

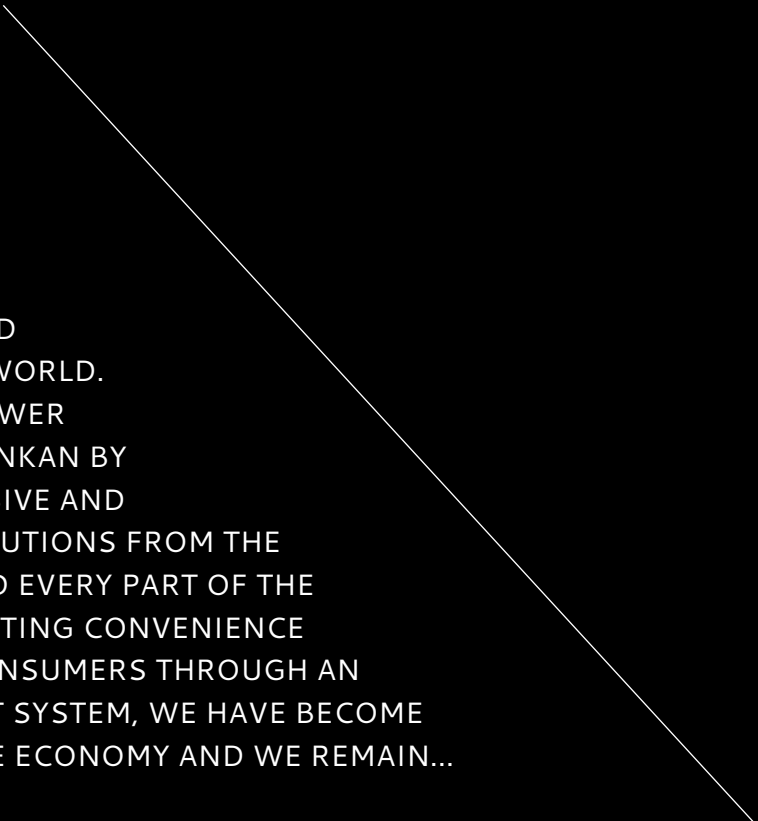


"WE HAVE A PIVOTAL ROLE IN WORKING WITH OUR  
STAKEHOLDERS – BANKS, CONSUMERS, BUSINESSES  
AND REGULATORS – IN PROVIDING THE HIGHEST  
QUALITY ELECTRONIC PAYMENT SERVICES ENABLING  
THE ECONOMY TO FUNCTION EFFICIENTLY AND  
SUSTAINABLY"



## CONNECTED TO YOU

ANNUAL REPORT 2014/15



WHEN IT COMES TO  
REVOLUTIONIZING  
THE PAYMENT  
LANDSCAPE, WE  
BELIEVE THAT WHAT WE  
DO CONNECTS PEOPLE AND  
CONNECTS THEM TO THE WORLD.  
AND WE ARE SET TO EMPOWER  
AND ENRICH EVERY SRI LANKAN BY  
DELIVERING COMPREHENSIVE AND  
ACCESSIBLE PAYMENT SOLUTIONS FROM THE  
NORTH TO THE SOUTH AND EVERY PART OF THE  
COUNTRY. THROUGH CREATING CONVENIENCE  
AND BEING CLOSER TO CONSUMERS THROUGH AN  
ENHANCED AND EFFICIENT SYSTEM, WE HAVE BECOME  
AN INTRINSIC PART OF THE ECONOMY AND WE REMAIN...  
CONNECTED TO YOU.

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WITH THE LATEST PAYMENT TECHNOLOGY THAT  
HAS BEEN MADE AVAILABLE TO US, MY BUSINESS  
HAS THRIVED WITH SPEED & EFFICIENCY



## OUR VISION

TO BE ASIA'S MOST TRUSTED,  
SECURE AND VALUED PAYMENT  
SYSTEMS INFRASTRUCTURE  
FACILITATOR.

## OUR MISSION

TO BE THE NATIONAL PAYMENT  
SYSTEMS PARTNER; TRUSTED,  
RATED AND ADMIRER FOR THE  
MOST RELIABLE, SECURE,  
VALUE DRIVEN AND EFFICIENT  
SOLUTIONS IN ASIA BY 2015.

## MILESTONES

### 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.

### 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.

### 2014 – LAUNCH OF BANK CSIRT (COMPUTER SECURITY INCIDENT RESPONSE TEAM) – A PIONEERING INITIATIVE IN THE SOUTH ASIAN REGION.

Yet another critical innovative service hosted and managed by 'LankaClear' under the guidance of the Central Bank of Sri Lanka with the support of Sri Lanka Cert|CC and the blessings of the Sri Lanka Banks Association (SLBA). 'Bank CSIRT' – safeguards banks and financial institutions from cyber attacks and on-line financial fraud.

### 2013 – LAUNCH OF 'LANKAPAY' – THE 1ST NATIONAL COMMON PAYMENT NETWORK

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

### 2009 – LAUNCH OF 'LANKASIGN' – THE ONLY COMMERCIALY 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.

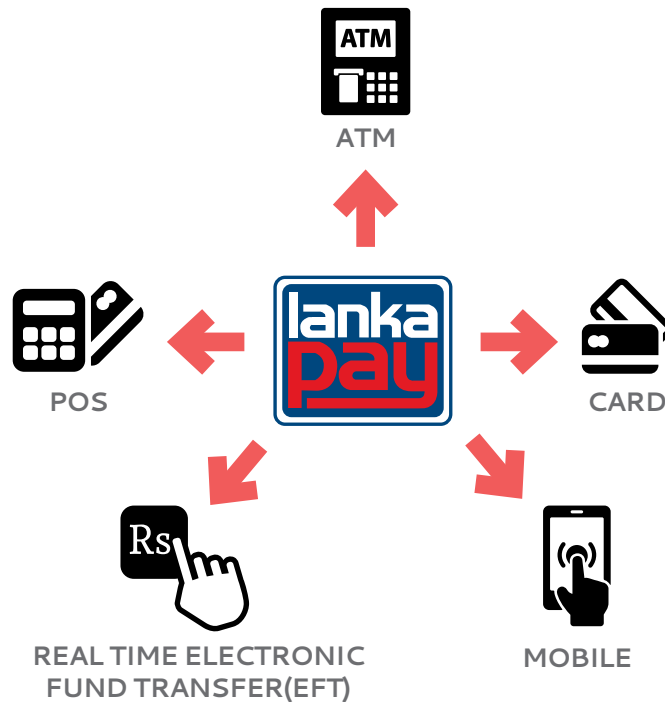


## A WORLD BEYOND CASH

Incorporated in February 2002 as the “National Cheque Clearing House”, today, LankaClear has expanded its service offering to be the “National Payment Infrastructure Provider” for the country. Owned by the Central Bank of Sri Lanka (CBSL) and all Licensed Commercial Banks operating in Sri Lanka, the Company boasts of multiple solution offerings not only for the banking sector but also across all industries that are ready and willing to adopt / integrate to the latest digital technology driving Sri Lanka toward an efficient, green, and paperless nation.

In an era where electronic payment modes are gaining popularity worldwide, we at LankaClear have set the foundation & platforms in moving Sri Lanka to a cashless society with paperless offices. As the catalyst of change in the Sri Lankan Payment Industry, the Company has continuously strived to maintain the highest standards of efficiency and security in catering to these emerging market needs. The LankaSign Certification Service Provider (CSP) implemented by LankaClear provides the much needed security for the electronic payment systems and is currently the only commercially operated CSP (Certification Service Provider) in the country.

LankaClear has introduced many ground breaking products, some of which have been firsts in the South Asian Region. Our committed & dynamic team of in-house professionals, with global exposure brings in the expertise in driving the technology footprint and the service delivery at LankaClear.



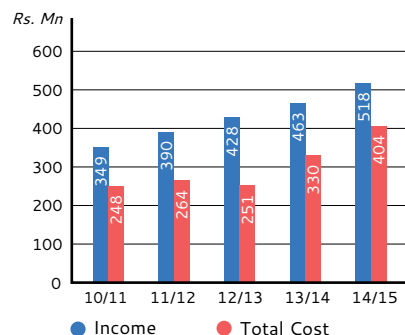


WITH A HOST OF PAYMENT OPTIONS THAT MAKE  
LIFE EASIER, LANKAPAY HAS EMPOWERED US TO BE  
SELF SUFFICIENT

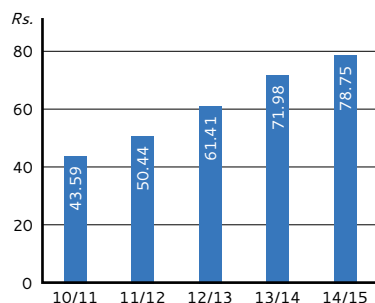
# FINANCIAL HIGHLIGHTS OF THE YEAR

|  | 2014/2015 | 2013/2014 | 2012/2013 | 2011/2012 | 2010/2011 |
|--|-----------|-----------|-----------|-----------|-----------|
| <b>Results for the year (Rs. mn)</b>   |           |           |           |           |           |
| Revenue                                | 518       | 463       | 428       | 390       | 349       |
| Gross Profit                           | 247       | 261       | 282       | 258       | 208       |
| Profit Before Tax                      | 183       | 228       | 260       | 190       | 162       |
| Income Tax                             | 53        | 41        | 72        | 64        | 71        |
| Profit for the Year                    | 129       | 187       | 189       | 126       | 91        |
| <b>At the end of the year (Rs. mn)</b> |           |           |           |           |           |
| Total Assets                           | 1,268     | 1,155     | 997       | 840       | 814       |
| Total Capital Assets                   | 461       | 295       | 217       | 107       | 162       |
| Shareholders' Funds                    | 1,197     | 1,094     | 930       | 764       | 658       |
| Short Term Financial Investments       | 646       | 726       | 672       | 532       | 505       |
| <b>Information Per Ordinary Share</b>  |           |           |           |           |           |
| Earnings Per Share                     | 8.52      | 12.32     | 12.47     | 8.35      | 6.02      |
| Dividend Per Share                     | 1.75      | 1.75      | 1.50      | 1.50      | 1.15      |
| Net assets Value Per Share             | 78.75     | 71.98     | 61.41     | 50.44     | 43.59     |
| <b>Ratios</b>                          |           |           |           |           |           |
| Gross Profit Ratio                     | 48%       | 56%       | 66%       | 66%       | 60%       |
| Net Profit Ratio                       | 25%       | 40%       | 44%       | 32%       | 26%       |
| Return on Equity                       | 11%       | 17%       | 20%       | 17%       | 14%       |
| Return on Assets                       | 10%       | 16%       | 19%       | 15%       | 11%       |

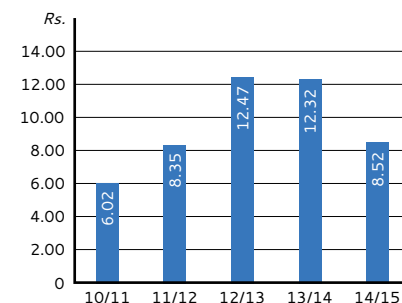
INCOME VS. COST



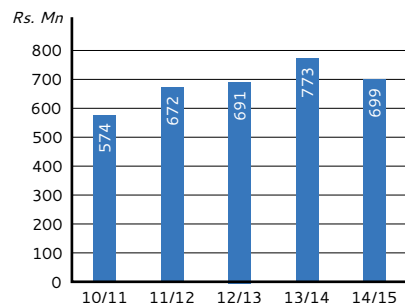
NET ASSETS VALUE PER SHARE



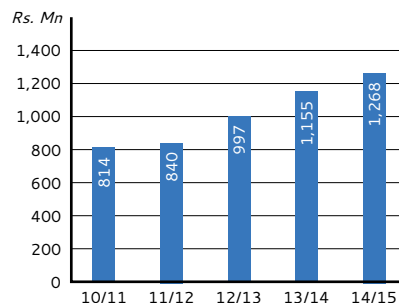
EARNINGS PER SHARE



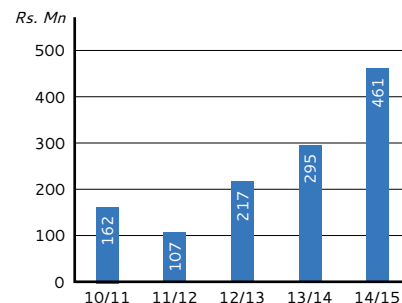
CASH RESERVES



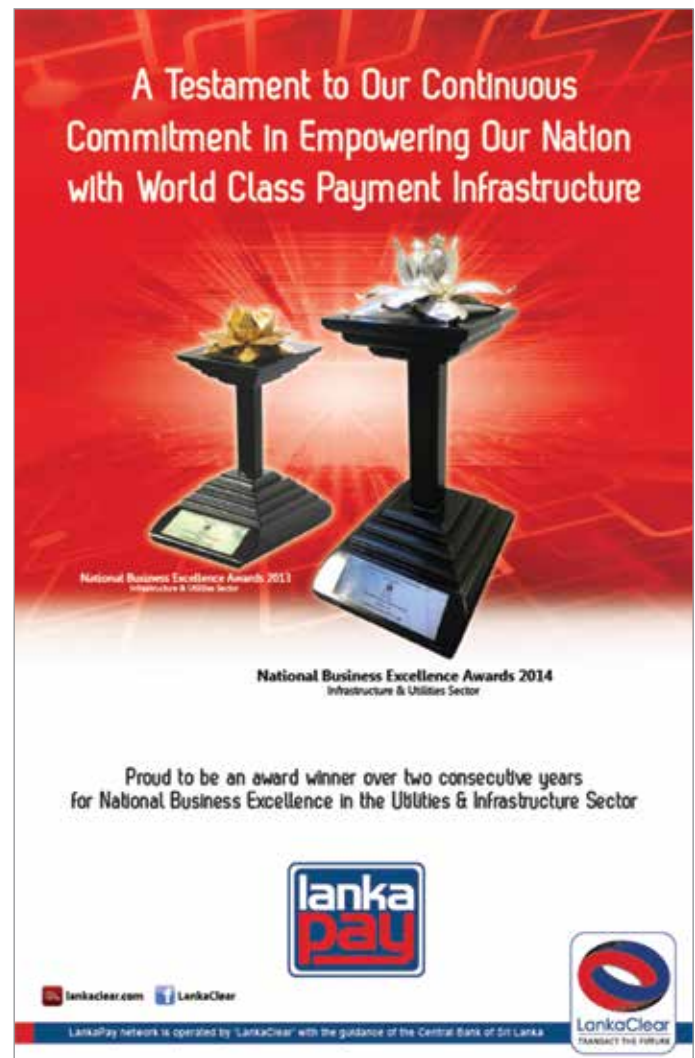
TOTAL ASSETS



TOTAL CAPITAL ASSETS



## AWARDS AND RECOGNITION





National Business Excellence Award Winner  
(for two consecutive years) 2013 & 2014  
Infrastructure & Utilities Sector  
The National Chamber of Commerce of Sri Lanka

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Annual Report Award Winner  
(for 4 consecutive years ) 2011, 2012, 2013 & 2014  
Small & Medium Sized Entities  
The Institute of Chartered Accountants of Sri Lanka

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Bestweb.lk 2014  
Merit Award – Commercial Category



# ABOUT US

## COMPANY NAME

LankaClear (Private) Limited

## REGISTERED OFFICE AND PRINCIPAL PLACE OF BUSINESS

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

## CONTACT

Tel: 2356900-999  
Fax: 2544346  
Email: info@lankaclear.com

## HELP DESK

+94 11 2356999

## LEGAL FORM AND OWNERSHIP

### Legal form

Registered as a private limited liability company under the Company's Act No 7 of 2007. Incorporated in Sri Lanka on February 8, 2002.

### Ownership

Formerly, the Sri Lanka Automated Clearing House (SLACH), fully owned and operated by Sri Lanka's financial sector regulator, the Central Bank of Sri Lanka (CBSL), SLACH was established as a private company under the current name, on April 1, 2002.

### Ownership as at March 31, 2015

As at March 31, 2015, LankaClear shares were owned by the CBSL and other 25 commercial banks operating in Sri Lanka, including state banks, private banks and private foreign banks.

| shareholders:                                     | Number of shares | 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         |
| Total   | 15.20            | 158.25       |

## PRINCIPAL ACTIVITIES

- ▶ Cheque clearing
- ▶ Interbank electronic fund transfer
- ▶ US dollar draft clearing
- ▶ Operating national common payment switch-Switching of interbank ATM transactions

- ▶ Financial Sector Certification Service Provider (CSP)
- ▶ Financial Sector Computer Security Incident Response Team (CSIRT)

## PRINCIPAL PRODUCTS / BRANDS

- ▶ CITS: Cheque Imaging and Truncation System for rupee cheque clearing
- ▶ SLIPS: Sri Lanka Interbank Payment System to facilitate interbank electronic fund transfers
- ▶ LankaPay CAS: Common ATM Switch for domestic interbank ATM transactions
- ▶ LankaSign Digital Security Solutions
- ▶ Bank CSIRT

## MARKETS SERVED

Banking & Financial Services Sector of Sri Lanka

## TOTAL EMPLOYEES

104

## NET REVENUE

Rs 517,867,822

## STATED CAPITAL

Rs 158,250,000

## COMPANY SECRETARIES

Managers & Secretaries Pvt Ltd  
8, Tickell Road  
Colombo 08

Tel: 2015900

Fax: 2015950

## BANKERS

- ▶ Bank of Ceylon
- ▶ Seylan Bank
- ▶ Union Bank

## EXTERNAL AUDITORS

M/s Ernst & Young  
Chartered Accountants  
No 201, De Saram Place  
Colombo 10

Tel: 2463500

Fax: 2697369

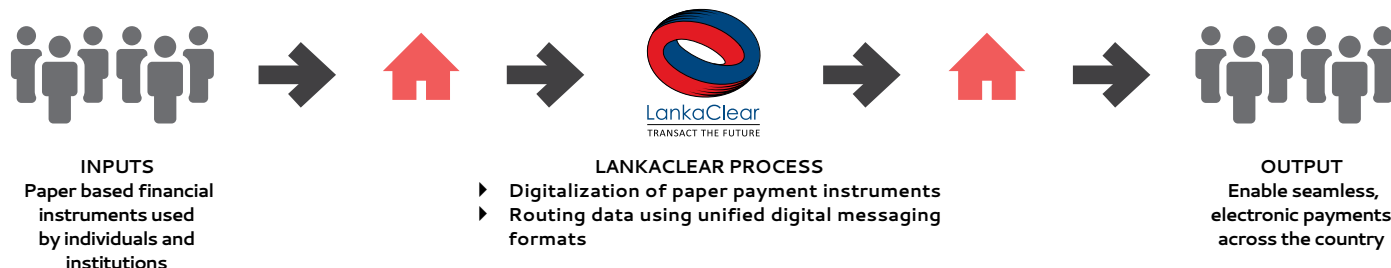
## INTERNAL AUDITORS

M/s B R De Silva & Company  
Chartered Accountants  
No 22/4, Vijaya Kumaranatunga Mawatha  
Colombo 05

Tel: 4510368

Fax: 4512404

## VALUE CREATION PROCESS



## CHAIRMAN'S MESSAGE



"I AM PLEASED TO REPORT  
THAT LANKACLEAR IS ON  
TARGET TO ACHIEVE ITS FINAL  
OBJECTIVE OF DEVELOPING AND  
DEPLOYING A COMPREHENSIVE  
COMMON ELECTRONIC PAYMENT  
INFRASTRUCTURE FOR THE COUNTRY."

A handwritten signature in black ink, which appears to read 'Anil Amarasuriya'. The signature is fluid and cursive, with a long horizontal stroke at the end.

Anil Amarasuriya  
*Chairman*





**LankaClear stands ready to provide the ICT infrastructure to support future growth needs of the country by providing a state-of-the-art but yet cost effective, 24x7 financial transaction platform, that can be accessed from any part of the country, including the rural hinterlands, through various channels.**



**The Common ATM Switch has led to significant growth in ATM transaction volumes from outside the western province.**

It gives me great pleasure to present the annual report and accounts of LankaClear for the financial year 2014/15. I am indeed honoured by my appointment as Chairman of this unique entity that is possibly one of the most effective and lasting examples of public-private partnerships in Sri Lanka. In my current review I will briefly set before the stakeholders of LankaClear the progress of the Company in achieving its objective of developing and implementing a comprehensive electronic payment system infrastructure for the country.

The financial industry of the country would recall that LankaClear was originally set up in 2002 as a clearing house for cheques. Today, as the designated national infrastructure provider for all retail payment systems, LankaClear's scope of operations and national economic impacts have become much broader and of greater public significance. LankaClear is now emerging as an integral component of the overall national financial system, facilitating daily economic activities of the nation and improving quality of life by making daily financial dealings, easier, faster and safer.

