>3,497</b>	<b>3,386</b>	<b>100%</b>	<b>100%</b>	<b>3</b>

# FINANCIAL CAPITAL

## COMMENTARY

The Company incurred Rs. 3,497 Mn as operating, administration and finance expenses resulting in marginal growth of 3% compared to the Rs. 3,386 Mn reported last year against top line growth of 25%.

Expenses to GWP ratio improved to 22.3% compared with 27% in 2019 due to the implementation of the expense management initiative as a precautionary measure to face unexpected future challenges arising from the pandemic situation. During the year staff related expenses was the second highest item which was reported de-growth of 3% compared to last year due to the staff replacement management process. Selling expenses contribute to 11% (2019 – 13%) of expenses and dropped by 14% compared to 2019 as result of strict control over sales related expenses including marketing cost.

## KEY CHALLENGES IN 2020

- To improve expense ratios while not compromising the growth momentum or capacity to growth was a key challenge for the management. The Company is focusing on clearly defined key performance efficiencies to balance these challenges.

## KEY STRATEGIES EXECUTED IN 2020

Diversified distribution channel which has a lower expense base

- Continuously monitoring production of sales team
- Digitalisation of business process
- Encourage performance base culture

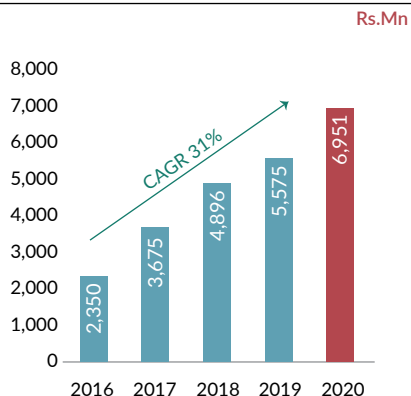
## KEY VALUE DRIVERS

The Company's philosophy is to optimise its expenses, concentrating on value for money. Accordingly, the Company incurred expenses where necessary but consciously monitored the outcome of the same against set objectives.

## UNDERWRITING RESULTS (OPERATING PROFIT)

Underwriting results showed the new inflow generated from the business before the investment income and expenses, but after paying the claims to policyholders and direct acquisition cost to intermediaries. In the Life insurance business, this is a critical factor and key value driver which contributes to the profitability. Details are provided in the Graph 17 :

### G17-UNDERWRITING RESULTS



## COMMENTARY

The Company consistently increased underwriting results over the last five years resulted CAGR of last 5 years 31%, which provides greater support to manage the positive operating results without depending on investment income of the business. Thus, the Company witnessed Rs. 6,951 Mn an underwriting results which reflects an increase of 25% compared to Rs. 5,575 Mn the previous year.

## KEY STRATEGIES EXECUTED IN 2020

During the year the Company consistently focused on collection of renewal premiums with a stringent control of expenses.

## INSURANCE CONTRACT LIABILITIES

Life insurance companies are subject to value policyholder liabilities according to Solvency Margin (Risk Based Capital) rules stipulated by the Insurance Regulatory Commission of Sri Lanka (IRCSL). In case of changes in the insurance contract liability, any excess of funds could be taken as profit (surplus) as recommended by the appointed actuary to the shareholder as at reporting date. During the year the Company allocated Rs. 3.60Bn (2019 – Rs. 1.17Bn) for the policyholder future benefits. Details of change in insurance contract liability for the last three years are provided in the Table 07 below.

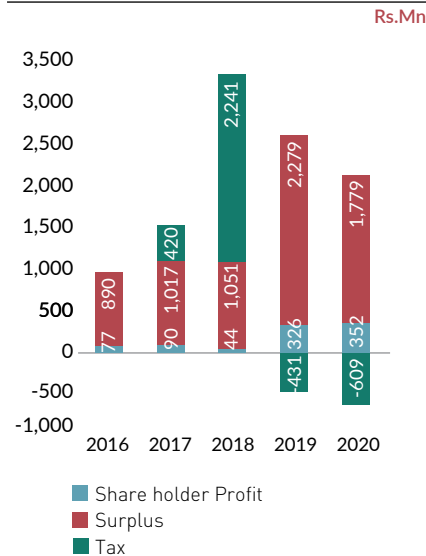
**Table 07: Insurance contract liability**

Rs. Mn	2020	2019	2018
Operating surplus	5,379	3,773	2,552
Surplus transfer as recommended by appointed Actuary	1,779	2,279	1,051
Transfer to life insurance fund after valuation	3,600	1,170	1,501

**PROFIT AFTER TAX (PAT)**

The profit of the Life Insurance Company is mainly determined based on the actuarial valuation made by the Appointed Actuary which is called “Surplus”. In addition to the surplus, the profit of the Company consists of investment income of the shareholder funds less related expenses and income tax. Total profit and its composition over last 5 years are provided in the Graph 18 below:

**G18-PROFIT AFTER TAXATION**



**COMMENTARY**

The Company Profit Before Tax and After tax of Rs. 2,130 Mn and Rs. 1,521 Mn despite challenging condition which shows the sustainability of the business model despite significant drop in interest rate which negatively impact to the policyholder liability valuation.

Economic value analysis is provided on Page 15.

**Profitability and Investor attractiveness – Industry peer comparison**

The Table 08 below analyses the Softlogic Life share of profitability in comparison to listed insurance companies.

**Table 08: Analysis of SLI's share of profitability**

Rs. Mn	2020	2019
Profit after tax of the Company	1,521	2,173
Total profit from listed companies	10,329	11,317
SLI share of profit as a % of total profit from listed companies	15%	19%

It shows that the Company reported a significant percentage of (15%) profit out of total profit of listed insurance companies for the year 2020.

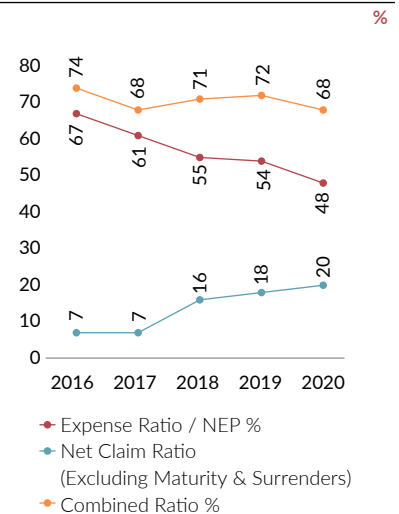
**OTHER COMPREHENSIVE INCOME**

Other comprehensive income recorded Rs. 196 Mn (2019 - Loss of 72 Mn) largely due to the positive fair value gains of treasury bond portfolio.

**LIFE INSURANCE INDUSTRY SPECIFIC RATIO ANALYSIS**

Movement in expense, claims and combined ratios are provided Graph 19 below. Table 09 provides detailed list of ratios we regularly monitor within our business process.

**G19-INDUSTRY SPECIFIC RATIO ANALYSIS**



## FINANCIAL CAPITAL

**Table 09: Life Insurance Industry Specific Ratios and Its Discussion - Income Statement**

Description	Variance	2020	2019	2018	2017	2016	Growth 2020 %	For more details, refer Page
<b>Key Operating Ratios</b>								
First Year / Renewal GWP Mix %	N/A	32/68	33/67	33/67	32/68	34/66	-	
<b>Net Claims Ratio</b>								
Net Claims Ratio (with maturities and surrenders)	●	25.9	26.0	25.2	18.2	10.0	-0.1	77
Net Claims Ratio (without Group life and DTA)	●	20.2	18.1	13.5	6.6	N/A	2.1	
Net Claims Ratio Endowment (with Group life and DTA)	●	10.1	9.7	9.7	5.7	21.0	0.4	
<b>Expense Ratios</b>								
Reinsurance Expense Ratio %	●	12	8	7	11	11	4	70
Net Acquisition Cost Ratio % GWP	●	21	24	20	24	28	-3	73
Operational expenses as a % of GWP	●	21	26	31	31	32	-5	77
Total Expense Ratio % GWP*	●	42	50	51	55	60	-8	
Total Expense Ratio % NEP*	●	48	54	54	61	67	-6	
<b>Combined Ratio</b>								
Combined Ratio % NEP - without maturities and surrenders	●	58	64	64	67	88	-6	77
Combined Ratio % NEP - with maturities and surrenders	●	74	80	79	79	77	-6	
<b>Regulatory Ratios</b>								
CAR Ratio (Min 120%)	●	302	182	199	208	195	120	79
Determination Ratio % (Min 100%)	●	118	109	105	112	105	9	
Investment in Government Securities % Life fund (Min of 30%)	●	54	42	39	46	66	12	
<b>Key Value Drivers</b>								
Premium persistency – Year 1	●	83	85	84	84	83	-2	68
Premium persistency – Year 2	●	65	64	63	64	66	1	
Premium persistency – Year 3	●	52	52	55	59	57	-	
Average Premium per policy (Rs.)	●	136,852	137,032	128,887	113,375	99,573	-0.1	
Annualised New Business Premium Rs. million	●	3,880	3,967	3,325	2,706	2,182	-2	
Annualised new Business per Agent Rs. million	●	13	1.4	1.4	1.46	1.4	-10	
No of New policies	●	262,605	250,407	203,094	70,859	23,756	-5	-
Life fund Rs. million	●	17,484	10,377	9,022	7,439	6,935	68	82
Surplus Rs. Million (without one off surplus)	●	1,779	2,279	1,051	1,017	890	-22	

● Positive variance      ● Variance up to 5%      ● Negative variance

\*Adjusted for notional tax right back



## COMMENTARY

### Claim Ratio

Claim Ratio in insurance industry refers to net claims (gross claims deducted for reinsurance recovery) as a percentage of Net Earned Premiums. It is more appropriate to measure claims ratio without maturities and surrenders, as it does not have a material impact on the profitability of the Company.

**Table 10: Net Claim Ratio**

%	2020	2019
Net Claims Ratio Endowment (without Group life and DTA)	10.1	9.7
Net Claims Ratio (with Group life and DTA)	20.2	18.1
Net Claims Ratio (with maturities and surrenders)	25.9	26.0

### Net Claims Ratio - Endowment products (without Group Life and DTA)

The overall claim ratio (without Group Life and DTAP) reported 10.1% compared to 9.7% reported last year. This is supported by the Company's strategic risk management mechanism such as better reinsurance arrangement, underwriting quality improvements etc.

### Expense Ratio

In the Life Insurance business, expense ratio consists of Net Acquisition costs which represents net expenses (Commission / incentives) incurred for the acquisition of the business and other operating expenses which were re incurred for maintenance (Management Expenses) of the business. Details of ratios are presented in the Table 11 below;

**Table 11: Expense Ratio**

%	2020	2019
Net Acquisition Ratio %	21	24
Operating Expense Ratio % GWP	21	26
Overall Expense Ratio % GWP	42	50

Expense ratio has been improved to 42% during the year compared to 50% recorded in 2020. Strategies executed during the year to maintain expense efficiency to manage business impact of COVID-19 resulted in operational expense ratio reduction which is further supported by 25% GWP growth reported during the year.

### Combined Ratio

Life Insurance industry combined ratio is defined as the combination of expenses ratio and claims ratio.

**Table 12: Combined Ratio**

%	2020	2019
Combined Ratio % (with maturities and surrenders)	73.6	79.8
Combined Ratio % (without maturities and surrenders)	68.0	71.9

Reduction in Combined ratio by 17% (without maturities and surrenders) mainly impacted by the reduction in claims and expense ratios explained above.

## REGULATORY RATIOS

### Risk Based Capital Adequacy Ratio

According to Solvency Margin (Risk Based Capital) Rules 2015 the Company is required to maintain at least a 120% capital adequacy ratio. The Company maintained 302%, which is well above the minimum requirement of 120% and has grown significantly with the new capital infusion and improved business performances.

### Determination Ratio

The Company maintains a determination ratio which is above the required level as at 31st December 2020 as shown in the table 09 "Industry specific ratios".

### Investment in Government Securities % Life fund

The Company is required to invest in Government Securities at a minimum 30% of the long-term fund. As at 31st December 2020, the Company was above the minimum requirement as a result of the Company's better management of risk and yields, both benefits to policyholders.

### Regulatory restricted reserve - Assets to one off surplus

The Company is required to invest in government securities and deposits at a minimum of Rs. 798 Mn as required by Direction 16 - identification and treatment of One-off Surplus. As at 31st December 2020, the Company maintains assets of Rs. 839 Mn.

## FINANCIAL CAPITAL

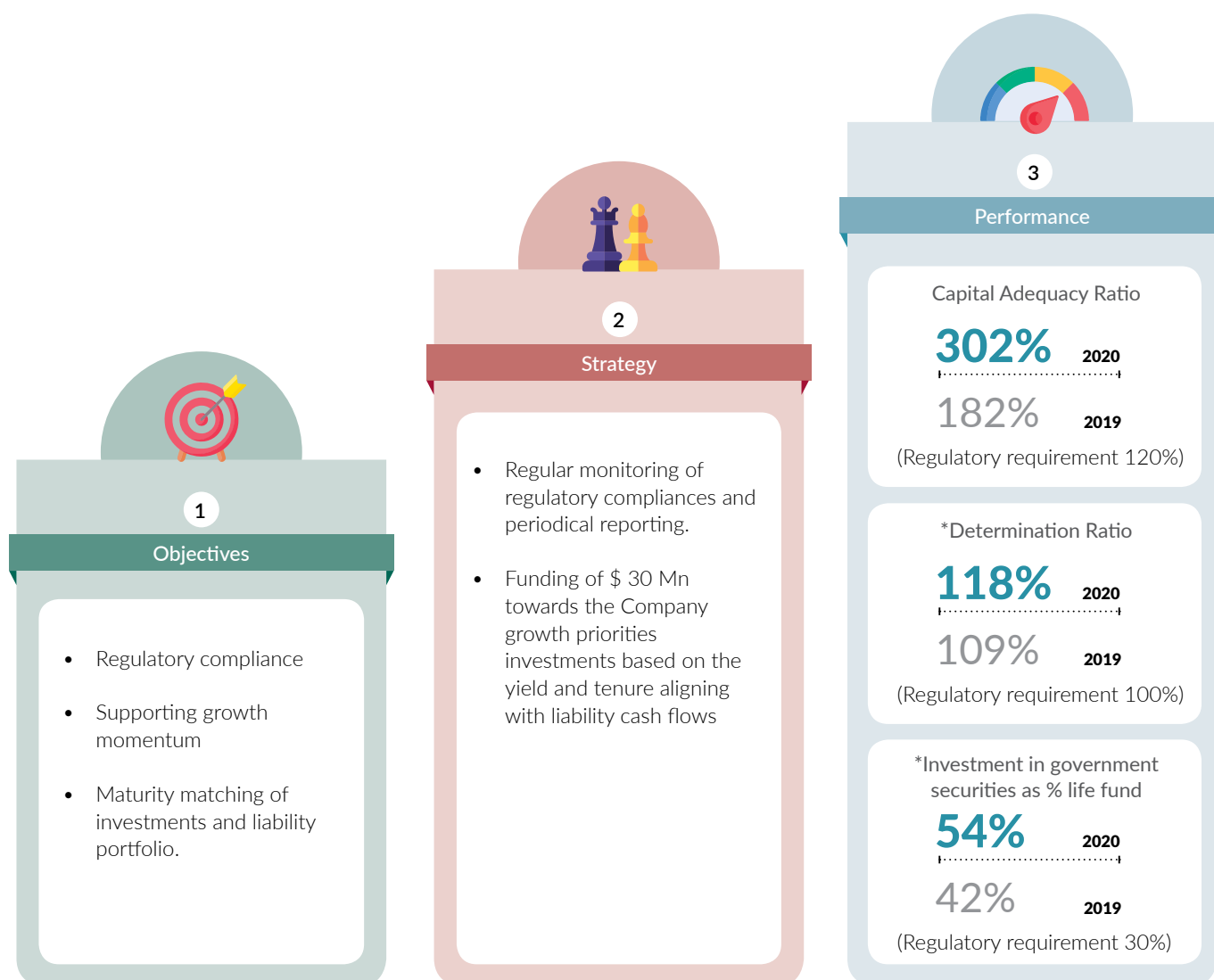
### SEGMENTAL INFORMATION

The Company monitors its performance under two operating segments namely 'Policyholder fund' and 'Shareholder fund'. Summary of financials are provided below

Rs. Mn	Policyholder fund		Shareholder fund	
	2020	2019	2020	2019
Net Revenue	15,491	12,812	573	312
Profit Before Tax	1,779	2,279	352	324
Total Assets	22,886	13,224	10,320	7,459
Cash flows from Operating activities	8,653	3,041	380	170

Refer Page 347 for more information on segmental performance

### PERFORMANCE OF CAPITAL AND LIQUIDITY MANAGEMENT





## CAPITAL MANAGEMENT OBJECTIVES

Core objective was to improve the capital position to facilitate the growth trajectory.

## CAPITAL MANAGEMENT STRATEGY

In order to ensure compliance requirements, we monitor on a monthly basis and these are an integral part of our risk management framework.

The Company is excited about opportunities that will open up in the post pandemic era and expects extraordinary performance in the years to come. In order to make sure SLI is fully equipped an every front when opportunities are arise, the management has planned its path to success carefully. These objectives include IT infrastructure enhancement, new product development, building future leaders within the organisation etc. Ensuring our way forward is not constrained by capital requirement two key financial transactions were finalized during the year.

## Financial Reinsurance

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

## Tier II Subordinated Debt

Development Financial Institutions; Finnish Fund for Industrial Cooperation Ltd - Finnfund and The Norwegian Investment Fund for Developing Countries. Norfund and financial have collectively signed a USD 15Mn Tier II Subordinated Debt transaction.

## Investment Management

The Company continues to build its investment portfolio above the insurance contract liability. At the time of evaluating investment options we consider the tenure (Insurance companies require long tenure assets to match liabilities insurance contract which by nature is long term) and yield of the investment. However, considering the low interest rate persisting last year and expecting a future increase we tend to select short term investment during the year 2020.

## REGULATORY CAPITAL PERFORMANCE

The below detailed analysis below shows that Company has consistently maintained regulatory requirement while efficiently managing the liquidity position of the company.

**Table 13 : Capital adequacy ratio (CAR)**

	2020	2019
Total Available Capital (TAC) (Rs. Mn)	19,941	8,151
Risk Based Capital Requirement(RCR) (Rs. Mn)	6,611	4,490
Risk Based Capital Adequacy Ratio (CAR) %	302	182
Required Based Capital Adequacy Ratio (CAR) Ratio %	120	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.

**Table 14 : Statement of Approved Assets**

	2020	2019
Approved assets maintained in business (Rs. Mn)	19,886	10,661
Insurance fund (Rs. Mn)	16,841	9,739
Approved assets in excess of the insurance fund (Rs. Mn)	3,045	922
Approved assets as a % of insurance fund	118	109
Required ratio %	100	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 15 : Investment in Government Securities as % of Life Fund**

	2020	2019
Life fund (Rs. Mn)	16,841	9,739
Investment in government securities (Rs. Mn)	9,097	4,101
Investment in government securities as % of Life fund	54	42
Required ratio %	30	30

The above analysis shows how the Company maintained a portfolio of government securities above the required level emphasising our risk mitigation actions within the market of ever increasing risk.

## FINANCIAL CAPITAL

### Leverage and Capital Structure

Table 16: Capital employed

Rs. Mn	2020	2019	Mix %
Stated capital	1,063	1,063	8
Retained earnings	9,290	7,764	73
Restricted regulatory reserve	798	798	6
Other reserves	(1,215)	(1,406)	(9)
Total Equity	9,936	8,219	78
Long term loans and borrowings	2,852	-	22
Total Capital Employed	12,788	8,219	100

#### COMMENTARY

Total capital employed reached Rs. 12.7 Bn recording 56% growth over last year as a result of subordinated loan capital received during the year amounting to Rs. 2.8 Bn.

The total equity reached Rs. 9.9 Bn, which is a 21% increase compared to Rs. 8.2 Bn reported in 2019 mainly due to the current year profitability of Rs. 1.5 Bn.

#### Financial Leverage - Debt to Equity ratio

The company maintained low gearing in its equity position by recording debt to equity ratio at 29% in 2020.

Out of total capital 71% qualified for Tier 1 capital under Risk Based Capital (RBC) framework, which is an indicator of the quality of the equity of the Company.

#### Dividend

The company declared Interim dividend of Rs. 2.5 per share amounting to a total pay out of Rs. 937.5 Mn for the year 2020, Subject to regulatory approval.

#### Dividend Policy

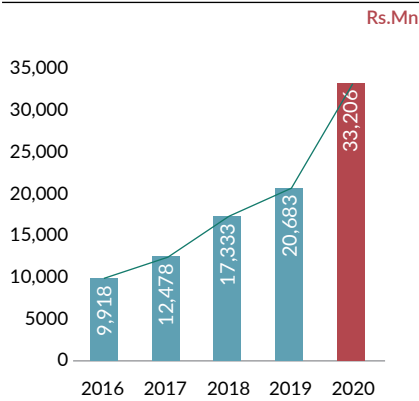
According to the dividend policy of the Company it distributed 50% of its profit after tax as dividend to investors.

### FINANCIAL POSITION ANALYSIS

Snapshot of the Financial Position and Composition is as follows;

Rs. Mn	2020	2019	Growth %	Composition %
<b>Assets</b>				
Intangible Assets, Property, Plant and Equipment	661	676	-2%	2%
Right of Use Asset	752	408	100%	2%
Financial Investments	27,368	14,911	84%	82%
Loans to Life Policyholders	234	225	4%	1%
Reinsurance Receivables	323	188	72%	1%
Premium Receivables	856	744	15%	3%
Other Assets	834	924	-10%	3%
Deferred Tax Assets	1,622	2,231	-27%	5%
Cash and Cash Equivalents	554	377	47%	2%
<b>Total Assets</b>	<b>33,206</b>	<b>20,683</b>	<b>61%</b>	<b>100%</b>
<b>Equity &amp; Liabilities</b>				
Total Equity	9,936	8,219	21%	30%
Insurance Contract Liabilities	17,484	10,377	68%	53%
Long Term borrowing	2,852	-	100%	9%
Reinsurance Payable	636	429	48%	2%
Other Liabilities	2,298	1,658	39%	7%
<b>Total Liabilities</b>	<b>23,270</b>	<b>12,464</b>	<b>87%</b>	<b>70%</b>
<b>Total Equity and Liabilities</b>	<b>33,206</b>	<b>20,683</b>	<b>61%</b>	<b>100%</b>

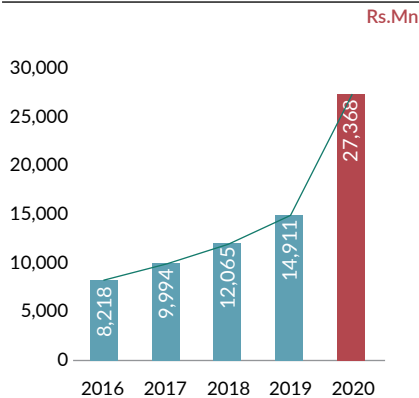
**G20-TOTAL ASSET**



**COMMENTARY**

The Year 2020 ended with Rs. 33.2 Bn, recording a 61% growth compared to Rs. 20.6 Bn in 2019 in total assets which signifies a two-fold increase over the past five years. The growth was supported by the Company's highest GWP achievement of Rs. 15.6 Bn as well as capital infusion.

**G21-FINANCIAL INVESTMENT**



**COMMENTARY**

Continuing its growth momentum, total financial investments reached the Rs. 27.4 Bn mark in the year 2020, recording an 84% growth over the assets base of Rs. 15 Bn achieved in 2019. The financial investments portfolio represents 82% of the total assets of the Company. The table below summarises the nature of the investment portfolio and its contribution

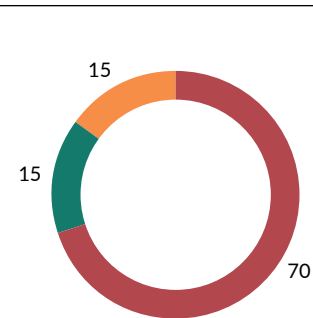
Rs. Mn	2020	2019	G%	Mix 2020	Mix 2019
Investment in government securities	12,912	4,483	188	47	30
Debentures	5,958	4,503	32	22	30
Equity securities	2,464	2,349	5	9	16
Unit trust	2,389	2,032	18	9	13
Commercial papers	1,990	1,099	81	7	7
Bank deposits	1,655	445	272	6	3
Policyholder Loans	234	224	4	1	1
<b>Total</b>	<b>27,602</b>	<b>15,136</b>	<b>82</b>	<b>100%</b>	<b>100%</b>

The above analysis shows 47% of our investment portfolio representing assets of government securities or assets backed by government emphasizing the quality of our portfolio and carrying low level of risk. Government securities grew significantly by 188% due to funds received from Finre and Tier ii capital is invested in Sri Lanka Development Bonds (Rs. 2.7 Bn) and International Sovereign Bonds (Rs. 2.7 Bn). The second highest contributor is Debentures which represent 22% of financial investments have also grown by 32% due to focus on yield maximization of new funds. However we assess the quality of the investment from many angles before investing which have explain in detail under financial risk management on page 275. Equity securities and Unit trust represent 9% each stake with only 5% growth in equity securities due to under performing capital market while Unit trust grew by 18%. Commercial papers have grown 81% with 7% contribution and bank deposits contribute 6% of the investment portfolio.

Financial investments are reported in the financial statements under three broad categories as per the guidelines of SLFRS 9. Detailed analysis is provided on financial note No 30 on Page 321.

Graphs 22 below represent the composition of investments under each category.

**G22-COMPOSITION OF FINANCIAL INVESTMENT**



- Amortised cost / Loans and Receivable
- Fairvalue through other comprehensive income / available for sales
- Fair Value through Profit or Loss

## FINANCIAL CAPITAL

### G23-INSURANCE CONTRACT LIABILITY

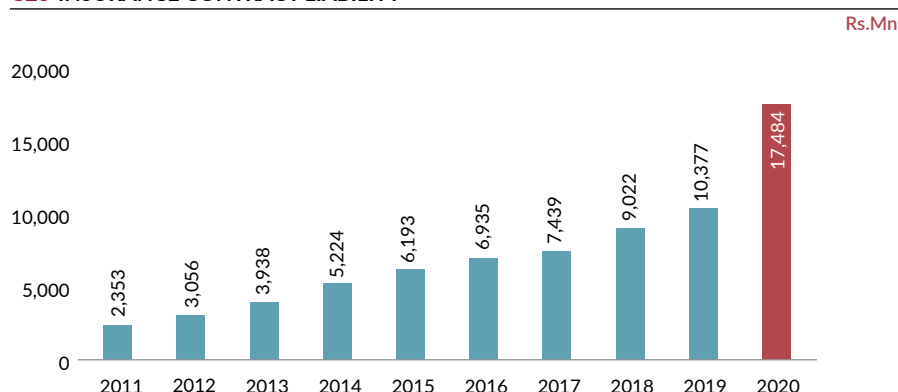


Table 17: Insurance contract liabilities

Rs. Mn	2020	2019	G%
Insurance Contract Liabilities	12,242	8,683	41
Surplus Created due to, change in valuation method from NPV to GPV - Participating fund	1,057	1,057	-
Claims Payable	643	638	1
Insurance Contract Liabilities without Finre	13,942	10,378	34
Financial reinsurance arrangement	3,542	-	100
Total	17,484	10,378	68

Maheshwari from Towers Watson India Private Limited, a Willis Towers Watson. Details of the actuarial report appears on Page 244 to this annual report.

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

As per the directions 16 issued by Insurance Regulatory Commission of Sri Lanka (IRC SL), 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.

#### Liability Adequacy Test (LAT) Valuation

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. Actuary, concluded that there is no requirement to provide additional reserves as the reserve available is sufficient to meet future policyholders' liabilities.

#### COMMENTARY

The Life Insurance contract liabilities refers 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. 13.9 Bn in 2020, with a significant increase of 34% compared to 2019. The funds received from Finre arrangement were recorded under insurance contract liability and amortised over the agreement period. With that insurance contract liabilities have grown by 69% to reach Rs17.4 Bn.

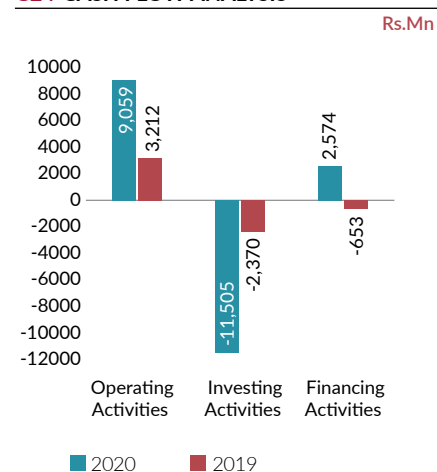
#### Actuarial Valuation of Insurance Contract liability

According to the regulatory requirement, insurance contract liabilities are required to be valued by the actuary. The report on the valuation of the Life Fund was conducted by the appointed independent Consultant Actuary Mr. M. Kunj Behari



### CASH FLOW ANALYSIS

#### G24-CASH FLOW ANALYSIS





### COMMENTARY

During the period under review, the Company generated healthy operational cash flow of Rs. 9,059 Mn (2019 – 3,212 Mn) after incurring operational expenses related to major business expansion. The majority of these funds were channelled into investing activities. As a result, the overall investment portfolio grew to Rs. 27.4 Bn from Rs. 14.9 Bn

### IMPACT OF CHANGES IN SRI LANKA ACCOUNTING AND FINANCIAL REPORTING STANDARDS

The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) has issued the following new Sri Lanka Accounting Standard with effect from 1st January 2020. The Company successfully implemented these standards to ensure full compliance with the requirements. Refer note 5 on page 268 for more information

- SLFRS 17 Insurance Contracts
- Onerous contracts – Cost of Fulfilling a Contract (Amendments to LKAS 37)
- Interest Rate Benchmark Reform – Phase 2 (Amendments to SLFRS 9, LKAS 39, SLFRS 7, SLFRS 4 and SLFRS 16)

### FUTURE OUTLOOK

#### Sustainable Performance

The Company has implemented the following initiatives in line with our strategic objective of delivering sustainable profitable growth in the medium to long-term.

#### Corporate Governance

The Company's strong corporate governance framework, philosophy and practices ensure we manage our financial capital in a transparent manner with the ultimate objective of entity value creation. The management is confident that our future strategy which will be filtered through the governance body of the Company generate outstanding performance in future. Our Corporate Governance practices have been provided on Page 134 of this report.

#### Risk Management

The Company's robust risk management framework laid out on Page 224 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.

#### Business continuity plan

The Company has successfully established a Business Continuity Plan (BCP) and tested the same during the year under review. BCP is an outcome of our risk management framework. We will continue to test and improve further our BCP in order to ensure our value creation will not be affected by external or internal events, thereby protecting our financial capital.

### Strategic planning and performance management

This is one of the key activities as far as future financial capital value generation is concerned. The management carefully screens the environment it operates in and sets business strategy that brings value addition in every aspect of the operation. Our Environment Analysis is provided on Page 32 and Strategy and Resource Allocation process is set out on Page 51 of this report.

### Engagement with stakeholders

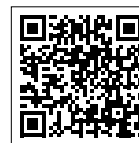
In our future value creation activities, we regularly engage with all our stakeholders who are the determining factor of the Company's ability for future value creation. Our existing and future engagement with stakeholders is provided on Page 44.

### Impact of SLFRS 17

SLFRS 17 will be effective w.e.f 1st January 2023 and requires significant changes in our existing operations, IT systems etc. Most importantly, this will change the way we measure our performance in a logical manner. However, the Company has evaluated the risk of changing SLFRS 4 to SLFRS 17 and has taken key initiatives such as educating its stakeholders at early stage.

### 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 detailed explanation of our financials for better understanding on page 369.



Scan this QR for video on impact of SLFRS17



# HUMAN CAPITAL

## STATEMENT OF VALUE CREATION - HUMAN CAPITAL

	Unit	2020	2019	G%	
<p><b>Performance</b></p>	Gross Written Premium per Employee	Rs. Mn	<b>17.5</b>	15.6	11.9
	Return to Work After Parental Leave	%	<b>94</b>	94	-
	Profit Per Employee*	Rs. Mn	<b>1.7</b>	2.4	-29.2
	Average Duration of work with the Company	Years	<b>4.5</b>	4.4	2.3
	Staff turnover ratio	%	<b>14.0</b>	21.0	-7
	Employee Satisfaction Index	%	<b>87</b>	82	5
<p><b>Outcome</b></p>	Employee Benefit Liability	Rs. Mn	<b>182</b>	151	20.5
	Employee Retention	%	<b>85</b>	83	2
	Average Gross Remuneration Per Employee	Rs. Mn	<b>1.05</b>	1.22	-13.9
	Social Welfare Cost Per Employee	Rs.	<b>6,320</b>	11,598	-45.5
	Number of New Employees Hired	Employees	<b>222</b>	153	45.1
	Training Hours Per Employee	Hours	<b>2.1</b>	2	0.05
	Training Cost Per Employee	Rs.	<b>6,467</b>	42,464	-84.8

\*Adjusted for deferred tax

### Statement of human capital position

Measurement Criteria	Unit	31. Dec 2020	31. Dec 2019	G%
No of employees	No	<b>897</b>	805	11.4
% of Female employees	%	<b>29</b>	34	-14.7
No of senior management employees	No	<b>319</b>	314	1.6



### Steering to the future >>>

#### Short term target

- Improve employee retention rate
- Maintain strong HR governance practices
- Attend to employee concerns on working from home
- Take care of employee health and mental well-being
- Training a workforce to work in a digitalised environment
- Focus on gender parity and take steps to improve further
- Key management succession planning

#### Medium term view

- Be recognised as Great Place to Work with inculcated value stream within the Company.
- Rich with second level leaders who will be the future of the Company
- Build a strong employer brand and emerge as one of the top employers of choice

#### Long term vision

- Be the most sought-after employer in Sri Lanka

**What includes Our human capital?**

Our human capital includes employees who provide their expertise in various capacities and build an innovation driven culture.

**How it creates value**

The knowledge, innovations and experience that our employees utilise within their role help the organization to serve our customer better by attracting and retaining them.

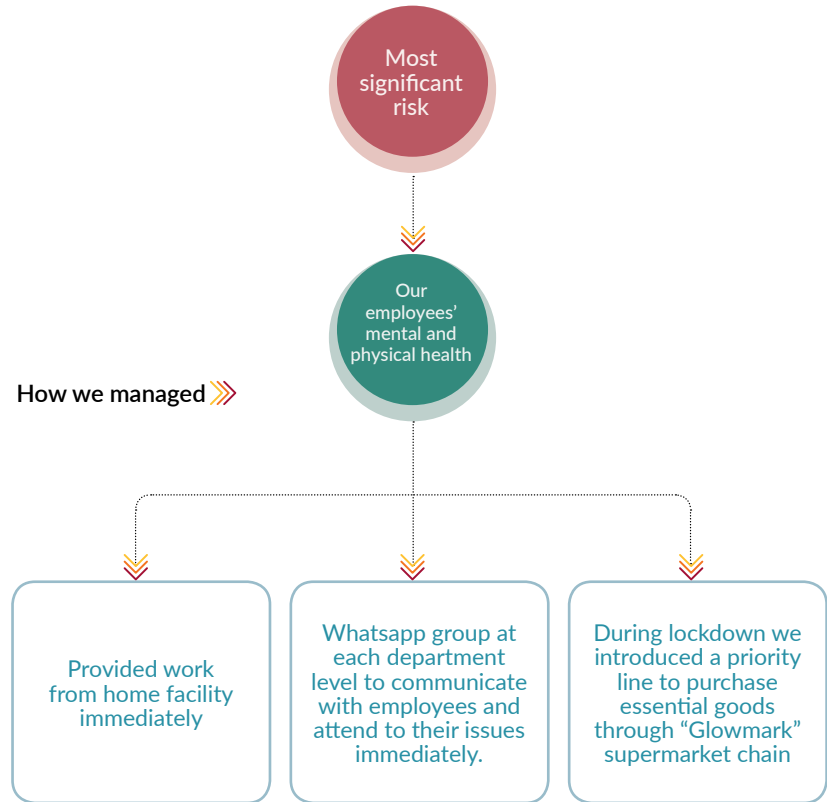
**Our action in pandemic**



**Caring of our people**

- Employees were restricted from coming to office during the lock down other than who really needed to attend to matters such as claim processing.
- Arranged PCR tests for our employees through “Asiri Hospitals” who identified as close contacts of Covid positive patients. The cost was born by the Company
- Provided transport for staff who come to office by public transport
- Provided reusable face masks for all employees
- Regular disinfection of office space during working hours and weekends.
- Employees were given the freedom to either come to office or work from home as their wished.
- Regular awareness sessions.
- Screening of all employees prior to entry to premises.

**How we managed**

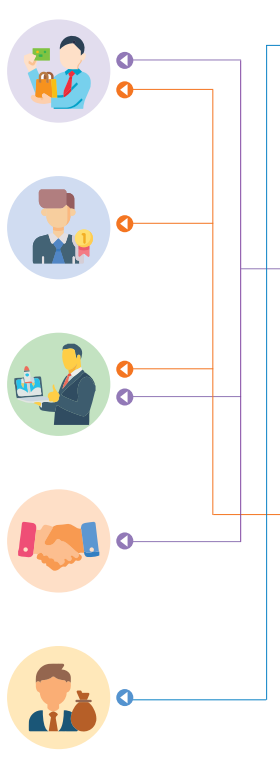


**Other risks/challenges specific to managing human capital and our response**

Difficulty in assessing effectiveness of WFH arrangement	<ul style="list-style-type: none"> <li>• Regular dialogue with managers to identify practical issues with the WFH option and provide company wide solutions.</li> </ul>
Employee development is difficult with work from home arrangement due to reduced engagement	<ul style="list-style-type: none"> <li>• Roll out training programme for managers to better manage their team while WFH</li> </ul>
Retaining talented staff	<ul style="list-style-type: none"> <li>• Retain people through their loyalty to the Company. Our employee engagement</li> <li>• Activities are aimed at increasing loyalty to Company which are explained on page 91</li> </ul>
High cost of recruiting talented employees and lack of people with insurance industry specific knowledge.	<ul style="list-style-type: none"> <li>• Promote innovation and knowledge-driven culture to develop internal employees to industry experts. This concept brings us many positives such as employee loyalty, higher retention etc.</li> </ul>
No guarantee of return on investment in training and development of staff as Company has no control over their decision to leave the Company	<ul style="list-style-type: none"> <li>• Many initiatives have been taken including promoting culture of care, mechanism of sharing knowledge within departments, succession planning etc</li> </ul>

# HUMAN CAPITAL

The diagram below shows the material trade off between human capital and other capitals and its impact on stakeholders;



Capitals utilised to build Human Capital	Value created by Human Capital
<b>Financial Capital</b>	
Paid Rs. 1,504 Mn as employee benefits in order to maintain our human capital.	Outstanding business performance (Refer Page 62)
Spent Rs. 5.8 Mn on training and development of staff	Increase in employee productivity.
Spent on WFH arrangements	
<b>Social and relationship capital</b>	
Employee skills were widened by dynamic customer expectations	Increased customer satisfaction due to unmatched customer service
Expansion of our employee base is supported by the community around us.	Volunteering in community development programs
Business partners were interlinked with our employees daily routines.	Business partners were served better
<b>Intellectual capital</b>	
Internal IT system supported our staff to perform their duties better in a rapidly changing environment.	Our staff was able to introduce new features, add-ons to our existing system, making them more efficient and improving operational performance.
The social awareness of our brand "Softlogic Life" increased employee self-esteem.	The brand was further strengthened during the year as discussed on Page 120 of Intellectual capital.

### Our strategies to Manage Employee's Mental and Physical Health

At Softlogic Life, we believe that "our people" are the value creators supporting our business success. Our vision and values guide our efforts in creating a supportive work environment to "LIVE OUR EMPLOYEE LIFE TO THE FULLEST" and we continuously did the same during the pandemic.

### Our Strategies

**Facilities to Work from Home**

- When the physical workplace became a health hazard we took quick action getting HR and IT together to build a workplace entirely online in order to limit social interaction within the Company.
- All the employees were upgraded with smart online modes such as online meetings through corporate applications and secured network access.

**Training Programs**

- To make our employees well informed about the remote working infrastructure, the Company initiated "Building Your Remote Work Muscle" a live online program with valuable concepts that shared towards building capabilities and enriching skills of our employees, conducted by FranklinCovey Sri Lanka & Maldives.

**Ensuring employee health and safety**

- Concerned about employees' health care and well-being during the pandemic, the Company took responsibility to cover any testing and treatment costs associated with COVID-19 for employees and drive through test facilities with The Softlogic Health Care Chain "Asiri Hospitals".



**Clear Employee Communication**

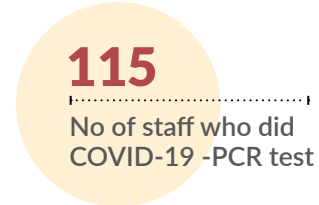
To maintain clear and quick communication with our employees, the Company intended to use social media platforms with different reaches.

- WhatsApp Groups - To communicate department level information with employees and attend to their issues directly.
- Facebook Employee Group-To inform company level decisions.
- Emails-Constant communication regarding COVID-19 and preventive measures from our Risk Team kept our employees up to date with preventive mechanisms.

**Setting Priorities when Purchasing**

- With the intention to support our employees during lockdown we introduced priority lines when purchasing essential goods from the Softlogic super market Chain "GLOWMARK" where every employees enjoyed staff discounts and home delivery service ensuring our employees were well served and stayed protected.

**COVID-19 impact on our staff: -**



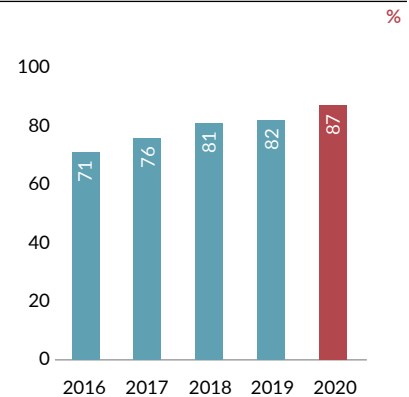
We identify our employees' material concerns through various engagement procedures built within the organisation and evaluated under three main pillars,

- Human Resource Policies and Practices
- Organisation culture
- HR Governance

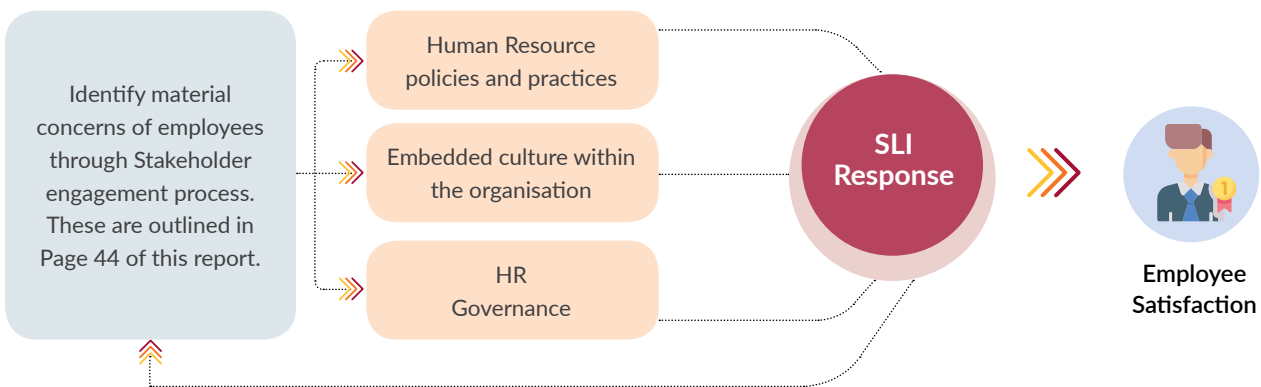
**MANAGEMENT APPROACH**

At Softlogic Life, we firmly believe that it is the 'People' factor that makes the difference as a critical driver of our business success in delivering a superior client experience, while sustaining the happiness and wellness of our employees. Our vision and values guide our efforts in creating a supportive work environment in order to "LIVE OUR EMPLOYEE LIFE TO THE FULLEST". Being a service-oriented company, we believe that if our Human Capital feels happy, they in turn will make our customers happy as - the way our employees feel is the way our customers will feel!

**G25-EMPLOYEE SATISFACTION**



**Our Human Capital Value Creation Model (Employee Engagement Model)**



# HUMAN CAPITAL

## HUMAN RESOURCE POLICIES AND PRACTICES



### 1. TALENT MANAGEMENT PRACTICES

Energising our employees’ talent’s positively is aligned to our Company’s long term and short term initiatives. We invest in our young people in areas of skills by providing stepping stones to move up in the employee ladder to become future leaders. Our talent management philosophy is built on two key aspects namely Talent acquisition and Talent retention.

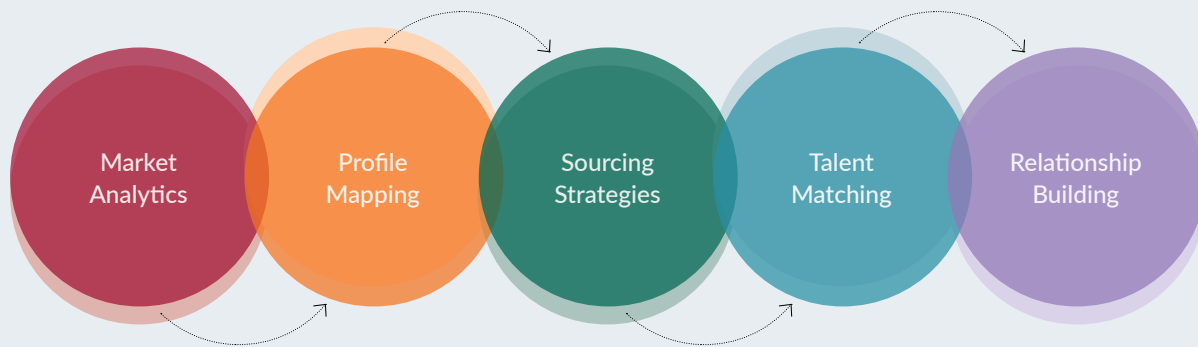
#### Our perception of talent management?

- To attract top talent.
- Employee motivation
- To increase employees performance
- Improve business performance
- Retain top talent

#### Key Performance Indicator

Even though talent management is a qualitative factor we use some meaningful KPIs to assess our performance regularly as provided below

### Talent Acquisition Process



**Table 18 :- Details of Return to Work and Retention after Parental Leave**

	2020	2019
Total No. of employees entitled to parental leave	261	277
Employees who took parental leave	17	15
Employees who returned to work after parental leave ended	16	16
Employees who returned to work after parental leave ended and who were still employed 12 months after their return to work	14	7
Employees who took parent a leave but leave period not ended as at 31st December.	4	5
Return to Work Rate of employees who took parental leave	94%	94%
Retention rate of employees who took parental leave	88%	78%

Employee Attrition

<b>16%</b>	<b>21%</b>
2020	2019

New employees hire

<b>222</b>	<b>153</b>
2020	2019

**How we managed in 2020**

New recruits grew by 45% compared to last year and due to operational difficulties posed by the pandemic many recruitments were done towards end of the year.

**Process changes**

Interviews for junior level vacancies were conducted remotely through telephone conversations or video conferencing.

## 2. TRAINING AND PROFESSIONAL DEVELOPMENT

Building a strong talent pipelines is the core deliverable of the HR team to fulfil talent gaps and enhance employees professional and leadership skills. All the employees are eligible to internal and external training.

During the year we invested Rs. 5.8 Mn in training and development initiatives and generated a total of 1,928 training hours with focus on underwriting, management, sales and marketing staff.

**1. ANALYSIS**

Systematic exploration of the way things are and the way things should be is the difference of being the performance gap. This process has been linked with employee performance evaluation.

**2. DESIGN**

In the design phase HR will outline the performance objectives for employees based on their job role.

**3. DEVELOP**

Using the information gathered in the analysis and design phase, the training programmes are built internally or referred to external training organisations.

**4. IMPLEMENT**

Conducting the training programme.

**5. EVALUATE**

Measurement of how well the objectives of the training programmes were achieved. This is done by feedback of participants and monitoring of improvements of participants through their respective managers.

**How we manage in 2020**

Training hours have been reduced drastically compared to the previous year. It took considerable time for people to get used to new normal way of life. Our priority was to settle them down as soon as possible. Further there was reduction in external training also usually our employees are request them self to participate.

**Process changes**

Company wide training program are converted to online / digital sessions.

Table 19 below summaries training programs conducted during the year with their scope.



# HUMAN CAPITAL

**Table 19: Summary of Training Programme**

Focus Area	Total training hours
Strategy planning and sustainability	290
Technical training on insurance aspects	294
Finance and auditing	146
Sales and marketing	337
Skills development in leadership and communication	185
Enhancing Information Technology Knowledge	312
Induction	336
Other	28
<b>Total</b>	<b>1,928</b>

### 3. CAREER DEVELOPMENT

We seek to provide career progress to all our staff on the basis of ability, qualifications and suitability of work. Besides providing 'on the job' training specific to individual roles and career paths, we encourage employees to pursue tertiary education through a bursary programme that supports qualifications in fields relevant to the Company.

#### Career Development Initiatives for the year beyond

- Introducing more interactive learning through Learning Management System (LMS)
- Ensuring business acumen through more integrated development programs for each grade
- Strengthening the Company engagement strategy to ensure higher engagement during distant working.

#### Key performance indicator



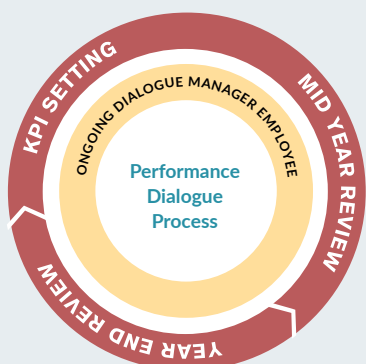
#### How we managed in 2020

Despite a challenging environment Company continued to provide career development opportunities to its employees based on individual performance.

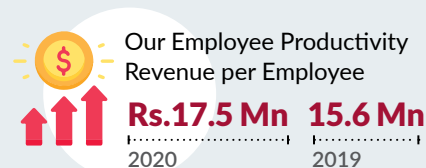
### 4. PERFORMANCE MANAGEMENT

By enabling our employees to perform to the best of their ability, as a Company with a performance driven culture we follow a Key Performance Indicator (KPI) setting process where all the permanent employees undergo performance appraisals during the year.

#### Performance Evaluation Process



#### Key performance indicator



#### How we managed in 2020

There was no material change in the process during the year other than conducting many performance appraisals via online platforms.

The performance evaluation cycle starts at the beginning of the year by setting KPIs and six months' progress is evaluated and corrective actions are communicated to all employees by immediate seniors. At the year-end evaluation, the supervisor and employee discuss the performance for the year and mutually agree on appropriate rating showing the transparency of the process.

### 5. REWARDS AND RECOGNITION

Treating our employees like our assets and maintaining harmonious relationships with them doesn't only yield business at present but is also an effective strategy for the future. Hence we always rewarded our employees who go that extra mile pro-actively and develop a talented and dedicated workforce.

#### MD's recognition

The Company recognised corporate staff who took extra effort during the pandemic to perform their job role without any lags. Accordingly, 44 staff members were recognised for their valuable contribution.

#### Sales staff recognition

A total of 29 awards under 7 categories were presented at the Company's inaugural Alternate Channel Sales Convention. MDRT (Million Dollar Round Table), Top of the Table (ToT) winner, Court of the Table (CoT) winner, Best Performer in MDRT, Highest GWP Performer (Business Advisor Category) and Highest GWP Performer emerged as grand category award winners of the night. The MDRT winners of 2019 from the alternate channel were also felicitated at the convention.



We expect to encourage our employees further by rewarding them along various parameters outlined in the HR practices.

#### Key performance indicator



#### How we manage in 2020

The Company didn't conduct awards ceremonies during the year complying with health regulations. However the Company recognised employees for their effort in going the extra mile regularly.



### 6. FAIR PAY AND OTHER BENEFITS

Our key focus is to offer attractive and competitive remuneration which is designed to attract and retain a highly qualified and experienced workforce. The key remuneration policy principles are as follows:

Set at a level to attract, motivate and retain high quality talent

Commensurate with each employee's level of expertise and aligned with the Company's performance.

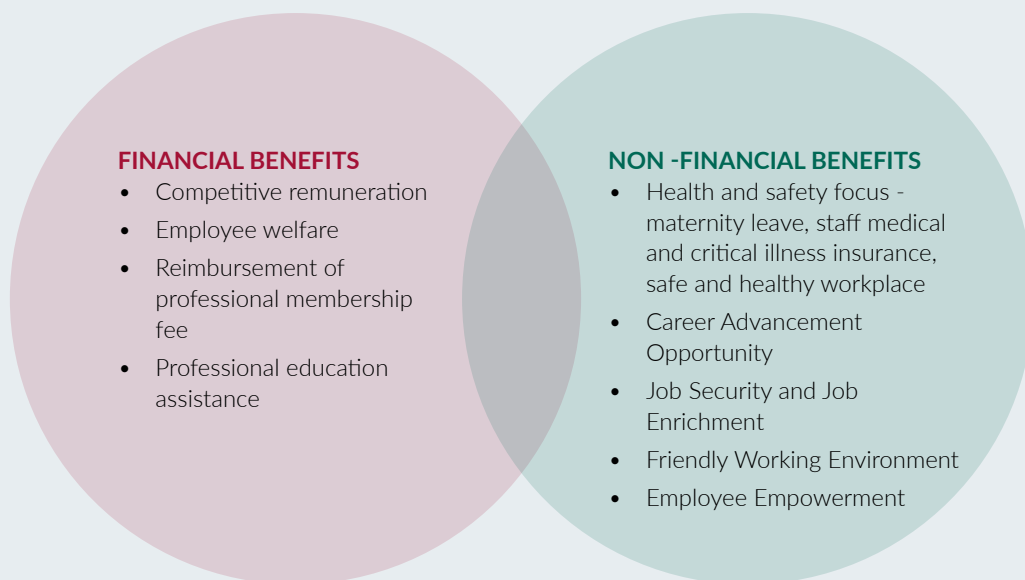
Executive remuneration is set such that a significant portion is linked to performance to align the employees' and main stakeholder's interests.

Remuneration levels are based on industry and market surveys

The company offer various other benefits to employees based on the category and the job responsibilities than regulated benefits. Adhering to the Company's equal opportunity policy, it does not discriminate employee benefits including remuneration, based on diversity including gender, age, race etc.



# HUMAN CAPITAL



Further, all our permanent employees who have completed five years of service are entitled to gratuity as per the Payment of Gratuity Act No. 12 of 1983. The gratuity liability of the Company is valued annually by the Consultant Actuary.

Defined Contribution (Rs. Mn)	2020	2019
EPF	86	84
ETF	22	21
Defined Plan	41	33

## 7. EMPLOYEE DIVERSITY AND EQUAL OPPORTUNITY

At Softlogic Life we value employee diversity and equal opportunity as a key case. Our HR policy on Equal Opportunity and Non-Discrimination recently enhanced its scope, so that there would be no discrimination based on race, religion, age, nationality, social origin, disability, sexual orientation, gender identity, political affiliation or opinion.

### Key Benefits we have achieved through diversity,

Diverse Team across the geographical locations cater diverse spectrum of Customers

Attract and Retain better talent

Diversity Fosters Innovations

Reduce Employee Turnover

Being a life insurance company, our Human Capital consists of employees, outsourced personnel and field staff. The workforce composition as at 31st December 2020 as follows;

Description	2020			2019		
	Male	Female	Total	Male	Female	Total
Employees	636	261	897	528	277	805
Field Staff	2,233	792	3,025	2,048	724	2,772
Outsourced Staff	18	120	138	18	128	146
Total Workforce	2,887	1,173	4,060	2,594	1,129	3,723

**FIELD STAFF (SALES AGENT)**

The Company maintain a base of 3,025 sales agents who contributes 64% of our total revenue. Sales agents are registered/ licensed by the IRCSL and have an exclusive arrangement with Company. Our engagement with sales staff is detailed on Page 108 on this report.

**Seasonality of our workforce**

There was no seasonal trend that we experienced impacting our business.

The Company monitors the diversity of its workforce based on age, gender, type of employment and by region of employment as illustrated in the table below;

Gender Parity Disclosure	2020					2019				
	M	F	T	M%	F%	M	F	T	M%	F%
<b>WORKFORCE BY TYPE OF EMPLOYMENT</b>										
Employee	636	261	897	71%	29%	528	277	805	66%	34%
Field Staff	2233	792	3025	74%	26%	2048	724	2772	74%	26%
Supervised workers	18	120	138	13%	87%	18	128	146	12%	88%
<b>TOTAL WORKFORCE</b>	<b>2887</b>	<b>1173</b>	<b>4060</b>	<b>71%</b>	<b>29%</b>	<b>2594</b>	<b>1129</b>	<b>3723</b>	<b>70%</b>	<b>30%</b>
<b>EMPLOYEES BY REGION</b>										
Central	48	15	63	76%	24%	46	18	64	72%	28%
Eastern	16	7	23	70%	30%	9	7	16	56%	44%
North Central	17	4	21	81%	19%	14	5	19	74%	26%
North Western	48	10	58	83%	17%	41	14	55	75%	25%
Northern	21	4	25	84%	16%	18	5	23	78%	22%
Sabaragamuwa	26	12	38	68%	32%	12	12	24	50%	50%
Southern	53	17	70	76%	24%	42	20	62	68%	32%
Uva	17	8	25	68%	32%	14	8	22	64%	36%
Western	390	184	574	68%	32%	332	188	520	64%	36%
<b>TOTAL NO. OF EMPLOYEES</b>	<b>636</b>	<b>261</b>	<b>897</b>	<b>71%</b>	<b>29%</b>	<b>528</b>	<b>277</b>	<b>805</b>	<b>66%</b>	<b>34%</b>
<b>COMPOSITION OF GOVERNANCE BODY</b>										
41 - 50 years old	0	1	1	0%	100%	0	1	1	0%	100%
51 - 60 years old	7	0	7	100%	0%	6	0	6	100%	0%
61 - 69 years old	1	0	1	100%	0%	1	0	1	100%	0%
<b>TOTAL NO. OF DIRECTORS</b>	<b>8</b>	<b>1</b>	<b>9</b>	<b>89%</b>	<b>11%</b>	<b>7</b>	<b>1</b>	<b>8</b>	<b>88%</b>	<b>13%</b>
<b>EMPLOYEES BY EMPLOYMENT CONTRACT</b>										
Permanent Employment	453	247	700	65%	35%	431	261	692	62%	38%
Probational Employment	48	13	61	79%	21%	84	15	99	85%	15%
Contract Employment	135	1	136	99%	1%	13	1	14	93%	7%
<b>TOTAL NO. OF EMPLOYEES</b>	<b>636</b>	<b>261</b>	<b>897</b>	<b>71%</b>	<b>29%</b>	<b>528</b>	<b>277</b>	<b>805</b>	<b>66%</b>	<b>34%</b>
<b>EMPLOYEES BASED ON EMPLOYMENT CATEGORY AND GENDER</b>										
AGM and above	31	3	34	91%	9%	31	3	34	91%	9%
Asst Manager and above	236	49	285	83%	17%	234	46	280	84%	16%
Executive	195	155	350	56%	44%	201	165	366	55%	45%
Non - Executives	174	54	228	76%	24%	62	63	125	50%	50%
<b>TOTAL NO. OF EMPLOYEES</b>	<b>636</b>	<b>261</b>	<b>897</b>	<b>71%</b>	<b>29%</b>	<b>528</b>	<b>277</b>	<b>805</b>	<b>66%</b>	<b>34%</b>

# HUMAN CAPITAL

Gender Parity Disclosure	2020					2019				
	M	F	T	M%	F%	M	F	T	M%	F%
<b>EMPLOYEES BASED ON AGE</b>										
Under 30 years	159	142	301	53%	47%	112	167	279	40%	60%
30-50 years	423	117	540	78%	22%	364	108	472	77%	23%
Over 50 years	54	2	56	96%	4%	52	2	54	96%	4%
TOTAL NO. OF EMPLOYEES	636	261	897	71%	29%	528	277	805	66%	34%
<b>PERMANENT EMPLOYEES BY EMPLOYMENT TYPE</b>										
AGM and above	26	3	29	90%	10%	27	3	30	90%	10%
Asst Manager and above	210	45	255	82%	18%	192	46	238	81%	19%
Executive	158	147	305	52%	48%	153	152	305	50%	50%
Non - Executives	59	52	111	53%	47%	59	60	119	50%	50%
TOTAL NO. OF PERMANENT EMPLOYEES	453	247	700	65%	35%	431	261	692	62%	38%
RESIGNATION	86	44	130	66%	34%	108	61	169	64%	36%
<b>NEW EMPLOYEE RECRUITS BY AGE</b>										
Under 30 years	89	17	106	84%	16%	37	31	68	54%	46%
30-50 years	102	6	108	94%	6%	74	7	81	91%	9%
Over 50 years	4	4	8	50%	50%	4	0	4	100%	0%
TOTAL NO. OF NEW RECRUITS	195	27	222	88%	12%	115	38	153	75%	25%
<b>NEW EMPLOYEE RECRUITS BY REGION</b>										
Central	16	0	16	100%	0%	11	2	13	85%	15%
Eastern	8	0	8	100%	0%	3	1	4	75%	25%
North Central	8	0	8	100%	0%	7	1	8	88%	13%
North Western	17	0	17	100%	0%	18	3	21	86%	14%
Northern	8	0	8	100%	0%	10	0	10	100%	0%
Sabaragamuwa	11	0	11	100%	0%	0	0	0	0%	0%
Southern	22	2	24	92%	8%	10	4	14	71%	29%
Uva	6	0	6	100%	0%	4	0	4	100%	0%
Western	99	25	124	80%	20%	52	27	79	66%	34%
TOTAL NO. OF NEW RECRUITS	195	27	222	88%	12%	115	38	153	75%	25%
<b>TOTAL NO HOURS OF EMPLOYEE TRAINING BASED ON GENDER</b>										
TOTAL HOURS OF EMPLOYEE TRAINING BASED ON GENDER	1,182	747	1,928	62%	38%	6586	6080	12665	52%	48%

M - Male

F - Female

M% - Composition of Male

F% - Composition of Female



**OUR EFFORTS TO IMPROVE GENDER PARITY**

We have implement multifaceted initiatives that support the empowerment of women in the workplace and to improve gender balance within the Company. We are promoting the creation of a work place where both genders are motivated to play an active role.

Goal- Increase female representation within 2nd layer of management.

The following significant policies have been introduced and will be implemented to treat our female staff fairly within the Company.

<p><b>1.</b></p> <p>We have nominated a female representative to our Whistleblower Committee to ensure our female staff can directly report any personal issue such as sexual harassment directly with a female representative at the higher corporate management level.</p>	<p><b>2.</b></p> <p>Extended maternity leave other than the legal provisions in Sri Lanka, allowing them to settle down and continue as our employee.</p>	<p><b>4.</b></p> <p>Virtual interactive coffee chat with a successful female leader to be launched on Women's Day followed by a session happening every month.</p>	<p><b>7.</b></p> <p>A female leadership specific model to be launched with the Company wide LMS platform.</p>
<p><b>3.</b></p> <p>Helping young mothers better manage their work life balance.</p>	<p><b>5.</b></p> <p>Monthly e-flyers and mandatory training on harassment awareness.</p>	<p><b>6.</b></p> <p>A group of 5 high flyers from the branch female staff to be groomed with mentorship (external, successful female sales leader) to become successful sales personnel at Softlogic Life.</p>	

**8. SUCCESSION PLANNING**

Our Succession Plan is focused process to keeping talent in the pipeline. We have initially taken action to attract suitable talent with experience, qualifications and competencies and we tend to continue beyond years. The identified staff within us will be trained, developed over a period for future leadership in organisation.

**OUR CULTURE**

The Company has implemented a friendly work culture that creates a strong bond among employees. The management encourages an open door concept to build strong relationships with employees. The Company carries out many employee engagement activities that bring all staff together.

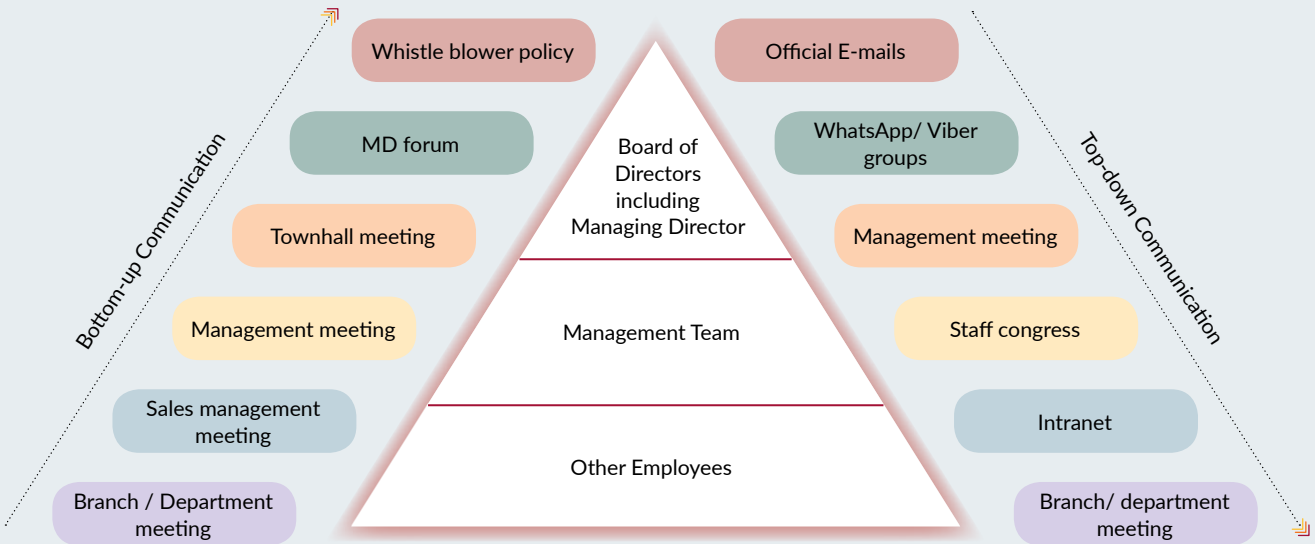
**Key aspects of our culture**

Open Door policy	Friendly work culture	Innovation	Two-way clear communication
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Further nurturing an open culture, the Company has established a strong two-way communication model where we promote and creates a workplace for employees to be well-informed of the Company's decisions and pays due consideration to their views during the decision-making process. Our communication model is provided in next page.

# HUMAN CAPITAL

Figure: Our Communication model



### Innovation within the Organization

At Softlogic Life we have created opportunities for greater employee participation in decision-making as well as enabled out-of-the-box, innovative thinking. We have a separate digital innovation team which introduced many innovations in IT infrastructure which helped us to stand straight in the pandemic situation. These are explained on Page 123.

We place high value on innovation and pursue it relentlessly in the belief that the Company may grow to its full potential through constant innovation. We foster innovation will have a major role to play in the future.

### HR GOVERNANCE

The HR governance structure ensures that we balance the Corporate Governance, the interests of our employees with the interests of all other stakeholders. The Board is ultimately responsible for our 'People Strategy'. The Human Resources Department is in charge of implementing the people strategy and reports to the Managing Director and the Board on its activities regularly. Subsection of our HR governance is further elaborated below;

#### Zero tolerance on corruption

All employees are informed of mandatory internally developed policies which they are expected to comply with, such as:

- Staff Handbook
- Code of Ethics
- Whistle-Blowing Policy
- IT Security Policy
- Procurement Policy and Procedure

The staff handbook acts as a guide for employees, while other policies are in place to mitigate the risk of corruption.

These policies are described and explained initially at the induction of new recruits and are reminded at the review trainings or via email. We maintain maximum adherence to all laws applicable within the jurisdiction of Sri Lanka. Our Senior Management, along with the Human Resource Division and Risk and Compliance Departments, maintain strict vigilance in this regard. No fines or monetary sanctions were levied on the Company for non-compliance with laws and regulations during 2020.

#### Ensuring a Safe and Healthy Workplace

Ensuring the safety and health of those who work for us remains our top priority. Therefore, we strive to provide a safe and healthy work environment for all those working for, and on behalf of the Company. We develop and implement health and safety management programmes designed to promote a safe and healthy work environment, avoid unsafe situations, maintain legal compliance, and respond to incidents and medical emergencies. During the year there were no incidents reported.

### Non Discrimination

The Company believes that the working environment should at all times be supportive of the dignity and respect of individuals. If a complaint or harassment is brought to the attention of the management, it will be investigated promptly and appropriate action will be taken. All employees have access to HR policy on non-discrimination through the Company intranet. However, there were no incidents reported during the year 2020.

#### Respecting Human Rights and Protecting Labour Rights

Softlogic Life has an organisational culture which supports local and internationally recognized human rights and avoids any involvement in the abuse of human rights. Our human rights policy is aimed at promoting equality of opportunity and combating discrimination. We are committed to continually improving our compliance with international best practices and we are therefore implementing a plan for continuous

improvement. Further, we are compliant with all applicable legislation.

**Child Labour & Forced and Compulsory Labour**

As expressed in our human rights policy, we are committed to the labour rights principles in Sri Lanka, including the right to freedom of association, the eradication of child and forced labour, and non-discrimination. We have clear policies and processes in place in order to ensure that we do not employ anyone under aged, forced labour or are not associated with third parties identified as having significant risk of incident of child or forced labour. During the year, there were no incidents reported on employment of child labour.

**Compliance With Regulations**

During the year under review, there were no incidents of employing under-age or forced labour and there were no incidents of discrimination or grievances regarding labour practices.

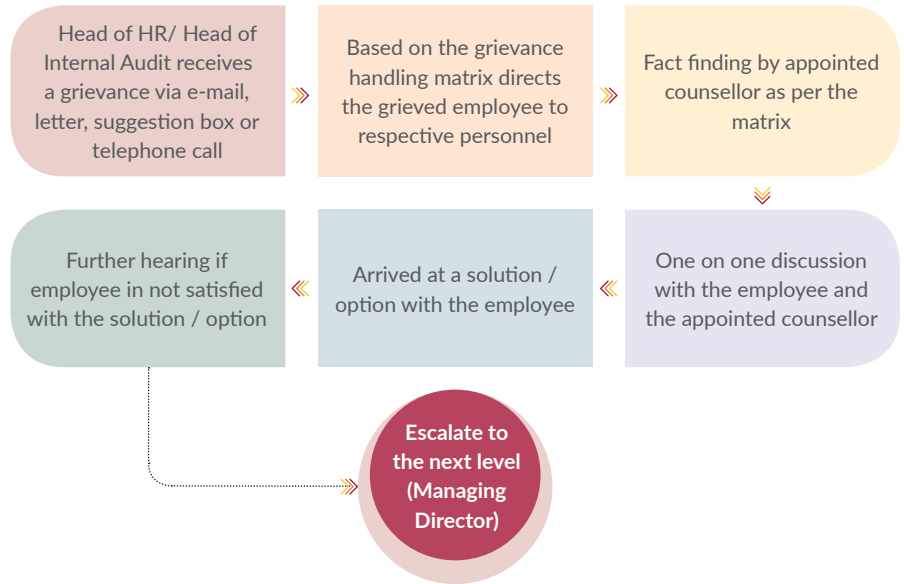
**Listening to Employee Grievances**

We believe in a 'Great Place to Work', where all employees have an opportunity to give feedback, suggestions and voice any grievances. The grievance policy ensures employees are heard and given a fair resolution to their grievances.

We encourage all employees to directly reach out to the members of the Grievances Committee and the Company takes the responsibility to handle those concerns according to the Grievance Matrix. Further, employees are encouraged to use the established whistleblower mechanism. The Company's employee grievance handling process is provided below:

**Whistle blower policy**

The Company has a strong whistle blower policy where employees can raise their voice directly to our governance bodies including Chairman of Audit Committee and Group Director of HR and Legal. This ensures our employees are always treated fairly and zero level violation of our employees' rights.



**LOOKING AHEAD**

With the greater prospects our Company has to grow in the coming years we can foresee developments that would be needed in our employees in the areas of career development, succession planning, leadership and talent development. The environment we operate is changing rapidly and our operating landscape is challenged by many factors such as technological developments, changing customer needs etc. Accordingly, we have crafted our future strategy as outlined in Page 51. The report and following aspects have been taken in to consideration specially on our human capital.

**Focus on gender parity**

The Company will focus on improving gender balance at all level of the organisation. Bringing in this balance is not possible overnight as we have to consider it carefully when we bring in new recruits based on the job criteria and availability of suitable candidates. The board level balance will be considering in long run at the voluntary or mandatory retirement of existing directors.

**Employee development**

In the long run we will align our people development strategy to the ever-changing vibrant environment by way of introducing more digitally enabled training and development platforms and focus on transforming our existing staff towards a digitally enabled working environment. Going ahead, we will develop Artificial Intelligent capabilities of our staff.

**Cultural Transformation**

We expect change in culture when we move ahead in future as there will be more gen Y and Z people in our workforce in the years to come. We will be taking more effort in future to maintain our unique innovation-driven culture by adopting changes required by new generations in a harmonious manner.

**Innovation**

Innovation has been a key pillar of our sustainable growth over the last many years. It is a paramount important to have people who are agile to changes happening around us and think out of the box to keep this momentum in future. For this purpose, we will be investing on our people to support their innovative ideas and nurture innovation driven culture.



# SOCIAL AND RELATIONSHIP CAPITAL

## CUSTOMERS

### STATEMENT OF VALUE CREATION - CUSTOMERS

	Unit	2020	2019	G%	
<p>Performance</p>	Market share	%	15.2	14.1	1.1
	Brand Value	Rs. Bn	2.7	2.1	28
	Market Share Growth	%	1.1	1.7	-0.6
	No of new lives insured	Customers	588,876	647,912	-9%
	Revenue from new customers	Rs. Mn	8,599	6,011	43%
	Revenue per customer	Rs.	15,510	15,421	0.5%
<p>Outcome</p>	Gross Claims and Benefits Paid	Rs. Mn	4,202	3,462	21%
	Customer Satisfaction Index	%	95.5	97.2	-1.7
	No of new products	No	2	4	-50
	One Day Claim Settlement Ratio	%	+86	+90	-4

### Statement of social and relationship capital position - Customers

Measurement Criteria	Unit	31. Dec 2020	31. Dec 2019	G%
No of customers	No	1,009,680	812,626	7
No of policies in force	No	649,986	500,374	30
No of new policies issued	No	262,605	250,407	5



### Steering to the future >>>

#### Short term target

- Improve our renewal business persistency level by 1%.
- Introduce new products to cater to changing needs of customers (minimum 02 products per year).
- Introduction of customer charter to standardise service received by customers at every customer touch point.
- Total customer interaction platform through digitisation with access to all relevant parties throughout the customer's lifetime.

#### Medium term view

- Improve our renewal business persistency level by 5%.
- Digital transformation of our services to cater to trend of increasing customer digital engagement. The Company will be focusing on onboarding customers.

#### Long term vision

- Be recognised as “Most caring. Life Insurer in Sri Lanka” making sure our every engagement with existing and potential customers is memorable.

What includes Our social and relationship capital – Customers?	How it creates value
This represent our engagement with customers both individual customers and corporate customers. We also segment them according to the social pyramid in customising our products and services.	Customers provide the top most line of our business which is core to our sustainable value creation journey.

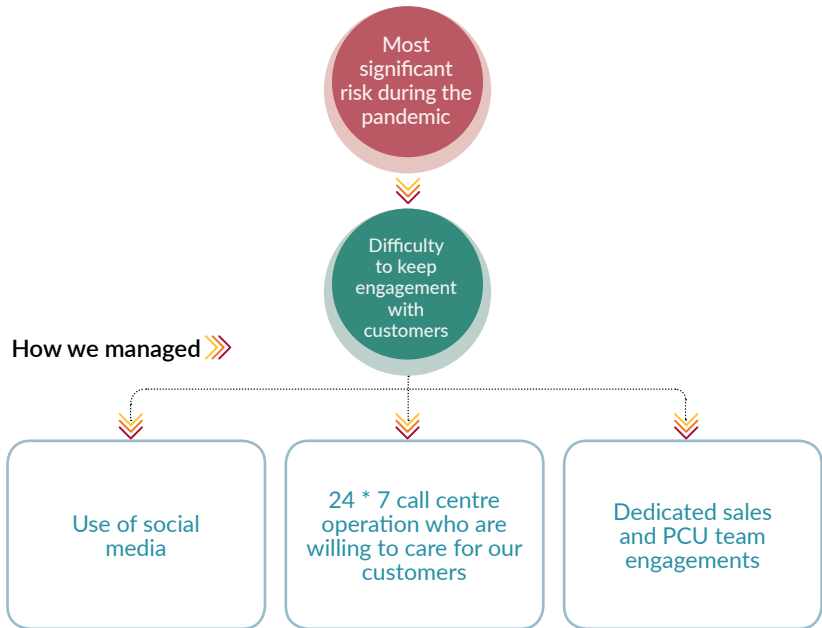
	ST	MT	LT
Provided insurance cover minimum % from economically active labour force	16	24	34
Provide total insured cover worth Rs. Millions	3,000	7,000	10,600
Number of Insured People’s lives	1,100,000	2,000,000	3,000,000

**Our action in the pandemic**



**Caring for our customers**

- Digitalised claim settlement
- Unconditionally accepted death claims due to COVID-19
- Introduction of new policy covering COVID-19 related claims.
- Introduction of Robotic Process Automation solution for claim processing
- Digitalised sales process to increase customer convenience and safety (contact less engagement).
- Regular customer awareness campaigns through social media.



**Other risks/challenges specific to managing customers and our response**

Rapid change in customer needs require more flexibility in everything we do	<ul style="list-style-type: none"> <li>• Customer Segmentation</li> <li>• The Company identified key customer segments within the customer portfolio and built distribution channels / product strategy to cater to specific requirements of each segment without focusing as a whole i.e. micro channel to cater to low value customer proposition via digitally enabled distribution network etc.</li> </ul>
Allocation of financial and other resources to correct initiatives which drive our key focus	<ul style="list-style-type: none"> <li>• Established a methodical way of resource allocation (Refer Page 51 for more details) taking into consideration the value (financial or non-financial) generated through future initiatives.</li> </ul>
Intense competition in the market shrinks the product margin as a result of unhealthy price war.	<ul style="list-style-type: none"> <li>• The Company uses innovation as key differentiator to outperform Competition and embed innovation in every part of the business model - from underwriting, claims settlement, product development, customer service to all stakeholder dealings. We compete in the market on the basis of innovative products and excellent service levels, and without compromising on pricing.</li> </ul>

# SOCIAL AND RELATIONSHIP CAPITAL

## CUSTOMERS

The Diagram below shows the material trade off between Social and Relationship capital and other capitals and its impact on stakeholders

Capitals utilised to build Social and Relationship Capital	Value created by Social and Relationship Capital
<b>Financial Capital</b>	
Rs. 3,546 Mn paid as insurance claims and benefits to customers	Rs. 15.7 Bn revenue generated through our customers
Rs. 1,873 Mn paid as reinsurance expenses to reinsurers	Rs. 636 Mn received as reinsurance benefits from reinsurers
Rs. 3.3 Mn invested in community development projects	The strong bond with our business partners contributed to strengthen our financial capital by way of helping product development, risk management, cash flow management, Assets Liability management and business acquisition etc. (Refer Page 20 for the financial results)
Fair dealing with our business partners settling dues on time	
<b>Human capital</b>	
Staff satisfactorily performed their job responsibilities which in return converted to achieves business objectives	Accumulated knowledge and experience to deal with rapidly growing customer base.
Our people voluntarily engaged in community development projects	The knowledge that they are working for a corporate which looks after society at large.
Customer care team directly engaged with customers on their needs	
<b>Intellectual capital</b>	
The knowledge, capabilities of our workforce are used to serve our customers, deal with business partners and engage with community in many ways such as customer service etc.	Highly diversified customer base which increases the internal knowledge base on customer life cycle patterns, emerging trends in society etc.

### Our action during pandemic

1. Special working arrangements as a response to the sudden lock down	2. Online app platform for OPD claim settlement	3. App based claims settlement (Viber & WhatsApp)
The work-from-home system for our employees was established within less than 48 hours and teams were equipped with options to work in a fully digitalised and paperless environment. Remote access to systems were established where all critical functions were carried without any disturbance in a 100% work from home environment.	Submitting customer claims online via a web based solution was further enhanced by giving access to the customer to view claims status, check limits, change the bank account details, etc. This helped to continue the claim settlement process even during the COVID-19 lockdown and also increased customer satisfaction due to a more informed and transparent claim settlement process.  <a href="https://www.instaclaim.lk/">https://www.instaclaim.lk/</a>	Messaging apps were used via dedicated numbers, to enable the digitalised claim document submission render an efficient service to our customers and to stay connected with our customers. It gave the ability to increase personalisation through direct interaction, tailor customer communications and to efficiently address customer service demands in terms of claims settlement.



4. Consistent One day claims settlement ratio	5. Cashless claim settlement	6. Honouring the Death claims related to COVID-19	7. New Product for COVID-19	8. Offered Extended Credit Period
Despite the challenges posed by the pandemic we kept the one-day settlement ratio above 80% on average throughout the year 2020.	The Company further strengthened its cashless claim settlement process by increasing the number of partner hospitals. Digital payments methods were used to settle the hospital payments with zero physical touch. This helped to continue payments to the hospitals during the COVID-19 lock down period without any interruption.	Despite the fact that risk of a pandemic is not covered by reinsurance, SLI decided to honour any death claim due to COVID-19. This further strengthened the utmost confidence of our customers that their selected insurance partner (Softlogic Life) was with them when it really mattered.	A new Group Life product is introduced in order to cover up COVID-19 related medical expenses and loss of life in partnership with the Telecommunication Companies (eg. Dialog, Mobitel, Airtel, Hutch & etc.) in Sri Lanka. This Group Life Product has been developed focusing on the country's current situation with the intention to provide an affordable cover for the general public.	In order to ensure our customers are fully protected under our wing we provided extended credit period for setting due premiums by customers while accepting all the claims. We understand the mental unrest that our customers undergo due to the spread of virus, loss of income due to low economic activity etc. Our action was to support them to have peace of mind by protecting them and families.

**MANAGEMENT APPROACH**

Provide innovative life insurance solutions to maximise wellness and health of customers, while accurately addressing inherent risks through the promotion of 'LIVE OUR VALUED CUSTOMERS' LIFE TO THE FULLEST'. We are trail-blazing a wave of innovation and technology that will deliver widespread convenience and succeed in the creation of new business avenues.

**COVID IMPACT**

At no point in time, did we anticipate that a single health pandemic would so significantly shift our focus as a society and leave us assessing where we all fit in this "New Normal". Now more than ever, individuals will be looking to their insurers for reliability and real value. The pandemic impacted every front of our core business activities such as selling, underwriting, claim processing etc. putting pressure on us to continue to provide the same value proposition our customers expecting from us.

**“AT SOFTLOGIC LIFE, WE BELIEVE ONE EXCEPTIONAL CUSTOMER EXPERIENCE CAN TURN INTO A LIFELONG AND LOYAL BRAND ADVOCATE.”**

**OUR STRATEGY**

Excellent customer service is key to client satisfaction and loyalty and it is a key factor which differentiates Softlogic Life from other competitors as our main focus is on excellent customer service. We are making delightful engagements with customers to know and understand them better and value our customers' feedback as well. To serve our customers better, we are allocating significant funds annually on research and development projects to find new products, innovative and technology driven solutions to serve them better and to enhance customer satisfaction. We stay focused on the rapidly changing business environment and taking quick turnaround action to adapt with it.

We reached to

**1 Mn**  
CUSTOMERS

---

**1/3**  
We belong to one out of every three policies sold in Sri Lanka

# SOCIAL AND RELATIONSHIP CAPITAL

## CUSTOMERS

### OUR PERFORMANCE

#### 1. Excellent Customer Service

Every action we take within the Company always themed around "Superior Customer Service" which is one of the strategic pillars of Softlogic Life. In execution of our strategy we brought many industry first initiatives which were derived through either operational excellence or our digital strategy. The key highlights below are testament to our effort to provide a superior customer service.



#### 100% DIGITALISED SALES PLATFORM

Disrupting the traditional insurance selling mechanism in Sri Lanka, 100% digitalised selling process, "Future Advisor Platform" was initiated. This initiative will facilitate an effective and speedy selling process eliminating all the delays.



#### AUTOMATIC POLICY ISSUANCE

Policy issuance is automated for non-proposal based policies such as DTAP. This provide greater convenience to our Bancassurance partners with minimal documentation while our customers receive speedy service.



#### ONE DAY CLAIMS SETTLEMENT

The Company introduced the One-day claims settlement process for the first time in Sri Lanka which is considered as a game-changer in the life insurance industry. The process was further strengthened by integrating online platforms introduced to claim submission.



#### OMNI CHANNEL CUSTOMER CARE

The Company has built cross-channel content strategy to improve customer experience and drive better relationships with customers across points of contact.



#### AUTOMATED CLAIMS ASSESSMENT - "CLAIMIT"

Customer claims verification with the policy is automated using "Machine Learning" technology. This helps us to improve efficiency in processing the claim with a high level of accuracy.



#### SAFEST WAY TO SETTLE THE PREMIUMS

Customers were able to pay online through any debit/credit card by visiting <https://ipg.softlogiclife.lk/onlinepayment/> or use any of our payment options above.

OUR INDUSTRY  
**1st**  
TECHNOLOGICAL AND PROCESS IMPROVEMENT





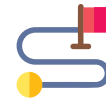
**'LIFEUP' APPLICATION**

The 'LifeUp' smart phone application is a great value-added tool to ease the life of all Softlogic Life policyholders. Customers can get quick access to their policy details through the app and make minor changes to the policy on their own. This will enable the policyholder to pay premiums, get intimation of claims, upload claim documents, view payment history, request surrender value Certificates, Embassy letters, premium summary reports etc.



**CASHLESS CLAIMS SETTLEMENT**

Cashless claims settlement process, which was initiated with the Asiri Group of Hospitals a first in the industry, is now extended to over 60 hospitals island-wide, and to Apollo Hospitals India and Parkway Group of Hospitals Singapore which include Mount Elizabeth Hospital in order to provide a superior service where Softlogic Life settles the claim directly to the hospital on behalf of the customer.



**CUSTOMER JOURNEY MAPPING**

We introduced the customer journey mapping concept to enhance our customer satisfaction. Customer touch points are identified and their satisfaction level assessed. Accordingly, any factors causing dissatisfaction or where customers think there is room for improvement are immediately take into management consideration and required changes made.



**SPEEDY CUSTOMER DISCHARGE**

A dedicated unit is available to keep in touch with our customers from the point of admission till discharge from the hospital, keeping their minds free. Further team speed up the customer discharge process coordinating with hospital. The hassle-free discharge is always valued by our customers as they feel the greater convenience the Company offers.



**AUTO UNDERWRITING WITH ENHANCED CAPABILITY**

Policy proposals received digitally are cross-checked with worldwide accepted underwriting standards and policies passed through get automatically underwriter in the system. Auto underwriting is a supporting function of the Express Digital Policy Issuance concept.



**DEDICATED CUSTOMER CARE TEAM**

A dedicated customer care team who is available with help around the clock. They do follow up calls to check the health status of customers after discharge and extend their help to book next appointment, remind about appointment, and even arrange the ambulance services as required.



**TELE UNDERWRITING**

A novel concept introduced to the insurance industry, where a specially trained telephone interviewer completes the Life Insured's statement required for the life insurance application. Tele-underwriting allows our customers to choose the time and place of their convenience .



**VALUE ADDED SERVICES**

MEDICINE DELIVERY TO CUSTOMERS' DOORSTEP



AMBULANCE AT CUSTOMERS' DOORSTEP



DOCTORS' VISIT TO CUSTOMERS' DOORSTEP



# SOCIAL AND RELATIONSHIP CAPITAL

## CUSTOMERS

### CUSTOMER SATISFACTION

While improving our service standards focusing on customers, the management is also keen to assess customer satisfaction, which provides objective evidence of what customers feel about our customer service. Accordingly, the customer care centre has maintained +95% customer satisfaction rate during the year.

### BRAND IMAGE AND REPUTATION

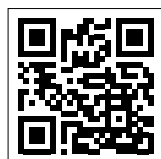
Our excellent customer services discussed above have enhanced our brand image over the period. Our brand value has been discussed under intellectual capital on Page 120.

### 2. OUR PRODUCT DEVELOPMENT PROCESS

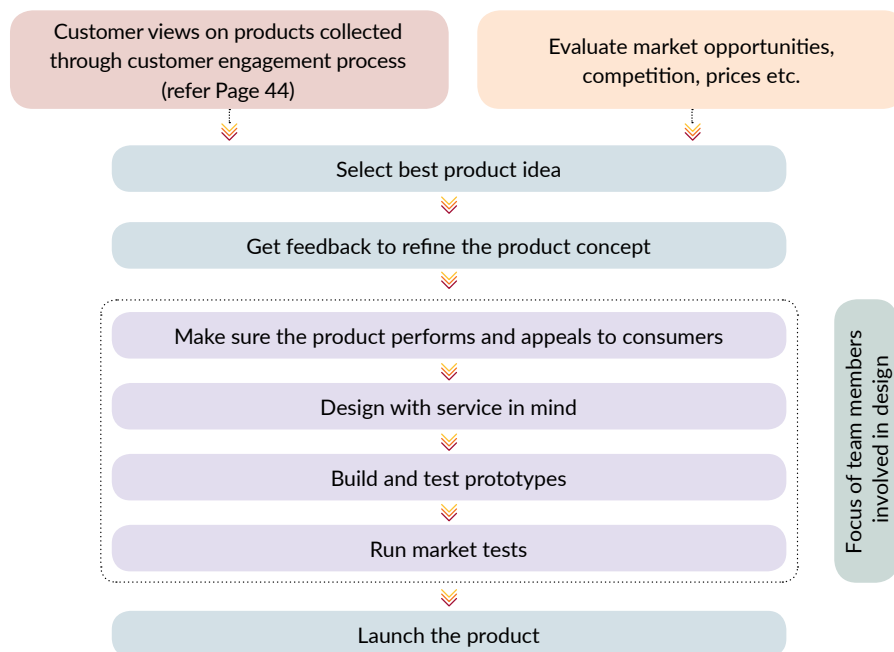
Our product philosophy is to create more relevant products which customers feel is a value addition over the premium they pay and maintain a portfolio of products which accurately address the insurance requirements throughout the customer’s lifecycle. We have developed our product development process in manner which addresses the customer’s requirements and caters in to different segments of society.

### 3. OUR PRODUCT PORTFOLIO

The Company offered a wide range of insurance solutions for both individual and corporate customers. Since the product development process is frequently reviewing and incorporating changes required.



More details of SLI product portfolio can be viewed by scanning this QR Code



The Company’s base product portfolio is listed below

#	Product name
<b>Term products with total refund of premiums</b>	
1	Softlogic life healthcare plan
2	Softlogic life premium relief plan
<b>Dividend based investment products</b>	
3	Softlogic life protected savings plan
4	Retire with pride – Softlogic life retirement plan
5	Softlogic life protected investment plan
6	Softlogic life online plan
<b>Term cover products</b>	
7	Softlogic life level term plan
8	Decreasing term assurance plan (DTAP)
9	Softlogic life global plan
10	Softlogic life group life plan
11	Dialog per day cover
12	Premier health benefit
13	Softlogic life good health series
14	Asiri life plan
20	COVID-19 cover
15	Postal life insurance plan
<b>Universal life products</b>	
16	Softlogic life universal life plan
17	Softlogic life universal savings plus
18	Softlogic life corporate pension plan
19	Softlogic life legacy plan

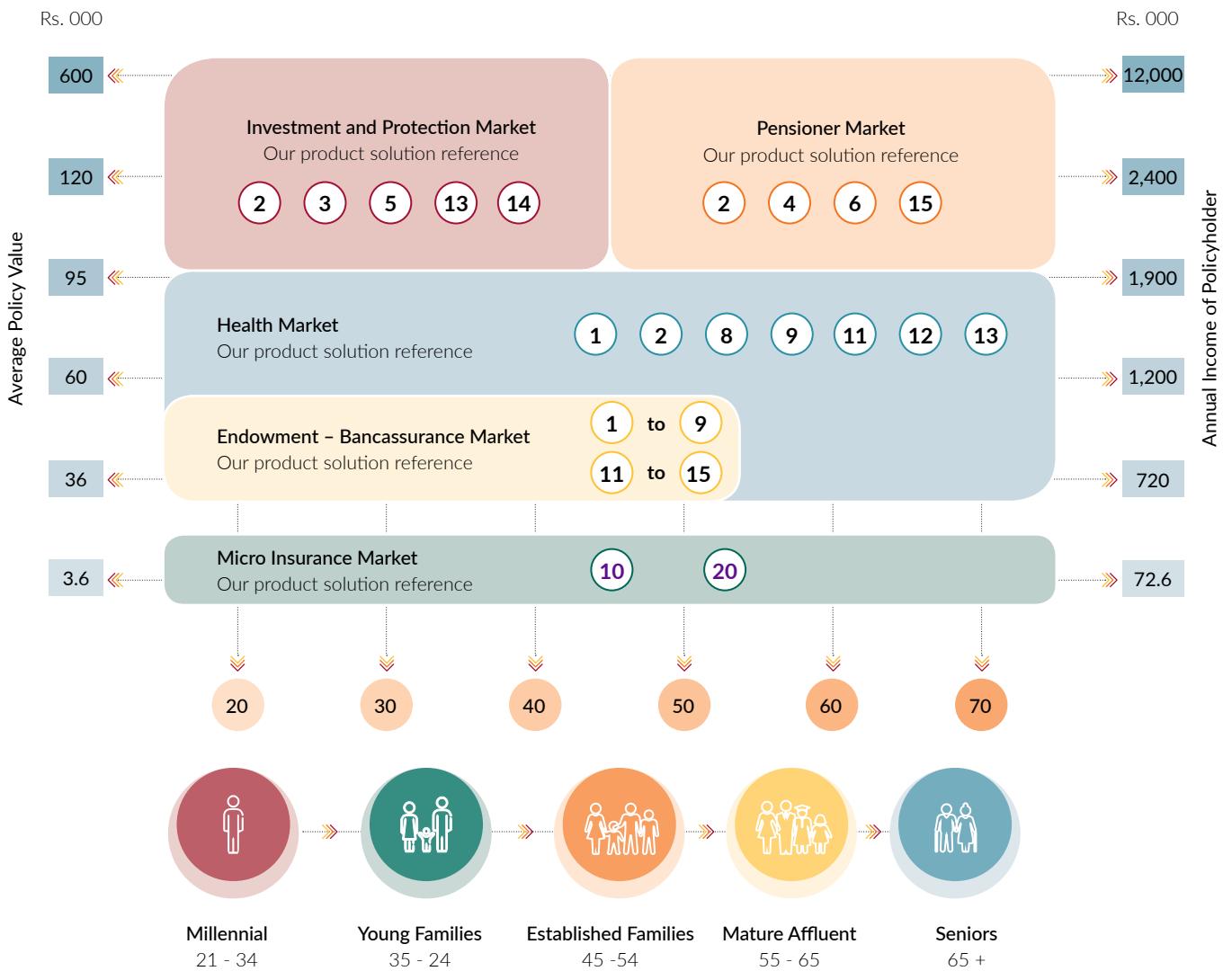
**NEW PRODUCTS**

<p><b>Group Life product to cover risk of COVID-19</b> The product is launched partnering with telecommunication companies under our Micro and Mobile Insurance channel. The product covers the cost of medical and death due to COVID-19</p>	<p><b>Amendment to “Asiri Life” Product</b> “Asiri Life” product is amended to providing medical expenses reimbursement and significant life cover with the option of subscribing on a per day benefit</p>
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**OUR PRODUCT PORTFOLIO TO CATER THROUGHOUT THE CUSTOMER LIFE CYCLE**

The figure's below 03 analyses our product portfolio and the target customer segments we serve in terms of age group and income level of the customers. We serve all customer segments within the social pyramid highlighting our social relevance within the business context.

Figure 03: Product mix evaluation against customer segments

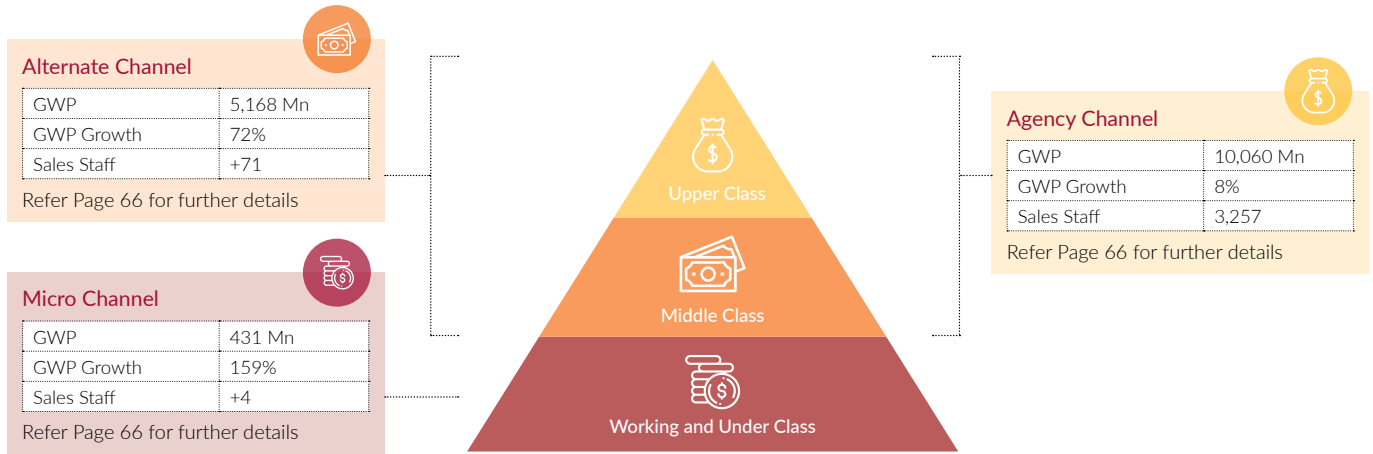


# SOCIAL AND RELATIONSHIP CAPITAL

## CUSTOMERS

### 4. DISTRIBUTION CHANNEL

The Company has established three strategic distribution channels focusing on various market segments. The distinction of distribution channels is based on the characteristics of each market segment customer group, ensuring customer focus is not diluted due to the customer mix. All distribution channels have performed exceptionally well over the past years.



### Our operational footprint

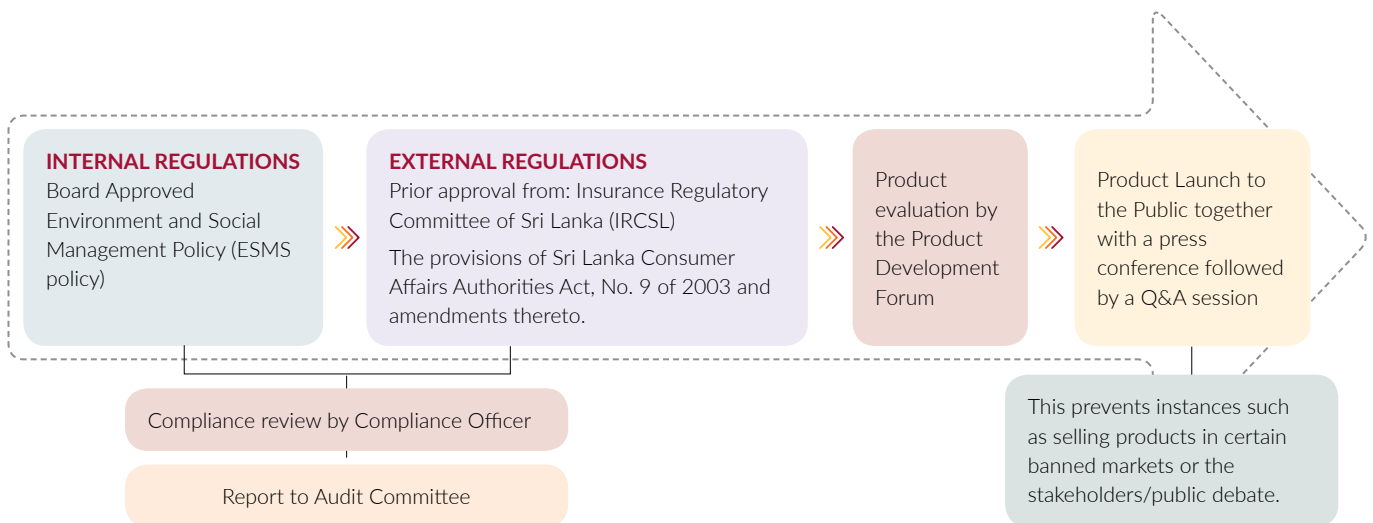
In order to provide a convenient service to our customers, we maintained an island-wide branch network of 100 branches. With a view of service improvement, we have opened 03 new branches during the year. Full details of our branch network are available online.

### 5. PRODUCT RESPONSIBILITY

Softlogic Life promotes responsible customer relationship through clear and transparent communication. The Company offers protection and investment products and other services that also encourage and reward environmentally responsible behaviours as well as help reduce social exclusion. Our product designs are governed by internal and external policies and regulations as presented below.;

### 6. DATA PRIVACY

As we continue to increase our use of technology, cybersecurity remains of vital importance to the Company. We collect large amounts of sensitive information from customers and have the responsibility to protect our customer's data in a highly secure manner. Hence Softlogic Life has taken many initiatives to ensure that it is in safe hands.



- Comprehensive data privacy policy is designed
- Regular IT threat assessment - No incidents reported
- Annual budget allocation on investments in cybersecurity measures, including in-house investigation capabilities to safeguard customer privacy, data and test and validate our defences for resilience against cyber threats.
- Mandatory privacy training – Regular privacy training for all employees and additional specialised training for our frontline teams such as sales teams, underwriting teams, claim handlers who have access to sensitive customer records
- Regular communication to all employees regarding customer data privacy
- Perform Annual Internal audit on the effectiveness of the above process and results are communicated to Audit Committee

There were no complaints received by the Company on breaching sensitive information by customers or any regulatory bodies or any other internal or external parties which is due to leaks, thefts, or loss of customer data.

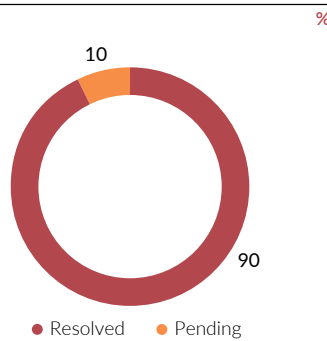
**7. CUSTOMER COMPLAINTS MANAGEMENT PROCESS**

Successful complaint resolution is a key part of delivering our brand promise. We have a customer complaint committee to resolve complaints promptly and

fairly. This means offering first point complaint resolutions wherever possible and resolving the majority of complaints within five business days. While complaints can be made over the phone, online or in person, many of our customers are now choosing to raise complaints via social media channels. The figure 04, Complaint Management Process, displays our customer complaint management process and established service level agreements within the customer care unit.

- Total Complaints received -148
- Total Complaint resolutions -142
- Acknowledged within 1 day -100%
- Complaint Resolutions within company SLA;
  - Advisor related : 89%
  - General Complaints : 90%

**G26-CUSTOMER COMPLAINTS**



**LOOKING AHEAD**

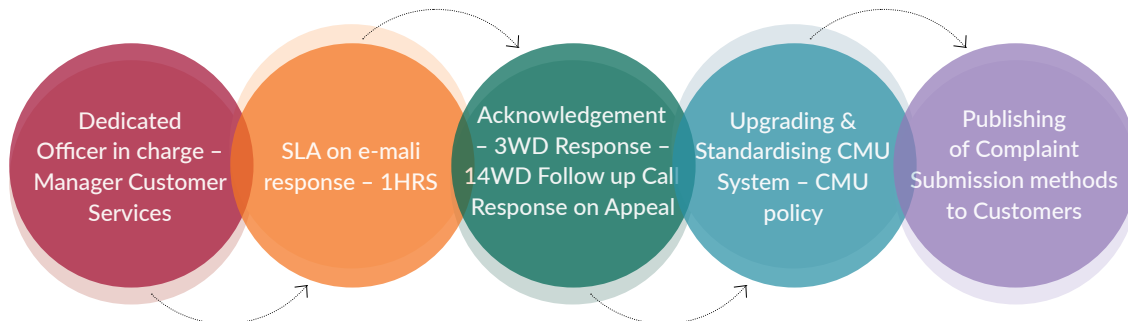
As our Customers are always at the heart of our Company’s operations, and we deliver on our promises to facilitate

our customers to live their life to the fullest, we will continue to create value for our customers by empowering them with innovative insurance solutions and digital solutions.

It is important to note that incredibly challenging times like COVID-19 are very difficult for individuals, families, businesses and indeed, society as a whole. The life insurance industry has a pivotal role to play in supporting customers and the country through this crisis and recovery. At its core, the life insurance sector is about managing disruption – death, illness and disability are all disruptions we try to anticipate and provide for with affordable insurance products. Therefore, we will continue to review our existing strategies to offer solutions that are affordable, reliable and convenient. With a history of strong financial performance and unwavering focus on our customers and product innovation, Softlogic Life will continue to prove its value and status as one of the most valuable Life insurance brands in Sri Lanka.

Our continuous excellent work and unwavering commitment towards our stakeholders will help us further shape the insurance landscape in Sri Lanka as the most innovative Life insurance Company of the country. Our spirited approach helps us to combine all different facets with the vital element of technology in every initiative we bring to the market.

**Figure 04: Complained management process**





# SOCIAL AND RELATIONSHIP CAPITAL

## BUSINESS PARTNERS

GRI 102-9

### STATEMENT OF VALUE CREATION - BUSINESS PARTNERS

	Unit	2020	2019	G%	
<p><b>Performance</b></p>	Reinsurance Expense	Rs. Mn	<b>1,873</b>	991	88.9
	Reinsurance Recoveries	Rs. Mn	<b>608</b>	636	-4.4
	Fees, Incentives and Commission Paid	Rs. Mn	<b>3,269</b>	2,969	10.1
<p><b>Outcome</b></p>	MDRT Qualifiers	No	<b>169</b>	104	62.5
	Investment in Training Programs for Insurance Agents	Rs. Mn	<b>8.9</b>	13.1	-32

### Statement of social and relationship capital position – Business Partners

Measurement Criteria	Unit	31. Dec 2020	31. Dec 2019	G%
Sales staff	No	<b>3,025</b>	2,772	9.1
MDRT qualifiers	No	<b>169</b>	104	62.5
No of reinsurers	No	<b>06</b>	05	20
No of suppliers	No	<b>282</b>	257	9.7



### Steering to the future >>>

#### Short term target

Field staff -

- Increase MDRT members by 20%
- Revamp incentive structure linking business performance as well as quality of the business.
- Reinsurers - Optimise the reinsurance arrangements
- Competitors - Proactive in competitive strategy for their action
- Regulators - Compliance with all legal and regulatory requirements
- Suppliers - Ensure continuous source of supply to smooth functioning of the business and pay dues on time.

#### Medium term view

The Company will be managing all our business partners towards the Company's growth, safeguarding their growth potential that ultimately drives to harmonise business partnership.

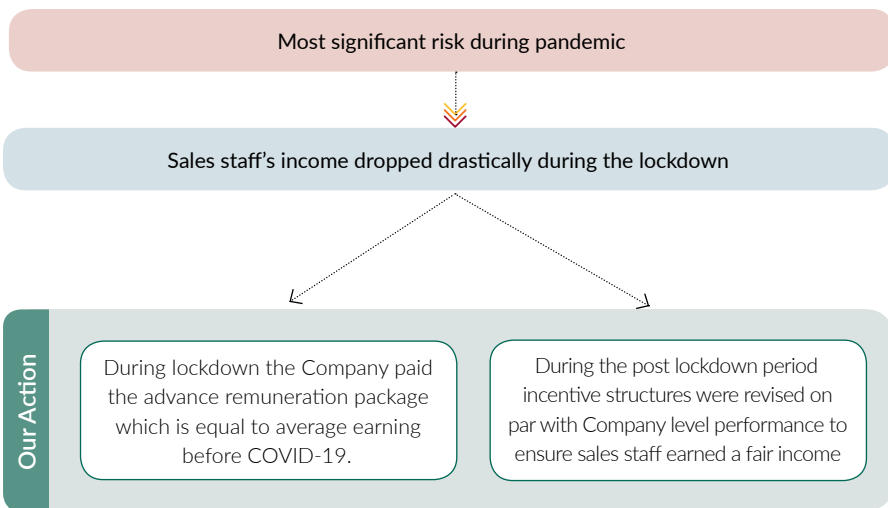
#### Long term vision

Improve and retain the relationship with business partners via digital and technological innovations and make sure that all are equally benefited which results a win-win situation for the Company and the business partners.

What our Business Partners includes	How it creates value
Our Business Partners includes relationship with sales staff (Agents and the advisors), Reinsurers, actuarial partners, regulators, bancassurance partners and the suppliers.	Business partners provide many inputs to our business in their capacity that ensure our continuance of the value creation process.

**SALES STAFF**

Our Sales staff is at the front line and conveys the first impression of the Company's image to our customers. Therefore, we invest heavily in training, developing and retention of our field staff.



**HIGHFLYERS OF OUR SALES STAFF**  
**Rookie Insurance Agency Leader of the Year**


Softlogic Life's very own Lahiru Maduranga won the title of Rookie Insurance Agency Leader of the Year Award at the Asia Trusted Life Agents & Awards 2020.

Table 20 analyses value creation activities in relation to sales staff, impact of pandemic over value creation activities comparing the strategies implemented and outcome of same.

**Table 20 :- Evaluation of Sales staff value creation**

Value creating activity	Impact due to COVID-19 and our action	Strategic Focus	Performance 2020		
1. Recruitments	Impact: - Recruiting people was challenging due the uncertainty in the economy.  Action:- Offering attractive packages and growth opportunities	We welcome best sales team in the country, who are honest and good personal values with integrity since our brand is reflecting on our sales force.	New recruitments		
			1,173 2020	1,558 2019	
2. Training and Development	Impact: - Conducting physical training with large gathering was restricted  Action: - Mandatory training modules such as "Introduction of products" were converted to online	Structured training modules have been developed aligning with career path of sales staff and ensure all sales staff undergo these modules line timely manner.		2020	2019
			No of training programmes	182	256
			No of Training hours	1,911	3,310
			No of participants	5,559	8,644
Training cost (Rs. Mn)	8.9	13			

## SOCIAL AND RELATIONSHIP CAPITAL BUSINESS PARTNERS

 GRI 102-9 | 102-10

Value creating activity	Impact due to COVID-19 and our action	Strategic Focus	Performance 2020															
3. Career progress	Impact: - Setting fair evaluation criteria for promotion was difficult as some areas of the country continued to be in lockdown. Evaluation criteria were weighted based on the performance of geographical area.	Career progression is based on the performance and subject to continuous evaluation. We ensure that the right talent gets the merit it deserves.	<table border="1"> <thead> <tr> <th></th> <th>2020</th> </tr> </thead> <tbody> <tr> <td>No of promotions</td> <td>20</td> </tr> </tbody> </table>		2020	No of promotions	20											
	2020																	
No of promotions	20																	
4. Career progress (MDRT Qualifiers)	Impact :- No impact as evaluation criteria set at global standards	<p>We ensure our continuous effort in making the highest no of MDRT qualifiers.</p> <p>MDRT members demonstrate exceptional professional knowledge, strict ethical conduct and outstanding client service.</p>	<p>We were the best in 2019 and we are even better in 2020 In terms of MDRT</p> <table border="1"> <thead> <tr> <th>Qualifying Category</th> <th>2020</th> <th>2019</th> </tr> </thead> <tbody> <tr> <td>TOT Qualifiers</td> <td>5</td> <td>2</td> </tr> <tr> <td>COT Qualifiers</td> <td>6</td> <td>9</td> </tr> <tr> <td>MDRT Qualifiers</td> <td>158</td> <td>93</td> </tr> <tr> <td>Total Qualifiers</td> <td>169</td> <td>104</td> </tr> </tbody> </table>	Qualifying Category	2020	2019	TOT Qualifiers	5	2	COT Qualifiers	6	9	MDRT Qualifiers	158	93	Total Qualifiers	169	104
Qualifying Category	2020	2019																
TOT Qualifiers	5	2																
COT Qualifiers	6	9																
MDRT Qualifiers	158	93																
Total Qualifiers	169	104																
5. Reward and recognition	<p>Impact :- Conducting a ceremony (Agency channel) was restricted under health regulation</p> <p>Action :- Nominees were recognised individually and their performance was circulated among all staff.</p>	Sales staff promotions were celebrated at a grand ceremony, giving prominence and recognition to the promotions they deserved and reward the outstanding performance of its sales personnel while motivating them to achieve more and boost the morale of others to reach the winning mark.	<p>A total of 29 awards under 7 categories were distributed among the winners at the inaugural Alternate Channel Sales Convention held in Jan 2020.</p> <p>Annual sales convention of agency channel was unable to be held due to the prevailing situation of the country.</p>															
6. Talent retention	<p>Impact :- Attrition of low income earners was high</p> <p>Action :- Regular performance review and guidance.</p>	The Company takes proactive steps to retain the best by giving not only the financial benefit but qualitative benefits such as giving their recognition and appreciation they deserve.	<table border="1"> <thead> <tr> <th>Qualifying Category</th> <th>2020</th> <th>2019</th> </tr> </thead> <tbody> <tr> <td>No of resignations</td> <td>920</td> <td>1,086</td> </tr> <tr> <td>Attrition rate</td> <td>33%</td> <td>47%</td> </tr> </tbody> </table>	Qualifying Category	2020	2019	No of resignations	920	1,086	Attrition rate	33%	47%						
Qualifying Category	2020	2019																
No of resignations	920	1,086																
Attrition rate	33%	47%																



**REINSURERS**

The Company strategically choose the reinsurance as it is a key stakeholder party. The Company takes extra efforts to onboard the world’s best reinsurers to its reinsurance panel. The Company follows a comprehensive process prior to partnering with reinsurers, such as assessing their track records, credit ratings, financial strength etc. The Company’s reinsurance panel represents 06 of the world’s largest reinsurers. The evaluation of individual reinsurers is provided in the table below;

Reinsurer	Logo	Credit rating	Other Information
Munich Re		AA- (S&P Global)	138 Year in business Total assets 31/12/2017 – Euro 267 Mn
SCOR		A- (Moody's)	SCOR is the 5th largest reinsurer in the world. Operating in more than 160 countries Total assets 31/12/2017 – Euro 43.2 Bn.
Toa Reinsurance Company, Limited (Toa Re)		A+ (A.M.Best)	80 years in business with total assets 31/03/2019 – ¥505,486 Mn
Assicurazioni Generali SpA		A- (A.M.Best)	200 Years in business, operating in more than 60 Countries; Generali ranks #59 on the 2017 Fortune 500 list; Total assets 31/12/2017 – Euro 542 Bn.
Reinsurance Group of America (RGA)		A+ (A.M.Best)	RGA ranks #234 on the 2018 Fortune 500 list; Total assets 31/12/2018 – \$ 64.5 Bn; Awarded as 'Life Reinsurer of the Year' at 2018 Asia Insurance Industry Awards.
AXA XL Reinsurance		A+ (A.M.Best)	More than 90% of Fortune 500 companies work with AXA XL. Leading global P&C reinsurer with more than USD 5 Bn in GWP.

