



Moving towards a  
**Cashless**World

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# Moving towards a CashlessWorld

**'Handling cash costs money, but technology is opening up the possibilities for cashless transactions for retailers, banks and consumers. At LankaClear, we are leading this change in Sri Lanka and the region, pioneering the use of technology and helping to build a truly cashless world.'**

# Our Mission

Facilitate an efficient National Payment & Settlement System as a matter of public policy to increase financial market liquidity in accordance with the National Monetary policies of Sri Lanka.



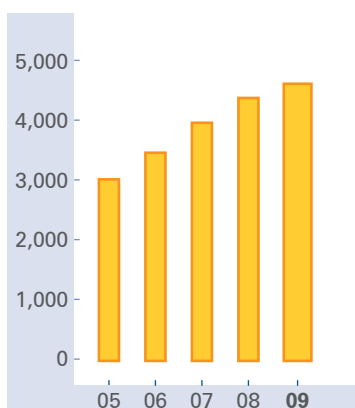
## Our Vision

Sustain an efficient, secure and robust Payment & Settlement System, ensuring integrity and timeliness strengthened with reliability and security to uphold market confidence to ensure safe and sound functioning of financial markets.

# Financial Highlights

	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09
Cheque Volume	36,881,701	38,129,850	40,793,832	45,711,210	45,858,533	43,420,577
Cheque Value (in Rs. Bn)	2,771	3,045	3,485	3,981	4,390	4,615
Income	82,699,658	85,696,045	96,719,549	433,151,283	452,845,431	422,234,920
Operating Profit	37,004,993	40,504,655	46,916,434	318,673,098	275,605,062	210,066,464
Interest Income	9,288,326	11,234,690	6,949,572	14,802,302	64,132,044	86,451,231
Administrative Expenses	21,869,424	33,157,427	40,628,732	98,584,010	91,940,894	99,583,990
Image Implementation Expenses	-	4,805,538	32,392,632			
Net Profit/(Loss) before tax	24,450,309	13,975,621	(19,075,726)	216,575,026	228,670,692	175,772,297
Income Tax on profit	12,214,152	4,651,864	6,189,105	77,236,071	86,222,610	64,757,350
Net Profit/(Loss) after tax	12,236,157	9,323,757	(12,886,621)	139,338,955	142,448,082	111,014,947
<b>Assets</b>						
Non-Current Assets	35,831,548	48,855,396	515,716,185	458,418,554	362,085,681	306,378,252
Investments	134,670,718	155,926,803	49,255,843	261,006,052	258,851,862	10,503,507
Other Current Assets	24,122,367	24,694,097	31,327,141	64,491,303	225,031,094	491,160,132
	194,624,633	229,476,296	596,299,169	783,915,909	845,968,637	808,041,891
<b>Liabilities</b>						
Borrowings	-	24,684,177	109,944,770	156,261,235	128,869,608	101,591,296
Current Liabilities	2,976,684	17,315,073	26,572,009	85,875,313	126,839,821	92,997,671
<b>Shareholders' Funds</b>						
Share Capital	150,000,000	150,000,000	150,500,000	150,500,000	150,500,000	150,500,000
Capital Reserves	6,000,000	9,000,000	12,000,000	15,000,000	18,000,000	248,254,734
Revenue Reserves	21,836,020	20,659,777	4,773,156	141,112,111	262,500,193	128,210,405
Capital Employed	177,836,020	179,659,777	167,273,156	306,612,111	431,000,193	526,965,139
Growth in Cheque Volume	2.59	3.38	6.99	12.05	0.32	-5.32
Growth in Cheque Value	11.96	9.89	14.45	14.23	10.27	5.13
Gross Profit Ratio	44.75%	47.27%	48.51%	73.57%	60.86%	49.75%
Net Profit Ratio	14.80%	10.88%	-13.32%	32.17%	31.46%	26.29%
ROCE	13.75%	7.78%	-11.40%	76.61%	58.95%	37.44%
Current Ratio	53.35	10.43	3.03	3.79	3.81	5.39
Return on Assets	12.56	6.09	-3.20	27.63	27.03	21.75
Revenue per Volume (Rs.)	2.17	2.10	2.37	9.48	9.87	9.72

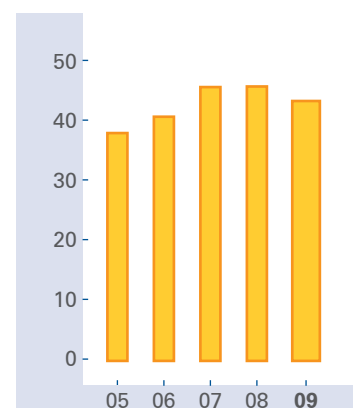
Growth in Cheque Value




Increase in Income & Operating Profit



Growth in Cheque Volume



A woman with long blonde hair, wearing a dark long-sleeved top, is shown in profile from the waist up. She is holding a handheld payment device in her right hand, which is emitting a bright blue, glowing light effect. She is standing behind a counter, and a white paper shopping bag is visible in front of her. The background is a blurred retail environment with shelves. The entire image has a dark, monochromatic purple/blue tint.

LankaClear's Payment Systems Infrastructure is state-of-the-art, combining speed, security, efficiency and reliability. LankaClear's infrastructure and systems have significantly reduced the time needed for realisation of payments, whilst providing customers new and secure ways to facilitate payments.





# High-Tech Systems

# Chairman's Review



“ With an end to the three decades of war, and the vision of the Central Bank of Sri Lanka to make the country a regional financial hub, we anticipate a boom in business. ”



I am pleased to present the seventh Annual Report and Audited Accounts of LankaClear (Pvt) Ltd for the year ended March 31, 2009.

LankaClear performed exceptionally well during the year under review and made great strides in the Payment Industry in Sri Lanka by making significant improvements in 'People, Processes and Technology'.

**“ The Company was able to achieve a net revenue of Rs. 422 Mn for the 2008/09 financial year and recorded an after tax profit of Rs. 111 Mn. ”**

### LankaClear Achievements

During the year of 2008/09 LankaClear focused on enhancing the clearing processes, human capital utilization and technology. The clearing processes have been improved on and are audited on a weekly basis with corrective action taken immediately. This resulted in maintenance of a very low error rate, in comparison to previous years. Enhanced HR systems have been put in place to accelerate the growth of employees with high potential in order to foster innovation and accountability. In terms of technology a key accomplishment was achieved by launching LANKASIGN, Sri Lanka's first Digital Certificate Authority to the Financial Sector. The information security on all clearing systems has been strengthened in our effort towards achieving the ISO 27001 certification and enhancing system performance. Two Disaster Recovery Drill Operations were also conducted for a total of 13 days for all clearing activities.

The above resulted in LankaClear maintaining a System Up-Time of 99.23%, and meeting the cutoff times around 95% on the CIT System.

These high standards were achieved during the implementation of two national scale projects. I am pleased to announce that the execution of the Common Payment Switch (CPS) was initiated in November 2008 and now is nearing project completion. The first phase of LANKASIGN was launched and it will provide Digital Certificates for clearing applications. The second phase of LANKASIGN will provide digital certificates for all financial sector needs and this is scheduled to be completed by December 2009. The above achievements culminated in LankaClear attaining strong financial results for the year 2008/09.

### Company Performance

The Company was able to achieve a net revenue of Rs. 422 Mn for the 2008/09 financial year and recorded an after tax profit of Rs. 111 Mn. Despite increasing operational costs, the Company was able to achieve a 26% net profit margin and a debt: equity ratio of 16:84 as at 31st March 2009. The Company has also

maintained a healthy current ratio of 5.4, and recorded an impressive return on an equity ratio of 21.07% based on stated capital for the 2008/09 financial year.

The principal activity of the Company which is the Rupee Cheque Clearing recorded a marginal decrease in volume. However, there was a marginal increase in value during the year under review, reflecting a 5.32% decrease in volume and a 5.13% increase in value. Sri Lanka draft clearing reflected a decrease of 29.28% compared with the previous year. The US\$ clearing items also demonstrated a decrease of 14.61% with an increase of 9.28% value wise. The Sri Lanka Interbank Payment System continued its positive trend this year, as well as by registering increases in both volume and value by 28.35% and 29.62% respectively.

The Chief Executive Officer will give a detailed account of the Company's operational performance in his review.

### Future Trends

Irrespective of their demographics customers are seeking feasible ways to access financial services, and this is particularly evident in the area of payments. The cost of a transaction is an additional concern, as ICT, infrastructure and business development penetrates the villages. With an end to the three decades of war, and the vision of the Central Bank of Sri Lanka to make the country a regional financial hub, we anticipate a boom in business. This, together with the ICT penetration of villages will raise the need for real-time realization of payments on a 24x7 basis, at a low transaction cost within a high secure system. This need is already being addressed by several of the mobile payment systems and mobile bill payments via Point-Of-Sales systems.

## Chairman's Review continued

We have a vision that in the future, payment systems and financial services are accessible from any location, at anytime and through multiple modes (e.g. ATMs, mobile phones, Internet, POS systems, etc.). This will be in contrast to the current situation where a customer would need to visit the financial institution and the transaction could take several days to realize.

### LankaClear – A Catalyst for the Payments Industry

LankaClear is the first company in the region to implement T+1 clearing through the Cheque Imaging and Truncation (CIT) System nationally. LankaClear additionally automated the Dollar and SLIPS clearing through advanced IT systems. This paved the way for Sri Lanka to achieve regional leadership in the payments industry.

When fully implemented, the Common Payment Switch will enable real-time realization of payments on a 24x7 basis, via numerous access points such as Internet banking, ATMs, mobile phones, POS systems and customary bank counters etc. The highest level of security is incorporated into the CPS system through digital signing and encryption. This Inter Bank, Account to Account online payment system will revolutionize the payment industry in Sri Lanka as well as the region.

With the launch of LANKASIGN Phase 2, all financial institutions in Sri Lanka will be able to procure digital certificates at a competitive cost in comparison to what is currently being spent on foreign vendors. This will increase the utilization of digital signing by which customers and banks can have greater confidence in electronic transactions, which will further create a boom in electronic payment systems.

With these new mechanisms and the CIT System in place, LankaClear is well positioned to meet the future demands of the payments industry, to partner in the vision of Sri Lanka evolving into a financial services hub in the region, and in realizing the SAARC Payment Initiatives.

### In Appreciation

We have been fortunate to have a dedicated and a competent team of people, and without their support our growth would not have been possible. I take this opportunity to commend our Management Team and Staff whose collective efforts were outstanding.

We also extend our gratitude the Central Bank of Sri Lanka, including the Governor Mr. Ajith Nivard Cabraal, Deputy Governors Dr. (Mrs.) Ranee Jayamaha, Mr. W. A. Wijewardena, Dr. Uthum Herat and the Assistant Governor, Mr. Priyantha D. J. Fernando who provided visionary leadership and guidance. Sri Lanka Banks' Association represented by its Secretary General, Mr. Upali de Silva was a tower of strength.

To my colleagues on the Board for their unwavering support, confidence and continued guidance and also to our shareholders for their ongoing trust.



Mr. A. Sarath de Silva  
**Chairman**

# CEO's Review



“ The Sri Lanka Common Payment Switch is currently under implementation and is expected to go live in the 4th quarter of 2009. ”



## CEO's Review continued

It is with great pleasure that I present this report on the achievements and performance of LankaClear during the year 2008/09. Several new projects were initiated this year, which included the execution of the Sri Lanka Common Payment Switch and Certification Service Provider facility for the financial sector.

The Cheque Imaging and Truncation System (CITS) implemented in May 2006, continued to function with

Rs. 45.86 Mn cheques cleared. However, the value of cheques cleared in 2008/09 was Rs. 4,615 Bn, which is a 5.13% increase compared to the previous year. The cheque returns continued to be matter of concern even though the volume indicated a marginal decrease, with 5.4% of cheques presented for clearing being returned compared to the 5.6% in the prior year. However, the total volume of cheques returned declined by 10.5% compared to the preceding year.

**“ A significant achievement was the launch of the Certification Service Provider facility for the financial sector under the brand name LANKASIGN. ”**

greater stability along with the added comfort of a fully functional Disaster Recovery Site, which has been tested live several times during the past couple of years. The average uptime of the CITS System during the year ended 31st March 2009 was 99.2%. LankaClear's ability to achieve the cut-off times for clearing on the average was 94.2% during this period, despite carrying out operations from the Disaster Recovery site on 13 business days of the year.

A significant achievement was the launch of the Certification Service Provider facility for the financial sector under the brand name LANKASIGN. This first ever Certification Service Provider facility launched in Sri Lanka will facilitate the Digital Certificates for the Sri Lanka Common Payment Switch and the Direct Connectivity of the CITS in the initial phase. Subsequently, the other Digital Certificate needs of the financial sector institutions will be met, significantly lowering the cost of the digital certificates, which are currently procured from overseas vendors. The implementation of the Common Payment Switch is currently underway and would be a significant milestone in the country's payment and settlement system once it goes live. There was significant progress in the migration of banks from Physical Cheque Submission to the CD Submission mode, where 20 out of 22 Commercial Banks and the Central Bank are now on CD Submission mode. The Application Software for Dollar Clearing was upgraded through an in-house project with the assistance of a team of students from the University of Moratuwa.