#### **OPERATING ENVIRONMENT**

The Sri Lankan economy registered a growth rate of 7.4% in 2014, compared to the 7.2% growth of 2013 and is expected to register a sustainable growth path in the medium term, with a real GDP growth of 7.0% in 2015 and an average growth of 7.8% over 2016–2018. As Sri Lanka gathers momentum towards middle income status, pressure on the country's financial systems to support this growth, through the facilitation of 24x7 real time financial transactions and broad based

services is increasing. LankaClear stands ready to provide the ICT infrastructure to support this future growth needs of the country by providing a state-of-the-art but yet cost effective, 24x7 financial transaction platform, that can be accessed from any part of the country, including the rural hinterlands, through various channels.

The current economic environment of narrowing interest margins and rising competition has necessitated a shift in the traditional business model of financial institutions towards greater cost efficiencies coupled with higher customer value addition. LankaClear's technology solutions provide both cost and speed efficiencies that pave the way towards many new growth opportunities and cost reduction options for financial institutions. The Common ATM Switch for instance, has led to significant growth in ATM transaction volumes from outside the western province, indicating the rapid adaptation of technology advancement by the rural population. The system has allowed financial institutions to expand their geographic reach at a lower cost and provided time and cost savings to consumers, who no longer need to travel in search of ATM machines of their own banks, to conduct ATM transactions.

#### **FINANCIAL PERFORMANCE**

Increased financial transactions in the current year through the electronic payment systems introduced by LankaClear, contributed directly towards revenue growth of the Company, despite stagnant growth of cheque clearing, which was once the main revenue generator for the Company. Overall, revenues increased

## CHAIRMAN'S MESSAGE (CONTD.)

by 12% to Rs 518 mn, with growth in electronic transactions across LankaClear products. The Company experienced pressure on the bottom line due to higher operational expenses from the CCAPS project and the new payment systems not reaching breakeven point. However, a PBT of Rs 183 mn was achieved, which is a 20% reduction compared to the previous year, but an increase of 46% against the annual budget. LankaClear closed the year with a strong balance sheet with net assets reaching Rs. 1.2 billion, which is a 9.4% increase compared to the previous year.

### PROGRESS DURING THE YEAR

I am pleased to report that LankaClear is on target to achieve its final objective of developing and deploying a comprehensive common electronic payment infrastructure for the country. During the current financial year, development work on the remaining components of this common national electronic payment system (known as the Common Card and Payment Switch or CCAPS) was completed. The Company is now entering the stage of industry adaptation and national level integration.

The Common Electronic Fund Transfer Switch (CEFTS), the Shared ATM Switch (SAS), the Common Mobile Switch, the Card Management System and the Common POS Switch, which are the remaining components of the CCAPS, are now ready for utilisation by Sri Lanka's financial institutions. Currently, LankaClear is awaiting the relevant Central Bank directions to banks, regarding rules of participation, for full commercial

implementation of the POS Switch. The implementation of the Common POS Switch, along with a National Card Scheme, which is currently being evaluated by Central Bank, would tremendously increase the reach of card based payments through significant cost reductions and new product offerings.

Another key achievement during the year, was the establishment of a BankCSIRT for the financial sector. The BankCSIRT is a special dedicated unit, set up to monitor and alert Sri Lankan banks, of cyber security threats and share threat information among members. This modern security system for the financial sector has become a pressing need due to rising cyber attacks on banking systems all over the world. With the BankCSIRT, Sri Lankan banks now have the insurance of early warnings and immediate solutions to arrest attacks on banks' IT systems.

The year also saw LankaClear making its mark on a national scale for business excellence and financial reporting. LankaClear's contributions to the nation was recognised by the National Chamber of Commerce of Sri Lanka, at the prestigious National Business Excellence Awards for the second consecutive year in 2014, as the Silver Award winner in the Infrastructure & Utilities Sector. This is indeed an accomplishment for such a small entity, and is indicative of the recognition of the Company's much bigger national impact. LankaClear was also appreciated for its reporting quality by the Institute of Chartered Accountants of Sri Lanka, with a Silver Award in the Small & Medium Sized Entities category. Going beyond paper,

the LankaClear website scored a merit award in the Commercial Category, at the Bestweb Awards 2014, organised by the LK Domain registry. These are indeed commendable achievements and reflect the Company's quality of management and governance.

### CHALLENGES

Entering the deployment stage of the CCAPS project, LankaClear's greatest challenge is in integrating all financial institutions, into the CCAPS platform. Although working within a national mandate, LankaClear, as a private entity, has no enforcement jurisdiction. While the Central Bank issues directives to banks on participation in the common payment platforms, banks have not been given a deadline to align their systems and integrate into the new payment systems and banks tend to move based on their specific business priorities. Therefore LankaClear is now tasked with the role of 'Change Champion,' to persuade financial institutions to adapt and integrate into the common national payment platform at the earliest, in order to create the envisaged national benefit.

This process has been exceptionally challenging due to the novelty of many of the concepts and technologies presented through the CCPAS, and the Banks are in different technological capability levels to integrate. Lack of understanding on how to leverage electronic platforms to develop new, innovative products and services that will generate cost and competitive advantages, is also another factor affecting the rapid deployment of the payment systems. Therefore, it is essential

that decision makers in the financial sector be supported through the technology adaptation curve. Innovators and early adapters should be encouraged.

### GOING FORWARD

I believe LankaClear's ownership and governance structure has over the years proved to be highly effective. Its incorporation as a private company, has enabled operational autonomy through the creation of its own revenues, while the tripartite governance structure, involving the financial regulator, the private sector and public sector, has put in place the checks and balances for social responsibility, despite its monopoly status in some service offerings.

In the new financial year LankaClear will continue to consolidate the country's common payment system by educating the public, as well as financial institutions regarding the CCAPS and by assisting financial institutions to integrate into the CCAPS. Given LankaClear's track record to date, I am confident Sri Lanka will see a fully operational comprehensive national electronic payment platform by end 2016.

In conclusion I would like to thank the outgoing Chairperson Mrs Priyantha Liyanage, for her contributions to the Company during her tenure and the Board of Directors for their support extended towards me. I would like to acknowledge the former Board members Mr. M O F Salieh, Mr. Ravi Dias, Mr. M A A Nomani, Mr. M T M Azmeer and Mr. S S Rathnayake, for their services to the Company. I thank the dedicated team at LankaClear for their hard work and all

other stakeholder for their support of the Company during the year.



**Anil Amarasuriya**

*Chairman*

15th July 2015

Colombo, Sri Lanka

## GM / CEO'S REVIEW



" A COMMON, NATIONAL SYSTEM, TO FACILITATE ANY TYPE OF ELECTRONIC TRANSACTION IS NOW READY FOR DEPLOYMENT, POSITIONING THE COUNTRY FOR RAPID SOCIO-ECONOMIC CHANGE."

A handwritten signature in black ink, appearing to read 'Sunimal B Weerasooriya'.

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

It gives me great pleasure to present this review of LankaClear's performance during the financial year 2014/15 and to announce the completion of technical work on the National Electronic Payment System. A common, national system, to facilitate any type of electronic transaction is now ready for deployment, positioning the country for rapid socio-economic change.

Officially designated as the Common Card and Payment Switch (CCAPS), this common electronic payment system is designed to enable 24x7 financial activity in the country. CCAPS, when fully incorporated into the national financial system, will allow any person in the country to access formal financial services, through any electronic channel, be it a mobile phone, the internet, an ATM, a kiosk or a POS machine. It will expand the reach of formal financial institutions into the rural hinterland, and has the potential to slash transaction costs.

#### PRIORITIES AND TARGETS FOR THE YEAR

Our six strategic priorities for the financial year 2014/15 were; the full technical implementation of the CCAPS, consolidation of existing products/ services, human resource development, enhancement of information security and compliance, appropriate technology acquisition, development and upgrade, and increase revenues by 18% through new revenues generated from the CCAPS project, to ensure financial sustainability of the Company.

| Strategic priorities for 2014/15                            | Targets for 2014/15  | Performance 2014/15       |
|---|--|---------------------------|
| <b>Operational</b>  |  |                           |
| Full technical implementation of the CCAPS                  | ► Technical implementation of the Common Mobile Payments Switch by December 2014   | On target                 |
|   | ► Technical implementation of the Electronic Fund Transfer Switch by April 2014  | On target                 |
|   | ► Technical implementation of the Common POS Switch by June 2015   | On target                 |
|   | ► Technical implementation of the Card Management System (CMS) by May 2015   | On target                 |
| Consolidation of existing products                          | ► Increase bank participation in the common ATM switch   | 80% of the ATMs connected |
|   | ► Increase bank participation in SLIPS   | On target                 |
|   | ► Raise public awareness of LankaClear products/services   | Ongoing                   |
|   | ► Raise financial industry awareness of LankaClear products/services   | Ongoing                   |
| Human resource development                                  | ► Sourcing of the required talent pool to implement, operate and maintain new payment systems  | On target                 |
|   | ► Training of HR to upgrade the skill levels to manage new technologies  | On target                 |
| Appropriate technology acquisition, development and upgrade | ► Source the appropriate technologies<br>► Development of local technologies for cost effective payment systems<br>► Timely upgrade of existing technologies   | On target                 |
| Enhancement of information security and compliance          | ► Enhancements to network infrastructure for higher security and higher redundancy<br>► Initiation of work to obtain PCI-DSS Certification for CCAPS<br>► Readiness for the final audit for ISO 27001 Standard Certification for LankaSign<br>► Launch of Bank CSIRT | On target                 |
| <b>Financial priorities</b>                                 |  |                           |
| Increase revenues by 18%                                    | ► Gain new revenues from new electronic payment systems  | Increased revenues by 12% |
|   | ► Increase transaction volumes of existing electronic payment systems (SLIPS)  |                           |

## GM / CEO'S REVIEW (CONTD.)

### FULL IMPLEMENTATION OF THE CCAPS

The target for the year was to complete technical implementation of the remaining components of the CCAPS which are ; the Common Electronic Fund Transfer Switch (CEFTS), the common mobile payment switch, the Card Management System (CMS), the Common POS Switch and the Shared ATM Switch (SAS).

The SAS was deployed in May 2014 making it possible for financial institutions to use the LankaPay ATM network without incurring the capital expenditure of procuring their own ATM switch and CMS. The technical implementation of the Common POS Switch was completed in June 2015.

#### CEFTS ready and waiting

The CEFTS was ready for bank connectivity by April 2014 and the system is scheduled to go live with the first set of participating banks, by July 2015. The CEFTS would enable real time transfer of funds, 24X7, among any customer account in the member banks, using any electronic channel, with instant fund realisation at point of receipt.

Bank connectivity to the CEFTS has been somewhat slow due to the fact that banks have to initiate developments from their end to connect to the switch, since none of the Banks' technologies are capable of connecting to a real time fund transfer system. As the Central Bank of Sri Lanka adopted a 'moral suasion' policy rather than mandating the banks to join the switch on a specific deadline, banks are currently at different stages of progress.

However, some banks have already completed work and certified to join the switch.

Since the real time fund transfer system is a national payment system, it is essential that all the large and medium scale banks with a large number of customer accounts join the system at the earliest, in order for the general public to reap the benefits of this system. LankaClear has responded to this situation through a two way awareness building campaign. While educating banks and financial institutions on the benefits of joining the new electronic payment systems, we are also raising awareness among the general public, through mass media advertising and television and radio programs. We hope public awareness would create public and institutional demand for the conveniences, efficiencies and cost savings, afforded by the common electronic payment system, thereby pushing the banks to join faster.

#### Common Mobile Payment Switch (CMobS)

The common mobile payment switch has been ready for bank connectivity since December 2014. However, there is no established mobile payment eco system and model in the country. Therefore, offering mobile payments capability as a new payment solution, has not become a reality yet. Discussions are continuing with the Banks and especially with the Bank CIO Forum, to establish a suitable eco system and a model which could be used nationally as an open loop system.

We at LankaClear strongly believe that mobile payments would be the most

widely used mode by the general public in the future, with the technologies available and currently being developed. Therefore, we are of the view that Sri Lanka should take the initial steps to introduce mobile payments.

### CONSOLIDATION OF EXISTING PRODUCTS

While developing the balance components of the CCAPS, during the current year, we also maintained focus on getting more financial institutions to join the already deployed Common ATM Switch and continued to promote the SLIPS.

#### Progress of the country's common ATM network

During the year 2014/15 five banks joined the LankaPay common ATM network, expanding the number of interconnected ATMS by 1,296. As at end March 2015, a total of 2,558 ATMs, of 9 banks, accounting for 80% of the total ATMs in the country, were linked up.

#### Cheque Imaging and Truncation System (CITS)

Cheques continued to be the largest retail payment instrument next to cash, although the cheque volumes marginally dropped by 0.53% in 2014/15, compared to the previous financial year. However, the value of cheques cleared during 2014/15 grew by 7.25%, where the total value of cheques cleared in 2014/15 was Rs. 7,752 billion. It was encouraging to note that the cheque returns dropped to an average of 3.8% of volume compared to 4.7% in the previous financial year.

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

The SLIPS network is expanding through both primary and secondary participants joining the system. During the year, 5 non-banking financial institutions and 1 commercial bank joined the SLIPS, taking the total number of SLIPS participants to 39. The number of SLIPS transactions increased by 16.3% compared to the previous year to 21mn and the total value of SLIPS transactions during the year stood at Rs. 952 billion which was an increase of 28% compared to the previous year.

### **Dollar clearing**

Dollar clearing volumes increased by 2.8% against the previous year, whilst the value increase was 1.9%.

### **HUMAN RESOURCE DEVELOPMENT**

Our human resource strategy is based on sourcing the closest-fit and upgrading this with appropriate training. During the current year we invested Rs.4 mn on overseas training and Rs.3.3 mn on local training.

Recruiting the correct personnel to implement, operate and maintain new payment systems, was a significant challenge given the narrow base of specialist skills in this area of operations in the world. Areas such as information security, switching, project management and networking in particular, suffer from a dearth of skill and talent. Given the limited human resource pool within the country, we have now extended our human resource hunt to a global scale and have been extremely successful in repatriating Sri Lankan talent.

I am happy to report a high employee retention rate of 93.2% during the last year, indicating the fulfilling work environment provided by LankaClear.

### **APPROPRIATE TECHNOLOGY ACQUISITION, DEVELOPMENT AND UPGRADE**

LankaClear's services require complex, advanced, adaptable technology solutions. This aspect is particularly demanding in the case of new, emerging technologies, such as real time payment systems, that also have limited knowledge pools. Therefore, sourcing of the appropriate technologies from across the globe has been a challenging task. Due to the size of the country and the limitation in transaction volumes, the cost of acquisition of world class proven technology is a major issue for small countries like ours, and this aspect had to be managed carefully with hard negotiations to ensure that the projects are economically viable, whilst maintaining the global standards.

During the current year we invested Rs 122mn on acquisition of new technology, with another Rs.53 mn on technology upgrades to existing systems.

### **ENHANCEMENT OF INFORMATION SECURITY AND COMPLIANCE**

In the journey towards electronic payment systems and demands of a rapidly growing IT landscape, it is vital to establish the customer confidence and trust on such new systems. Knowing the importance of this, LankaClear made required strategic investments in infrastructure and security resilience, whilst ensuring international standards and information security compliance requirements are

met. Accordingly, an implementation of a modular and scalable infrastructure with distinct functional layers was carried out where redundancy and security is exhibited to a granular level. Further, the selection process of a Consultant for the implementation of Payment Card Industry Data Security Standard (PCI-DSS) for CCAPS commenced in 2014 and it is expected to complete the certification requirements by December 2015.

### **LankaSign Certification Authority**

LankaSign has been steadily growing over the last year with security solutions now being provided to corporate entities outside the financial sector as well. The work to obtain the ISO 27001 standard certification for LankaSign began in the year 2014, all the preparatory work was completed by March 2015 in order to commence the external audits.

### **Bank CSIRT**

At the invitation of the Central Bank of Sri Lanka, Sri Lanka Banks' Association and Sri Lanka CERT, LankaClear took steps to establish the Bank CSIRT (Bank Computer Security Incident Response Team) in July 2014 to provide the much needed protection to Banks from cyber security threats. As at March 2015 there were 26 commercial banks and licensed specialized banks who had joined as members and obtained the services from the Bank CSIRT.

### **INCREASE REVENUES BY 18%**

LankaClear is a self-financed institution and does not receive any external financial assistance. Therefore, sustained revenue growth is crucial for stability and sustainability. Despite some of the

## GM / CEO' S REVIEW (CONTD.)

services offered by LankaClear being monopolistic in nature, the company follows a strategy of maintaining the lowest possible tariffs through economies of scale and passing the benefit to the customer. Pricing is influenced by the need to facilitate social equity. Therefore, LankaClear's financial growth strategy is to increase revenues through growth in volumes. Profitability is maintained through cost controls and prudent capital investment decisions.

Excess funds are reinvested into technology upgrades and new technologies. As a principle LankaClear has not resorted to bank, or other types of borrowing, to fund expansion. Over the last 5 years, all new projects have been funded through the reserves. As a result, we are a debt free corporate.

However, due to the long gestation periods of some of the payment system infrastructure investments, it is difficult to increase the bottom line year-on-year, especially in years where high capital investments have been made and project breakeven points have not been reached. Therefore, we strive to maintain a 20% annual average PBT growth over a longer period.

During the financial year 2014/15, the total revenue of the company was Rs. 518 mn, which was a 12% increase compared to the previous year. The main reason for the inability of the company to achieve the budgeted 18% revenue increase was the Common Electronic Fund Transfer Switch and Common Mobile Payment Switch not going into commercial operations as per the target dates. This delay was due to

Banks not being ready to join the system. LankaClear made a PBT of Rs. 183 mn, during the year under review, which is a 20% reduction compared to the previous year, again due to delays in anticipated revenue inflows.

### TARGETS FOR 2015/16

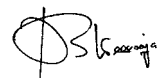
As at the end of the current financial year, Sri Lanka stands ready to enter the modern electronic payments era. The CCAPS has put in place the backbone infrastructure for a cashless economy. Our next challenge is getting the main drivers of the financial sector, the banks and non-bank financial institutions, to connect to this backbone infrastructure and to take the benefits of the new payment systems to the general public. Therefore, LankaClear's focus over the next two years will be consolidation of the new electronic payment systems through greater integration into the financial sector.

In addition, other peripheral developments may be required to assist the financial sector to increase their efficiencies and cost reductions through economies of scale by providing centralized ancillary payment services.

### APPRECIATIONS

Our achievements would not have been possible without our team of exceptionally talented and dedicated people. Therefore, I would like to extend my warmest appreciations to the entire LankaClear team for their hard work during the year. I would like to thank the outgoing Chairperson, Mrs Priyantha Liyanage, for her support extended to the LankaClear team at all times and I would like to extend

a warm welcome to the new Chairman Mr. Anil Amarasuriya. I would also like to thank the Central Bank for its continued support to the Company on achieving its goals.



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

15th July 2015  
Colombo, Sri Lanka



## BOARD OF DIRECTORS



## BOARD OF DIRECTORS (CONTD.)

### 1. MR. A. AMARASURIYA

#### Chairman

Mr. Amarasuriya counts 35 years of experience in the banking industry, both in Sri Lanka and abroad. He has held senior corporate level positions at the Abu Dhabi Commercial Bank and Sampath Bank prior to assuming duties as the General Manager and subsequently as the Managing Director of Sampath Bank. He served as a Director in the subsidiaries of Sampath Bank Ltd, namely, S C Securities (Pvt) Ltd., Sampath Surakum Ltd, Sampath Leasing & Factoring Ltd, Sampath Trade Services (HK) Ltd, Sampath IT Solutions Ltd and Associate company Lanka Bangla Finance Ltd. He served as Director / CEO of Union Bank before his retirement in Nov 2014.

He has served as the Chairman of the Sri Lanka Banks' Association and Financial Ombudsman Sri Lanka (G'tee) Ltd. He is a member of the Sri Lanka Accounting & Auditing Standards Monitoring Board and of the Financial Sector Cluster, member of the Governing Council of the National Institute of Business Management and Chairman of the Lanka Financial Services Bureau Ltd.

Mr. Amarasuriya is a Fellow of the Institute of Chartered Accountants Sri Lanka, a Fellow of the Chartered Institute of Management Accountants UK, a Fellow of the Society of Chartered Management Accountants Sri Lanka and a Honorary Fellow of the Institute of Bankers of Sri Lanka.

### 2. MRS. J. P. MAMPITIYA

#### Director

Mrs. Mampitiya has been an Assistant Governor of the Central Bank of Sri Lanka since August 2009. She is currently a member of the Governing Council of the National Institute of Business Management,

an Alternate Director of Lanka Financial Services Bureau Ltd and a member of the National Information Committee.

