

# SEE YOUR FUTURE THROUGH OUR EYES

LANKACLEAR | ANNUAL REPORT 2013/2014





# CONTENTS

## COMPANY OVERVIEW

Preface	3
Milestones	4
Awards	5
Financial Highlights	6
Operational Highlights	8

## STEWARDSHIP

Chairperson's Review	9
GM/ CEO's Review	13
Board of Directors	15
Management Team	19

## MANAGEMENT DISCUSSION AND ANALYSIS

Value Adding Review	21
Operations Review	24
Financial Review	29
An Year Filled with Expectations and Challenges	32
Responsible Business Report	34
LankaPay Future Strategies and Benefits to Customers, Banks and Community	36

## GOVERNANCE

Corporate Governance	39
Board Committees	42
Risk Management	47

## FINANCIAL REPORTS

Statement of Directors' Responsibilities for Financial statements	56
Annual Report of the Board of Directors on the Affairs of the Company	57
Independent Auditor's Report	59
Statement of Financial Position	60
Statement of Comprehensive Income	61
Statement of Changes In Equity	62
Cash Flow Statement	63
Notes to the Financial Statements	64

## SUPPLEMENTARY INFORMATION

Corporate Profile	78
Glossary and Interpretation	80
Notice of Annual General Meeting	82
Form of Proxy	83

# SEE YOUR FUTURE THROUGH OUR EYES

**WE SEE A WORLD BEYOND CASH THAT IS NOT LIMITED BY WHAT'S MERELY IN YOUR WALLET TODAY, BUT WITH EVERYTHING PAYMENT TECHNOLOGY WILL POWER IN THE FUTURE. THEREFORE WE HAVE RECOGNIZED AND PUT IN PLACE, THE INFRASTRUCTURE THROUGH WHICH SRI LANKA WILL ENTER A NEW STAGE OF DEVELOPMENT WHERE POSSIBILITIES OF WHAT WE CAN ACCOMPLISH ARE TRULY LIMITLESS. WE SEE A FUTURE THAT CONNECTS EVERY CORNER OF THE COUNTRY WITHIN AN EFFICIENT AND SECURE PAYMENT NETWORK THAT WILL ENRICH THE LIVES OF EVERY SRI LANKAN.**

**WE ARE REVOLUTIONISING A NATION THAT IS BRIMMING WITH LIMITLESS POTENTIAL, AND INVITE YOU TO SEE THE FUTURE THROUGH 'LANKACLEAR'.**

# *Vision*

Asia's most Trusted, Secure and Valued Payment  
Systems Infrastructure Facilitator by 2015.

# MISSION

To be the National Payment Systems Partner; trusted,  
rated and admired for the most Reliable, Secure,  
Value Driven and Efficient Solutions in Asia by 2015.

**PREFACE**

**LANKACLEAR HAS BEEN ON TOP OF ITS GAME REDEFINING OUR BUSINESS WITH EVERY SINGLE STEP WE HAVE TAKEN OVER THE PAST DECADE, DELIVERING THE LATEST TECHNOLOGY WITHIN THE SOUTH ASIAN REGION ON DIGITAL PAYMENT INFRASTRUCTURE, WHILST RECORDING YEAR ON YEAR STELLAR FINANCIAL PERFORMANCE AND EXCELLENT SHAREHOLDER VALUE.**

**FROM OUR HUMBLE BEGINNINGS AS SRI LANKA AUTOMATED CHEQUE CLEARING HOUSE (SLACH) A FUNCTION WITHIN THE CENTRAL BANK OF SRI LANKA (CBSL), TO OUR SUBSEQUENT INCORPORATION AS A LIMITED LIABILITY COMPANY IN 2002 AS LANKACLEAR (PVT) LTD, WE HAVE BEEN SUCCESSFUL IN STEADILY MOVING TOWARDS MAKING OUR VISION OF BEING ASIA'S MOST TRUSTED, SECURE & VALUED**

**PAYMENT SYSTEMS INFRASTRUCTURE PROVIDER A REALITY OVER THE PAST DECADE.**

**TODAY, THE IMPACT WE HAVE MADE ON THE ECONOMY IS PHENOMENAL. A DISRUPTION TO OUR SERVICES, WILL RESULT IN AN EVENTUAL COLLAPSE OF THE BANKING ECOSYSTEM. WE ARE PROUD OF THE FACT THAT LANKACLEAR HAS GROWN TO BE AN IRREPLACEABLE COG IN THE WHEEL OF THE PAYMENT INDUSTRY OF THE COUNTRY WITHIN A VERY SHORT SPAN OF 10 YEARS.**

**UNDERLINING ALL OUR FINANCIAL, TECHNOLOGICAL AND OTHER OPERATIONAL ACHIEVEMENTS, "FINANCIAL INCLUSION" SETS THE CORE BASIS FOR OUR BUSINESS ACHIEVEMENTS. IT IS THIS OBLIGATION AND NATIONAL PRIORITY THAT HELPS US TO EMPOWER AND ENRICH SRI LANKA, WITH THE BEST IN CLASS DIGITAL PAYMENT INFRASTRUCTURE AT**

**THE MOST AFFORDABLE COST, DRIVING AN EFFICIENT, GREEN AND PAPERLESS SOCIETY.**

**IN TRANSCENDING OUR SERVICES FROM A CHEQUE CLEARING HOUSE TO A NATIONAL PAYMENT INFRASTRUCTURE PROVIDER THE COMPANY HAS BEEN CONFORMING TO BEST BUSINESS PRACTICES AND CONTROLS WHICH HAS LED TO A DECADE OF SUCCESS AND EXCELLENCE. THE NEXT DECADE WILL BE EVEN MORE EXCITING AND PROMISING FOR THE COMPANY, AS WE ROLL OUT THE "LANKAPAY" COMMON PAYMENT NETWORK, WHICH WILL OPEN DOORS FOR A VIBRANT FUTURE WHERE THE "LANKAPAY" BRAND WILL GROW TO BE A HOUSEHOLD NAME WITH ACCESS TO EVERY WALLET IN SRI LANKA.**



## MILESTONES

# 2013

### LAUNCH OF 'LANKAPAY' - THE FIRST NATIONAL COMMON PAYMENT NETWORK

A new era of payments dawned with the Launch of 'LankaPay' national common payment network by 'LankaClear'. This network will be the backbone of all future payments in the country. With just one year into operations, 'LankaPay' has already grown to be the largest shared ATM network in Sri Lanka.

# 2010

### NATIONWIDE SAME DAY ELECTRONIC FUND TRANSFER - 1ST IN SOUTH ASIA



The upgrade of the Sri Lanka Interbank Payment System (SLIPS) in 2010 and the subsequent innovations made to the system by 'LankaClear', enabled same day island wide electronic fund transfers (T+0). Another first in the South Asian region.

# 2009

### LAUNCH OF 'LANKASIGN' - THE ONLY COMMERCIAL OPERATING CA (CERTIFICATION AUTHORITY) IN SRI LANKA

The National Payments Council (NPC) convened by the Central Bank of Sri Lanka invited 'LankaClear' to be the Financial Sector Certification Authority (CA) in Sri Lanka, and as the only commercially operating CA to date in the country, a range of services were introduced to the market under the brand name of 'LankaSign' in accordance with the Electronic Transaction Act

# 2006

### NATIONWIDE T + 1 CHEQUE CLEARING - 1ST IN SOUTH ASIA / 2ND IN THE WORLD



'LankaClear' achieved a unique global status in the payment and settlement arena with the introduction of the Cheque Imaging and Truncation System (CITS) which enabled nationwide cheque clearing on T + 1 basis. With this innovation, Sri Lanka became the 1st country in the South Asian Region and 2nd in the World to successfully roll out such a service, a status that even developed nations are yet to achieve.



**AWARDS****NATIONAL BUSINESS EXCELLENCE AWARDS**

2013 - Infrastructure &amp; Utilities Sector – Winner

**ANNUAL REPORT AWARDS – THE INSTITUTE OF CHARTERED ACCOUNTANTS OF SRI LANKA**

2013 - Small &amp; Medium Sized Entities - Silver Award

2012 - Service Organisations - Bronze Award

2011 - Certificate of Compliance – Service Organisations Sector

2009 - Certificate of Compliance – Sector Services

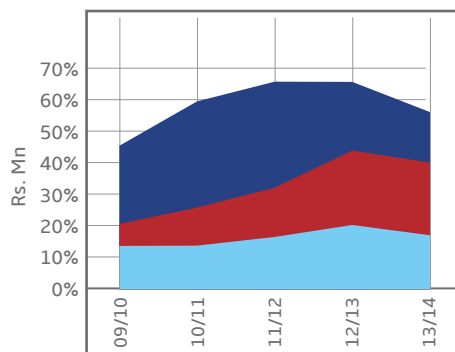


**FINANCIAL HIGHLIGHTS**

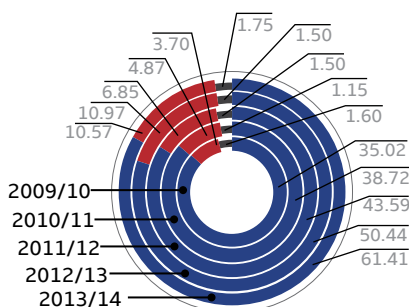
**1.2 bn**  
**TOTAL ASSET BASE**

**TOP LINE  
GROWTH  
REFLECTING  
NEW PRODUCT  
RANGES ON  
OFFER FOR  
STRENGTH AND  
STABILITY IN THE  
LONG TERM.**

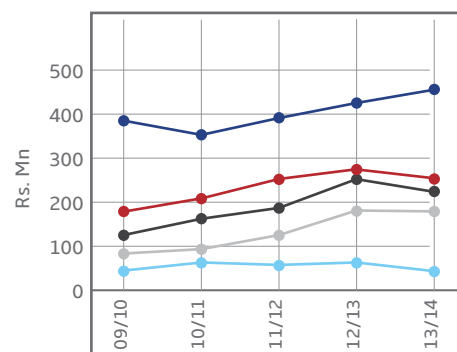
**THE COMPANY'S  
FINANCIAL  
PERFORMANCE  
AND STABILITY  
IS WELL  
POSITIONED  
TO CATER TO  
THE FUTURE  
EXPANSION  
DEMANDS OF  
THE PAYMENT  
INDUSTRY ON ITS  
OWN.**

**PROFITABILITY RATIO**

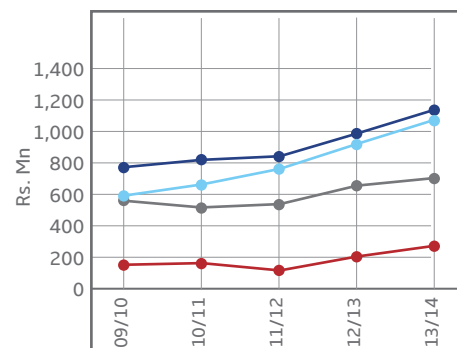
- Gross Profit Ratio
- Net Profit Ratio
- Return On Equity

**CUM. NET ASSETS PER SHARE BEFORE DIVIDENDS**

- Previous Year Cum. Net Assets
- Considered Year Retained Earnings
- Considered Year Dividends

**RESULTS FOR THE YEAR**

- ◆ Revenue
- ◆ Gross Profit
- ◆ Profit Before Tax
- ◆ Income Tax Expense
- ◆ Profit for the Year

**AS AT THE YEAR END**

- ◆ Total Assets
- ◆ Total Capital Assets
- ◆ Shareholders' Funds
- ◆ Short Term Financial Investments

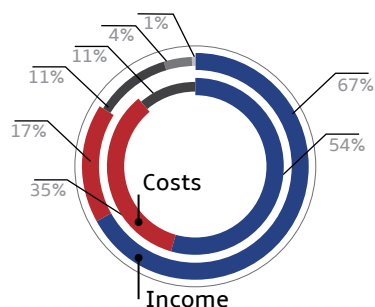


LankaClear has achieved its highest ever revenue of Rs. 463mn recording a growth of 8.2% year on year and ended up with a profit after tax of Rs. 187mn.



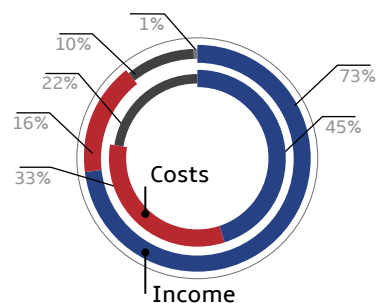
Total asset base as at 31st March 2014 surpassed rupees one billion reflecting the company's increasing ability to provide infrastructure for National Payment Systems in the future.

	2013/2014	2012/2013	2011/2012	2010/2011	2009/2010
<b>Results for the Year (Rs. mn)</b>					
Revenue	463	428	390	349	383
Gross Profit	261	282	258	208	175
Profit Before Tax	228	260	190	162	123
Income Tax Expense	41	72	64	71	43
Profit for the Year	187	189	126	91	80
<b>At the Year End (Rs. mn)</b>					
Total Assets	1,155	997	840	814	766
Total Capital Assets	295	217	107	162	154
Shareholders' Funds	1,094	930	764	658	583
Short Term Financial Investments	726	672	532	505	561
<b>Information Per Ordinary Share</b>					
Earnings Per Share	12.32	12.47	8.35	6.02	5.30
Dividend Per Share	1.75	1.50	1.50	1.15	1.60
Net assets Value Per Share	71.98	61.41	50.44	43.59	38.72
<b>Ratios</b>					
Gross Profit Ratio	56%	66%	66%	60%	46%
Net Profit Ratio	40%	44%	32%	26%	21%
Return on Equity	17%	20%	17%	14%	14%



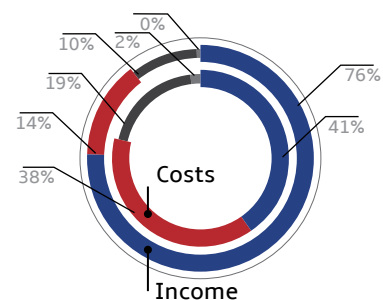
**INCOME & COST MIX  
2013/14**

■ Direct Cost      ■ CITS Income  
 ■ Admin Cost      ■ Finance &  
                                  Other Income  
 ■ Taxation          ■ SLIPS Income  
                                  ■ CA Income  
                                  ■ CAS Income



**INCOME & COST MIX  
2012/13**

■ Direct Cost      ■ CITS Income  
 ■ Admin Cost      ■ Finance &  
                                  Other Income  
 ■ Taxation          ■ SLIPS Income  
                                  ■ CA Income



**INCOME & COST MIX  
2011/12**

■ Direct Cost      ■ CITS Income  
 ■ Admin Cost      ■ Finance &  
                                  Other Income  
 ■ Taxation          ■ SLIPS Income  
 ■ Finance Cost      ■ CA Income

**OPERATIONAL HIGHLIGHTS**

**48.27mn** Total volume of cheques cleared

---

**Rs. 7,228 bn** Total value of cheques cleared

---

**8.4%** Month on month growth in cash withdrawals through  
LankaPay - CAS

---

**18.07mn** Total volume of SLIPS transactions cleared

---

**Rs. 744 bn** Total value of SLIPS transactions cleared

---

**I SEE A FUTURE  
WHERE I CAN  
DO MY  
BUSINESS  
FROM ANYWHERE  
IN THE COUNTRY**





**CHAIRPERSON'S REVIEW**

**FOR THE BANKS  
AND FINANCIAL  
INSTITUTIONS IT  
IS BENEFICIAL TO  
USE A COMMON  
PAYMENT  
INFRASTRUCTURE  
SINCE  
IMPLEMENTATION  
OF A NEW  
INFRASTRUCTURE  
REQUIRES A  
HIGH CAPITAL  
EXPENDITURE,  
SUBSTANTIAL  
INVESTMENTS  
IN TECHNOLOGY  
AND ADDITIONAL  
REGULATORY  
REPORTING.**

# 100%

**LANKACLEAR IS PLANNING TO  
IMPLEMENT A NATIONAL CARD  
SCHEME ALONG WITH THE CCAPS.  
THE NATIONAL PAYMENT SYSTEM  
INCLUDING A NATIONAL CARD SCHEME  
WILL BE A GREAT VALUE ADDITION  
TO THE PAYMENT AND SETTLEMENT  
INFRASTRUCTURE**

It gives me great pleasure to present the accomplishments of LankaClear of another challenging year. Our stakeholders will be pleased to note the strong performance of the Company during this reporting period, 2013/14.

As the National Payments Infrastructure Provider, we took effective measures throughout the

year to improve the quality of our services with a view to strengthening the National Retail Payment System. Our efforts and ensuing results were recognised at the prestigious National Business Excellency Awards (NBEA) Ceremony 2013 hosted by the National Chamber of Commerce of Sri Lanka. Once again in 2013 LankaClear was commended for its excellence in reporting and adherence to globally accredited standards in the small and medium sector hosted by the Institute of Chartered Accountants of Sri Lanka.

**FINANCIAL PERFORMANCE**

I am pleased to report the impressive financial performance LankaClear has made for the financial Year 2013/14. We have recorded profit after tax of Rs. 187mn and surpassed the



**CHAIRPERSON'S REVIEW (Contd.)**

LankaClear provides its services in a highly secure environment and its product portfolio is supported with an added layer of security



We are proud to mention that the technical and operational standards adopted by LankaPay are of international standards

shareholder's value beyond Rs. 1bn mark. Earnings per share stood at Rs. 12.32 and net assets per share reached Rs. 71.98.

The Review of Operations of the General Manager/CEO and the Financial Review of the Head of Finance in this Report provide a detailed account of performance of LankaClear.

**OUR STRATEGY**

Our strategy is aligned in conformity with the vision of the Central Bank of Sri Lanka (CBSL) in relation to the payments and settlements platform of the country. It is vital to do so, in view of the fact that LankaClear performs one of the statutory functions of CBSL imposed by the Monetary Law Act No. 58 of 1949.

**UNINTERRUPTED SERVICE**

In our strategy we have prioritised the requirement of managing and operating

the existing National Retail Payment System with minimum interruption. An uninterrupted efficient payment system is an essential requirement to any country. We are proud to mention that LankaClear was able to provide its major retail payment services i.e. Cheque Imaging and Truncation System (CITS), Sri Lanka Interbank Payment System (SLIPS), Common ATM Switch (CAS) without any interruption. Average system availability of CITS was 99.94% during the period. System availability of SLIPS and CAS was 100% throughout the financial year. In view of improving customer service standards, LankaClear implemented the "Help Desk Call Monitoring and Tracking System" in November 2013. With the implementation of this system, all queries, requests and complaints relating to LankaClear products and services are assigned with

a unique reference number and tracking of queries and clarifications will be monitored and addressed in a systematic and timely manner.

LankaClear maintains a state of the art Disaster Recovery (DR) Site. With the expansion of the services of LankaClear, it was decided to expand, modernise and further improve its DR operations as per the new requirements in keeping with future plans. As such, construction of a new, Company owned building for the DR operations commenced and is expected to be completed by end October, 2014. The DR operations are expected to be shifted to the new building from the existing site by January, 2015. Further, the new building is being constructed in keeping with green concepts as planned.

**NEW PAYMENT SYSTEMS**

Another key strategic priority has been to work closely with CBSL and implement the decisions by CBSL in relation to retail payment systems and also to recommend new National Retail Payment Systems to CBSL in keeping with global trends and Sri Lankan market needs. Currently, LankaClear is establishing a Common Card and Payment Switch (CCAPS) to progress towards meeting the objective of promoting a nation-wide non cash retail payment system along with secure and efficient payment instruments at the request of the National Payments Council (NPC).

CCAPS is an interoperable switch consisting of five switches i.e. Common ATM Switch (CAS), Common Electronic Fund Transfer Switch (CEFTS), Shared ATM Switch (SAS), Common Mobile Switch (CMobS) and Point of Sale (POS) Switch. The Common ATM Switch has already been launched, under the brand name of "LankaPay". Seven banks are already connected to the switch, providing 2300 ATMs to the CAS islandwide which are functioning smoothly. A few more banks are currently in the process of making necessary changes

to their switches in order to integrate with LankaPay. CEFTS and Shared ATM have already been implemented at LankaClear and the other two switches namely Mobile and POS will be implemented by the end of financial year 2014/15.

CEFTS being the most important switch out of the five switches is a payment system regulated by CBSL. Therefore, all commercial banks are expected to be participants of the system as required by CBSL. Through the other switches namely CAS, SAS, Mobile and POS, financial institutions can provide additional services to their customers once they get connected to these particular switches. Therefore, I would like to take this opportunity of inviting all financial institutions to make use of these common infrastructure facilities and thereby, offer the benefits of this modern and developed payment system to the general public of this country. For the banks and financial institutions it is beneficial to use a common payment infrastructure since implementation of a new infrastructure requires a high capital expenditure, substantial investments in technology and additional

regulatory reporting. Today the practice and trend world-wide is to use shared payment platforms and systems to increase productivity and reduce costs.

#### **SECURE ENVIRONMENT FOR PAYMENTS**

LankaClear provides its services in a highly secure environment and its product portfolio is supported with an added layer of security from its digital certificating system operating under the brand name of "LankaSign". LankaClear CCAPS was implemented in such a way to maintain an efficient and robust retail payment system in Sri Lanka which could be benchmarked against international standards and best practices which are the main elements / attributes a National Payment System strives to achieve.

#### **BUSINESS ENVIRONMENT**

During the period under consideration, the Sri Lankan economy overall posted the fastest growth rate in South Asia. This contributed to improving business and banking sector in Sri Lanka. The proposed consolidations of the banking and non-banking financial institutions may bring more strength

to the banking system. CBSL promotes the use of common infrastructure in order to achieve financial benefits and economies of scale, which is a vital factor for success in the financial sector. The above mentioned environment was supportive to the business activities of the Company.

#### **CHALLENGES**

Implementation of CCAPS has been an extremely challenging task as LankaPay had to ensure the quality and operational standards of International Card Schemes (ICSSs) that were in existence for over 30 years in keeping with which we provided Banks in Sri Lanka with a very high standard National Payment Switch. We are proud to mention that the technical and operational standards adopted by LankaPay are of international standards.