### Operational Performance

#### CITS

The Rupee Cheque Clearing volumes declined by 5.3% compared to the last year when we achieved a peak of

#### Sri Lanka Interbank Payment System (SLIPS)

The items cleared through the SLIPS showed a significant growth of 28.4% in 2008/09 compared to 2007/08. The growth in value during the period was 29.6% which demonstrated a continuous trend of the rising usage of electronic payment modes. It is envisaged that the growth in electronic payments would further increase with the launch of the Sri Lanka Common Payment Switch, which would facilitate online real time payments with high levels of security.

#### Dollar Clearing

The total number of items cleared through US\$ Clearing continued to decline as it had been during the past few years. In comparison to the 2007/08 financial year, the number of items declined by 14.6% in the 2008/09 financial year, although there was an increase of 9.3% in the value of items cleared. The total value of items cleared through US Dollar Clearing in 2008/09 was US\$ 231.2 Mn.

#### Rupee Draft Clearing

The total value of Rupee Drafts cleared also recorded a significant decline of 29.3% in the year 2008/09 compared to the previous year, demonstrating a continuous trend of decline in the value of drafts cleared. The decrease may be attributed to the increased preference of bank customers for electronic fund transfers.

### Financial Performance

The Company's net revenues recorded a decline of 6.7% compared to the previous financial year due to the 5.3% fall in cheque volumes, a 91.8% drop in the second return charges and a 13.8% decline in outward return charges, after the measures taken in 2008 to reduce the percentage of cheque returns. The Net Profit

decreased by 22.1% due to the drop in net revenues and the increase in cost of sales by 19.7%. The main contributory factor to the increase in the cost of sales was the 142% increase in the maintenance costs with the new maintenance cost of CITS hardware and system software, which became effective after the 1st of July 2008, after the three year warranty period on hardware and system software lapsed and the full annual maintenance cost of the Application Software being applicable in the year 2008/09. The pressure on the bottom line due to increasing maintenance costs and drop in revenues were somewhat eased by the 35% increase in interest income from Fixed Deposits and Treasury Bill Repos enjoyed due to the high interest rates, which prevailed during the last financial year and also due to the increased revenue from SLIPS and the outward clearing income from Regional Centers.

In spite of increasing operational costs, the company was able to maintain a healthy net profit margin of 26%. The Company maintained a debt: equity ratio of 16: 84 as at 31st March 2009. Earnings per Share decreased from Rs. 9.47 to Rs. 7.38 from the previous financial year due to the pressure on the bottom lines.

## Developments in the Pipeline

### Common Payment Switch


The Sri Lanka Common Payment Switch is currently under implementation and is expected to go live in the 4th quarter of 2009. This will open up several opportunities for participating banks to develop new products and offer value added services to customers in relation to facilitating retail payments and transfer of funds, in addition to the volume growth expected in the areas of salary transfers and bill payments.

### Direct Connectivity of CITS

The Direct Connectivity of the Cheque Imaging and Truncation System (CITS) is scheduled to commence during the year 2009, along with the security features of signing and encryption. This will facilitate Banks to improve counter cut-off times for accepting cheques for T+1 clearing, and also reduce the risks of submitting physical cheques and CDs to the Clearing House.

### Certificate Authority

The Certification Service Provider facility launched by LankaClear on the 22nd of May 2009, would be further enhanced to issue Digital Certificates for Internet Banking Transactions and other Web Based Applications of Banks during the year 2009.



Sunimal B. Weerasooriya

**General Manager/Chief Executive Officer**

# Board of Directors



**Mr. A. Sarath de Silva**  
Chairman

**Mr. Prem Kumar Thampi**  
Country Head, ICICI Bank  
Sri Lanka

**Mr. P. Rajapakse**  
Deputy General Manager (Operations  
and Actg. Head of IT), People's Bank

**Mr. B. A. C. Fernando**  
General Manager, Bank of  
Ceylon





**Mrs. J. P. Mampitiya**  
Director-Payments &  
Settlements, CBSL

**Mr. P. D. J. Fernando**  
Assistant Governor, CBSL

**Mr. Upali de Silva**  
Observer

**Mrs. Kimarli Fernando**  
Director/ Chief Executive  
Officer, Pan Asia Banking  
Corporation PLC

**Mr. L. G. Perera**  
Managing Director/CEO,  
DFCC Vardhana Bank Ltd.

## Board of Directors continued

### Mr. A. Sarath de Silva

#### **Chairman**

Mr. de Silva is the Chairman of LankaClear (Pvt) Ltd., and Lankaputhra Development Bank, and has been at the helm in a number of Government and Private Sector organizations. He is a Director of the Strategic Enterprise Management Agency (SEMA) and several other companies. Mr. de Silva is a former General Manager of Bank of Ceylon, Chairman of the Sri Jayawardenapura General Hospital, Ceylease Financial Services (Pvt) Ltd., Lanka Archives Management Services and Acting Chairman of the State Pharmaceuticals Corporation. He was also the Commissioner of Local Loans and Development Fund.

Mr. de Silva has been on the Director Board of several financial as well as other organizations, and served as an Advisor to the Ministry of Industries and Head of Bureau Services Indian Line of Credit. He was also a Consultant to the International Fund for Agricultural Development (IFAD/FAO).

He was the Chairman and Vice-Chairman of the Sri Lanka Banks' Association, President of Chartered Institute of Bankers (London), Colombo Centre (2001-2002) and the Association for Professional Bankers, Sri Lanka (2001-2002). He holds a B.A. in Public Administration and is a Fellow of the Chartered Institute of Bankers (London) and the Institute of Bankers, Sri Lanka.

### Mr. P. D. J. Fernando

#### **Assistant Governor, CBSL**

Mr. Fernando is currently the Director of LankaClear (Pvt) Ltd., Assistant Governor of the Central Bank of Sri Lanka (CBSL), Secretary to the Monetary Board of the CBSL, Chairman of the Taskforce for establishing a 'Certificate Service Provider' for digital signatures in the Financial Services Sector, Chairman of the Payment System Reforms and Steering Committee, Vice Chairman of the Institute of Bankers of Sri Lanka (IBSL), Director of Lanka Financial Services Bureau (SWIFT), a body incorporated to provide services offered by SWIFT (Society for worldwide Inter-bank Financial Telecommunication) at relatively economical rates to Commercial Banks, primary dealers and other financial institutions in Sri Lanka, resulting in cost savings, better resilience and efficiency. He is also a member of the National Payment Council, a member of the Standing Committee of the Cabinet Appointed Procurement Committee of procuring petroleum products.

Commencing his banking career at the Central Bank of Sri Lanka (CBSL) in 1976, Mr. Fernando has held the posts of Additional Director of the Statistics Department and Director of Information Technology, CBSL. He was also a key team member in the Central Bank of Sri Lanka's Modernization Project and Project Manager for implementation of the RTGS—Real Time Gross Settlement System, a member of the Task Force to implement the cheque imaging and truncation project in Sri Lanka and Team Leader in formulating the first Strategic Plan for CBSL in 2006.

Mr. Fernando holds a B.Sc. (Hons.) from the University of Peradeniya and a M.Sc. in Statistics from the University of Birmingham.

### Mr. B. A. C. Fernando

#### **General Manager, Bank of Ceylon**

Mr. Fernando possesses 39 years of experience in banking. His expertise in branch banking ranges from branch operations level to the management of a large branch network at both area/province level and as an entire division. He is a specialist in credit with experience in consumer credit at branch, provincial and divisional levels, has handled corporate credit at all levels and has been in charge of the Corporate Branch's large portfolio. Mr. Fernando has contributed to improve the credit knowledge and skills of the bank staff through training. He has also provided active leadership in training and restructuring initiatives.

Mr. Fernando has a B.A. in Arts and M.A. in Business Administration. He is a Director and Fellow of the Institute of Bankers of Sri Lanka and has undergone extensive training in banking and management, both locally and overseas, and is a director in many of the banks subsidiaries and associate companies.

### Mrs. J. P. Mampitiya

#### **Director-Payments & Settlements, CBSL**

Mrs. Mampitiya has been the Director of the Payments and Settlements Department of the Central Bank of Sri Lanka (CBSL) since August 2008. She is currently the Alternate Director of the Asian Clearing Union, Secretary of the SAARC Payments Initiative and a member of the Steering Committee of the Lanka Gate Initiative Projects.

Mrs. Mampitiya commenced her career at the Central Bank in 1981 and was attached to the Information Technology Department (ITD) where she held the post of Director IT from 2004 – 2008. She has a B.Sc. (Honors) from the University of Kelaniya and a M.Sc. in System Science from the University of Ottawa, Canada.

## Mr. P. Rajapakse

### **Deputy General Manager (Operations and Actg. Head of IT), People's Bank**

Mr. P. Rajapakse joined People's Bank in 1970 and counts for over 39 years of experience. He represents High Ranking Committees of People's Bank and has wide experience in all aspects of Branch Banking, from the rank of Branch Manager to Deputy General Manager. He holds an AIB and a Management Development Certificate with a Merit pass awarded by the Postgraduate Institute of Management, University of Sri Jayewardenepura.

He has received extensive local and overseas training and exposure in Banking and Finance which includes Strategic and Risk Management, and Project Lending Corporate Credit etc.

Mr. Rajapakse has contributed his knowledge and vast experience as a Trainer and a Lecturer to guide Branch Managers, Assistant Regional Managers, Regional Managers and other Staff in order to improve their service quality and self development.

## Mrs. Kimarli Fernando

### **Director/ Chief Executive Officer, Pan Asia Banking Corporation PLC**

Counting 20 years of experience in the Banking Industry in Sri Lanka and Germany, Mrs. Fernando joined Pan Asia Bank as a Director in March 2008 and was appointed as the Chief Executive Officer of the Bank in May 2008. She also serves as a Director of L B Finance PLC, LankaClear (Pvt) Ltd., Sri Lanka Banks' Association (Guarantee) Ltd and as a Management Committee Member of Waters Edge.

Mrs. Fernando is an Attorney-at-Law, and also a Barrister-at-Law, Lincoln's Inn, UK. She holds LLB (Hons), from the London School of Economics and has successfully completed the Post Graduate Certificate Course in Human Resources Management at the Post Graduate Institute of Management (PIM), Sri Lanka. She was awarded the "Professional Woman of the Year 2007" by Women's Chamber of Industry and Commerce.

## Mr. L. G. Perera

### **Managing Director/CEO, DFCC Vardhana Bank Ltd.**

Mr. Perera began his career at the Central Bank of Sri Lanka in 1969 at the age of 19 while he was an undergraduate, and served in the Banking and Currency Department and Public Debt Department.

He assumed duties as the Managing Director/CEO of DFCC Vardhana Bank on the 1st of April 2004 and is also

on the Director Boards of several Companies. He joined DFCC Bank in 1977 as a loans officer and held various positions including Manager-Export Projects, Assistant General Manager-Small Enterprises and Special Projects, Deputy General Manager-Operations and last as Executive Vice President-Lending, overlooking the entire lending operations of the bank during his career spanning over 32 years at DFCC Bank.

Mr. Perera's international experience includes consultancy assignments carried out for the Asian Development Bank as a financial and banking consultant in Papua New Guinea, and the People's Republic of China in 1990 and 1991.

He has taught at the University of Colombo, Institute of Chartered Accountants-Sri Lanka, Bankers Training Institute and Association of Development Finance Institutions of Asia and Pacific Training Programs. Mr. Perera holds Honours and Masters Degrees in Economics and Business Administration respectively and a Post Graduate Diploma in Statistics. He is also an affiliate of the Chartered Institute of Management Accountants.

## Mr. Prem Kumar Thampi

### **Country Head, ICICI Bank Sri Lanka**

Mr. Prem Kumar Thampi is Deputy General Manager of ICICI Bank and heads Sri Lanka. He began his career in 1985 with the State Bank of India and joined ICICI Bank in 1997. During his 24 year tenure in the Banking industry, he has held many key positions in Retail and Corporate Banking. Prior to taking office in Sri Lanka as the Country Head, he was attached to the ICICI Corporate Banking Business, International Banking Group. Mr. Prem Kumar Thampi has a Post Graduate Degree in Physics from the Banaras Hindu University.

## Mr. Upali de Silva

### **Observer**

Mr. de Silva presently holds the post of Secretary General, Sri Lanka Banks' Association (Guarantee) Ltd., and is Director of HNB Assurance Ltd., Lanka Financial Services Bureau Ltd., and Sri Lanka Cert (Pvt) Ltd.

He is also the retired Senior Deputy General Manager of Hatton National Bank Ltd., and has over 42 years experience in banking, including 15 years at Corporate Management Level.

Mr. de Silva is a Fellow of the Chartered Institute of Bankers (London), Past President of the Association of Professional Bankers and of the Colombo Centre of the Chartered Institute of Bankers (London).



