

REFLECTIONS FROM OUR CHAIRMAN

WE HAVE ESTABLISHED OUR LONG-TERM VISION TO BECOME THE MARKET LEADER THROUGH SUSTAINABLE GROWTH. FOR US, MARKET LEADERSHIP ENTAILS NOT ONLY ACHIEVING A SIGNIFICANT MARKET SHARE, BUT ALSO DRIVING THE MARKET FORWARD THROUGH INNOVATIVE PRODUCTS AND PRACTICES, CONTINUOUSLY SETTING HIGHER STANDARDS.



Total Assets

LKR
51,339
Million

A handwritten signature in black ink, appearing to be 'Ashok Pathirage'.

Ashok Pathirage
Chairman



Dear Stakeholders,

It gives me immense pleasure to welcome you to the 25th Annual General Meeting of Softlogic Life PLC and to place before you the Annual Report and audited financial statements for the year ended 31st December 2023. Your company navigated yet another difficult year with characteristic fortitude, consolidating its strong foundation and taking measured steps to continue as the second-largest life insurer in the country during the period under review. It is highly encouraging to note that we have emerged as a stronger and a more competitive organization notwithstanding the challenging economic conditions we had to contend with in 2023.

TURNING CHALLENGES INTO SUCCESS: NOTEWORTHY RESULTS DESPITE ECONOMIC HARDSHIP

Softlogic Life performed well in the year 2023 despite the challenges that prevailed during the year under review to post Revenue in excess of Rs. 26 Bn, which reflects a 14% growth over the previous year which is notably higher than the industry growth. Along with top line growth, the Company reported Profit After tax (PAT) of Rs. 2.8 Bn. This translates into a return on investment (ROE) of 23.5%. The company also recorded earnings per share of Rs. 7.57. Softlogic Life was successful in managing its operations in a manner that maintained its operating expense ratio at 19.4% while its capital adequacy ratio of 367% was well above the regulatory requirement of 120%.

Further, Softlogic Life recorded total assets of Rs. 51 Bn which marks a growth of 6% compared with the previous year. Insurance contract liabilities also grew by 10% to reach Rs. 28 Bn which is the provision maintained to meet future benefits and claims of the customer base. The liquidity and current ratio recorded 3.5% demonstrates its liquidity, and compared with previous year, places us the Company in a comfortable position. The company has low gearing seen through the debt to equity ratio which was at 37.6% in 2023. We are happy to say that equity or the shareholders' funds of the company stood to Rs. 13.3 Bn with impressive growth of 22.6%.

The management of Softlogic Life is sharply focused on the company's financial health as we are in a long-term business that secures obligations on behalf of our policyholders and we have to be there for them when they need us the most. When it comes to maturity, death or health claims, it is of paramount importance that our financial position is strong to deliver those obligations and commitments.

BUSINESS CLIMATE DURING THE YEAR

The year 2023 was preceded by four years of severe hardship, commencing with the Easter attacks in 2019, the pandemic, and then the economic crisis. The impact of the 2022 economic crisis caused the Central Bank and the Government of Sri Lanka to take unprecedented measures that impacted many into 2023.

Sri Lanka however has done brilliantly to gain approval for the much needed International Monetary Fund (IMF)

endorsement within 12 months, despite the challenging circumstances witnessed during the peak of the economic crisis. The stringent conditions laid down in the IMF agreement and the ad hoc manner in which Sri Lanka's economy and public finances were managed in the past necessitated a number of tax increases in 2023. Coupled with high inflation and steep hikes in utility costs, these measures proved detrimental for consumers, giving rise to a host of various hardships.

Meanwhile, by end 2023, Sri Lanka did well to improve and increase reserves up to US\$ 4.4 Bn to cover three months of imports. As the year progressed, the country had to negotiate the second tranche with the IMF and received the necessary approval, signalling that Sri Lanka is on the right path and has made significant progress on debt restructuring with bilateral creditors whereas on the issue of international sovereign bonds, final negotiations are awaited. Hopefully, the tough measures taken by the Central Bank to get the economy back on track will allow Sri Lanka towards a positive growth path in 2024.

Welcome developments have been witnessed with increases in foreign remittances that was seen in 2023 whilst the tourism sector also recorded higher receipts with tourists exceeding 1.5 million. These foreign inflows are an extremely positive development for the economy after having faced a situation where there were no foreign reserves to pay for even essential imports on a regular basis. In light of this, it is heartening to see these steady inflows and we continue to look to

the government to do more and take Sri Lanka further along the path of economic recovery.