LankaPay has had immense success in its mandate, however some of the challenges faced were in, encouraging banks to join this National Payment Switch, as they were already comfortable with their prevailing ICSSs connectivity. With the superior service provided by LankaPay and the cost advantages, we see an increasing number

of banks participating in LankaPay today. Further, educating the general public of this new facility where the public benefits from cash withdrawal done from any ATM on the network at a comparatively low cost still remains a challenge.

#### **FUTURE PROSPECTS**

Fifty years ago, most consumers used cash or cheques to buy goods and services. At present, non-cash payments i.e. cards, electronic and mobile payments continue to grab market share from other traditional payment methods such as cash and cheques. Technological and financial innovations, changes in consumer behaviour, business cycle, regulatory developments and population growth contribute to the evolution of payment methods. These factors are common to countries globally. It is also important to note that new payment types are being developed continuously. However, given the fact that an efficient payment system contributes to boosting the economic growth of a country through transaction efficiencies, consumer access to credit and consumer confidence, LankaClear would continue to initiate project upgrades

## CHAIRPERSON'S REVIEW (Contd.)

in the existing payments systems with the approval of CBSL in line with the global developments and Sri Lankan market requirements.

### NATIONAL CARD SCHEME

LankaClear is planning to implement a National Card Scheme along with the CCAPS. The National Payment System including a National Card Scheme will be a great value addition to the payment and settlement infrastructure and also, which will also help to control risks relating to payments. Some countries are interested in controlling and processing their own transactions within their country. The recent experience in Russia can be taken as an eye opener. About half a million Russians found themselves cut off from their credit cards overnight in the third week of March 2014 when they were disconnected from International Card Schemes. Therefore, it has become an urgent need to establish a local transaction router - i.e. a national payment switch in Russia.

### PCIDSS

In a world where payment card fraud rates are on the rise, LankaClear has taken an additional measure to

strengthen the reliability and security of the services offered through CCAPS by working towards obtaining the latest Payment Card Industry Data Security Standard (PCI-DSS). PCI-DSS would ensure that the security of all card holder data (of debit cards and credit cards) which are transmitted across the LankaClear CCAPS infrastructure is on par with internationally accepted payment card data security standards and related information security best practices, which are also standards followed by multinational corporate giants such as VISA and MasterCard.

### LANKASIGN ISO 27001

LankaClear is in the process of implementing the latest version of ISO 27001 standard for its LankaSign Certificate Service Provider (CSP). This will lead towards establishing, implementing, maintaining and continually improving an information security management system within the context of the CSP. As a starting point the LankaSign CSP will undergo the resulting information security management improvements and information risk treatment enhancements covered under the standard.

Since LankaSign plays a supporting role by providing an added layer of security and trust from its Digital Certificates to the LankaClear product portfolio, this ISO 27001 project shall help to solidify the security aspects of respective services.

### APPRECIATION

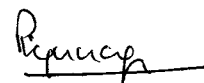
I place on record, on behalf of the Board of Directors of the Company our thanks and gratitude to CBSL, especially Governor, Mr. Ajith Nivard Cabraal, Deputy Governors, Mr. B D W A Silva and Dr. N Weerasinghe who have always provided a visionary leadership and guidance to the advancement of this institution. The Director of Payments and Settlements Department of CBSL, Mrs. Ranjani Weerasinghe and her staff deserve a word of thanks for the support extended by them in the implementation of a large and challenging project like CCAPS which involved much regulatory decisions and to provide uninterrupted service on existing clearing system. Our appreciation is also extended to the Sri Lanka Banks' Association represented by its Secretary General Mr. Upali de Silva.

The success behind LankaClear is its committed

staff. Their dynamism and commitment are the main factors behind the company's achievements. I extend my deep appreciation to the Management and Staff for their commitment, and look forward to their continued support.

I also wish to thank my colleagues on the Board of Directors for their unstinted support and cooperation extended to me and for providing LankaClear with an appropriate vision and also our stakeholders for placing their trust and confidence in the company. Further, I wish to thank Mr. Faizal Salieh and Mr. Ravi Dias who retired from the Board, for their contribution over the last financial year.

Finally, I wish to affirm that LankaClear is committed to serving all its stakeholders whilst giving priority to National Payment requirements.



**Priyantha Liyanage**  
Chairperson

31<sup>st</sup> July 2014  
Colombo, Sri Lanka



A woman with dark hair pulled back, wearing a purple and gold sari with a floral border, is seated at a counter in a grocery store. She is holding a blue and white pen and writing in a white notebook. She has a bindi on her forehead and is wearing a gold necklace and several colorful bangles. The background shows shelves stocked with various grocery items, including bags of rice and boxes of instant noodles. The lighting is warm and the scene is brightly lit.

**I SEE A FUTURE  
WHERE MY BUSINESS IS  
CASHLESS AND  
CONVENIENT  
FOR ME AND MY  
CUSTOMERS**





**GM/ CEO'S REVIEW**

the significant growth of the transactions through LankaPay CAS since the launch proves that we have addressed a customer requirement in the country and created convenience and cost effectiveness for the bank customers who transact through ATMs.

The financial year 2013/14 was a year of investments on new payment system infrastructure, which saw the completion of several payment systems of the Common Card And Payment Switch (CCAPS) project and the launch of the LankaPay Common ATM Switch (CAS) in July 2013. The launch of the LankaPay CAS with the two state owned commercial banks was a significant milestone in the payment system development in Sri Lanka and the significant growth of the transactions through LankaPay CAS since the launch proves that we have addressed a customer requirement in the country and created convenience and cost effectiveness for the bank customers who transact through ATMs.

In the year 2013/14, the top line of the company grew by a modest 8.2% whilst there was pressure on both the

direct operating expenses and administration expenses due to the new payments systems in operation, which resulted in a 12.4% decline in the PBT compared to the previous financial year. However, the company was able to maintain the PAT steady with only a marginal 1.1% decline compared to the previous year due to lower income tax expense. The Net Assets per Share increased to Rs. 71.98 from Rs. 61.41 of last year. The company managed to contain the increase in direct operating expenses excluding the operating expenses of CCAPS to 6.2% and the non CCAPS administration expenses to 11.3% compared to the previous year.

#### **OPERATIONAL PERFORMANCE CITS**

The volume of cheques cleared during the financial

year 2013/14 was 48.27 mn, which was a marginal increase of 2.4% compared to the previous financial year whilst the total value of cheques cleared increased by 9.5% where the total value of cheques cleared in 2013/14 was Rs. 7,228 Bn. The average cheque returns by volume for the year decreased to 4.7% from 4.9% in the previous year. The cheque returns by value dropped to 3.2% compared to 3.3% in the previous year. The overall decrease in cheque returns even though marginal was encouraging to note.

#### **SRI LANKA INTERBANK PAYMENT SYSTEM (SLIPS)**

The items cleared through SLIPS increased by 21.1% compared to the previous year whilst the value of SLIPS items cleared grew by 27.1% compared to the previous year where the total value of items

cleared through SLIPS was Rs. 744 Bn. The growth in electronic payments is very encouraging to note and we believe that the payment infrastructure improvements that LankaClear has done are paying dividends. During the 2013/14 Financial Year, 3 new Financial Institutions joined SLIPS as Secondary Participants bringing the total no. of Primary Participants to 25 and the total no. of Secondary Participants to 8.

#### **DOLLAR CLEARING AND RUPEE DRAFT CLEARING**

Contrary to the past trend, the dollar clearing volumes increased by 8.1% compared to the previous year whilst the value of the items cleared also increased by a significant 20.5% where USD 248 mn worth of Dollar Cheques/Drafts were cleared during the year. The total volume of Rupee Drafts cleared recorded a decline of 28.9% and the total value of Rupee Drafts cleared recorded a decline of 16.0% as per the trend experienced in the past couple of years. The total value of the Rupee Drafts cleared during the year was Rs. 281 mn.

**GM/ CEO'S REVIEW (Contd.)****LANKASIGN CERTIFICATION SERVICE PROVIDER**

The revenues from the LankaSign Certification Service Provider (CSP) operated by LankaClear to issue Digital Certificates for the signing of financial transactions sent online, recorded an increase of 15.6% . As at 31st March 2014, 121 Clearing Application Certificates, 47 e-mail/document signing certificates and 1 SSL Certificate were in use by the LankaSign customers. CITS, SLIPS and Dollar Clearing systems use the Digital Certificates issued by LankaSign to sign the transaction files and as well reports submitted from Banks to LankaClear and vice versa.

**LANKAPAY COMMON ATM SWITCH**

The LankaPay Common ATM Switch (CAS) went live in July 2013 with the two state owned commercial banks joining the switch as the initial members. As at 31.03.2014 four Banks namely; Bank of Ceylon, People's Bank, Union Bank and Seylan Bank had joined the switch and Hatton National Bank joined the

CAS in April 2014 taking the total number of ATMs connected to the switch up to 1,600. The transaction growth rate through the CAS had been very encouraging where during the period August 2013 to May 2014, the volume of transactions grew by 125%.

**FINANCIAL PERFORMANCE**

The revenue from CITS remained almost static whilst the revenue from SLIPS grew by 21%. The interest income from Fixed Deposits, REPOS and Commercial Paper investments increased by 15%.

The profit before tax declined by 12.4% compared to the previous year due to the higher operational expenses on the CCAPS project whilst the profit after tax declined by a marginal 1.1% resulting in a 1.2% decrease in earnings per share. The increase in the top line, which was mainly from the income generated through CAS and the increase in interest income was not adequate enough to off-set the additional expenses of the CCAPS project due to the fact that

the full revenue potential of the CAS not being realized during a short period of 8 months operation.

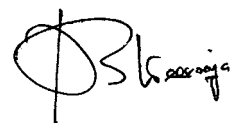
Nevertheless, the company was able to maintain an impressive net profit margin of 40%. Earnings per share declined slightly from Rs. 12.47 to Rs. 12.32 and Net Assets per Share increased from Rs. 61.41 to Rs. 71.98 compared with the previous financial year. The investments in Fixed Deposits, Repos and Commercial Papers increased by 13.6% compared to the previous year where the company had investments of Rs. 737 mn as at 31st March 2014.

**FUTURE OUTLOOK AND PROJECTS UNDER IMPLEMENTATION**

The increase in SLIPS transaction volumes by 21.1% and the increase in the value of transactions by 27.1% continues to underscore the clear shift of the trends towards electronic payments. With the User Acceptance Test of the Common Electronic Fund Transfer Switch (CEFTS) being completed in January 2014 and the switch being

ready for bank connection now, we are confident that the electronic payment volumes would grow at an even faster pace with the convenience created to the bank customers.

LankaClear is looking forward to the implementation of the Common Mobile Payment Switch and the Common POS Switch along with the National Card Scheme during the financial year 2014/15 and we believe that these payment systems would bring in greater financial inclusion and would benefit all segments of the society. The efficiencies created through these infrastructure implementations we believe would also contribute to the national economy and faster growth.




**Sunimal B Weerasooriya**  
General Manager / Chief  
Executive Officer


31<sup>st</sup> July 2014  
Colombo, Sri Lanka




**BOARD OF DIRECTORS**

 **1<sup>st</sup> Row - Left to Right**

 **Mrs. P Liyanage** - Chairperson, **Mr. S S Ratnayake** - Director, **Mr. D M Gunasekara** - Director, **Mr. M A B Silva** - Director,

 **2<sup>nd</sup> Row - Left to Right**

 **Mrs. R A S M Dayarathna** - Director, **Mr. M A A Nomani** - Director, **Mr. J Durairatnam** - Director, **Mr. M T M Azmeer** - Director,

 **3<sup>rd</sup> Row**

 **Mr. M U de Silva** - Observer

**BOARD OF DIRECTORS (Contd.)****Mrs. P Liyanage  
Chairperson**

Mrs. Liyanage has 40 years of experience in the areas of Banking and the Government sector including 31 years of experience at the Central Bank of Sri Lanka. Prior to joining the Central Bank she served Bank of Ceylon and also was an officer attached to the Sri Lanka Administrative Service.

During her Central Bank career, she spent more than 25 years at a senior level in the operations and international areas of the Bank where one of her primary responsibilities was the management of foreign exchange reserves of the country. She has had wide experience in the areas of Foreign Exchange Operations, Portfolio Management, Exchange Rate Management, Payments and Settlements, Asian Clearing Union Operations, Back Office Operations of both Rupee and Foreign Exchange Transactions, Public Debt, Central Bank Accounts and Central Bank Balance Sheet. She has served in a number of high level internal Committees of the Central Bank of Sri Lanka.

She held various responsible senior positions such as Accountant, Chief Dealer, Deputy Head of Department, Head of Department and at the time of her retirement she served as one of the Assistant Governors of the Central Bank.

She holds a B.A. degree with a second class upper division pass from the University of Kelaniya and has obtained professional qualifications from the Bankers Training Institute, Sri Lanka. She also serves as one of the Directors of RAM Ratings Lanka Ltd., now known as Lanka Rating Agency Ltd.

**Mr. S S Ratnayake  
Director**

Mr. Ratnayake, an Assistant Governor of the Central Bank of Sri Lanka, is an Alternate Director of Lanka Financial Services Bureau Ltd. and a member of the National Payments Council.

Mr. Ratnayake commenced his career at the Central Bank in 1983 and held the posts of Director of Supervision of Non-Bank Institutions from 2007 – 2010 and Superintendent

& Registrar of Public Debt from 2010 – 2011. He holds a BA (Hons) degree from the University of Kelaniya, an MA degree from the University of Colombo and an MSc degree from the Wright State University, USA.

**Mr. D M Gunasekara  
Director**

Mr. Gunasekera was appointed the General Manager/Chief Executive Officer of Bank of Ceylon on 8th January 2013.

Prior to his appointment as General Manager/Chief Executive Officer he served as the Deputy General Manager in charge of retail banking and sales and channel management. Mr. Gunasekara commenced his career with the Bank in 1983 and over the years received extensive training in banking, especially all aspects of credit management and administration. He served at Bank of Ceylon London Branch from 1997 – 2000. His other contributions include his services as a resource person of the Bank of Ceylon's internal training facility. Overall he counts over 30 years of experience in banking.

He is a Non-Executive nominee Director on the Boards of BoC Travels (Private) Ltd, BoC Property Development & Management (Pvt) Ltd., BoC Management & Support Services (Pvt) Ltd., Bank of Ceylon (UK) Ltd., Ceybank Holiday Homes (Pvt) Ltd., Ceybank Assets Management (Pvt) Ltd., Hotels Colombo (1963) Ltd., Merchant Bank of Sri Lanka PLC., Institute of Bankers of Sri Lanka, Credit Information Bureau of Sri Lanka and Lanka Financial Services (Bureau) Limited.

He has successfully completed the programme on Corporate Management for Sri Lanka (LKCM2 AOTS) in Japan and an Advanced Management Programme conducted by the Wharton School, University of Pennsylvania, USA. Mr. Gunasekara graduated from the University of Colombo, Sri Lanka, with a Special Degree in Public Finance & Taxation in 1981. He is an Associate Member of the Institute of Bankers of Sri Lanka and Member of the Association of Professional Bankers.

**Mr. M A B Silva  
Director**

Mr. Silva is the Deputy General Manager – Operations of People’s Bank. He joined the bank in 1987 as a Management Trainee and counts over 25 years of service in People’s Bank.

His career experience of over 25 years , covers the areas of branch business banking at the levels of Branch Manager, Regional Manager, Zonal Assistant General Manager and presently as the in-charge of the branch network of People’s Bank.

He served as the in-charge of over 150 branches, which were categorized under 08 regions with higher volumes of business until he was chosen to steer the entire branch network of the Bank.

He holds a B. A. degree from the University of Peradeniya and has a professional banking qualification, AIB- Sri Lanka and he is also an Associate Member of Institute of Bankers of Sri Lanka.

During his period at the People’s Bank, he has gained extensive local and overseas training and exposure in Branch Business/Banking.

**Mrs. R A S M Dayarathna  
Director**

She has been the Director, Information Technology Department of the Central Bank of Sri Lanka (CBSL) since August, 2008 and commenced her career at CBSL in 1986 as a Staff Officer. She serves in a number of high level internal committees of CBSL and also she serves as a Member of the Board of Directors of the Sri Lanka Computer Emergency Response Team (SLCERT).

She holds a BSc degree from the University of Colombo. She is a Certified Information Systems Auditor (CISA).

**Mr. M A A Nomani  
Director**

Mr. Nomani is the Country General Manager/ Chief Executive Officer of MCB Bank Limited, Sri Lanka. He has been associated with MCB Bank Pakistan for more than 20 years in various capacities and has worked in the fields of Corporate Banking, Credit Management, Branch Operations and Internal Control Functions. Mr. Nomani holds a

bachelors’ degree in Electrical Engineering from University of Engineering & Technology (UET) Lahore, Pakistan and an MBA from Lahore University of Management Sciences (LUMS), Lahore, Pakistan

**Mr. J Durairatnam  
Director**

Mr. Durairatnam is the Managing Director/CEO of Commercial Bank of Ceylon PLC. He joined the Bank in 1982. His banking experience covers all aspects of International Trade, Off-shore Banking, Credit, Operations and IT. He has been in the Bank’s Corporate Management team for nine years. He is a holder of a Bachelors Degree from the University of Peradeniya. Mr Durairatnam has served Commercial Bank in several Senior Management positions, including in the capacity Chief Operating Officer, Deputy General Manager - International Division, Assistant General Manager – International Division and Head of Imports. He obtained a BSc. Degree University from the University of Peradeniya in 1981, and an Executive Diploma and Business

Administration from the University of Colombo in 1984.

**Mr. M T M Azmeer  
Director**

Mr. Azmeer is the CEO of Amāna Bank. He joined the Bank in 2012 as its Chief Operating Officer responsible for the Consumer, SME and Corporate business functions along with the Treasury function. He holds a Master’s Degree in Business Administration from the University of Leicester, UK.

Mr. Azmeer’s illustrious carrier counts over 30 years of conventional and Islamic banking experience. He has sound experience in business banking and risk operations, having overseen such operations at a senior level during his stay at Citi Bank, where he also held the position of Vice President Risk. He was also involved as a member of the founding team in the establishment of Dubai Bank UAE in 2002, an entity of the Dubai Government, taking the position of Credit Controller. Apart from the Middle East he has also carried out many overseas

**BOARD OF DIRECTORS (Contd.)**

assignments on behalf of Citi Bank in countries such as UK, India and Kenya, where he acquainted himself with the different dynamics and challenges specific to each region.

In the area of Islamic banking, Mr. Azmeer's track record involves holding senior positions at Al-Rajhi Bank Saudi Arabia, one of the largest and leading Islamic Banks in the world and Sharjah Islamic Bank, a leading Islamic Bank in the UAE.

**Mr. M U de Silva  
Observer**

Mr. de Silva presently holds the post of Secretary General, Sri Lanka Banks' Association (Guarantee) Ltd., and is a Director of HNB Assurance Ltd., Lanka Financial Services Bureau Ltd. and of Sri Lanka Cert (Pvt) Ltd. He is a retired Senior Deputy General Manager of Hatton National Bank Ltd. and has over 50 years experience in the banking industry. He is also

currently a member of the National Payments Council, Financial Systems Stability Consultative Committee and the Sovereign Rating Committee of the Central Bank of Sri Lanka.

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****1st Row - Left to Right**

**Mr. Sunimal B Weerasooriya** - General Manager / CEO, **Mr. Harsha Wanigatunga** - Deputy General Manager - IT and Operations, **Mr. Rasika Galappaththy** - Head of Finance, **Mr. Lakshman C PalliyaGuruge** - Head of HR and Administration

**2nd Row - Left to Right**

**Mr. Roshan Hettiarachchi** - Senior Manager - Operations, **Mr. Dilantha Samarasinghe** - Senior Manager - IT, **Mr. Isuru Jayaweera** - Senior Manager - Help Desk and Bank Services, **Mr. Hemanthe Samaliarachchi** - Senior Manager - Payment Systems

**MANAGEMENT TEAM (Contd.)****1st Row - Left to Right**

**Mr. Duleep A Fernando** - Senior Manager - Administration, **Mr. Chris De Alwis** - Senior Manager - Business Development and Brand Promotions, **Mr. Dimuth Weerasinghe** - Manager - Facilities and Maintenance, **Mr. Uddika Kahawatte** - Network Operations Manager

**2nd Row - Left to Right**

**Mr. Dhanushka Uyanahewage** - Manager - CITS, **Mr. Duleep Liyanage** - Manager - IT Security Solutions, **Mr. Indika Fernando** - Systems Operations Manager, **Mr. Asela Hapuarachchi** - HR Manager,



**I SEE A FUTURE  
WHERE I CAN MAKE  
PAYMENTS  
SEAMLESSLY THROUGH A  
WIDESPREAD AND SECURE  
LOCAL NETWORK**







## VALUE ADDING REVIEW

### ORGANIZATIONAL OVERVIEW AND EXTERNAL ENVIRONMENT

LankaClear is a Company that has a clear direction as enunciated by its inspiring mission and vision statements (page 2), possess an innovative culture supported by high esteemed ethics and values as depicted in the HR Report (page 32). Corporate information such as ownership, operating structure, principal activities are indicated in the Corporate Profile (page 78)

We are a Company that takes pride in creating industry level value by providing cutting edge technology infrastructure in the payment industry. We are in the process of migrating from paper based payment instruments to electronic payments through the introduction of LankaPay, an electronic payment network (page 36) which now requires us to face competition against other local and international electronic payment networks.

Key quantitative and comparable information with regard to value creation on capital can be found under financial review (page

29), financial statements (page 55) and Statement of Value Addition (page 23).