# Management Team



**1. Mr. Sunimal B. Weerasooriya**  
General Manager/CEO

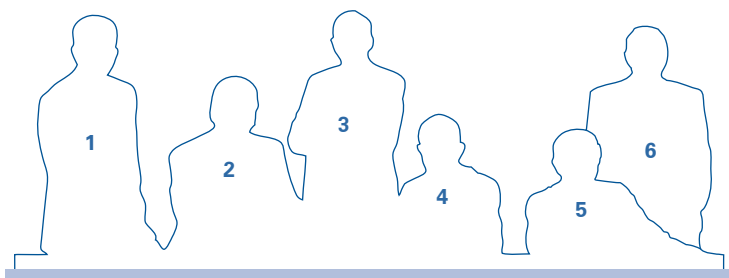
**2. Mr. Harsha Wanigatunga**  
Head of Operations

**3. Mr. G. Widanapathirana**  
Head of Human Resources  
& Administration

**4. Mr. Damith Kumarapperuma**  
Head of Finance

**5. Mr. L.G. Abeyesirigunawardena**  
Head of Regional Centres

**6. Mr. W.M. Jayaratne**  
CITS Manager





**7. Ms. Mirani Rodrigo**  
Management Accountant

**8. Mr. Dilantha Samarasinghe**  
Systems Manager

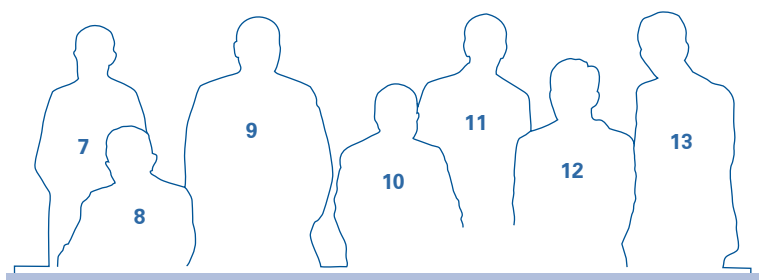
**9. Mr. Shantha Wijepala**  
Manager-Facilities & Maintenance

**10. Mr. S. R. Hettiarachchi**  
Operations Manager

**11. Mr. Isuru Jayaweera**  
Bank Services & Help Desk Manager

**12. Mr. Thilina Jayawickrama**  
Network Operations Manager


**13. Mr. Aruna Weerakkody**  
Data Centre Manager





# High-Tech Security



The background is a vibrant blue with a subtle grid of small, darker blue dots. On the left side, there is a stylized graphic of a digital signature, appearing as a thick, dark blue line that curves upwards and then downwards, resembling a handwritten signature. The overall aesthetic is high-tech and digital.

**Digital Signatures provided by LANKASIGN, the Certification Service Provider for the financial sector guarantees the security of the information by signing and encrypting electronic data and images. LankaClear has helped to improve the security of Sri Lanka's Financial Systems with cost effectiveness by LANKASIGN being implemented on the RedHat Open CA, using Sri Lankan technical expertise and by meeting international CA standards.**

# LANKASIGN – LankaClear Certification Service Provider

The Payment Industry in Sri Lanka has evolved towards greater efficiencies and customer centricities, which has resulted in high reliance on advanced technology. The use of the Internet and electronic transactions has evolved rapidly in Sri Lanka, facilitating greater customer convenience and attracting new customers, irrespective of their demographics. This is very evident by the high usage of Sri Lanka Interbank Payments (SLIPS), other electronic payment systems, and the growth in the use of Internet Banking.

Though advanced technology brings about many advantages to financial institutions and its customers, it also brings in great risks of information security and electronic fraud. Therefore as the use of electronic payments (e-payments) increases, the need for advanced IT security infrastructure becomes critical in order to prevent the risks associated with information security and unauthorized access.



Authentication is a critical issue for users of electronic commerce. Banks must have confidence in the authenticity and the integrity of an electronic transaction received from another bank. This can be achieved through the use of Digital Signatures which are aimed at achieving a higher level of trust where written signatures are not possible. Digital signing allows the recipient of the electronic transaction to know with certainty that it originated from a specific party and that no changes have been made after the transaction has been signed.

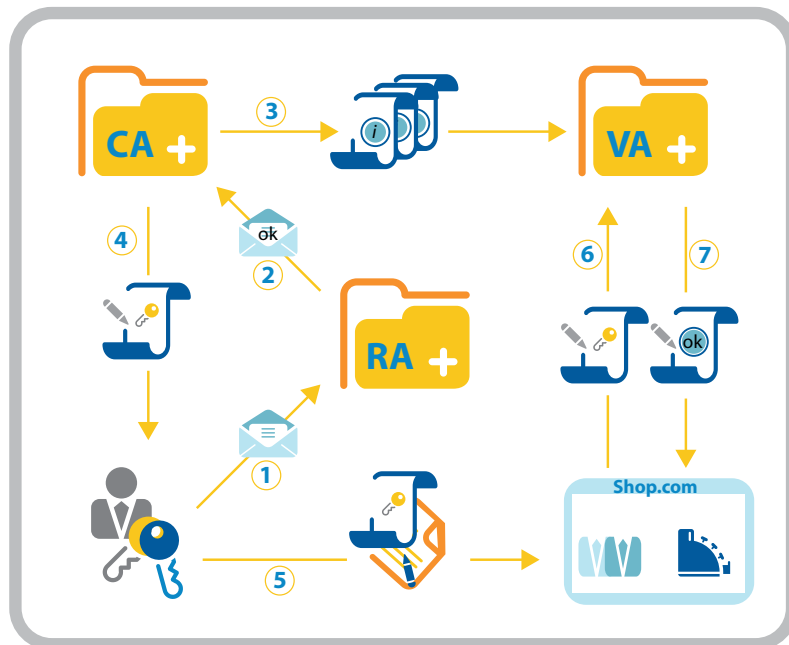
Recognising this need, the Central Bank of Sri Lanka requested LankaClear (Pvt) Ltd. (LCPL) to be the financial sector's Certification Service Provider (CSP). LCPL launched Sri Lanka's first Certificate Authority under the brand name LANKASIGN in accordance with

the Electronic Transaction Act, No.19 of 2006 on the 22nd of May 2009. A CSP is an authority on a trusted network, which issues and manages security credentials and public keys for message signing and encryption. As part of a public key infrastructure (PKI), a CSP checks with a Registration Authority (RA) to verify information provided by the requestor of a Digital Certificate. If the RA verifies the requestor's information, the Certificate Authority (CA) can then issue a Digital Certificate which can be used for the purpose of signing and encrypting electronic transactions.

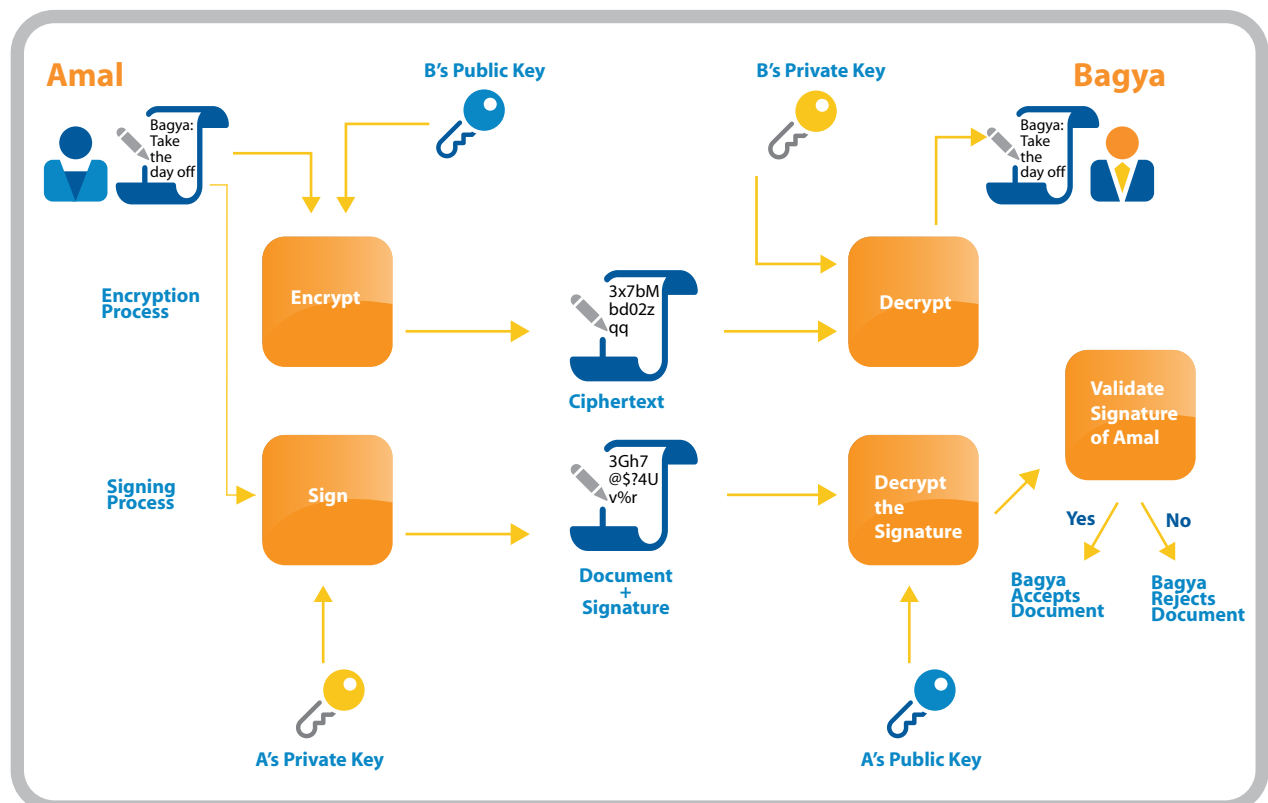
LANKASIGN in its first phase has begun providing digital certificates to the participant banks in the Common Payment Switch (CPS – online, real-time electronic fund transfer system between banks) and the planned enhancements for the CITS direct connectivity, where the CA and Public Key Infrastructure (PKI) will be made available on LCPL's Virtual Private Network (VPN). In the second phase LANKASIGN will provide digital certificates for all financial sector enterprise applications and end users, which will be made available on the public network. This will be of great value to the financial sector in Sri Lanka as the digital certificates of LANKASIGN will save banks much valuable foreign exchange, which they currently incur by procuring Certificates from foreign CAs at a high cost.

LANKASIGN is not only a major achievement for the ICT industry in Sri Lanka, but will also greatly encourage more institutions in the financial sector to adopt cost effective digital certificate based technology, for enhanced information security in transactions.

## Certification Service Provider Architecture



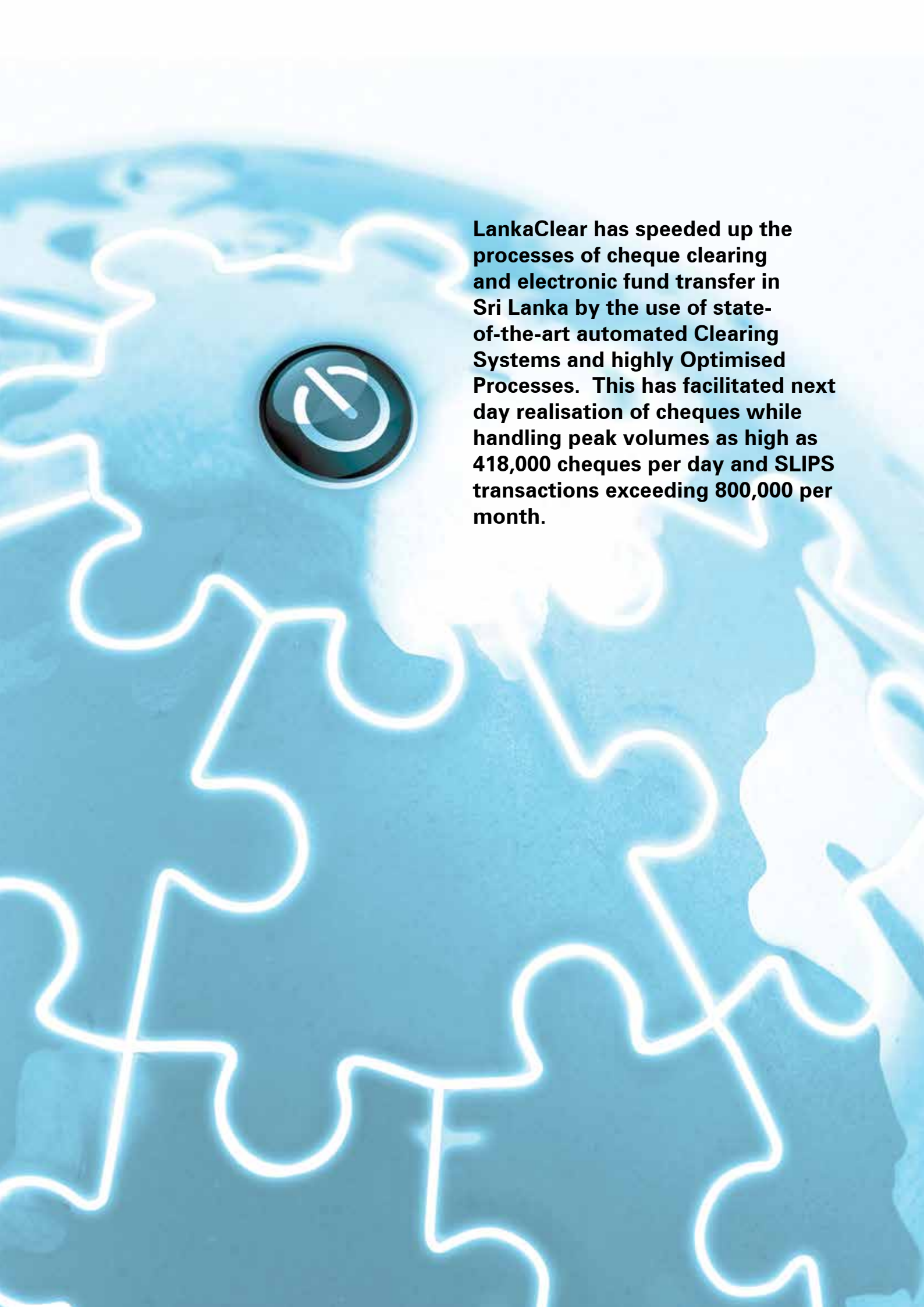
## Signing and Encryption Using Digital Certificates





# **High-Tech Operations**





**LankaClear has speeded up the processes of cheque clearing and electronic fund transfer in Sri Lanka by the use of state-of-the-art automated Clearing Systems and highly Optimised Processes. This has facilitated next day realisation of cheques while handling peak volumes as high as 418,000 cheques per day and SLIPS transactions exceeding 800,000 per month.**

# Operations Review

An efficient payment and settlement system is critical for a growing, dynamic economy. Secure and fast realization of payments within a stable infrastructure, facilitates efficient payments and settlements. LankaClear (LCPL) contributes significantly towards the payments and settlements sector in the country, along with the guidance of the Central Bank of Sri Lanka and in collaboration with other commercial banks.