**Value creation through reinsurance.**

**As a Risk Management strategy**

As a Life Insurance company SLI is vulnerable to unforeseen risks. Hence, as a risk mitigation strategy we are transferring portion of the risk pool to the reinsurance and manage our risk within our risk appetite.

**As a guild for product development**

Since our chosen reinsurance panel is represented in many territories around the world they have a vast knowledge of new products and developments. Hence we are able to use their knowledge as a source and a guild for our product innovative process.

**Act as a Key stakeholder in executing Business strategy**

We share a significant portion (Please refer Pages 298) of our revenue with our reinsurers for the risk they accept on behalf of Softlogic Life. Therefore, reinsurance arrangements are indeed a significant part of our business strategy.

**LENDERS**

During the year company entered into a subordinated debt agreement with Finnfund, and Norfund amounting to USD 15 Mn by strengthening its tire ii capital. Funds are expected to be utilized on execution of future growth strategy.



# SOCIAL AND RELATIONSHIP CAPITAL

## BUSINESS PARTNERS

### OTHER BUSINESS PARTNERS

Table 21 provides a codified view of our value creation and interactions with business partners such as Actuarial partners, suppliers, competitors etc.

**Table 21 :- Value creation and interaction with other business partners**

ACTUARIAL PARTNERS	SUPPLIERS	COMPETITORS	OTHERS
<p>Having professionally qualified and well experienced actuarial partners are key to the business as they provide insights to the product development, pricing, performing liability valuation. These give signals on the strategic decision business needed to be taken in short, medium to long term.</p> <p><b>Our Actuarial Partners</b> -Messrs. Willis Towers Watson India Private Limited which is part of the Willis Towers Watson global advisory company</p>	<p>Our suppliers include mainly goods and service providers to run our daily operations such as fixed asset providers, stationery suppliers, cleaning and maintenance, electricity and water. At a minimum, we require that our suppliers comply with local regulations and within our standard level of expectation.</p>	<p>There is an intense competition in Sri Lankan Insurance Industry, since it is an Oligopoly market. Low level of product differentiation and the lower level of penetration (0.6%) further increased the competition.</p> <p><b>Ethical Competition</b> The Company is competing with others in an ethical manner by continuously improving internal factors rather than controlling external factors</p> <p><b>Ethical Marketing</b> We committed,</p> <ul style="list-style-type: none"> <li>to be transparent and customer data privacy</li> <li>prompt responses to the customer's concerns</li> <li>not to make false or exaggerate statements</li> </ul>	<p>There are other business partners too whom we are connected with such as</p> <ul style="list-style-type: none"> <li>Banks and other financial institutions</li> <li>Asset management firms</li> </ul> <p><b>ASSOCIATION MEMBERSHIPS</b> To connect with our competitors and other corporates, we have obtained membership of many associations as listed below</p> <ul style="list-style-type: none"> <li>The National Chamber of Commerce Sri Lanka</li> <li>Institute of Chartered Accountants of Sri Lanka</li> <li>Insurance Regulatory Commission of Sri Lanka (IRCSL)</li> <li>Insurance Association of Sri Lanka (IASL)</li> <li>Sri Lanka Insurance Institute (SLII)</li> <li>Colombo Stock Exchange (CSE)</li> <li>Central Bank of Sri Lanka (CBSL)</li> </ul> <p>This membership helps to resolve industry wide issue like tax related matters and new accounting standards implementation.</p>

### GROUP SYNERGY

Our critical success factors count the group synergies on which we capitalise our market opportunities. The Softlogic Group is fastest growing diversified group in the Sri Lankan market, having diversified experience and capabilities through its successful journey.

### CONTINUITY OF SUPPLY

All our business partners discussed above provide various goods and services that are essential to our business operation. The strategies discussed above and future strategies discussed under the section of 'Looking

Ahead' will ensure continuous inflow of these product and services, ensuring uninterrupted operation of SLI.

### FAIR AND EQUITABLE TREATMENT

We declare that, in accordance with Softlogic Life's internal policy on fair and equitable transaction and pursuant to all relevant laws, regulations and established policies, we will open up our doors globally and conduct fair, impartial transactions with our Business Partners.

### LOOKING AHEAD

Looking ahead we are planning to improve the engagement with business partners as listed below;

### Field Staff

Being one of the most significant business partners, we are taking care of our field staff by providing competitive benefit packages and continuously adjusting it whenever it is necessary. We will continue to provide necessary training and development programmes in a timely manner and ensure that our sales team is capable enough of serving the customers better and improve the value created to the Company in a sustainable manner. Our future training and development will be focused on generating the highest number of MDRT winners who showcase the quality of

the salesforce. Career progression will be ensured within the Company for capable individuals.

The unexpected changes in business environment like COVID-19, was the best experience to revise our business model so that we could revise the business strategy and adapt to the new normal. Hence we will be more focused on providing knowledge and training programme via online platforms and improving sales via digital platforms. In addition, expected changes in our operating environment in terms of digitalisation and customer behavioural changes will be key challenges in the future. The Company is gradually preparing to face those changes through training and development strategies.

#### Reinsurance Panel

We will continue to improve the relationships with our reinsurance panel in a manner which will result in a win-win situation for both parties. Further, we will evaluate our strategy on reinsurance to enhance the value creation to the Company by evaluating the knowledge, experience and reputation of the existing reinsurers as well as the potential reinsurers. We further expect our reinsurance panel to provide its expertise ideas to develop more innovative products to be competitive in the market.

#### Other Business Partners

We will continue to act ethically by adhering to the internal regulations as well to the all applicable external rules and regulations. Due to the intense competition in the insurance industry it is a key factor to monitor the competitor behaviour regularly. We will closely monitor competitor behaviour in an ethical manner and in a transparent manner. We will continue to choose our other business partners without any bias and in a fair and transparent manner as a responsible corporate.

#### Other Factors

2020 year was indeed a challenging year. It gave us a chance to have a fresh look at the changes in the business environment of all corporates globally. All countries have to develop new rules and regulations, change the business model by transforming more to a digital platform and look for new ways of doing businesses. We will continue to adhere to the new normal and develop innovative ways to enhance the relationship with business partners. We expect a more complex legal and compliance landscape of Sri Lanka impacting by the rapid environmental changes due to the existing situation of the country.



# SOCIAL AND RELATIONSHIP CAPITAL COMMUNITY

GRI 103 413-1 413-2

## STATEMENT OF VALUE CREATION - COMMUNITY

		Unit	2020	2019	G%
<b>Performance</b>	Number of CSR Projects	No	+10	+9	11
<b>Outcome</b>	Number of People Benefited	People	430	1,117	-61.5
	CSR Expenditure	Rs. Mn	3.3	8	-58.8

## Statement of social and relationship capital position - Community

Measurement Criteria	Unit	31. Dec 2020	31. Dec 2019	G%
No of lives covered	No	1,009,680	812,626	24.2
Value of lives covered	Rs. Mn	2,060	1,407	46.4



### Steering to the future >>>

#### Short term target

Value of Lives covered 10+%

- Improve the lives covered by 10+% island wide
- Empowering youth
- Connect the Company strategy with the CSR strategy

#### Medium term view

Value of Lives covered 20+%

- Improving the CSR programmes via virtual platforms

#### Long term vision

Value of Live covered Rs. 10.6Bn

- Enhance our Company's contribution towards the community to enhance the standards of Sri Lankans and strengthen the Company's sustainable development.

#### What Our community includes?

Community includes our relationship with society at large within which we operate.



#### How it creates value

Community defines our social relevance. It provides many vital inputs to our value creation process such as employees, customers etc. In return we invest in developing The community.

## MANAGEMENT APPROACH TO COMMUNITY DEVELOPMENT PROJECTS

At Softlogic Life, our purpose is to make a difference in people's lives by easing their financial worries through education and by improving the wellness of the citizens of our country. The Company has taken a step forward to bridge the gap and provide a safety net to those disadvantaged communities and underserved who are not supported by formal social support services. By sharing this sense of purpose with stakeholders, we motivate and connect with our employees, business partners and customers.

**OUR STRATEGY**

Our CSR strategy focusses on a progressive model which enables us to contribute to society through three core verticals;





1. community development
2. empowering the future generation
3. environmental protection.

Our CSR intent is inspiring all Sri Lankans to contribute towards enhancing the quality of all Sri Lankan lives by lending a helping hand wherever possible. We hope that the community is enriched further by the knowledge that their Softlogic Life is living by this valuable code.

**COVID IMPACT**

Indeed, it was a challenge to serve the community during the COVID-19 outbreak, yet Softlogic Life was able to contribute to society under many aspects using different strategies which resulted in a better output than 2019. This showcased how strong and effective Softlogic Life’s strategic CSR projects were and how we bounced back to normalcy faster and stronger.


**WHAT WE DID IN 2020**

CSR Project	Project Description	Our Intention	Impact we create	
<b>COMMUNITY DEVELOPMENT</b>				
<b>PinTheBiz project</b>	‘PinTheBiz’ calls upon the support and cooperation of all Sri Lankans to help promote small businesses that they patronise, by spreading the word and recommending goods or services that they have consumed and sharing positive feedback	To support the SMEs who got affected due to COVID-19. To inspire all Sri Lankans and to help those who are trying hard and support their local businesses at a time when they need it the most.	207 business pins on google maps.	
<b>පවුල් පිරිත් කොඳ ලෙඩ campaign</b>	Promoting the good sicknesses, such as acting, music, cooking etc among society	The main message is go pursue your good sicknesses as a family It brings joy and happiness to the family, and brings the family together	+1.1Mn views	
<b>මේ රට මගේ රට video song</b>	The Sri Lankan youth came together and started to draw paintings on walls to give different messages. We used this trend and showed how we can make this country a beautiful place	To encourage people to start loving the mother land and to make society a responsible one.	+87,000 views	
<b>Father’s Day video</b>	Through this video, we invited people to express their love and affection for their fathers, not only on Fathers’ Day but everyday	To enhance relationship with children and fathers and to improve the mental health	+127,000 views	
<b>Affordable insurance for all Sri Lankans</b>	The Company launched a ‘per day’ insurance cover partnering with Dialog Axiata, and Postal Department	The Company’s objective is to provide financial support to every citizen in Sri Lanka who faces unfortunate events in their life.	345,672 customers purchased micro insurance	

# SOCIAL AND RELATIONSHIP CAPITAL

## COMMUNITY

GRI 103 413-1 413-2

CSR Project	Project Description	Our Intention	Impact we create
<b>EMPOWERING YOUTH</b>			
<b>WIN Programme (4th consecutive year)</b>	2-day career and personality development program for underprivileged, rural schools engaging A/L students.	To develop their soft skills with the intention of making them more employable, award internships and opportunities to join Softlogic Life based on performance.	430 students
<b>Certificate printing Projects</b>	Printing 170,617 certificates free of charge for schools and universities to help them celebrate their achievements.	Providing sponsorships as an encouragement to their achievements.	166 schools and universities 170,617 students
<b>Sponsorship for Kelaniya University</b>	A gold medal was awarded to the best undergraduate student in the insurance stream in partnership with the Department of Finance of University of Kelaniya.	To encourage and appreciate undergraduates and to contribute to the creation of valuable citizen for the nation.	01 student
<b>ENVIRONMENT PROTECTION</b>			
<b>Home gardening project</b>	3,000 seed pouches were distributed to clients through the sales force.	Contributing to the national mission of promoting the home gardening concept to build self-sustaining communities.  Get customers involve in contributing to the national economy together with the Company.	3,000 seed pouches used in home gardening
<b>Mother's day video</b>	We tried to show the qualities of a mother through Mother Nature using social media. We showed how caring for and protecting our environment is just as it is to like our own Mother.	To enhance the positive attitudes towards nature and to be responsible for the environment.	+285,000 views 

\*No. of views are as at reporting date

### COMMITMENT TO ANTI-CORRUPTION

Apart from investing in our community, as a responsible business, we adhere to the procedures of zero tolerance to corruption, compliance, non-discrimination, business ethics and our Environmental and Social Risk Policy and all other rules and regulatory

governance in Sri Lanka. The Company's management's support for anti-corruption is discussed on Pages 197.

### ANTI-CORRUPTION SAFE GUARDS

The Company's policy on anti-corruption explicitly applies to all employees and directors and they must comply with the policy. Our Internal audit unit handles all internal anti-corruption activities,

whereas our compliance officer handles all external-corruption activities and compliance. The Human Resource team reviews and discusses internal discrimination and corruption further and provides a mandatory training programme to all the employees on anti-corruption and to keep the employees updated.

The table below summarises incidents reported during the year

Complaints Summary				
Type	Category	No. of cases Received	No. of cases settled	Proved as Fraud
Customer Complaints	Misappropriations	17	15	5
	Misconducts /Misleading	40	33	1
<b>Total</b>		<b>57</b>	<b>48</b>	<b>6</b>
Internal Investigations	General Inquiries	28	28	1

**ANTI-CORRUPTION INCIDENTS - BUSINESS PARTNERS**

The anti-corruption policy explicitly applies to the agents and advisors (who are not employees but are authorised to act on behalf of the Softlogic Life) as well.

During the year under consideration, no incidents took place where contracts with business partners were terminated or not renewed due to violations related to corruption or public legal cases regarding corruption brought against the organisation or its employees.

**REGULAR MONITORING ON ANTI-CORRUPTION PROGRAMME**

The internal audit department and the compliance officer regularly monitor the anti-corruption programme to review the suitability of the programme, adequacy and effectiveness and continuously improve the programme whenever necessary.

**CHILD LABOUR**

At the same time, the Company does not hire anyone below 18 years of age and also does not engage in any form of child labour or related activities as a Company policy. According to our environmental and social policy, we do not accepting business which involves child labour. To identify this, we have included a questionnaire in all our insurance agreements to ensure that we are not involved neither do we participate in any kind of child labour activities by insuring

any activity, production, use of, trade in, distribution of or involving such a practice. We report the status of child labour at every Risk Committee meeting and discuss whether there are any matters arising in this regard each year.

**OUR ENVIRONMENTAL AND SOCIAL RISK POLICY (ESMS)**

This policy aims to develop an understanding of Softlogic Life clients' approach to environmental and social risk management. Softlogic Life integrates the assessment of Environmental and Social Risks into its existing business-decision making and risk management procedures. We assess and review potential environmental and social risks associated with all transactions to which the ESMS applies. The policy includes an exclusion list that details harmful industries that we do not conduct any business with and also includes a list of industries that we can conduct business with but are deemed as high risk. Further, we do not make contributions directly or indirectly to any kind of political activities for any reason.

**Compliance**

With regard to complying with regulations, our compliance officer monitors all the statutory payments and other regulatory requirements and reports monthly to the Board members. During the year there were no instances of significant fines on compliance matters as this is monitored accordingly.

**Non-Discrimination**

Since the Company has a formal policy on discrimination, there were no incidents reported for discrimination during the year.

**Ethical and Socially Responsible Marketing**

Softlogic Life has embraced an ethical and socially responsible marketing strategy that gains the respect and the trust of the customers and offers long-term benefits all around. By balancing our self-interest with social responsibility, we believe our approach encourages a positive impact on all our Company's stakeholders, including employees, community, customers, shareholders, business partners and regulators. At Softlogic Life, we take care to hone the following practices to imbibe our business with a strong social conscience.

**CONTINUE IMPROVEMENT**

The management takes every effort to improve the laid down below policies and practices continuously.

**Responsibility, Accountability, Transparency and Fairness**

We take responsibility for our products and services and are honest and fair in our dealings with all our stakeholders. Our product forum evaluates each and every product before it is exposed to the general public. At the point of launching a new product, a press conference is held which is chaired by the product forum.

## SOCIAL AND RELATIONSHIP CAPITAL

### COMMUNITY



GRI

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We are against advertising that scares customers into purchasing insurance policies by showing worst case scenarios. Instead, we invest in educating and familiarising potential customers about how insurance can benefit their lives.

#### Respecting Customer Rights and Privacy

We protect customer rights including the rights of redress, the right to information and the right to privacy. The details are discussed under 'Customer segment' in this Social and Relationship Capital report.

#### Ethics in Advertising

Advertising acts as a communicating bridge between the buyer and seller. With globalisation and expansion of market access, the importance of advertising is steadily on the increase in modern society. Hence, we believe the ethical aspect of our advertisement is extremely important for the restoration of our culture, norms and the creation of value for all stakeholders by incorporating social and environmental considerations in our product promotions. All our advertising is legal, decent, honest and truthful and prepared with a due sense of social responsibility. This conforms to the principles of fair competition, as generally accepted in business. We do not use advertisements to abuse the trust of our consumers or impair public confidence.

#### Contribution to Society

We fulfil all legal, economic, philanthropic and societal responsibilities to all stakeholders; give back to the community and protect the ecological environment; maintain a positive and constructive engagement with the regulators by duly paying all the taxes to the government; full compliance with all the regulatory requirements; and appropriate participation in industry forums.

#### Claim on Law Suit

There were no claims on law suits during the year 2020

#### Prevention of negative impact from operations

The Company has set its operational goals and KPIs thus preventing negative impact on our social capital

#### LOOKING AHEAD

As a responsible corporate, Softlogic Life always intends to enhance the quality of lives and always inspires the well-being of society with better fitness, nutrition and wellness so that our people can live their lives to the fullest. As a life insurance company that is essentially requesting the people to place their faith in us to take care of their loved ones, it is important to further enhance their trust in us by means of CSR and Sustainability activities.

Our CSR intent is inspiring all Sri Lankans to contribute towards enhancing the quality of all Sri Lankan lives by lending a helping hand wherever possible. We hope that our customers' minds are enriched further by the knowledge that their Softlogic Life is living by this valuable code.

Our responsible business practices described above will be converted/ updated to stringent compliances by shaping those with future changes in the environment we operate. Our business practices will also be monitored by strong corporate governance practices within the Company, ensuring we are compliant with all laws and regulations at all times.

Be it empowering the future of Sri Lanka through school level career workshops or scholarship workshops, coming to Sri Lanka's rescue during calamities and actually helping to save human lives, we take absolute pleasure in contributing wherever possible to keep our purpose alive.

Our career development plans, community development projects, environmental projects, educational projects and empowerment projects are all directed towards impacting this crucial set of recipients that'll keep the intent alive and actually start working towards the great life they aspire to. Since the brand's core target audience is both influential and affluent given their social standing, the intent is for them to be equally inspired to replicate the efforts and inspire others around them to do so as well. Thus, the circle of influence will keep on spreading impacting many more lives and ultimately drive the nation towards better quality lives.





# INTELLECTUAL CAPITAL

GRI 103 102-12

## STATEMENT OF VALUE CREATION - INTELLECTUAL CAPITAL

	Unit	2020	2019	G%	
<b>Process Efficiency</b>					
<p>Performance</p>	One day claim settlement	%	+86	+90	-4
	One day proposal acceptance	%	80	60	20
	Customer discharge within one hour	%	89	88	1
	Revenue from exclusive agency agreements (Agency Channel Sales)	Rs. Bn	10	9.4	6.4
	Financial strength rating by ICRA Lanka		A	A	-
<p>Outcome</p>	Expenditure on R&D	Rs. Mn	21.4	1.6	1237.5
	Expenditure on Risk Management	Rs. Mn	3.7	7.6	-0.51
	Expenditure on Standards & Certificates	Rs. Mn	7.7	2.2	251.6

## Statement of Intellectual capital position

Measurement Criteria	Unit	31. Dec 2020	31. Dec 2019	G%
Our employees	No	897	805	11.4
Brand value	Rs. Bn	2.7	2.1	26.7
Investment in intangible assets	Rs. Mn	0.1	0.6	-83

### What Our Intellectual Capital includes?

Our Intellectual Capital is a combination of a well-positioned brand, our talented human capital, strong governance framework and the relationship with stakeholders, which drives excellence in business.

### How it creates value

Our drivers in intellectual capital improve the company's performance in areas such as profitability, productivity, and market value.



## Steering to the future >>>

### Short term target

- Enhance our brand value.
- Implementation of programs to improve employees' innovativeness.
- Introduce system automations for business efficiency.
- Development of human capital will be a key pillar of increasing Intellectual capital.
- Development of field staff and relationship with other business partners.
- Maintain and improve governance framework.
- Migrate / modify policy administrative systems that improve our work processes for greater productivity.

### Medium term view

- Enhancing and preserving our employees and organizational knowledge which gives a value addition to our business model.
- Step into digitalise systems and Big data analytics

### Long term vision

- Implement artificial intelligence technology in day to day operations.

# INTELLECTUAL CAPITAL

The diagram below shows the material trade off between Intellectual capital and other capitals and its impact to stakeholders

Value Creation by capitals other than Financial Capital	Financial capital disbursed / Guaranteed
<b>Financial Capital</b>	
We invested Rs. 5.8 Mn in training and development to build the capacity of our people at every angle.	The Company generated an outstanding set of business results enhancing our financial capital (Refer Page 62 of this report for financial capital discussion)
Financial resources are consumed to activities focusing on brand building and brand awareness	Optimisation of expenses
We disburse financial resources among our business partners (for the goods and services obtained from them) in building our relational capital.	
<b>Social and relationship capital</b>	
Our satisfied customers recommended our products and services to others.	Increased customer satisfaction and a sense of security being a partner with the Company that fulfils it's promises.
The positive word of mouth among the community make us self-special compared to others in the market.	Our community benefits while we grow.
Our business partners ensure the required support to our business and keep our promises true.	35 Bancassurance partnerships
<b>Human capital</b>	
Tacit knowledge of our people makes greater innovations in the Company. The accumulated knowledge of our employees is the greatest asset for intellectual capital.	Staff was recognised for its contribution towards development of the Company (development of the intellectual capital) by way of promotions as well as rewards.
1,928 total training hours for staff	Opportunities provided to reach full potential
<b>Manufactured capital</b>	
Manufactured capital was extensively used in every action we took to build intellectual capital.	Business expansions done during the year brought Rs. 132 Mn worth of tangible assets to the Company. Our intellectual capital (i.e brand, innovative solutions etc.) was a key pillar of the Company's extraordinary growth which in return resulted in business expansion.

**15.2%**  
Market Share

**2.7Bn**  
Brand Value

**02**  
New Products

**New Systems Developed**

- Remote Working Systems
- Robotic Systems
- LifeUp app upgration

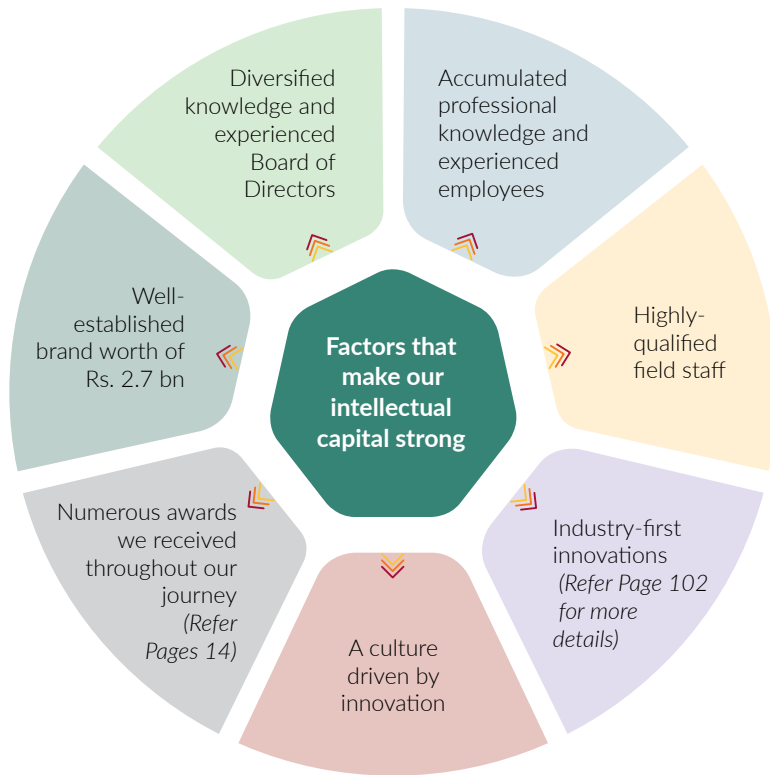
**Service Standards**

- +86 % claims settled within a day

**MANAGEMENT APPROACH**

Our Intellectual Capital differentiates our service offering and provides us with a significant competitive edge. Awards and accolades bear testimony to exceptional growth of our intellectual capital, thereby enhancing our brand capital.

The Company's Intellectual Capital value creation model is provided below:



**INPUTS**

- Tacit Knowledge
- Reputed Brand
- Organisational Capital
- Relational Capital
- Technology

**MANAGEMENT FOCUS**

- Develop skills and expertise of employees
- Staff retention
- Continuous investment in IT infrastructure
- Technology innovations
- Investment in brand building initiatives
- Utilise our relationships for sustainable value creation

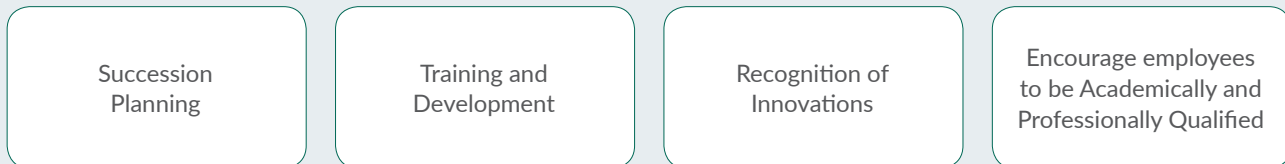
**OUTPUTS**

- Brand equity growth
- Market share increase
- Improved skills for employees
- Most innovative life insurer in Sri Lanka

**HUMAN CAPITAL -TACIT KNOWLEDGE**

Our Human Capital plays a critical a part in the value creation process of our intellectual capital. Our diverse employee base creates a wealth of knowledge, skills and experience to drive customer centric competitive service and has taken many measures to retain such knowledge within the Company.

**Our Initiatives to retain tactic knowledge**



Our Board of Directors and Senior Management consists of individuals with diverse experience and a mix of knowledge at the top of the Company to take Softlogic Life to the next level. Senior management profiles can be found on Pages 135 to 138 of this report.

The Company has taken all possible measures to retain and maintain tacit knowledge of employees especially in technical areas such as Actuarial, Finance, Information Technology, Underwriting etc.

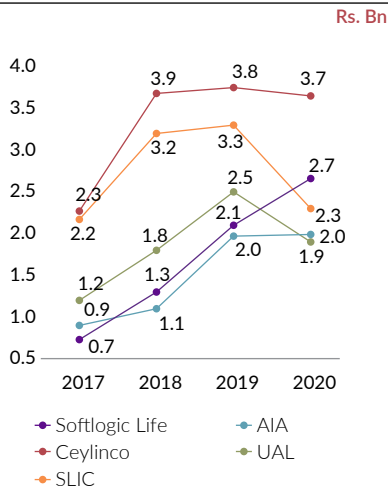
# INTELLECTUAL CAPITAL

## OUR BRAND

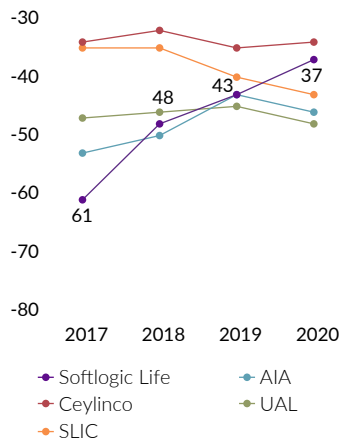
We have built a strong brand that revolves around the principles of trust, convenience, transparency and respect. During the year we became the 2nd best ranked insurance brand in Sri Lanka and came to the limelight at the SLIM Brand Excellence awards by winning Best Brand in the Sri Lankan Services Sector and the Most Innovative Brand in Sri Lanka for the year 2020. Further we also became the Most Awarded Life Insurance Company at the SLIM Digi Awards 2020 (For a more detailed view about our awards and accolades refer Page 14).

The Company has increased its brand value to Rs. 2.7 Bn, marking 26.7% growth compared to the previous year.

### BRAND VALUE GROWTH IN THE INDUSTRY



### HIGHEST GROWTH AND THE 2ND BEST RANK IN THE INDUSTRY



Source: Brand Finance Report, Sri Lanka 2020

### Brand Positioning

Promote proactive health management /healthy lifestyle behaviour by promoting three concepts: Wellness, Fitness and Nutrition for insurance that works and benefits you now and while you live.

### Brand communication

We communicate our brand through

- Mass Media
- Social Media
- Digital channel
- Outdoor visibility

### Ethical Marketing

The Company's marketing and communications always assess against ethical marketing criteria and present proposals to Managing Director before launching any marketing communication.

### ORGANIZATIONAL CAPITAL

Our Organisational capital consists of organisational culture that is independent to our employees. Our culture encompasses values and behaviour that contribute to the unique social and psychological environment of our business where we carry out many engagement activities to build an employee friendly workplace.

### RELATIONAL CAPITAL

Our Relational Capital consists of elements of relationships that exist between the Company and its stakeholders which we referred as our goodwill. Our relationship with stakeholders and quality of engagement is provided in "Stakeholder Engagement" on Page 44.

## SYSTEMS AND PROCESSES

Information Technology (IT) plays a critical role in the rapidly changing economic stage and with the pandemic situation it paved the way for various innovations. Our IT Innovation team consisting of experts in the IT sector, consistently undertake and implement the latest developments and upgrade the Company's day to day systems mainly focusing on 04 pillars - data science, artificial intelligence, robotic process automation and research which optimises the operating model of business model.

### Key IT developments during the Year

Automation Bank  
Reconciliation process

Development of Claim  
IT Process

Digitization of  
submission of new  
business proposals

Shared IT Services to  
ease Working from  
Home

### Research & Development

We consider research and development as part of the Company's operations that seeks knowledge to develop, design, and enhance its products, services, technologies, or processes which contributed to the extraordinary growth of Softlogic Life. Along with creating new products and adding features to old ones, investing in R&D connects various parts of a Company's strategy and business plan.

Details of recently introduced innovative solutions are listed on Page 102 of the Social and Relationship Capital.

## LOOKING AHEAD

Our future focus to build Intellectual Capital in the Company relies on our main components are explained below.

**Human Capital** - We will emphasise more on development of our Human Capital as it is key to our success and we discuss more details on Pages 84.

**Brand** - Our main three pillars 'Wellness, Fitness, Nutrition' are a unique key feature. It is expected that the initiatives set into motion as part of the brand positioning will enhance the value and power of the Softlogic Life brand in future years.

**Organisational Capital** - We tend to improve on the organisation's capability in going forward by leveraging the organisation philosophy and systems.

**Relational Capital** - We focus to create perception and value in the minds of stakeholders to build and protect relationships with them which help us to grow in the industry.

**Information Technology** - We pursue IT advances to launch new products and system automations across our business while focusing on development of Intellectual Capital. We have identified digitalisation as a key pillar on which our future success depends. We will adopt emerging digital trends such as Big Data, Artificial Intelligence, Machine learning etc.



# MANUFACTURED CAPITAL

## STATEMENT OF VALUE CREATION - MANUFACTURED CAPITAL

	Unit	2020	2019	G%	
<p><b>Performance</b></p>	Number of new Branches	No	3	8	-62.5
	Revenue Per Branch	Rs. Mn	157	127	23.6
	Fully Depreciated Assets as a % of NBV	%	63%	47%	16.1
	Underwriting Result Per Branch	Rs. Mn	69.5	56.3	23.4
<p><b>Outcome</b></p>	Expenditure on R&D	Rs. Mn	21.4	1.6	1,237.5
	Investment in Fixed Assets	Rs. Mn	132	154	-14.3
	Maintenance Expenses as a Percentage of NBV	%	13	9	4

## Statement of manufactured capital position

Measurement Criteria	Unit	31. Dec 2020	31. Dec 2019	G%
Number of branches	No	100	99	1
Net book value of capital assets	Rs. Mn	660.9	675.4	2.1



## Steering to the future >>>

### Short term target

- Continue to invest in product innovation, distribution channels and technical infrastructure and strengthening our synergistic ties
- Increase efficiency and effectiveness of work process at branches to gain customer satisfaction
- Strategies development of the Company's manufactured capital in line with its growth potential.

### Medium term view

- The growth potential the Company expects, will enhance investment in Manufactured Capital

### Long term vision

- Be aligned to the speed of digitalisation which is impacting the business processes, as our future investments will be skewed to intangible assets and that will be key to business sustainability

### What Our Manufactured Capital includes?

Our Manufactured Capital is a mix of its Building, Property Plan and Equipment, Branch network, IT equipment that support our value creation process.

### How it creates value

Our physical assets improve efficiency of our value creation activities towards the stakeholders

Our action during 2020

**3** New Branches

**3** Relocations

**5** Closed Branches

**Rs. 132 Mn**  
New investment in Fixed Asset

**ASSETS TRANSFORMATION**

- In line with our digital journey, we experienced our capital assets transformation towards more IT related assets.

**BUILDING OUR MANUFACTURED CAPITAL**

We measure the expected return on our manufactured capital and manage them cautiously to generate maximum possible benefits out of the investments made. Our investments are mainly focussed on the outreach of business expansion to increase market value and digitalising of our work processes with IT related infrastructure. We measure the efficiency of our manufactured capital using the following indicators.

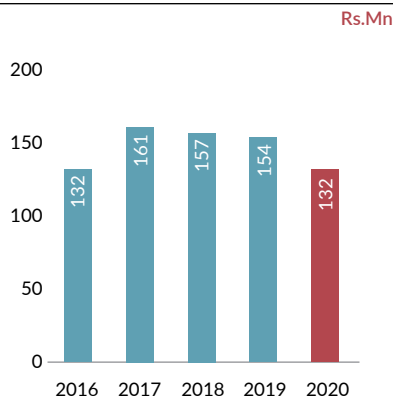
**23.4%**

Fixed Asset Turnover Ratio

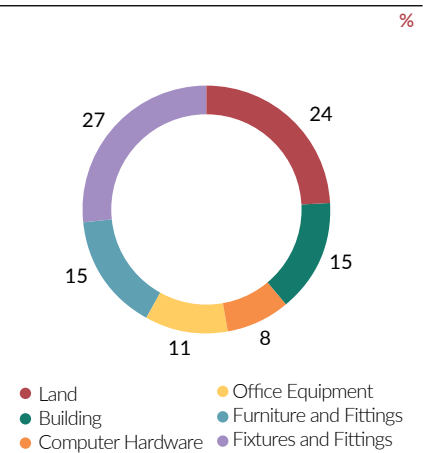
**Rs.86 Mn**

New Business Premium per Branch

**G27-ADDITION TO FIXED ASSETS**



**G28-FIXED ASSET MIX -2020**



**OPERATIONAL AND TECHNOLOGICAL IMPROVEMENTS**

Technology is a key aspect to enhance the effectiveness of our Manufactured Capital. By automating, digitalising and simplifying processes such as tele underwriting, digital proposal etc. we have improved value creation of the manufactured capital. Our technological improvements have been detail described on Pages 102.

**MAINTENANCE AND CERTIFICATION**

We make sure to get the maximum value generated from our manufactured capital by obtaining regular maintenance, upgrades and certifications as required. SLI has the following certification in place.

**USAGE OF PUBLIC INFRASTRUCTURE**

SLI is using the public facilities given by government such as roads, water, waste management etc. In return we add value to the community by paying taxes on time and contributing to the community development projects as describe in Page 115.

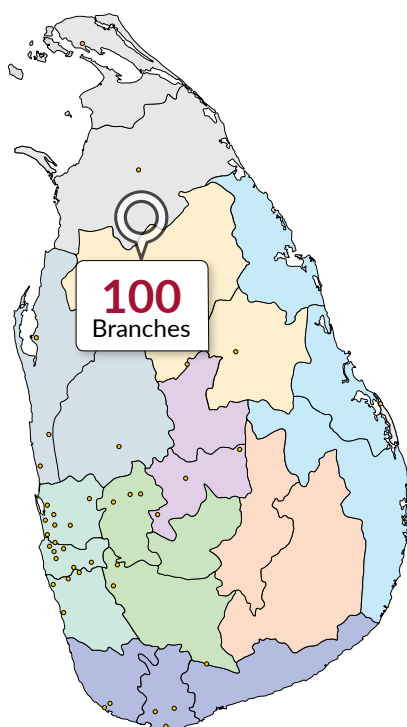
## MANUFACTURED CAPITAL

### OUR BRANCH NETWORK

We currently have 100 branches island wide including those in low populated areas. We maintain these branches with the objective of providing our excellent customer service while providing employment opportunities to many people in our community. The assessment is provided in table 22 below.

Table 22:- Analysis of branch network

Province	No of Branches	GWP Rs.'000	GWP per Branch Rs.'000	No of Agents	2020 GWP per Agent Rs.'000
Western Province	44	11,063,056	251,433	1,261	8,773
Southern Province	14	1,362,015	97,287	394	3,457
North Western Province	11	1,011,952	91,996	466	2,172
Central Province	11	729,832	66,348	319	2,288
Sabaragamuwa Province	5	661,479	132,296	134	4,936
Uva Province	5	269,853	53,971	111	2,431
Northern Province	3	219,918	73,306	120	1,833
North Central Province	4	214,296	53,574	104	2,061
Eastern Province	3	127,715	42,572	116	1,101
Total	100	15,660,116	862,782	3,025	29,051



### LOOKING AHEAD

As an emerging insurance Company, in the future we will continue to add value to the Company by expanding, repositioning and upgrading our manufactured capital including all our fixed assets and branch network. We not only expect to add value to the company but to enhance customers' convenience and add value to our local communities by expanding our geographical foot print offering new employment opportunities and giving them a helping hand to develop their lives.

Our management approach for future Manufactured capital will further shift from investing physical assets to intangibles as we expect our future growth and business strategy to be impacted from digitalization. The future of products, distribution channels and customer services will be impacted by digitalisation where we will introduce more digitalised products and services. Hence the distribution channel will mostly be an interactive website and customer engagement will be on the digital platform.



More details of our branch network are available online. Scan the QR to log in.





# NATURAL CAPITAL

What Our Natural Capital includes?	How it creates value
Our Natural Capital is all renewable and non-renewable environmental resources that support our value creation process.	Our environment provides a significant quantum of resources that we use within our value creation process

## Steering to the future

Short term target	Medium term view	Long term vision
<ul style="list-style-type: none"> <li>Investment in environment protection initiatives.</li> <li>Comply with all applicable environmental regulations and use best practices for environmental management</li> <li>Automate business process to reduce / eliminate paper usage</li> <li>Initiate more green energy projects to promote the habit of planting trees.</li> </ul>	<ul style="list-style-type: none"> <li>Organise awareness campaigns to increase employee commitment to achieve environmental protection strategies.</li> </ul>	<ul style="list-style-type: none"> <li>Becoming a responsible corporate citizen who protects the environment.</li> </ul>



In order to reduce the environmental impact from our business we have taken several internal and external measures some of those having positive impact on preserving Mother nature but quantification is not possible.

# NATURAL CAPITAL

## Our Internal Measures

### Driving Eco Efficient Business following 3R Concept

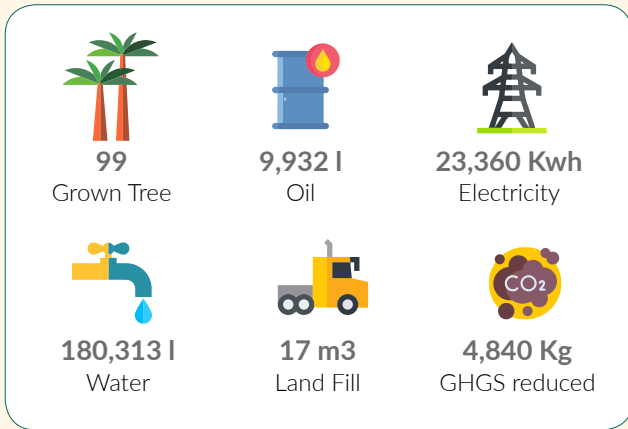
#### Waste Management

We try to reduce our impact on the environment by company-wide waste paper recycling.

Our key Initiatives towards Waste Management,

- Continue to partner with Neptune Papers (Pvt) Limited and Amaana Paper Collection to shred our paper waste in an environmental friendly manner.
- Adopt the 3R approach-Reuse, Reduce and Recycle to achieve reduction of our paper waste.
- Continued to outsource all the photocopy machines to a third party, refill the printer cartridge and use it to the maximum possible duration.

Total saving from our successful recycle process



#### Technical and Operational Improvement

As Paper is our main form of waste in our Company, we have already taken measures to create a “paperless” work environment.

Enhanced LifeUp app facilities to make it flexible with processing activities	Digital submission of claim documents through online platform
Remote working facility for all the employees	Digital awareness of health safety methods to employees and customers
App based Under Writing (via Whatsapp, Viber apps etc)	E-receipting for an efficient customer service

#### Water Management

##### Main focus on water resource

- Usage of water resources
- Disposal of effluent water
- Recycling water

##### Our key initiatives towards water management

- Sensor taps have been installed to reduce water wastage.
- Regular maintenance and create awareness on water management.



**Our Internal Measures**

**Driving Eco Efficient Business following 3R Concept**

**Energy Consumption and Carbon Offsetting**

Our key energy consumption sources are

- Direct Consumption - Electricity used for our premises from the national grid
- Indirect Consumption - Fuel used for business travelling and business commuting of employees and sales force

While Carbon offsetting is the way to use carbon credits enable companies to compensate for unavoidable emissions, we are committed to meeting carbon reduction goals and supporting the move to a low carbon economy.

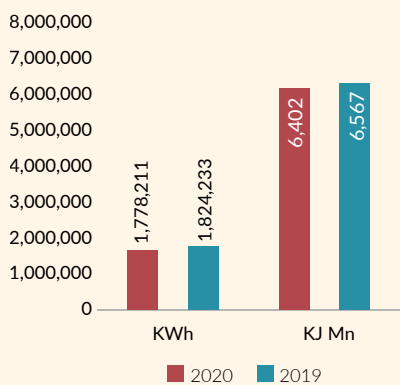
	2020	2019
Non Renewable Sources	511	857
Non Renewable fuel consumption(Units in Kilo joules)	6,402	6,567
Electricity Consumption (Units in Kilo joules Mn.)	N/A	N/A
Electricity Sold	6,402	6,567

Our key initiatives to reduce energy consumption

- Timer switches to Air-Conditioners (A/Cs) to our head office which operate in working hours.
- Used cost effective ways to reduce fuel consumption and executed limits on fuel usage.
- Encouraged employees to use electricity and fuel in a responsible manner in their day to day activities.
- Implement remote working concept to reduce employee commute related emissions.

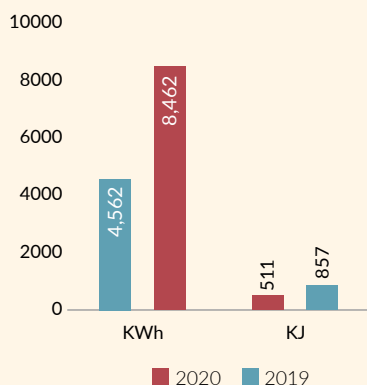
**G29-ELECTRICITY**

KWH/KJ Mn



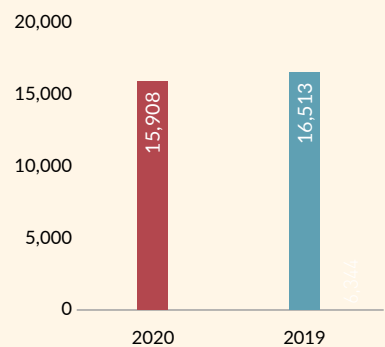
**G30-NON RENEWABLE FUEL ENERGY**

Liters/Kj



**G31-PIPE BORNE WATER**

m3



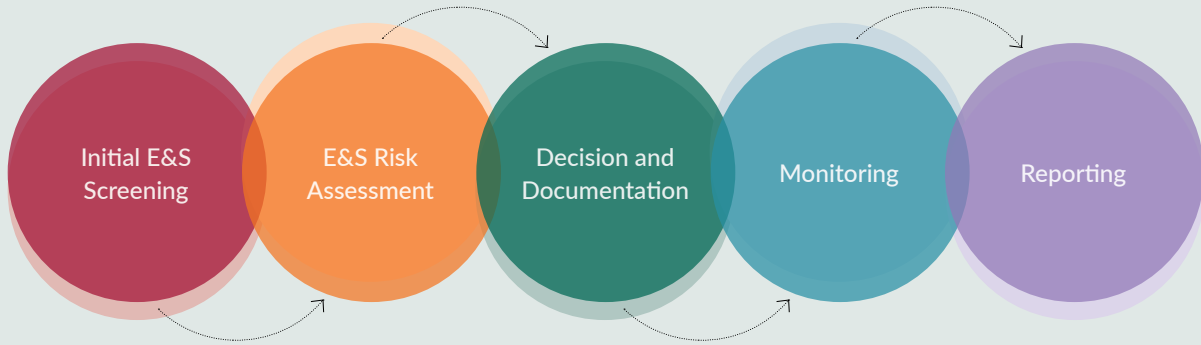
**External Measures – Awareness Initiatives**

Working towards helping Sri Lanka build a self-sustaining community, we began our very own home gardening program “Grow in the Garden”. The main objectives of this project were to contribute to the national mission of promoting the home gardening concept in order to build self-sustaining communities within the country. Taking the lead step we initiated our program with our staff and distributed 3,000 seed pouches to our customers across Sri Lanka through our sales force.

# NATURAL CAPITAL

## Internal Policy on preserving Bio Diversity

Softlogic Life follows a set of environment and social management system procedures consisting of five main activities for the management of Environment and Social (E & S) Risk Assessment which pave the way towards a more sustainable operation.



## Looking Ahead

The way forward our objective is to enhance our efforts towards conservation of the environment by incorporating environmental sustainability into our business strategies. As a responsible corporate citizen, we will also continue to support and implement more greenery projects in order to create meaningful change in the environment we operates.

# INDEPENDENT ASSURANCE REPORT



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

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

We have been engaged by the directors of Softlogic Life Insurance PLC (“the Company”) to provide reasonable assurance and limited assurance in respect of the Sustainability Indicators as identified below for the year ended 31 December 2020. The Sustainability Indicators are included in the Softlogic Life Insurance PLC’s Integrated Annual Report for the year ended 31 December 2020 (the “Report”).

The Reasonable Assurance Sustainability Indicators covered by our reasonable assurance engagement are:

Assured Sustainability Indicators	Integrated Annual Report Page
Financial Highlights	20-21

The Limited Assurance Sustainability Indicators covered by our limited assurance engagement are:

Limited Assurance Sustainability Indicators	Integrated Annual Report Page
<b>Information provided on following capitals</b>	
Financial	62-83
Human	84-97
Social and Relationship	98-118
Intellectual	119-123
Manufactured	124-126
Natural	127-130

## OUR CONCLUSIONS

Our conclusion has been formed on the basis of, and is subject to, the matters outlined in this report. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusions.

## REASONABLE ASSURANCE SUSTAINABILITY INDICATORS

In our opinion, the Reasonable Assurance Sustainability Indicators, as defined above, for the year ended 31 December 2020 are, in all material respects, prepared and presented in accordance with the Consolidated Set of Global Reporting Initiative Sustainability Reporting Standards Guidelines.

## LIMITED ASSURANCE SUSTAINABILITY INDICATORS

Based on the limited assurance procedures performed and the evidence obtained, as described below, nothing has come to our attention that causes us to believe that the Limited Assurance Sustainability Indicators, as defined above, for the year ended 31 December 2020, have not in all material respects, been prepared and presented in accordance with the Consolidated Set of Global Reporting Initiative Sustainability Reporting Standards Guidelines.

## MANAGEMENT’S RESPONSIBILITY

Management is responsible for the preparation and presentation of the Reasonable Assurance Sustainability Indicators and the Limited Assurance Sustainability Indicators in

accordance with the Consolidated Set of Global Reporting Initiative Sustainability Reporting Standards Guidelines.

These responsibilities includes establishing such internal controls as management determines are necessary to enable the preparation of the Reasonable Assurance Sustainability Indicators and the Limited Assurance Sustainability Indicators that are free from material misstatement whether due to fraud or error.

Management is responsible for preventing and detecting fraud and for identifying and ensuring that the Company complies with laws and regulations applicable to its activities.

Management is also responsible for ensuring that staff involved with the preparation and presentation of the description and Report are properly trained, information systems are properly updated and that any changes in reporting encompass all significant business units.

## OUR RESPONSIBILITY

Our responsibility is to express a reasonable assurance conclusion on the Company’s preparation and presentation of the Reasonable Assurance Sustainability Indicators and a limited assurance conclusion on the preparation and presentation of the Limited Assurance Sustainability Indicators included in the Report, as defined above.

We conducted our assurance engagement in accordance with Sri Lanka Standard on Assurance Engagements SLSAE 3000: Assurance Engagements other than Audits or Reviews of Historical Financial Information (SLSAE 3000) issued by the Institute of Chartered Accountants of Sri Lanka.

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

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

## INDEPENDENT ASSURANCE REPORT



We have complied with the independence and other ethical requirements of the Code of Ethics issued by the Institute of Chartered Accountants of Sri Lanka.

SLSAE 3000 requires that we plan and perform the engagement to obtain reasonable assurance about whether the Reasonable Assurance Sustainability Indicators are free from material misstatement and limited assurance about whether the Limited Assurance Sustainability Indicators are free from material misstatement.

### REASONABLE ASSURANCE OVER REASONABLE ASSURANCE SUSTAINABILITY INDICATORS

The procedures selected in our reasonable assurance engagement depend on our judgment, including the assessment of the risks of material misstatement of the Reasonable Assurance Sustainability Indicators whether due to fraud or error.

In making those risk assessments, we have considered internal control relevant to the preparation and presentation of the Reasonable Assurance Sustainability Indicators in order to design assurance procedures that are appropriate in the circumstances, but not for the purposes of expressing a conclusion as to the effectiveness of the Company's internal control over the preparation and presentation of the Report.

Our engagement also included assessing the appropriateness of the Reasonable Assurance Sustainability Indicators, the suitability of the criteria, being the Consolidated Set of Global Reporting Initiative Sustainability Reporting Standards Guidelines, used by the Company in preparing and presenting the Reasonable Assurance Sustainability Indicators within the Report, obtaining an understanding of the compilation of the financial and non-financial information to the sources from which it was obtained, evaluating the reasonableness of estimates made by the Company, and re-computation of the calculations of the Reasonable Assurance Sustainability Indicators.

### LIMITED ASSURANCE ON THE ASSURED SUSTAINABILITY INDICATORS

Our limited assurance engagement on the Limited Assurance Sustainability Indicators consisted of making enquiries, primarily of persons responsible for the preparation of the Limited Assurance Sustainability Indicators, and applying analytical and other procedures, as appropriate. These procedures included:

- interviews with senior management and relevant staff at corporate and selected site level concerning sustainability strategy and policies for material issues, and the implementation of these across the business;
- enquiries of management to gain an understanding of the Company's processes for determining material issues for the Company's key stakeholder groups;
- enquiries of relevant staff at corporate and selected site level responsible for the preparation of the Limited Assurance Sustainability Indicators;
- enquiries about the design and implementation of the systems and methods used to collect and report the Limited Assurance Sustainability Indicators, including the aggregation of the reported information;
- comparing the Limited Assurance Sustainability Indicators to relevant underlying sources on a sample basis to determine whether all the relevant information has been appropriately included in the Report;
- reading the Limited Assurance Sustainability Indicators presented in the Report to determine whether they are in line with our overall knowledge of, and experience with, the sustainability performance of the Company;
- reading the remainder of the Report to determine whether there are any material misstatements of fact or material inconsistencies based on our understanding obtained as part of our assurance engagement.

The procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement, and consequently the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed. Accordingly, we do not express a reasonable assurance conclusion on the Limited Assurance Sustainability Indicators.

### PURPOSE OF OUR REPORT

In accordance with the terms of our engagement, this assurance report has been prepared for the Company for the purpose of assisting the Directors in determining whether the Company's Reasonable and Limited Assurance Sustainability Indicators are prepared and presented in accordance with the Consolidated Set of Global Reporting Initiative Sustainability Reporting Standards Guidelines and for no other purpose or in any other context.

### RESTRICTION OF USE OF OUR REPORT

Our report should not be regarded as suitable to be used or relied on by any party wishing to acquire rights against us other than the Company, for any purpose or in any other context. Any party other than the Company who obtains access to our report or a copy thereof and chooses to rely on our report (or any part thereof) will do so at its own risk. To the fullest extent permitted by law, we accept or assume no responsibility and deny any liability to any party other than the Company for our work, for this independent assurance report, or for the conclusions we have reached.

### CHARTERED ACCOUNTANTS

Colombo  
08 March 2021



# One Foundation

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# BOARD OF DIRECTORS





## 1. MR. ASHOK PATHIRAGE

### Chairman

#### Skills and Experience

Mr. Ashok Pathirage, recognised as a visionary leader of Sri Lanka's corporate world, is the founding member of Softlogic Group, one of Sri Lanka's leading conglomerates. He manages over 50 companies with a pragmatic vision providing employment to more than 11,000 employees. He gives strategic direction to the Group which has a leading market presence in four vertical sectors – Retail and Telecommunications, Healthcare Services, Financial Services and IT, Leisure and Automotive. The Asiri Hospital chain is the country's leading private healthcare provider with one of the best healthcare facilities in Sri Lanka's private healthcare.

#### Other Current Appointments

He is the Chairman / Managing Director of Softlogic Holdings PLC, Asiri Hospital Holdings PLC, Asiri Surgical Hospital PLC and Odel PLC. He also serves as the Chairman of Softlogic Capital PLC in addition to the other companies of the Group. Mr. Pathirage serves as the Chairman of NDB Capital Holdings Limited. As a direct Nominee of GOSL, Mr. Pathirage is also the Chairman of the prestigious national carrier - Sri Lankan Airlines and Sri Lankan Catering Limited.

#### Previous Appointments

He was the former Deputy Chairman of National Development Bank PLC.

## 2. MR. SUJEEWA RAJAPAKSE

### Deputy Chairman

#### Skills and Experience

Mr. Sujeewa Rajapakse is the Managing Partner of BDO Partners which is the local representative of BDO - the fifth largest accounting network in the world. A Fellow of the Institute of Chartered Accountants of Sri Lanka (FCA) and a Fellow of Institute of Chartered Management Accountants of Sri Lanka (FCMA), Mr. Rajapakse holds a Master of Business Administration (MBA) from Postgraduate Institute of Management (PIM), University of Sri Jayewardenepura.

His expertise includes all accounting and auditing standards and practices, government regulations related to financial disciplines and ethics, human resource management and overall management practices and principles in both private and public sectors.

#### Other Current Appointments

At present he serves as the Chairman of People's Bank, People's Leasing and Finance PLC and an Independent Non-Executive Director of Haycarb PLC, Dipped Product PLC, Hayleys Agriculture Holdings Ltd, and a Council member of the University of Sri Jayewardenepura.

#### Previous Appointments

During his professional career that spanned nearly four decades, he held the honorary positions of President, Vice President and Council Member (elect) of the Institute of Chartered Accountants of Sri Lanka (ICASL), Former Chairman of Auditing Standards Committee of ICASL, President of Practising Accountants Forum of Sri Lanka, Treasurer of Sri Lanka Cricket, Treasurer for Cricket World Cup 2011, Board Member and Technical Advisor to South Asian Federation of Accountants (SAFA), Technical Advisor to Confederation of Asia Pacific Accountants (CAPA). He has also served in the directorates of National Development Bank PLC, NDB Capital Ltd – Bangladesh and The Finance Company PLC.

## 3. MR. IFTIKAR AHAMED

### Managing Director

#### Skills and Experience

Mr. Ahamed holds over three decades of experience in a wide range of positions within the financial services industry and has extensive banking experience both in Sri Lanka and overseas. He holds a MBA from the University of Wales, UK.

#### Other Current Appointments

Mr. Iftikar Ahamed was appointed as Managing Director of Softlogic Life Insurance PLC in January 2014. He is the Head of the Financial Services

Sector of the Softlogic Group, and serves as Managing Director of Softlogic Capital PLC, which is the holding company of the Financial Services Sector. He also serves as a Director of Softlogic Stockbrokers (Pvt) Limited, Softlogic Corporate Services (Pvt) Limited and Softlogic Asset Management (Pvt) Limited.

#### Previous Appointments

He has previously held senior management positions of Deputy Chief Executive Officer at Nations Trust Bank PLC, and Senior Associate Director at Deutsche Bank AG.

## 4. MR. RAY ABEYWARDENA

### Director

#### Skills and Experience

He has been associated with Sri Lanka's capital markets for over 34 years, primarily as a Stockbroker and since 2009 as an Investment Banker. He is a member of the Chartered Institute of Marketing (UK) and holds a master's degree in business administration from the University of Wales.

#### Other Current appointments

Mr. Abeywardena is the Chairman of Acuity Stockbrokers (Pvt) Ltd and Acuity Securities Ltd and is the Managing Director of Acuity Partners (Pvt) Ltd. Mr Abeywardena serves on the Board of Directors of Guardian Acuity Asset Management Ltd, the Colombo Stock Exchange, the Central Depository Systems (Pvt) Ltd, Lanka Ventures PLC, LVL Energy Fund PLC.

#### Previous Appointments

Mr. Abeywardena is the immediate past Chairman of the Colombo Stock Exchange and Central Depository Systems Pvt Ltd. He served as the Managing Director/ CEO of Acuity Stockbrokers (Pvt) Ltd from 2001 to end 2008 and a past Chairman of the Colombo Stockbrokers Association.

## BOARD OF DIRECTORS

### 5. MR. HARESH KAIMAL

#### Director

##### Skills and Experience

Mr. Hareesh Kaimal is a co-founder of Softlogic Group and a Director since its inception. He has over 31 years of experience in IT and Operations and has been instrumental in driving advancements in Information Technology and Enterprise Resource Management within Softlogic Group.

##### Other Current Appointment

He currently heads the IT sector of the Softlogic Group. He is also a Director of Odel PLC and Softlogic BPO Services (Pvt) Ltd.

### 6. MS. FERNANDA LIMA

#### Director

##### Skills and Experience

Ms. Fernanda Lima has over 21 years of experience in financial services and private equity investing in emerging markets. She has hands-on experience in growing inclusive financial institutions across Asia and has held a number of Board and senior roles in Investee companies. She holds a Master of Science in Environment and Development from the London School of Economics and a Master in Business Administration from the University of London and Imperial College. She was a British Chevening Scholar and speaks fluent Portuguese and Spanish.

##### Other Current Appointments

She is currently a Partner for Leapfrog Investments based out of Singapore. Ms. Lima joined LeapFrog after 9 years at US-based Developing World Markets, where she was a Managing Director in Asia. She has extensive portfolio management expertise including portfolio investments in Sri Lanka, Cambodia, China, India and Indonesia.

##### Previous Appointments

Earlier, Ms. Lima was Vice President for AIG Global Investment Group in London and with venture capital firm AFLA/CVC

in Sao Paulo, Brazil having started her career with Brazil-based Unibanco/ITAU.

### 7. MR. CHULA HETTIARACHCHI

#### Executive Director

##### Skills and Experience

He holds B.Com. and M.Com degrees from the University of Kelaniya and also holds a Postgraduate Diploma in Finance and Business Management from the Institute of Chartered Accountants of Sri Lanka. He has received extensive overseas training with Allied Dunbar UK, FALIA Japan, and OLIS Japan, as well as the Indian Insurance Institute, Pune, and Munich Re in Germany. His career spans a period of 38 years, 25 of which is in the Life Insurance field. He spearheads the Life distribution operations in an astute and professional manner.

### 8. MR. V. GOVINDASAMY

#### Director

##### Skills and Experience

He holds a Bachelor of Science in Electrical Engineering and an MBA from the University of Hartford, USA. He is a Fellow Member of the Institute of Certified Professional Managers of Sri Lanka.

His international experience coupled with his innate managerial capability and innovative qualities enabled him to transform the plantation business, achieving perceptible improvement in quality, production standards and penetration into new markets.

##### Other Current Appointments

Mr. V. Govindasamy is the Group Managing Director of Sunshine Holdings PLC and pioneered the Group's diversification into newer but key economic sectors such as Consumer Business, Renewable Energy and Dairy. He is currently the Chairman of the Employers Federation of Ceylon ( EFC) and the Vice Chairman of the Ceylon Chamber of Commerce ( CCC) .

### 9. MR. RAIMUND SNYDERS

#### Director

##### Skills and Experience

Mr. Raimund Snyders holds a Bachelor of Commerce, Bachelor of Laws from Stellenbosch University, as well as Executive Leadership qualifications from the Graduate School of Business, University of Cape Town, and Harvard Business School. He is one of the most seasoned insurance leaders in the industry. His experience in the insurance industry is both vast and deep. Over his career, Raimund has led organic and inorganic expansion, sales, marketing, product development, distribution, bancassurance, investment and wealth management – with responsibilities across retail, institutional and enterprise functions cultivated over 27 years of career with Old Mutual.

##### Other Current Appointments

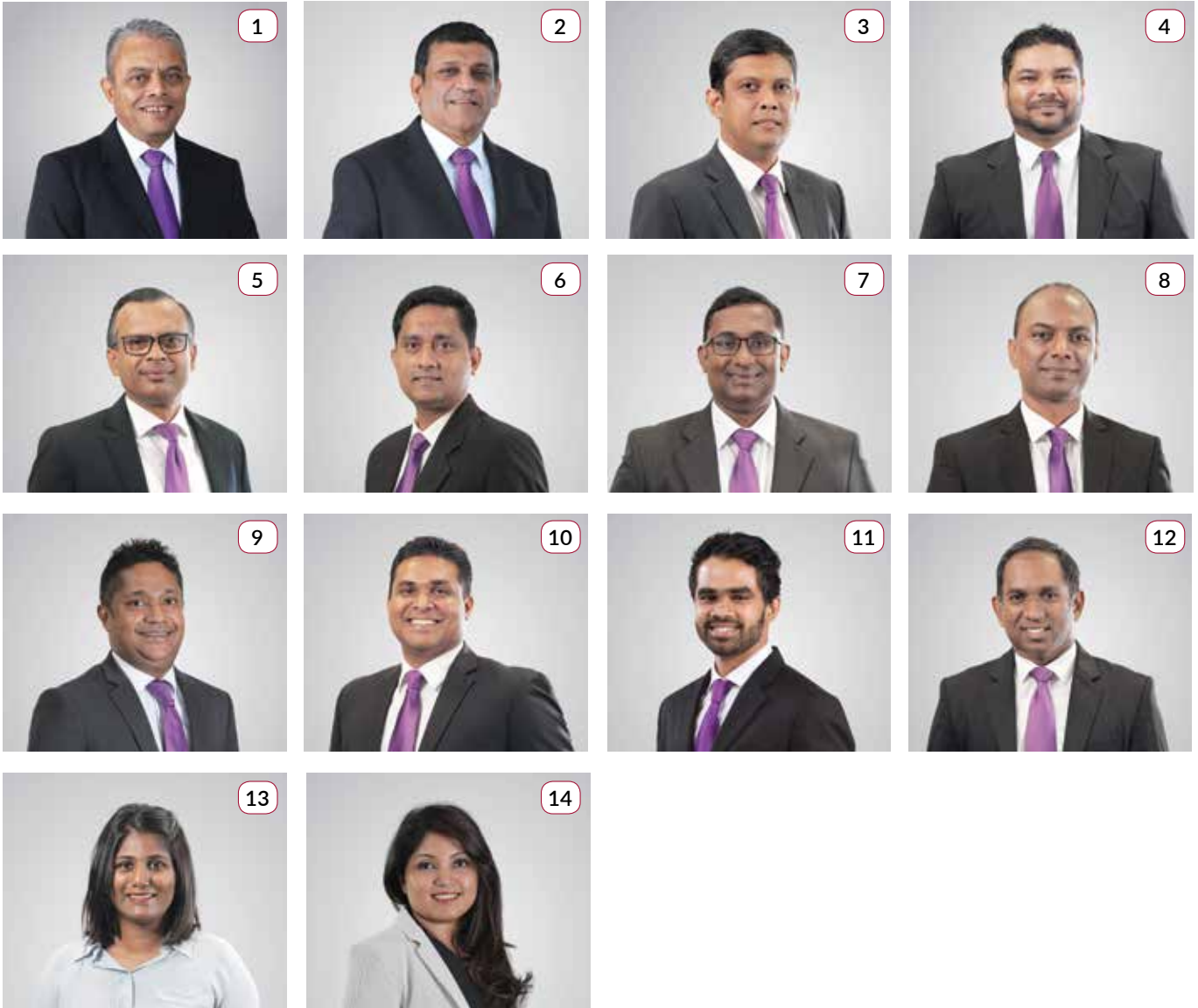
Currently, he sits on the Board of Directors of miLife Insurance Limited and AllCO Limited, both Africa-based insurers.

##### Previous Appointments

He served as the CEO of Mutual and Federal, the 185-year-old insurer in the Old Mutual Group, and he led a turnaround of the Company as part of the Old Mutual Group's strategy to establish itself as a leading financial services group across the African continent. Under his leadership, Mutual and Federal was rebranded to become Old Mutual Insure. Prior to this, Mr. Snyders served in executive leadership positions in the Old Mutual Group, leading large multidisciplinary teams in areas of business such as distribution, bancassurance, investments and wealth management key positions included: COO and Head of Distribution for Old Mutual's African operations; Executive General Manager, Old Mutual Life Assurance Co (South Africa); CEO, Old Mutual Life Assurance Co (Namibia); and Managing Director, Old Mutual Investment Services.

# THE SENIOR MANAGEMENT

## CORPORATE MANAGEMENT TEAM



## CORPORATE MANAGEMENT TEAM

### 1. IFTIKAR AHAMED

#### Managing Director

Please refer Profiles of the Board of Directors on page number 153.

### 2. CHULA HETTIARACHCHI

#### Executive Director

Please refer Profiles of the Board of Directors on page number 154.

### 3. INDU ATTYGALA

#### Chief Operating Officer

MBA University of Northampton, UK

28 years of experience in Insurance.

### 4. THILANKA KIRIPORUWA

#### Chief Corporate Services Officer

Masters in Business Studies (UOC), CIM (UK), Diploma in Human Resources and a Diploma in Information Technology.

20 years' experience in Human Resources, Customer Service, Logistics, Administration, Facilities Management, Retail, General Operations and Micro Insurance.

### 5. AMAL DHARMAPRIYA

#### Chief Information Officer

B.Sc. (Applied science), M.Sc. (Computer Science), MBA, CISM (ISACA),

21 years of experience in IT industry, Specialised in Insurance Business Process Automation.

### 6. SURANGA WADUGE

#### Chief Actuarial Officer

BSc (Hons), MSc (Mathematics and Statistics), MSc (Actuarial Management).

16 years of experience in Actuarial and Life Insurance.

### 7. PRANAMA PERERA

#### Chief Technical Officer

ACII Chartered Insurer, MBA Manipal University India

25 years of experience in Insurance.

### 8. NUWAN WITHANAGE

#### Chief Financial Officer

Master of Business Administration (MBA) Post Graduate Institute of Management (PIM - University of Sri Jayewardenepura), a Fellow member (FCA) of the Institute of Chartered Accountants of Sri Lanka, Bachelor of Business Management Finance Sp, ACMA.

Board Member of Integrating Reporting Council of Sri Lanka, Chairman of the Finance and Technical Committee of the Insurance Association of Sri Lanka and Chairman of CA Sri Lanka (CASL) - Taskforce to Develop Non - Financial Reporting Practices in Sri Lanka. Member of Financial Reporting Standards Implementation and Interpretation Task Force of CASL, Finance and Administration committee of CASL, SLFRS 17: Insurance contracts implementation task force of Sri Lanka.

16 years of experience in fields of Insurance, Finance, Strategy, Audit, Compliance and General Management.

### 9. PIYUMAL WICKRAMASINGHE

#### Chief Distribution Officer - Alternate Channel

B.A (Hons) in Business Management - Middlesex University, London MBA - Cardiff Metropolitan University, Cardiff.

16 years of experience in Insurance.

### 10. INDIKA BAMUNUSINGHE

#### Head of Human Resources

B.Bus (Management and HRM) - La Trobe University, Australia

16 years of experience in Human Resource Management in Insurance and Retail Sectors in Sri Lanka, Australia and Hong Kong.

### 11. RUWANTHA ARUKWATTA

#### Head of Internal Audit

ACA, IIA

14 years of experience in public Accounting Practices and Internal Audit.

### 12. SARANGA WIJAYARATHNE

#### Head of Digital Innovation

MBCS, PglSM University of Colombo.

16 years of experience in Information Technology specialised in Insurance.

### 13. RUSHIKA BEMUNUGE

#### Head of Risk

Masters in Financial Economics, University of Colombo. BSc. Economics, London School of Economics.

13 Years of Experience in Risk Management with specialist focus on Market Risk Management in Banking and Insurance.

### 14. KAVI RAJAPAKSHA

#### Head of Marketing

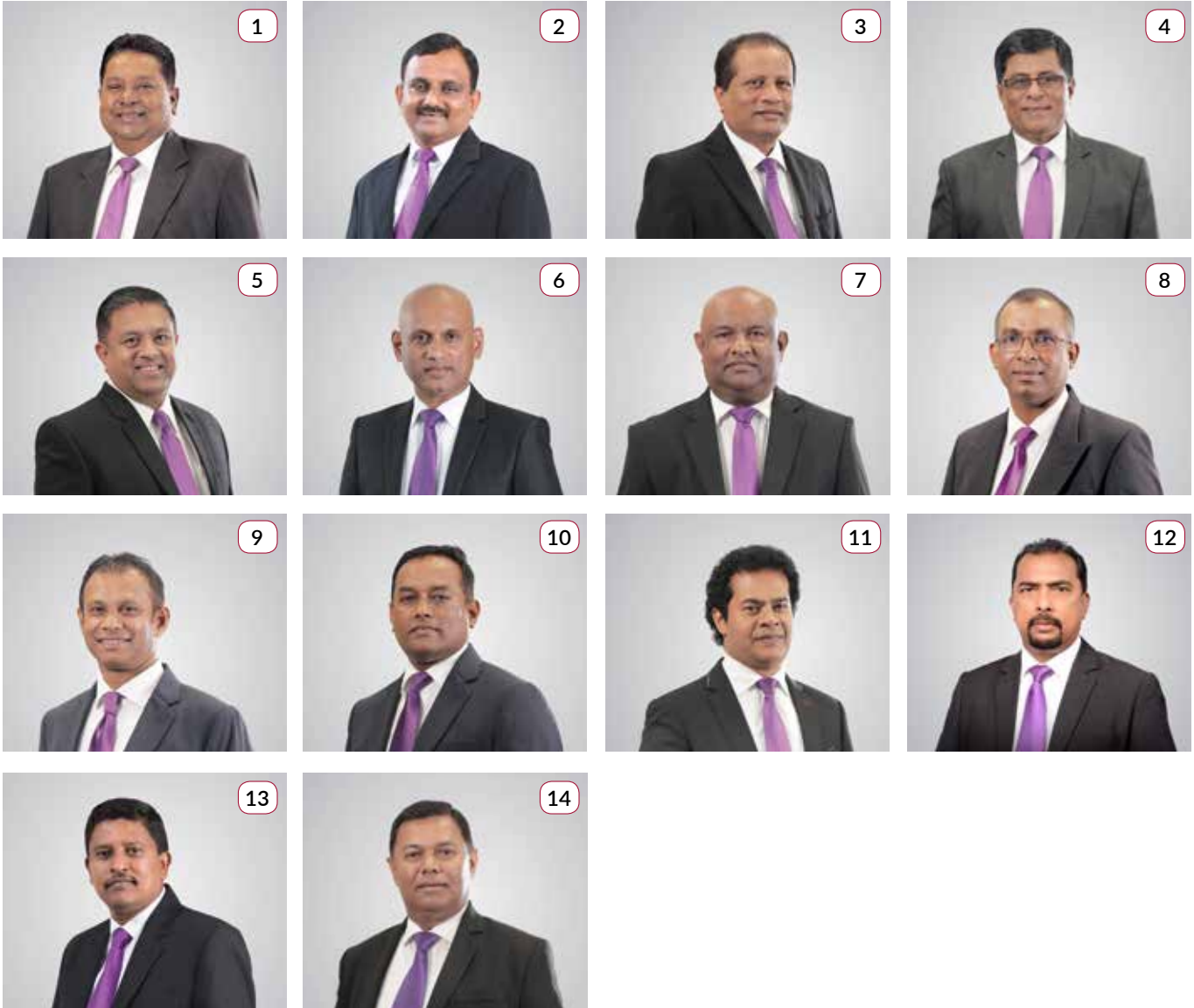
BSc Chemistry Special (First Class Hons) University of Colombo, BSc Chemistry Special (First Class Hons) College of Chemical Sciences, MBA Cardiff Metropolitan University, Postgraduate Diploma in Professional Marketing (CIM- UK) (ACIM)

Executive Committee Member of Sri Lanka Institute of Marketing and alumna of Miami Ad School Bootcamp.

10 Years of experience in brand building and marketing management in the fields of FMCG, Life Insurance, Mutual Funds and Non-Banking Financial Industry.

# THE SENIOR MANAGEMENT

## SALES MANAGEMENT TEAM



## SALES MANAGEMENT TEAM

### 1. SANDAMAL HETTIARACHCHI Senior General Manager - National Distribution

Diploma in Aviation Maintenance, Diploma in Marketing, Diploma in HR, Higher Diploma in Sales Management.

33 years of experience in Insurance industry and 5 years in Aeronautical Engineering.

### 2. KAPILA SURIYARACHCHI Senior General Manager - National Distribution

Marketing Diploma – National Institute of Business Management.

32 years of experience in Insurance industry.

### 3. SUSANTHA ABEYTUNGE General Manager

CIAM, LUTCF (Chartered Insurance Agency Manager (CIAM) status by LIMRA International USA.) Financial Adviser's International Qualification awarded by CII UK.

31 years of experience in the Insurance industry.

### 4. SOMA HETTIARACHCHI General Manager

BA (University of Colombo)

30 years of experience in Life Insurance industry.

### 5. PRIYASHANTHA SIRIWARDENA General Manager

MBA from Buckinghamshire New University UK, Chartered Insurance Agency Manager Degree from CIAM - LIMRA, Post Graduate Diploma in Service Marketing from Netherlands - Business school of Maastricht, Diploma in Marketing – Sri Lanka Institute of Marketing, Diploma in Business Management – Institute of Management Specialist (UK).

28 years of experience in Insurance industry.

### 6. SUSIL ATAPATTU Deputy General Manager

Doctor of Humanities (American National Business University), Bachelor of Business Administration - BBA (Central American Business University), Master Management Consultant/ MMC (American Academy of Project Management MBA Azteca University Chalco, Mexico).

25 years of experience in Life Insurance industry.

### 7. UPUL JAYASEKARA Deputy General Manager

Bsc (Physical Science) at University of Colombo, Diploma in Business Management at NIBM.

21 years of experience in Insurance industry.

### 8. HIRAN GUNAWARDENA Deputy General Manager - Business Development

BA (Defence Studies) from Kothalawala Defence University, CIAM (USA), LUTCF (USA), Dip in Life Insurance Marketing (USA), Certified NLP Business Practitioner (India).

10 years of experience in Defence services and 18 years in Insurance industry.

### 9. CHAMINDA WEERAKKODY Assistant General Manager

BSc (sp) Hons AGRIC. -University of Peradeniya, Post Graduate Diploma in Business management- University of Peradeniya, Diploma in Insurance SLII - Sri Lanka Insurance Institute, MBA- London Metropolitan University – UK, CPM- (Asia Marketing Federation), AWF- CII.UK Award in Financial Planning - Chartered Insurance Institute UK.

24 years of experience in Financial Services Industry comprise of 6 years in Investment/ Merchant banking & Finance, 19 years in Insurance.

### 10. VIRANGA GUNATHILAKA Assistant General Manager

BA University of Ruhuna,

26 years of experience in Insurance industry.

### 11. SUMITH JAYAWEEERAGE Assistant General Manager

29 years of experience in Insurance industry.

### 12. NIHAL PERERA Assistant General Manager

Higher National Diploma in Accountancy, LUTCF (USA), Dip in Personal Insurance (USA).

33 years in Insurance industry.

### 13. RAMAYARATHNA WIJESEKARA Assistant General Manager

29 years in life Insurance industry.

### 14. NISHANTHA BANDARA Assistant General Manager

31 years in Insurance industry.

## CHAIRMAN'S MESSAGE



### GOVERNANCE AT SOFTLOGIC LIFE

Governance at Softlogic Life is shaped by the continuous commitment and the drive for attaining the highest standards in Corporate Governance. The developments in the regulatory, industry and the internal environment are continuously monitored to stay up-to-date while maintaining a prudent governance approach, positioning the Board, Management and the employees of the company to operate with accountability, ensuring long-term sustainability of the Company. Our framework on Corporate Governance is not limited to mere compliance, but is more reflective of a comprehensive and dynamic approach.

### A TESTAMENT TO EFFECTIVE GOVERNANCE AND TRANSPARENCY

The accolades we received in 2020 further cement the trust the Company gained by maintaining high Corporate Governance standards as well as reaching new heights in Corporate Governance reporting.

Softlogic Life is the only Sri Lankan company to win 3 awards at the South Asian Federation of Accountants (SAFA), including a Merit award for Corporate Governance. Further, the Company was among the Top 10 companies recognised by the CMA Excellence in Integrated Reporting Awards 2020 for the 6th consecutive year.

In recognition of good governance, transparency and future potential of the company, a Reinsurance agreement of 15 Million USD was performed with Global Reinsurance company, Munich Re as well a 15 Million USD Tier II Capital

raised through the Finnish Fund for Industrial Cooperation Ltd – Finn fund and The Norwegian Investment Fund for Developing Countries. Refer pages 146 for more details.

Softlogic Life is the first entity in Sri Lanka to obtain external assurance on Integrated annual report reflecting our commitment to enhance transparency. This assurance report is provided in pages 59-60.

The Company produced the Video version of the Annual Report for the fourth consecutive and we are pleased to be the 1st company in Sri Lankan history to be introduced a video version of Annual Report.

### OUR PHILOSOPHY

Good governance is the guiding principles that promotes and maintains transparency, accountability, responsibility, reliability and impartiality, creating an effective and sustainable governance culture within the organisation.

### TONE FROM THE TOP

The Board maintained an independent and diverse composition during the year which is critical for impartial and efficient decision-making process. The Board fully supports the Management, to whom it has delegated the responsibility of day-to-day operations, while monitoring their performance to ensure that the Company is in line with the set strategy.

### LEADING AMID COVID-19

The impact of COVID-19 pandemic created significant change to the way of business and the life of all stakeholders. However, the leadership was able to face head-on to the new challenges created by the pandemic. More details are disclosed on pages 149-150.

### WAY FORWARD

The Company continuously analyses the developments in the macro environment and takes a pro-active stance on maintaining good governance

to facilitate the Company's sustainable journey.

Furthermore, the Board has been keeping up with the changes in the accounting standard for Insurance Contracts - SLFRS 17, which is globally introduced for the insurance industry and to be effective from 1st January 2023. The current progression and the expected future plans of the governance framework for SLFRS 17 is provided on pages 148-149.

### OUR PROMISE

We promise our stakeholders that we will continuously develop and maintain our focus on improving the effectiveness of our governance practices, complying with latest regulatory and statutory developments.

### DECLARATION

The Company has complied with all the statutory, regulatory requirements and details of the statutes of compliance are provided on page 206, under Statement of Compliance.

Further the company has also obtained assurance reports on Integrated report and GRI sustainability indicators which is provided in page 59-60 and 367-368 respectively. The Company has gone a step ahead to comply with the Code of Best Practice on Corporate Governance issued by CA Sri Lanka, which is a voluntary governance benchmark.

In addition, I wish to state that to the best of my knowledge and available information, I am not aware of any material violations of any of the provisions of the Code of Business Conduct and Ethics by the directors on the Board.

(Sgd.)

**Ashok Pathirage**  
Chairman

8th March 2021

# CORPORATE GOVERNANCE

## ANNUAL CORPORATE GOVERNANCE REPORT

### OUR APPROACH TO GOVERNANCE

The approach to Corporate Governance of Softlogic Life is one built on a strong, comprehensive and integrated structure of governance that provides the required environment for the Company and its stakeholders to maintain proper Corporate Governance practices at all times.

Our Corporate Governance Framework is formulated to maintain:

- ✓ Best interest of all stakeholders
- ✓ Holistic view of ethical perspective
- ✓ Proper regulation
- ✓ Innovation and future focus

### How the Company Maintains a Balance Between Governance Framework and Innovation

The Board of Directors are engaged in the process of maintaining good governance within the organisation, while assuring that governance process will not hinder the innovation process of the Company.

The governance execution and principles in technological, operational and performance governance areas are structured in a manner to promote innovation while managing the risks faced through the governance framework.

**“Corporate Governance can be described as the process and practices which ensures balancing and aligning the interests of the stakeholders of the Company and the management of the Company.”**

*Softlogic Life is committed to maintaining high-standards of Corporate Governance and complied with the below mandatory as well as voluntary compliance codes and directives to exhibit the commitment to good governance within the company.*

Directive on Corporate Governance (IRC SL) ✓

Code of Best Practice (CA Sri Lanka) ✓

Rule No.7.10 and 9 of Listing Rules of CSE ✓

Section 168 (Companies Act No. 07 of 2007) ✓

More details are disclosed under the “Statement of compliance” disclosed on page 206.

### Core Principles of Our Governance Framework

The governance framework follows three core principles, which has enabled the framework to provide a comprehensive coverage of regulatory and best practices of governance within the organisation.

#### Leadership

This principle explains the governance of the leadership provided to the company by the Board of Directors as well as the Executive Management.

**Objective:** To provide and maintain good governance practices at the leadership level and integrate good governance with Company strategic objectives, business model as well as day-today operations.

#### Stakeholder Engagement

This principle explains the governance in managing the stakeholders impacted by the various aspects of the Company.

**Objective:** To extend the Governance practices of the Company and improve relationships with different stakeholder groups, impacted by the operations and activity of the Company.

#### Accountability and Assurance

This principle explains the governance of the internal and external assurance environment, as well as complying with regulatory requirements of the Company.

**Objective:** To apply the proper Governance practices to create a strong internal control environment in the organisation as well as creating strong adherence to regulatory requirements applicable.



## STRUCTURE OF ANNUAL CORPORATE GOVERNANCE REPORT

The core principles make sure that a proper leadership is in place to manage stakeholder interests while maintaining their accountability and providing assurance to the shareholders of the Company.

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# CORPORATE GOVERNANCE

## INTEGRATING CORPORATE GOVERNANCE TO COMPANY STRATEGY

### How Corporate Governance enhances the Strategic Objectives

The Company has built its strategy on the pillar of "Sustainable Business". In order to realise the short, medium and long term targets of this strategy the Company has 5 strategic objectives. Further details on the Company strategy and strategic objectives are available in pages 52-54.



**Most Caring Life Insurer**



**Smart IT Digitization**



**Kings of Data**



**Phenomenal Sales**



**Lean and Fast**

The Corporate Governance Framework plays a vital role in the achievement of the strategic targets of the company.






While Governance and Risk Management are direct extensions of the Corporate Governance Framework, the below table shows in detail how

the governance framework contributes towards the strategic objectives of the company.

- Input created by the Governance Framework – This column explains how and the ways of which the Governance Framework has contributed to realising the Strategic Objective.

- Governance Framework Components – This columns show the components from our Corporate Governance structure that links to each input created.
- Governance Effectiveness Measurements – This column describe the key measurements used to monitor the effectiveness of the governance executed for each strategic objective.



Table: Enhancement of Strategic Objectives and value creation through Corporate Governance

Strategic Objective	Input created by the Governance Framework	Governance Framework Components
 <p><b>Most Caring Life Insurer</b></p>	Encouraged and designed by proper management input, the governance framework is equipped with an execution mechanism that makes sure that the relationship with our customer is a strong, ethical, transparent and value creating to the customer.	<ul style="list-style-type: none"> <li>• The Board of Directors, Corporate Management – Leadership Section</li> <li>• Operations Governance</li> <li>• Performance Governance</li> </ul>
 <p><b>Smart IT Digitisation</b></p>	The governance framework is designed to allow and promote innovation, which is driven through employee creativity by making them key stakeholders as well as harnessing the development of IT, with a dedicated governance execution component.	<ul style="list-style-type: none"> <li>• IT Governance</li> <li>• IT Steering Committee</li> <li>• Product Development Committee</li> </ul>
 <p><b>Kings of Data</b></p>	Emphasis on the use of data for decision-making through the governance execution of the IT function, which focuses on aligning the data-led strategy of the Company with the IT strategy.	<ul style="list-style-type: none"> <li>• IT Governance</li> </ul>
 <p><b>Phenomenal Sales</b></p>	The Governance Framework is designed to create a performance based culture in an ethical manner within the Board, Management, employees and the sales force. Through the culmination of these, strong sales performance is delivered in an ethical and non-fraudulent manner, controlled by the Code of Conduct and the Assurance Framework.	<ul style="list-style-type: none"> <li>• Performance Governance</li> <li>• Code of Conduct</li> <li>• Sales Governance Policy</li> <li>• Remuneration Policy of the Board and Management</li> </ul>
 <p><b>Lean and Fast</b></p>	To create lean and fast operations, skills development, fair treatment and creating a transparent culture in the Company for the employees is a critical component which is delivered by the governance execution framework.	<ul style="list-style-type: none"> <li>• Operations Governance</li> </ul>

**How Corporate Governance supports the value creation process**

All Capitals of the organisation are affected by external Governance Benchmarks, while the Internal Governance Benchmarks and their connection to the Capitals can be described as below.

Table: Creating Value in Organisation Capitals through Corporate Governance

<b>Financial Capital</b>		The Governance Framework promotes integrity in Financial Reporting and operations through complying with internal governance policies such as Manual of Financial Authority (MoFA), as well as polices related to Treasury and Reinsurance functions.
<b>Human Capital</b>		Remuneration Policy, Whistleblower Policy and Sales Governance Policy and related policies makes sure the employees of the Company, including the sales force, are provided with a transparent and equal opportunity/treatment environment where they can develop their skills and perform well.
<b>Social and Relationship Capital</b>		Promotion of innovation is embedded in policies that govern functional policies such as IT, Operations, Finance, Procurement, IT, HR, Treasury policies which contribute to the innovative culture of the Company.
<b>Intellectual Capital</b>		Internal Policies such as the Sustainable Governance Policy, Anti-Money Laundering and Anti-Terrorist Financing policies makes sure the Company creates value for the community and the society.
<b>Manufactured Capital</b>		Business Continuity and Disaster recovery policies as well as protection and proper use of Company assets directed in the Code of Ethics ensure the continuous functioning of the branch network and their proper care and use.
<b>Natural Capital</b>		Further, being eco-friendly and conservation of the environment by the company is highlighted by the Sustainable Governance Policy as well.

Governance Effectiveness Measurements	Highlight for 2020
<ul style="list-style-type: none"> <li>Number of customer experience enhancement initiatives the board review and approve</li> <li>Whistle Blowing, customer complaints handled</li> </ul>	<ul style="list-style-type: none"> <li>The Board has reviewed 14 Customer experience enhancement initiatives. More details on pages 102-103.</li> <li>15 Whistle blowing cases were evaluated, 148 Customer complaints reported in 2020, out of which 142 resolved during the year. More details on page 107.</li> </ul>
<ul style="list-style-type: none"> <li>Number of new digital initiatives during the year</li> <li>Number of meetings held by the IT-Steering Committee and Product Development Committee</li> </ul>	<ul style="list-style-type: none"> <li>3 new digital initiatives launched during the year. More details on page 120.</li> <li>The IT-Steering Committee met 4 times. More details on page 193.</li> <li>The Product development committee met 4 times. More details on page 193.</li> </ul>
<ul style="list-style-type: none"> <li>Number of new data analytics, system automation projects conducted that was governed by Company IT Policies and standards</li> </ul>	<ul style="list-style-type: none"> <li>Four new digital/automation projects was launched during the year. More details on page 123.</li> </ul>
<ul style="list-style-type: none"> <li>Number of MDRT members produced</li> <li>Number of performance appraisals held</li> </ul>	<ul style="list-style-type: none"> <li>The company produced 169 MDRT members. More details on page 108.</li> <li>700 performance appraisals held. More details on page 90.</li> </ul>
<ul style="list-style-type: none"> <li>Same-day claim settlement ratio</li> <li>Number of staff training and career development sessions held</li> </ul>	<ul style="list-style-type: none"> <li>Maintained 86% Same-day Claim Settlement ratio. More details on page 102.</li> <li>1,928 hours spent and Rs. 5.8 Mn spent on staff training and development. More details on page 89.</li> </ul>

## CORPORATE GOVERNANCE

### CORPORATE GOVERNANCE INITIATIVES

Softlogic Life introduces new Corporate Governance Initiatives each year, in order to utilise the capabilities of the Corporate Governance Framework for the value creation process of the Company. The Company complies with and executes these initiatives diligently since 2017.

<b>Initiatives In 2020</b>	First Company to obtain external assurance for Integrated Reporting	<b>Future Initiatives</b>	SLFRS 17 Implementation Project
	Financial Reinsurance Transaction with Munich-Re		Refer pages 148-149
	Raising Tier II Capital through Finn fund and Nor fund.		

Figure: Corporate Governance initiatives launched up to 2020

2020	2019	2018	2017	Corporate Governance Initiative Launched
	<b>ACTIVE FOR 4+ YEARS SINCE 2017</b>			Ring-Fencing of Investment Assets
				Segregation of Funds by Implementing Fund Level Accounting in General Ledger
				Assets Share Analysis
				Expense Study
	<b>ACTIVE FOR 3+ YEARS SINCE 2018</b>			Universal Life Segment Implementation in Oracle System for Fund Level Accounting
				Ring-Fencing of Investment Assets in Universal Life Segment
				Publication of Quarterly Audited Financial Statements
				Surplus Analysis
	<b>ACTIVE FOR 2+ YEARS SINCE 2019</b>			Reinsurance Study
				Capital Projection Model
				Softlogic Life’s Initiative for Business Call to Action (BCtA)
				Embedded Value (EV) and Appraisal Value (AV)

### Corporate Governance Initiatives during 2020

#### External Assurance on Integrated Reporting

Softlogic Life proud to be the first entity in Sri Lanka to obtain external assurance on Integrated reporting practices reflecting our commitment to transparent and objective reporting towards shareholders and other key stakeholders.

#### Financial Reinsurance Transaction with Munich-Re

The Company entered a USD 15 Mn. Financial Reinsurance Transaction with MunichRe during the year, MunichRe is one of the top providers of reinsurance, primary insurance, and insurance-related risk solutions in the world.

This would help the company's growth trajectory at large which is growing at a CGAR of 29% over past 5 years. With a high new business growth this arrangement would further strengthen the stability of the company in managing the new business strain on the balance sheet.

This arrangement being an innovative market leading transaction in the South Asian Life and Health Reinsurance arena. Thus this transaction itself would considered as endorsement for the good corporate governance practices of the company

#### Raising Tier II Capital through Finn fund and Nor fund.

The Company entered a landmark transaction with Finnish Fund for Industrial Cooperation Ltd – Finn Fund and The Norwegian Investment Fund for Developing Countries during the year, which was a USD 15 Mn. investment to strengthen the Company's capital structure as Tier II subordinated debt capital.

These investors are funded by the Governments of Norway and Finland and private capital markets whose objectives are to fund sustainable development through responsible and profitable businesses across the globe.

And more significantly, this transaction is being executed amidst the ongoing COVID-19 pandemic that has impacted the entire world and this is a testament to the good corporate governance framework adopted by the Company.

## 2017-2019 Corporate Governance Initiatives

### 2017 | Ring-Fencing of Investment Assets

This initiative encompasses many benefits for policyholders as it further enhance the transparency of the business of the Company by enabling the Company to carry out fund -wise investment activities, to evaluate fund level performance measurements and to allocate precise benefits to policyholders' fund based on the performance of the fund.

The custodian accounts opened to physically segregate the financial investments with the aim of ring-fencing the assets to each fund have been properly maintained.

### 2017 | Segregation of Funds by implementing fund level Accounting in General Ledger.

The Company continued to maintain separate ledgers for the Participating policyholder segment, Non-Participating policy holder segment and Shareholder segment in Oracle EBS, which is the Company's core accounting application.

This initiative has enhanced the transparency to the Policyholders by ensuring the clear segregation of assets and liabilities of each funds.

### 2017 | Assets Share Analysis

In the year 2017 the Company developed initial asset share for participating in business by engaging Messrs. Willis Towers Watson India Private Limited which is a globally recognised actuarial firm. This exercise enables the Company to declare an accurate bonus to policyholders.

The study proves that the Company is allocating the bonuses to the participating policyholders on a fair basis and it further proves the Company is on the right track to maximise the policyholders' value.

### 2017 | Expense Study

This study enables the Company to develop an expense allocation framework which enhances the appropriateness of expense attribution and quality of assumption setting for various actuarial applications. The study was concluded by identifying the most appropriate allocation basis for each type of expense for the Company. With this, the Company can assure the transparency in allocating expenses to its policyholders.

The Messrs. Willis Towers Watson India Private Limited, a globally recognised actuarial firm, assists the Company in carrying out this expense study and developing an expense allocation framework for the Company.

### 2018 | Universal Life Segment Implementation in Oracle System for Fund Level Accounting

In compliance with the initiatives taken in year 2017 to implement maintaining Fund Level GLs in the core Finance system of the company, Company introduced a separate set of GL segment namely the "Universal Life Segment" for the newly-introduced Universal Life product.

### 2018 | Ring-Fencing of Investment Assets in Universal Life Segment

The Company believes that good governance initiatives taken by the Company is not to reach a destination to be a journey. In line with the year 2017 initiatives taken by the Company to initiate segregating financial investments for each fund, taking one step further the Company has introduced separate custodian account for Universal Life Fund and tagged Universal Life Financial Investments separately.

### 2018 | Surplus Analysis

With the initiatives taken by the Company in year 2017 to ring-fence the financial investments into separate funds namely Participative Fund, Non - Participative Fund, Universal Life Fund and Shareholder Fund, the Company has adopted a very transparent approach to analyse surplus/profitability.

With the help of Messrs. Willis Towers Watson India Private Limited the Company was able to identify the different components contributing to the surplus/ profitability. This enables the Company to identify the key components to maximise shareholder wealth and the components which can be enhanced the quality of the Company's products by charging a fair premium to our policyholders.

### 2018 | Publication of Quarterly Audited Financial Statements

The Company has published audited Interim Financial Statements at the Colombo Stock Exchange. The Company wishes to bring greater transparency to its Financial Reporting process and this initiative will result a positive impact on the long term corporate governance aspect.

## CORPORATE GOVERNANCE

### 2019 | Reinsurance Study

Softlogic Life has several reinsurance arrangements that cover various products sold by the Company such as individual life business, credit life products, group life products, etc. The objective of this study is to assess whether any revisions, new arrangements are required to optimise the cost of reinsurance to the Company. Messrs. Willis Towers Watson India Private Limited has reviewed the reinsurance study and provides necessary input to improve the quality of the Reinsurance Study.

The study has focused on key indicators such as profitability, volatility of cash flows, capital requirement and return of capital.

The study will bring greater value addition to the shareholders and it improves the value of the Company.

The Management is keen on such initiatives which play a significant role in ensuring the long term sustainability of the Company and it proves the management is actively implementing the corporate governance journey within the company.

### 2019 | Capital Projection Model

In the year 2019 one of the key corporate governance initiatives of the Company was to build a capital projection Model. This model is a comprehensive model to analyse the capital position of the Company. The expert inputs have been taken by the Company on this significant initiative from Messrs. Willis Towers Watson India Private Limited.

This model has the capability to incorporate different stress scenarios and sensitivity analysis and has also been embedded to bring more value on the decisions. The management is able to predict different scenarios and they will know the expected results in advance. This will be a critical success factor in the long term governance practices of the Company.

### 2019 | Softlogic Life's Initiative for Business Call to Action (BCtA)

Softlogic Life's membership to Business Call to Action, a sure confirmation of company's leadership in and commitment to inclusive and sustainable business initiatives at the base of the pyramid (BoP).

Launched at the United Nations in 2008, Business Call to Action (BCtA) aims to accelerate progress towards the Sustainable Development Goals (SDGs) by challenging companies to develop inclusive business models that engage people at the base of the economic pyramid (BoP) – people with less than US\$8 per day in purchasing power – as consumers, producers, suppliers, distributors of goods and services and employees. The Company promotes the fair treatment to policyholders by engaging Business Call to Action (BCtA).

### 2019 | Embedded Value (EV) and Appraisal Value (AV)

Review of Embedded Value (EV) and Appraisal Value (AV) for the year ended 31st December 2018 by Messrs. Willis Towers Watson India Private Limited.

## SLFRS 17: INSURANCE CONTRACT

### Introduction

SLFRS 17 set to replace the interim SLFRS 4 and is a very important accounting standard for the whole insurance industry across the globe.

The significance of implementing this standard will be not limited to the accounting treatment of insurance contracts but will have a significant impact on the aspects such as management of operational data, information systems and operational process within an organization.

### SLFRS 17 Implementation of Governance

Structure SLFRS 17 will require competent human resources, technologically driven systems and

process and support of an external consultant. In order to manage the project effectively and cost efficiently the Company has formed an implementation governance structure for SLFRS 17 which is detailed below.

### Update on SLFRS 17 Implementation

The implementation of SLFRS 17 is governed by a steering committee of the Company which is headed by the Chief Financial Officer of the Company. The implementation plan has 3 main phases with specific time frames.

Phase 1 - Scope of assessing the change

Phase 2 - Scope of design and implementation

Phase 3 - Scope to sustain new practice

### Update on the Implementation Phase 1 – Scope of Assessing the Change Year 2019

The Company has received the GAP analysis report from the external consultant appointed by the company. Furthermore, Company have learnt following areas through the analysis of GAP report.

- Identified the technical gaps
- Understand applicability of models for selected products
- Understand high level system requirement Phase

### Phase 2 - Scope of design and implementation (Jan 2020 – Jun 2022)

Design of accounting policies and solutions to achieve data, system and process requirements of the project and

mobilise the business to execute the implementation plan including parallel runs.

During 2020, the Board has approved the implementation party for the project.

**Phase 3 - Scope to sustain new practice.**

Execute the dry run considering business as usual and compliance with the new requirements and executing on-going system improvements.

Figure: Governance Structure of SLFRS 17 Implementation

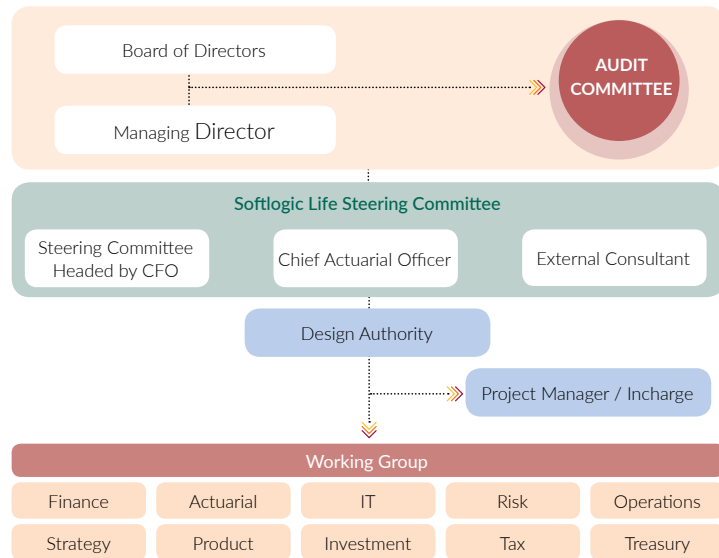


Figure: SLFRF 17 Implementation Project Plan



**MAINTAINING AND EXECUTING CORPORATE GOVERNANCE DURING COVID-19**

COVID-19 has set a new reality in the corporate environment, with focus of the society at the corporate citizenship of the leadership.

Under the pressures of managing the sharpened expectations of different stakeholders, the ability to maintain good governance within the Company and to execute corporate responsibilities would define the leadership of the company.

**The Board**

The top priority of the Board was the health and safety of the key stakeholders of the Company including employees, policyholders, business partners and the community. Therefore,

the Board supervised the methods executed by the Management in containing the spread of COVID-19 within the organisation as well as outside the organisation.

The Board let the management of the company to deal with the day-to-day requirements and conditions in the organisation while the board provided value through;

- Reviewing the strategies of the Management and their long-term impact on the business
- Providing advice and expertise to the Corporate Management on continuing business operations in the pandemic environment and transitioning to the post COVID-19 reality.

- Advising the Management on balancing stakeholder interests, which are significantly affected by COVID-19.

Due to travelling and gathering restrictions the Board had to adapt to the pandemic environment.

**Use of Digital Technology for Board Meetings**

The Board gathered virtually for Board Meetings as well as Sub-Committee meetings and made sure that their duties and responsibilities discharged without exception.

Even before the COVID-19 outbreak, the board used a digital Board application through which the Company secretary circulated Board papers digitally – which significantly improved

## CORPORATE GOVERNANCE

the effectiveness of the virtual Board and Sub-committee meetings as the Board used this technology to approve and review Board papers/resolutions.

### Information Gathering and Distribution

Amid the pandemic situation and the WFH and remote working environment, the Management made sure to maintain the integrity of information collected and provided to the Board, which enable proper decision making capabilities.

Information on the risks faced by the Company due to the pandemic as well as financial and business impacts were provided to the Board on a timely manner, including the implications from other Group companies of the Softlogic Holdings Group such as Asiri Hospitals.

### Effective Decision Making

The Managing Director liaised with the Corporate Management through the Management Committee meetings, which consists of all the Head of Departments of the Company and was utilised as the main decision making platform with regarding to COVID-19 related issues.

Due to the presence and input of all the departments of the company and the experience and knowledge of the Heads of Departments, these committee meetings facilitated the effective decision making in a timely manner while balancing the interests of different stakeholder and the proper execution strategy setting for each decision.

### Assessing the Financial Impact

The company undertook a complete reassessment of the impact of COVID-19 on the business resources and finances. Accordingly, the Company re-forecasted the sales targets, income, expenses and other related budgets of the company in accordance with the impact of COVID-19.

This information was shared with the Board and received approval from the Board prior to implementation.

### Key Disclosures and Reporting

Disclosures on the impact of COVID-19 on the Company are disclosed in the Annual Report on pages 290-291.

### Managing Communications

The Board and the Management of the Company have taken steps to ensure that the Company maintains proper communications with all the stakeholders.

The following has disclosed through the Colombo Stock Exchange website;

- The risk impact on the business and operations due to COVID-19
- How the Company responded to the impacts of COVID-19
- Company's future outlook and financial condition

The Company also maintained proper communication with the employees on working conditions and management decisions on different regulatory restrictions. Further the Company launched marketing campaigns to highlight the importance of social distancing as well as coping with the new-normal lifestyle.

Through maintaining timely communication, the Board ensure that the Company has properly managed all the key stakeholder interests and thus ensure the long-term sustainability in stakeholder management.

### Impact on Control Environment due to WFH

Due to majority of the employees WFH due to travelling restrictions, the usual control environment maintained was significantly impacted. Further access restrictions were also present due to the pandemic situation.

However, even amid the unfavourable circumstances, the Company was able to maintain proper controls via connecting and gathering information virtually. This was evident by the increased number of Audit Assurance and Forensic Reviews performed during 2020 compared to 2019. More details available on page 207.

### Role of IT amid the COVID-19 pandemic situation

In this situation IT capabilities was a catalyst to enable seamless connection among all employees and facilitate remote working conditions whilst maintaining proper employee engagement.

To satisfy these expectations, the Company launched below initiatives, in order to maintain company IT Governance strategies of Value Delivery, Integration and User Connectivity.

### Providing the required portable computing devices and software to all employees

- in order to enable them to carry out their usual work and participate/hold meetings from home without disruption and unaffected by the social distancing regulations.

### Remote Virtual Private Network (RVPN) framework was implemented

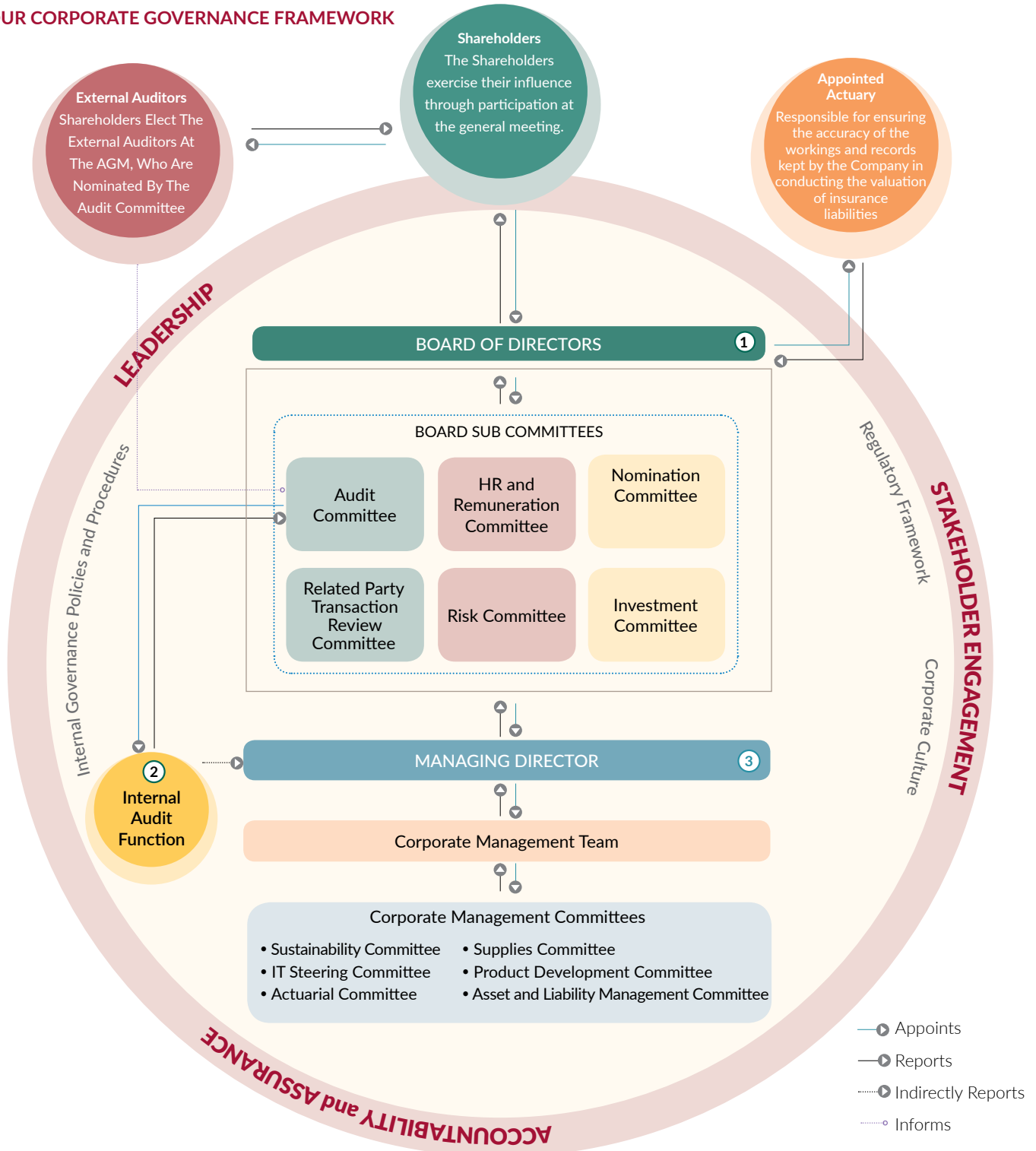
- in order to ensure the security and access control of the company information systems and devices, as employees are working-from-home and therefore not connecting via the Company network.

### Introducing digital forms through Company website

- The Company also revamped the company website to include e-forms (digital copies of forms) for requests, policy revival, etc. which enabled the customers to digitally access documents through Company website from the safety of their home, without visiting a branch.



OUR CORPORATE GOVERNANCE FRAMEWORK



1. The Nominations Committee nominates suitable candidates to be appointed to the Board. Shareholders elect the Board of Directors at the AGM. The Board has an overarching responsibility for managing Softlogic Life's affairs in the interests of the Company and shareholders.
2. Internal Audit Function reports directly to the Board Audit Committee while also indirectly reporting to the MD.
3. Managing Director is responsible for execution of the Board Strategy within the external rules and regulations.

# CORPORATE GOVERNANCE

## A. THE BOARD OF DIRECTORS

The Board of Softlogic Life Insurance PLC has a combination of independent and non-independent Directors with a diverse as well as complementary skill set, experience and vision that enables them to discharge their individual and collective responsibilities to

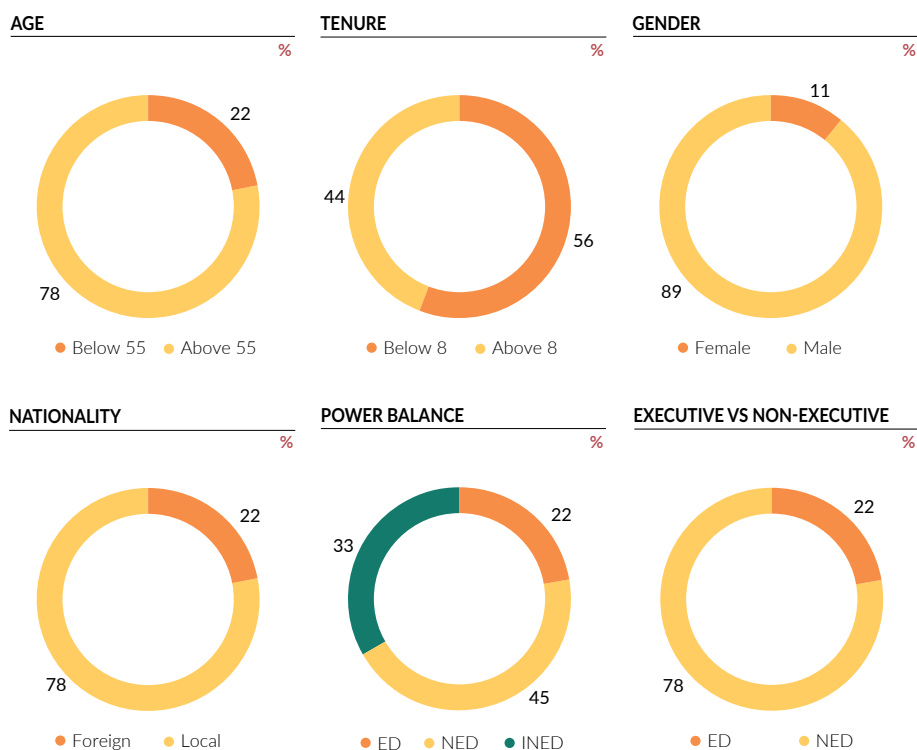
- Maintain good governance and compliance
- Provide a strong leadership to the Company
- Maintain accountability to the shareholders

**“The Board of Directors provides leadership and strategic direction to the company, within the parameters of prudent and effective governance framework as the representatives of the shareholders.”**

### A.1. COMPOSITION OF THE BOARD

Figure: Board Details and Composition

Mr. Ashok Pathirage	Mr. Sujeewa Rajapakse	Mr. Ifthikar Ahamed	Mr. Mohan Ray Abeywardena
<b>Chairman</b>	<b>Deputy Chairman</b>	<b>Managing Director</b>	<b>Director</b>
Age: 57 (Appointed 9 July 2011)	Age: 59 (Appointed 9 July 2011)	Age: 59 (Appointed 9 July 2011)	Age: 53 (Appointed 28 Sep. 2011)
Non – Executive Director (NED)	Independent Non - Executive Director	Executive Director	Independent Non – Executive Director
<b>Skills and Experience;</b> Experience in managing over 50 companies in Retail, Healthcare, Services, Telecommunications, Financial Services, IT, Leisure, Aviation and Automotive Industry.	<b>Skills and Experience</b> Expertise in Accounting Auditing, Financial Regulatory Reporting as well as overall management of both private and public sector companies.	<b>Skills and Experience</b> More than 30 years of experience in Financial Services and Banking industries in Sri Lanka as well as overseas.	<b>Skills and Experience</b> Over three decades of experience primarily in Capital Markets and Investment Banking.