The positive economic performance of the country from 2009/10 has increased the number of cheque volumes cleared by the organization over the years. Further with the government policies encouraging the movement towards new technology, availability of sophisticated electronic payment systems, improving IT literacy among the population, giving wider access to technology have positively prompted us in moving ahead with the new payment systems (page 36).

### GOVERNANCE

LankaClear is spearheaded by a competent Board of Directors and a highly skilled management team whose details can be found under the profiles of the Directors (page 15), Management Team (page 19) and HR Report (page 32). Important areas of Management in the Organization are further governed by extended Board Committees which information is included under the Corporate Governance section (page 39).

All strategic decisions are forwarded for review by the Board of Directors and implementation is evaluated at monthly and special board meetings.

The organizational risk management process is explained in detail under the Risk Management section (page 47).

How the organization's culture, ethics and values are reflected in its use of and effects on the broad base of capital including financial, manufactured, intellectual, human, social and relationship and natural capitals, including its relationships with key stakeholders is highlighted in the Responsible Business Report (page 34).

We set ourselves standards and benchmarks sometimes over and above legal requirements. Continuous improvements to IT Systems, carrying out IT Audits and meeting international standards are some of the aspects that portray our commitment to carrying out a responsible and sustainable business. Self set standards have given us a continuous push for innovation and

entrepreneurship. Going live with the Common ATM Switch, DogTag System for LankaSign, the Financial Sector Certification Service Provider (CSP) in Sri Lanka, revamping of the network structure, progressing towards virtualization of server infrastructure and progression towards attaining ISO 27001 for LankaSign are some of the examples.

Remuneration and incentives are linked to value creation with goal integrated systematic appraisal systems.

### BUSINESS MODEL

We as a Technology Development and Infrastructure providing Company to the payment industry functioning as an intermediary for the smooth execution of payments and settlements in a convenient, affordable and secure manner. Types of products and their overview can be found in the Operations Review (page 24).

LankaClear is currently a debt free organization generating sufficient funds from its prevailing businesses to fund its new projects. Retained funds are

**VALUE ADDING REVIEW (Contd.)**

continuously invested on current and new payment systems infrastructure, which includes procuring of new computer hardware and software with advance features for the efficient operation of current systems and for new product development. Well laid down systems, procedures and protocols and continuous checks for adherence coupled with competent and experienced staff is a key strength of the organization for its continuous superior performance. LankaClear invests heavily on training and development of its staff for greater efficiencies and internal capacity building. This has helped to reduce and in some cases eliminate costly external support. Our contribution to society and nature is highlighted under Responsible Business Report (page 34).

**RISKS, OPPORTUNITIES AND OUTLOOK**

LankaClear's specific risks and risk management plan is discussed in detail under Risk Management section (page 47).

**STRATEGY AND RESOURCE ALLOCATION**

Strategic objectives are derived from the vision and mission statements of the organization and its main objective is to provide convenient, affordable and secure payment systems to the best possible extent. In the short to medium term, we concentrate in successful execution of different payment modes enabled by the LankaPay, the electronic payment network. In the long term, we are aiming to grasp the positive developments in the payment industry for the benefit of our customer base. The strategic objectives and the strategies in place to achieve strategic objectives are elaborated under reviews of Chairperson, GM/CEO, Operational Review and LankaPay future strategies and benefits to customers, banks and community (page 36).

Achievement of strategic objectives is continuously monitored against operational goals and timelines, budgets and initial feasibilities.

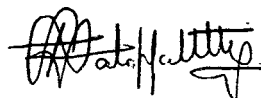
**PERFORMANCE**

Quantitative analysis of performance with regard to value creation is available at the end of this report under Statement of Value Addition (page 23).

**BASIS OF PREPARATION AND PRESENTATION**

The Organization's materiality determination process is identifying matters based on their significant ability to affect value creation.

Financial reporting boundary is given under notes to the financial statements (page 64) and financial statements are prepared complying with the Sri Lanka Accounting Standards for Small & Medium Sized Entities.



**Rasika Galappaththy**  
*Head of Finance*

31<sup>st</sup> July 2014  
Colombo, Sri Lanka

**STATEMENT OF VALUE ADDITION**

For the year ended 31st March	2013/14 Rs.	%	2012/13 Rs.	%	2011/12 Rs.	%
<b>Value Added</b>						
Business Revenue	463,026,429		427,853,866		390,429,865	
Cost of Services	159,405,957		131,892,559		157,172,099	
Value Added by Business Activities	303,620,472		295,961,307		233,257,766	
Finance & Other Income	95,301,719		83,130,665		63,300,728	
<b>Total</b>	<b>398,922,191</b>		<b>379,091,972</b>		<b>296,558,494</b>	
<b>Distribution of Value Added</b>						
<b>To Employees</b>						
Salaries & Other Benefits	112,026,801		80,568,389		67,137,537	
Training	5,091,792		7,374,365		2,499,595	
	117,118,593	29%	87,942,754	23%	69,637,132	23%
<b>To Providers of Capital</b>						
Dividends to Ordinary Shareholders	26,512,500		22,725,000		22,650,000	
	26,512,500	7%	22,725,000	6%	22,650,000	8%
<b>To the Government</b>						
Income Tax	41,409,922		71,551,126		63,613,541	
	41,409,922	10%	71,551,126	19%	63,613,541	21%
<b>To Expansion and Growth</b>						
Retained Profits	160,277,273		166,187,068		103,659,273	
Depreciation & Amortisation	52,486,715		30,751,442		38,196,415	
Deferred Taxation	1,117,188		(65,418)		(1,197,867)	
	213,881,176	54%	196,873,092	52%	140,657,821	47%
<b>Total</b>	<b>398,922,191</b>	<b>100%</b>	<b>379,091,972</b>	<b>100%</b>	<b>296,558,494</b>	<b>100%</b>

## OPERATIONS REVIEW

### LANKACLEAR OPERATIONS

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

LCPL plays a key role as the *National Financial Transactions Clearing Hub*, as it is the entity in Sri Lanka that owns and operates Cheque Clearing, Rupee Draft Clearing, US Dollar Clearing, online funds transfers via SLIPS and routing of off-us ATM transactions via LankaPay – Common ATM Switch (CAS).

#### Products and Services Offered by LankaClear

1. Rupee Cheque Clearing  
- Cheque Imaging and Truncation System (CITS)
2. Sri Lanka Interbank Payment System (SLIPS)
3. LankaPay - Common ATM Switch (LankaPay - CAS)
4. Rupee Draft Clearing

5. US Dollar Clearing
6. Digital Certificates – LankaSign

Currently, an average of approximately 197,847 cheques are cleared through LankaClear each business day through CITS. CITS has even cleared as high as 412,937 cheques on certain days during the year under review. There has been an increase of approximately 2.37% in cheque clearing during the year 2013/2014 compared to the previous financial year along with a significant increase (over 21%) in electronic payments, reflected by the growth in SLIPS transactions. SLIPS has carried out more than 291,123 transactions per day at times. After successful operations for around 8 months, the total volume of cash withdrawals and total volume of balance inquiry through LankaPay – CAS amounts to 1,297,323 and 122,078 respectively.

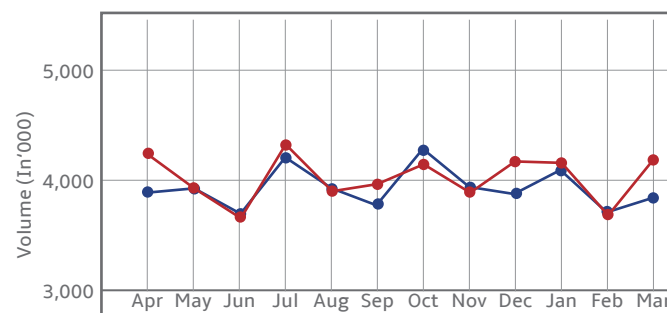
#### 1. RUPEE CHEQUE CLEARING - CHEQUE IMAGING AND TRUNCATION SYSTEM (CITS)

Automated cheque clearing and cheque truncation was enabled by the introduction

of the Cheque Imaging and Truncation System (CITS), which utilizes digital technology to expedite the clearing and settlement processes. As a result, on depositing a cheque, the public is able to get credit for their funds on the following business day (T+1).

We take pleasure in stating that due to Process and Technological improvements, CITS has achieved a 99.94% System Up-Time and achieved 99.79% of the Delivery Cutoff times. We have further improved the Disaster Recovery (DR) Processes and the Business Continuity Plan (BCP). We have a fully functional DR Site and during this financial year we have conducted the clearing operations for all of the above clearing systems from the DR Site during DR Operation Drills.

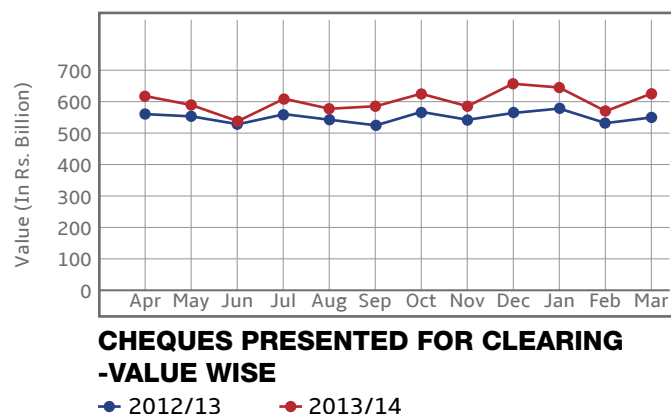
The total number of cheques cleared and the total value of cheques processed through CITS during 2013/2014 as compared with 2012/2013 are depicted in the following diagrams:



#### CHEQUES PRESENTED FOR CLEARING - VOLUME WISE

◆ 2012/13    ◆ 2013/14

The total number of cheques cleared in 2013/2014 through CITS amounts to 48.27 million compared to 47.16 million in 2012/2013. This is an increase of 2.37%.

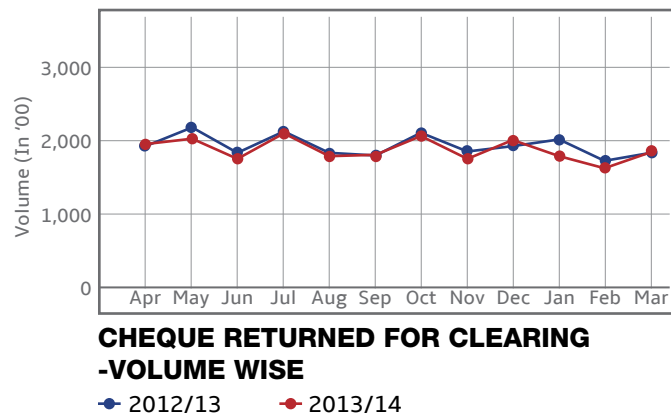


The total value of cheques cleared in 2013/2014 through CITS amounts to Rs. 7,228 billion compared to Rs. 6,603 billion in 2012/2013. This is an increase of 9.47%.

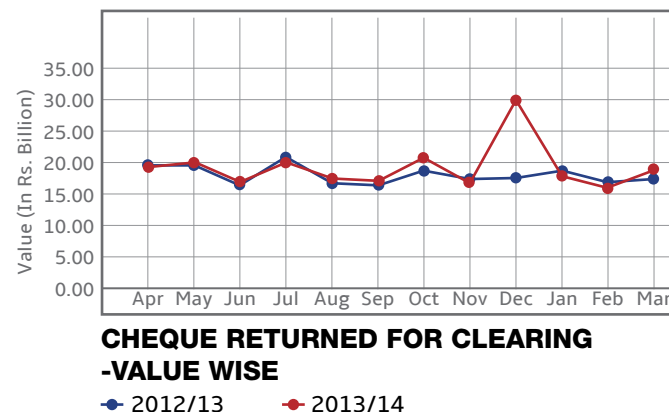
### 1.1 SETTLEMENT CLEARING (CHEQUE RETURNS)

Cheques are still the most convenient and preferred non-cash payment instrument for commercial transactions in Sri Lanka. 4.67% of the cheques presented for clearing were returned unpaid due to various reasons. Of the total cheques returned, around 46.57% were due to lack of funds.

The total volume of cheques returned and the total value of cheques returned during 2013/2014 as compared with 2012/2013 are depicted in the following diagrams:



The total number of cheque returns in 2013/2014 through CITS amounts to 2.25 million compared to 2.32 million in 2012/2013. This is an increase of -2.73%.



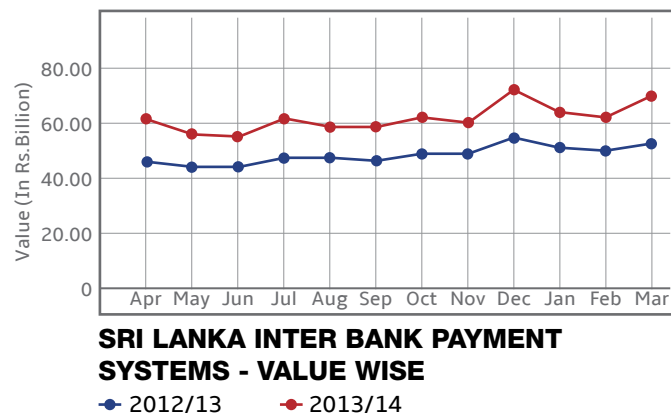
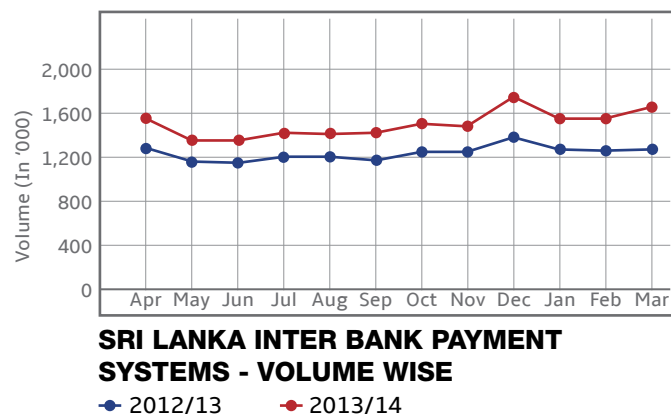
The total value of cheque returns in 2013/2014 through CITS amounts to Rs. 230.16 billion compared to Rs. 216.09 billion in 2012/2013. This is an increase of 6.51%.

## 2. 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 Online Electronic Data Transferring Service via SLIPS to all commercial banks. This system was enhanced in September 2010 to cater for a greater volume of transactions, and facilitates same day clearing and provides for greater security by means of digital signing.

An average volume of 74,060 transactions pass through SLIPS during a business day and on a high volume day, the transaction volumes have exceeded 291,122.

The increase in number of SLIPS transactions and its total value are depicted below:



The total volume of items cleared through SLIPS in 2013/2014 amounts to 18.07 million, compared to 14.92 million in 2012/2013. This is an increase of 21.09%. The total value of items cleared through SLIPS in 2013/2014 amounts to Rs. 743.73 billion compared to Rs. 585.35 billion in 2012/2013. This is an increase of 27.06%.

### 3. LANKAPAY - COMMON ATM SWITCH (LANKAPAY - CAS)

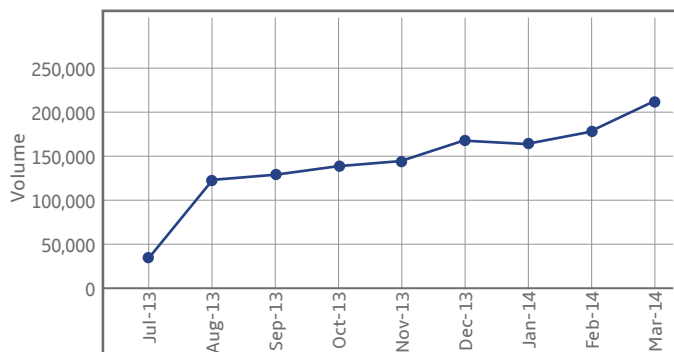
The Common Card and Payment Switch (CCAPS) under the brand name LankaPay is an integrated payment system of multiple domestic payment networks, which is a national initiative implemented under the guidance of the Central Bank and with the collaboration of all banks. CCAPS incorporates international best practices and will bring greater convenience, security and cost efficiency to retail electronic payments in Sri Lanka. Most importantly, this will enable the participating banks to innovate new payment products to cater to their customer needs. The full implementation of CCAPS will be a "game changer" that will benefit all participating financial institutions and as a result the general public will accrue the benefits of more efficient and cost effective electronic payment products.

Phase I of CCAPS, LankaPay – CAS (Common ATM Switch) was launched on 23rd July 2013 with the two state sector Banks namely, Bank of Ceylon and People's Bank. At the end of this financial year under review, the switch contains four members adding Seylan Bank PLC and Union Bank of Colombo PLC to its list.

LankaPay – CAS serves the general public of Sri Lanka with the utmost excellence, offering convenience of the ability to use the nearest ATM and security. Through LankaPay – CAS, the public is able to conduct transactions using the ATMs of any other bank connected to the LankaPay - CAS at a very minimal cost. LankaPay – CAS facilitates cash withdrawals and balance inquiry.

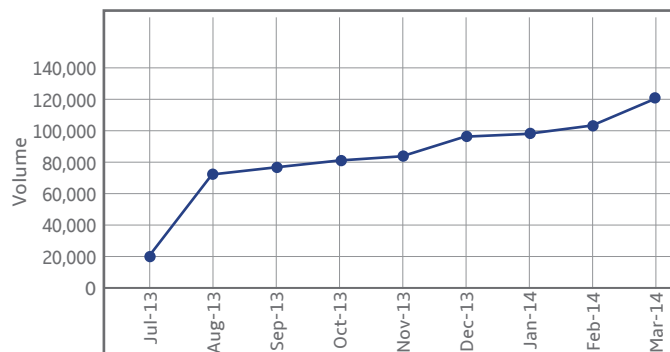
The total number of cash withdrawals, the value of the cash withdrawals and total number of balance inquiry are depicted in the following diagrams.





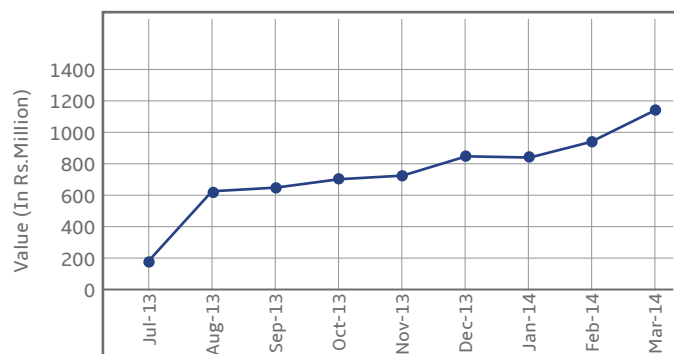
**LANKAPAY - CAS TOTAL VOLUME OF CASH WITHDRAWALS**

◆ Total withdrawals



**LANKAPAY - CAS TOTAL VOLUME OF BALANCE INQUIRY**

◆ Total balance inquiries



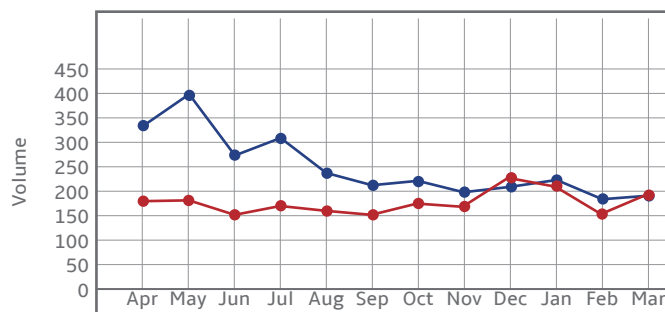
**LANKAPAY - CAS TOTAL VALUE OF CASH WITHDRAWALS**

◆ Rupee Value

After successful operation for little over 8 months, the total volume of cash withdrawals amounts to 1,297,323 and the total value of cash withdrawals amount to Rs. 6,716,518,800. The total number of balance inquiry amounts to 759,381. It is interesting to note that there is a month on month growth in cash withdrawals of around 8.4% during the period of review.

#### 4. SRI LANKA RUPEE DRAFT CLEARING

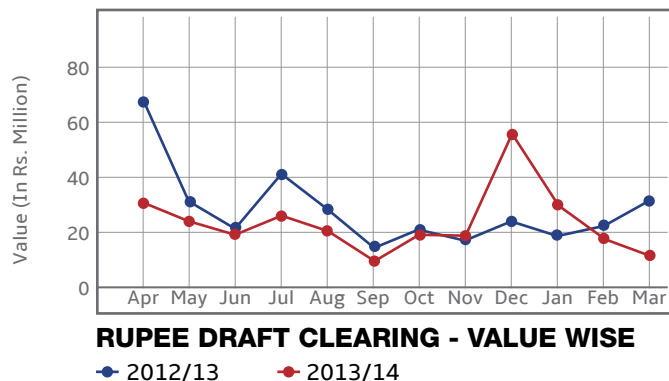
The volume and value of Rupee Drafts processed during the year 2012/2013 and 2013/2014 is shown below:



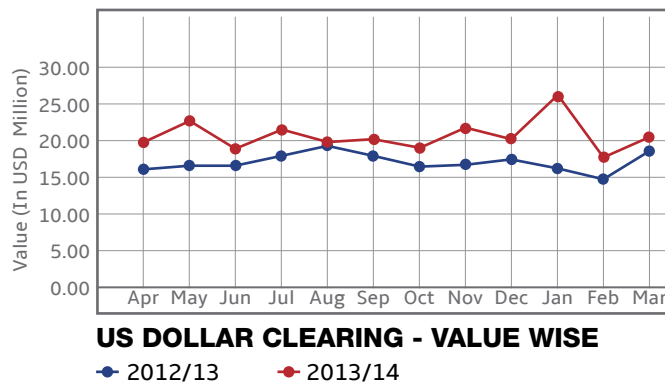
**RUPEE DRAFT CLEARING - VOLUME WISE**

◆ 2012/13    ◆ 2013/14

The total volume of Rupee Drafts cleared in 2013/2014 through Draft Clearing is 2,123 compared to 2,988 in 2012/2013. This is an increase of -28.95%.