LCPL plays the role of the National Financial Transactions Clearing Hub, as it is the entity in Sri Lanka that does Cheque clearing, Rupee Draft and US Dollar clearing, and SLIPS.

Products and Services Offered by LankaClear are:

1. Rupee Cheque Clearing - Cheque Imaging and Truncation System (CITS)
2. Sri Lanka Rupee Draft Clearing.
3. US Dollar Clearing.
4. Sri Lanka Interbank Payment System (SLIPS)

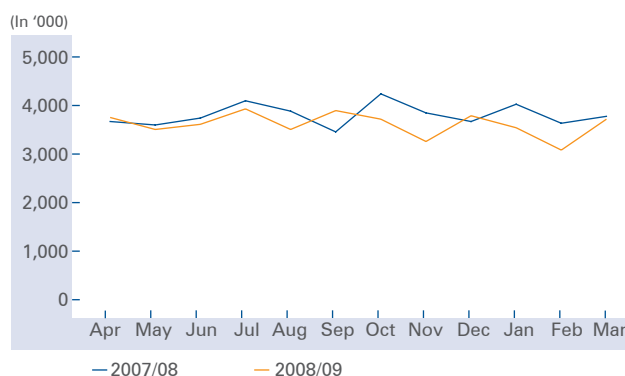
## 1. Rupee Cheque Clearing - Cheque Imaging and Truncation System (CITS)

Automated cheque clearing and cheque truncation was facilitated by the introduction of the Cheque Imaging and Truncation System (CITS), which utilizes digital technology to expedite clearing and settlement processes. In order to overcome barriers between Colombo and bank branches in rural areas, as they lacked the required infrastructure, LCPL was compelled to bring in the Regional Center concept. Each LCPL Regional Center is linked to the Colombo Main Processing Center to realize a common clearing platform, thereby eliminating geographical barriers. As a result, on depositing a cheque, the public will be able to get credit for their funds on the following business day (T+1). Currently, around 185,000 cheques are cleared through LankaClear on each business day and we have catered to volumes exceeding 418,000 cheques per day.

Due to Process and Technological improvements, CITS has achieved a 99.23% System Up-Time and achieved 94.21% of the Delivery Cutoff times. We have also improved the Disaster Recovery Processes and further enhanced the DR Site, and operated from it for 13 days during two DR Operation Drills in the year 2008/09.

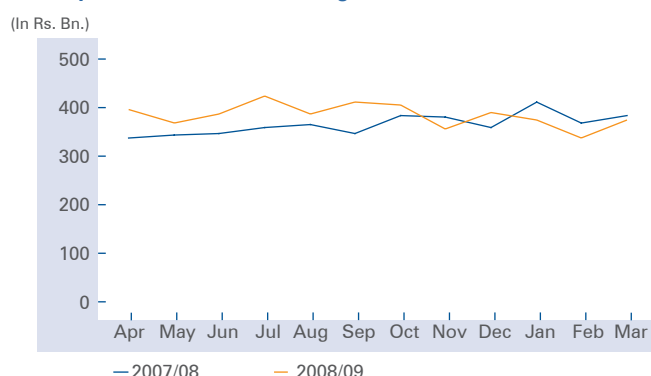
The total number of cheques cleared and total value of cheques processed through CITS during 2008/2009 as compared with 2007/2008 is depicted in the following diagrams:

**Cheques Presented for Clearing - Volume Wise**



The total number of cheques cleared in 2008/2009 through CITS amounts to Rs. 43.42 Mn in comparison to Rs. 45.86 Mn in 2007/2008, which is a decrease of 5.32%.

**Cheques Presented for Clearing - Value Wise**



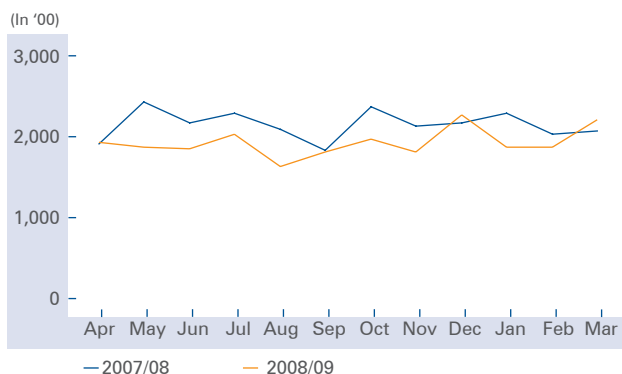
The total value of cheques cleared in 2008/2009 through CITS amounts to Rs. 4,615 Bn in comparison to Rs. 4,390 Bn in 2007/2008, which is an increase of 5.13%.

### 1.1 Settlement Clearing (Cheque Returns)

Cheques are still the most convenient and preferred non-cash payment instrument for commercial transactions in Sri Lanka. Approximately 5.4% of the cheques presented for clearing were returned unpaid due to various reasons. Of the total cheques returned, 47% were due to lack of funds.

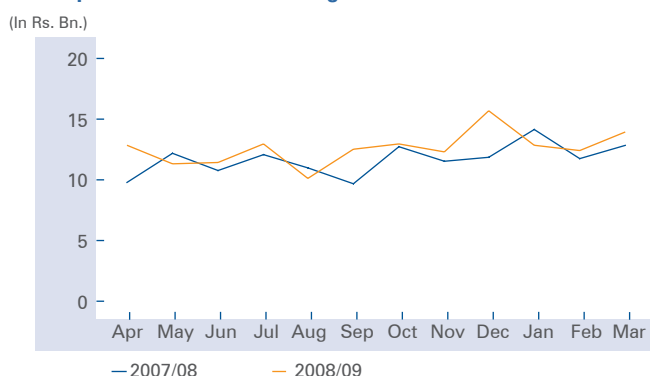
The total volume and value of the cheques returned during 2008/2009 as compared with 2007/2008 are depicted in the following diagrams:

### Cheques Returned for Clearing - Volume Wise



The total number of cheque returns in 2008/2009 through CITS amounts to 2.31 Mn in comparison to 2.58 Mn in 2007/2008 which is a decrease of 10.47%.

### Cheques Returned for Clearing - Value Wise

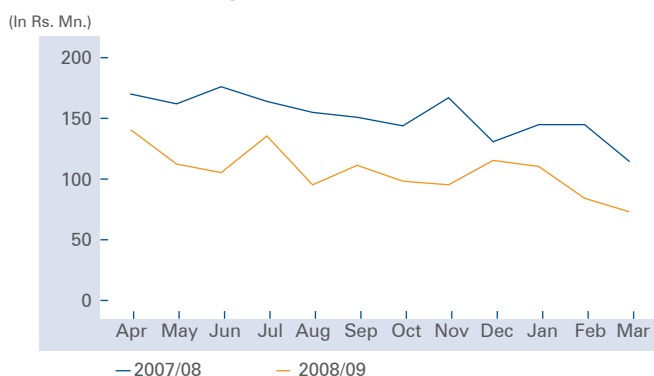


The total value of cheque returns in 2008/2009 through CITS amounts to Rs. 152.15 Bn in comparison to Rs. 141.24 Bn in 2007/2008 which is an increase of 7.72%.

## 2. Sri Lanka Rupee Draft Clearing

The value of Rupee Drafts processed during the year 2007/2008 and 2008/2009 are shown below:

### Rupee Draft clearing - Value Wise

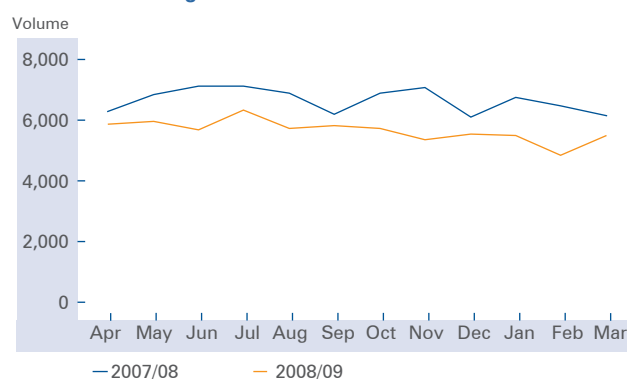


The total value of Rupee Drafts cleared in 2008/2009 through Draft Clearing amounts to Rs. 1.29 Bn in comparison to Rs. 1.82 Bn in 2007/2008. This is a decrease of 29.28%.

## 3. US Dollar Clearing

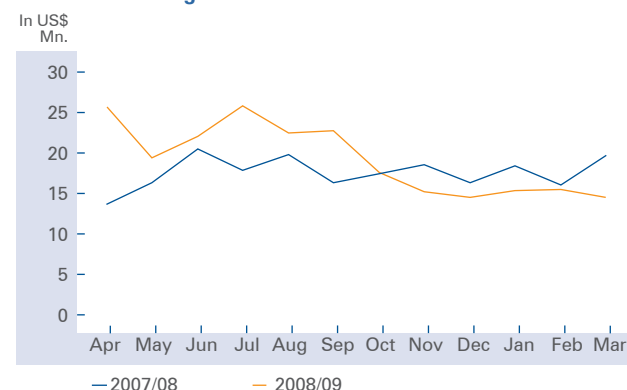
The total number of items cleared through US Dollar Clearing in 2008/2009 amounts to 68,000 compared to 79,660 in 2007/2008. This is a decrease of 14.61%.

### US Dollar Clearing - Volume Wise



The total value of items cleared through US Dollar Clearing in 2008/2009 amounts to US\$ 231.2 Mn in comparison to US\$ 211.6 Mn in 2007/2008. This is an increase of 9.28%.

### US Dollar Clearing - Value Wise



## Operations Review continued

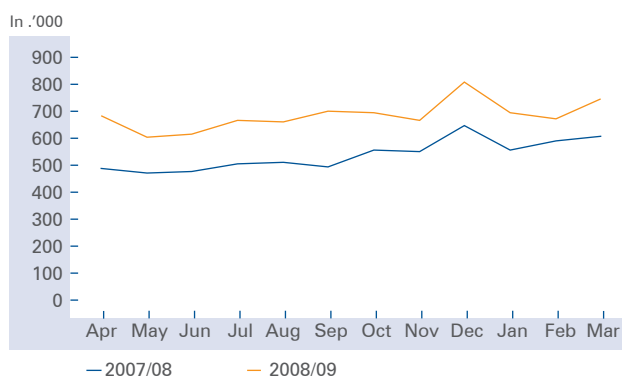
### 4. Sri Lanka Interbank Payment System (SLIPS)

Electronic Funds Transfer (EFT) is a movement of funds from one account to another, without a corresponding document to authorize or prove that the transfer has been completed. LankaClear provides an Offline Electronic Data Transferring Service via SLIPS to all commercial banks.

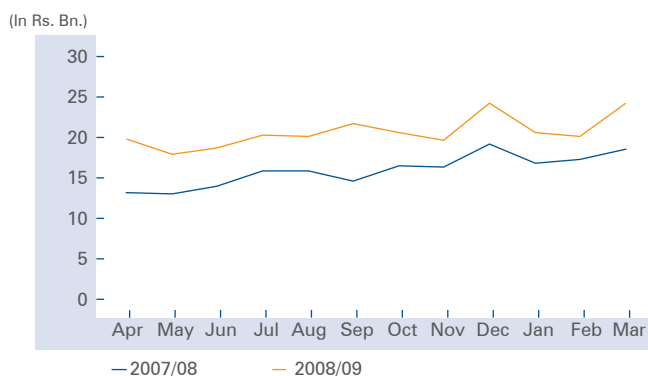
An average volume of 36,000 transactions pass through SLIPS during a business day.

The increase in the number of SLIPS transactions is depicted below:

**Sri Lanka Inter Bank Payment Systems - Volume Wise**



**Sri Lanka Interbank Payment Systems - Value Wise**



The total volume of items cleared through SLIPS in 2008/2009 amounts to 8.2 Mn, in comparison to 6.4 Mn in 2007/2008, which is an increase of 28.35%. The total value of items cleared through SLIPS in 2008/2009 amounts to Rs. 248.19 Bn in comparison to Rs. 191.47 Bn in 2007/2008 which is an increase of 29.62%. This is a trend we expect to see increasing with more individuals and institutions moving towards electronic transactions.

Harsha Wanigatunga  
**Head of Operations**



# Human Resources & CSR

## Our Human Resources

Our people are the 'competitive edge' and driving force behind the continuous success of our organisation. During the period under review, the Human Resources and Administration Department launched several 'HR drivers' crucial to the successful implementation of the Company's Business Plan. Vital elements of the HR System have been modified in order to maximise the overall quality of 'human capital' - our most valuable asset.

Key initiatives were undertaken to build, develop and maintain a talented and high performance based workforce:

- A new Performance Appraisal System aimed at setting and monitoring SMART Goals for departments and individuals has been implemented. The system will facilitate the streamlining of the Company's rewards systems, and provide rapid career progression to identified staff.