Mrs. Mampitiya commenced her career at the Central Bank in 1981 and held the posts of Director IT from 2004–2008 and Director, Payments and Settlements from 2008–2009. She has a B.Sc. from the University of Kelaniya and a MSc. in System Science from the University of Ottawa, Canada.

### 3. MR. D. M. GUNASEKARA

#### Director

Mr. D. M. Gunasekera, was appointed as the General Manager/Chief Executive Officer of the 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 the BOC London Branch from 1997–2000. Overall, he counts over 31 years of experience in banking.

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

LankaClear (Private) Limited, Sri Lanka Banks' Association (Guarantee) Ltd. and the Financial Ombudsman Sri Lanka (Guarantee) Ltd.

He has successfully completed the programme on Corporate Management for Sri Lanka (LKCM2 AOTS) in Japan, an Advanced Management Programme conducted by the Wharton 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 a Member of the Association of Professional Bankers.

### 4. 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 28 years of service in People's Bank.

His career experience of over 28 years, covers the areas of branch business banking at the levels of Branch Manager, Regional Manager, Zonal Assistant General Manager and presently, as the Officer In Charge of the Branch Network of People's 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 the Institute of Bankers of Sri Lanka.

#### 5. MRS. R. A. S. M. DAYARATHNA

##### Director

Mrs. R A S M Dayarathna commenced her career at the Central Bank of Sri Lanka in 1986 and currently serves as the Director of the Payments and Settlements Department of the CBSL, since February, 2015. Prior to the current position, she served as the Director of Information Technology of the CBSL since September, 2008. She serves in different high level internal committees of the CBSL and is a member of the Board of Directors of the Sri Lanka Computer Emergency Readiness Team.

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

#### 6. MR. J. DURAIRATNAM

##### Director

Mr. Jegatheesan Durairatnam was appointed to the Board of LankaClear (Pvt) Limited on 20th May 2014.

He is currently the Managing Director/ Chief Executive Officer of Commercial Bank of Ceylon PLC. 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 Chief Operating Officer, Deputy General Manager-International Division, Assistant General Manager-International Division and Head of Imports.

He also serves on the Boards of Commercial Development Company PLC, Lanka Financial

Services Bureau Limited, Sri Lanka Banks' Association (Guarantee) Limited and The Financial Ombudsman Sri Lanka (Guarantee) Limited.

Mr. Durairatnam has a BSc. Degree from the University of Peradeniya, 1981 and an Executive Diploma in Business Administration from the University of Colombo 1984

#### 7. MR. K. ARIYARATNE

##### Director

Mr. Kapila Ariyaratne is the Director/Chief Executive Officer of Seylan Bank Plc. He has been serving in this capacity since March 2011.

Mr. Ariyaratne counts over 30 years in banking, having worked for several local and international banks, including ANZ Grindlays Bank, ABN Amro Bank, Mashreq Bank PSC, Arab National Bank [Riyadh] acquiring an in depth knowledge of all aspects of banking both in a local as well as an international context. He joined People's Bank in 2001 as a member of its restructuring team and during a 10 year period overlooked the bank's Lending, Institutional Banking and Trade Finance operations.

His last position prior to joining Seylan Bank was as the DGM-Corporate and Institutional Banking at NTB.

He is a First Class Honors graduate of the University of Colombo and is a holder of a Diploma in Business and Financial Administration.

#### 8. MR. P. K. DANGI

##### Director

Mr. Dangi has over 30 years in the Indian banking industry. He joined Indian Bank as a Probationary Officer in 1984 and has extensive experience as a Branch Manager in different branches of different levels at different geographical locations in India and administrative office experience in Zonal Office Recovery, EDP Cell, and other areas of banking.

In addition, Mr. Dangi was a faculty member for 5 years, at the Indian Bank Management Academy for Growth and Excellence, specialising in risk management and credit management.

Mr. Dangi has a B.COM. (Hons) and an MBA (Banking & Finance) and is an Associate Member of the Institute of Cost and Works Accountants of India and is a Certified Associate of the Indian Institute of Bankers

#### 9. MR. M. U. DE SILVA

##### Observer

Mr. Upali De Silva presently holds the post of Secretary General, Sri Lanka Banks' Association (Guarantee) Limited and is a Director of HNB Assurance Ltd., Lanka Financial Services Bureau Ltd. and of Sri Lanka CERT (Pvt.) Ltd. He is also the Chairman of Pan Oceanic Bank operating in Solomon Islands. He is a retired Senior Deputy General Manager of Hatton National Bank PLC and has over 50 years experience in the banking industry. He is currently a member of the National Payment Council 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



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1. Mr. Sunimal B Weerasooriya (General Manager / CEO)

2. Mr. Harsha Wanigatunga (Deputy General Manager – IT & Operations)

3. Mr. Rasika Galappaththy (Head of Finance)

4. Mr. Lakshman C Palliyaguruge (Head of HR and Administration)

5. Mr. Roshan Hettiarachchi (Senior Manager Operations)

6. Mr. Dilantha Samarasinghe (Senior Manager IT)

7. Mr. Isuru Jayaweera (Senior Manager – Help Desk & Bank Services)

8. Mr. Hemanthe Samaliarachchi (Senior Manager Payment Systems)

9. Mr. Duleep Fernando (Senior Manager Administration)



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10. Mr. Chris De Alwis (*Senior Manager Business Development & Brand Promotions*)

11. Mr. Lakshman Liyanage (*Senior Manager Projects*)

12. Mr. Dimuth Weerasinghe (*Manager-Facilities and Maintenance*)

13. Mr. Danushka Uyanahewage (*Manager - CITS*)

14. Mr. Duleep Liyanage (*Manager IT Security Solutions*)

15. Mr. Indika Fernando (*Systems Operations Manager*)

16. Mr. Asela Hapuarachchi (*HR Manager*)

17. Mr. Delan Wimalaratne (*Manager-Electronic Fund Transfer/ Mobile Systems*)

18. Mr. Hasitha Dissanayake (*Network Operations Manager*)





NO MATTER THE LOCATION , WITH LANKAPAY  
I ACCESS MY FUNDS AND MAKE MY PAYMENTS  
ON THE GO

# MANAGEMENT DISCUSSION & ANALYSIS

## STRATEGY, PROGRESS AND FUTURE

Originally incorporated in 2002 as the national cheque clearing house, LankaClear implemented the Cheque Imaging and Truncation System (CITS) in 2006, where cheque clearing was migrated to an electronic clearing system, achieving the milestone of being the 2nd country in the world to nationally implement such a system. Following this success, in 2011, LankaClear received a fresh mandate from the Monetary Board of the Central Bank, based on the recommendations of the National Payment Council, to implement the national electronic payment switch. The main objective of this initiative was to establish a common electronic payment infrastructure, which could be used by all financial institutions, to facilitate interbank payments in an efficient and cost effective manner, using economies of scale and avoiding duplication of payment infrastructures.

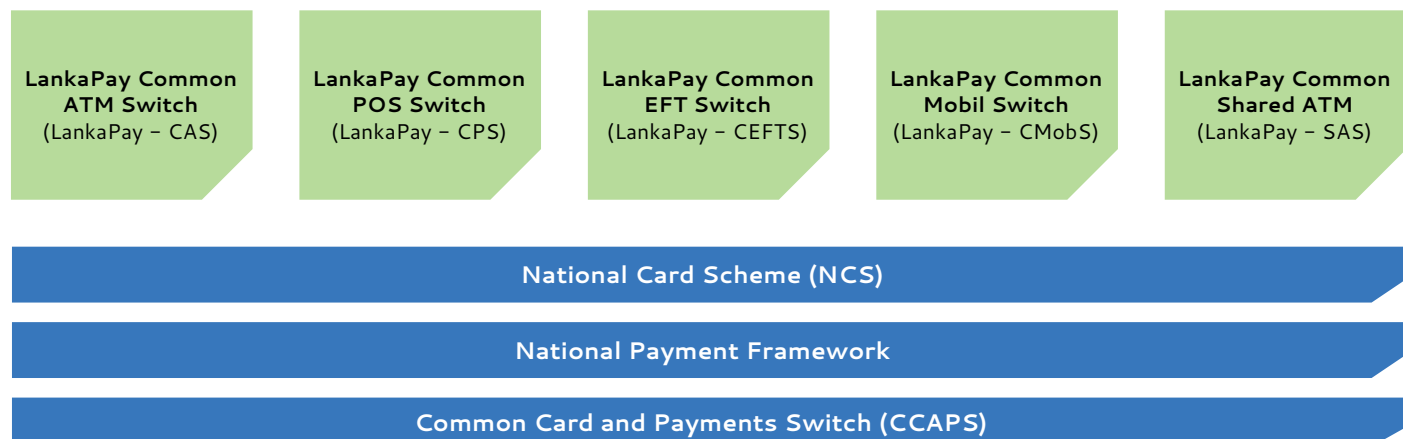
### CONTRIBUTION TO NATIONAL DEVELOPMENT

The common electronic payment system, once fully integrated into the national financial sector, would lead to significant economies of scale and cost advantages and would help propel Sri Lanka to a regional financial hub status. The system would contribute directly towards enhancing Sri Lanka's Ease of Doing Business Ranking (World Bank Doing Business Index) through the facilitation of efficient, faster and more transparent transactional systems, between state and private sector, as well as between private entities. The international reputational and image gains acquired through such state-of-the-art financial systems would have multiplier effects on overall economic transformation towards a knowledge economy, economic growth, and foreign direct investments. A fully fledged

electronic payment infrastructure would position the country for foreign direct investment inflows, particularly from international financial market players that require advanced, high capacity electronic financial transactional capabilities to route funds across the globe. Acting as a financial hub, Sri Lanka's financial sector could host, and serve, a full range of international financial entities. Such high capacity and versatile systems would also attract knowledge based industries and encourage domestic knowledge entrepreneurship, reshaping the domestic economy towards a modern knowledge economy.

In addition, an electronic payment infrastructure has extensive potential for enhancement of domestic transactional efficiencies at both consumer and business ends through the scale, volumes and reach.

### THE NATIONAL PAYMENT SWITCH SYSTEM ARCHITECTURE



# MANAGEMENT DISCUSSION & ANALYSIS

## STRATEGY, PROGRESS AND FUTURE (CONTD.)

### LANKACLEAR MANDATE 2011/12 – 2016/17

Although incorporated as a private entity, LankaClear was formed as a private-public partnership to meet a national agenda. As such, LankaClear's goals are defined based on national requirements. Under its new mandate, LankaClear has transformed its role to being the national payment infrastructure provider.

#### The Company's primary medium term objective:

Design and deploy a common national electronic payment infrastructure for Sri Lanka, within the five year period of 2011/12 to 2016/17. The total system has been designated as the Common Card and Payment Switch (CCAPS) and various payment systems under the CCAPS are taken to the market under the brand name LankaPay.

### FIVE YEAR CORPORATE STRATEGY

LankaClear's five year corporate strategy was developed to attain the vision of being Asia's most trusted, secure and valued, payment systems infrastructure facilitator with the full implementation of the CCAPS project.

Given the systemic complexity of the project, the CCAPS was to be rolled out as four different technical components, in a phased out manner, that would combine into a single common payment system for the entire country. These separate components of the CCAPS are:

1. A common ATM Switch (CAS) and a Shared ATM Switch (SAS): Once all financial institutions are connected to the CAS, consumers will be able to use any ATM machine, from any Bank, for ATM transactions
2. A Common Electronic Fund Transfer Switch (CEFTS): Once all financial institutions are connected, the CEFTS would enable real time transfer of funds, 24X7, between individual accounts, using any electronic channel with instant fund realisation at point of receipt.
3. A Common Mobile Payment Switch (CMobS): When financial institutions and mobile payment operators are connected, the system will facilitate payments through mobile phones
4. A Common POS Switch (CPS): Once adopted by financial institutions, the CPS will allow POS transactions from any POS machine

The above technical systems are legally institutionalised by the National Payment Framework, which represents the regulatory and institutional structures that govern the national electronic payment system.

The proposed national electronic payment architecture also includes provisioning for a National Card Scheme (NCS). An NCS is a domestic card scheme which could facilitate domestic card based transactions with wider financial inclusion and facilitate the issuing and use of more card types to address specific domestic needs. As domestic financial transactions represent a major share of financial transactions in a country, world over, domestic card schemes have significantly reduced financial transaction costs to the public and propelled wider reach. A Sri Lankan NCS would also be a prerequisite to fully materialise the cost advantages of Sri Lanka's electronic payment infrastructure through the reduction of overall costs of card based payments, for all stakeholders.

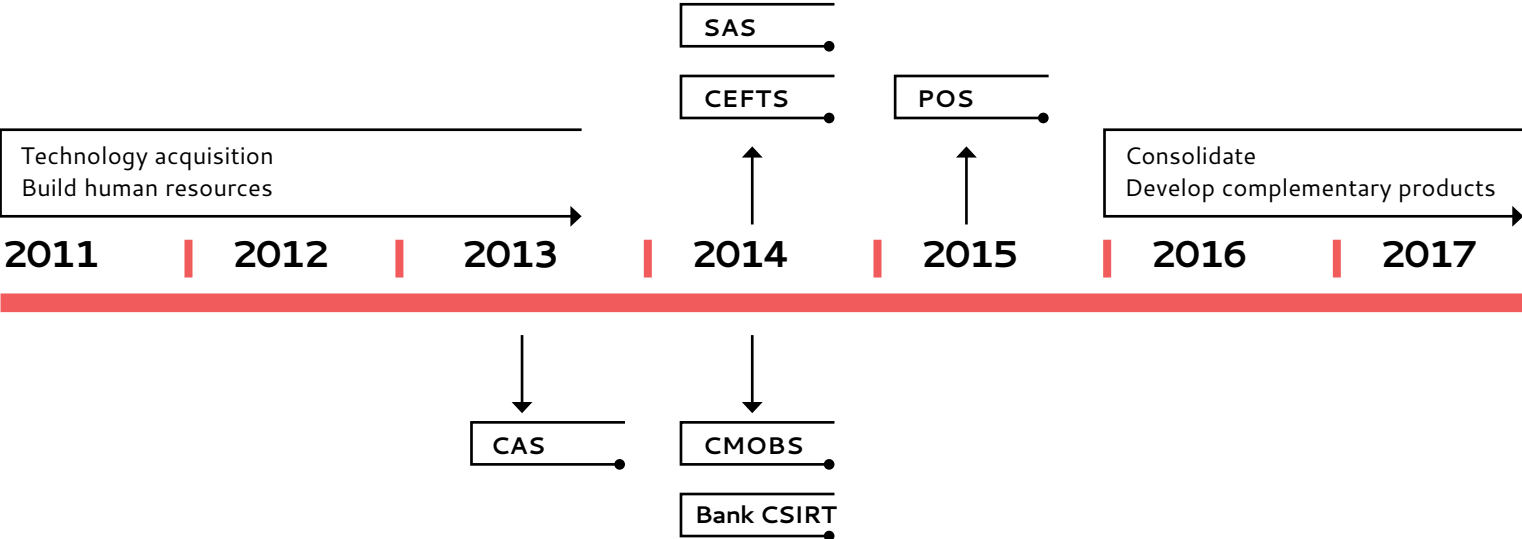
### FUNDING STRATEGY

The funding strategy for the CCAPS project, is a debt free funding model, using the reserves generated through existing payment systems. As a policy, a mandatory 25% of the PBT of the Company goes into a Technology Upgrade Reserve, to facilitate the funding of technology upgrades of existing payment systems, for long term sustainability.



STRATEGIC PROGRESS

COMMON CARD AND PAYMENT SWITCH (CCAPS) TIMELINE



# MANAGEMENT DISCUSSION & ANALYSIS

## STRATEGY, PROGRESS AND FUTURE (CONTD.)

During the year under review LankaClear completed the technical development of the following payment systems and invited the banks to connect to the systems:

- ▶ The Common Electronic Fund Transfer Switch
- ▶ The Shared ATM Switch
- ▶ The Common Mobile Switch

As at March 31, 2015, the CCAPS had the technical capability to support 24x7 financial transactions through ATM, mobile phones and internet connectivity. Nevertheless, while the technical infrastructure of the CCAPS system is currently ready for use, the CCAPS has not yet been fully adopted by the country's bank and non banking institutions and other relevant agencies. Therefore, at present, only limited benefits are available to the public, such as the ability to commonly use around 80% of the countries ATM network.

Currently financial institutions are in the process of aligning internal ICT systems with the CCAPS to come on board the common platform. Sri Lanka's key government agencies are also in the process of aligning with the CCAPS. A common framework will be developed under the ICT Agency to facilitate all government payments, such as taxes and customs duties. This integration of state institutions is expected to commence with the Department of Customs. Once the Department of Customs is integrated into the system, customs duties could be paid around the clock, through any electronic means, enabling clearing of goods 24x7.

Deployment of the Common POS Switch is awaiting relevant Central Bank Directions. Once the Central Bank guidelines are conveyed to the banks, the countries banks will begin the process of integrating with the Common POS Switch. The implementation of the Common POS Switch, along with a National Card Scheme, which is being evaluated by the Central Bank, would tremendously increase the reach of card based payments through significant cost reductions and new product offerings.

Another related development during the year, was the launch of the Bank CSIRT in July 2014, under the guidance of Central Bank of Sri Lanka. LankaClear launched the Bank CSIRT as a mechanism of sharing cyber threat information among member banks and jointly protecting the banks and financial institutions from potential cyber threats. The Bank CSIRT is a separate dedicated unit, tasked with continuous monitoring of the financial system against cyber terrorism and hacking. As at March 31, 2015, 26 banks had joined the Banks CSIRT as members.

### FUTURE PROGRESS

During the next financial year, LankaClear will focus on taking the CCAPS to the market under the LankaPay brand name. This involves assisting banks and non bank financial institutions to join the common system and also providing ancillary products to facilitate greater integration. LankaClear will also continue to raise public awareness of LankaPay facilities. As a key aspect of integrating all stakeholders into the national payment system LankaClear will also support the integration of state institutions.

# MANAGEMENT DISCUSSION & ANALYSIS

## OPERATIONS REVIEW

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 national objective by designing, implementing and operating these national payment systems 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 Payments Hub, as it is the entity in Sri Lanka that owns and operates Cheque Clearing, US Dollar Clearing, online funds transfers via SLIPS and routing of off-us (not-on-us) ATM transactions via LankaPay-Common ATM Switch (CAS). Further, the National Mobile Payment Switch, National POS Switch and the National Real-Time Payments Switch have been implemented and currently the banks are in the process of connecting to these National Payment Switches.

**LankaClear products active in the market as at March 31, 2015:**

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

Currently, on an average of approximately 200,085 cheques are cleared through

CITS on each business day, where the value of cheque payments cleared on average during a day is Rs. 32.3 billion. CITS has even cleared as high as 406,211 cheques on certain days during the year under review. SLIPS has carried out more than 361,770 transactions per day at times and on an average of around Rs. 4 billion worth of SLIPS payments are cleared during a business day. While the volume of cheques decreased by 0.53%, there was a significant parallel increase (over 16%) in electronic payments, reflected by increased SLIPS transactions. After successful operations for around 1 year and 8 months, the total volume of cash withdrawals and total volume of balance inquiry through LankaPay-CAS amounts to 7,893,157 and 3,868,790 respectively.

This Operations Review presents an overview of the performance of LankaClear electronic payment products active in the market during the reporting period.

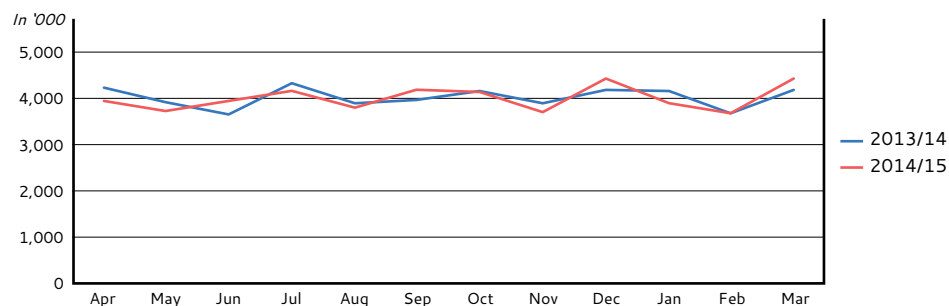
### RUPEE CHEQUE CLEARING-CHEQUE IMAGING & TRUNCATION SYSTEM (CITS)

LankaClear's Cheque Imaging & Truncation System (CITS) has upgraded Sri Lanka from physical/manual clearing of cheques to automated, electronic cheque clearing and settlement. With the introduction of CITS, cheques are credited within the following business day (T+1), from the date of deposit. We take pleasure in stating that due to process and technological improvements, CITS has achieved a 99.97% System Up-Time and achieved 100% of the Delivery Cut-off times.