### Power Balance of the Board

A majority of the Board (7 out of 9) is comprised of Non-Executive Directors.

This ensures that their views and opinions have significant influence.

Further, 1/3 of the Board are Independent Non-Executive Directors, whose judgment is not influenced by the Company and its elements. Further details on the role of Independent Non-Executive Directors are stated on pages 154.

**Financial Acumen of the Board**

The Board is comprised of multiple board members who have solid financial acumen spanning from Audit, Financial reporting and Corporate Finance as well as Investment Banking.

**Separation of the roles of Chairman and CEO**

The Board has taken further steps to balance the decision making power and authority as well as accountability of the roles of the Chairman and Managing Director by having a separate Chairman and a Managing Director, therefore avoiding one board member having unfettered power on the board. The roles of Chairman and Managing Director are provided in detail on pages 154.

**Senior Independent Director (SID)**

The Board also includes a Senior Independent Director, Mr. Sujeewa Rajapakse.

Having such an appointment further empowers the voice of independence on the Board, as well as making way for unbiased opinions and objective criticism. More details on the role of the SID can be found on pages 154.

Mr. Haresh Kaimal	Ms. Fernanda Lima	Mr. Chula Hettiarachchi	Mr. V. Govindasamy	Mr. Raimund Snyders
<b>Director</b>	<b>Director</b>	<b>Director</b>	<b>Director</b>	<b>Director</b>
Age: 55 (Appointed 7 Mar. 2018)	Age: 48 (Appointed 21 Dec. 2018)	Age: 61 (Appointed 25 Jan. 2019)	Age: 57 (Appointed 16 Jan. 2020)	Age: 57 (Appointed 2 May 2020)
Non – Executive Director (NED)	Non – Executive Director (NED)	Executive Director	Independent Non – Executive Director	Non – Executive Director (NED)
<b>Skills and Experience</b> His experience spans over 30 years in ICT sector in management of IT and Operations.	<b>Skills and Experience</b> Her experience includes Financial Services and investment in emerging markets for over 20 years.	<b>Skills and Experience</b> He has 38 years of experience in the Insurance field, equipped with overseas training.	<b>Skills and Experience</b> He has experience in management in sectors of Plantation, FMCG renewable energy and telecommunications	<b>Skills and Experience</b> He has management experience of over 27 years in Financial Services, Wealth and Investment Management.

**A.2. POWERS, ROLES AND RESPONSIBILITIES OF THE BOARD**

The Company has given significant power to the Board to enable them to effectively direct the Company within the roles, duties and responsibilities which are set out by the Articles of Association of the Company and the Companies Act No. 7 of 2007. Refer pages 173-174 for the Statement of Director Responsibility.

The Board is given significant yet appropriate levels of power, to satisfy the responsibilities assigned to them.

The Board has also been allowed to seek and utilise expert opinions from external parties where required, while the Company will reimburse the professional service fee.

All the Board members have access to the Company Secretary and hold the power to assign or remove the Company Secretary. The Company has obtained a suitable Insurance Cover for the Board, Directors and the Key Management Personnel (KMP) as well.

**The Main Roles of the Board as follows**

- Corporate strategy setting and execution via guiding the Corporate Management and monitoring their performance.
- Establish proper governance practices and ensure compliance with regulatory and other requirements vital to the company.

- Ensure proper performance management, internal controls and Risk Management environment is in place.
- Optimise performance and promote sustainable practices to increase value to the shareholder.

Key roles of the Board members are provided in detail on the next page.

# CORPORATE GOVERNANCE

Figure: Key Roles of the Board

## KEY ROLES OF THE BOARD

### The Role of Chairman

- Provides firm and objective leadership to the Board.
- Facilitating the effective discharge of the duties pertaining to the Board.
- Maintains order and smooth functioning of the Board.
- Presiding over Directors' and Shareholders' Meetings to ensure Director participation and proper execution of Board proceedings.
- Initiate self -assessment of the Board to further improve the effectiveness of the Board.
- Promote and carry out responsibilities in the best interests of good governance.

The Chairman of the Board  
**Mr. Ashok Pathirage**

A full profile of the Chairman is available on

 Pg. **134-136**

### The Role of Senior Independent Director (SID)

- Act as the element of independence and unbiased opinions on the Board.
- Provides an unbiased opinion in matters where conflict of interest may arise.
- Provide valuable input in shaping Company strategy, with their years of diverse experience and knowledge.
- Challenge and constructively support the Management in evaluating their performance.

The Deputy Chairman  
**Mr. Sujeewa Rajapakse**

A full profile of the SID is available on

 Pg. **134-136**

### The Role of CEO/Managing Director

- Taking leadership in the execution of the strategy outlined by the Board of Directors.
- Managing the Executive Management in day-to-day operations.
- Review and oversee the implementation of key initiatives to meet the objectives of the Company.
- Leading the Executive Management in achieving the corporate objectives set out by the Board and included in the corporate plan of the Company.

The Managing Director  
**Mr. Iftikar Ahamed**

A full profile of the MD is available on

 Pg. **134-136**

### The Role of Independent Non - Executive Directors

- Act as the element of independence and unbiased opinions on the board.
- Provides an unbiased opinion in matters where conflict of interest may arise.
- Provide valuable input in shaping Company strategy, with their years of diverse experience and knowledge.
- Challenge and constructively support the Management in evaluating their performance.

### The Role of Company Secretary

- Support the Board by ensuring a proper flow of information.
- Ensure that the meetings are conducted in accordance with the Articles of Association, the Board Charter, and relevant legislations.
- Formulate meeting agendas with the Chairman, MD and the other Directors.
- Coordinate with the management on Board papers, memoranda or presentations for the meetings.
- Ensure that all proceedings of the meetings are duly recorded in the minutes.
- Maintain statutory registers and filing statutory returns.

**Key Focus Areas of the Board**

Key Focus Areas are the framework which contains responsibilities of the Board, in order to achieve the strategic objectives of the Company and to properly utilise the input of the Board.

Table: Key Focus areas of the Board

Key Focus Area		2020 Update
Strategic Decision	Setting Strategic Target and New Initiatives	The Board set and reviewed Strategic Targets and new initiatives. Details on Strategic targets under each capital: pages 62-130. New initiatives for 2020 : page 146.
	Deciding the Risk Appetite and Risk Governance Review of the company	Company Risk Management Policy was discussed and reviewed by the Board. Details on pages 183-184.
	Effective use and discharge duties of Board Sub-Committees	Board Sub Committee Meetings were held and discharged duties in 2020. Further details available on pages 179-191.
	Integrating sustainable business developments into Company strategy and promote integrated reporting	Various CSR and sustainability initiatives were reviewed by the board. Refer pages 201-203 for details.
Execution and Operating Governance	Guiding and providing input to the Executive Management to execute their strategic duties	Guidance was given to Corporate Management to prepare the Corporate Plan 2021 to 2023 and evaluate the strategies implemented by the Senior Management.
	Succession planning for MD and Key Management Personnel (KMP)	Succession planning was executed by the HR and Remuneration Board Committee. Refer pages 185-186.
	Reviewing Company's values, standards and encouraging compliance with regulations	Company's values, standards were discussed by the Board including adaptation of new accounting standard. Refer pages 179-182.
	Appointment and evaluation of the skills, experience and knowledge of MD and KMPs to execute strategy and evaluating MD performance	The Board evaluated the performance of the MD and KMPs during 2020. Refer page 192 for details.
	Evaluation of Annual Budget, Major Capital Expenditure, financial delegation, appointment of auditors and other Board reserved duties	The Board reviewed various major capital expenditure and budgets through various resolutions passed in 2020.
	Considering all stakeholder interests in decision making.	The Board has analysed the impact on various stakeholders of the Company. Refer pages 44-48 for details.
Continuous Monitoring	Monitoring Strategic Plan execution and risks faced by the Company	The Board evaluated and monitored the execution of strategic plan and risks faced via Board Risk Committee.
	Monitoring periodic financial performance report publishing of the Company	Financial Performance, KPI and budget achievements were reviewed at Board meetings during the year 2020.
	Assess the effectiveness of the Board via self-evaluation	The Board carried out self-evaluations in 2020. Refer page 163 for more details.
Reporting and Compliance	Compliance with laws, governing body (IRCSL) regulation and ethical standards	A compliance and legal review were monitored and discussed through Board meetings. Refer Audit Committee report for more details on pages 179-182.
	Reporting to shareholders on their stewardship	The Corporate Governance section on pages 204-205 provide a detailed approach of stewardship activities.
	Ensuring the integrity of financial information, internal controls, risk management and Financial Statements as well as Code of Conduct	The Board reviewed the integrity of financial information, effectiveness of control and risk management environment. Refer details on respective areas on pages 179-182.
	Reviewing and approving interim and Annual Financial Statements for publication.	Declarations of the Annual Report and Financial Statements can be found on pages 179-182.

## CORPORATE GOVERNANCE

### A.3. APPOINTMENT, RE-ELECTION AND RESIGNATION OF DIRECTORS

#### Appointment

New Board appointments are carried out in a formal and transparent process as well as governed by the Articles of Association and the Company Policy.

Figure: Process of Director Appointment

#### STEP 1: Current Status

- The Nominations Committee annually evaluate the combined experience, expertise and diversity of the current Board, in order to identify if additional attributes are required for the board.

#### STEP 2: Requirement

- A new appointment of a Director may be decided based on the requirement to;
- Acquire skills, expertise and experience required/ not adequately currently represented
- Enhance the Board performance and overall effectiveness

#### STEP 3: Evaluation

- The Nominations Committee evaluates suitable candidates
- Checks their existing directorships and other commitments
- Sufficient time is available to discharge their duties at Softlogic Life Insurance PLC

#### STEP 4: Recommendation

- The Nomination Committee make their recommendations through the nominations of the Selected candidates to the Board of Directors, via transparent and formal procedure

#### STEP 5: Selection

- The final selection will be;
- Transparent, formal appointment of the new Director
- Subject to the approval of the Board, Shareholders as well as the regulatory body (IRCSL).

#### STEP 6: Announcement

- The appointment of the new Director to the Board will be communicated to the;
- Shareholders and the Colombo Stock Exchange (CSE) via press release, which will include:
- A brief resume of the newly appointed Director
- Experience and skills
- Shareholding of the Company by the new Director
- The status of independence of the new Director

#### Board Induction

There is a comprehensive Induction programme available for all newly appointed directors, which is facilitated by the Company Secretary.

Figure: Process of Board Induction

The newly-appointed Director is introduced to the Softlogic Life's business and Senior Management team.



The new Director will be apprised of the Company values, culture and the Code of Conduct.



Introduction to the regulatory directions of the IRCSL and the governance framework including the Articles of Association, Charters, Policies and procedures will also be communicated to the new Director



The responsibilities the Director will be undertaking in the prevailing legislative environment will also be informed.



Familiarity in the operations of the Company including the Company strategy, risk appetite and internal controls will be provided to the Director.

Apart from the induction programme the newly appointed Director will be a participant at Company strategy meetings where the Management will present information about critical areas of the Company, which will enhance the familiarity of the Company to the new Director and make it more comfortable to share their valuable insights for the improvement of the Company.

Table: Director Appointments during 2020

Director Name	Nature of the Directorship	Date of Appointment	Number of Shares Held
Mr. Raimund Snyders	Non Independent Non-Executive Director	05-FEB-2020	Nil
Mr. Visvanathamoorthy Govindasamy	Independent Non-Executive Director	16-JAN-2020	Nil

**Re-election**

The re-election of Directors is governed by the Articles of Association and performed at the Annual General Meeting (AGM) of the Company.

Longest serving Non-Executive Director will offer himself/herself for re-election by the Shareholders, where period of service will be considered from the last re-election or appointment.

This proposed re-election will also be subjected to Board approval.

Newly appointed Directors will resign at the first AGM, following their appointment and be available for re-election by shareholders in the same AGM.

For details of the Directors coming up for re-election at the AGM to be held on 31st March 2021, please refer the Notice of the Meeting on page 373.

**Resignation**

If a Director is terminating their directorship prior to the completion of the appointed term, they should submit a written communication to the Board confirming the resignation and the reason of resignation.

Table: Director Resignations during 2020

Director Name	Nature of the Directorship	Date of Resignation	Number of Shares Held
Mr. Rudiger Will	Independent Non-Executive Director	16-JAN-2020	Nil

**A.4. PROFESSIONAL DEVELOPMENT OF THE BOARD**

The Board regularly reviews the requirement of continuous development to expand their knowledge and expertise.

The Directors have access to:

- Seek independent professional advice at the Company's expense, if considered appropriate and necessary at any time.

- Company secretaries, Senior Management, External and Internal Auditors, experts and other external professional service providers.
- Information such as financial plans, including budgets and forecasts and periodic performance reports necessary to carry.
- Updates on regulations, best practices as relevant to the business and other matters which warrant Board attention.
- Regular presentations carried out by the Corporate Management and external experts on the business environment of the Company.

**Latest Professional Development Events Held**

**SLFRS 17 Training and Knowledge Enhancement Session**

The Board participated in a full-day training event covering a range of areas with regard to the changes in the SLFRS 17 including a presentation in the gap analysis of the current situation (as-is) and the future requirements (to-be).

The Board was also presented with a demonstration of a selection of insurance products with different characteristics and their impact after the implementation of SLFRS 17.

Further the Board was presented with the design implementation process and the actions to be executed for successful implementation.

# CORPORATE GOVERNANCE

## A.5. MAINTAINING THE INDEPENDENCE OF THE BOARD

### Assessment

Directors have been given the duty of self-assessment, to examine any compromises of independence for potential/ actual conflict of interest arising from interest in material matters personal or professional relationships which may impair unbiased judgment.

Figure: 3-step approach to eliminate conflict of interest

#### New Director Appointments

- Prior to appointing a new Director, their various conflicting interests are reviewed by the Board.

#### Existing Directors

- Any changes in the position or any changes in other interests which may compromise their independence, Directors must notify the Chairman and subsequently be reviewed by the Board.

#### Directors who have interests in a matter under discussion

- Excuse themselves discussing the matter and refrain from voting on the matter as well as properly minute such actions.

### Review and Dealing with Conflict

The Board of Directors have been given the responsibility of reviewing each case of conflict of interest and to determine the independence of character and judgement of each Director concerned.

#### Submission of Independence Declaration

The formal declaration of independence which is made annually has been submitted by all Directors in 2020.

The Board evaluates these annual declarations along with the other information at its disposal to ensure compliance with the criteria for determining independence in line with the requirements of the applicable regulations and the Code of Best Practice on Corporate Governance 2017 issued.

### Independence of Directors as at 31st December 2020

Table: Independence of Directors as at 31st December 2020

	Employment by the Company	Material business relationship	Close family member is a KMP	Significant shareholding	Service of nine or more years	Business Relationship	Director in another entity	Shareholder in another company
	1	2	3	4	5	6	7	8
Mr. Ashok Pathirage	✓	✓	✓	✓	✗	✓	✗	✓
Mr. Sujeewa Rajapakse*	✓	✓	✓	✓	✗	✓	✓	✓
Mr. Iftikar Ahamed	✗	✓	✓	✓	✗	✓	✓	✓
Mr. Ray Abeywardena*	✓	✓	✓	✓	✗	✓	✓	✓
Mr. Haresh Kaimal	✓	✓	✓	✓	✓	✓	✗	✓
Ms. Fernanda Lima	✓	✓	✓	✓	✓	✓	✗	✓
Mr. Chula Hettiarachchi	✗	✓	✓	✓	✓	✓	✓	✓
Mr. V. Govindasamy	✓	✓	✓	✓	✓	✓	✓	✓
Mr. Raimund Snyders	✓	✓	✓	✓	✓	✓	✗	✓



\* The Board noted that Mr. Sujeewa Rajapakse and Mr. Ray Abeywardena does not satisfy the criteria for 'Independence' in that they have continuously been a director of the Company exceeding nine years from the date of their first appointment.

However, taking into account all of the circumstances in that these Directors being professional and with considerable experience in the commercial sphere, the Board is satisfied and have passed a resolution in agreement to that their judgement will be exercised in the same manner as a qualified Independent Director.

Criteria in determining the Independence of the Board of Directors

1. Has not been employed by the Company during the period of two years immediately preceding appointment as Director.
2. Currently has no material business relationship with the Company directly or indirectly, nor had any during the period of two years.
3. Does not have any close family member/s who is a Director or CEO or key management personnel in the Company.

4. Does not have a significant shareholding in the Company nor is associated directly with, a significant shareholder of the Company.
5. Has not served on the Board of the Company continuously for a period exceeding nine years from the date of the first appointment.
6. Self or close family member is not a Director or employee of another company or a trustee which is materially connected to the Company in terms of shareholding or business relationship.

7. Not a Director of another Company in which majority of the other Directors are employed / Directors or have any significant shareholding.
8. Does not have any material business relationship or significant shareholding in another company in which majority of the other Directors are employed / Directors or have any significant shareholding.

The independence of the Non-Executive Directors was reviewed on the basis of the detailed criteria mentioned above.

**A.6. BOARD SUB-COMMITTEES**

While the entire Board remains accountable for the performance and affairs of the Company, it delegates certain functions and authority to sub committees and the management to assist it in discharging its duties.

This allows:

- The Board to deal more effectively with complex or specialised issues with strong governance.
- Thorough research consideration of information of the issues analysed by the committees.

- Frees up more time at Board meetings for regular business.
- Better dialogue between committee members and staff as well as community members on specific topics.
- Report to the Board on the activities, highlighting matters for the Board's attention.
- The Board Secretary acts as the Secretary to each of the Sub-Committee.

**Functioning of Sub-Committees**

- The Company maintains six Sub-Committees.
- The Sub-Committee Chairpersons are accountable for effective functioning.

## CORPORATE GOVERNANCE

Table: Board Sub-Committee details

Board Sub-Committee	Sub-Committee Objectives	Members	Committee Attributes
<b>Audit Committee</b>	Provide assistance to the Board in overseeing the Governance, Financial Reporting, Internal Audit, External Audit, Accounting Policies and Internal Control aspects of the Company.	<ul style="list-style-type: none"> <li>Mr. Sujeewa Rajapakse (CHR/ INED)</li> <li>Mr. Ray Abeywardena (INED)</li> <li>Mr. Raimund Snyders (NED)</li> </ul>	<b>67% Independence</b> <b>100% Attendance</b> <i>Refer pages 179-182 for committee report</i>
<b>Risk Committee</b>	Design and Implementation of an effective Risk Management Framework, risk measurement, monitoring and management, compliance with regulatory and internal prudential requirements.	<ul style="list-style-type: none"> <li>Mr. Raimund Snyders (CHR/ NED)</li> <li>Mr. Ray Abeywardena (INED)</li> <li>Mr. Iftikar Ahamed (ED)</li> <li>Ms. Fernanda Lima (NED)</li> </ul>	<b>25% Independence</b> <b>100% Attendance</b> <i>Refer pages 183-184 for committee report</i>
<b>Human Resources and Remuneration Committee</b>	Organisation values and code of conduct, compliance with labour laws, organisational structure, HR policies on recruitment, remuneration, benefits and talent management of the Company's employees.	<ul style="list-style-type: none"> <li>Mr. Sujeewa Rajapakse (CHR/ INED)</li> <li>Mr. Ashok Pathirage (NED)</li> <li>Mr. Ray Abeywardena (INED)</li> </ul>	<b>67% Independence</b> <b>100% Attendance</b> <i>Refer pages 185-186 for committee report</i>
<b>Related Party Transaction Review Committee</b>	Ensure that all related party transactions of the Company and its Group are consistent with the regulatory provisions laid out under LKAS 24, the Corporate Governance Directions and Listing Rules issued by the Colombo Stock Exchange.	<ul style="list-style-type: none"> <li>Mr. Sujeewa Rajapakse (CHR/ INED)</li> <li>Mr. Ray Abeywardena (INED)</li> </ul>	<b>100% Independence</b> <b>100% Attendance</b> <i>Refer pages 188-189 for committee report</i>
<b>Investment Committee</b>	Design an appropriate Investment strategy, monitor investment performance and ensure compliance with investment regulations.	<ul style="list-style-type: none"> <li>Mr. Ashok Pathirage (CHR/ NED)</li> <li>Mr. Sujeewa Rajapakse (INED)</li> <li>Mr. Iftikar Ahamed (ED)</li> <li>Mr. Ray Abeywardena (INED)</li> <li>Ms. Fernanda Lima (NED)</li> <li>Mr. V. Govindasamy (INED)</li> <li>Mr. Raimund Snyders (NED)</li> </ul>	<b>43% Independence</b> <b>94% Attendance</b> <i>Refer page 187 for committee report</i>
<b>Nomination Committee</b>	Selection and appointment of Directors and KMPs, expertise gaps, succession planning.	<ul style="list-style-type: none"> <li>Mr. Ashok Pathirage (CHR / NED)</li> <li>Mr. Sujeewa Rajapakse (INED)</li> <li>Mr. Ray Abeywardena (INED)</li> </ul>	<b>67% Independence</b> <b>100% Attendance</b> <i>Refer pages 190-191 for committee report</i>

CHR – Committee Chairman | INED – Independent Non-Executive Director | NED – Non-Executive Director | ED – Executive Director

## A.7. BOARD MEETINGS

Convening of the Board of Directors through Board Meetings facilitates them to discuss the topics of discussion in detail with their diverse knowledge and experience.

All Board Meetings are informed to the Board at the beginning of each year while all the Directors are given an opportunity to include matters of concern in the agenda.

### Information Supply to the Board

Information provided to the Board is of required quality and substance that will enable them to adequately discharge their duties.

- Information for the Board is uploaded into a mobile application, on a monthly basis, through which Directors are able to:
  - ✓ View the Board packs and Board papers provided by the management
  - ✓ Request additional information
  - ✓ Provide their comments and feedback
- All Directors have independent access to the Company Secretary and the discretion to obtain external advice.

### During the Board Meeting

The Board takes on issues under consideration and has access to Key Management Personnel during the Board meeting, who are called in by the Board for matters relating to their respective areas.

The Directors are also able to join virtually via telephone or video conference.

The Chairman:

- Facilitates constructive dialogue between all Directors at Board meetings while maintaining a balance of power between Executive and Non-Executive Directors.
- Ensures effective participation and contribution from all the Directors within their respective capabilities.

The Sub-Committee Chairman:

- Provide updates on the matters discussed at the Sub Committee meetings.

The Managing Director:

- Gives a complete and comprehensive update on the operations and financial performance of the Company as well as on industry trends and development.

The Company Secretary:

- Attends Board meetings and ensures that applicable rules and regulations are complied with.
- Recorded the Board meeting minutes.

Please refer page 162 for a summary of participation in Board meetings

### The Board Meeting Preparation Process

The Company maintains an efficient and effective process in preparing the Board members for the Board meetings of the Company.

In certain situations, where additional Board meetings are required for the discussion of specific issues or topics for urgent matters, these papers are submitted at short notice as an exception for the ordinary Board meeting process.

Figure: Board Meeting Preparation Process

1. The Chairman prepares the agenda for the meeting with the consultation of the Managing Director, Directors and Company Secretary
2. The Notice of Meeting, Agenda and Board Papers are circulated among the Board members, 7 days in advance by the Company Secretary
3. Board members utilise the period of the advance notice to review the information, request additional information, study the agenda and prepare for the board meeting.

### After the Board Meeting

The Board follows up and demands information on issues that were brought up at the Board Meetings. The information is shared through the Company Secretary by the KMPs of the relevant areas as well as the Directors will be familiarised in any areas of the business operation if the requirement arises.

Any absentee for a meeting would be briefed on the meeting proceeds via circulation of the Board meetings which is done 2 weeks after the Board meeting took place.

## CORPORATE GOVERNANCE

### Board Attendance during 2020

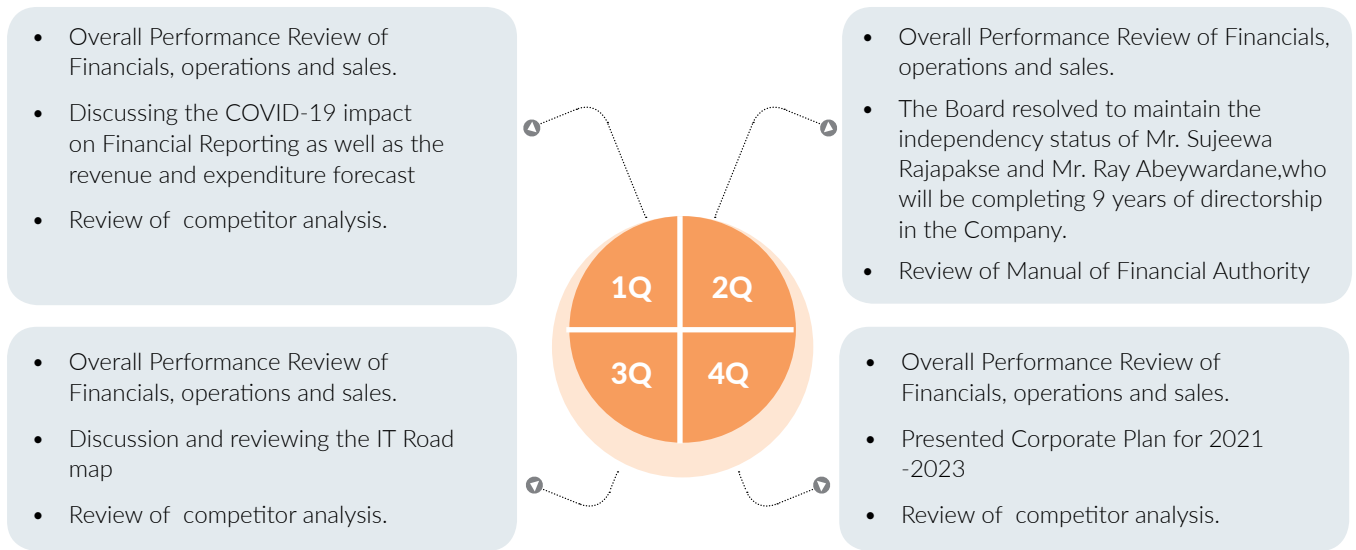
The Board met four (4) times during the year. The Board is aware of other commitments of its Directors and is satisfied that all Directors allocate sufficient time to enable them to discharge their responsibilities at Softlogic Life effectively.

Table: Director Participation in Board Meetings and Sub-Committee Meetings

	Board Meetings	Audit Committee	HR and Remuneration Committee	Nomination Committee	Risk Committee	Investment Committee	Related Party Committee
<b>Independent Non- Executive Directors</b>							
Mr. Sujeewa Rajapakse	4/4	5/5	1/1	1/1		3/3	4/4
Mr. M. R. Abeywardena	3/4	5/5	1/1	1/1	4/4	3/3	4/4
Mr. V. Govindasamy	3/4					2/2	
<b>Non-Executive Directors</b>							
Mr. Ashok Pathirage	4/4		1/1	1/1		2/3	
Mr. Haresh Kaimal	4/4						
Ms. Fernanda Lima	4/4				4/4	3/3	
Mr. Raimund Snyders	4/4	4/4			2/2	1/1	
<b>Executive Directors</b>							
Mr. Iftikar Ahamed	4/4				4/4	3/3	
Mr. Chula Hettiarachchi	4/4						
<b>Total Meeting Attendance</b>	94%	100%	100%	100%	100%	94%	100%
<b>Meeting Agenda Circulation</b>	1 week in advance	1 week in advance	1 week in advance	1 week in advance	2 week in advance	1 week in advance	1 week in advance

● Member ● Chairman

### Key Activities of the Board during 2020

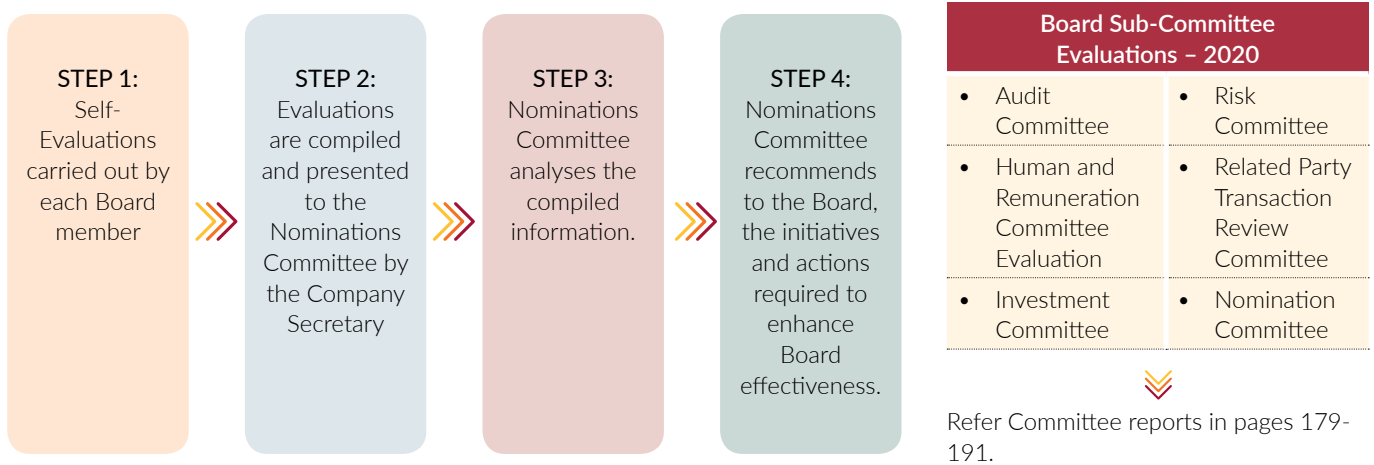


**A.8. BOARD COMPETENCY EVALUATION**

The Board periodically appraise their performance in order to ensure that they adequately meet the responsibilities as set out in the Board Charter.

The assessment of the Board is carried out as a Self-Assessment by the Board of Directors. The Nominations Committee has been given the responsibility of evaluation of the self-appraisals of the Directors and provides its recommendation to the board.

Figure: Board Evaluation Process



**Evaluation of the CEO/Managing Director**

The Board, with the consultation of the MD, determines the annual targets that are given to the MD at the beginning of the year.

These annual targets are comprised of both financial and non-financial targets that are in line with the short, medium and long-term objectives of the corporate strategy.

The performance of the Managing Director is appraised by the Board at the end of the year.

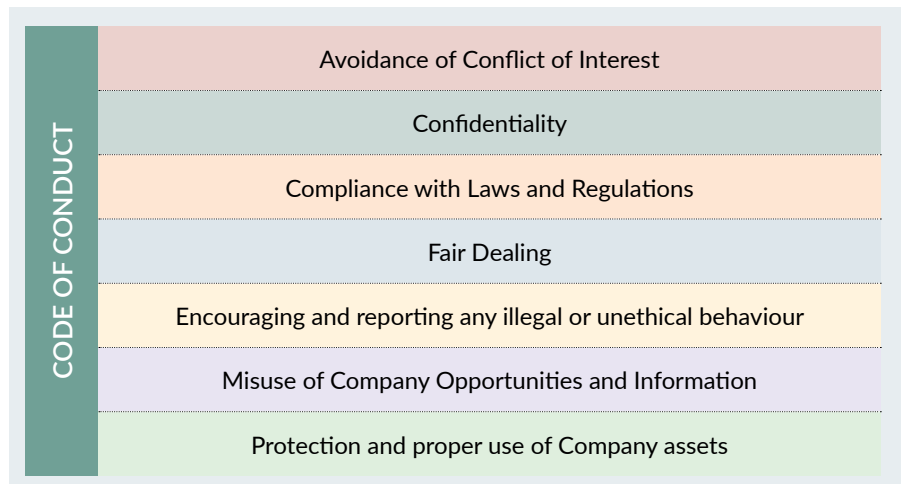
**A.9. CODE OF CONDUCT AND ETHICS FOR DIRECTORS**

All employees of the Company including the Senior Management and the Board are mandated to comply without exception the Code of Conduct at all times including;

- When on official duty at office or at external events and at public settings representing the Company.
- When on personal business where the actions of an individual can reflect on the Company.

The Boards compliance with the Code of Conduct is declared by the Chairman of the Board on page 141.

Figure: Code of Conduct of the company



# CORPORATE GOVERNANCE

## Avoidance of Conflict of Interest

Conflict situations can arise when one's private interests interfere or appear to interfere, in any way, with the interests of the Company.

Directors are prohibited from taking for themselves or their own companies or other companies with which they have a fiduciary relationship, any opportunities arising as a result of the Director holding a directorship in the Company, unless such opportunities are fully disclosed by such Directors.

## Fair Dealing

The Board should deal fairly with all stakeholders such as customers, employees, suppliers, shareholders, etc. and should not take unfair advantage through unfair dealing practices.

## Confidentiality

Directors must maintain the confidentiality of non-public proprietary information entrusted to them by the Company or its customers or other parties with whom the Company does business, except when such disclosure is authorised or legally required.

This principle applies to all communications, whether oral, written or electronic.

## Compliance with Laws and Regulations

Directors are expected to carry out their responsibilities in compliance with all laws, rules and regulations applicable to the Company and with the highest standards of business ethics.

## Protection and proper use of the Company assets

All Directors must protect the Company's assets and ensure efficient use.

## Encouraging and reporting any illegal or unethical behaviour

Directors are expected to promote ethical behaviour and create a culture of compliance with all applicable laws, rules and regulations.

## Misuse of Corporate Opportunities and Information

Directors are expected not to use opportunities discovered through use of corporate property, information or property, for personal gain or to compete with the Company directly or indirectly at any given time.

## A.10. BOARD REMUNERATION

The Company has established a formal and transparent procedure on remuneration for individual Directors.

Remuneration of Executive Directors are;

- Competitive with comparable Company salary ranges in order to retain them within the company.
- Have a performance-based component that is designed to match the shareholder interests and Company strategies.

Non-Executive Directors are only paid the Director Fee, based on their participation in Board and Sub Committee meetings.

### Share Option Plans for Directors

No Director has been granted share options as part of their remuneration.

### Involvement of the Remuneration Committee

The Company has a Human Resources and Remuneration Committee who have been delegated the role of making recommendations to the Board with regard to the remuneration of the individual Directors.

The HR and Remuneration Committee is comprised of 3 board appointed Non-Executive Directors, of which majority (2/3) are Independent, including the Chairman of the sub- committee.

With such composition in the sub-committee, the company makes sure that no Director will be involved in deciding their own remuneration.

Further details of the HR and Remuneration Committee can be found in Pages 185-186.

## B. DISCLOSURE AND EXECUTION OF LEADERSHIP RESPONSIBILITIES

### ANNUAL REPORT OF THE BOARD OF DIRECTORS

Annual Report of the Board of Directors on the Affairs of the Company and Statement of Compliance of the Contents of the Annual Report as Required by Section 168 of the Companies Act No. 07 of 2007.

#### 1. PREFACE

The Directors have pleasure in presenting to the shareholders Integrated Annual Report of Softlogic Life Insurance PLC (“the Company”) together with the Audited Financial Statements of the Company for the year ended 31st December 2020 and the Independent Auditors’ Report on those Financial Statements conforming to all relevant statutory requirements. This Report provides the information as required by the Companies Act No. 07 of 2007, Insurance Industry Act No. 43 of 2000 and amendments thereto, the Listing Rules of the Colombo Stock Exchange (CSE) and the recommended best practices.

This Report was approved by the Board of Directors on 8th March 2021. The appropriate number of copies of the Annual Report have been submitted to the CSE and to the Sri Lanka Accounting and Auditing Standards Monitoring Board within the statutory deadlines.

The Company is a Licensed Insurance Company registered under the Insurance Industry Act No. 43 of 2000 and was incorporated on 21st April 1999 under the Companies Act No 17 of 1982 and was re-registered as per the requirements of the Companies Act No. 07 of 2007 on 6th July 2007, under the Registration No. PQ 31.

The registered office of the Company is situated at Level 16, One Galle Face Tower, Colombo 2, Sri Lanka where the Company’s Head Office too is situated.

The ordinary shares of the Company are quoted on the Diri Savi Board of the CSE since November 2000. The ultimate parent of the Company is Softlogic Holdings PLC, while Softlogic Capital PLC holds 51.69% as at 31st December 2020. As required under Section 168 of the Companies Act No. 07 of 2007, the following information is disclosed in this Report prepared for the year ended 31st December 2020;

Information Required to be Disclosed as per the Companies Act No. 07 of 2007	Reference to the Companies Act	Annual Report Page Reference for Compliance and Necessary Disclosure
i) The nature of the business of the Company together with any change thereof during the accounting period	Section 168 (1) (a)	Refer page 166 for ‘Principal Business Activities, Nature of Operations of the Company and Ownership on page 13.
(ii) Signed Financial Statements of the Company for the accounting period completed in accordance with Section 152.	Section 168 (1) (b)	The Financial Statements of the Company for the year ended 31st December 2020 have been prepared in accordance with the requirements of the Sri Lanka Accounting Standards and comply with the requirements of the Companies Act No. 07 of 2007 and Insurance Industry Act No. 43 of 2000 and which were duly certified by the Chief Financial Officer (the person responsible for the preparation of the Financial Statements) and were approved by two members of the Board as appearing on pages 252-353 form an integral part of this Report.
(iii) Auditors’ Report on the Financial Statements of the Company	Section 168 (1) (c)	Refer pages 248- 251 for the “Independent Auditors’ Report”.
(iv) Accounting policies of the Company and any change therein.	Section 168 (1) (d)	Note to the Financial Statements: Significant Accounting Policies adopted in the preparation of the Financial Statements of the Company are given on pages 257-353.  There were no changes to the Accounting Policies used by the Company.

## CORPORATE GOVERNANCE

### ANNUAL REPORT OF THE BOARD OF DIRECTORS

Information Required to be Disclosed as per the Companies Act No. 07 of 2007	Reference to the Companies Act	Annual Report Page Reference for Compliance and Necessary Disclosure
(v) Particulars of the entries made in the Interests Register of the Company during the accounting period.	Section 168 (1) (e)	The Company maintains interest Registers.  All Directors have made declarations as required by Sections 192 (1) and (2) of the Companies Act aforesaid and all related entries were made in the Interest Registers during the year under review.  The Interest Registers are available for inspection by shareholders or their authorised representatives as required by Section 119 (1) (d) of the Companies Act No. 07 of 2007.
(vi) Remuneration and other benefits paid to Directors of the Company during the accounting period	Section 168 (1) (f)	Refer Note 21 to the Financial Statements on page 304.  Also refer the Human Resources and Remuneration Committee Report on pages 185 to 186.
(vii) Total amount of donations made by the Company during the accounting period	Section 168 (1) (g)	Refer Item 5.6 on page 169.
(viii) Information on Directorate of the Company during and at the end of the accounting period	Section 168 (1) (h)	Refer Item 4.1 on page 167-168.
(ix) Separate disclosure on amounts payable to the Auditors as Audit Fees and Fees for other services rendered during the accounting period by the Company	Section 168 (1) (i)	Note 21 to the Financial Statements on page 304.
(x) Auditors' relationship or any interest with the Company	Section 168 (1) (j)	Refer Item 20.3 on page 71.
(xi) Acknowledgement of the contents of this Report/Signatures on behalf of the Board	Section 168 (1) (k)	Refer Item 28 on page 172.

## 2. REVIEW OF BUSINESS

### 2.1 Vision, Mission and Corporate Conduct

The Company's Vision and Mission Statements are exhibited on page 13 of the Annual Report.

The business activities of the Company are conducted maintaining the highest level of ethical standards in achieving its Vision and Mission, which reflects our commitment to high standards of business conduct and ethics.

### 2.2 Principal Activity

The principal business activity of the Company is Life Insurance business which has remained unchanged during the financial year as per the requirement of Section 168 (1) (a) of the Companies Act No. 7 of 2007.

### 2.3 Review of Operations of the Company

The Company's sense of innovation has brought in a lot of momentum into its business, further driving brand loyalty amongst customers and stakeholders who feel pride in associating with Company. More details provided in

"Chairman's statements pages 25-27, Management Discussion and analysis pages 32-58 and Notes to the financial statements: Operating segments pages 347-349.

## 3. FUTURE OUTLOOK

The Company is more energised about the economy's future outlook and industry's future prospects with the Government articulating its goals to achieve GDP growth of 5.3% in 2021 and 5% in 2022, while advance economies, emerging and developing economies as a whole is expected to grow 6% in 2021 and 5.1% in 2022.



Further expect US\$4,250 per capita income in 2021, prospects for the Life Insurance sector to be uptick in the post COVID-19 era.

#### 4. DIRECTORS OF THE COMPANY

##### 4.1 Information on Directors as at 31st December 2020

The Board of Directors of the Company as at 31st December 2020 consisted of nine Directors (9 in 2019) with wide financial and commercial knowledge and experience as detailed in the 'Board of Directors Profiles' on pages 134-136.

The names of the Directors of the Company who held the office during the year and as at the end of 2020, as required by the Section 168 (1) (h) of the Companies Act No. 07 of 2007, are given below:

Name of the Director	Executive/Non-Executive	Independent/Non-Independent
Mr. Ashok Pathirage - Chairman	Non-Executive	Non-Independent
Mr. Sujeewa Rajapakse - Deputy Chairman	Non-Executive	Independent
Mr. Iftikar Ahamed - Managing Director	Executive	Non-Independent
Mr. Ray Abeywardena - Director	Non-Executive	Independent
Mr. Haresh Kaimal - Director	Non-Executive	Non-Independent
Mr. Chula Hettiarachchi - Director	Executive	Non-Independent
Ms. Fernanda Lima-Director	Non-Executive	Non-Independent
<b>New appointment made during the year</b>		
Mr. V. Govindasamy - Director	Non-Executive	Independent
Mr. Raimund Snyders - Director	Non-Executive	Non-Independent

##### 4.2 Board meetings and Board Sub Committee Meetings

The Director's participation in Board meetings and sub-Committee meetings in given in page number 162.

Board Sub- Committees	Committee Report Reference
Audit Committee	Pages 179-182
Risk Management Committee	Pages 183-184
Human Resources and Remuneration Committee	Pages 185-186
Investment Committee	Page 187
Related Party Transaction Review Committee	Pages 188-189
Nomination Committee	Pages 190-191

##### 4.3 New Board Appointments during 2020

Mr. Raimund Snyders and Mr. V. Govindasamy appointed to the Board respectively on 5th Feb and 16th Jan 2020.

##### 4.4 Retirement and Re-election

The Board appointed Nomination Committee to recommend the re-election of the following Directors, after considering the Declarations submitted, Directors to retire by rotation:

- To re-elect Mr. Mohan Ray Abeywardena who retires by rotation in terms of Articles 98 (a) of the Articles of Association of the Company as a Director of the Company.

##### 4.5 Review of Performance of Board

The performance of the Board is evaluated through a formalised process and details are discussed on page 163.

##### 4.6 Disclosure of Directors' dealing in shares

Individual ordinary voting and non-voting share holdings of persons who were Directors (including CEO) of the Company at any time during the financial year refer investor relations in page 364.

##### 4.7 Directors interest register

In terms of the Companies Act No 07 of 2007 an Interest Register was maintained during the accounting period under review. All the Directors of the Company have disclosed their interest in other Companies to the Board and those interests are recorded in the Directors interest register. Confirming to the provisions of the Companies Act no 7 of 2007.

##### 4.8 Directors interest in contracts or proposed contracts

Directors' interests in contracts or proposed contracts with the Company, both direct and indirect are disclosed on page 176 as per the requirement.

The Directors have also disclosed transactions, if any, that could be classified as Related Party Transactions in terms of the Sri Lanka Accounting Standard – LKAS 24 on "Related Party Disclosures". Please refer Note 46 to the Financial Statements on pages 349-351 for those transactions disclosed by the Directors. These interests have been declared quarterly at Board Meetings.

Directors have no direct or indirect interest in any other contract or proposed contract with the Company

## CORPORATE GOVERNANCE

### ANNUAL REPORT OF THE BOARD OF DIRECTORS

other than disclosed in the Director's interest in contracts with the Company.

#### 4.9 Directors fees and remuneration including Post-Employment benefits

The amount of the Directors' fees and Remuneration paid during the year is Rs. 83.7 million. Refer Note 21 in page number 304.

Directors are not entitled to obtain loans of any kind from the Company. Further details are provided on pages 185-186 of the Human Resource and Remuneration Committee report as per the requirement of Section 168 (1) (f) of the Companies Act No 07 of 2007.

Executive Director's remuneration is decided by the Board with the recommendation of the Human Resource and Remuneration Committee, in consideration of the individual and Company performance.

#### 4.10 Directors' insurance

The Company has paid an insurance premium in respect of an insurance policy for the benefit of the Directors of the company as defined in the insurance policy during the financial year. In accordance with commercial practice, the insurance policy prohibits disclosure of the terms of the policy, including the nature of the liability insured against and the amount of the premium.

#### 4.11 Statutory Payments of Directors

The Directors, to the best of their knowledge and belief are satisfied that all statutory payments including all taxes, duties and levies payable by the Company due to the Government, other regulatory institutions and related to the employees have been made on time or where relevant provided for.

#### 4.12. Directors' responsibility for financial reporting

The Directors are responsible for the preparation of Financial Statements of the Company in conformity with the requirements of relevant Sri Lanka

Financial Reporting Framework and Sri Lanka Accounting Standards (Mandated by the Act No. 15 of 1995 and the Companies Act No. 07 of 2007] which reflect a true and fair view of the financial position and performance of the Company. The "Statement of Directors' Responsibility" appearing on pages 173 to 174.

#### 5. A SYNOPSIS OF THE COMPANY'S PERFORMANCE IS PRESENTED BELOW.

For the year ended 31st December	Note Reference	Page Reference	2020 Rs.'000	2019 Rs.'000
<b>Financial Results</b>				
Gross Written Premium	8	297	15,660,116	12,531,283
Profit Before Taxation (PBT)	21	304	2,130,347	2,603,558
Income Tax Expenses	22	304	(608,864)	(430,715)
Profit After Tax (PAT)			1,521,483	2,172,843
Un-appropriated Profit Brought Forward			8,562,220	7,073,421
Profits Available for Appropriation			10,083,703	9,246,264
<b>Appropriations</b>				
Actuarial losses on defined benefit plans			4,648	(17,084)
Impact of Adoption of SLFRS 9			-	(20,766)
Realised losses on equity instruments (According to SLFRS 9)			-	(102,444)
Dividend Paid			-	(543,750)
Un-appropriated Profit Carried Forward			10,088,351	8,562,220
<b>Reserves As at 31st December</b>				
Stated Capital			1,062,500	1,062,500
Revaluation Reserve			92,708	92,708
Fair Value Reserve / Available-for-Sale Reserve			(1,307,312)	1,498,509
Regulatory Reserve			798,004	798,004
Retained Earnings			9,290,347	7,764,216
Total			9,936,247	8,218,919

#### 5.1 Financial Performance Analysis -2020

The Profit Before Tax of the Company amounted to Rs. 2,130 million. (Rs. 2,604 million In 2019) and this is an decrease of 18.2%. Further, the Profit After Tax of the Company amounted to Rs. 1,521 million in 2020 (Rs. 2,173 million in 2019) and this was a decrease of 30% in 2020. Information on the movement of reserves is given in the Statement of Changes in Equity on page 255 and Notes 36 to 39 to the Financial Statements on pages 334-335.

## 5.2 Reserves

The reserves consist of Fair Value Reserve, Revaluation Reserve, Restricted Regulatory Reserve and Retained Reserves. The details and movements of reserves are disclosed in Notes 38 to 39 to the Financial Statements on pages 334-335 and in the Statement of Changes in Equity on page 255 to the Financial Statements.

## 5.3. Taxation

Income taxes are computed based on rates enacted or substantively enacted as at the Reporting Date. The income tax rate applicable to the Company's operations for the year under review is 28%.

The Company has recognised deferred tax asset extent to which future taxable profits will be available to utilise the available tax losses in foreseeable future.

## 5.4. Financial Investments

Financial investments mainly comprise the Company's investment portfolios, which have been segregated into different categories as required by Sri Lanka Accounting Standards (SLFRS/ LKAS). The amount of financial investments held by the Company as at 31st December 2020 amounted to Rs. 27,368 million (2019 - Rs.14,911 million). A detailed description of the financial investments is enclosed in Note 30 to the Financial Statements on pages 321-330.

## 5.5. Capital Commitments

Details of capital commitments as at 31st December 2020 are provided in note 47 on pages 351-352.

## 5.6. Donations

There were no donations made by the Company during the year.

## 5.7. Property, Plant and Equipment Capital Expenditure

Information on Property, Plant, Equipment and Intangible assets of the Company are given in Notes 27 and 26

to the Financial Statements on pages 309-310 to 310-315 respectively.

## Valuation of Land and Building

All land and buildings owned by the Company was revalued. Specific information on extent, location, valuations of the land and buildings held by the Company are given in Notes 27.12 to the Financial Statements on page 314.

## 5.8. Market value of properties

The revaluation process for the land and buildings of the Company was carried out by a professionally qualified independent valuer and the Board of Directors of the Company is of the opinion that the revalued amounts are not in excess of the current market values of such properties.

The next revaluation exercise on the freehold land and buildings of the Company will be carried out as at 31st December 2021.

## 5.9 Intangible Assets

The carrying value of intangible assets as at the Reporting Date amounted to Rs. 0.4 million (2019 - Rs. 0.5 million). Movement of intangible assets from the balance as at 01st January 2020 to the balance as at 31st December 2020, additions and disposals made, together with the amortisation charge for the year, are set out in Note 26 to the Financial Statements on pages 309-310.

## 6. INVESTOR RELATIONS

### 6.1 Stated Capital

The Stated Capital of the Company as at 31st December 2020 was Rs. 1,062,500,000 comprising 375,000,000 fully paid ordinary shares. The details are provided in Note 36 to the Financial Statements on page 334. There was no change in the Stated Capital during the year.

### 6.2 Issue of Shares

During the year Company has not issued any shares to raise new capital.

## 6.3 Issue of Tier 2 capital

Finnish Fund for Industrial Cooperation Ltd - Finn fund and The Norwegian made an investment of USD 15 Mn to strengthen the company's capital structure as Tier II subordinate debt capital. This initiative was carried out in according to the guidelines of Solvency Margin (Risk Based Capital) Rules of 2015

## 6.4 Financial Reinsurance

During the year the company has entered to a USD 15 Mn financial re-insurance arrangement with MunichRe, one of the top providers of reinsurance, primary insurance, and insurance related risk solution in the world.

## 6.5 Share Information

### Distribution Schedule of Shareholdings

Information on the distribution of shareholding and the respective percentages are given in the Section on 'Investor Relations' on pages 363-364.

### Information on Earnings, Dividend, Net Assets and Market Value

Information relating to earnings, dividend, net assets and market value per share is given on page 362. Information on the trading of the shares and movement in the number of shares represented by the Stated Capital of the Company is given in the Section on 'Investor Relations' on pages 363-364.

### Substantial Shareholdings

Names of the top twenty shareholders for voting shares, percentages of their respective holdings and percentage holding of the public, etc. are given in the Section on 'Investor Relations' on pages 364 to 365.

### 6.6 Information on ratios, market prices of shares and credit rating

Information that requires disclosures as per Rule 7.6 (xi) of the Listing Rule of the CSE are given in the Section on 'Investor Relations' on page 362.

## CORPORATE GOVERNANCE

### ANNUAL REPORT OF THE BOARD OF DIRECTORS

#### 6.7 Equitable treatment to shareholders.

The Company has ensured at all times that all shareholders are treated equitably.

#### 7. MINIMUM CAPITAL REQUIREMENTS

Insurance Regulatory Commission of Sri Lanka (IRC SL) by its Gazette dated 07th May 2013 has increased the Minimum Capital requirement for all Insurance companies to Rs. 500 million with effect from 11th February 2015.

The Company has an issued and fully paid stated capital of Rs. 1,062.5 million (2019 - Rs. 1,062.5 million) and therefore fulfilled this statutory requirement.

#### 8. TOTAL AVAILABLE CAPITAL (TAC)

In addition to the above, insurance Companies are required to maintain minimum of Rs. 500 million as Total Available Capital (TAC) as per solvency margin (Risk Based Capital) rules 2015 with effect from 01st January 2016. The Company maintains Rs. 19,941 million as at 31st December 2020 which is well above the minimum requirement. Details of the TAC is given on page 291 and in Note 6.8 to the Financial Statements.

#### 9. COMPLIANCE WITH RULES AND REGULATIONS

The Company has complied with the regulations issued by the Insurance Regulatory Commission of Sri Lanka (IRC SL) and IRD and other regulations applicable to the Company and have submitted all the returns and the details to the relevant parties by the due dates.

In addition, the Company complies with the Financial Transaction Reporting Act No 06 of 2006 and the Convention on the Suppression of Terrorist Financing Act No 25 of 2005, by sending a monthly report to the Financial

Intelligence Unit (FIU) of Central Bank of Sri Lanka (CBSL).

Compliance Reports also have been submitted to the Audit Committee on a quarterly basis confirming the same.

#### 10. FOCUS ON NEW REGULATIONS

SLFRS 17 will be effective w.e.f. 1st January 2023 which requires significant changes in our existing operations, IT systems, etc. Most importantly, this will change the way we measure our performance in a logical manner. However, the Company has evaluated the risk of changing SLFRS 4 to SLFRS 17 and has taken key initiatives such as educating its stakeholders at early stage.

#### 11. RISK MANAGEMENT AND SYSTEM OF INTERNAL CONTROLS

The Company has an ongoing process in place to identify, evaluate and manage the risks that are faced by the Company. The Directors continuously review this process through the Board Risk Committee. Specific steps taken by the Company in managing risks are detailed in the Section on pages 183 to 184, in the 'Risk Committee Report' and in Note 6 to the Financial Statements on pages 270 to 291.

#### 12. LIABILITIES AND PROVISIONS

The Board of Directors has arranged external actuaries to value the Life Fund and the Gratuity Liability. The basis adopted for provisioning is disclosed in Note 40 and 41 on pages 335-343 and 343-345 respect to the Financial Statements.

#### 13. OUTSTANDING LITIGATION

In the opinion of the Directors and in consultation with the Company's lawyers, litigation currently pending against the Company will not have a material impact on the reported financial results or future operations.

#### 14. CORPORATE GOVERNANCE

- The Directors have declared all material interests in contracts involving the Company and refrained from voting on matters in which they were materially interested.
- The Company complied with all applicable laws and regulations in conducting its business and has not engaged in any activity contravening the relevant laws and regulations. Officers responsible for ensuring compliance with the provisions in various laws and regulations, confirm compliance in each quarter to the Board Risk Committee.
- All endeavours have been made to ensure that shareholders in each category have been treated equitably in accordance with the original Terms of Issue.
- The business is a Going Concern with supporting assumptions or qualifications as necessary, and that the Board of Directors has reviewed the Company's Corporate/ Business plans and is satisfied that the Company has adequate resources to continue its operations in the foreseeable future. Accordingly, the Financial Statements of the Company are prepared based on the Going Concern assumption.

They have conducted a review of internal controls covering financial, operational and compliance controls, risk management and have obtained a reasonable assurance of their effectiveness and proper adherence.

The measures taken and the extent to which the Company has complied with the Code of Best Practice on Corporate Governance 2017 issued by CA Sri Lanka are given on pages 214-223.

## 15. CODE OF CONDUCT AND ETHICS

The Company has adopted a Code of Business Conduct and Ethics for all its employees and has mandated that it should be followed without any exception. The Company has also adopted a Code of Conduct and Ethics for Directors. There were no violations reported of the code during the year.

The Directors and the Key Management Personnel had declared compliance with the relevant Code of Conduct and Ethics.

## 16. WHISTLE BLOWING

A Whistle Blowing Policy is operative within the Company and has been communicated to all members of the staff. In addition to the above the Company has conducted training sessions to educate staff with regard to whistle blowing. This enables any member of the Company to raise issues with the management and the Board, in order to identify possible risks faced by the Company at an early stage.

## 17. RELATED PARTY TRANSACTIONS

No related party transaction exceeded the limits of 10% of equity or 5% of total assets requiring immediate disclosure to CSE and a separate disclosure in the Annual Report. Directors have disclosed the transactions with Related Parties in terms of Sri Lanka Accounting Standard (LKAS 24), Related Party Disclosures in Note 46 on pages 349-351 which is adopted in the preparation of these Financial Statements.

## 18. EVENTS AFTER THE REPORTING PERIOD

No circumstances have arisen since the reporting date which would require adjustments or disclosure in the Financial Statements.

## 19. GOING CONCERN

The Directors have made an assessment of the Company's ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, the Directors are not aware of any material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern, even the COVID-19 pandemic hit serious damage to economic prospects of policy holders, Company extended benefits to pay all medical and life claims to the best interest of the customers.

## 20. EXTERNAL AUDITOR

### 20.1 Appointment of Auditor

The present Auditors, Messrs. KPMG were appointed as Auditors of the Company at the Annual General Meeting held on 30th June 2020 to carry out the audit of the Company for the year ended 31st December 2020.

The retiring Auditors, Messrs. KPMG have signified their willingness to continue to function as the Auditor to the Company.

A resolution to reappoint KPMG as Auditors and granting authority to the Directors to fix their remuneration will be proposed at the forthcoming Annual General Meeting to be held on 31st March 2021.

### 20.2 Auditors' Remuneration

Expenses incurred in respect of Audit Fees and Fees for other services rendered during the accounting period are given in Note 21 to the Financial Statements on page 304.

### 20.3 Auditors' Independence

Independence Confirmation has been provided by Messrs. KPMG as required by the Section 163 (3) of the Companies Act No 07 of 2007, in connection

with the audit for the year ended 31st December 2020 confirming that KPMG is not aware of any relationship with or interest in the Company audited by KPMG that in their judgement, may reasonably be thought to have a bearing on their independence within the meaning of the Code of Professional Conduct issued by CA Sri Lanka. The Directors are satisfied as the BAC has assessed each service, having regard to auditor independence requirements of applicable laws, rules and regulations, and concluded in respect of each non-audit service or type of non-audit service that the provision of that service or type of service would not impair the independence of Messrs. KPMG.

## 21. CORPORATE SOCIAL RESPONSIBILITY (CSR)

The CSR initiatives of the Company are detailed under 'Management Discussion and Analysis' under Social and Relationship Capital in the Annual Report on pages 98 to 118.

## 22. SUSTAINABILITY

The Company is an early champion of adopting sustainability practices and sustainability reporting. The Company has considered the sustainability aspects when formulating its business strategies and details of which are presented on pages 201 to 203.

## 23. ENVIRONMENTAL PROTECTION

The Company, to the best of their knowledge has not engaged in any activity, which was detrimental to the environment. Specific measures taken to protect the environment are given on pages 127 to 130.

## 24. HUMAN RESOURCES

A brief description of the Company's HR Policy and the Remuneration Methodology given in the Remuneration Committee Report on pages 185 to 186.

## CORPORATE GOVERNANCE

### ANNUAL REPORT OF THE BOARD OF DIRECTORS

#### 24.1 Employment Policy

The Company policy is to respect the merits of the individuals and provide career opportunities, irrespective of gender, race or religion. The Company's strength of manpower as at 31st December 2020 was 897. (2019 - 805). Medical and Life insurance, under group cover is available for all employees of the Company, irrespective of their period of service. The Company encourages sports and recreational activities by supporting the Sports Club.

#### 24.2 Employee share ownership/ option plans

The Company does not have any employee share ownership/option plans.

#### 25. TECHNOLOGY

As encapsulated in the Corporate Strategy, our business processes are underpinned by technology. All of our processes involve information technology and we use technology to deliver superior products and services to our customers. Correspondingly, the nature of the business is more heavily intertwined with technology than ever before.

Sudden lockdown did not cause any disruption to Softlogic as the landscape was already built with the enhancement of IT. In response to maintaining efficiency while working remotely, Softlogic Life leveraged the existing IT infrastructure immediately to enable operationally while maintaining social distancing. When the lockdown was ordered by the Government, the flexibility of IT infrastructure was what made the operations maintain its efficiency while working from home.

#### 26. OPERATIONAL EXCELLENCE

To increase efficiency and reduce operating cost the Company has ongoing initiatives to drive policy and process standardisation and to optimise the use of existing technology platforms.

Operational efficiency is one of the key aspects that insurers need to rethink especially with regard to the Work from Home condition. Being agile and flexible is what enables adaptability to various conditions that emerge through pandemics such as COVID-19

#### 27. ANNUAL GENERAL MEETING

The Virtual Twenty Second (22nd) Annual General Meeting of the Company will be held on Wednesday, 31st March 2021 at 10.00 a.m. via an online platform at Level 16, One Galle Face Tower (Shangri-La Office Tower), Colombo 02. The notice of Annual General Meeting is given on page 373.

#### 28. ACKNOWLEDGEMENT OF THE CONTENTS OF THE REPORT

As required by the Section 168 (1) (k) of the Companies Act No. 07 of 2007, the Board of Directors does hereby acknowledge the contents of this Annual Report.

(Sgd.)

**P.R. Secretarial Services (Pvt) Ltd**  
Company Secretary

On behalf of the Board;

(Sgd.)

**Ashok Pathirige**  
Chairman

(Sgd.)

**Iftikar Ahamed**  
Managing Director

Colombo, Sri Lanka  
8th March 2021

## STATEMENT OF DIRECTORS' RESPONSIBILITY

The Statement sets out the responsibility of the Directors, in relation to the Financial Statements of the Softlogic Life Insurance PLC. The responsibilities of the External Auditors in relation to the Financial Statements are set out in the 'Auditors' Report given on pages 248-251.

In terms of Sections 150 (1) and 151 of the Companies Act No. 07 of 2007, the Board of Directors of the Company is responsible for ensuring that the Company keeps proper books of account of all the transactions and prepare Financial Statements that give a true and fair view of the financial position of the Company as at the end of each financial year and of the financial performance of the Company for each financial year and place them before a general meeting.

The Financial Statements comprise of the Statement of Financial Position as at 31st December 2020, the Statement of Income Statement and Other Comprehensive Income, Statement of Changes in Equity, Statement of Cash Flows for the year then ended and Notes thereto.

Accordingly, the Directors confirm that the Financial Statements of the Company give a true and fair view of the:

- Financial position of the Company as at 31st December 2020; and
- The financial performance of the Company for the financial year ended.

### Compliance Report

The Board of Directors also wishes to confirm that:

- a. Appropriate Accounting Policies have been selected and applied in preparing the Financial Statements are provided on pages 257-353 based on the latest financial

reporting framework on a consistent basis, while reasonable and prudent judgements and estimates have been made so that the form and substance of transactions are properly reflected and material departures, if any, have been disclosed and explained.

- b. The Financial Statements for the year 2020, prepared and presented in this Annual Report in agreement with the underlying books of account and are in conformity with the requirements of the following:

- Sri Lanka Accounting Standards.
- Companies Act No. 07 of 2007 and amendments thereto.
- Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995.
- Insurance Industry Act No. 43 of 2000 and amendments thereto.
- Statement of Recommended Practice (SoRP).
- Listing Rules of the Colombo Stock Exchange (CSE) and;
- Code of Best Practice on Corporate Governance 2017 issued by CA Sri Lanka.

- c. These Financial Statements comply with the prescribed format issued by the Insurance Regulatory Commission of Sri Lanka (IRCSL) for the preparation of Annual Financial Statements of Insurance Companies.

- d. The Directors of the company have taken appropriate steps to ensure that the Company maintains proper books of account and review the financial reporting system directly by them at their regular meetings and also through the Audit Committee, the Report of the said Committee is given on pages 179-182.

The Board of Directors also approves the Interim Financial Statements prior to their release, following a review and recommendation by the Audit Committee.

- e. Proper accounting records which correctly record and explain the Company's transactions have been maintained as required by the Section 148 (1) of the Companies Act to determine at any point of time the Company's financial position, with reasonable accuracy, enabling preparation of the Financial Statements, in accordance with the Companies Act to facilitate proper audit of the Financial Statements.
- f. The Board of Directors accept responsibility for the integrity and objectivity of the Financial Statements presented in this Annual Report.
- g. They have taken reasonable measures to safeguard the assets of the Company and to prevent and detect frauds and other irregularities. In this regard, the Directors have instituted an effective and comprehensive system of internal controls comprising of internal checks, internal audit and financial and other controls required to carry on the business in an orderly manner and safeguard its assets and secure as far as practicable, the accuracy and reliability of the records. The "Directors' Statement on Internal Control" is given on pages 177-178 of this Annual Report.

## CORPORATE GOVERNANCE

### STATEMENT OF DIRECTORS' RESPONSIBILITY

- h. As required by Section 56 (2) of the Companies Act No. 07 of 2007, they have authorised distribution of the dividends paid and proposed upon being satisfied that the company satisfy the solvency test after such distributions are made in accordance with section 57 of the companies Act and have obtained in respect of dividends paid and proposed, and also for which approval is now sought, necessary certificates of solvency from the External Auditors.
- i. As required by Sections 166 (1) and 167 (1) of the Companies Act, they have prepared this Annual Report in time and ensured that a copy thereof is sent to every shareholder of the Company, who have expressed desire to receive a hard copy or to other shareholders a soft copy each in a CD containing the Annual Report within the stipulated period of time as required by the Rule No. 7.5 (a) and (b) on Continuing Listing Requirements of the Listing Rules of the CSE.
- j. That all shareholders in each category have been treated equitably in accordance with the original terms of issue.
- k. That the Company has met all the requirements under the Section 07 on Continuing Listing Requirements of the Listing Rules of the CSE, where applicable.
- l. After considering the financial position, operating conditions, regulatory and other factors and such matters required to be addressed in the 'Code on Corporate Governance' issued by the CA Sri Lanka, the Board of Directors have a reasonable expectation that the Company possesses adequate resources to continue in operation for the foreseeable future. For this reason, we continue to adopt the Going Concern basis in preparing the Financial Statements.
- m. The Financial Statements of the Company have been certified by the Company's Chief Financial Officer, the officer responsible for their preparation, as required by the Sections 150 (1) (b) of the Companies Act No. 07 of 2007 and also have been signed by two Directors of the company on page 254 as required by the Sections 150 (1) (c) of the Companies Act No. 07 of 2007 an other regulatory requirements.
- n. The Company's External Auditors, Messrs. KPMG who were appointed in terms of the Section 158 of the Companies Act No. 07 of 2007 and in accordance with a resolution passed at the last Annual General Meeting, were provided with every opportunity to undertake the inspections, they considered appropriate. They carried out reviews and sample checks on the system of internal controls as they considered appropriate and necessary for expressing their opinion on the Financial Statements and maintaining accounting records. They have examined the Financial Statements made available to them by the Board of Directors of the Company together with all the financial records, related data and minutes of shareholders' and Directors' meetings and expressed their opinion which appears as reported by them on pages 248-251.
- o. The Directors confirm that to the best of their knowledge, all taxes, duties and levies payable by the Company, all contributions, levies and taxes payable on behalf of and in respect of the employees of the Company, and all other known statutory dues as were due and payable by the Company as at the reporting date have been paid or, where relevant, provided for.

Accordingly, The Directors are of the view that they have discharged their responsibilities as set out in this Statement.

By Order of the Board;

(Sgd.)  
**Ashok Pathirige**  
Chairman

(Sgd.)  
**Iftikar Ahamed**  
Managing Director

Colombo, Sri Lanka  
8th March 2021



## MANAGING DIRECTOR'S/CEO AND CHIEF FINANCIAL OFFICER'S RESPONSIBILITY STATEMENT

The Financial Statements of the Softlogic Life Insurance PLC (the Company) as at 31st December 2020 are prepared and presented in conformity with the requirements of the following:

- Sri Lanka Accounting Standards issued by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka).
- Companies Act No. 07 of 2007 and amendments thereto.
- Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995.
- Insurance Industry Act No. 43 of 2000 and amendments thereto, and statement of Recommended practice (SoRP).
- Listing Rules of the Colombo Stock Exchange (CSE) and;
- Code of Best Practice on Corporate Governance 2017 issued by CA Sri Lanka.

The formats used in the preparation of the Financial Statements and disclosures made comply with the specified formats prescribed in the SoRP. The Company presents the financial results to its shareholders on a quarterly basis.

The significant accounting policies used in the preparation of the Financial Statements are appropriate and are consistently applied unless otherwise stated in the notes accompanying the Financial Statements. Application of Significant Accounting Policies and Estimates that involve a high degree of judgement and complexity were discussed with the Audit Committee and Company's External Auditors. Comparative information has been restated to comply with the current presentation, where applicable. We confirm that to the best of our knowledge, the Financial Statements,

Significant Accounting Policies and other financial information included in this Annual Report, fairly present in all material respects the financial condition, results of the operations and the cashflows of the Company during the year under review.

We also confirm that the Company has adequate resources to continue

in operation and are not aware of any material uncertainties due to the COVID-19 pandemic and has applied the Going Concern basis in preparing these Financial Statements.

We are responsible for establishing, implementing and maintaining Internal Controls and Procedures within the company. We ensure that effective Internal Controls and Procedures are in place, ensuring material information relating to the entity are made known to us for safeguarding assets, preventing and detecting fraud and/or error as well as other irregularities, which is reviewed, evaluated and updated on an ongoing basis. We have evaluated the Internal Controls and Procedures of the entity for the financial period under review and are satisfied that there were no significant deficiencies and weaknesses in the design or operation of the Internal Controls and Procedures, to the best of our knowledge.

We confirm, based on our evaluations that there were no significant deficiencies and material weaknesses in the design or operation of internal controls and fraud that involves management or other employees. The company's Internal Audit Function also conducts periodic reviews to ensure that the Internal Controls and Procedures are consistently followed.

The Financial Statements of the Company were audited by Messrs. KPMG, Chartered Accountants and their Report is given on pages 248-252. The Audit Committee pre-approves the audit and non-audit services provided by Messrs. KPMG, in order to ensure that the provision of such services do not impair KPMG's independence and objectivity.

The Board Audit Committee (BAC), inter alia, reviewed all the Internal and External Audit and Inspection Programmes, the efficiency of Internal Control Systems and procedures and also reviewed the quality of Significant Accounting Policies and their adherence to Statutory and Regulatory Requirements, the details of which are given in the 'Board Audit Committee Report' appearing on pages 179-182.

The continuous inspection and audit functions, engagement of firms of Chartered Accountants and effective functioning of the BAC, ensure that the Internal Controls and Procedures are followed consistently. To ensure complete independence, the External Auditors and the Internal Auditors have full and free access to the members of the BAC to discuss any matter of substance. However, there are inherent limitations that should be recognised in weighing the assurances provided by any system of internal control and accounting.

It is also declared and confirmed that the entity has complied with and ensured compliance with the guidelines for the audit of listed companies where mandatory compliance is required. We confirm that to the best of our knowledge:

- a) The Company has complied with all applicable laws and regulations and guidelines and there is no material litigation against the company other than those disclosed in Note 49 on page 352 of the Financial Statements.
- b) All taxes, duties, levies and all statutory payments by the company and all contributions, levies and taxes payable on behalf of and in respect of the employees of the Company as at 31st December 2020 have been paid, or where relevant provided for.
- c) The Company has complied with all the legal and regulatory provisions of the Regulation of Insurance Industry Act.

(Sgd.)

**Iftikar Ahamed**

Managing Director / Chief Executive Officer

(Sgd.)

**Nuwan Withanage**

Chief Financial Officer

Colombo, Sri Lanka  
8th March 2021

## CORPORATE GOVERNANCE

### DIRECTORS' INTEREST IN CONTRACTS WITH THE COMPANY

Directors' interests in contracts or proposed contracts with the Company, both direct and indirect are disclosed as follows where the Chairman or a Director of the Company is the Chairman or a Director of such entities. Also, this complies with the disclosure requirements of Section 168 (e) of the Companies Act No 07 of 2007.

All Directors of the Company have disclosed their interest in other companies to the Board and such interest are recorded in the Directors interest register confirming to Section 192 (1) and 192 (2) of the Companies Act No 07 of 2007.

Name	Position	Company	Name	Position	Company
<b>Ashok Pathirage</b>	C/MD	Softlogic Holdings PLC	<b>Ray</b>	C	Colombo Stock Exchange
	C/MD	Asiri Hospitals Holdings PLC	<b>Abeywardena</b>	C	Acuity Stockbrokers (Private) Limited
	C/MD	Asiri Surgical Hospital PLC		C	Acuity Securities (Private) Limited
	C/MD	Central Hospital Limited		C	Guardian Acuity Asset Management Limited
	C/MD	Softlogic Retail (Private) Limited		C	Central Depository System (Private) Limited
	C/MD	Ceysand Resorts Limited		MD	Acuity Partners (Private) Limited
	C	Softlogic Capital PLC	D	Lanka Ventures PLC	
	C	Softlogic Properties (Private) Limited	D	LVL Energy Fund PLC	
	C	Softlogic Australia (Pty) Limited	<b>Iftikar Ahamed</b>	MD	Softlogic Capital PLC
	C	Softlogic City Hotels (Private) Limited		ED	Softlogic Stockbrokers (Private) Limited
	C	ODEL PLC		ED	Softlogic Corporate Services (Private) Limited
	C	Softlogic Supermarkets (Private) Limited		ED	Softlogic Asset Management (Private) Limited
	C	NDB Capital Holdings Limited		D	Lanka Holdings (Private) Limited
	C	Sri Lankan Airlines Limited	<b>Sujeewa Rajapakse</b>	D	Haycarb PLC
	C	Sri Lankan Catering Limited		D	Dipped Products PLC
	D	Odel Properties One (Private) Limited		D	Hayleys Agriculture Holding Limited
	D	Asiri A O I Cancer Centre (Private) Limited		C	People's Leasing & Finance PLC
	D	Softlogic Retail Holdings (Private) Limited		C	People'S Bank
	D	Softlogic Healthcare Holdings Limited	<b>V. Govindasamy</b>	D	Sunshine Holdings PLC
<b>Haresh Kaimal</b>	D	Softlogic Holdings PLC		D	Watawala Tea Ceyloan Ltd
	D	Softlogic International (Pvt) Ltd		D	Healthguard Pharmacy Ltd
	D	Softlogic Information Technologies (Pvt) Ltd		D	TATA Communications Lanka Ltd
	D	Softlogic Australia (Pty) Limited		D	Watawala Plantations PLC
	D	Softlogic Computers (Pvt) Ltd		D	Watawala Dairy Ltd
	D	Softlogic BPO Services (Pvt) Ltd		D	Waltrim Energy Ltd
	D	Softlogic Mobile Distribution (Pvt) Ltd		D	Sky Solar (Pvt) Ltd
	D	Softlogic Finance (Pvt) Ltd		D	TAL Lanka Hotels PLC
	D	Softlogic Retail Holdings (Private) Limited		D	Sunshine Packaging Limited
	D	Softlogic Restaurants (Private) Limited		D	Sunshine Power Ltd
	D	Silk Route Foods (Pvt) Ltd		D	Sunshine Wilmar Private Limited
	D	Softlogic City Hotels (Pvt) Ltd		D	Ceylon Property Development Ltd
	D	Softlogic Supermarkets (Pvt) Ltd	D	Century Properties Ltd	
	D	Softlogic Corporate Services (Pvt) Ltd	D	Akbar Pharmaceuticals Ltd	
	D	Odel PLC	D	Daintee Ltd	
	D	Softlogic Brands (Pvt) Ltd	D	Helathy Life P Ltd	
	D	Odel Properties One (Pvt) Ltd	<b>R. Snyders</b>	D	AIICO PLC
	D	Odel Properties One (Pvt) Ltd		D	Nigerian Insurance Group
	D	Saber Travel Network Lanka (Pvt) Ltd		D	miLife Insurance
D	Saber Travel Network Lanka (Pvt) Ltd	D		Ghanaian Insurance Company	
D	Cotton Collection (Pvt) Ltd	D		Cenfri (Non profit South African Company)	
<b>Sujeewa Rajapakse</b>	D	Lanka Holdings (Private) Limited	D	Broadway East Investments (South Africa)	
	D	Haycarb PLC			
	D	Dipped Products PLC			
	D	Hayleys Agriculture Holding Limited			
	C	People's Leasing & Finance PLC			
<b>Fernanda Lima</b>	C	People's Bank			
	D	Tumalon Katak Salahkar PTE LTD (Singapore)			

Related party disclosures as per the Sri Lanka Accounting Standard – LKRS 24 on “Related Party Disclosures” is disclosed in Note 46 to the Financial Statements on pages from 349-351 of this Annual Report.

C - Chariman, MD - Managing Director, ED - Executive Director, D - Director

## DIRECTORS' STATEMENT ON INTERNAL CONTROLS

### Introduction

The following statement fulfils the requirement to publish the Directors' statement on internal controls as per the Code of Best Practices on Corporate Governance issued by the CA Sri Lanka.

### Responsibility

The Board of Directors ("Board") is responsible for the adequacy and maintaining an effective system of internal controls to safeguard shareholders' investments and company assets. The Board has structured an enterprise risk management process to identify the principle risks impacting the business and mitigating actions taken by management.

However, such system is designed to manage the Company's key areas of risk within an acceptable risk profile, rather than to eliminate the risk of failure to achieve the policies and business objectives of the Company. In this light, the system of internal controls can only provide reasonable but not absolute assurance against material misstatement of management and financial information and records or against financial losses or fraud.

The Board has established an on-going process for identifying, evaluating and managing the significant risk faced by the Company and this process includes enhancing the system of internal controls as and when there are changes to the business environment or regulatory guidelines. This process is put in place for the year and is reviewed periodically by the Board through its Audit Committee and Risk Management Committee which is supported by the Internal Auditors.

The management assists the Board in implementing policies and procedures on risk and control by identifying and assessing the risks faced by the Company, as well as in the design, operation and monitoring of suitable internal controls to mitigate these risks.

During the year, the Board of Directors has assessed the Company's ability to continue as a going concern under the COVID-19 pandemic and have adopted several risk mitigation strategies and other developments in order to minimise the adverse impact from COVID-19.

The Board is of the view that the system of internal controls in place is sound and adequate to provide reasonable assurance regarding the reliability of financial reporting, and that the preparation of Financial Statements for external purposes is in accordance with relevant accounting principles and regulatory requirements.

Key features of the process adopted in applying and reviewing the design and effectiveness of the Internal Control System on Financial Reporting and the key processes established to review the adequacy and integrity of the system of internal controls related to financial reporting include the following:

- Board Sub Committees are established by the Board to assist in ensuring,
  - the effectiveness of the Company's daily operations.
  - the Company's operations are in accordance with the business direction/strategies.
  - the Company's operations are in line with the annual corporate budget, and approved policies.

- The Internal Audit Department of the Company checks for compliance with policies and procedures and the effectiveness of the internal control system on an ongoing basis using samples and rotational procedures and highlight significant findings in respect of any non-compliance. Audits are carried out on all departments and branches, in accordance with the annual audit plan approved by the Audit Committee. The frequency of audits of branches is determined by the level of risk assessed, to provide an independent and objective report.

The annual audit plan is reviewed and approved by the Audit Committee.

Findings of the internal audit are submitted to the Audit Committee for review at their periodic meetings.

- The Audit Committee of the Company reviews internal control issues identified by the Internal Audit Department, regulatory authorities, External Auditors and management, and evaluates the adequacy and effectiveness of the risk management and internal control systems. They also review the internal audit function with particular emphasis on the scope of audits, independence, resources and quality of the same. Minutes of the Audit Committee meetings are tabled at the meetings of the Board of Directors of the Company on a periodic basis. Details of the activities undertaken by the Audit Committee of the Company are set out in the 'Audit Committee Report' which appears on pages 179-182.

## CORPORATE GOVERNANCE

### DIRECTORS' STATEMENT ON INTERNAL CONTROLS

- Regular IT system audits are conducted by contracted external experts to ensure the integrity of financial information, data security and adequate access controls are in place with regard to processing of data. Further contemplating robust security measures and risk management, the Company has appointed an independent IT security officer that liaises with the internal audit, external audit and other external experts contracted by the Company. In addition to the above, engage the External Auditors to review the critical components of the IT environment as part of the statutory audit.
- The recommendations made by the External Auditors in connection with the internal control system in previous years were reviewed during the year and appropriate steps have been taken to implement them. Further improvements in line with industry and/or non-industry best practices are also implemented on an on-going basis.
- The Board Risk management committee assists the Board in overseeing the risk management framework of the Company. The management has prepared a Risk Register identifying all key risks faced by the Company and there is an ongoing, bottom up process in place for identifying, evaluating and managing the risks faced by the Company. New risks, mitigating actions and changes of risk status of earlier identified risks are highlighted separately and the implementation of the proposed new controls is followed up by the risk and internal audit department. The report of the Risk Committee is provided on pages 183-184 of the Annual Report.

- Operational committees have also been established with appropriate empowerment to ensure effective management and supervision of the Company's core areas of business operations. These committees include the Assets and Liability Management Committee, Internal Investment Committee, the Information Technology Steering Committee, Internal Risk Management Committee, Actuarial Committee and the Product Development Committee.

In assessing the internal control system over financial reporting, identified officers of the Company collated all procedures and controls that are connected with significant accounts and disclosures of the Financial Statements of the Company.

These in turn were observed and checked by the internal audit department for suitability of design and effectiveness on an ongoing basis. Since adoption of new Sri Lanka Accounting Standards (SLFRSs and LKASs), progressive improvements on processes to comply with the new requirements of recognition, measurement, classification and disclosures are being made.

#### Confirmation

Based on the above processes, the Board of Directors confirms that the financial reporting system of the Company has been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of Financial Statements for external purposes have been

done in accordance with the Sri Lanka Accounting Standards, requirements of the Company's Act No. 7 of 2007, Regulations of Insurance Industry Act No. 43 of 2000 and the listing rules of the Colombo Stock Exchange.

On behalf of the Board;

(Sgd.)

**Ashok Pathirage**  
Chairman

(Sgd.)

**Iftikar Ahamed**  
Managing Director

(Sgd.)

**Sujeewa Rajapakse**  
Chairman – Audit Committee

Colombo, Sri Lanka  
8th March 2021

**C. BOARD SUB-COMMITTEE REPORTS**  
**AUDIT COMMITTEE REPORT**



**COMPOSITION OF THE COMMITTEE AND ATTENDANCE**

The Board Audit Committee (“the BAC”) consists of following members whose profiles are given on pages 134 to 136.

**The Board Members**

- Mr. Sujeewa Rajapakse - INED (Chairman)
- Mr. Ray Abeywardena – INED
- Mr. Raimund Snyders - NED

**Regular Attendees by invitation**

- Managing Director
- Chief Financial Officer
- Group Head of Internal Audit
- Head of Internal Audit

**Secretary to the Committee**

Messrs. P.R. Secretarial Services (Pvt) Ltd

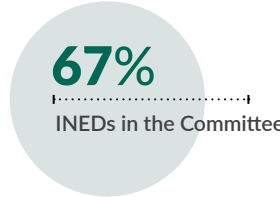
**ATTENDANCE AT MEETINGS**

Name	Attended/Eligibility
Mr. Sujeewa Rajapakse	5/5
Mr. Ray Abeywardena	5/5
Mr. Raimund Snyders*	4/4

\*Appointed w.e.f.5th February 2020

INED - Independent Non-Executive Director

NED – Non-Executive Director



**“The Committee assist the Board in discharging its responsibilities by satisfying the Board oversight responsibilities over financial reporting, internal controls and risk management, compliance with legal and regulatory requirements, the external audits and the adequacy and performance of the Internal Audit function of the Company.”**

**EXPERTISE OF THE COMMITTEE**

The Chairman of the Committee is a Fellow member and past president of the Institute of Chartered Accountants of Sri Lanka and Society of Certified Management Accountants of Sri Lanka.

He is the Managing Partner of BDO Partners, a firm of Chartered Accountants. Each of the members of the Committee has an in-depth financial expertise and collectively the Committee has considerable financial experience.

The Committee members also bring a wide range of expertise and knowledge to the Audit Committee, which enables the effective conduct of operations. Further information on the Committee members’ experience, qualifications and expertise are provided on the brief of profiles included on pages 134-136 of the Annual Report.

**CHARTER OF THE COMMITTEE**

The Charter of the BAC approved by the Board, clearly defines the Terms and Reference of the committee and is annually reviewed to ensure that new development relating to the committee’s functions are addressed. The Charter of the Committee was last reviewed and approved by the Board in August 2020.

The Committee assist the Board in discharging its responsibilities and exercise oversight over financial reporting, internal audit, internal controls, and external audit.

The Committee has complete access to information and the cooperation from the management and invite any Director or executive officer to attend its meetings.

The composition, role and the functions of the Board Committee are further regulated by the rules on Corporate Governance under the Listing Rules of the Colombo Stock Exchange” and “Code of Best Practice on Corporate Governance”, issued by The Institute of Chartered Accountants of Sri Lanka.

The effectiveness of the Committee is assessed annually by each member of the Committee and the results are conveyed to the Board.

**CONTINUOUS PROFESSIONAL DEVELOPMENT**

The Committee is conscious of the need to keep its knowledge up to date and Committee members participated at presentations and workshops conducted internally and externally on relevant topics.

**OBJECTIVES**

The Committee is empowered by the Board of Directors to:

1. Ensure the effectiveness of the Financial Reporting system of the Company to provide accurate and timely financial information to the Board, regulators and other stakeholders.

## CORPORATE GOVERNANCE

### AUDIT COMMITTEE REPORT

2. Review the appropriateness of the accounting policies and ensure adherence to statutory and regulatory compliance requirements and applicable accounting standards.
3. Evaluate the adequacy, efficiency and effectiveness of risk management measures, internal controls and governance processes in place to avoid, mitigate or transfer current and evolving risks.
4. Ensure that the conduct of the business follows the applicable laws and regulations of the country and within the policies and procedures of the Company.
5. Ensure that the company adopts and adheres to high standards of Corporate Governance practices, confirming to the highest ethical standards and good industry practices in the best interest of all stakeholders.
6. Monitoring all aspects of internal and external audits for follow up with the Management of their findings and recommendations.
7. Review the Interim Financial Statements and Annual Financial Statements of the Company in order to monitor the integrity of such statements prepared for disclosure, prior to submission to the Board.
8. Ensure impact of new accounting standards are discussed and disclosures.
9. Motoring and reviewing the activities and performance of the internal, external and outsourced auditor /s, including monitoring their independence and objectivity.

#### ACTIVITIES IN 2020

##### 1. Meetings

The Committee conducted Five (5) meetings during the year. Attendance of the Committee members at each of these meetings is given in the table on page number 162.

Representative of the Companies External Auditor Messrs. KPMG also participated in 5 meetings during the year by invitation. The Committee also invited Senior Management of the company to participate in the meetings from time to time on a need basis.

##### 2. Financial Reporting

The Audit Committee has reviewed and discussed the Company's Quarterly and Annual Financial Statements, prior to publication, with Management and the External Auditors, including the extent of compliance with Sri Lanka Accounting Standards, the appropriateness and changes in accounting policies and material judgemental matters. The Committee also discussed with the External Auditors and management the matters communicated to the Committee by the External Auditors in their reports to the Committee on the audit for the year.

The Committee reviewed the following areas, in consultation with the External Auditors and the management where necessary:

- Reviewed the Interim Financial Statements of all four (04) quarters and the Annual Financial Statements for year 2020 prior to publication including the acceptability of the accounting principles, Listing Rules, Companies Act No 7 of 2007, Regulation of Insurance Industry Act, SoRP and the reasonableness of significant estimates and judgements,
- Reviewed the impact of new Accounting standards and Significant accounting and reporting issues.
- The Committee reviewed the tax assessments outstanding and action initiated for follow-up for resolution through regular reports submitted by the Chief Financial Officer

##### 3. Progress of Implementation of SLFRS 17

During the year, Committee continuously monitored the progress of the implementation of the SLFRS 17

Insurance Contracts which will be come in to effective in the preparation of Financial Statements with effective from 1st January 2023.

The following areas were addressed by the committee:

- Reviewed the Phase 1 impact assessment GAP report which addressed on identify the technical gaps, understand applicability of models for selected products and understand high level system requirement.
- Reviewed of proposals submitted by on the Phase 2 implementation and approved the plan for Phase 2

##### 4. Review of impairment on Financial Investments

The Committee reviewed the policy manual of principles and methodologies including Expected Credit Losses (ECL) computations under SLFRS 9 – "Financial instruments "adopted by the management during the year.

Further the Committee reassessed the impairment specially carried out for the Financial Investments due to the post COVID-19 adverse economic conditions faced during the year 2020,

##### 5. Review of COVID-19 impact on business operations and Financial Reporting.

The Committee has reviewed financial and operational impact of the entity due to COVID -19 pandemic during the year 2020.

##### 6. Cybersecurity Review

The Committee assessed the actions taken to mitigate the cybersecurity risk of the Company. The Committee emphasised the importance of maintaining sound controls to protect cyberattacks specially with the initiation of Work from Home (WFH) arrangement.

## 7. Internal Audit, Risks and Control

The Committee monitors the effectiveness of the internal audit function and is responsible to ensure the effectiveness of the internal control systems of the Company.

During the year, the Committee reviewed the internal audit plan and recommended changes and progress was monitored on regular basis.

The scope of internal audit covers the Head Office functions and all its branch activities, and includes the review of the adequacy, effectiveness and efficiency of the internal controls and the action taken to mitigate operational and business risks. In addition, they monitor and report on compliance of statutory regulations and the Company's accounting and operational policies. The internal audit representatives are present at the Audit Committee meetings when discussions are conducted relating to their respective audit reports.

The Committee ensured the independence of the internal audit function and its audit functions are carried out with impartiality, proficiency, and professional due care.

The Committee evaluates independence and resources of the Internal Audit Function annually. The progress of Internal Audit Strategy which comprises of progress, key audit findings, results of the implementation of audit recommendation and other key initiatives by the Internal Audit Function is assessed every quarter.

High risk audit findings are discussed in detail at each Committee meeting with the associated recommendations and the responses from the management.

During the period, 30 internal audit assurance reports were summarised and 326 reviews of areas susceptible for fraud were completed.

Operational deficiencies, risk together with recommendations were discussed at the Audit Committee.

## 8. External Audit

The Audit Committee assists the Board in assessing the independence, evaluating the performance of the External Auditors and making recommendations for engagement of Auditors.

The External Auditors were provided with an opportunity of meeting Non-Executive directors of the committee separately without the Executive Director and the Corporate Management being present, this is to ensure the independence of the auditors to discuss their opinion on any matter.

The following activities were carried out by the Audit Committee during 2020;

- Discussed the audit plan, scope and the methodology proposed to be adopted in conducting the audit with the Auditors prior to commencement of the annual audit.
- The External Auditors were given adequate access to the Audit Committee as well as to all relevant information required discussed matters relating to the scope of the audit and auditors' independence.
- Followed up action points taken by the Management in improving the financial reporting based on the 2019 Management Letter by the external auditor Messrs. KPMG.
- Reviewed the External Auditors' Management Letter and the Management's responses thereto before it was submitted to the Board and Insurance Regulatory Commission of Sri Lanka.
- Discussed all relevant matters arising from the interim and final audits, and any matters the Auditor may wish to discuss, including matters that may need to be discussed in the absence of Key Management Personnel.

- The Committee members evaluated the Scope, Deliverables, Resources and Quality Assurance Initiatives for the year of the External Auditor, Messrs. KPMG.

## INDEPENDENCE AND OBJECTIVITY OF THE EXTERNAL AUDITORS

The Audit Committee undertook the annual evaluation of the independence and objectivity of the external auditor and the effectiveness of the audit process. As far as the Audit Committee is aware, Auditors do not have any relationship (other than of Auditors) with the Company.

In addition, as required by the Company's Act No 07 of 2007 and Best Practice on Corporate Governance 2017 issued by CA Sri Lanka the Committee has received a declaration from Messrs. KPMG confirming that they do not have any relationship with the Company, which may have a bearing on their independence.

According to the Company policy, the lead Audit Partner is rotated for every five years.

## PROVISION OF NON-AUDIT SERVICES

The committee reviewed the non-audit services provided by the auditors to ensure that the provision of these services does not impair the External Auditor's independence and objectivity.

The Committee sets out following guidelines for the engagement of the Auditor to provide non-audit services.

- Skills and experience for providing the non-audit service.
- The nature of non-audit services, the related fee levels individually and in aggregate, relative to the audit fee.

The Board Audit Committee considered these guidelines for all the engagement of the Auditor to provide non-audit services during the year. Further, the

## CORPORATE GOVERNANCE

### AUDIT COMMITTEE REPORT

Committee was of the view that such services were not within the category of services identified as prohibited under the Guidelines for Listed Companies on Audit and Audit Committees issued by the Securities and Exchange Commission of Sri Lanka.

#### RE- APPOINTMENT OF THE EXTERNAL AUDITORS

The Board Audit Committee has the primary responsibility for making recommendations to the Board on the appointment, reappointment or removal of the External Auditor in-line with professional standards and regulatory requirements.

The Audit Committee has recommended to the Board of Directors that Messrs. KPMG, Chartered Accountants be reappointed as Auditors for the financial year ending 31st December 2021 subject to the approval of the shareholders at the Annual General Meeting. In addition, the Committee has also made its recommendation to the Board with regards to the remuneration of the Auditors.

#### COMPLIANCE WITH RULES AND REGULATIONS

The Committee examines the systems and procedures that are in place to ensure compliance with applicable regulatory requirements via the Compliance Report prepared by the Compliance Officer. The Compliance Officer's report details the extent of Compliance with the Regulation of Insurance Industry Act, No. 43 of 2000 and amendments thereto, the Directions of the Insurance Regulatory Commission of Sri Lanka and any other regulatory and statutory requirements applicable to the Company.

#### SRI LANKA ACCOUNTING STANDARDS

The Committee reviewed the revised policy decisions relating to adoption of new and revised Sri Lanka Accounting Standards applicable to the Company

and made recommendation to the Board of Directors. The committee would continue to monitor the compliance with relevant Accounting Standards and keep the Board of Directors informed at regular intervals.

#### RISK MANAGEMENT

The Risk Management Committee provides information pertaining to the risk management function with the purpose of keeping the Audit Committee abreast of the latest developments and in order to carry out its statutory, regulatory and other responsibilities. A detailed report of the Risk Management Committee is given on pages 183-184.

#### CORPORATE GOVERNANCE

The Company is fully compliant with the applicable rules on corporate governance under the listing rules of the Colombo Stock Exchange (CSE). In addition, the Company is in substantially compliant with the Code of Best Practice on Corporate Governance 2017 issued by CA Sri Lanka.

#### ETHICS AND GOOD GOVERNANCE

The Committee continuously emphasised on upholding ethical values of the staff members. In this regard, a Code of Ethics and Whistle-Blowers Charter was put in place and followed for educating and encouraging all members of staff to resort to whistle-blowing, if they suspect wrong doings or other improprieties. The highest standards of corporate governance and adherence to the Company's Code of Ethics were ensured.

All appropriate procedures were in place to conduct independent investigations into incidents reported through whistle-blowing or identified through other means. The Whistle-Blowers Charter guarantees the maintenance of strict confidentiality of the identity of the whistle-blowers.

#### COMMITTEE EVALUATION AND PROFESSIONAL DEVELOPMENT

An independent evaluation of the effectiveness of the Committee was carried out by the other members of the Board during the year. Considering the overall conduct of the Committee and its contribution on the overall performance of the Company, the Committee has been rated as highly effective.

#### PROFESSIONAL ADVICE

The committee has the authority to seek external professional advices on matters within its purview.

#### CONCLUSION

The Audit Committee is satisfied that the internal controls and procedures in place for assessing and managing risks are adequately designed and operate effectively and is of the view that they provide reasonable assurance that the Company's assets are safeguarded and that the financial statements of the Company are reliable. The company's External Auditors have been effective and independent throughout the year.

In addition, the Committee observes that the Company's compliance framework provides reasonable assurance that all relevant laws, rules, regulations, codes of ethics and standards of conducts have been followed. The Committee is also satisfied that the application of appropriate accounting policies provides reasonable assurance that the Financial Statements of the Group are true and fair.

(Sgd.)

**Sujeewa Rajapakse**  
Chairman - Audit Committee

Colombo, Sri Lanka  
8th March 2021



## RISK COMMITTEE REPORT

### COMMITTEE COMPOSITION AND ATTENDANCE

The Board Risk Committee (“the Committee”) is appointed by Board of Directors and consists of the following members of the Board and whose profiles are given in page number 134-136.

#### The Board Members

- Mr. Raimund Snyders - NED (Chairman)
- Mr. Ray Abeywardene - INED
- Mr. Iftikar Ahamed - MD
- Ms. Fernanda Lima - NED

#### Regular Attendees by invitation

- Chief Financial Officer
- GM – ITC
- Head of Risk
- Head of Internal Audit
- Head of Group Risk and Audit

The Corporate Management team attended meetings as and when required.

#### Secretary to the Committee

Messrs. P.R. Secretarial Services (Pvt) Ltd

### ATTENDANCE AT MEETINGS

Name	Attended/Eligibility
Mr. Raimund Snyders*	2/2
Mr. Iftikar Ahamed	4/4
Mr. Ray Abeywardena	4/4
Ms. Fernanda Lima	4/4

\*Appointed w.e.f.5th February 2020

MD – Managing Director  
 INED -Independent Non-Executive Director  
 NED – Non-Executive Director

100%

Overall Attendance at the Meetings

25%

INEDs in the Committee

4/4

Meetings Held / Meetings Scheduled

### CHARTER OF THE COMMITTEE

The Board Risk Committee (“the Committee”) is appointed by the Board of Directors and consist of the following members of the Board whose profiles are given in page numbers 134-136.

This Committee shall have supervisory functions over the risk management, the risk profile, and the enterprise-wide Risk Management Framework, of the Company and any other risk related matters determined by the Board.

#### Objectives of the Committee

- Assist in the oversight of the review and approval of the Company’s Risk Management Policy including risk appetite and risk strategy.
- Review the adequacy and effectiveness of risk management and controls:
- Oversee management process for the identification of significant risks across the Company and the adequacy of prevention, detection and reporting mechanisms.
- Review the Company’s compliance level with applicable laws and regulations.
- Review changes in the economic and business environment, including emerging trends and other factors relevant to the Company’s risk profile.
- Review reinsurance treaties annually and advise the Board on their sustainability or otherwise.

### Reporting

The Committee report formally to the Board on its proceedings whenever there are major decisions taken whilst making recommendations to the Board it deems appropriate.

### Authority

The Risk Committee is a subcommittee of the Board of Directors and has been empowered to have direct access to, and receive regular reports from, Senior Management, and be provided with any information it requests with regard to its responsibilities. The Committee has the authority to engage independent professional advisors on matters within its purview.

### ACTIVITIES IN 2020

- Approval of the Company’s risk management strategy, Risk Policy and risk appetite.
- Risk Management Policy, Environmental and Social Policy, Business Continuity Plan, Operational Risk Policy, IT Risk Management Framework, Treasury Middle Office Policy and Fraud Risk Policy were reviewed. The amended policies were submitted to approval of the Board.
- The Committee approved the Remote Access Policy.
- Review of the adequacy and effectiveness of the Company’s existing risk management controls.

## CORPORATE GOVERNANCE

### RISK COMMITTEE REPORT

- Review of the adequacy and effectiveness of existing controls on Market Risk and Asset and Liability Management and disseminated advice on how to strengthen the management of these risks.
- Review and provide feedback on the identified significant risks across the Company and the adequacy of identification, prevention and reporting mechanisms.
- Review and approval of reinsurance treaties and disseminated advice on applicable strategies.
- The Committee reviewed the credit quality of existing investments and recommended necessary actions to the Management and the Board to align with the Company's risk profile due to COVID-19.
- Reviewed the business impact on the Company's operations as a result of COVID-19, covering a wider spectrum of areas including impact on regulatory solvency.

#### THE YEAR AHEAD

The Committee will continue to review identified risks, identification processes and mitigation strategies and make recommendations on the above mentioned in order to ensure the Company is in compliance with its stipulated framework and is within its defined risk appetite.

(Sgd.)

**Raimund Snyders**

Chairman - Risk Committee

Colombo, Sri Lanka  
8th March 2021

## THE HUMAN RESOURCE AND REMUNERATION COMMITTEE

### COMPOSITION OF THE COMMITTEE AND ATTENDANCE

The Human Resource and Remuneration Committee (“the Committee”) appointed by Board of Directors consists of the following members whose profiles are given on pages 134-136.

#### The Board Members

- Mr. Sujeewa Rajapakse - INED (Chairman)
- Mr. Ashok Pathirage - NED
- Mr. Ray Abeywardena - INED

#### Regular Attendees by invitation

- Managing Director

The Managing Director took part in all deliberations except when his own interest, performance and compensation were discussed.

#### Secretary to the Committee

The Head of Human Resources functions as the secretary to the Committee.

### ATTENDANCE AT MEETINGS

Name	Attended/Eligibility
Mr. Sujeewa Rajapakse	1/1
Mr. Ashok Pathirage	1/1
Mr. Ray Abeywardena	1/1

INDED - Independent Non-Executive Director  
 NED - Non-Executive Director

100%

Overall Attendance at the Meetings

67%

INEDs in the Committee

1/1

Meetings Held / Meetings Scheduled

### CHARTER OF THE COMMITTEE

The Committee is vested with power to evaluate, assess, decide and recommend to the Board of Directors, on any matter that may influence the Human Resource Management of the entity and shall particularly incorporate.

#### The key Objectives, Responsibilities, and duties of the committee:

- Determining the remuneration of the Chairman, Deputy Chairman, Managing Director and other members of the Board of Directors of the company, while ensuring that no Director is involved in setting his or her own compensation.
- Determining the compensation and benefits of the KMP and establishing performance parameters in setting their individual goals and targets.
- Formulate guidelines, policies and parameters for the remuneration structures for all Executive Staff of the entity and oversee the implementation thereof.
- Review information related to executive pay from time to time, to ensure same is in par with the market/ industry rates or as per the strategy of the Company.
- Evaluate the performance of the Managing Director and KMP against the pre-agreed targets and goals.
- Make recommendations to the Board of Directors from time to time, of the additional/new expertise required by the Company.

- Assess and recommend to the Board of Directors, of the promotions of KMP address succession planning and issues connected to the organisational structure.
- Approving annual increments, bonuses, changes in prerequisites and incentives.
- Making sure that the remuneration packages of employees are linked to individual performance, responsibility, expertise and contribution to team and overall Company objectives.

### ACTIVITIES IN 2020

- Based on the succession plan, the Committee interviewed suitable candidates to fill the vacancies in the Corporate Management and such recommendations from the Committee were accordingly approved by the Board. In all promotions to the Corporate Management grade, the Committee applied previously approved leadership competency framework to judge the suitability of the candidates.
- Bonus payable for 2020 performance was determined by the Committee according to the Variable Pay Plan (VPP) for Executive staff.
- The Committee also approved the annual increments to the Executive staff based on their performance during 2020.

## CORPORATE GOVERNANCE

### THE HUMAN RESOURCE AND REMUNERATION COMMITTEE

- The Committee reviewed the performance of the Corporate Management members (KMPs) including that of the Executive Director the Managing Director's and Chief Operating Officer's for the financial year ended 2020.
- Key Performance Indicators of the Corporate Management members for 2021 were carefully examined and assessed by the Committee.

#### POLICY

The Remuneration Policy of the Company aims to attract, motivate and retain Executive Directors, KMP and other employees with appropriate professional, managerial and operational expertise necessary to achieve the Company's objectives.

It is the Committee's aim to ensure that the total remuneration package is competitive not just in the industry but to attract from other industries.

#### REMUNERATION PACKAGE OF DIRECTORS

##### a) Remuneration of Directors

No remuneration is paid to Non - Executive Directors other than the directors' fees paid based on their participation at Board meetings and other Sub-committee meetings.

##### b) Retirement Benefits

Non-Executive Directors are not entitled to retirement benefits.

##### c) Share Option Plans for Directors

The Company does not have a share option plan for Directors.

##### d) Personal Loans for Directors

No Director is entitled to Company loans.

Total fees and remuneration paid to all Directors including the Managing Director and the Chairman is disclosed on Note 46.6 on page 349 in this report.

#### REMUNERATION PACKAGE OF MD/ CEO

The Remuneration Committee Policy is to place the basic salaries broadly around the market median with other variable components which reflect the Company's business strategies and the challenges it faces.

The Managing Director's remuneration is decided by the Board annually on the recommendation of the Remuneration Committee based on the achievement of Company objectives and individual performance. Managing Director is entitled to retirement benefits but not company loans. The Company also does not have a share option plan for Managing Director.

#### REMUNERATION PACKAGE OF EMPLOYEES

The remuneration packages of employees consist of a fixed component, variable component and other benefits as noted below:

##### a) Fixed Components

Basic salary and Traveling Allowance are the fixed component in the package which is based on the scope and complexity of the role and is reviewed annually. Annual performance appraisals are conducted, and increments and promotions are granted purely based on results of such appraisals. Overall competence and performance are key factors that determine an individual's base pay.

##### b) Variable Components

The main component of our variable pay is the annual bonus to employees at all levels based on individual performance as evaluated at the annual performance appraisals and the performance of the Company. In addition, the distribution management team is entitled for a production and quality incentive scheme based on achievement of business targets under predetermined criteria.

##### c) Other Employee Benefits

Benefits provided to employees include examination loans and various insurance benefits.

##### d) Retirement Benefits

There are no retirement benefits to employees other than gratuity.

##### e) Employee Share Schemes

There are also no Employee Share Schemes for employees

#### Committee Evaluation

The Committee completed the evaluation process with self-assessment in 2020, which was conducted by the Chairman and Committee members and was deemed to be satisfactory.

#### Professional Advice

The Committee has the authority to engage independent professional advisors on matters within its purview.

#### THE YEAR AHEAD

The Committee will continue to review the Remuneration Policy, Remuneration structures for its Executive Director, KMP and its other employees and make recommendations on the above mentioned in order to ensure the Company is in a position to attract, motivate and retain the best of human resources.

(Sgd.)

**Sujeewa Rajapakse**

Chairman – Human Resource and Remuneration Committee

Colombo, Sri Lanka  
8th March 2021

## THE INVESTMENT COMMITTEE

### COMMITTEE COMPOSITION AND ATTENDANCE

The Board Investment committee (“the Committee”) consists of the following members of the Board.

#### The Board Members

- Mr. Ashok Pathirage - NED (Chairman)
- Mr. Sujeewa Rajapakse - INED
- Mr. Iftikar Ahamed – MD
- Mr. Ray Abeywardena – INED
- Ms. Fernanda Lima – NED
- Mr. V. Govindasamy - INED
- Mr. Raimund Snyders - NED

#### Regular Attendees by invitation

- Head of Investments (Group)
- Chief Financial Officer

#### Secretary to the Committee

P.R. Secretarial Services (Pvt) Ltd

### ATTENDANCE AT MEETINGS

Name	Attended/ Eligibility
Mr. Ashok Pathirage	2/3
Mr. Iftikar Ahamed	3/3
Mr. Sujeewa Rajapakse	3/3
Ms. Fernanda Lima	3/3
Mr. Ray Abeywardena	3/3
Mr. V. Govindasamy*	2/2
Mr. Raimund Snyders**	1/1

\*Appointed w.e.f. 16th January 2020

\*\*Appointed w.e.f. 5th February 2020

MD – Managing Director

INED -Independent Non-Executive Director

NED – Non-Executive Director

94%

Overall Attendance at the Meetings

43%

INEDs in the Committee

3/3

Meetings Held / Meetings Scheduled

### EXPERTISE OF THE COMMITTEE

The committee possess in depth expertise and knowledge in Investments, Finance, Risk Management as well as the industry experts which would be vital in performing its functions. Refer pages 134-136 for profiles.

### CHARTER OF THE COMMITTEE

The Investment Committee (“the Committee”) will assist the Board of Directors in fulfilling their oversight responsibility for the Investments of the company. The Investment Committee is responsible for formulating the overall investment policies of the Company, subject to approval by the Board of Directors as deemed necessary and establishing investment guidelines in furtherance of those policies.

### Roles and Responsibility of the Committee

The Committee is responsible to recommend the investment policy for approval by the Board, to ensure that investments are undertaken as per the said policy and monitor performance on a quarterly basis.

The Investment Committee shall monitor the management of the portfolios by reviewing written reports from Treasury/ Fund Team appointed or by discussions with relevant Treasury/Fund Team covering on a quarterly basis

At its discretion, the committee decide to appoint a Fund Manager(s) to perform the company mandate on investments.

### PROFESSIONAL ADVICE

The Investment Committee will decide if and when expert external advice is necessary and seek same when required.

### ACTIVITIES IN 2020

- The Committee reviewed data on the current economic conditions, outlook for the economy, industry growth sectors, inflation and interest rates.
- The Committee received and reviewed liquidity position and projections.
- The Committee is mandated with the performance of the Overall Portfolio, and as such was responsible for managing both existing projects and new initiatives of the Company.
- The committee evaluated and assessed the impact on the performance of the Company's investment portfolio due to the COVID-19.

### COMMITTEE EVALUATION

An independent evaluation of the effectiveness of the Committee was carried out by the other members of the Board during the year. Considering the overall conduct of the Committee and its contribution on the overall performance of the Company, the Committee has been rated as highly effective.

### THE YEAR AHEAD

The Committee would continue to make decisions and recommendations which meet the risk, ALM and other applicable parameters for investments and ensure acceptable implementation of risk/ reward strategies to achieve budgeted returns for the year. The Committee focus during the year will be on product and fund wise asset and liability management while maximising the yields on the investments.

(Sgd.)

**Ashok Pathirage**

Chairman – Investment Committee

Colombo, Sri Lanka  
8th March 2021

# CORPORATE GOVERNANCE

## THE RELATED PARTY TRANSACTION REVIEW COMMITTEE

### COMMITTEE COMPOSITION AND ATTENDANCE

The Related Party Transaction Review Committee (“the Committee”) is appointed by the Board of Directors and consists of the following members of the Board and whose profiles are given in pages 134-136.

#### The Board Members

- Mr. Sujeewa Rajapakse – INED (Chairman)
- Mr. Ray Abeywardene - INED

#### Regular Attendees by invitation

- Managing Director
- Executive Director
- Chief Strategy Officer
- Chief Financial Officer
- Head of Legal and Compliance

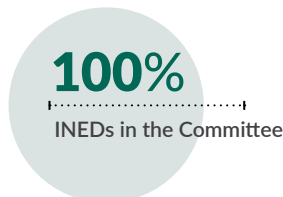
#### Secretary to the Committee

Messrs. P.R. Secretarial Services (Pvt) Ltd.

### ATTENDANCE AT MEETINGS

Name	Attended/ Eligibility
Mr. Sujeewa Rajapakse	4/4
Mr. Ray Abeywardene	4/4

INED - Independent Non-Executive Director



### CHARTER OF THE COMMITTEE

The Related Party Transactions (RPT) Review Committee was established by the Board of Directors to assist the Board in reviewing all related party transactions carried out by the Company in terms of the CSE Listing rules which required mandatory compliance with effect from 1st January 2016.

The Committee is responsible for independent reviewing of transactions between the Company and its Related Parties, either prior to the transaction being entered into or, if the transaction is expressed to be conditional on such review, prior to the completion of the transaction, save and except transactions exempted under the CSE Rules.

#### The objectives, responsibilities, and duties of the committee:

- Reviewing of all transactions between the Company and its Related Parties, either prior to the Transaction being entered into or, if the Transaction is expressed to be conditional on such review, prior to the completion of the transaction.
- Assessing whether the transactions are in the best interests of the Company and its shareholders as whole.
- Evaluate whether the transactions fall within the ambit of a normal business relationship and determining whether transactions that are to be entered into by the Company require the approval of the Board or Shareholders.
- Advising the Board in making immediate market disclosures on applicable RPT as required by Section 9.3.1 of the Listing Rules of the CSE.

- Advising the Board in making appropriate disclosures on RPT in the Annual Report as required by Section 9.3.2 of the Listing Rules of the CSE.

### METHODOLOGY OF THE COMMITTEE

In accordance with the guiding principles, self-declarations are obtained from each Director and Key Management Personnel (KMP) of the Company for the purpose of identifying parties related to the Directors and KMPs. Hence the Company adopts a disclosure-based approach in identifying the related parties.

Based on the information furnished in these declarations, the Company has setup a process which enables the Company to generate data on related party transactions throughout the Company’s network.