- A Competency Mapping exercise was launched across all divisions of the Company. Knowledge, skills and attributes required to perform given tasks effectively at every level were identified, and core-competencies were documented and made known to employees. In addition a series of workshops and training sessions were conducted to enhance the current competency levels of staff.
- Comprehensive job descriptions and specifications have been prepared for each designation across the Company. This will facilitate smooth operations and greater clarity on responsibilities and accountability.



- A new organisation structure was introduced to align employees, processes and the line of command with the expansion of the Company and successful accomplishment of new projects.
- A handbook on Best Communication Practices was issued to all the key staff, and the Code of Conduct was developed to further enhance employee knowledge.

## Corporate Social Responsibility

As conscientious corporate citizens, our CSR objective is to ensure that a significant contribution from our earnings is set aside for the development of society, while enhancing the quality of life of our employees. As part of our CSR initiatives, we support the growth and sustainable development of society by positively contributing to the enhancement of education.



## Human Resources & CSR continued

During the period under review, the Company facilitated 30 educational tours for over 1000 high school students inclusive of those from remote areas, to visit the Clearing House. This was done in order to encourage a learning experience of the operation processes in the Cheque Imaging and Truncation System which is an essential part of the syllabus for A/L Commerce Students.

The Company provided the opportunity for five IT Students from the University of Moratuwa to engage in a real-life software development project. Under the supervision of the LankaClear IT Staff and guidance of their lecturers, these students developed a new application for Dollar Clearing.



LankaClear, in association with the University of Moratuwa has implemented a special Industrial Placement Scheme for undergraduates to provide hands-on-work experience in a high-tech environment. These students have been assigned to work with our IT Systems Division.

The company is also scheduled to embark on several important CSR projects such as career guidance for high school students, sponsoring sports activities and carrying out environment protection initiatives.

## Enhancing Team Work



With a view to building camaraderie and improving team work in an informal atmosphere, the HR Department took the lead in organising several recreational activities such as excursions, sports festivals, etc.



# Corporate Governance

At LankaClear (Pvt) Ltd., we are committed to ensuring the best interests of our customers, employees and shareholders. Maintaining transparency and accountability with respect to shareholders is an important function. For this reason the Company is conscious of complying with applicable laws and regulations, and adheres to the code of best practice on corporate governance published by the Institute of Chartered Accountants of Sri Lanka.

## The Board of Directors

The Board of Directors at LankaClear (Pvt) Ltd., comprises eight Non-Executive Directors. The Chairman is appointed by the Governor of the Central Bank of Sri Lanka, in accordance with the Articles of Association. Two Directors represent the Central Bank of Sri Lanka while two more represent state banks. Three additional Directors are nominated by the Sri Lanka Bank's Association of whom two represent private local commercial banks and the other represents an overseas bank. The Secretary General of the Sri Lanka Banks' Association (Guarantee) Ltd., constitutes the final Board member and is usually invited to express his/her views. Each Board member is well qualified, experienced and brings a wealth of knowledge that contribute towards the effective control and function of the Company. The Directors are responsible for protecting the rights and interests of shareholders, and are accountable to them for the overall management of the Company.

## Responsibilities

The main responsibilities of the Board are as follows:

- Setting strategies, direction and establishing goals for management.
- Monitoring performance against goals and objectives, as well as ensuring adequate internal control with the highest ethical standards.
- Appointing the Chief Executive Officer and determining the remuneration of senior executives.
- Reporting to shareholders.

## Board Meetings

Board Meetings are held monthly to consider among other matters, the performance and Financial Statements for the period, and to approve routine capital expenditure.

## Disclosure to Stakeholders

The Board follows a policy of disclosing all relevant information to stakeholders within the bounds of prudent commercial judgment. It prepares the Financial Statements in accordance with the Sri Lanka Accounting Standards and the Companies Act No. 07 of 2007 and the generally accepted accounting principles.

## Going Concern

Upon reviewing the financial position and cash flow of the Company, the Board of Directors are confident that the Company has adequate resources to continue operations in the foreseeable future and prepare Financial Statements on a 'going concern basis.'

## Compliance Report

The Directors confirm that to the best of their knowledge, all taxes and duties payable by the Company as well as contributions, levies and taxes payable on behalf of and in respect of the employees of the company, and all other statutory dues as were due as at the Balance Sheet date have been paid or provided for in the accounts.

## Secretaries to the Board

Managers and Secretaries (Pvt) Ltd., functions as the Secretaries to the Company. The Secretaries are duly registered under the regulations and provide the necessary expertise and advice to the Board.

## Senior Management

Members are adequately experienced to perform their delegated roles through the General Manager/CEO.

## Relationship with Shareholders

The Company believes in maintaining a good relationship with its shareholding, and takes all responsible and necessary steps to disclose both financial and non-financial information.



**At LankaClear, good governance is an integral part of our business and a key element of our success. We work in line with national and industry regulations, uphold ethical business decisions and ensure sound financial practices. Good governance is central to who we are.**

# **Good Governance**





# Financial Statements

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Statement of Directors' Responsibilities for Financial Statements	34
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Balance Sheet	36
Income Statements	37
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Cash Flow Statements	39
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# Annual Report of the Board of Directors on the Affairs of the Company

The Directors are pleased to submit their report together with the Auditor's Report and Financial Statements for the year ended 31st March 2009, to be presented at the 7th Annual General Meeting of the Company.

## Review of the Year

Chairman's review on page 6 describes the Company's affairs and mentions important events that occurred during the year, and up to the date of this report. The Financial Review on page 3 elaborates the financial results of the Company. These reports together with the audited financial statements reflect the state of the affairs of the Company.

## Principal Activities / Core Business

The Principal Activity of the Company was to provide cheque clearing facilities to commercial banks on behalf of the Central Bank of Sri Lanka.

## Financial Statements

The financial statements prepared in compliance with the requirements of Section 151 of the Companies Act No 7 of 2007 are given on page 36 in this annual report.

## Independent Auditor's Report

The Auditor's Report on the financial statements is given on page 35 in this report.

## Accounting Policies

The Accounting Policies adopted in preparation of the financial statements is given on page 40. There were no changes in Accounting Policies adopted by the Company during the year under review.

## Fixed Assets

Details of fixed assets are given in note 4 to the accounts.

## Directors' Responsibilities

The Statement of the Directors' Responsibilities is given on page 34 of this report.

## Corporate Governance

The Company has complied with the corporate governance rules published by the Institute of Chartered Accountants of Sri Lanka.

## Reserves

The Reserves and Accumulated Profits as at 31st March 2009 amount to Rs. 376,465,141/- vs Rs.280,500,193/- as at 31st March 2008. The breakup and the movement

are shown in the Statement of Changes in Equity in the financial statements.

## Stated Capital

As per the terms of the Companies Act No. 7 of 2007, the stated capital of the Company was Rs. 150,500,000/- as at 31st March 2009 and was unchanged during the year. The details are given in Note 9 to the financial statement on page 45 .

## Post Balance Sheet Events

There have been no material events occurring after the Balance Sheet date that require adjustments to or disclosure in the Financial Statements.

## Interests Register

Details of the transactions with Director-related entities are disclosed in Note 20.2 to the financial statements on page 49, and have been declared at the Board meeting, pursuant to Section 192 (2) of the Companies Act No. 7 of 2007.

## BOARD COMMITTEES

### Audit Committee

Following are the names of the Directors comprising the Audit Committee of the Board.

1. Mr. P D J Fernando (*Chairman*)
2. Mr. M U De Silva

### Directors

The Board of Directors of LankaClear (Private) Limited as at 31st March 2009 were:

Mr. A Sarath de Silva – Chairman  
Mr. B A C Fernando  
Mr. P D J Fernando  
Ms. J P Mampitiya  
Mr. L G Perera  
Mr. P Thampi  
Ms. K Fernando  
Mr. P Rajapakse

During the year the following changes took place in the directorate.

- Mrs. K R M Siriwardhane resigned w.e.f. 04th September 2008 and Ms. J M Mampitiya was appointed in her place.
- Mr. K U Pushpakumara resigned w.e.f. 19th February 2009 and Mr. P Rajapakse was appointed in his place.

## Donations

There were no donations made during the year to Government approved charities.

## Auditors

The resolutions to appoint the present Auditors, Messrs. Ernst & Young, Chartered Accountants, who have expressed their willingness to continue in office, will be proposed at the Annual General Meeting.

The Audit and non-audit fees paid to the auditors is disclosed in the Note 16 on page 47 in this Annual Report.

As far as the Directors are aware, the Auditors do not have any relationship or interest in the Company.

The Audit committee reviews the appointment of the Auditor, its effectiveness and its relationship with the Company including the level of audit and non-audit fees paid to the Auditor. Details on the work on the Audit Committee are set out in the Audit Committee Report.

## Notice of Meeting

The Annual General Meeting will be held at Garnet Room, Continental Hotel, Janadhipathi Mawatha, Colombo 01 on 31 August 2009 at 11.30 am.

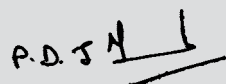
The Notice of the Annual General Meeting appears on page 54.

For and on behalf of the Board.



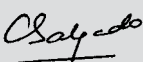
Mr. A. Sarath de Silva

**Director**



Mr. P. D. J. Fernando

**Director**



Managers & Secretaries (Pvt) Ltd

**Secretaries**

LankaClear (Private) Limited  
19 June 2009  
Colombo

# Statement of Directors' Responsibilities for Financial Statements

The Companies Act No.07 of 2007 requires Directors to ensure that the Company keeps proper books of accounts of all the transactions and prepare financial statements that give a true and fair view of the state of the Company's affairs and of the profit and loss for the year.

The Directors are also required to ensure that the financial statements have been prepared and presented in accordance with the Sri Lanka Accounting Standards and provide the information required by the Companies Act 07 of 2007. They are also responsible for taking reasonable measures to safeguard the assets of the Company, and in that context to have proper regard to the establishment of appropriate systems of internal control with a view to prevention and detection of fraud and other irregularities.

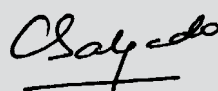
The Directors are of the view that, these financial statements have been prepared under the generally accepted accounting principles and in accordance with the Sri Lanka Accounting Standards as laid down by the Institute of Chartered Accountants of Sri Lanka.

The Directors endeavour to ensure that the Company maintains sufficient records to be able to disclose with reasonable accuracy, the financial position of the Company and to be able to ensure that the financial statements of the Company meet with the requirements of the Companies Act and Sri Lanka Accounting Standards.

The Directors have reasonable expectation, after making enquiries and following a review of the Company's budget for the ensuing year including cash flows and borrowing facilities, that the Company has adequate resources to continue in operational existence for the foreseeable future, and therefore have continued to adopt the going concern basis in preparing the Accounts.

Messrs. Ernst & Young the Auditors of the Company have examined the financial statements made available by the Board of Directors together with all relevant financial records, related data, minutes of Shareholders and Directors meeting and express their opinion in their report on page 35 of the Annual Report.

By Order of the Board

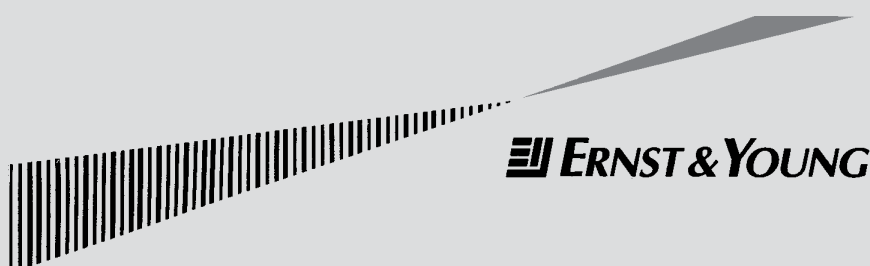


Managers & Secretaries (Private) Limited  
**Secretaries**

Colombo  
19 June 2009



# Independent Auditor's Report



## Chartered Accountants

201 De Saram Place  
P.O. Box 101  
Colombo 10  
Sri Lanka

Tel : (0) 11 2463500  
Fax Gen : (0) 11 2697369  
Tax : (0) 11 5578180  
eysl@lk.ey.com

WRHF/PATR/JJ

## INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF LANKACLEAR PRIVATE LIMITED

### Report on the Financial Statements

We have audited the accompanying financial statements of LankaClear Private Limited, which comprise the balance sheet as at 31 March 2009, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### Scope of Audit and Basis of Opinion

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Sri Lanka Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit. We therefore believe that our audit provides a reasonable basis for our opinion.

### Opinion

In our opinion, so far as appears from our examination, the Company maintained proper accounting records for the year ended 31 March 2009 and the financial statements give a true and fair view of the Company's state of affairs as at 31 March 2009 and its profit and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

### Report on Other Legal and Regulatory Requirements

In our opinion, these financial statements also comply with the requirements of Section 151(2) of the Companies Act No. 07 of 2007.