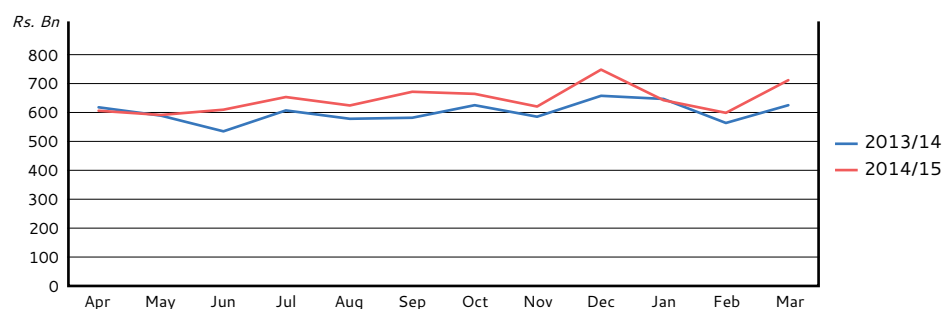
# MANAGEMENT DISCUSSION & ANALYSIS

## OPERATIONS REVIEW (CONTD.)

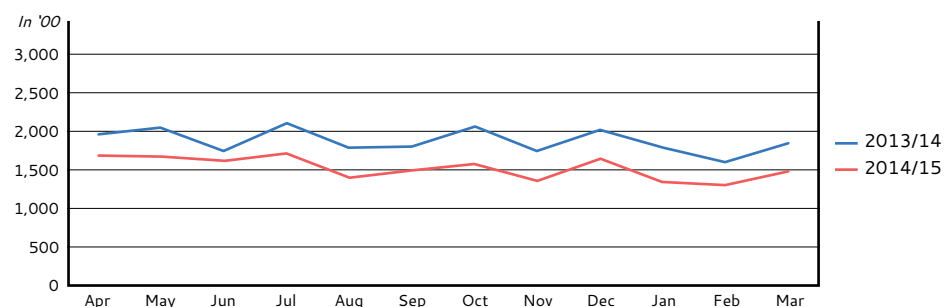
CHEQUES PRESENTED FOR CLEARING - VOLUME WISE



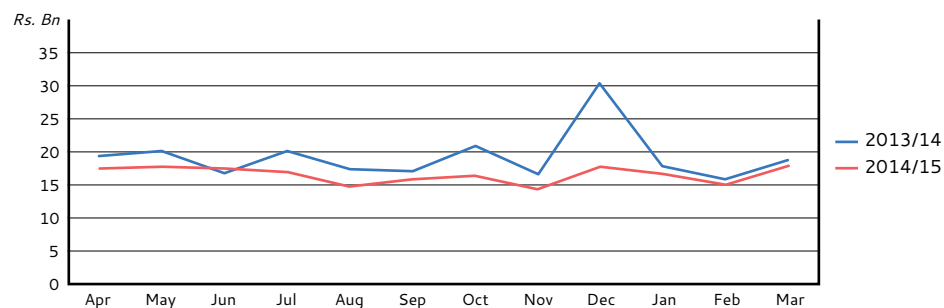
CHEQUES PRESENTED FOR CLEARING - VALUE WISE



CHEQUE RETURNED FOR CLEARING - VOLUME WISE



CHEQUE RETURNED FOR CLEARING - VALUE WISE



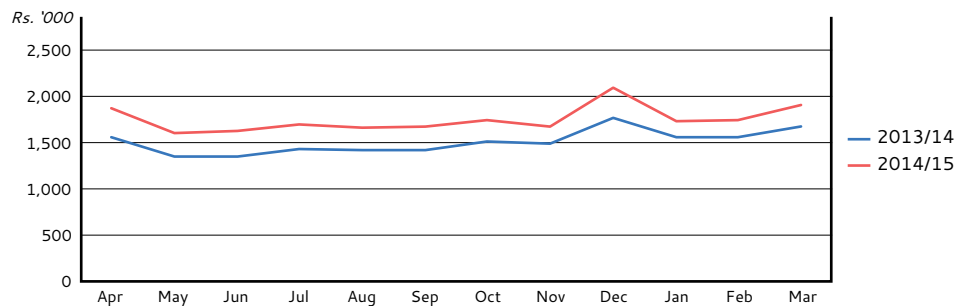
### Cheque clearing in 2014/2015

During the year an average of 200,085 cheques were cleared per day, while CITS peaked clearing around 406,211 cheques on certain high volume days, and remained the preferred non-cash payment instrument for commercial transactions in Sri Lanka. Total volumes of cheques cleared through the CITS decreased by 0.53% during the year 2014/2015, compared to the previous financial year. However, the total value of cheques cleared, increased by 7.25% compared to the previous financial year. The CITS cleared 48.02 million cheques in 2014/2015, compared to 48.27 million in 2013/2014. The total value of cheques cleared in 2014/2015 through CITS amounts to Rs. 7,752 billion compared to Rs. 7,228 billion in 2013/2014.

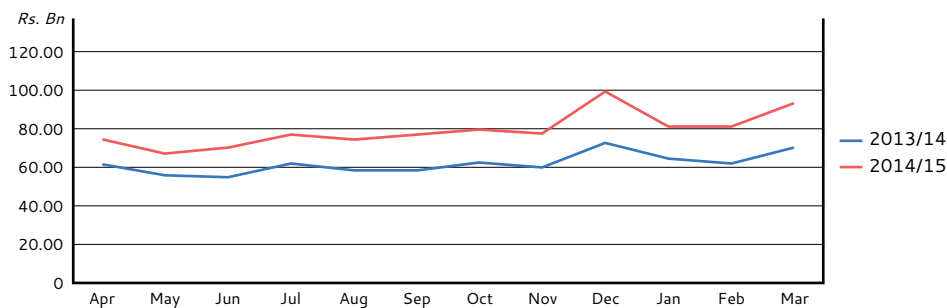
### Settlement Clearing (Cheque Returns)

Cheque returns decreased during the year by 18.75% compared to the previous year. Out of the cheques presented for clearing, 3.8% were returned unpaid due to various reasons. Of the total cheques returned, around 46% were due to lack of funds. A total of 1.83 million cheques were returned in 2014/2015 compared to 2.25 million in 2013/2014. The total value of cheque returns came to Rs. 199.18 billion compared to Rs. 230.16 billion in 2013/2014, which is a decrease of 13.46%.

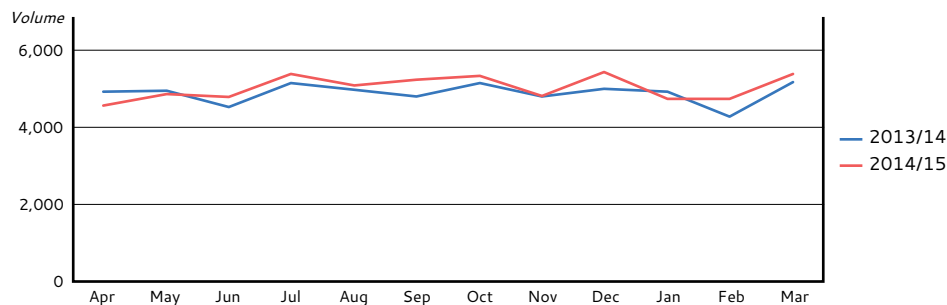
SRI LANKA INTER BANK PAYMENT SYSTEMS - VOLUME WISE



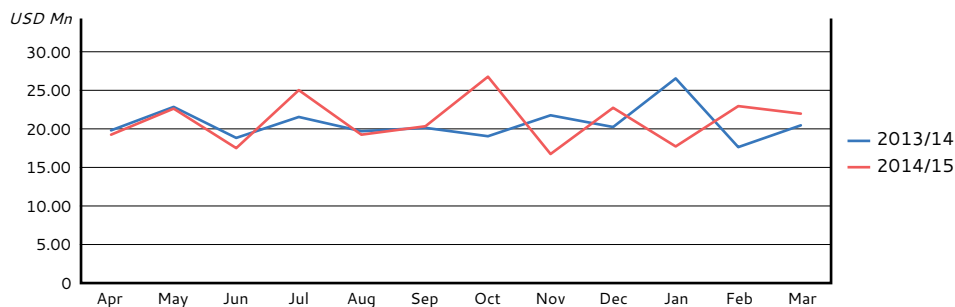
SRI LANKA INTERBANK PAYMENT SYSTEMS - VALUE WISE



US DOLLAR CLEARING - VOLUME WISE



US DOLLAR CLEARING - VALUE WISE



## 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, 100% paperless clearing operations and facilitates same day clearing and provides for greater security by means of digital signing.

On average 87,554 transactions pass through the SLIPS on a business day and reaching 361,770 at the highest. In 2014/2015, the number of transactions cleared through the SLIPS increased by 16.28%, to reach 21.01 million, compared to 18.07 million in 2013/2014. The total value of transactions cleared through SLIPS in 2014/2015 increased by 28.01% to Rs. 952.07 billion compared to Rs. 743.73 billion in 2013/2014.

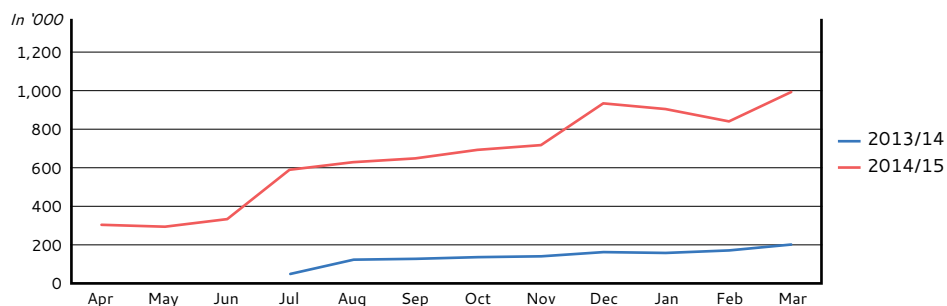
## US DOLLAR CLEARING

The total number of transactions cleared through US Dollar Clearing increased by 2.81% in 2014/2015, to 60.35 thousand, compared to 58.70 thousand in 2013/2014. The total value of transactions increased by 1.96% in 2014/2015, to US\$ 253 million from US\$ 248.1 million.

# MANAGEMENT DISCUSSION & ANALYSIS

## OPERATIONS REVIEW (CONTD.)

LANKAPAY – CAS TOTAL VOLUME OF CASH WITHDRAWALS



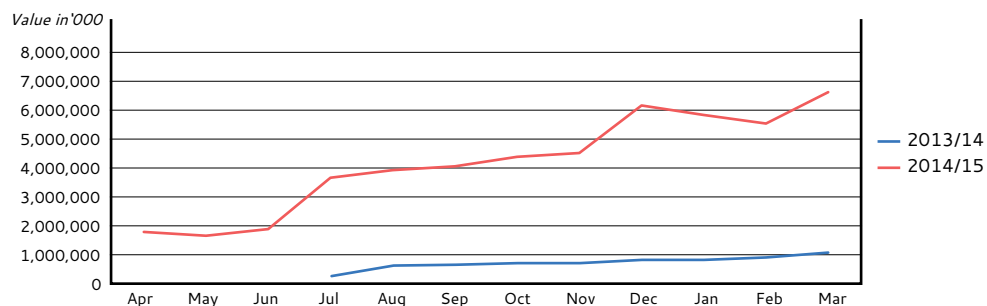
### LANKAPAY – COMMON ATM SWITCH (LANKAPAY – CAS)

The LankaPay – CAS was launched on 23rd July 2013 with the 2 state sector banks, Bank of Ceylon and People's Bank. The LankaPay-CAS ATM network allows the public to use any ATM of any bank that is a CAS member, at a minimal cost. The CAS network facilitates cash withdrawals and balance inquiries. During the current financial year five banks joined the CAS, expanding the number of interconnected ATMS from 1,296 to 2,558.

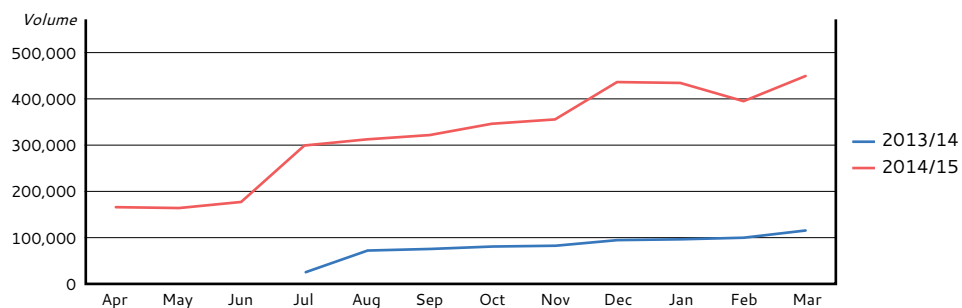
#### Banks connected to the CAS as at March 31, 2015

1. Bank of Ceylon
2. People's Bank
3. Union Bank Of Colombo PLC
4. Hatton National Bank PLC
5. Seylan Bank PLC
6. Commercial Bank of Ceylon PLC
7. National Development Bank PLC
8. Standard Chartered Bank
9. Nations Trust Bank PLC

LANKAPAY – CAS TOTAL VALUE OF CASH WITHDRAWALS



LANKAPAY – CAS TOTAL VOLUME OF BALANCE INQUIRY



- ▶ LankaPay-CAS facilitated 7,893,157 cash withdrawals in 2014/2015 to the value of Rs. 50,077,585,300.
- ▶ The total number of balance inquiries amounted to 3,868,790.
- ▶ Currently, an average of 32,225 approved transactions pass through LankaPay – CAS on a daily basis and the highest number of transactions cleared during a day in CAS during 2014/2015 is 66,716.

- ▶ There was a month on month average growth in cash withdrawals of around 15.94% during the year.

### INTERNATIONAL COLLABORATION

LankaClear, as the designated National Payment Services Provider for Sri Lanka, maintains close relationship with international and regional counterparts, such as the National Payment Corporation of India, the National Interbank Transaction Management Exchange of Thailand, VocaLink of UK, eftpos of Australia and other clearing agencies, for information exchange and knowledge sharing purposes. Such collaboration leads to adoption of best practices and possible future country-to-country partnerships.

### LOOKING TO THE FUTURE

The financial year 2014/15 saw the rate of utilization of electronic payment systems increase much faster than paper based payment instruments. LankaPay – CAS network has over 80% of all ATMs deployed in Sri Lanka and with other banks joining shortly this common ATM network will connect nearly 100% of ATMs in Sri Lanka. In less than 2 years CAS has recorded rapid, month on month growth, of public usage. LankaClear anticipates this growth to accelerate over the new financial year as more banks join the CAS and with greater awareness among the general public. The cost and scale advantages generated through this expansion process will trigger a growth cycle that will continue to fuel ATM transactions. With other National

Electronic Payment Systems such as LankaPay – CEFTS (Common EFT Switch – real-time payments) and LankaPay – CPS (Common POS Switch – National POS Switch) being adopted by financial institutions, exponential growth in electronic transactions can be anticipated over the next 3–5 years.

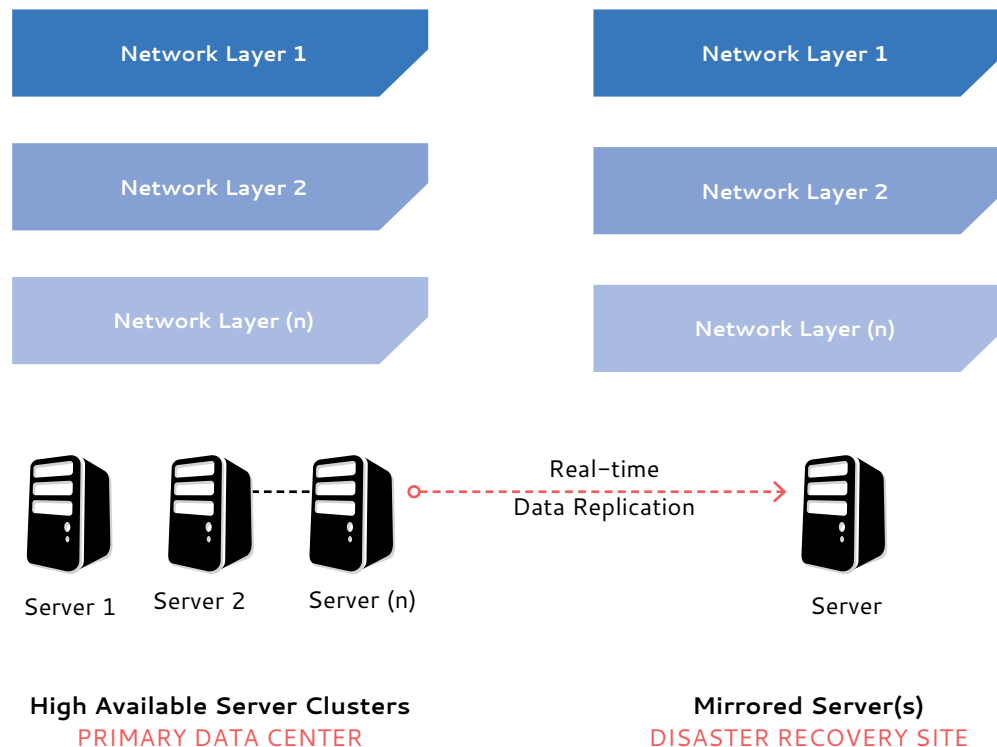
# MANAGEMENT DISCUSSION & ANALYSIS

## SYSTEM SECURITY, RELIABILITY AND AVAILABILITY

Security and reliability are paramount for any National Payment System. LankaClear systems are designed, implemented and operated for high availability & reliability with the highest level of security.

The LankaPay National Payment Switch, uses the best of class technologies for all infrastructure implementations. LankaClear exercises its mandate as the payment infrastructure provider by offering high availability and secured payment solutions, thereby transferring the benefits of strategic investments and modernisation to the banking industry and general public alike.

### LANKACLEAR IT SYSTEM ARCHITECTURE



On this journey towards meeting the demands of a rapidly evolving IT landscape, LankaClear has identified the crucial requirements and has developed the enterprise IT architecture for the payment system where the robustness, scalability, availability and security is guaranteed. The above diagram depicts the general blueprint of the enterprise scale IT systems at LankaClear.

### IT SYSTEM SECURITY

LankaClear has developed the enterprise IT architecture for the national payment system to guarantee the robustness, scalability, availability and security of the payment system.

- ▶ A layered design strategy has been adopted, dividing the network into discrete functional layers. Each layer provides specific functions that define its role within the overall network whilst redundancy is addressed at each granular component.
- ▶ Security is implemented at each demarcation point in the IT architecture. The system design is modular to accommodate the segregation of diversified functions in the network whilst facilitating scalability, high availability, performance and robust security.
- ▶ IT security discipline at LCPL is skewed towards latest technology and in keeping with international best practices.
- ▶ All payment system application software is designed based on the highest level of software security incorporating encryption, hashing and IT security management processes. This enables LankaClear IT systems to be aligned to ISO 27001 and PCI-DSS standards, and be PA-DSS certified.
- ▶ During the current financial year, the LankaClear IT Security Policy and Procedures documents were enhanced and published, in alignment to the ISO 27001:2013 and PCI-DSS standards.



- ▶ Risk analysis and proactive intelligence gathering was carried-out on a periodic basis.

### SYSTEM AVAILABILITY AND UPTIME

The IT system design of a 'clustered environment' ensures that the application systems continue to function, even in the event of a failure in one component or server. This enterprise scale clustered IT environment is designed by means of application and server clustering, and through real-time replication of business critical information to multiple locations. In addition, all the Intel based systems were virtualized during the year, for better IT resource utilisation, IT resource management and better management of LankaClear payment systems. This robust and scalable IT infrastructure ensured that our payment systems are always available to serve the general public, which is evident by:

- ▶ During the current financial year, process and technological improvements resulted in the CITS achieving a 99.97% System Up-Time and achieving 100% of the Delivery Cut-off times.
- ▶ CCAPS, the National Payment Switch branded as LankaPay had an uptime of 100%.

- ▶ The Disaster Recovery (DR) Processes and the Business Continuity Planning (BCP) were improved during the year and two live DR operations were conducted for each payments system. LankaClear is in the final stages of constructing our own DR Site and with direct ownership of the DR site will enable us to introduce better controls and a better designed data center.

### ACCESS CONTROLS TO THE LANKACLEAR PREMISES

The Data Center and the operations areas are highly secured. However, for even greater security, access controls into the LankaClear premises are in the process of being improved to further strengthen physical security for the National Payment System.

The above security features of LankaClear National Payment Systems ensure that banks and the general public get the most secure environment for financial payment transactions and are not inconvenienced by service interruptions due to IT failure.

