



## FINANCIAL CAPITAL

Prudent management for Enhanced position

**BIGGER.  
BETTER.  
BOLDER.**

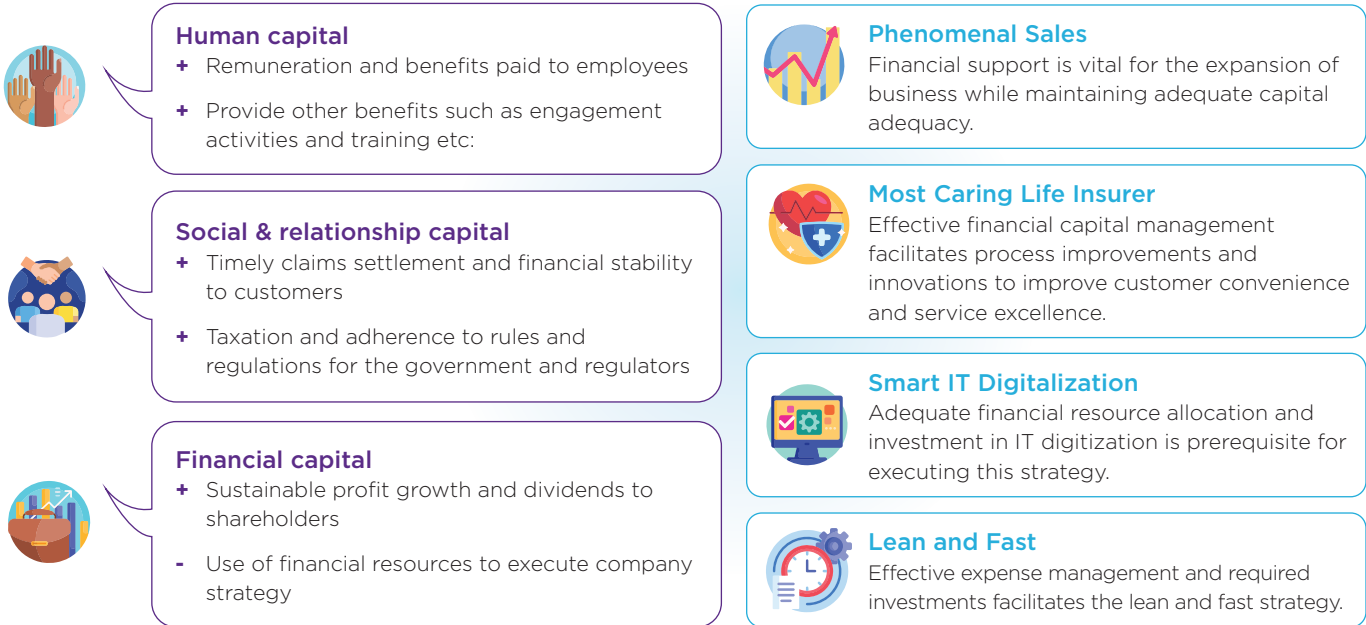


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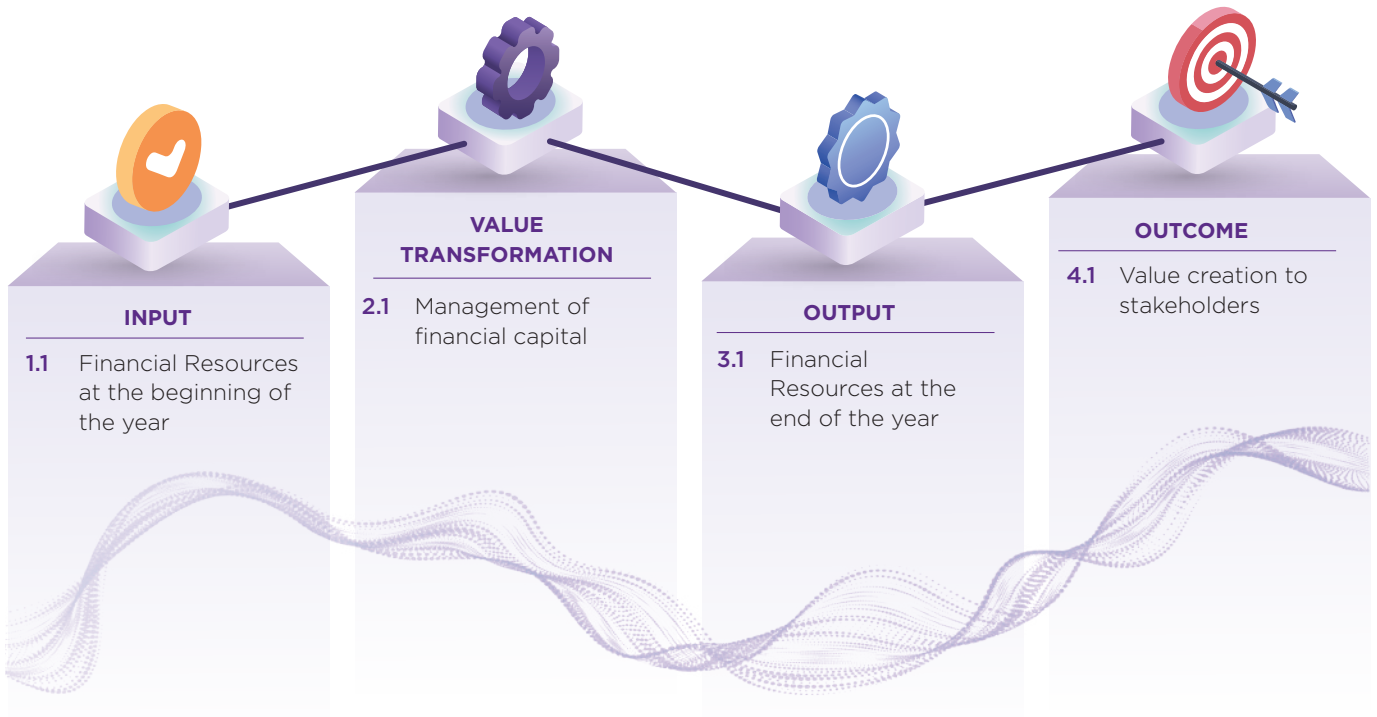
Financial capital within the company serves as a cornerstone, essential for operations and growth. It drives investment, innovation, and expansion, steering the company towards its goals. Like a vital stream, financial capital flows through operations, shaping the company's trajectory and potential. Effective management and strategic allocation are crucial, defining the company's fortunes and competitive edge in the market.

**Connectivity and Tradeoff** >>>> **Relevance to strategy** >>>>



Our financial capital encompasses the monetary assets sourced from investors and augmented through our operational endeavours. These assets are integral to our business model, comprising share capital, retained earnings, various reserves, insurance contract liabilities, financial investments, and other funding streams. In order to provide better understanding on how we manage our financial capital we have used below process which cover all significant areas.

**Sustainable Financial Capital Management Process**



## FINANCIAL CAPITAL

### 2.1 MANAGEMENT OF FINANCIAL CAPITAL

It was extremely difficult to manage financial resources during the year due to pivotal pressures felt by the organization which mainly occurred due to external environment. New cash flows generated from the operation were impacted due to the challenges we faced in maintaining our growth and managing our operation which are detailed under “Our Risk profile” on page 65. It was crucial to allocate financial resources we had among diverse needs of our stake holders while we being success in our strategy execution.

We closely monitor our cash flows to optimal usage of 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 16 and circulated to the senior management and the Board of Directors.

### Financial Performance

Summarised financial performance are provided under “Financial Highlights” while detailed financials are enclosed from page 30 to 31. These provide insights on how we use financial resources to create more value in terms of each stakeholder. Below is the extraction from financial statements where insights are provided for significant areas.

### Income statement analysis

Income Statement of the company is provided on page 271 and material items are analysed below.