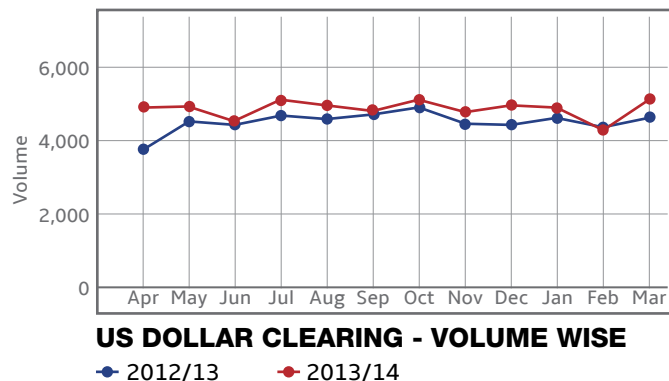
The total value of items cleared through US Dollar Clearing in 2013/2014 amounts to US\$ 248.1 million compared to 2012/2013 of US\$ 206.0 million. This is an increase of 20.46%.



The total value of Rupee Drafts cleared in 2013/2014 through Draft Clearing amounts to Rs. 281.21 million compared to Rs. 334.85 million in 2012/2013. This is a decrease of 16.02%.

## 5. US DOLLAR CLEARING

The total number of items cleared through US Dollar Clearing in 2013/2014 amounts to 58.70 thousand compared to 2012/2013 of 54.3 thousand. This is an increase of 8.10%.



Given the above we observe a trend of paper based payment instrument growth being very minimal, while electronic payment systems such as SLIPS and LankaPay – CAS growing rapidly. This is a trend we expect to see increasing with more individuals and institutions moving towards electronic transactions.

**Harsha Wanigatunga**  
Deputy General Manager – IT and Operations

31<sup>st</sup> July 2014  
Colombo, Sri Lanka

**I SEE A FUTURE  
WHERE I CAN ACCESS  
MY FUNDS  
FROM ANY ATM  
WHEREVER I GO**





## FINANCIAL REVIEW

### TOPLINE GROWTH REFLECTING NEW PRODUCT RANGES ON OFFER FOR STRENGTH AND STABILITY IN THE LONG TERM

LankaClear has achieved its highest ever revenue of Rs. 463mn recording a growth of 8.2% year on year and ended the year with a profit after tax of Rs. 187mn. The profits were achieved despite initial losses of Rs. 35mn from the new product line, the Common ATM Switch (CAS).

In spite of the successful launch of CAS in July 2013, first product line in a series of promising range of products from the revolutionizing payment network "LankaPay", delays in banks joining the switch resulted in comparably lower than expected revenue for the period. Especially in the technology sector where high capital expenditure is incurred to roll out new products or services, the perceived benefits as profits would come with the maturity of the product and this was no different in LankaPay.

Despite challenges, LankaClear benefited by tax concessions offered to Small and Medium Sized Entities having lower revenue than Rs. 500mn in 2013/2014

year of assessment. The applicable tax rate came down from 28% to 10% resulted a tax saving of Rs. 30mn.

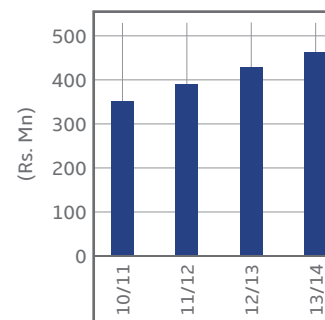
As a result, Earnings Per Share of Rs. 12.32 was recorded for the period, almost in par with the last year. Net Assets Value Per Share increased from Rs. 61.41 to Rs. 71.98 recording a healthy growth of 17%. The total asset base as at 31<sup>st</sup> March 2014 surpassed Rupees one billion reflecting the Company's increasing ability to provide infrastructure facilities for National Payment Systems in future. The stated capital has marginally increased due to issuing shares to the new bank, Cargills Bank Ltd.

LankaClear recorded a net profit margin of 40%, for the year under review, marginally declining from 44%, the highest percentage which was achieved last year. LankaClear derives 81% of its total income from cheque clearing related activities and the number of cheques cleared during the year reached 48mn, 2.4% above the last year's figure. The Company managed to fund its entire operation and expansion activities

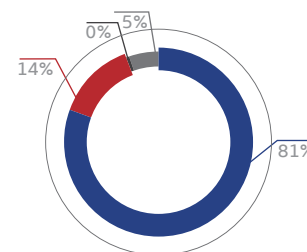
internally, which yet again is an achievement due to sound fund management policies in place within the Company. The Company's financial performance and stability is well positioned to cater to the future expansion demands of the payment industry on its own.

### REVENUE

Company's top line reached Rs. 463mn, enabled through a 8.2% growth compared to the previous year's revenue of Rs. 428mn, primarily driven by income from the new product line supplemented by 21% increase in the SLIPS income. Income from cheque clearing has remained stagnant at Rs. 373mn mainly due to reduction in cheque return percentage from 4.9% to 4.7% in spite of increase in cheque volumes by 2.4%. Revenue from CAS operation from July 2013 onwards contributed to 5% of the total revenue at a value of Rs. 23mn derived from only 4 banks and Banks in the CAS have been in the increase since then to record possible higher revenue in the next financial year. The certificate authority income has increased by 16% for the period.

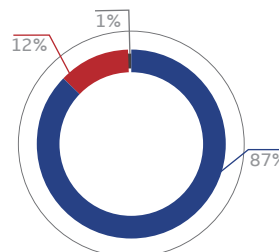


**REVENUE**



**REVENUE MIX  
2013/14**

■ CITS ■ CA  
■ SLIPS ■ CAS

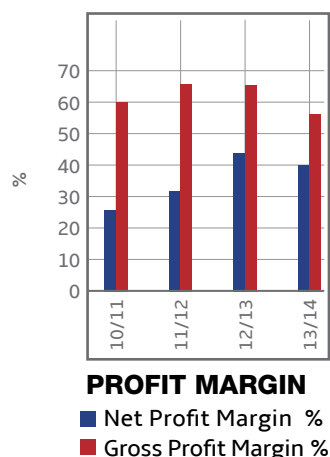


**REVENUE MIX  
2012/13**

■ CITS ■ CA  
■ SLIPS ■ CAS

**FINANCIAL REVIEW (Contd.)****PROFIT BEFORE TAX**

LankaClear's profit before tax (PBT) reduced by 12.4% to record a PBT of Rs. 228mn compared to Rs. 260mn achieved a year ago. The main reason for this drop is the loss of Rs. 35mn from CAS. Despite losses, the Company managed to maintain a gross profit margin of 56% down from 66% recorded in the previous year. The gross profit together with other income and expenses resulted in a net profit margin of 40%. It can be observed that compared to the previous year, direct operating expenses and administrative expenses have increased by 39% and 22% respectively. However, this is mainly due to operating and administrative expenses incurred for CAS amounting to Rs. 59mn. Factoring out the CAS operation, the increase in the direct operating expenses and administrative expenses is only 6.3% and 11% respectively reflecting the cost management strategies in place throughout the financial year.

**INTEREST INCOME**

Guided by the policy rates of the Central Bank, Sri Lanka has been experiencing a declining trend in market interest rates. However, since there were investments locked with high rates coupled with increase in the investment value, the effects of lowering interest rates were negated. As a result, the interest income generated from the short term financial investments reached Rs. 95.3mn, a 15% increase from Rs. 83.1mn achieved last year.

**EARNINGS PER SHARE**

The Company reported and Earnings Per Share of Rs. 12.32, 1.2% lower compared

to Rs.12.47 for the previous financial year.

**CAPITAL EXPENDITURE**

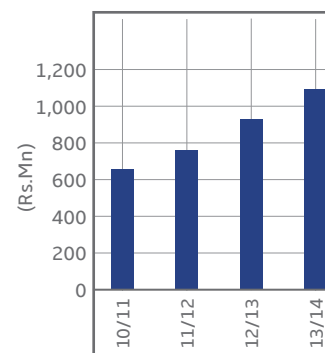
A fundamental characteristic of the payment systems industry is its capital intensive nature and given the rapid and evolutionary changes in our industry, capital investment must be far thinking and astute. We have been a Company that has continuously invested into payments infrastructure that will propel us into the future on par with global expectations.

In 2013/2014 our capital investment continued to maintain its momentum rise along with a significant capital investment of Rs. 129mn compared to the previous year when it was Rs. 141mn.

**SHAREHOLDERS' FUNDS**

The profits made in consecutive operating periods have consistently added to the shareholders wealth and a strong balance sheet which has led to reaching shareholder's wealth which now stands in excess of Rs.1bn. This is an improvement of 18% compared to the previous

year. The recorded Net Assets Value per Share is Rs. 71.98 during the year under review compared to Rs. 61.41 in the previous year.

**SHAREHOLDERS' FUNDS****RETURN ON EQUITY**

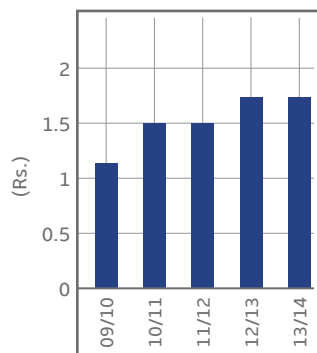
The Company recorded a return on equity of 17.1% for the financial year under review compared to 20.3% reported in the previous year.

**DIVIDEND PER SHARE**

LankaClear has been paying dividends to its shareholders consistently and the Company will consistently strive to strike a balance between healthy dividends and retention to support investment activities to enhance long-term shareholder value.



A dividend of Rs. 1.75 per share was declared from the reported profits on July 2014.



### DIVIDEND PER SHARE

### FUTURE OUTLOOK

LankaClear is looking for a brighter future along with its significant investment on the electronic payment network 'LankaPay', with the newest technology bringing enhanced security, convenience and affordability nationwide towards the payment and settlement industry. LankaPay when running at its full strength is expected to boost our revenue with a wider product variety and wider market reach and improve our profitability with expected economies of scales.

Cheque clearing business remained at the heart of LankaClear's business, generating required seed capital for new investments throughout the last decade. Since LankaClear is offering multiple product ranges and offering competitor payment mechanisms, the possibility exists for one product capturing the market share of other products. Therefore the possibility of electronic payment networks such as LankaPay substituting cheque payments could become a future trend. This could result in a change of the current split of revenue in favour of electronic payments where it is currently skewed towards cheque clearing. Hence the successful operation of LankaPay is going to impact all the financial aspects of the organization from profitability margins to value creation for its stakeholders through asset utilization efficiencies in a greater magnitude.

As has been the practice, LankaClear will pursue a strategy of utilizing internally generated funds for its future investments to the maximum extent

whilst paying out a healthy dividend for its shareholders. Going by the stated strategy, retained excess funds will be invested in low risk financial instruments until other suitable investment opportunities arise in future.

**Rasika Galappaththy**  
*Head of Finance*

31<sup>st</sup> July 2014  
Colombo, Sri Lanka

## AN YEAR FILLED WITH EXPECTATIONS AND CHALLENGES

The dawn of 2013 was an year of greater excitement and equally challenging to all as it paved the way and opened doors for opportunities to many with the new initiatives as LankaClear steadily progressed with its transition to electronic payment systems. The more the business is centric towards latest technologies of electronic payments, the more the HR challenges will be to cope up and drive HR as a Business Partner.

We stand proud today as we were able to successfully meet many HR challenges in the new phase of the business with the enhancement of internal talent and through attraction of external talent to meet business demands.

### New Arrivals in 2013/14



Management - 05



Non-Management - 24

### ENGAGEMENT, THE WAY FORWARD

The most logical and well-designed strategy for engagement, if not centered on people, is doomed to

remain just an elusive goal described by a distant management team.

In our journey towards making an engaged and awesome workplace we measured the pulse of the employee level of engagement by launching an Employee Engagement Survey in October 2013 with the patronage of Great Place to Work Institute Inc. The results were an eye opening revelation to both management and staff members of LankaClear. It revealed that awesome workplaces maintain environments where those inherent ambitions are unleashed and trust entrusted. Awesomeness builds employee loyalty and employee brands.

When we analyzed each of the 40 survey items, we examined which items rated the highest and lowest, differences between Top 25 Great places to work participants and ours, which items had the greatest amount of uncertainty, how uncertainty varied among different position levels, demographics and which engagement drivers had the biggest effect on overall engagement.

In our analysis, employees responded to the engagement survey using a 5-point Likert Scale. Based on an average of their answers and comparison between the organization's scores and those of Global Top 25, the following are the areas of strength and improvement.

#### TOP TWO AREAS OF STRENGTH WAS REPORTED UNDER THE FOLLOWING TWO SURVEY QUESTIONS:

I feel good about the way we contribute to the society.

My work has special meaning: this is not 'just a job'.

#### TOP TWO AREAS OF IMPROVEMENTS WERE REPORTED UNDER THE FOLLOWING TWO SURVEY QUESTIONS:

We have special and unique benefits here.

When people change jobs or work units, they are made to feel right at home.

Employee responses to the 1st two questions were comparatively positive and it ranked to an average of 59% as compared to the ranking of 86% of the Top 25

Organization in the Survey. But, however the responses received for the 2nd set of two questions were very poor and the rank recorded there was 22% while the Top 25 Organization in the survey had received an average ranking of 82%

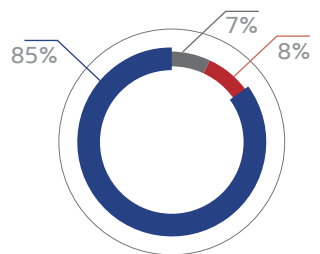
#### WAY FORWARD:

The Management is determined to work towards the improvement of the areas mentioned in the survey and has already begun several communication and awareness campaigns to get more attention to the subject area. It is always better to know our relative strengths and improvements required in order to build a greater workplace tomorrow. We are most certain that the new engagement strategies currently being implemented would take the organization to the next level during the coming years.

#### DOORS OF OPPORTUNITY

The doors of new opportunities were opened for employees to embrace challenges to better their careers and the Company also provided relevant and appropriate Training and Development input to

enable them to cope up with the challenges ahead. We are proud to place on record that the training expenses at LankaClear amounted to 6.2% of total payroll costs in 2013/14 and the company provided approximately 1 training day per employee during the year whilst 53 training programs were scheduled including 9 overseas trainings.



■ Technical Local  
■ Technical Overseas  
■ Soft Skill Development Local

## TRAINING EXPENSES

### EXCITING MOMENTS OF LANKACLEAR EVENTS CALENDAR

As part of our annual events we get to gather with the family members of our staff members in addition to the company outings and various other events. It was fun to have the kids around and see them compete in various games in an environment

of unwinding freedom. The diverse culture at LankaClear brings more harmony to the work place as evident from the impressive participation at the Christmas Carols in December 2013. Winning others through sportsmanship was another employee engagement episode which concluded happily with the winning of Champions Trophy being won by The IT Department at the Annual Sports Day Cricket Encounter held at MIT grounds in August 2013.

### WELFARE ASSOCIATION ACTIVITIES

The Welfare Association plays a significant role in the promotion and up keeping of employee wellbeing at LankaClear. Organizing New Year Parties, Sports Days and Cricket Encounters are some of the popular activities organized by the Welfare Association that binds and connect all employees together to form the desired team spirit.

The financial assistance extended to the members of the Welfare Association in times of need is another act of benevolence of the Society. It is noteworthy to mention that the President

and the Office Bearers of the Association were in the forefront of the many activities that they were organized during the year.

People are our most valued asset and we continue our journey on engaging them so they can unleash their true potential to become valued contributors to the company and society. We not only want to retain our staff but also want to value their contribution as our credibility relies on who we are based not only on the retention but also on how we value their contribution and recognize them.

**Lakshman C Palliyaguruge**  
Head of HR and Administration

31<sup>st</sup> July 2014  
Colombo, Sri Lanka

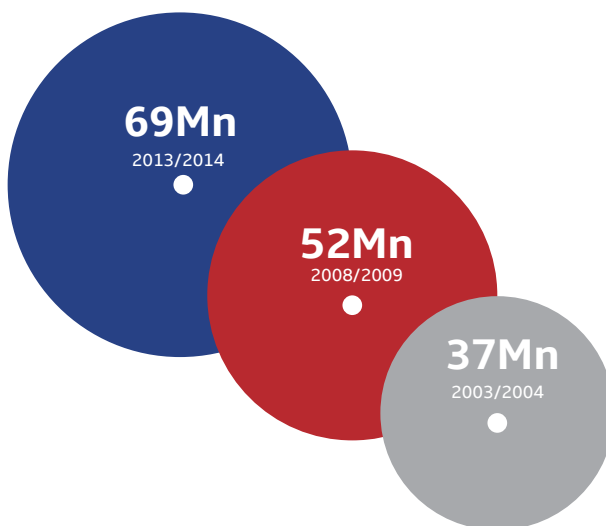


**RESPONSIBLE BUSINESS REPORT**

**“FOR A  
TECHNOLOGY  
LED  
ORGANIZATION  
LIKE OURS,  
ENVIRONMENTAL  
MANAGEMENT IS  
NOT JUST ABOUT  
RESPONSIBILITY;  
IT’S A DAILY  
ROUTINE OF OUR  
BUSINESS AS  
USUAL”**

We process millions of payments in Sri Lanka every year. Connecting every personal and business account in the country, we are at the heart of the payment industry providing a service to businesses and individuals be it paying bills, receiving salaries or withdrawing cash from ATM machines.

**Exponential Growth in Transactions  
Driven Over the Past Decade**



As an entity driving a national agenda we strive to achieve industry best practices in everything we do and to set the standard as an innovative business partner. We focus on the positive impact we can create in our community & environment and also to best use the financial capital created for the betterment of the company, society and the country at large.

We play a pivotal role in working with all stakeholders – banks, consumers, businesses and the regulator – in providing the highest quality electronic payment services enabling the economy to function efficiently and sustainably.

‘LankaClear’ adds significant value to the economy through the provision of innovative, efficient payment services, focusing on connecting individuals and businesses with ever more convenient and safe ways to transact. Our business strategy is centered around delivering long-term stability and value through “Financial Inclusion”.

Advancing payments over a decade, empowering society to “Transact The Future” we take pride in continuously re-defining the payment landscape in Sri Lanka.

In the future there may be no need to write a cheque or pay by cash; every consumer and business will have the opportunity to request or make convenient, instant payments to and from their mobile phones, tabs, laptops, PCs and through ATMs.

We consider it our responsibility to pave the way for these sustainable and efficient electronic payment services, where we can forge towards a green and paperless society.

## COMMUNITY

We are in the process of delivering an inclusive payment network, encompassing every Sri Lankan with latest in electronic payment technology. We are that vital cog within the community driving away inefficiency and waste, our very existence has contributed significantly to the environment and community, and will continue to do so as we forge ahead with sustainable cashless payments.

Transacting seamlessly in today's world is a basic need and we believe that reaching out to every segment of our community and empowering them through our inclusive payment technologies makes us more



successful. Thus, working in partnership with the payments community, local community and with our

charity partners, we:

- introduce new payment technologies for maximum market penetration, efficiencies and financial conclusion
- are in the process of rolling out an educational module through our charity partners to equip and educate the local community with the best personal financial management practices

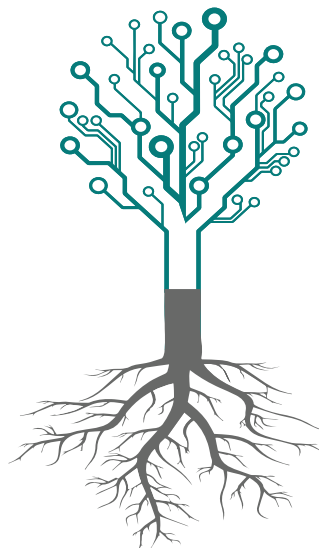
Ultimately we aim to create mutual economic value through social benefit by driving smarter ways of managing finances in creating wealth, resulting in poverty elevation.

## ENVIRONMENT

Unlike in most other business operations, our very existence contributes significantly to the environment. The by-product of our business is an efficient, cashless community with paperless offices which results in preserving natural resources in myriads of ways.

'LankaClear' contributes significantly to a greener

environment through the provision of innovative, efficient, electronic payment services which connects individuals and businesses seamlessly. This means everybody uses resources efficiently and in smarter ways, minimising the impact on the environment.



Transacting electronically eliminates use of paper by means of physical cash, cheques and printed forms and receipts. It also helps to save time, money and resources, taking away the need for physical travel by connecting people across the country eliminating any geographic boundaries.

Our responsibility to the environment does not cease there, we peruse other green initiatives within the company by recording company wide consumption of resources and establishing best practices of controlling, eliminating or recycling resources mainly on energy & paper. Even our new DR site under construction conforms to a Green Building Design with green systems.

As much as we desire to reduce negative environmental impact, we ultimately need to reduce our operational overheads and maximise profits to re-invest in our business, a practice we follow in providing a true national service to the community, country and most importantly to our shareholders.

**Chris De Alwis**  
Senior Manager – Business Development and Brand Promotions

31<sup>st</sup> July 2014  
Colombo, Sri Lanka

## LANKAPAY FUTURE STRATEGIES AND BENEFITS TO CUSTOMERS, BANKS AND COMMUNITY

As our Nation endeavors to become the “Financial Hub of Asia”, having a robust, efficient and secure payments infrastructure is of paramount importance. Further, having a sound payments infrastructure will facilitate the rapid economic growth and financial system stability. The Common Card and Payment Switch (CCAPS) acts as yet another first towards achieving these National objectives. It all began with the launch of the Common ATM Switch (CAS) on the 23rd of July, 2013, for the very first time in Sri Lanka by LankaClear (Pvt) Ltd. CCAPS would be known by the brand name of “LankaPay”. LankaPay is the National Payment Switch that is in par in every aspect in comparison to international payment networks (IPN) and in the future will connect with IPNs, thus giving it a global reach.