# MANAGEMENT DISCUSSION & ANALYSIS

## SECURITY PRODUCTS AND SERVICES

### SRI LANKAN BANK CSIRT

The Bank CSIRT (Computer Security Incident Response Team) was established as a joint initiative of the Central Bank of Sri Lanka, Sri Lanka CERT I CC and Sri Lanka Banks Association (SLBA), and pursuant thereto LankaClear was invited to host and function as the Administrator of the Bank CSIRT to provide consistent Information Security Service support to the banking & financial sector.

The Sri Lanka Bank CSIRT was launched on 1st of July 2014 as a pioneering initiative in the South Asian region, and as at March 31st 2015, 26 Commercial Banks and Licensed Specialized Banks had joined as members to obtain the services.

#### About the Bank CSIRT



Cyber crime targeting banks have indicated an alarming increasing in recent years, placing entire national banking systems at risk all over the world. Sri Lanka's Bank CSIRT is a proactive response to this growing external threat as the country prepares to shift the entire national financial system onto electronic platforms.

The Bank CSIRT protects Sri Lankan banks by:

- ▶ Maintaining 24x7 global surveillance for potential cyber threats
- ▶ Immediately alerting banks of impending threats.
- ▶ Recommending suitable mitigation steps for banks with regards to computer security incidents.
- ▶ Taking actions to block computer security attacks from points of origin within Sri Lanka or outside the country.
- ▶ Monitoring the availability of the web services through SOC (Security Operation Center)
- ▶ Conducting security reviews and forensic investigations to provide assistance in legal action against cyber attacks
- ▶ Raising awareness among the financial community regarding cyber threats and preventive measures.
- ▶ Reviewing and updating the Baseline Security Standard for Sri Lankan banks.

#### Awareness workshops

In addition to the launch event, which was hosted by the Central Bank of Sri Lanka with the presence of all Bank CEO's, CIO's and other dignitaries, during the current financial year, the Bank CSIRT conducted 2 workshops for Bank CSIRT members on preventive measures against threats to banking and financial systems.

## Plans for 2015/16

- ▶ Accommodate remaining banks into the Bank CSIRT system
- ▶ Expand the Bank CSIRT facility to include non-bank financial institutions and primary dealers to ensure wider system stability through standard protection.
- ▶ Assist financial institutions to enhance their security systems
- ▶ Implementing a National SOC (Security Operation Center) for financial institutions in Sri Lanka.

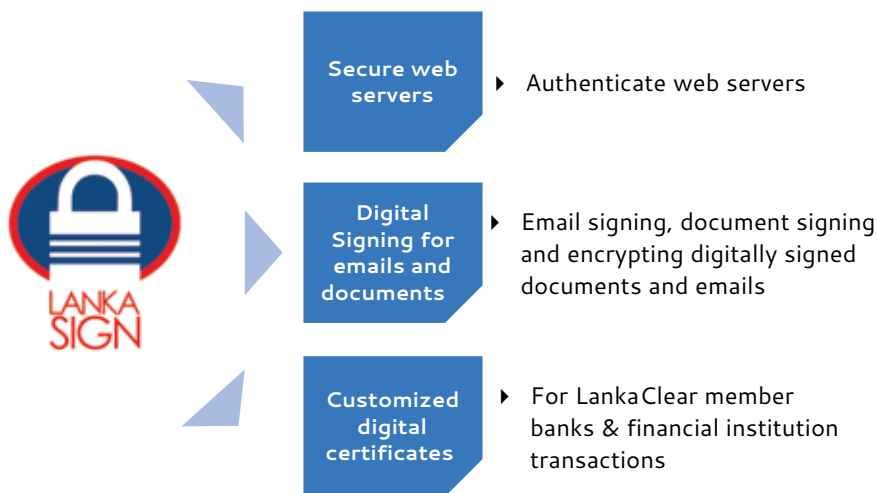


*Bank CSIRT official launch at the Central Bank of Sri Lanka*

## DIGITAL SECURITY SOLUTIONS

Established under the Electronic Transactions Act No. 19 of 2006, LankaSign Security Solutions, is LankaClear's Certification Service Provider (CSP), authorised to issue Digital Certificates for the banking & financial sector of the country. Within the national electronic payment system, LankaSign's role is to enable secure exchange of financial data, through authentication of signatures digitally and protecting the transmitted data to ensure data integrity. The digital certificates, based on PKI (Public Key Infrastructure), enables users to securely exchange data over networks and to verify the identity of the other party. Any employee of a registered business entity in Sri Lanka, is eligible to obtain a Digital Certificate from LankaSign. As the legal provisions are vested in accordance with the Electronic Transactions Act No. 19 of 2006, any security compromise is governed by Sri Lankan law, whereas foreign Certification Service Providers are governed by their relevant jurisdictions and laws.

LankaSign provides digital certificates for the following purposes;



- ▶ Secure Server Certificates (Also known as SSL – Secure Socket Layer certificates) are issued to authenticate web servers used for Internet banking or any other internal web server authentication requirement.

## MANAGEMENT DISCUSSION & ANALYSIS

### SECURITY PRODUCTS AND SERVICES (CONTD.)

- ▶ Digital Certificates for Email signing, document signing and encrypting digitally signed documents and emails.
- ▶ Customised Digital Certificates for software applications within the banking & financial sector, to secure electronic transactions and internal software applications.

#### Business development and growth

Hitherto, LankaSign Security Solutions' business activities were limited to the financial sector. However, in 2014, LankaSign expanded its business scope by making its specialised expertise available to local businesses, through the provision of customised digital security solutions. To support its business development activities, during the current financial year, the division embarked on a heavy B2B marketing drive and approached all national institutions, and businesses through a marketing campaign, including viral emails. In addition, the unit engaged with professionals and public through educational activities such as CBSL training programmes and the Chief Information Officers Forum, to raise awareness about innovative technology solutions that support business growth in the modern technology era.

#### ISO Certification

LankaSign is currently in the process of obtaining ISO27001:2013 certification on information security and is on target to obtain the ISO certification within the new financial year. The accreditation will formally position LankaSign as an international standard information security services provider.

#### Securing e-CO's (Electronic Certificate of Origin)

During the year, LankaSign secured a project from the Ceylon Chamber of Commerce (CCC), Sri Lanka's leading trade body, to provide digital signatures for Certificates of Origin issued by the CCC. The solution offers exporters the ability to send the documents electronically via the internet to the Chamber. The registered certificate could be picked up by the exporter on the way to the bank. This is not only a time saving exercise as the document could be forwarded to the Chamber even after working hours, it also reduces cost, paperwork and eliminates delays to the users. The digital signature based solution enhances the competitiveness of Sri Lankan exports by allowing exporters to compete more effectively. As at end March 2015, e-CO services powered by LankaSign digital signatures were being utilised by 42 companies in Sri Lanka.

#### Ethical hacking to raise awareness

LankaSign sponsored the CICRA Security Summit 2014, at the Cinnamon Lakeside Colombo to support cyber security awareness in the country. The summit featured an ethical hacker from Malaysia and was extremely well received by local audiences. All participants at the event was exposed to the LankaSign product offering through branding & information leaflets distributed with the official docket to all participants.



*Outdoor banner displayed at CCC in promoting the e-CO service.*



*CICRA Security Summit 2014, Cinnamon Lakeside, Colombo*

# MANAGEMENT DISCUSSION & ANALYSIS

## FINANCIAL REVIEW

We are happy to report that during the financial year 2014/15, LankaClear surpassed the half a billion revenue mark for the first time in its history. Total revenue recorded a growth of 12% year on year, to reach Rs.518mn. The main contributors to the growth of revenue were new products such as CAS and CSIRT. However, new products in commercial operation and awaiting commercial operations, are still accumulating losses due to their higher fixed cost base and they are yet to reach their full potential.

The Company closed the year with a net profit of Rs.129mn. Though the revenue has increased remarkably the Company closed the year with a drop in profitability against the previous year. As explained, new products still to reach their full potential under a higher fixed cost base, is a main contributor to the drop in the profitability. Due to the utilisation of internal cash reserves for the development of the national payment infrastructure and the construction of a Disaster Recovery site, cash held in short term investments reduced by 11%, compared to 2013/2014. As a result, investment income reduced by Rs. 27mn. Meanwhile, corporate taxes increased by Rs. 12mn due to the higher tax rate applicable to companies with revenues exceeding Rs. 500mn. Marketing expenses too, added a further Rs. 11mn to the cost base, compared to the previous year. These factors in combination resulted in a decline of profit after tax by Rs. 57mn compared to financial year 2013/14.

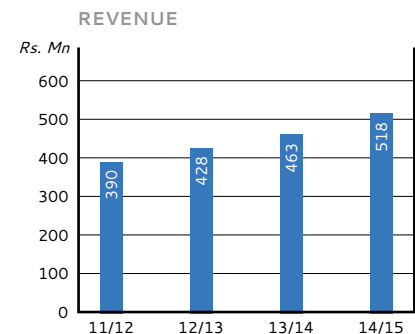
Earnings per Share declined from Rs. 12.32 to Rs. 8.52. However, the Net Asset Value per Share continue to increase from Rs. 71.98 to Rs. 78.75, reflecting a healthy growth of 9%. The total asset base as at 31st March 2015, continued to grow further beyond the one billion mark, reflecting not only expansion of operations but also the Company's ability to provide infrastructure facilities for National Payment Systems in future. Since no new banks joined for LankaClear CITS services, stated capital remained intact.

LankaClear recorded a net profit margin of 25% for the year under review, declining from 40%. Even though LankaClear derives 81% of its total income from cheque clearing related activities in 2013/14, it was reduced to 66% in the current financial year, due to new products taking a larger share of the revenue. Despite reduction of percentage contributed to the total revenue, volume of cheques cleared remained at similar levels compared to the previous year. The Company managed to fund its entire operation and expansion activities internally, reflecting 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.

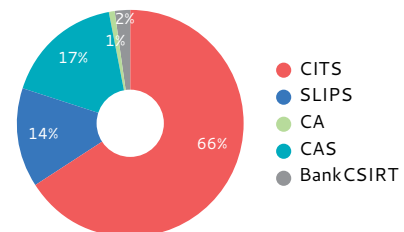
### REVENUE

The Company's top line reached Rs. 518mn, against Rs. 463mn a year ago, primarily driven by income from new product lines, increased incomes from the Common ATM Switch and increased SLIPS income. Revenue from cheque clearing reduced by Rs. 35mn. While cheque volumes reduced by 0.5%, the main reason for lower cheque clearing income, was the fall in Average cheque return percentage from 4.7% to 3.8%. The star performer was the LankaPay Common ATM Switch (CAS), which increased its share of

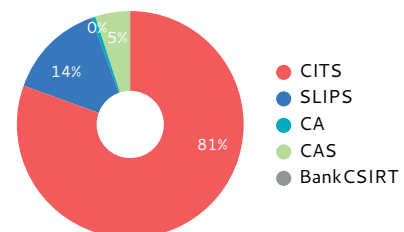
Company income to 17%, from 5% one year ago, with a threefold growth in income. During the current year, 7 new banks joined the LankaPay CAS and joining fee and volumes were the main contributory factor. Incomes from LankaSign, the certification authority, too, increased by 26%.



### REVENUE MIX 2014/2015



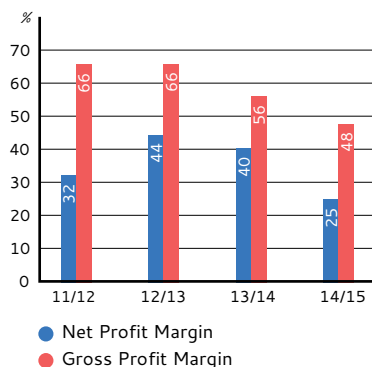
### REVENUE MIX 2013/2014



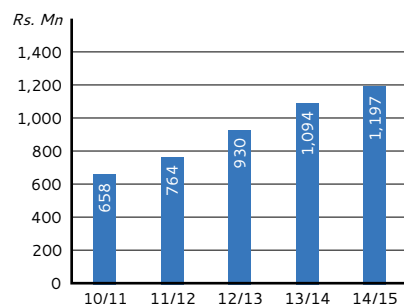
# MANAGEMENT DISCUSSION & ANALYSIS

## FINANCIAL REVIEW (CONTD.)

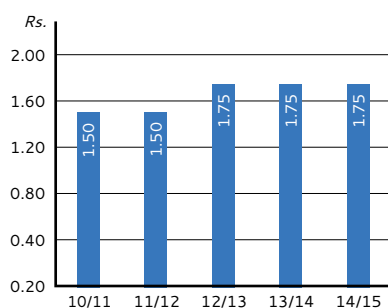
### PROFIT MARGIN



### SHAREHOLDERS' FUNDS



### DIVIDEND PER SHARE



### PROFIT BEFORE TAX

LankaClear's Profit Before Tax (PBT) reduced by 20% to record a PBT of Rs. 183mn. Direct expenses increased during the year, mainly due to hardware maintenance expenses coming from completing the three year warranty period for the Common Card and Payment Switch (CCAPS) hardware. Since the CCAPS went live in July 2013, only 9 months expenses have been accounted for in FY 2013/14, whereas the full 12 months expenses have been accounted for, in the FY2014/15. Due to these factors, the cost of sales from the CCAPS has increased by Rs. 30mn. The gross profit margin went down to 48% from 54% recorded one year ago. The gross profit, together with other income and expenses, resulted in a net profit margin of 25%.

### INTEREST INCOME

In the face of interest rate unpredictability experienced during the year, LankaClear adopted a shorter tenure investment approach to utilise possible increases to market rates. There was a slight revival of deposit rates following the election. However, the Company's investment base reduced by approximately Rs. 81 mn, due to cash payments for progress of the CCAPS and the construction of a new a Disaster Recovery Site. Therefore, interest income was significantly lower at Rs. 68 mn, compared to Rs. 95 mn, in the previous year.

### EARNINGS PER SHARE

The Company reported an Earnings per Share of Rs. 8.52, which is 31% lower compared to the Rs.12.32 for the previous financial year.

### CAPITAL EXPENDITURE

The payment systems industry is highly capital intensive by nature due to rapid and evolutionary technology changes. Therefore, capital investments in payment systems must be long sighted. LankaClear, as the payment infrastructure provider for the nation, has continuously invested in payment infrastructure that will propel the country into the future, on par with global expectations. This investment is reflected in the Company's financial statements in the form of various 'progress payments' for the CCAPS. In addition, during this period, LankaClear almost completed the construction of the Disaster Recovery site, which also added to the Capital Expenditure

In 2014/2015 LankaClear's capital investments reached Rs. 222 mn, compared to Rs 129mn in the previous year.

### SHAREHOLDERS' FUNDS

The profits made in consecutive operating periods have consistently added to shareholders wealth and a strong balance sheet. This has led to shareholders' wealth reaching Rs.1.3 bn. This is an improvement of 9% compared to the previous year. The recorded Net Assets Value per Share is Rs. 78.75 during the year under review, compared to Rs. 71.98 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. For the third consecutive year LankaClear has declared a dividend of Rs.1.75 per share despite the lower profits compared to previous years. Though this is an increment of 45% to the payout ratio compared to the previous year, the healthy cash reserve position and future potentials of the organization has supported paying out a constant dividend to the shareholders.

### FUTURE OUTLOOK

LankaClear is looking towards a brighter future following significant investments on LankaPay products that will bring enhanced security, convenience and affordability nationwide, towards the payment and settlement industry. LankaPay, when running at its full strength, is expected to boost Company revenues with a wider product variety and wider market reach, and improve Company profitability with expected economies of scales. In the short term, Company income would be further strengthened from income from US Dollar Clearing and Common Electronic Fund Transfer Switch and the Shared ATM Switch.

Cheque clearing was at the heart of LankaClear's business, generating required seed capital for new investments, throughout the last decade. As LankaClear is now offering multiple product ranges and competitor payment mechanisms, it is possible that newer products would capture the market share of existing products. Therefore, a future trend that is already emerging is electronic payments such as LankaPay, substituting cheque payments. This could change the Company's current revenue distribution,

in favour of electronic payments, whereas it is currently skewed towards cheque clearing. Hence the successful operation of LankaPay is going to impact on all the financial aspects of the organisation from profitability margins to value creations for its stakeholders, through asset utilisation efficiencies in a greater magnitude.

As has been the practice, LankaClear will pursue a strategy of utilising internally generated funds for its future investments to the maximum extent, whilst paying out a healthy dividend to 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 the future.



# MANAGEMENT DISCUSSION & ANALYSIS

## HUMAN CAPITAL DEVELOPMENT

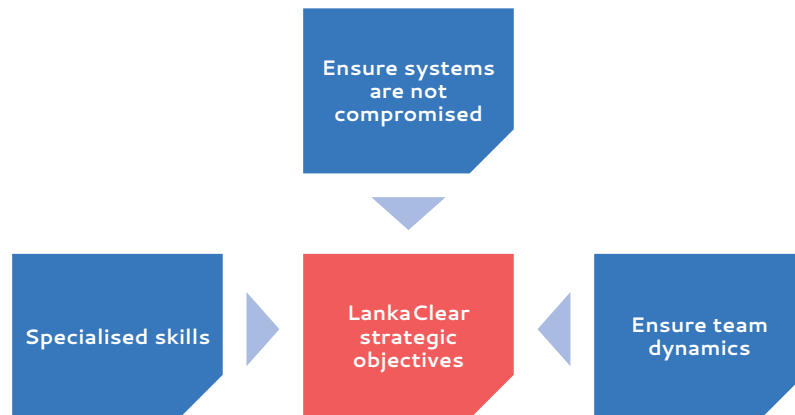
LankaClear's broader national mandate as Sri Lanka's electronic payment infrastructure provider has necessitated changes to the Company's human capital management approach to achieve its five year strategic objectives. Therefore, during the financial year 2014/15, the LankaClear Human Resource Division developed and implemented a comprehensive human resource management framework to support the Company's transition into a highly secure national entity.

As at March 31, 2015, LankaClear did not face any fines or sanctions, or cases filed in a court of law, regarding compliance with labour regulations.

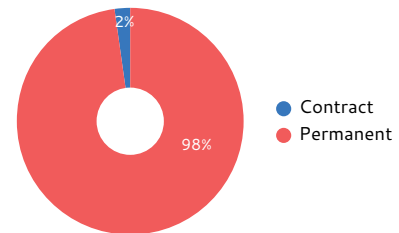
### EMPLOYEE PROFILE OF LANKACLEAR AS AT MARCH 31, 2015

The LankaClear team comprised 104 personnel as at March 31, 2015 with a 102 permanent cadre and 2 contract based officials.

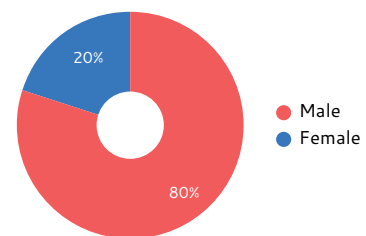
#### HR contribution to LankaClear's strategic objectives



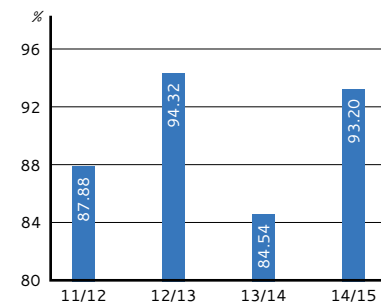
#### EMPLOYEES BY TYPE OF EMPLOYMENT



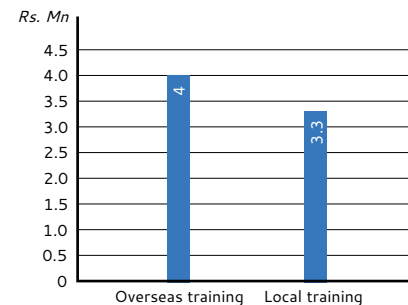
#### EMPLOYEES BY GENDER



#### RETENTION RATIOS

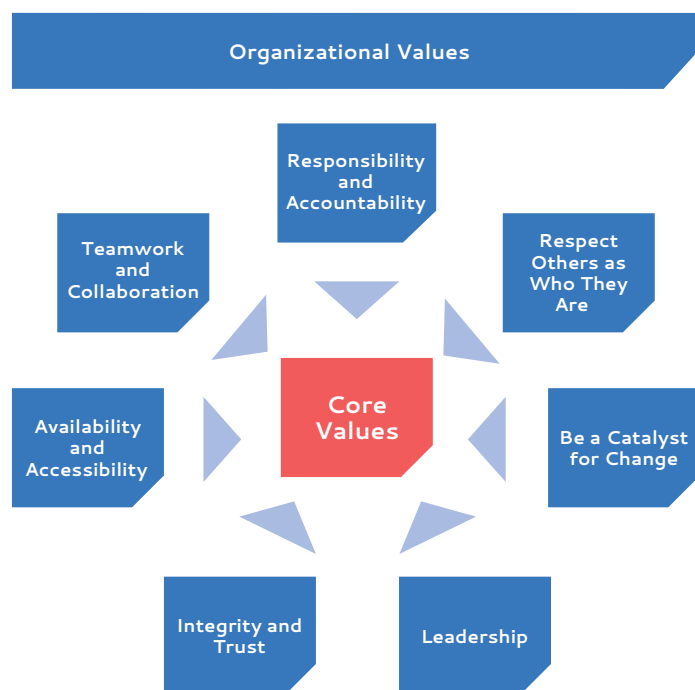


#### INVESTMENT ON PEOPLE DEVELOPMENT



## STRATEGIC PRIORITIES AND PERFORMANCE 2014/15

| Strategic priority  | Performance  |
|---|--|
| Develop organisational values and ensure they are lived   | <ul style="list-style-type: none"> <li>▶ Approved by Board and implemented</li> <li>▶ Value champion team has been set up</li> <li>▶ Have developed an appraisal system to measure how people live by the values</li> </ul>            |
| Develop and implement a new HR strategy covering the area of: <ul style="list-style-type: none"> <li>▶ Recruitment and placement</li> <li>▶ Employee engagement</li> <li>▶ Training and development</li> <li>▶ Compensation and benefits</li> <li>▶ Performance management</li> </ul> | <ul style="list-style-type: none"> <li>▶ All components of the HR strategy was approved by the Board</li> <li>▶ Commenced implementation with the participation of all employee</li> <li>▶ A novel experience to all levels</li> </ul> |
| Conducting an employee engagement and satisfaction survey through an outsourced vendor  | <ul style="list-style-type: none"> <li>▶ LankaClear was ranked with a 46% positive perception by it's employees</li> </ul>   |
| Conducted salary and compensation survey  | <ul style="list-style-type: none"> <li>▶ Survey was conducted by PWC</li> <li>▶ In the process of introducing improvements</li> </ul>  |



## DEVELOP ORGANISATIONAL VALUES AND ENSURE THEY ARE LIVED

Seven core values were identified as being the most supportive towards achieving LankaClear's strategic objective of becoming Sri Lanka's electronic payment infrastructure provider.