Colombo  
19 June 2009

**Partners:** A D B Talwatte FCA FCMA M P D Cooray FCA FCMA Ms. Y A De Silva ACA W R H Fernando FCA FCMA W K B S P Fernando FCA ACMA  
A P A Gunasekera FCA FCMA A Herath FCA D K Hulangamuwa FCA FCMA LLB (Lond) A S M Ismail FCA FCMA  
H M A Jayasinghe FCA FCMA Ms. G G S Manatunga ACA Ms. L C G Nanayakkara FCA FCMA B E Wijesuriya ACA ACMA

# Balance Sheet

As at 31 March 2009	Note	2009 Rs.	2008 Rs.
<b>ASSETS</b>			
<b>Non-Current Assets</b>			
Property, Plant and Equipment	4	220,902,660	230,322,470
Intangible Assets	5	85,475,592	128,562,059
Deferred Tax Assets	18.2	-	3,201,152
		306,378,252	362,085,681
<b>Current Assets</b>			
Inventories	6	3,093,404	3,725,189
Trade and Other Receivables	7	64,566,736	71,341,044
Investments	8	10,503,507	258,851,862
Cash and Cash Equivalents	19.1	423,499,992	149,964,861
		501,663,639	483,882,956
<b>Total Assets</b>		808,041,891	845,968,637
<b>EQUITY AND LIABILITIES</b>			
<b>Capital and Reserves</b>			
Stated Capital	9	150,500,000	150,500,000
Building Fund	10.1	53,254,734	18,000,000
Capital Reserves	10.2	195,000,000	-
Retained Earnings		128,210,405	262,500,193
<b>Total Equity</b>		526,965,139	431,000,193
<b>Non-Current Liabilities</b>			
Interest Bearing Loans and Borrowings	11	101,591,296	128,869,608
CITS Related Government Grant	12	81,944,597	157,585,764
Defined Benefit Liability	13	2,488,870	1,673,252
Deferred Tax Liabilities		2,054,319	-
		188,079,082	288,128,624
<b>Current Liabilities</b>			
Trade and Other Payables	14	56,737,169	84,409,776
Income Tax Liabilities		6,236,789	13,967,035
Interest Bearing Loans and Borrowings	11	27,278,312	27,278,312
Bank Overdrafts	19.2	2,745,400	1,184,697
		92,997,671	126,839,820
<b>Total Equity and Liabilities</b>		808,041,891	845,968,637

These Financial Statements are in compliance with the requirements of the Companies Act No :07 of 2007.

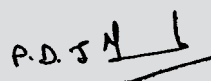


Head of Finance

The Board of Directors is responsible for the preparation and presentation of these Financial Statements.  
Signed for and on behalf of the Board By:



Director



Director

The accounting policies and notes on pages 40 through 49 form an integral part of the Financial Statements.

Colombo  
19 June 2009

# Income Statements

Year ended 31 March 2009	Note	2009 Rs.	2008 Rs.
<b>Revenue</b>	3	422,234,920	452,845,431
Cost of Sales		(212,168,456)	(177,240,369)
<b>Gross Profit</b>		210,066,464	275,605,062
Other Income and Gains	15	86,820,146	70,405,490
Other Administrative Expenses		(99,583,990)	(91,940,894)
Finance Cost	17.1	(21,530,323)	(25,398,967)
<b>Profit before tax</b>		175,772,297	228,670,692
Income Tax Expense	18	(64,757,350)	(86,222,610)
<b>Profit for the year</b>		111,014,947	142,448,082

The accounting policies and notes on pages 40 through 49 form an integral part of the Financial Statements.

# Statements of Changes in Equity

Year ended 31 March 2009	Stated Capital Rs.	Share Capital Rs.	Building Reserve Rs.	Capital Reserves Rs.	Retained Earnings Rs.	Total Rs.
<b>Balance as at 01 April 2007</b>	-	150,500,000	15,000,000	-	141,112,111	306,612,111
Profit for the Year	-	-	-	-	142,448,082	142,448,082
Transfer to Technology Reserve	-	-	3,000,000	-	(3,000,000)	-
Dividend paid	-	-	-	-	(18,060,000)	(18,060,000)
Transfer to Stated Capital	150,500,000	(150,500,000)	-	-	-	-
<b>Balance as at 01 April 2008</b>	150,500,000	-	18,000,000	-	262,500,193	431,000,193
Profit for the Year	-	-	-	-	111,014,947	111,014,947
Transfer to Technology Reserve	-	-	35,254,734	-	(35,254,734)	-
Transfer to Capital Reserves	-	-	-	195,000,000	(195,000,000)	-
Dividend paid	-	-	-	-	(15,050,000)	(15,050,000)
<b>Balance as at 31 March 2009</b>	150,500,000	-	53,254,734	195,000,000	128,210,406	526,965,140

The accounting policies and notes on pages 40 through 49 form an integral part of the Financial Statements.



# Cash Flow Statements

Year ended 31 March 2009	Note	2009 Rs.	2008 Rs.
<b>Cash Flows From Operating Activities</b>			
Net Profit before Income Tax Expense		175,772,297	228,670,692
<b>Adjustments for</b>			
Depreciation and Amortisation	4 & 5	156,833,666	146,702,693
Amortisation of Deferred Income	12	(75,641,166)	(75,641,166)
Finance Income	17	(86,820,146)	(64,132,044)
Provision for Defined Benefit Plans	13	890,619	1,338,026
Provision for Bank Claims		9,999,996	-
Loss on Disposal of Property, Plant and Equipment		75,582	-
Loss on Disposal of Inventories		-	-
Finance Cost	17	21,530,323	25,398,967
Operating Profit before Working Capital Changes		202,641,171	262,337,168
Decrease in Inventory		631,785	251,431
Increase in Trade and Other Receivables		(4,147,549)	(4,278,729)
Decrease in Trade and Other Payables		(29,051,931)	67,282,023
Cash Generated from Operations		170,073,476	325,591,893
Interest Paid		(21,530,323)	(25,398,967)
Income Tax Paid		(66,937,262)	(118,763,208)
Bank Claim Paid		(8,915,541)	-
Gratuity Paid	13	(75,000)	(55,400)
Net Cash from Operating Activities		72,615,350	181,374,319
<b>Cash Flows From/ (Used in) Investing Activities</b>			
Acquisition of Property, Plant and Equipment and Intangibles	4 & 5	(17,553,938)	(47,200,669)
Investment in CPS Project		(86,884,031)	-
Proceeds from Disposal of Property, Plant and Equipment		35,000	-
Finance Income Received		97,742,003	49,860,876
Net Proceeds from Investments in Fixed Income Securities		248,348,355	(258,851,862)
Net Cash Flows From / (Used in) Investing Activities		241,687,389	(256,191,655)
<b>Cash Flows Used in Financing Activities</b>			
Dividend Paid		(15,050,000)	(18,060,000)
Repayments of Interest Bearing Loans and Borrowings	11	(27,278,312)	(22,218,147)
Net Cash Flows from Financing Activities		(42,328,312)	(40,278,147)
<b>Net Increase/(Decrease) in Cash and Cash Equivalents</b>		271,974,427	(115,063,483)
<b>Cash and Cash Equivalents at the beginning of the year</b>	19	148,780,164	263,843,647
<b>Cash and Cash Equivalents at the end of the year</b>	19	420,754,591	148,780,164

The accounting policies and notes on pages 40 through 49 form an integral part of the Financial Statements.

# Notes to the Financial Statements

## 1. CORPORATE INFORMATION

### 1.1 GENERAL

LankaClear (Private) Limited is a limited liability Company incorporated and domiciled in Sri Lanka. The registered office of the Company is located at 18th Floor, Bank of Ceylon NHQ Building, Bank of Ceylon Mawatha, Colombo and the principal place of business is situated at the above mentioned address.

### 1.2 PRINCIPAL ACTIVITIES AND NATURE OF OPERATIONS

During the year, the principal activity of the Company was to provide clearance transactions to commercial banks on behalf of the Central Bank.

### 1.3 DATE OF AUTHORIZATION OF ISSUE

The Financial Statements of LankaClear (Pvt) Ltd., for the year ended 31 March 2009, were authorised for issue in accordance with a resolution of the Board of Directors on 19 June 2009.

## 2.1 BASIS OF PREPARATION

The Financial Statements have been prepared on a historical cost basis. The Financial Statements are presented in Sri Lankan Rupees and all values are rounded to the nearest integer except when otherwise indicated.

### 2.1.1 Statement of Compliance

The Financial Statements of LankaClear (Private) Limited have been prepared in accordance with Sri Lanka Accounting Standard (SLAS).

The Preparation and Presentation of these Financial Statements are in compliance with the Companies Act No.07 of 2007.

### 2.1.2 Comparative Information

The accounting policies have been consistently applied by the Company and, are consistent with those used in the previous year.

## 2.2 CHANGES IN ACCOUNTING POLICIES

The accounting policies adopted are consistent with those of the previous financial year except where the Company has made changes to the compliance with Sri Lanka Accounting Standard No 16 Employee Benefits (Revised 2006), which is discussed below:

### Measurement of Defined Benefits Plans

During the year ended 31 March 2009 the Company changed its accounting policy for the measurement of Retirement Gratuity (Defined Benefit Plan). The Company now performs the computation based on Gratuity Formula in Appendix E of SLAS 16 (Revised 2006). This formula measures the liability, using the Projected Unit Credit Method.

Further Details are given in Note 13 to these financial statements.

## 2.3 CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

The financial statements are sensitive to assumptions and estimates made in measuring certain carrying amounts represented in the Balance Sheet and amounts charged to the Income Statement. These could result in significant risk causing material adjustments to the carrying amounts of assets and liabilities which are disclosed in the relevant Notes to the Financial Statements.

### Defined Benefit Plans

The Defined Benefit Obligation and the related charge for the year is determined using assumptions required under actuarial valuation techniques. The valuation involves making assumptions about discount rates, future salary increases, staff turnover rates etc. Due to the long term nature of such obligations these estimates are subject to significant uncertainty.

Further details are given in Note 13 to these financial statements.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 2.4.1 Foreign Currency Translation

The Financial Statements are presented in Sri Lanka Rupees, which is the Company's functional and presentation currency. Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to profit or loss. Non monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

### 2.4.2 Taxation

#### Current Taxes

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

The provision for income tax is based on the elements of income and expenditure as reported in the Financial Statements and computed in accordance with the provisions of the relevant tax legislations.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the income statement.

#### **Deferred Taxation**

Deferred income tax is provided, using the liability method, on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences except where the deferred income tax liability arises from the initial recognition 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 taxable profit or loss.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be utilised except where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition 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 taxable profit or loss; and

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred income tax relating to items recognised directly in equity is recognised in equity and not in the income statement

#### **2.4.3 Borrowing Costs**

Borrowing costs are recognised as an expense in the period in which they are incurred, except to the extent where borrowing costs that are directly attributable to the acquisition, construction, or production of an asset that takes a substantial period of time to get ready for its intended use or sale, are capitalised as part of that asset.

#### **2.4.4 Inventories**

Inventories are valued at the lower of cost and net realisable value, after making due allowances for obsolete and slow moving items. Net realisable value is the price at which inventories can be sold in the ordinary course of business less the estimated cost of completion and the estimated cost necessary to make the sale.

The cost incurred in bringing inventories to its present location and condition, are accounted using the following cost formulae:-

Consumables & Stationery - Weighted average cost basis

#### **2.4.5 Trade and Other Receivables**

Trade receivables are stated at the amounts they are estimated to realise net of allowances for bad and doubtful receivables.

Other receivables and dues from Related Parties are recognised at cost less allowances for bad and doubtful receivables.

#### **2.4.6 Cash and Cash Equivalents**

Cash and cash equivalents are 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.

For the purpose of cash flow statement, cash and cash equivalents consist of cash in hand and deposits in banks net of outstanding bank overdrafts. Investments with short maturities i.e. three months or less from the date of acquisition are also treated as cash equivalents.

#### **2.4.7 Property, Plant and Equipment**

Plant and equipment is stated at cost, excluding the costs of day to day servicing, less accumulated depreciation and accumulated impairment in value. Such cost includes the cost of replacing part of the plant and equipment when that cost is incurred, if the recognition criteria are met.

Depreciation is calculated on a straight line basis over the useful life of the assets commencing from the month of purchase or from the month on which the asset was made available to use.

Principal annual rates used are:

Computer Equipment	25%
Furniture and Fittings	10%
Electricity Equipment	20%
Other Equipment	20%
Computer Software	25%
Motor Vehicles	20%

#### **2.4.8 Investments**

##### **a) Current Investments**

Investments in Fixed Deposits are stated at cost

## Notes to the Financial Statements continued

### b) Securities purchased under Re-sale Agreements

These are advances collateralised by purchase of treasury bills and treasury bonds subject to a commitment to re-sale them at a predetermined price. Such securities remain on the Balance Sheet of the Company and the asset is recorded in respect of the consideration paid and interest accrued thereon.

### 2.4.9 Provisions

a) Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Company expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as an interest expense.

### b) Provision for Bank Claims

Provision for payable Bank Claims is made for any financial year on 0.05% of the average value of a day's clearing on previous year and will be reversed the same at the end of second financial year if claims are not made within two consecutive financial years.

### 2.4.10 Retirement Benefit Obligations

#### a) Defined Benefit Plan – Gratuity

The Company annually measures the present value of the promised retirement benefits for gratuity, which is a defined benefit plan using the Gratuity Formula in Appendix E of Sri Lanka Accounting Standard No.26, Employee Benefits (Revised 2006) which is based on the Projected Unit Credit method as discussed in the said Standard. Although actuarial assumptions are used therein, it should not be treated as a substitute to an Actuarial Valuation.

This item is grouped under Other Defined Benefit Liability in the Balance Sheet.

### b) Defined Contribution Plans – Employees' Provident Fund and Employees' Trust Fund

Employees are eligible for Employees' Provident Fund Contributions and Employees' Trust Fund Contributions in line with the respective statutes and regulations. The Company contributes 12 % and 3% of gross emoluments of employees to Employees' Provident Fund and Employees' Trust Fund respectively.