Item	YoY Change	2023 Rs Mn	2022 Rs Mn	G%	Description
Gross written premiums	↑	<b>26,341</b>	23,083	14	The company recorded Rs 26 Bn GWP with a growth of 14% compared to industry growth of 12%. All three channels contributed to the growth by maintaining growth. Refer page 43 for more details on strategy, risk, KPI and other information
Premiums ceded to reinsurers	↓	<b>(2,491)</b>	(2,679)	(7)	Premium ceded to reinsurers stood at Rs 2.4 Bn compared to Rs 2.6 Bn recorded in last year. Re insurance optimization has lead the reduction of 7%. Further information is provided on page 52.
Total other revenue	↑	<b>7,948</b>	5,120	55	Total other revenue has grown by 55% from Rs 5.1 Bn in 2022 to Rs 7.9 Bn in 2023. The growth is predominantly supported by increase in treasury bond investment income. Treasury bond investment portfolio has grown significantly during the year with soaring yield which resulted to the growth.
Net insurance benefits and claims paid	↑	<b>(12,898)</b>	(8,264)	56	By nature of life insurance business rapidly increasing portfolio impact increase in benefit and claims. However, during the year 2023 we noted increasing trend of health claims due to various diseases spread among the community. More details on claims ratios and related information are provided on page 46.
Change in insurance contracts liabilities	↑	<b>(2,828)</b>	(3,717)	(24)	Results from Life fund valuation determine how much of inflow should be set aside to meet future liabilities and during the year insurance contract liabilities increased by Rs 2.8 Bn. It is a 24% reduction compared to the previous year. The amount is decided based on the product mix as well as surplus generated during the year.

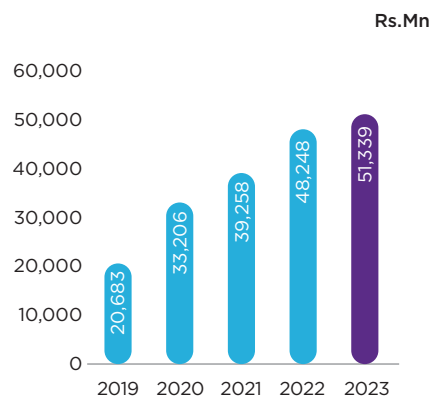
Item	YoY Change	2023 Rs Mn	2022 Rs Mn	G%	Description
Underwriting and net acquisition cost (Net of reinsurance)	↑	(5,486)	(4,956)	11	Underwriting and net acquisition cost represent variable cost we incurred to bring revenue (GWP). It has grown by 11% compared to GWP growth of 14% as changing product mix and additional information on this area with ratio analysis is provided on page 50.
Other operating and administration expenses	↑	(5,111)	(4,357)	17	Operating administration and finance expenses have recorded a 17% increase compared to previous year. More details are provided on page 51.
Impairment charge on financial investments	↓	(1,082)	(2,139)	(49)	We have recorded Rs 1.0 Bn impairment provision against the Funds we invested in international sovereign bond and Sri Lanka Development Bonds as per the accounting standards.
Profit before tax	↓	3,197	4,030	(21)	Profit before tax has decreased by 21% reaching to Rs 3.1 Bn compared to Rs 4 Bn reported in last year
Profit after tax	↑	2,838	2,682	6	Profit after tax for the period stood at Rs 2.8 Bn recording a growth of 6%. More details are provided on page 58.
Total other comprehensive income	↑	935	(1,348)	(169)	OCI recorded a gain of Rs 935 Mn compared to loss of Rs 1,348 Mn recorded in 2022. The main contributing factors are Rs 607 Mn fair value gain recorded from equity instruments classified as FVOCI and fair value gain of Rs 262 Mn from debt instruments recorded as Fair value through Other Comprehensive Income (FVOCI).

### FINANCIAL POSITION ANALYSIS

Financial position of the company provide on page 273 and material items of assets and liabilities are analysed below

#### Analysis of total assets

##### G13-TOTAL ASSET



The Year 2023 ended with Rs. 51.3 Bn, recording a 6% growth compared to Rs. 48.2 Bn in 2022 in total assets which signifies a two-fold increase over the past five years. The growth was supported by the Company's prudent financial management practices.

#### Composition of Assets

Financial investment account for 85% of total assets and balance 15% includes Property plant and equipment, lease assets, Re-insurance and Premium receivables, cash and cash equivalents etc.

### Analysis of financial investment

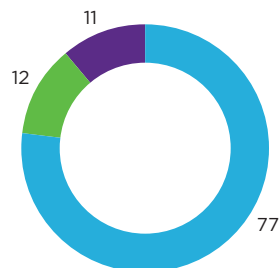
#### G14-FINANCIAL INVESTMENT



Financial investment include various type of investment portfolio managed within the company and analysed below.