### Core values of LankaClear personnel

The Company wide adaptation process of the core values commenced in the current financial year, with the establishment of a Value Champion Team, headed by the General Manager / CEO. The team comprising the DGM IT & Operations, HOHR and Senior Manager Business Development & Brand Promotions is expected to facilitate attitudinal and subsequent behavioural changes among all levels of staff members through a process of integration of all through awareness and education.

In addition, an appraisal system with a ranking criteria has been developed to measure to what extent individuals have adopted and are living by, the core values.

## HR STRATEGY: RECRUITMENT AND PLACEMENT

The strategy of recruitment is based on the concept of "fitting the person to a job" in accordance with the educational and professional qualifications, together with the competency requirements of the job and the competencies of the job seekers. Schemes of recruitment to attract the most potent and suitable candidates with the right attitude as per the above strategy have been developed to guide the interview panels as necessary. Most importantly the strategy includes a strong

# MANAGEMENT DISCUSSION & ANALYSIS

## HUMAN CAPITAL DEVELOPMENT (CONTD.)

mechanism to ensure that the background and security screening process that evaluates applicant's integrity to work in the national payment system is not compromised.

### HR STRATEGY: EMPLOYEE ENGAGEMENT

The employee engagement strategy at LankaClear is a three step formula bringing Management and Employees together to achieve organizational success through engagement. The strategy is expected to create a conducive environment and a friendly atmosphere at LankaClear which will be helpful in the creation of a fully engaged workforce.

A number of employee engagement activities were introduced during the year. These include one-on-one discussions, HR Skips, Open House Meetings, Fun at Work Activities, Leadership Round Tables and EWS Mechanisms. The main focus of EWS is to identify potential attrition. As an organization which employs knowledge workers LankaClear is keen to retain its experienced employees and given the difficulties in sourcing the required skill levels, the Company requires contingency plans in case of loss of employees. Therefore, an EWS system plays a dual role of alerting the company to potential attrition and enabling its contingency planning.

### HR STRATEGY: TRAINING AND DEVELOPMENT

LankaClear is committed to learning and development of its employees so that they gain the necessary skills to reach their full potential and meet the needs of the organization. The training and development

strategy is aimed at providing the direction for all employees and an approach for addressing the business critical learning requirements of the organization.

All trainings will be focused on current and future business needs. A comprehensive training needs analysis along with the annual appraisals were completed to prepare the Annual Training Plan.

### HR STRATEGY: COMPENSATION AND BENEFITS

LankaClear believes in the philosophy of pay for performance, skills and competencies, development and growth, and effective visible commitment to the achievement of goals. The LankaClear compensation structure encourages recruitment, retention, and motivation of outstanding employees so that the organization can achieve its mission and objectives.

The management believes the strategy is essential for communicating performance expectations, for improving service levels and productivity and for recognizing contributions of different levels of employees in the company.

### HR STRATEGY: PERFORMANCE MANAGEMENT

The primary objective of Performance Management is to establish a culture of high level performance through enhancement of skills, abilities, achievement of agreed goals and accomplishment of tasks required from an employee. Both employee and immediate superior should have a shared understanding of what needs to be achieved, besides the expected and

actual level of performance during the performance period. The performance management system was improved during the year with the introduction of a transparent performance rating system that adopts an effective approach of differentiated performance rating. Performance improvement plans were developed and implemented to improve the performance standards of those employees who needed assistance.

During the financial year 2014/15 all employees of LankaClear faced performance appraisals.

### EMPLOYEE ENGAGEMENT SURVEY BY GPTW INC.

The 1st Employee Engagement Survey was conducted in October 2013 while the 2nd was conducted in November 2014. The numbers of respondent's in the two surveys were 80 and 90 respectively in the two consecutive years. The survey was administrated through a web link facilitated by the GPTW Sri Lankan Chapter and all records were kept strictly confidential as per the NDA signed by both parties.

The survey was conducted to measure the level of trust placed by the employees in the company. The trust was measured through the trust Index© which represents the following 5 dimensions – Credibility, Respect, Fairness, Pride and Camaraderie.

## 2.1 Employee Engagement Survey Respondent's Demographics – November 2014

| Job Status          | Total | %    |
|---------------------|-------|------|
| Probationary        | 7     | 8%   |
| Permanent           | 81    | 90%  |
| Fixed Term Contract | 2     | 2%   |
| Grand Total         | 90    | 100% |

| Gender      | Total | %    |
|-------------|-------|------|
| Female      | 11    | 12%  |
| Male        | 79    | 88%  |
| Grand Total | 90    | 100% |

| Job Category      | Total | %    |
|-------------------|-------|------|
| Non-executive     | 25    | 28%  |
| Executives        | 47    | 52%  |
| Management        | 10    | 11%  |
| Senior Management | 8     | 9%   |
|                   |       |      |
|                   |       |      |
| Grand Total       | 90    | 100% |

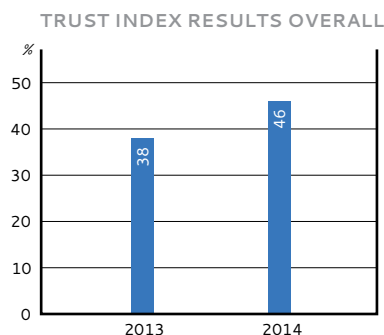
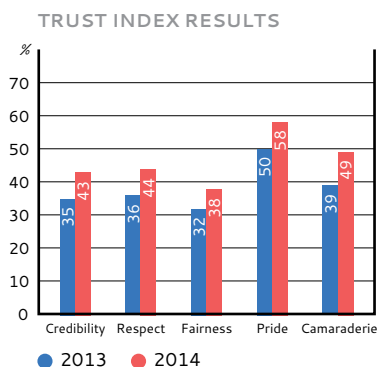
| Tenure         | Total | %    |
|----------------|-------|------|
| > 6 Mos.       | 6     | 7%   |
| 1 Yr to 6 Mo.  | 11    | 12%  |
| 1–2 years.     | 15    | 17%  |
| 3–5 years      | 22    | 24%  |
| 6–10 years     | 32    | 36%  |
| Above 10 years | 4     | 4%   |
| Grand Total    | 90    | 100% |

## SUMMARY OF FINDINGS

The comparison of the two surveys indicate a steady growth of the opinion given by the employees. Although there were lower areas, the overall opinion of the employees seem to be improving as evident below. On an overall basis the employee opinion on the Credibility of the Management has improved by 23% year on year followed by Respect by 22%, Fairness by 19 %, Pride by 16% and Camaraderie by 26% as indicated in below graph .

### Overall Analysis.

The final overall results of the Trust Index of the two surveys conducted in 2013 and 2014 are illustrated in below graph. The findings indicate that LCPL has improved its stance by 21% in building Trust among employees as the percentage of satisfaction for 2013 was 38% and for 2014 was 46%.



## HAVING FUN AT WORK

During the year LankaClear conducted a number of employee events to build team spirit while providing social networking opportunities for the staff.



*Fun at work*



*Fun at work*



*Runners Up – BSFI Cricket Challenge*

# MANAGEMENT DISCUSSION & ANALYSIS

## HUMAN CAPITAL DEVELOPMENT (CONTD.)



*New Year Celebration*



*Sun Down Beach Party–Montage, Mt. Lavinia*



*Bakthi Gee*



*Annual Staff Outing–Araliya Green Hills, Nuwara Eliya*



*Annual Staff Outing–Araliya Green Hills, Nuwara Eliya*



*Family Outing – The Sands, Wadduwa*



*Christmas Carols*

### GOALS FOR THE FINANCIAL YEAR 2015/16

The LankaClear HR Division plans on introducing many more improvements to the HR management process of the Company in the new financial year. These include:

- ▶ Implement the employee value appraisal system to measure the effectiveness of the new value framework. This will be followed by suitable adjustments to the value implementation system to improve adoption of identified core values.
- ▶ Conduct competency mapping of all technical positions to identify skill competency gaps and structure suitable training
- ▶ Ensure a fair and equitable compensation and benefits structure is maintained
- ▶ Implementation of a stronger grievance handing mechanism
- ▶ Implementation of an internal customer satisfaction survey to measure the effectiveness of the Procurement Division



# MANAGEMENT DISCUSSION & ANALYSIS

## REVIEW OF VALUE ADDITION

### ORGANIZATIONAL OVERVIEW AND EXTERNAL ENVIRONMENT

LankaClear is a Company that has clear direction as enunciated by its inspiring mission and vision statements (page 3), possess an innovative culture supported by high esteemed ethics and values as depicted in the Section Human Capital Development (page 44). Corporate information such as ownership, operating structure, principal activities are indicated in the section About Us (page 10).

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 27) 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 41), financial statements (page 82) and Statement of Value Addition (page 51).

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 27).

### 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 22), Management Team (page 24) and section Human Capital Development (page 44). Important areas of Management in the Organization are further governed by extended Board Committees which information is included under the Corporate Governance section (page 61).

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

Organizational risk management process is explained in detail under the Risk Management section (page 68).

How the organization's culture, ethics and values are reflected in its use 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 section of Stakeholder Engagement and Environmental Responsibility (page 53 & 59).

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.

Readying electronic payment systems under Common Card and Payment Switch for commercial operations, virtualization of server infrastructure and progression towards attaining ISO 27001 for LankaSign and undertaking to carry out international standard IT and Process Audits 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, is 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, System Security, Reliability & Availability and Security Products & Services (page 31, 36 & 38).

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

# MANAGEMENT DISCUSSION & ANALYSIS

## REVIEW OF VALUE ADDITION (CONTD.)

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 section Stakeholder Engagement and Environmental Responsibility (page 53 & 59).

### RISKS, OPPORTUNITIES AND OUTLOOK

LankaClear's specific risks and risk management plan is discussed in detail under Risk Management section (page 68).

### 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 Chairman, GM/CEO, Strategy, Progress & Future and Operational Review (page 12, 16, 27 & 31).

Achievement of strategic objectives is continuously monitored against operational goals and timelines, budgets and 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 51).

### 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 86) and financial statements are prepared complying with the Sri Lanka Accounting Standards for Small & Medium Sized Entities.



## STATEMENT OF VALUE ADDITION

| For the year ended 31st March             | 2014/15<br>Rs.     | %           | 2013/14<br>Rs.     | %           | 2012/13<br>Rs.     | %           |
|---|--------------------|-------------|--------------------|-------------|--------------------|-------------|
| <b>Value Added</b>                        |                    |             |                    |             |                    |             |
| Business Revenue                          | 517,867,822        |             | 463,026,429        |             | 427,853,866        |             |
| Cost of Services                          | 200,633,988        |             | 159,405,957        |             | 131,892,559        |             |
| <b>Value Added by Business Activities</b> | 317,233,833        |             | 303,620,472        |             | 295,961,307        |             |
| Finance & Other Income                    | 68,041,253         |             | 95,301,719         |             | 83,130,665         |             |
| <b>Total</b>                              | <b>385,275,086</b> |             | <b>398,922,191</b> |             | <b>379,091,972</b> |             |
| <b>Distribution of Value Added</b>        |                    |             |                    |             |                    |             |
| To Employees                              |                    |             |                    |             |                    |             |
| Salaries & Other Benefits                 | 140,186,710        |             | 112,026,801        |             | 80,568,389         |             |
| Training                                  | 7,285,704          |             | 5,091,792          |             | 7,374,365          |             |
|   | 147,472,415        | 38%         | 117,118,593        | 29%         | 87,942,754         | 23%         |
| <b>To Providers of Capital</b>            |                    |             |                    |             |                    |             |
| Dividends to Ordinary Shareholders        | 26,600,000         |             | 26,512,500         |             | 22,725,000         |             |
|   | 26,600,000         | 7%          | 26,512,500         | 7%          | 22,725,000         | 6%          |
| <b>To the Government</b>                  |                    |             |                    |             |                    |             |
| Income Tax                                | 53,145,583         |             | 41,409,922         |             | 71,551,126         |             |
|   | 53,145,583         | 14%         | 41,409,922         | 10%         | 71,551,126         | 19%         |
| <b>To Expansion and Growth</b>            |                    |             |                    |             |                    |             |
| Retained Profits                          | 102,884,557        |             | 160,277,273        |             | 166,187,068        |             |
| Depreciation & Amortisation               | 54,520,327         |             | 52,486,715         |             | 30,751,442         |             |
| Deferred Taxation                         | 652,205            |             | 1,117,188          |             | (65,418)           |             |
|   | 158,057,089        | 41%         | 213,881,176        | 54%         | 196,873,092        | 52%         |
| <b>Total</b>                              | <b>385,275,086</b> | <b>100%</b> | <b>398,922,191</b> | <b>100%</b> | <b>379,091,972</b> | <b>100%</b> |

## ECONOMIC CONTRIBUTIONS

The value of LankaClear's direct economic contribution to the nation may seem fairly small in contrast to its actual economic impact to the nation. LankaClear has a multiplier effect on the national economy of Sri Lanka, through its business role of facilitating payments and settlements nationwide. Via its ever emerging IT systems the payment and settlements have seen greater efficiencies. Previously where a cheque took many days to realise funds, today we are clearing transactions real time through LankaPay network.

During the financial year 2014/15 LankaClear made a direct economic contribution to the country, to the value of Rs385Mn. Employees benefited from 38% of this value, while 14% went to the State coffers in the form of taxes and 7% was distributed among the shareholders of the Company. Contribution towards employees increased by 26% during the year due to acquisition of new human resources and upgrading of skills. These human capital investments will add value to the entire nation through specialised expertise that will uplift Sri Lanka's financial sector into the modern electronic age.

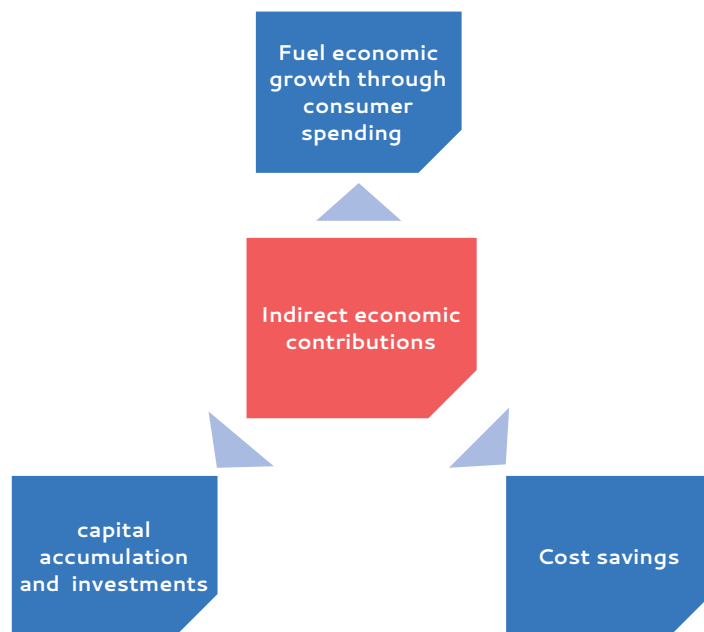
LankaClear retained 41% of its earnings to reinvest in technology and capacity enhancements, to support Sri Lanka's long term development. To date, all LankaClear's operations and investments in new technologies have been met through reinvested profits.

# MANAGEMENT DISCUSSION & ANALYSIS

## REVIEW OF VALUE ADDITION (CONTD.)

### INDIRECT ECONOMIC CONTRIBUTIONS

LankaClear's indirect economic contributions are by far larger and less quantifiable than its direct economic contributions. By facilitating electronic transactions, LankaClear contributes to economic development through different forms and through different levels of the economy.



#### Fuel economic growth

LankaClear's electronic systems fuel economic growth by encouraging higher consumer spending due to convenience and speed of electronic transactions. With the introduction of the LankaPay Common ATM network, ATM transactions have shown a marked increase, indicating higher consumer activity.

#### Cost savings

A significant contribution by LankaClear is towards reducing the cost of economic transactions within the country for both individuals and institutions. Domestic clearing of electronic transactions by LankaClear have saved millions of rupees in terms of retained foreign exchange for foreign payment clearing charges.

The introduction of the SLIPS have generated savings for financial institutions in terms of payment related physical documentation costs, while consumers have benefited from savings of physical travel to make transactions.

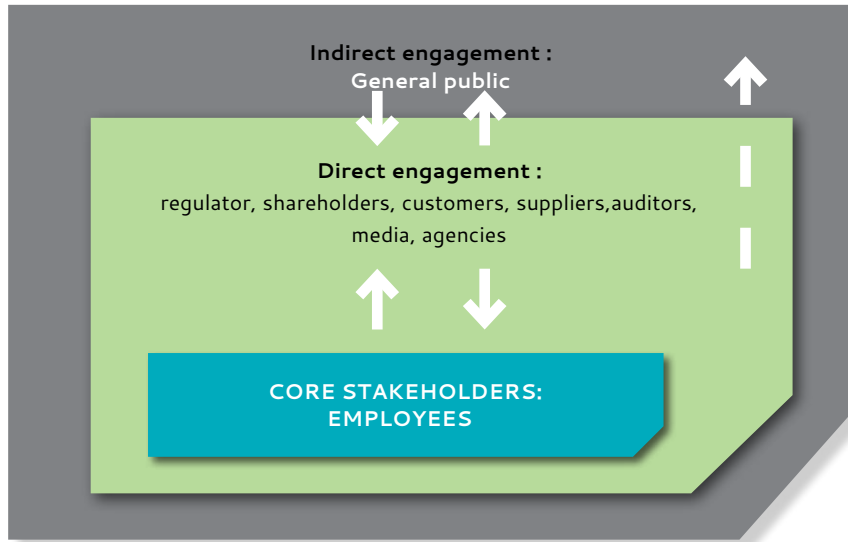
#### Capital accumulation

Lower transactional costs due to electronic systems encourage further expansion of the system into the interior of countries. This results in capturing previously 'unbankable' populations into the formal financial system. This in turn results in faster capital accumulation and facilitates investment growth. This process has connected in Sri Lanka with the LankaPay ATM network. In less than 2 years since its introduction and with 80% of the country's ATM's connected, already ATM transactions in rural parts of the country are increasing.

The deployment of other LankaPay products over the next few years, will add fuel to this process and will accelerate economic activity across the nation at different levels, leading to multiplier economic impacts.

# STAKEHOLDER ENGAGEMENT

## LANKACLEAR STAKEHOLDER MAP



LankaClear has a three tier stakeholder engagement process.

Tier 1 : Core stakeholders

- ▶ Employees

Tier 2 : Direct engagement :

- ▶ Regulator
- ▶ Shareholders
- ▶ Customers
- ▶ Suppliers
- ▶ Auditors
- ▶ Media
- ▶ Agencies

Tier 3 : Indirect engagement :

- ▶ General public

### TIER 1: CORE STAKEHOLDERS –EMPLOYEES

These are the core stakeholders of the company who are essential for operations. These stakeholders are unique in the sense that they are equipped with special industry related skills and experience in operating national payment infrastructure. Engagement with employees are described in detail under the Human Capital Development section of this report.