### 2.4.11 Grants & Subsidies

Grants are recognised where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, it is set up as deferred income. Where the Company receives non-monetary grants, the asset and that grant are recorded at nominal amounts and, is released to the income statement over the expected useful life of the relevant asset on a systematic basis.

### 2.4.12 Revenue Recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue and associated costs incurred or to be incurred can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable net of trade discounts and sales taxes. The following specific criteria are used for the purpose of recognition of revenue.

#### a) Rendering of Services

Revenue from rendering of services is recognised in the accounting period in which the services are rendered or performed.

#### b) Interest

Interest Income is recognised as the interest accrues (taking into account the effective yield on the asset) unless collectibility is in doubt.

#### c) Others

Other income is recognised on an accrual basis.



### 3. REVENUE

Year ended 31 March 2009	2009 Rs.	2008 Rs.
<b>3.1 Revenue</b>		
Sales	422,970,832	452,845,431
Less: NBT	(735,912)	-
Net Sales	422,234,920	452,845,431
<b>3.2 Goods and Services Analysis</b>		
Rendering of Clearing Services	422,234,920	452,845,431
	422,234,920	452,845,431

### 4. PROPERTY, PLANT AND EQUIPMENT

#### 4.1 Gross Carrying Amounts

	Balance As at 01.04.2008 Rs.	Additions Rs.	Disposals/ Transfers Rs.	Balance As at 31.03.2009 Rs.
<b>At Cost</b>				
Computer Equipment	357,367,089	987,732	-	358,354,821
Furniture and Fittings	19,189,692	1,451,397	(162,126)	20,478,963
Electronic Equipment	40,996,990	459,140	-	41,456,130
Other Equipment	2,089,881	186,697	-	2,276,578
Motor Vehicle	6,650,000	-	-	6,650,000
<b>Total Value of Depreciable Assets</b>	426,293,652	3,084,966	(162,126)	429,216,492

#### 4.2 In the Course of Construction

	Balance As at 01.04.2008 Rs.	Incurred during the Year Rs.	Transferred during the Year Rs.	Balance As at 31.03.2009 Rs.
Computer Equipment - Work in Progress	-	86,884,031	-	86,884,031
	-	86,884,031	-	86,884,031
<b>Total Gross Carrying Amount</b>	426,293,652	89,968,997	(162,126)	516,100,523

#### 4.3 Depreciation

	Balance As At 01.04.2008 Rs.	Charge for the Year Rs.	Disposals/ Transfers 31.03.2009 Rs.	Balance As at Rs.
<b>At Cost</b>				
Computer Equipment	174,047,969	87,872,396	-	261,920,365
Furniture and Fittings	5,695,006	1,963,043	(51,544)	7,606,504
Electronic Equipment	14,141,591	7,952,288	-	22,093,879
Other Equipment	1,532,447	160,501	-	1,692,948
Motor Vehicle	554,167	1,330,000	-	1,884,167
<b>Total Depreciation</b>	195,971,180	99,278,227	(51,544)	295,197,863

## Notes to the Financial Statements continued

### 4.3 Net Book Values

At Cost	2009 Rs.	2008 Rs.
Computer Equipment	96,434,455	183,319,120
Furniture and Fittings	12,872,458	13,494,685
Electronic Equipment	19,362,251	26,855,399
Other Equipment	583,631	557,434
Motor Vehicle	4,765,833	6,095,833
	134,018,629	230,322,470
<b>In the Course of Construction</b>		
Computer Equipment - Work in Progress	86,884,031	-
	220,902,660	230,322,470

**4.4** During the financial year, the Company acquired Property, Plant and Equipment to the aggregate value of Rs.3,084,966/- (2008 - Rs.18,799,645/-). Cash payment amounting to Rs.3,084,966/- (2008 - Rs.18,799,645/-) were made during the year for purchasing property, plant and equipment and Rs.86,884,031/- were made during the financial year as working progress for computer equipment.

**4.5** Property, Plant and Equipment includes fully depreciated assets having a gross carrying amount of Rs.7,299,097/- (2008 - Rs. 3,546,158/-).

### 5. INTANGIBLE ASSETS

	Balance As at 01.04.2008 Rs.	Acquired during the period Rs.	Disposal during the period Rs.	Balance As at 31.03.2009 Rs.
Computer Software	223,174,285	14,468,972	-	237,643,257
	223,174,285	14,468,972	-	237,643,257

Amortisation	Balance As at 01.04.2008 Rs.	Amortisation during the period Rs.	Disposal during the period Rs.	Balance As at 31.03.2009 Rs.
Computer Software	94,612,226	57,555,439	-	152,167,665
	94,612,226	57,555,439	-	152,167,665
<b>Net Book Value</b>	128,562,059			85,475,592

### 6. INVENTORIES

	2009 Rs.	2008 Rs.
Consumables and Stationery	3,093,404	3,725,189
	3,093,404	3,725,189

## 7. TRADE AND OTHER RECEIVABLES

	2009 Rs.	2008 Rs.
Trade Debtors	53,352,535	51,587,602
Less: Allowances for Doubtful Debts	(260,260)	(154,502)
	53,092,275	51,433,100
Refundable Deposit	129,500	109,500
Interest Receivable	6,744,935	17,666,792
Advance and Prepayments	4,600,026	2,131,652
	64,566,736	71,341,044
<b>8. INVESTMENTS</b>		
Investments in Treasury Bills	10,503,507	258,851,862
	10,503,507	258,851,862

## 9. STATED CAPITAL

	2009		2008	
	Number	Rs.	Number	Rs.
<b>9.1 Fully Paid Ordinary Shares</b>				
	15,050,000	150,500,000	15,050,000	150,500,000
	15,050,000	150,500,000	15,050,000	150,500,000

## 10. RESERVES

	2009 Rs.	2008 Rs.
<b>10.1 Building Reserve</b>		
At the beginning of the year	18,000,000	15,000,000
Transfers from Retained Profits	35,254,734	3,000,000
At the end of the year	53,254,734	18,000,000
<b>10.2 Capital Reserves</b>		
Reserve for Common Payment Switch Project	150,000,000	-
Reserve for Direct Connectivity Project	25,000,000	-
Reserve for Cash Management Project	15,000,000	-
Reserve for Establishment of a Certificate of Authority	5,000,000	-
Total	195,000,000	-

## Notes to the Financial Statements continued

### 11. INTEREST BEARING LOANS AND BORROWINGS

	2009 Amount Repayable Within 1 Year Rs.	2009 Amount Repayable After 1 Year Rs.	2009 Total Rs.	2008 Amount Repayable Within 1 Year Rs.	2008 Amount Repayable After 1 Year Rs.	2008 Total Rs.
Bank Loan (11.1)	27,278,312	101,591,296	128,869,608	27,278,312	128,869,608	156,147,920
	27,278,312	101,591,296	128,869,608	27,278,312	128,869,608	156,147,920

#### 11.1 Bank Loans

	As At 01.04.2008 Rs.	Loan Obtained Rs.	Repayment 31.03.2009 Rs.	As At Rs.
Seylan Bank PLC	156,147,920	-	27,278,312	128,869,608
	156,147,920	-	27,278,312	128,869,608

### 12. CITS RELATED GOVERNMENT GRANT

	2009 Rs.	2008 Rs.
As of the beginning of the year	157,585,764	233,226,930
Amortized during the year	(75,641,166)	(75,641,166)
As of the end of the year	81,944,597	157,585,764

During the year 2005/06, the Company received a grant from the Central Bank of Sri Lanka in respect of the new Cheque Image Truncation System (CITS). Total grant amounted to 85% of the cost of the hardware and local taxes. The grant is amortised over the useful life of the CITS equipment.

### 13. OTHER DEFERRED LIABILITIES

	2009 Rs.	2008 Rs.
Retirement Benefits Obligations - Gratuity		
Balance as at Beginning of the year	1,673,252	390,626
Charge for the year	890,618	1,338,026
Payments during the year	(75,000)	(55,400)
Balance as at the end of the year	2,488,870	1,673,252

### 14. TRADE AND OTHER PAYABLES

VAT Payable	(2,061,261)	2,463,566
NBT Payable	397,219	-
ESC Payable	902,924	-
Sundry Creditors Including Accrued Expenses	2,365,257	33,742,384
Provisions	55,104,037	48,614,602
Advance received for Batch Ticket sales	28,992	32,886
	56,737,169	84,853,437



## 15. OTHER INCOME AND GAINS

	2009 Rs.	2008 Rs.
Interest on Fixed Deposits	39,741,782	32,603,477
Interest on Treasury Bill Repo	38,354,237	31,528,567
Interest on Commercial Paper	8,355,212	-
Other Income	368,915	6,273,446
	86,820,146	70,405,490

## 16. PROFIT/(LOSS) FROM OPERATING ACTIVITIES

Stated after Charging/(Crediting)

Auditors' Fee - External	215,200	260,945
- Internal	218,000	-
Depreciation	156,833,666	97,164,228
Personnel Costs includes		
- Defined Benefits Plan Cost - Gratuity	(75,000)	1,338,026
- Defined Contribution Plan Cost - EPF & ETF	4,422,256	3,332,507
- Other Staff Costs	54,816,745	45,661,762

## 17. FINANCE COST AND INCOME

### 17.1 Finance Costs

Interest Expense on Interest Bearing Loans & Borrowings	21,530,323	25,398,967
	21,530,323	25,398,967

## 18. INCOME TAX

The major components of income tax expense for the years ended 31 March are as follows :

	2009 Rs.	2008 Rs.
Income Statement		
Current Income Tax		
Current Income Tax charge	65,373,283	90,054,847
Social Responsibility levy 1.5% (2008 - 1%)	1,003,174	918,608
Under/(Over) Provision of current taxes in respect of prior years	(6,874,579)	-
<b>Deferred Income Tax</b>		
Deferred Taxation Charge/(Reversal) (18.2)	5,255,472	(4,750,845)
<b>Income tax expense reported in the Income Statement</b>	<b>64,757,350</b>	<b>86,222,610</b>

## Notes to the Financial Statements continued

### 18.1 A reconciliation between tax expense and the product of accounting profit multiplied by the statutory tax rate is as follows :

	2009 Rs.	2008 Rs.
Accounting Profit before tax charge	175,772,296	228,670,692
<b>Accounting Profit before Income Tax</b>	<b>175,772,296</b>	<b>228,670,692</b>
<b>At the statutory income tax rate of 35% ( 2008 : 35 % )</b>	<b>61,520,304</b>	<b>80,034,742</b>
Aggregate Allowable Items	(26,488,786)	(26,474,408)
Over Provision of current tax in respect of prior year	(6,874,579)	-
Aggregate Disallowable Items	35,597,238	28,348,590
Social Responsibility Levy 1.5 % ( 2008 - 1%)	1,003,174	918,608
<b>At the effective income tax rate of 38% ( 2008 : 37 % )</b>	<b>64,757,350</b>	<b>82,827,532</b>
Deemed dividend tax	-	3,395,078
Income tax expense reported in the income statement	64,757,350	86,222,610

### 18.2 Deferred Tax Assets, Liabilities and Income Tax relate to the following :

	Balance Sheet		Income Statement	
	2009 Rs.	2008 Rs.	2009 Rs.	2008 Rs.
<b>Deferred Tax Liability</b>				
Capital allowances for tax purposes	6,425,423	7,717,800	(1,292,377)	3,917,836
	6,425,423	7,717,800	(1,292,377)	3,917,836
<b>Deferred Tax Assets</b>				
General provisions on trade Receivables	-	(54,076)	54,076	2,059,475
Defined Benefit Plans	(871,105)	(585,638)	(285,467)	(448,919)
General provision for probable rent	-	(1,738,800)	1,738,800	(1,738,800)
Claim from Bank	(3,500,000)	(8,540,438)	5,040,438	(8,540,438)
	(4,371,105)	(10,918,952)	6,547,847	(8,668,682)
Deferred tax (Asset) / Liabilities	2,054,318	(3,201,152)		
Deferred tax charge / (Reversal)			5,255,470	(4,750,846)

### 19. CASH AND CASH EQUIVALENTS IN THE CASH FLOW STATEMENT

	2009 Rs.	2008 Rs.
<b>19.1 Favourable Cash and Cash Equivalent balances</b>		
Components of Cash and Cash Equivalents		
Cash and Bank Balances	3,218,763	823,412
Fixed Deposits	333,612,980	43,339,178
TB Repo	31,580,000	105,802,272
Commercial Papers	55,088,249	-
	423,499,992	149,964,861
<b>19.2 Unfavourable Cash and Cash Equivalent Balances</b>		
Bank Overdraft	(2,745,400)	(1,184,697)
<b>Total Cash and Cash Equivalents For the Purpose of Cash Flow Statement</b>	<b>420,754,591</b>	<b>148,780,164</b>

**19.3** Current year bank overdraft is only a book overdraft, therefore not considered to be an Interest Bearing Borrowing during the current year under Note No. 11 to these Financial Statements.