## FINANCIAL CAPITAL

### G15-COMPOSITION OF FINANCIAL INVESTMENT



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

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 investment on Page 343. Table below represent the composition of investments under each category

Description	2023	2022	G%	Mix 2023	Mix 2022
Investment in government securities	27,342	26,750	2%	63%	63%
Debentures	7,347	8,154	-10%	17%	19%
Unit trust	3,514	2,578	36%	8%	6%
Commercial papers	1,713	2,369	-28%	4%	6%
Equity securities	2,087	1,437	45%	5%	3%
Securitised Papers	577	790	-27%	1%	2%
Fixed deposits	919	522	76%	2%	1%
Total	43,500	42,600	2%	100%	100%

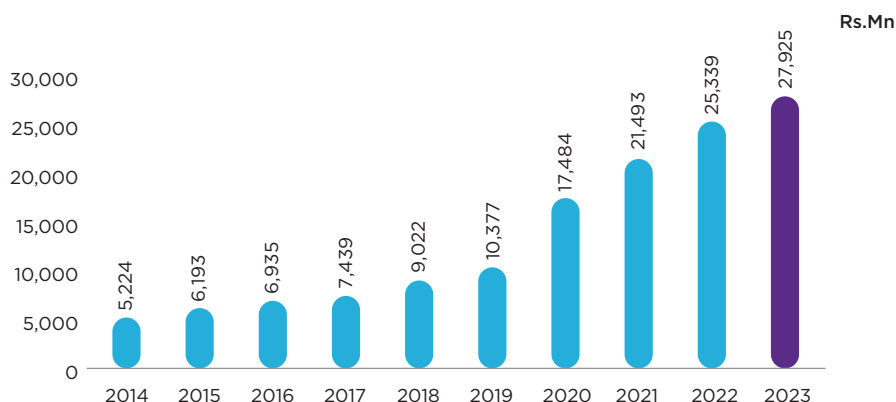
Investment portfolio has marginally grown by 2% while mix almost in-line with the previous year. Even though high interest rates prevailed during the year 2023 majority of government securities were short term tenure. Other investment opportunities with better investment grade were limited during the year. Equity securities has grown by 45% mainly due to fair value gain recorded.

### Analysis of Liabilities

Total liability stood at Rs 38 Bn by end of 2023 compared to Rs 37.3 Bn recorded in 2022 a growth of 2%. Out of total liabilities 73% represent insurance contract liabilities and 13% loan and borrowings.

### Insurance contract liability

#### G16-INSURANCE CONTRACT LIABILITY



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. 27.9 Bn in 2023, with a increase of 10% compared to 2022.

### 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 Maheshwari from Towers Watson India Private Limited, a Willis Towers Watson. Details of the

Table 19: Insurance Contract Liabilities

Rs Mn	2023	2022	G%
Insurance contract liabilities	26,145	23,412	12
Surplus Created due to, Change in Valuation method from NPV to GPV - Participating Fund	1,057	1,057	-
Claims Payables	724	870	(17)
Total	27,926	25,339	10

actuarial report appears on Page 264 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 (IRCSL), the surplus created due to change in valuation method from NPV to GPV in the participating fund is retained as a separate reserve under insurance contract liabilities.

**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.

**IMPACT OF CHANGES IN SRI LANKA ACCOUNTING STANDARDS**

The Company intends to adopt the new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Company's financial statements, if applicable, when they become effective. Details are provided on page 289 of this report.

**WAY FORWARD**

Short Term Target	Medium Term View
GWP growth - >20 %	GWP growth - >20%
PBT growth - >20%	ROE - >20%
Expense ratio - 18%	Capital Adequacy Ratio - >160% (Regulatory requirement 120%)
ROE - >20%	Maintain adequate liquidity level with prudent risk management
Capital Adequacy Ratio - >160%	Manage financial capital to support the growth strategy

**Sustainable Performance**

The Company has implemented many initiatives in line with our strategic objective of delivering sustainable profitable growth in the medium to long-term. These actions are discussed in Operational Review on page 43 and strategies are provided on page 82.

**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 152 of this report.

**Risk Management**

The Company's robust risk management framework laid out on Page 42 of this report will protect our financial capital from being diminished due to internal and external events that could disturb the value creation process of the Company. We will further improve our risk management framework to capture all significant risks around us. Our risk management framework is illustrated on page 242.

**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.

**HORIZONTAL AND VERTICAL ANALYSIS**

Horizontal and vertical analysis on the statement of financial position and income statement over five years is presented on page 389.

**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 61 and Strategy and Resource Allocation process is set out on Page 82 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 72.

**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 384.