Market interest rates remained elevated in the first quarter of the year under review. However, with the cumulative reduction of 650 basis points in policy rates throughout the year and the completion of DDO, a noticeable downtrend in interest rates was witnessed towards the second half of the year. The 3-month treasury bill rates closed the year at 14% levels, compared to the 31% interest rate observed at the beginning of the year. The prevailing high interest rate environment, particularly evident in elevated bank lending rates, significantly impeded various financial products such as housing loans, leading to stagnation in market activity. This environment also exerted a notable impact on our credit life business or DTAP, resulting in a deceleration of its operations. We anticipate a substantial reduction in interest rates, with expectations for them to reach their lowest point in the second quarter of 2024.

DIVIDEND

Whilst we grow in the most optimal way possible, we are also a company that rewards its shareholders on an annual basis - with 50% of PAT distributed amongst shareholders. We hope due to this consistent practice we will be able to garner loyalty and continuous support from all our investors. The Company declared an interim dividend of Rs. 3.75 per share amounting to a total pay-out of Rs. 1,406 Mn for the year 2023 and paid Rs. 1,313 Mn dividend in March 2023 which was relevant to the 2022 financial year.

SUSTAINING OUR MULTIPRONGED STRATEGY

In terms of our immediate future, Softlogic Life has been built on a platform of growth and considering that national penetration of life insurance is currently at 0.5% compared to 1.2% in the region, we envisage 2X near term growth potential in the local

		2023	2022	G%
Gross Written Premium	Rs Bn	26.3	23.1	14%
Profit After Tax	Rs Bn	2.8	2.7	6%
Earnings per Share	Rs	7.6	7.2	6%
Return on Equity	%	23.5	25.0	-6%
Operating expenses Ratio	%	19.4	18.9	3%

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market. Softlogic Life has the greatest momentum and is at the forefront of the industry that is seeking to increase penetration and to serve all segments of the community, from the bottom of the pyramid ensuring inclusive offerings, all the way to the top making sure that all customers are served as per their requirements. We look ahead to the year 2024 as the start of a promising cycle as we exit the disastrous cycle of the past five years. We are a resilient company and have proven our mettle in tackling adversity with an outstanding effort as during the last five extremely challenging years, we managed ten-year CAGR of 26% as compared to industry growth of 14%.

Throughout the year, the Company's diversified distribution channel strategy further yielded advantages by connecting with a wide range of customers and safeguarding their well-being. The Agency force, responsible for selling personal insurance products through one to one interactions, now exclusively utilizes digital formats for all proposal submissions, marking a significant shift towards digitalization. The channel achieved 95% of the revenue target set for the year.

The primary emphasis was on capturing the top half of the market segment, anticipating minimal impact from the country's economic situation. This is evidenced by an average annual policy premium rising to Rs. 176,872, which is substantially higher compared to the market average, which is likely less than half.

The Alternate distribution channel, which focusing on corporate clients, continued its momentum by ensuring Softlogic life remained a market leader in terms of the Group Health business segment. They completed the year with an achievement of 80% primarily due to almost non-existent credit life or DTAP business which was a result due to high interest rates as well as lower market liquidity especially for the first nine

months of the year. The Company over-achieved the target set for the micro and mobile channels, which operate on digital functionality.

Being proactive to changes in the market, Softlogic Life was quick to alter its product mix during the year in order to maintain growth levels. The high interest rate environment pushed us to focus on some investment related products where customers are keen to have competitive returns. The Company anticipates that a number of new initiatives and strategies that we implemented in 2023 to overcome limitations and challenges of the tough environment will yield positive results in the upcoming year.

GOOD GOVERNANCE AND SUSTAINABLE GROWTH

In terms of governance and risk management, we continue to be a company that spares no efforts to practice good governance and responsible risk management to ensure stability and safety of all operations. We hold ourselves accountable to the highest degree and this aspect has been reflected in Softlogic Life being recognised with various awards. At the CA Sri Lanka annual report awards, Softlogic Life were placed overall second amongst corporate giants who have been in this space for many years.

SUSTAINABILITY PRACTICES FOR SUSTAINABLE JOURNEY

As a Company we want to make a big statement towards sustainability as we explore ways to make meaningful contributions in this area and ensure that we can measure our current position and then improve year on year. As time goes by, we want to establish clear milestones and goals where we strive towards achieving sustainability targets and are unique in the manner in which we achieve these as we believe that we are a company that is valuable to all our stakeholders who are keen on all facets of our existence.