The Committee is supported with its task of reviewing related party transactions by way of the confirmation reports of the Management on related party transactions that took place during each quarter.

These reports primarily confirm to the Committee if a related party transaction occurred based on at arm’s length basis or not and the reasons for conducting such transactions with a related party.

If a member has a material personal interest in a matter being considered or a RPT involves directly or indirectly one of the members of this Committee, the conflicted member informs the Committee immediately and exclude himself at the meeting and such member is not present while the matter is being

considered at the meeting and abstains from voting on the matter.

#### ACTIVITIES IN 2020

The Committee met four (04) times during the financial year ended 31st December 2020, and the proceedings of the Committee meetings have been regularly reported to the Board of Directors during the financial year.

There were no non recurrent or recurrent RPT that exceeded the respective thresholds mentioned in the Listing Rules of the CSE.

The annual review of the RPT policy was carried out during the year 2020, and same has been submitted for the board approval.

Details of other RPT entered by the Company during the above period is disclosed in Note 46 to the Financial Statements.

#### PROFESSIONAL ADVICE

The Committee has assessed and/or ensured that they have access to internal and external resources and may seek the advice of the External Auditors of the Company, Counsellor such other independent advisers, consultants or specialists as to any matter pertaining to the powers or responsibilities of the Committee with respect to any Related Party Transaction and obtain such advice as and when necessary.

#### GUIDING PRINCIPLES OF THE COMMITTEE

The RPT Review Committee in ensuring that all transactions with related parties of the Company are treated on par with other shareholders and constituents of the Company, issues guidelines to the Senior Management setting the necessary processes to identify, approve, disclose and monitor all transactions with related parties and the threshold limits and agreed upon terms and conditions with respect to RPT.

#### THE YEAR AHEAD

The Committee will continue to review RPT in order to ensure the Company is in compliance with its stipulated framework governing related party transactions.

(Sgd.)

**Sujeewa Rajapakse**

Chairman – Related Party Transactions Review Committee

Colombo, Sri Lanka  
8th March 2021

# CORPORATE GOVERNANCE

## THE NOMINATION COMMITTEE

### COMMITTEE COMPOSITION AND ATTENDANCE

The Nomination committee (“the Committee”) consists of the following members whose profiles are given on pages 134-136.

#### The Board Members

- Mr. Ashok Pathirage – NED (Chairman)
- Mr. Sujeewa Rajapakse -INED
- Mr. Ray Abeywardena - INED

#### Regular Attendees by invitation

- Managing Director

#### Secretary to the Committee

Messrs. P.R. Secretarial Services (Pvt) Ltd

### ATTENDANCE AT MEETINGS

Name	Attended/ Eligibility
Mr. Ashok Pathirage	1/1
Mr. Sujeewa Rajapakse	1/1
Mr. Ray Abeywardena	1/1

MD – Managing Director

INED -Independent Non-Executive Director

NED – Non-Executive Director

100%

Overall Attendance at the Meetings

67%

INEDs in the Committee

1/1

Meetings Held / Meetings Scheduled

### CHARTER OF THE COMMITTEE

The Board Nominations Committee was established by the Board of Directors to ensure Board’s oversight and control over selection of Directors, Chief Executive Officer (MD), and Key Management Personnel of the Company.

#### The Terms of reference of the Committee

The Terms of Reference states the purpose of the Committee, its composition, authority, scope and scheduling of meetings.

The Nomination Committee was established to consider and make recommendation to the Board of the suitability of a Director’s appointment and/or re-election as a Director to the Board.

The recommendation of the Committee on new appointments will cover the areas such as qualifications, competencies, independence, relationships which have potential to give rise to conflict vis-a-vis the business of the Company, etc.

#### Objectives, responsibilities and duties

The Committee shall :

- To ensure that the Directors are fit and proper persons to hold office.
- To review and recommend any appointment of new Directors to the Board of Directors of the Company.
- To provide advice and/or recommendations to the Board or the Chairman on new appointments to the Board.

- To consider and recommend the re-election of the Director/s eligible for re-election by taking into account the performance and the contribution made by them towards the overall discharge of their responsibilities in the Board and Board appointed committees.
- To set the criteria such as qualifications, competencies, experience, independence, conflict of interest and key other attributes required for eligibility to be considered for appointment or promotion to the post of and key management positions.
- Review the structure, composition and competencies (including the skills, knowledge and experience) of the Board and make recommendations to the Board with regard to any changes
- A member of the Nominations Committee shall opt out in decisions relating to his own appointment.
- To consider and recommend from time to time the succession planning arrangement for retiring Directors and Key Management Personnels.
- To make recommendations on any other matter/s referred to the Committee by the Board of Directors.

### ACTIVITIES IN 2020

The Committee has recommended the Directors who are coming up for re-election, to be re-elected at the 22nd AGM to be held on 31st March 2021 based on the performance and the contribution made by them towards the overall discharge of the Board’s responsibilities.



Directors – Mr. V. Govindasamy and Mr. Raimund Synders were appointed during the year with the aim of bringing new perspectives to the board.

### **METHODOLOGY OF THE COMMITTEE**

The Committee meets as and when necessary in order to assess the suitability of individuals for appointment as directors and Key Management Personnel as well as to conduct such other affairs which the Charter of the Committee mandates the Committee to carry out.

### **PROFESSIONAL ADVICE**

The Committee has the authority to seek external professional advice on matters within its purview whenever required.

### **THE YEAR AHEAD**

The Committee will continue to review identified risks, identification processes and mitigation strategies and make recommendations on the above mentioned in order to ensure the Company is in compliance with its stipulated framework and is within its defined risk appetite.

(Sgd.)

**Ashok Pathirage**

Chairman – Nomination Committee

Colombo, Sri Lanka  
8th March 2021

## CORPORATE GOVERNANCE

### D. EXECUTIVE MANAGEMENT

Corporate management team of Softlogic Life Insurance holds executive power delegated to them by authority of the Board of Directors and shareholders.

This group of individuals that operate at the higher level of an organisation and have day-to-day responsibility for managing other individuals and maintaining responsibility for key business functions.

The Organisational structure is available on page 16.

The profiles of Executive Management are available on pages 137-138.

#### D.1. PERFORMANCE EVALUATION AND REMUNERATION OF THE MANAGING DIRECTOR

Performance evaluation of the Managing Director is available in page 163.

Remuneration details of the Managing Director is available in the HR & Remuneration Committee Report on pages 185-186.

#### D.2. PERFORMANCE EVALUATION OF CORPORATE MANAGEMENT TEAM

All performance evaluations of the Corporate Management team are done based on the achievement of given objectives while taking in to account the operating and economic environment of the country.

Performance objectives are given at the beginning of the year, which are based on achieving the objective set by the Board for the year.

The performance of the Executive Directors is evaluated by the Board as a whole at the end of each year.

The performance of the rest of the Corporate Management team members is carried out by the Managing Director.

### D.3. REMUNERATION OF CORPORATE MANAGEMENT TEAM

The remuneration structure is designed to be competitive to retain the talent of the team members within the Company

The remuneration package is also included with a variable component that is based on the achievement of performance objective achieved during the year by the members.

### D.4. CODE OF CONDUCT FOR CORPORATE MANAGEMENT

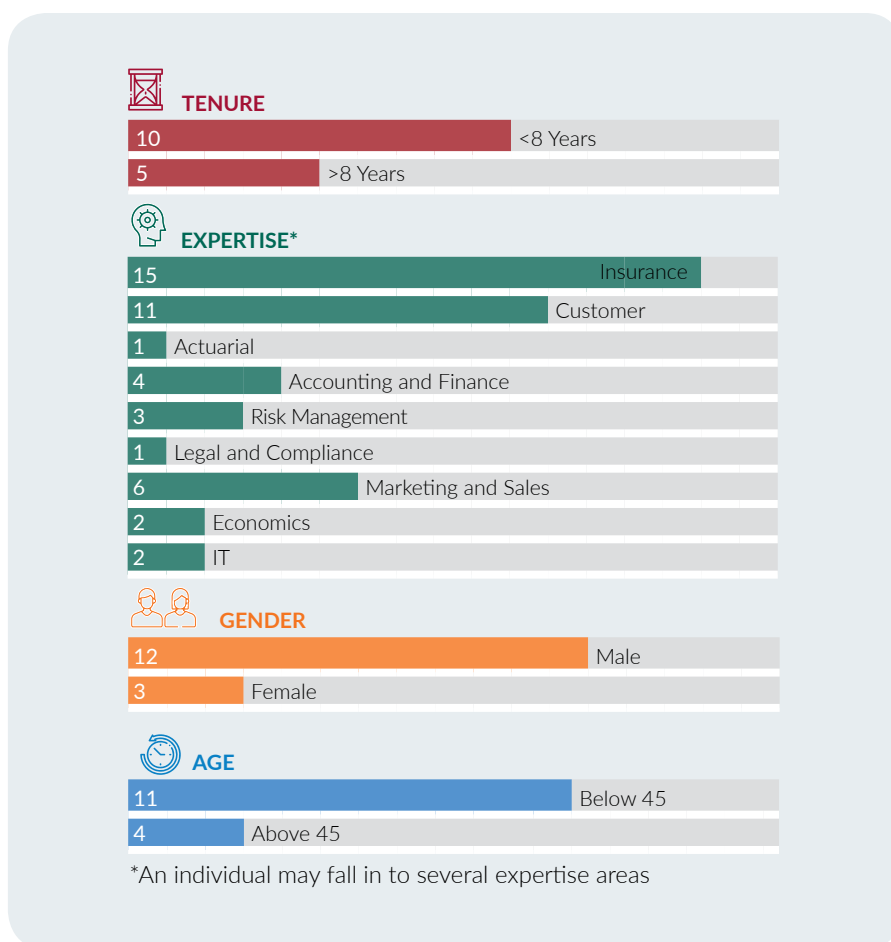
The Corporate Management is also required to comply with the Code of Conduct of the company which is described in detail on pages 163-164.

### D.5. CORPORATE MANAGEMENT COMPOSITION

The composition of Corporate Management team at Softlogic Life is diverse in every aspect ranging from expertise, age, tenure, and gender as well.

This diversity plays a key role in enabling the Company to embark on a sustainable growth journey.

Figure: Corporate Management Composition



## D.6. MANAGEMENT COMMITTEE

In order to achieve the strategic objectives, the Company has formed various Management Committees to maintain and enhance the performance governance under the leadership of the Managing Director. Summary of key objectives, members and frequency of the meetings are detailed below.

Table: Management Committee details

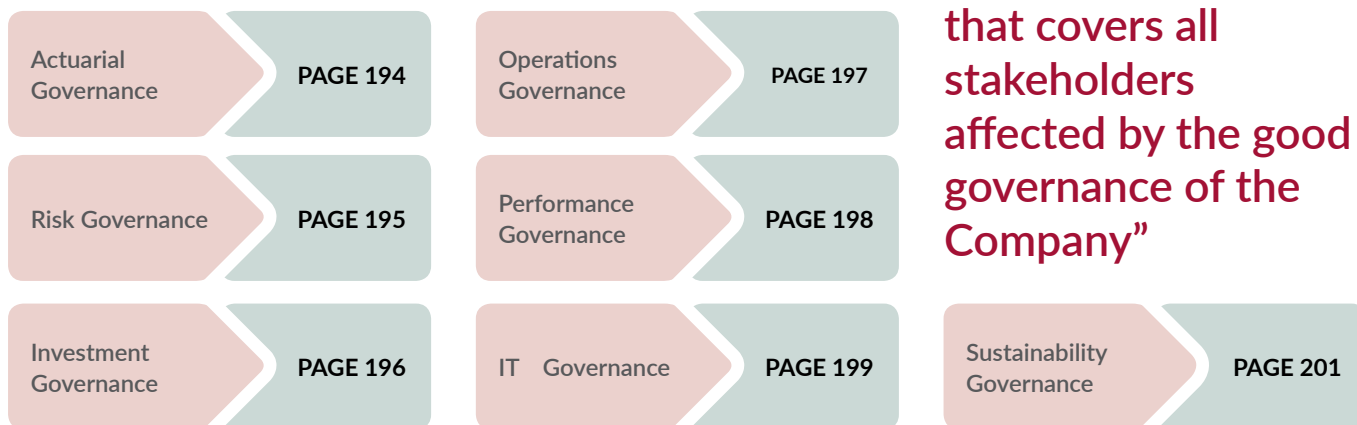
Management Committee	Committee Objectives	Members	Meeting Frequency	Meetings Held/Planned
<b>IT Steering Committee</b>	Continuously monitor the progress and productivity of IT and MIS of the Company and designing IT policies with a view to making recommendations to the Board on IT capital expenditure.	<ul style="list-style-type: none"> <li>Managing Director</li> <li>Chief Operating Officer</li> <li>Chief Information Officer</li> <li>Chief Financial Officer</li> </ul>	Quarterly	4/4
<b>Supplies Committee</b>	Selecting the right supplier considering the quality, price and delivery date.	<ul style="list-style-type: none"> <li>Executive Director</li> <li>Chief Corporate Services Officer</li> <li>Chief Financial Officer</li> </ul>	Bi-Annually	2/2
<b>Actuarial Committee</b>	Continuously monitor performance of life fund, product portfolio, and valuation of life fund, expense allocation and regulatory requirements.	<ul style="list-style-type: none"> <li>Managing Director</li> <li>Consultant Actuary</li> <li>Chief Technical Officer</li> <li>Executive Director</li> <li>Chief Actuarial Officer</li> <li>Chief Financial Officer</li> </ul>	Bi-Annually	2/2
<b>Product Development Committee</b>	Focus on revamping SLI's existing products in order to compete with industry's prominent products. Suggestions made will be taken up for new product development, thereby acting as a medium to convey information from sales.	<ul style="list-style-type: none"> <li>Executive Director</li> <li>Chief Actuarial Officer</li> <li>Chief Technical Officer</li> <li>Chief Financial Officer</li> <li>Head of Marketing</li> <li>Head of Legal and Compliance Officer</li> </ul>	Quarterly	4/4
<b>Sustainability Committee</b>	Communicate the responsibility to the stakeholders in respect of the policies and practices that relate to the sustainable growth of the Company on a universal basis.	<ul style="list-style-type: none"> <li>Managing Director</li> <li>Executive Director</li> <li>Chief Financial Officer</li> <li>Head of Human Resources</li> <li>Chief Technical Officer</li> <li>Head of Marketing</li> </ul>	Quarterly	4/4
<b>Asset and Liability Management Committee</b>	To align the Company's Investment Strategy with its Business and Financial Objectives. It also defines the methodologies to assess, monitor and mitigate; Interest Rate Risk, Reinvestment Risk, Maturity, Mismatch Risk, Cashflow Risk and Liquidity Risk.	<ul style="list-style-type: none"> <li>Managing Director</li> <li>Executive Director</li> <li>Chief Technical Officer</li> <li>Chief Actuarial Officer</li> <li>Chief Financial Officer</li> <li>Head of Investment (Group)</li> <li>Head of Risk</li> </ul>	Quarterly	4/4

## CORPORATE GOVERNANCE

### E. MANAGING STAKEHOLDER INTERESTS THROUGH EFFECTIVE CORPORATE GOVERNANCE EXECUTION

The effective implementation of Corporate Governance within the Company plays a vital role in maintaining a sustainable relationship with all stakeholders affected by the Company. Objective of our Governance Execution Framework is to bring significant value addition to different stakeholders.

In order to realize this objective, the organisation has integrated the below functional areas with a Governance Framework.



**“Softlogic Life Insurance PLC has implemented a framework for stakeholder management that covers all stakeholders affected by the good governance of the Company”**

#### E.1. ACTUARIAL GOVERNANCE

<p>Actuarial governance is considered as a critical activity and Insurance Contract Liabilities represent 75% of the total liabilities in the Balance Sheet.</p>	<p><b>Objectives</b></p> <ul style="list-style-type: none"> <li>• Protection of policyholders’ funds</li> <li>• Treating policyholders transparently</li> <li>• Value creation to the Company</li> </ul>	<p><b>Stakeholders affected</b></p> <ul style="list-style-type: none"> <li>• 1,009,680 customers</li> <li>• 2,151 shareholders</li> </ul>
<p><b>Highlights of Actuarial Governance execution during 2020:</b></p> <ul style="list-style-type: none"> <li>• Total Insurance Contract Liabilities grew by 68% compared to 2019,</li> <li>• Rs. 309 Mn was allocated as Policyholder Bonus as at 2020, while complying with requirements and gaining the necessary certifications of the Appointed actuaries.</li> </ul>		<p><b>The Actuary’s Report</b> is disclosed on page 244 which includes the Actuarial Valuation of the Long-Term business.</p> <p><b>Report of the Liability Adequacy Test (LAT)</b> is available on page 245.</p>

#### Treating Policyholders Transparently Precise bonus allocation to policyholders

The Company has implemented proper guidelines on allocating bonuses for participating policy holders and relevant protocols have been placed to ensure the participating policyholders are receiving maximum benefit on their policies.

The transparency of this process has been improved by the development of

an initial asset share for participating businesses by engaging with appointed actuary, Messrs. Willis Towers Watson India Private Limited. This study proves that the Company is allocating bonuses to participating policy holders on a fair basis.

#### Proper expense allocation using Expense Allocation Framework

Expense Allocation Framework has been developed and certified by appointed actuary, Messrs. Willis Towers Watson

India Private Limited. Objective of this framework is to maintain consistency on the allocation of expense between different funds within the insurance contract liabilities.

This process ensures the policyholders benefit allocation to different insurance funds in the long run. Simultaneously, transparency of calculating insurance contract liabilities has been improved with this process.

**Protection of Policy Holders’ Funds  
Valuation of Insurance Contract  
Liabilities**

The actuarial valuation provides the total amount to be kept to meet future benefits to be paid to policyholders. An actuarial valuation was performed on a regular basis which was carried out by the actuarial division and reviewed and certified by the Appointed Actuary, Messrs. Willis Towers Watson India Private Limited. Softlogic Life performs actuarial valuation and receives an appointed actuary’s certification on following quarters.

Quarter	Certified Date
Q1	15 May 2020
Q3	14 Nov 2020
Q4	15 Feb 2021

**Managing the long-term solvency position of the Company**

A Capital Projection Framework has been developed to project long term Capital Adequacy Ratio (CAR) with scenario testing and stress testing, which enable better decision making. The model is concluded with appointed actuary, Messrs. Willis Towers Watson India Private Limited.

**Value Creation to the Company  
Profitability Analysis**

Analysing profitability of different insurance products has been set out as a core function under actuarial governance. These inputs are used to make Management decisions on product strategy and profitability of market segments. For further details on new product development refer page 67.

**Asset Liability Management Framework**

Objective of this framework is to manage overall risk tolerance, risk - return requirements, solvency position and liquidity requirements. Hence, it provides a balance between shareholder profitability and strengthening the long term solvency position of the Company.

**E.2. RISK GOVERNANCE**

<p>Softlogic Life adopts an Enterprise Risk Management (ERM) approach based on ISO 31000:2018 International Standard. Risk landscape of the Company covers insurance risk, market risk, operational risk, regulatory risk, strategic risk and reputation risk.</p>	<p><b>Objective</b> Mitigating negative impacts for stakeholders whilst ensuring opportunities are maximised.</p>	<p><b>Stakeholders affected</b></p> <ul style="list-style-type: none"> <li>• 1,009,680 customers</li> <li>• 2,151 shareholders</li> <li>• 897 employees</li> </ul>
<p><b>Risk Governance execution during 2020:</b></p> <ul style="list-style-type: none"> <li>• Risk performance highlights for 2020 are presented in page 228.</li> <li>• Risk Appetite Statement as at 31st December 2020 - refer page 229.</li> <li>• Investment Risk Management – refer pages 235-240.</li> <li>• Life Insurance Business Risk Management – refer pages 232-234.</li> <li>• Risk management during Covid-19 - refer page 226.</li> </ul>	<p><b>Board Involvement in Risk Governance</b> The Board has delegated the risk management duties to the Risk Committee – refer pages 183-184 for the Committee Report.</p> <p><b>THE INTEGRATED RISK MANAGEMENT FRAMEWORK OF SOFTLOGIC LIFE INSURANCE PLC</b> Refer pages 224-240</p>	

**Mitigating Negative Impacts for Stakeholders Whilst Ensuring Opportunities Are Maximised**

The key objective of risk governance is identifies identifying particular events or circumstances relevant to the organisation’s objectives (risks and opportunities), assesses them in terms of likelihood and magnitude of impact, determining a response strategy, and monitoring its progress, so that it may protect and create value for all stakeholders affected.

## CORPORATE GOVERNANCE

### E.3. INVESTMENT GOVERNANCE

<p>Long term policyholder benefits are backed by investment portfolio. Hence, investment governance is a vital element under governance execution.</p>	<p><b>Objective</b> Balancing Value Creation and Risk Management</p>	<p><b>Stakeholders affected</b></p> <ul style="list-style-type: none"> <li>• 1,009,680 customers</li> <li>• 2,151 shareholders</li> </ul>
<p><b>Highlights of Investment Governance execution during 2020:</b></p> <ul style="list-style-type: none"> <li>• While complying with Regulatory as well as Internal Risk Management requirements, the total financial assets base grew by 83.5% while total Investment income increased by 34% compared 2019.</li> <li>• USD Sovereign Bonds, USD Denominated Sri Lanka Development Bonds and USD Fixed Deposits were added as new Financial Instruments and managed under the relevant compliance requirements.</li> </ul>		<p><b>Board Involvement in Investment Governance</b></p> <p>The Board has delegated the investment governance duties to the Investment Committee – Refer pages 187 for the Committee Report.</p> <p>The Board Risk Committee maintains and manages risks faced, including a capital market related risks faced by the Company.</p>
<p>Compliance with regulatory requirements on investments in Government Securities, Investment are disclosed on page 76.</p>		

### Balancing Value Creation and Risk Management

The company has clear segregation of duties between the:

- Treasury Front-Office who analyse the market and make investment related decisions.
- Treasury Middle-Office, who monitor the compliance and risk management aspects of the Treasury function.
- Treasury Back-office function, who execute the transactions and update the General Ledger.

Further, the Risk Management function monitors the compliance of the Investment portfolio against the;

- Internal Treasury Middle Office Investment Policy
- Regulatory guidelines such as Determination and Risk Based Capital compliance requirements

A comprehensive three-step approach is followed to ensure balance between value creation and risk management under investment governance.

Figure: 3-step approach to balance value creation and risk management

All the operational level investment strategies, are designed by the ALCO and presented to the Investment Committee for approval



The risk management division duly analyses these policies and procedures to minimise long term risk



All critical investment decisions are approved at the Board Investment Committee and Board meeting level.

**E.4. OPERATIONS GOVERNANCE**

<p>Operations governance focuses on a significant responsibility towards maintaining transparency for the policyholders. Further it also covers employees and shareholders as well.</p>	<p><b>Objectives</b></p> <ul style="list-style-type: none"> <li>• Protect customer and add value to customer</li> <li>• Fair treatment to all employees and sales force</li> <li>• Promoting ethical behaviour within the organisation</li> </ul>	<p><b>Stakeholders affected</b></p> <ul style="list-style-type: none"> <li>• 1,009,680 customers</li> <li>• 897 employees</li> <li>• 3,025 sales force</li> <li>• 6 reinsurance partners</li> </ul>
<p><b>Key Highlights in 2020;</b></p> <ul style="list-style-type: none"> <li>• The Company was awarded with The Great Place to Work in Sri Lanka accolade for the 5th consecutive year during 2020.</li> <li>• Same Day Claim Settlement Ratio of 86%</li> <li>• Produced 169 MDRT qualifiers during 2020.</li> <li>• Among the top 10 companies in Sri Lanka for transparency in reporting Anti-Corruption practices and policies.</li> </ul>	<p><b>Board Involvement in Operations Governance</b></p> <p>Fair treatment, reporting of corruption and unethical behaviour are core components of the Code of Ethics, which the Board complies with.</p> <p>Further, protecting customers by maintaining proper internal control, risk management and regulatory compliance is also supervised by the Audit Committee.</p>	<p><b>For further details in;</b></p> <ul style="list-style-type: none"> <li>• Fair treatment of employees and sales force – refer pages 92-95.</li> <li>• Protecting and adding value to customers – refer pages 98-107.</li> <li>• For Code of Ethics - refer pages 163-164.</li> <li>• For the Whistle Blower Policy – refer page 198.</li> </ul>

**Protect the Customer and Add Value to the Customer**

The Company has adopted various sales and operational policies, reinsurance administration policies, fraud risk management policies and complaint handling policies focusing on sales, underwriting, claims, servicing and reinsurance to execute customer protection and fair treatment to customers.

The Company has followed the internal policies appropriately and complied with applicable provisions relating to customer protection under Regulation of Insurance Industry Act No.43 of 2000, rules, regulations, determinations, directions issued by Insurance Regulatory Commission of Sri Lanka.

**Fair Treatment to All Employees and Sales Force**

The Company has set up appropriate policies for clear recruitment process, training and development, clear communication, reporting structure, performance evaluation, fair opportunities for career progression, talent management and succession planning.

The sales force of Softlogic Life comprises of 3 channels namely agency, alternate and micro. All these channels are governed with performance driven incentive structures and career development. There are guidelines placed on recruiting quality sales advisors, training and knowledge management, sales driven compensation and investigation procedures and complaint handling.

**Promoting Ethical Behaviour within the Organisation**

The company has setup policies to promote ethical behaviour within the organisation, including the following policies:

**Code of Ethics**

All employees of the Company must abide by the Code of Ethics of the company, further details of which are available on pages 163-164.

**Employee Grievances**

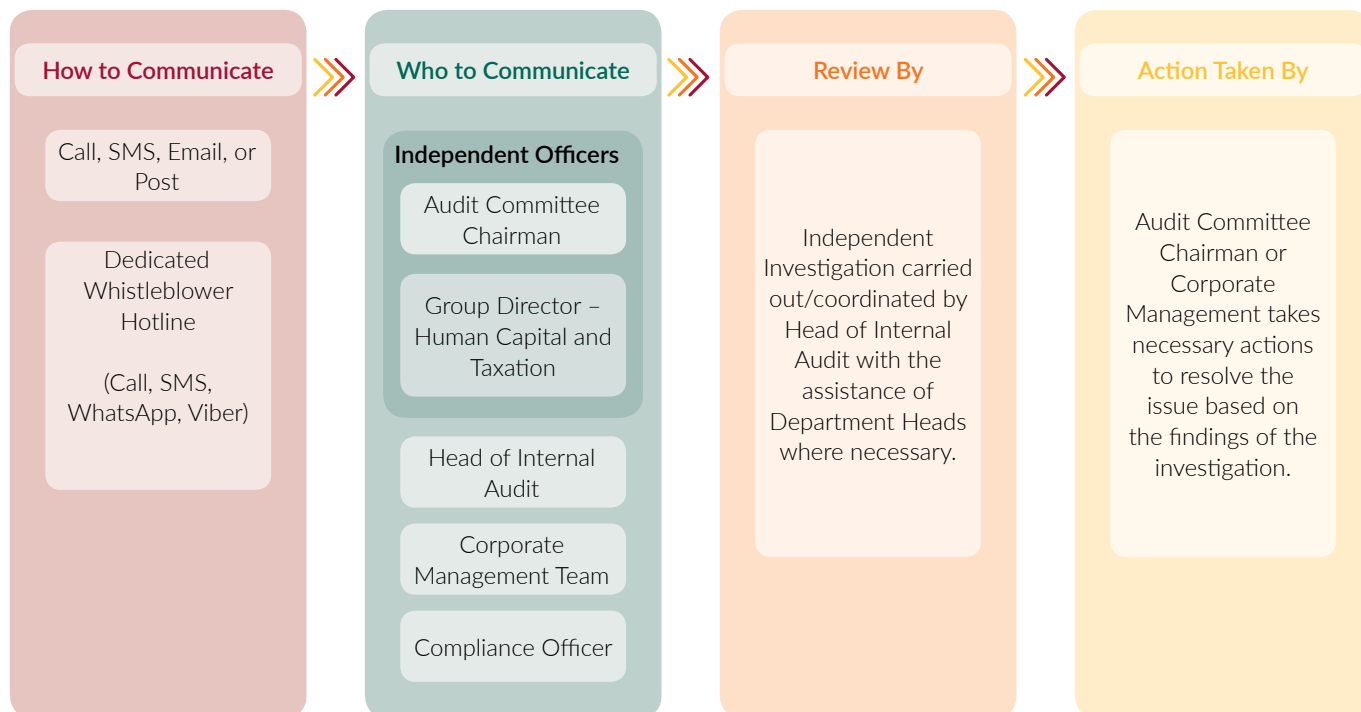
The company has in place a proper employee grievances handling process, accessible for all employees. Further details of which is available on page 97.

# CORPORATE GOVERNANCE

## Whistle Blower Policy

The aim of the policy is to enable the stakeholders of Softlogic Life to feel confident and comfortable to voice their concerns or raise questions whilst providing reassurance that they will be protected from possible reprisals or victimisation.

Figure: Flow of Whistle Blower Policy



## E.5. PERFORMANCE GOVERNANCE

<p>The Company believes performance governance is a critical activity to assure the long term sustainability of the Company.</p> <p>The performance governance culture is embedded to both employees of the Company.</p>	<p><b>Objectives</b></p> <ul style="list-style-type: none"> <li>Value creation to the Company, employees and sales force by improving transparency</li> <li>Creating a performance-driven culture at top-level to recognise its importance.</li> </ul>	<p><b>Stakeholders affected</b></p> <ul style="list-style-type: none"> <li>897 employees</li> <li>3,025 sales force</li> </ul>
<p><b>Performance Governance execution during 2020:</b></p> <ul style="list-style-type: none"> <li>Employee Productivity increased by Rs. 1.9 Mn in 2020 compared to 2019.</li> <li>78% of the staff participated in Performance Appraisal process in 2020</li> </ul>	<p><b>Board Involvement in Performance Governance</b></p> <p>The Board has delegated performance management duties to the Human Resources and Remuneration Committee – Refer pages 185-186 in the Committee Report.</p>	<p><b>For further details in;</b></p> <ul style="list-style-type: none"> <li>Creating value and embedding a performance – driven culture for the sales force - refer pages 108-110.</li> <li>The performance-driven culture created for the employees of the Company - refer pages 90-91.</li> </ul>

### Value Creation to The Company, Employees and Sales Force by Improving Transparency

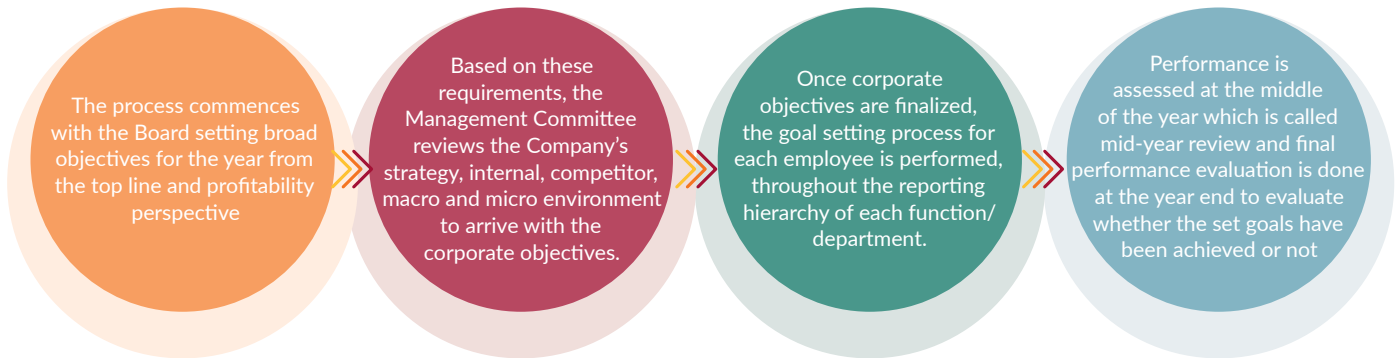
The Company uses performance as a critical factor when deciding remuneration and career advancements of all employees of the Company, including sales force, KMPs as well as the Executive Directors. The Human Resource and Remuneration Committee plays the main role in maintaining this governance within the Company.



**Creating a performance-driven culture at top-level to recognise its importance**

The Human Resource and Remuneration Committee empowered with determining the compensation and benefits of members of the Board of Directors, the Key Management Persons (KMP) based on the target achievement. The variable bonus is also approved by the Human Resource and Remuneration Committee. Therefore, the Company’s performance governance culture is established at Board level.

Figure: The Process of Performance Objective Setting



**E.6. INFORMATION TECHNOLOGY GOVERNANCE**

<p>The Company IT Governing practices are built with the interests and inputs of a wide range of stakeholders as well as taking account the impact on external parties connected to the Company systems and devices.</p>	<p><b>Objective</b></p> <ul style="list-style-type: none"> <li>To align IT strategy with the Company strategic direction and Strategy execution - <i>Strategic Focus</i></li> <li>Improve Company operations via IT integration and proper management of IT operations and system development - <i>Operational Focus</i></li> <li>To manage all cybersecurity threats and risks in a proper controlled environment - <i>Risk Management Focus</i></li> </ul>	<p><b>Stakeholders affected</b></p> <ul style="list-style-type: none"> <li>1,009,680 customers</li> <li>897 employees</li> <li>3,025 sales force</li> </ul>
<p><b>Board Involvement in IT Governance</b></p> <p>The Board has delegated IT Governance related matters to the Board Risk Committee – refer pages 183-184 of the Risk Committee report.</p>		
<p><b>IT Governance execution during 2020:</b></p> <ul style="list-style-type: none"> <li>IT Steering Committee met 4 times during 2020 to discuss IT related matters.</li> <li>Lead the response to COVID-19 related lockdown and Work from Home environment, by facilitating the digital environment required. More details on page 150.</li> <li>Details of innovations and digitization of processes which adds value to customers as well as Company operations are presented on pages 102-103.</li> </ul>		

**a. Strategic Focus**

**IT strategy aligns with business strategy** - A detailed assessment is done at each planning cycle to validate the IT strategy.

**Value Delivery** - Applicable IT policies and procedures are in place to achieve the corporate objectives which provides the value delivery.

**Integration** - IT operations are integrated with the business operations to ensure a well-controlled flow of information across departments that allow smooth running of the business operations.

**User Connectivity** - Policies and standards are placed to control access to data and connectivity to the Company’s network by devices and information systems used by employees as well as external parties.

## CORPORATE GOVERNANCE

### b. Operational Focus

The Company ensures a well-controlled flow of information across departments that allows smooth running of the business which ensures integration between different stakeholders including external parties.

#### Regulatory Requirements on IT

Risk, Legal and Internal Audit departments communicate the regulatory requirements that should be adopted, to the IT department, who ensure that the system controls are embedded appropriately.

#### Impact on Group IT

Since Softlogic Life is part of the Softlogic Group, the IT environment of the Company affects the Group IT environment as well.

Therefore, Group IT Risk department is independently involved in evaluating applicable security threats and possible mitigating strategies periodically.

#### Development of IT policies

All the IT Policies, Standards, Procedures and Guidelines are developed as per the ISO 27001:2013 standard.

#### Involvement of the Board and KMPs

All IT Policies are reviewed and signed off by the IT Steering Committee and Audit Committee depending on the relevance to each committee.

- The Chief Information Officer (CIO) leads the IT Steering Committee which is a dedicated management committee, focus on improving and managing IT interests of the company.
- The IT Steering Committee is delegated with the authority to ensure the proper implementation of the IT Governance Framework.
- Further, the CIO reports to the Risk Committee with regular updates on IT related issues, material IT projects including governance-related matters.

- Risk Committee in turn ensures that risk monitoring and assurance procedures are able to address the risks adequately

#### Prudent Expenditure

All the IT expenditures is done within the approved budget and also in line with the strategic objectives of the business requirements.

#### System Development and Modification

All in-house system developments and modifications are made according to well-defined change management procedure. "Softlogic Life Insurance PLC Software Development Policy" contains the procedures to be followed during software developments, software change management, software testing and live deployment.

#### Data Analytics

The Governance framework also encourage using data for improved analysis and forecasting activities, which will contribute to automation and digitisation of operations.

### c. Risk Management Focus

Life Insurance companies generally deal with vast amounts of confidential data belonging to policyholders such as their health-related information, financial information and many more.

Risk Management focus of IT Governance is therefore ensuring the security of the sensitive data of policyholders as well as security of information systems and the digital devices of the organisation.

#### Communication and Awareness

All the Softlogic Life IT Security policies, standards, procedures and guidelines are published in the Company intranet and users have been informed to read and comply.

Regular emails are circulated to the employee base creating awareness of cybersecurity threats.

In the event a cybersecurity risk emerges, the IT security division:

Takes necessary preventive actions to send a special communication across the Company wide employee base to enhance awareness.

Informs the precautionary actions that are needed to be followed by each individual to safeguard the integrity of data and the continuity of operations.

Parallel to that, necessary IT security mitigation actions are exercised by the IT Security unit in coordination with the IT technical teams.

#### Independent Periodic Review of Security

- The Company annually gets security assessments from 3 third-party independent consultancy firms. Based on the consultancy reports provided by these 3 firms, the IT department along with their technical and security units takes remedial actions.
- A post-implementation review is also carried out by these firms which is presented to the Management with regard to the progress of the remedial actions taken.

#### Security against Threats

- Core Firewall to control and monitor network access.
- Regular server and security scans.
- Up-to-date anti-virus software and Spam filtering.
- Limited access to external storage devices.

#### Data Backup and Disaster Recovery (DR)

- Periodic data backup facility.
- Real-time data replication at SLT-IDC for DR.

**E.7. SUSTAINABILITY GOVERNANCE**

<p>The Company recognises the impact of sustainable issues, both non-financial and financial as well as the importance of managing these issues, which will create long-term value to the company, shareholders and the community.</p>	<p><b>Objectives</b></p> <ul style="list-style-type: none"> <li>Integrating sustainability into the strategy and execution</li> <li>Managing the risks and opportunities incurred from sustainability</li> <li>Report and disclose sustainability related matters.</li> </ul>	<p><b>Stakeholders affected</b></p> <ul style="list-style-type: none"> <li>1,009,680 customers</li> <li>2,151 shareholders</li> <li>897 employees</li> <li>3,025 sales force</li> <li>Other stakeholders such as community, business partners and government</li> </ul>
<p><b>Sustainability Governance execution during 2020:</b></p> <p>The company has aligned their sustainability reporting with the;</p> <ul style="list-style-type: none"> <li>United Nations Sustainability Goals (UNSDG)</li> <li>GRI Standards published by Global Reporting Initiative</li> <li>Guidance on ESG Reporting by the Colombo Stock Exchange (CSE)</li> <li>Disclosure on Gender Parity Reporting Issued by The Institute of Chartered Accountants of Sri Lanka.</li> </ul>		<p><b>Board Involvement in Sustainability Governance</b></p> <p>The Board has disclosed their responsibility on sustainable practices presented in the annual report – Refer page 11.</p> <p>Further, the external assurance on the reasonable and limited assurance on sustainability indicators are presented on page 131.</p>
<p><b>Highlights on sustainability activities in 2020</b></p> <p>The company has also included a dedicated web page for the company’s sustainability initiatives in the corporate website as well, which is accessible for all stakeholders to access and understand the company’s contribution to sustainability initiatives.</p> <p>Details on Sustainability initiatives that affects the:</p> <ul style="list-style-type: none"> <li>Society – available on pages 114-118 under Social and Relationship Capital</li> <li>Environment - available on pages 127-130 under Natural Capital</li> </ul>		

**Integrating sustainability to company strategy and execution**

Sustainability and related topics are regularly discussed in the Management Committee, which is comprised of Executive Directors and Senior Management personnel of each department, through which the tone is set at the top level; that recognition and management of Sustainability and CSR issues are top priority for the Company.

Further the Company has aligned the business activities with the “The Sustainable Development Goals (SDGs)”, set by United Nations Sustainability Goals (UNSDG ) – refer page 14 for details.

**Establish Long Term Stability via Sustainability as a Precautionary Approach**

We believe sustainability management is an important precautionary approach to economic, social and environmental risk management. The Company applies the precautionary principles mainly from the following angles.

- Operational policies and procedures are developed by taking a long term view and the Company expects less volatility in the long run as a result of such action.
- The Company is obliged to take anticipatory action to prevent harm of any kind as a responsible corporate citizen which highlights the responsibility towards society.

- The Company follows a principle of “open, informed, and democratic” and “must include affected parties” for all the decisions taken by the Company which highlight the importance of precautionary approach under sustainability governance.

**Fair Opportunities to All Stakeholders to Provide Feedback**

In keeping with the standards of a democratically operated and transparent organisation, the Board of Softlogic Life placed many mechanisms for the Company’s stakeholders to submit ideas or provide feedback to the Board of Directors. Refer page 203 for details.

## CORPORATE GOVERNANCE

### Managing the risks and opportunities incurred from sustainability

#### Environmental and Social Risk Policy

The Company has in place an Environmental and Social Risk Policy, which enables the assessment of Environmental and Social risks that impacts the sustainability of the company, into the existing Risk Management procedure. Further details on this policy is on page 117.

#### Managing Risks and turning them into Opportunities to improve Sustainability

Table: Improving Sustainability by converting risks into opportunities

Risk Faced by Sustainability	How we Manage the Risk	Opportunity created to improve Sustainability
Carbon footprint and impact on the environment and natural resources.	Change the way the Company operates, in order to improve eco efficiency. Refer pages 127-130 under Natural Capital for details	Increased eco-friendliness and decreased carbon footprint of the Company – which will lead to sustainable shareholder goodwill and interests in Company equity.
Negative market conditions that threaten the balance of shareholder interests and social responsibility.	Proper management of resources between CSR and business strategies to improve profitability. Refer pages 114-118 under Social and Relationship Capital – Community for details	Increased involvement as a corporate citizen will in turn create sustainable positive public relations and reputation - which will increase the value of the brand.
Managing employee work-life balance while contributing to community and social improvement activities.	Creating a dedicated Sustainability and CSR Committee and corporate culture encouraging CSR. Refer pages 117-118 under Social and Relationship Capital – Community for details	As employees are increasingly involve in improving the community, their motivation and self-satisfaction will create a sustainable relationship – which will lead to a loyal and dedicated employee base.

### Reporting and Disclosure of Sustainability related matters

Sustainability reporting is the disclosure and reporting of sustainability-related information in a way that is comparable with financial reporting and to move the focus from the bottom line to improving the environment and the society.

The Global Reporting Initiatives (GRI) in accordance with core guidelines is used by Softlogic Life for sustainability reporting.  Refer pages 367-368 for the GRI content index which provides page references of this report which fulfils the disclosures required by GRI standards	The company aligns the business with the Sustainable Development Goals (SDGs) set by United Nations Sustainability Goals (UNSDG).  Refer details disclosed in detail on page 14.	The company also follows the guidance on ESG reporting issued by Colombo Stock Exchange (CSE).  The Company also discloses Gender Parity reporting issued by the Institute of Chartered Accountants of Sri Lanka, disclosed on page 93.
	The Company obtains external assurance report from Messrs. KPMG for sustainability reporting – refer pages 131-132.	Further process of assessing materiality of transactions, integrating GRI and UNSDG sustainability principles are disclosed on page 50.

#### Reporting on Environmental Sustainability

The Company is aware of its direct and indirect impact on the environment and constantly tries to minimise the carbon footprint as well as launch new initiatives to improve the eco-friendliness quotient of the Company. Further details on this matter is available under Natural Capital on pages 127-130.

**Reporting on Social Sustainability**

The Company also considers the impact and responsibility it has on the stakeholders in the society as detailed below;

Table: Social Sustainability impact and Response by the Company

Area of Impact	Response of the Company and Reporting Provided
<b>Impact on the Community</b>	
Our Impact on the Community and Community Engagement	The Company is dedicated to improve the conditions of the community while creating a positive impact on the community. For more details, refer pages 114-118 under Social and Relationship Capital.
Sustainable Development of the Company	The Company has articulated the strategic objective of delivering sustainable growth. For more details, refer page 83 under Financial Capital.
How we support Fair Competition	We continue to compete ethically in terms of products, sales and customer service while monitoring competitor actions that affects our sustainability. For more details, refer page 112 under Social and Relationship Capital.
<b>Impact on Customers</b>	
Building Relationships and Engagement with our Customers	The company strives to deliver an exceptional customer service experience and build a long-term sustainable relationship. More details available on pages 98-107 under Social and Relationship Capital.
Maintaining a Responsible Product Portfolio	The Company develops its products with the interests of the customers as a vital component. More details available on page 106 under Social and Relationship Capital.
<b>Impact on Employees</b>	
Fair Treatment, Equality, Career Development, Recognition and Working Environment of Employees	The Company cares about the concerns of employees and provide responses for their needs. More details available on page 84-97 under Human Capital.
<b>Impact on Suppliers and Service Providers</b>	
Working with Suppliers and Service Providers who care about Sustainability	We make sure our suppliers and service providers are maintaining our expected levels of standards which include sustainability. More details available on page 112 under Social and Relationship Capital.

**F. MANAGING SHAREHOLDER RELATIONSHIPS**


The Board and the Senior Management acknowledge their responsibility to represent the interests of all shareholders and to maximise shareholder value of the Company. Shareholders expect the Board and Senior Management to:


- Create sustainable return on their investment
- Adequate and timely communication
- Comply with statutory and regulatory requirements concerning shareholders
- Manage risk, facilitate transparency, maintain fairness and protect the rights of shareholders


Details on how the Company addresses shareholder expectations can be found on page 45.

**Shareholders Inquiries**

Shareholders are encouraged to maintain direct communication with the Company and the Board by contacting the Company Secretary, P. R. Secretarial Services (Pvt) Ltd, through the following channels:

 +94 11 2671439/+94 11 3040542/  
+94 11 2697893/+94 11 2671441

 info@prsslk.com /  
prsecs@gmail.com

 P. R. Secretarial Services (Pvt) Ltd  
59, Gregory's Road,  
Colombo 7, Sri Lanka.

## CORPORATE GOVERNANCE

### F.1. COMMUNICATION WITH SHAREHOLDERS

The Company has implemented multiple channels of communication to maintain an effective relationship with the shareholders of the Company.



#### Access to Company financial reports

Annual and Quarterly reports are available on the Company website as well as the CSE website.

#### Access to Shareholder Inquiries

- Shareholder inquiries are coordinated by the Company Secretary who makes the inquiries accessible to the Board.
- The Company Secretary brings the attention of the Board to any significant concerns raised by shareholders.
- Further, the Senior Independent Director has access to the concerns of all levels of shareholders, in the absence of the Company Secretary.

#### Engagement with Other Stakeholders

Managing other stakeholder interests are available in pages 45-48.

### Shareholder Communications during 2020

#### Corporate Disclosures Released via the CSE Announcements

##### JANUARY 2020

- Disclosure on the change of shareholding
- Resignation of Mr. Rudiger Will
- Appointment of Mr. V. Govindasamy

##### JUNE 2020

- IRCSL Approval of Mr. Raimund Snyders.
- AGM 2020 & EGM Notice

##### FEBRUARY 2020

- Appointment of Mr. Raimund Snyders

##### APRIL 2020

- Disclosure on Impact of COVID-19

##### MAY 2020

- Disclosure of interim Financial Statement

##### MARCH 2020

- IRCSL Approval of Mr. V. Govindasamy
- Postponement of AGM 2020 & EGM

##### SEPTEMBER 2020

- Media release on USD 30 Mn investment in Softlogic Life.

### F.2. INSTITUTIONAL AND INDIVIDUAL SHAREHOLDERS

The Company takes additional efforts in maintaining constant dialogue with institutional investors, brokers, and financial analysts in order to improve their understanding of our operations, strategy and plans, and thereby, enables them to raise any concerns which may in turn affect their perceived value of the Company.

However, the Board and the Management strictly adhere to the statutory and ethical guidelines regarding their responsibility of maintaining confidentiality of price sensitive information.

Individual shareholders are encouraged to carry out adequate analysis or seek independent advice on their investing, holding or divesting decisions. Also, they are encouraged to participate in the AGM and exercise their voting rights.

AGM 2020 and EGM was held on 30th June 2020.

Company **Annual Report** for 2020 was released in March 2020 as online copy and physical copies were later distributed.

**Video** version of the Company Annual Report for 2020 was released in March 2020 on YouTube.

**Corporate Website** was available 24x7x365 to access and share notices and announcements related to Company operations amidst the COVID-19 pandemic lockdown situation.

### F.3. ANNUAL GENERAL MEETING (AGM)

The AGM provides a forum for all shareholders to directly communicate with the Board of the Company and participate in the decision-making process reserved for the shareholders.

This typically includes proposals to adopt the Annual Report and Accounts, appointment of Directors and Auditors and other matters requiring special resolutions as defined in the Articles of Association or the Companies Act No. 07 of 2007.

The Chairman makes sure that the heads of Board Sub-Committees such as the Audit, Nominations, HR and Remuneration Committee as well as the Senior Independent Director are present at the AGM to respond to any inquiries of the shareholders.

#### Shareholder Notice

Notice of AGM is circulated to all shareholders 15 working days ahead in compliance with the Companies Act, along with instructions on the voting procedure, including the process for voting via a proxy.

#### Voting Process at the AGM

Separate resolutions are proposed for each substantially separate issue.

Shareholders can vote, “for” or “against” as well as to “withhold” the vote.

Votes withheld are not counted as votes for the calculation of for and against vote calculation.

#### Voting via Proxy

Each resolution will carry a proxy appointment form, which the shareholder can utilise for voting decisions - “for”, “against” or “withhold”.

The Company makes arrangements to ensure that each valid proxy vote are collected, counted and recorded.

#### Impact of COVID-19 and Lockdown on the AGM

The AGM which was scheduled to be held on the 31st March 2020, at the 4th Floor, Central Hospital (Private) Limited, No. 114, Norris Canal Road, Colombo 10 was decided to be postponed indefinitely due to the lockdown imposed to curtail the spread the COVID-19 pandemic in the country. This was communicated via an official announcement in the CSE website on the 24th March 2020, as well as Company social media channels.

On 10th June 2020, after coordinating with relevant authorities and adhering to the circular issued by the CSE on convening virtual shareholder meetings due to the prevailing COVID-19 pandemic situation in the country, it was announced that the AGM will be held on 30th June 2020, at Level 16, One Galle Face Tower, Colombo 02.

#### Special arrangements made at AGM and EGM due to COVID-19 pandemic situation

Meeting notices and proxy forms were made available in the Company website and in the CSE website as well as published in one issue of the Daily newspaper in all 3 languages due to disruptions in the postal service.

Only the Board, Company Secretary and KMPs were physically present at the meeting adhering to Government regulations on social distancing and gatherings.

Shareholders were offered the option to connect virtually, and provided with the details of registering for virtual meeting online through the meeting notices.

Filled-out proxy forms and shareholder questions were collected via email and tabled for discussion at the meeting.

#### Shareholder Feedback

The Company has provided the shareholders an “Investor Feedback Form” which provides the opportunity to comment on their Company. Refer Annexure 2 for the feedback form.

#### AGM and EGM held in 2020

The company held the AGM and an EGM on the 30th June 2020 at Level 16, One Galle Face Tower, Colombo 02.

#### Matters at the AGM discussed included:

1. To receive and consider the Report of the Directors on the State of Affairs of the Company and the statement of audited accounts for the year ended 31st December 2020 and the Report of the Auditors thereon.
2. To re-elect Mr. Sujeewa Rajapakse who retires by rotation in terms of Articles 98 (a) of the Articles of Association of the Company as a Director of the Company.
3. To re-elect Mr. V. Govindasamy who was appointed to the Board on 16th January 2020 who retires in terms of Articles 103 of the Articles of Association of the Company as a Director of the Company.
4. To re-appoint Messrs. KPMG, Chartered Accountants as Auditors of the Company for the ensuing year and to authorise the Directors to determine their remuneration.

An EGM was also held for the approval of amendments to the Articles of Association of the Company.

#### Vote results for the resolutions at the AGM and EGM

- ✓ The voting results of the AGM and EGM held on the 30th June 2020, were published on the CSE website by the Company Secretary on the same day.

All resolutions in the agenda as detailed above were unanimously passed.

## CORPORATE GOVERNANCE

### G. STATEMENT OF COMPLIANCE

We believe that in order to foster an organisational culture of complying with strong values and the high standards maintained by Corporate Governance, the involvement of the Board and Management is vital. We believe that the maintenance of high standards of compliance will earn the trust of our stakeholders and lead to sustainable value appreciation of the Company.

The Board of Directors of the Company wishes to confirm that the Company has been compliant, during the year under review with the Regulation of Insurance Industry (RII) Act No. 43 of 2000 and subsequent amendments thereto issued and Direction 17 on Corporate Governance by the Insurance Regulatory Commission of Sri Lanka (“IRCSL”), and the Code of Best Practice on Corporate Governance 2017 issued by CA Sri Lanka.

In addition, we have achieved the status of ‘Fully Compliant’ with the applicable sections of the Listing Rules on Corporate Governance issued by The Colombo Stock Exchange (CSE). For details refer pages 210-212.

The Board of Directors also wishes to confirm that, to its best of knowledge and belief, Softlogic Life is compliant with all the requirements under the Companies Act No.7 of 2007 and has satisfied all its statutory payment obligations to the Government and other regulatory bodies. For details refer pages 165-172.

The Chairman’s declaration of complying to the Code of Business Conduct and ethics for Directors and compliance with related regulations including GRI guidelines has been disclosed on pages 367-368.

The Annual Report of the Board of Directors as at 31st December 2019 is

depicted on pages 165-172. Directors’ statement of Internal Control is disclosed on pages 177-178.

The level of compliance in preparing the Financial Statements has been declared by the Board of Directors on pages 173-174 in the Statement of Directors’ Responsibility.

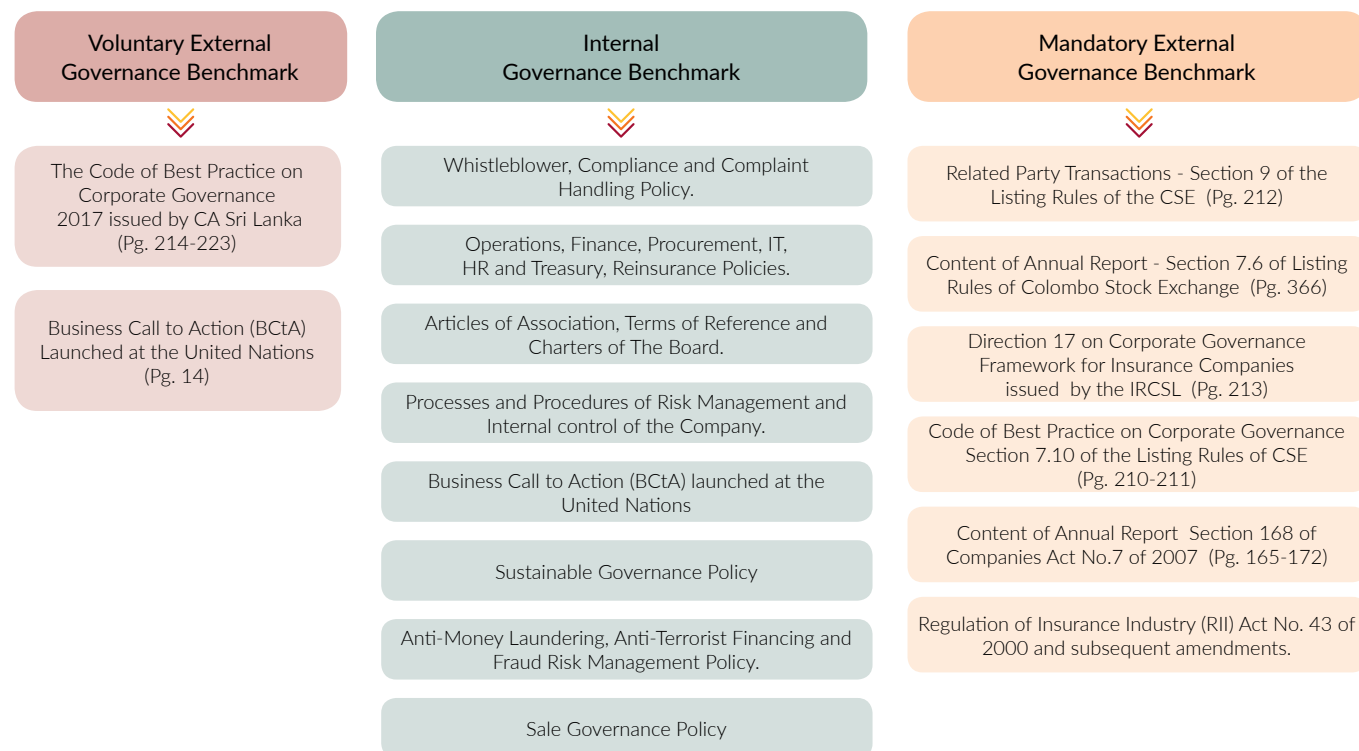
The declaration of independence given by all Directors, in compliance with the Code of Best Practice on Corporate Governance 2017 issued by CA Sri Lanka, can be found on pages 214-223.

### Compliance Benchmark

The Company operates within the internal governance benchmarks while complying with both external mandatory and voluntary governance requirements.

A visualisation of Internal Governance Benchmarks as well as both mandatory and voluntary external governance benchmarks are shown below.

Figure: Governance Benchmarks of the company





**H. ASSURANCE FRAMEWORK**

The Board uses 2 types of assurance namely internal assurance (internal audit) and external assurance (external audit), who evaluate whether the policies and procedures implemented by the management of the Company is being carried out effectively.

Further, the Audit Committee has been delegated the responsibility of reviewing and managing the process as well as the effectiveness of the Company’s risk management and internal controls.

**H.1. INTERNAL ASSURANCE (INTERNAL AUDIT)**

The internal audit function of Softlogic Life Insurance PLC operates with several objectives such as:

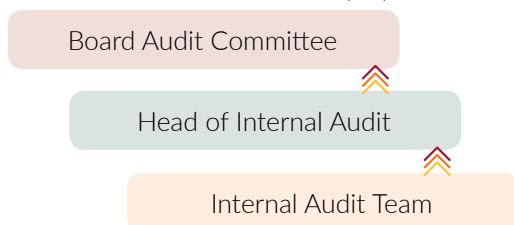
- Align the audit scope with the strategy by providing adequate audit coverage to risk areas.
- Understand the fraud risk factors associated in each function and report to responsible parties with mitigating plans.
- Make cost efficient SMART recommendations to the Management and Audit Committee.
- Promote continuous professional education and career development of audit staff.
- Improve the quality of reports by enhancing the accuracy, completeness and timeliness of audit reports.
- Improve the whistleblowing and fraud prevention awareness within the Company.
- Ensure that all recommendations given by internal/ external audit or by any other auditor (i.e. external experts contracted to review the IT systems) are implemented by the respective departments/functions within the agreed time frame.

**Reporting Structure**

Internal Audit function’s responsibilities are carried out independently under the oversight of the Audit Committee.

Internal Audit team reports to the Head of Internal Audit and does not have reporting lines to frontline units or Senior Management.

Figure: Governance Benchmarks of the company



**“The Board has designed and implemented a proper Risk Management and Internal Control environment to provide assurance on Company assets as well as achievement of Company’s objectives.”**

**Internal Audit Highlights in 2020**

- ✓ 30 Audit and assurance assignments were carried out in 2020, compared to 23 in 2019.
- ✓ 326 Review of areas susceptible for fraud were carried out 2020, compared to 90 in 2019.
- ✓ 8 branch visits were carried out 2020, compared to 16 in 2019.
- ✓ E-mails circulated weekly to educate on the importance of Whistle blowing and reporting fraud.

**Internal Audit Process**

The Internal Audit unit, led by the Head of Internal Audit, execute the Annual Audit Plan as below:

Figure: Internal Audit Process

- STEP 1:** Risk Assessment & Planning
- STEP 2:** Preparation of Audit Plan
  - Reviewed and designed by the Head of Internal Audit
- STEP 3:** Presenting the Audit plan to Audit Committee
- STEP 4:** Commencement of field work for monthly audits
- STEP 5:** Compilation of Internal Audit findings
  - Responses are collected from the Senior Management after reviewing the Draft Report.
- STEP 6:** Presenting the Report to the Audit Committee.
- STEP 7:** Follow-up on previous audit findings and management comments.

## CORPORATE GOVERNANCE

### Internal Auditing Framework

Internal audit function of Softlogic Life Insurance has a risk-based audit approach in line with the Internal Auditing Framework of the Institute of Internal Auditors (IIA).

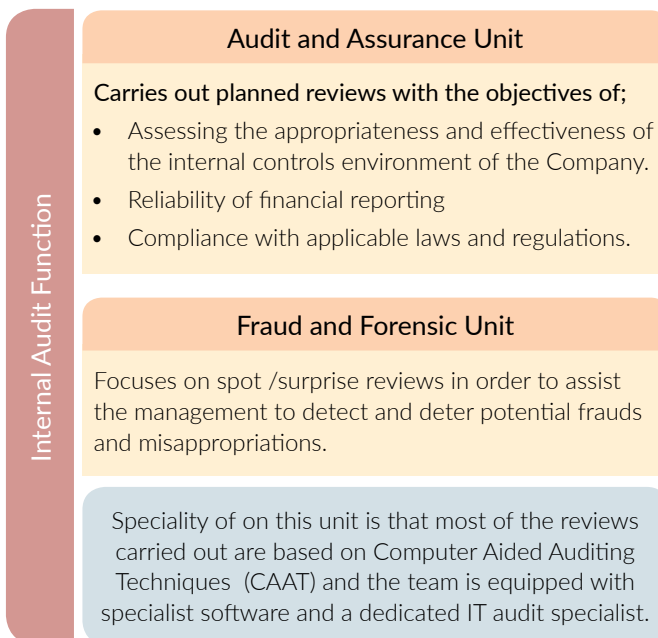
The risk-based internal auditing provides assurance to the Audit Committee that the risk management processes are designed and implemented whilst operating effectively.

The internal audit function provides the Audit Committee with independent and objective assurance over the appropriateness, effectiveness and sustainability of the Company's system of internal controls to mitigate risks.

It acts as the third line of defence by independently reviewing the activities based on a risk-based audit plan and methodology approved by the Audit Committee.

### Internal Audit Operating Methodology

The Internal Audit Function of Softlogic Life operates as two primary units, as illustrated to the right:



## H.2. EXTERNAL ASSURANCE (EXTERNAL AUDIT)

### Appointment of Auditors and Their Responsibilities

The Company's External Audit function is carried out by Messrs KPMG, firm of Chartered Accountants.

The Audit Committee recommends to the Board of Directors the appointment of the External Auditors and their remuneration subject to the approval of the shareholders. The External Auditors are responsible for reporting to the Board Audit Committee on whether the Financial Statements prepared by

the Management are fairly presented in conformity with SLFRs and LKAs as well as prescribe any corrective measures that need to be taken by the Company based on the audit findings.

### Evaluation of Independence of External Auditors

The Board Audit Committee also carries out an annual evaluation of the independence and objectivity of External Auditors.

The Audit Committee sets the principles for recommending the use of the External Auditors for non-audit services.

### Quarterly External Audit Assurance Performed by the Company

The Company has published Interim Financial Statements in the Colombo Stock Exchange for all four quarters in 2020. Softlogic Life is the only insurance Company to perform a quarterly audit. The Company wishes to bring greater transparency to its Financial Reporting process by doing quarterly audits and expects a positive impact on best governance practices in the long run.

## I. REGULATORY AND STATUTORY GOVERNANCE

Softlogic Life engages the services of an in-house Compliance Officer in relation to regulatory and statutory governance.

### Reporting Structure

The Compliance Officer has a direct reporting line to the Managing Director and dotted line reporting to the Group Head of Compliance.

This process also fulfils the requirements of Financial Transaction Reporting Act No. 6 of 2006.

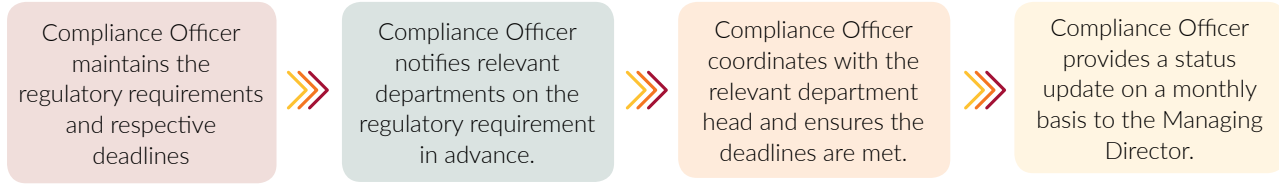
### Compliance Process at Softlogic Life

Compliance process of the Company consists of 2 main processes.

- a. **To analyse new statutory/ regulatory requirements and assess the impact of such regulations to the Company.**
  1. Compliance Officer obtains information on new regulations
  2. Assess the impact analysis from new regulations
  3. Informs relevant department head and Managing Director
  4. Provide update on all the new regulations to the Audit Committee on a quarterly basis

**b. To monitor that statutory/ regulatory deadlines are properly achieved.**

Figure: Process for monitor compliance status



**Compliance Certification**

A quarterly certification is done by the Chief Executive Officer, Chief Financial Officer, Principal Officer and Compliance Officer to the Insurance Regulatory Commission of Sri Lanka (“IRCSL”) in accordance with the determinations issued by “IRC”.

Compliance Certification A	Compliance Certification B
<p><b>Certifies that Company has Complied with:</b></p> <ul style="list-style-type: none"> <li>All provisions in the regulation of Insurance Industry Act No.43 of 2000, rules, regulations, determinations, directions issues by “IRC”</li> <li>With all orders made by the Ministry of Finance and Planning under the regulation of Insurance Industry Act, No. 43 of 2000, including terms and conditions pertaining to reinsurance placements issued by IRCSL in terms of section 31(1)</li> <li>Conditions pertaining to co-insurance issued by IRCSL</li> <li>All applicable circulars issued by IRCSL.</li> </ul>	<p><b>Certifies that Company has Complied with:</b></p> <ul style="list-style-type: none"> <li>All provisions in the Financial Transactions Reporting Act, No. 6 of 2006, including rules on Know Your Customer (KYC) and Customer Due Diligence (CDD) for the Insurance Industry issued by the Financial Intelligence Unit</li> <li>Guidelines on Anti-Money Laundering Programme for Insurers issued by IRCSL</li> </ul>

**Summary of Compliance Requirements and Compliance Status of the Company**

Category	Compliance Requirement	2020 Highlight	Status
<b>Investment Governance</b>	Investment in Government Securities should be a minimum of 30% of the Long Term Insurance Fund.	47% invested in Government securities.	Complied
	Regulatory Determination ratio should be a minimum of 100%	118%	Complied
<b>Meeting Policyholder Obligation</b>	Maintain a Capital Adequacy Ratio (“CAR”) of a minimum of 120%.	302%	Complied
	Life Insurance liabilities should have been validated by an independent external actuary in accordance with the Regulation of Insurance Industry Act	The Actuary’s report is available on page 244.	
<b>Risk Assessment</b>	Risk Assessment Report should be submitted on or before 30th April each year to the Insurance Regulatory Commission of Sri Lanka	Submitted before 30th April 2020.	Complied
<b>Reinsurance Agreement</b>	Insurance companies must enter into reinsurance arrangements with companies which at a minimum have a rating of BBB	100% of reinsurance placements above BBB.	Complied
	Restricted Regulatory Reserve” must be matched with specified class of assets (at market value) equal to the said reserved amount on a continuing basis.		Complied
<b>Rules on Treatment of One-off Surplus</b>	“One-off Surplus?” is created due to changes in the regulatory solvency regime from Net Premium Valuation to a Risk-Based Gross Premium Valuation regime. The transferred One-off Surplus is recorded as the “Restricted Regulatory Reserve” in the balance-sheet and must be maintained without making any distribution unless approved by IRCSL	Restricted Regulatory Reserve of the Company is Rs. 798 Mn and Corresponding Assets are Rs. 839 Mn.	

## CORPORATE GOVERNANCE

### MANDATORY COMPLIANCE REQUIREMENTS

The Company has disclosed the status of compliance of the following mandatory rules issued by the Colombo Stock Exchange ("CSE") and relevant provisions of Companies Act.

- 1) Content of the Annual Report as per rule 7.6 of the listing rules of CSE on page 366.
- 2) Requirements mentioned in Section 168 of the Companies Act No. 07 of 2007 on pages 165-166.
- 3) Requirements on Corporate Governance as per rule 7.10 of the listing rules of CSE on pages 210-211.
- 4) Requirements on Related Party Transactions as per rule 9 of the listing rules of CSE on page 212.

Principle	Compliance and Implementation	Status
<b>7.10.1</b>	<b>NON - EXECUTIVE DIRECTORS</b>	
	<p><b>Two or one third of Directors, whichever is higher, should be Non-Executive Directors:</b></p> <p>The Board consists of Nine [9] Directors, majority of them [7/9] are Non-Executive Directors Refer the Board Composition on page 152.</p>	Compliant
<b>7.10.2</b>	<b>INDEPENDENT DIRECTORS</b>	
	<p><b>Two or one-third of Non-Executive Directors [NED], whichever is higher, should be independent and required to submit to the Board annually a declaration of his/her independence or non-independence:</b></p> <p>The Board comprised seven [7] NEDs, among three [3] of them are independent. Each NED annually submitted a declaration about their independency under specific criteria defined in 7.10.4 in the Listing Rules of CSE. Refer the Board Composition on page 152. Refer the Determination of Independence of Directors on page 158.</p>	Compliant
<b>7.10.3</b>	<b>DISCLOSURES RELATING TO DIRECTORS</b>	
	<p><b>The names of Non-Executive Directors determined to be 'Independent':</b></p> <p>The Board of Directors is inclusive of multifarious expertise, annually determine their independence and submit a declaration to the Board. Refer the Determination of Independence of Directors on page 158.</p> <p><b>In the event a Director does not qualify as 'independent' against any criteria set out in the Rules, the Board shall specify the criteria not met and the basis for its determination:</b></p> <p>The Board noted that Mr. Sujeewa Rajapakse and Mr. Ray Abeywardena do not satisfy the criteria for 'Independence' in that they have continuously been Directors of the Company Exceeding nine years from the date of their first appointment. However, the board taking into account all of the circumstances in that Mr. Sujeewa Rajapakse and Mr. Ray Abeywardena are professionals and have considerable experience in the commercial sphere, the Board is satisfied that their judgement will be exercised in the same manner as qualified Independent Directors.</p> <p><b>A brief resume of each Director including information on the nature of his/ her expertise in relevant functional areas:</b></p> <p>Refer Board of Directors on pages 134-136.</p> <p><b>In the event of an appointment of new Director, a brief resume shall be submitted to the CSE for dissemination to the public:</b></p> <p>Public announcement has been made on CSE with regard to the new appointments to ensure effective stakeholder engagement. Refer New Appointment of Directors on page 156.</p>	Compliant

Principle	Compliance and Implementation	Status
<b>7.10.4</b>	<b>CRITERIA FOR DEFINING “INDEPENDENCE”</b>	
	Please refer criteria use in determining the Independence of the Board of Directors on page 159.	Compliant
<b>7.10.5</b>	<b>REMUNERATION COMMITTEE</b>	
	<p><b>Non-Executive Directors, a majority of whom shall be independent, and one of the Non-Executive Directors shall be appointed as the Chairman:</b></p> <p>The Remuneration Committee consists of three [3] NEDs, majority of them [2/3] are independent. Refer Remuneration Committee Report on pages 185-186.</p> <p><b>The Committee recommend remuneration of Executive Director/Managing Director:</b></p> <p>The Remuneration Policy of the Company aims to attract, motivate and retain Executive Directors, KMPs and employees with appropriate professional expertise to achieve corporate objectives of the Company. The Managing Director’s remuneration is decided by the Board annually on the recommendation of the Remuneration Committee based on the achievement of Company objectives and individual performance.</p> <p>Refer Remuneration Policy in the Remuneration Committee Report on pages 185-186.</p> <p><b>Disclosures:</b></p> <p>Names of the Directors comprising the Remuneration Committee and Statement of the remuneration policy are discussed in the Remuneration Committee Report refer pages 185-186.</p> <p>Refer Note 46.6 Total fees and Remuneration paid to all Directors on page 349.</p>	Compliant
<b>7.10.6</b>	<b>AUDIT COMMITTEE</b>	
	<p><b>Non-Executive Directors, a majority of whom shall be independent</b></p> <p>The Audit Committee comprised of three NEDs and two of them are independent. During the year the Committee met five [5] times with participation of Managing Director, CFO and Head of Internal Audit by invitation.</p> <p><b>The Chairman should be a member of a recognised professional accounting body:</b></p> <p>The chairman of the committee is a Fellow member of Institute of Chartered Accountants of Sri Lanka and Chartered Management Accountants of Sri Lanka, as well as a past president of Institute of Chartered Accountants of Sri Lanka..</p> <p><b>Functions of the Committee:</b></p> <p>The scope, functions and responsibilities are set out in the terms of reference of the Committee report which has been affirmed by the Board and is reviewed annually or as and when necessary.</p> <p>Refer Key functions performed and reviewed by the Committee on pages 180-181.</p> <p><b>Disclosures:</b></p> <p>Names of Directors comprising the Audit Committee and the report by the Committee setting out the manner of compliance in relation to financial reporting detail discussed in detail in the Audit Committee Report on pages 179-182.</p> <p>Refer Independence and Objectivity of External Auditor on page 181 for basis of determination of the independence of the auditor.</p>	Compliant

## CORPORATE GOVERNANCE

### MANDATORY COMPLIANCE REQUIREMENTS

Principle	Compliance and Implementation	Status
<b>9</b>	<b>RELATED PARTY TRANSACTIONS REVIEW COMMITTEE</b>	
9.2.1	<p><b>Review of Related Party Transaction [RPT]</b></p> <p>Except for the transaction set out in Rule 9.5 all other RPTs have been reviewed by the Committee Refer the Related Party Transaction Review Committee Report on pages 188-189.</p>	Compliant
9.2.2	<p><b>The Committee should comprise a combination of Non- Executive Directors and Independent Non- Executive Directors, One Independent Non-Executive Director shall be appointed as Chairman</b></p> <p>The Committee comprised of two [2] Independent NEDs. Managing Director, Executive Director, CFO and Head of Legal and Compliance are regularly attending to meetings by invitation. Refer Committee Composition and Attendance on page 188.</p>	Compliant
9.3.2	<p><b>Disclosures in the Annual Report</b></p> <p>There were no non-recurrent related party transactions which exceeds aggregate value of 10% of the Equity or 5% of the Total Assets, whichever is lower during the year.</p> <p>There were no recurrent related party transactions which exceeds aggregate value of the 10% of the gross revenue/income (or equivalent term in the Income Statement and in the case of group entity consolidated revenue) during the year.</p> <p>The Board confirms that the company has disclosed the transactions with Related Parties in terms of Sri Lanka Accounting Standard (LKAS 24) and complied with all requirements as per CSE Listing Rules. Refer the Related Party Transaction Review Committee Report on pages 188-189. Refer Related Party Disclosures in Note 46 on pages 349-351.</p>	Compliant

## INSURANCE REGULATORY COMMISSION OF SRI LANKA'S DIRECTION ON CORPORATE GOVERNANCE FOR INSURERS

Insurance Regulatory Commission of Sri Lanka has issued direction 17 on Corporate Governance for insurance companies under the Regulation of Insurance Industry Act No.43 of 2000. The Company has already complied with the directive as can be seen from the table below.

Principle	Requirement Implication by the Softlogic Life Insurance PLC	Status of Compliance
<b>A.</b>	<b>ADHERENCE OF THE CODE OF BEST PRACTICE ON CORPORATE GOVERNANCE 2017</b>	
	Refer the Code of Best Practice on Corporate Governance on pages 214-223.	Compliant
<b>B.1 and 2</b>	<b>Board Composition</b>	
	The Board comprise [nine]9 Directors, [seven] 7 among them are citizens and residents of Sri Lanka. Total period service of Directors (other than two Executive Directors, Major Shareholder Director and Technical Director) do not exceed 9 years and such period in office shall be inclusive of the total period of service served by such Director up to 1st July 2019.  <b>Transitional Provisions:</b> A Director who has completed 9 years as at 1st July 2019 or who completed such term at any time prior to June 30th 2021, may continue for a further maximum period of 2 years commencing from July 1st 2019.  Refer Directors' Shareholding on Investor Relation on page 364.  Refer The Composition of the Board on page 152.	Compliant
<b>B.3</b>	<b>Age</b>	
	Age of a Director who serves on the Board does not exceeding 70 years  Exemption: <ul style="list-style-type: none"> <li>• If over 75 as at July 1st 2019, may continue up to June 30th 2021 and deemed vacated afterward.</li> <li>• If between 70 -75 years as at July 1st 2019, can continue up to June 30th 2022 and deemed vacated afterwards.</li> <li>• If 70 years is reached by July 1st 2019, can continue up to June 30th 2023 and deemed vacated afterwards</li> </ul> Refer The Composition of the Board on page 152.	Compliant
<b>B.4</b>	<b>Adherence to the Section 7.10 of the Listing Rules of the CSE</b>	
	Refer Mandatory Compliance Requirement on pages 210-211.	Compliant
<b>B.5</b>	<b>Appointments in Other Boards</b>	
	The Directors do not hold directorship as a Director of more than 20 companies/entities/institutions inclusive of subsidiaries or associate companies.  Refer Directors' Interest in Contracts with the Company on page 176.	Compliant
<b>B.6</b>	<b>Statements of Compliance</b>	
	All compliance requirements stated in 7.10 of the CSE Listing rules are disclosed in the Annual report  Refer Mandatory Compliance Requirement on pages 210-211.	Compliant
<b>B.7</b>	<b>Non-Compliance in respect of principle B</b>	
	Compliance requirements set by the "IRCSL Direction 17" specific to the Principle B as mentioned above on Corporate Governance are met as required.  Refer Statement of Compliance on page 213.	Compliant

## CORPORATE GOVERNANCE

### CODE OF BEST PRACTICE ON CORPORATE GOVERNANCE

The Company has voluntarily adopted the Code of Best Practice on Corporate Governance 2017 issued by CA Sri Lanka. We have disclosed the status of compliance with each requirement of the code and how the Company has complied, on pages 214-223.

Table: Code of Best Practice on Corporate Governance

Principle	Requirement Implication by the Softlogic Life Insurance PLC	Complied
<b>A</b>	<b>DIRECTORS</b>	
<b>A.1</b>	<b>The Board</b>	
	The Board is consists of 9 Directors. Majority of them [7/9] are NEDs, while 3 Non-Executive Directors are independent. Refer Composition of the Board on page 152.	Compliant
<b>A.1.1</b>	<b>Board Meetings</b>	
	The Board met 4 times during the year to discuss matters related to different areas such as strategy, compliance, performance, risk management and resource allocation. Refer Board Meetings and Attendance on page 162.	Compliant
<b>A.1.2</b>	<b>Roles and Responsibilities</b>	
	The Board of Directors has multiple roles which are in line with requirements of the code to achieve the targeted performance of the Company and to bring out their valuable input to the decision-making process of the Company.  <b>01. Ensure formulation and implementation of a sound business strategy:</b> 2021 - 2023 a three-year plan has been approved by the Board in 2020 end.  <b>02. Appointing the Chair and the Senior Independent Director if relevant:</b> The Composition of the Board is given in the page 152.  <b>03. Ensuring that the Chief Executive Officer (CEO) and Management team possess the skills, experience and knowledge to implement the strategy:</b> The Managing Director and Senior Corporate Management team which include 14 professionally qualified members having sufficient knowledge, skills and experience are giving utmost direction to implement strategies to achieve ultimate objectives.  <b>04. Ensuring the adoption of an effective CEO and Key Management Personnel succession strategy:</b> Based on the succession plan for the 2020, The Human Resource and Remuneration Committee interviewed most suitable candidates to fill the vacancies in Corporate Management and made recommendations from the committee to the Board.  <b>05. Approving budgets and major capital expenditure:</b> The Budget and the Corporate Plan for the year 2020 was evaluated and approved with in the 1st Quarter of the year.  <b>06. Determining the matters expressly reserved to the Board and those delegated to the Management including limits of authority and financial delegation:</b> While the Board decides on the matters expressly reserved to the Board such as setting the strategy and risk appetite, it also overlooks the delegated operational functions. Determining matters delegated to the Management such as Manual of Financial Authority (MoFA), which is revised by the Board on an annual basis, also falls within the purview of the Board.  <b>07. Ensuring effective systems to secure integrity of information, internal controls, business continuity and risk management:</b> The Company has placed sound internal audit process, Risk Management process and ensured IT Controls are properly established.	Compliant



Principle	Requirement Implication by the Softlogic Life Insurance PLC	Complied
A.1.2	<p><b>08. Ensuring compliance with laws, regulations and ethical standard:</b> The Board has confirmed that the Company has been compliant with all applicable rules and regulations; refer statement of compliance on page 206.</p> <p><b>09. Ensuring all stakeholder interests are considered in corporate decisions:</b> The Board considers the views/impact on all stakeholders when making decision.</p> <p><b>10. Recognizing sustainable business development in Corporate Strategy, decisions and activities; and activities and consider the need for adopting “Integrated Reporting”:</b> The Corporate strategy is designed for 3 years and the performance is discussed regularly at Board Meetings. The Company adopts “Integrated Reporting” in the Annual Reports. Refer Key Activities in the Board during the year 2020 on page 162.</p> <p><b>11. Ensuring that the Company’s values and standards are set with emphasis on adopting appropriate accounting policies and fostering compliance with financial regulations:</b> The Board of Directors are responsible for the preparation of Financial Statements whilst the Audit Committee ensures the compliance with the financial regulations of those Financial Statements.</p> <p><b>12. Establish a process of monitoring and evaluation of progress on strategy implementation, budgets, plans and related risks:</b> The Board has met 4 times during the year to evaluate overall performance and financial performance. Throughout year, the Board and its sub-committee has continuously reviewed and monitored the progress of the business.</p> <p><b>13. Ensuring that a process is established for corporate reporting on annual and quarterly basis or more regularly as relevant to the Company:</b> The Company issues and uploads Quarterly and Annual Financial Statements together with the relevant disclosure on the CSE website as well as the Company website.</p> <p><b>14. Fulfilling such other Board functions as are vital, given the scale, nature and complexity of the business concerned:</b> The Board is capable of providing the right direction and the Board comprises of members have expertise in different areas.</p>	Compliant
	<p><b>A.1.3 Directors collectively and individually act in accordance with the laws of the Country</b></p> <p>The Board has confirmed that the Company has been compliant with the provisions set by the Companies Act No. 07 of 2007, Regulation of Insurance Industry (RII) Act No. 43 of 2000, Direction 17 on Corporate Governance by the Insurance Regulatory Commission of Sri Lanka (“IRCSL”), and the Code of Best Practice on Corporate Governance 2017 issued by CA Sri Lanka.</p> <p>Refer Statement of Compliance on page 206.</p>	Compliant
	<p><b>A.1.4 Access to advice and services of the Company Secretary</b></p> <p>P. R. Secretarial Services (Pvt) Ltd ensures that procedures followed by the Board are complied and in accordance with relevant applicable rules and regulations.</p> <p>The Company has paid an insurance premium in respect of an insurance policy for the benefits of the Directors of the company</p> <p>Refer the Role of Company Secretary on page 154.</p>	Compliant
	<p><b>A.1.5 Independence judgment</b></p> <p>The Board consists of diverse professionals of high calibre capable of exercising independent judgment in the effective discharge of duties and responsibilities on matters of strategy, compliance, performance and resource allocation.</p> <p>Roles and Responsibilities of the Board are summarised on page 154.</p>	Compliant

## CORPORATE GOVERNANCE

### CODE OF BEST PRACTICE ON CORPORATE GOVERNANCE

Principle	Requirement Implication by the Softlogic Life Insurance PLC	Complied
<b>A.1.6</b>	<b>Dedicate adequate time and effort to matters of the Company</b>	
	<p>The Board of Directors is committed to discharging their duties as Directors of the Company and ensuring that adequate time and attention is given in the Board meetings to make their effective contribution in the decision-making process.</p> <p>The Board Meetings and Attendance are summarised on page 162.</p> <p>Roles and Responsibilities of the Board are summarised on page 154.</p>	Compliant
<b>A.1.7</b>	<b>Procedures relating to Directors matters in the best interest of the Company</b>	
	Procedures are in accordance with the specific provision set by the Articles of Association of the Company and the Code for best practice on Corporate Governance.	Compliant
<b>A.1.8</b>	<b>Board induction and training</b>	
	<p>The Company Secretary is facilitating a comprehensive induction programme for a newly-appointed Director while the Board regularly reviews the requirement of continuous development and enhancing the knowledge of existing Directors.</p> <p>Refer Professional Development of the Board summarised in page 157.</p>	Compliant
<b>A.2</b>	<b>Position of Chairman and CEO/MD vested by separate persons</b>	
	<p>The position of the Chairman and MD has been separated in line with the code and clearly define their roles and responsibilities in order to maintain balance of power and authority.</p> <p>Chairman of the Company is Mr. Ashok Pathirage and MD of the Company is Mr. Ifthikar Ahamed.</p>	Compliant
<b>A.3</b>	<b>Chairman's Role in preserving Good Corporate Governance:</b>	
	<p>The Chairman provides leadership to the Board, facilitating the effective discharge of duties in the best interest to the Board, maintains smooth functioning of the board, presiding over Directors and Shareholders meetings to ensure Director participation and proper execution of board proceedings, promote and carry out responsibilities in the best interest of good governance.</p> <p>Refer The Chairman's Message on Corporate Governance on page 141.</p> <p>Refer The Chairman's role in the Conduct of Board Meetings on page 154.</p>	Compliant
<b>A.4</b>	<b>Availability of Financial Acumen and Knowledge</b>	
	All Directors have extensive experience and financial acumen with experience in different industries. Deputy Chairman of the Board is a Fellow Member of Institute of Chartered Accountants of Sri Lanka.	Compliant

Principle	Requirement Implication by the Softlogic Life Insurance PLC	Complied
<b>A.5</b>	<b>The Board Balance</b>	
	<p>The majority of the Board should be comprised of NEDs. Declaration and determination of Independent Directors is required to be submitted to the Board on an annual basis. In the event Chairman is not an Independent Director, the Board should appoint a Senior Independent Director[SID] and he/she makes themselves available for confidential discussions with others. The Chairman holds meeting with Non-Executive Directors at least once each year; any matter that cannot resolved unanimously should be recorded in the Board minutes.</p> <p>The Board consists seven [7] NEDs and three [3] of them are independent. Annual declaration was submitted by each Director about their independency, determination is assessed based on certain criteria as discussed in CSE Listing Rules 7.10.4. Mr. Sujeewa Rajapakse is appointed as the Senior Independent Director of the Company and is available for confidential discussion with other Directors.</p> <p>Chairman holds meetings with NEDs as and when necessary and any matter which cannot be resolved unanimously is recorded in the Board Minutes by the Secretary of the company. During the year, all matters discussed at the Board meetings had the consent of the each director.</p> <p>There is no Alternate Director appointed in the period under review.</p> <ul style="list-style-type: none"> <li>- Refer Section on Directors Independence on page 158.</li> <li>- Refer Composition of the Board on page 152.</li> <li>- Refer Senior Independence Director on page 153.</li> <li>- Refer The Role of Senior Independent Director on page 154.</li> </ul>	Compliant
<b>A.6</b>	<b>Supply of Information</b>	
	<p>Management has an obligation to provide information in a timely manner and the Chairman should ensure all Directors are properly briefed on issues arising at Board meetings. The minutes, agenda and papers required for Board meeting should be provided to Directors within reasonable time frames.</p> <p>Required information received by Directors not less than seven [7] days prior to the meetings and minutes of the meetings are circulated within 14 days from the meeting date. Senior Management of the Company includes MD who is a responsible to complete and provide comprehensive update on the operational and financial performance of the Company.</p>	Compliant
<b>A.7</b>	<b>Appointment to the Board</b>	
	<p>There should be a formal and transparent procedure for the appointment of new Directors to the Board and all appointments are governed by the Articles of the Association. The Nomination Committee should recommend all new appointments to the Board and assess the Board composition. New appointments to the Board should be disclosed to the shareholders.</p> <p>The Nomination Committee annually assesses experience, expertise and diversity of the current Board and recommend to acquire suitable candidate to the Board through a formal and transparent process which is governed by the Articles of Association and complies with company policy. During the year, 2 new Directors were appointed to the Board and such appointments are published in CSE website.</p> <p>Refer New Appointments to the Board on page 157.</p>	Compliant

## CORPORATE GOVERNANCE

### CODE OF BEST PRACTICE ON CORPORATE GOVERNANCE

Principle	Requirement Implication by the Softlogic Life Insurance PLC	Complied
<b>A.8</b>	<b>Re-election and Resignation of Director</b>	
	<p>All Directors including the Chairman should be subject to election by shareholders at the first opportunity after their appointment, and to re-elect. Any Director who resigns before the completion of appointment term should inform the board.</p> <p>Re-election of Directors are governed by the Articles of Association and performed at the AGM. Office of Chairman and MD is not subject to retirement by rotation. There was resignation of one Director during the year reviewed; any early termination of Directors office needs to be communicated in written form including reasons as required by the Code of Best practise on Corporate Governance.</p> <p>Refer Resignation of Director Section on page 158.</p>	Compliant
<b>A.9</b>	<b>Appraisal of Board performance</b>	
	<p>The Board and its sub committees should conduct performance evaluation and review the participation, contribution and engagement of each Director on annual basis.</p> <p>Refer section on "Board Competency Evaluation" on page 163.</p>	Compliant
<b>A.10</b>	<b>Disclose Information in respect of Directors as specified in the Code</b>	
	<p>Information specified in the Code with regard to Directors is disclosed within this Annual Report as follows:</p> <ul style="list-style-type: none"> <li>- Profiles including qualifications, expertise, and appointments on pages 134-136.</li> <li>- Material business interests of Directors on pages 176.</li> <li>- Whether Executive, Non-Executive and/or independent Director on page 152.</li> <li>- Number/percentage of Board meetings of the Company attended during the year on pages 162.</li> <li>- Members of Committees and attendance at Board meetings and committee meeting on page 162.</li> </ul>	Compliant
<b>A.11</b>	<b>Appraisal of Chief Executive Officer [CEO]/MD</b>	
	<p>The Board should be required, at least annually, to evaluate the performance of the CEO/MD - whether he achieved Financial and non-Financial targets.</p> <p>The performance of the MD is evaluated annually based on the agreed objectives set by the Board in consultation with MD.</p> <p>Refer section on Performance Evaluation of the MD on page 163.</p>	Compliant
<b>B</b>	<b>DIRECTORS' REMUNERATION</b>	
<b>B.1</b>	<b>Remuneration Procedure</b>	
	<p>Company should establish a formal and transparent procedure for developing policy on executive remuneration with regard to established policy framework for remunerating Executive Directors including the NEDs of remuneration committee. The Committee should consult the Chairman and/or CEO about its remuneration proposals for other Executive Directors and have access to professional advice.</p> <p>The Human Resource and Remuneration Committee consist of two [2] INEDs with one [1] NED] is responsible for establish a Remuneration Framework, recommend and assist the Board with regard to the Remuneration Policy for Executive Directors and Corporate Management. No remuneration is paid to the NEDs other than fee paid for attendance of each Director at Board and Board Sub-Committee meetings.</p> <p>Refer Board Remuneration on page 186.</p> <p>Refer Human Resource and Remuneration Committee Report on pages 185-186.</p>	Compliant

Principle	Requirement Implication by the Softlogic Life Insurance PLC	Complied
<b>B.2</b>	<b>The Level and Make-up of Remuneration</b>	
	<p>Levels of remuneration should be sufficient to attract Directors needed to run the Company successfully. A proportion of Executive Directors' remuneration should be linked to corporate and individual performance. Company should follow Best Practices towards in designing the scheme of performance-related remuneration.</p> <p>The Board is mindful of the fact that the remuneration of Executive Directors and KMPs should reflect the sufficient market expectations compared to other companies to attract and retain high calibre personnel for long term success of the company. Remuneration committee uses judgment to position the levels of remuneration of the Company with consideration of performance and risk factors of the job. In addition to that, remuneration levels of NEDs are centred to the time commitment and responsibilities of their role. No Director are granted share options as a part of their remuneration. Approach in early termination cases, where the initial contract not explicitly provided for compensation commitments and the involvement in designing of the scheme of performance-related remuneration, best practices throughout the process are discussed in Human Resource and Remuneration Committee report on pages 185-186.</p>	Compliant
<b>B.3</b>	<b>Disclosure of Remuneration Policy</b>	
	<p>The Annual Report should contain a Statement of Remuneration Policy and details of remuneration of the Board as a whole.</p> <ul style="list-style-type: none"> <li>- Refer Human Resource and Remuneration Committee report on pages 185-186.</li> <li>- Remuneration paid to Board of Directors is disclosed in the Note 46.6, Financial Statements on page 349.</li> </ul>	Compliant
<b>C</b>	<b>RELATIONS WITH SHAREHOLDERS</b>	
<b>C.1</b>	<b>Constructive use of Annual General Meeting [AGM] and conduct of General Meetings</b>	
	<p>The Board should use the AGM to communicate with shareholders and should encourage their participation. Chairman of Sub-Committees and Senior Independent Director should be available at the AGM. Notice of the AGM, related papers and procedures governing voting at General Meetings should be circulated. The Company ensures all valid proxy appointments are properly recorded and counted.</p> <p>Notice of the AGM along with instructions of voting procedures, including the process for voting via a proxy circulated to all shareholders within a minimum of 15 days prior to the AGM. Separate resolutions are proposed for each substantially separate issues, including the adoption of the Financial Statements. Chairmen of Sub-Committees and SIDs available at AGM to respond to queries made by shareholders. Secretary of the Company is responsible to record and count all valid proxy properly.</p> <p>Refer Section Company's Notice of Meeting on page 373.</p> <p>Refer Annexure 1 for Form of proxy.</p>	Compliant
<b>C.2</b>	<b>Communication with Shareholders</b>	
	<p>The Board should have established a policy for communication and implement channels in order to disseminate information to shareholders effectively. All Directors are aware of major issues and concerns of shareholders.</p> <p>The Company has implemented multiple channels of communication with shareholders. The Secretary of the Company acts as a median/ contactable body with regard to the response to queries raised by shareholders and bring attention of the board to significant issues. Important announcements are published through multiple channels to disseminate accurate timely information to maintain effective relationship with shareholders.</p> <p>Refer Communication with Shareholders on pages 204-205.</p>	Compliant

# CORPORATE GOVERNANCE

## CODE OF BEST PRACTICE ON CORPORATE GOVERNANCE

Principle	Requirement Implication by the Softlogic Life Insurance PLC	Complied
<b>C.3</b>	<b>Disclosure of major and material transactions</b>	
	<p>Complying with the requirements under the Companies Act, Securities and Exchange Commission law and Colombo Stock Exchange regulations; as applicable, Directors should disclose to shareholders all proposed material transactions, which if entered into, would materially alter the Company's net assets base.</p> <p>According to the Section 185 of the Companies Act, all major transactions to be approved by shareholders through a special resolution. All disclosures are published on SEC and CSE as required by this Code.</p> <p>Related Party Transaction Review Committee - Refer page 189.</p>	Compliant
<b>D</b>	<b>ACCOUNTABILITY AND AUDIT</b>	
<b>D.1</b>	<b>Present a balanced and understandable assessment of the Company's financial position, performance and prospects</b>	
	<p>The Board is responsible for preparing and presenting a balanced and understandable assessment of the Company's financial position, performance, business model, governance structure, risk management, internal controls and challenges, opportunities and prospects. Chief Executive Officer/Managing Director and Chief Financial Officer should provide an opinion on Financial Statements. The Board together with the Auditor set out a statement about their responsibilities on Financial Statements.</p> <p>The Board has taken every effort and responsibility to ensure that the Annual Report presents a fair and balanced view of the Company's financial position, performance and prospects combining narrative and visual elements to facilitate readability and comprehension. All statutory requirements have been complied with in the Annual Report The following disclosures as required by the code are included in this report;</p> <ul style="list-style-type: none"> <li>- Management Discussion and Analysis – Refer pages 32-132.</li> <li>- Annual Report of the Board of Directors- Refer pages 165-172.</li> <li>- Statement of Directors' Responsibility - Refer pages 173-174.</li> <li>- Directors' Statement on Internal Controls – Refer pages 174-178.</li> <li>- Managing Director's/CEO and Chief Financial Officer's Responsibility Statement- Refer page 175.</li> <li>- The responsibilities of the External Auditors in relation to the Financial Statements are set out in the 'Auditors' Report given on pages 248-251.</li> <li>- Note 46 on Financial Statements- Related Party Disclosures in Notes to financial statements on pages 349-351.</li> </ul> <p>Periodically report the progress of remedial action being taken in the event Company net assets falling below 50% of the value of the Shareholders funds- Not Applicable</p>	Compliant

Principle	Requirement Implication by the Softlogic Life Insurance PLC	Complied
<b>D.2</b>	<b>Risk management and internal control to safeguard shareholders' investments and company assets.</b>	
	<p>The Board is responsible for determining the nature and extent of the principal risks it is willing to take in achieving its strategic objectives. The Board should have a process of risk management and a sound system of internal control to safeguard shareholders' investments and the Company's assets.</p> <p>The Board of Directors are responsible for maintaining effective and sound internal controls to safeguard shareholders' investments and company assets. The Board has structured an enterprise risk management process to identify the principal risks which are impacting the business and taking mitigating actions while forecasting and analysing future performance, solvency and liquidity of the Company. The Board has established an on-going process for identifying, evaluating and managing the significant risk faced by the Company. The Audit committee in consultation with in-house internal audit department periodically reviews effectiveness of internal controls over financial reporting.</p> <p>Refer Risk Governance and Management on page 195.</p> <p>Refer Audit Committee Report on pages 179-182.</p> <p>Refer Internal Assurance [Internal Audit] on pages 207-208.</p>	Compliant
<b>D.3</b>	<b>Audit Committee</b>	
	<b>The Board should establish formal and transparent arrangements for considering how to select and apply accounting policies, financial reporting and internal control principles and maintaining an appropriate relationship with the Auditors.</b>	
<b>D.3.1</b>	<b>The Audit Committee should be comprised by minimum of 3 Non-Executive Directors.</b>	
	<p>The Audit Committee consist of three [3] NEDs and two [2] of them are independent.</p> <p>The Audit Committee is to assist the Board in satisfying its oversight responsibilities for the integrity of the Financial Statements of the Company. Ensuring internal control and risk management systems of the Company and its compliance with legal and regulatory requirements and assess External Auditors' performance, qualifications and independence.</p> <p>Refer Audit Committee Report on pages 179-182.</p> <p>Refer Internal Assurance on Pages 207-208.</p>	Compliant
<b>D.4</b>	<b>Related Party Transaction review</b>	
<b>D.4.2</b>	<b>The Related Party Transaction Review Committee should be comprised by a minimum of 3 [three] Non-Executive Directors.</b>	
	<p>Refer The Composition of the Related Party Transaction Committee on Related Party Transaction Committee Report pages 188-189.</p> <p>The core objective of the Related Party Transactions Review Committee is to ensure that the interest of shareholders is taken into consideration when entering into related party transactions and is complies with the rules. Company carried out transactions in the ordinary course of business on arm's length basis with parties who are defined as Related Parties as per the Sri Lanka Accounting Standard – LKAS 24</p> <p>Refer Related Party Transaction Committee report on pages 188-189.</p> <p>Refer Note 46 on Financial Statements on pages 349-351.</p>	Non-Compliant
		Compliant

# CORPORATE GOVERNANCE

## CODE OF BEST PRACTICE ON CORPORATE GOVERNANCE

Principle	Requirement Implication by the Softlogic Life Insurance PLC	Complied
<b>D.5</b>	<b>Code of Ethics</b>	
	<p>The Company should establish a policy and process for monitoring, and disclosure of shares purchased by any Director, Key Management Personnel or any other employee involved in financial reporting. The Chairman provides declaration of a statement on Code of Conduct and Ethics to ensure the existence and adopt a Code of Business Conduct and Ethics for Directors, Key Management Personnel and all other employees.</p> <p>All Directors, KMPs and employees are bound by the Code of Business Conduct and Ethics in order to act ethically and with integrity in the best interest of the Company. Existing accurate accounting and reporting frameworks fair and transparent procurement practices interpret the effectiveness of internal controls and accuracy of Financial Statements. Ensure that company avoid conflict of interest, discrimination, harassment, bribery and corruption while maintaining compliance with all applicable laws and regulations.</p> <p>The Company has put in place a process to identify and report promptly material and price sensitive information in accordance with relevant regulations. All Directors, KMPs and employees are required to disclose details of any share purchase or shareholding positions in the Annual Report.</p> <p>Refer Code of Conduct and ethics for Directors on page 163.</p> <p>Refer Chairmans' Statement on Corporate Governance on page 141.</p> <p>Refer Directors' Shareholding on page 364.</p>	Compliant
<b>D.6</b>	<b>Corporate Governance Disclosures</b>	
	<p><b>Directors should be required to disclose the extent to which the Company adheres to established principles of good Corporate Governance</b></p> <p>Softlogic Life follows an Integrated Corporate Governance Framework which ensures that the Company is maintaining the best interest of all stakeholders with the requirement of disclosure the extent of compliance with the Code of Best Practice on Corporate Governance, Direction 17 on Corporate Governance for insurance companies and Listing Rules 7.10 published by CSE and relevant provision of Companies Act.</p> <p>Refer Annual Corporate Governance Report from pages 134-223.</p>	Compliant
<b>E</b>	<b>INSTITUTIONAL INVESTORS</b>	
	<p><b>A regular and structured dialogue is conducted with shareholders while institutional investors should be encouraged to give due weight to all relevant factors.</b></p> <p>Shareholders have been identified as key players in our prioritisation matrix. The Company takes every effort in maintaining constant dialogue with institutional investors in order to improve understanding of Company operations, strategies and performances. Individual investors are encouraged to discharge adequate analysis or seek advice on investing/divesting decisions. Also, they are invited to exercise their voting right at the AGM.</p> <p>Refer Investor Relations on pages 361-366.</p>	Compliant



Principle	Requirement Implication by the Softlogic Life Insurance PLC	Complied
<b>F</b>	<b>OTHER INVESTORS</b>	
	<p>The Company should disseminate adequate information with respect to investing/ divesting decision of individual shareholders and given adequate notice of the AGM to encourage execute the voting right of the shareholders.</p> <p>The information disseminated by the Company is adequate for individual shareholders to undertake an analysis of the Company and/or seek independent investment advice regarding the prospects of the Company. Notice of AGM is circulated to all shareholders along with instructions on the voting procedure and including the process for voting via a Proxy.</p> <ul style="list-style-type: none"> <li>- Refer Notice of Meeting on page 374.</li> <li>- Refer Form of Proxy on Annexure 1.</li> </ul>	Compliant
<b>G</b>	<b>INTERNET OF THINGS AND CYBERSECURITY</b>	
	<p><b>The Board should implement adequate controls in advance to identify connectivity and cyberrisk and periodically review the effectiveness of the cybersecurity. Allocate adequate time to discuss cyberrisk management at the Board Meetings. The Board should appoint a Chief Information Security Officer who is responsible to monitor the information security of the Company.</b></p> <p>The Board ensures required level of expertise is available, management and technical controls are placed for connectivity of any device configured by the IT department. A separate IT Security system implemented within the entity is reviewed periodically to assure the effectiveness of system controls and compliance with the regulatory requirement. All the IT risks are discussed and engaged with appropriate actions at the Risk Committee. Regulatory requirements where system controls can be incorporated to the system are communicated to the IT department by the Risk, Legal and Audit departments so that they can be embedded in the system.</p> <ul style="list-style-type: none"> <li>- Refer IT Governance on pages 199-200.</li> <li>- Refer Risk Committee Report on pages 183-184.</li> </ul>	Compliant
<b>H</b>	<b>ENVIRONMENT, SOCIETY AND GOVERNANCE</b>	
	<p><b>The Board should assess risks and opportunities pertaining to environmental, social factors and governance structure to manage risks in all aspects of ESG.</b></p> <p>The Board of Directors regularly assesses Company internal strength and weakness along with environmental and social factors to identify the extensive impact of risk and opportunities on the performance of the Company. Risk strategy and risk management objectives rely on Company Risk Governance structure which manages risks in all aspect of ESG.</p> <ul style="list-style-type: none"> <li>- Refer Management Discussion and Analysis on pages 32-132.</li> <li>- Refer Risk Governance Structure on page 230.</li> <li>- Refer Integrated Risk Management on pages 224-240.</li> </ul>	Compliant

# INTEGRATED RISK MANAGEMENT

## INTEGRATED RISK MANAGEMENT REPORT

Risk Management is considered a key function at Softlogic Life Insurance PLC. It is used as a mechanism to protect the value of its business and ensure achievement of its strategic plans and day to day business activities by enabling the business to make informed decisions based on the defined risk appetite and manage expected returns. The year 2020 resulted in most businesses understanding the value of an additional layer of protection to its business as “Uncertainty” became the “New Normal” resulting in Risk Management practices needing to evolve rapidly to provide instant protection over business models by mitigating negative impacts and maximising new opportunities.

The Integrated Risk Management Report is presented in this above light, detailing the key points highlighted below in order to provide the reader with details of the risk management approach at Softlogic Life.

Figure: Key Factors addressed in the Integrated Risk Management Report

### 1. Softlogic Life's Approach to Risk Management

Softlogic Life Insurance PLC adopts an Enterprise Risk Management (ERM) framework based on the ISO 31000:2018 International Standard and approach is based on 6 main principles and the risk management objectives of the Company.

### 2. Risk Management During COVID-19

COVID-19 has resulted in significant impacts globally, forcing companies to rethink business strategies. Softlogic Life's success during COVID-19 was largely dependent on a simple yet effective Risk Management Framework and this section provides how Softlogic Life's risk management during COVID-19.

### 3. Identifying risk environment and how Softlogic Life aligning risk management strategy with Company strategic objectives

Identifying risk environment and how Softlogic Life is aligning its risk management strategy to support the business strategy is described.

### 4. Risk Performance and Highlights at Softlogic Life through 2020

Risk management highlights experienced during the year is mentioned in this section.

### 5. Risk Appetite and Tolerance

The Company's risk appetite and tolerance levels are discussed and set by the Internal Risk Committee and approved by the Board Risk Committee and such details are provided in this section.

### 6. Risk Governance Structure

The Company's risk appetite and tolerance levels are discussed and set by the Internal Risk Committee and approved by the Board Risk Committee and such details provides in this section.

### 7. Risk Landscape of the Company

Risk landscape of the Company is described in this section with the mitigation strategies adopted to address the risk landscape.

## 1. Softlogic Life's Approach to Risk Management

Softlogic Life Insurance PLC adopts an Enterprise Risk Management (ERM) framework based on the ISO 31000:2018 International Standard. This Framework allows the Company, to proactively identify particular events or circumstances relevant to the organisation's objectives (risks and opportunities), and assess them in terms of likelihood and magnitude of impact, thereby determining a response strategy, and monitoring its progress, so that it may protect and create value for the Company's stakeholders, including owners, employees, customers, regulators, and society.

The Integrated approach has resulted in Softlogic Life adopting the following Risk Management Principles that drive the ERM approach and aid in achieving the Company's Risk Management Objectives as detailed further on in this report.

### 1.1 Risk Management Principles

#### An independent risk function

- The independence of the risk function ensures adequate separation between risk generating units and those responsible for its control and supervision.
- Ensures having sufficient authority for setting, managing and supervising of the risk strategy and policy of the Company.

### Regular reporting and adopting best practices

- Frequent (at least quarterly) reporting to the Board Risk Committee is considered an important aspect of the Risk Management process at Softlogic Life.
- The Risk Unit constantly evaluates gaps in the existing risk processes adopted in comparison to international best practices, leading international insurers, and looks to improve its process. It also stays abreast of trends in the global insurance industry and regulations in the Banking, Finance and Insurance sector, so that it is better prepared to cope with the ever-changing industry and regulatory landscape.

### Linking risk appetite to strategy

- The risk appetite statement determines the type and amount of risk/s considered reasonable to assume, in the execution and development of the Company's business strategy.
- The risk appetite is used as a benchmark when monitoring identified risks and is identified as a common risk language throughout the organisation and is integrated into day to day operations.
- The use of scenario analysis using advanced models and metrics establishes a grading framework which enables risks to be identified and managed from different perspectives

### Driving and ingraining a risk culture at Softlogic Life

- A risk culture is promoted throughout the organisation by embracing a series of attitudes, values, skills and responses toward risks that are integrated into all processes, including taking decisions on change management and Strategic and Business Planning.
- It is developed by strongly involving the Senior Management and driving the culture through a top-down approach to all Business Units and conducting awareness and training across the organisation.

### A comprehensive approach to all risks

- It is vital to have the capacity to draw up and adhere to, a plan for the management and control of all risks, originating both directly and indirectly.
- It is also important to be equipped with a comprehensive view of the risks assumed, understand the relations between them and facilitate their overall assessment, whilst fully understanding the differences in the nature, degree of evolution and the different ways in which each type of risk can be managed and controlled.

### Regular review and monitoring

- Reviewing the risk profile and comparing it with the limits set in the risk appetite is a quarterly exercise within the Company.
- Adequate mechanisms are established for monitoring and control, so as to ensure the overall risk is maintained within the levels set and corrective and mitigating measures are applied in advance, if necessary.

## 1.2 Risk Management Objectives

The Company's risk management objectives to ensure the efficient management of risks are as follows;

- Identifying the key principles of Risk Management for Softlogic Life as detailed in section 1.1. above.
- Setting the framework, strategy and policy and procedures for Risk Management based on the identified principles.
- Building a "risk awareness culture" and disseminating the culture across the organisation.
- Establishing a risk framework that defines the ownership and accountability of management of the risks identified.
- Establishing the Company's risk appetite and risk limits annually and aligning these limits with the Company's Business Plan and strategy.
- Implementation of a rigorous risk assessment process to carry out continuous risk identification, control and mitigation processes.
- Aligning risk taking with expertise, core competence and business directives.
- Strengthening systems, policies, processes, and measurement tools as needed to provide robust Risk Mitigation and support the decision making process of the Company with reliable risk analysis.
- Modify mitigation strategies according to changes in internal and external environment.
- Ensuring that the Board Risk Management Committee (BRMC) is equipped with the required information so that it can efficiently exercise its governance function.
- Disseminating information on risk to all other stakeholders of the Company.

## INTEGRATED RISK MANAGEMENT

### 2. RISK MANAGEMENT DURING COVID-19

*“An effective Risk Management Framework and the deployment of a Comprehensive Business Continuity Plan – The difference between companies that did well and otherwise”*

COVID-19 has resulted in significant impacts globally, forcing companies to rethink business strategies. In a global crisis such as this, comprehensive Risk Management solutions can aid in ensuring a company to navigate through tough times with minimal impact.

Softlogic Life's success during COVID-19 was largely dependent on a simple yet effective Risk Management Framework, and a comprehensive Business Continuity Plan (BCP) which was activated a week ahead of the lockdown.

The Risk Framework adopted aimed at being “risk ready” and enabled the business aware of potential risks faced on a continuous basis, which also enabled a risk culture that embraced and inculcated similar thinking within core business operations.

The Company's Business Continuity Plan, which is reviewed and tested annually and approved by the Board Risk Committee, had pre-identified several critical business functions that were absolutely essential for the Company's sustenance in the event of a crisis situation. Constant Awareness of practices were adopted together with compulsory annual awareness sessions for all critical teams identified and Routine Disaster Recovery Simulations on a physical and IT front, ensured employee familiarity with BCP protocols. This resulted in a seamless transition during the roll out and implementation of the BCP, which was activated on the 14th March 2020, a full week ahead of the country wide lockdown enforced on

the 20th March 2020. Accordingly, all Heads of Departments of the identified crucial functions were immediately notified to switch their operations to “Work from Home” and within a mere two days both critical and non-critical teams were operating as usual on the WFH platform.

The proactive and early activation of the Business Continuity Plan ensured seamless business continuity that ensured the well-being of our employees, served our customers at full capacity, and met key stakeholder expectations.

The “Work from Home” Platform, enabled by the IT Team was further strengthened and secured through the existing IT Risk Framework and via IT Security Practices and guidelines designed specifically for WFH through the remote access policy drafted and implemented in May 2020.

Monitoring movements of key global and local economic indicators and frequent stress testing, carried out as a part of Market Risk Mitigation, enabled the Risk Unit to have pre-warned the Business on impacts arising from volatilities of Key Economic Indicators. Assessing the sensitivity to the said volatilities also enabled the Company to understand the impact in the event of extreme volatilities as experienced during 2020 as a result of COVID-19.

Scenario /stress testing and sensitivity analysis of key insurance risks also allowed the Company to understand the impacts that could arise in the event of extreme lapse risk that was faced as a result of customers not having access to e-banking facilities despite Softlogic Life being fully integrated to receive online payments even before the pandemic.

Seamless business continuity during this time enabled the following:

- Settled 100% of claims intimated during the lockdown period and continued the business operations using digital platforms.
- Performed all the Board meetings, Management meetings and the Annual General Meeting using virtual tech.
- Performed all statutory and regulatory reporting within the specified timelines.