LankaPay is designed to become the backbone infrastructure for all future electronic transactions, which will facilitate seamless connectivity coupled with real time payments.

Further, the key benefits of this centralized national infrastructure are that there would be one integrated electronic payment system that has:

- Customer convenience
- Cost efficiencies by providing competitive pricing
- Providing a National Payment Infrastructure on which Banks could extend and innovate their services to their customers
- Highly secured real-time payments
- Unified System Rules and Procedures
- Standardized security
- Greater efficiency in payment scheme integration
- Faster introduction of new Payment Schemes and Systems
- Greater financial inclusion of all demographics
- Ubiquity
- Greater autonomy for the payment systems in Sri Lanka

With the approval of the Monetary Board of The Central Bank of Sri Lanka

(CBSL) for CCAPS as the “National Payment Switch”, LankaPay has laid solid foundations in building an integrated electronic payment system of multiple domestic payment networks in a phased manner. These payment systems are:

### Phase I:

Common ATM Switch (CAS)  
Shared ATM Switch (SAS)

### Phase II:

Common Electronic Fund Transfer Switch (CEFTS)  
Common Mobile Switch (CMobS)

### Phase III:

Common POS Switch (CPS)  
National Card Scheme (NCS)



### LANKAPAY - COMMON ATM SWITCH (LANKAPAY - CAS)

In the absence of a national shared ATM network a customer had to seek an ATM of one's own bank

or else pay a high price for cash withdrawals, as these transactions in Sri Lanka were routed through International Card Schemes (ICS). With the launch of LankaPay in July 2013, the customers of our member banks would no longer need to deliberately visit an ATM of their own bank for cash withdrawals and balance inquiries, but can avail themselves for these services at a very low cost from any LankaPay Member Bank ATM. These customers will now have access to their accounts at over 2,300 ATMs island wide that would include ATMs that belong to Bank of Ceylon, People's Bank, Commercial Bank, HNB, Seylan Bank, NDB and Union Bank.

In addition to driving affordable convenience to users it also offers significant savings in foreign exchange to the country by virtue of every LankaPay ATM transaction being channelled through a total domestic network.



**LANKAPAY - SHARED ATM SWITCH (LANKAPAY - SAS)**

LankaPay - SAS will provide banks an ATM switch solution without incurring a huge CAPEX in order to provide their own ATM network to their customers. SAS provides an ATM switch within an OPEX model to banks that chooses this option. Thus this will benefit banks who are cost conscious, as they will be able to launch their ATM network at a fraction of the cost of buying their own ATM switch and be able to operate the same with minimal staff, as LankaPay will take care of the technical nitty-gritties. This too will reduce foreign exchange moving out of the country.

**LANKAPAY - COMMON EFT SWITCH (LANKAPAY - CEFTS)**

The market demands for online, real-time and secure retail interbank Electronic Fund Transfers (EFT) and

a common integrated infrastructure for multiple payments channels (i.e. ATM, Internet Banking, Mobile Banking, Kiosks, POS, etc.) that facilitate greater inclusion of all demographics is a dire need of the hour. This is due to the rapid economic development in SL and the population adopting ICT (i.e. laptops/desktops, mobile, internet, ADSL, etc.) in a rapid pace in Sri Lanka. This need is met by the LankaPay – CEFTS with the added advantage of facilitating interoperability between payment systems. While CEFTS is already implemented, LankaPay is assisting the banks to integrate with this payment system.

With CEFTS being fully adopted by all banks, their customers will be able to conduct highly secured real-time fund transfers between banks at any given time of the day from the comfort of their home, office or from the nearest ATM at a very low cost. This will be a great impetus to the economy, as the recipient of the payment will have the funds available immediately without cash movement. Further, this

common infrastructure will enable banks to leverage on the shared infrastructure and will enable them to innovate on numerous efficient payment products. We strongly expect that CEFTS will be a game changer in the payments industry in Sri Lanka.

**LANKAPAY - COMMON MOBILE SWITCH (LANKAPAY - CMobS)**

The Common Mobile Switch (CMobS) will be Sri Lanka's first national mobile payment system. While this payment system is currently being implemented, with the full adoption of the same by the banks, it will enable banks to develop specific payment products targeting different market segments. CMobS will also facilitate the inclusion of Mobile Network Operators (MNO) and thus providing them seamless access to the banking system. The "LankaPay Mobile Wallet", will be the

payment instrument for mobile payments.

The mobile payment ecosystem that will be developed around CMobS has a great promise to cater for the under banked and to provide secure payments for people even in the most remote areas of the country.

**LANKAPAY - COMMON POS SWITCH (LANKAPAY - CPS)**

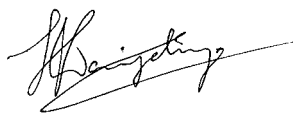
Currently in Sri Lanka there are over 13 million payment cards, but only around 27,960 POS terminals available. Further, these POS terminals are mostly located in the Western province and in cities. We believe that this low ratio of cards to POS terminals is because of the high cost of acquiring a POS transaction. Thus with the implementation of the CPS, LankaPay will be able to provide a more conducive tariff structure to all stakeholders that will grow the card based payment

## LANKAPAY FUTURE STRATEGIES AND BENEFITS TO CUSTOMERS, BANKS AND COMMUNITY (Contd.)

market, thus ushering greater convenience for customers and greater profitability and convenience for merchants irrespective of whether they are big or small. This will facilitate significant growth in POS based transaction volumes, resulting in banks earning higher revenue. Further, there will be significant foreign exchange savings, which would have otherwise gone out of Sri Lanka to International Card Schemes. Given this, it is clear that CPS will benefit the customers, merchants, banks and Sri Lanka at large.

LankaPay will enhance retail electronic payments in Sri Lanka (P2P, B2C, B2B) through seamless connectivity, customer convenience & cost efficiency. Further, this will facilitate money to be kept in the banking system and reduce the amount kept in one's pocket, thus enabling greater availability of funds within the banking system for development

activities. Finally, all LankaPay participants will now have the benefit of innovating new payment products to best suite their customer needs and the full implementation of LankaPay will be a definite "Game Changer" that will redefine the electronic payment landscape, empowering and enriching Sri Lankan lives and enterprises.



**Harsha Wanigatunga**  
*Deputy General Manager*  
*– IT and Operations*

31<sup>st</sup> July 2014  
Colombo, Sri Lanka

## CORPORATE GOVERNANCE

Corporate governance at LankaClear provides for an effective and control by the Management of the Company ensuring transparency and timely financial reporting.

The Company's functions are regulated by several Acts and regulations promulgated by the Central Bank of Sri Lanka from time to time and these Acts are listed under the heading Compliance with Statutory and Regulatory requirements.

Consious of their obligation to comply with applicable laws and regulations, the Board of Directors of Lanka Clear have committed themselves to ensure that there is effective overseeing of the business affairs of the Company and to ensure that all such business affairs of the Company are conducted adhering to the highest standards of business and best practices.

### THE BOARD OF DIRECTORS

The Board of Directors at LankaClear (Pvt) Ltd., comprises eight Non-executive Directors including a Director who functions as the Chairperson who 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 the two state banks. Three additional Directors are nominated by the Sri Lanka Bank's Association, two of whom represent the private local commercial banks and the other represents foreign bank branches operating in Sri Lanka. The Secretary General of the Sri Lanka Bank's Association serves the Board as an Observer and is usually invited to express his views.

Each Board member is well qualified and 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.

The Board is primarily responsible for:

- 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
- Ensuring the financial health of the Company
- Appointing the Chief Executive Officer and determining the remuneration of management and staff
- Reporting to shareholders.

### BOARD MEETINGS

The Board had 13 meetings during the period under review and the attendance of each Director at Board meetings is given in the following table.



The attendance at Board HR Committee Meetings, Board Audit Committee Meetings and Board Risk Committee Meetings in respect of the relevant members is also included in this table.

Name	Board Meetings			Board HR Committee			Board Audit Committee			Board Risk Committee		
	Meetings Held*	Present	%	Held*	Present	%	Held*	Present	%	Held*	Present	%
1. Ms. P Liyanage – Chairperson	13	13	100%	09	09	100%						
2. Mr. D M Gunasekara – Director (Alternate Director Mr. W P R P H Fonseka)	13	13	100%				3	2	67%			
3. Ms. R A S M Dayaratne – Director	13	11	84%				3	3	100%			
4. Mr. R Theagarajah – Director (Up to June '13)	03	1	33%									
5. Mr. Jonathan Alles – Director (From June to July '13)	02	02	100%									
6. Mr. S S Ratnayake – Director	13	13	100%	09	09	100%				2	2	100%
7. Mr. M A B Silva – Director	13	08	61%									
8. Mr. Ravi Dias – Director (From August '13)	08	04	50%									
9. Mr. M A A Nomani – Director	13	11	84%									
10. Mr. M O F Salieh – Director	13	10	76%							2	2	100%
11. Mr. Upali de Silva – Observer	13	10	76%	09	09	100%	3	3	100%			

\*Meetings Held – Meetings held during the term of office

In compliance with the Code of Best Practice, Board Papers are circulated 4 - 5 days prior to a meeting giving adequate time to Board members to prepare for the meeting.

#### **THE BOARD HR COMMITTEE**

The Board HR Committee consists of the Chairperson (who is also the Chairperson of this Committee) and 2 members of the Board.

The Terms of Reference of the Board HR Committee include making recommendations to the Board relating to the regulation of the organisation structure, salary increments, bonus distribution, amendments to salary scales, changes to Company policies or major changes to procedures and the final selection of candidates for posts of Heads of Department, Assistant General Manager and above, reporting directly to General Manager / CEO and recommend to the Board.

The Board HR Committee held 9 meetings during the year under review and the details of matters discussed and recommendations made appear in the Board HR Committee Report elsewhere in this Annual Report.

#### **THE BOARD AUDIT COMMITTEE**

The Audit Committee met on 3 occasions during the year under review and at these meetings the quarterly internal audit reports and actions taken were reviewed whilst actions to be taken were recommended by the Board Audit Committee. These actions were reported to the Board to ensure compliance.

#### **THE BOARD RISK COMMITTEE AND RISK MANAGEMENT OF LANKACLEAR**

The Business Risk, Operational Risk and Financial Risk are the risks that LankaClear have to take cognizance of when considering Risk Management and action taken in managing these risks are highlighted in the Reports on Risk Management and Operational Risk. The Board Risk Committee met 2 occasions during the financial year and gave valuable input to the risk management functions of the company.

#### **RELATIONSHIPS WITH SHAREHOLDERS AND DISCLOSURES**

In its desire to maintain good relationships with Shareholders, the

LankaClear Board follows a policy of disclosing all relevant information, both financial and non financial, to Shareholders. The Financial Statements are in accordance with the Sri Lankan Accounting Standards and the Companies Act No. 07 of 2007 and the generally accepted accounting principles.

#### **COMPLIANCE REPORT**

The Directors, to the best of their knowledge have confirmed that 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**

All members of the Senior Management team are well qualified and experienced

to perform the authorities delegated through the General Manager/CEO.

#### **COMPLIANCE WITH STATUTORY AND REGULATORY REQUIREMENTS**

The Company is in compliance with the following Acts:

- The Payment and Settlement Act No. 28 of 2005
- Electronic Transaction Act No. 19 of 2006
- Payment Devices Frauds Act No. 30 of 2006
- Monetary Law Act (Chapter 422)
- Companies Act No. 7 of 2007
- In addition, LankaClear complies with the circulars issued by the Central Bank of Sri Lanka (CBSL) from time to time

#### **AUDITS**

In addition to the annual financial audit in our desire to ensure compliance with the relevant Acts and Circulars by the CBSL, internal audits are conducted on a quarterly basis and audit reports are discussed and required corrective action to be taken by the management is agreed at the Board Audit Committee meetings.

## BOARD COMMITTEES

### THE BOARD HR COMMITTEE

Under the direction of the Board of Directors of LankaClear, the Board HR Committee was established to provide strategic direction to the Human Resources function of the organization. The terms of reference governing the functions of the Board HR Committee was laid down by the Board.

The Committee consists of three Board members, namely Mr. S. S. Ratnayake, Mr. Upali de Silva and the Chairperson.

The Committee makes recommendations to the Board on inter alia the following:

- Organizational structure, manpower planning and recruitment
- Human capital development policies and processes
- Compensation and benefits policy
- Performance appraisals and bonus distribution
- Career progression and job satisfaction

- Health and occupational safety including approving of Management's recommendations on physical environment improvements and enhancements

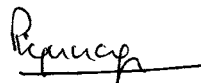
It is quite gratifying to note that during the year the Committee members shared very valuable input in support of the decision making process of the HR Management functions of LankaClear. The Committee made an extra effort in providing its expertise and recommendations in streamlining the distribution of employee annual bonuses in line with the concept of Normal Distribution Curve and granting of Equity Adjustments to restructure the compensation and benefits of the technical staff members.

The Board HR Committee has held nine meetings during the period under review and it is worth mentioning that all members of the Committee participated at all nine meetings. During the said period there were several Senior Management recruitments relating to

which inputs and reviews including recommendations made by the Committee were valuable.

It is with great pleasure that I, as the Chairperson of the Committee confirm that the Committee fulfilled its role as a Board Sub-committee exercising care and diligence in playing its role, and I wish to thank the other members of the Committee, namely Mr. Ratnayake and Mr. de Silva.

In conclusion I also thank Mr. Sunimal Weerasooriya, General Manager/CEO of LankaClear for his cooperation extended to the Board HR Committee and for the role he played when invited by the Board HR Committee.



**Priyantha Liyanage**  
*Chairperson – Board HR Committee*

31<sup>st</sup> July 2014  
Colombo, Sri Lanka



## THE BOARD AUDIT COMMITTEE

The Board Audit Committee functioned in terms of the Audit Committee Charter approved by the Board of Directors. The scope of the Audit Committee Charter, the Board approved Terms of Reference is reviewed and updated regularly incorporating the provisions of the many regulatory bodies, standards and Acts. The following areas come under the purview of the Audit Committee:

### FINANCIAL INFORMATION

- a) Review the financial information of the Company in order to monitor the integrity of the financial statements, its annual report, accounts etc.
- b) Evaluating the adequacy and effectiveness of internal controls.

### COMPLIANCE

- a) Review the effectiveness of the Company's systems for monitoring compliance with any applicable laws and regulation of the country and the results of management's investigations and follow-up of any instances of non compliance.

- b) Review the findings of any examination by regulatory agencies and/or any auditor on compliance with such laws and regulations.

### EXTERNAL AUDIT

- a) Review the External Auditor's proposed Audit Scope and Plan including coordination of audit effort with Internal Audit and its audit quality control/assurance processes.
- b) Review the performance of External Auditors and make recommendations to the Board of Directors on their appointment, reappointment, discharge or rotation if necessary.
- c) Review with Management and External Auditors the results of the audit, including any difficulties encountered.
- d) Review the External Audit Report on the financial statements and any supplementary report (e.g., Management Letter) outlining the findings, observations and recommendations and management responses and the status of any corrective action plans.

- e) As part of the routine Committee meeting agenda, meet separately with the External Auditors to discuss any matters that the Committee or Auditors believe should be discussed privately.

### INTERNAL AUDIT

- a) Review with Management and the Internal Auditor, the charter, plans, activities, scope, report requirements etc. of the internal audit function of the company and approve same.
- b) Review findings and recommendations by the Internal Auditors, together with comments made by Management and assess the effectiveness of such findings and responses.

### IT AUDIT

To review the findings of IT Audit carried out by the Messrs PricewaterhouseCoopers & monitoring the implementation of the recommendations to manage the risks highlighted in their reports.

## COMPOSITION OF THE BOARD AUDIT COMMITTEE

LankaClear Board Audit Committee comprised of three Non-Executive Directors of the Board. The following Directors served as the members of the Committee during the year under review.

Mr. W P Russel Fonseka – (Alternate Director to Mr. D M Gunasekara, Director)  
Mrs. R A S M Dayaratne  
Mr. M U De Silva

Presently the Audit Committee of LankaClear (Pvt) Ltd is chaired by Mr. Russel Fonseka, Deputy General Manager (Retail Banking), Bank of Ceylon, a Fellow of the Institute of Chartered Accountants of Sri Lanka.

The wide range of experience brought to the Committee from positions held by the present members can be seen from the Directors biographical details appearing in this annual report.

The quorum to the Committee is three members.

**BOARD COMMITTEES (Contd.)**

DGM Operations and IT, Head of HR and Administration, Head of Finance, Senior Manager IT, Senior Manager Operations, Manager Facilities and Maintenance, Senior Manager Helpdesk and Bank Services and Network Operations Manager from LCPL together with representatives of the External and Internal Auditors were present by invitation at the meetings held.

The Secretary to the Board functions as the Secretary to the Committee.

**MEETINGS**

The Committee held 03 meetings during the year under review. The attendance of the members at these meetings is shown in the Annual Report under Corporate Governance. Out of the 03 meetings 2 meetings were held with full quorum in attendance. The proceedings of the Audit Committee are reported regularly to the Board of Directors.

**SUMMARY OF ACTIVITIES**

During the year under review the Committee discharged its duties as follows:

**FINANCIAL INFORMATION**

- a) Reviewed the financial information and annual financial statements of the company.
- b) Evaluated the adequacy and effectiveness of internal controls.

**COMPLIANCE**

Reviewed the effectiveness of the Company's systems for monitoring compliance with any applicable laws and regulation of the country.

**EXTERNAL AUDIT**

Board Audit Committee reviewed the External Auditor's report on the financial statements and supplementary reports outlining the findings, observations, recommendations, management responses and the status of any action plans.

**INTERNAL AUDITS**

- a) Mandated the Internal Auditors at regular intervals to review effectiveness of the internal control procedures, accounting systems and operations procedures of the organisation.

- b) Reviewed the Internal Audit programmes to ensure that implementation of internal control is monitored and their adequacy is assessed on a continuous basis.
- c) Reviewed the Internal Audit reports and monitored the implementation of recommendations made therein.

Internal Audit functions were carried out by Messrs. B R De Silva & Company.

**IT AUDIT**

Board Audit Committee followed the implementation of IT Audit Report recommendations submitted by PricewaterhouseCoopers as well as management response plan in mitigating the observed risks and provided recommendations, through obtaining regular feedback.

**REAPPOINTMENT OF EXTERNAL AUDITORS**

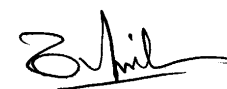
The Audit Committee recommends the reappointment of M/S Ernst & Young, as the External

Auditors for the year to 31st March 2015 subject to the approval of the shareholders at the Annual General Meeting.

**CONCLUSION**

Based on the reports submitted by the External Auditors, Internal Auditors and IT Auditors, the Committee reported to the Board of Directors, identifying matters in respect of which it considers action or improvement was needed and made recommendations as to the steps to be undertaken.

The Audit Committee is satisfied that internal controls of LankaClear (Pvt) Ltd provide reasonable assurance that the affairs of the organization are managed in accordance with policies of the organization and that the organisation's assets are properly accounted for and adequately safeguarded.



**W P Russel Fonseka**  
Chairman  
Board Audit Committee

Colombo, Sri Lanka  
30<sup>th</sup> June 2014

## THE BOARD INTEGRATED RISK MANAGEMENT COMMITTEE

### COMPOSITION

The Board Integrated Risk Management Committee (BIRMC) comprises the following three members of the Board of Directors:

Mr. S. Sepala Ratnayake  
(Asst. Governor, CBSL)  
- *Chairman*

Mr. M. A. A. Nomani (Country  
General Manager, MCB Bank  
Ltd)  
- *Committee member*

Mr. Faizal Salieh (Managing  
Director/CEO, Amana Bank  
Ltd)  
- *Committee member*

The Head of Finance of the  
Company functions as the  
Secretary to the Committee.

### TERMS OF REFERENCE

The Terms of Reference  
set out by the Board of  
Directors, includes the  
following:

- (a) Overseeing the  
formulation of strategies  
and managing the risks  
associated with the  
entity's activities and  
ensuring the satisfactory

design and completeness  
of the framework relative  
to the entity's activities  
and risk profile.

- (b) Overseeing the  
effective application  
of risk management  
policies within the  
entity, encompassing  
all products and  
business and support  
units and ensuring the  
development of policy  
manuals and procedures.

- (c) Preventing any breaches  
of the entity's risk  
appetite and each of  
the approved risk type  
limits and establishing  
a procedure to approve  
any tentative/sporadic  
deviations.

- (d) Ensuring that the Board  
of Directors is regularly  
informed of the entity's  
risk exposure, realized  
or potential losses  
(substantial incidents)  
and key risk indicators.

- (e) Submission of regular  
operational risk  
assessments to the  
Board, seeking its views,  
concurrence or specific  
directions.

- (f) Reviewing the  
compliance of the entity  
with the regulatory  
requirements.

- (g) Periodic review of the  
entity's risk policy  
and risk management  
functions.

### MEETINGS

During the year under  
review, BIRMC held two  
meetings. Attendances at  
the meetings are given in  
Table on page 40 of the  
Annual Report.

The discussions and  
conclusions reached at the  
meetings were recorded in  
the minutes and circulated  
to the Board of Directors for  
information and advice.

### SUMMARY OF ACTIVITIES

During the period under  
review, the Risk Charter and  
the Risk Management Policy  
Statement were drafted and  
presented to the Board and  
obtained approval. Also,  
a Management Level Risk  
Committee was appointed  
comprising the following  
key personnel in order  
to be responsible for risk  
management within their  
respective divisions and the  
organization:

Mr. Sunimal Weerasooriya  
- *General Manager/CEO*

Mr. Harsha Wanigatunga  
- *DGM - IT and Operations*

Mr. Rasika Galappaththy  
- *Secretary of the Risk  
Committee, Head of Finance*

Mr. Lakshman Palliyaguruge  
- *Head of HR and  
Administration*

Mr. Roshan Hettiarachchi  
- *Senior Manager Operations*

Mr. Dilantha Samarasinghe  
- *Senior Manager - IT*

Mr. Hemanthe  
Samaliarachchi  
- *Senior Manager - Payment  
Systems*

### CONCLUSION

Setting up of BIRMC  
and commencing risk  
management on a  
formalized structure is  
a timely action of the  
company as it is venturing  
into sophisticated electronic  
payment systems which  
are highly vulnerable  
to nonphysical threats  
which should be defended  
alike with well thought  
sophisticated mechanisms  
and controls. Further, the

creation of the Management Level Risk Committee provides a dynamic risk management culture and it will enable drilling to the root causes of the risk factors and treating them in a systematic way.