DIVERSITY AND INCLUSIVITY

We continue to be a company that is focused on diversity and equity and inclusion. Whilst we do this from an internal perspective, we ensure that all stakeholders within the Softlogic Life family are comfortable and able to reap benefits of these policies. What we will also focus is to ensure policy holders and external stakeholders have the advantage and will be able to benefit from all measures we take. Female participation is promoted across all tiers of the organization. The dedicated "4HER" initiative is crafted to empower women, prioritizing their well-being, growth, and active involvement within the company.

STRATEGIC NAVIGATION: MANAGING RISKS, MAXIMIZING OPPORTUNITIES

As for our expectations about the economy in the months ahead, we believe inflation will subside and as a result, market rates will reduce in 1st half 2024 however, we are cautious about inflation rising in 2nd Half and therefore we will be monitoring with caution to ensure optimum management of our investments. We look forward to the revival of the economy so that all industries can move forward. The exchange rate is expected to be stable with low volatility and as 2024 progresses it will be a year of consolidation as the economy comes together. We are hopeful that the upcoming elections will not disrupt economic growth and that the country's leadership maintain consistent policy that is paramount towards attracting foreign investment capital.

We envisage continuous opportunity in the market and are committed to developing products and solutions to tap into these emerging opportunities. Bank lending, which had contracted over the last two years, will recommence. Significant opportunity exists in credit life business with the lower interest rate environment and we expect to regain the volumes we lost previous year. On the risk side, the high

taxation, inflation, direct tax and indirect tax in terms of VAT being introduced for a number of items will increase prices of other items and impact disposable incomes. Whilst incomes will be impacted, we should not forget that we have been through the worst inflationary phase and as the situation normalises there is bound to be relief measures forthcoming at some point. Being protected through insurance in these tough times we feel is essential and this spend should now be placed at a higher point in the list of all household expenditure.

FUTURE OUTLOOK

Our anticipation in short-term

As the market leader in the health insurance space, Softlogic Life commands 35% of the entire health insurance market and this is a position that we want to develop further and continue to serve with greater emphasis in the years to come. In order to ensure this, we will reassess our products, continually review benefits and the coverages that we have on these products and go further to focus on providing much needed protection to our policyholders.

In the near future, specifically in the year 2024, we expect to face a mix of challenges and opportunities that will likely have a more positive impact on our business compared to 2023. We have already pinpointed the areas we need to focus on and are rolling out new strategies to guide the company through risks while making the most of available opportunities. Our multi distribution channel strategy will continue to generate revenue by expanding its coverage through increased market penetration efforts. We are optimistic about the significant contributions from our recently launched wealth protection products and bancassurance channels. Additionally, we will be concentrating on strengthening distribution and improving efficiency to maintain our growth trajectory and profitability.

Long-Term Vision

The country's under-penetrated level compared with regional peers presents a considerable opportunity to expand the market. However, external factors such as continuing economic shocks in Sri Lanka hinder this opportunity time and again. Consequently, we have established our long-term vision to become the market leader through sustainable growth. For us, market leadership entails not only achieving a significant market share, but also driving the market forward through innovative products and practices, continuously setting higher standards.

To achieve this vision, we must focus on various areas including customer behaviour, innovation, digitalization, and data-driven decision-making. We have structured our strategy around five strategic pillars directly addressing these aspects. A detailed overview of our strategy is provided on page 82 of this report.

We aim to be at the forefront of industry innovation, building on our past successes. Business sustainability is fundamental to our decision-making process, and we embrace new developments in this regard. We are proud to be among the few companies in Sri Lanka that have proactively adopted the newly issued sustainability standards by the International Sustainability Standards Board. Our Board of Directors is fully committed to aligning with these standards, and we understand that their requirements will be gradually integrated into our business operations. We believe that adhering to these standards will help us better manage our risk profile.

We anticipate maintaining a return on equity of over 20%, while ensuring a healthy financial position and liquidity ratios.

ACKNOWLEDGEMENTS

I would like to thank the IRCSL and its Chairman and Director General for being there for the industry at every juncture and for guiding us through difficult situations. Amid the tough challenges that Sri Lanka's economy has gone through and that we have emerged somewhat unscathed on the other side shows the deft hand played by the regulator in managing the insurance industry amidst all adversities.

Softlogic Life is all about its people and its Board of Directors need to be appreciated for the role they have played in guiding the company forward. What we have at Softlogic Life is an exceptional management team that is easily the best in the industry and together with the entirety of Team Softlogic Life have demonstrated that they have what it takes to come out of any tough situation with flying colours.

Sgd.

Ashok Pathirage

Chairman

Colombo, Sri Lanka.

04 March 2024