COVID-19 also resulted in requiring to be up to date and constantly in touch with Health Guidelines issued from time to time. The Risk Unit drove employee safety and ensured all relevant guidelines were met with more stringent internal standards. Risk mitigation strategies that were implemented in addition to guidelines issued by the Health Ministry, at various points through 2020 were as follows;

- Limiting movement across all hubs of Softlogic Life as identified in the Business Continuity Plan.
- Splitting Teams at all Hubs into “Red” and “Blue” Teams, with each team reporting to work every other week, so as to limit clusters of close contacts and ensure adequate social distancing.
- Segregating any open office spaces into quadrants and limiting movements between quadrants.
- Departmental meetings to be limited to a maximum of 7 people with adequate social distancing.
- Inter-departmental meetings to be held via Microsoft Teams.
- Limiting all visitors on an essential basis with prior approval only.

### 3.1 The Risk Environment of Softlogic Life

Environment	Definition	Consideration	Mitigation Strategy
<b>Idiosyncratic Environment</b>	Anything within Softlogic Life that can influence the way in which risk will be managed.	<ul style="list-style-type: none"> <li>• Strategic Risk</li> <li>• Insurance Risk</li> <li>• Market Risk</li> <li>• Operational Risk</li> </ul>	Refer mitigation strategies defined on pages 232-240.
<b>Systematic Environment</b>	External environment in which Softlogic Life seeks to achieve its objectives.	<ul style="list-style-type: none"> <li>• Global and local economic and political risk</li> <li>• Competitor Risk</li> <li>• Technological Risk</li> <li>• Legal and regulatory changes</li> <li>• Reputation Risk</li> </ul>	Refer mitigation strategies defined on pages 232-240.

### 3.2 Aligning the Risk Management Strategy with Strategic Objectives of the Company

Given the importance of Risk Management, the Company considers it to be a focal point in its strategic planning. It is also viewed as a method of protecting business values and business activities by enabling the Company to make informed decisions based on the defined risk appetite and manage expected returns. As such, the link between the Company's Strategy and Risk Management is as described below;

Strategic Objectives	Risk Management Strategy
<b>Most Caring Life Insurer</b>	Setting appetites for service standards which are critical to customer services and monitoring the risks that can affect the operational performance of the Company. Further, the Risk Unit also monitors the business continuity aspects of the same under various scenarios.
<b>Smart IT Digitalisation</b>	Identifying critical systems, evaluating IT risk associated with such critical systems and performing frequent data recovery simulations in order to assure the continuation of IT systems to enable IT digitalisation.
<b>King of Data</b>	The IT Risk Framework supports various protocols for ensuring data protection and confidentiality of all information and data within the business.
<b>Phenomenal Sales</b>	Setting risk limits for quality of Sales Agents and Business Volumes and productivity as well as other sales related KPIs.
<b>Lean and fast</b>	Stringent Appetites for Expense Management and Underwriting Margins by channel. (i.e) agency, alternate and micro.

## INTEGRATED RISK MANAGEMENT

### 4. RISK PERFORMANCE AND HIGHLIGHTS AT SOFTLOGIC LIFE THROUGH 2020

#### Significant Strengthening of IT Risk Management

- Strengthened the IT Risk Framework to align with the “Work from Home” strategy by implementing the Remote Access Policy with significant support from IT
- Implementing strong protection on data stored on mobile devices
- Continuation of targeted awareness campaigns via e-flyers on IT security aspects with regarding to safe use of official email and official mobile devices
- Disaster recovery simulations were carried out on all critical systems and servers as identified in the Business Continuity Plan and were successfully retrieved within the stipulated Recovery Time Objectives.
- External Penetration Testing was carried out on selected servers of the Company by TechCert, whilst testing on all mobile applications used by PwC, and the vulnerabilities assessed were reported to the Risk Committee and mitigated through the year.

#### Enhanced Mitigation of Operational Risks

- Pro-active solutions were continuously designed in order to ensure maximum safety of all staff and stakeholders at all premises of Softlogic Life.
- 2020 saw a series of proactive flyers being circulated via e mail and Whatsapp on COVID-19 to all staff to ensure increased awareness on safety and hygiene.
- Given that physical fire drills were not conducted during the year due to lockdowns/working in teams, a mandatory virtual drill was conducted for staff at One Galle Face which was at highest risk. The drill had a success rate of 71%.

#### Strengthening of Investment Risk Management

- A Capital Management Policy was established for the Company with specific limits set for the Company's Capital Adequacy Ratio under multiple scenarios.
- The Treasury Middle Office Policy was reviewed and strengthened further during 2020, especially to counter potential default risk from Counterparts.
- Additional internal controls were also imposed in terms of exposure assumed to Asset Quality Risk
- The Company was exposed to a mismatched portfolio, on which the impacts were exaggerated in a major way owing to volatilities on macro-economic indicators. As such, the Company established and implemented an Alternate Discount Curve to value its assets and liabilities to minimise the impact of the same.
- It was recommended further for the Investment Strategy to be reviewed and re-aligned with the establishing of the Alternate Discount Curve.
- The Company's Asset and Liability Policy was also reviewed to reflect the above change

### 5. RISK APPETITE AND TOLERANCE

The Company's risk appetite and tolerance levels are discussed and set by the Internal Risk Committee and approved by the Board Risk Committee. The Board Risk Committee reviews these levels annually whilst, the Internal Risk Management Committee is responsible for the continuous monitoring and reporting of these limits as well as any business responses in times where these limits maybe significantly challenged.

The limits are set considering global best practices, regulatory requirements, industry benchmarks and internal benchmarks based on the Company's strategic business objectives and reviewed annually.

### Risk Appetite Statement

The following table provides the risk limits of the risk indicators for the financial year ended 31st December 2020 and the corresponding actual values for 2020 and 2019. The risk rating is defined considering the 2020 value and the 2020 risk limit.

Table: Extract of the Risk Appetite Statement

Risk Indicator	Parameter	Actual Position	
		31.12.2020	31.12.2019
<b>Strategic Risk</b>			
1. Growth in comparison to Industry	1 – 1.5Times Market Growth (Times)	1.4	2.4
2. Return on Equity	20% - 25%	21%	38%
<b>Regulatory Risks</b>			
3. Total Available Capital	Rs. 3,500 Mn – Rs. 4,500 Mn	Rs. 19,941Mn	Rs. 8,151Mn
4. Capital Adequacy Ratio	160% - 200%	302%	182%
5. Determination	100% - 110%	118%	109%
6. Compliance with other Statutory Requirements	(T-5) to (T-1) days before the deadline	On time submission	On time submission
<b>Insurance Risks</b>			
7. Average value per new policy	Rs. 137,000 – Rs. 152,000	Rs. 136,852	Rs. 137,032
8. Claims Servicing Standards	82%	86%	90%
9. Expense Ratio	22% - 25%	21%	26%
10. RI/Gross GWP (Excluding Fin Re)	8% - 10%	7%	8%
11. UW Profit Margin	44% - 50%	44%	44%
12. Persistency Rates – Based on Gross Premium			
a) 1st Year	83% - 85%	83%	85%
b) 2nd Year	64% - 65%	65%	64%
c) 3rd Year	52% - 53%	52%	52%
13. Operational Risks (Reputation, Fraud, data security incidents)	0.5% - 1% of Total Assets	0.01%	0.02%
14. Number of Incidents:			
Downtime of critical system per annum	0 - 3 Incidents	No incidents	2
15. Life Sales - Turnover	20% - 25%	18%	25%
16. Staff Turnover	15% - 20%	14%	21%
17. Government Securities (as a % LF)	35% - 40%	54%	42%
18. Investment Yield	10% - 11%	10%	11%

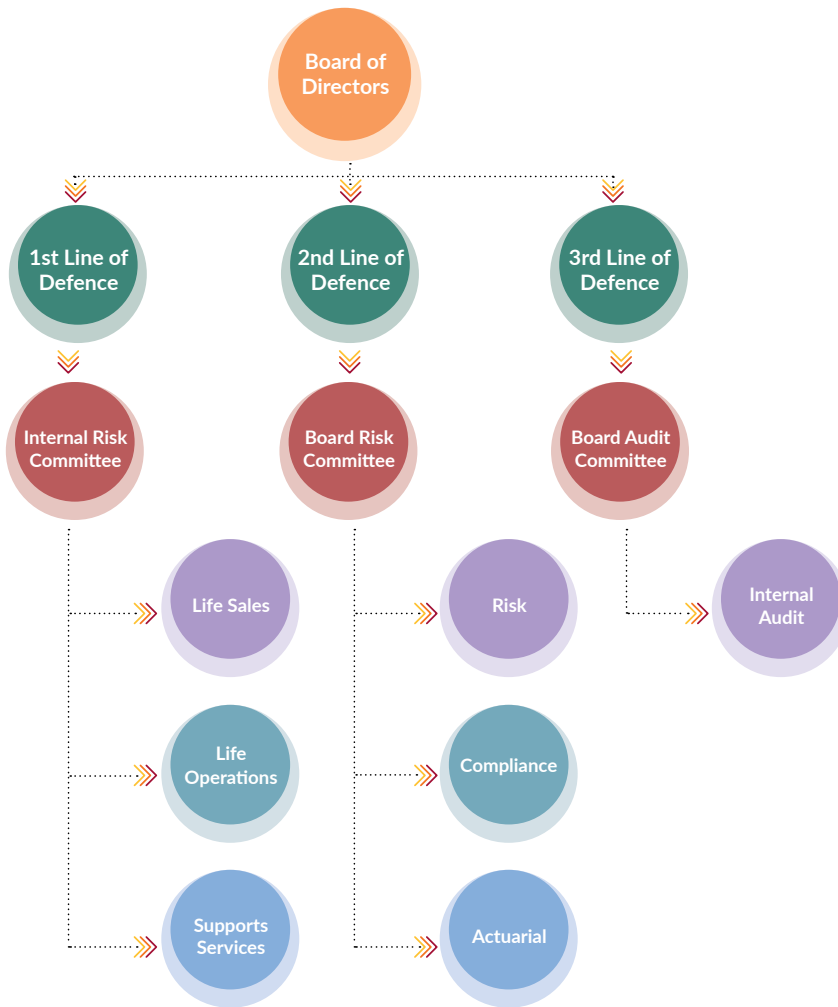
# INTEGRATED RISK MANAGEMENT

## 6. RISK GOVERNANCE STRUCTURE

### 6.1. Risk Management Structure

The Enterprise Risk Management Approach, the Risk Principles at Softlogic Life, the Risk Strategy and the Objectives detailed above, rely on its risk governance structure. The interplay of the individual functions and bodies within the overall system is vital to an efficient risk management system. The roles and responsibilities are clearly defined and ensure smooth interaction. Please see below, the Risk Governance structure of Softlogic Life Insurance PLC (SLI) followed by the architecture of the Risk Management Unit.

Figure: Risk Governance Structure



### 6.2 Risk Management Process of the Company

The Company has a comprehensive process to ensure the risk management objectives. The following diagram reflect the 4 main pillars of the risk management process of the Company.

Figure: Risk Management Process



#### Risk Identification

Identification of risks may occur in one or more ways listed below;

- a) Direct Observations
- b) Incident Analysis
- c) Scenario Analysis
- d) Structured What – If Analysis

Risks can be identified by individual risk owners or the Risk Unit. The risks identified can be specific to a particular department or be applicable to the Company as a whole and also allows the Risk Unit to identify the area/s that need attention so as to mitigate any future losses and/ or maximise the opportunities present. These risks can be scored and analysed to achieve optimal decision making.

The identified risks are reviewed by the Internal Risk Committee after which, they are submitted to the Board Risk Committee for review.

#### Risk Measurement/ Scoring

- a.) Severity of risk Impact
- b.) Probability of occurrence



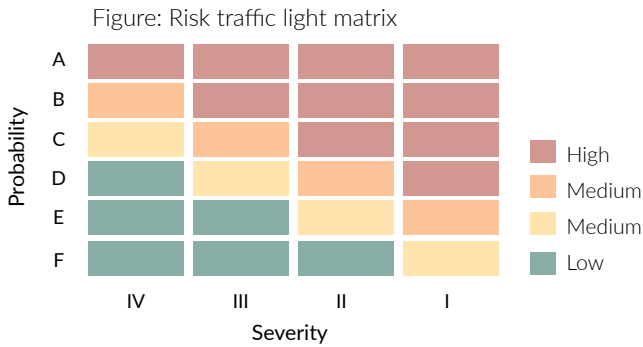
**a.) Severity of risk Impact**

All identified risks are rated according to its likelihood of occurrence and the potential impact on the Business as defined in a pre-defined risk Matrix for the Company. The potential impact of a risk is evaluated based on the severity of the impact on business continuity, profit, and the loss of the business portfolio. As such the levels of severity have also been defined as Marginal, Significant, Critical and Catastrophic.

**b.) Probability of occurrence**

The likelihood of the occurrence of the risk is examined based on the historical experience and probabilities of occurrence under current market and economic conditions. The matrix defines the probability of occurrence as the likelihood of an event occurring in a particular time period. As such we have defined six probabilities from very high (frequency is less than 1 week) to almost impossible (frequency is once in 100 years)

These risks once rated according to the above are plotted on the traffic light matrix below.



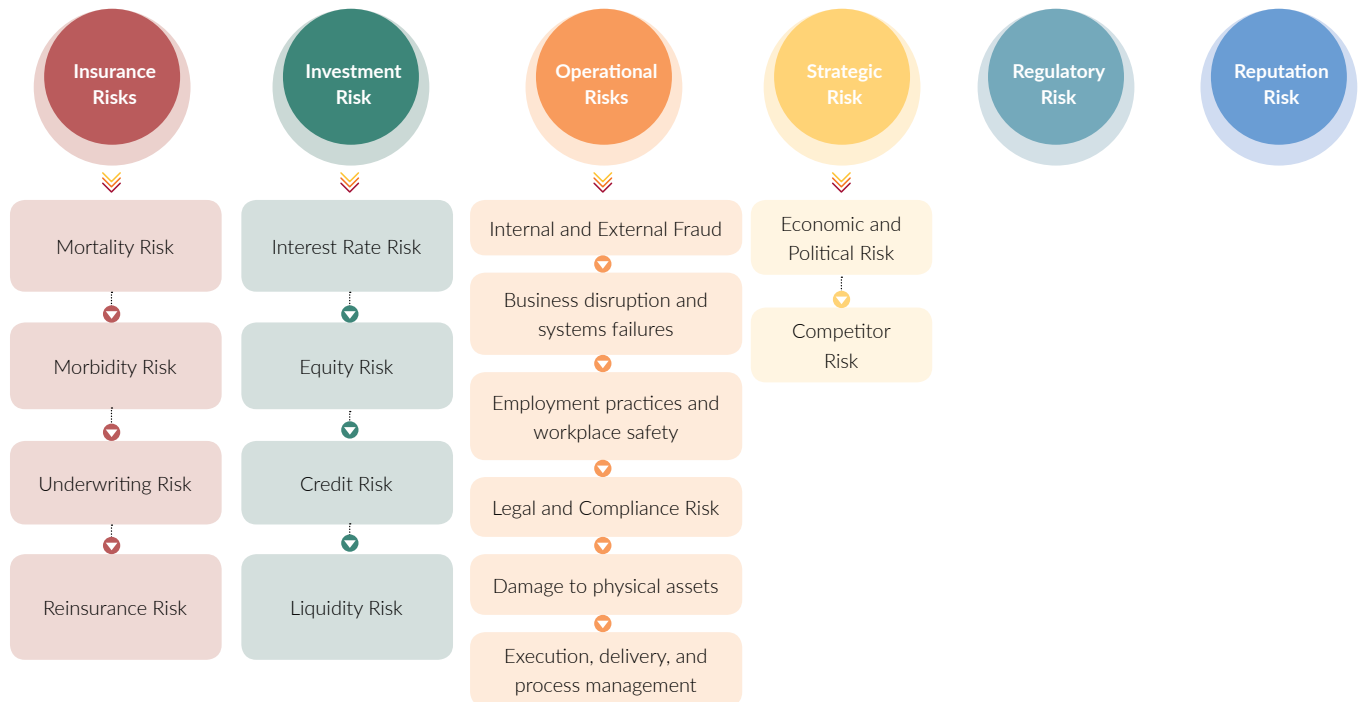
**Risk Control**

The ownership of the identified risks lies with the heads of relevant functions and the responsible personnel are required to provide the action plans on how the high rated risks will be improved and the timeliness to achieve these targets.

**Risk Monitoring**

The risk register comprises of all identified risks that if materialise, would have an impact on the company. It also comprises of a detailed action plan on how these risks will be analysed, mitigated and eliminated. The register is reviewed and updated on a quarterly basis and presented to the Board risk committee.

**7. RISK LANDSCAPE OF THE COMPANY**

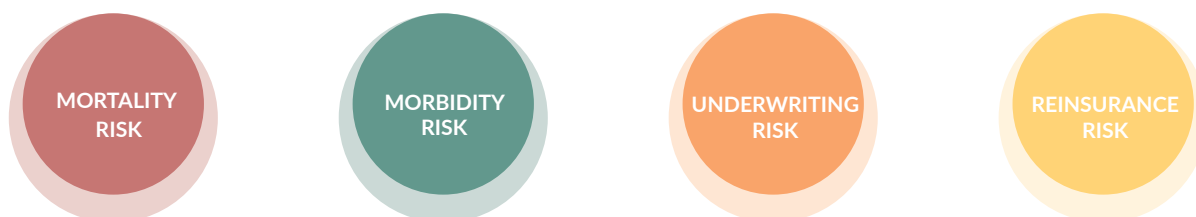


# INTEGRATED RISK MANAGEMENT

## 7.1 RISK ANALYSIS FOR SOFTLOGIC LIFE INSURANCE PLC

The Company performs risk analysis, quantification and sensitivity testing to understand the risk profile of the Company. The Company continuously monitors the business impact from each risk whilst also reviewing the sensitivity thresholds. Based on the materiality, analysis of risk landscape will be described in following manner.

### Analysis of Insurance Risk



#### Understand the Attributes of Our Insurance Portfolio

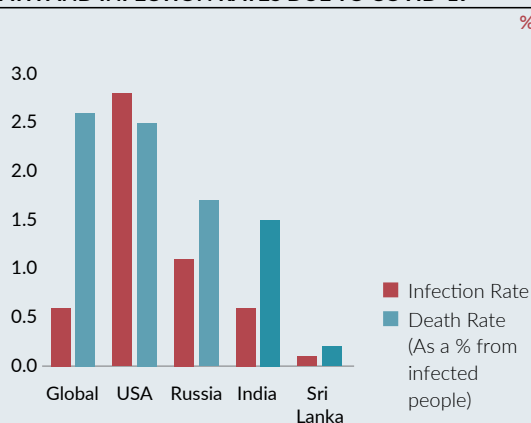
The following tables provides the information on the age distribution of our investment portfolio. More than 70% of our insurance portfolio belongs to age bracket of 25years – 50years. This information will help to understand the elements of insurance risk in a clear way.

Age Band	Age Distribution
Age<=25	7.7%
25<Age<=50	72.6%
Age>50	19.7%

#### Understand the Impact of COVID-19 to Our Insurance portfolio

The Following chart shows how COVID-19 pandemic is impacted to infection rate and death rates in global level as well as different regions of the world. Based on following data it is clearly visible the life insurance portfolio of Softlogic Life was not severely affected in 2020.

#### DEATH AND INFECTION RATES DUE TO COVID-19



Data as of 31.10.2020 | Source: Worldometer

### Mortality Risk

Mortality risk is any losses arising on the actual death experience of a policyholder compared to the expected death probability at the time of the product design stage. In the event actual death experience is greater than the pricing assumptions the Company will experience a higher than expected Morbidity Risk.

Risk Analysis	Mitigation Strategies Adopted	Risk Rating 2020	Risk Rating 2019
<p>The sensitivity analysis carried out details that a +10% change in mortality assumptions result in a liability increase of Rs. 442 Mn in 2020 compared to the Rs. 278 Mn reported in 2019, whilst a -10% results in a liability decrease of Rs. 394 Mn in 2020 compared to Rs. 287 Mn in 2019.</p> <p>The following graph depicts how mortality risk sensitivity has moved over the past four years.</p>	<ul style="list-style-type: none"> <li>The Company uses standard mortality tables to derive the expected mortality rates and prices products accordingly to mitigate the potential mortality risk at the product designing stage.</li> </ul>	●	●

Risk Analysis	Mitigation Strategies Adopted	Risk Rating 2020	Risk Rating 2019															
<p><b>IMPACT TO INSURANCE CONTRACT LIABILITIES</b></p> <table border="1"> <caption>Impact to Insurance Contract Liabilities (Rs.Mn)</caption> <thead> <tr> <th>Year</th> <th>+ 10% in Mortality Assumption</th> <th>- 10% in Mortality Assumption</th> </tr> </thead> <tbody> <tr> <td>2017</td> <td>137</td> <td>(138)</td> </tr> <tr> <td>2018</td> <td>187</td> <td>(188)</td> </tr> <tr> <td>2019</td> <td>278</td> <td>(287)</td> </tr> <tr> <td>2020</td> <td>442</td> <td>(394)</td> </tr> </tbody> </table>		Year	+ 10% in Mortality Assumption	- 10% in Mortality Assumption	2017	137	(138)	2018	187	(188)	2019	278	(287)	2020	442	(394)	<ul style="list-style-type: none"> <li>Expected mortality rates defined in the risk appetite statement are monitored on a quarterly basis to understand if there are significant variances, and repricing of products are required.</li> </ul>	
Year	+ 10% in Mortality Assumption	- 10% in Mortality Assumption																
2017	137	(138)																
2018	187	(188)																
2019	278	(287)																
2020	442	(394)																

**Morbidity Risk**

The risk of losses arising due to the adverse deviation on the actual health experience versus the expected experience at the product design stage. This risk will vary based on the product portfolio sold over the years.

Risk Analysis	Mitigation Strategies Adopted	Risk Rating 2020	Risk Rating 2019															
<p>The sensitivity analysis carried out details +10% change in morbidity assumptions result in a liability increase of Rs. 150 Mn in 2020 compared to the Rs. 382 Mn reported in 2019. A deviation of -10% results in a liability decrease of Rs. 102 Mn in 2020 compared to Rs. 386 in 2019.</p> <p>The following graph shows how morbidity risk sensitivity has moved over the past 4 years.</p> <p><b>IMPACT TO INSURANCE CONTRACT LIABILITIES</b></p> <table border="1"> <caption>Impact to Insurance Contract Liabilities (Rs.Mn)</caption> <thead> <tr> <th>Year</th> <th>+ 10% in Morbidity Assumption</th> <th>- 10% in Morbidity Assumption</th> </tr> </thead> <tbody> <tr> <td>2017</td> <td>379</td> <td>(374)</td> </tr> <tr> <td>2018</td> <td>270</td> <td>(267)</td> </tr> <tr> <td>2019</td> <td>382</td> <td>(386)</td> </tr> <tr> <td>2020</td> <td>150</td> <td>(102)</td> </tr> </tbody> </table>		Year	+ 10% in Morbidity Assumption	- 10% in Morbidity Assumption	2017	379	(374)	2018	270	(267)	2019	382	(386)	2020	150	(102)	<ul style="list-style-type: none"> <li>The Company uses incident rates to obtain the expected morbidity rates at the product designing stage.</li> <li>Expected mortality rates by product are also included in the Risk Appetite Statement and monitored on a quarterly basis to understand if there are significant variances, and repricing of products are required.</li> </ul>	
Year	+ 10% in Morbidity Assumption	- 10% in Morbidity Assumption																
2017	379	(374)																
2018	270	(267)																
2019	382	(386)																
2020	150	(102)																

● Low Risk   
 ● Medium Risk   
 ● High Risk

# INTEGRATED RISK MANAGEMENT

## Underwriting Risk

Risks arising due to the inaccurate assessments of risk entailed when underwriting a policy. Underwriting risk mainly comprises of the risk transferred from the policyholder’s behaviour to the Company.

Risk Analysis	Mitigation Strategies Adopted	Risk Rating 2020	Risk Rating 2019												
<p>The Western Province shows major concentration and accounts for 71% of GWP in 2020 in comparison to the 67% in 2019, whilst the Southern Province accounted for 10% of total GWP in both 2020 and 2019. These provinces account for over 75% of GWP in both years.</p> <p>The following graph depicted the top 3 GWP by province.</p> <p>Figure: Province wise GWP - Top 3</p> <table border="1"> <caption>Province wise GWP - Top 3</caption> <thead> <tr> <th>Year</th> <th>Western</th> <th>Southern</th> <th>North Western</th> </tr> </thead> <tbody> <tr> <td>2020</td> <td>71%</td> <td>10%</td> <td>6%</td> </tr> <tr> <td>2019</td> <td>67%</td> <td>10%</td> <td>7%</td> </tr> </tbody> </table>	Year	Western	Southern	North Western	2020	71%	10%	6%	2019	67%	10%	7%	<ul style="list-style-type: none"> <li>The mitigation of the above is carried out mainly via the Company's underwriting philosophy and the guidelines dictated through reinsurance arrangements negotiated.</li> <li>Additionally, all Anti Money Laundering requirements that require adhering to via Underwriting, are provided through the AML policy.</li> </ul>		
Year	Western	Southern	North Western												
2020	71%	10%	6%												
2019	67%	10%	7%												

## Reinsurance Risk

Risks arising from new or existing contracts the Company has entered into. Reinsurance risk is measured based on the probability of default of the Re insurer on claims payable. The main measure used in this regard is the credit rating of the re-insurer.

Risk Analysis	Mitigation Strategies Adopted	Risk Rating 2020	Risk Rating 2019												
<p>The Company is exposed to the following re-insurer receivable amounts as at 31 December 2020.</p> <p><b>REINSURANCE EXPOSURE - RI RATING</b></p> <table border="1"> <caption>REINSURANCE EXPOSURE - RI RATING (Rs.Mn)</caption> <thead> <tr> <th>RI Rating</th> <th>2020</th> <th>2019</th> </tr> </thead> <tbody> <tr> <td>AA</td> <td>193</td> <td>109</td> </tr> <tr> <td>AA-</td> <td>58</td> <td>54</td> </tr> <tr> <td>A+ and Below</td> <td>72</td> <td>26</td> </tr> </tbody> </table>	RI Rating	2020	2019	AA	193	109	AA-	58	54	A+ and Below	72	26	<ul style="list-style-type: none"> <li>Reviewing the Company's reinsurance strategy and arrangements on an annual basis. The strategy is presented to and approved by the Board Risk Committee Annually</li> <li>Conducting detail studies on the adequacy of reinsurance arrangements for catastrophic events.</li> </ul>		
RI Rating	2020	2019													
AA	193	109													
AA-	58	54													
A+ and Below	72	26													

Low Risk  
 Medium Risk  
 High Risk

## Analysis of Investment Risk



### Interest Rate Risk

Interest rate risk on financial instruments arises primarily from the Company's investments in debt securities which are exposed to the risk of adverse changes in fair values or future cash flows because of a change in market interest rates. Interest rate risk also arises due to changes in the value of liabilities owing to changes in interest rates.



Risk Analysis		Mitigation Strategies Adopted		Risk Rating 2020	Risk Rating 2019
Company's exposure to Interest Rate Risk is as follows.					
<b>2020</b>					
In Rs. Mn	Variable Interest Rate	Fixed Interest Rate	Non-Interest Bearing	Total	
Financial assets	4,787	20,117	2,464	27,368	
Financial liabilities	(3,078)	-	-	(3,078)	
Maximum exposure to interest rate risk	1,709	20,117	2,464	24,290	
<b>2019</b>					
In Rs. Mn	Variable Interest Rate	Fixed Interest Rate	Non-Interest Bearing	Total	
Financial assets	2,032	10,530	2,349	14,911	
Financial liabilities	(176)	-	-	(176)	
Maximum exposure to interest rate risk	1,855	10,530	2,349	14,734	
Impact on profitability and equity is as follows.					
		2020		2019	
In Rs. Mn	Impact on Profit Before Tax	Impact on Profit Equity	Impact on Profit Before Tax	Impact on Profit Equity	
Increase in 100 basis points	(41)	(163)	(131)	(248)	
Decrease in 100 basis points	43	182	144	276	
<ul style="list-style-type: none"> <li>The Treasury Middle Office (TMO) continues to identify, measure and manage all Investment and Market Specific Risks on the Company's asset portfolio on a day to day basis.</li> <li>The Treasury Middle Office has established market risk limits in line with the overall risk appetite of the Company on various parameters, and carries out daily monitoring of all limits set.</li> <li>The adherence to the set guidelines are adopted in a stringent manner and require approvals from the Risk Committee and the Board of Directors in the event of exceeding the limits/guidelines set in the TMO Policy.</li> </ul>					

● Low Risk   
 ● Medium Risk   
 ● High Risk

## INTEGRATED RISK MANAGEMENT



### Foreign Exchange Risk

The risk of an investment's value changing due to changes in currency exchange rates.

Risk Analysis	Mitigation Strategies Adopted	Risk Rating 2020	Risk Rating 2019						
<p>The Company is exposed to foreign exchange risk through all reinsurance arrangements, the Fin Re transaction and Tier II Capital transaction. The exposure of US\$ 30 Mn is invested in USD assets, minimising any forex risk as a result of exchange rate volatility.</p> <p>All reinsurance transactions are negotiated in LKR equivalent terms minimising any forex risk.</p> <table border="1"> <thead> <tr> <th>USD Assets</th> <th>USD Liabilities</th> </tr> </thead> <tbody> <tr> <td>USD - 30.6Mn</td> <td>USD - 15.3Mn</td> </tr> <tr> <td>LKR - 5,715Mn</td> <td>LKR - 2,852Mn</td> </tr> </tbody> </table>	USD Assets	USD Liabilities	USD - 30.6Mn	USD - 15.3Mn	LKR - 5,715Mn	LKR - 2,852Mn	<ul style="list-style-type: none"> <li>The Treasury Middle Office (TMO) continues to identify, measure and manage all Investment and market specific risks on the Company's asset portfolio on a day to day basis.</li> <li>The risk unit has also established risk limits specific to each foreign exchange transaction in order to minimise any losses per transaction.</li> <li>Regular review of the timing of foreign currency cash inflows and outflows and proactive decision taking on reinvestments given the forecasted rates and scenarios also takes place when required.</li> </ul>		
USD Assets	USD Liabilities								
USD - 30.6Mn	USD - 15.3Mn								
LKR - 5,715Mn	LKR - 2,852Mn								

### Equity Risk

The potential loss that could arise due to changes in the price of equity held. The measure of risk used in the equity markets is typically the standard deviation of a security's price over a number of periods. The Company invests in equity as per its investment strategy and equity price risk is mitigated through diversification and placing limits on individual and total equity portfolio investments.

Risk Analysis	Mitigation Strategies Adopted	Risk Rating 2020	Risk Rating 2019																														
<p>The Company's market value of its investments as at 31st December 2020 was Rs. 2.2Bn in comparison to Rs. 2.0 Bn in 2019. The Portfolio diversification of equity investments (Sector analysis) of the Company is as follows.</p> <table border="1"> <thead> <tr> <th>In Rs. Mn</th> <th>2020 Exposure %</th> <th>2019 Exposure %</th> </tr> </thead> <tbody> <tr> <td>Banks, finance and insurance</td> <td>1,341 60%</td> <td>1,496 73%</td> </tr> <tr> <td>Healthcare</td> <td>516 24%</td> <td>299 15%</td> </tr> <tr> <td>Diversified holdings</td> <td>107 5%</td> <td>58 3%</td> </tr> <tr> <td>Manufacturing</td> <td>58 3%</td> <td>31 1%</td> </tr> <tr> <td>Power and energy</td> <td>14 1%</td> <td>11 1%</td> </tr> <tr> <td>Footwear and textiles</td> <td>61 3%</td> <td>65 3%</td> </tr> <tr> <td>Beverage food and tobacco</td> <td>37 2%</td> <td>41 2%</td> </tr> <tr> <td>Constructions and engineering</td> <td>50 2%</td> <td>44 2%</td> </tr> <tr> <td>Total</td> <td>2,183 100%</td> <td>2,045 100%</td> </tr> </tbody> </table>	In Rs. Mn	2020 Exposure %	2019 Exposure %	Banks, finance and insurance	1,341 60%	1,496 73%	Healthcare	516 24%	299 15%	Diversified holdings	107 5%	58 3%	Manufacturing	58 3%	31 1%	Power and energy	14 1%	11 1%	Footwear and textiles	61 3%	65 3%	Beverage food and tobacco	37 2%	41 2%	Constructions and engineering	50 2%	44 2%	Total	2,183 100%	2,045 100%	<ul style="list-style-type: none"> <li>The Treasury Middle Office (TMO) continues to identify, measure and manage all Investment and Market Specific Risks on the Company's Asset portfolio on a day to day basis.</li> <li>The Treasury Middle Office has established market risk limits in line with the overall risk appetite of the Company on various parameters, and carries out daily monitoring of all limits set.</li> <li>Market risk exposures for the Company's equity portfolio are monitored using VaR methodology and uses a 1 day, 95% VaR for equity positions to reflect the 95% probability that the daily loss will not exceed the reported VaR. VaR as at 31.12.20 stood at Rs. 52 Mn.</li> </ul>		
In Rs. Mn	2020 Exposure %	2019 Exposure %																															
Banks, finance and insurance	1,341 60%	1,496 73%																															
Healthcare	516 24%	299 15%																															
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Constructions and engineering	50 2%	44 2%																															
Total	2,183 100%	2,045 100%																															

 Low Risk
  Medium Risk
  High Risk

## Credit Risk

Credit risk is the risk of financial loss to the Company if a counterpart fails to settle due balances to Softlogic Life.

Risk Analysis					Mitigation Strategies Adopted	Risk Rating 2020	Risk Rating 2019
As of 31st December 2020, exposure to credit risk was Rs. 26.9 Bn in comparison to Rs. 14.2 Bn as of 31st December 2019. The Company is exposed to credit risk derived through the following categories of financial assets.					<ul style="list-style-type: none"> <li>Formulating credit policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures and compliance with regulatory and statutory requirements. The Treasury Middle Office has also established market risk limits in line with the overall risk appetite of the Company on various parameters, and carries out daily monitoring of all limits set.</li> <li>Establishing the authorisation structure for the approval and renewal of credit facilities, intermediaries and reinsurers in line with credit policies. Authorisation limits are allocated to business units.</li> <li>Limiting concentrations of exposure to counterparties, industries, and by issuer, credit rating band and market liquidity.</li> </ul>	●	●
In Rs. Mn	2020 Exposure %		2019 Exposure %				
Financial investments	24,904	92%	12,562	89%			
Premium receivables	856	3%	744	5%			
Cash at bank	548	2%	371	3%			
Reinsurance receivables	323	1%	188	1%			
Loans to life policyholders	234	1%	225	2%			
Receivables and other assets	67	0%	68	0%			
Maximum exposure to credit risk	26,933	100%	14,157	100%			

## Liquidity Risk

Liquidity risk is the risk that the Company may not have sufficient liquid funds to meet its obligations when they fall due. The Company assesses the liquidity risk at the Assets and Liability Management Committee (ALCO) on a regular basis and maintains a diversified funding base to manage the liquidity risk.

Risk Analysis						Mitigation Strategies Adopted	Risk Rating 2020	Risk Rating 2019
In Rs. Mn.	No Maturity	Less than 1 year	1- 3 Years	More than 3 years	Total	<ul style="list-style-type: none"> <li>Regular review by the Company's Asset and Liability Management Committee.</li> <li>Carrying a portfolio of highly liquid assets that can be readily converted into cash to protect against unforeseen short-term interruptions to cash flows.</li> </ul>	●	●
Financial Assets	4,853	8,197	3,321	10,996	27,368			
Loans to life policyholders	-	-	-	234	234			
Reinsurance receivables	-	323	-	-	323			
Premium receivables	-	856	-	-	856			
Other financial assets	-	67	-	-	67			
<b>Total financial assets</b>	4,853	9,444	3,321	11,231	28,849			

● Low Risk   ● Medium Risk   ● High Risk

## INTEGRATED RISK MANAGEMENT

Risk Analysis						Mitigation Strategies Adopted	Risk Rating 2020	Risk Rating 2019
In Rs. Mn.	No maturity	Less than 1 year	1- 3 years	More than 3 years	Total	<ul style="list-style-type: none"> <li>Adhering to defined limits on maturity gaps as per approved risk limits and adhering to compositions of investments as per the investment policy</li> </ul>		
Insurance contract liabilities	-	384	775	11,156	12,315			
Reinsurance payable	-	636	-	-	636			
Loans and borrowing	-	-	-	2,852	2,852			
Lease liabilities	-	201	411	139	751			
Other financial liabilities	-	1,534	-	-	1,534			
Bank overdraft	-	225	-	-	225			
<b>Total financial liabilities</b>	-	<b>2,980</b>	<b>1,186</b>	<b>14,148</b>	<b>18,313</b>			

### Mitigation Strategies adopted at Softlogic Life for Strategic Risk

Key Risk	Mitigation Strategies Adopted	Risk Rating 2020	Risk Rating 2019
<b>Economic and Political Risk</b>	<ul style="list-style-type: none"> <li>The Risk Unit performs a detailed economic analysis on a quarterly basis. The analysis details economic performance as well as expected economic performance and forecast values of key economic indicators. A close watch is also kept on global industry trends.</li> <li>This study is presented to the Board Risk Committee as well as the Board Investment Committee in order to aid in key business decisions.</li> </ul>	○	○
<b>Competitor Risk</b>	<ul style="list-style-type: none"> <li>Constant monitoring and comparison of Company's performance against peers.</li> <li>Product Implementation committee to ensure that the Company's product portfolio remains competitive based on the above information</li> </ul>	○	○
<b>Co-operation and awareness of common direction</b>	<ul style="list-style-type: none"> <li>Clear communication of the Company's strategy and Business Objectives, to all staff through interactive town hall sessions</li> <li>Communication through 2020 was approached via a top down method, where all staff were informed of the Company's plans through their Heads of Departments via e flyers circulated through email and whatsapp groups.</li> </ul>	●	●

● Low Risk    ○ Medium Risk    ● High Risk



Mitigation Strategies adopted at Softlogic Life for Regulatory Risk

Key Risk	Mitigation Strategies Adopted	Risk Rating 2020	Risk Rating 2019
Minimum Capital Adequacy Ratio	<ul style="list-style-type: none"> <li>Capital Management Policy and Limits specific to capital adequacy implemented in 2020.</li> <li>Forecasted internal capital model to ensure capital adequacy are above regulatory requirements.</li> <li>Monthly CAR calculations to understand trends of key driving factors</li> </ul>	●	●
Increased Regulatory / Compliance Requirements	<ul style="list-style-type: none"> <li>A close watch is kept on all potential regulatory directions by the Risk Unit as well the Compliance Unit.</li> <li>The Compliance Unit also informs of regulatory developments to the relevant business units for purposes for supporting such business teams to align business activities or reporting requirements with such regulatory developments. It also reports on the compliance status with relevant regulatory requirements to the Audit Committee on a quarterly basis</li> </ul>	○	○

Mitigation Strategies adopted at Softlogic Life for Operational Risk

Key Risk	Mitigation Strategies Adopted	Risk Rating 2020	Risk Rating 2019
Business Continuity and Continuity of Critical Systems	<ul style="list-style-type: none"> <li>The company is equipped with a formal Business Continuity Plan, that details all services and systems that are considered critical for business continuity as well as their recovery time objectives.</li> <li>Knowledge sharing sessions and advanced testing of the procedures are also carried out annually for teams identified as critical and ensure that Recovery Time Objectives can be fulfilled in the event of a disaster.</li> <li>The Company is also equipped with an independent Disaster Recovery Site for its servers.</li> <li>Disaster Recovery Simulation exercises are also conducted for all systems considered critical.</li> <li>Testing was carried out successfully through the year and revealed that systems were recoverable well within the stipulated recovery time objectives.</li> </ul>	●	●
Occupational Health and Safety	<ul style="list-style-type: none"> <li>Awareness flyers have been circulated to all staff throughout the year on both health and safety in relation to COVID-19 and procedures to be followed in the event of a fire.</li> <li>Fire Wardens have been also briefed on procedures to be carried out in such an event.</li> <li>Given that, physical fire drills were not conducted during the year due to lockdowns / working in teams, a mandatory virtual drill was conducted for staff at Head Office, virtually, and achieved a success rate of 71% .</li> </ul>	●	●

● Low Risk    ○ Medium Risk    ● High Risk

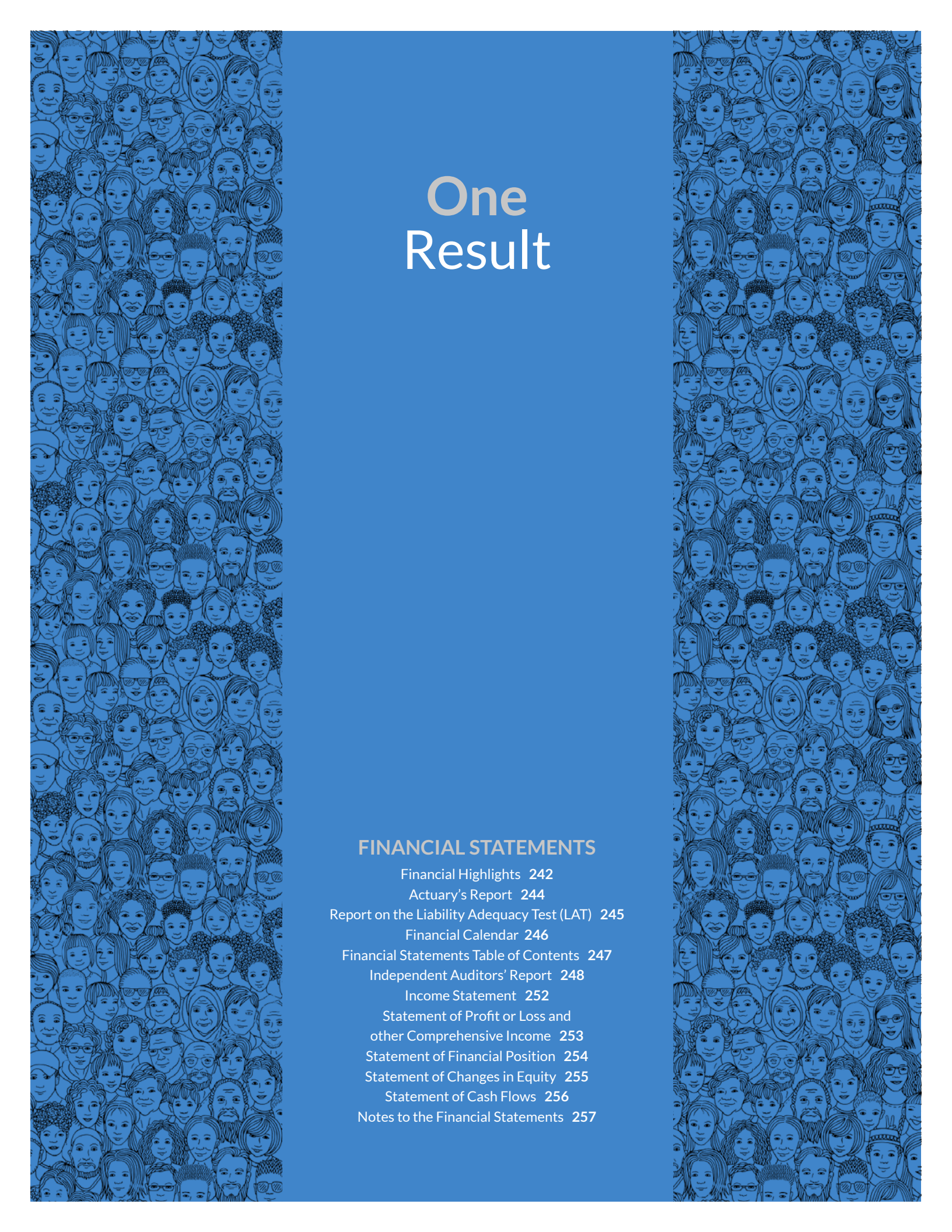
## INTEGRATED RISK MANAGEMENT

Key Risk	Mitigation Strategies Adopted	Risk Rating 2020	Risk Rating 2019
<b>Internal Controls</b>	<ul style="list-style-type: none"> <li>The Company's Internal Control environment is reviewed on a continuous basis as per the plan approved by the Audit Committee annually. Findings are reported to the Audit Committee as well as the Senior Management on a monthly basis.</li> <li>The unit has also established;                             <ul style="list-style-type: none"> <li>- Claims Monitoring Unit</li> <li>- A Fraud Detection Unit</li> <li>- Implementation of ACL, to strengthen fraud detection and other preventive mechanisms</li> </ul> </li> <li>The completion rate / adoption rate of all suggestions and recommendations remains at approximately 95%-100% as at the above date.</li> </ul>	●	●
<b>Staff Turnover</b>	<p>The following strategies that were initiated to reduce Non-Sales Staff Turnover at the beginning of the year and have continued through the year.</p> <ul style="list-style-type: none"> <li>Recruiting Branch staff with prior exposure to customer service and those that possess a higher set of skills.</li> <li>Utilising the Town Hall Sessions conducted as a tool to identify issues faced by the staff and to provide the relevant solutions.</li> </ul>	●	●

### Mitigation Strategies Adopted at Softlogic Life for Reputation Risk

Key Risk	Mitigation Strategies Adopted	Risk Rating 2020	Risk Rating 2019
<b>Reputation Risk</b>	<ul style="list-style-type: none"> <li>An Operational Risk Policy clearly dictating the methodology to measure and evaluate reputation risks.</li> <li>The Company's social media page is also monitored closely and all customer complaints directed through social media are handled and directed to the Customer Relationship Management Unit.</li> <li>All customer complaints are handled in line with the guidelines issued by IRCSL on complaint management.</li> </ul>	●	●

● Low Risk   ● Medium Risk   ● High Risk



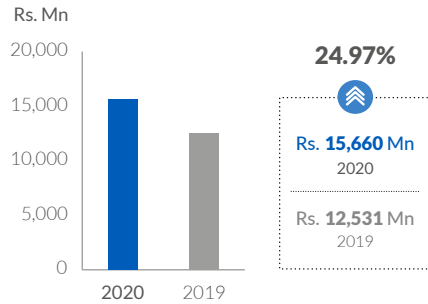
# One Result

## FINANCIAL STATEMENTS

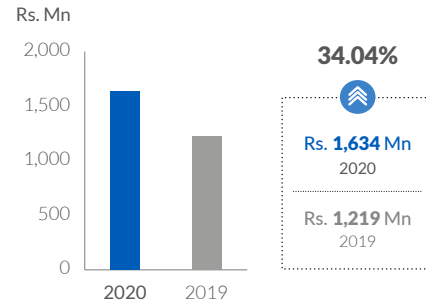
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# FINANCIAL HIGHLIGHTS

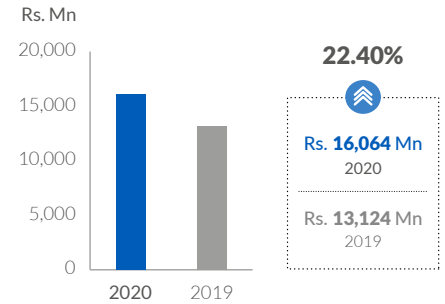
## Gross Written Premium



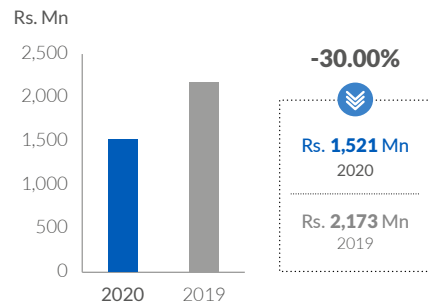
## Net Finance Income



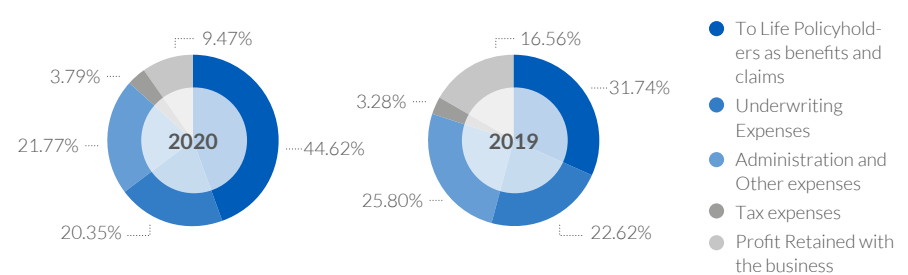
## Total Net Revenue



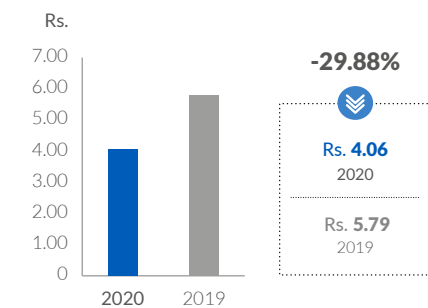
## Profit After Tax



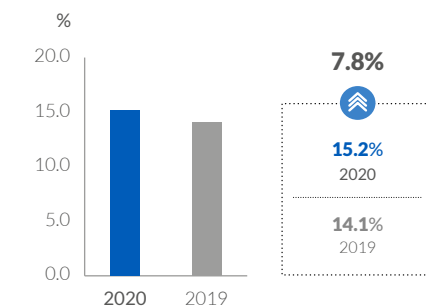
## Utilization of Income



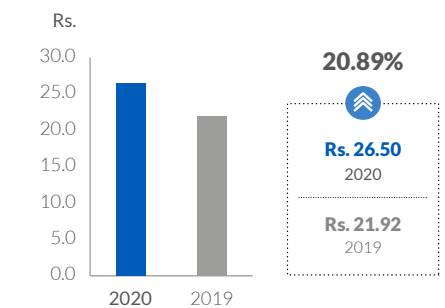
## Earning per Share



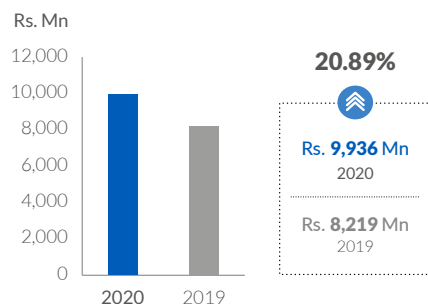
## Market Share



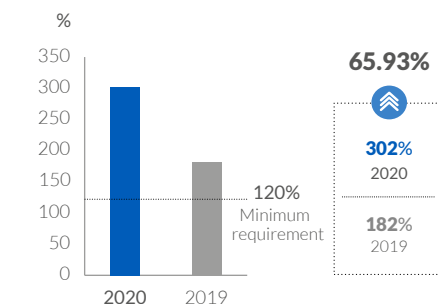
## Net Asset per Share



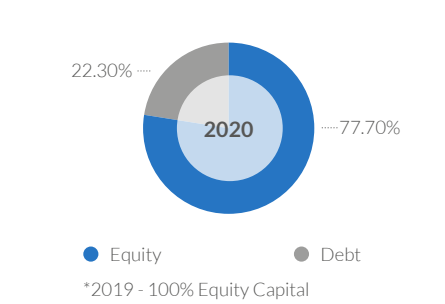
## Total Equity



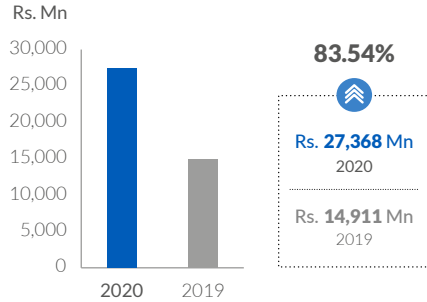
## Capital Adequacy Ratio (CAR)



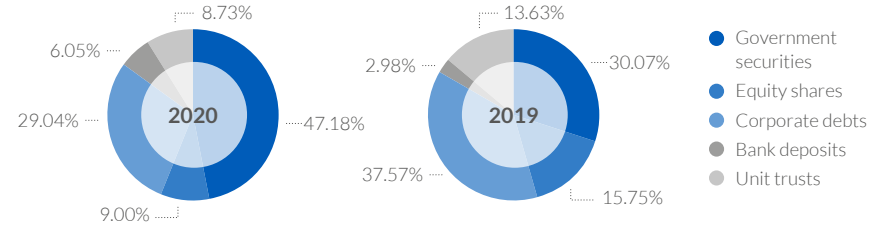
## Capital Structure



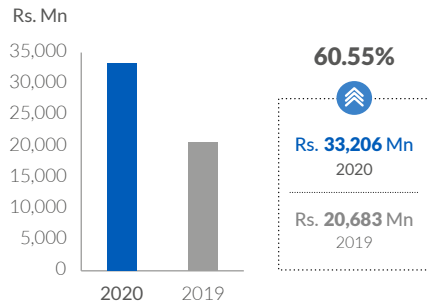
### Financial Investments



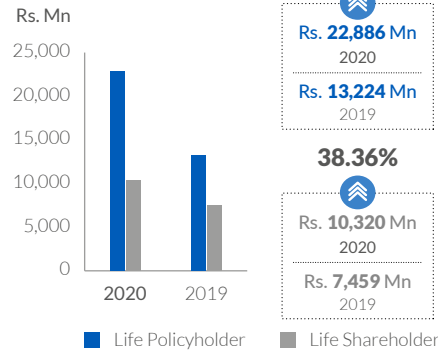
### Financial Investments - Asset Class



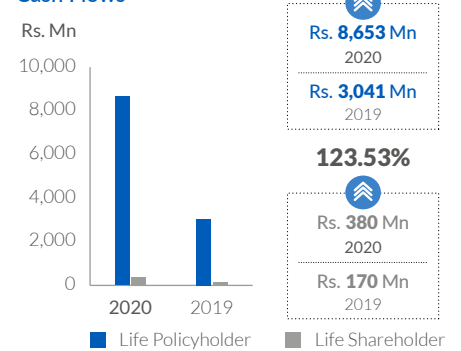
### Total Assets



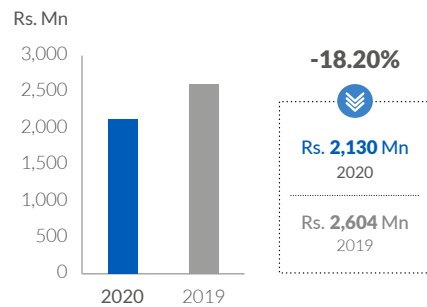
### Segment Total Assets



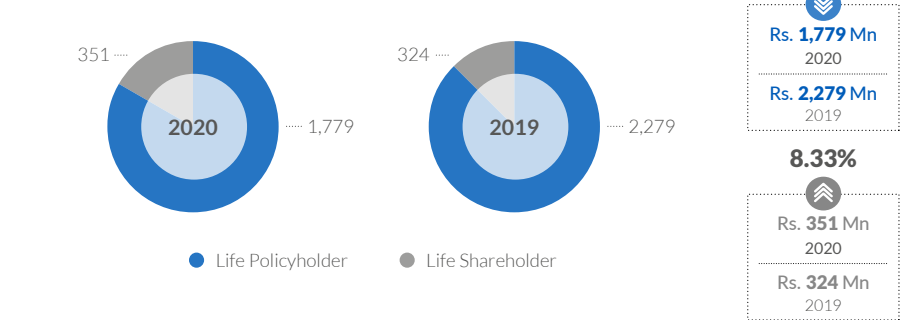
### Segment Operating Cash Flows



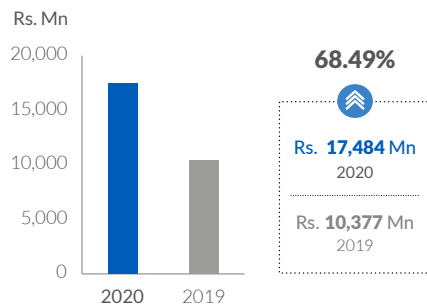
### Profit Before Taxation



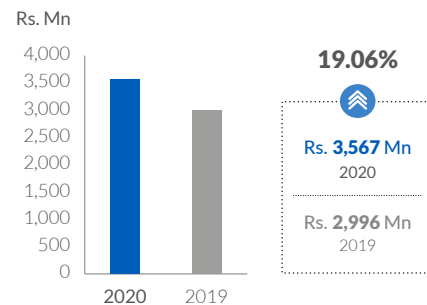
### Segment Profit Before Taxations



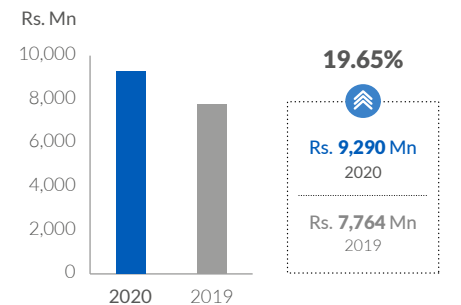
### Insurance Contract Liabilities



### Net Insurance Benefits and Claims



### Retained Earnings



# ACTUARY'S REPORT

WillisTowersWatson 

8 March 2021

The Board of Directors of Softlogic Life Insurance Plc  
Level 16, One Galle Face Tower,  
Colombo 02, Sri Lanka

## Certificate of the Actuary for the Actuarial valuation of the Long term Business

I, Kunj Behari Maheshwari, being the Actuary for the life insurance business, to the best of my knowledge certify the following:

- (a) that proper records have been kept by Softlogic Life Insurance Plc in conducting the valuation of liabilities for the purpose of Section 48 of the Regulation of Insurance Industry Act No. 43 of 2000, and the Solvency Margin (Risk Based Capital) Rules, 2015;
- (b) that I have taken all reasonable steps to ensure the accuracy and completeness of the records mentioned in item (a) above;
- (c) that I have complied with the provisions of the said act in item (a) above;
- (d) that I have complied with provisions of the Solvency Margin (Risk Based Capital) Rules, 2015 and guidance notes / guidelines prescribed by the IRCSL there under in the determination of the net amount of liabilities as at 31 December 2020;
- (e) that the Surplus amount distributed / approved to transfer from the non-participating fund to shareholder fund for the period 1 January 2020 to 31 December 2020 amounted to LKR 1,779 million; and
- (f) that the Surplus amount distributed to life insurance policyholders who share in the profits as provided in the Regulation of Insurance Industry Act, No 43 of 2000, amounted to 309 million as at 31 December 2020.

### Name and address of actuary with phone number and e-mail:

Kunj Behari Maheshwari, FIA, FIAI  
Director, Insurance Consulting and Technology, India,  
Willis Towers Watson  
2nd floor, Tower B, Unitech Business Park,  
South City – 1, Sector 41,  
Gurgaon 122001, India  
Telephone: +91 124 432 2800  
Email: [kunj.maheshwari@willistowerswatson.com](mailto:kunj.maheshwari@willistowerswatson.com)

Signature:



Place:

Gurugram, India

Date:

8 March 2021

Willis Towers Watson India Private Limited  
Registered Office:  
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# REPORT ON THE LIABILITY ADEQUACY TEST (LAT)

**WillisTowersWatson** 

8 March 2021

The Board of Directors of Softlogic Life Insurance Plc  
Level 16, One Galle Face Tower,  
Colombo 02,  
Sri Lanka

## Liability Adequacy Test

- 1.1. The Sri Lanka Accounting Standard 'SLFRS 4, Insurance Contracts' prescribes that an insurer shall assess at the end of each reporting period whether its recognised insurance liabilities are adequate, using current estimates of future cash-flows under its insurance contracts. Willis Towers Watson has undertaken a liability adequacy test for long term insurance provisions maintained within the life fund of Softlogic Life Insurance Plc as contemplated by SLFRS 4.
- 1.2. In carrying out the liability adequacy test, we have compared the provisions held as per the audited accounts with the actuarial liability. For this purpose, the principles laid out within the risk based capital framework as prescribed by the IRC SL, whereby liabilities are valued using a discounted cash-flow approach covering the full lifetime of all the cash in- and out-flows required to settle the obligations related to existing in-force insurance contracts are used as a starting point to assess the actuarial liability published by Softlogic Life in its financial statements. Adjustments made to and differences between the regulatory liability under the risk-based capital framework and the accounting liability under SLFRS basis have been suitably considered in providing this certification.
- 1.3. The projections are based on in-force policies and riders as at 31 December 2020.
- 1.4. Based on the checks undertaken, I certify:
  - that the valuation of actuarial liability is based on internationally accepted actuarial methods and adheres to the requirements under SLFRS 4;
  - that the assumptions used for such valuation are reasonable estimates based on available experience studies and after allowing for prescribed risk margins for adverse deviation; and
  - that the long term insurance provisions maintained within the life fund of Softlogic Life Insurance Plc as per the audited accounts of the Company for the year ended 31 December 2020 is in excess of the liabilities computed in the above mentioned manner.

Kunj Behari Maheshwari, FIA, FIAI  
Director, Insurance Consulting and Technology, India,  
Willis Towers Watson



Signature:  
Place: Gurugram, India  
Date: 8 March 2021

# FINANCIAL CALENDAR – 2020 AND 2021

## ANNUAL GENERAL MEETING (AGM) CALENDAR



### Annual Report and Accounts signed/to be signed

For the year 2020	For the year 2021
On March 8, 2021	In March 2022

### Annual General Meeting to be held

For the year 2020	For the year 2021
On March 31, 2021	In March 2022



## INTERIM FINANCIAL STATEMENTS CALENDAR

	2020 Submitted on	2021 To be submitted
For the three months ended/ ending March 31, (audited)	May 21, 2020*	May 14, 2021
For the six months ended/ending June 30, (Unaudited)	August 13, 2020	August 13, 2021
For the nine months ended/ ending September 30, (unaudited)	November 10, 2020	November 15, 2021
For the year ended/ending December 31, (audited)	February 12, 2021	February 28, 2022

\*CSE was not in operation Due to COVID-19 lockdown



## DIVIDEND CALENDAR

	2020	2021
First interim dividend for the year payable	In March 2021*	In March 2022**

\*Subject to approval by IRCSL

\*\*Subject to approval by Directors and IRCSL



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# INDEPENDENT AUDITOR'S REPORT



**KPMG**  
 (Chartered Accountants)  
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## TO THE SHAREHOLDERS OF SOFTLOGIC LIFE INSURANCE PLC

### Report on the Audit of the Financial Statements

#### Opinion

We have audited the financial statements of Softlogic Life Insurance PLC ("the Company"), which comprise the statement of financial position as at December 31, 2020, and the income statement, statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information as set out on pages 252 to 353.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at December 31, 2020, and of its financial performance and its 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 are independent of the Company in accordance

with the Code of Ethics issued by CA Sri Lanka (Code of Ethics) and we have fulfilled our other ethical responsibilities in accordance with the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### 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.

#### Insurance Contract Liabilities

Refer to Note 3 (page 259) and Note 40 (page 335) to these financial statements

Risk Description	Our Response
<p>The Company has recognized insurance contract liabilities amounting to Rs. 17.484 billion as at 31st December 2020.</p> <p>The Company's insurance contract liabilities represents 75 per cent of the Company's total liabilities. This is an area that involves significant judgement over uncertain future outcomes, mainly the ultimate total settlement value of long term policyholder liabilities. Economic assumptions, including discount rate, inflation, and operating assumptions including mortality, morbidity, future claims administration expenses, fund yield, bonus rate, dividend rates and lapse ratio are key inputs used to estimate the long-term liabilities.</p>	<p>Our procedures among others included;</p> <p>We used an actuarial specialist to assist us in performing our procedures in this area.</p> <ul style="list-style-type: none"> <li>Assessing the competence, capabilities and objectivity of management's external actuarial expert and company's staff involved in the policy holders liability valuation process.</li> <li>Assessing the controls adopted (including IT related controls) by the Company in providing accurate and complete information to the independent appointed actuary for the purpose of the policy holders liability valuation.</li> <li>Using KPMG specialist to Assess the Company's methodology for calculating the policyholder liabilities.</li> <li>Reconciling the movements in policyholder liabilities during the year with the movements in the financial results reported in separate funds.</li> <li>Testing management controls over the accuracy of data used in the life fund valuation and reconciling the data used to the underlying systems.</li> </ul>

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

M.R. Mihular FCA	P.Y.S. Perera FCA	C.P. Jayatilake FCA
T.J.S. Rajakarier FCA	W.W.J.C. Perera FCA	Ms. S. Joseph FCA
Ms. S.M.B. Jayasekara ACA	W.K.D.C. Abeyrathne FCA	S.T.D.L. Perera FCA
G.A.U. Karunaratne FCA	R.M.D.B. Rajapakse FCA	Ms. B.K.D.T.N. Rodrigo FCA
R.H. Rajan FCA	M.N.M. Shameel ACA	Ms. C.T.K.N. Perera ACA
A.M.R.P. Alahakoon ACA		

**Principals** - S.R.I. Perera FCMA(UK), LLB, Attorney-at-Law, H.S. Goonewardene ACA, Ms. P.M.K. Sumanasekara FCA



Risk Description	Our Response
<p>Further these liabilities are measured on a market consistent basis with appropriate assumptions by the appointed actuary.</p> <p>Accordingly, due to the value of the liability balance relative to the total liabilities and subjectivity of the significant judgments involved and estimate uncertainty associated with the valuation, we considered Insurance contract liabilities as a Key Audit Matter.</p>	<ul style="list-style-type: none"> <li>• Using KPMG specialists to Assess and challenge the key methods/models and assumptions, used in driving the value of the insurance liabilities by,                             <ul style="list-style-type: none"> <li>o Comparing the assumptions to expectations based on, current trends and our own industry knowledge</li> <li>o Evaluating the level of prudence applied and compared this to prior periods;</li> <li>o Applying our industry knowledge to benchmark the Company’s reserving methodologies assumptions, and estimates of losses, and</li> </ul> </li> <li>• Assessing adequacy of the disclosures in the financial statements.</li> </ul>

**Recoverability of Deferred Tax Assets**

Refer to Note 3 (page 259) and Note 29 (page 317) to these financial statements

Risk Description	Our Response
<p>The Company has recognized deferred tax assets for unused tax losses amounting to Rs. 1.622 billion as at 31st December 2020</p> <p>The Company has recognized deferred tax assets in respect of the unused tax losses which management considered would probably be utilized or recovered in the future through the generation of future taxable profits by the Company.</p> <p>The recoverability of the deferred tax asset is based on significant judgments made by the management in respect of the Company’s ability to generate future profits sufficient to utilize unused tax losses before they expire.</p> <p>We identified the recoverability of deferred tax assets as a key audit matter because of its significance to the Company’s financial statements and significant management judgment involved and estimation required in forecasting future taxable profits which could be subject to error or potential management bias.</p>	<p>Our audit procedures among others included;</p> <ul style="list-style-type: none"> <li>• Reviewing the correspondence with the Company’s tax consultant with regard to the ability to utilize the carried forward tax losses reported in the tax returns, against the future taxable profits, as well as assessing the impact of any uncertain tax positions.</li> <li>• Assessing and challenging the Company’s approach for evaluating the likelihood of the recoverability of deferred tax assets. This included challenging the key assumptions in future taxable profits forecasts for the Company with accumulated unutilized tax losses by comparing the most significant inputs used in the forecasts, including future gross written premium, claims and operating expenses with the historical performance of the Company, management’s forecasts used for other purposes and our knowledge of the business gained from other audit procedures.</li> <li>• Evaluating sensitivity of key assumptions used and the impact it would have on the availability of sufficient taxable profits.</li> <li>• Evaluating the adequacy of the disclosures in the financial statements.</li> </ul>

## INDEPENDENT AUDITOR'S REPORT



### IT Systems and controls

Risk Description	Our Response
<p>Many financial reporting controls of the Company depend on the correct functioning of operational and financial IT systems. For example interfaces between policy administration and financial reporting systems, or automated controls that prevent or detect inaccurate or incomplete transfers of financial information etc. If these systems or controls fail, a significant risk of error in reported financial information can arise from the failure to transfer data appropriately between systems and/or inappropriate changes being made to financial data or systems.</p> <p>This is an area of significant risk in our audit due to the dependency and complexity of the IT infrastructure and accordingly identified as a Key Audit Matter.</p>	<p>Our audit procedures among others included;</p> <p>We used our own IT specialists to assist us in performing procedures in this area.</p> <ul style="list-style-type: none"> <li>Assessing the governance and high-level controls in place across the IT environment, including the approach to policy design, review, awareness and IT Risk management practices</li> <li>Testing general IT controls involving restrictions on system access, permissions and responsibilities of the authorized users, process for approving changes to the systems etc.</li> <li>Testing controls over specific application controls which are required to be operating effectively to mitigate the risk of misstatement in the financial statements.</li> <li>Testing manual compensating controls, such as reconciliations between systems and other information sources and performed additional substantive testing such as using extended sample sizes and performing data analysis routines over the full population of transactions.</li> </ul>

### Other Information

Management is responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we 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 when it becomes available 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. We have nothing to report in this regard.

### 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.

As required by Section 47(2) of the Regulation of Insurance Industry Act, No.43 of 2000 and amendments thereto, as far as appears from our examination, the accounting records of the Company have been maintained in the manner required by the rules issued by the Insurance Regulatory Commission of Sri Lanka, so as to clearly indicate the true and fair view of the financial position of the Company.

CA Sri Lanka membership number of the engagement partner responsible for signing this independent auditor's report is 1798.

### Chartered Accountants

Colombo, Sri Lanka

March 8, 2021

# INCOME STATEMENT

For the year ended 31 December	Note	Page	2020 Rs. '000	2019 Rs. '000	Change %
Gross written premiums	8	297	15,660,116	12,531,283	25
Premiums ceded to reinsurers	9	298	(1,872,616)	(991,455)	89
<b>Net earned premiums</b>	10	298	<b>13,787,500</b>	11,539,828	19
<b>Other revenue</b>					
Net finance income	11	298	1,634,453	1,218,776	34
Net realised gains	12	299	171,253	124,236	38
Net fair value gains	13	300	464,044	231,597	100
Other operating income	14	300	6,364	9,505	(33)
<b>Total other revenue</b>			<b>2,276,114</b>	1,584,114	44
<b>Total net revenue</b>			<b>16,063,614</b>	13,123,942	22
<b>Net benefits, claims and expenses</b>					
Net insurance benefits and claims paid	15	300	(3,545,807)	(2,885,729)	23
Net change in insurance claims outstanding	16	301	(20,990)	(110,383)	(81)
Change in insurance contracts liabilities	17	302	(3,599,969)	(1,169,696)	208
Underwriting and net acquisition cost (Net of reinsurance)	18	303	(3,269,454)	(2,968,714)	10
Other operating and administration expenses	19	303	(3,324,870)	(3,267,563)	2
Finance cost	20	304	(172,177)	(118,299)	46
<b>Total benefits, claims and expenses</b>			<b>(13,933,267)</b>	(10,520,384)	32
<b>Profit before tax</b>	21	304	<b>2,130,347</b>	2,603,558	(18)
Income tax expenses	22	304	(608,864)	(430,715)	41
<b>Profit for the year</b>			<b>1,521,483</b>	2,172,843	(30)
<b>Profit attributable to;</b>					
Owners of the Company			1,521,483	2,172,843	
Non controlling interest			-	-	
			<b>1,521,483</b>	2,172,843	(30)
<b>Earnings per share</b>					
Basic earnings per share (Rs.)	23	306	4.06	5.79	(30)
Diluted earnings per share (Rs.)	23	306	4.06	5.79	(30)

The accounting policies and notes appearing on pages 257 to 353 form an integral part of these Financial Statements.

# STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December			2020	2019	Change
	Note	Page	Rs. '000	Rs. '000	%
Profit for the year			1,521,483	2,172,843	(30)
<b>Other comprehensive income</b>					
<b>Items that will not be reclassified to income statement</b>					
Equity investments at FVOCI - net change in fair value	39.1	335	(235,618)	(128,666)	
Equity investments at FVOCI - net change in fair value - life fund	39.1	335	125,442	(195,536)	
Re-measurement gains / (losses) on defined benefit liabilities	41.6	344	4,648	(17,084)	
Gains on revaluation of land and building	39.2	335	-	44,272	
Related tax / deferred tax			-	-	
			(105,528)	(297,014)	(64)
<b>Items that are or may be reclassified subsequently to income statement</b>					
Debt investments at FVOCI - net change in fair value	39.1	335	31,221	14,509	
Debt investments at FVOCI - net change in fair value - life fund	39.1	335	255,885	186,733	
Debt investments at FVOCI - reclassified to income statement	39.1	335	14,267	22,521	
Related tax / deferred tax			-	-	
			301,373	223,763	35
<b>Total other comprehensive income for the year, net of tax</b>			<b>195,845</b>	<b>(73,251)</b>	<b>367</b>
<b>Total comprehensive income for the year, net of tax</b>			<b>1,717,328</b>	<b>2,099,592</b>	<b>(18)</b>
<b>Total comprehensive income attributable to:</b>					
Owners of the Company			1,717,328	2,099,592	
Non - controlling interests			-	-	
			1,717,328	2,099,592	(18)

The accounting policies and notes appearing on pages 257 to 353 form an integral part of these Financial Statements.

# STATEMENT OF FINANCIAL POSITION

As at 31 December	Note	Page	2020 Rs. '000	2019 Rs. '000
<b>Assets</b>				
Intangible assets	26	309	404	444
Property, plant and equipment	27	310	660,928	675,468
Right of use assets	28	316	752,393	408,044
Deferred tax assets	29	317	1,621,904	2,230,768
Financial investments	30	321	27,367,792	14,910,744
Loans to life policyholders	31	331	234,462	224,672
Reinsurance receivables	32	331	323,288	188,131
Premium receivables	33	332	856,281	743,549
Receivables and other assets	34	333	834,388	923,961
Cash and cash equivalents	35	333	554,362	377,093
<b>Total assets</b>			<b>33,206,202</b>	<b>20,682,874</b>
<b>Equity and liabilities</b>				
<b>Equity</b>				
Stated capital	36	334	1,062,500	1,062,500
Retained earnings	37	334	9,290,347	7,764,216
Restricted regulatory reserve	38	334	798,004	798,004
Other reserves	39	334	(1,214,604)	(1,405,801)
<b>Total equity</b>			<b>9,936,247</b>	<b>8,218,919</b>
<b>Liabilities</b>				
Insurance contract liabilities	40	335	17,483,705	10,377,102
Employee benefit liabilities	41	343	182,332	151,027
Loans and borrowings	42	345	2,852,245	-
Reinsurance payables	43	346	636,060	428,557
Other liabilities	44	346	1,890,223	1,330,998
Bank overdraft	35	333	225,390	176,271
<b>Total liabilities</b>			<b>23,269,955</b>	<b>12,463,955</b>
<b>Total equity and liabilities</b>			<b>33,206,202</b>	<b>20,682,874</b>
Net asset per share (Rs.)			26.50	21.92
Net asset per share (Rs.) - excluding one-off surplus			24.37	19.79

The accounting policies and notes appearing on pages 257 to 353 form an integral part of these Financial Statements.

## Certification

These Financial Statements are in compliance with the requirements of the Companies Act No 07 of 2007.

Sgd.

**Nuwan Withanage**

Chief Financial Officer

The Board of Directors is responsible for the preparation and presentation of these Financial Statements.

Approved and signed for and on behalf of the Board.

Sgd.

**Ashok Pathirage**

Chairman

Colombo

8th March 2021

Sgd.

**Iftikar Ahamed**

Managing Director



# STATEMENT OF CHANGES IN EQUITY

	Note	Stated capital	Retained earnings	Restricted regulatory reserve	Other reserves			Total
		Rs. '000	Rs. '000	Rs. '000	Available for sale reserve Rs. '000	Fair value reserve Rs. '000	Revaluation reserve Rs. '000	
Balance as at 31 December 2018		1,062,500	6,275,417	798,004	(1,513,394)	-	48,436	6,670,963
<b>Impact of adoption of SLFRS 9</b>								
Recognition of SLFRS 9 expected credit loss excluding participating fund		-	(20,766)	-	-	-	-	(20,766)
Transfer of AFS reserve build due to reclassification of AFS portfolio to FVTPL - participating fund		-	-	-	12,880	-	-	12,880
Transfer of AFS reserve to fair value reserve		-	-	-	1,500,514	(1,500,514)	-	-
<b>Adjusted balance as at 1 January 2019</b>		<b>1,062,500</b>	<b>6,254,651</b>	<b>798,004</b>	<b>-</b>	<b>(1,500,514)</b>	<b>48,436</b>	<b>6,663,077</b>
Profit for the year		-	2,172,843	-	-	-	-	2,172,843
<b>Other comprehensive income for the year</b>								
Equity investments at FVOCI - net change in fair value	39.1	-	-	-	-	(128,666)	-	(128,666)
Equity investments at FVOCI - net change in fair value - life fund	39.1	-	-	-	-	(195,536)	-	(195,536)
Equity investments at FVOCI - reclassified to retained earnings	39.1	-	(102,444)	-	-	102,444	-	-
Re-measurement gains / (losses) on defined benefit liabilities	41.4	-	(17,084)	-	-	-	-	(17,084)
Gains on revaluation of land and building	39.2	-	-	-	-	-	44,272	44,272
Debt investments at FVOCI - net change in fair value	39.1	-	-	-	-	14,509	-	14,509
Debt investments at FVOCI - net change in fair value - life fund	39.1	-	-	-	-	186,733	-	186,733
Debt investments at FVOCI - reclassified to income statement	39.1	-	-	-	-	22,521	-	22,521
<b>Total other comprehensive income, net of tax</b>		<b>-</b>	<b>(119,528)</b>	<b>-</b>	<b>-</b>	<b>2,005</b>	<b>44,272</b>	<b>(73,251)</b>
<b>Total comprehensive income for the year</b>		<b>-</b>	<b>2,053,315</b>	<b>-</b>	<b>-</b>	<b>2,005</b>	<b>44,272</b>	<b>2,099,592</b>
<b>Transaction with owners of the Company</b>								
<b>Contributions and distributions</b>								
Interim dividend - 2018		-	(543,750)	-	-	-	-	(543,750)
<b>Total transactions with owners of the Company</b>		<b>-</b>	<b>(543,750)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(543,750)</b>
<b>Balance as at 31 December 2019</b>		<b>1,062,500</b>	<b>7,764,216</b>	<b>798,004</b>	<b>-</b>	<b>(1,498,509)</b>	<b>92,708</b>	<b>8,218,919</b>
Profit for the year		-	1,521,483	-	-	-	-	1,521,483
<b>Other comprehensive income for the year</b>								
Equity investments at FVOCI - net change in fair value	39.1	-	-	-	-	(235,618)	-	(235,618)
Equity investments at FVOCI - net change in fair value - life fund	39.1	-	-	-	-	125,442	-	125,442
Equity investments at FVOCI - reclassified to retained earnings	39.1	-	-	-	-	-	-	-
Re-measurement gains / (losses) on defined benefit liabilities	41.4	-	4,648	-	-	-	-	4,648
Gains on revaluation of land and building	39.2	-	-	-	-	-	-	-
Debt investments at FVOCI - net change in fair value	39.1	-	-	-	-	31,221	-	31,221
Debt investments at FVOCI - net change in fair value - life fund	39.1	-	-	-	-	255,885	-	255,885
Debt investments at FVOCI - reclassified to income statement	39.1	-	-	-	-	14,267	-	14,267
<b>Total other comprehensive income, net of tax</b>		<b>-</b>	<b>4,648</b>	<b>-</b>	<b>-</b>	<b>191,197</b>	<b>-</b>	<b>195,845</b>
<b>Total comprehensive income for the year</b>		<b>-</b>	<b>1,526,131</b>	<b>-</b>	<b>-</b>	<b>191,197</b>	<b>-</b>	<b>1,717,328</b>
<b>Transaction with owners of the Company</b>								
<b>Contribution and distribution</b>								
Dividend		-	-	-	-	-	-	-
<b>Total transaction with owners of the Company</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Balance as at 31 December 2020</b>		<b>1,062,500</b>	<b>9,290,347</b>	<b>798,004</b>	<b>-</b>	<b>(1,307,312)</b>	<b>92,708</b>	<b>9,936,247</b>

The accounting policies and notes appearing on pages 257 to 353 form an integral part of these Financial Statements.

# STATEMENT OF CASH FLOWS

For the year ended 31 December		2020	2019	
	Note	Page	Rs. '000	Rs. '000
<b>Cash flows from operating activities</b>				
Profit before taxation			2,130,347	2,603,558
<b>Adjustments for :</b>				
Depreciation of property, plant and equipment	27.1	312	147,038	142,103
Amortisation of intangible assets	26.1	310	146	2,277
Depreciation of right of use asset	28.1	317	195,008	127,115
Interest expenses on lease liabilities and loans and borrowings	20	304	124,028	57,625
Provision for employee benefit liabilities	41.4	344	40,834	32,709
Net realised gains	12	299	(171,253)	(124,236)
Net fair value gains	13	300	(464,044)	(231,597)
Net unrealised gain on foreign currency transactions	20	304	(18,272)	-
Net amortisation of financial investments	30.6	330	(363,338)	(389,938)
Provision / (reversal) for impairment losses of financial investments	30.6	330	104,453	(6,128)
			1,724,947	2,213,488
<b>Change in operating assets</b>				
Increase in loans to life policyholders			(9,790)	(63,671)
Increase in reinsurance receivables			(135,157)	(33,329)
Increase in premium receivables			(112,732)	(236,115)
Increase in receivables and other assets			(428,817)	(246,705)
			(686,496)	(579,820)
<b>Change in operating liabilities</b>				
Increase in insurance contract liabilities			7,106,603	1,355,581
Increase in reinsurance payables			207,503	107,733
Increase in other liabilities			685,762	120,730
			7,999,868	1,584,044
<b>Cash flows from operating activities</b>				
Gratuity paid	41.4	344	(4,881)	(6,170)
<b>Net cash generated from operating activities</b>			9,038,319	3,217,712
<b>Cash flows from investing activities</b>				
Acquisition of investment securities	30.6	330	(28,726,008)	(10,872,563)
Consideration received from disposal of investments			17,379,095	8,658,378
Acquisition of property, plant and equipment	27.1	312	(132,498)	(154,240)
Acquisition of intangible assets	26.1	310	(106)	(632)
<b>Net cash used in investing activities</b>			(11,479,517)	(2,369,057)
<b>Cash flows from financing activities</b>				
Dividend paid			-	(543,750)
Proceeds from long term borrowings	42.1	345	2,772,300	-
Payment of lease liabilities	44.3	346	(198,071)	(108,761)
<b>Net cash used in financing activities</b>			2,574,229	(652,511)
<b>Net increase in cash and cash equivalents</b>				
			128,150	189,974
<b>Net cash and cash equivalents as at 1 January</b>				
			200,822	10,848
<b>Net cash and cash equivalents as at 31 December</b>				
			328,972	200,822
<b>Analysis of cash and cash equivalents</b>				
Cash in hand and at bank			554,362	377,093
Bank overdrafts			(225,390)	(176,271)
<b>Total cash and cash equivalents as at 31 December</b>	35.1	333	328,972	200,822

The accounting policies and notes appearing on pages 257 to 353 form an integral part of these Financial Statements.

# NOTES TO THE FINANCIAL STATEMENTS

## 1 CORPORATE INFORMATION

### 1.1 Reporting entity

Softlogic Life Insurance PLC (“the Company”) is a public limited liability company incorporated and domiciled in Sri Lanka. The Company is regulated under the Insurance Industry Act No. 43 of 2000 and amendments thereto. The Company was re-registered under the Companies Act No. 07 of 2007 and the registered office is situated at Level 16, One Galle Face Tower, Colombo - 02. The ordinary shares of the Company have a primary listing on the CSE.

### 1.2 Parent entity and ultimate parent entity

The parent entity of the Company is Softlogic Capital PLC. In the opinion of the Board of Directors, the ultimate parent undertaking and controlling entity is Softlogic Holdings PLC which is incorporated in Sri Lanka.

### 1.3 Principal activities and nature of operations of the Company

The principal business activity of the Company is providing Life Insurance solutions for both individual and corporate customers. Life Insurance is a protection against financial losses that would result from an insured event adversely affecting the insured. In such situations, the nominated beneficiary receives the proceeds and is thereby safeguarded from financial impacts of the insured event. The benefit paid by a life insurer is consideration for premium payments made by the insured. There were no significant changes in the nature of the principal activities during the financial year under review.

### 1.4 Number of employees

The staff strength of the Company as at 31 December 2020 is 897 (2019 was 805).

### 1.5 Financial statements

The Financial Statements as at and for the year ended 31 December 2020 comprise “the Company” referring to Softlogic Life Insurance PLC only.

Corporate information is given in page 372 of this Annual Report.

## 2 BASIS OF ACCOUNTING

### 2.1 Statement of compliance

The Financial Statements of the Company have been prepared and presented in accordance with the Sri Lanka Accounting Standards (SLFRSs and LKASs), laid down by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) and in compliance with the requirements of the Companies Act No. 07 of 2007, the Regulation of Insurance Industry (RII) Act, No 43 of 2000 and amendments thereto, rules and regulations of the Insurance Regulatory Commission of Sri Lanka and Statement of Recommended Practice (SoRP) issued by CA Sri Lanka and provide appropriate disclosures as required by the Listing Rules of the Colombo Stock Exchange.

These SLFRSs and LKASs are available at the website of CA Sri Lanka [www.casrilanka.com](http://www.casrilanka.com).

These Financial Statements, except for information on cash flows have been prepared following the accrual basis of accounting.

The Company has not adopted any inappropriate accounting treatments, which are not in compliance with the requirements of the SLFRSs and LKASs, regulations governing the preparation and presentation of these Financial Statements.

### 2.2 Responsibility for Financial Statements

The Board of Directors of the Company is responsible for the preparation and presentation of Financial Statements as per the provisions of the Companies Act No. 07 of 2007 and Sri Lanka Accounting Standards.

The Board of Directors acknowledge their responsibility for Financial Statements as set out in the ‘Annual Report of the Board of Directors’, ‘Statement of Directors’ Responsibility’ and the certification on the Statement of Financial Position on pages 165, 173 and 254 respectively.

These Financial Statements include following components:

- Income Statement and Statement of Profit or Loss and Other Comprehensive Income**  
 Providing the information on the financial performance of the Company for the year under review (Refer pages 252 and 253).
- Statement of Financial Position**  
 Providing the information on the financial position of the Company as at the year-end (Refer page 254).
- Statement of Changes in Equity**  
 Depicting all changes in shareholders’ equity during the year under review of the Company (Refer page 255).
- Statement of Cash Flows**  
 Providing the information to the users, on the ability of the Company to generate cash and cash equivalents and the needs of entity to utilise those cash flows (Refer page 256).
- Notes to the Financial Statements** comprising significant accounting policies and other explanatory information (Refer pages 257 to 353).

### 2.3 Approval of Financial Statements by the Board of Directors

The Financial Statements of the Company for the year ended 31 December 2020 (including comparatives for 2019), were approved and authorised for issue by the Board of Directors on 8 March 2021.

### 2.4 Basis of measurement

The Financial Statements have been prepared on the historical cost basis except for the following material items in the Statement of Financial Position.

## NOTES TO THE FINANCIAL STATEMENTS

### Basis of measurement

Category	Items	Basis of measurement	Note	Page reference
Assets	Financial instruments measured at fair value through profit or loss including derivative financial instruments	At fair value	30.4	327
	Financial instrument measured at fair value through other comprehensive income	At fair value	30.3	325
	Land and building	Measured at cost at the time of acquisition and subsequently at revalued amounts which are the fair values at the date of revaluation	27.1.2	314
Liabilities	Employee benefits liabilities	Actuarially valued and recognised at present value of the defined benefit obligation	41	343
	Insurance contract liabilities	Appointed Actuary determined values based on the guidelines issued by Insurance Regulatory Commission of Sri Lanka (IRCSL) & Sri Lanka Accounting standards (SLFRS)	40	345

### 2.5 Going concern basis of accounting

The outbreak of the COVID-19 pandemic and the measures adopted to mitigate the pandemic's spread have impacted the Company. These measures required the Company to establish new strategic ways to continue its operations all over the country. Significant management judgements, estimates, assumptions, and the impact of the COVID-19 pandemic has been considered in determining appropriateness of going concern assumption as at the reporting date.

COVID-19 is not expected to have a significant impact on the entity. Management has determined that there is no material uncertainty that casts doubt on the entity's ability to continue as a going concern. It expects that COVID-19 might have an impact, that is not significant, for example, in relation to expected future performance, or the effects on some future asset valuations.

In determining the basis of preparing the Financial Statements for the year ended 31 December 2020, based on all available information the management has considered the consequences of COVID-19, other events and conditions such as current market uncertainty and market volatility, and it has determined that they do not create a material uncertainty that casts substantial doubt upon the entity's ability to continue as a going concern. Further, in determining the going concern, the management performed multiple stress tested scenarios considering cost management practices, ability to continue operations under lockdown situation, cash reserves, ability to secure additional funding to finance the adverse effects to the cash flows, ability to secure required human resources, expected revenue streams, credit and collection management practices and ability to defer non-essential capital expenditures.

The Management has made an assessment of its ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Further, the Management is not aware of any material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern. Therefore, the Financial Statements of the Company continued to be prepared on a going concern basis.

### 2.6 Functional and presentation currency

Items included in the Financial Statements of the Company are measured using the currency of the primary economic environment in which the Company operates (the functional currency). Accordingly, these Financial Statements Including supplementary information are presented in Sri Lanka Rupees (LKR), the Company's functional and presentation currency.

There was no change in the Company's presentation and functional currency during the year under review.

### 2.7 Presentation of Financial Statements

The assets and liabilities of the Company presented in the Statement of Financial Position are grouped by nature and listed in an order that reflects their relative liquidity and maturity pattern as explained by Statement of Recommended practice (SoRP) issued by the Insurance Regulatory Commission of Sri Lanka.

No adjustments have been made for inflationary factors affecting the Financial Statements.

### 2.8 Rounding

The amounts in the Financial Statements have been rounded-off to the nearest rupees thousands, except where otherwise indicated as permitted by the Sri Lanka Accounting Standard - LKAS 1 on 'Presentation of Financial Statements'.

### 2.9 Offsetting

Financial assets and financial liabilities are offset, and the net amount reported in the Statement of Financial Position, only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or to realise the assets and settle the liabilities simultaneously. Income and expenses are not offset in the Income Statement, unless required or permitted by an Accounting Standard or Interpretation (issued by the International Financial Reporting Interpretations Committee and Standard Interpretation Committee) and as specifically disclose in the accounting policies of the Company.

## 2.10 Materiality and aggregation

Each material class of similar items is presented separately in the Financial Statements. Items of dissimilar nature or function are presented separately unless they are immaterial as permitted by the Sri Lanka Accounting Standard – LKAS 1 on ‘Presentation of Financial Statements’ and amendments to the LKAS 1 on ‘Disclosure Initiative’ which was effective from 1 January 2016.

Notes to the Financial Statements are presented in a systematic manner which ensures the understandability and comparability of Financial Statements of the Company. Understandability of the Financial Statements is not compromised by obscuring material information with immaterial information or by aggregating material items that have different natures or functions.

## 2.11 Supplementary Statements - Statement of Financial Position – Life Fund

Supplementary Statement of Financial Position of Life Insurance Fund together with notes are disclosed in pages 354 to 357 as per the requirement of the Statement of Recommended Practice (SoRP) for Insurance Contracts then applicable, adopted by the Institute of Chartered Accountants of Sri Lanka.

## 2.12 Financial period

The Financial Statements are prepared for the twelve months period ended and as at 31 December 2020.

## 2.13 Comparative information

Comparative information including quantitative, narrative, and descriptive information is disclosed in respect of the previous period in the Financial Statements to enhance the understanding of the current period’s Financial Statements and to enhance the inter period comparability. The presentation and classification of the Financial Statements of the previous year are amended, where relevant for better presentation and to be comparable with those of the current year.

## 3 USE OF SIGNIFICANT ACCOUNTING JUDGEMENTS, ASSUMPTIONS AND ESTIMATES

In preparing the Financial Statements of the Company in conformity with SLFRSs and LKASs, the Management has made judgements, estimates and assumptions which affect the application of accounting policies and the reported amounts of assets, liabilities, income, and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised prospectively.

The most significant areas of estimation uncertainty and critical judgements, in applying accounting policies that have most significant effect on the amounts recognised in the Financial Statements of the Company are as follows:

## 3.1 Significant accounting judgements

Information about judgments made in applying accounting policies that have the most significant effects on the amounts recognised in these Financial Statements is included in the following notes.

Critical judgements	Note	Page
Classification of financial assets	3.1.1	259
Impairment assessment of financial investments	3.1.2	259
Lease terms - extension options	3.1.3	260
Classification of insurance, reinsurance and investment contracts: assessing whether the contract transfers significant insurance risk and whether an insurance contract contains direct participation features	40.2	336
Establishing the criteria for determining whether credit risk on a financial asset has increased significantly since initial recognition	4.2.11.3	266
Assessment of impact from COVID-19 pandemic	6.7	290

### Accounting Judgements

#### 3.1.1 Classification of financial assets

The significant accounting policies of the Company provides scope for financial assets to be classified and subsequently measured into different categories, namely, at Amortised Cost (AC), Fair Value through Other Comprehensive Income (FVOCI) and Fair Value Through Profit or Loss (FVTPL) based on the following criteria;

- The entity’s business model for managing the financial assets as set out in Note 4.2.3.1 on page 263.
- The contractual cash flow characteristics of the financial assets as set out in Note 4.2.3.2 on page 263.

Refer note 30.2,30.3 and 30.4 on pages 321 to 329 for more information on classification of financial assets.

#### 3.1.2 Impairment assessment of financial investments

The measurement of impairment losses across the categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses. Accordingly, the Company reviews its financial investments at each reporting date to assess whether an impairment loss should be provided in the Income Statement. In particular, the Management’s judgement is required in the estimation of the amount and timing of future cash flows when determining the impairment loss.

These estimates are based on assumptions about a number of factors and hence actual results may differ, resulting in future changes to the impairment allowance made.

## NOTES TO THE FINANCIAL STATEMENTS

### A collective impairment provision is established for:

- Groups of homogeneous receivables that are not considered individually significant; and
- Groups of assets that are individually significant but that were not found to be individually impaired.

### 3.1.3 Lease terms - extension options

The Company assesses at lease commencement date whether it is reasonably certain to exercise the extension options. The Company reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant changes in circumstances within its control. The extension options held are exercisable only by the Company and not by the lessors.

The Management has assessed the potential extension options for each lease agreement and decided that possibility of extending of the same lease agreement is remote due to the operating structure of the company.

### 3.2 Accounting assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in material adjustments for the year ended 31 December 2020 are included in the following notes.

Critical accounting assumptions and estimation uncertainties	Note	Page
Insurance contract liabilities and key actuarial assumptions	3.2.1 & 40.8	260 & 339
Fair value of financial instruments with significant unobservable inputs	3.2.2	260
Impairment measurement of financial assets: determination of inputs into the ECL measurement model, including key assumptions and incorporation of forward-looking information	3.2.3	261
Fair value of land and buildings	3.2.4	261
Useful life-time of the property, plant and equipment	3.2.5	261
Measurement of defined benefit obligation: key actuarial assumptions	3.2.6 & 41.3	261 & 344
Recognition of deferred tax asset	3.2.7	261
Estimating the incremental borrowing rate for lease liabilities	3.2.8	261
Provisions for liabilities, commitments and contingencies	3.2.9	261
Modifications to the discount rate used for valuation of insurance contract liabilities	40.9	339
Impairment on non-financial assets	4.4	268
Going concern	2.5	258
Liability Adequacy Test (LAT)	40.15	340

### Assumptions and Estimation Uncertainties

#### 3.2.1 Valuation of insurance contract liabilities

The liability for life insurance contracts with discretionary participating features (DPF) is either based on current assumptions or on assumptions established at the inception of the contract, reflecting the best estimate at the time increased with a margin for risk and adverse deviation. All contracts are subject to a liability adequacy test, which reflect management's best estimate of future cash flows.

The main assumptions used in relation to mortality, morbidity, longevity, investment returns, expenses, lapse and surrender rates and discount rates are further detailed.

For those contracts that ensure risk related to longevity and prudent allowance is made for expected future mortality improvements, as well as wide ranging changes to lifestyle, which could result in significant changes to the expected future mortality exposure.

Estimates are also made as to future investment income arising from the assets backing life insurance contracts. These estimates are based on current market returns, as well as expectation about future economic and financial developments. Assumptions on future expense are based on current expense levels, adjusted for expected expense inflation, if appropriate. Lapse and surrender rates are based on the Company's historical experience. Discount rates are based on current market rates by considering timing and liquidity nature of the insurance liabilities.

The valuation of the long-term insurance contract liabilities as at 31 December 2020 was carried out by Appointed Actuary Mr. Kunj Behari Maheshwari, Messrs. Towers Watson India Private Limited based on the assumptions set out in Note 40.8 to the Financial Statements on page 339.

All life insurance contracts are subject to the Liability Adequacy Test (LAT) as required by SLFRS 4 - Insurance Contracts. The LAT was carried out by Mr. Kunj Behari Maheshwari, Messrs. Towers Watson India Private Limited. For further details please refer to the Note 40.5 to the Financial Statements on page 337.

Carrying amount of Insurance contract liabilities, assumptions and estimates used to determine Insurance contract liabilities are disclosed in Note 40 on pages 335 to 343.

Refer page 272 for sensitivity analysis.

#### 3.2.2 Fair value of financial instruments with significant unobservable inputs

The determination of fair values of financial assets and financial liabilities recorded in the Statement of Financial Position, for which there is no observable market price are determined using a variety of valuation techniques that include the use of mathematical models. The Company measures fair value using the fair value hierarchy that reflects the significance of input used in making measurements. Methodologies used for valuation of financial instruments and fair value hierarchy are stated in Note 7.4 on page 295.

### 3.2.3 Impairment measurement of financial assets

The measurement of impairment losses across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses.

The Company's Expected Credit Loss (ECL) calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- The Company's criteria for qualitatively assessing whether there has been a significant increase in credit risk and if so, allowances for financial assets measured on a Life Time Expected Credit Loss (LTECL) basis;
- The segmentation of financial assets when their ECL is assessed on a collective basis;
- Development of ECL models, including the various statistical formulas and the choice of inputs;
- Determination of associations between macro-economic inputs, such as GDP growth, inflation, interest rates, exchange rates and unemployment and the effect on Probability of Default (PDs), Exposure at Default (EAD) and Loss Given Default (LGD);
- Selection of forward-looking macro-economic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

To estimate the required allowance, assumptions are made to define how inherent losses are modelled and to determine the required input parameters, based on historical experience and current economic conditions (including policy rates, inflation, growth in gross domestic product, sovereign rating, effect from COVID-19 pandemic, etc.).

The accuracy of the provision depends on the model assumptions and parameters used in determining the collective provision.

Refer Notes 4.2.12, 30.2.3 and 30.3.3 on pages 266, 324 and 324 for further details.

### 3.2.4 Fair value of land and buildings

The Company measures land and buildings at revalued amounts with changes in fair value being recognised in Equity through Other Comprehensive Income (OCI). Valuations are performed every two years to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. The Company engages independent professional valuer Mr. P. B. Kalugalagedara, Chartered Valuation Surveyor to assess fair value of land and buildings in terms of Sri Lanka Accounting Standard on "Fair Value Measurement" (SLFRS 13). Based on the valuation techniques and inputs used, land and building were classified at level 3 in the fair value hierarchy.

The valuation techniques, significant unobservable inputs, key assumptions used to determine the fair value of the land and building, and sensitivity analysis are provided in Note 27.13 on pages 314.

### 3.2.5 Useful life-time of the property, plant and equipment

The Company reviews the residual values, useful lives, and methods of depreciation of property, plant and equipment at each reporting date. Judgement of the Management is exercised in the estimation of these values, rates, methods and hence they are subject to uncertainty.

Refer Note 27 on page 310 for more details.

### 3.2.6 Measurement of defined benefit obligation

The cost of defined benefit plans is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, future salary increases and mortality rates, etc. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

Refer Note 41.3 on pages 344 for the assumptions used to determine defined benefit obligations.

Sensitivity analysis to key assumptions is disclosed in Note 41.9 on page 345.

### 3.2.7 Deferred tax assets

Deferred tax assets are recognised in respect of tax losses to the extent that it is probable that future taxable profit will be available and can be utilised against such tax losses. Judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, together with future tax-planning strategies.

Refer Note 29 on page 317 for estimate and assumption used by the company in assessing recoverability of deferred tax assets.

### 3.2.8 Estimating the incremental borrowing rate

As the Company cannot readily determine the interest rate implicit in the lease, it uses its incremental borrowing rate ("IBR") to measure the lease liabilities. The IBR is the rate of interest that the Company would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Company "would have to pay", which requires estimation when no observable rates are available (or when they need to be adjusted to reflect the terms and conditions of the lease). The Company estimates the IBR using observable input when available and is required to make certain entity-specific adjustments.

### 3.2.9 Provisions for liabilities and contingencies

The Company receives legal claims against it in the normal course of business. Management has made judgments as to the likelihood of any claim succeeding in making provisions. The time of concluding legal claims is uncertain, as is the amount of possible outflow of economic benefits. Timing and cost ultimately depend on the due process in respective legal jurisdictions.

Refer Note 49 on page 352.

## NOTES TO THE FINANCIAL STATEMENTS

### 4 SIGNIFICANT ACCOUNTING POLICIES

#### Change in Accounting Policies

The significant accounting policies set out below have been applied consistently to all periods presented in the Financial Statements of the Company, unless otherwise indicated.

There have been no changes to the significant accounting policies which would be required to disclose in these financial statements.

Set out below is an index of the significant accounting policies, the details of which are available on the pages that follow and reference to the respective Notes.

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#### 4.1 Foreign currency transactions

Transactions in foreign currencies are translated into the functional currency of the Company at the exchange rates at the date of each transaction.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate at the reporting date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency as at the beginning of the year adjusted for effective interest and payments during the year and the amortised cost in foreign currency translated at the exchange rate as at the reporting date.

Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the exchange rate when the fair value was determined. Non-monetary items that are measured based on historical cost in a foreign currency are not translated.

Foreign currency differences are generally recognised in Income Statement.

#### 4.2 Financial assets – Initial recognition, classification and subsequent measurement

##### 4.2.1 Date of recognition

The Company initially recognises all financial assets (including assets designated at fair value through profit or loss) on the trade date on which the Company becomes a party to the contractual provisions of the instrument.

##### 4.2.2 Initial measurement of financial instruments

The classification of financial instruments at initial recognition depends on their cash flow characteristics and the business model for managing the instruments. Refer Notes 30 further details on classification of financial instruments.



A financial asset or financial liability is measured initially at fair value plus or minus transaction costs that are directly attributable to its acquisition or issue, except in the case of financial assets and financial liabilities at fair value through profit or loss as per SLFRS 9 and trade receivables that do not have a significant financing component as defined by SLFRS 15.

Transaction cost in relation to financial assets and financial liabilities at fair value through profit or loss are dealt with through the Income Statement.

When the fair value of financial instruments (except trade receivables that do not have significant financing component) at initial recognition differs from the transaction price, the Company accounts for the Day 1 profit or loss, as described below.

#### 4.2.2.1 “Day 1” profit or loss

When the transaction price of the instrument differs from the fair value at origination and fair value is based on a valuation technique using only inputs observable in market transactions, the Company recognises the difference between the transaction price and fair value in net gains/(losses) from trading. In those cases, where the fair value is based on models for which some inputs are not observable, the difference between the transaction price and the fair value is deferred and is only recognised in income statement when the inputs become observable, or when the instrument is derecognised.

#### 4.2.3 Classification and subsequent measurement of financial assets

As per SLFRS 9, the Company classifies all its financial assets based on the business model for managing the assets and the assets’ contractual terms measured at either;

- Amortised Cost (AC) - (Refer Note 30.2 on page 81 for detail accounting policy)
- Fair Value through Other Comprehensive Income (FVOCI) - (Refer Note 30.3 on page 85 for detail accounting policy)
- Fair Value through Profit or Loss (FVTPL) - (Refer Note 30.4 on page 87 for detail accounting policy)

The subsequent measurement of financial assets depends on their classification. Refer Note 30.2, 30.3 and 30.4 on pages 321 to 329.

#### 4.2.3.1 Business model assessment

The Company makes an assessment of the objective of a business model in which an asset is held at a portfolio level and not assessed on instrument-by- instrument basis because this best reflects the way the business is managed, and information is provided to management.

The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management’s strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the

duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;

- how the performance of the portfolio is evaluated and reported to the Company’s management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Company’s stated objective for managing the financial assets is achieved and how cash flows are realised.

The business model assessment is based on reasonably expected scenarios without taking ‘worst case’ or ‘stress case’ scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Company’s original expectations, the Company does not change the classification of the remaining financial assets held in that business model but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

#### 4.2.3.2 Assessment of whether contractual cash flows are solely payments of principal and interest (SPPI test)

As a second step of its classification process the Company assesses the contractual terms of financial assets to identify whether they meet the SPPI test. For the purposes of this assessment, “Principal” is defined as the fair value of the financial asset on initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium/discount). “Interest” is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period.

In contrast, contractual terms that introduce a more than de minimise exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the principal amount outstanding. In such cases, the financial asset is required to be measured at FVTPL.

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

## NOTES TO THE FINANCIAL STATEMENTS

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- terms that limit the Company's claim to cash flows from specified assets; and
- features that modify consideration of the time value of money.
- Prepayment and extension terms

Refer Notes 30.2,30.3 and 30.4 on pages 321 to 329 for details on different types of financial assets recognised on the Statement of Financial Position.

### 4.2.4 The Company's existing non-derivative financial assets and their classifications

Financial asset	Category		
	FVTPL	AC	FVOCI
Treasury bonds	√	√	√
Treasury bills	√	-	-
Corporate debts*	-	√	-
Perpetual debentures	√	-	-
Commercial papers	-	√	-
Policyholder loans	-	√	-
Staff and advisor receivables	-	√	-
Term deposits	-	√	-

### 4.2.5.2 Measurement of reclassification of financial assets

Reclassification from,	Reclassification to amortised cost	Reclassification to FVOCI	Reclassification to FVTPL
<b>Fair Value through Profit or Loss</b>	The fair value on reclassification date becomes the new carrying amount. The EIR is calculated based on the new gross carrying amount.	The fair value on reclassification date becomes the new gross carrying amount. The EIR is calculated based on the new gross carrying amount. Subsequent changes in the fair value are recognised in OCI.	N/A
<b>Fair Value through Other Comprehensive Income</b>	The financial asset is reclassified at fair value. The cumulative balance in OCI is removed and is used to adjust fair value on the reclassification date. The adjusted amount becomes the amortised cost.  EIR determined at initial recognition and gross carrying amount are not adjusted as a result of reclassification.	N/A	The accumulated balance in OCI is reclassified to profit and loss on the reclassification date.
<b>Amortised Cost</b>	N/A	The asset is remeasured to fair value, with any difference recognised in OCI. EIR determined at initial recognition is not adjusted as a result of reclassification.	The fair value on the reclassification date becomes the new carrying amount. The difference between amortised cost and fair value is recognised in profit and loss.

Details on reclassifications are given in Note 30.5 on Page 329.

Financial asset	Category		
	FVTPL	AC	FVOCI
Cash and cash equivalents	-	√	-
Reinsurance receivables	-	√	-
Premium receivables	-	√	-
Other receivables	-	√	-
Reverse repurchase agreements	-	√	-
Unit trusts	√	-	-
Quoted shares	-	-	√
Unquoted shares	-	-	√

\*Corporate Debt - The Company classifies quoted corporate debt under amortised cost category since there is no active market for these instruments even though such instruments are listed.

### 4.2.5 Reclassification of financial assets

Financial assets are not reclassified subsequent to their initial recognition, except and only in those rare circumstances when the Company changes its objective of the business model for managing such financial assets which may include the acquisition, disposal, or termination of a business line.

#### 4.2.5.1 Timing of reclassification of financial assets

Consequent to the change in the business model, the Company reclassifies all affected assets prospectively from the first day of the first reporting period following the change in the business model (the reclassification date). Accordingly, prior periods are not restated.

#### 4.2.6 Derecognition of financial assets

The Company derecognises a financial asset (or where applicable a part of thereof) when the contractual rights to the cash flows from the financial asset expire or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all risks and rewards of ownership of the financial asset are transferred or in which the Company neither transfers nor retains substantially all risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of the consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognised in OCI is recognised in income statement.

However, cumulative gain/loss recognised in OCI in respect of equity investment securities designated as at FVOCI is not recognised in income statement on derecognition of such securities. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Company is recognised as a separate asset or liability.

The Company enters into transactions whereby it transfers assets recognised on its Statement of Financial Position, but retains either all or substantially all risks and rewards of the transferred assets or a portion of them. In such cases, the transferred assets are not derecognised.

When assets are sold to a third party with a concurrent total rate of return swap on the transferred assets, the transaction is accounted for as a secured financing transaction similar to sale and repurchase transactions because the Company retains all or substantially all risks and rewards of ownership of such assets.

When the Company has transferred its right to receive cash flows from an asset or has entered into a pass-through arrangement and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Company's continuing involvement in the asset. In that case, the Company also recognises an associated liability. The transferred asset and the associated liability are measured on the basis that reflected the rights and obligations that the Company has retained.

#### 4.2.7 Modification of financial assets

If the terms of a financial asset are modified, the Company evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value.

If the cash flows of the modified asset carried at amortised cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Company recalculates the gross carrying amount of the financial asset and

recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in income statement.

#### 4.2.8 Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the Statement of Financial Position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

#### 4.2.9 Amortised cost and gross carrying amount

The "amortised cost" of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the EIR method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any ECL allowance.

The "gross carrying amount of a financial asset" is the amortised cost of a financial asset before adjusting for any ECL allowance.

#### 4.2.10 Fair value of financial instruments

Fair value measurement of financial instruments including the fair value hierarchy is explained in Note 7 on pages 292 to 297.

#### 4.2.11 Identification and measurement of impairment of financial assets

##### 4.2.11.1 Overview of the ECL principles

The Company records an allowance for expected credit losses for debt and other financial instruments measured at amortised cost, debt instruments measured at fair value through other comprehensive income.

SLFRS 9 outlines a "three-stage" model for impairment based on changes in credit quality since initial recognition.

- **Stage 1:** A financial asset that is not originally credit-impaired on initial recognition is classified in Stage 1. Financial instruments in Stage 1 have their ECL measured at an amount equal to the proportion of lifetime expected credit losses (LTECL) that result from default events possible within next 12 months (12M ECL).
- **Stage 2:** If a significant increase in credit risk (SICR) since origination is identified, it is moved to Stage 2 and the Company records an allowance for LTECL.
- **Stage 3:** If a financial asset is credit impaired, it is moved to Stage 3 and the Company recognises an allowance for LTECL, with probability of default at 100%.

Details of the ECL calculation are given in Note 30.2.3 on pages 324.

##### 4.2.11.2 Purchased or originated credit impaired (POCI) financial assets

Financial assets which are credit impaired on initial recognition are categorised within Stage 3 with a carrying value already reflecting the lifetime expected credit losses (LTECL). (Refer table - 17 on page 282 for credit impaired financial assets.)

## NOTES TO THE FINANCIAL STATEMENTS

### 4.2.11.3 Significant increase in credit risk

#### Key judgements and assumptions adopted by the Company in addressing the requirements of SLFRS 9

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

The Company individually reviews at each reporting date, financial assets above a predefined threshold to identify whether the credit risk has increased significantly since origination, before an exposure is in default. Such indicators include, inter alia:

- When reasonable and supportable forecasts of future economic conditions directly affect the performance of the instruments.
- When there is a significant change in the geographical locations or natural catastrophes that directly impact the performance of the instruments.
- Erosion in net-worth by more than 25% when compared to the previous year.

Exposures which have one or more of the above indicators are treated as significant increase in credit risk and assessed accordingly in ECL computations. The Company regularly monitors the effectiveness of the criteria used to identify significant increase in credit risk to confirm that the criteria is capable of identifying significant increase in credit risk before an exposure is in default.

For debt instruments having an external credit rating, which are measured at amortised cost or at FVOCI, the Company determines significant increase in credit risk based on the generally accepted investment/ non-investment grade definitions published by international rating agencies. Debt instruments are moved to stage 2 if their credit risk increases to the extent that they are no longer considered investment grade.

### 4.2.11.4 Definition of default and credit impaired assets

The Company classifies the financial investments under Stage 3 when the external credit rating assigned to the particular investment is "default".

### 4.2.11.5 Movement between the stages

Financial assets can be transferred between the different categories depending on their relative change in credit risk since initial recognition. Financial instruments are transferred out of stage 2 if their credit risk is no longer considered to be significantly increased since initial recognition based on the assessments. Financial instruments are transferred out of stage 3 when they no longer exhibit any evidence of credit impairment as described above.

### 4.2.12 Impairment charges

#### 4.2.12.1 Impairment charges as per SLFRS 9

The Company recognises loss allowances for expected credit loss (ECL) on the following financial instruments that are not measured at FVTPL:

- Financial investments at amortised cost
- Debt instruments at fair value through other comprehensive income
- Other financial assets measured at amortised cost

No impairment loss is recognised on equity investments.

The assessment of credit risk and the estimation of ECL are required to be unbiased and probability-weighted and should incorporate all available information relevant to the assessment, including information about past events, current conditions, and reasonable and supportable forecasts of economic conditions at the reporting date. In addition, the estimation of ECL should consider the time value of money.