## STAKEHOLDER ENGAGEMENT (CONTD.)

### 2. TIER 2: DIRECT ENGAGEMENT : REGULATOR, SHAREHOLDERS, CUSTOMERS, SUPPLIERS,AUDITORS, MEDIA, AGENCIES

| Direct stakeholder group   | Description of stakeholder  | Method of engagement with stakeholder  |
|--|---|--|
| Banking & Financial Sector Regulator   | <p>The Regulator – Central Bank of Sri Lanka (CBSL) is the largest shareholder of LankaClear. All national payment infrastructure services operated by LankaClear are done with the guidance of the Central Bank of Sri Lanka</p> <ul style="list-style-type: none"> <li>▶ LankaClear collaborates with the CBSL in designing and driving national payment infrastructure for financial inclusion.</li> </ul> | <ul style="list-style-type: none"> <li>▶ Monthly board meetings &amp; other policy driven initiatives such as meetings , forums</li> <li>▶ Obtaining support and advisory services on all regulatory matters related to payments and settlements – General Directions , Mandates, Participant Approvals</li> <li>▶ Consultancy on best business practices</li> <li>▶ Through the provision of settlement related financial services</li> <li>▶ Driving new payment and settlement initiatives for the Banking and Finance Sector</li> <li>▶ Driving awareness amongst industry stakeholders</li> </ul> |
| Shareholders   | <p>LankaClear's shareholding structure include:</p> <ul style="list-style-type: none"> <li>▶ The CBSL</li> <li>▶ Licensed Commercial Banks</li> </ul>   | <ul style="list-style-type: none"> <li>▶ Monthly Board Meetings</li> <li>▶ AGMs</li> <li>▶ Annual/monthly reports &amp; circulations</li> <li>▶ Monthly management accounts</li> </ul>   |
| Customers (Banks , Non Bank Financial Institutions & Other select corporates ) | <p>LankaClear's direct customers are the licensed financial institutions in the country. These includes all banks and non bank financial institutions.</p> <p>The company also provides customized solutions on digital security &amp; other payment related services not within the scope of the national switch / regulator, these are mainly targeting select corporates and government organisations.</p> | <ul style="list-style-type: none"> <li>▶ Customer satisfaction assessments</li> <li>▶ Through the provision of national payment infrastructure services</li> <li>▶ Through charges for LankaClear services</li> <li>▶ Advisory services</li> <li>▶ Banking industry CIO Forum</li> <li>▶ Training and awareness programmes</li> <li>▶ Sponsorships/Customer evenings</li> <li>▶ Joint communications</li> </ul>  |
| Suppliers  | <p>Technology suppliers/ vendors play a vital role in sourcing and supporting the world class technology on which the mission critical national payment infrastructure is operated</p>  | <ul style="list-style-type: none"> <li>▶ In-house vendor support staff</li> <li>▶ 24X7X365 Service support</li> <li>▶ Suppliers forums local / foreign</li> <li>▶ Tender procedures</li> <li>▶ Timely payments</li> <li>▶ Meetings</li> <li>▶ Joint Customer Meetings</li> </ul>   |

| Direct stakeholder group | Description of stakeholder   | Method of engagement with stakeholder   |
|--------------------------|--|---|
| Auditors                 | LankaClear carries out following external audits :<br><ul style="list-style-type: none"> <li>▶ Financial Audits</li> <li>▶ IT Audits</li> <li>▶ Systems Security Audits</li> </ul>   | <ul style="list-style-type: none"> <li>▶ Auditors reports</li> <li>▶ Meetings with management</li> <li>▶ Advisory &amp; assurance services</li> <li>▶ Provision of information required from auditors as and when requested</li> </ul>  |
| Media                    | LankaClear has increased its media engagements during the current financial year to promote the “LankaPay” brand and its services.<br><br>The company has engaged media buying houses, electronic media stations, news print publications, business editors, leading business magazines & out door advertising | <ul style="list-style-type: none"> <li>▶ Launch events</li> <li>▶ Press releases</li> <li>▶ Providing interviews</li> <li>▶ Press advertisements</li> <li>▶ Media round table</li> <li>▶ One to one engagement &amp; meetings</li> <li>▶ Customer evenings</li> <li>▶ Other goodwill measures such as sponsorships</li> </ul> |
| Agencies                 | LankaClear engages a wide range of external agencies in supporting its branding and communications. These include advertising, media buying, outdoor, digital media, PR& research agencies   | <ul style="list-style-type: none"> <li>▶ Execution of communications and branding</li> <li>▶ Strategy meetings / Pitch &amp; Reviews</li> <li>▶ Timely payments</li> </ul>  |

#### CUSTOMER HELP DESK & HOTLINE: +94 11 2356999

- ▶ A 24/7 hotline is in operation to accommodate product related calls and complaints.
- ▶ Email and other written forms and are routed to the Front Office / Help Desk.
- ▶ At initial contact, all efforts are directed at First Contact Resolution (FCR), failing a complain will be lodged and a tracking reference number will be allocated, with an SLA of resolving the complaint within 48 working hours.
- ▶ Unresolved inquiries that breach the set SLA are first escalated to Senior Manager Bank Services then to DGM – IT & Operations and finally GM/CEO.

#### CUSTOMER SATISFACTION ASSESSMENT

- ▶ We conduct an annual customer satisfaction survey via direct mailer questionnaires
- ▶ The Company has also invested on a comprehensive call monitoring and tracking system which enables to identify all major call types and service levels to improve customer service. All complaints and inquiries are assigned a unique reference number which enables us and the customers to call back later and track the same.
- ▶ Customer relationship managers from customer services, frequently conducts courtesy calls to proactively handle any customer needs/developments.

## STAKEHOLDER ENGAGEMENT (CONTD.)

### SHAREHOLDER ENGAGEMENT



*LankaClear Annual General Meeting on 29th August 2014 at Galadari Hotel Colombo*



*CBSL Training Session – Kurunegala*



*CBSL Training Session – Kandy*



### CUSTOMER ENGAGEMENTS

#### Central Bank (CBSL) training for bank officials

LankaClear made awareness presentations on the national payment infrastructure related services offered by the Company at over 4 CBSL training programmes during the year for the banking and finance community.

#### Customer Evening to celebrate LankaPay Common ATM Switch

On 23<sup>rd</sup> July, 2014, the very first Customer Evening of the Company was held to coincide with the first year anniversary of the LankaPay Common ATM Network. All LankaPay member banks and media were invited to the event. We hope to make this event an annual activity to build a stronger relationship with all our customers.



*LankaPay Customer Evening, 23rd July 2014, at the Kingsbury Hotel, Colombo*



## Sponsorships

LankaClear sponsored many industry events during the year, targeting banking and finance communities, where the audience was exposed to LankaClear products and services. These include:

- ▶ The Clearing Association of Bankers – Quiz
- ▶ The CICRA Cyber Security Summit
- ▶ The Association of Professional Bankers Convention
- ▶ The Clearing House Get-together
- ▶ The PIM Graduation event

Sponsorships of such professional events provided a platform for brand building and raising awareness among local professionals about LankaPay products/services. A significant sponsorship was the Cyber Security Summit 2014, where the LankaSign digital security product portfolio was aptly promoted on all forms of media. LankaClear also provided multiple souvenir adverts for selected events.



Cyber Security Summit 2014, at the Cinnamon Lakeside, Colombo, on 5th August 2015



## Media engagements

LankaClear held its very first Media Round Table, where business editors from all leading publications were invited in batches, for a detailed brief of the company and its services to the nation. The event resulted in many feature write-ups about the Company on print media, generating publicity for LankaClear.

## 3. TIER 3: INDIRECT ENGAGEMENT : GENERAL PUBLIC

The public are the direct beneficiaries of the services provided by LankaClear. However, LankaClear's engagement with the public is an indirect process, through the financial services sector, mainly banks and finance companies. During the current financial year, LankaClear changed its engagement approach to directly engaging the public, to accommodate the strategic requirement of branding and creating much needed product awareness on LankaPay as the national payment network.

### LankaPay Marketing Drive 2014/15

LankaClear has a relatively low share of expenditure on marketing and promotions vis-à-vis the other advertisers within the banking financial sector. Marketing and branding was not a significant requirement in past. However, with the birth of LankaPay, active engagements commenced during the current financial year. The need to raise public awareness about the LankaPay brand, has now increased, specially with the common ATM network going live and other electronic fund transfer products such as SLIPS aligning with the brand.

During the current financial year LankaClear's marketing budget was Rs 14Mn. This budget was utilised for the purposes of:

1. Branding & Communications
2. Public Relations
3. Events & Promotions



## STAKEHOLDER ENGAGEMENT (CONTD.)

### Marketing objectives:

- ▶ Introduce the LankaPay brand and build equity as the national payment network, thus creating a strong launch pad for other services to be introduced under the LankaPay brand umbrella.
- ▶ Increase public awareness of LankaPay services and the national agenda
- ▶ Drive public usage of LankaPay services offered through the member banks & finance companies
- ▶ Create emotional connect and drive aspiration through brand engagements and interactions

### Elements of the LankaPay marketing drive

| Activity 2014/15  | Impact   | Investment      |
|---|--|-----------------|
| <p>First TV campaign in Sinhala on terrestrial channels and satellite TV to create awareness about the LankaPay common ATM network. TV channels covered are:</p> <ul style="list-style-type: none"> <li>▶ ITN</li> <li>▶ Swarnawahini</li> <li>▶ Hiru TV</li> <li>▶ CSN</li> <li>▶ Dialog TV</li> </ul>               | The campaign reached 67% of the target audience with a 1+ frequency given the levels of investment                                 | Rs.7Mn          |
| <p>Follow-up campaign to TV campaign: 2 Radio campaigns on Sinhala and Tamil stations regarding the LankaPay common ATM network. The Radio channels are:</p> <ul style="list-style-type: none"> <li>▶ Hiru FM (Morning Show)</li> <li>▶ Shaa FM (Evening Drive)</li> <li>▶ Sooryan FM</li> <li>▶ Sirasa FM</li> </ul> | The campaigns achieved higher Share of Spend (SOS) within the banking category recording 13% & 12% respectively on both campaigns. | Rs.4.5Mn        |
| Conducted SMS marketing campaign, through a leading telecommunications services provider with targeted message on LankaPay common ATM network.  | 35,000 working professionals from Colombo District successfully targeted via SMS   | Rs.135,000      |
| In getting the best out of PR initiatives, print media was used to its maximum capacity where every single newsworthy event was captured on main line newspapers and there were feature articles on business pages as well as pictorials.   | Media releases carried on all leading newspapers with published official circulation   | Rs.250,000      |
| Conducted a media round table with editors of all leading English, Sinhala and Tamil publications as a general introduction regarding LankaClear and LankaPay vision for the country.   | Feature articles on all leading newspapers, with published official circulation  | Management time |
| The LankaClear GM/CEO provided an interview to the Echelon business magazine, on LankaPay and the future of electronic payments   | Reached the echelon business reader community  | Management time |

| Activity 2014/15  | Impact  | Investment      |
|---|---|-----------------|
| The LankaClear GM/CEO participated in TV discussions regarding LankaPay & its vision for the country. TV channels are: <ul style="list-style-type: none"> <li>▶ Rupavahini,</li> <li>▶ Swarnavahini</li> <li>▶ Derana TV</li> </ul> | Reached respective channel / program captive audience of both business and other public segments      | Management time |
| The company launched its presence on all digi media platforms, namely Facebook, Twitter & LinkedIn  | FB : 2500 Likes<br>Twitter : 14 Followers<br>LinkedIn : 68 Followers                                  | Management time |
| Joint advertising campaigns on mass media and activations with all LankaPay common ATM switch member banks.   | Advertising has been carried out on all leading media – TV , Radio & Print reaching out to the masses | Management time |

## CSR ACTIVITIES

As a policy, LankaClear engages in CSR activities purely for the purpose of charity and public welfare and not for purposes of financial gain. During the current financial year LankaClear assessed a number of potential CSR projects in order to select the most beneficial to engage in and the Company hopes to initiate a suitable project in the new financial year.

### Awareness programmes for school children

The LankaClear electronic cheque clearance system is a component of the national Advanced Level curriculum. Therefore, every year, LankaClear accommodates school educational tours at the LankaClear Head Office. During the current financial year over 16 schools were hosted by LankaClear, benefiting approximately 1,200 students.

## PLANS FOR 2015/16

In the new financial year, LankaClear plans on initiating a corporate social responsibility project to enhance financial inclusion for poverty alleviation through partnership with a suitable strategic partner for maximum impact and reach.

The LankaPay brand will gain greater visibility over the new financial year as the Company intensifies its public engagements to support the launch of new electronic payment systems that are now ready for market deployment. Company wide special focus and effort will be on business development aspects, to market the new products that are scheduled to go live in the new financial year. Marketing efforts will be aimed at enhancing strategic branding and communications, public relations, events and promotions, to establish the LankaPay brand and build brand equity as a national service.

# ENVIRONMENTAL RESPONSIBILITY

## ENVIRONMENTAL RESPONSIBILITY

LankaClear's business activity of facilitating electronic payments does not lead to significant negative environmental impacts. On the contrary, the Company's business activity of moving the public away from a cash, or paper based economy, could be viewed as largely environmentally beneficial, in contributing significantly towards reducing paper consumption, time & resource wastage across the country. Therefore, while the Company's direct negative environmental impacts are minimum, its indirect positive environmental impacts are much greater and will increase with time, as Sri Lankan move towards a paperless future powered by LankaClear technology.

## MINIMISING ENVIRONMENTAL IMPACTS

As a responsible corporate entity and as the national payment service provider, LankaClear is conscious of its environmental responsibility and has introduced internal processes to identify and minimise potential direct negative environmental impacts. As identified by the Company, any sizeable long term negative impacts would accrue mainly through the generation of e-waste, which is a by product of the highly technology driven nature of LankaClear's business. The only hazardous waste generated by LankaClear is used batteries. Therefore, the Company has identified its e-waste and has implemented sustainable solutions for the disposal of e-waste involving recycling and reusing. For instance, CDs are crushed and sent for recycling to a company licensed by the Central Environmental Authority (CEA). All paper waste is sent for recycling, to a CEA approved company. In addition to the above, the Company attempts to sensitise employees towards conservation such as conservation of electricity, water and paper. Further, the IT systems have been automated to reduce the physical printing requirement, thereby reducing paper consumption as a result of business activities.

### Waste management at LankaClear

| Type of waste                 | Quantities 2014/15 | Method of disposal   |
|-------------------------------|--------------------|--|
| Printers (units)              | 45                 | The CRN printers were auctioned  |
| Toners (units)                | 200                | Empty toners were returned to the supplier                               |
| CD's (units)                  | 18,000             | crushed and sent for recycling   |
| Batteries (units) (Hazardous) | 50                 | Sealed led UPS batteries were returned to the Authorized local agent     |
| Paper (Kgs)                   | 70 approximately   | Shredded and sent for recycling  |
| Landfill                      | -                  | We are happy to report zero landfill from LankaClear business operations |

## Conserving electricity

High energy consumption in the form of electricity, is one of the main environmental impacts of LankaClear's business activities. Therefore, the Company makes a conscious attempt to conserve electricity through the use of more efficient equipment and in other ways.

LankaClear has implemented server consolidation using virtualized technology in order to reduce power consumption at the Primary Site Data Centre and the Disaster Recovery site. The Company will continue to improve systems and technologies in the future, to further its energy conservation objectives.

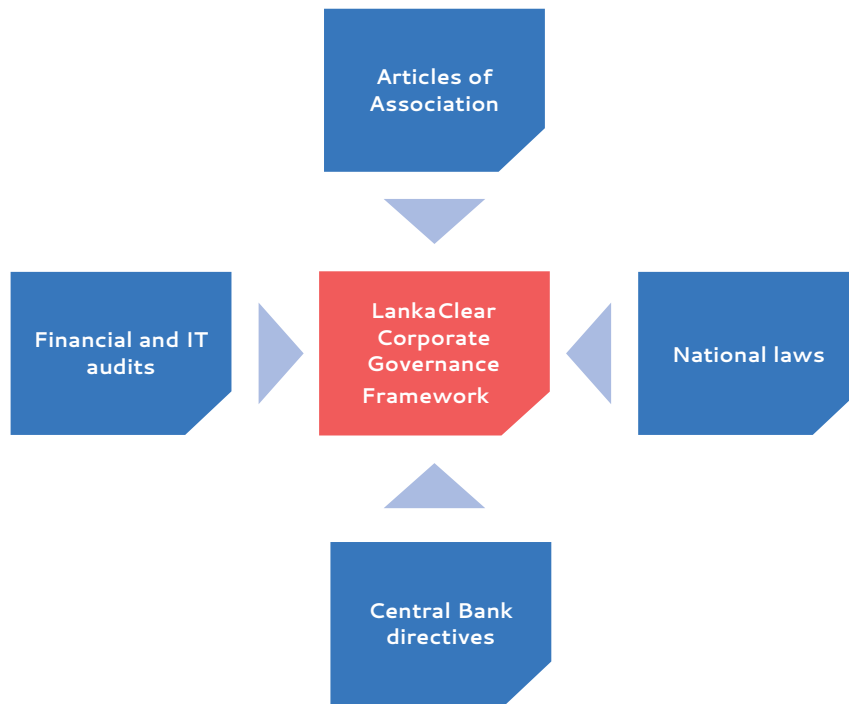
## Green DR building

In line with LankaClear's objective of minimum environmental impact, the Company's new Disaster Recovery (DR) site is been constructed on an eco-friendly model. The initial feasibility was carried out with a construction consultant who brought in the much needed expertise in driving a green building concept. Accordingly, the contract was awarded based on the RFP which specified green building criteria to be fulfilled.

The LankaClear DR Site has least disruptive use of land, water, energy and resources. The building has been designed to make best use of natural light to conserve electricity.

# CORPORATE GOVERNANCE

## CORPORATE GOVERNANCE FRAMEWORK



LankaClear's corporate governance framework comprise the Company's Articles of Association, other national laws that impact Company operations, Central Bank directives and also internal and external audits that guide the Company in terms of governance and controls.

LankaClear's purpose and duties, and the responsibilities of its members, are defined by the Company's Articles of Association. The Board of Director's is the Company's highest governing body and its appointment is stipulated within the Articles of Association. Conscious of their obligation to comply with applicable laws and regulations, the Board of Directors of LankaClear 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.

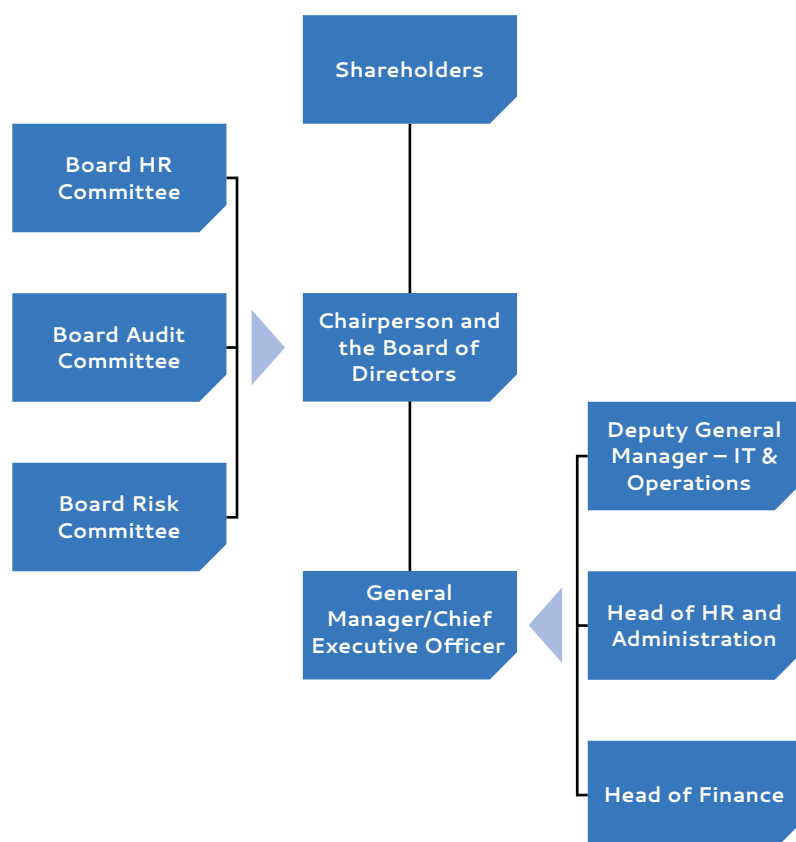
## VOLUNTARY DISCLOSURES AND GOOD GOVERNANCE

Under the stipulations of the Company's Act, LankaClear is required to provide its audited financial statements to all shareholders, at the end of the financial year. However, since inception, LankaClear has adopted a greater degree of transparency with regards to its operations, as a public responsibility.