During the initial stage of operations of BIRMC, it was possible to identify the key risk areas of the business operations of the Company.

The successful execution of the Risk Management Exercise in operation of LankaClear is imperative for ensuring the stability of the financial system in the country.



**Mr. S. Sepala Ratnayake**  
*Chairman*

Integrated Risk  
Management Committee  
Colombo, Sri Lanka  
30<sup>th</sup> May 2014

## RISK MANAGEMENT

As the national payment infrastructure provider facilitating numerous payment and settlement transactions on behalf of the Central Bank of Sri Lanka and all commercial Banks, it is critical that LankaClear has a robust and effective risk management framework in which material risks are proactively identified, analysed, communicated, mitigated and managed across the organization and across all functions.

LankaClear recognizes risk management as an integral part of sound management practice and good corporate governance as it improves decision making and enhances outcomes and accountability. Management is committed to 'best practice' risk management practices across its business at all times striving to adhere to best standards and benchmarks where applicable.

### RISK MANAGEMENT FRAMEWORK

The year 2013/2014 was a year continued focus was given in establishing better mechanisms in managing enterprise risks. Appointed Board Risk Committee constituted by three Directors of LankaClear progressed through recommending Risk Charter, Terms of reference for the Risk Committee and Risk Management Policy Statement. The board approval was obtained for the same thereafter. As per the Risk Management Policy Statement, Management Level Risk Committee is held responsible for overall risk management of the organization represented by Chief Executive Officer, DGM IT & Operations, Head of Finance, Head of HR and Administration, Senior Manager – IT, Senior Manager – Payment Systems and Senior Manager – Operations.

### WEATHERING THE STORM

Among various types of risk that LankaClear is exposed to, and based on our current state of affairs, the following types of risks are specifically identified due to significant impact such risks could have on the organization.

Business Risk		
Strategic Risk	Impact	Risk Management Strategies
Failure of timely implementation of strategic plans and addressing the market needs on payment systems infrastructure	Loss of credibility in the market and impact on the efficiency levels of national payment systems	<ul style="list-style-type: none"> <li>Regular meetings are held by the Board of Directors and members of the Management in order to formulate future strategies and to review and revise (where necessary) corporate plans, taking into consideration the dynamic business environment.</li> <li>All senior managers attend regular workshops, seminars and professional training programmes in order to update their skills and knowledge and also to keep abreast of international trends and developments in the industry.</li> <li>Aligning strategies with the road map of the National Payments Council (NPC) convened by the Central Bank.</li> </ul>

**RISK MANAGEMENT (Contd.)**

<b>Strategic Risk</b>	<b>Impact</b>	<b>Risk Management Strategies</b>
	Possible reduction in revenues from existing payment systems due to shifts towards more efficient payment systems	<ul style="list-style-type: none"> <li>Continuously keeping abreast of technological developments in the payments industry globally.</li> <li>Continuous monitoring of the customer demand for efficient payments systems in the local market.</li> <li>Investments made in upgrading the electronic payments systems infrastructure to meet the growing demand for electronic payments. The Common Card and Payment Switch (CCAPS), which is being currently implemented will create the national infrastructure covering most of the electronic payment systems such as ATM transactions, Card Payments, Mobile Payments and Electronic Fund Transfers</li> </ul>
	Continuous increase in operational costs due to increase in prices relating to maintenance of technology, systems and equipment	<ul style="list-style-type: none"> <li>LankaClear management has been wary of rising costs and conscientious and stringent steps have been taken in managing cost under various cost management programmes.</li> <li>Procedures are in place to reduce sourcing costs through structured and extensive negotiations by procurement committees and formal procurement processes by the Procurement Division.</li> <li>The IT Division significantly emphasizes on green technology in technology upgrades and new procurements to reduce the impact on the environment and on operational costs respectively.</li> </ul>
<b>Socio-economic, Political and Environmental Risk</b>	<b>Impact</b>	<b>Risk Management Strategies</b>
Business impact due to risks relating to the Political-Economic climate	Impact on revenues due to lower growth rates and increase in costs due to inflationary effects and exchange rate fluctuations	<ul style="list-style-type: none"> <li>Regular reviews undertaken on the socio-economic climate impact on the payment industry of the country and making necessary alignments.</li> <li>Facilitating the government objectives by introducing new payment systems and improving existing systems to create higher efficiency thereby contributing to higher economic growth.</li> </ul>

Socio-economic, Political and Environmental Risk	Impact	Risk Management Strategies
Risks from natural or man-made disasters	Loss of assets resulting in financial losses and loss of image and financial losses due to a prolonged non availability of payment systems operated by the Company.	<ul style="list-style-type: none"> <li>Financial losses due to loss of physical assets are covered by the Company's comprehensive insurance arrangements with leading insurance companies.</li> <li>LankaClear has a comprehensive Business Continuity Plan (BCP) in place which is reviewed and revised (where necessary) regularly and has a fully functional and tested Disaster Recovery Site (DRS) where all Clearing Systems and their functions have been replicated in order to mitigate the risks associated with natural disasters and/or inability to operate from the Primary Site in Colombo</li> </ul>
Competitive Risk	Impact	Risk Management Strategies
Risks from competitive actions from existing market participants and new entrants.	Reduced volumes of transactions through existing payment systems and reduced viability of new payment systems	<ul style="list-style-type: none"> <li>Some of the national payment systems operated by the Company are protected from competitive risks due to the monopolistic status enjoyed. However, the Company takes every possible action to ensure that a superior service is offered to the customers in order to protect the monopolistic status.</li> <li>The Company concentrates on the maintenance of high level of standards with respect to its employees, processes and technology in order to mitigate competitive risks.</li> <li>The strategy of offering world class quality at the lowest possible cost to the customer and the primary objective of sustainable growth against high profits has mitigated the competitive pressure.</li> </ul>



**RISK MANAGEMENT (Contd.)**

<b>Operational Risk</b>		
<b>Violation or Inadequate Process Risk</b>	<b>Impact</b>	<b>Risk Management Strategies</b>
Inadequate, or break down of, Internal controls, processes and procedures.	Loss of reputation, business integrity and stakeholder trust, financial losses, and negative effects on National Payment Systems.	<ul style="list-style-type: none"> <li>• LankaClear has formalised adherence to Operational Manuals for all Clearing Systems, Desk Instruction Manuals and Dual-Control mechanisms. We ensure that participating Banks and our staff strictly adhere to these processes and guidelines by means of Interdepartmental Peer Audits, Corporate Internal and IT Audits, continuous Process improvements and training.</li> <li>• Continuous improvements to these Operational Manuals and Desk Instruction Manuals.</li> <li>• Central Bank's monitoring of activities through the involvement of two Directors of the Company appointed by Central Bank.</li> <li>• Expecting to obtain ISO 27001 Certification for Lanka Sign</li> </ul>
Information Technology and Security	Loss of key confidential information resulting in damage to reputation and possibility of being subject to litigation.	<ul style="list-style-type: none"> <li>• LankaClear has a well-defined Information Security Policy, which is closely aligned with ISO 27001 standards in order to mitigate risks associated with violation of information security. The strict adherences to these IT Security Policies are ensured by daily monitoring of IT systems, IT housekeeping and through IT audits. Further, IT infrastructure was re-examined with a comprehensive IT audit carried out independently by an internationally reputed IT audit firm followed by immediate action taken wherever any deficiencies/shortcomings were identified meeting industry standards. Further, every aspect relating to procedural controls is currently audited via the internal audit function enabling further and continuous identification of any deficiencies/shortcomings.</li> <li>• A memorandum of preserving confidentiality of Information at LankaClear was signed by all employees committing them to securing of confidentiality of company information.</li> <li>• Entering into maintenance agreements in IT related areas to ensure continuity.</li> </ul>

<b>Violation or Inadequate Process Risk</b>	<b>Impact</b>	<b>Risk Management Strategies</b>
Inability to operate from the Primary Data Centre due to natural disaster or technical failure or unanticipated/unforeseen occurrence/development.	The National Payment Systems operated by the Company (e.g. CITS, SLIPS, SL Rupee Draft Clearing, USD Draft Clearing) will be affected and hence could have an impact to the Sri Lankan business community, state sector, other sectors and general public.	<ul style="list-style-type: none"> <li>Fully functional DR site is available for business continuity for all clearing systems in order to mitigate the risks associated with natural disasters and/or inability to operate from the Primary Site in Colombo.</li> <li>This is above and beyond having a Near-Site system at the primary data centre for all the Clearing Systems operated by LankaClear, which is activated if the Primary System fails.</li> <li>LankaClear has a formalized BCP and several DR drills have been conducted annually in accordance with the BCP to ensure LankaClear's capability to effectively and expeditiously rebound from a disaster or setback. The CIT System having an uptime of 99.9% for the year under review is testimony to the effectiveness of the Near-Site IT systems and the fully functional DR site.</li> </ul>
<b>Employee Risk</b>	<b>Impact</b>	<b>Risk Management Strategies</b>
Risk from inability to attract the right staff, develop existing staff and retain skilled and experienced staff.	<p>Reduced productivity.</p> <p>Reduced quality of service.</p>	<ul style="list-style-type: none"> <li>In order to minimise people related risks, the Company has well defined human resource (HR) policies, practices and procedures - spanning from hiring to general conduct and a performance based management system that is linked to a strong HR development programme. This would ensure that our employees possess the right skills and are given correct guidance to minimise and avoid operational risks associated with the National Clearing Systems.</li> <li>Human Resource processors currently in place facilitate the recruitment of the right staff, manage performance and rewards, plan and implement training and development and handle succession planning and career progression of employees.</li> <li>Additional tools such as staff satisfaction surveys, salary surveys have been also used.</li> <li>The Board HR Committee is involved in major decisions in HR Management and also participates in the selection process of Senior Managerial staff reporting directly to the General Manager/CEO.</li> </ul>

**RISK MANAGEMENT (Contd.)**

Legal Risk	Impact	Risk Management Strategies
<p>Risk of legal action due to non performance of legal and statutory requirements and poorly drafted legal agreements</p>	<p>Inability to enforce terms against vendors, contractors, service providers etc., due to their obligations, the Company's rights, and other protective provisions benefitting the Company, indemnities for the Company, etc. not being adequately and/or accurately addressed.</p> <p>Higher default rate by parties to contracts with the Company.</p> <p>Inability to impose or enforce penalties against parties to contracts with the Company in events of default.</p> <p>High cost of legal and penalty fees resulting in reduction in profits.</p> <p>Adverse impact to the organisation's credibility, reputation and brand image.</p>	<ul style="list-style-type: none"> <li>• A comprehensive internal control system is in place supplemented by regular audit from the corporate internal audit</li> <li>• The Company has a dedicated Manager specialized in managing/drafting legal agreements to inter alia monitor/ draft legal agreements and related obligations, and to advise the Company as to its rights and liabilities under contracts and other transactions, analyze and review contracts which bind or obligate the Company, provide legal opinions and recommendations to ensure that the Company is properly safeguarded and effectively represented in such matters, review, respond to, and draft correspondence necessary for certain operations of the Company.</li> <li>• Ensuring of all statutory and legal obligations are met in all transactions</li> <li>• Obtaining competent external consultancy services in fulfilling legal obligations where necessary.</li> </ul>

<b>Financial Risk</b>		
<b>Credit Risk</b>	<b>Impact</b>	<b>Risk Management Strategies</b>
The risk of loss of principal or loss of a financial reward stemming from a borrower's failure to repay a loan or otherwise meet a contractual obligation.	<p>Loss of principal amount invested</p> <p>Loss of interest/return on investment</p>	<ul style="list-style-type: none"> <li>• Cash surpluses are invested with commercial banks and subsidiaries of banks identifying the most profitable investment opportunities.</li> <li>• The credit rating of the financial institution is considered and a maximum limit is determined with regard to any single financial institution in which an investment is made.</li> <li>• Following the investment policy to regulate the investment of surplus funds until they are utilised.</li> </ul>
<b>Gearing Risk</b>	<b>Impact</b>	<b>Risk Management Strategies</b>
Risks from high financial gearing	The possibility of excessive losses is greatly enhanced in highly geared positions	<ul style="list-style-type: none"> <li>• The Company is debt free and has generated cash surpluses enabling the funding of all its proposed investments from internally generated funds.</li> </ul>
<b>Interest Rate Risk</b>	<b>Impact</b>	<b>Risk Management Strategies</b>
Interest rate risk is the risk that arises from fluctuating interest rates	The possibility of lower returns on investments due to interest rates' downward movements.	<ul style="list-style-type: none"> <li>• In mitigating such risks the interest rate movements are closely monitored and the investment tenure is decided accordingly.</li> </ul>
<b>Liquidity Risk</b>	<b>Impact</b>	<b>Risk Management Strategies</b>
Liquidity risk is the risk of not having sufficient resources to meet financial obligations in time of need in full at a reasonable cost	Penalty charges and unfavourable terms when obtaining future loans or loan facilities.	<ul style="list-style-type: none"> <li>• Regular cash flow forecasts, monitoring of disbursements and collections are used as tools by LankaClear to mitigate the liquidity risk</li> <li>• The Company keeps an adequate amount of resources in short term financial instruments to purchase consumables and pay short term liabilities.</li> <li>• Credit terms provided by vendors are utilised in full to manage cash outflows of the company. Further, emphasis for bringing down the debtors' collection period was carried out by agreeing with customers to settle payments with convenient payment mechanisms such as SLIPS transfers.</li> </ul>

**RISK MANAGEMENT (Contd.)**

<b>Foreign Exchange Rate Risk</b>	<b>Impact</b>	<b>Risk Management Strategies</b>
Foreign Exchange Rate Risk is the risk that arises from fluctuating Foreign Exchange Rates	The possibility of require to incur higher costs related foreign currency payments	<ul style="list-style-type: none"> <li>Foreign exchange risk is not a major concern to us except for circumstances where high valued software and hardware purchases, consultancy assignments or maintenance services are sourced from international parties where the payment is made in foreign currency. LankaClear has limited avenues to mitigate foreign exchange related risks and leaves us no option but to apply the conversion rate prevailing at the time to pay for such crucial services</li> </ul>
<b>Placement Risk</b>	<b>Impact</b>	<b>Risk Management Strategies</b>
Risk of placing funds in projects which does not make adequate return	Affect profitability of the Company	<ul style="list-style-type: none"> <li>Undertaking detailed Cash flow predictions of income and expenses to check whether projects would make adequate return based on available market data and conservative assumptions</li> </ul>





**I SEE A FUTURE  
WHERE ALL MY  
TRANSACTIONS  
ARE MADE ON THE MOVE  
THROUGH MOBILE  
PAYMENTS**







## **FINANCIAL REPORTS**

Statement of Directors' Responsibilities for  
Financial statements 56  
Annual Report of the Board of Directors on  
the Affairs of the Company 57  
Independent Auditor's Report 59  
Statement of Financial Position 60  
Statement of Comprehensive Income 61  
Statement of Changes In Equity 62  
Cash Flow Statement 63  
Notes to the Financial Statements 64

## 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 for Small and Medium - sized Entities and provide the information required by the Companies Act No. 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

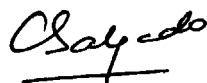
the generally accepted accounting principles and in accordance with the Sri Lanka Accounting Standards for Small and Medium - sized Entities as laid down by the Institute of Chartered Accountants of Sri Lanka.

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 for Small and Medium - sized Entities.

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 59 of the Annual Report.

By Order of the Board  
LankaClear (Private) Limited



**Managers & Secretaries (Pvt)  
Limited**  
*Secretaries*

Colombo  
31<sup>st</sup> July 2014

## ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE AFFAIRS OF THE COMPANY

The Board of Directors are pleased to submit their report together with the Auditor's Report and Financial Statements for the year ended 31<sup>st</sup> March 2014, to be presented at the 12<sup>th</sup> Annual General Meeting of the Company.

### REVIEW OF THE YEAR

The Chairperson's review on page 9 describes the Company's affairs and mentions important events that occurred during the year, and up to the date of this report. The Financial Highlights on page 6 elaborate the financial results of the Company. This report together with the audited financial statements reflects the state of the affairs of the Company.

### PRINCIPAL ACTIVITIES

The Principal Activities of the Company were providing cheque clearing facilities to commercial banks on behalf of the Central Bank of Sri Lanka and facilitating inter bank electronic fund transfers through SLIPS.

### 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 pages 60 -77 of this annual report.

### INDEPENDENT AUDITOR'S REPORT

The Auditor's Report on the financial statements is given on page 59 of this report.

### ACCOUNTING POLICIES

The Accounting Policies adopted in preparation of the financial statements are given on pages 64 - 67. There were no changes in Accounting Policies adopted by the Company during the year under review.

### FIXED ASSETS

The details of fixed assets are given in note 3 to the accounts.

### DIRECTORS' RESPONSIBILITIES

The Statement of the Directors' Responsibilities is given on page 56 of this report.

### CORPORATE GOVERNANCE

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

and the details appear in the Corporate Governance Report on pages 39 -41.

### RESERVES

The Reserves and Accumulated Profits as at 31<sup>st</sup> March 2014 amount to Rs. 935,880,830 vs Rs. 775,603,559 as at 31<sup>st</sup> March 2013. 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. 158,250,000 as at 31<sup>st</sup> March 2014. The details are given in Note 10 to the financial statement on page 72.

### 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

The details of the transactions with Director-related entities are disclosed

in Note 20 to the financial statements on page 77, and have been declared at the Board meeting, pursuant to Section 192 (2) of the Companies Act No. 7 of 2007.

### BOARD COMMITTEES

#### BOARD AUDIT COMMITTEE

The following are the names of the Directors comprising the Audit Committee of the Board.

1. Mr. W P R P H Fonseka - Chairman
2. Mrs. R A S M Dayaratne
3. Mr. M U de Silva

#### BOARD HR COMMITTEE

The following are the names of the Directors comprising the Board HR Committee

1. Mrs. P Liyanage - Chairperson
2. Mr. S S Ratnayake
3. Mr. M U de Silva

#### BOARD RISK COMMITTEE

The following are the names of the Directors comprising the Board Risk Committee

1. Mr. S S Ratnayake - Chairman
2. Mr. M O F Salieh
3. Mr. M A A Noman

## ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE AFFAIRS OF THE COMPANY (Contd.)

### DIRECTORS

The Board of Directors of LankaClear (Private) Limited as at 31<sup>st</sup> March 2014 were:

Mrs. Priyantha Liyanage –  
Chairperson  
Mr. S S Ratnayake  
Mr. D M Gunasekara  
Mr. M A B Silva  
Mrs. R A S M Dayarathna  
Mr. M A A Noman  
Mr. W M R S Dias  
Mr. M O F Salieh

### 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 Accountant, 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 are disclosed in the Note 16 on page 75 of this Annual Report.

As far as the Directors are aware, the Auditors do not have any relationship on 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. The details on the work on the Audit Committee are set out in the Audit Committee Report.

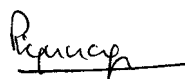
- Mr. R Theagarajah resigned w.e.f. 30<sup>th</sup> June 2013 and Mr. A J Alles was appointed w.e.f. 1<sup>st</sup> July 2013 in his place.
- Mr. A J Alles resigned w.e.f. 30<sup>th</sup> August 2013 and Mr. W M R S Dias was appointed w.e.f. 30<sup>th</sup> August 2013 in his place.

### NOTICE OF MEETING

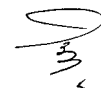
The Annual General Meeting will be held at 'Salon Anthurium', Galadari Hotel, 64, Lotus Road, Colombo 01. on 29<sup>th</sup> August 2014 at 11.30 am.

The Notice of the Annual General Meeting appears on page 82.

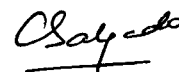
For and on behalf of the Board.



**P Liyanage**  
Chairperson



**S S Ratnayake**  
Director



**Managers & Secretaries (Pvt)  
Ltd**  
Secretaries

LankaClear (Private) Limited  
31<sup>st</sup> July 2014  
Colombo

**INDEPENDENT AUDITOR'S REPORT**

Ernst & Young  
Chartered Accountants  
201 De Saram Place  
P.O. Box 101  
Colombo 10  
Sri Lanka

Tel : +94 11 2463500  
Fax Gen : +94 11 2697369  
Tax : +94 11 5578180  
eysl@lk.ey.com  
ey.com

**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 statement of financial position as at 31 March 2014, statement of comprehensive income, statement of changes in equity, 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 Standard for

Small and Medium-Sized Entities (SLFRS for SMEs).

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 policies 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 2014 and the financial statements give a true and fair view of the Company's state of affairs as at 31 March 2014 and its profit and cash flows for the year then ended in accordance with Sri Lanka Accounting Standard for Small and Medium-Sized Entities.