#### 4.2.12.2 Impairment charges on financial investments

##### Impairment charges on financial investments include ECL on debt instruments at FVOCI and financial assets at amortised cost

The Company does not have historical loss experience on debt instruments at amortised cost and debt instruments at FVOCI. Thus, the Company considers PDs published by the external sources. (i.e. Bloomberg and S & P)

LGD for debt securities issued by the Government of Sri Lanka in rupees is considered as 0%. However, LGD for foreign currency denominated securities [Sri Lanka Development Bonds (SLDBS) and Sri Lanka Sovereign Bonds (SLSBs)] issued by the Government of Sri Lanka is considered as 20% and for all other instruments LGD is considered as 45% in accordance with the guideline issued by the Central Bank of Sri Lanka.

EAD of a debt instrument is its gross carrying amount.

#### 4.2.12.3 Forward-looking information

The Company incorporates forward-looking information into both its assessment as to whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. Quantitative economic factors are based on economic data and forecasts published by CBSL and other reliable sources.

<b>Quantitative drivers of credit risk</b>	<ul style="list-style-type: none"> <li>• GDP growth</li> <li>• Exchange rate</li> <li>• PDs published by the external sources</li> </ul>
<b>Qualitative drivers of credit risk</b>	<ul style="list-style-type: none"> <li>• Regulatory impact</li> <li>• Government policies</li> </ul>

#### 4.2.12.4 The calculation of ECLs

The Company measures loss allowance at an amount equal to LTECL, except for following, which are measured as 12 months ECL

- Debt instruments on which credit risk has not increased significantly since the initial recognition
- Debt instruments that are determined to have low credit risk at the reporting date

The Company considers a debt instrument to have a low credit risk when they have an “investment grade” credit risk rating.

#### 4.2.12.5 Financial assets that are not credit impaired at the reporting date

The Company calculates 12 months ECL allowance based on the expectation of a default occurring in the 12 months following the reporting date. These expected 12-month default probabilities are applied to exposure at default (EAD) and multiplied by the economic factor adjustment, expected LGD and discounted by an approximation to the original EIR. When financial assets shown a significant increase in credit risk since origination, the Company records an allowance for LTECLs based on PDs estimated over the lifetime of the instrument.

#### 4.2.12.6 Financial assets that are credit-impaired at the reporting date

Impairment allowance on credit-impaired financial assets assessed on individual basis is computed as the difference between the asset's gross carrying amount and the present value of estimated future cash flows. The expected future cash flows are based on the estimates made by the Company as at the reporting date, reflecting reasonable and supportable assumptions and projections of future recoveries and expected future receipts of interest. The Company regularly reviews the assumptions for projecting future cash flows. Further, financial assets identified as credit impaired are provided in Note 6.5.2.1.g on Page 282 were assessed for impairment with 100% PD.

#### 4.2.12.7 Write-off of financial assets

Loans and debt securities are written off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when the Company determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Company's procedures for recovery of amounts due.

#### 4.2.12.8 Impairment of Reinsurance Receivables

Reinsurance assets are reviewed for impairment based on the expected loss model at each reporting date. When computing the probabilities of default, the company consider the external credit rating of the reinsures and use PD's published by external source (i.e S&P) LGD is assumed to be at 45% in accordance with CBSL guidelines. The impairment loss is recorded in income statement.

#### 4.2.12.9 Impairment of Premium Receivables

Impairment losses on premium receivables are the difference between the carrying amount and the present value of the estimated discounted cash flows. The impairment losses are recognized in the Income Statement.

### 4.3 Financial liabilities – Initial recognition, classification and subsequent measurement

#### 4.3.1 Initial recognition and measurement

Financial liabilities are initially recognised when the Company becomes a party to the contractual provisions of the instrument. All financial liabilities are recognised initially at fair value, net of directly attributable transaction costs except in the case of financial liabilities at fair value through profit or loss as per SLFRS 9

#### 4.3.2 Classification

The Company classifies financial liabilities, other than financial guarantees and loan commitments into one of the following categories:

- Financial liabilities at fair value through profit or loss, and within this category as –
  - Held-for-trading; or Designated at fair value through profit or loss;
- Financial liabilities measured at amortised cost.

The subsequent measurement of financial liabilities depends on their classification

#### 4.3.3 Subsequent measurement - Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss.

The Company does not have financial liabilities classified at fair value through profit or loss as at the reporting date.

#### 4.3.4 Subsequent measurement - Financial liabilities measured at amortised cost

All other financial liabilities are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. Gain or loss on derecognition, interest expense and foreign exchange gains and losses are recognised in Income Statement.

#### 4.3.5 Reclassification of financial liabilities

Financial liabilities are not reclassified as such reclassifications are not permitted by SLFRS 9.

## NOTES TO THE FINANCIAL STATEMENTS

### 4.3.6 Derecognition of financial liabilities

The Company derecognises a financial liability when its contractual obligations are discharged, cancelled or expired.

### 4.3.7 Modification of financial liabilities

Where an existing financial liability is replaced by another from the same lender on substantially different terms or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognised in income statement.

### 4.4 Impairment of non - financial assets

At each reporting date, the Company reviews the carrying amounts of its non- financial assets (other than biological assets, investment property, inventories, and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill is tested annually for impairment.

For Impairment testing, assets are grouped together into the smallest group of assets that generates cash inflow from continuing use that are largely independent of the cash inflows of other assets or CGUs. Goodwill arising from a business combination is allocated to CGUs or companies of CGUs that are expected to benefit from the synergies of the combination.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risk specific to the assets or CGU.

An impairment loss is recognised if the carrying amount of an assets or CGU exceeds its recoverable amount. Impairment losses are recognised in Income Statement. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reserved only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

### 4.5 Statement of cash flows

The Statement of Cash Flows has been prepared by using the 'Indirect Method' of preparing cash flows in accordance with the Sri Lanka Accounting Standard - LKAS 7 on 'Statement of Cash Flows'. Cash and cash equivalents comprise of short term highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

Interest received and dividend received is classified as operating cash flows, while dividends paid are classified as financing cash flows for the purpose of presenting the Statement of Cash Flows. For cash flow purposes, cash and cash equivalents are presented net of bank overdrafts.

Cash and cash equivalents as referred to in the Statement of Cash Flows are comprised of those items as explained in Note 35.1 on page 333.

The Statement of Cash Flows is given on page 256.

## 5. NEW ACCOUNTING STANDARDS NOT EFFECTIVE AT THE REPORTING DATE

A number of new standards are effective for annual periods beginning after 1 January 2021 and earlier application is permitted; however, the Company has not early adopted the new or amended standards in preparing these financial statements.

### 5.1 SLFRS 17 Insurance Contracts

SLFRS 17 is effective for annual periods beginning on or after 01st January 2023. Early adoption is permitted along with the adoption of SLFRS 9 and SLFRS 15. SLFRS 17 supersedes SLFRS 4 Insurance contracts. The Company is intended to adopt the new standard on its mandatory effective date.

SLFRS 4 permitted insurers to continue to use the statutory basis of accounting for insurance assets and liabilities that existed in their jurisdiction prior to January 2005. SLFRS 17 replaces this with new measurement model for all insurance contracts.

SLFRS 17 requires liabilities for insurance contracts to be recognized as the present value of future cash flows, incorporating an explicit risk adjustment, which is updated at each reporting date to reflect current conditions, and a contractual service margin (CSM) that is equal and opposite to any day - one gain arising on initial recognition. Losses are recognized directly to the income statement. For the measurement purposes contracts are grouped together into contracts of similar risk profitability profile and issue year, with further divisions for contracts that are managed separately.

Profit for insurance contracts under SLFRS 17 is represented by the recognition of the service provided to policy holders in the period (release of CSM), realise from non-economic risk (realise of risk adjustment) and investment profit.

The CSM is released as profit over the coverage period of the insurance contract, reflecting the delivery of services to the policyholder. For certain contracts with participating features (where a substantial share of the fair value of the related investments and other underlying items is paid to policyholders) the CSM reflects the variable fee to shareholders. For these contracts, the CSM is adjusted to reflect the changes in economic experience and assumptions. For all other contracts the CSM is only adjusted for non- economic assumptions.

SLFRS 17 introduces a new measure of insurance revenue, based on the delivery of service to policyholders and excluding any premiums related to the investment elements of policies, which will be significantly different from existing premium revenue measures, currently reported in the income statement. In order to transition to SLFRS 17, the amount of deferred profit, being the CSM at transition date, need to be determined.

SLFRS 17 requires, the CSM to be calculated as if the standards had applied retrospectively. If this is not practical, an entity is required to choose either a simplified retrospective approach or determine the CSM by reference to the fair value of the liabilities at transition date. The approach for determining the CSM will have a significant impact on both shareholders' equity and on the amount of profit on in – force business in future reporting periods.

SLFRS 17 is expected to have a substantial changes in the presentation of the financial statements and disclosures, as the requirements of the new standard are complex and requires a fundamental change to accounting for insurance contracts as well as the application of significant judgement and new estimation techniques. The effect of changes required to the Company's accounting policies as a result of implementing these standards are currently uncertain, but these changes can be expected to , among other things , alter the timing of profit recognition.

The Company has an implementation program underway to implement SLFRS 17. The program is responsible for setting accounting policies and developing application methodologies, establishing appropriate processes and controls, sourcing appropriate date and implementing actuarial and finance system changes.

Please refer pages 148 to 149 for SLFRS implementation status of the Company.

## 5.2 Onerous contracts – Cost of Fulfilling a Contract (Amendments to LKAS 37)

The amendments specify which costs an entity includes in determining the cost of fulfilling a contract for the purpose of assessing whether the contract is onerous. The amendments apply for annual reporting periods beginning on or after 1 January 2022 to contracts existing at the date when the amendments are first applied. At the date of initial application, the cumulative effect of applying the amendments is recognised as an opening balance adjustment to retained earnings or other components of equity, as appropriate. The Company does not anticipate this amended to have a significant impact.

## 5.3 Interest Rate Benchmark Reform – Phase 2 (Amendments to SLFRS 9, LKAS 39, SLFRS 7, SLFRS 4 and SLFRS 16)

The amendments address issues that might affect financial reporting as a result of the reform of an interest rate benchmark, including the effects of changes to contractual cash flows or hedging relationships

arising from the replacement of an interest rate benchmark with an alternative benchmark rate. The amendments provide practical relief from certain requirements in SLFRS 9, LKAS 39, SLFRS 7, SLFRS 4 and SLFRS 16 relating to:

- changes in the basis for determining contractual cash flows of financial assets, financial liabilities and lease liabilities; and
- hedge accounting.

The amendments will require the Company to disclose additional information about the entity's exposure to risks arising from interest rate benchmark reform and related risk management activities. The Company is in the process of assessing the impact of this standard on its accounting and reporting. This amendment is effective for annual periods beginning on or after 1 January 2021.

## 5.4 The following new and amended standards are not expected to have a significant impact on the Company's financial statements.

### COVID-19-Related Rent Concessions (Amendment to SLFRS 16).

The amendments provide relief to lessees from applying SLFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the COVID-19 Pandemic. A lessee that applies the practical expedient is not required to assess whether eligible rent concessions are lease modifications, and accounts for them in accordance with other applicable guidance. The resulting accounting will depend on the details of the rent concession.

The practical expedient will only apply if;

- the revised consideration is substantially the same or less than the original consideration;
- the reduction in lease payments relates to payments due on or before 30 June 2021; and
- no other substantive changes have been made to the terms of the lease

The amendment applies to annual reporting periods beginning on or after 01 June 2020.

### Property, Plant and Equipment: Proceeds before Intended Use (Amendments to LKAS 16).

This amendment prohibits deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the cost of producing those items, in profit or loss.

The amendment applies to annual reporting periods beginning on or after 1 January 2022

## NOTES TO THE FINANCIAL STATEMENTS

### Reference to Conceptual Framework (Amendments to SLFRS 3).

Key amendments are as follow:

- add to SLFRS 3 a requirement that, for transactions and other events within the scope of LKAS 37 or IFRIC 21, an acquirer applies LKAS 37 or IFRIC 21 (instead of the Conceptual Framework) to identify the liabilities it has assumed in a business combination;
- add to SLFRS 3 an explicit statement that an acquirer does not recognise contingent assets acquired in a business combination

The amendment applies to annual reporting periods beginning on or after 1 January 2022

### Classification of Liabilities as Current or Non-current (Amendments to LKAS 1).

The amendments in Classification of Liabilities as Current or Non-current (Amendments to LKAS 1) affect only the presentation of liabilities in the statement of financial position not the amount or timing of recognition of any asset, liability income or expenses, or the information that entities disclose about those item

The Key amendments are as follows:

- the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period. The classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability. The standard also clarifies that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services.

The amendment applies to annual reporting periods beginning on or after 1 January 2023

### Annual Improvements to SLFRS Standards 2018–2020.

As part of its process to make non-urgent but necessary amendments to accounting Standards, the IASB International Accounting Standards Board (the Board) has issued the Annual Improvements to IFRS Standards 2018–2020. The amendments are effective for annual reporting periods beginning on or after 1 January 2022. Key Aspects covered is as follow:

#### I. SLFRS 1 First-time Adoption of International Financial Reporting Standards

This amendment simplifies the application of SLFRS 1 for a subsidiary that becomes a first-time adopter of SLFRS Standards later than its parent

#### II. SLFRS 9 Financial Instruments

This amendment clarifies that – for the purpose of performing the “10 per cent test” for derecognition of financial liabilities – in determining those fees paid net of fees received, a borrower includes only fees paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other’s behalf

## 6 RISK AND CAPITAL MANAGEMENT

### Overview

Insurance contracts expose the Company to underwriting risk, product design risk, reinsurance risk and claim risk. In addition, the Company is exposed to various types of risks including credit, market, liquidity and operational risks which are inherent in the Company’s activities. Managing these risks is critical for the sustainability of the Company and plays a pivotal role in all activities of the Company. Risk Management function strives to identify potential risks in advance, analyse them and take precautionary steps to mitigate the impact of risk whilst optimising risk-adjusted returns within the risk appetite of the Company.

### Disclosure requirement under SLFRS 4 - Insurance contracts and SLFRS 7 - Financial instruments

As required by SLFRS 4 and SLFRS 7, this note presents qualitative and quantitative information about the Company’s exposure to each of the Insurance risks, Financial risks, Operational risk and the Company’s objectives, policies and processes for measuring and managing such risks.

### Risk management objectives, policies and process

Refer integrated risk management report on page 224 to 240 of this report to obtain a complete overview of the risk landscape that Softlogic Life is exposed to and its objectives, policies, process and methodologies adopted for managing those risks.

**Table - 1 Contents of risk management disclosures**

	Note	Page
Risk management framework	6.1	271
Risk landscape of Softlogic Life Insurance PLC	6.2	271
<b>Life insurance business risk</b>	6.3	271
Underwriting risk	6.3.1	272
Product design risk	6.3.2	273
Reinsurance risk	6.3.3	274
Claim risk	6.3.4	274
Determination of the life insurance contract liability	6.4	275
<b>Financial risk management</b>	6.5	275
Investments concentration risk	6.5.1	275
Credit risk	6.5.2	276
Liquidity risk	6.5.3	283
Market risk	6.5.4	285
<b>Operational risks</b>	6.6	288
<b>Impact of COVID-19 Pandemic to the Financial Statements</b>	6.7	290
<b>Capital management</b>	6.8	291



**6.1 Risk management framework**

The primary objective of the Company's risk and financial management framework is to protect its shareholders from events that could hinder the sustainable achievement of financial objectives, including the failure to exploit opportunities.

The overall responsibility and oversight of the Risk Management Framework of the Company is vested with the Board of Directors (BOD). The Risk Management Committee, a Subcommittee set up by the Board, in turn is entrusted with the development of the Company's Risk Management Policies and monitoring of due compliance of same through the Risk Management Committee. The committee reports regularly to the Board of Directors on its activities.

The Risk Management Policies spell out the risk appetite of the Company and have incorporated risk exposure limits and controls to monitor adherence to the limits in force. These policies and systems are reviewed regularly to reflect the changing market conditions and the products and services offered.

The Company's Risk Management Team, comprising members of the senior management which oversee the risk management activities of the Company. The activities cover areas such as the evaluation of business processes, design and implementation of the risk strategy and risk policies, review and update of the risk profile, delegation of authority, monitoring of risk mitigation activities, etc.

The Audit Committee oversees how management monitors compliance with the Company's risk management policies and procedures, and reviews the adequacy of the Risk Management Framework in relation to the risks faced by the Company. The Company strives to inculcate a risk management culture through continuous training, work ethics and standards.

**Regulatory framework**

The Insurance Regulatory Commission (IRCSL) is primarily interested in protecting the rights of policyholders and monitor them closely in line with the Regulation of Insurance Industry Act No.43 of 2000 and amendments thereto ensure that the Company is satisfactorily managing its affairs for the benefits of policyholders.

At the same time, IRCSL is monitoring whether the Company complies with rules with respect to the solvency position and determination requirements to meet risk arising from unforeseeable events.

**Compliance with regulatory framework**

Refer Note 6.8.b on page 291 for the compliance status of the Company under RBC Rules.

**6.2 Risk landscape of Softlogic Life Insurance PLC**

**Overview of the risk faced by the Company**

The risk landscape of the Company provided in following:



**6.3 Life insurance business risk**

Insurance risk is the likelihood that an insured event will occur, requiring the insurer to pay a claim. This risk is transferred to the Company through the underwriting process. The principal risk the Company faces under insurance contracts is that the actual claims and benefit payments or the timing thereof, differ from expectations. This is influenced by the frequency of claims, severity of claims, actual benefits paid and subsequent development of long-term claims. The profitability of insurance business is also susceptible to business risk in the form of unexpected changes in expenses, policyholders' behaviour, and fluctuations in new business volumes.

**6.3.a Risk response**

Life insurance business risk exposure is mitigated by:

- Careful selection and implementation of underwriting strategy guidelines
- External reinsurance
- Robust reserving processes
- Diversification of insurance contracts across the geographical areas

Refer page 271 to 275 for more details on risk management procedures adopted by the Company to manage insurance risk.

**6.3.b Concentration of insurance risk**

Concentration risk is defined as the risk of exposure to increased losses associated with inadequately diversified portfolios of assets or obligations. Concentration risk on insurance contract liabilities may arise with respect to business written within a geographical or a type of policies issued by the company.

Observing best estimate assumptions on cash flows related to benefits of insurance contracts gives some indication of the size of the exposure to risks and the extent of risk concentration.

Concentration of risk within the life business is based on reserves for life insurance as explained in below table.

Refer page 272 for concentration of underwriting risk.

## NOTES TO THE FINANCIAL STATEMENTS

Table - 2 Mix of the insurance contract liabilities

As at 31 December	2020		2019	
	Insurance contract liabilities Rs. '000	%	Insurance contract liabilities Rs. '000	%
Maximum exposure,	17,483,705		10,377,102	
Participating fund	7,675,648	44	6,401,381	61
Non-participating fund	8,677,360	50	3,599,142	35
Universal life fund	1,130,697	6	376,579	4
<b>Total</b>	<b>17,483,705</b>	<b>100</b>	<b>10,377,102</b>	<b>100</b>

### 6.3.c Risk response to life insurance concentration risk

The Company has adopted following strategies to manage concentration of life insurance risk.

- Product development (Refer page 67 for more details)
- Market segmentation (Refer page 106 for more details)
- Ensure compliance (solvency margin RBC) requirements imposed by the regulator (IRCSL) (Refer Table-33 on page 291 for more details)
- Continuously monitor maturity analysis of assets and liabilities in order to meet future cash flows requirements.

Refer Notes 6.5.1 on page 275 for Investment concentration risk analysis

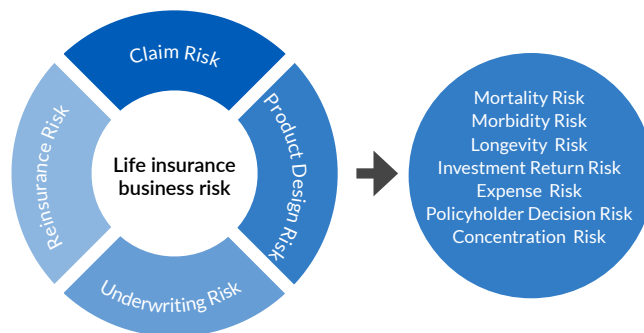
### 6.3.d Sensitivity to the assumption change of the life insurance contract liabilities

The following analysis is performed for reasonably possible movements in key assumptions with all other variables held constant, showing the impact on liabilities and profit before tax. The method used for deriving sensitivity information and significant assumptions made has not change from the previous period expect for the use of discount rate in line with CA guideline.

Table - 3 Sensitivity to the assumption change

As at 31 December Based on Gross Premium Valuation (GPV)	2020	
	Change in assumptions	Impact on liabilities Rs. '000
Mortality	+10%	442,563
	-10%	(393,968)
Morbidity	+10%	149,640
	-10%	(102,981)
Discount rate	+50 basis points	(1,061,181)
	-50 basis points	1,131,889
Expenses	+10%	490,577
	-10%	(518,498)

The main risks exposed in life insurance business are summarised in the following diagram.



### 6.3.1 Underwriting risk

Underwriting risk arising from an inaccurate assessment of the risk entailed in underwriting the policy. As a result, the policy may cost the Insurers much more than it as earned in premiums.

#### 6.3.1.a Concentrations of underwriting risk

The following table sets out the gross written premium of the Company by province of issue.

Table - 4 GWP by province

For the Year ended 31 December Province	2020 Rs. '000	2019 Rs. '000
Western province	11,063,056	8,453,170
Southern province	1,362,015	1,262,364
North western province	1,011,952	850,652
Central province	729,832	628,490
Sabaragamuwa province	661,479	672,679
Uva province	269,853	232,270
Northern province	219,918	171,539
North central province	214,296	161,493
Eastern province	127,715	98,626
<b>Total</b>	<b>15,660,116</b>	<b>12,531,283</b>

#### 6.3.1.b. Risk response / Mitigation strategy

- Continuous training for underwriting staff
- Adherence to the social and environmental policy at the time of underwriting
- Establishing a clearly defined pricing policy
- Establishing limits for underwriting authority
- Motivation of underwriting staff on insurance academic studies by providing scholarship to staff.
- Use of systematic underwriting limits
- Comply with the money laundering policies

**6.3.1.c Management of underwriting risk**

The board of directors sets the Company’s strategy for accepting and managing underwriting risk. Specific underwriting objectives – e.g. aggregation limits, reinsurance protection thresholds and line of business diversification parameters – are prepared and reviewed by Chief Technical Officer (CTO). The Board continuously reviews its underwriting strategy in light of evolving market pricing and loss conditions and as opportunities present themselves.

Prices charged for the cost of insurance risk are set through a process of financial analysis, including comparisons of the Company’s experience with industry experience and benchmarking of prices against other product providers in the same markets. Individual contracts are examined and reviewed by underwriting staff with the aim of ensuring that the premiums charged and the annuitisation rates applied reflect evidence of the current health condition and family medical history of the applicants.

Mortality, morbidity and longevity risks are mitigated by the use of reinsurance. The Company allows senior management to select reinsurers from a list of reinsurers approved by the Company. The aggregation of risk ceded to individual reinsurers is monitored at Company level.

**6.3.2 Product design risk**

Life insurance product design is largely depending on futuristic hypothetical assumptions. Accordingly there is a risk of introducing unprofitable product to the market due to inappropriate use of assumptions or judgments.

The fundamental assumptions used in product development are explained below.

**Table - 5 Assumptions used in product development**

Risk	Description	Assumptions used / risk response
Mortality risk	Risk of loss arising due to policyholders’ death experience being different from expected.	Use of standard table A 67/70 mortality rates with adjustments to reflect the Company’s mortality experience.
Morbidity risk	Risk of loss arising due to policyholders’ health experience condition being different from expected	Assumptions are based on the Company’s own experience
Longevity risk	Risk that annuitants (a person who receives and annuity payment) live longer than expected.	The policy terms and conditions and the disclosure requirements contained in insurance applications are designed to mitigate the risk arising from non-standard and unpredictable risks.
Investment return risk	Risk of loss arising from actual returns being different from expected	Investment decisions are being made to comply with RBC framework and Determination rules issued by IRCSL.
Expense risk	Risk of loss arising from the expense experience being different from expected	The best estimate expense assumptions have been set based on the expense investigation carried out as at 31 December 2020 based on the expenses incurred during 2020.
Policyholder decision risk	Risk of loss arising due to policyholders’ experiences (lapses and surrenders) being different from expected	Lapses and surrender rates are projected according to the Company’s past experience.  Introduction of convenient premium payment methods and option to active lapsed policies less medical requirements.
Concentration risk	Risk of losses due to maintaining inadequate product portfolio.	The risk exposure is mitigated by diversification across a large portfolio of insurance contracts in to different classes. Developing a proper product mix in line with the Company strategy.
Lapse and Surrender Risk	An increase in laps rates in the early in the life of the policy tend to impact on profitability.	Assumptions are based on the company's own experience

**6.3.2.a. Key risks arising from contracts issued**

The Company issues Participating, Non Participating and Universal Life insurance contracts. The nature and extent of the underwriting and financial risks arising from these contracts are determined by the contract design. The risks are evaluated for risk management purposes in conjunction with the risks mitigated by related reinsurance contracts and the risks arising from financial assets held to fund the settlement of the liabilities. The extent to which profit or loss and equity in any period are sensitive to financial risks depends on the extent to which they are economically hedged or borne by contract holders and the extent of any mismatches inherent in the accounting policies adopted by the Company.

## NOTES TO THE FINANCIAL STATEMENTS

**Table - 6 Overall risk mitigation approach in traditional life insurance**

Product	Key Risk	Risk Mitigation
Traditional participating	<ul style="list-style-type: none"> <li>Market risk: Investment return on underlying items falling below guaranteed minimum rates</li> </ul>	Management discretion to determine amount and timing of policyholder bonuses (within limits)
Non participating	<ul style="list-style-type: none"> <li>Market risk: Insufficient fees to cover cost of guarantees and expenses</li> </ul>	Derivative hedging programme Surrender penalties
Universal life	<ul style="list-style-type: none"> <li>Policyholder behaviour risk</li> <li>Interest rate risk: Differences in duration and yield of assets and liabilities</li> <li>Investment credit risk</li> </ul>	Matching of asset and liability cash flows Investing in investment grade assets

Concentration of the participating, non Participating and universal life funds position is given in Note 6.3.b (Table-2) on page 271.

### 6.3.3 Reinsurance risk

Notwithstanding the advantages reinsurance provides insurers, it can expose them, at varying degrees, to various risks inherent in its use. A new or continuing reinsurance contract could give rise to one or more of the following risks:

- Legal risk may arise when the terms of the contract do not accurately reflect the intent of the insurer or when the contract cannot be legally enforced;
- Liquidity risk may arise from the possible lag time between the payment of a claim by the insurer to its insured and receipt of the reinsurance recoverable.
- Counterparty risk may result from the inability or potential refusal of the reinsurer, or a stakeholder in the case of an alternative risk transfer mechanism, to honour its obligations towards the ceding insurer.

#### 6.3.3.a Risk response to reinsurance risk

- Reviewing the Company's reinsurance strategy and arrangements on an annual basis. The strategy is presented to and approved by the Board Risk Committee Annually.
- Conducting detail studies on the adequacy of reinsurance arrangements for catastrophic events.
- Ensuring that reinsurance transactions are conducted with parties which meet IRCSL rating requirements.
- Ensuring minimum concentration amongst reinsurance parties.
- Review of reinsurance credit worthiness regularly.

The Company's premium ceded to reinsures is approximately 8% - 12% of gross written premium.

**Table - 7 Reinsurance exposure**

For the year ended 31 December	2020		2019	
	Rs. '000	%	Rs. '000	%
Gross written premium	15,660,116		12,531,283	
Reinsurance	(1,872,616)	12	(991,455)	8
<b>Net written premium</b>	<b>13,787,500</b>		<b>11,539,828</b>	

The Company has recovered approximately 16% - 17% of gross claims paid from reinsurers during the period under review.

**Table - 8 Reinsurance recoveries**

For the year ended 31 December	2020		2019	
	Rs. '000	%	Rs. '000	%
Gross claims paid	4,202,426		3,462,068	
Claims recovered from reinsurers	(656,619)	16	(576,339)	17
<b>Net claims paid</b>	<b>3,545,807</b>		<b>2,885,729</b>	

Refer Note 6.5.2.3 on page 282 for analysis of credit risk relating to reinsurance receivables.

#### 6.3.3.b Management of Reinsurance Receivables

Counterparty limits which are set annually are subject to regular reviews. Management assesses the creditworthiness of reinsurers to update the reinsurance strategy and ascertain the suitable allowance for impairment of reinsurance assets. Outstanding reinsurance receivables are reviewed on a monthly basis to ensure that all dues are collected or set off against payables.

Refer page 283 for rating analysis of reinsurance receivables.

### 6.3.4 Claim risk

The possibility of adverse variance in claim pattern of the product which is not expected at the product development stage.

#### 6.3.4.a Risk response to claims risk

- Obtaining adequate reinsurance cover.
- Adequate information is gathered to confirm the event occurred prior to processing the claim.
- CTO closely monitors claim reserves.

## 6.4 Determination of the Life Insurance Contract Liability

Gross premium valuation methodology, has been used for calculating the insurance contract liabilities as at 31 December 2020. Gross and net of reinsurance liabilities have been calculated as required in the RBC submission template. In determining the policy liabilities, provisions for reinsurance have been allowed for according to the applicable reinsurance terms as per the current agreements.

Judgments and assumptions are required in determining the insurance contract liabilities. Assumptions are evaluated on a continuous basis to ensure realistic and reasonable valuation of insurance contract liabilities.

### 6.4.a Risk response

The valuation model is reviewed by Messrs. Towers Watson India Private Limited and provided assurance on the following aspects:

- The Prophet models capture all material product features;
- The calculations in the model are performed in accordance with the intended methodology; and
- All relevant calculations performed in the model are materially accurate, robust and fit-for-purpose.

### 6.4.b Key assumptions and sensitivity analysis

Refer Note 40.8 and 40.10 on page 339 and 340 for key assumptions used in determining the insurance contract liabilities and sensitivity analysis.

## 6.5 Financial risk management

### Overview

The Financial Risk refers to multiple types of risk associated with financing. The Company is exposed to following financial risks.



### 6.5.1 Investment concentration risk

Investment concentration risk is arising due to concentration of a single counterparty, sector, one geographic area or one type of security. It also may be defined as less diversification of investment portfolio.

### 6.5.1.a Risk response

- Clearly defined single party limits are continuously monitored and periodically reviewed.
- Assets allocation limits are regularly reviewed by the Risk Officer.
- The Company ensures that an acceptable level of risk diversification is maintained on an ongoing basis

Maximum exposure to investment concentration risk and diversification of investment portfolio is summarised in below table

Table - 9 Investment exposure

As at 31 December	2020		2019	
	Rs. '000	%	Rs. '000	%
<b>Maximum exposure to investment concentration risk</b>	<b>27,367,792</b>		14,910,744	
<b>Government securities</b>				
Treasury bond	4,179,822		4,212,509	
Treasury bill	956,035		-	
Sri Lanka development bonds	2,796,206		-	
International sovereign bonds	2,723,500		-	
Reverse REPO	2,255,937		270,804	
	<b>12,911,500</b>	<b>47</b>	4,483,313	30
<b>Corporate debt securities</b>				
Banking, finance & insurance	7,132,810		4,706,802	
Diversified holdings	381,088		381,343	
Telecommunication	409,142		409,117	
Other	25,046		104,372	
	<b>7,948,086</b>	<b>29</b>	5,601,634	37
<b>Fixed deposits</b>				
Licensed commercial banks	1,020,069		286,559	
Licensed specialised banks	634,768		158,564	
	<b>1,654,837</b>	<b>6</b>	445,123	3
<b>Unit trusts</b>				
Money market	2,337,384		2,031,675	
Equity securities	51,948		-	
	<b>2,389,332</b>	<b>9</b>	2,031,675	14
<b>Investment in equity</b>				
Banking, finance & insurance	1,622,191		1,799,300	
Beverage, food and tobacco	36,706		41,416	
Construction & engineering	49,912		44,231	
Diversified holdings	107,260		58,270	
Footwear and textiles	60,884		65,370	
Health care	516,012		299,138	
Manufacturing	57,520		30,680	
Power and energy	13,552		10,594	
	<b>2,464,037</b>	<b>9</b>	2,348,999	16
<b>Total exposure</b>	<b>27,367,792</b>	<b>100</b>	14,910,744	100

## NOTES TO THE FINANCIAL STATEMENTS

### 6.5.2 Credit risk

Credit risk is the risk of financial loss to the Company if a counterparty fails to meet their contractual obligations.

The Company is exposed to credit risk from its operating activities and from its financing activities, including debt securities with banks and financial institutions, foreign exchange transactions and other financial instruments.

#### 6.5.2.a Maximum exposure to credit risk

The Company is exposed to credit risk derived through the following categories of financial assets.

Table - 10 Credit risk exposure

As at 31 December	Note	2020		2019	
		Rs. '000	%	Rs. '000	%
Financial investments	6.5.2.1	24,903,755	92.5	12,561,745	88.7
Loans to life policyholders	6.5.2.2	234,462	0.9	224,672	1.6
Reinsurance receivables	6.5.2.3	323,288	1.2	188,131	1.3
Premium receivables	6.5.2.4	856,281	3.2	743,549	5.3
Receivables and other assets	6.5.2.5	66,792	0.2	67,997	0.5
Cash at bank	6.5.2.6	548,441	2.0	371,263	2.6
<b>Maximum exposure to credit risk</b>		<b>26,933,019</b>	<b>100</b>	<b>14,157,357</b>	<b>100</b>

#### Total Exposure to credit risk



#### 6.5.2.b Management of credit risk

- Formulating credit policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures and compliance with regulatory and statutory requirements.
- Establishing the authorisation structure for the approval and renewal of credit facilities, intermediaries and reinsurers in line with credit policies. authorisation limits are allocated to business units.
- Limiting concentrations of exposure to counterparties, industries, and by issuer, credit rating band and market liquidity.
- Providing advice, guidance and specialist skills to business units to promote best practice throughout the Company in the management of credit risk.
- Continually reviewing and assessing credit risk.

### 6.5.2.c Concentration of credit risk

The Company monitors concentrations of credit risk by industry / sector wise. The Company ensures that an acceptable level of risk diversification is maintained on an ongoing basis and the limits are reviewed by the Risk Officer.

The following tables demonstrate the sector wise maximum exposure to credit risk in respect of each item of financial assets in the Statement of Financial Position as at 31 December 2020 and 31 December 2019.

**Table - 11 Diversification**

As at 31 December	2020					2019				
	Total assets exposure to credit risk	Government of Sri Lanka	Financial services	Other listed entities	Other	Total assets exposure to credit risk	Government of Sri Lanka	Financial services	Other listed entities	Other
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Amortised cost</b>										
Debentures	5,442,447	-	4,627,171	815,276	-	4,502,647	-	3,607,817	894,830	-
Treasury bonds	2,350,518	2,350,518	-	-	-	252,029	252,029	-	-	-
Sri Lanka development bonds	2,796,206	2,796,206	-	-	-	-	-	-	-	-
International sovereign bonds	2,723,500	2,723,500	-	-	-	-	-	-	-	-
Commercial papers	1,990,258	-	1,990,258	-	-	1,098,987	-	1,098,987	-	-
Bank deposits	1,654,837	-	1,654,837	-	-	445,123	-	445,123	-	-
Reverse repo	2,255,937	2,255,937	-	-	-	270,804	270,804	-	-	-
Loans to life policyholders	234,462	-	-	-	234,462	224,672	-	-	-	224,672
Reinsurance receivables	323,288	-	-	-	323,288	188,131	-	-	-	188,131
Premium receivables	856,281	-	-	-	856,281	743,549	-	-	-	743,549
Receivable and other assets	66,792	-	-	-	66,792	67,997	-	-	-	67,997
Cash at bank	548,441	-	548,441	-	-	371,263	-	371,263	-	-
	<b>21,242,967</b>	<b>10,126,161</b>	<b>8,820,707</b>	<b>815,276</b>	<b>1,480,823</b>	<b>8,165,202</b>	<b>522,833</b>	<b>5,523,190</b>	<b>894,830</b>	<b>1,224,349</b>
<b>Fair value through OCI</b>										
Treasury bonds	1,586,018	1,586,018	-	-	-	1,771,633	1,771,633	-	-	-
	<b>1,586,018</b>	<b>1,586,018</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,771,633</b>	<b>1,771,633</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Fair value through P&amp;L</b>										
Treasury bonds	243,286	243,286	-	-	-	2,188,847	2,188,847	-	-	-
Treasury bills	956,035	956,035	-	-	-	-	-	-	-	-
Unlisted perpetual debenture	515,381	-	515,381	-	-	-	-	-	-	-
Unit Trust	2,389,332	-	2,389,332	-	-	2,031,675	-	2,031,675	-	-
	<b>4,104,034</b>	<b>1,199,321</b>	<b>2,904,713</b>	<b>-</b>	<b>-</b>	<b>4,220,522</b>	<b>2,188,847</b>	<b>2,031,675</b>	<b>-</b>	<b>-</b>
<b>Total financial assets exposure to credit risk</b>	<b>26,933,019</b>	<b>12,911,500</b>	<b>11,725,420</b>	<b>815,276</b>	<b>1,480,823</b>	<b>14,157,357</b>	<b>4,483,313</b>	<b>7,554,865</b>	<b>894,830</b>	<b>1,224,349</b>

#### 6.5.2.1 Credit risk on financial investments

The Company is also exposed to credit risk through its financial investments. The credit worthiness of the financial instruments are assessed using the credit ratings assigned to each security and fixed deposit. This rating provides the Company and indication of the financial stability of the investment.

## NOTES TO THE FINANCIAL STATEMENTS

Table - 12 Credit quality analysis of financial investments

As at 31 December	2020				2019			
	Amortised costs	FVOCI	FVTPL	Total	Amortised costs	FVOCI	FVTPL	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Maximum exposure to credit risk,</b>	<b>19,213,703</b>	<b>1,586,018</b>	<b>4,104,034</b>	<b>24,903,755</b>	<b>6,569,590</b>	<b>1,771,633</b>	<b>4,220,522</b>	<b>12,561,745</b>
Government securities	10,126,161	1,586,018	1,199,321	12,911,500	522,833	1,771,633	2,188,847	4,483,313
<b>Debt instruments having credit ratings</b>								
AAA	409,737	-	-	409,737	-	-	-	-
AA- to AA+	2,348,241	-	515,381	2,863,622	1,328,977	-	-	1,328,977
A- to A+	5,651,589	-	-	5,651,589	3,913,062	-	-	3,913,062
BBB- to BBB+	677,975	-	-	677,975	725,423	-	-	725,423
CC	-	-	-	-	79,295	-	-	79,295
<b>Unit trust</b>								
A- to A+	-	-	1,514,482	1,514,482	-	-	1,978,677	1,978,677
BBB- to BBB+	-	-	874,850	874,850	-	-	52,998	52,998
<b>Total</b>	<b>19,213,703</b>	<b>1,586,018</b>	<b>4,104,034</b>	<b>24,903,755</b>	<b>6,569,590</b>	<b>1,771,633</b>	<b>4,220,522</b>	<b>12,561,745</b>

As at 31 December 2020 debt instruments comprise 35% (2019-41%) of the total investments, out of which 91% (2019 - 70%) were rated "A" or better.

The above has been derived as per the Company's risk management policy of using the carrying values in the Statement of Financial Position. There were no off - balance sheet exposures as at the date. This does not include the exposure that would arise in the future as a result of changes in values.

### 6.5.2.1.a Collateral held for reverse repo investments

Reverse repo investments which fall under government securities is backed by treasury bills and bonds which are provided as collateral. The management monitors the market value of the collateral, requests additional collateral when needed and performs an impairment valuation when applicable. A haircut of 10% is maintained at all times. As at the reporting date, the Company hold Rs. 2,488 million worth of treasury bills and treasury bonds as collateral to support reverse repo investments amounting to Rs. 2,256 million.

The Company has not sold securities received as collaterals for the period ended 31 December 2020 - (2019 - Nil)

### 6.5.2.1.b Risk response to credit risk on financial investments

- The Company's investment policy prohibits non-graded investments, unless specifically authorised.
- Regularly review credit worthiness of counterparties and take necessary actions if required.
- Clearly defined single party exposure limits based on the credit ratings and regulatory requirements and monitoring them closely at different levels.
- Appropriate actions are implemented when the investments are expected to be high credit risk.



## 6.5.2.1.c Maximum exposure to credit risk by risk rating (as per SLFRS 9)

The following table sets out information about the credit quality of financial investments measured at amortised cost, measured at FVOCI and measured at FVTPL.

Table - 13 Credit risk by risk rating

As at 31 December 2020		Not subject to ECL (Gross carrying amount)	Exposure to ECL (Gross carrying amount)	ECL			Total	Total net carrying amount
				12 months ECL	Life time ECL - Not credit impaired	Life time ECL - Credit impaired		
		Rs. '000	Rs. '000	Stage 1 Rs. '000	Stage 2 Rs. '000	Stage 3 Rs. '000	Rs. '000	Rs. '000
<b>Financial assets at amortised cost</b>								
<b>Risk free investments</b>								
Treasury bonds		2,350,518	-	-	-	-	-	2,350,518
Sri Lanka development bonds		-	2,830,579	(34,373)	-	-	(34,373)	2,796,206
International sovereign bonds		-	2,756,960	(33,460)	-	-	(33,460)	2,723,500
Reverse repo		2,255,937	-	-	-	-	-	2,255,937
		4,606,455	5,587,539	(67,833)	-	-	(67,833)	10,126,161
<b>Debentures</b>								
AA- to AAA	Low Risk	-	1,659,052	(410)	-	-	(410)	1,658,642
A- to A+	Low Risk	-	3,611,690	(3,593)	-	-	(3,593)	3,608,097
BBB- to BBB+	Low Risk	-	175,997	(289)	-	-	(289)	175,708
C to CCC+	High Risk	-	46,375	-	-	(46,375)	(46,375)	-
		-	5,493,114	(4,292)	-	(46,375)	(50,667)	5,442,447
<b>Commercial paper</b>								
A- to A+	Low Risk	-	1,488,723	(732)	-	-	(732)	1,487,991
BBB- to BBB+	Low Risk	-	502,267	-	-	-	-	502,267
		-	1,990,990	(732)	-	-	(732)	1,990,258
<b>Deposits</b>								
AA- to AAA	Low Risk	-	1,099,337	-	-	-	-	1,099,337
A- to A+	Low Risk	-	555,868	(368)	-	-	(368)	555,500
		-	1,655,205	(368)	-	-	(368)	1,654,837
		4,606,455	14,726,848	(73,225)	-	(46,375)	(119,600)	19,213,703
<b>Fair value through other comprehensive income</b>								
Risk free investments (Government securities)		1,586,018	-	-	-	-	-	1,586,018
		1,586,018	-	-	-	-	-	1,586,018
<b>Fair value through profit or loss</b>								
Risk free investments (Government securities)		1,199,321	-	-	-	-	-	1,199,321
Unlisted perpetual debenture		515,381	-	-	-	-	-	515,381
Unit trust		2,389,332	-	-	-	-	-	2,389,332
		4,104,034	-	-	-	-	-	4,104,034
<b>Maximum exposure to credit risk</b>		<b>10,296,507</b>	<b>14,726,848</b>	<b>(73,225)</b>	<b>-</b>	<b>(46,375)</b>	<b>(119,600)</b>	<b>24,903,755</b>

## NOTES TO THE FINANCIAL STATEMENTS

Table - 13 Credit risk by risk rating (Contd.)

As at 31 December 2019		Not subject to ECL (Gross carrying amount)	Exposure to ECL (Gross carrying amount)	ECL			Total	Total net carrying amount
				12 months ECL	Life time ECL - Not credit impaired	Life time ECL - Credit impaired		
		Rs. '000	Rs. '000	Stage 1 Rs. '000	Stage 2 Rs. '000	Stage 3 Rs. '000	Rs. '000	Rs. '000
<b>Financial assets at amortised cost</b>								
<b>Risk free investments</b>								
Treasury bonds		252,029	-	-	-	-	-	252,029
Reverse repo		270,804	-	-	-	-	-	270,804
		522,833	-	-	-	-	-	522,833
<b>Debentures</b>								
AA- to AAA	Low Risk	-	1,797,138	(271)	-	-	(271)	1,796,867
A- to A+	Low Risk	-	2,320,979	(893)	-	-	(893)	2,320,086
BBB- to BBB+	Low Risk	-	306,642	(243)	-	-	(243)	306,399
C to CCC+	High Risk	-	92,699	-	(13,404)	-	(13,404)	79,295
		-	4,517,458	(1,407)	(13,404)	-	(14,811)	4,502,647
<b>Commercial paper</b>								
A- to A+	Low Risk	-	1,099,210	(223)	-	-	(223)	1,098,987
		-	1,099,210	(223)	-	-	(223)	1,098,987
<b>Deposits</b>								
AA- to AAA	Low Risk	-	105,748	(4)	-	-	(4)	105,744
A- to A+	Low Risk	-	339,488	(109)	-	-	(109)	339,379
		-	445,236	(113)	-	-	(113)	445,123
		522,833	6,061,904	(1,743)	(13,404)	-	(15,147)	6,569,590
<b>Fair value through other comprehensive income</b>								
Risk free investments (Government securities)								
		1,771,633	-	-	-	-	-	1,771,633
		1,771,633	-	-	-	-	-	1,771,633
<b>Fair value through profit or loss</b>								
Risk free investments (Government securities)								
		2,188,847	-	-	-	-	-	2,188,847
Unit trust		2,031,675	-	-	-	-	-	2,031,675
		4,220,522	-	-	-	-	-	4,220,522
<b>Maximum exposure to credit risk</b>		6,514,988	6,061,904	(1,743)	(13,404)	-	(15,147)	12,561,745

#### 6.5.2.1.d Reconciliations from the opening balance to the closing balance of the gross carrying amounts by class of financial instruments.

The company is not exposed to credit risk on financial investment classified at FVOCI since this class consists of risk-free government securities and investment in equity securities. Following note presents the reconciliation of financial investment at amortised cost.

Table - 14 Movement of financial investments (AC)

As at 31 December	2020				2019			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
<b>Financial investments at amortised cost</b>								
Balance at 1 January	6,490,295	79,295	-	6,569,590	5,719,249	140,102	-	5,859,351
Transfer to stage 1	-	-	-	-	-	-	-	-
Transfer to stage 2	-	-	-	-	-	-	-	-
Transfer to stage 3	-	(79,295)	79,295	-	-	-	-	-
Net remeasurement of loss allowance	(71,533)	-	(32,920)	(104,453)	(1,743)	(13,404)	-	(15,147)
New assets originated or purchased	26,649,939	-	-	26,649,939	3,938,910	-	-	3,938,910
Financial assets derecognised	(14,226,747)	-	(46,375)	(14,273,122)	(3,577,611)	(49,754)	-	(3,627,365)
Write-offs	-	-	-	-	-	-	-	-
Effects of movements in exchange rates	52,538	-	-	52,538	-	-	-	-
Amortisation Adjustment	319,211	-	-	319,211	411,490	2,351	-	413,841
Balance as at 31 December	19,213,703	-	-	19,213,703	6,490,295	79,295	-	6,569,590

#### 6.5.2.1.e Reconciliations from the opening balance to the closing balance of the loss allowance by class of financial instruments.

The company has not exposed to credit risk on financial investment classified at FVOCI since this class consists of risk-free government securities and investment in equity securities. Therefore, no impairment provision has been recognised in the Financial Statements in respect of financial investments at FVOCI.

Table - 15 ECL movement

As at 31 December	2020				2019			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
<b>Financial investments at amortised cost</b>								
Balance at 1 January	1,743	13,404	-	15,147	-	-	-	-
Impact of Adoption of SLFRS 09	-	-	-	-	1,120	20,155	-	21,275
Transfer to stage 1	-	-	-	-	-	-	-	-
Transfer to stage 2	-	-	-	-	-	-	-	-
Transfer to stage 3	-	(13,404)	13,404	-	-	-	-	-
Net remeasurement of loss allowance	1,860	-	32,971	34,831	(149)	-	-	(149)
New assets originated or purchased	69,981	-	-	69,981	1,210	-	-	1,210
Financial assets derecognised	(359)	-	-	(359)	(438)	(6,751)	-	(7,189)
Write-offs	-	-	-	-	-	-	-	-
Effects of movements in exchange rates	-	-	-	-	-	-	-	-
Balance as at 31 December	73,225	-	46,375	119,600	1,743	13,404	-	15,147

Overview of the ECL principles and key inputs were disclosed in Note 3.2.3 on page 261.

No loan commitments or financial guarantee contract as at the reporting date (2019 - Nil).

## NOTES TO THE FINANCIAL STATEMENTS

### 6.5.2.1.f Sensitivity of ECL to future economic conditions

The Company has estimated the impairment provision on financial investments as at 31 December 2020, subject to various assumptions. The following table demonstrates the sensitivity of the impairment provision of the Company as at 31 December 2020 to a feasible change in following variables assuming all other variables remain constant.

Table - 16 Sensitivity of ECL

As at 31 December 2020	Effect on Statement of Financial Position Rs. '000	Effect on Statement of Income Rs. '000
10% increase in PD for all	(20,276)	(20,276)
10% decrease in PD for all	12,176	12,176
10% increase in macro economic variable	6,755	6,755
10% decrease in macro economic variable	(6,928)	(6,928)

### 6.5.2.1.g Credit-impaired financial assets

Following table presents the reconciliation of changes in the net carrying amount of lifetime ECL credit impaired (Stage 3) financial investment.

Table - 17 Credit-impaired financial assets

As at 31 December 2020	2020 Rs. '000	2019 Rs. '000
As at 1 January	-	-
Debenture Impairment	46,375	-
Balance as at 31 December	46,375	-

### 6.5.2.2 Credit risk relating to loans to life policyholders

Credit risk arise due to non settlement of loans obtained by policyholders.

The credit risk exposure arising from loans granted to life policyholders are as follows.

Table - 18 Credit risk exposure

As at 31 December	2020 Rs. '000	2019 Rs. '000
Maximum exposure to credit risk	234,462	224,672
<b>Total</b>	<b>234,462</b>	<b>224,672</b>
Impaired	Nil	Nil

### 6.5.2.2.a Risk response to credit risk on loans to life policyholders

- Loan granted amount is limited to surrender value of the insurance policy (As at the reporting date, the value of policy loans granted amounted to Rs. 234 million (2019 - 225 million) and its related surrender value is Rs. 347 million (2019 - 325 million)).

- The Company regularly monitors and limits credit exposures by individual counterparty and related counterparties by the aggregated exposure across the various types of credit risk for that counterparty.
- The Risk Officer regularly reports the largest exposures by rating category to the Risk Committee of the Board.

### 6.5.2.3 Credit risk on reinsurance receivables

This is the risk of financial loss to the Company if a reinsurer fails to meet its contractual obligations towards the Company.

Table - 19 Age analysis of reinsurance receivable

As at 31 December	2020			
	On paid claims Rs. '000	On claims outstanding Rs. '000	Total Rs. '000	%
Up to 180 days	194,846	62,788	257,634	80
181 to 365 days	65,654	-	65,654	20
Over 365 days	-	-	-	-
<b>Maximum exposure to credit risk</b>	<b>260,500</b>	<b>62,788</b>	<b>323,288</b>	
Past due but not impaired	Nil		Nil	

As at 31 December	2019			
	On paid claims Rs. '000	On claims outstanding Rs. '000	Total Rs. '000	%
Up to 180 days	66,292	110,966	177,258	94
181 to 365 days	10,873	-	10,873	6
Over 365 days	-	-	-	-
<b>Maximum exposure to credit risk</b>	<b>77,165</b>	<b>110,966</b>	<b>188,131</b>	
Past due but not impaired	Nil		Nil	

### 6.5.2.3.a Risk response to credit risk on reinsurance receivables

- Management assesses the credit worthiness of reinsurers to update the reinsurance strategy on an annual basis and ascertains the suitable allowance for impairment of reinsurance assets.
- Outstanding reinsurance receivables are reviewed on a monthly basis to ensure that all dues are collected or set off against payables.

As at 31 December 2020, all of our reinsurance receivables were due from reinsurers with a rating of "A" or better. There were no collateral against reinsurance receivable as at reporting date.

Table - 20 Rating analysis of credit risk on reinsurance receivables

As at 31 December Reinsurer	Rating agency	Rating	2020				2019			
			On paid claims	On claims outstanding	Total		On paid claims	On claims outstanding	Total	
			Rs. '000	Rs. '000	Rs. '000	%	Rs. '000	Rs. '000	Rs. '000	%
Munich Re	Fitch	AA	145,261	47,576	192,837	60	61,885	46,875	108,760	58
RGA Reinsurance Company	S&P	AA-	9,350	1,291	10,641	3	15,280	4,461	19,741	10
SCOR Re	S&P	AA-	37,434	10,357	47,791	15	-	33,999	33,999	18
TOA Re	S&P	A+	18,562	1,775	20,337	6	-	25,631	25,631	14
Assicurazioni Generali S.P.A.	AM Best	A	49,893	1,789	51,682	16	-	-	-	-
<b>Total</b>			<b>260,500</b>	<b>62,788</b>	<b>323,288</b>	<b>100</b>	<b>77,165</b>	<b>110,966</b>	<b>188,131</b>	<b>100</b>

#### 6.5.2.4 Credit risk relating to premium receivables

In life insurance, credit risk on premium receivables is minimal, since premium is collected before the policy is issued. However, the Company is exposed to credit risk on premium receivables from intermediary institutions.

Please refer Note 33 in page 332 for additional information on premium receivables

##### 6.5.2.4.a Risk response to credit risk relating to premium receivables

- Regular follow ups for outstanding receivables balance.
- Entering into agreements with intermediary institutions committing them to settle dues within a specified time period.

#### 6.5.2.5 Credit risk relating to receivables and other assets

Financial losses could arise due to non settlement of amounts due from counter parties.

##### 6.5.2.5.a Risk response to credit risk relating to receivables and other assets

- Regularly review credit worthiness of counterparties and take necessary actions if required.

#### 6.5.2.6 Credit risk relating to cash at bank

##### 6.5.2.6.a Risk response to credit risk relating to cash at bank

The Company maintains a strict policy to maintain cash deposits at counter parties with sound ratings and future outlooks, the company also maintains exposure limits to ensure that the Company has a diverse range of counter parties to ensure low concentration risk.

Following table presents rating strength of the financial institutions of which the Company held cash and cash equivalents.

Table - 21 Rating strength

As at 31 December Rating	2020		2019	
	Amount Rs. '000	%	Amount Rs. '000	%
AA- to AAA	383,603	70	332,203	89
A- to A+	160,265	29	28,722	8
BBB- to BBB+	4,573	1	10,338	3
<b>Maximum exposure to credit risk</b>	<b>548,441</b>	<b>100</b>	<b>371,263</b>	<b>100</b>

#### 6.5.3 Liquidity risk

Liquidity risk is the risk that the Company may not have sufficient liquid financial resources to meet its obligations when they fall due. The Company could also experience a maturity mismatch with respect to unexpected large claims and expected reinsurance recoveries from insurers.

The Company's objective when managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

##### 6.5.3.a Management of liquidity risk

- Regular review by the Company's asset and liability management committee.
- Maintaining a diversified funding base and appropriate contingency facilities.
- Carrying a portfolio of highly liquid assets that can be readily converted into cash to protect against unforeseen short-term interruptions to cash flows.
- Monitoring liquidity ratios and carrying out stress-testing of the Company's liquidity position.
- Monitoring of duration on fixed income portfolios by the Treasury Team.
- Regular reviews cash flow projections.
- Adhering to defined limits on maturity gaps as per approved risk limits and adhering to compositions of investments as per the investment policy.
- Reinsurance contracts contain clauses permitting the immediate draw down of funds to meet claim payments in the event claims exceed a certain amount.
- Availability of stand by overdraft facility to be used in the event of an emergency.

## NOTES TO THE FINANCIAL STATEMENTS

Table - 22 Maturity analysis of financial assets and liabilities

As at 31 December	2020					2019				
	No maturity	Less than 1 year	1-3 years	More than 3 years	Total	No maturity	Less than 1 year	1-3 years	More than 3 years	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Maximum exposure to liquidity risk</b>	-	2,979,515	1,186,243	14,147,524	18,313,282	-	1,941,845	830,659	10,718,872	13,491,376
<b>Financial assets</b>										
Amortised cost	-	7,241,189	3,320,813	8,651,701	19,213,703	-	2,163,949	784,506	3,621,135	6,569,590
Fair value through other comprehensive income	2,464,037	-	-	1,586,018	4,050,055	1,873,162	-	-	1,771,633	3,644,795
Fair value through profit or loss	2,389,332	956,035	-	758,667	4,104,034	2,507,512	-	-	2,188,847	4,696,359
Loans to life policyholders	-	-	-	234,462	234,462	-	-	-	224,672	224,672
Reinsurance receivables	-	323,288	-	-	323,288	-	188,131	-	-	188,131
Premium receivables	-	856,281	-	-	856,281	-	743,549	-	-	743,549
Other financial assets	-	66,792	-	-	66,792	-	67,997	-	-	67,997
<b>Total financial assets</b>	<b>4,853,369</b>	<b>9,443,585</b>	<b>3,320,813</b>	<b>11,230,848</b>	<b>28,848,615</b>	<b>4,380,674</b>	<b>3,163,626</b>	<b>784,506</b>	<b>7,806,287</b>	<b>16,135,093</b>
<b>Financial Liabilities</b>										
Insurance contract liabilities - Maturities	-	383,706	774,923	11,156,312	12,314,941	-	252,071	643,024	10,623,465	11,518,560
Reinsurance payable	-	636,060	-	-	636,060	-	428,557	-	-	428,557
Loans and borrowing	-	-	-	2,852,245	2,852,245	-	-	-	-	-
Lease liabilities	-	200,781	411,320	138,967	751,068	-	85,393	187,635	95,407	368,435
Other financial liabilities	-	1,533,578	-	-	1,533,578	-	999,553	-	-	999,553
Bank overdraft	-	225,390	-	-	225,390	-	176,271	-	-	176,271
<b>Total financial liabilities</b>	<b>-</b>	<b>2,979,515</b>	<b>1,186,243</b>	<b>14,147,524</b>	<b>18,313,282</b>	<b>-</b>	<b>1,941,845</b>	<b>830,659</b>	<b>10,718,872</b>	<b>13,491,376</b>
<b>Excess assets/(liabilities)</b>	<b>4,853,369</b>	<b>6,464,070</b>	<b>2,134,570</b>	<b>(2,916,676)</b>	<b>10,535,333</b>	<b>4,380,674</b>	<b>1,221,781</b>	<b>(46,153)</b>	<b>(2,912,585)</b>	<b>2,643,717</b>

### 6.5.3.b Financial assets available as collateral to support future funding

Financial assets available as collateral represents the assets owned by the shareholders of the Company and assets owned by the policyholders of the Company are restricted as collateral for future funding.

The table below summarises assets available as collateral to support future funding (Assets owned by the shareholders of the Company).

Table - 23 Assets available as collateral

As at 31 December	2020				2019			
	Available as collateral	Restricted as collateral	Pledged as collateral	Total	Available as collateral	Restricted as collateral	Pledged as collateral	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Financial investments at,</b>								
Amortised cost	4,775,858	14,437,845	-	19,213,703	1,322,797	5,246,793	-	6,569,590
Fair value through other comprehensive income	1,201,697	2,848,358	-	4,050,055	1,359,975	2,284,820	-	3,644,795
Fair value through profit or loss	2,082,137	2,021,897	-	4,104,034	1,899,469	2,796,890	-	4,696,359
Loans to life policyholders	-	234,462	-	234,462	-	224,672	-	224,672
Reinsurance receivables	-	323,288	-	323,288	-	188,131	-	188,131
Premium receivables	-	856,281	-	856,281	-	743,549	-	743,549
Receivables and other assets	15,759	51,033	-	66,792	12,663	55,334	-	67,997
Cash and cash equivalents	118,389	430,052	-	548,441	1,065	370,198	-	371,263
<b>Total</b>	<b>8,193,840</b>	<b>21,203,216</b>	<b>-</b>	<b>29,397,056</b>	<b>4,595,969</b>	<b>11,910,387</b>	<b>-</b>	<b>16,506,356</b>

### 6.5.3.c. Unutilised bank facilities

Unutilised bank facilities as at 31 December 2020 amounted to Rs. 21.2 million.

**6.5.4 Market risk**

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices.

The objective of market risk management is to control market risk exposures within acceptable parameters while optimising the return on risk. Market risk comprises three types of risks are given below;



Market risk principally arises on the Company's equity investments, interest-bearing financial assets and financial liabilities, and financial assets and financial liabilities denominated in foreign currencies, although these exposures are largely offset by similar exposures arising from insurance and reinsurance contracts.

**Table - 24 Exposure to market risk**

As at 31 December	Note	2020 Rs. '000	2019 Rs. '000
<b>Financial assets exposure to,</b>			
Interest rate risk	6.5.4.1	24,903,755	12,561,745
Foreign exchange risk	6.5.4.2	5,714,850	-
Equity risk	6.5.4.3	2,182,609	2,045,493
<b>Financial liabilities exposure to,</b>			
Interest rate risk	6.5.4.1	3,077,635	176,271
Foreign exchange risk	6.5.4.2	2,852,245	-

**6.5.4.a Management of market risk**

The Board of Directors sets the Company's strategy for managing market risk and delegates responsibility for overseeing the implementation of this strategy to the Company's asset and liability committee (ALCO).

The following policies and procedures are in place within the Company to mitigate the Company's exposure to market risk.

- The ALM framework seeks to match assets liability cash flows while achieving the optimum long-term investment return on its financial investments for an acceptable level of risk.
- Setting limits both for each type of risk in aggregate across the Company and for individual portfolios
- Monitoring market risk on a day-to-day basis by Treasury Middle Officer.

**6.5.4.b Sensitivity analysis**

**Assumptions and method**

- All other variables are remain constant at the time of preparing sensitivity analysis.
- The sensitivity of the Statement of Financial Position item mainly relates to debt and equity instruments.
- The sensitivity of the relevant Income Statement item is the effect of the assumed changes in respective market risks.
- The analysis is based on the carrying value of the financial assets and financial liabilities as at the reporting date.

The Company has used same method and assumptions in preparing sensitivity analysis for both current and comparative period.

Sensitive analysis are provided in note 6.5.4.1.b, 6.5.4.2.b and 6.5.4.3.b.

**6.5.4.1 Interest rate risk**

Interest rate risk on financial instruments arises primarily from the Company's investments in debt securities. These investments are exposed to the risk of adverse changes in fair values or future cash flows because of a change in market interest rates.

Floating rate instruments typically expose the Company to cash flow interest risk, whereas fixed interest rate instruments expose the Company to fair value interest rate risk.

**6.5.4.1.a Risk response to interest rate risk**

The Company manages interest rate risk by closely matching, where possible, the durations of insurance contracts with fixed and guaranteed terms and the supporting financial assets. The Company monitors its interest rate risk exposure through periodic reviews of asset and liability positions. Additionally, estimates of cash flows and the impact of interest rate fluctuations are modelled and reviewed every quarter.

- A regular track of macroeconomic indicators is kept track of by the Risk Unit as well as the Treasury Department. These indicators together with their forecasts are reported to the Internal Risk Committee, the Board Risk Committee and the Investment Committee.
- Regular meetings and monitoring of risks by the Assets Liability Management Committee (ALCO).
- Adhering to limits set on interest rate risk through the risk policy
- The Company monitors its interest rate risk exposure through periodic reviews of asset and liability positions

## NOTES TO THE FINANCIAL STATEMENTS

The following table summarises the exposure to the interest rate risk.

Table - 25 Exposure to interest rate risk

As at 31 December	2020				2019			
	Variable interest rate	Fixed interest rate	Non interest bearing	Total	Variable interest rate	Fixed interest rate	Non interest bearing	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Financial assets at,</b>								
Amortised cost	1,882,029	17,331,674	-	19,213,703	-	6,569,590	-	6,569,590
Fair value through other comprehensive income	-	1,586,018	2,464,037	4,050,055	-	1,771,633	1,873,162	3,644,795
Fair value through profit or loss	2,904,713	1,199,321	-	4,104,034	2,031,675	2,188,847	475,837	4,696,359
	4,786,742	20,117,013	2,464,037	27,367,792	2,031,675	10,530,070	2,348,999	14,910,744
<b>Financial liabilities</b>								
Loans and borrowing	(2,852,245)	-	-	(2,852,245)	-	-	-	-
Bank Overdraft	(225,390)	-	-	(225,390)	(176,271)	-	-	(176,271)
	(3,077,635)	-	-	(3,077,635)	(176,271)	-	-	(176,271)
<b>Maximum exposure to interest rate risk</b>	<b>1,709,107</b>	<b>20,117,013</b>	<b>2,464,037</b>	<b>24,290,157</b>	<b>1,855,404</b>	<b>10,530,070</b>	<b>2,348,999</b>	<b>14,734,473</b>

### 6.5.4.1.b Sensitivity analysis

The following table shows the estimated impact on profitability an equity by fluctuation of interest rates assuming that all other variables remain constant on the following financial assets. Floating rate instruments expose the Company to cash flow fluctuations, whereas fixed interest rate instruments expose the Company to changes in fair values. The Company does not hold financial instruments with variable interest rate at 31 December 2019.

Table - 26 Sensitivity

For the year ended 31 December	2020				2019			
	Fixed-rate		Variable-rate		Fixed-rate		Variable-rate	
	Impact on profit before tax	Impact on equity	Impact on profit before tax	Impact on equity	Impact on profit before tax	Impact on equity	Impact on profit before tax	Impact on equity
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Increase in 100 basis points</b>								
<b>Financial assets at,</b>								
Amortised cost	-	-	12,893	12,893	-	-	-	-
Fair value through other comprehensive income	-	(121,623)	-	-	-	(117,576)	-	-
Fair value through profit or loss	(26,004)	(26,004)	-	-	(130,859)	(130,859)	-	-
Financial liabilities at amortised cost	-	-	(28,110)	(28,110)	-	-	-	-
	(26,004)	(147,627)	(15,217)	(15,217)	(130,859)	(248,435)	-	-
<b>Decrease in 100 basis points</b>								
<b>Financial assets at,</b>								
Amortised cost	-	-	(12,901)	(12,901)	-	-	-	-
Fair value through other comprehensive income	-	138,888	-	-	-	132,254	-	-
Fair value through profit or loss	28,208	28,208	-	-	144,232	144,232	-	-
Financial liabilities at amortised cost	-	-	28,110	28,110	-	-	-	-
	28,208	167,096	15,209	15,209	144,232	276,486	-	-



#### 6.5.4.2 Foreign exchange risk

The risk of an investment's value changing due to changes in currency exchange rates. Foreign exchange risk primarily arises when transaction with reinsurers and investment in foreign currency denominated securities.

##### 6.5.4.2.a Mitigation strategies

- The Treasury officer analyses the market condition of foreign exchange and analyse the utilisation of cash flows
- Regularly review timing of foreign currency cash in flows and outflows and takes decisions on whether to reinvest the foreign cash flows or utilise to make the foreign currency payments.
- Looking out forward contract possibilities

Table - 27 Exposure to foreign exchange risk

As at 31 December	2020		2019	
	Amount in foreign currency	LKR amount	Amount in foreign currency	LKR amount
	USD '000	Rs. '000	USD '000	Rs. '000
USD Assets	30,618	5,714,850	Nil	Nil
USD Liabilities	(15,281)	(2,852,245)	Nil	Nil
<b>Maximum exposure to foreign exchange risk</b>	<b>15,337</b>	<b>2,862,605</b>	-	-

##### 6.5.4.2.b Sensitivity to foreign exchange risk

The following table shows the estimated impact on profitability an equity by fluctuation of exchange rates assuming that all other variables remain constant.

The methods and types of assumptions used in preparing the sensitivity analysis has not change from prior period.

Table - 28 Sensitivity

For the year ended 31 December	2020		2019	
	Impact on PBT	Impact on equity	Impact on PBT	Impact on equity
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>5% - Increase in exchange rate USD</b>				
Financial investments	285,742	285,742	Nil	Nil
Financial liabilities	(142,610)	(142,610)	Nil	Nil
	143,132	143,132	-	-
<b>5% - Decrease in exchange rate USD</b>				
Financial investments	(285,742)	(285,742)	Nil	Nil
Financial liabilities	142,610	142,610	Nil	Nil
	(143,132)	(143,132)	-	-

The assumed spread of the exchange rate is based on the current observable market environment.

#### 6.5.4.3 Equity risk

The Company's exposure to equity risk arises from its investments in equity securities and collective investment schemes that invest in equities. Equity risk is the risk that the fair value or future cash flows of financial instruments will fluctuate as a result of changes in market prices.

##### 6.5.4.3.a Risk response

The Company manages the equity risk through diversification and placing limits on individual and total equity portfolio investments. The Company's equity risk management policies are;

- Adherence to the investment policy which includes stringent guidelines on risk exposures
- Investment decisions are based on in depth macroeconomic and industry analysis as well as research reports on company performance
- Any purchases excess of Investment guideline issued by IRCSL require prior approval from investment committee.
- Reports on the equity portfolio are submitted to the Company's senior management on a regular basis.

Table - 29 Listed equity investments

As at 31 December	2020		2019	
	Rs. '000	%	Rs. '000	%
Policyholder fund	1,424,838	65	1,120,435	55
Shareholder fund	757,771	35	925,058	45
<b>Maximum exposure to equity risk</b>	<b>2,182,609</b>	<b>100</b>	2,045,493	100

Table - 30 Portfolio diversification of equity investments (Sector analysis)

As at 31 December	2020		2019	
	Rs. '000	%	Rs. '000	%
Banks, finance and insurance	1,340,763	60	1,495,795	73
Healthcare	516,012	24	299,136	15
Diversified holdings	107,260	5	58,271	3
Manufacturing	57,520	3	30,680	1
Power and energy	13,552	1	10,594	1
Footwear and textiles	60,884	3	65,370	3
Beverage food & tobacco	36,706	2	41,416	2
Constructions and engineering	49,912	2	44,231	2
<b>Total</b>	<b>2,182,609</b>	<b>100</b>	2,045,493	100

## NOTES TO THE FINANCIAL STATEMENTS

### 6.5.4.3.b Sensitivity analysis of equity risk

The following table shows the estimated impact on profitability an equity by fluctuation of stock market prices at the reporting date, assuming that all other variables remain constant.

Table - 31 Sensitivity

As at 31 December	Type of classification	2020		2019	
		Net impact to PBT Rs. '000	Impact on equity Rs. '000	Net impact to PBT Rs. '000	Impact on equity Rs. '000
10% decline in stock markets	FVOCI	-	(218,261)	-	(156,965)
10% Increase in stock markets	FVOCI	-	218,261	-	156,965
10% decline in stock markets	FVTPL*	-	-	(47,584)	(47,584)
10% Increase in stock markets	FVTPL*	-	-	47,584	47,584

\* As at 1 January 2020, the Company reclassified its equity portfolio from FVTPL to FVOCI. Refer Note 30.5 for details on reclassification.

### 6.6 Operational risks

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Company's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks, such as the risks of mis-selling of products, modelling errors and non-compliance with legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Company's operations.

The Company's objective in managing operational risk is to balance the avoidance of financial losses and damage to the Company's reputation with overall cost-effectiveness and innovation. In all cases, Company policy requires compliance with all applicable legal and regulatory requirements.

The Board of Directors has delegated responsibility of operational risk to the Risk Committee, the committee is responsible for the development and implementation of controls to address operational risk.

#### 6.6.a Management of operational risk

- Segregation of duties, including the independent authorisation of transactions;
- Reconciliation and monitoring of transactions.
- Compliance with regulatory and other legal requirements.
- Documentation of controls and procedures.
- Periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified.
- Requirements for the reporting of operational losses and proposed remedial action.
- Development of contingency plans.
- Training and professional development.
- Risk mitigation, including insurance where this is cost-effective.
- Compliance with the Company standards is supported by a programme of periodic reviews undertaken by internal audit.
- The results of internal audit reviews are discussed, with audit committee and management.

6.6.1 Risk associated with change in new accounting standard (SLFRS 17) and risk mitigation actions

Table - 32 Risk and mitigation of SLFRS 17

Type of risk	Risk description	Risk mitigation action
Operational Risk	Data Management, Storage, Data Quality and archiving	<ul style="list-style-type: none"> <li>The Company developed a secured data room by giving limited access to authorized person to distribute data.</li> <li>Company entered to NDA (Non Disclosure agreement ) with relevant parties where applicable.</li> </ul>
	Risk of IT system implementation	<ul style="list-style-type: none"> <li>Determine the criteria of vendor selection in advance with assistance of implementation partner.</li> <li>Deployment of appropriate resources with expertise to sign off the BRD, induct the system and embed the solution.</li> <li>Perform UAT (User Acceptance Testing) in order to evaluate the appropriateness of the system and refining the system based on the feedback obtained from parallel runs.</li> </ul>
	Changes in actuarial and accounting Process	<ul style="list-style-type: none"> <li>Assess various policy choices and explore additional impacts of exercising such choices or not choosing them.</li> <li>Narrow down the all professional Judgements and inform the impact of those to senior management and take proactive actions where necessary.</li> <li>Determine how to adjust the system to capture the changes in actuarial and accounting process and redesign data field in the system or include a translation engine to extract the required data on a timely basis to produce the disclosure.</li> </ul>
	Lack of internal capabilities	<ul style="list-style-type: none"> <li>The Company has formulated SLFRS 17 project team representing each department and provides proper trainings and consultancy.</li> <li>The company had approached Messrs. KPMG as implementation partner and obtaining consultancy on key technical areas.</li> <li>Obtain consultation from Willis Towers Watson India Pvt Limited on key actuarial matters.</li> <li>Conduct extensive workshop to pass the learnings and update the senior management in advance changes going to be happened in actuarial and accounting process.</li> </ul>
	Short and uncertain timelines	<ul style="list-style-type: none"> <li>The Company has developed a road map for implementation.</li> <li>Continues monitoring of implementation plan.</li> </ul>
	Change management	<ul style="list-style-type: none"> <li>Conduct open conversation with the operational teams for explain the target operating model and response to their queries and collaborate their ideas and develop the process accordingly.</li> <li>Acknowledge respective operational team in advance regarding the changes that will incorporate to their process and involve them by giving the process ownership to implementation.</li> </ul>
Financial risk	Increased balance-sheet volatility	<ul style="list-style-type: none"> <li>Formulate a clear capital management framework.</li> <li>Follow the overall approach of the SLFRS 09 and reclassify the financial asset at the point of SLFRS 17 implementation in order to reduce the asset liability mismatch.</li> </ul>
	Risk of lower profits	<ul style="list-style-type: none"> <li>Identify the onerous contracts in advance and change the product features to convert the contracts in to profitable.</li> <li>Apply full retrospective approach and modified approach at the transition in order to higher the future expected profit as par as possible.</li> <li>Create a appropriate trade off between funds and contractual service margin, means that conduct a proper asset liability management.</li> </ul>
Strategic risk	Increase of investor scrutiny and pressure	<ul style="list-style-type: none"> <li>Develop a business required document incorporating corporate priorities for project implementation.</li> <li>Educate the investors regarding the changes with the SLFRS 17 implementation.</li> <li>Report findings and implementation approach to Board, executive team and key investors in timely manner.</li> </ul>
	Change of prevailing KPI	<ul style="list-style-type: none"> <li>Properly communicate the respective teams and educate them by highlighting the their new KPI and changes to their existing KPI.</li> <li>Develop new KPI based on new parameters driven with SLFRS 17 implementation and make sure those KPI will target for achieve organizational objectives.</li> </ul>
Regulatory risk	Increase influence and governance from regulatory bodies.	<ul style="list-style-type: none"> <li>Understand the changes of regulatory framework and changes to prevailing tax rules which will impose due to implementation of SLFRS 17 and approach the relevant regulatory bodies in advance for obtain relevant regulatory clearance.</li> </ul>
	Changes to prevailing regulatory data bridge.	<ul style="list-style-type: none"> <li>Redesign data fields in system to support changes in SLFRS 17 to regulatory and taxation.</li> </ul>

The technical review on SLFRS 17 can be accessed through below link.



## NOTES TO THE FINANCIAL STATEMENTS

### 6.7 Impact of COVID-19 Pandemic to the Financial Statements

The Coronavirus Disease 2019 ("COVID-19") pandemic and measures taken to prevent its spread has significantly impacted to Sri Lankan business industries, disrupting their operations, financial, risk management and internal control systems for the year ended 31 December 2020. At the time of publication of this Annual Report, the COVID-19 pandemic continues to evolve and develop. Given these uncertainties, the Company had to consider additional assumptions, estimates and judgements in relating to COVID -19 pandemic in preparing the Financial Statements for the year ended 31 December 2020.

This Note provide comprehensive analysis on impact of COVID-19 pandemic to the Company's Financial Statements.

The company has evaluated implications to financial statements due to the COVID-19 outbreak considering the key areas in the Financial Statements for the year ended 31 December 2020 as disclosed below.

- Financial instruments
- Fair value measurement of financial assets
- Impairment of assets
- Recognition of deferred taxes
- Lease modifications
- Going concern – (Refer Note 2.5 on page 258)
- Insurance contract liabilities – (Refer Note 40 on page 335)

#### 6.7.1 Financial instruments

##### 6.7.1.a Impairment of financial assets (ECL)

The Company considered the Probability of Default (PD), Loss Given Default (LGD) and Macro Economic Factors in order to estimate the Expected Credit Loss (ECL) as at 31 December 2020. There were no material changes to the existing impairment model of corporate debts compared to previous year though it was realigned to reflect the revised credit ratings of the instruments. For the financial instruments which carries sovereign risk the Company has adjusted existing impairment model to reflect most accurate Probability of Default (PD) by 10% to 15% and adjustments to current year forecasted macro-economic variables into an actual case scenario.

##### 6.7.1.b Credit risk

To respond the credit risk under COVID-19 pandemic, the management has established following credit risk policy,

- Unit trust investments should only be made into Unit trust funds with a weighted average credit rating of A- or above.
- Internal Limits were set on limiting investments rated below BBB+

##### 6.7.1.c Liquidity risk

The Company has taken action to mitigate the impact on liquidity due to COVID-19 pandemic, including reducing capital expenditure and operating expenditure. Further the Company revisited its investment strategy and provide guideline to make investments in low-risk investments. In addition to that the Company regularly monitor cash inflows and outflows through cash flow matching approach. The Company holds cash and undrawn committed facilities to manage the Company's liquidity risk.

##### 6.7.1.d Interest rate risk

The global outbreak of the novel COVID-19 epidemic has resulted in consecutive reductions in policy rates and monetary easing policies by Central Bank of Sri Lanka. Risk exposure, response and sensitivity analysis are provided in Note 6.5.4.1.

##### 6.7.1.e Foreign exchange risk

The Sri Lankan Rupee witnessed a sharp depreciation against the US Dollar from March 2020 on the back of economic turmoil in global, regional, and local markets resulting from the COVID-19 pandemic. The Company exposed to foreign currency-denominated transactions are adversely impacted to undue fluctuations in exchange rates. Exposures to Foreign exchange risk, risk response and sensitivity analysis provided in Note 6.5.4.2.

##### 6.7.1.f Fair value measurement of financial assets

The COVID-19 pandemic has significantly affected financial markets in the first quarter of 2020. Stock markets have declined sharply, and volatility has been increased significantly and market became inactive for certain period. Therefore, the Institute of Chartered Accountant (ICASL) issued guidance note on the "Implications on Financial Reporting" and it was permitted to apply an appropriate valuation technique to measure the fair value of financial assets for the period when market was inactive. Accordingly, judgements, estimates and assumptions have been used in developing internal model to determine the fair value of quoted equities. subsequent to the valuation model quoted equity shares have been transferred to Level 2 from Level 1 in the fair value hierarchy as at 31 March 2020 and 30 June 2020. With the increase of market activities of the stock market in the third quarter of the year the Company has changed its equity valuation back to published quoted market prices to determine the fair value of quoted equities and accordingly these instruments are classified back to Level 1 in the fair value hierarchy as at 31 December 2020.

##### 6.7.1.g Impairment of non-financial assets

This assessment has become even more critical with the COVID-19 condition and measurement of recoverable amount involves certain level of estimates and judgment. The Board of Directors has assessed the potential impairment loss on non-financial assets due to COVID-19 pandemic. The assessment was carried out through multiple scenario basis, up to date available information and business continuity plan. Based on the assessment, the Company has not identified any indications of Impairment due to impact on COVID-19 pandemic as at the reporting date.

**6.7.2 Recognition of deferred taxes**

COVID-19 could have impacted the entity’s future profits and in turn impact the amount of deferred tax assets and recoverability. Therefore, the Board of Directors assess the effect of changes in COVID-19 environment on the recoverability of deferred tax assets. In this assessment, the Board of Directors considered potential impact from COVID-19 in a very conservative manner and performed sensitivity analysis to assess the impact on recoverability within the specified period.

Refer Note 29 on page 317 for more information.

**6.7.3 Lease modifications (Rent concession)**

**As a lessee**

On 28 May 2020, an amendment to SLFRS 16 was issued and this amendment provides an optional practical expedient for lessees from assessing whether a rent concession related to COVID-19 is a lease modification. If the practical expedient is applied, lessees can elect to account for such rent concessions in the profit or loss instead of accounting for them as lease modifications.

The Company has elected to apply the practical expedient to all property leases. The Company is in the process of negotiating rent concession with lessor due to the impact of the COVID-19 pandemic during the year. Accordingly, management anticipates a rent concessions of Rs. 6.3 million.

**6.8 Capital management**

**6.8.a Objectives, policies and processes for capital management**

The Company’s policy / objective is to maintain a strong capital base,

- to maintain investor, creditor and market confidence and to sustain the future development of the business
- to maintain required capital levels of the Company
- to support new business growth of the Company

The Company management committee uses regulatory capital ratios to monitor the Company’s capital base.

**6.8.b Regulatory capital - Risk Based Capital (RBC) Framework**

As a regulator of the industry, Insurance Regulatory Commission of Sri Lanka has implement a Risk Based Capital (RBC) Framework to monitor insurance companies in the country.

This framework, based on emerging international standards and good practices in developed countries, is risk-focused. It reflects the relevant risks that the insurance companies face. The minimum capital prescribed under the framework, which includes a consistent approach to the valuation of assets and liabilities, will serve as an effective buffer to absorb losses. With greater transparency, it will facilitate comparisons across insurance companies. It will also provide clearer information on the financial strength of the Company.

The valuation regime makes a fundamental shift away from the current philosophy, which is built upon estimations of asset and liability values with undisclosed margins and approximations, to one that emphasizes greater transparency and provides a more accurate picture of the insurer’s financial position. This is achieved by using more realistic valuation methodology and bases. More assumptions will need to be made in the valuation process.

**6.8.c Risks involved in order to comply with new RBC Framework**

- How to invest into capacity building of internal skill sets.
- Changing business strategy to align with the new regulatory environment
- Increase in compliance cost

**6.8.d Risk response to capital management**

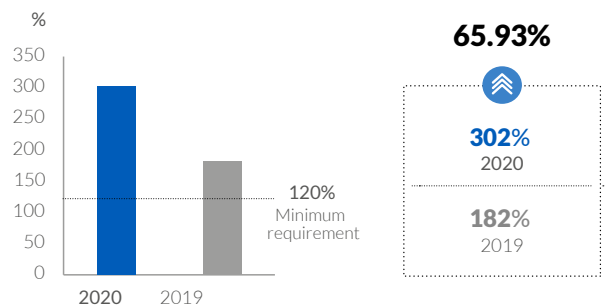
- Continuous training provided to the staff of the Company
- Compliance with recommended action plans are supported by periodic reviews undertaken by the Head of Actuarial of the Company.
- Further, in preparation for the adoption of the RBC Framework, the Company already uses appointed actuaries service.
- Closely follow up RBC guideline issued by IRCSL.

Summary of Company’s compliances to the RBC framework describe as following table.

**Table - 33 Solvency position**

As at 31 December	2020 Rs. '000	2019 Rs. '000
Total Available Capital (TAC)	19,940,661	8,151,141
Risk Based Capital requirement (RCR)	6,610,769	4,489,448
Risk-based Capital Adequacy Ratio (CAR)	302%	182%
Minimum Capital Requirement (MCR)	500,000	500,000
Capital Adequacy Satisfied?	Yes	Yes

**Capital Adequacy Ratio (CAR)**



## NOTES TO THE FINANCIAL STATEMENTS

### 7 FAIR VALUES MEASUREMENT

#### ACCOUNTING POLICY

Fair value is the amount for which an asset could be exchanged, or a liability is settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability or,
- In the absence of the principal market, in the most advantageous market for the asset or liability

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A number of Company's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

Further information about the assumptions made in measuring fair values is included in the following notes:

Note 30 : Financial instruments;

Note 27 : Freehold property measured at fair value.

#### 7.1 Valuation models

##### Fair value hierarchy

The Company measures the fair value using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurement.

##### Level 1

##### Inputs that are quoted market prices (unadjusted) in an active market for identical instruments.

When available, the Company measures the fair value of an instrument using active quoted prices or dealer price quotations (assets and long positions are measured at a bid price; liabilities and short positions are measured at an ask price), without any deduction for transaction costs. A market is regarded as active if transactions for asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

##### Level 2

##### Inputs other than quoted prices included within Level 1 that are observable either directly (i.e., as prices) or indirectly (i.e., derived from prices).

This category includes instruments valued using:

- quoted prices in active markets for similar instruments,
- quoted prices for identical or similar instruments in markets that are considered to be less active, or
- other valuation techniques in which almost all significant inputs are directly or indirectly observable from market data.

##### Level 3

##### Inputs that are unobservable.

This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation.

This category includes instruments that are valued based on quoted prices of similar instruments for which significant unobservable adjustments or assumptions are required to reflect difference between the instruments.

Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which observable market prices exist. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, risk premiums in estimating discount rates, bond and equity prices, foreign exchange rates, expected price volatilities and corrections.

Observable prices or model inputs such as market interest rates are usually available in the market for listed equity securities and Government Securities such as Treasury Bills and Treasury Bonds. Availability of observable prices and model inputs reduces the need for management judgement and estimation while reducing uncertainty associated in determining the fair values.

Models are adjusted to reflect the spread for bid and ask prices to reflect costs to close out positions, credit and debit valuation adjustments, liquidity spread and limitations in the models. Also, profit or loss calculated when such financial instruments are first recorded ("Day 1" profit or loss) is deferred and recognised only when the inputs become observable or on derecognition of the instrument.

##### Objective of the valuation

The objective of the valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the assets or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

### Fair value measurement

Following table represents the fair value measurement of the Company according to fair value hierarchy.

Instrument category	Fair value basis	Fair value hierarchy
<b>Government securities</b>		
Treasury bill & bonds	Valued using the market yield	Level 1
<b>Investment in shares</b>		
Investment in listed shares	Closing market prices	Level 1
Investment in unlisted shares	Adjusted net assets for Illiquidity	Level 3
<b>Investment in units</b>		
Investment in unlisted redeemable units	Published Net Assets Values (NAV)	Level 2
<b>Corporate debt</b>		
Listed	Published Market Prices	Level 2*
Unlisted perpetual debentures	Adjusted interest rate for Illiquidity	Level 3
<b>Land and Building</b>	Market Comparable Method and Investment Method	Level 3

\*Listed corporate debt have been classified under level two in fair value hierarchy since there is no active market for these instruments even though such instruments are listed.

### Valuation techniques used in measuring Level 2 and 3 fair values

Same valuation techniques as mentioned on the above table have been used by the Company in measuring Level 2 and 3 fair values for current and comparative financial period.

### Financial assets and liabilities not considered for fair value measurement

It is assumed that the carrying amount of following financial assets and liabilities are reasonable approximation of fair value since they are short- term in nature or re-price to current market rates frequently :

Assets	Liabilities
Cash and cash equivalents / Term deposits less than one year	Reinsurance creditors
Repo	Other liabilities (Excluding government levies and accruals)
Loans to life policyholders	
Reinsurance receivables	
Premium receivables	

### Carrying amounts of the Company's financial assets and financial liabilities

Carrying amounts and classification of the Company's financial assets and financial liabilities are given in Note 30.1 on page 321.

### 7.2 Valuation framework

The Company has an established control framework for the measurement of fair values. This framework includes a valuation team (Treasury Back Office (TBO) which is independent from Treasury Front Office (TFO)), which reports to the Chief Financial Officer, with overall responsibility for overseeing and independently verifying all significant fair value measurements. Significant valuation issues are reported to the Audit Committee.

#### Specific controls include:

- Verification of observable pricing.
- Re-performance of model valuations.
- A review and approval process for new models and changes to models.
- Bi-annual calibration and back-testing of models against observed market transactions.
- Analysis and investigation of significant daily valuation movements.
- Review of significant unobservable inputs, valuation adjustments and significant changes to the fair value measurement of Level 3 instruments compared with the previous month.

When third party information – e.g. broker quotes, pricing services or independent property valuations – is used to measure fair value, the valuation team assesses and documents the evidence obtained from the third parties to support the conclusion that these valuations meet the requirements of SLFRS.

#### This includes:

- Verifying that the broker, pricing service or independent property valuer is approved by the Company for use in pricing the relevant type of asset or liability;
- Understanding how the fair value has been arrived at, the extent to which it reflects actual market transactions and whether it represents a quoted price in an active market for an identical instrument;
- When prices for similar assets or liabilities are used to measure fair value, understanding how these prices have been adjusted to reflect the characteristics of the asset or liability subject to measurement; and
- If a number of quotes for the same asset or liability have been obtained, then understanding how fair value has been determined using those quotes.

## NOTES TO THE FINANCIAL STATEMENTS

### 7.3 Assets measured at fair value and fair value hierarchy

The following table provides an analysis of assets measured at fair value in the Statement of Financial Position and the level in the fair value hierarchy.

#### Fair value hierarchy

As at 31 December	Note	Page	2020				2019			
			Level 1	Level 2	Level 3	Total fair value/ carrying value	Level 1	Level 2	Level 3	Total fair value/ carrying value
			Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Non-financial assets</b>										
Land and building	27	310	-	-	258,544	258,544	-	-	266,000	266,000
<b>Total non-financial assets at fair value</b>			-	-	258,544	258,544	-	-	266,000	266,000
<b>Financial assets</b>										
<b>Financial investments – (FVTPL)</b>										
Equity shares	30.4.1	328	-	-	-	-	475,837	-	-	475,837
Treasury bonds	30.4	327	243,286	-	-	243,286	2,188,847	-	-	2,188,847
Treasury bills	30.4	327	956,035	-	-	956,035	-	-	-	-
Perpetual debentures	30.4	327	-	-	515,381	515,381	-	-	-	-
Unit trusts	30.4.2	329	-	2,389,332	-	2,389,332	-	2,031,675	-	2,031,675
			<b>1,199,321</b>	<b>2,389,332</b>	<b>515,381</b>	<b>4,104,034</b>	2,664,684	2,031,675	-	4,696,359
<b>Financial investments – FVOCI</b>										
Treasury bonds	30.3	325	1,586,018	-	-	1,586,018	1,771,633	-	-	1,771,633
Equity shares listed	30.3.1	326	2,182,609	-	-	2,182,609	1,569,656	-	-	1,569,656
Equity shares unlisted	30.3.1	326	-	-	281,428	281,428	-	-	303,506	303,506
			<b>3,768,627</b>	-	<b>281,428</b>	<b>4,050,055</b>	3,341,289	-	303,506	3,644,795
<b>Total financial assets at fair value</b>			<b>4,967,948</b>	<b>2,389,332</b>	<b>796,809</b>	<b>8,154,089</b>	6,005,973	2,031,675	303,506	8,341,154
<b>Total assets at fair value</b>			<b>4,967,948</b>	<b>2,389,332</b>	<b>1,055,353</b>	<b>8,412,633</b>	6,005,973	2,031,675	569,506	8,607,154

#### Transfer between levels

There were no transfers made in between the levels in 2020 (2019 - Nil) other than disclosed in Note 6.7.1.f on page 290.



#### 7.4 Level 3 fair value measurement

##### Reconciliation of fair value measurements of level 3 financial instruments

The Company carries unquoted equity shares, unquoted perpetual debentures and land and building in Level 3 within the fair value hierarchy. A reconciliation of the beginning and closing balances including movements except for the land and building is summarised below:

##### Land and building at level 3 in the fair value hierarchy

Reconciliation from the opening balance to the ending balance and revaluation reserve pertaining to the Land and Building in Level 3 of the fair value hierarchy is available in Note 27.17 on page 315 and Note 39.2 on page 335 respectively.

For the year ended 31 December	2020		2019	
	Equity shares (Unlisted) Rs. '000	Unquoted debenture Rs. '000	Equity shares (Unlisted) Rs. '000	Unquoted debenture Rs. '000
Balance at 1 January	303,506	-	369,700	-
Purchase	-	500,000	-	-
<b>Fair value gains / (losses)</b>				
Recognised in income statement - In net fair value gain	-	15,381	-	-
Recognised in OCI - In equity investments at FVOCI - net change in fair value	(22,078)	-	(66,194)	-
Net amount reclassified to income statement	-	-	-	-
Purchase / disposal	-	-	-	-
Transfers into / out of Level 3	-	-	-	-
<b>Balance at 31 December</b>	<b>281,428</b>	<b>515,381</b>	303,506	-

##### Unobservable inputs used in measuring fair value

The table below sets out information about significant unobservable inputs used in measuring financial instruments categorised in Level 3 of the fair value hierarchy.

Type of financial instrument As at 31 December	Fair value		Valuation technique	Range of estimates (weighted average) for significant unobservable inputs	Fair value measurement sensitivity to unobservable inputs
	2020 Rs. '000	2019 Rs. '000			
<b>Debt securities</b>					
Perpetual debentures	515,381	-	Adjusted interest rate for illiquidity	Credit spread - 3% to 5%	Estimated fair value would increase/ (decrease) if credit spread would (decrease) / increase
<b>Equity securities</b>					
Unlisted equity securities	281,428	303,506	Adjusted net asset for illiquidity	Illiquidity premium 5% - 10%	Estimated fair value would increase/ (decrease) if Illiquidity premium would (decrease) / increase
Land and building	258,544	266,000	Refer Note 27.13 on page 314	Refer Note 27.13 on page 314	Refer Note 27.13 on page 314

## NOTES TO THE FINANCIAL STATEMENTS

Significant unobservable inputs are developed as follows.

Debt securities	Credit spreads are derived from internally developed model and adjustments have been made to reflect the illiquidity condition of the instruments.
Unlisted equity securities	When deciding illiquidity premium the company has considered the fact that recent acquisition of finance companies had taken place at more than the net asset value of target investee.
Land and Building	Refer note 27.13 on page 314

### Sensitivity analysis of financial assets classified at Level 3

The following table demonstrates the sensitivity to a reasonably possible change in the key assumptions used with all other variables held constant in fair value of level 3 financial instruments and significant unobservable inputs.

For the year ended 31 December		2020			2019		
Change in variables	Significant unobservable input	Impact on income statement Rs. '000	Impact on OCI Rs. '000	Impact on equity Rs. '000	Impact on income statement Rs. '000	Impact on OCI Rs. '000	Impact on equity Rs. '000
<b>Unlisted Equity Securities</b>							
1% Increase in adjustment for illiquidity	Illiquidity premium	-	(2,926)	(2,926)	-	(3,192)	(3,192)
1% Decrease in adjustment for illiquidity	Illiquidity premium	-	2,926	2,926	-	3,192	3,192
<b>Perpetual debentures</b>							
1% Increase in credit spread	Credit spread	(5,862)	-	(5,862)	-	-	-
1% Decrease in credit spread	Credit spread	5,998	-	5,998	-	-	-

Sensitivity analysis of land and building classified at Level 3 is given in Note 27.13 on page 314.

### 7.5 Financial instruments not measured at fair value and fair value hierarchy

Methodologies and assumptions used to determine fair value of financial instruments which are not already recorded at fair value in the Statement of Financial Position are as follows:

#### Fixed rate financial investments - Government securities

The fair value of fixed rate government securities carried at amortised cost are estimated by using daily market rate published by Central Bank of Sri Lanka.

#### Fixed rate financial investments - Unquoted and quoted debt securities

For quoted debt issued, the fair values are determined based on quoted market prices. For those notes issued where quoted market prices are not available, a discounted cash flow model is used based on a current interest rate yield curve appropriate for the remaining term to maturity and credit spreads.

#### Sensitivity of significant unobservable inputs used to measure fair value of fixed rate financial instruments

A significant increase / (decrease) in the market interest rate would result in lower / (higher) fair value being disclosed.

#### Assets for which fair value approximates carrying value

For financial assets and liabilities with short-term maturities or with short-term re-pricing intervals, it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits and savings deposits which do not have a specific maturity.

The following table sets out the estimated fair values of financial assets and liabilities not measured at fair value and hence reflected at the carrying amounts in Financial Statements and the fair value hierarchy used:

As at 31 December	Note	2020					2019				
		Level 1	Level 2	Level 3	Total fair value	Total carrying value	Level 1	Level 2	Level 3	Total fair value	Total carrying value
		Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Financial assets</b>											
<b>Financial investments – Amortised cost</b>											
Treasury bonds*	30.2	2,350,518	-	-	2,350,518	2,350,518	253,744	-	-	253,744	252,029
Sri Lanka development bonds	30.2	-	2,830,579	-	2,830,579	2,796,206	-	-	-	-	-
International sovereign bonds	30.2	2,504,879	-	-	2,504,879	2,723,500	-	-	-	-	-
Debentures**	30.2	-	5,511,028	-	5,511,028	5,442,447	-	4,404,438	-	4,404,438	4,502,647
Bank deposits	30.2	-	-	-	1,655,205	1,654,837	-	-	-	445,123	445,123
Commercial paper	30.2	-	-	-	1,990,991	1,990,258	-	-	-	1,098,987	1,098,987
Repo	30.2	-	-	-	2,255,937	2,255,937	-	-	-	270,804	270,804
<b>Other financial assets</b>											
Cash and cash equivalents	35	-	-	-	554,362	554,362	-	-	-	377,093	377,093
Loans to life policyholders	31	-	-	-	234,462	234,462	-	-	-	224,672	224,672
Reinsurance receivables	32	-	-	-	323,288	323,288	-	-	-	188,131	188,131
Premium receivables	33	-	-	-	856,281	856,281	-	-	-	743,549	743,549
Receivable and other assets	34	-	-	-	66,792	66,792	-	-	-	67,997	67,997
<b>Total financial assets not at fair value</b>		<b>4,855,397</b>	<b>8,341,607</b>	<b>-</b>	<b>21,134,322</b>	<b>21,248,888</b>	<b>253,744</b>	<b>4,404,438</b>	<b>-</b>	<b>8,074,538</b>	<b>8,171,032</b>
<b>Financial liabilities</b>											
Loans and borrowings	42	-	-	-	2,852,245	2,852,245	-	-	-	-	-
Reinsurance payables	43	-	-	-	636,060	636,060	-	-	-	428,557	428,557
Other liabilities	44	-	-	-	1,533,578	1,533,578	-	-	-	999,553	999,553
Bank overdraft	35	-	-	-	225,390	225,390	-	-	-	176,271	176,271
<b>Total financial liabilities not at fair value</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>5,247,273</b>	<b>5,247,273</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,604,381</b>	<b>1,604,381</b>

\*Reclassified from FVTPL to amortised cost with effect from 31 December 2021 (Refer Note 30.5 for reclassification).

\*\*Listed Debentures have been classified under level 2 in fair value hierarchy since there is no active market for these instruments even though such instruments are listed.

## 8 GROSS WRITTEN PREMIUMS

### ACCOUNTING POLICY

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured.

Gross written premiums on life insurance contracts are recognised as revenue when payable by the policyholder (policies within the 30-day grace period are considered as due). Premiums received in advance are not recorded as revenue and recorded as liability until the premium is due unless otherwise the relevant policy conditions require such premiums to be recognised as income. Benefits and expenses are provided against such revenue to recognise profits over the estimated life of the policies. For single premium business, revenue is recognised on the date on which the policy is effective.

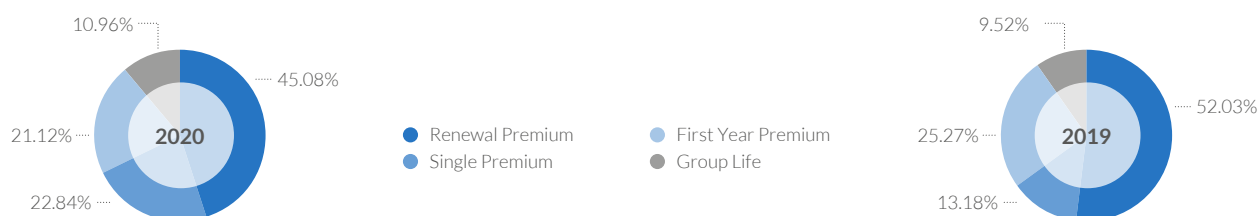
All products sold by the Company are insurance contracts and therefore classified as insurance contracts thus the Company does not have any investment contracts within its portfolio as at reporting date.

## NOTES TO THE FINANCIAL STATEMENTS

The premium Income for the year by major classes of business is as follows:

For the year ended 31 December	2020			2019		
	Individual business	Corporate business	Total	Individual business	Corporate business	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Renewal premium	7,060,870	-	7,060,870	6,519,934	-	6,519,934
Single premium	3,576,710	-	3,576,710	1,651,324	-	1,651,324
First year premium	3,306,851	-	3,306,851	3,166,795	-	3,166,795
Group life premium	-	1,715,685	1,715,685	-	1,193,230	1,193,230
<b>Total gross written premiums</b>	<b>13,944,431</b>	<b>1,715,685</b>	<b>15,660,116</b>	<b>11,338,053</b>	<b>1,193,230</b>	<b>12,531,283</b>

### Gross Written Premiums - Mix



For the year ended 31 December	2020	2019
	Rs. '000	Rs. '000
Individual business	13,944,431	11,338,053
Corporate business	1,715,685	1,193,230
<b>Total gross written premiums</b>	<b>15,660,116</b>	<b>12,531,283</b>

### 9 PREMIUMS CEDED TO REINSURERS

Premium ceded to reinsurers represents the premium paid by the Company to its reinsurers in order to manage its underwriting risks.

#### ACCOUNTING POLICY

Reinsurance premiums on insurance contracts are recognised as an expense on the earlier of the date when premiums are payable or when the policy becomes effective. Reinsurance premiums are decided based on rates agreed with reinsurer and accounted on an accrual basis.

For the year ended 31 December	2020	2019
	Rs. '000	Rs. '000
Treaty	1,870,790	989,386
Facultative	1,826	2,069
<b>Total premiums ceded to reinsurers</b>	<b>1,872,616</b>	<b>991,455</b>

### 10 NET EARNED PREMIUMS

This represents the net earned premiums for the financial year subsequent to the deduction of reinsurance premium from gross written premiums.

For the year ended 31 December	2020	2019
	Rs. '000	Rs. '000
Gross written premium	15,660,116	12,531,283
Less: Premiums ceded to reinsurer	(1,872,616)	(991,455)
<b>Total net earned premiums</b>	<b>13,787,500</b>	<b>11,539,828</b>

### 11 NET FINANCE INCOME

Net finance income consists of interest income and dividend income generated by the Company from its various financial assets held throughout the reporting period.

#### ACCOUNTING POLICY

Interest income is recognised in the income statement as it accrues and is calculated by using the effective interest rate by applying to the gross carrying amount of a financial asset except for financial assets that subsequently become credit impaired. For credit-impaired financial assets the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance). The calculation of interest income of credit-impaired financial assets does not revert to a gross basis, even if the credit risk of the asset improves.

Investment related expenses consist of costs relating to investment such as custodial fee, bank guarantee fee and brokerage fee, etc. These expenses are recognised on an accrual basis.

#### Effective interest rate (EIR)

The effective interest rate is the rate that exactly discounts the estimated future cash receipts or payments through the expected life of the financial assets or liabilities (or, where appropriate, a shorter period) to the carrying amount of the financial assets or liabilities. When calculating the EIR, the Company estimates future cash flows considering all contractual terms of the financial instruments, but not future credit losses. For credit-impaired financial assets which are classified under Stage 3, a credit-adjusted EIR is calculated using estimated future cash flows including ECLs. The credit adjusted EIR is the interest rate that, at original recognition, discounts the estimated future cash flows (including credit losses) to the amortised cost.

The calculation of the EIR includes all transaction costs and fees that are an integral part of EIR. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability. Fees and commissions that are an integral part of the effective yield of the financial asset or liability are recognised as an adjustment to the EIR of the instrument.

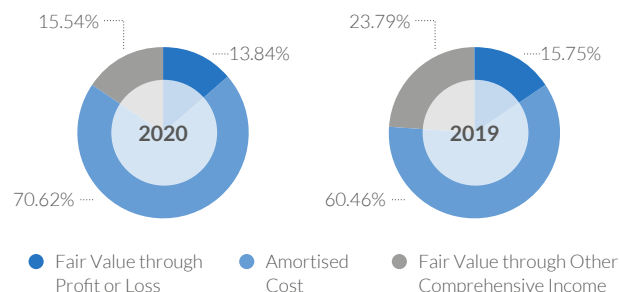
#### Dividend income

Dividends on equity investments are recognised in the Income Statement when the right to receive payment is established which is on the date at which the investment is priced 'ex dividend'. Dividends are presented under net finance income in the Income Statement.

#### Interest income presented in the Income Statement include:

- Interest on financial assets measured at fair value through profit or loss (FVTPL) is calculated using EIR method.
- Interest on financial assets measured at amortised cost is calculated using EIR method.
- Interest on financial assets measured at fair value through other comprehensive income (FVOCI) is calculated using EIR method.

#### Investment Income Analysis



For the year ended 31 December	2020 Rs. '000	2019 Rs. '000
<b>Interest income from financial assets classified at FVTPL</b>		
Treasury bonds	218,970	187,423
Treasury bill	3,376	-
Debentures	3,699	-
	<b>226,045</b>	<b>187,423</b>
<b>Dividend income</b>		
Equity shares	-	4,209
	<b>226,045</b>	<b>191,632</b>
<b>Interest income from financial assets classified at amortised cost</b>		
Debentures	582,649	404,121
Commercial papers	170,922	121,760
Term deposits	119,927	135,474
Sri Lanka development bonds	107,089	-
Sovereign bonds	68,993	-
Reverse repurchase agreements	56,699	25,501
Loans to life policyholders	34,363	27,827
Treasury bonds	13,471	22,414
	<b>1,154,113</b>	<b>737,097</b>
<b>Income from financial assets classified at FVOCI</b>		
Interest income from treasury bonds	136,203	178,674
<b>Dividend income</b>		
Equity shares	118,092	111,373
	<b>254,295</b>	<b>290,047</b>
<b>Total net finance income</b>	<b>1,634,453</b>	<b>1,218,776</b>

## 12 NET REALISED GAINS

#### ACCOUNTING POLICY

Realised gains and losses recorded in the Income Statement on investments include gains and losses on disposal of financial assets except for equity instruments classified at Fair Value through Other Comprehensive Income (FVOCI).

Gains and losses on the sale of investments are calculated as the difference between net sales proceeds and the original or amortised cost and are recorded on occurrence of the sale transaction.

On derecognition of an investment other than equity classified as fair value through other comprehensive income, the cumulative gain or loss previously recognised in Other Comprehensive Income is recognised in the Income Statement.

On derecognition of equity investments classified at fair value through other comprehensive income, the cumulative gain or loss previously recognised in Other Comprehensive Income is transferred to retained earnings from fair value reserve in the Equity Statement.

## NOTES TO THE FINANCIAL STATEMENTS

### Analysis of realised gains / (losses)

For the year ended 31 December	2020			2019		
	Realised gains	Realised losses	Net realised gains / (losses)	Realised gains	Realised losses	Net realised gains / (losses)
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Fair value through profit or loss</b>						
Unit trust	167,327	-	167,327	122,029	-	122,029
Treasury bonds	4,728	-	4,728	1,326	-	1,326
Quoted equity securities	-	-	-	4,529	-	4,529
	172,055	-	172,055	127,884	-	127,884
<b>Fair value through comprehensive income</b>						
Treasury bonds	-	(802)	(802)	-	(3,648)	(3,648)
	-	(802)	(802)	-	(3,648)	(3,648)
<b>Total net realised gains</b>	<b>172,055</b>	<b>(802)</b>	<b>171,253</b>	<b>127,884</b>	<b>(3,648)</b>	<b>124,236</b>

### 13 NET FAIR VALUE GAINS

#### ACCOUNTING POLICY

Fair value gains and losses recorded in the Income Statement on investments include fair value gains / (losses) on financial assets at fair value through profit or loss.

For the year ended 31 December	2020	2019
	Rs. '000	Rs. '000
<b>Financial investments at FVTPL</b>		
Treasury bonds	347,636	182,150
Unit trusts	104,448	52,972
Debentures	11,682	-
Treasury bills	278	-
Equity securities	-	(3,525)
<b>Total net fair value gains</b>	<b>464,044</b>	<b>231,597</b>

### 14 OTHER OPERATING INCOME

#### ACCOUNTING POLICY

Other income is recognised on an accrual basis. Other income comprises fees, disposal gains / (losses) on property, plant and equipment and miscellaneous income.

#### Gain or loss on disposal of an item of property, plant and equipment

Any gain or loss on disposal of an item of property, plant, and equipment (calculated as the difference between the net proceeds from disposal and the carrying amount of the item at the time of the disposal) is recognised as 'Other Income' in the Income Statement in the year in which the Company transfers control of the asset to the buyer. When revalued assets are sold, any related amount included in the revaluation reserves are transferred to retained earnings.

For the year ended 31 December	2020	2019
	Rs. '000	Rs. '000
Miscellaneous income	6,364	9,505
<b>Total other income</b>	<b>6,364</b>	<b>9,505</b>

### 15 NET INSURANCE BENEFITS AND CLAIMS PAID

#### ACCOUNTING POLICY

#### Gross benefits and claims

Gross benefits and claims for life insurance contracts include the cost of all claims arising during the year including internal and external claims handling costs that are directly related to the processing and settlement of claims and policyholder bonuses declared on DPF contracts. Maturities and annuity payments are recorded when due. Death claims and surrenders are recorded on the basis of notifications received.

#### Reinsurance claims

Reinsurance claims are recognised when the related gross insurance claim is recognised according to the terms of the relevant contract.

For the year ended 31 December	2020	2019
	Rs. '000	Rs. '000
<b>Claims</b>		
Gross claims paid	3,421,706	2,563,765
Claims recovered from reinsurers	(656,619)	(576,339)
	2,765,087	1,987,426
<b>Benefits</b>		
Gross benefits paid	780,720	898,303
Benefits recovered from reinsurers	-	-
	780,720	898,303
<b>Total net insurance benefits and claims paid</b>	<b>3,545,807</b>	<b>2,885,729</b>

## Analysis of net insurance benefits and claims paid

For the year ended 31 December	2020			2019		
	Gross claims and benefits paid	Recovered from reinsurers	Net benefits and claims paid	Gross claims and benefits paid	Recovered from reinsurers	Net benefits and claims paid
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Claims</b>						
Death, disability and others riders - endowment	1,544,118	(598,912)	945,206	1,313,112	(519,186)	793,926
Death and hospitalisation - Group life	1,036,716	(42,976)	993,740	916,632	(33,744)	882,888
Death - Decreasing Term Assurance (DTA)	840,872	(14,731)	826,141	334,021	(23,409)	310,612
	3,421,706	(656,619)	2,765,087	2,563,765	(576,339)	1,987,426
<b>Benefits</b>						
Policy maturities / surrenders - Investment products	145,458	-	145,458	235,436	-	235,436
Policy maturities - Endowment	299,279	-	299,279	320,026	-	320,026
Policy surrenders - Endowment products	335,983	-	335,983	342,841	-	342,841
	780,720	-	780,720	898,303	-	898,303
<b>Total net insurance benefits and claims Paid</b>	<b>4,202,426</b>	<b>(656,619)</b>	<b>3,545,807</b>	<b>3,462,068</b>	<b>(576,339)</b>	<b>2,885,729</b>

## 16 NET CHANGE IN INSURANCE CLAIMS OUTSTANDING

## ACCOUNTING POLICY

Differences between the estimated cost and subsequent settlement of claims or re-estimated costs are recognised in the income statement in the year in which they are settled or in which the insurance contract liabilities are re-estimated. Net change in insurance claims outstanding is recognised in the income statement.