## 20. RELATED PARTY DISCLOSURES

Details of significant related party disclosures are as follows:

	2009 Rs.	2008 Rs.
<b>20.1 Transaction with Related Entities</b>		
<b>a) Transaction with Significant Shareholders</b>		
As at 1st April	51,539,214	45,808,590
Clearing services provided	483,137,507	520,385,013
Incentives given	-	-
Cash received during the year	(481,367,911)	(514,654,389)
Gross Balance as at 31st March	53,308,809	51,539,214
Provisions for Doubtful Receivables	260,260	-
Net Balance as at 31st March	53,048,549	51,539,214

### b) Bank Loans

As at the year end the balance outstanding interest bearing loans & borrowings amounting to Rs.128,869,608/- (2008 - Rs.156,147,920/-) which were obtained from a related party of the Company. Further interest payments on loans amounting to Rs.21,530,323/- has been made during the year (2008 - Rs.25,398,967/-) and are included in Note No.11 to the financial statements. No assets have been pledged in this regard.

### c) Treasury Bills

As at the year end the Company has invested in Treasury Bills amounting to Rs.10,503,507/- (2008- Rs.258,857,862/-) with banks which are related parties of the Company. Further, the Company has received interest income amounting to Rs.23,782,219/- during the year (2008- Rs.25,815,207/-) and are included in Note No.8 to the financial statements.

### d) Commercial Papers

During the year Company has invested in Commercial Papers amounting to Rs. 55,088,249/- with financial institutions.  
Further the Company has received interest amounting to Rs. 8,355,212/-

## 20.2 Transactions with key Management Personnel of the Company or Parent

The key management personnel of the Company are the members of its Board of Directors. Following is the summary of significant transactions that were made with the Company during the year:

	2009 Rs.	2008 Rs.
<b>a) Key Management Personnel Compensation</b>		
Short Term Benefits	1,619,873	1,335,854

## 21. EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

There have been no material events occurring after the Balance Sheet date that require adjustments to or disclosure in the financial statements.

## 22. COMMITMENTS AND CONTINGENCIES

There are no significant commitments and contingencies as at the Balance Sheet date, which requires disclosure in the Financial Statements.

# Corporate Profile

## Name of the Company

LankaClear (Pvt) Ltd.

## Statutory Status

A Private Company with limited liability incorporated in Sri Lanka on the 8th of February 2002.

## History

Former Sri Lanka Automated Clearing House (SLACH), owned by the Central Bank of Sri Lanka.  
Divested to LankaClear (Pvt) Ltd.  
Commenced operations on the 1st April 2002.

## Principal Activity

Provide cheque clearing facilities to commercial banks on behalf of the Central Bank.

## Product Range

Sri Lanka Rupee Cheque Clearing  
US Dollar Cheque Clearing  
Sri Lanka Rupee Draft Clearing  
Sri Lanka Inter Bank Payment System (SLIPS)  
Certificate Authority (CA)

## Board of Directors

Mr. A. Sarath de Silva  
*Chairman – Ex, GM/CEO, Bank of Ceylon*

Mr. P. D. J. Fernando  
*Director – Assistant Governor, CBSL*

Mr. B. A. C. Fernando  
*Director – General Manager, Bank of Ceylon*

Mrs. J. P. Mampitiya  
*Director – Director – Payments and Settlements, Central Bank of Sri Lanka*

Mr. P. Rajapakse  
*Director – DGM (Branches & Personal Banking), People's Bank*

Ms. K. Fernando  
*Director – MD/CEO, Pan Asia Banking Corporation PLC*

Mr. L. G. Perera  
*Director – MD/CEO, DFCC Vardhana Bank*

Mr. P. K. Thampi  
*Director – Country Head, ICICI Bank*

Mr. M. U. De Silva  
*Observer (Secretary General – SLBA)*

## Management Team

Mr. S. Weerasooriya  
*General Manager/CEO*

Mr. H. Wanigatunga  
*Head of Operations*

Mr. D. Kumarapperuma  
*Head of Finance*

Mr. G. Widanapathirana  
*Head of Human Resources and Administration*

*Head of Regional Centres*  
Mr. L. G. Abeysirigunawardena

Mr. S. R. Hettiarachchi  
*Operations Manager*

Mr. D. Samarasinghe  
*Systems Manager*

Mr. I. Jayaweera  
*Bank Services and Help Desk Manager*

Ms. M. Rodrigo  
*Management Accountant*

Mr. W. M. Jayaratne  
*CITS Manager*

Mr. A. Weerakkody  
*Data Centre Manager*

Mr. T. Jayawickrama  
*Network Operations Manager*

Mr. S. Wijepala  
*Manager – Facilities and Maintenance*

## Regional Centre Management

Mr. D. M. Thilakarathne  
*Regional Centre Manager - Badulla*

Mr. R. Sevugan  
*Regional Centre Manager – Nuwara-Eliya*

Mr. J. B. Senanayake  
*Regional Centre Manager – Kandy*

Mr. S. Sirinivasan  
*Regional Centre Manager – Jaffna*



Mr. S. A. Amarasinghe  
Regional Centre Manager – Anuradhapura

Mr. A. S. Assan  
Regional Centre Manager – Ampara

Mr. M. P. Mendis  
Regional Centre Manager - Ratnapura

Mr. T. M. P. Munasinghe  
Regional Centre Manager – Polonnaruwa

Mr. C. Pahalagama  
Regional Centre Manager – Matara

Mr. B. M. Basnayake  
Regional Centre Manager - Kurunegala

#### Stated Capital/ Share Capital

Fully Paid Ordinary Shares	Number	Rs.
	15, 050, 000	150, 500, 000

#### Shareholders

Shareholder	Number of Shares 'Mn'	Value 'Rs. Mn'
Central Bank of Sri Lanka	2.95	29.50
Bank of Ceylon	2.10	21.00
People's Bank	2.10	21.00
Sampath Bank Ltd.	2.00	20.00
Commercial Bank of Ceylon Ltd.	1.00	10.00
Hatton National Bank Ltd.	2.20	22.00
Seylan Bank PLC	1.00	10.00
Union Bank of Colombo	0.05	0.50
DFCC Vardhana Bank	0.10	1.00
Pan Asia Banking Corporation PLC	0.10	1.00
Nations Trust Bank	0.15	1.50
National Development Bank PLC	0.15	1.50
Habib Bank Ltd.	0.05	0.50
Indian Bank	0.10	1.00
Indian Overseas Bank	0.10	1.00
State Bank of India	0.05	0.50
Muslim Commercial Bank	0.10	1.00
Hong Kong and Shanghai Banking Corporation	0.20	2.00
Deutsche Bank	0.15	1.50
Citibank NA	0.10	1.00
Standard Chartered Bank	0.15	1.50
Public Bank Berhad	0.10	1.00
ICICI Bank	0.05	0.50
	15.05	150.50

#### Registered Office and Main Place of Business

Level 18, Bank of Ceylon National Headquarters  
Building,  
Bank of Ceylon Mawatha,  
Colombo 1.

#### Company Secretaries

Managers & Secretaries (Pvt) Ltd.  
8, Tickell Road,  
Colombo 08.  
Tel: 5579900  
Fax: 5579950

#### Bankers

Bank of Ceylon – Corporate Branch  
Seylan Bank – Millennium Branch

#### External Auditors

Ms. Ernst and Young  
Chartered Accountants  
201, De Saram Place,  
Colombo 10.  
Tel: 2463500  
Fax: 2697369

#### Internal Auditors

Ms. B.R. De Silva & Company  
Chartered Accountants  
No.22/4, Vijaya Kumaranatunga Mawatha,  
Colombo 05.  
Tel: 4510368  
Fax: 4512404

#### Contact

Voice: 2356900 to 2356999  
Fax: 2544346  
E-mail: info@lankaclear.com

# Glossary & Interpretation

**'Bank'** shall mean a company or body corporate licensed under the Banking Act No. 30 of 1988 to carry on banking business in Sri Lanka; and the Central Bank of Sri Lanka in the capacity of a CITS participant.

**'Business Day'** shall mean a day on which banks are open for business in Sri Lanka.

## **'CA: Certificate Authority'**

A CA is an entity, which is core to many PKI (Public Key Infrastructure) schemes, whose purpose is to issue digital certificates to other parties. It exemplifies a trusted third party.

**'CBSL'** shall mean Central Bank of Sri Lanka.

**'CITS'** shall mean 'Cheque Imaging and Truncation System' which includes LCPL systems, processes and procedures for the electronic clearing and archiving of CITS items and non-clearing items, if any.

**'CITS Image Items'** shall mean CITS items in image format, including electronic images of Articles, and complying with such format, content and image quality requirements, specifications and other requirements specified by LCPL from time to time.

**'CITS Clearing'** shall mean the process of receiving, sorting and exchanging of CITS Image Items among CITS participants, balancing of the amounts expressed in Articles thus exchanged and consequently deriving the net balances.

**'CITS System'** shall mean systems operated and maintained by LCPL for, clearing of cheques including without any limitation, receiving, processing, clearing and archival of cheque images and data which could be access by participants through Regional Centres and/or through direct connectivity mode.

**'CITS Participant'** shall mean all licensed commercial banks operating in Sri Lanka; and the Central Bank of Sri Lanka in the capacity of a participating Bank in the CITS System.

**'Clearing and Settlement System'** means a system or arrangement for the clearing or settlement of payment obligations in the financial system, in any currency, and in which there is a minimum of three participants, at least one of which is a financial institution.

**'Clearing House'** means a corporation, association, partnership, agency or organization or other entity or person that provides clearing or settlement services for a clearing and settlement system, but does not include the Central Bank.

**'CMPC'** shall mean 'Colombo Main Processing Centre' which is located at the head office of LCPL.

## **CPS: Common Payment Switch**

Serve as a digital infrastructure for online, real-time fund transfers, paving the way to Straight Through Processing of low value bulk retail payments.

## **CSP: Certification Service Provider**

A CSP is an organization responsible for the issuing, renewing, suspending or revoking of digital certificates. It also decides on the procedures followed in verifying an identity and/or a person's relationship to that organization. The CSP authorizes the signing of certificates and works through Registration Authorities to approve these requests.

**'Cut-off Times'** shall mean times specified with respect to action to be undertaken or effected in relation to CITS as may be notified by CBSL to LCPL; and by LCPL to CITS participants from time to time.

**'Cheque Return Notification'** shall mean the Image Return Document defined in Section 34 (1) and (2) of the part III of the Payment and Settlement Systems Act No. 28 of 2005.

**'Inward CITS Items'** shall mean CITS Items which have been generated by LCPL through the CITS in respect of a Paying Bank based on the Outward CITS Files.

**'Inward Return CITS Items'** shall mean Return CITS Items which have been generated by LCPL through the CITS in respect of a Presenting Bank based on the Outward Return CITS Files.

**'LCPL'** shall mean LankaClear (Pvt) Ltd. Incorporated under Companies Act No. 07 of 2007 and its network of Regional Centres.

**'MICR'** shall mean the data known as 'Magnetic Ink Character Recognition' data, encoded on Articles in accordance with the specifications and standards as laid down by LCPL and as from time to time amended by LCPL.

**‘Outward CITS Items’** shall mean CITS Items of an Outward CITS File generated by a Presenting Bank and provided or transmitted to LCPL.

**‘Outward Return CITS Items’** shall mean Return CITS Items of an Outward Return CITS File generated by a Paying Bank.

**‘Paying Bank’** in respect of a CITS Item shall mean a CITS participant to whom an Article is drawn.

**‘Presenting Bank’** or **‘Collecting Bank’** in respect of a CITS Item shall mean a CITS participant which presents or represents the Articles for clearing through the CITS System.

#### **PKI: Public Key Infrastructure**

A PKI enables users of a basically unsecure public, private network such as the Internet or virtual private network to securely and privately exchange data through the use of a public and a private cryptographic key pair that is obtained and shared through a trusted authority.

**‘Regional Service Centre’** shall mean one or more Regional Centres set up and maintained by LCPL for imaging of Articles in the CIT Systems at identified regional locations and electronically connected to the main processing centre of LCPL.

**‘Return CITS Items’** shall mean CITS Items that are submitted to LCPL as returned CITS Items by Paying Banks due to any of the return reasons as specified by LCPL from time to time.

# Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the 7th Annual General Meeting of LankaClear (Private) Limited will be held on 31 August 2009 at 11.30 a.m. at Garnet Room, Continental Hotel, Janadhipathi Mawatha, Colombo 01 for the following purposes:

- 1) To receive and consider the Report of the Directors and the Statement of Accounts for the year ended 31st March 2009 together with the Report of the Auditors thereon.
- 2) To re-appoint M/s Ernst & Young, Chartered Accountants as Auditors of the Company and to authorise the Directors to determine their remuneration.
- 3) To transact any other business of which due notice has been given.

By Order of the Board  
**LankaClear (Private) Limited**  
**Managers & Secretaries (Pvt) Limited**

**Secretaries**  
Colombo,

19 June 2009



# Form of Proxy

We .....

of .....

being a member of Lankaclear (Private) Limited, hereby appoint .....

.....

of .....as our proxy to represent us and vote for us and  
on our behalf at the 7th Annual General Meeting of the Company to be held on ..... 2009 and at any  
adjournment thereof and at every poll which may be taken in consequence thereof.

Signed this ..... day of ..... 2009.

.....  
Signature

**NOTE:**

To be valid the completed form of proxy should be deposited at the Registered Office of the Company at 18th Floor,  
Bank of Ceylon NHQ Building, Bank of Ceylon Mawatha, Colombo 1, not less than 48 hours before the appointed  
time for holding of the meeting.



Faster Cheque Clearing



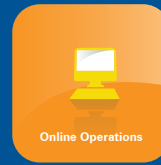
Direct Connection



Secure Transactions



Workflow Efficiencies



Online Operations



Electronic Payments

[www.lankaclear.com](http://www.lankaclear.com)