**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.

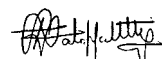
15<sup>th</sup> July 2014  
Colombo

**STATEMENT OF FINANCIAL POSITION**

As at 31 March

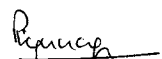
	Note	2014 Rs.	2013 Rs.
<b>ASSETS</b>			
<b>Non Current Assets</b>			
Property, Plant & Equipment	3	210,508,616	206,243,462
Intangible Assets	4	83,035,481	10,711,792
Deferred Tax Assets	5	1,117,188	-
		<b>294,661,285</b>	<b>216,955,254</b>
<b>Current Assets</b>			
Inventories	6	2,527,516	2,484,373
Trade and Other Receivables	7	85,671,392	87,191,036
Short Term Financial Investments	8	726,361,031	672,382,138
Cash and Cash Equivalents	9	46,161,301	18,327,178
		<b>860,721,240</b>	<b>780,384,725</b>
<b>Total Assets</b>		<b>1,155,382,525</b>	<b>997,339,979</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Capital and Reserves</b>			
Stated Capital	10	158,250,000	154,750,000
Technology Upgrade Reserve	11.1	229,674,944	174,944,117
Capital Reserves	11.2	120,000,000	395,000,000
Retained Earnings		586,205,886	205,659,442
<b>Total Equity</b>		<b>1,094,130,830</b>	<b>930,353,559</b>
<b>Non Current Liabilities</b>			
Retirement Benefit Obligation	12	17,255,573	11,370,585
Deferred Tax Liability		-	65,418
		<b>17,255,573</b>	<b>11,436,003</b>
<b>Current Liabilities</b>			
Trade and Other Payables	13	26,786,093	32,708,232
Income Tax Liability		17,210,029	22,842,185
		<b>43,996,122</b>	<b>55,550,417</b>
<b>Total Equity and Liabilities</b>		<b>1,155,382,525</b>	<b>997,339,979</b>
<b>Net Assets Value Per Share</b>		<b>71.98</b>	<b>61.41</b>

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



**R L Galappaththy**  
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;



**P Liyanage**  
Chairperson



**S S Ratnayake**  
Director

The Accounting Policies and Notes on pages 64 to 77 form an integral part of these Financial Statements.

15<sup>th</sup> July 2014  
Colombo

**STATEMENT OF COMPREHENSIVE INCOME**

<b>Year ended 31 March</b>	<b>Note</b>	<b>2014 Rs.</b>	<b>2013 Rs.</b>
<b>Revenue</b>	14	<b>463,026,429</b>	427,853,866
Direct Operating Expenses		<b>(202,122,684)</b>	(145,742,452)
<b>Gross Profit</b>		<b>260,903,745</b>	282,111,414
Other Income	15	<b>95,301,719</b>	83,130,665
Administrative Expenses		<b>(128,005,769)</b>	(104,778,885)
<b>Profit Before Tax</b>	16	<b>228,199,695</b>	260,463,194
Income Tax Expense	17	<b>(41,409,922)</b>	(71,551,126)
<b>Profit for the Year</b>		<b>186,789,773</b>	188,912,068
Other Comprehensive Income		-	-
<b>Total Comprehensive Income for the Year</b>		<b>186,789,773</b>	188,912,068
Earnings Per Share	18	<b>12.32</b>	12.47

The Accounting Policies and Notes on pages 64 to 77 Form an integral part of these Financial Statements.



**STATEMENT OF CHANGES IN EQUITY**

Year ended 31 March	Note	Stated Capital Rs.	Technology Upgrade Reserve Rs.	Capital Reserves Rs.	Retained Earnings Rs.	Total Rs.
<b>Balance as at 01 April 2012</b>		154,750,000	110,213,820	395,000,000	104,202,672	764,166,489
Profit for the Year		-	-	-	188,912,068	188,912,068
Transferred to Technology Upgrade Reserve		-	65,115,798	-	(65,115,798)	-
Utilisation of Technology Upgrade Reserve		-	(385,500)	-	385,500	-
Dividend paid		-	-	-	(22,725,000)	(22,725,000)
<b>Balance as at 31 March 2013</b>		154,750,000	174,944,117	395,000,000	205,659,442	930,353,557
Profit for the Year		-	-	-	186,789,773	186,789,773
Proceeds from New Share Issue		3,500,000	-	-	-	3,500,000
Other Comprehensive Income		-	-	-	-	-
Transferred from Capital Reserve		-	-	(275,000,000)	275,000,000	-
Transferred to Technology Upgrade Reserve	11.1	-	57,049,924	-	(57,049,924)	-
Utilisation of Technology Upgrade Reserve	11.1	-	(2,319,097)	-	2,319,097	-
Dividend paid		-	-	-	(26,512,500)	(26,512,500)
<b>Balance as at 31 March 2014</b>		158,250,000	229,674,944	120,000,000	586,205,886	1,094,130,830

The Accounting Policies and Notes on pages 64 to 77 form an integral part of these Financial Statements.

**CASH FLOW STATEMENT**

Year ended 31 March

	Note	2014 Rs.	2013 Rs.
<b>Cash Flows From/(Used in) Operating Activities</b>			
Profit Before Tax		228,199,695	260,463,194
Adjustments for			
Depreciation	3	37,712,629	22,991,347
Amortisation of Intangible Assets	4	14,774,086	7,760,095
Finance Income	15	(95,206,016)	(82,779,611)
Retirement Benefit Obligation	12	6,614,786	3,375,854
Provision for Bank Claims		(13,031,674)	(9,557,090)
Profit on Disposal of Property, Plant & Equipment	15	(42,217)	(300,899)
Loss of Investment in Subsidiary		-	1,185,078
Operating Profit before Working Capital Changes		179,021,289	203,137,967
(Increase)/Decrease in Inventories		(43,143)	(527,864)
(Increase)/Decrease in Trade and Other Receivables		1,519,644	(31,356,565)
Increase/(Decrease) in Trade and Other Payables		7,109,535	(7,522,274)
Cash Generated from Operations		187,607,326	163,731,265
Income Tax Paid		(48,224,685)	(66,929,882)
Gratuity Paid	12	(729,798)	-
<b>Net Cash From/(Used in) Operating Activities</b>		<b>138,652,843</b>	<b>96,801,383</b>
<b>Cash Flows From/(Used in) Investing Activities</b>			
Acquisition of Property, Plant & Equipment		(55,179,224)	(7,822,381)
Acquisition of Intangible Assets		(38,993,357)	(3,193,915)
Investment in Common Card and Payment Switch	3	(34,916,118)	(129,850,186)
Proceeds from Subsidiary		-	2,253,612
Proceeds from Disposal of Property, Plant & Equipment		55,357	312,000
Investment in Short Term Financial Investments		(59,887,637)	(126,286,549)
Finance Income Received		101,114,760	68,580,433
<b>Net Cash Flows From/(Used in) Investing Activities</b>		<b>(87,806,220)</b>	<b>(196,006,986)</b>
<b>Cash Flows From/(Used in) Financing Activities</b>			
Proceeds from Issue of Ordinary Shares	10	3,500,000	-
Dividend Paid		(26,512,500)	(22,725,000)
<b>Net Cash Flows From/(Used in) Financing Activities</b>		<b>(23,012,500)</b>	<b>(22,725,000)</b>
<b>Net Increase/(Decrease) in Cash and Cash Equivalents</b>		<b>27,834,123</b>	<b>(121,930,603)</b>
Cash and Cash Equivalents at the beginning of the year		18,327,178	140,257,781
<b>Cash and Cash Equivalents at the end of the year (Note A)</b>		<b>46,161,301</b>	<b>18,327,178</b>
<b>Note A</b>			
<b>Analysis of Cash and Cash Equivalents at the End of the Year</b>			
Investment in REPOs		45,100,000	16,700,000
Accrued Interest on REPOs		32,088	34,508
Cash in Hand and at Bank		1,029,213	1,592,670
<b>Total Cash &amp; Cash Equivalents</b>		<b>46,161,301</b>	<b>18,327,178</b>

The Accounting Policies and Notes on pages 64 to 77 form an integral part of these Financial Statements.

## NOTES TO THE FINANCIAL STATEMENTS

### 1. CORPORATE INFORMATION

#### 1.1 REPORTING ENTITY

LankaClear (Private) Limited is a limited liability Company incorporated and domiciled in Sri Lanka. The Registered Office and the principal place of business is situated at Level 18, Bank of Ceylon Head Office, "BOC Square", No.1, Bank of Ceylon Mawatha, Colombo 01.

#### 1.2 PRINCIPAL ACTIVITIES AND NATURE OF OPERATIONS

During the year, the principal activities of the Company are to provide cheque clearance transactions to all commercial banks on behalf of the Central Bank of Sri Lanka, facilitating online interbank electronic fund transfers through Sri Lanka Interbank Payment System (SLIPS), provide a local switch to facilitate routing of Not-on-Us ATM transactions and provide digital certification services (LankaSign) to the financial sector.

#### 1.3 DATE OF AUTHORIZATION FOR ISSUE

The Financial Statements of LankaClear (Private) Limited for the year ended 31 March 2014 were authorized for issue, in accordance with a

resolution of the Board of Directors on 15<sup>th</sup> July 2014.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### 2.1 BASIS OF PREPARATION

The Financial Statements of LankaClear (Private) limited have been prepared in accordance with the 'Sri Lanka Accounting Standard for Small and Medium – Sized Entities (SME)' issued by the Institute of Chartered Accountants of Sri Lanka. The Financial Statements of the Company have been prepared on an accrual basis and under the historical cost convention method unless stated otherwise. The Financial Statements are presented in Sri Lankan Rupees, which is the Company's functional and presentation currency and all financial information presented in Sri Lankan Rupees has been rounded to the nearest Rupee.

#### 2.2 STATEMENT OF COMPLIANCE

The Financial Statements have been prepared in compliance with Sri Lanka Accounting Standard for Small and Medium-Sized Entities issued by the Institute of Chartered

Accountants of Sri Lanka and the requirements of the Companies Act No.7 of 2007.

#### 2.3 GOING CONCERN

The Management is satisfied that the Company has adequate resources to continue its operations in the foreseeable future. Therefore we continue to adopt going concern assumption in preparing these Financial Statements.

#### 2.4 KEY SOURCES OF ESTIMATION UNCERTAINTY AND JUDGMENTS

The preparation of Financial Statements in conformity with Sri Lanka Accounting Standard for Small and Medium-Sized Entities requires Management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

### Assessment of Impairment

The Company assesses at the end of each financial year whether there is objective evidence that an asset or portfolio of assets is impaired. The recoverable amount of an asset or Cash Generating Unit (CGU) is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to present value using appropriate discount rates that reflects the current market assessments of the time value of money and risks specific to the asset.

### Defined Benefit Plans

The cost of defined benefit plan – gratuity is determined using gratuity formula method. The gratuity formula method involves making assumptions about discount rates, future salary increases, staff turnover rates etc. Due to the long term nature of these plans, such estimates are subject to significant uncertainty. All assumptions are reviewed at each reporting date.

### 2.5 FOREIGN CURRENCY TRANSLATION

All foreign exchange transactions are converted to functional currency, at the

rates of exchange prevailing at the time the transactions are affected.

Monetary assets and liabilities denominated in foreign currency are translated to functional currency equivalents at the exchange rate prevailing at the end of the reporting period. Non-monetary assets and liabilities are translated using exchange rates that existed when the values were determined. The resulting gains and losses are recognised in profit or loss.

## 2.6 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are recognised if it is probable that future economic benefits associated with the assets will flow to the entity and cost of the asset can be reliably measured.

Items of property, plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses. Cost of day to day servicing of an item of property, plant and equipment recognise in profit or loss in the period in which the costs are incurred.

Depreciation is charged so as to allocate the cost of assets less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives are as follows.

Computer	
Equipment	4-8 years
Furniture and Fittings	10 years
Electronic Equipment	5 years
Other Equipment	5 years
Motor Vehicles	5 years

If there is an indication that there has been a significant change in assets useful life or residual value of an asset, the depreciation of that asset is revised prospectively to reflect the new expectations.

### Capital Work-in-Progress

Capital work-in-progress is stated at cost less any accumulated impairment losses. These are expenses which directly incurred in the construction of system development, awaiting capitalization. Capital work-in progress would be transferred to the relevant asset when it is available for use i.e. when it is in the location and condition necessary for it

to be capable of operating in the manner intended by management.

## 2.7 BORROWING COSTS

All borrowing costs are recognized in profit or loss in the period in which they are incurred.

## 2.8 IMPAIRMENT OF NON FINANCIAL ASSETS

At each reporting date, property, plant and equipment and intangible assets are reviewed to determine whether there is any indication that those assets have suffered an impairment loss. If there is an indication of possible impairment, the recoverable amount of any affected asset (or group of related assets) is estimated and compared with its carrying amount. If estimated recoverable amount is lower, the carrying amount is reduced to its estimated recoverable amount, and an impairment loss is recognized immediately in profit or loss.

Similarly, at each reporting date, inventories are assessed for impairment by comparing the carrying amount of each item of inventory (or group of similar items) with its

selling price less costs to complete and sell. If an item of inventory (or group of similar items) is impaired, its carrying amount is reduced to selling price less costs to complete and sell, and an impairment loss is recognized immediately in profit or loss.

If an impairment loss subsequently reverses, the carrying amount of the asset (or group of related assets) is increased to the revised estimate of its recoverable amount (selling price less costs to complete and sell, in the case of inventories), but not in excess of the amount that would have been determined had no impairment loss been recognized for the asset (group of related assets) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

## 2.9 INTANGIBLE ASSETS

An intangible asset is recognised if it is probable that the future economic benefits that are attributable to the asset will flow to the entity and the cost of the assets can be measured reliably. An intangible asset is initially measured at cost.

**NOTES TO THE FINANCIAL STATEMENTS (Contd.)****Computer Software**

Purchased computer software is stated at cost less accumulated amortisation and any accumulated impairment losses. It is amortized over its estimated life of 4 - 8 years using the straight-line method. If there is an indication that there has been a significant change in useful life or residual value of an intangible asset, the amortisation is revised prospectively to reflect the new expectations.

**2.10 INVENTORIES**

Inventories are valued at the lower of cost and net realizable value, after making due allowances for obsolete and slow moving items. Net realizable 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 for as follows;  
Consumables and Stationery - On a weighted average basis

**2.11 FINANCIAL ASSETS AND LIABILITIES**

The Company's financial assets include trade and other receivables, short-term investments and cash and cash equivalents.

Trade and other receivables are initially recognized at the transaction price. All sales are made on the basis of normal credit terms, and the receivables do not bear interest. Where credit is extended beyond normal credit terms, receivables are measured at amortised cost using the effective interest method.

At the end of each reporting period, the carrying amounts of trade and other receivables are reviewed to determine whether there is any objective evidence that the amounts are not recoverable. If so, an impairment loss is recognized immediately in profit or loss.

Investments with maturities more than three months and less than one year from the date of acquisition are considered as short term financial investments and are initially recognized at fair value. After initial measurement, such financial assets are subsequently

measured at amortized cost using Effective Interest Rate method (EIR), less impairment.

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.

Securities purchased under re-sale agreements are advances collateralized by purchase of treasury bills subject to a commitment to re-sale them at a predetermined price. Such securities remain on the statement of financial position of the Company and the asset is recorded in respect of the consideration paid and interest accrued thereon.

The Company's financial liabilities include trade

and other payables.

Financial liabilities are initially recognized at the transaction price (including transaction costs). Trade payables are obligations on the basis of normal credit terms and do not bear interest.

**2.12 PROVISIONS**

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. The expense relating to any provision is presented in profit or loss 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 recognized as an interest expense.

### **2.13 EMPLOYEE BENEFITS** **Defined Benefit Plans –** **Gratuity**

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The present value of the defined benefit obligation is determined by discounting the estimated future payments by reference to market yields at the reporting date on high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related liability.

Actuarial gains and losses and the past services costs are charged or credited to profit or loss in the period they arise. Past service costs are recognized immediately in profit or loss.

### **Defined Contribution Plans – Employees' Provident Fund and Employees' Trust Fund**

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contribution into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contribution

to Employee Provident and Employee Trust Funds covering all employees are recognized as an expense in profit or loss as incurred. The Company contributes 12 % and 3% of gross emoluments of employees to Employees' Provident Fund and Employees' Trust Fund respectively.

### **2.14 REVENUE** **RECOGNITION**

Revenue is recognized 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 discounts and sales-related taxes collected on behalf of the government of Sri Lanka.

### **Interest Income**

Interest income is recognized as the interest accrued unless collectability is doubtful.

### **2.15 INCOME TAX EXPENSES**

Income tax expense represents the sum of the tax currently payable and deferred tax. The tax currently payable is based on taxable profit for the year.

Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the financial statements and their corresponding tax basis (known as temporary differences). Deferred tax liabilities are recognized for all temporary differences that are expected to increase taxable profit in the future. Deferred tax assets are recognized for all temporary differences that are expected to reduce taxable profit in the future, and any unused tax losses or unused tax credits. Deferred tax assets are measured at the highest amount that, on the basis of current or estimated future taxable profit, is more likely than not to be recovered.

The net carrying amount of deferred tax assets is reviewed at each reporting date and is adjusted to reflect the current assessment of future taxable profits. Any adjustments are recognised in profit or loss

Deferred tax is calculated at the tax rates that are expected to apply to the taxable profit (tax loss) of the periods in which it expects the deferred tax

asset to be realised or the deferred tax liability to be settled, on the basis of tax rates that have been enacted or substantively enacted by the end of the reporting period.

### **2.16 EARNINGS PER SHARE**

The Company presents Basic and Diluted Earnings per Share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period.

### **2.17 CASH FLOW** **STATEMENT**

The cash flow statement has been prepared using the "indirect method". Cash and cash equivalents are defined as cash in hand and demand deposits, readily converted to known amounts of cash and subject to insignificant risk of changes in value. Interest paid is classified under operating cash flows for the purpose of presentation of cash flow statement and reported based on the indirect method.

**3. PROPERTY, PLANT & EQUIPMENT****3.1 AT COST**

	Balance as at 01.04.2013 Rs.	Additions/ Transfers Rs.	Disposals/ Transfers Rs.	Balance as at 31.03.2014 Rs.
Computer Equipment	269,863,384	144,059,122	845,943	<b>413,076,564</b>
Furniture and Fittings	16,415,161	3,736,705	80,147	<b>20,071,719</b>
Electronic Equipment	26,126,341	2,006,661	632,650	<b>27,500,352</b>
Other Equipment	2,143,877	996,215	-	<b>3,140,091</b>
Motor Vehicle	6,650,000	-	-	<b>6,650,000</b>
Freehold Land	-	21,238,620	-	<b>21,238,620</b>
	321,198,762	172,037,322	1,558,739	<b>491,677,345</b>
<b>Capital Work in Progress</b>				
Common Card and Payment Switch	166,506,317	34,916,118	166,506,317	<b>34,916,118</b>
Freehold Building	-	1,543,799	-	<b>1,543,799</b>
	166,506,317	36,459,917	166,506,317	<b>36,459,917</b>
Total Value of Assets	487,705,079	208,497,239	168,065,056	<b>528,137,262</b>

**3.2 DEPRECIATION**

	Balance as at 01.04.2013 Rs.	Charge for the Year Rs.	Disposals Rs.	Balance as at 31.03.2014 Rs.
Computer Equipment	241,241,678	34,360,623	845,943	<b>274,756,359</b>
Furniture and Fittings	9,033,292	1,646,044	67,006	<b>10,612,329</b>
Electronic Equipment	23,004,001	1,401,865	632,650	<b>23,773,215</b>
Other Equipment	1,532,646	304,098	-	<b>1,836,744</b>
Motor Vehicle	6,650,000	-	-	<b>6,650,000</b>
Total Depreciation	281,461,617	37,712,629	1,545,599	<b>317,628,647</b>



**3.3 NET BOOK VALUES**

	2014 Rs.	2013 Rs.
Computer Equipment	138,320,205	28,621,706
Furniture and Fittings	9,459,390	7,381,869
Electronic Equipment	3,727,136	3,122,340
Other Equipment	1,303,348	611,231
Motor Vehicle	-	-
Land	21,238,620	-
	174,048,699	39,737,146
<b>Capital Work in Progress</b>		
Common Card and Payment Switch	34,916,118	166,506,317
Freehold Building	1,543,799	-
	36,459,917	166,506,317
<b>Total Carrying Amount of Property, Plant and Equipment</b>	<b>210,508,616</b>	206,243,462

**3.4** During the financial year, the Company acquired Property, Plant & Equipment with an aggregate cost of Rs. 208,497,239/- (2013 - Rs. 137,672,567/-) of which Rs. 90,095,341/- (2013 - Rs. 137,672,567/-) was acquired by means of Cash.

**3.5** Based on the assessment of potential impairment carried out internally as at 31st March 2014 no provision was required to be made in the Financial Statements as at the end of the reporting period.

**3.6** There were no items of Property, Plant and Equipment pledged as securities for liabilities.

**4. INTANGIBLE ASSETS**

	2014 Rs.	2013 Rs.
<b>4.1 COST</b>		
Balance at the Beginning of the Year	263,666,260	260,472,345
Additions/Transfer during the Year	87,097,776	3,193,915
Balance at the End of the Year	350,764,036	263,666,260

**NOTES TO THE FINANCIAL STATEMENTS (Contd.)**

	<b>2014 Rs.</b>	<b>2013 Rs.</b>
<b>4.2 AMORTISATION</b>		
Balance at the Beginning of the Year	<b>252,954,468</b>	245,194,373
Amortisation for the Year	<b>14,774,086</b>	7,760,095
Balance at the End of the Year	<b>267,728,554</b>	252,954,468
<b>4.3 Net Book Value</b>	<b>83,035,481</b>	10,711,792

**4.4** During the financial year, the Company acquired Intangible assets with an aggregate cost of Rs.87,097,776/- (2013 - Rs. 3,193,915/-) of which Rs. 38,993,357/- (2013 - Rs. 3,193,915/-) was acquired by means of Cash.

**4.5** Based on the assessment of potential impairment carried out internally as at 31<sup>st</sup> March 2014, no provision was required to be made in the Financial Statements as at the end of the reporting period.