For the year ended 31 December	2020			2019		
	Gross change in outstanding claims and benefit	Change in reinsurance recoverable	Net change in outstanding claims and benefits	Gross change in outstanding claims and benefits	Change in reinsurance recoverable	Net change in outstanding claims and benefits
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Claims</b>						
Death, disability and others riders - Endowment	(93,117)	52,035	(41,082)	115,193	(58,766)	56,427
Death and hospitalisation - Group life	1,330	(1,489)	(159)	35,276	(300)	34,976
Death - Decreasing Term Assurance (DTA)	67,658	(2,205)	65,453	6,936	(760)	6,176
	(24,129)	48,341	24,212	157,405	(59,826)	97,579
<b>Benefits</b>						
Policy maturities / surrenders - Investment products	(452)	-	(452)	10,071	-	10,071
Policy maturities - Endowment	(2,821)	-	(2,821)	2,733	-	2,733
Policy surrenders - Endowment products	51	-	51	-	-	-
	(3,222)	-	(3,222)	12,804	-	12,804
<b>Total net change in insurance claim and benefits outstanding</b>	<b>(27,351)</b>	<b>48,341</b>	<b>20,990</b>	<b>170,209</b>	<b>(59,826)</b>	<b>110,383</b>

## NOTES TO THE FINANCIAL STATEMENTS

### 16.1 Total net insurance claims and benefits expense

For the year ended 31 December	2020			2019		
	Gross claims and benefits	Recovery from reinsurers	Net claims and benefits	Gross claims and benefits	Recovery from reinsurers	Net claims and benefits
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Claims</b>						
Death, disability and others riders - Endowment	1,451,001	(546,877)	904,124	1,428,305	(577,952)	850,353
Death and hospitalisation - Group life	1,038,046	(44,465)	993,581	951,908	(34,044)	917,864
Death - Decreasing Term Assurance (DTA)	908,530	(16,936)	891,594	340,957	(24,169)	316,788
	3,397,577	(608,278)	2,789,299	2,721,170	(636,165)	2,085,005
<b>Benefits</b>						
Policy maturities / surrenders - Investment products	145,006	-	145,006	245,507	-	245,507
Policy maturities - Endowment	296,458	-	296,458	322,759	-	322,759
Policy surrenders - Endowment products	336,034	-	336,034	342,841	-	342,841
	777,498	-	777,498	911,107	-	911,107
<b>Total net insurance benefits and claims expenses</b>	<b>4,175,075</b>	<b>(608,278)</b>	<b>3,566,797</b>	<b>3,632,277</b>	<b>(636,165)</b>	<b>2,996,112</b>

### 17 CHANGE IN VALUATION OF INSURANCE CONTRACT LIABILITIES

#### ACCOUNTING POLICY

Note 40.7 to these Financial Statements explain in detail about methodology of valuation of the insurance contract liabilities. Changes in the valuation of insurance contract liabilities are recognised in the Income Statement under change in contract liabilities.

A reconciliation of the change in insurance contract liabilities is reflected in Note 40.4 to these Financial Statements.

#### Actuarial valuation of life insurance fund

The Directors agree to the provision relating to long term insurances contract liability of the Company at the year-end on the recommendations of the Appointed Actuary following his annual investigation of the life insurance business. The actuarial valuation takes into account all liabilities and is based on assumptions recommended by the appointed actuary.

The Appointed Actuary's report is provided on page 244.

For the year ended 31 December	2020			2019		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Premiums written	15,660,116	(1,872,616)	13,787,500	12,531,283	(991,455)	11,539,828
Insurance benefits and claims incurred	(4,175,075)	608,278	(3,566,797)	(3,632,277)	636,165	(2,996,112)
Underwriting and net acquisition costs (including reinsurance)	(3,455,451)	185,997	(3,269,454)	(3,053,905)	85,191	(2,968,714)
Other operating, selling and administrative expenses attributable to policyholders	(3,275,953)	-	(3,275,953)	(3,398,240)	-	(3,398,240)
Investment and other income attributable to policyholders	1,703,473	-	1,703,473	1,272,409	-	1,272,409
Surplus from life insurance fund transferred to Life shareholder's fund	(1,778,800)	-	(1,778,800)	(2,279,475)	-	(2,279,475)
Change in contract liabilities - Life fund	4,678,310	(1,078,341)	3,599,969	1,439,795	(270,099)	1,169,696



## 18 UNDERWRITING AND NET ACQUISITION COST (NET OF REINSURANCE)

### ACCOUNTING POLICY

All acquisition costs are recognised as an expense when incurred. Reinsurance commission income on outward reinsurance contracts is recognised when receivable.

For the year ended 31 December	2020 Rs. '000	2019 Rs. '000
Underwriting and policy acquisition cost	3,455,451	3,053,905
Reinsurance commission including profit commission	(185,997)	(85,191)
<b>Total underwriting and net acquisition cost</b>	<b>3,269,454</b>	<b>2,968,714</b>

## 19 OTHER OPERATING AND ADMINISTRATION EXPENSES

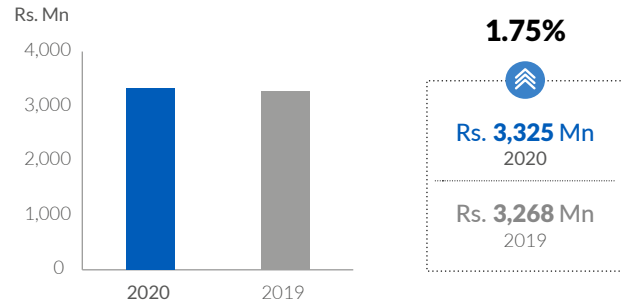
### ACCOUNTING POLICY

Expenses are recognised in the Income Statement on the basis of a direct association between the cost incurred and the earning of specific items of income. All expenditure incurred in the running of the business and in maintaining the property, plant and equipment in a state of efficiency has been charged to the Income Statement.

For the purpose of presentation of the Income Statement the directors are of the opinion that function of expenses method presents fairly the elements of the Company's performance, and hence such presentation method is adopted.

For the year ended 31 December	Note	2020 Rs. '000	2019 Rs. '000
<b>Employee benefits expenses</b>			
Short term employee benefits	19.1	944,915	984,257
Long term employee benefits - Defined benefit plan cost	41.5	40,834	32,709
<b>Total employee benefits expenses</b>		<b>985,749</b>	<b>1,016,966</b>
Administration and establishment expenses		1,971,377	1,820,688
Selling expenses		367,744	429,909
<b>Total other operating and administration expenses</b>		<b>3,324,870</b>	<b>3,267,563</b>

## Other Operating and Administration Expenses



### 19.1 Short Term Employee Benefits

#### ACCOUNTING POLICY

Short term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

For the year ended 31 December	Note	2020 Rs. '000	2019 Rs. '000
<b>Contributions to defined contribution plans</b>			
EPF	41.1	86,265	84,339
ETF	41.1	21,519	21,085
		<b>107,784</b>	<b>105,424</b>
Staff remuneration		717,003	702,823
Staff welfare		5,669	9,336
Training and development expenses		5,802	34,184
Other short term employee benefits expenses	19.2	108,657	132,490
<b>Total short term employee benefits expenses</b>		<b>944,915</b>	<b>984,257</b>

### 19.2 Other short term employee benefits expenses

This includes expenses such as staff bonus, overtime expenses, staff allowances and recruitment, etc.

### 19.3 Impairment losses on financial instruments

The Company recognised impairment allowances under administration and establishment expenses in the Income Statement.

Refer Note 4.2.11 on page 265 for accounting policy and related information on impairment allowances and Note 30.2.3 on page 324 for the amount of impairment allowances recognised in the Financial Statements.

## NOTES TO THE FINANCIAL STATEMENTS

### 20 FINANCE COST

#### ACCOUNTING POLICY

Interest cost is recognised in the Income Statement as it accrues and is calculated by using the effective interest rate method. Accrued interest is included within the carrying value of the interest-bearing financial liability. The Company's finance cost includes lease interest expense, interest expenses on long-term borrowing and other interest expenses.

For the year ended 31 December	Note	2020 Rs. '000	2019 Rs. '000
<b>Financial liabilities at amortised cost,</b>			
Interest expenses on lease liabilities	44.3	71,533	57,625
Interest expenses long term borrowings	42.1	52,495	-
Other interest expenses		66,421	60,674
Exchange gain on financial assets and liabilities measured at amortised cost		(18,272)	-
<b>Total finance cost</b>		<b>172,177</b>	<b>118,299</b>

### 21 PROFIT BEFORE TAX

Profit before tax is stated after charging all expenses including the following.

For the year ended 31 December	Note	2020 Rs. '000	2019 Rs. '000
Director fee and emoluments	46.6.1	83,753	89,800
<b>Auditors remuneration</b>			
Auditor's fees and related expenses		2,725	2,200
Audit related services and related expenses		3,248	6,703
Non audit services and related expenses		496	26,606
<b>Costs of Employee Benefits</b>			
Defined contribution plan cost - EPF	41.1	86,265	84,339
Defined contribution plan cost - ETF	41.1	21,519	21,085
Defined benefit plan cost	41.4	40,834	32,709
Staff training and development cost		5,802	34,184

For the year ended 31 December	Note	2020 Rs. '000	2019 Rs. '000
<b>Provision / reversal for impairment of</b>			
Financial instruments	30.2.3	104,453	(6,128)
Loans to life policyholders		-	-
<b>Other</b>			
Legal fees		14,162	3,289
Depreciation of property, plant and equipment	27.1	147,038	142,103
Depreciation of right of use of assets	28.2	195,008	127,115
Amortisation of intangible assets	26.1	146	2,277
Research and development costs		-	1,500
(Profit) / loss on sale of property, plant and equipment & intangible assets		-	-
CSR expenses		3,330	7,985
Donation		-	-
Operating lease		-	8,736

#### 21.1 Director fee and emoluments

Directors' emoluments represent the salaries paid to both Executive and Non-Executive Directors of the Company.

#### 21.2 Utilisation of Income

Graphical presentation for utilisation of income is given in financial highlight section on page 242.

### 22 INCOME TAX EXPENSES

#### ACCOUNTING POLICY

Income tax expense comprises current and deferred tax and is recognised in the Income Statement. Current tax and deferred tax relating to items recognised directly in equity is recognised in equity and for items recognised in other comprehensive income shall be recognised in other comprehensive income.

#### Current tax

Current tax is the expected tax payable or receivable on the taxable income for the year, using tax rates enacted or substantively enacted on the reporting date, and any adjustment to tax payable in respect of previous years. Current tax assets and liabilities are offset only if certain criteria are met.

From 1st April 2018 onwards the gains and profits from the Life insurance Business are ascertained in terms of section 67 of Inland Revenue Act No 24 of 2017. Accordingly, the gains and profits on which tax is payable is the aggregate of following taxable income sources.

Taxable income source	Applicable tax rate
Surplus distributed to shareholders from the Life Insurance policyholders fund as certified by the actuary	28%
Investment income of the shareholder fund less any expenses incurred in the production of such income	28%
Surplus distributed to a Life insurance policyholder who shares the profits of a person engaged in the business of life insurance at a rate of	14% (Up to 3 years from 2018 and thereafter at 28%)

#### Proposed changes to income tax from government tax proposals

As per the Notice to tax payers and withholding agents on "Implementation of Proposed Changes to the Inland Revenue Act No. 24 of 2017" dated February 12, 2020 issued by the Department of Inland Revenue, Income Tax rate of Corporates has been revised to 24% from 28% subject to pending formal amendments to be made to the Inland Revenue Act and to be implemented with effect from January 1, 2020.

However, the proposed amendments have not been gazetted by the Government as at 31 December 2020. The Company is of the view that any expected change in the tax rate has to be virtually certain in order to consider as substantively enacted. Therefore the Company considered applicable tax rate for the company for the year ended 31 December 2020 is 28% (2019 - 28%).

The impact of proposed changes to income tax from government tax proposals on deferred tax are disclosed in Note 29.9 on page 320.

#### Tax exposures

In determining the amount of current and deferred tax, the Company considers the impact of tax exposures, including whether additional taxes and penalties are due. Finalisation of the tax liability with authorities may change the position already recorded in the Financial Statements and such changes to tax liabilities could impact the tax expense in the period in which such a determination is made either as an over or under provision.

#### Deferred tax

Accounting policy and detail analysis relating to deferred tax is disclosed in Note 29 on page 317.

#### Crop Insurance Levy (CIL)

As per the provisions of the Section 14 of the Finance Act No. 12 of 2013, the CIL was introduced with effect from 1 April 2013 and is payable to the National Insurance Trust Fund. Currently, the CIL is payable at 1% of the profit after tax.

#### Sales tax

Revenues, expenses, and assets are recognised net of the amount of sales tax except;

- Where the sales tax incurred on a purchase of assets or service is not recoverable from the taxation authority, in which case the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- Receivables and payables that are stated with the amount of sales tax included. The net amount of sales tax recoverable from, or payable to, to the taxation authority is included as a part of receivables or payables in the Statement of Financial Position.

#### Withholding tax on rent and commission payment

As instructed by the Ministry of Finance on 31 January 2020 pending formal amendment to the Inland Revenue Act No. 24 of 2017, WHT on any payments (including interest, dividends rent etc.) made to any resident person is removed with effect from 1 January 2020. Accordingly, withholding agents are instructed not to deduct WHT on payments made on or after January 01, 2020, for the above payments.

#### Withholding Tax (WHT) on dividends distributed by the Company

Refer Note 24 on page 307.

#### 22.1 Amount recognised in the Income Statement

For the year ended 31 December	Note	2020 Rs. '000	2019 Rs. '000
<b>Current tax expense</b>			
Income tax on current year's profits		-	-
Notional tax (reversal) / write off (shareholder fund)		-	(89,479)
Adjustments for prior year		-	-
		-	(89,479)
<b>Deferred tax expenses</b>			
Origination of deferred tax assets		-	(204,968)
Reversal of deferred tax assets	22.2	608,864	725,162
<b>Deferred taxation</b>		608,864	520,194
<b>Income tax expense recognised in the Income Statement</b>		608,864	430,715
<b>Other comprehensive income</b>			
<b>Deferred tax charge / (reversal)</b>			
Relating to origination and reversal of temporary differences		-	-
<b>Income tax expense recognised in other comprehensive income</b>		-	-
<b>Income tax expense recognised in income statement</b>		608,864	430,715

## NOTES TO THE FINANCIAL STATEMENTS

### 22.2 Reconciliation of the accounting profit to income tax expense

For the year ended 31 December	2020		2019	
	%	Rs. '000	%	Rs. '000
Accounting profit before tax		2,130,347		2,603,558
Tax using the Company's domestic tax rate	28	596,497	28	728,996
Income exempt from tax	(2)	(43,677)	-	-
Provision for tax credits (Notional tax)	-	-	-	-
Aggregate allowable expenses	-	309	(38)	(9,810)
Aggregate disallowed expenses	3	55,735	23	5,976
<b>Income tax expense recognised in the Income Statement at the effective income tax rate</b>	<b>28.58</b>	<b>608,864</b>	<b>27.85</b>	<b>725,162</b>

### 22.3 Income tax computation as per IRD Act No 24 of 2017.

For the year ended 31 December	Note	2020 Rs. '000	2019 Rs. '000
Surplus distributed to shareholder from the Life Insurance policyholders fund	40.12	1,778,800	2,279,475
Investment income of the shareholder fund		551,703	310,389
<b>Business income</b>		<b>2,330,503</b>	<b>2,589,864</b>
Deductions Under Section 19 of the IRD Act	29.4	(2,174,515)	(2,589,864)
Income exempt from tax	22.3.1	(155,988)	-
<b>Total assessable income</b>		<b>-</b>	<b>-</b>
<b>Tax liability</b>		<b>-</b>	<b>-</b>

#### 22.3.1 Income exempt from tax

Investment Income from Sri Lanka Government International Sovereign Bond denominated in foreign currency and interest income received from Savings and Fixed deposits which are denominated in foreign currency have been considered as exempt income As per the notice issued by the Inland Revenue Department bearing the reference no. PN/IT/2020 - 03 (revised) dated April 08, 2020 subject to the formal amendments being made to the Inland revenue Act, no 24 of 2017

Dividend Income received to the extent that dividend income is attributable to or derived from, another dividend received by the relevant dividend paid company or another resident company such dividend income shall be exempted from Income tax under the section 09 of the Inland revenue act, no 24 of 2017

Accordingly, the Company has considered the above investment income in Life Shareholder fund as exempt income for the purpose of computation of income tax liability for the year ended 31 December 2020.

Dividend income received which withholding tax has already been deducted shall be a final withholding payment under section 88 of the Inland Revenue Act no 24 of 2017 hence will not be taxed again.

#### 22.3.2 IFRIC Interpretation 23 - Uncertainty over Income Tax Treatment

IFRIC - 23 interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of LKAS 12 Income Taxes. It clarifies that an entity must consider the probability that the tax authorities will accept a treatment retained in its income tax filings, assuming that they have full knowledge of all relevant information when making their examination.

The company applies significant judgement in identifying uncertainties over income tax treatments. Since the company operates in a complex environment, it assessed whether the Interpretation had an impact on its financial statements. The Company of the view that it is probable that its tax treatments will be accepted by the taxation authorities hence the Interpretation did not have an impact on the financial statements of the company. The Company reviewed its income tax treatments and concluded that no additional provisions required and disclosures relating to contingent liabilities have been made under Note 49.

## 23 EARNING PER SHARE (EPS)

### ACCOUNTING POLICY

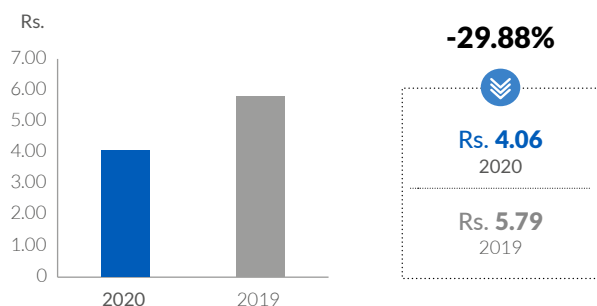
The Company presents basic and diluted earnings per share (EPS) for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the year.

Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

### 23.1 Basic earnings per share

For the year ended 31 December	2020	2019
<b>Amount used as the numerator:</b> Profit attributable to ordinary shareholders of the Company (Rs. '000)	1,521,483	2,172,843
<b>Number of ordinary shares used as the denominator:</b> Weighted average number of ordinary shares ('000)	375,000	375,000
<b>Basic earnings per share - (Rs.)</b>	<b>4.06</b>	5.79

#### Earning per Share



### 23.2 Diluted earnings per share

There were no potential dilutive ordinary shares outstanding at any time during the year. Therefore, diluted earnings per share is same as basic earnings per share shown in Note 23.1.

## 24 DIVIDEND PER SHARE (DPS)

#### ACCOUNTING POLICY

Dividend declared by the Board of Directors after the reporting date is not recognised as a liability and is disclosed as an event after the reporting period in accordance with the Sri Lanka Accounting Standard - LKAS 10 on "Events after the reporting period".

Dividend on Ordinary Shares are recognised as a liability and deducted from equity when they are approved by the Company's Board of Directors in accordance with the Article of Association, Subject to regulatory approval.

### Withholding tax on dividends

Withholding tax that arises from the distribution of dividends by the Company is recognised at the time the liability to pay the related dividend is recognised. As per Notice dated 18 February 2020 published by the Department of Inland Revenue, requirement to deduct WHT on dividends has been removed effective from 01 January 2020.

### 24.1 Dividend Declared as at Reporting Date

For the year ended 31 December	2020	2019
Dividend declared per share (Rs.)	2.50*	-
Number of ordinary shares ('000)	375,000	375,000
<b>Total dividend declared (Rs. '000)</b>	<b>937,500*</b>	-

\*Subject to regulatory approval

#### Interim Dividend Declared

The Board of Directors has declared a payment of an interim dividend of Rs. 2.50 per share for the Financial year 2020 subject to regulatory approval. In accordance with Sri Lanka Accounting Standards LKAS 10 - Events after the Reporting Period, this interim dividend has not been recognised as a liability as at 31st December 2020.

### 24.2 Compliance with the Section 56 and 57 of the Companies Act No. 7 of 2007

As required by the Section 56 of the Companies Act, No. 7 of 2007, the Board of Directors of the Company need to satisfy the Solvency Test in accordance with the Section 57, prior to recommending the dividend. A statement of solvency duly completed and signed by the Directors on 3rd March 2021 have been reviewed by Messrs. KPMG.

### 24.3 Dividend paid during the year

For the year ended 31 December	2020	2019
	Rs. '000	Rs. '000
Gross Interim Dividend for 2019 - Nil (2018 Rs.1.45 per share)	-	543,750
Withholding tax deducted at source	-	(21,586)
<b>Net dividend paid to the ordinary shareholders</b>	<b>-</b>	<b>522,164</b>

### 24.4 Non-cash assets distributed to owners

During the period ended 31 December 2020, the Company has not distributed non cash assets to its owners (2019 - Nil)

## NOTES TO THE FINANCIAL STATEMENTS

### 25 CLASSIFICATION OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

#### ACCOUNTING POLICY

Accounting policy relating to financial investment is given in Note 4.2 on page 262 and accounting policy relating to other financial assets is given on respective note as mentioned in the table.

The tables below provide a reconciliation between line items in the Statement of Financial Position and categories of financial assets and financial liabilities of the Company

#### 25.1 Financial assets

As at 31 December	Note	2020				
		Carrying Value				
		FVTPL	Amortised cost	FVOCI	Total carrying value	Total fair value
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	
Financial investments	30	4,104,034	19,213,703	4,050,055	27,367,792	27,253,226
Loans to life policyholders	31	-	234,462	-	234,462	234,462
Reinsurance receivables	32	-	323,288	-	323,288	323,288
Premium receivables	33	-	856,281	-	856,281	856,281
Receivables and other assets	34	-	66,792	-	66,792	66,792
Cash and cash equivalents	35	-	554,362	-	554,362	554,362
<b>Total financial assets</b>		<b>4,104,034</b>	<b>21,248,888</b>	<b>4,050,055</b>	<b>29,402,977</b>	<b>29,288,411</b>

As at 31 December	Note	2019				
		Carrying Value				
		FVTPL	Amortised cost	FVOCI	Total carrying value	Total fair value
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	
Financial investments	30	4,696,359	6,569,590	3,644,795	14,910,744	14,814,250
Loans to life policyholders	31	-	224,672	-	224,672	224,672
Reinsurance receivables	32	-	188,131	-	188,131	188,131
Premium receivables	33	-	743,549	-	743,549	743,549
Receivables and other assets	34	-	67,997	-	67,997	67,997
Cash and cash equivalents	35	-	377,093	-	377,093	377,093
<b>Total financial assets</b>		<b>4,696,359</b>	<b>8,171,032</b>	<b>3,644,795</b>	<b>16,512,186</b>	<b>16,415,692</b>

Carrying value and fair value of the class of financial investments are given in note 30.1 on page 321.

#### 25.2 Financial liabilities

Refer Note 4.3 on page 267 for accounting policy

As at 31 December	Note	2020		2019	
		Carrying value	Fair value	Carrying value	Fair value
		Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Financial liabilities at amortised cost</b>					
Loans and borrowings	42	2,852,245	2,852,245	-	-
Reinsurance payable	43	636,060	636,060	428,557	428,557
Bank overdraft	35	225,390	225,390	176,271	176,271
Other liabilities	44	1,533,578	1,533,578	999,553	999,553
<b>Total financial liabilities</b>		<b>5,247,273</b>	<b>5,247,273</b>	<b>1,604,381</b>	<b>1,604,381</b>

**26 INTANGIBLE ASSETS**

**ACCOUNTING POLICY**

**Recognition**

An intangible asset is recognised if it is probable that future economic benefits that are attributable to the asset will flow to the Company and the cost of the asset can be measured reliably in accordance with the Sri Lanka Accounting Standard – LKAS 38 - 'Intangible Assets'.

**Basis of measurement - Software**

Software acquired by the Company is initially measured at cost and subsequently stated at cost less accumulated amortisation and accumulated impairment losses.

Expenditure on internally developed software is recognised as an asset when the Company is able to demonstrate its intention and ability to complete the development and use the software in a manner that will generate future economic benefits and can reliably measure the costs to complete the development. The capitalised costs of internally developed software include all costs directly attributable to developing the software and capitalised borrowing costs, and are amortised over its useful life. Internally developed software is stated at capitalised cost less accumulated amortisation and impairment losses.

**Subsequent expenditure**

Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

**De-recognition**

An Intangible Asset is de-recognised on disposal or when no future economic benefits are expected from it. The gain or loss arising from the de-recognition of such intangible assets is included in other operating income in the Statement of Income when the item is derecognised.

**Research and development cost**

Research costs are expensed as incurred. Development expenditures on an individual project are recognised as an intangible asset when the Company can demonstrate:

- The technical feasibility of completing the intangible asset so that the asset will be available for use or sale.
- Its intention to complete and its ability to use or sell the asset.
- The asset will generate future economic benefits.
- The availability of resources to complete the asset.
- The ability to measure reliably the expenditure during development.
- The ability to use the intangible asset generated.

Following initial recognition of the development expenditure as an asset, the asset is carried at cost less any accumulated amortisation and accumulated impairment losses.

**Useful economic life, amortisation and impairment**

**Intangible assets with finite lives and amortisation**

Intangible assets with finite life are amortised over their useful economic life, from the date that it is available for use since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

The useful life, amortisation method and residual values for an intangible asset with a finite useful life are reviewed at each reporting date.

Changes in the expected useful life or the expected future economic benefits embodied in the asset are considered to modify the useful lives, method, or residual values as appropriate, and are treated as changes in accounting estimates.

**Amortisation expenditure**

The amortisation expense on intangible assets with finite life is recognised in the Income statement under other operating and administration expenses.

The Company recognised software as finite useful life assets and estimated useful life, residual values and amortisation method for the current and comparative periods is as follows,

Intangible assets	Estimated useful life	Residual value	Amortisation method
Computer software	5 Years	Nil	Straight-line basis over the estimated useful life of the software, from the date that it is available for use

**Intangible assets with indefinite useful life**

Intangible assets with indefinite useful life are tested for impairment annually either individually or at the CGU level. Such intangibles are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

The Company does not have intangible assets with indefinite useful life as at the reporting date. (2019 - Nil).

**Internally-generated intangible assets and separately acquired intangible assets**

As at the reporting date, the Company does not have development costs capitalised as an internally-generated intangible assets. Following represents separately acquired intangible assets.

## NOTES TO THE FINANCIAL STATEMENTS

### 26.1 Reconciliation of carrying amounts of intangible assets

For the year ended 31 December	2020 Rs. '000	2019 Rs. '000
<b>Computer software</b>		
<b>Cost</b>		
Balance as at 1 January	91,699	91,067
Acquisition during the year	106	632
<b>Balance as at 31 December</b>	<b>91,805</b>	<b>91,699</b>
<b>Accumulated amortisation and impairment losses</b>		
Balance as at 1 January	91,255	88,978
Amortisation for the year	146	2,277
<b>Balance as at 31 December</b>	<b>91,401</b>	<b>91,255</b>
<b>Carrying value as at 31 December</b>	<b>404</b>	<b>444</b>

### 26.2 Other Changes to Intangible assets

Other than disclosed in Note 26.1, there were no changes to the Intangible assets during the period under review (2019 – Nil).

### 26.3 Acquisition of intangible assets during the year

During the financial year, the Company paid Rs. 0.1 million (2019 - 0.6 million) to purchase intangible assets.

### 26.4 Fully amortised intangible assets in use

Fully amortised intangible assets in use as at reporting date were Rs. 91.1 million. (2019: Rs. 89.4 million).

### 26.5 Title restriction on intangible assets

There are no restrictions that existed on the title of the intangible assets of the Company as at the reporting date.

### 26.6 Intangible assets pledged as securities

There were no items pledged as securities for liabilities (2019 - Nil).

### 26.7 Assessment of impairment of intangible assets

The Board of Directors has assessed potential impairment loss of intangible assets as at 31 December 2020. Based on the assessment, no impairment provision is required to be made in the Financial Statements as at the reporting date in respect of intangible assets.

### 26.8 Capitalisation of borrowing costs

There were no capitalised borrowing costs relating to the acquisition of intangible assets during the year 2020 (2019 - Nil).

### 26.9 Individually material / significant intangible assets

There are no individual intangible assets that are material to the Financial Statements as at 31 December 2020 (2019 – Nil).

### 26.10 Amount of contractual commitment for acquisition of intangible assets

There are no contractual commitment for acquisition of intangible assets as at the reporting date.

## 27 PROPERTY, PLANT AND EQUIPMENT

### ACCOUNTING POLICY

#### Recognition and Measurement

The Company applies the requirements of the Sri Lanka Accounting Standard – LKAS 16 on 'Property, Plant and Equipment' in accounting for its owned assets which are held for and use in the provision of services, for rental to others or for administrative purposes and are expected to be used for more than one year.

#### Basis of recognition

Property, plant and equipment are recognised if it is probable that future economic benefits associated with the asset will flow to the Company and cost of the asset can be measured reliably.

#### Basis of measurement

An item of property, plant and equipment that qualifies for recognition as an asset is initially measured at its cost. Cost includes expenditure that is directly attributable to the acquisition of the asset and subsequent costs (excluding the costs of day - to - day servicing) as explained in below. The cost of self-constructed assets includes the followings;

- The cost of materials and direct labour;
- Any other costs directly attributable to bringing the asset to a working condition for its intended use.
- When the Company has an obligation to remove the asset or restore the site, an estimate of the costs of dismantling and removing the items and restoring the site on which they are located; and
- Capitalised borrowing costs.

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant, and equipment.

#### Subsequent measurement - Cost model

The Company applies the Cost Model to all property, plant and equipment except for freehold land and freehold building and records at cost of purchase together with any incidental expenses thereon, less accumulated depreciation and any accumulated impairment losses.



## 27 PROPERTY, PLANT AND EQUIPMENT (CONTD.)

### ACCOUNTING POLICY

#### Subsequent measurement - Revaluation model

The Company applies the Revaluation Model for the entire class of freehold land and freehold building for measurement after initial recognition. Such properties are carried at revalued amounts, being their fair value at the date of revaluation, less any subsequent accumulated depreciation on buildings and any accumulated impairment losses charged subsequent to the date of valuation. Freehold land and buildings of the Company are revalued by independent professional valuers every two years or more frequently if the fair values are substantially different from their carrying amounts to ensure that the carrying amounts do not differ from the fair values at the reporting date.

On revaluation of an asset, any increase in the carrying amount is recognised in revaluation reserve in equity through OCI or used to reverse a previous loss on revaluation of the same asset, which was charged to the Income Statement. In this circumstance, the increase is recognised as income only to the extent of the previous write down in value. Any decrease in the carrying amount is recognised as an expense in the Income Statement or charged to revaluation reserve in equity through OCI, only to the extent of any credit balance existing in the revaluation reserve in respect of that asset. Any balance remaining in the revaluation reserve in respect of an asset, is transferred directly to retained earnings on retirement or disposal of the asset.

Last revaluation was carried out by the Company for its all freehold land and freehold building as at 31 December 2019 (Next revaluation date is 31 December 2021). Methods and significant assumptions including unobservable market inputs employed in estimating the fair value together with the sensitivity of same are given in Note 27.13 on page 314.

#### Subsequent costs

The cost of replacing a component of an item of property or equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property and equipment are recognised in Income Statement as incurred.

#### Repairs and maintenance

Repairs and maintenance are charged to the Income Statement during the financial period in which they are incurred. The cost of major renovations is included in the carrying amount of the assets when it is probable that future economic benefits in excess of the most recently assessed standard of performance of the existing assets will flow to the Company and the renovation replaces an identifiable part of the asset. Major renovations are depreciated during the remaining useful life of the related asset.

#### Capital work in progress

Capital work - in - progress is stated at cost. These are expenses of a capital nature directly incurred on property, plant and equipment, awaiting capitalisation.

#### Cost of dismantling

The estimated costs of dismantling, removing, or restoring items of property, plant and equipment is Zero.

#### Carrying value

The carrying value of an asset or significant component of assets within a class is assessed annually with its fair value and where the fair value is less than the carrying value the asset is written down to its fair value. The consequent adjustment is recognised in the Income Statement.

The residual values of assets that are not insignificant are reassessed annually.

All classes of property, plant, and equipment together with the reconciliation of carrying amounts and accumulated depreciation at the beginning and at the end of the year are given in Note 27.1.

#### De - recognition

An item of property, plant and equipment is de-recognized upon disposal or when no future economic benefits are expected from its use. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in other operating income in the Income Statement in the year the asset is de - recognised.

When replacement costs are recognised in the carrying amount of an item of property, plant and equipment, the remaining carrying amount of the replaced part is de - recognised. Major inspection costs are capitalised. At each such capitalisation the remaining carrying amount of the previous cost of inspections is derecognised.

#### Borrowing costs

As per the Sri Lanka Accounting Standard - LKAS 23 on 'Borrowing Costs', the Company capitalises borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of the asset. A qualifying asset is an asset which takes a substantial period to get ready for its intended use or sale. Other borrowing costs are recognised in the Income Statement in the period in which they occur.

## NOTES TO THE FINANCIAL STATEMENTS

### Useful economic life, residual values and depreciation

#### Depreciation

The Company provides depreciation from the date the assets are available for use up to the date of disposal, at the following rates on a straight-line basis over the periods appropriate to the estimated useful lives of the different types of assets. Depreciation on revalued classes of assets is based on the remaining useful life of the assets at the time of the revaluation. Land is not depreciated.

Significant components of individual assets are assessed and if a component has a useful life that is different from the remainder of that asset, that component is depreciated separately.

Depreciation is recognised as an expense in the Income statement in other operating and administration expenses.

#### Useful economic lives, depreciation rate and residual values

The estimated useful lives of the property, plant and equipment for the current and comparative period are as follows:

Class of Asset	Depreciation percentage per annum	Estimated useful life	Residual values
Building	5%	20 years	Nil
Office equipment	20%	05 Years	Nil
Computer equipment	20%	05 Years	Nil
Furniture and fittings	10%	10 Years	Nil
Fixtures and fittings	20%	05 Years	Nil
Motor vehicle	25%	04 Years	Nil

Depreciation methods, useful lives and residual values are reassessed at each reporting date and adjusted if appropriate. The depreciation rates are determined separately for each significant part of an item of property, plant and equipment and commence to depreciate when it is available for use, i.e., when it is in the location and condition necessary for it to be capable of operating in the manner intended by the management. Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale or the date that the asset is derecognised.

#### 27.1 Reconciliation of gross carrying amount of property, plant and equipment

	Freehold land	Freehold building	Computer hardware	Office equipment	Furniture and fittings	Fixtures and fittings	Motor vehicles	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Cost / Revaluation</b>								
Balance as at 1 January 2019	120,000	116,000	133,120	202,105	153,961	367,627	16,751	1,109,564
Additions during the year	-	-	20,612	40,276	32,345	61,007	-	154,240
Surplus on revaluation	40,000	4,272	-	-	-	-	-	44,272
Transferred of accumulated depreciation on revalued assets	-	(14,272)	-	-	-	-	-	(14,272)
Disposals during the year	-	-	-	-	-	-	-	-
Balance as at 31 December 2019	160,000	106,000	153,732	242,381	186,306	428,634	16,751	1,293,804
Balance as at 1 January 2020	160,000	106,000	153,732	242,381	186,306	428,634	16,751	1,293,804
Additions during the year	-	-	26,211	9,658	8,050	88,579	-	132,498
Surplus on revaluation	-	-	-	-	-	-	-	-
Transferred of accumulated depreciation on revalued assets	-	-	-	-	-	-	-	-
Disposals during the year	-	-	-	-	-	-	-	-
<b>Balance as at 31 December 2020</b>	<b>160,000</b>	<b>106,000</b>	<b>179,943</b>	<b>252,039</b>	<b>194,356</b>	<b>517,213</b>	<b>16,751</b>	<b>1,426,302</b>

## Reconciliation of gross carrying amount of property, plant and equipment

	Freehold land	Freehold building	Computer hardware	Office equipment	Furniture and fittings	Fixtures and fittings	Motor vehicles	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Accumulated depreciation and impairment losses</b>								
Balance as at 1 January 2019	-	7,136	88,420	115,892	62,009	202,021	15,027	490,505
Depreciation for the year	-	7,136	17,803	32,386	14,582	68,472	1,724	142,103
Transferred of accumulated depreciation on revalued assets	-	(14,272)	-	-	-	-	-	(14,272)
Impairment loss	-	-	-	-	-	-	-	-
Disposals during the year	-	-	-	-	-	-	-	-
Balance as at 31 December 2019	-	-	106,223	148,278	76,591	270,493	16,751	618,336
Balance as at 1 January 2020	-	-	106,223	148,278	76,591	270,493	16,751	618,336
Depreciation for the year	-	7,456	20,061	32,352	16,564	70,605	-	147,038
Transferred of accumulated depreciation on revalued assets	-	-	-	-	-	-	-	-
Impairment loss	-	-	-	-	-	-	-	-
Disposals during the year	-	-	-	-	-	-	-	-
<b>Balance as at 31 December 2020</b>	-	7,456	126,284	180,630	93,155	341,098	16,751	765,374
<b>Carrying value as at 31 December 2020</b>	160,000	98,544	53,659	71,409	101,201	176,115	-	660,928
<b>Carrying value as at 31 December 2019</b>	160,000	106,000	47,509	94,103	109,715	158,141	-	675,468

**27.2 Other Changes to property, plant and equipment**

Other than disclosed in Note 27.1 there were no impact to property, plant and equipment from any other sources, such as, assets classified as held-for-sale, acquisitions through business combinations, increases resulting from impairment losses reversed in OCI or in the Income Statement, and from exchange differences during the period ended 2020.(2019 - Nil)

**27.3 Title restriction on property, plant and equipment**

There are no restrictions that existed on the title of the PPE of the Company as at the reporting date.

**27.4 Acquisition of property, plant and equipment during the year**

During the financial year, the Company acquired PPE to the aggregate value of Rs. 132.5 million (2019 - Rs. 154.2 million) by means of cash.

**27.5 Capitalisation of borrowing cost**

There were no capitalised borrowing costs related to the acquisition of property, plant and equipment during the year 2020 (2019 - Nil).

**27.6 Amount of contractual commitment for acquisition of property, plant and equipment**

Refer Note 47 for contractual commitment for acquisition of property, plant and equipment as at the reporting date.

**27.7 Temporarily Idle property, plant and equipment**

There are no temporarily idle property, plant or equipment as at the reporting date. (2019 - Nil)

**27.8 Impairment of property, plant and equipment**

The Board of Directors has assessed the potential impairment loss of PPE as at 31 December 2020 by considering the impact from the COVID-19 pandemic as well. Based on the assessment, no impairment provision is required to be made in the Financial Statements as at the reporting date in respect of PPE (2019 - Nil).

**27.9 Compensation from third parties for Items of property, plant and equipment**

There was no compensation received / receivable from third parties for items of property, plant and equipment that were impaired, lost or given up as at the reporting date.

**27.10 Fair value of property, plant and equipment**

The carrying amount of property, plant and equipment disclosed in Note 27.1 approximate their fair value as at the reporting date.

**27.11 Property, plant and equipment under construction**

As at the reporting date, there was no property, plant and equipment under construction (2019 - Nil).

## NOTES TO THE FINANCIAL STATEMENTS

**27.12 The details of freehold land and buildings which are stated at valuation are as follows;**  
(As required by the Rule No. 7.6 (viii) of the “Continuing Listing Requirements” of Colombo Stock Exchange)

Location	Extent perches (Land)	Square feet (Building)	Method of valuation	Effective date of valuation	Name of the independent professional valuer/ location and address	Revalued amount		Net book value before revaluation of		Revaluation gain on	
						Rs. '000	Rs. '000	Land	Building	Rs. '000	Rs. '000
<b>Land &amp; building</b>											
Situated at No. 283, R.A De Mel Mawatha, Colombo -03	8	11,824	Market comparable method and Investment Method	31 December 2019	Mr. P.B Kalugalagedara Chartered Valuation Surveyor No.521/7, Thimbrigasyaya Road, Colombo 5.	160,000	106,000	120,000	101,728	40,000	4,272

**27.13 Valuation techniques and significant unobservable inputs used in measuring fair value**  
(As required by the Rule No. 7.6 (viii) of the “Continuing Listing Requirements” of Colombo Stock Exchange)

The following table shows the valuation techniques used in measuring fair values, the significant unobservable inputs and sensitivity of the fair value measurement to changes in significant unobservable inputs.

Property	Effective Date of valuation	Valuation technique	Significant unobservable inputs	Range of estimates for unobservable inputs	Interrelationship between key unobservable inputs and Fair value measurement	Sensitivity of the fair value measurement to inputs
Land	31.12.2019	<b>Market comparable method</b> This method considers the selling price of a similar property within a reasonably recent period of time in determining the fair value of the property being revalued. This involves evaluation of recent market prices of similar assets, making appropriate adjustments for differences in size, nature, location, condition of specific property. In this process outlier transactions, indicative of particular motivated buyers or sellers are too compensated for since the price may not adequately reflect the fair market value.	Market value per perch	Rs. 20 Million (Estimated price per perch)	Positive correlated sensitivity	Estimated fair value would increase/ (decrease) if price per perch would increase/ (decrease)
Building	31.12.2019	<b>Investment method</b> This method involves capitalisation of the expected rental income at an appropriate rate of years purchase currently characterised by the real estate market.	Price per square foot for building	Rs.100-Rs.300 (Estimated price per square foot)	Positive correlated sensitivity	Price per square foot would increase/ (decrease) if gross annual rentals would increase/ (decrease)

**27.14 Revaluation surplus**

As at 31 December	2019		
	Land Rs. '000	Building Rs. '000	Total Rs. '000
Revalued amount	160,000	106,000	266,000
Carrying value (Prior to revaluation)	120,000	101,728	221,728
Revaluation surplus for 2019 Recognised in OCI	40,000	4,272	44,272
Revaluation surplus for 2019 Recognised in Income Statement	-	-	-

No revaluation was carried out as at 31 December 2020 in respect of land and building. Hence no gain or loss was recognised in the Income Statement or OCI for the year ended 31 December 2020.

**27.15 If Land and building were stated at historical cost, the amounts would have been as Follows;**

The carrying amount of Company's asset that would have been included in the Financial Statements had the asset being carried at cost less depreciation / amortisation as follows.

As at 31 December	2020		2019	
	Land Rs. '000	Building Rs. '000	Land Rs. '000	Building Rs. '000
Cost	85,620	92,955	85,620	92,955
Accumulated depreciation	-	(35,676)	-	(29,397)
Carrying value	85,620	57,279	85,620	63,558

**27.16 The effect of revaluation of freehold buildings on the Income Statement in the subsequent period is as follows;**

For the year ended 31 December	2020 Rs. '000	2019 Rs. '000
Depreciation charge per annum after revaluation	7,456	7,136
Depreciation charge per annum prior to revaluation	6,279	6,279
Decrease in profit in subsequent period	1,177	857

**27.17 Fair value hierarchy**

The fair value of the Land and Building was determined by an external independent property valuer, having appropriate recognised professional qualifications and experience in the category of the property being valued. The valuer provides the fair value of the property. Based on the valuation techniques used it has been classified under Level 3 in fair value hierarchy. Valuation techniques and significant unobservable inputs are disclosed under Note 27.13.

**27.18 Property, plant and equipment pledged as security for liabilities**

None of the property, plant and equipment have been pledged as securities for liabilities as at the reporting date (2019 - Nil).

**27.19 Property, plant and equipment retired from active use**

There were no property plant and equipment which are retired from active use as at the reporting date (2019 - Nil).

**27.20 Permanent fall in value of property, plant and equipment**

There has been no permanent fall in the value of property, plant and equipment which require an impairment provision recognised in the Financial Statements as at 31 December 2020 (2019 - Nil).

**27.21 Fully depreciated property, plant and equipment in use**

As at 31 December	2020 Rs. '000	2019 Rs. '000
Computer hardware	74,297	64,033
Office equipment	104,794	69,458
Furniture and fittings	31,179	27,376
Fixtures and fittings	189,983	142,373
Motor vehicle	16,732	16,732
<b>Total</b>	<b>416,985</b>	<b>319,972</b>

## NOTES TO THE FINANCIAL STATEMENTS

### 28 RIGHT OF USE ASSETS

#### ACCOUNTING POLICY

##### RECOGNITION

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

##### As a lessee

At commencement or on modification of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices.

However, for the leases of property, the Company has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

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

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

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate. Incremental borrowing rate ranges between 5.8% to 17.40%.

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

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

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

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

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

##### Depreciation expenses

Depreciation expenses has been charged to income statement under other operating and administration expenses.

##### Presentation of ROU asset and lease liabilities

The Company presents right-of-use assets that do not meet the definition of investment property in separate line as 'Right-of-use assets' and lease liabilities within 'Other Liabilities' in the Statement of Financial Position.

##### Short term leases and leases of low-value assets

The Company has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases, including IT equipment. The Company recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term

### 28.1 Right-of-Use assets

Information about leases for which the Company is a lessee is presented below.

#### Nature of the leasing activities

The Company has lease contracts for branches, typically made in between 1 to 5 years of lease term and have extension options. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.

#### Reconciliation of carrying amounts - building

As at 31 December	2020 Rs. '000	2019 Rs. '000
As at 1 January	408,044	398,022
Additions to right-of-use assets	552,420	147,386
Depreciation charge for the year	(195,008)	(127,115)
Derecognition of right-of-use assets	(13,063)	(10,249)
Change in fair value	-	-
<b>Balance as at 31 December</b>	<b>752,393</b>	<b>408,044</b>

### 28.2 Amounts recognised in profit or loss

As at 31 December	2020 Rs. '000	2019 Rs. '000
Interest expense on lease liabilities	71,533	57,625
Variable lease payments not included in the measurement of lease liabilities	-	-
Depreciation of right-of-use assets	195,008	127,115
Income from sub-leasing right-of-use assets presented in other operating income	-	-
Expenses relating to short-term leases	2,691	36,802
Expenses relating to leases of low-value assets, excluding short-term leases of low-value assets	-	-
	<b>269,232</b>	<b>221,542</b>

### 28.3 Amounts recognised in statement of cash flows

Lease payments for short-term leases, lease payments for leases of low-value assets and variable lease payments not included in the measurement of the lease liability are classified as cash flows from operating activities. The Company has classified the principal portion of lease payments within financing activities and the interest portion within operating activities. During the period the Company has not received cash from leases as the Company is the lessee.

For the year ended 31 December	2020 Rs. '000	2019 Rs. '000
Total cash out flow for leases	198,071	108,761

### 28.4 Sale-and-Lease back transactions

The Company does not have sale and leased back transactions as at the reporting date.

### 28.5 Sub leases

The Company does not have sub leased properties as at the reporting date.

### 28.6 Lease Terms - Extension Options

Refer Note 3.1.3 on page 260.

### 28.7 Impairment of ROU assets

As at the reporting date, No impairment loss has been recognized by the Company in respect of impairment of right of use assets due to the COVID-19 pandemic since as each business unit is operating under the business continuity plans as per the Company risk management strategy, to the extent possible, whilst strictly adhering to and supporting government directives.

### 28.8 Lease liabilities and related disclosures

The information relating to the movement of lease liabilities, maturity analysis and other disclosures relating to lease liabilities are provided in Note 44.3, 44.4 and 44.6 respectively.

## 29 DEFERRED TAXATION

### ACCOUNTING POLICY

Deferred tax is recognised by providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

#### Deferred tax is not recognized for;

- Temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- Temporary differences related to investments in subsidiaries, associates and jointly controlled entities to the extent that the Company is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and
- Taxable temporary difference arising on the initial recognition of goodwill.

#### Deferred tax assets

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary difference to the extent that it is probable that future taxable profit will be available against which they can be used. Future taxable profits are determined based on the reversal of relevant taxable temporary difference is insufficient to recognised a deferred tax asset in full, then future taxable profits, adjusted for reversal of existing temporary differences, are considered, based on the business plans.

## NOTES TO THE FINANCIAL STATEMENTS

Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised; such reduction are reversed when the probability of future taxable profits improves.

Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used.

### Deferred tax liabilities

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- Where the deferred tax liability arising from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor the taxable profit or loss; and
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

As explained in Note 22.3 the Company will compute taxes based on;

- Surplus distributed to shareholders from the Life insurance policyholders fund as certified by the actuary at a rate of 28% ;
- Investment income of the shareholder fund less any expenses incurred in the production of such income at a rate of 28% ;
- Surplus distributed to a Life Insurance policy holders at a rate of 14% (Up to 3 years from 2018. Thereafter at 28%).

Accordingly, the Directors are of the view that there will not be material temporary differences arising which will result in Deferred tax liabilities to be recognised as at reporting date (2019 - Nil).

### Offsetting

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

### Accounting judgements estimates and assumptions

#### Assessment of recoverability of deferred tax assets

The Board of Directors carefully analysed the availability of the future taxable profits against which the unused tax losses can be utilised. In this assessment the Company estimated the profitability using recently prepared internal budgets and plans after considering the potential impact from COVID-19 and going concern in a very conservative manner.

In this assessment, the Directors note the composition of the carried forward tax loss as given in the note 29.3. According to the recent budgets and plans of the Company, current estimated duration of recoverability of deferred tax asset is 2 years and 7 months until 2023.

Further the management carried out sensitivity analysis to enhance the assumption of the recoverability of the deferred tax assets and according to the sensitivity analysis performed internally, even if estimated profit is reduced by 10% , the Company will be able to utilised the entire tax losses within 2 years and 10 months from the reporting date until 2023.

According to the provision of act No. 24 of 2017, the Company can claim tax losses until 31 March 2024 in legal terms.

#### Recognition of deferred tax assets

The Company recognised a deferred tax asset consequent to the changes in the Inland Revenue No. 24 of 2017 described in Note 22. As per the Inland Revenue act No. 24 of 2017 which is effective from 1 April 2018, 100% of taxable income is allowed to be deducted against the tax losses incurred. According to the transitional provisions of the new Act, the brought forward tax loss can be claimed against taxable income for a period of 6 years commencing from the year of assessment 2018/19.

As at 31 December 2020, the cumulative business losses amounted to Rs. 5,793 million. Accordingly, a deferred tax of Rs. 1,622 million was recognised as at 31 December 2020.

Deferred tax is an estimate computed based on the assumptions on available information as at the reporting date. Hence these estimates are subject to change if there are further developments to any information, which the assumptions are based at the time of estimation (i.e. further clarifications to the new IRD act). Such changes to the estimates will be adjusted during the period the change occurs as explained in accounting policy number 3.2.7.

As at 31 December	2020 Rs.'000	2019 Rs.'000
Deferred tax assets	1,621,904	2,230,768
Deferred tax liabilities	-	-
<b>Net deferred tax asset</b>	<b>1,621,904</b>	<b>2,230,768</b>



### 29.1 Analysis of recognised deferred tax assets / liabilities in the Statement of Financial Position

As at 31 December	2020		2019	
	Temporary difference	Tax effect	Temporary difference	Tax effect
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Deferred tax assets on,</b>				
Carry forward tax losses	5,792,514	1,621,904	7,967,029	2,230,768
Other deductible temporary differences	-	-	-	-
	<b>5,792,514</b>	<b>1,621,904</b>	<b>7,967,029</b>	<b>2,230,768</b>
<b>Deferred tax liabilities on,</b>				
Taxable temporary differences	-	-	-	-
	-	-	-	-
Net recognised deferred tax assets	<b>5,792,514</b>	<b>1,621,904</b>	<b>7,967,029</b>	<b>2,230,768</b>

### 29.2 Movement of deferred tax assets and liabilities

As at 31 December	2020					
	Net balance as at 1 January	Recognised in income statement	Recognised in OCI	Net balance	Deferred tax assets	Deferred tax liabilities
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Deferred tax assets on,</b>						
Carry forward tax losses	2,230,768	(608,864)	-	1,621,904	1,621,904	-
Other deductible temporary differences	-	-	-	-	-	-
<b>Deferred tax liabilities on</b>						
Taxable temporary differences	-	-	-	-	-	-
<b>Net deferred tax assets / (liabilities)</b>	<b>2,230,768</b>	<b>(608,864)</b>	<b>-</b>	<b>1,621,904</b>	<b>1,621,904</b>	<b>-</b>

As at 31 December	2019					
	Net balance as at 1 January	Recognised in income statement	Recognised in OCI	Net balance	Deferred tax assets	Deferred tax liabilities
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Deferred tax assets on,</b>						
Carry forward tax losses	2,750,962	(520,194)	-	2,230,768	2,230,768	-
Other deductible temporary differences	-	-	-	-	-	-
<b>Deferred tax liabilities on</b>						
Taxable temporary differences	-	-	-	-	-	-
<b>Net deferred tax assets / (liabilities)</b>	<b>2,750,962</b>	<b>(520,194)</b>	<b>-</b>	<b>2,230,768</b>	<b>2,230,768</b>	<b>-</b>

## NOTES TO THE FINANCIAL STATEMENTS

### Temporary difference

As per the changes to the tax base explained in Note 22, there were no temporary differences arose other than temporary difference on carried forward tax losses and accordingly, the Company recognised deferred tax assets and no deferred tax liabilities were recognised as at the reporting date (2019 - Nil).

### 29.3 Analysis of tax losses

The composition of the tax losses as follows;

As at 31 December Description	2020 Rs. '000	2019 Rs. '000
Tax losses up to year of assessment 2009/10	1,966,664	1,966,664
Tax losses subject to tax assessments	8,312,766	5,600,808
Tax losses within the time bar	868,802	3,580,760
Tax losses utilised against taxable Income (cumulative)	(5,355,718)	(3,181,203)
Total carried forward tax losses as at 31 December	5,792,514	7,967,029
Unrecognised tax loss for deferred tax	-	-
<b>Carried forward tax losses for deferred tax as at 31 December</b>	<b>5,792,514</b>	<b>7,967,029</b>

Expiry date of carried forward tax loss as per the Inland Revenue Act. No. 24 of 2017, maximum of six years and this period end on 31 March 2024.

### 29.4 Movement of tax losses

For the year ended 31 December	2020 Rs. '000	2019 Rs. '000
Opening balance 01 January	7,967,029	10,556,893
Recognised tax loss during the year	-	-
During the year utilised tax loss against income tax liability	(2,174,515)	(2,589,864)
<b>Closing balance 31 December</b>	<b>5,792,514</b>	<b>7,967,029</b>

### 29.5 Unrecognised deferred tax liabilities

As at the reporting date there is no unrecognised deferred tax liabilities (2019 - Nil).

### 29.6 Deferred tax and income tax on items directly recognised in equity.

During the period ended 31 December 2020 the Company does not recognised deferred tax and income tax expenses on transactions which are directly recorded in equity (2019 Nil).

### 29.7 Unrecognised deferred tax assets

As at the reporting date there is no unrecognised deferred tax assets (2019 - Nil).

### 29.8 Unrecognised tax losses

As at the reporting there was no unrecognised tax loss as company has recognised all available tax loss which are expected to be utilised in future taxable profit (2019 - Nil).

### 29.9 Potential impact from change in corporate income tax rate

As instructed by the Ministry of Finance on 31 January 2020, a change in the income tax rate of a company from 28% to 24% has been proposed to the Inland Revenue Act No. 24 of 2017, pending formal amendments being made to the Act and to be implemented with effect from 1 January 2020. The Company is of the view that any expected change in the tax rate has to be virtually certain in order to consider as substantively enacted. Since the new tax rate of 24% has not been published through a gazette by the Parliament as at the date of authorising these Financial Statements, the new tax rate was not substantially enacted as at that date. According to CA guide line on application of the tax rate in measurement of deferred tax, substantively enacted rate shall be the rate legislated as of the reporting date. Accordingly, the Company has not provided for the potential changes to the deferred taxation at the rate of 24% as at 31 December 2020.

### 30 FINANCIAL INVESTMENTS

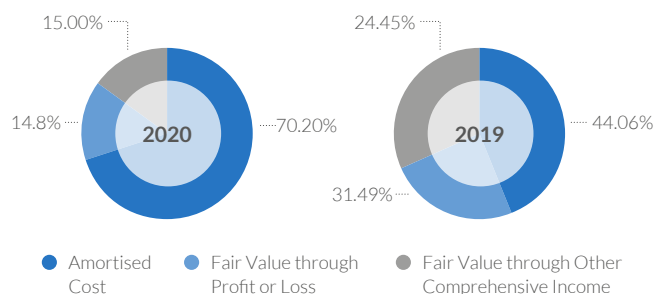
#### ACCOUNTING POLICY

Refer Notes 4.2 for the Accounting Policies on pages 262 to 267.

#### 30.1 The following table compare the fair values of the financial investments to their carrying values:

As at 31 December	Note	2020		2019	
		Carrying value	Fair value	Carrying value	Fair value
		Rs. '000	Rs. '000	Rs. '000	Rs. '000
Amortised Cost (AC)	30.2	19,213,703	19,099,137	6,569,590	6,473,096
Fair Value Through Other Comprehensive Income (FVOCI)	30.3	4,050,055	4,050,055	3,644,795	3,644,795
Fair Value through Profit or Loss (FVTPL)	30.4	4,104,034	4,104,034	4,696,359	4,696,359
<b>Total financial investments</b>		<b>27,367,792</b>	<b>27,253,226</b>	<b>14,910,744</b>	<b>14,814,250</b>

#### Analysis Based on Reporting Category (SLFRS)



#### Collateral for financial investments

Refer page 278 for collateral details for reverse repo investment held at the reporting date.

#### Investments supporting restricted regulatory reserve

Refer Note 40.20 on page 342 for composition of investments supporting the restricted regulatory reserve as per the direction issued by the IRCSL dated 20 March 2018.

#### Fair value of financial instruments

Methodologies and assumption used to determine the fair value of the financial investments are disclosed in Note 7 on pages 292 to 297 of these Financial Statements.

#### Disclosure of financial risk

The Company's exposure to credit, currency and interest rate risks related to investments are disclosed in Note 6.5 on pages 275 to 288 of these Financial Statements.

#### Analysis of financial investments based on characteristics

Following notes provide disclosure of the Financial Investments based on characteristics of the each class of Instruments.

#### 30.2 Financial assets measured at amortised cost

##### ACCOUNTING POLICY

##### Recognition

As per SLFRS 9 'Financial Instruments', a financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

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

##### Initial measurement

Financial Instruments classified as amortised cost are initially measured at fair value plus transaction costs that are directly attributable to acquisition or issue of such instrument.

##### Subsequent measurement

After initial measurement, these assets are subsequently measured at amortised cost (gross carrying amount using the EIR, less provision for impairment).

Amortised cost is calculated by taking into account any discount or premium if any, on acquisition and fee or costs that are an integral part of the EIR. The EIR amortisation is included in Finance Income in the Statement of Profit or Loss and losses arising from impairment are recognised as finance cost in the Income Statement.

##### Gain or loss on derecognition

Gains and losses are recognised in the Income Statement when the investments are derecognised or impaired, as well as through the amortisation process.

## NOTES TO THE FINANCIAL STATEMENTS

### Securities purchased under resale agreements (reverse repos)

When the Company purchases a financial asset and simultaneously enters into an agreement to resale the asset (or a similar asset) at a fixed price on a future date (reverse repo), the arrangement is accounted for as a financial asset in the SOFP reflecting the transaction's economic substance as a loan granted by the Company. Subsequent to initial recognition, these securities issued are measured at amortised cost using the EIR with the corresponding interest income/ receivable being recognised as interest income in the income statement.

### Financial Investments - Amortised cost

As at 31 December	Note	2020		2019	
		Carrying value	Fair value	Carrying value	Fair value
		Rs. '000	Rs. '000	Rs. '000	Rs. '000
Bank deposits	30.2.1	1,654,837	1,655,205	445,123	445,123
Debentures	30.2.2	5,442,447	5,511,028	4,502,647	4,404,438
Treasury bonds*		2,350,518	2,350,518	252,029	253,744
Sri Lanka development bonds		2,796,206	2,830,579	-	-
International sovereign bonds		2,723,500	2,504,879	-	-
Commercial papers		1,990,258	1,990,991	1,098,987	1,098,987
Overnight reverse Repo		2,255,937	2,255,937	270,804	270,804
<b>Total</b>		<b>19,213,703</b>	<b>19,099,137</b>	<b>6,569,590</b>	<b>6,473,096</b>

Gross and net carrying amount of above financial investments are given in Note 30.2.3 on page 324.

\*Reclassified from FVTPL to amortised cost with effect from 31 December 2021 (Refer Note 30.5 for reclassification).

### 30.2.1 Bank deposits

As at 31 December	2020		2019	
	Carrying value	Fair value	Carrying value	Fair value
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Licensed commercial banks	1,020,069	1,020,297	286,559	286,559
Licensed specialised banks	634,768	634,908	158,564	158,564
<b>Total</b>	<b>1,654,837</b>	<b>1,655,205</b>	<b>445,123</b>	<b>445,123</b>

## 30.2.2 Debentures

As at 31 December					2020		2019	
	Issue Rating	Maturity Date	Interest Rate %	No of Debentures	Carrying value Rs. '000	Fair value Rs. '000	Carrying value Rs. '000	Fair value Rs. '000
<b>Bank, Finance and Insurance</b>								
Citizens Development Business								
Finance PLC	A-	3-Jun-21	12.75	500,000	50,380	51,244	50,264	50,085
Commercial Bank of Ceylon PLC	AA-	8-Mar-21	10.75	500,000	50,897	51,924	47,199	48,033
Commercial Bank of Ceylon PLC	AA-	27-Oct-21	12.00	243,100	23,907	22,399	22,942	22,683
Commercial Bank of Ceylon PLC	AA-	22-Jul-28	12.50	1,267,000	133,704	133,729	133,687	126,698
DFCC Bank PLC	A-	23-Oct-25	9.00	4,000,000	406,154	406,805	-	-
DFCC Bank PLC	A-	9-Nov-23	12.75	500,000	50,327	50,658	50,234	50,000
DFCC Bank PLC	A-	29-Mar-25	13.00	2,000,000	219,220	219,732	219,394	199,926
DFCC Bank PLC	A+	28-Mar-29	13.90	1,564,100	172,540	172,969	172,676	172,708
DFCC Bank PLC	A-	23-Oct-25	9.00	1,500,000	152,309	152,552	-	-
DFCC Bank PLC	A-	29-Mar-23	12.60	500,000	54,679	54,646	54,730	54,280
First Capital Treasuries PLC	BBB+	6-Feb-20	9.50	250,000	-	-	24,965	24,945
First Capital Treasuries PLC	A-	30-Jan-25	12.75	500,000	52,624	52,690	-	-
Hatton National Bank PLC	AA+	14-Dec-24	8.33	500,000	49,995	37,694	49,983	37,490
Hatton National Bank PLC	AA+	29-Aug-23	8.00	185,256	15,321	17,065	14,303	13,843
Hatton National Bank PLC	AA-	28-Mar-21	11.25	1,000,000	106,812	109,368	100,805	101,985
Hatton National Bank PLC	AA-	1-Nov-23	13.00	370,200	37,331	40,473	37,195	37,120
Hatton National Bank PLC	AA-	23-Sep-26	12.80	663,900	68,596	68,695	68,582	68,595
Hatton National Bank PLC	AA-	23-Sep-26	12.80	413,300	42,703	42,765	42,694	42,702
HNB Finance Limited	A	30-Dec-24	13.20	1,000,000	99,976	100,036	99,952	100,034
Lanka Orix Leasing Company	A	31-Jul-22	13.00	1,000,000	105,318	105,829	105,381	99,933
Lanka Orix Leasing Company	A	27-Sep-24	15.00	3,000,000	311,203	321,642	311,388	318,979
Nations Development Bank PLC	A+	24-Sep-25	9.50	3,000,000	307,009	307,652	-	-
Nations Trust Bank PLC	BBB+	8-Nov-21	12.80	225,900	22,868	23,010	22,738	22,673
Nations Trust Bank PLC	BBB+	20-Apr-23	13.00	1,500,000	163,210	163,624	163,304	149,944
Nations Trust Bank PLC	BBB+	23-Dec-26	12.90	1,500,000	150,252	150,424	150,330	150,399
Nations Trust Bank PLC	BBB+	23-Dec-24	12.80	1,500,000	150,249	150,421	150,364	150,396
People's Leasing & Finance PLC	A+	16-Nov-21	12.60	1,000,000	101,024	101,553	100,688	100,323
People's Leasing & Finance PLC	A+	18-Apr-23	12.80	2,505,200	272,424	273,098	272,640	250,428
Sampath Bank PLC	A	10-Jun-21	12.75	500,000	53,056	53,563	52,255	50,672
Sampath Bank PLC	A	21-Dec-22	12.50	2,920,000	297,745	324,390	227,656	226,930
Sampath Bank PLC	A	28-Feb-24	13.90	2,000,000	223,002	252,022	222,984	232,756
Sampath Bank PLC	A	20-Mar-23	12.50	450,000	46,454	46,351	46,440	45,991
Seylan Bank PLC	BBB+	29-Mar-25	13.20	1,000,000	103,246	103,364	103,306	99,958
Seylan Bank PLC	BBB+	18-Apr-24	15.00	1,500,000	168,003	190,503	168,702	174,239
Seylan Bank PLC	BBB+	29-Mar-23	12.85	500,000	51,579	51,542	51,613	50,236
Seylan Bank PLC	BBB+	15-Jul-23	13.75	626,000	67,750	68,451	68,178	62,932
Singer Finance (Lanka) PLC	BBB	6-Apr-20	12.00	300,000	-	-	30,711	30,349
Siyapatha Finance PLC	A	20-Sep-21	13.50	168,000	17,036	17,434	16,613	17,157
Siyapatha Finance PLC	A	8-Aug-24	13.33	500,000	52,496	56,648	52,524	52,548
Siyapatha Finance PLC	A	7-Jul-23	11.25	717,600	75,492	75,675	-	-
Softlogic Capital PLC	BBB+	19-Dec-24	15.00	1,000,000	100,280	102,493	100,395	100,477
					4,627,171	4,725,133	3,607,815	3,538,447

## NOTES TO THE FINANCIAL STATEMENTS

### 30.2.2 Debentures (Contd.)

As at 31 December	Issue Rating	Maturity Date	Interest Rate %	No of Debentures	2020		2019	
					Carrying value	Fair value	Carrying value	Fair value
					Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Diversified holdings</b>								
Hayleys PLC	A+	26-Aug-24	13.00	3,651,100	381,088	351,212	381,343	381,466
				3,651,100	381,088	351,212	381,343	381,466
<b>Plantation</b>								
Kotagala Plantations PLC	C	26-May-20	14.75	463,750	-	-	41,331	37,099
Kotagala Plantations PLC	C	26-May-21	15.00	463,750	-	-	37,965	37,094
					-	-	79,296	74,193
<b>Telecommunication</b>								
Sri Lanka Telecom PLC	AA+	19-Apr-28	12.75	3,853,700	409,142	409,580	409,117	385,235
				3,853,700	409,142	409,580	409,117	385,235
<b>Trading</b>								
Abans PLC	BBB+	19-Dec-24	12.50	250000	25,046	25,103	25,076	25,097
					25,046	25,103	25,076	25,097
<b>Total</b>					<b>5,442,447</b>	<b>5,511,028</b>	<b>4,502,647</b>	<b>4,404,438</b>

### 30.2.3 Allowance for Expected Credit Loss (ECL) / impairment

SLFRS 9 requires impairment provision to be calculated based on Expected Credit Loss (ECL) for all financial assets that are not measured at Fair Value through Profit or Loss. As the default data set is low or near zero for the investment portfolio, company used external ratings for assessment of forward looking Probability of Defaults (PD) to estimate ECL. The 12-month PD estimates were obtained from Fitch/Moody's/S&P's ratings corresponding to the external ratings of the instrument. For the computation of Forward looking adjustments, the Company used Vasicek's model (Vasicek's, 2007) to calculate point in time PD. GDP Growth Rate is considered as one of the key macroeconomic input factors for arriving at forward looking point in time PDs.

#### Movement in ECL allowance during the year 2020

As at 31 December	2020							
	ECL							
	Gross carrying amount	As at 1 January 2020	Stage 1	Stage 2	Stage 3	Recognised in income statement	As at 31 December 2020	Net carrying amount
Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Financial investment at amortised cost</b>								
Bank deposits	1,655,205	113	255	-	-	255	368	1,654,837
Debentures	5,493,114	14,811	2,885	(13,404)	46,375	35,856	50,667	5,442,447
Treasury bonds	2,350,518	-	-	-	-	-	-	2,350,518
Sri Lanka development bonds	2,830,579	-	34,373	-	-	34,373	34,373	2,796,206
International sovereign bonds	2,756,960	-	33,460	-	-	33,460	33,460	2,723,500
Commercial papers	1,990,990	223	509	-	-	509	732	1,990,258
Overnight reverse Repo	2,255,937	-	-	-	-	-	-	2,255,937
<b>Total</b>	<b>19,333,303</b>	<b>15,147</b>	<b>71,482</b>	<b>(13,404)</b>	<b>46,375</b>	<b>104,453</b>	<b>119,600</b>	<b>19,213,703</b>

## Movement in ECL allowance during the year 2019

As at 31 December	2019								
	Gross carrying amount	As at 1 January 2019	ECL					As at 31 December 2019	Net carrying amount
			Stage 1	Stage 2	Stage 3	Recognised in income statement			
Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	

## Financial investment at amortised cost

Bank Deposits	445,236	324	(211)	-	-	(211)	113	445,123
Debentures	4,517,458	20,929	(2,332)	(3,786)	-	(6,118)	14,811	4,502,647
Treasury bonds	252,029	-	-	-	-	-	-	252,029
Commercial Papers	1,099,210	22	201	-	-	201	223	1,098,987
Overnight Reverse Repo	270,804	-	-	-	-	-	-	270,804
<b>Total</b>	<b>6,584,737</b>	<b>21,275</b>	<b>(2,342)</b>	<b>(3,786)</b>	<b>-</b>	<b>(6,128)</b>	<b>15,147</b>	<b>6,569,590</b>

## Sensitivity analysis

## Effect of significant changes in the gross carrying amount

The following table provides an explanation of how significant changes in the gross carrying amounts of financial instruments contributed to changes in the loss allowance.

As at 31 December 2020	Increase (decrease) in loss allowance			
	Stage 1	Stage 2	Stage 3	Total
Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
5 % increase in gross carrying amount	(3,702)	-	-	(3,702)
5 % decrease in gross carrying amount	3,624	-	-	3,624

Refer page 282 for sensitivity of ECL to future economic conditions.

Reconciliations gross carrying amounts by class of financial instrument and impairment allowances.

Refer note 30.2.3 and 6.5.2.1 on page 324 and 277 for reconciliation.

## Re-Classification of Financial Instruments at amortised cost

During the year the Company has not re-classified any financial instruments from this category. Refer note 30.5 for reclassification of financial instruments to Amortised cost from FVTPL

## Maturity Analysis

The Maturity analysis of financial assets measured at amortised cost is given in Note 6.5.3 (Table-22) on page 284.

## 30.3 Financial investments - Fair value through other comprehensive income

## ACCOUNTING POLICY

## Recognition

## Debt instruments measured at FVOCI

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated at FVTPL;

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

This comprises debt instruments and equity instruments.

## Initial measurement

Financial Instruments classified as FVOCI are initially measured at fair value plus transaction costs that are directly attributable to acquisition or issue of such instrument.

## Subsequent measurement

## Debt instruments at FVOCI

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in OCI. Interest income, foreign exchange gains and losses, ECL and reversals are recognised in Income Statement. On derecognition, cumulative gains or losses previously recognised in OCI are reclassified from OCI to Income Statement.

## NOTES TO THE FINANCIAL STATEMENTS

### Equity instruments designated at FVOCI

Upon initial recognition, the Company elects to classify irrevocably some of its equity investments held for strategic purpose, as equity instruments at FVOCI when they meet the definition of Equity under LKAS 32 "Financial Instruments: Presentation" and are not held for trading. Such classification is determined on an instrument-by-instrument basis.

Dividends are recognised in Income Statement as investment income when the right of the payment has been established. Equity instruments at FVOCI are not subject to an impairment assessment.

### Gain or Loss on derecognition

Gains and losses on these equity instruments are never recycled to Income Statement instead directly transferred to retained earnings at the time of derecognition.

### Financial Investments - Fair value through other comprehensive income

As at 31 December	Note	2020		2019	
		Carrying value	Fair value	Carrying value	Fair value
		Rs. '000	Rs. '000	Rs. '000	Rs. '000
Treasury bonds		1,586,018	1,586,018	1,771,633	1,771,633
Equity securities	30.3.1	2,464,037	2,464,037	1,873,162	1,873,162
<b>Total</b>		<b>4,050,055</b>	<b>4,050,055</b>	<b>3,644,795</b>	<b>3,644,795</b>

### 30.3.1 Equity securities

As at 31 December	2020		2019		2020		2019	
	Market price	Market price	No of shares	Fair value / carrying value	No of shares	Fair value / carrying value	No of shares	Fair value / carrying value
	Rs.	Rs.		Rs. '000		Rs. '000		Rs. '000
<b>Unlisted</b>								
<b>Banks, finance and insurance</b>								
Cargills Bank Limited	-	-	26,600,000	281,428	26,600,000	303,506		303,506
				281,428				303,506
<b>Listed</b>								
National Development Bank PLC	78.10	100.00	12,269,086	958,216	11,697,528	1,169,753		
Softlogic Finance PLC	11.70	16.70	15,688,030	183,550	6,033,858	100,765		
Commercial Bank of Ceylon PLC	80.90	-	1,335,526	108,044	-	-		
People's Leasing & Finance PLC	12.40	-	1,047,244	12,986	-	-		
Sampath Bank PLC	135.60	-	574,978	77,967	-	-		
				1,340,763	17,731,386	1,270,518		
<b>Diversified holdings</b>								
John Keells Holdings PLC	149.60	-	298,243	44,616	-	-		
Melstacorp PLC	52.00	-	1,204,686	62,644	-	-		
				107,260	-	-		
<b>Beverage, food and tobacco</b>								
Ceylon Cold Stores PLC	704.60	-	52,095	36,706	-	-		
<b>Construction and engineering</b>								
Access Engineering PLC	24.60	-	2,028,927	49,912	-	-		
<b>Footwear and textiles</b>								
Teejay Lanka PLC	38.00	-	1,602,215	60,884	-	-		
<b>Health Care</b>								
Asiri Hospitals PLC	34.50	20.00	14,956,877	516,012	14,956,877	299,138		



### 30.3.1 Equity securities (Contd.)

As at 31 December	2020		2019		2020		2019	
	Market price	Market price	No of shares	Fair value / carrying value	No of shares	Fair value / carrying value	No of shares	Fair value / carrying value
	Rs.	Rs.		Rs. '000		Rs. '000		Rs. '000
<b>Manufacturing</b>								
Lanka Tiles PLC	143.80	-	400,000	57,520	-	-	-	-
<b>Power and energy</b>								
Lanka IOC PLC	22.40	-	605,000	13,552	-	-	-	-
<b>Total Investments in Equity Shares</b>				<b>2,464,037</b>				<b>1,873,162</b>

### 30.3.2 Fair value of unlisted financial instruments

As per SLFRS 09 all the equity instruments including unlisted investments need to be measured at fair value. Accordingly, fair value of Cargills Bank investment was assessed as at the reporting date based on net assets per share adjusted for illiquidity. Total fair value of Cargills Bank investments at 31 December 2020 is Rs. 281 Mn.

Please Refer Note 7.4 on page 295 for valuation method and technique followed by the Company in determining the fair value unlisted financial instruments as at reporting date.

### 30.3.3 Impairment of financial investments - Fair value through other comprehensive income

Further Unlisted shares of Cargills Bank has been assessed for impairment as at reporting date and based on the assessment no impairment had been identified in the Financial Statements as at reporting date. During the assessment Company considered the following factors.

- Banking sector consolidation multiplier of 1.5 times as recommended by CBSL.

### 30.3.4 De-recognition of equity investments classified at FVOCI

During the period ended 31 December 2020, the Company has not de-recognised equity investments classified at FVOCI.

### 30.3.5 Re-classification of financial investments at fair value through other comprehensive income

During the year the Company has not re-classified any financial instruments from this category. Refer note 30.5 for reclassification of financial instruments to FVOCI from FVTPL.

### Provision for impairment

No impairment provision is required to be made in the Financial Statements as at the reporting date in respect of financial investments at fair value through other comprehensive Income since investment in FVOCI comprises of risk-free government securities and equity investments (2019 - Nil).

### Maturity analysis

The Maturity analysis of financial assets recognised through other comprehensive income is given in Note 6.5.3 (Table-22) on page 284.

### 30.4 Financial Investments - Fair Value through Profit or Loss (FVTPL)

#### ACCOUNTING POLICY

#### Recognition - Financial assets measured at FVTPL

All financial assets other than those classified at amortised cost or FVOCI are classified as measured at FVTPL. Financial assets at fair value through profit or loss include financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis as they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets and financial assets designated upon initial recognition at fair value through profit or loss.

#### Initial measurement

These investments are initially recorded at fair value.

#### Subsequent measurement

Subsequent to initial recognition, they are remeasured at fair value. Changes in fair value are recorded in 'Fair value gains and losses' in the Income Statement.

Interest is accrued and presented in 'Interest Income' or 'Finance cost', respectively, using the Effective Interest Rate (EIR). Dividend income is recorded in the "Net Finance Income" when the right to the payment has been established.

#### Financial assets designated at Fair Value through Profit or Loss

On initial recognition, the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL when such designation eliminates or significantly reduces an accounting mismatch that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis.

Financial assets designated at fair value through profit or loss are recorded in the SOFP at fair value. Changes in fair value are recorded in Net gain or loss on financial assets and liabilities designated at fair value through profit or loss.

## NOTES TO THE FINANCIAL STATEMENTS

The Company has not designated any financial assets upon initial recognition as at fair value through profit or loss as at the end of the reporting period.

As at 31 December	Note	2020		2019	
		Carrying value	Fair value	Carrying value	Fair value
		Rs. '000	Rs. '000	Rs. '000	Rs. '000
Equity securities	30.4.1	-	-	475,837	475,837
Treasury bonds		243,286	243,286	2,188,847	2,188,847
Treasury bills		956,035	956,035	-	-
Unlisted perpetual debentures		515,381	515,381	-	-
Unit trust	30.4.2	2,389,332	2,389,332	2,031,675	2,031,675
		4,104,034	4,104,034	4,696,359	4,696,359

### Maturity analysis

The Maturity analysis of financial assets at fair value through profit or loss is given in Note 6.5.3 (Table-22) on page 284.

### Fair value measurement

Methodologies and assumption used to determine the fair value of the financial instruments are disclosed in Note 7 on page 292 to the Financial Statements.

#### 30.4.1 Equity Securities (FVTPL) - Listed

As at 31 December	2020			2019		
	Market price	No of shares	Carrying / fair value	Market price	No of shares	Carrying / fair value
	Rs.		Rs. '000	Rs.		Rs. '000
<b>Banks, finance and insurance</b>						
Commercial Bank of Ceylon PLC	-	-	-	95.00	1,200,000	114,000
People's Leasing & Finance PLC	-	-	-	17.90	1,000,000	17,900
Sampath Bank PLC	-	-	-	162.40	574,978	93,376
						225,276
<b>Diversified holdings</b>						
John Keells Holdings PLC	-	-	-	167.60	35,000	5,866
Melstacorp PLC	-	-	-	43.50	1,204,686	52,404
						58,270
<b>Power and energy</b>						
Lanka IOC PLC	-	-	-	19.00	557,600	10,594
<b>Beverage, food and tobacco</b>						
Ceylon Cold Stores PLC	-	-	-	795.00	52,095	41,416
<b>Construction and engineering</b>						
Access Engineering PLC	-	-	-	21.80	2,028,927	44,231
<b>Footwear and textiles</b>						
Teejay Lanka PLC	-	-	-	40.80	1,602,215	65,370
<b>Manufacturing</b>						
Lanka Tiles PLC	-	-	-	76.70	400,000	30,680
<b>Total investments in listed equity shares</b>			-			475,837

As explained in Note 30.5 on page 329 equity investments at FVTPL has been reclassified to FVOCI with effective from 1 January 2020. Comparative information has not been changed due to this reclassification as disclosed in Note 30.5 on page 329.

### 30.4.2 Unit trusts

As at 31 December	2020	2019	2020		2019	
	Market price	Market price	No of units	Fair value / carrying value	No of units	Fair value / carrying value
	Rs.	Rs.		Rs. '000		Rs. '000
<b>Un-listed</b>						
NAMAL - High Yield Fund	24.63	22.52	14,506,779	357,338	2,352,842	52,998
Capital Alliance - Investment Grade Fund	19.74	17.74	37,303,919	736,375	3,621,220	64,247
Capital Alliance - Income Fund	-	18.23	-	-	59,069,637	1,076,839
First Capital - Money Market Fund	1,896.88	1,693.86	410,203	778,106	494,486	837,591
Softlogic Equity Fund	103.99	-	499,547	51,948	-	-
Softlogic Money Market Fund	103.71	-	4,489,212	465,565	-	-
<b>Total Investment in Unit Trusts</b>				<b>2,389,332</b>		<b>2,031,675</b>

### 30.5 Reclassifications financial investments

During the period ended 31 December 2020, the Company reclassified treasury bonds portfolio of policyholder fund from FVTPL to amortised cost and equity portfolio from FVTPL to FVOCI.

#### Reclassifications from FVTPL to FVOCI

In terms of SLFRS 9, presenting subsequent changes in fair value in other comprehensive income for equity instruments that would otherwise be measured at fair value through profit or loss is an irrevocable election at initial recognition.

However, the "Guidance Notes on Accounting Consideration of the COVID-19 Outbreak" issued by the Institute of Chartered Accountants of Sri Lanka on 11 May 2020, permitted entities to reclassify equity portfolio as an one off option, if the entity decides to change its business model as at 1 January 2020. Accordingly, the Company has reclassified equity instruments from FVTPL to FVOCI with effect from 1 January 2020. Subsequent to the reclassification, the gain or loss on disposal of equity shares are recognised in the statement of Profit or Loss and Other Comprehensive Income.

#### Reclassifications from FVTPL to Amortised cost

##### Business model change

In the current market deep end bonds are relatively low and in order to retain longer tenure treasury bonds portfolio to match with the longer tenure insurance contract liabilities company has decided to change the existing business model of held to sell treasury bond portfolio (FVTPL) of policyholder fund to held to collect business model (Amortised cost). Accordingly, the Company reclassified treasury bond portfolio of policyholder fund from fair value through profit or loss to amortised cost at market value with effect from 31 December 2020.

The table below sets out the financial assets reclassified and their carrying value and fair values.

	Amount reclassified Rs. '000	Carrying value Rs. '000	Fair value Rs. '000
Equity shares reclassified from FVTPL to FVOCI - as at 1 January 2020	475,838	475,838	475,838
Treasury bond portfolio of policyholder fund reclassified from FVTPL to amortised cost - as at 31 December 2020	2,350,518	2,350,518	2,350,518

## NOTES TO THE FINANCIAL STATEMENTS

The table below sets out the amounts recognised in income statement and other comprehensive income in respect of the financial assets reclassified from FVTPL to FVOCI and FVTPL to amortised cost.

For the year ended 31 December	2020	
	Income statement	Other comprehensive income
	Rs. '000	Rs. '000
<b>Equity shares reclassified from FVTPL to FVOCI</b>		
Net change in fair value	-	(6,709)
	-	(6,709)
<b>Treasury bond portfolio of policyholder fund reclassified from FVTPL to amortised cost</b>		
Interest income	196,247	-
Net impairment loss on financial assets	-	-
Net change in fair value	310,874	-
	507,121	-
<b>Total</b>	<b>507,121</b>	<b>(6,709)</b>

The effective interest rates on reclassified treasury bonds investment securities as at the reclassification date (31 December 2020) ranged from 10% to 13%.

### 30.6 Movement of Financial Investments

	Amortised Cost	Fair Value Through Other Comprehensive	Fair Value Through Profit and Loss	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
As at 1 January 2019	5,859,351	4,394,870	1,811,020	12,065,241
Initial ECL adjustment as per SLFRS 09	(21,275)	-	-	(21,275)
Adjusted balance as at 1 January 2019	5,838,076	4,394,870	1,811,020	12,043,966
Purchases	3,938,910	369,539	6,564,114	10,872,563
Maturities	(3,177,413)	-	-	(3,177,413)
Disposals	(449,953)	(877,202)	(4,130,885)	(5,458,039)
Re classification	-	(210,840)	210,840	-
ECL reversal	6,128	-	-	6,128
ECL adjustment as per SLFRS 09	(15,147)	-	-	(15,147)
Fair value gains recorded in the Income Statement	-	-	231,597	231,597
Fair value gains recorded in the Other Comprehensive Income	-	2,005	-	2,005
Amortisation adjustment	413,842	(33,577)	9,673	389,938
As at 31 December 2019	6,569,590	3,644,795	4,696,359	14,910,744
As at 1 January 2020	6,569,590	3,644,795	4,696,359	14,910,744
Purchases	24,299,421	225,214	4,201,373	28,726,008
Maturities	(7,395,995)	-	-	(7,395,995)
Disposals	(6,902,439)	(466,977)	(2,442,431)	(9,811,847)
Re classification	2,350,518	475,838	(2,826,356)	-
ECL adjustment as per SLFRS 09	(104,453)	-	-	(104,453)
Foreign exchange gain	24,756	-	-	24,756
Fair value gains recorded in the Income Statement	-	-	464,044	464,044
Fair value gains recorded in the Other Comprehensive Income	-	191,197	-	191,197
Amortisation adjustment	372,305	(20,012)	11,045	363,338
As at 31 December 2020	19,213,703	4,050,055	4,104,034	27,367,792

### 31 LOANS TO LIFE POLICYHOLDERS

#### ACCOUNTING POLICY

Policyholder Loans are granted up to 90% of the surrender value of a life insurance policy at a rate equivalent to market rate. Policyholder loans are initially measured at fair value of loan amount granted and subsequently measured at the amortised cost. If the policyholder dies before the full repayment of the loan, the loan balance is deducted from the death benefit.

As at 31 December	2020 Rs. '000	2019 Rs. '000
Balance as at 01 January	224,672	161,001
Loans granted during the year	62,068	103,066
Repayments during the year	(78,456)	(69,294)
Change in interest receivable	26,178	29,899
<b>Balance as at 31 December</b>	<b>234,462</b>	<b>224,672</b>

#### Maturity analysis

Maturity analysis of loans to policyholder is given in Note 6.5.3 (Table-22) on page 284.

#### 31.1 Collateral details

The surrender value of the policy loans granted to policyholders as at 31 December 2020 amounted to Rs. 347 million. (2019 - Rs. 325 million).

#### 31.2 Financial risk disclosure on loans to life policyholders

If the total receivable of the loan, including interest due and accrued, exceeds the cash surrender value, the policy terminates and becomes void. The Company has a first lien on all policies which are subject to policy loans. This mitigates the Company's credit exposure on policy loans. For more information please refer Risk Management Note 6.5.2.2 on page 282.

#### 31.3 Fair value of loans to life policyholders

The fair value of the policyholder loans are equal to its carrying value as those are given at competitive market rates.

#### 31.4 Concentration risk of loans to life policyholders

There is a lower concentration of credit risk with respect to policyholders as the Company has a large number of dispersed receivables.

#### 31.5 Number of policy loans

Number of policy loans due as at 31 December 2020 was 1,462 (2019 - 1,420)

#### 31.6 Impairment of loans to life policyholder

Policyholder loans are reviewed for impairment at each reporting date. The Board of Directors has assessed potential impairment loss as at 31 December 2020. Based on the assessment, no impairment provision is required to be made in the Financial Statements as at the reporting date in respect of loans to life policyholder.

### 32 REINSURANCE RECEIVABLES

#### ACCOUNTING POLICY

The Company cedes insurance risk in the normal course of business for all of its businesses. Reinsurance receivables represent balances due from reinsurance companies. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsurer's policies and are in accordance with the related reinsurance contract.

Reinsurance is recorded gross in the Statement of Financial Position unless a right to offset exists.

Reinsurance assets are reviewed for impairment based on the expected loss model at each reporting date. When computing the probabilities of default, the company consider the external credit rating of the reinsures and use PD's published by external source (i.e S&P) LGD is assumed to be at 45% in accordance with CBSL guidelines. The impairment loss is recorded in income statement.

Ceded reinsurance arrangements do not relieve the Company from its obligations to policyholders.

Reinsurance assets are derecognised when the contractual rights are extinguished or expire or when the contract is transferred to another party.

As at 31 December	2020 Rs. '000	2019 Rs. '000
Reinsurance receivable on outstanding claims	62,788	110,966
Reinsurance receivable on settled claims net of dues	260,500	77,165
<b>Total Reinsurance Receivables</b>	<b>323,288</b>	<b>188,131</b>

#### 32.1 Reinsurance receivable on outstanding claims

This includes reinsurance reserves on claims that has not been paid and the reinsurance receivable has not been received.

#### 32.2 Collateral details

The Company does not hold any collateral as security against potential default by reinsurance counter parties.

#### 32.3 Impairment of reinsurance receivables

The Board of Directors has assessed potential impairment loss of reinsurance receivables as at 31 December 2020. Based on the assessment, no impairment provision is required to be made in the Financial Statements as at the reporting date in respect of reinsurance receivables.

## NOTES TO THE FINANCIAL STATEMENTS

### 32.4 Fair value of reinsurance receivables

The Carrying value of reinsurance receivables approximate the fair value at the reporting date.

### 32.5 The age analysis of the reinsurance receivable on settled claims is as follows,

As at 31 December	2020 Rs. '000	2019 Rs. '000
Up to 180 days	194,846	66,292
181 to 365 days	65,654	10,873
<b>Total</b>	<b>260,500</b>	<b>77,165</b>

### 32.6 Reinsurance receivable past due but not impaired (on paid claims)

As at 31 December 2020, there were no reinsurance receivable past due but not impaired (2019 - Nil). These relate to parties where there were no recent history of default.

### 32.7 Risk management practices

Risk management practices on reinsurance receivables are discussed under Note 6.3.3 on page 274.

## 33 PREMIUMS RECEIVABLE

### ACCOUNTING POLICY

Premiums receivable are recognised when due and measured on initial recognition at the fair value of the consideration receivable.

The carrying value of premiums receivable is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable.

Impairment losses on premiums receivable are the difference between the carrying amount and the recoverable amount. The impairment losses are recognised in the Income Statement.

The life insurance premiums for policies within 30 days grace period are considered as due premium, subject to a provision for premium default. Premium default ratio is computed by analysing the default history. Commission and reinsurance premium relating to that accrued income are also recorded in the same manner.

As at 31 December	Note	2020 Rs. '000	2019 Rs. '000
<b>Premiums receivable from;</b>			
Non related parties		733,732	675,799
Related parties	33.1	122,549	67,750
<b>Total Premiums Receivable</b>		<b>856,281</b>	<b>743,549</b>

### 33.1 Premium receivables from related parties

As at 31 December	Note	2020 Rs. '000	2019 Rs. '000
<b>Premium receivables from,</b>			
Parent Company - Softlogic Capital PLC	46.12	62	122
Ultimate parent Company - Softlogic Holdings PLC	46.6.2 & 46.13.1	411	158
Other related entities	46.13.1	122,076	67,470
<b>Total</b>		<b>122,549</b>	<b>67,750</b>

### 33.2 Impairment of premiums receivable

The Board of Directors has assessed potential impairment loss of premium receivables of the Company as at 31 December 2020. Based on the assessment, impairment loss of Rs. 18 Million was recognised in the financial statements as at 31 December 2020 (2019 - Nil) in respect of premium receivables.

### 33.3 Collateral details

The Company does not hold any collateral as security against potential default by policyholders.

### 33.4 Fair value of premiums receivable

The carrying value disclosed above approximates the fair value at the reporting date.

### 33.5 Risk management initiatives relating to premiums receivable

Risk management practices on premium receivables are discussed under Note 6.5.2.4 on page 283.

### 34 RECEIVABLES AND OTHER ASSETS

#### ACCOUNTING POLICY

Refer accounting policy in Note 4.2 on Page 262 for financial assets

#### Inventories

Inventories are measured at the lower of cost or net realisable value. Cost is generally determined by reference to weighted average cost. Net realisable value is estimated market price in the ordinary course of business less any estimated expense to sell.

As at 31 December	Note	2020 Rs. '000	2019 Rs. '000
<b>Financial assets</b>			
Refundable deposits		66,792	65,597
Receivable from related parties		-	-
Receivable from Fairfirst Insurance Ltd		-	2,400
<b>Total financial assets</b>		<b>66,792</b>	<b>67,997</b>
<b>Non financial assets</b>			
Inventories		8,468	6,196
Tax recoverable	34.2	111,073	137,139
Advances and prepayments		519,760	660,562
Others		128,295	52,067
<b>Total non financial assets</b>		<b>767,596</b>	<b>855,964</b>
<b>Total receivables and other assets</b>		<b>834,388</b>	<b>923,961</b>

#### 34.1 Maturity analysis

Refer Note 6.5.3 (Table-22) on page 284 for maturity analysis of other assets.

#### 34.2 Tax recoverable

As at 31 December	Note	2020 Rs. '000	2019 Rs. '000
WHT receivable		99,813	96,903
Notional tax recoverable	34.2.1	11,260	40,236
		<b>111,073</b>	<b>137,139</b>

#### 34.2.1 Notional tax on government securities

As at 31 December	2020 Rs. '000	2019 Rs. '000
<b>Balance as at 1 January</b>	<b>40,236</b>	-
Notional tax addition during the year	-	-
Notional tax utilised during the year	(40,322)	(64,764)
Write back / (Write off) of notional tax recoverable	11,346	105,000
<b>Balance as at 31 December</b>	<b>11,260</b>	<b>40,236</b>

#### 34.3 Fair value of receivables and other assets

Other financial receivables are carried at notional amounts, and are generally settled within one year. The notional and fair value amounts do not vary significantly.

#### 34.4 Loans granted to directors

No loans have been granted to the Directors of the Company.

### 35 CASH AND CASH EQUIVALENTS

#### ACCOUNTING POLICY

Cash and cash equivalents comprise cash in hand, demand deposits and short-term highly liquid investments, readily convertible to known amounts of cash and subject to insignificant risk of changes in value.

Bank overdrafts, if any, which form an integral part of cash management, are included as a component of cash and cash equivalents for the purposes of the Statement of Cash Flows. In the Statement of Financial Position, bank overdrafts are included under liabilities.

As at 31 December	2020 Rs. '000	2019 Rs. '000
Cash in hand	5,921	5,830
Cash at bank	548,441	371,263
<b>Total cash and cash equivalents</b>	<b>554,362</b>	<b>377,093</b>

#### 35.1 Cash and cash equivalent in the Statement of Cash Flows

As at 31 December	2020 Rs. '000	2019 Rs. '000
Cash in hand and at bank	554,362	377,093
Bank overdrafts used for cash management purpose	(225,390)	(176,271)
<b>Cash and cash equivalents in the Statement of Cash Flows</b>	<b>328,972</b>	<b>200,822</b>

#### 35.2 Fair value of cash and cash equivalents

The carrying amounts disclosed above reasonably approximate to fair value at the reporting date.

#### 35.3 Risk management initiatives relating to cash and cash equivalents

Refer Note 6.5.2.6 on page 283 for risk management initiatives relating to cash and cash equivalents

## NOTES TO THE FINANCIAL STATEMENTS

### 36 STATED CAPITAL

#### ACCOUNTING POLICY

The Company has issued ordinary shares that are classified as equity instruments. Incremental external costs that are directly attributable to the issue of these shares are recognised in equity, net of tax.

#### 36.1 Rights of ordinary shareholders

The shares of Softlogic Life Insurance PLC are quoted in the Colombo Stock Exchange Diri Savi Board. All issued shares are fully paid. There is one class of ordinary shares. All shares issued carry equal voting rights. The holders of ordinary shares are entitled to receive dividends as declared from time to time, and are entitled to one vote per share at the meetings of the Company.

#### Movement in ordinary voting shares

As at 31 December	No. of shares	Amount Rs. '000
<b>Fully paid ordinary shares</b>		
As at 1 January 2019	375,000,000	1,062,500
Share issue / Re purchase	-	-
As at 31 December 2019	375,000,000	1,062,500
Share issue / Re purchase	-	-
<b>As at 31 December 2020</b>	<b>375,000,000</b>	<b>1,062,500</b>

Refer share information section in page 363 for more information on the composition of shares in issue as at 31 December 2020.

#### 36.2 Tier II Capital

On 24th August 2020, the Company entered Tier II Subordinated debt transaction to provide funding to future development of the business objectives of the Company. Details on Tier II capital is given in Note 42 on page 345.

### 37 RETAINED EARNINGS

As at 31 December	2020 Rs. '000	2019 Rs. '000
Balance as at 1 January	7,764,216	6,275,417
Impact of adoption of SLFRS 9	-	(20,766)
<b>Adjusted balance as at 1 January</b>	<b>7,764,216</b>	<b>6,254,651</b>
Realised losses on equity instruments directly recognised in equity	-	(102,444)
Profit for the year	1,521,483	2,172,843
Defined benefit plan actuarial gain / (losses) on net of tax	4,648	(17,084)
Dividend paid	-	(543,750)
<b>Balance as at 31 December</b>	<b>9,290,347</b>	<b>7,764,216</b>

### 38 RESTRICTED REGULATORY RESERVE

#### Nature and purpose of reserve

The Insurance Regulatory Commission of Sri Lanka (IRC SL) has issued a Direction No 16 on 20 March 2018 on "Identification and Treatment of One-off Surplus" and has instructed all Life Insurance Companies to comply with the new direction. Based on the guideline Life Insurance Companies are allowed to transfer One-off surplus attributable to Policyholder Non-Participating Fund to Shareholder Fund as at the reporting year ended 31 December 2017. The transfer has been presented as a separate reserve in the Statement of Financial Position as "Restricted Regulatory Reserve" under Equity in accordance with the direction 16. The distribution of One-off Surplus to shareholders as dividend shall remain restricted until the requirements disclosed in Note 40.19 are met. As required by the said direction, the Company received the approval for this transfer on 29 March 2018.

As per the Direction 16 following the transfer of one off surplus to shareholders fund, the shareholders fund is required to maintain investment in government debt securities and deposits to fully support the amount of one off surplus at any given time. Accordingly the company has allocated adequate assets to support restricted reserve as at 31 December 2020 and the asset details are disclosed in Note 40.20 in page 342.

As at 31 December	2020 Rs. '000	2019 Rs. '000
Balance as at 1 January	798,004	798,004
Transfer of One-off Surplus from policyholder fund	-	-
<b>Balance as at 31 December</b>	<b>798,004</b>	<b>798,004</b>

#### 38.1 Composition of investments supporting the restricted regulatory reserve

Refer Note 40.20 in page 342 for details

### 39 OTHER RESERVES

As at 31 December	Note	2020 Rs. '000	2019 Rs. '000
Fair value reserve	39.1	(1,307,312)	(1,498,509)
Revaluation reserve	39.2	92,708	92,708
<b>Total other reserve</b>		<b>(1,214,604)</b>	<b>(1,405,801)</b>



### 39.1 Fair value reserve

As at 31 December	2020 Rs. '000	2019 Rs. '000
Balance as at 1 January	(1,498,509)	-
Impact of adopting SLFRS 9	-	(1,500,514)
<b>Adjusted balance as at 1 January</b>	<b>(1,498,509)</b>	<b>(1,500,514)</b>
<b>Net fair value gains / (losses) on remeasuring financial assets fair value through other comprehensive income from;</b>		
Equity instruments	(110,176)	(324,202)
Debt instruments	287,106	201,242
Reclassification from other comprehensive income to income statement - Debt instruments	14,267	22,521
Realised losses directly recognised in equity - Equity instruments	-	102,444
<b>Balance as at 31 December</b>	<b>(1,307,312)</b>	<b>(1,498,509)</b>

#### 39.1.1 Nature and purpose of Fair value reserve

The Company has adopted SLFRS 9 Financial Instruments Accounting Standard with effect from 1 January 2019. Accordingly fair value reserve comprises the balance transferred from available for sale reserve as a result of transition to SLFRS 9 from LKAS 39 as at 1 January 2019 and cumulative net change in fair value of financial assets measured at fair value through other comprehensive income until such investments are derecognised or impaired.

### 39.2 Revaluation reserve

#### ACCOUNTING POLICY

The revaluation reserve relates to revaluation of freehold land and buildings and represents the fair value changes of the land and buildings as at the date of revaluation.

As at 31 December	Note	2020 Rs. '000	2019 Rs. '000
Balance as at 1 January		92,708	48,436
Gain on revaluation of land and building	27.14	-	44,272
<b>Balance as at 31st December</b>		<b>92,708</b>	<b>92,708</b>

#### 39.2.1 Nature and purpose of revaluation reserve

On revaluation of an asset, any increase in the carrying amount is recognised in revaluation reserve in equity through OCI or used to reverse a previous loss on revaluation of the same asset, which was charged to the Income Statement. In this circumstance, the increase is

recognised as income only to the extent of the previous write down in value. Any decrease in the carrying amount is recognised as an expense in the Income Statement or charged to revaluation reserve in equity through OCI, only to the extent of any credit balance existing in the revaluation reserve in respect of that asset. Any balance remaining in the revaluation reserve in respect of an asset, is transferred directly to retained earnings on retirement or disposal of the asset.

## 40 INSURANCE CONTRACT LIABILITIES

### ACCOUNTING POLICY

#### 40.1 Recognition and Measurement

Life insurance liabilities are recognised when contracts are entered into and premiums are charged. These liabilities are measured on a market consistent basis in accordance with the Solvency Margin (Risk Based Capital) Rules 2015 (RBC) with effect from 1 January 2016, issued under Sections 105 and 26 (1) of the Regulation of Insurance Industry Act No. 43 of 2000. However, period up to 31 December 2015, the Company used Net Premium Valuation (NPV) methodology to calculate insurance liability in accordance with Solvency Margin (Long Term Insurance) Rules 2002.

As per RBC rules w.e.f 1 January 2016 the value of the life insurance liabilities are determined as follows;

**Life insurance liabilities = Best Estimate long term liability (BEL) + Risk Margin for adverse deviation (RM)**

Best estimate liability is measured sum of the present value of all future best estimate cash flows calculated as per the RBC principles and the discount rate estimated as per the clarification note issued by CA Sri Lanka for financial reporting.

Measurement is usually based on the prospective method, by determining the difference between the present values of future benefits and future premiums. The actuarial assumptions used for their calculation includes, in particular, assumptions relating to;

- Mortality rates
- Persistence rates
- Morbidity rates
- Expense and future inflation
- Participating fund yield
- Discount rates

Assumptions are estimated on a realistic basis at the end of financial year with provision for adverse deviation to make allowance for the risks of change and random fluctuations. Further in valuing the policy liabilities, provisions for reinsurance have been allowed in accordance with applicable reinsurance terms as per current reinsurance arrangements.

## NOTES TO THE FINANCIAL STATEMENTS

There are no implicit or explicit surrender value floor has been assumed for the value of liabilities for a contract. Instead, in accordance with the guidelines, the impact of surrender value deficiency is captured in the risk charge capital calculation through the Surrender Value Capital Charge (SVCC). However any negative liabilities that arise have been zeroised at product level when determining the aggregate liability.

### De - recognition

The liability is de-recognised when the contract expires, is discharged or is cancelled.

At each reporting date, an assessment is made of whether the recognized life insurance liabilities are adequate by performing liability adequacy test.

### 40.2 Accounting judgements, estimates and assumptions

#### Product classification

##### Insurance contracts

SLFRS 4 requires contracts written by insurers to be classified as either insurance contracts or investment Contracts depending on the level of insurance risk transferred Insurance contracts are contracts under which one party (the Insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder. Significant insurance risk exists if an insured event could cause an insurer to pay significant additional benefits in any scenario, excluding scenarios that lack commercial substance (i.e have no discernible effect on the economics of the transaction). The classification of contracts identifies both the Insurance contracts that the Company issues and reinsurance contracts that the company holds. Contracts where the Company does not assume an insurance risk is classified as investment contracts.

##### Investment contracts

Investment contracts are those contracts that transfer significant financial risks and no significant insurance risks. Financial risk is the risk of a possible future change in one or more of a specified interest rates, financial instrument prices, commodity prices, foreign exchange rates, index of price or rates, credit ratings or credit index or other variables, provided in the case of a non-financial variable that the variable is not specific to a party to the contract.

##### Subsequent classification

Once a contract has been classified as an insurance contract it remains an insurance contract for the remainder of its lifetime even if the insurance risk reduces significantly during this period unless all rights and obligations are extinguished or expired. Investment contracts can, however, be reclassified as insurance contracts after inception if insurance risk becomes significant.

Insurance and investment contracts are further classified as being either with or without discretionary participating features.

### Discretionary Participating Features (DPF)

DPF is a contractual right to receive, as a supplement to guaranteed benefits, additional benefits that:

- are likely to be a significant portion of the total contractual benefits;
- the amount or timing of which is contractually at the discretion of the issuer: and contractually based on:
- The performance of a specified pool of contracts or a specified type of contract,
- Realised and or unrealised investment returns on a specified pool of assets held by the issuer, and
- The profit or loss of the company, fund or other entity that issues the contract

IRCSL regulations and the terms and conditions of these contracts set out the bases for the determination of the amounts on which the additional discretionary benefits are based. (the DPF eligible surplus) and within which the Company may exercise its discretion as to the quantum and timing of their payment to contract holders. At least 90% of the eligible surplus must be attributed to contract holders as a group (which can include future contract holders) and the amount and timing of the distribution to individual contract holders is at the discretion of the Company, subject to the advice of the appointed actuary. All DPF liabilities including unallocated surpluses, both guaranteed and discretionary, at the end of the reporting period are held within insurance contract liabilities as appropriate.

Refer note 3.2.1 for more information on use of judgements, estimates and assumptions relating to insurance contract liabilities

### 40.3 Insurance contract liabilities

As at 31 December	Note	2020 Rs. '000	2019 Rs. '000
Life insurance fund		15,784,544	8,682,545
Surplus created due to change in valuation method from NPV to GPV	40.18	1,056,535	1,056,535
<b>Life fund with one-off surplus</b>	40.4	<b>16,841,079</b>	9,739,080
Claims payables / Unclaimed benefits	40.22	642,626	638,022
<b>Total insurance contract liabilities</b>		<b>17,483,705</b>	10,377,102

### Impact of COVID-19 outbreak

There is no material impact on the insurance contract liabilities due to COVID-19 outbreak as at 31 December 2020 since insurance contract liabilities are determined by using the discount rate and methodology as disclosed in Note 40.9. However, COVID-19 outbreak has impacted to insurance business. Refer integrated risk management report on page 224 to 240 for more details on the risk and risk management initiatives.

Details of policy liabilities for the participating and non-participating funds are provided as follows.

As at 31 December	2020			2019		
	Participating	Non-participating	Total	Participating	Non-participating	Total
	Rs. '000	Rs.'000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Policy liabilities	6,529,867	9,254,677	15,784,544	5,274,327	3,408,218	8,682,545
One-off surplus	1,056,535	-	1,056,535	1,056,535	-	1,056,535
<b>Total policy liabilities</b>	<b>7,586,402</b>	<b>9,254,677</b>	<b>16,841,079</b>	<b>6,330,862</b>	<b>3,408,218</b>	<b>9,739,080</b>

#### 40.4 Movement in life insurance fund

As at 31 December	Note	2020			2019		
		Insurance contract liabilities (Gross)	Reinsurance	Net	Insurance contract liabilities (Gross)	Reinsurance	Net
		Rs. '000	Rs.'000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
As at 1 January		10,541,576	(802,496)	9,739,080	9,144,964	(532,397)	8,612,567
Impact of adoption of SLFRS 9		-	-	-	(13,420)	-	(13,420)
<b>Adjusted balance as at 1 January</b>		<b>10,541,576</b>	<b>(802,496)</b>	<b>9,739,080</b>	<b>9,131,544</b>	<b>(532,397)</b>	<b>8,599,147</b>
<b>Change in contract liabilities life fund</b>							
Premiums received	8 & 9	15,660,116	(1,872,616)	13,787,500	12,531,283	(991,455)	11,539,828
Liabilities released for payments on death, surrender and other terminations in the year	16.1	(4,175,075)	608,278	(3,566,797)	(3,632,277)	636,165	(2,996,112)
Net finance and other income		1,703,473	-	1,703,473	1,272,409	-	1,272,409
Net acquisition and other expenses		(6,731,404)	185,997	(6,545,407)	(6,452,145)	85,191	(6,366,954)
Surplus distributed to shareholders	40.12	(1,778,800)	-	(1,778,800)	(2,279,475)	-	(2,279,475)
		4,678,310	(1,078,341)	3,599,969	1,439,795	(270,099)	1,169,696
Financial reinsurance arrangement	40.6	3,542,352	-	3,542,352	-	-	-
Tax on policyholder bonus		(40,322)	-	(40,322)	(29,763)	-	(29,763)
<b>Balance as at 31 December</b>		<b>18,721,916</b>	<b>(1,880,837)</b>	<b>16,841,079</b>	<b>10,541,576</b>	<b>(802,496)</b>	<b>9,739,080</b>

#### 40.5 Valuation of Life Insurance Fund

Long duration contract liabilities included in the Life insurance fund, primarily consist of traditional participating and non-participating life insurance products. The actuarial reserves have been certified by Appointed Actuary Mr. Kunj Behari Maheshwari, FIA, FIAI, Messrs. Towers Watson India Private Limited as at 31 December 2020.

#### 40.6 Financial reinsurance arrangement

##### ACCOUNTING POLICY

##### Recognition of initial commission

Income is recognised in the income statement when an increase in future economic benefits related to an increase in an asset or a decrease of a liability has arisen that can be measured reliably. Accordingly, initial commission income generated from life quota share agreement recognised when it is received or due in full.

##### Subsequent Amortisation

First year of operation the Company made one off release from the initial reinsurance commission to absorb the new business strain arising from newly launched non-participating universal life product.

The remaining unallocated surplus arising from initial commission of reinsurance agreement will be released to the Income statement over the period (as best estimate duration) of quota share agreement on equal installment.

## NOTES TO THE FINANCIAL STATEMENTS

### 40.7 Methodology used in determination of market value of liability

A discounted cash flow approach, equivalent to a gross premium valuation methodology, has been used for calculating the liabilities for the existing business as at 31 December 2020. In determining the policy liabilities, provisions for reinsurance have been allowed for according to the applicable reinsurance terms as per the current agreements.

Negative policy reserves for long term insurance contracts are acceptable and the value of the liabilities held have been floored to zero at a product level on accounting standards purpose in arriving to surplus calculation.

No implicit or explicit surrender value floor has been assumed for the value of liabilities for a contract. Instead, in accordance with the guidelines, the impact of surrender value deficiency is captured in the risk charge capital calculation through the Surrender Value Capital Charge (SVCC).

Details of calculation of policy liability and net cash flows are provided in following table for each class of products;

Details of product category	Basis of determinants of policy liability	Basis of calculating net cash flows
Individual traditional Non-Participating products	Discounting "Net Cash Flows" using a discount rate	Future Premium Income (-) Death benefit Outgo (+) Rider benefit Outgo (+) Surrender benefit Outgo (+) Maturity benefit Outgo (+) Commission Expense Outgo (+) Policy Expense Outgo (+) Reinsurance Recoveries (-) Reinsurance Premium Outgo (+) Reinsurance Commission (-) Net cash flows = sum of above
Individual traditional Participating products	Max (Guaranteed benefit liability, Total benefit liability)	Same as above
Individual universal Non-Participating products	Discounting "Net Cash Flows" using a discount rate  Max (account value, discounted cash flow liability)	Future Premium Income (-) Death benefit Outgo inclusive of dividend accumulations (+) Rider benefit Outgo (+) Surrender benefit Outgo inclusive of dividend accumulations (+) Maturity benefit Outgo inclusive of dividend accumulations (+) Commission Expense Outgo (+) Policy Expense Outgo (+) Reinsurance Recoveries (-) Reinsurance Premium Outgo (+) Reinsurance Commission (-) Net cash flows = sum of above
Group Traditional Non-participating products - Group Term (Life) and per day Insurance	Net Cash Flow	Future Premium Income (-) Death benefit Outgo (+) Rider benefit Outgo (+) Commission Expense Outgo (+) Policy Expense Outgo (+) Reinsurance Recoveries (-) Reinsurance Premium Outgo (+) Reinsurance Commission (-) Net Cash flow = Sum of the above
Group Traditional Non-participating products - Group Hospitalisation Cover	Policy liability has been set equal to UPR.	Not Applicable

### 40.8 Key assumptions used in determinations of Best Estimate Liability (BEL)

Details of key assumption used and basis of arriving for the same are summarised in following table;

Assumption	Basis of estimation
<b>Economic assumption</b>	
Discount rate	Top down approach has been used and discount rate assumptions are disclosed in Note 40.9
Participating fund yield	Based on the weighted average of projected asset mix and based on the expected yields for various asset types.
<b>Operating assumptions</b>	
Mortality rate	A67/70 Mortality rates table was used
Morbidity rates	The morbidity rates have been set based on loss ratios whereby loss ratio is calculated as the ratio of settled and pending claims to earned premiums.

#### 40.8 Key assumptions used in determinations of Best Estimate Liability (BEL) (Contd.)

Assumption	Basis of estimation
Expenses	Based on the expenses incurred during 2020. For the purpose of setting expense assumptions, a functional split of expenses between acquisition or maintenance costs have been done on the basis of inputs from various department heads of each cost centre to determine a reasonable activity-based split of expense. These have been further identified as either being premium or policy-count driven based on the nature of expenses to determine a unit cost loading for use in the valuation.
Expense inflation	The best estimate expense inflation has been assumed to be 5.0% p.a. The expense inflation assumption has remained unchanged since previous valuation. The assumption is in line with the expectations for a long-term inflation target of Central Bank of Sri Lanka which is in the range of 4% to 6%.
Bonus rates	Bonus rate scale assumed has been arrived based on bonus declared as at 31st December 2020, based on the Company management's views on policyholder reasonable expectations. This assumes that company is expecting to maintain the current bonus levels into the future and is unchanged from the previous valuation.
Persistency ratio	Discontinuance assumptions have been set on the basis of experience investigation. The discontinuance assumptions have been set with reference to actual experience and vary by policy duration

### ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

#### 40.9 Discount rate

Insurance contract liabilities shall be measured in term of SLFRS 4 by applying current market interest rates where any changes to be recognised in profit or loss. In arriving at such rates, CA Sri Lanka has issued a guidance note allowing insurers to apply professional judgment in applying the current market interest rates by way of considering timing and liquidity nature of the insurance liability.

#### Methodology

Noting the potential difficulties in establishing an appropriate 'liquid risk free yield curve' from the observable Sri Lankan market data, a 'top-down approach' is proposed for the determining the appropriate discount rates. Under such an approach, the yield curve is constructed to represent yields implicit in a fair value measurement of a reference portfolio of assets whilst attempting to eliminate any factors that are not relevant to the insurance contracts.

Assumption	Description
Choice of reference portfolio	The current assets backing the Life Fund are taken as the initial reference portfolio. Assets within the Life Fund are split between participating, universal life and non-participating funds.
Rates of return implicit in a fair value measurement of the reference portfolio	Fair value of existing assets for the purpose of discount rate construction is assessed on a consistent basis as the fair value assessed for these assets in the statement of financial position. Implied returns for existing assets are taken as the yields that would be required that would result in the discounted present value of asset flows to be equal to the reported fair value in the statement of financial position.
Adjustment for credit risk	Fair value of corporate bonds include an allowance for potential credit risk of the issuer. Allowance for risk of default within the corporate bond spreads has been removed from the implied yields as it is not relevant for valuation of the insurance contracts. Total spread is assumed to comprise a spread for default risk and illiquidity – the spread in respect of default risk is estimated by isolating the illiquidity premium.
Assets representing future (re)investments	The initial reference portfolio of existing assets is then extended to include future (re)investments of net positive future cash-flows that would be required to meet any subsequent shortfalls. These (re)investments are assumed to yield a risk-adjusted return determined by having regard to historic mean reversions of the published government bond yields over the short to medium term and to a long term 'ultimate forward rate' over the long term assuming a convergence period of 40 years for the historic average yields in the short/medium term to converge to ultimate forward rate in the long term.
Yield curve	A complete term structure is derived based on the effective overall 'time-weighted rate of return' for the reference portfolio assets.

## NOTES TO THE FINANCIAL STATEMENTS

### 40.10 Sensitivity analysis

Sensitivity analysis of life insurance fund is provided in Note 6.3.d on page 272.

### 40.11 Analysis of the expected maturity profile of reserves for insurance contracts, net of reinsurance

As at 31 December	2020 Rs. '000	2019 Rs. '000
< 1 year	383,706	252,071
1 to 3 years	774,923	643,024
> 3 years	11,156,312	10,623,465
<b>Total</b>	<b>12,314,941</b>	<b>11,518,560</b>

### 40.12 Recommendation of surplus transfer

The valuation of life insurance fund as at 31 December 2020 was made by Appointed Actuary Mr. Kunj Behari Maheshwari, FIA, FIAI, of Messrs. Based on the recommendation the Company transferred surplus from policyholder fund to shareholder fund as follows:

For the year ended 31 December	2020 Rs. '000	2019 Rs. '000
Participating life insurance fund to shareholder fund	-	-
Non-Participating Life Insurance fund to shareholder fund	1,778,800	2,279,475
<b>Total</b>	<b>1,778,800</b>	<b>2,279,475</b>

Subsequent to the transfer the surplus of Rs. 1,778 million, life fund stands as Rs. 16,841 million as at 31 December 2020, including the liability in respect of bonuses and dividends declared up to and including for the year 2020 as well as surplus created due to change in valuation method of policy liabilities from NPV to GPV in the participating fund.

### 40.13 Taxation on surplus distributed to the life insurance policyholder who shares the profits

According to the Section 67 (2) of new Inland Revenue Act No. 24 of 2017 which is effective from 1st April 2018, the surplus distributed to the life insurance policyholder who shares the profits of a person engaged in the business of life insurance in a given year, as provided in the Regulation of Insurance Industry Act, No. 43 of 2000, shall be deemed as gains and profits of that person from the business and subject to tax at a concessional rate of 14% for three years of assessment after the commencement of the Act. As recommended by the Appointed Actuary Mr. Kunj Behari Maheshwari, FIA, FIAI of Messrs. Towers Watson India Private Limited, the Company has declared a bonus of Rs. 309 million (Please refer point (f) of the Actuarial report provided in page 244) is to Life Insurance Policyholders who participating in the profit of Life Insurance business. Accordingly the Company has adjusted the tax liability to the life insurance fund.

### 40.14 Solvency Margin

The Company maintains a Capital Adequacy Ratio (CAR) 302% on regulatory bases and Total Available Capital (TAC) of Rs. 19,941 million as at 31 December 2020, which exceed the minimum requirement of 120% and Rs. 500 million respectively as per the Solvency Margin (Risk Based Capital) Rules 2015 requirement prescribed under section 26 (1) of the Regulation of Insurance Industry Act No. 43 of 2000.

### 40.15 Liability Adequacy Test (LAT)

#### ACCOUNTING POLICY

##### Measurement

At each reporting date, an assessment is made of whether the recognised life insurance liabilities are adequate by using an existing liability adequacy test as laid out under SLFRS 4 "Insurance Contracts". The liability value is adjusted to the extent that it is insufficient to meet future benefits and expenses.

In performing the adequacy test, current best estimates of future contractual cash flows, including related cash flows such as claims handling and policy administration expenses, policyholder options and guarantees, as well as investment income from assets backing such liabilities, are used. A number of valuation methods are applied, including discounted cash flows to the extent that the test involves discounting of cash flows, the interest rate applied based on management's prudent expectation of current market interest rates.

Any deficiency shall be recognised in the Income Statement by setting up a provision for liability adequacy.

##### Valuation

A liability adequacy test for life insurance contract liability was carried out by Appointed Actuary Mr. Kunj Behari Maheshwari, FIA, FIAI, of Messrs. Towers Watson India Private Limited as at 31 December 2020. When performing the LAT, the Company discounted all contractual cash flows and compared this amount with the carrying value of the liability.

According to the Actuary's report, assets are sufficiently adequate as compared to the discounted cash flow reserves and in contrast to the reserves as at 31 December 2020.

No additional provision was required against the LAT as at 31 December 2020.

Details of LAT reports is provided in page 245 to this report.

#### 40.16 Surplus created due to change in valuation method - One-off surplus zeroed at product level

##### ACCOUNTING POLICY

Refer note 40.1 for accounting policy

##### Basis of Measurement

Surplus created due to change in Valuation Method of Policy Liabilities from Net Premium Valuation (NPV) to Gross Premium Valuation (GPV) is measured based on the difference in the policy liability valuation by the independent Actuary based on NPV and GPV bases valuation as at 31st December 2015 according to the Direction 16 'Identification and treatment of one-off surplus' issued by IRCSL. According to Direction 16, Company has determined the One-off Surplus as the difference between NPV Solvency basis liability and GPV Distribution basis liability for both Participating business and other than Participating business.

As at 31 December	Participating fund Rs. '000	Non- participating fund Rs. '000	Total Rs. '000
Value of Insurance contract liability based on Independent Actuary - NPV as at 31 December 2015	3,866,780	2,472,575	6,339,355
Value of Insurance contract liability based on Independent Actuary - GPV 31 December 2015	2,810,245	1,674,571	4,484,816
Surplus created due to Change in Valuation Method - One-off Surplus as at 1 January 2016	1,056,535	798,004	1,854,539

#### 40.17 Transfer of one-off surplus from non participating fund to shareholder fund

The Insurance Regulatory Commission of Sri Lanka (IRCSL) has issued a Direction No 16 on "Guidelines/Directions for Identification and Treatment of One-off Surplus" and has instructed all Life Insurance Companies to comply with the direction. Based on the guidelines Life Insurance Companies are directed to transfer One-off surplus attributable to Policyholder Non-Participating Fund to Shareholder Fund as at the reporting year ended 31 December 2017. The transfer has been presented as a separate line item in the Income Statement as "Change in contract liability due to transfer of One-off surplus" and as a separate reserve in the Statement of Financial Position as "Restricted Regulatory Reserve" under Equity in accordance with above Direction.

Further distribution of One-off Surplus to shareholders, held as part of the Restricted Regulatory Reserve, is subject to meeting governance requirements (Refer Note 40.19) stipulated by the IRCSL and can only be released as dividends upon receiving approval from the IRCSL. The One-off Surplus in the Shareholder Fund will remain invested in government debt securities and deposits as disclosed in Note 40.20 as per the directions of the IRCSL.

The financial ratios have been determined in accordance with Sri Lanka Accounting Standards. Additionally the Company has voluntarily presented financial ratios without One-off Surplus impact.

One-off surplus in respect of participating business is held within the participating fund as part of the unallocated valuation surplus and may only be transferred to the Shareholder Fund by means of bonuses to policyholders in line with Section 38 of the "Regulation of Insurance Industry, Act No. 43 of 2000".

#### 40.18 Movement of one-off surplus after transfer

	Participating fund Rs. '000	Non- participating fund Rs. '000	Total Rs. '000
Value of Insurance contract liability based on Independent Actuary - NPV as at 31 December 2015	3,866,780	2,472,575	6,339,355
Value of Insurance contract liability based on Independent Actuary - GPV 31 December 2015	2,810,245	1,674,571	4,484,816
<b>Surplus created due to change in valuation method - One-off surplus as at 1 January 2016</b>	1,056,535	798,004	1,854,539
Transfer of One-off Surplus from long term fund to Restricted Regulatory Reserve	-	(798,004)	(798,004)
Surplus created due to change in valuation method - One-off Surplus as at 31 December 2020	1,056,535	-	1,056,535

## NOTES TO THE FINANCIAL STATEMENTS

### 40.19 Distribution of one-off surplus

The distribution of one-off surplus to shareholders as dividends shall remain restricted until a company develops appropriate policies and procedures for effective management of its business, as listed below.

- Expense allocation policy setting out basis of allocation of expenses between the Share Holder Fund and the Policyholder Fund as well as between different lines of business within the Policyholder Fund, particularly participating and non-participating.
- Dividend declaration policy for universal life business.
- Bonus policy for the participating business, which should include treatment of One-off Surplus for the purpose of bonus declaration.
- Asset-liability management policy.
- Policy on internal target Capital Adequacy Ratio.
- Considerations for transfer of funds from Policyholder Fund to Shareholder Fund.

These policies should be approved by the Board of Directors of the Company and must also comply with any relevant guidance issued by IRCSL from time to time. Further IRCSL will reconsider the distribution of One-off Surplus when the RBC rules are revised. The IRCSL will permit distribution of One-off Surplus subject to yearly distribution caps on a case-by-case basis.

### 40.21 Disclosures as required by Direction 16 issued by IRCSL

Disclosure in financial statements	Compliance with the requirement	Note	Page
Equity and statement of changes in equity to include a new line item called 'Restricted Regulatory Reserve' with value equal to one - off surplus for other than participating business. Adequate disclosure to be made with regards to 'Restricted Regulatory Reserve'.	Complied	-	255
The transfer of one - off surplus to be treated as a release permitted by the IRCSL during the relevant period and accounted through Income Statement.	N/A for current year	-	-
Income Statement to carry a new line item 'change in contract liability due to transfer of one - off surplus'.	N/A for current year	-	-
Disclosure stating 'distribution of one - off surplus to shareholders', held as 'Restricted Regulatory Reserve', is subject to meeting governance requirements stipulated by the IRCSL and can only be released upon approval from the IRCSL.	Complied	40.19	342
The basis of computation of one - off surplus. Any deviation from the direction in respect of determining the 'minimum one - off surplus'.	Complied	40.16	341
One-off surplus relating to participating and other than participating should be disclosed separately	Complied	40.18	342
Financial ratios should be determined in accordance with SLASs. Additional financial ratios, excluding the impact of transfer of one - off surplus may be disclosed separately.	Complied	-	254
Disclosure on composition of investments supporting the Restricted Regulatory Reserve.	Complied	40.20	342

### 40.20 Composition of investments supporting the restricted regulatory reserve as at 31 December 2020

Asset category	Face value 2020 Rs.	Market value 2020 Rs. '000
<b>Government securities</b>		
<b>Treasury bond</b>		
ISIN No		
LKB03044A010	100,000,000	162,498
LKB01534I155	50,000,000	60,821
LKB01534I155	50,000,000	60,821
LKB01534I155	50,000,000	60,821
LKB01534I155	50,000,000	60,821
<b>Deposits</b>		
National Savings Bank		103,877
Regional Development Bank		166,949
Regional Development Bank		58,222
People's Bank		104,168
<b>Total market value of the assets</b>		<b>838,998</b>
Restricted regulatory reserve		798,004
<b>Excess assets</b>		<b>40,994</b>



#### 40.22 Direction 18 - Unclaimed benefits of long term insurance business

There was no transfer of any unclaimed benefit to shareholders and recorded in the life fund as unclaimed benefits if any.

As at 31 December	2020 Rs. '000	2019 Rs. '000
Other claim payables	302,662	362,011
Unclaimed benefits	339,964	276,011
<b>Total</b>	<b>642,626</b>	<b>638,022</b>

### 41 EMPLOYEE BENEFITS

#### ACCOUNTING POLICY

##### Short-term employee benefits

Short term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

##### Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and has no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognised as an employee benefit expense in the Income Statement in the periods when they are incurred.

##### Employee Provident Fund (EPF)

All employees of the Company are members of the Employees' Provident Fund. The Company and employees contribute 12% and 8% respectively of the salary to EPF.

##### Employees Trust Fund (ETF)

All employees of the Company are members of the Employees Trust Fund. The Company contributes 3% of the salary of each employee to ETF.

#### 41.1 Defined contribution plans

Following contributions have been made to Employees Provident Fund and Employee Trust Fund during the year.

As at 31 December	2020 Rs. '000	2019 Rs. '000
<b>Employees' provident fund</b>		
Employer's contribution (12%)	86,265	84,339
Employees' contribution (8%)	57,510	56,226
<b>Employees' trust fund</b>		
Employer's Contribution (3%)	21,519	21,085

#### 41.2 Defined benefit plans - Provision for employee benefits

#### ACCOUNTING POLICY

##### Measurement

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Company's net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value.

The calculation is performed annually by a qualified independent actuary using the Projected Unit Credit method.

Under the Payment of Gratuity Act No. 12 of 1983, the liability to an employee arises only on completion of 5 years of continued service.

The liability is not externally funded.

##### Recognition of actuarial gain / (losses)

The Company recognises all actuarial gains and losses arising from defined benefit plans immediately in Statement of Profit or Loss and Other Comprehensive Income and current services cost and interest cost related to defined benefit plans in employee benefit are expensed in Income Statement.

#### Valuation of employee benefit obligation

An actuarial valuation of the retirement gratuity payable was carried out as at 31 December 2020 by Mr. M. Poopalanathan, AIA, of Messrs Actuarial & Management Consultants (Pvt) Ltd., a firm of professional Actuaries. The valuation method used by the Actuaries to value the liability is the 'Projected Unit Credit Method (PUC)', the method recommended by the Sri Lanka Accounting Standard - LKAS 19 on 'Employee Benefits'.

The actuarial valuation involves making assumptions. Further, the Company has considered the impact from COVID-19 pandemic on the defined benefit obligations. Due to the complexity of the valuation and the underlying assumptions and its long-term nature, the defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

## NOTES TO THE FINANCIAL STATEMENTS

### 41.3 Actuarial assumptions

Actuarial assumptions	Criteria	Description
Demographic assumptions	Mortality - In service	1967/70 Mortality table issued by the Institute of Actuaries, London
	Staff turnover	The staff turnover rate at an age represents the probability of an employee leaving within one year of that age due to reasons other than death, ill health and normal retirement. The withdrawal rate of 15% were used in the actuarial valuation carried out as at December 31st 2020. (2019 - 21.30% p.a.)
	Normal retirement age	The employees who are aged over the specified retirement age have been assumed to retire on their respective next birthdays. (55 Years).
Financial assumptions	Rate of discount	In the absence of a deep market in long term bonds in Sri Lanka, a long term interest rate of 8% p.a. (2019 - 11% p.a.) has been used to discount future liabilities considering anticipated long term rate of inflation.
	Salary increases	A salary increment of 8% p.a. (2019 - 10% p.a.) has been used in respect of the active employees.

### 41.4 Movement in the present value of employee benefits

As at 31 December	Note	2020 Rs. '000	2019 Rs. '000
<b>Present value of unfunded obligation</b>		<b>182,332</b>	151,027
<b>Defined benefit obligations as at 1 January</b>		<b>151,027</b>	107,404
Expenses recognised in Income Statement	41.5	40,834	32,709
Actuarial (gain) / losses recognised in Other Comprehensive Income	41.6	(4,648)	17,084
<b>Other</b>			
Gratuity payments during the year		(4,881)	(6,170)
<b>Defined benefit obligations as at 31 December</b>		<b>182,332</b>	151,027

### 41.5 Expenses recognised in income statement

For the year ended 31 December	2020 Rs. '000	2019 Rs. '000
Interest cost	16,613	11,814
Current service costs	24,221	20,895
<b>Total expenses recognised in income statement</b>	<b>40,834</b>	32,709

### 41.6 Actuarial losses / (gains) recognised in statement of profit or loss and other comprehensive income

For the year ended 31 December	2020 Rs. '000	2019 Rs. '000
<b>Actuarial loss arising from;</b>		
Change in demographic assumptions	1,256	27
Change in financial assumptions	4,724	8,686
Change in experience adjustment	(10,628)	8,371
<b>Total</b>	<b>(4,648)</b>	17,084

### 41.7 Expected contributions to defined contribution and defined benefit plan

For the year ended 31 December	2021 Rs. '000

#### Employees' provident fund

Employer's contribution (12%)	86,237
Employees' contribution (8%)	57,491

#### Employees' trust fund

Employer's contribution (3%)	21,559
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Defined benefit plans	40,834
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### 41.8 Maturity analysis of the payments

As at 31 December	2020 Rs. '000	2019 Rs. '000
Within next 12 months	57,278	47,667
Between 1 to 2 years	37,573	35,310
Between 2 to 5 years	40,039	37,326
Between 5 to 10 years	27,754	23,254
Beyond 10 years	19,688	7,470
<b>Total Expected Payments</b>	<b>182,332</b>	151,027

#### Weighted average duration of defined benefit obligation

	4.44 years	3.52 years
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#### 41.9 Sensitivity of assumptions used in actuarial valuation

The following table demonstrates the sensitivity to a reasonably possible change in the discount rate and salary increment rates with all other variables held constant in the employment benefit liability measurement.

As at 31 December	2020	
	Effect on defined benefit liability Rs. '000	Estimated defined benefit liability Rs. '000
<b>Discount rate</b>		
1% increase in discount rate	(7,218)	175,114
1% decrease in discount rate	7,936	190,268
<b>Salary increment rate</b>		
1% increase in salary increment rate	8,634	190,966
1% decrease in salary increment rate	(7,995)	174,337

As at 31 December	2019	
	Effect on defined benefit liability Rs. '000	Estimated defined benefit liability Rs. '000
<b>Discount rate</b>		
1% increase in discount rate	(4,666)	146,361
1% decrease in discount rate	5,020	156,047
<b>Salary increment rate</b>		
1% increase in salary increment rate	5,662	156,689
1% decrease in salary increment rate	(5,352)	145,675

#### 41.10 Method and assumptions used in preparing the sensitivity analysis

The above sensitivity analyses are based on a change in significant assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method "Projected Unit Credit method (PUC)" has been applied as when calculating the defined benefit liability recognised in the balance sheet as at the reporting date.

The methods and types of assumptions used in preparing the sensitivity analysis has not change compared to the prior period.

#### 41.11 Employee benefits for key management personnel

Employee benefits of key management personnel is disclosed in Note 46.6.1.

## 42 LOANS AND BORROWINGS

### ACCOUNTING POLICY

Refer Note 4.3 for accounting policy

#### 42.1 Loan movement

As at 31 December	2020 Rs. '000	2019 Rs. '000
<b>Cash movement</b>		
Loans obtained	2,772,300	-
Repayments	-	-
<b>Non cash movement</b>		
Accrued Interest	52,495	-
Exchange rate adjustments	27,450	-
	2,799,750	-
Repayable within one year	52,495	-
Repayable after one year	2,852,245	-

#### 42.2 Nature and purpose the transaction

Softlogic Life Insurance PLC entered into a long-term financing agreement with the Finnish Fund for Industrial Cooperation Ltd (Finnfund) and the Norwegian Investment Fund for Developing Countries for USD 15 million Tier II Subordinated debt transaction to provide funding to future development of business objectives of the Company. The facility was signed on 24 August 2020.

#### 42.3 Defaults and breaches

The Company did not have any defaults of principal or interest or other breaches with respect to its loans and borrowings during the years ended 31 December 2020.

#### 42.4 Security and repayment terms

Nominal Interest rate	6 month LIBOR based plus margin
Repayment terms	The loan shall be repaid in full on the maturity date
Carrying value of collaterals	None of assets have been pledged as securities for these liabilities
Interest payable frequency	Biannually
Allotment date	02-10-2020
Maturity Date	02-10-2025
Interest rate of comparable Government Security	6.71%

#### 42.5 Maturity analysis

The maturity analysis of loans and borrowings is given in Note 6.5.3 (Table-22) on pages 284.

## NOTES TO THE FINANCIAL STATEMENTS

### 43 REINSURANCE PAYABLE

#### ACCOUNTING POLICY

Reinsurance payable represents balances due to reinsurance companies. Amount payables are recognised when due and measured on initial recognition at the fair value less directly attributable transaction costs in a manner consistent with the related insurance contracts.

Reinsurance liabilities are derecognised when the contractual liabilities are extinguished or expire, or when the contract is transferred to other party.

As at 31 December	2020 Rs. '000	2019 Rs. '000
As at 1 January	428,557	320,824
Arised during the year	1,872,616	991,455
Utilised during the year	(1,665,113)	(883,722)
<b>Balance as at 31 December</b>	<b>636,060</b>	<b>428,557</b>

### 44 OTHER LIABILITIES

#### ACCOUNTING POLICY

##### Financial Liabilities

Refer Note 4.3 for accounting policy relating to financial liabilities.

##### Other liabilities

Other liabilities include accruals and advances, and these liabilities are recorded at the amounts that are expected to be paid.

As at 31 December	Note	2020 Rs. '000	2019 Rs. '000
<b>Financial liabilities</b>			
Commission / Incentive payable	44.8	552,966	427,484
Premium deposit		157,162	110,250
Amounts due to related parties	44.2	18,729	8,830
Other payables		17,357	28,607
Lease liabilities	44.3	751,068	368,435
Tax and others statutory payables	44.7	36,296	55,947
<b>Total financial liabilities</b>		<b>1,533,578</b>	<b>999,553</b>
<b>Non financial liabilities</b>			
Accruals		356,645	331,445
<b>Total non financial liabilities</b>		<b>356,645</b>	<b>331,445</b>
<b>Total other liabilities</b>		<b>1,890,223</b>	<b>1,330,998</b>

### 44.1 Maturity Analysis

Maturity schedules of other financial liabilities are disclosed in page 284.

### 44.2 Amounts due to related companies

Amounts due to related companies represents fund management fees and rent payable to Softlogic Capital PLC.

As at 31 December	2020 Rs. '000	2019 Rs. '000
Softlogic Capital PLC	18,729	8,830
<b>Total</b>	<b>18,729</b>	<b>8,830</b>

### 44.3 Lease liabilities

Please refer Note 28 for accounting policy relating to leases under SLFRS 16.

As at 31 December	2020 Rs. '000	2019 Rs. '000
Lease liabilities as at 1 January	368,435	317,157
Finance lease liabilities 1 January	-	3,831
Recognition of new lease agreement during the period*	523,707	108,909
Accrual interest	71,533	57,625
Payment of lease liabilities	(198,071)	(108,761)
De-recognition	(14,536)	(10,326)
<b>Cumulative lease liabilities as at 31 December</b>	<b>751,068</b>	<b>368,435</b>

\*Rent prepayments has been recognised as RoU assets and therefore additions to lease liabilities are not equivalent to newly recognized RoU assets.

### 44.4 Maturity Analysis – Contractual undiscounted cash flows

As at 31 December	2020 Rs. '000	2019 Rs. '000
Less than one year	251,616	127,253
Between one and five years	599,282	365,024
More than five years	-	-
<b>Total undiscounted lease liabilities as at 31 December</b>	<b>850,898</b>	<b>492,277</b>
Lease liabilities included in the Statement of Financial Position as at 31 December	751,068	368,435
<b>Undiscounted cash flows</b>		
Current	251,616	127,253
Non current	599,282	365,024

#### 44.5 Maturity Analysis – Discounted cash flows

Refer Note 6.5.3 (Table-22) on page 284.

#### 44.6 Sensitivity analysis of lease liabilities

The following table demonstrate the impact arising from the possible changes in the incremental borrowing rate on the lease liability of the Company as at 31 December 2020 and 2019 assuming all other variables are remain constant.

As at 31 December	2020	
	Effect on lease liabilities Rs. '000	Estimated lease liabilities Rs. '000
<b>Discount rate</b>		
1% increase in discount rate	(12,349)	738,719
1% decrease in discount rate	12,727	763,795

#### 44.7 Tax and other statutory payables

As at 31 December	2020 Rs. '000	2019 Rs. '000
Crop insurance levy	9,457	585
EPF / ETF payable	14,385	13,577
CESS payable	6,691	5,755
WHT payable	-	10,659
PAYE tax payable	3,331	23,242
Other	2,432	2,129
<b>Total</b>	<b>36,296</b>	<b>55,947</b>

#### 44.8 Commission / Incentive payable

##### Provisions

As at 31 December	2020 Rs. '000	2019 Rs. '000
As at 01 January	427,484	345,848
Provision made during the year	3,101,661	2,190,239
Payments made during the year	(2,976,179)	(2,108,603)
<b>Balance as at 31 December</b>	<b>552,966</b>	<b>427,484</b>

## 45 OPERATING SEGMENTS

### ACCOUNTING POLICY

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Company's other components, whose operating results are reviewed regularly by the Key Management Personnel of the Company (being the Company's chief operating decision maker) to make decisions about resources allocated to each operating segment and assess performance, and for which discrete financial information is available.

Segment results that are reported to the KMP include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. There were no unallocated items. All items of income, expenses, assets, and liabilities are properly allocated.

Segment capital expenditure included total cost incurred by the Company during the year to acquire property, plant and equipment, and intangible assets.

### Basis for segmentation

For management purposes and to comply with the regulatory framework, the Company is organised into business units based on their products and services and has two reportable operating segments. These segments are managed separately because they require different operational, risk management and marketing strategies.

The following summary describes the products and services that each segment offers;

Reportable segment	Product and services
Life policyholder fund	Policyholder fund represents all long term insurance business related products and riders
Shareholder fund	Shareholder fund represents the investment income and their attributable profits

No operating segments have been aggregated to form the above reportable segments.

Graphical representation of segment information are provided in financial highlights on page 243.

### 45.1 Geographic information

Activities of the Company are located in Sri Lanka. The economic environment in which the Company operates is not subject to risks and rewards that are significantly different on a geographical basis. Hence, disclosure by geographical region is not provided.

### 45.2 Information about reportable segments

Segment performance and reconciliations of reportable segment revenues, profit or loss, assets and liabilities and other material items are summarised below. Segment profit before tax, as included in the management reports reviewed by the Key Management Personnel of the Company is used to measure performance of the segments as this information is the most relevant in evaluating the results of individual segments.

## NOTES TO THE FINANCIAL STATEMENTS

### 45.2.1 Summary of segment Financial Performances and reconciliation of information on reportable segments to the amounts reported in the Financial Statements

For the year ended 31 December	2020				2019			
	Policyholder fund	Shareholder fund	Unallocated / eliminations	Consolidated revenue	Policyholder fund	Shareholder fund	Unallocated / eliminations	Consolidated revenue
	Rs. '000	Rs.'000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Segment revenue</b>								
<b>External revenues</b>								
Net written premiums	13,787,500	-	-	13,787,500	11,539,828	-	-	11,539,828
Interest income	1,211,784	304,577	-	1,516,361	966,245	136,948	-	1,103,193
Other revenue	491,689	268,064	-	759,753	306,164	174,757	-	480,921
<b>Total external revenues</b>	<b>15,490,973</b>	<b>572,641</b>	<b>-</b>	<b>16,063,614</b>	<b>12,812,237</b>	<b>311,705</b>	<b>-</b>	<b>13,123,942</b>
Inter-segment revenue	-	-	-	-	-	-	-	-
<b>Total net revenue</b>	<b>15,490,973</b>	<b>572,641</b>	<b>-</b>	<b>16,063,614</b>	<b>12,812,237</b>	<b>311,705</b>	<b>-</b>	<b>13,123,942</b>
Interest expense / Finance cost	(119,944)	(52,233)	-	(172,177)	(118,299)	-	-	(118,299)
Depreciation and amortisation	(202,464)	(139,728)	-	(342,192)	(134,251)	(137,244)	-	(271,495)
Net Insurance claims and benefits	(3,566,797)	-	-	(3,566,797)	(2,996,112)	-	-	(2,996,112)
Change in contract liabilities	(3,599,969)	-	-	(3,599,969)	(1,169,696)	-	-	(1,169,696)
Other expenses	(6,222,999)	(29,133)	-	(6,252,132)	(6,114,404)	149,622	-	(5,964,782)
<b>Total Claims, benefits and other expenses</b>	<b>(13,712,173)</b>	<b>(221,094)</b>	<b>-</b>	<b>(13,933,267)</b>	<b>(10,532,762)</b>	<b>12,378</b>	<b>-</b>	<b>(10,520,384)</b>
<b>Segment profit before tax</b>	<b>1,778,800</b>	<b>351,547</b>	<b>-</b>	<b>2,130,347</b>	<b>324,083</b>	<b>324,083</b>	<b>-</b>	<b>2,603,558</b>
Income tax expenses	-	(608,864)	-	(608,864)	-	(430,715)	-	(430,715)
<b>Segment profit/ (Loss) after tax</b>	<b>1,778,800</b>	<b>(257,317)</b>	<b>-</b>	<b>1,521,483</b>	<b>2,279,475</b>	<b>(106,632)</b>	<b>-</b>	<b>2,172,843</b>

#### Evaluation of segment performance

Segment performance is evaluated based on profit or loss and is measured consistently with profit or loss in the Company's financial statements.

### 45.2.2 Summary of segment Financial Position and reconciliation of information on reportable segments to the amounts reported in the Financial Statements

As at 31 December	2020				2019			
	Policyholder fund	Shareholder fund	Unallocated / eliminations	Consolidated assets and liabilities	Policyholder fund	Shareholder fund	Unallocated / eliminations	Consolidated assets and liabilities
	Rs. '000	Rs.'000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Segment assets	22,886,405	10,319,797	-	33,206,202	13,223,646	7,459,228	-	20,682,874
Segment equity	(56,497)	9,992,744	-	9,936,247	(456,408)	8,675,327	-	8,218,919
Segment liabilities	22,942,902	327,053	-	23,269,955	13,680,054	(1,216,099)	-	12,463,955
<b>Other material items</b>								
Financial investments	19,308,099	8,059,692	-	27,367,791	10,328,504	4,582,240	-	14,910,744
Property plant and equipment	258,544	402,384	-	660,928	266,000	409,668	-	675,668
Insurance contract liabilities	17,483,705	-	-	17,483,705	10,377,102	-	-	10,377,102
Capital expenditure	-	132,499	-	132,499	-	154,240	-	154,240

### 45.2.3 Summary of segment Cash Flows

For the year ended 31 December	2020			2019		
	Policyholder fund	Shareholder fund	Total	Policyholder fund	Shareholder fund	Total
	Rs. '000	Rs.'000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Cash flows from operating activities	8,653,303	380,135	9,033,438	3,041,216	170,326	3,211,542
Cash flows from investing activities	(8,444,403)	(3,035,114)	(11,479,517)	(2,742,669)	373,612	(2,369,057)
Cash flows from financing activities	(198,071)	2,772,300	2,574,229	(108,761)	(543,750)	(652,511)

### 45.3 Major customers

The company doesn't have any major customers.

## 46 RELATED PARTY DISCLOSURE

### ACCOUNTING POLICY

The Company carried out transactions in the ordinary course of business on arm's length basis with parties who are defined as Related Parties as per the Sri Lanka Accounting Standard – LKAS 24 'Related Party Disclosures'.

### 46.1 Terms and conditions of transactions with related parties

Transactions with related parties are carried out in the ordinary course of business. Outstanding balances at year end are unsecured and interest free. Settlement will take place in cash.

#### 46.1.1 Guarantees

No guarantees given or received during the period.

### 46.2 Non-recurrent related party transactions

There were no non-recurrent related party transactions which in aggregate value exceeds 10% of the equity or 5% of the total assets whichever is lower of the Company as per 31 December 2020 audited financial statements, which required additional disclosures in the 2020 Annual Report under Colombo Stock Exchange listing Rule 9.3.2 and Code of Best Practices on Related Party Transactions under the Securities and Exchange Commission Directive issued under Section 13(c) of the Securities and Exchange Commission Act.

### 46.3 Recurrent related party transactions

There were no recurrent related party transactions which in aggregate value exceeds 10% of the gross revenue of the Company as per 31 December 2020 audited financial Statements, which required additional disclosures in the 2020 Annual Report under Colombo Stock Exchange listing Rule 9.3.2 and Code of Best Practices on Related Party Transactions under the Securities and Exchange Commission Directive issued under Section 13(c) of the Securities and Exchange Commission Act.

### 46.4 Parent and ultimate controlling party

The parent entity of the Company is Softlogic Capital PLC. In the opinion of Directors, the ultimate parent undertaking and controlling entity is Softlogic Holdings PLC which is incorporated in Sri Lanka.

#### 46.4.1 Ultimate parent of the group

The Group does not have an identifiable parent of its own.

### 46.5 Key Management Personnel (KMP)

According to Sri Lanka Accounting Standard – LKAS 24 on "Related Party Disclosures", Key Management Personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity directly or indirectly.

#### KMP of the Company

Accordingly, the Directors (including Executive and Non-Executive Directors) have been classified as Key Management Personnel of the Company.

### 46.6 Transactions with KMP

Please refer Note 46.1 for terms and conditions of transactions

#### 46.6.1 Compensation of KMP

For the year ended 31 December	2020	2019
	Rs. '000	Rs. '000
Short term employment benefits	63,287	65,858
Post-employment benefits	6,180	3,426
Other long-term benefits	-	-
Termination benefits	-	-
Share-based payments	-	-
Fees paid	14,286	20,516
<b>Total</b>	<b>83,753</b>	<b>89,800</b>

## NOTES TO THE FINANCIAL STATEMENTS

### 46.6.2 Transactions with KMP recorded in income statement

For the year ended 31 December	Note	2020 Rs. '000	2019 Rs. '000
Insurance premiums		10,692	4,606
Professional charges		-	656
Compensation to KMP	46.6.1	83,753	89,800
<b>Total</b>		<b>94,445</b>	<b>95,062</b>

### Transactions with KMP Recorded in statement of financial position

As at 31 December	2020 Rs. '000	2019 Rs. '000
<b>Assets</b>		
Insurance premiums receivable	2,121	2,650
<b>Total</b>	<b>2,121</b>	<b>2,650</b>

As at the reporting date, no Impairment losses have been recorded against balances outstanding with KMP.

### Loans to directors

No loans have been granted to the Directors of the Company.

### 46.7 Share-based transactions of KMP and IFM

As at 31 December	2020	2019
Number of ordinary shares held	Nil	Nil
Dividends paid (in Rs. '000) during the year	Nil	Nil

### 46.8 Key management personnel services that are provided by separate management entity

During the period ended 31 December 2020 the Company did not receive KMP services from separate management entity.

### 46.12 Transactions with parent and ultimate parent

Please refer Note 46.1 for terms and conditions of transactions

#### Transactions recorded in income statement

For the year ended 31 December	Transactions with parent (Softlogic Capital PLC)		Transactions with ultimate parent (Softlogic Holdings PLC)	
	2020	2019	2020	2019
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Insurance premiums	1,429	483	12,622	5,853
Receiving of services	194,225	103,199	-	-
Expenses	-	28,265	666	724
Interest income	15,042	477	43,106	-
Claims paid	-	2	-	-

### 46.9 Transactions, arrangements and agreements involving KMP and their Immediate Family Members (IFM)

Immediate Family Members (IFM) of a KMP are those family members who may be expected to influence, or be influenced by, that KMP in their dealings with the entity. They may include KMP's domestic partner and children, children of the KMP domestic partner and dependents of the KMP or the KMP domestic partner. IFM are related parties to the Company.

There are no transactions with the IFM of KMP of the Company during the year (2019 - Nil).

### 46.10 Following directors were appointed to the Board of the Company

Name of the director	Effective date of appointment	Directorship
Mr. Visvanathamorthy Govindasamy	16 January 2020	Independent Non Executive Director
Mr. Raimund Synders	5 February 2020	Non Independent Non Executive Director

### 46.11 Following directors have resigned from the Board of the Company

Name of the director	Effective date of resigned	Directorship
Mr. Rudiger Will	16 January 2020	Independent Non Executive Director

Accordingly, Mr. Rudiger Will cease to be Key Management Personnel of the Company w.e.f. the date of his resignation.



## Transactions recorded in statement of financial position

As at 31 December	Transactions with parent (Softlogic Capital PLC)		Transactions with ultimate parent (Softlogic Holdings PLC)	
	2020 Rs. '000	2019 Rs. '000	2020 Rs. '000	2019 Rs. '000
Dividend paid	-	269,883	-	244
Investments	100,280	100,477	502,267	-
Insurance premium receivable	62	122	411	158
Other payable	18,729	8,830	-	-
Other receivable	-	-	-	-

## Impairment

During the period, the Company recognised impairment loss of Rs. 197,708 on above investment (2019 - Rs. 81,418).

## 46.13 Transactions with other related entities

## 46.13.1 Transactions with subsidiary companies of the Parent and Ultimate Parent

Please refer Note 46.1 for terms and conditions of transactions

## Nature of the relationship

Other related entities are those which are controlled, directly or indirectly by Key Management Personnel of the Company and transactions with Companies under common control.

Further Directors' interest in contracts with the company have been disclosed in page 176.

## Transactions recorded in income statement

For the year ended 31 December	2020 Rs. '000	2019 Rs. '000
<b>Nature of the transaction</b>		
Insurance premiums	263,606	133,386
Dividend received	11,966	11,646
Claims paid	7,985	5,792
Expenses	76,336	121,091
	<b>359,893</b>	<b>271,915</b>

## Transactions recorded in statement of financial position

As at 31 December	2020 Rs. '000	2019 Rs. '000
<b>Nature of the transaction</b>		
Investments	699,562	399,904
Insurance premium receivable	119,955	64,820
Purchases of property plant and equipment	20,342	26,681
Other payable / receivable	-	-
	<b>839,859</b>	<b>491,405</b>

No Impairment losses have been recorded against above outstanding balances from other related entities.

## 46.14 Purchase of its own shares

The Company has not purchase its own shares from related parties during the period ended 31 December 2020 (2019 - Nil).

## 47 CAPITAL AND OTHER COMMITMENTS

The Company has commitments for acquisition of property, plant and equipment incidental to the ordinary course of business which have been approved by the Board of Directors, the details of which are as follows.

As at 31 December	2020 Rs. '000	2019 Rs. '000
Approved and contracted for	3,360	31,907
<b>Total capital commitments</b>	<b>3,360</b>	<b>31,907</b>

## NOTES TO THE FINANCIAL STATEMENTS

### Bank guarantees

Following Bank Guarantees have been provided as at 31 December 2020.

As at 31 December	2020 Rs. '000	2019 Rs. '000
Relating to tax	98,743	15,735
Relating to others	4,761	2,100

### 48 EVENTS AFTER THE REPORTING PERIOD

#### ACCOUNTING POLICY

Events after the reporting period are those events, favourable and unfavourable, that occur between the reporting date and the date when the Financial Statements are authorised for issue.

All material post reporting date events have been considered and where appropriate, adjustments or disclosures have been made in the respective notes to the Financial Statements.

No circumstances have arisen since the reporting date which would require adjustments or disclosure in the Financial Statements other than disclosed below.

#### Non Adjusting Events After Reporting Date

The Board of Directors of the Company has declared a interim dividend of Rs. 2.50 per share subject to relevant regulatory approval for the financial year ended 31 December 2020.

As required by the Section 56 of the Companies Act No. 07 of 2007, the Board of Directors of the Company satisfied the solvency test in accordance with Section 57 prior to declaring the interim dividend. A statement of solvency duly completed and signed by the Directors on 3rd March 2021 has been reviewed by Messrs. KPMG.

In accordance with Sri Lanka Accounting Standard - LKAS 10 on "Events after the Reporting Period", the interim dividend has not been recognised as a liability in the Financial Statements as at 31 December 2020.

### 49 PROVISIONS AND CONTINGENCIES

#### ACCOUNTING POLICY

A provision is recognised if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cashflows at a pre-tax rate that reflect current market assessments of the time value of money and the risk specific to the liability. The unwinding of the discount is recognised in the Income Statement.

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is not probable or cannot be readily measured as defined in the Sri Lanka Accounting Standard - LKAS 37 on "Provisions, Contingent Liabilities and Contingent Assets".

#### Use of Judgements and Estimates Provisions And Contingencies

Refer Note 3.2.9 for Use of Judgements and Estimates relating to provisions and contingencies.

**The Contingent Liability of the Company as at 31 December 2020, relates to the followings;**

#### Assessment in Respect of Value Added Tax (VAT)

- 1) The Company has been issued with VAT assessments by the Department of Inland Revenue for the taxable period 2010 and was determined by the Tax Appeal Commissions on 22 August 2019. Out of total 11 assessments, 08 assessments were determined in favour of Commissioner General of Inland Revenue amounting to Rs. 46.5 Million including the penalty and 03 assessments were determined in favour of Softlogic Life Insurance PLC amounting to Rs. 24.8 Million including the penalty.

The Company transmitted the case to the Court of Appeal being dissatisfied with the determination which determined in favour of the Commissioner General of Inland Revenue and case is stated for the opinion of the Honourable Court of Appeal. The Total tax exposure of this appeal is Rs. 46.5 million including the penalty.

The Commissioner General of Inland Revenue, transmitted the case to the Court of Appeal being dissatisfied with the determination which determined in favour of Softlogic Life Insurance PLC and case is stated for the opinion of the Honourable Court of Appeal. The Total tax exposure of this appeal is Rs. 24.8 million including the penalty.

- 2) The Company has been issued with an assessment by the Department of Inland Revenue on 10 March 2016 under the Value Added Tax Act, in relation to the quarter ending 31 March 2014 for Rs. 57.4 Million.

The Company has filed an appeal to the Commissioner General of Inland Revenue on 08 April 2016 for the VAT assessment issued for the quarter ending 31 March 2014 on the basis that the underlying computation includes items which are exempt / out of scope of the VAT Act. The Company is awaiting the CGIR determination.

#### Assessment in Respect of Value Added Tax on Financial Services (VAT on FS)

- 3) The Commissioner General of Inland Revenue issued it's determination on the appeal filed by the Company relating to the assessment raised for Y/A 2014/15 amounting to Rs. 68.7 Million , in favour of the Commissioner General of Inland Revenue and the Company is in the process of hearing the appeals with Tax Appeals Commission.
- 4) The Company has been issued with assessments by the Department of Inland Revenue on 06 August 2019 and 3 February 2020 under the Value Added Tax Act, in relation to the taxable period ending 31 December 2016 and 31 December 2017 amounting to Rs. 28 Million and Rs.102.4 Million respectively.

The Company has filed an appeal to the Commissioner General of Inland Revenue on 27 September 2019 and 25 February 2020 respectively on the basis that the underlying computation includes items which are out of scope of the VAT Act. The Company is awaiting the CGIR determination.

#### Assessment in Respect of Nation Building Tax on Financial Services (NBT on FS)

- 5) The Company has been issued with an assessment by the Department of Inland Revenue on 08 August 2019 and 30 December 2019 under the Nation Building Tax Act, in relation to the taxable period ending 31 December 2016 and 31 December 2017 amounting to Rs. 4.3 Million and Rs. 13.7 Million respectively.

The Company has filed an appeal to the Commissioner General of Inland Revenue on 20 September 2019 and 13 February 2020 on the basis that the underlying computation includes items which are out of scope of the NBT Act. The Company is awaiting the CGIR determination.

#### Economic Service Charge (ESC)

- 6) The Company has been issued with an assessment by the Department of Inland Revenue on 27 August 2020 under the Economic Service Charge Act, in relation to the taxable period ending 31 December 2017 amounting to Rs. 7.3 Million.

The Company has filed an appeal to the Commissioner General of Inland Revenue on 16 October 2020 on the basis that the underlying computation includes items which are out of scope of the ESC Act. The Company is awaiting the CGIR determination.

#### Life Insurance Taxation

- 7) The Tax Appeals Commission issued it's determination on the appeal filed by the Company relating to the assessment raised for Y/A 2010/11 amounting to Rs. 679,000/- , in favour of the Softlogic Life Insurance PLC and The Commissioner General of Inland Revenue has transmitted this case to the Court of Appeal being dissatisfied with the said determination of Tax Appeals Commission and case is stated for the opinion of the Honourable Court of Appeal. The Company is awaiting the hearing from the Court of appeal.
- 8) The Tax Appeals Commission issued it's determination on the appeal filed by the Company relating to the assessment raised for Y/A 2012/13 amounting to Rs. 12.4 Million , in favour of CGIR and The Company has transmitted this case to the Court of Appeal being dissatisfied with the said determination of Tax Appeals Commission and case is stated for the opinion of the Honourable Court of Appeal. The Company is awaiting the hearing from the Court of appeal.
- 9) The Commissioner General of Inland Revenue issued it's determination on the appeal filed by the Company relating to the assessment raised for Y/A 2011/12, 2014/15 and 2015/16 amounting to Rs. 336.4 Million , in favour of the Commissioner General of Inland Revenue and the Company is in the process of hearing the appeals with Tax Appeals Commission.
- 10) The Department of Inland Revenue has raised assessments on Softlogic Life Insurance PLC for the year of assessment 2013/14, 2016/17 and 2017/18, assessing the life insurance business to pay an income tax liability of Rs. 691.3 Million along with penalty (before deducting the available Tax credits) and the Company has lodged a valid appeal against the said assessments. The Company is awaiting the CGIR determination.

Directors are of the view that it has followed due process and acted in accordance with the prevailing laws in its tax submission and therefore, the probability of company having to settle any of this tax assessments are very low.

#### 50 COMPARATIVE INFORMATION

The presentation and classification of Notes to the Financial Statements of the previous year are amended, where relevant for better presentation and to be comparable with those of the current year.

#### 51 DIRECTORS' RESPONSIBILITY STATEMENT

The Board of Directors of the Company is responsible for the preparation and presentation of the Financial Statements. Please refer to pages 173 to 174 of the Statement of Directors' Responsibility for Financial Reporting.



# One Future

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# LIFE INSURANCE FUND

## STATEMENT OF FINANCIAL POSITION

As at 31 December	Note	Page	2020 Rs. '000	2019 Rs. '000
<b>Assets</b>				
Property, plant and equipment	1	356	258,544	266,000
Right of use assets	28	316	752,393	408,044
Financial investments	2	356	19,308,100	10,328,503
Loans to life policyholders	31	331	234,462	224,672
Reinsurance receivables	32	331	323,288	188,131
Premium receivables	33	332	856,281	743,549
Receivables and other assets	3	357	717,616	688,969
Cash and cash equivalents	4	357	435,723	375,778
<b>Total assets</b>			<b>22,886,407</b>	<b>13,223,646</b>
<b>Equity and liabilities</b>				
<b>Equity</b>				
Other reserves			(56,497)	(456,408)
<b>Total equity</b>			<b>(56,497)</b>	<b>(456,408)</b>
<b>Liabilities</b>				
Insurance contract liabilities	40	335	17,483,705	10,377,102
Employee benefit liabilities	41	343	182,332	151,027
Reinsurance payables	43	346	636,060	428,557
Other liabilities	5	357	4,415,417	2,547,097
Bank overdraft	35	333	225,390	176,271
<b>Total liabilities</b>			<b>22,942,904</b>	<b>13,680,054</b>
<b>Total equity and liabilities</b>			<b>22,886,407</b>	<b>13,223,646</b>

## INSURANCE REVENUE ACCOUNT

For the year ended 31 December	Note	Page	2020 Rs. '000	2019 Rs. '000
<b>Life insurance - Policyholder fund</b>				
Gross written premiums	8	297	15,660,116	12,531,283
Premiums ceded to reinsurers	9	298	(1,872,616)	(991,455)
<b>Net earned premiums</b>	10	298	<b>13,787,500</b>	<b>11,539,828</b>
<b>Other revenue</b>				
Finance and other income			1,703,473	1,272,409
Net benefits and claims expenses	16.1	302	(3,566,797)	(2,996,112)
Change in insurance contract liabilities	17	302	(3,599,969)	(1,169,696)
Underwriting and net acquisition costs (Including reinsurance)	18	303	(3,269,454)	(2,968,714)
Expenses			(3,275,953)	(3,398,240)
<b>Surplus from life insurance fund</b>			<b>1,778,800</b>	<b>2,279,475</b>
<b>Shareholder fund</b>				
Finance and other income not attributable to policyholders			572,641	311,705
Reversal / (expenses) not attributable to policyholders			(221,094)	12,378
<b>Profit before tax - shareholder fund</b>			<b>351,547</b>	<b>324,083</b>
Income tax not attributable to policyholders	22	304	(608,864)	(430,715)
<b>Profit from shareholder fund</b>			<b>(257,317)</b>	<b>(106,632)</b>
<b>Profit for the year - Company</b>			<b>1,521,483</b>	<b>2,172,843</b>

# NOTES TO THE STATEMENT OF FINANCIAL POSITION OF THE LIFE INSURANCE FUND

## 1 PROPERTY, PLANT AND EQUIPMENT

Refer accounting policies set out in Note 27 on page 311.

	Freehold land Rs. '000	Freehold building Rs. '000	Total 2020 Rs. '000	Total 2019 Rs. '000
<b>Cost / Revaluation</b>				
Balance as at 1 January 2019	160,000	106,000	266,000	236,000
Additions during the year	-	-	-	-
Surplus on revaluation	-	-	-	44,272
Transferred of accumulated depreciation on revalued assets	-	-	-	(14,272)
Balance as at 31 December 2019	160,000	106,000	266,000	266,000
<b>Accumulated depreciation and impairment losses</b>				
Balance as at 1 January 2019	-	-	-	7,136
Depreciation for the year	-	7,456	7,456	7,136
Transferred of accumulated depreciation on revalued assets	-	-	-	(14,272)
Balance as at 31 December 2019	-	7,456	7,456	-
<b>Carrying value as at 31 December 2020</b>	160,000	98,544	258,544	
<b>Carrying value as at 31 December 2019</b>	160,000	106,000		266,000

## 2 FINANCIAL INVESTMENTS

Refer accounting policies set out in Note 30 on page 321.

As at 31 December	Note	2020 Rs. '000	2019 Rs. '000
Amortised Cost (AC)	2.1	14,437,845	5,246,793
Fair Value Through Other Comprehensive Income (FVOCI)	2.2	2,848,358	2,284,820
Fair Value through Profit or Loss (FVTPL)	2.3	2,021,897	2,796,890
<b>Total financial investments</b>		<b>19,308,100</b>	<b>10,328,503</b>

### 2.1 Amortised Cost (AC)

Refer accounting policies set out in Note 30.2 on page 321.

As at 31 December	2020 Rs. '000	2019 Rs. '000
Debentures	4,779,448	3,834,957
Treasury bonds	2,350,518	252,029
Sri Lanka development bonds	2,796,206	-
Bank deposits	1,200,348	26
Commercial papers	1,487,992	888,977
Overnight reverse Repo	1,823,333	270,804
<b>Total</b>	<b>14,437,845</b>	<b>5,246,793</b>

### 2.2 Fair Value Through Other Comprehensive Income (FVOCI)

Refer accounting policies set out in Note 30.3 on page 325.

As at 31 December	2020 Rs. '000	2019 Rs. '000
Equity - quoted	1,424,839	644,598
Treasury bonds	1,423,519	1,640,222
<b>Total</b>	<b>2,848,358</b>	<b>2,284,820</b>

### 2.3 Fair Value through Profit or Loss (FVTPL)

Refer accounting policies set out in Note 30.4 on page 327.

As at 31 December	2020 Rs. '000	2019 Rs. '000
Equity	-	475,837
Treasury bonds	-	1,935,989
Treasury bills	669,225	-
Unlisted perpetual debenture	515,380	-
Unit trust	837,292	385,064
<b>Total</b>	<b>2,021,897</b>	<b>2,796,890</b>

### 3 RECEIVABLES AND OTHER ASSETS

Refer accounting policies set out in Note 34 on page 333.

As at 31 December	2020 Rs. '000	2019 Rs. '000
<b>Financial assets</b>		
Refundable deposits	51,033	52,935
Receivable from Fairfirst Insurance Ltd (Net of provisions)	-	2,400
<b>Total financial assets</b>	<b>51,033</b>	<b>55,335</b>
<b>Non financial assets</b>		
Tax recoverable	47,230	49,639
Advances and prepayments	619,353	583,995
<b>Total non financial assets</b>	<b>666,583</b>	<b>633,634</b>
<b>Total receivables and other assets</b>	<b>717,616</b>	<b>688,969</b>

### 4 CASH AND CASH EQUIVALENTS

Refer accounting policies set out in Note 35 on page 333.

As at 31 December	2020 Rs. '000	2019 Rs. '000
Cash in hand	5,671	5,580
Cash at bank	430,052	370,198
<b>Total cash in hand and at bank</b>	<b>435,723</b>	<b>375,778</b>

### 5 OTHER LIABILITIES

Refer accounting policies set out in Note 44 on page 346.

As at 31 December	2020 Rs. '000	2019 Rs. '000
<b>Financial liabilities</b>		
Commission / Incentive payable	552,966	427,496
Premium deposit	157,162	110,250
Amounts due to related parties	17,604	8,831
Other payables	2,585,362	1,319,273
Lease liabilities	751,068	368,435
<b>Total financial liabilities</b>	<b>4,064,162</b>	<b>2,234,285</b>
<b>Non financial liabilities</b>		
Accruals	351,255	312,812
<b>Total non financial liabilities</b>	<b>351,255</b>	<b>312,812</b>
<b>Total other liabilities</b>	<b>4,415,417</b>	<b>2,547,097</b>

## QUARTERLY ANALYSIS

2020	1 Quarter Jan - Mar Rs. '000	2 Quarter Apr - Jun Rs. '000	3 Quarter July - Sep Rs. '000	4 Quarter Oct - Dec Rs. '000	Total 2020 Rs. '000
Gross written premiums	3,481,549	2,951,455	4,458,900	4,768,212	15,660,116
Premiums ceded to reinsurers	(439,891)	(429,565)	(526,722)	(476,438)	(1,872,616)
<b>Net earned premiums</b>	<b>3,041,658</b>	<b>2,521,890</b>	<b>3,932,178</b>	<b>4,291,774</b>	<b>13,787,500</b>
<b>Other revenue</b>					
Net finance income	394,967	365,220	370,869	503,397	1,634,453
Net realised gains	10,566	137,825	-	22,862	171,253
Net fair value gains	146,133	284,527	19,485	13,899	464,044
Other operating income	1,035	1,544	1,349	2,436	6,364
<b>Total other revenue</b>	<b>552,701</b>	<b>789,116</b>	<b>391,703</b>	<b>542,594</b>	<b>2,276,114</b>
<b>Total net revenue</b>	<b>3,594,359</b>	<b>3,311,006</b>	<b>4,323,881</b>	<b>4,834,368</b>	<b>16,063,614</b>
<b>Net benefits, claims and expenses</b>					
Net insurance benefits and claims	(865,529)	(624,204)	(1,030,592)	(1,046,472)	(3,566,797)
Change in insurance contracts liabilities	(614,083)	(712,843)	(1,679,697)	(593,346)	(3,599,969)
Underwriting and net acquisition cost (Net of reinsurance)	(679,170)	(811,735)	(938,800)	(839,749)	(3,269,454)
Other operating and administration expenses	(767,517)	(982,325)	(601,376)	(973,652)	(3,324,870)
Finance cost	(824)	(86,217)	(47,262)	(37,874)	(172,177)
<b>Total benefits, claims and expenses</b>	<b>(2,927,123)</b>	<b>(3,217,324)</b>	<b>(4,297,727)</b>	<b>(3,491,093)</b>	<b>(13,933,267)</b>
<b>Profit before tax</b>	<b>667,236</b>	<b>93,682</b>	<b>26,154</b>	<b>1,343,275</b>	<b>2,130,347</b>
Income tax expenses	(187,413)	(40,277)	(22,686)	(358,488)	(608,864)
<b>Profit for the year</b>	<b>479,823</b>	<b>53,405</b>	<b>3,468</b>	<b>984,787</b>	<b>1,521,483</b>

2019	1 Quarter Jan - Mar Rs. '000	2 Quarter Apr - Jun Rs. '000	3 Quarter July - Sep Rs. '000	4 Quarter Oct - Dec Rs. '000	Total 2019 Rs. '000
Gross written premiums	2,878,346	2,952,481	3,138,635	3,561,821	12,531,283
Premiums ceded to reinsurers	(216,821)	(228,180)	(259,656)	(286,798)	(991,455)
<b>Net earned premiums</b>	<b>2,661,525</b>	<b>2,724,301</b>	<b>2,878,979</b>	<b>3,275,023</b>	<b>11,539,828</b>
<b>Other revenue</b>					
Net finance income	358,124	281,030	273,860	305,762	1,218,776
Net realised gains	46,933	26,684	26,017	24,602	124,236
Net fair value gains / (losses)	(86,965)	208,650	1,707	108,205	231,597
Other operating income	3,701	2,301	(173)	3,676	9,505
<b>Total other revenue</b>	<b>321,793</b>	<b>518,665</b>	<b>301,411</b>	<b>442,245</b>	<b>1,584,114</b>
<b>Total net revenue</b>	<b>2,983,318</b>	<b>3,242,966</b>	<b>3,180,390</b>	<b>3,717,268</b>	<b>13,123,942</b>
<b>Net benefits, claims and expenses</b>					
Net insurance benefits and claims	(714,394)	(658,611)	(791,291)	(831,816)	(2,996,112)
Change in insurance contracts liabilities	305,533	(406,120)	(362,410)	(706,699)	(1,169,696)
Underwriting and net acquisition cost (Net of reinsurance)	(677,988)	(726,926)	(738,062)	(825,738)	(2,968,714)
Other operating and administration expenses	(829,207)	(773,151)	(784,827)	(880,378)	(3,267,563)
Finance cost	(30,623)	(30,064)	(27,482)	(30,130)	(118,299)
<b>Total benefits, claims and expenses</b>	<b>(1,946,679)</b>	<b>(2,594,872)</b>	<b>(2,704,072)</b>	<b>(3,274,761)</b>	<b>(10,520,384)</b>
<b>Profit before tax</b>	<b>1,036,639</b>	<b>648,094</b>	<b>476,318</b>	<b>442,507</b>	<b>2,603,558</b>
Income tax expenses	(292,289)	(183,769)	(126,329)	171,672	(430,715)
<b>Profit for the year</b>	<b>744,350</b>	<b>464,325</b>	<b>349,989</b>	<b>614,179</b>	<b>2,172,843</b>

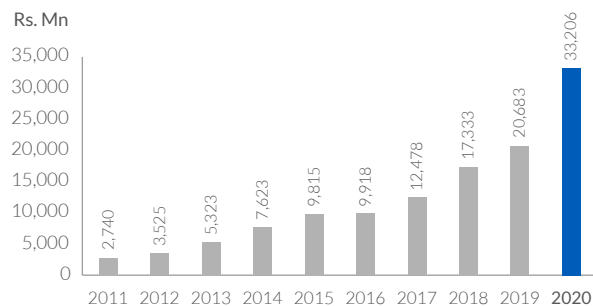


## DECADE AT A GLANCE - FINANCIAL POSITION

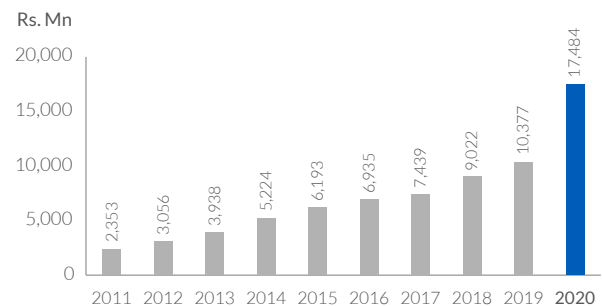
As at 31 December	2020	2019	2018	2017	2016	2015	2014*	2013*	2012*	2011*
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Assets</b>										
Intangible assets	404	444	2,089	7,145	13,236	21,982	15,009	-	-	-
Property, plant and equipment	660,928	675,468	619,059	577,705	485,014	427,519	289,725	92,820	70,073	56,423
Right of use assets	752,393	408,044	-	-	-	-	-	-	-	-
Deferred tax assets	1,621,904	2,230,768	2,750,962	420,000	-	-	-	-	-	-
Investments in subsidiary	-	-	-	-	-	800,000	100,000	-	-	-
Financial investments	27,367,792	14,910,744	12,065,241	9,994,488	8,218,287	7,744,020	6,642,677	4,826,752	3,143,117	2,525,597
Loans to life policyholders	234,462	224,672	161,001	140,385	162,448	143,640	134,352	106,618	79,794	59,595
Reinsurance receivables	323,288	188,131	154,802	149,548	85,940	62,643	73,316	61,774	61,140	3,765
Premium receivables	856,281	743,549	507,434	290,821	92,318	67,274	50,169	46,085	7,679	-
Receivables and other assets	834,388	923,961	691,109	579,409	627,810	355,424	212,805	95,046	72,128	82,724
Cash and cash equivalents	554,362	377,093	381,270	318,945	232,554	192,118	105,028	94,254	90,663	11,817
<b>Total assets</b>	<b>33,206,202</b>	<b>20,682,874</b>	<b>17,332,967</b>	<b>12,478,446</b>	<b>9,917,607</b>	<b>9,814,620</b>	<b>7,623,081</b>	<b>5,323,349</b>	<b>3,524,594</b>	<b>2,739,921</b>
<b>Equity and liabilities</b>										
<b>Equity</b>										
Stated capital	1,062,500	1,062,500	1,062,500	1,062,500	1,062,500	1,062,500	500,000	500,000	-	-
Retained earnings	9,290,347	7,764,216	6,275,417	2,942,245	2,223,276	1,845,655	450,181	332,199	-	-
Restricted regulatory reserve	798,004	798,004	798,004	798,004	-	-	-	-	-	-
Other reserves	(1,214,604)	(1,405,801)	(1,464,958)	(916,620)	(1,323,610)	(470,220)	453,206	103,319	36,552	-
<b>Total equity</b>	<b>9,936,247</b>	<b>8,218,919</b>	<b>6,670,963</b>	<b>3,886,129</b>	<b>1,962,166</b>	<b>2,437,935</b>	<b>1,403,387</b>	<b>935,518</b>	<b>36,552</b>	<b>-</b>
<b>Liabilities</b>										
Insurance contract liabilities	17,483,705	10,377,102	9,021,521	7,438,592	6,935,047	6,192,615	5,223,695	3,938,030	3,055,723	2,353,008
Employee benefit liabilities	182,332	151,027	107,404	86,693	73,436	45,796	25,724	20,502	14,851	13,606
Loans and borrowings	2,852,245	-	-	-	-	-	154,483	50,000	-	-
Reinsurance payables	636,060	428,557	320,824	236,265	139,262	92,972	14,704	81,989	25,103	43,419
Other liabilities	1,890,223	1,330,998	841,833	754,027	676,230	414,338	654,217	249,722	323,513	329,888
Current tax liabilities	-	-	-	-	-	269,700	-	-	-	-
Bank overdraft	225,390	176,271	370,422	76,740	131,466	361,264	146,871	47,588	68,852	-
<b>Total liabilities</b>	<b>23,269,955</b>	<b>12,463,955</b>	<b>10,662,004</b>	<b>8,592,317</b>	<b>7,955,441</b>	<b>7,376,685</b>	<b>6,219,694</b>	<b>4,387,831</b>	<b>3,488,042</b>	<b>2,739,921</b>
<b>Total equity and liabilities</b>	<b>33,206,202</b>	<b>20,682,874</b>	<b>17,332,967</b>	<b>12,478,446</b>	<b>9,917,607</b>	<b>9,814,620</b>	<b>7,623,081</b>	<b>5,323,349</b>	<b>3,524,594</b>	<b>2,739,921</b>

\*Represents life insurance segment result when composite company.

### Total assets



### Insurance contract liabilities

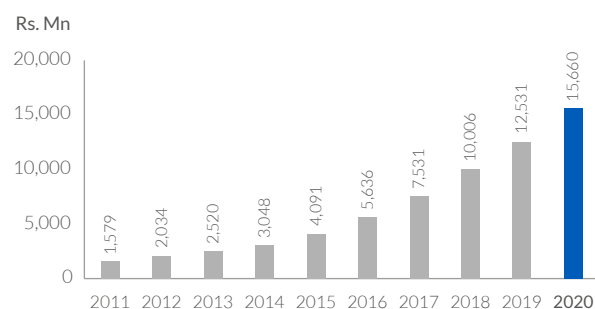


## DECADE AT A GLANCE - FINANCIAL PERFORMANCE

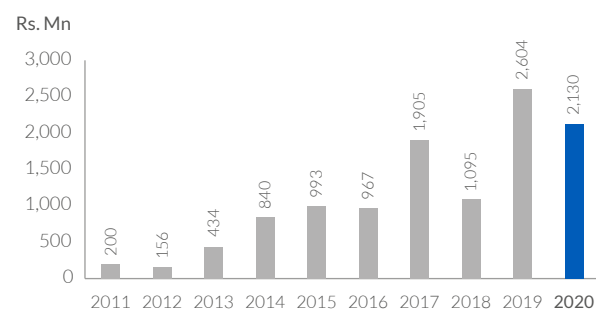
For the year ended 31 December	2020 Rs. '000	2019 Rs. '000	2018 Rs. '000	2017 Rs. '000	2016 Rs. '000	2015 Rs. '000	2014* Rs. '000	2013* Rs. '000	2012* Rs. '000	2011* Rs. '000
Gross written premium	15,660,116	12,531,283	10,005,733	7,530,935	5,635,701	4,091,042	3,048,148	2,520,283	2,034,084	1,579,191
Net earned premium	13,787,500	11,539,828	9,279,175	6,728,473	5,002,748	3,589,571	2,816,593	2,138,666	1,707,103	1,321,556
Other revenue	2,276,114	1,584,114	953,383	1,069,179	753,005	867,754	1,477,322	709,271	347,434	255,891
<b>Net income</b>	<b>16,063,614</b>	<b>13,123,942</b>	<b>10,232,558</b>	<b>7,797,652</b>	<b>5,755,753</b>	<b>4,457,325</b>	<b>4,293,915</b>	<b>2,847,937</b>	<b>2,054,537</b>	<b>1,577,447</b>
Net insurance benefits and claims	(3,566,797)	(2,996,112)	(2,339,004)	(1,222,501)	(1,072,166)	(433,732)	(312,491)	(214,101)	(143,116)	(123,547)
Net acquisition cost	(3,269,454)	(2,968,714)	(2,044,220)	(1,830,773)	(1,580,473)	(992,572)	(714,531)	(603,629)	(509,727)	(291,226)
Expenses	(3,497,047)	(3,385,862)	(3,253,983)	(2,322,492)	(1,848,586)	(1,072,007)	(1,173,695)	(754,513)	(694,476)	(539,018)
<b>Operating surplus before transfer to insurance provision - Life</b>	<b>5,730,316</b>	<b>3,773,254</b>	<b>2,595,351</b>	<b>2,421,886</b>	<b>1,254,528</b>	<b>1,959,014</b>	<b>2,093,198</b>	<b>1,275,694</b>	<b>707,218</b>	<b>623,656</b>
Transfer to insurance provision - Life fund	(3,599,969)	(1,169,696)	(1,500,589)	(517,365)	(287,685)	(966,452)	(1,253,098)	(842,119)	(551,339)	(423,656)
<b>Profit before tax</b>	<b>2,130,347</b>	<b>2,603,558</b>	<b>1,094,762</b>	<b>1,904,521</b>	<b>966,843</b>	<b>992,562</b>	<b>840,100</b>	<b>433,575</b>	<b>155,879</b>	<b>200,000</b>
Income tax (expenses) / reversal	(608,864)	(430,715)	2,241,483	420,000	-	-	-	-	-	-
<b>Profit for the year</b>	<b>1,521,483</b>	<b>2,172,843</b>	<b>3,336,245</b>	<b>2,324,521</b>	<b>966,843</b>	<b>992,562</b>	<b>840,100</b>	<b>433,575</b>	<b>155,879</b>	<b>200,000</b>

\*Represents life insurance segment result when composite company.

### Gross written premium



### Profit before tax



# INVESTOR RELATIONS

"Investor Relations" describes the activities that the company undertakes to build and maintain relationship with existing and potential shareholders as well as intermediaries. Developing and maintaining a strong relationship with investors helps the company to understand their expectations. Further, well established relationship with investors is a key aspect of good governance and it creates long term value to the company by providing inputs to the process of strategy formulation.

We at Softlogic Life always value our investors and responsible to convey company's fundamentals in terms of Operational results, Financial performance and Compliance status. In this segment of the report, we provide relevant and sufficient information of the shareholding and performance of the company's listed share in the reporting year which enhances loyalty and confidence of investors.

## STOCK EXCHANGE LISTING

Softlogic Life Insurance PLC is a public quoted company which has listed its ordinary shares in Colombo Stock Exchange (CSE). SLI ordinary shares are effectively traded in Diri Savi Board of the Colombo Stock Exchange under the symbol of AAIC.N0000.

## SUBMISSION OF FINANCIAL STATEMENTS TO THE CSE

The audited Company Income Statements for the year ended 31 December 2020 and the audited Balance Sheets at that date have been submitted to the Colombo Stock Exchange within three months of the Balance Sheet date. The interim financial statements of 4th Quarter for the year/ quarter ended 31 December 2020 were submitted within stipulated time lines.

## NAMES OF DIRECTORS

The names of persons who held the positions of Directors during the year are provided in the Annual Report of the Board of Directors on page 134 to 136.

## THE PRINCIPLE ACTIVITIES OF THE COMPANY

The principal activities of the company during the year are given in the Annual Report of the Board of Directors and Note 1 in accounting policies on page 257.

## STOCK MARKET PERFORMANCE

The year 2020 was a challenging year for the Sri Lankan economy with COVID-19 pandemic which was closely followed by Black Easter Attack in 2019. Despite the economic obstacles during the year, Sri Lanka's Equity market continued with a positive performance recording a year-over-year All Share Price Index (YoY ASPI) gain of 10.5% to end the year at 6,774.2 in 2020 (vs. marginal gain of 1.3% in 2019). However, the more liquid S&P20 index declined by 299 points YoY which is a 10.2% drop from last year. Nevertheless, the S&P20 index increased by 184.2 points during the month of December 2020 (7.5% MoM) signalling the start to the market recovery that flowed through into early months of 2021.

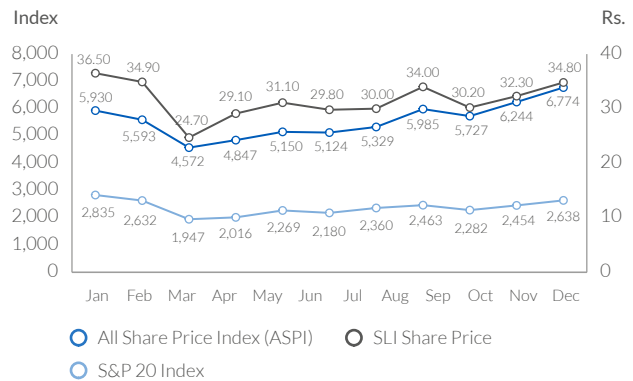
Despite the sovereign downgrade by Fitch ratings towards end November 2020, active performance in the Equity market during the latter part of 2020 ended with Colombo bourse posting an Average daily turnover LKR 1,890mn (USD 10.2mn) as opposed to LKR 711mn (USD 4mn) recorded in 2019 which translated to approximately 3 times increase YoY primarily driven by domestic retail investors. However, net foreign outflows remained a major challenge for the bourse given a net outflow of LKR 50.7bn (USD 273mn) during 2020.

## PERFORMANCE OF SOFTLOGIC LIFE SHARE

Despite global as well as local challenges during 2020 Softlogic Life (SLI) was able to perform exponentially well during the year in comparison to industry players. As a result, company's share performed notably in the Colombo Stock Exchange where the share price reached a high of Rs. 38.6 (2nd January) and low of Rs. 20 (11th May) during 2020.

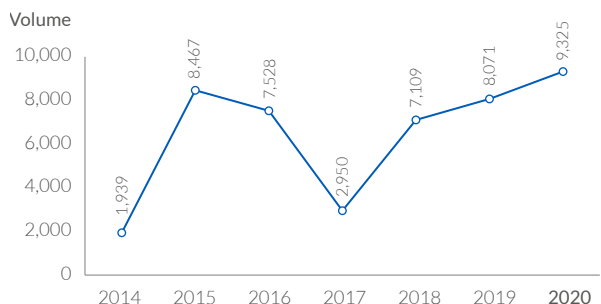
SLI share price closed at Rs. 34.80 in 2020 (vs. Rs. 37.50 in 2019). Moreover, the volume of share traded recorded a remarkable increase to 108.9 mn in 2020 against 6.7 mn in 2019. Similarly, the total turnover of traded shares rose to Rs. 3,935 mn in 2020 (vs. Rs. 266 mn in 2019) which was approximately 15 times increase YoY. Furthermore, market capitalization of SLI as at 31 December 2020 came in at Rs. 13,050 mn. (vs. Rs. 14,063 mn in 2019).

### Performance of the Softlogic Life Insurance PLC's Ordinary Share with market performance in 2020



## INFORMATION ON SHARE TRADING

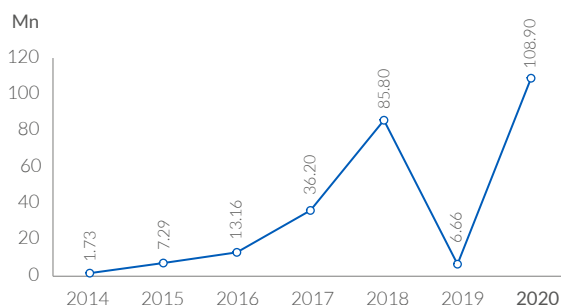
### Number of Share Transactions



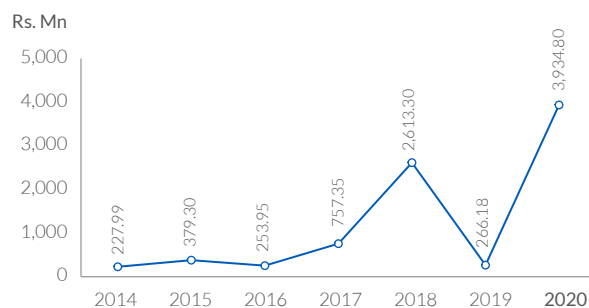
## INVESTOR RELATIONS

### INFORMATION ON SHARE TRADING (CONTD.)

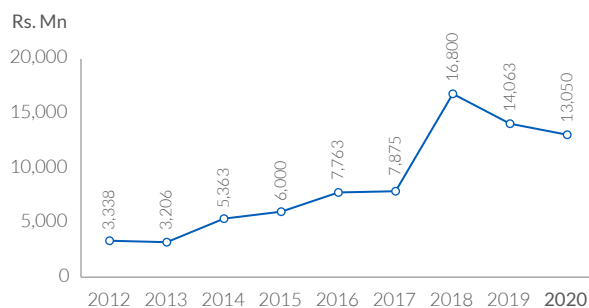
#### Number of Shares Traded



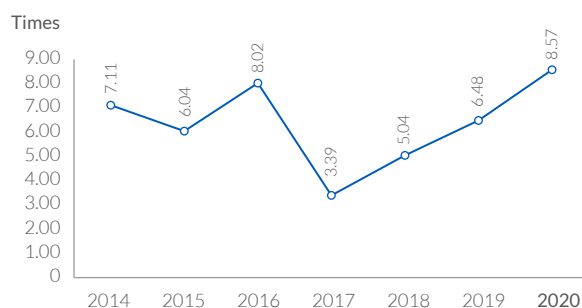
#### Value of Shares Traded



#### Market Capitalisation



#### Price Earning Ratio



The details relating to the performance of the share are given below.

	2020	2019
<b>Market Value</b>		
Highest Price (Rs.)	38.60	50.40
Lowest Price (Rs.)	20	30
Year-end price (Rs.)	34.80	37.50
<b>Trading Statistics</b>		
Number of shares traded	108,892,374	6,662,414
Value of Shares traded (Rs. Million)	3,934.77	266.18
Number of share transactions	9,325	8,071
Market Capitalization - SLI (Rs. Million)	13,050	14,063
Percentage of total market capitalization	0.44%	0.49%
<b>Valuation Ratios</b>		
Number of shares as at 31 December	375,000,000	375,000,000
Basic earnings per share (Rs.)	4.06	5.79
Net Assets per share (Rs.)	26.50	21.92
Price per book Value (Times) - per share	1.31	1.71
Return on Equity (%)	21.3	39.72
Price Earnings Ratio (Times)	8.57	6.48
Earning yield	11.67	15.44
Dividend per Share (Rs.)	2.50	-
Dividend payout (%)	61.6	-
Dividend yield (%)	7.2	-
Debt to Asset Ratio (%)	8.6	-
Debt to Equity Ratio (%)	28.7	-
Interest Cover (Times)	14.2	-
Equity Asset Ratio (%)	30.0	-

#### Basic Earnings per Share

Earnings per Share of the company has recorded Rs. 4.06 in 2020 whereas Rs. 5.79 in 2019. This is a 29.88% drop comparison to previous year.

#### Price Earnings Ratio

Price earnings ratio has improved to 8.57 times in 2020 compared with 6.48 times recorded in 2019. There is a 32.25% increase in Price Earnings Ratio in 2020 against the previous year.

#### Free Float

The CSE defines the free float of a company as the percentage of shareholders, excluding Directors shareholdings, who hold less than 3% stake in the company. According to this definition, the SLI free float is 10.27% in 2020. (2019 - 10.27%).

#### Float Adjusted Market Capitalization

As at 31 December 2020 the Float Adjusted Market Capitalization of SLI is Rs. 1,340,235,000

The Company is complied with minimum public holding requirement as at the reporting date based on the "Option 1" of Rule 7.13.1.b.

## SHAREHOLDER BASE

Softlogic Life has a diversified shareholder base, both geographically and in the ratio of individual to institutional investors. The total number of shareholders increased to 2,151 as at 31 December 2020 from 1,342 as at 31 December 2019. On 31 December 2020, Softlogic Life had 2,011 registered individual shareholders, representing 93.5% of the total shareholders. Institutional shareholders represent approximately 95.7% of Softlogic Life's ordinary share capital. The vast majority of company's individual shareholders are residents of Sri Lanka. Number of registered resident shareholders are 2,128 as at 31st December 2020 representing 98.9% of total shareholders. 54% of the shareholders hold less than 1,000 shares. The top twenty shareholders hold 95.46% of Softlogic Life's shares capital.

No of Shares	As at 31 December 2020			As at 31 December 2019		
	No of share holders	No of shares	% of Total Holding	No of share holders	No of shares	% of Total Holding
1-1,000	1,166	345,746	0.09	879	230,410	0.06
1,001-10,000	705	2,718,047	0.72	337	1,336,289	0.36
10,001-100,000	220	7,109,965	1.90	105	3,360,006	0.90
100,001-1,000,000	52	16,206,186	4.32	15	4,416,168	1.18
1,000,001 & Over	8	348,620,056	92.97	6	365,657,127	97.51
<b>Total</b>	<b>2,151</b>	<b>375,000,000</b>	<b>100.00</b>	<b>1,342</b>	<b>375,000,000</b>	<b>100.00</b>

Shareholders' Categorised Summary Report (Resident & Non Resident) as at 31st December 2020

No of Shares	Non Resident			Resident		
	No of share holders	No of shares	% of Total Holding	No of share holders	No of shares	% of Total Holding
1-1,000	9	3,760	0.00	1,157	341,986	0.09
1,001-10,000	4	9,676	0.00	701	2,708,371	0.72
10,001-100,000	3	74,232	0.02	217	7,035,733	1.88
100,001-1,000,000	4	575,173	0.15	48	15,631,013	4.17
1,000,001 & Over	3	145,782,079	38.88	5	202,837,977	54.09
<b>Total</b>	<b>23</b>	<b>146,444,920</b>	<b>39.05</b>	<b>2,128</b>	<b>228,555,080</b>	<b>60.95</b>

### Composition of Shareholders

#### Resident / Non Resident Distribution

Composition	As at 31 December 2020			As at 31 December 2019		
	No of share holders	No of shares	% of Total Holding	No of share holders	No of shares	% of Total Holding
Resident	2,128	228,555,080	60.95	1,323	202,678,555	54.05
Non Resident	23	146,444,920	39.05	19	172,321,445	45.95
<b>Total</b>	<b>2,151</b>	<b>375,000,000</b>	<b>100.00</b>	<b>1,342</b>	<b>375,000,000</b>	<b>100</b>

#### Individual / Institutional

Composition	As at 31 December 2020			As at 31 December 2019		
	No of share holders	No of shares	% of Total Holding	No of share holders	No of shares	% of Total Holding
Individual	2,011	15,905,863	4.24	1,266	6,977,098	1.86
Institutional	140	359,094,137	95.76	76	368,022,902	98.14
<b>Total</b>	<b>2,151</b>	<b>375,000,000</b>	<b>100.00</b>	<b>1,342</b>	<b>375,000,000</b>	<b>100</b>

## INVESTOR RELATIONS

### Public Shareholding

Composition	As at 31 December 2020			As at 31 December 2019		
	No of share holders	No of shares	% of Total Holding	No of share holders	No of shares	% of Total Holding
Public Shareholding	2,146	38,503,690	10.27	1,336	38,503,690	10.27
<b>Total</b>	<b>2,146</b>	<b>38,503,690</b>	<b>10.27</b>	<b>1,336</b>	<b>38,503,690</b>	<b>10.27</b>

### Directors' Shareholding

Name	As at 31 December 2020		As at 31 December 2019	
	No of shares	% of Total Holding	No of shares	% of Total Holding
Mr. A. K. Pathirage (Chairman)	Nil	Nil	Nil	Nil
Mr. S. Rajapakse- (Deputy Chairman)	Nil	Nil	Nil	Nil
Mr. T. M. I. Ahamed (Managing Director / CEO)	Nil	Nil	Nil	Nil
Mr. M. R. Abeywardena - Director	Nil	Nil	Nil	Nil
Mr. H.K.Kaimal - Director	Nil	Nil	Nil	Nil
Ms. Fernanda Lima - Director	Nil	Nil	Nil	Nil
Mr. H.C. Hettiarachchi - Director	Nil	Nil	Nil	Nil
Mr. V. Govindasamy - Director	Nil	Nil	Nil	Nil
Mr. R. Snyders - Director	Nil	Nil	Nil	Nil

### Twenty Largest Shareholders

As at 31 December, Name of Shareholder	2020	
	No of shares	%
Softlogic Capital PLC	193,820,760	51.69
Milford Ceylon (pvt) Ltd	71,250,000	19.00
Dalvik Inclusion Private Limited	71,250,000	19.00
Sampath Bank PLC / Dr. T. Senthilverl	5,000,000	1.33
Pershing Llc S/A Averbach Grauson & Co.	3,282,079	0.88
J.B Cocoshell (Pvt) Ltd	2,017,217	0.54
Seylan Bank PLC / ARRC Capital (Pvt) Ltd	2,000,000	0.53
People's leasing & Finance PLC / B.S.Navarathna	1,000,000	0.27
Seylan Bank PLC / Andaradeniya estate (Pvt) Ltd	1,000,000	0.27
Mr. Goonetilleke Gajath Chrysantha	964,765	0.26
Mr. Madanayake Nirmal Anrudha	955,138	0.25
Mr. Ananda Rajapaksha Rathnayaka Sarath	861,255	0.23
Amaliya Private Limited	805,902	0.21
Seylan Bank PLC/W.D.N.H.Perera	600,000	0.16
Sanasa General Insurance Company Ltd	600,000	0.16
Deutsche Bank AG- National equity fund	583,318	0.16
Mr. De mel ashantha lakdasa francis	571,606	0.15
Phoenix ventures Private limited	560,000	0.15
Perera and sons bakers Pvt limited	520,000	0.14
Mr. Perera Illangage Shantha Prasad	339,000	0.09
	<b>357,981,040</b>	<b>95.46</b>
Other Shareholders	17,018,960	4.54
<b>Total Shareholders</b>	<b>375,000,000</b>	<b>100</b>

## Twenty Largest Shareholders (Contd.)

As at 31 December, Name of Shareholder	2019	
	No of shares	%
Softlogic Capital PLC	193,800,760	51.69
Dalvik Inclusion Private Limited	71,250,000	19.00
State Street Munich C/O SsbT-Deg-Deutsche Investitions-Und Entwicklungsgesellschaft Mbh	71,250,000	19.00
SsbT- Global Macro Portfolio	23,874,288	6.37
Pershing Llc S/A Averbach Grauson & Co.	3,282,079	0.88
SsbT-Global Macro Capital Opportunities Portfolio	2,200,000	0.59
Mr. Goonetilleke Gajath Chrysantha	905,000	0.24
Mr. Ananda Rajapaksha Rathnayaka Sarath	861,255	0.23
Amaliya Private Limited	805,902	0.21
Mr. Mather Sujendra Ranjanan	220,000	0.06
Mr. Ekanayaka Nahimala Welegedara Senarath Bandara	205,000	0.05
Softlogic Holdings PLC	175,550	0.05
Hsbc Bank Plc-Mckinley Capital Measa Fund Oeic Limited	168,331	0.04
Mr. Rambukwella Ravindra Earl	157,000	0.04
J.B. Cocoshell (Pvt) Ltd	156,446	0.04
Mr. Perera Illangage Shantha Prasad	151,000	0.04
Elgin Investments Limited	150,000	0.04
Mr. Elankumaran Sarvananthan	130,000	0.03
People's Merchant Finance Plc/PT.S De Silva	116,371	0.03
Mr. Mirando Jude Rory Mathes	107,471	0.03
	369,966,453	98.66
Other Shareholders	5,033,547	1.34
<b>Total</b>	<b>375,000,000</b>	<b>100</b>

## INVESTOR RELATIONS

### Compliance with contents of annual report as per Section 7.6 of the Listing Rules of the Colombo Stock Exchange

Section 7.6 to the listing rules of the Colombo Stock Exchange includes the following information as compulsory for the listed entities to disclosure in the annual report.

Listing Rule Number	Compliance Requirements	Detail / Reference	Compliance Status
7.6.i	Names of persons who during the financial year were Directors of the entity	The names of persons who held the position of Directors during the Financial year is given in the Annual Report of the Board of directors (Refer Pages 134-136)	Complied
7.6.ii	Principal activities of the Company	The principal activities of the Company and its subsidiaries during the year are given in the Annual Report (Refer Page 166)	Complied
7.6.iii	The names and the number of shares held by the 20 largest holders of voting and non-voting shares and the percentage of such shares held	The 20 largest shareholders together with their shareholding as at 31st December 2020 is provided on "Investor relation" Information Section	Complied
7.6.iv	The public holding percentage	The details of the public shareholding are available on (Refer Page 364)	Complied
7.6.v	A statement of each Director's holding and Chief Executive Officer's holding in shares of the entity at the beginning and end of each financial year	The statement of each Director's holding and Chief Executive Officer's holding in shares is available on (Refer Page 364)	Complied
7.6.vi	Information pertaining to material foreseeable risk factors of the entity	Information relating to material foreseeable risk factors is provided in the risk management section (Refer Pages 224-240)	Complied
7.6.vii	Details of material issues pertaining to employees and industrial relations of the entity	The Company did not encounter any relating to employees and industrial relations during the year 2020	Complied
7.6.viii	Extents, locations, valuations and the number of buildings of the entity's land holdings and investment properties	The details of Extents, Locations, valuations and the number of buildings of the Entity's land holdings and the investment properties given in the annual report (Refer Page 314)	Complied
7.6.ix	Number of shares representing the entity's stated capital	The details of shares issued by the Company are available on (Refer Page 334)	Complied
7.6.x	A distribution schedule of the number of holders in each class of equity securities, and the percentage of their total holdings in the given categories	The distribution schedule of the number of shareholders and the percentages of their total holdings in the given categories is provided on (Refer Page 363)	Complied
7.6.xi	List of ratios and market price information	The list of applicable ratios and the market price information is provided in the "Investor Relation" section	Complied
7.6.xii	Significant changes in the entity's fixed assets and the market value of land, if the value differs substantially from the book value	There were no significant changes in the entity's fixed assets and market value of lands assets and the market value of land, if the value differs substantially from the book value Complied	Complied
7.6.xiii	If during the year the entity has raised funds either through a public issue, rights issue, and private placement	The Company did not raised funds to increase its Stated Capital during the year.	Complied
7.6.xiv	Employee Share Option Schemes and Employee Share Purchase Schemes	There are no 'Employee Share Ownership Schemes' in the Company.	Complied
7.6.xv	Disclosures pertaining to Corporate Governance practices in terms of rules 7.10.3, 7.10.5 c. and 7.10.6 c. of Section 7 of the Rules	The Disclosures relating to Corporate Governance practices in terms of Rules 7.10.3, 7.10.5 c, and 7.10.6 c of Section 7 of the rules are given in the Corporate Governance Report (Refer Page 210)	Complied
7.6.xvi	Related Party transactions exceeding 10% of Equity or 5% of the total assets of the entity as per audited financial statements whichever is lower and Details of investments in related party transactions.	There were no material transaction during the year with any related party of the company other than disclosed (Refer Page 349)	Complied



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# 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.

Summary of the extract of Income Statement is as follows:

Income Statement	Note	2020 Rs. Mn
Gross Written Premium	8	15,660
Less: Premium ceded to reinsurers	9	(1,873)
Net earned premium	10	13,788
Net insurance benefits and claims	15	(3,546)
Net acquisition cost	18	(3,269)
Increase in Life fund	40	7,107

Note: Only the insurance specific part of the Income Statement is extracted above.

## Note 01- Gross Written Premium

Gross Written Premium (GWP) represents the price charged by insurance companies in order to pay claims or benefits applicable under the Life Insurance policy. GWP is comparable with the 'turnover' of a trading or manufacturing organisation. However, GWP is accounted on an accrual basis.

## Note 02- Premium ceded to reinsurers

Reinsurance is the process whereby part of the risk/s undertaken by the Insurance Company is transferred to another entity called the reinsurance company, for which the Insurance Company pays a premium known as the 'Reinsurance Premium'.

## Note 03- Net earned premium

This is the portion of premium which is applicable for the financial year and earned by the insurer. This represents the amount of GWP less reinsurance outgo that is relevant to the accounting period.

## Note 04- Net insurance benefits and claims

If the incident against which the insurance cover was obtained occurs, the Insurance Company indemnifies the insured with an agreed sum, which is known as a claim. If the customer survives till the policy expiration date, the maturity proceed will be paid. If customer requests proceeds before the maturity date, accumulated fund is paid which is called Surrenders.

Part of the claim payment is reimbursed by the reinsurance company to the Insurance Company based on the proportion of risk/s transferred. This is known as the Reinsurance Recoveries.

The benefits and claims net of reinsurance recoveries are treated as net benefits and claims.

## Note 05- Net acquisition cost

This consists of commission, franchise fee, deferred acquisition expenses net of Reinsurance commission.

## Note 06- Increase in Life fund

For the purpose of meeting the policyholders' future liabilities, the insurer is required to maintain a separate fund with sufficient assets to cover an actuarially determined provision which is known as the Long Term Insurance Fund. The amount added to the fund during the current year will appear in the Statement of income as change in Insurance Contract liability - Life Fund.

Summary of the extract of Statement of Financial Position is as follows:

Liabilities	Note	2020 Rs. Mn
Life Insurance Fund		12,242
Surplus created due to change in valuation method from NPV to GPV	40.3	1,057
Claim Payable	40.3	643
Life Insurance Contract Liabilities		13,941
Financial Reinsurance arrangement	40.4	3,542
<b>Total</b>	40.3	<b>17,484</b>

## Note 07- Life Insurance Fund

In Long Term insurance business, due to the longer duration of the policy period, insurance companies are required to maintain a separate fund to meet future policyholders' obligations. This is known as the 'Long Term Policy Liability'. The size of the fund that needs to be maintained is determined by the actuarial valuation.

This process estimates the excess of the assets over the policyholder's liabilities of the fund after distribution of dividends to the policyholders as at the year-end. The excess is generally known as the Life Surplus and referred to as Transfer to Shareholders Funds in the Financial Statements.

## Note 08- Surplus created due to change in valuation method from NPV to GPV

This represents a change in the valuation method from Net Premium Valuation (NPV) to Gross Premium

Valuation (GPV). As directed by the Insurance Regulatory Commission of Sri Lanka, these reserves are maintained under Life Fund until 2016.

However, as at 31st December 2020, Life fund only includes one of surplus relating to the participating fund.

# GLOSSARY OF INSURANCE TERMS

## Acquisition Expenses

All expenses, which vary with, and are primarily related to, the acquisition of new insurance contracts and the renewal of existing insurance contracts (eg: commissions)

## Actuary

An expert concerned with the application of probability and statistical theory to problems of insurance, investment, financial management and demography.

## Actuarial Valuation

A determination by an actuary at a specific date of the value of a Life Insurance Company's asset and its liabilities. The purpose of a valuation is to determine if the Company holds adequate assets to fund the Company's liabilities.

## Admissible Assets

Assets that may be included in determining an insurer's statutory solvency. Such assets are specified under the rules made by the Insurance Regulatory Commission of Sri Lanka under the Regulation of Insurance Industry Act No. 43 of 2000.

## Annuity

A series of regular payments. Annuities include annuities certain, where payments are made at definite times, and life annuities, where payments depend on the survival of an annuitant. A life annuity is a contract that provides a regular payment typically monthly during the lifetime of the policyholder or a fixed period if less. If the payments start at the outset of the contract, it is an immediate annuity. If they start at some point in the future, it is a deferred annuity

## Beneficiary

A person named by the policyholder as the recipient of the sum insured and other benefits due in the event of the policyholder's death.

## Bonus

Bonus is a method of distribution of surplus amongst the participating policyholders of a Life Insurance Company. A bonus is an enhancement to the basic sum assured under a contract and is declared as a percentage of the sum assured.

## Cedent

Insurer who cedes business under a reinsurance agreement (Client of reinsurance Company)

## Claim Outstanding

The amount provided to cover the estimated ultimate cost of settling claims arising out of events which have been notified by the reporting date being the sums due to beneficiaries together with claims handling expenses, less amounts already paid in respect of those claims.

## Claim Ratio (Net loss ratio)

Net claims incurred

---

Net Earned Premium

## Claims

The amount payable under a contract of insurance arising from the occurrence of an insured event such as destruction or damage of property and related death or injuries, the incurring of hospital or medical bills, death or disability of the insured and gratuity claims.

## Claims Incurred

The aggregate of all claims paid during the accounting period together with attributable claims handling expenses, where appropriate, adjusted by the gross claims reserve at the beginning and end of the accounting period.

## Clause

A section of a policy contract or endorsement dealing with a particular subject.

## Commission

The part of an insurance premium paid by the insurer to an agent or broker for his services in procuring and servicing the insurance.

## Dividend Cover

Profits after tax divided by Dividend measures the number of times dividends are covered by distributable profits for the period.

## Earnings Per Share (EPS)

Profits of the Company after tax and after the transfer to Life Fund divided by the number of issued ordinary shares.

## Embedded Value

The combination of the present value of the future profits of the existing book of business and net assets.

## Endowment

Life insurance payable to the policyholder if living on the maturity date stated in the policy or to a beneficiary if the insured dies before that date.

## Excess

That part of a loss for which the insured is liable.

## Ex-Gratia Payment

A payment made to an insured where there is no liability to pay under the terms of the policy. In some cases, an insurer may feel there has been a mistake or a misunderstanding and it may pay claim, even though he does not appear to be liable.

## Facultative Reinsurance

Oldest form of reinsurance. This is the reinsurance of an individual risk on terms and conditions agreed with the reinsurer specifically for that risk. Particulars of each risk are submitted by the ceding Company to the reinsurer who may accept or decline at will. This is useful when dealing with risks outside the ceding Company's treaty arrangements.

## Gross Written Premium

Premium to which the insurer is contractually entitled and received in the accounting period.

## Gross/Net

The terms gross and net mean before and after deduction of the portion attributable to business ceded in reinsurance. Instead of "net," the term "for own account" is sometimes used.

## Insurance Contract

Insurance is a contract whereby one party the insurer, in return for a consideration i.e. the premium, undertakes to pay to the other party the insured sum of money or its equivalent in kind, upon the happening of a specified event that is contrary to the interest of the insured.

## Insurance Provision - Long Term

The fund or funds to be maintained by an insurer in respect of its Long Term Insurance business in accordance with the Regulation of Insurance Industry Act No. 43 of 2000.

## Investment Contract

A contract, which contains significant financial risk and may contain insignificant insurance risk, but does not meet the definition of insurance

## Lapsed Policy

A policy terminated at the end of the grace period because of non-payment of premiums.

## Liability Adequacy Test

An annual assessment of the sufficiency of insurance and/or investment contract with liabilities, to cover future insurance obligations.

**L**ife Fund

Net Assets kept to meet the obligation towards Life Policyholders.

**L**ife Surplus

The excess of the assets over the liabilities as determined by the actuary (taking into account solvency requirements) and after distribution of dividends to policyholders.

**M**arket Capitalisation

Number of shares in issue multiplied by the market value of each share as at the Balance Sheet date.

**M**aturity

The time at which payment of the sum insured under a Life Insurance policy falls due at the end of its term.

**M**ortality

The ratio of deaths to the entire population or to a particular age group. It is globally expressed in numbers or rates and set out in mortality tables.

**N**et Assets Per Share

Net assets attributable to Shareholders' equity divided by the number of Ordinary shares issued.

**N**et Combined Ratio

Net Claims Incurred + Other Expenses

**N**on-participating Business

Life Insurance business where policyholders are not entitled to share in the surplus of the relevant life fund.

**P**articipating Business

Life Insurance business where the policy holders are contractually entitled to share in the surplus of the relevant life fund.

**P**olicy

The printed document issued to the policyholder by the Company stating the terms of the insurance contract.

**P**remium

The payment or one of the regular periodic payments, that a policyholder makes to own an insurance policy.

**P**rice Earning Ratio

Market price of a share divided by earning per share.

**P**olicy Loan

Under an insurance policy, the amount that can be borrowed on the security of the surrender value of a Life Insurance policy at a specific rate of interest from the issuing Company by the policyholder, who used the value of the policy as collateral for the loan. In the event the policyholder dies with the debt partially or fully unpaid, the insurance Company deducts the amount borrowed, plus any accumulated interest, from the amount payable.

**P**remium Ceded to Reinsurers

The premium paid by the ceding Company to the reinsurer in consideration for all or part of the risk assumed by the reinsurer.

**R**einsurance

Transfer of all or part of the risk assumed by an insurer under one or more insurances to another insurer, called the reinsurer

**R**eturn on Shareholders' Equity

Profits after tax divided by the Capital employed as at Balance Sheet date

**R**eturn on Total Assets

Profits after Tax divided by Total assets attributable to Shareholders.

**R**einsurance Commission

Commission received or receivable in respect of premium paid or payable to a reinsurer.

**R**einsurance Premium

The premium payable to the reinsurer. Reinsurance is an arrangement whereby one party (the reinsurer), in consideration for a premium, agrees to indemnify another party (the cedent) against part or all of the liability assumed by the cedent under a policy or policies of insurance.

**R**etention

That part of the risk assumed which the insurer/ reinsurer does not reinsure/ retrocede, i.e. retained net for own account.

**R**ider

An amendment to an insurance policy that modifies the policy by expanding or restricting its benefits or excluding certain conditions from coverage.

**R**isk Based Capital (RBC)

Amount of required capital that the insurance company must maintain based on the inherent risks in the insurer's operations. These risks

include Asset Depreciation Risk, Credit Receivables Risk, Underwriting Risk and Off-Balance-Sheet Risk.

**R**isk-based Capital Adequacy Ratio (CAR)

Measures the adequacy of Total Available Capital (TAC) in insurance and shareholder's funds collectively, to support the Risk Based Capital Required (RCR). RCAR, expressed as a percentage, is computed for long-term and General insurers as follows;

$RCAR = (Total\ Available\ Capital / Risk\ Based\ Capital\ Required) * 100$

**S**egment

Constituent business units grouped in terms of nature and similarity of operations.

**S**urrender

Termination of an insurance policy by the insured before the expiry of its term (more common in Life insurance).

**S**urrender Value

The sum payable by an insurance Company upon the surrender of a Life insurance policy before it has run its full course.

**T**otal Available Capital (TAC)

Measures the actual available capital held by an insurer eligible to calculate capital adequacy.

**U**nderwriting

The process of classifying applicants for insurance by identifying such characteristics as age, sex, health, occupation and hobbies. People with similar characteristics are grouped together and are charged a premium based on the group's level of risk. The process includes rejection of unacceptable risks.

# CORPORATE INFORMATION

## GENERAL

### Name of the Company

Softlogic Life Insurance PLC

### Legal Form

A Public Limited Liability Company Incorporated and domiciled in Sri Lanka in 1999 and registered under Companies Act No. 7 of 2007. The Company regulated under the Insurance Act No 43 of 2000 and amendments thereto.

### Company Registration Number

PQ 31

### Tax Payer Identification Number (TIN)

134008202

### Principal Activities

Life Insurance Business

### Stock Exchange Listing

The Ordinary Shares of the Company are listed on the Diri Savi Board of the Colombo Stock Exchange. Stock Exchange code for the Company share is "AAIC"

### Accounting Year End

31st December

### Board of Directors

Ashok Pathirage - Chairman - Non Executive Director

Sujeewa Rajapakse - Deputy Chairman -Independent Non - Executive Director

Iftikar Ahamed - Managing Director/Executive Director

Ray Abeywardena - Independent Non-Executive Director

Haresh Kumar Kaimal - Non-Executive Director

Chula Hettiarachchi - Executive Director

Fernanda Lima - Non-Executive Director

Raimund Synders - Non-Executive Director

Visvanathamoorthy Govindasamy - Independent Non-Executive Director

## BOARD SUB COMMITTEES

### Board Audit Committee

Sujeewa Rajapakse - Chairman - Independent Non - Executive Director

Ray Abeywardena

Raimund Snyders

### Board Risk Committee

Raimund Snyders- Chairman - Non Executive Director

Iftikar Ahamed

Ray Abeywardena

Fernanda Lima

### Board HR & Remuneration Committee

Sujeewa Rajapakse - Chairman - Independent Non-Executive Director

Ashok Pathirage

Ray Abeywardena

### Board Investment Committee

Ashok Pathirage - Chairman - Non Executive Director

Sujeewa Rajapakse

Iftikar Ahamed

Ray Abeywardena

Visvanathamoorthy Govindasamy

Fernanda Lima

Raimund Snyders

### Board Related Party Transactions Review Committee

Sujeewa Rajapakse - Chairman - Independent Non-Executive Director

Ray Abeywardena

### Board Nomination Committee

Ashok Pathirage - Chairman

Sujeewa Rajapakse

Ray Abeywardena

### Registered office and Principle Place of Business

Softlogic Life Insurance PLC, Head Office, Level 16, One Galle Face Tower, Colombo 02, Sri Lanka

Telephone : + 94112018800

Internet : [www.softlogiclife.lk](http://www.softlogiclife.lk)

Email : [info@softlogiclife.lk](mailto:info@softlogiclife.lk)

### Actuaries

Messrs.Willis Towers Watson India Private Limited

### Gratuity

Actuarial and Management Consultants (Pvt) Ltd.,

### Auditors

Messrs. KPMG (Chartered Accountants)

### Secretaries

P. R. Secretarial Services (Pvt) Ltd

### Tax Consultant

Amerasekera & Co.  
Chartered Accountants

### Principal Officer

T. M. Iftikar Ahamed

### Chief Financial Officer

Nuwan Withanage

### Specified Officer

Pranama Perera

### Compliance Officer

Rosheni Wickramaratne

### Lawyers

Paul Rathnayake Associates

Nithya Partners

### Reinsurance Panel

Munich Re

RGA

SCOR Re

TOA Re

Assicurazioni Generali S.P.A.

AXA PPP Healthcare Limited

### Bankers

Bank of Ceylon

Cargills Bank

Commercial Bank

Deutsche Bank

DFCC Bank PLC

Hatton National Bank

HDFC Bank

Merchant Bank of Sri Lanka & Finance PLC

National Development Bank PLC

National Savings Bank

Nations Trust Bank

Pan Asia Banking Corporation PLC

People's Bank

Regional Development Bank

Sampath Bank

Sanasa Development Bank PLC

Seylan Bank PLC

State Mortgage and Investment Bank

Union Bank of Colombo PLC

For any clarification on this regard please write to;

Chief Financial Officer

Level 16, One Galle Face Tower,

Colombo 02, Sri Lanka

Telephone : + 94112018713

Fax : +94 11 2372937

E Mail : [nuwan.withanage@softlogiclife.lk](mailto:nuwan.withanage@softlogiclife.lk)

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# NOTICE OF MEETING

## NOTICE OF THE VIRTUAL 22ND ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Virtual Twenty Second (22nd) Annual General Meeting of SOFTLOGIC LIFE INSURANCE PLC (the Company) will be held on Wednesday, 31st March 2021 at 10.00 a.m. via an online platform at Level 16, One Galle Face Tower (Shangri-La Office Tower), Colombo 02 for the following purposes:

### AGENDA

1. To receive and consider the Report of the Directors on the State of Affairs of the Company and the Statement of Audited Accounts for the year ended 31st December 2020 and the Report of the Auditors thereon.
2. To re-elect Mr. Mohan Ray Abeywardena who retires by rotation in terms of Articles 98 (a) of the Articles of Association of the Company as a Director of the Company.
3. To re-appoint Messrs. KPMG, Chartered Accountants as Auditors of the Company for the ensuing year and to authorize the Directors to determine their remuneration.

BY ORDER OF THE BOARD OF DIRECTORS OF  
SOFTLOGIC LIFE INSURANCE PLC

Sgd.

**P.R. SECRETARIAL SERVICES (PRIVATE) LIMITED**

Secretaries

At Colombo, this 08th March 2021

### Notes:

- A shareholder entitled to attend and vote at the virtual meeting, is entitled to appoint a Proxy to attend and vote instead of him/her.
- A Proxy need not be a shareholder of the Company.
- A Form of Proxy accompanies this notice
- The completed Form of Proxy must be forwarded via e mail to [info@prsslk.com](mailto:info@prsslk.com) or deposited at No.59, Srimath R.G. Senanayake Mawatha, Colombo 07 not less than forty-eight (48) hours before the time appointed for holding of the meeting.
- The shareholder and/or Proxy holders are kindly advised to have their National Identity Card or similar for of acceptance identity when attending the meeting.





# FORM OF PROXY

Annexure 1

## FORM OF PROXY- VIRTUAL 22ND ANNUAL GENERAL MEETING

I/We..... of ..... being Member / Member\* of the above named Company, hereby appoint (1) ..... of ..... failing him / her.

- |                              |                |                            |                |
|------------------------------|----------------|----------------------------|----------------|
| (2) Mr. A. K. Pathirage      | or failing him | (3) Mr. Sujeewa Rajapakse  | or failing him |
| (4) Mr. T. M. Iftikar Ahamed | or failing him | (5) Mr. M. Ray Abeywardena | or failing him |
| (6) Mr. H.K. Kaimal          | or failing him | (7) Mr. H.C.Hettiarachchi  | or failing him |
| (8) Ms. Fernanda Lima        | or failing her | (9) Mr. V. Govindasamy     | or failing him |
| (10) Mr. Raimund Snyders     |                |                            |                |

As my / our\* Proxy to represent me / us\* and vote and speak for me / us\* on my / our\* behalf at the Virtual Twenty Second (22nd) Annual General Meeting of the Softlogic Life Insurance PLC to be held on Wednesday 31st March 2021 at 10.00 a.m. Via an online platform at Level 16, One Galle Face Tower (Shangri-La Office Tower), Colombo 02 and at every poll which may be taken in consequence of the aforesaid meeting and at any adjournment thereof.

I / WE INDICATE MY/OUR VOTE ON THE RESOLUTIONS BELOW AS FOLLOWS;

	For	Against
1. To receive and consider the Report of the Directors on the State of Affairs of the Company and the Statement of Audited Accounts for the year ended 31st December 2020 and the Report of the Auditors thereon.	<input type="checkbox"/>	<input type="checkbox"/>
2. To re-elect Mr. M. Ray Abeywardena who retires by rotation in terms of Articles 98(a) of the Articles of Association of the Company as a Director of the Company.	<input type="checkbox"/>	<input type="checkbox"/>
3. To re-appoint Messrs KPMG, Chartered Accountants as Auditors of the Company for the ensuing year and to authorize the Directors to determine their remuneration	<input type="checkbox"/>	<input type="checkbox"/>

.....  
Signature of shareholder      Signed this ..... day of ..... 2021.

**Note:**

- (i) Please delete the inappropriate words.
- (ii) Instructions for completion of Proxy are noted below.
- (iii) A Proxy need not be a shareholder of the Company.
- (iv) Please mark "X" in appropriate cages, to indicate your instructions as to voting.

## FORM OF PROXY

### Instructions as to completion

1. Kindly perfect the Form of Proxy by filing in legibly your Full name, National Identity Card/ Passport/ Company Registration Number, your address and your instructions as to voting and by signing in the space provided and filing in the date of signature. Please ensure that all details are legible.
2. Please mark "X" in appropriate cages, to indicate your instructions as to voting on each resolution. If no indication is given, the Proxy holder in his/her discretion will vote as he/her thinks fit.
3. To be valid, the completed Form of Proxy must be forwarded via e mail to [info@prsslk.com](mailto:info@prsslk.com) or deposited at P.R. Secretarial Services (Pvt) Ltd , No. 59, Srimath R. G. Senanayake Mawatha, Colombo 07, Sri Lanka on not less than 48 hours before the time appointed for the holding of the meeting to ensure that the proxies reaches the Company's Registrars before the date of the AGM. No registration of proxies shall be accommodated after the deadline.
4. If you wish to appoint a person other than the Chairman (or failing him, one of the Directors) as your Proxy, please insert the relevant details (1) overleaf and initial against this entry.
5. In the case of a Company/Corporation, the Proxy must be under its Common Seal, which should be affixed and attested in the manner prescribed by Articles of Association/ Act of Incorporation.
6. In the case of a Proxy signed by an Attorney, a certified copy of the Power of Attorney should accompany the completed Form of Proxy for registration, if such Power of Attorney has not already been registered with the Company.

# INVESTOR FEEDBACK FORM

Annexure 2

To request information to submit a comment / query to the company, please provide the following details and return this page to -

Chief Financial Officer  
 Softlogic Life Insurance PLC  
 Level 16,  
 One Galle Face Tower,  
 Colombo 2,  
 Sri Lanka.

T - +94 (11) 2018713  
 F - +94 (11) 2327257

Email : investor.relations@softlogiclife.lk

Name : .....

Permanent Mailing Address : .....

Contact Number/s : .....

Tel : .....

Fax : .....

E-Mail : .....

Name of Company : .....  
 (If Applicable)

Designation (If Applicable) : .....

Company Address : .....  
 (If Applicable)

**Queries / Comments**

.....

.....

.....

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# STAKEHOLDER FEEDBACK FORM

Annexure 3

Your opinion matters. Please share your views with us.

Which stakeholder groups do you belong to?

(You may tick more than one)

- Employee       Customer       Shareholder  
 Community       Investor

Does the report address issues of greatest interest to you?

- Comprehensively       Partially       Not at all

Please identify any additional issues that you think should be reported on :

.....

.....

Do you have any additional comments on the report - or on Softlogic Life's performance in general?

.....

.....

Please tick here if we may include your comments in any future reports?

- Yes       No

Would you like to be consulted when we prepare our next sustainability report?

- Yes       No

Your name, email address and /or other contact details

.....

.....

Contact Details

Chief Financial Officer

Softlogic Life Insurance PLC

Address: Level 16,

One Galle Face Tower,

Colombo 2, Sri Lanka.

Tel: +94 11 2018713

Email: investor.relations@softlogiclife.lk







**Softlogic Life Insurance PLC,**  
Level 16, One Galle Face Tower,  
Colombo 2, Sri Lanka.

[www.softlogiclifelk](http://www.softlogiclifelk)