**5. DEFERRED TAXATION**

	<b>2014 Rs.</b>	<b>2013 Rs.</b>
Deferred Tax Asset / (Liability)	<b>1,117,188</b>	(65,418)
	<b>1,117,188</b>	(65,418)

	<b>2014</b>		<b>2013</b>	
	<b>Temporary Difference Rs.</b>	<b>Tax Effect Rs.</b>	<b>Temporary Difference Rs.</b>	<b>Tax Effect Rs.</b>
Balance at the Beginning of the Year	<b>(233,636)</b>	<b>(65,418)</b>	(4,278,099)	(1,197,867)
Transferred to/(from) Income Statement	<b>4,223,594</b>	<b>1,182,606</b>	4,044,463	1,132,450
Balance at the End of the Year	<b>3,989,958</b>	<b>1,117,188</b>	(233,636)	(65,418)
Deferred Tax Asset/(Liability) consisted of followings				
Property, Plant and Equipment	<b>(13,265,615)</b>	<b>(3,714,372)</b>	(11,604,221)	(3,249,182)
Retirement Benefit Obligation	<b>17,255,573</b>	<b>4,831,560</b>	11,370,585	3,183,764
	<b>3,989,958</b>	<b>1,117,188</b>	(233,636)	(65,418)

## 6. INVENTORIES

	2014 Rs.	2013 Rs.
Consumable and Stationery	2,527,516	2,484,373
	2,527,516	2,484,373

## 7. TRADE AND OTHER RECEIVABLES

	2014 Rs.	2013 Rs.
Trade Receivables	50,867,907	41,023,497
Advances & Prepayments	13,460,604	10,825,829
Refundable Deposits	228,700	228,700
Advance Payment on CCAPS Application Software	21,000,000	35,000,000
Other Receivables	114,180	113,010
	85,671,392	87,191,036

## 8. SHORT TERM FINANCIAL INVESTMENTS

	2014 Rs.	2013 Rs.
Investment in Fixed Deposits	564,885,418	386,072,768
Accrued Interest on Fixed Deposits	26,251,695	21,038,185
Investment in Commercial Papers	120,659,689	245,584,702
Accrued Interest on Commercial Papers	8,236,850	19,686,483
Investment in REPOs	6,000,000	-
Accrued Interest on REPOs	327,378	-
	726,361,031	672,382,138

**9. CASH AND CASH EQUIVALENTS**

	2014 Rs.	2013 Rs.
Investment in REPOs	45,100,000	16,700,000
Accrued Interest on REPOs	32,088	34,508
Cash in Hand and at Bank	1,029,213	1,592,670
Total Cash and Cash Equivalents for the Purpose of Cash Flow Statement	46,161,301	18,327,178

**10. STATED CAPITAL**

	2014		2013	
	Number	Rs.	Number	Rs.
Fully paid Ordinary Shares	15,200,000	158,250,000	15,150,000	154,750,000
Balance at the Beginning of the Year	15,150,000	154,750,000	15,150,000	154,750,000
Issue of Shares for Cash	50,000	3,500,000	-	-
Balance at the End of the Year	15,200,000	158,250,000	15,150,000	154,750,000

**11. RESERVES**

	2014 Rs.	2013 Rs.
<b>11.1 TECHNOLOGY UPGRADE RESERVE</b>		
Balance at the Beginning of the Year	174,944,118	110,213,819
Transferred from Retained Earnings	57,049,924	65,115,798
Utilisation of Technology Upgrade Reserve	(2,319,097)	(385,500)
Balance at the End of the Year	229,674,944	174,944,117

Technology Upgrade Reserve represents profits reserved by the Company for the replacement of capital assets that have either completed their useful economic life or with outdated technology necessitating replacements.

**11.2 CAPITAL RESERVE**

	<b>2014</b> <b>Rs.</b>	<b>2013</b> <b>Rs.</b>
Reserve for Common Card and Payment Switch Project	<b>90,000,000</b>	360,000,000
Reserve for Direct Connectivity Project	<b>25,000,000</b>	25,000,000
Reserve for Certificate Authority Project	-	5,000,000
Reserve for Bank CSIRT Project	<b>5,000,000</b>	5,000,000
	<b>120,000,000</b>	395,000,000

Reserve for Common Card and Payment Switch Project comprises amounts set aside by the entity for the purpose of meeting the balance capital infrastructure requirements of the Project.

Reserve for Direct Connectivity Project represents profits that have been held in reserve to fund for developments and improvements in CITS system which can be taken place in the future based on the market demand .

Reserve for Bank CSIRT Project for the Financial sector reflects the amounts the Company has reserved to implement a system to reduce Internet related Frauds in the future.

**12. RETIREMENT BENEFIT OBLIGATION**

	<b>2014</b> <b>Rs.</b>	<b>2013</b> <b>Rs.</b>
Balance at the Beginning of the Year	<b>11,370,585</b>	7,994,731
Interest Charge for the Year	<b>983,556</b>	367,314
Gratuity Charge for the Year	<b>3,845,345</b>	2,508,973
(Gain)/Loss arising from changes in the assumptions	<b>1,785,885</b>	499,566
Payments made during the Year	<b>(729,798)</b>	-
Balance at the End of the Year	<b>17,255,573</b>	11,370,585

The Company has adopted Section 28 of Sri Lanka Accounting Standard for SMEs - Employee Benefits in determining the Retirement Benefit Obligation as at 31st March 2014. The Present Value of the Retirement Benefit Obligation is estimated using Projected Unit Credit method under Acturial Valuation.

**13. TRADE AND OTHER PAYABLES**

	<b>2014</b> <b>Rs.</b>	<b>2013</b> <b>Rs.</b>
Value Added Tax	<b>3,318,835</b>	2,719,881
Nation Building Tax	<b>888,687</b>	718,364
Sundry Creditors and Accruals	<b>22,578,571</b>	29,269,987
	<b>26,786,093</b>	32,708,232

**14. REVENUE**

	<b>2014</b> <b>Rs.</b>	<b>2013</b> <b>Rs.</b>
Revenue from Cheque Imaging and Truncation System	<b>373,733,478</b>	373,251,690
Revenue from Sri Lanka Interbank Payment System	<b>63,262,490</b>	52,261,772
Revenue from Certificate Authority	<b>2,706,800</b>	2,340,404
Revenue from Common Card and Payment Switch	<b>23,323,662</b>	-
Net Revenue	<b>463,026,429</b>	427,853,866

**15. OTHER INCOME**

	<b>2014</b> <b>Rs.</b>	<b>2013</b> <b>Rs.</b>
Interest on Fixed Deposits	<b>66,428,702</b>	45,754,646
Interest on REPOs	<b>2,405,478</b>	3,938,592
Interest on Commercial Papers	<b>26,371,835</b>	33,086,373
Other Income	<b>53,486</b>	50,155
Profit on Disposal of Property, Plant and Equipment	<b>42,217</b>	300,899
	<b>95,301,719</b>	83,130,665

Section 137 of the Inland Revenue Act No. 10 of 2006 provides that a Company which derives interest income from the Secondary market transaction with Government securities be entitled to a Notional Tax credit provided such interest income forms part of a statutory income of the Company for that year of assessment.

Accordingly, Net income earned from Secondary market transactions in Government securities for the year by the entity has been grossed up in the Financial Statements and the resulting Notional Tax credit amounted to Rs. 240,548/- (2013 - Rs. 393,859/-).

#### 16. PROFIT BEFORE TAX

Profit Before Tax is stated after charging all expenses including the following:

	2014 Rs.	2013 Rs.
Directors' Emoluments	3,240,000	3,363,500
Auditors' Fee - External	474,080	412,500
- Internal	448,800	422,586
Loss of Investment in Subsidiary	-	1,185,078
Depreciation	37,712,629	22,991,347
Amortisation of Intangible Assets	14,774,086	7,760,095
Personnel Costs includes		
- Defined Benefits Plan Cost - Gratuity	6,614,785	3,375,854
- Defined Contribution Plan Cost - EPF & ETF	10,744,471	7,516,854
- Other Staff Costs	94,667,545	69,675,680

#### 17. INCOME TAX EXPENSE

The major components of Income Tax expense for the Year ended 31 March are as follows :

	2014 Rs.	2013 Rs.
<b>Current Income Tax Expense</b>		
Current Income Tax Charge (Note 17.1)	42,618,863	72,683,576
Over provision of current taxes in respect of previous year	(26,334)	-
<b>Deferred Income Tax Expense</b>		
Deferred Tax originating/(reversing) during the Year (Note 5)	(1,182,606)	(1,132,450)
Charge to the Income Statement	41,409,922	71,551,126



	2014 Rs.	2013 Rs.
<b>17.1 Reconciliation of Accounting Profit to Income Tax Expense</b>		
Profit Before Tax	228,199,695	260,463,194
Loss on Tax Exempt Operation	35,283,705	-
Aggregate Allowable Items	(129,513,386)	(112,389,164)
Aggregate Disallowable Items	25,641,772	28,730,559
Taxable Income	159,611,787	176,804,588
Interest Income	95,206,016	82,779,611
Income Tax @ 10%	15,961,179	-
Income Tax @ 28%	26,657,684	72,683,576
	42,618,863	72,683,576

Profits and Income earned from Common Card and Payment Switch is exempted from income tax for a period of 6 years in terms of section 17(A) of the Inland Revenue Act No. 10 of 2006 and amendments thereto.

In terms of section 59B of the Inland Revenue Act No. 10 of 2006 and amendments thereto, applicable Income Tax Rate for the year of assessment 2013/2014 is 10%.

## 18. EARNINGS PER SHARE

The calculation of Earnings Per Share is based on the profit attributable to Ordinary Shareholders and the weighted average number of Ordinary Shares outstanding during the year.

	2014 Rs.	2013 Rs.
<b>Amount used as the Numerator</b>		
Net Profit attributable to Ordinary Shareholders	186,789,773	188,912,068
<b>Number of Ordinary Shares used as the Denominator</b>		
Weighted average number of Ordinary Shares in Issue	15,158,607	15,150,000
Earnings Per Share	12.32	12.47
<b>19. DIVIDEND PER SHARE</b>		
Final Dividend paid in respect of 2011/2012	-	22,725,000
Final Dividend paid in respect of 2012/2013	26,512,500	-
Dividend Per Share	1.75	1.50

## 20. RELATED PARTY DISCLOSURES

### Transactions with key Management Personnel of the Company (KMP)

According to Section 33 of Sri Lanka Accounting Standard for SMEs "Related Party Disclosures", Key Management Personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity. Accordingly, the Directors of the Company and their immediate family members have been classified as Key Management Personnel.

	2014 Rs.	2013 Rs.
Short Term Employment Benefits	3,240,000	3,363,500

No other significant transactions had taken place during the year with the parties/entities in which Key Management Personnel or their close family members were involved.

## 21. COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Company makes various Commitments and incurs certain contingent liabilities with legal recourse to its customers and would be party to litigation due to its operations. No material losses are anticipated as a result of these transactions.

### 21.1 CAPITAL EXPENDITURE COMMITMENTS

Capital expenditure approved by the Board of Directors for which provision has not been made in the financial statements amounts to approximately Rs. 151 mn.

### 21.2 LITIGATION AGAINST THE COMPANY

There were no litigation outstanding against the Company as at the Reporting date.

## 22. EVENTS AFTER THE END OF REPORTING DATE

There were no material events occurring after the reporting date that requires adjustments to or disclosure in the Financial Statements other than those disclosed.

## 23. COMPARATIVE FIGURES

To facilitate comparison balances pertaining to the previous year have been re-classified to conform to current year classifications and presentation.

## CORPORATE PROFILE

### NAME OF THE COMPANY

LankaClear (Private) Limited

### LEGAL STATUS

A Private Company with Limited liability incorporated in Sri Lanka on 8<sup>th</sup> February 2002.

### HISTORY

Former Sri Lanka Automated Clearing House (SLACH), owned and operated by the Central Bank of Sri Lanka divested by the Central Bank to LankaClear (Pvt) Limited. LankaClear (Pvt) Limited commenced operations under its name on 1<sup>st</sup> April 2002.

### PRINCIPAL ACTIVITIES

Providing of cheque clearing facilities to commercial banks on behalf of the Central Bank and facilitation of secure interbank electronic fund transfers through SLIPS.

### PRODUCT RANGE

- Rupee Cheque Clearing - Cheque Imaging and Truncation System (CITS)
- Sri Lanka Interbank Payment System (SLIPS)
- LankaPay - Common ATM Switch (LankaPay - CAS)

- Rupee Draft Clearing
- US Dollar Clearing
- Digital Certificates – LankaSign

### BOARD OF DIRECTORS

#### Mrs. P Liyanage Chairperson

Ex-Assistant Governor,  
Central Bank of Sri Lanka

#### Mr. S S Ratnayake Director

Assistant Governor, Central  
Bank of Sri Lanka

#### Mr. D M Gunasekara Director

General Manager  
Bank of Ceylon

#### Mr. M A B Silva Director

Deputy General Manager –  
Operations  
People's Bank

#### Mrs. R A S M Dayarathna Director

Director IT, Central Bank of  
Sri Lanka

#### Mr. M A A Nomani Director

Country General Manager  
MCB Bank Limited, Sri Lanka.

#### Mr. J Durairatnam Director

Managing Director/CEO  
Commercial Bank of Ceylon  
PLC.

#### Mr. M T M Azmeer Director

Chief Executive Officer  
Amāna Bank Limited.

#### Mr. Upali de Silva Observer

Secretary General, SLBA

### MANAGEMENT TEAM

#### Mr. Sunimal B Weerasooriya

General Manager/CEO

#### Mr. Harsha Wanigatunga

Deputy General Manager – IT  
and Operations

#### Mr. Rasika Galappaththy

Head of Finance

#### Mr. Lakshman C Palliyaguruge

Head of HR and  
Administration

#### Mr. Roshan Hettiarachchi

Senior Manager – Operations

#### Mr. Dilantha Samarasinghe

Senior Manager – IT

#### Mr. Isuru Jayaweera

Senior Manager – Help Desk  
and Bank Services

#### Mr. Hemanthe Samaliarachchi

Senior Manager – Payment  
Systems

#### Mr. Duleep A Fernando

Senior Manager –  
Administration

#### Mr. Chris De Alwis

Senior Manager – Business  
Development and Brand  
Promotions

#### Mr. Dimuth Weerasinghe

Manager – Facilities and  
Maintenance

#### Mr. Uddika Kahawatte

Network Operations  
Manager

#### Mr. Danushka Uyanahewage

CITS Manager

#### Mr. Duleep Liyanage

Manager – IT Security  
Solutions

#### Mr. Indika Fernando

Systems Operations  
Manager

#### Mr. Asela Hapuarachchi

Manager – HR

**STATED CAPITAL**

	Number	Rs.
Fully paid Ordinary Shares	15,200,000	158,250,000

**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 PLC	2.00	20.00
Commercial Bank of Ceylon PLC	1.00	10.00
Hatton National Bank PLC	2.20	22.00
Seylan Bank PLC	1.00	10.00
Union Bank of Colombo PLC	0.05	0.50
DFCC Vardhana Bank Ltd	0.10	1.00
Pan Asia Banking Corporation PLC	0.10	1.00
Nations Trust Bank PLC	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
MCB Bank Ltd	0.10	1.00
The Hongkong and Shanghai Banking Corporation Ltd	0.20	2.00
Deutsche Bank AG	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 Ltd	0.05	0.50
Amana Bank Ltd	0.05	2.00
Axis Bank	0.05	2.25
Cargills Bank Ltd	0.05	3.50
<b>Total</b>	<b>15.20</b>	<b>158.25</b>

**REGISTERED OFFICE AND  
PRINCIPAL PLACE OF  
BUSINESS:**

Level 18, Bank of Ceylon  
Head Office, "BOC Square",  
No. 01,  
Bank of Ceylon Mawatha,  
Colombo 1.

**CONTACT**

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

**COMPANY SECRETARIES**

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

**BANKERS**

Bank of Ceylon  
Seylan Bank  
Union Bank

**EXTERNAL AUDITORS**

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

**INTERNAL AUDITORS**

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

## GLOSSARY AND INTERPRETATION

**'ATM'** shall mean a Automated Teller Machine

**'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 ordinarily 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 authenticates a trusted third party.

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

**'CCAPS'** shall mean Common Card and Payment Switch.

**'CITS'** shall mean the '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.

**'CIT 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 accessed by participants through direct connectivity mode.

**'CITS Participants'** 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 CIT 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 organisation 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.

**'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 part III of the Payment and Settlement Systems Act No. 28 of 2005.

**CRIB** – Credit Information Bureau of Sri Lanka

**DR Site** – Disaster Recovery site of LCPL located at 1st Floor, Bank of Ceylon Training Centre, 55, Highlevel Road, Maharagama.

**'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) Limited, incorporated under the Companies Act No. 17 of 1982, and re-registered under the Companies Act No. 07 of 2007.

**'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 amended by LCPL from time to time.

**‘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.

**‘POS’** shall mean Point of Sales

**‘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 certification authority.

**‘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.

**‘RTGS’** shall mean Real Time Gross Settlement System which is, operated by CBSL.

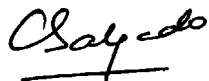
**‘SLIPS’** shall mean Sri Lanka Interbank Payment System

**NOTICE OF ANNUAL GENERAL MEETING**

NOTICE IS HEREBY GIVEN that the 12<sup>th</sup> Annual General Meeting of LankaClear (Private) Limited will be held on 29th August 2014 at 11.30 am. at 'Salon Anthurium', Galadari Hotel, 64, Lotus Road, 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 31<sup>st</sup> March 2014 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

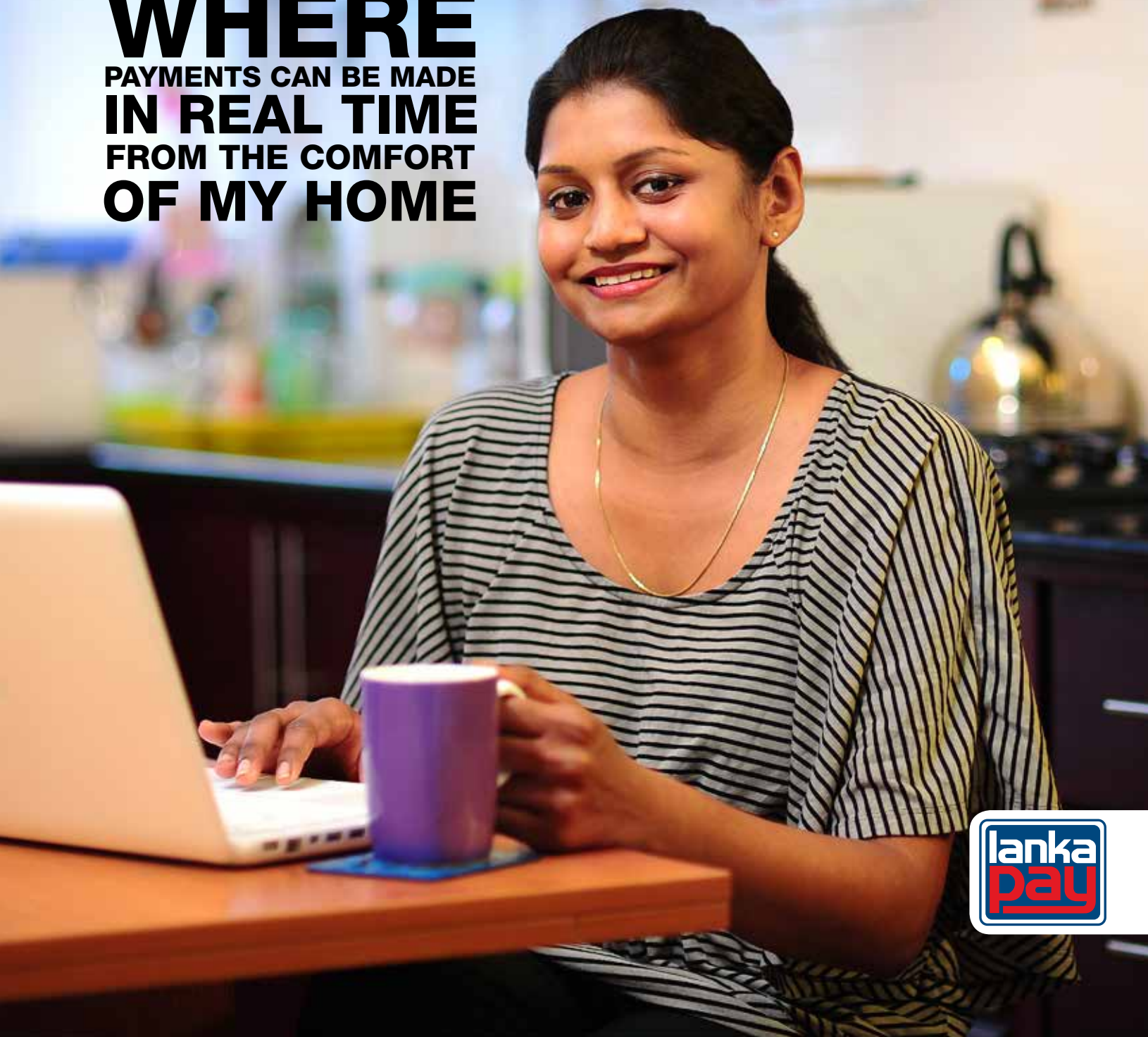


**Managers & Secretaries (Pvt) Limited**  
*Secretaries*

Colombo,  
31<sup>st</sup> July 2014



**I SEE A FUTURE  
WHERE  
PAYMENTS CAN BE MADE  
IN REAL TIME  
FROM THE COMFORT  
OF MY HOME**





## 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 12<sup>th</sup> Annual General Meeting of the Company to be held on 29<sup>th</sup>  
August 2014 and at any adjournment thereof and at every poll which may be taken in consequence thereof.

Signed this ..... day of ..... 2014.

Signature .....

### NOTE:

To be valid the completed form of proxy should be deposited at the Registered Office of the Company at 18<sup>th</sup> Floor, Bank of Ceylon Head Office, "BOC Square", No. 01, Bank of Ceylon Mawatha, Colombo 01, not less than 48 hours before the appointed time for holding of the meeting.