As the National Electronic Payment Infrastructure Provider, LankaClear voluntarily publishes an Annual Report at the end of each fiscal year, and ensures its transmission to all member institutions. In addition, the Annual Report is made available to the general public through the LankaClear website. All department heads of the Company take direct responsibility for their areas of operations by personally providing information and placing their signatures on the relevant chapters. This high level of voluntary disclosure is considered an element of good governance by the Board and Management of LankaClear, as a responsible corporate citizen and a national service provider.

# CORPORATE GOVERNANCE (CONTD.)

## GOVERNANCE STRUCTURE WITH BOARD SUB COMMITTEES



## THE BOARD OF DIRECTORS

The Board of Directors at LankaClear (Pvt) Ltd. comprises eight Non-Executive Directors. Each Board member is well qualified and experienced and brings a wealth of knowledge that contributes 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. Individual profiles of the Board of Directors are presented under the Board of Director's section of this Annual Report.

### Composition of the Board of Directors

- ▶ The Chairperson/ Chairman/ is appointed by the Governor of the Central Bank of Sri Lanka, in accordance with the Articles of Association.
- ▶ Two Directors represent the Central Bank of Sri Lanka.

- ▶ Two Directors represent the two state banks
- ▶ Three Directors are nominated by the Sri Lanka Banker's Association, two of whom represent the private local commercial banks and the other represents foreign banks.
- ▶ The Secretary General of the Sri Lanka Banker's Association constitutes the final Board member and participates as an observer and is usually invited to express his views.

### 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 SUB COMMITTEES

### The Board HR Committee (updated section)

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

The Terms of Reference of the Board HR Committee includes 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 senior management positions.

The Board HR Committee held 8 meetings during the year under review. Matters discussed and recommendations made appear in the Board HR Committee Report of this Annual Report.

#### The Board Audit Committee (updated version)

The Board Audit Committee comprises 3 Directors.

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.

#### BOARD RISK MANAGEMENT COMMITTEE

The Risk Committee did not meet during the current financial year. However, business risk, operational risk and financial risk are the risks that LankaClear have to take cognizance of, when considering risk management. Action taken in managing these risks are highlighted in detail the Risk Management section of this Annual Report.

\*Held – Meetings held during the term of office

#### BOARD AND BOARD SUB COMMITTEE MEETINGS

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

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

| Name  | Board Meetings |         |     | Board HR Committee |         |     | Board Audit Committee |         |     |
|---|----------------|---------|-----|--------------------|---------|-----|-----------------------|---------|-----|
|   | Held*          | Present | %   | Held*              | Present | %   | Held*                 | Present | %   |
| 1. Ms. P Liyanage – Chairperson   | 13             | 13      | 100 | 08                 | 08      | 100 |                       |         |     |
| 2. Mr. S S Ratnayake – Director   | 12             | 12      | 100 | 08                 | 06      | 75  |                       |         |     |
| 3. Mrs. J P Mampitiya Director  | 1              | 0       | 0   |                    |         |     |                       |         |     |
| 4. Ms. R A S M Dayaratne – Director   | 13             | 11      | 85  |                    |         |     | 03                    | 03      | 100 |
| 5. Mr. D M Gunasekara – Director (Alternate Director – Mr. W P R P H Fonseka) | 13             | 11      | 85  |                    |         |     | 03                    | 03      | 100 |
| 6. Mr. M A B Silva – Director   | 13             | 10      | 77  |                    |         |     |                       |         |     |
| 7. Mr. W M R S Dias – Director  | 3              | 2       | 67  |                    |         |     |                       |         |     |
| 8. Mr. J Durairatnam – Director   | 9              | 8       | 89  |                    |         |     |                       |         |     |
| 9. Mr. M O F Salieh – Director  | 3              | 1       | 33  |                    |         |     |                       |         |     |
| 10. Mr. Azmeer Director   | 2              | 2       | 100 |                    |         |     |                       |         |     |
| 11. Mr. K P Ariyaratne Director   | 7              | 5       | 71  |                    |         |     |                       |         |     |
| 12. Mr. M A A Nomani – Director   | 6              | 5       | 83% |                    |         |     |                       |         |     |
| 13. Mr. P K Dangji – Director   | 7              | 6       | 86% |                    |         |     |                       |         |     |
| 14. Mr. Upali de Silva – Observer   | 13             | 12      | 92% | 08                 | 08      | 100 | 03                    | 03      | 100 |

## CORPORATE GOVERNANCE (CONTD.)

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.

### Role of the Chairman and CEO

The positions of Chairman and CEO are held by different persons ensuring balance power and authority.

### Senior Management

All members of the senior management team are well qualified and experienced to perform the authorities delegated through the General Manager/CEO.

### 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 Lanka Accounting Standards and the Companies Act No. 07 of 2007 and the generally accepted accounting principles.

### 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.

## 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.

### Compliance with Statutory and Regulatory Requirements

LankaClear operations are governed by a number of statutes. As at March 31, 2015, the Company's compliance status is listed below.

| Regulation/ACT  | Non compliant | Partially compliant | Fully compliant |
|---|---------------|---------------------|-----------------|
| 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   |               |                     | √               |
| Central Bank of Sri Lanka Circulars issued during the period April 1, 2014 – March 31, 2015 |               |                     | √               |

### Audits

In addition to the annual financial audit is 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.

Further, an IT audit was carried out during the year under review and the report by the auditor has been submitted to the Audit Committee for their evaluation.



# 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 is reviewed and updated regularly incorporating the provisions of the many regulatory requirements, 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 ensure 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 systems and procedures adopted by the company to monitor compliance with applicable laws and regulations of the country and the results of management's investigations.
- b) Review the findings of any examination by regulatory agencies and/or any auditor on compliance with such laws and regulations.
- c) Follow-up of any instances of non-compliance

## EXTERNAL AUDIT

- a) Review the External Auditor's audit scope plan and its audit quality control/assurance processes.
- b) Coordination with Internal Audit.

- c) Review the performance of External Auditors and make recommendations to the Board of Directors on their appointment, reappointment, discharge or rotation if necessary.
- 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 Audits carried out & 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 (Finance & Planning), 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.

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

## THE BOARD AUDIT COMMITTEE (CONTD.)

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

### MEETINGS

The Committee held 3 meetings during the year under review. The attendance of the members at these meetings is shown under Corporate Governance in the Annual Report. All 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

- a) Reviewed the effectiveness of the systems and procedures of the company to monitor compliance with 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.

External Audit functions were carried out by Messrs. Ernst & Young.

### INTERNAL AUDITS

- a) Assigned 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 reviewed 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.

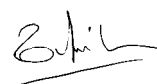
### REAPPOINTMENT OF AUDITORS

The Audit Committee recommended the reappointment of M/S Ernst & Young, as the External Auditors for the year to 31st March 2016 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  
24th July 2015

## THE BOARD HR COMMITTEE

Under the direction of the Board, the Board HR Committee was established to provide strategic direction to the Human Resources Function of the organization. The Board has approved and implemented the Terms of Reference for the proper functionality of the Board HR Committee.

The Board HR Committee during the year under review consisted of three Board Members, namely Mr. S S Rathnayake, Mr. M U de Silva and the former Chairperson Mrs. P Liyanage.

The Board HR Committee, which is appointed by the Board makes recommendations to the Board inter-alia on the following;

- ▶ Organizational Structure and HR Strategy
- ▶ Human capital development policies and processes
- ▶ Compensation and Benefits policy setting
- ▶ Health and Occupational Safety including approvals for Management recommendations on physical environment improvements and enhancements

It is quite gratifying to note that during the year the Board HR Committee members shared very valuable inputs in support of the decision making process of the HR Management functions of LankaClear. The Board HR Committee took an extra effort to provide its expertise and recommendations to the HR Strategy Development and Corporate Core Value creation process.

The Board HR Committee has held 8 meetings during the period under review and it is noteworthy to mention that all members of the Committee participated at all 8 meetings.

As the current Chairman of the Board HR Committee, I am happy to place on record the contribution of the HR committee towards employee satisfaction and the profitability of the organization.

On behalf of the Board of Directors, I wish to thank Ms. Janakie Mampitiya and Mr. Upali De Silva for their untiring efforts to fulfill their duty as members of the HR Committee. The Board also wish to thank Ms. Priyantha Liyanage, the past Chairperson and Mr. S S Ratnayake for their contribution during their tenure of office as HR Board Committee members.

In conclusion, I on behalf of the committee wish to thank Mr. Sunimal Weerasooriya, General Manager/CEO and the Senior Management of LankaClear for their contribution to the functioning of the Board HR Committee.



**Mr. Anil Amarasuriya**  
*Chairman – Board HR Committee*

Colombo, Sri Lanka  
15th July 2015

# 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 pro-actively 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

Risk management at LankaClear is governed by the Risk Charter, Terms of reference for the Risk Committee and the Risk Management Policy Statement. As per the Risk Management Policy Statement, the Management Level Risk Committee is held responsible for overall risk management of the organization represented by the 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. With the involvement of the management, risk management activities were taking place throughout the year. The Board has approved the recruitment of the compliance officer to strengthen IT risk aspects of the organization and the recruitment is in progress.

## 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 risk are specifically identified due to the significant impact such risks could have on the organization.

| Business Risk  |   |   |
|--|---|---|
| Strategic Risk   | Impact  | Risk Management Strategies  |
| Failure to implement strategic plans and address market needs on payment systems infrastructure, on time | 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> |

| Strategic Risk | Impact  | Risk Management Strategies   |
|----------------|---|--|
|                | 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 System (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>  |

## RISK MANAGEMENT (CONTD.)

| <b>Socio-economic, Political and Environmental Risk</b>                           | <b>Impact</b>  | <b>Risk Management Strategies</b>  |
|---|--|--|
| Business impacts 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>   |
| <b>Socio-economic, Political and Environmental Risk</b>                           | <b>Impact</b>  | <b>Risk Management Strategies</b>  |
| 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>  |
| <b>Competitive Risk</b>   | <b>Impact</b>  | <b>Risk Management Strategies</b>  |
| 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> |

| Operational Risk  |  |   |
|---|--|---|
| Violation or Inadequate Process Risk                                      | Impact   | Risk Management Strategies  |
| 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 formalized 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>▶ Working towards to obtain PCI-DSS certification for CCAPS, which is the National Payment Switch that processes the retail electronic payments and ISO 27001 certification for CA.</li> <li>▶ Further, there is a formalized IT Auditing plan, where penetration &amp; vulnerability assessments, general IT audits, BIA (Business Impact Analysis) and RA (Risk Assessment) audits are conducted at least on an annual basis.</li> </ul> |



## RISK MANAGEMENT (CONTD.)

| Operational Risk  |   |   |
|---|---|---|
| Violation or Inadequate Process Risk  | Impact  | Risk Management Strategies  |
| 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 PCI-DSS and ISO 27001 standards and international best practices 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 numerous IT audits and assessments. 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> |
| 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% and 100% uptime for CCAPS for the year under review is testimony to the effectiveness of the Near-Site IT systems and the fully functional DR site.</li> </ul>  |

| Employee Risk  | Impact  | Risk Management Strategies   |
|--|---|--|
| <p>Risk of inability to attract the right staff, develop existing staff and retain skilled and experienced staff</p> | <p>Reduced productivity</p> <p>Reduced quality of service</p> | <ul style="list-style-type: none"> <li>▶ In order to minimize 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 compensation 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 minimize and avoid operational risks associated with the National Clearing Systems.</li> <li>▶ Human Resource processes currently in place facilitate the recruitment of the right staff, manage performance &amp; rewards, plan and implement training &amp; development and handle succession planning &amp; 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 which comprises of the three Board Members shall ensure that the HR strategy and HR development of the organisation are linked to short term and long term strategic direction of the organization.</li> </ul> |

## RISK MANAGEMENT (CONTD.)

| Legal Risk  | Impact   | Risk Management Strategies  |
|---|--|---|
| Risk of legal action due to non performance of legal and statutory requirements and poorly drafted legal agreements                                       | <p>Inability to enforce terms against vendors, contractors, service providers etc., due to their obligations, the Company's rights, and other protective provisions benefiting 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 organization'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, analyse 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>   |  |   |
| Credit Risk   | Impact   | Risk Management Strategies  |
| 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>   |
| Gearing Risk  | Impact   | Risk Management Strategies  |
| 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>   |
|---|---|---|
| Risk of 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> <li>▶ Since the rates were maintained at low levels, there was market expectation that the rates could increase and LankaClear adopted an investment in shorter tenure to make use of possible increases to the rates in future.</li> </ul>  |
| <b>Liquidity Risk</b>   | <b>Impact</b>   | <b>Risk Management Strategies</b>   |
| Risk of not having sufficient resources to meet financial obligations 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> |
| <b>Foreign Exchange Rate Risk</b>   | <b>Impact</b>   | <b>Risk Management Strategies</b>   |
| Risk from fluctuating foreign exchange rates  | The possibility of incurring higher costs related to foreign currency payments            | <ul style="list-style-type: none"> <li>▶ Foreign exchange risk is not a major concern to LankaClear 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 do not give adequate returns                                | Affects 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>   |



LANKAPAY HAS PROVIDED US WITH THE MUCH  
NEEDED CONVENIENCE AND SECURITY WE LOOK  
FOR WHEN IT COMES TO OUR FINANCES

## FINANCIAL REPORTS

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## STATEMENT OF DIRECTORS' RESPONSIBILITIES FOR FINANCIAL STATEMENTS

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

The Directors are also required to ensure that the Financial Statements have been prepared and presented in accordance with the Sri Lanka Accounting Standards and provide the information required by the Companies Act 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 as laid down by the Institute of Chartered Accountants of Sri Lanka.

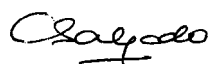
The Directors endeavour to ensure that the Company maintains sufficient records to be able to disclose with reasonable accuracy, the financial position of the Company and to be able to ensure that the Financial Statements of the Company meet with the requirements of the Companies Act and Sri Lanka Accounting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

The Directors have reasonable expectation, after making enquiries and following a review of the Company's budget for the

ensuing year including cash flows and borrowing facilities, that the Company has adequate resources to continue in operational existence for the foreseeable future, and therefore have continued to adopt the going concern basis in preparing the Accounts.

Messrs. Ernst & Young the Auditors of the Company have examined the Financial Statements made available by the Board of Directors together with all relevant financial records, related data, minutes of Shareholders and Directors meeting and express their opinion in their report on page 81 of the Annual Report.

By Order of the Board  
LankaClear (Private) Limited



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

Colombo  
15th July 2015



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

The Directors are pleased to submit their report together with the Auditor's Report and Financial Statements for the year ended 31st March 2015, to be presented at the 13th Annual General Meeting of the Company.

## REVIEW OF THE YEAR

Chairman's message on page 12 describes the Company's affairs and mentions important events that occurred during the year, and up to the date of this report. The Financial Highlight on page 7 elaborates the financial results of the Company. These reports together with the audited financial statements reflect the state of the affairs of the Company.

## PRINCIPAL ACTIVITIES

The Principal Activity 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 page 82-100 in this annual report.

## INDEPENDENT AUDITOR'S REPORT

The Auditor's Report on the financial statements is given on page 81 in this report.

## ACCOUNTING POLICIES

The Accounting Policies adopted in preparation of the financial statements are given on page 86-89. There were no

changes in Accounting Policies adopted by the Company during the year under review.

## FIXED ASSETS

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

## DIRECTORS' RESPONSIBILITIES

The Statement of the Directors' Responsibilities is given on page 78 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 details appear in the Corporate Governance Report on pages 61-64.

## RESERVES

The Reserves and Accumulated Profits as at 31st March 2015 amount to Rs. 1,197,015,387 vs Rs. 1,094,130,830 as at 31st March 2014. 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 31st March 2015. The details are given in Note 10 to the financial statement on page 95.

## POST BALANCE SHEET EVENTS

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

## INTERESTS REGISTER

Details of the transactions with Director-related entities are disclosed in Note 20 to the financial statements on page 99, 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

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

Following are the names of the Directors comprising the Board HR Committee

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

## DIRECTORS

The Board of Directors of LankaClear (Private) Limited as at 31st March 2015 were:

Mrs. P Liyanage – Chairperson  
Mrs. J P Mampitiya  
Mr. D M Gunasekara  
Mr. M A B Silva  
Mrs. R A S M Dayarathna  
Mr. J Durairatnam  
Mr. K Ariyaratne  
Mr. P K. Dangi

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

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

Mr. Ravi Dias resigned w.e.f. 20th May 2014 and Mr. J Durairatnam was appointed w.e.f. 18th June 2014.

Mr. M T M Azmeer was appointed w.e.f. 18th June 2014 and was resigned w.e.f. 29th August 2014.

Mr. M O F Salieh resigned w.e.f. 01st June 2014 and Mr. M A A Nomani resigned w.e.f. 29th August 2014.

Mr. K P Ariyaratne and Mr. P K Dangi appointed w.e.f. 29th August 2014.

Mr. S S Ratnayake resigned w.e.f. 09th March 2015 and Mrs. J P Mamapitiya appointed w.e.f. 09th March 2015 in his place.

### DONATIONS

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

### AUDITORS

The resolutions to appoint the present Auditors, Messrs. Ernst & Young Chartered 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 is disclosed in the Note 16 on page 97 in 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. Details on the work on the Audit Committee are set out in the Audit Committee Report.

### NOTICE OF MEETING

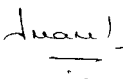
The Annual General Meeting will be held at 'Winchester Hall', Kingsbury Hotel, Janadhipathi Mawatha, Colombo 01. on 28th August 2015 at 11.30 a.m.

The Notice of the Annual General Meeting appears on page 103.

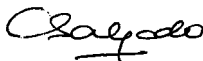
For and on behalf of the Board.



**Anil Amarasuriya**  
*Chairman*



**J. P. Mampitiya**  
*Director*



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

LankaClear (Private) Limited

15th July 2015  
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

## TO THE SHAREHOLDERS OF LANKACLEAR (PRIVATE) LIMITED

### Report on the Financial Statements

We have audited the accompanying financial statements of Lankaclear (Private) Limited, ("the Company"), which comprise the statement of financial position as at 31 March 2015, and the statement of comprehensive income, statement of changes in equity and, statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, set out on pages 82 to 100.

### Board's Responsibility for the financial statements

The Board of Directors ("Board") is responsible for the preparation of these financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards for Small and Medium-sized Entities (SLFRS for SMEs), and for such internal control as Board determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### 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 comply with

ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Board, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 March 2015, and

of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards for Small and Medium-sized Entities (SLFRS for SMEs).

### Report on Other Legal and Regulatory Requirements

As required by section 163 (2) of the Companies Act No. 07 of 2007, we state the following:

- The basis of opinion and scope and limitations of the audit are as stated above.
- In our opinion:
  - we have obtained all the information and explanations that were required for the audit and, as far as appears from our examination, proper accounting records have been kept by the Company.

–The financial statements of the Company, comply with the requirements of section 151.

15th July 2015  
Colombo

Partners: A D B Talwatte FCA FCMA M P D Cooray FCA FCMA R N de Saram ACA FCMA Ms. N A De Silva FCA Ms. Y A De Silva FCA W R H Fernando FCA FCMA  
W K B S P Fernando FCA FCMA Ms. L K H L Fonseka FCA A P A Gunasekera FCA FCMA A Herath FCA D K Hulangamuwa FCA FCMA LLB (Lond) H M A Jayasinghe FCA FCMA  
Ms. A A Ludowyke FCA FCMA Ms. G G S Manatunga FCA N M Sulaiman ACA ACMA B E Wijesuriya FCA FCMA

A member firm of Ernst & Young Global Limited

# STATEMENT OF FINANCIAL POSITION

As at 31 March

|                                     | Note | 2015<br>Rs.          | 2014<br>Rs.          |
|-------------------------------------|------|----------------------|----------------------|
| <b>ASSETS</b>                       |      |                      |                      |
| <b>Non Current Assets</b>           |      |                      |                      |
| Property, Plant and Equipment       | 3    | 224,735,737          | 175,592,498          |
| Intangible Assets                   | 4    | 235,519,188          | 117,951,599          |
| Deferred Tax Asset                  | 5    | 652,205              | 1,117,188            |
|                                     |      | <b>460,907,130</b>   | <b>294,661,285</b>   |
| <b>Current Assets</b>               |      |                      |                      |
| Inventories                         | 6    | 1,468,237            | 2,527,516            |
| Trade and Other Receivables         | 7    | 106,657,629          | 85,671,392           |
| Short Term Financial Investments    | 8    | 645,760,214          | 726,361,031          |
| Cash and Cash Equivalents           | 9    | 53,455,008           | 46,161,301           |
|                                     |      | <b>807,341,088</b>   | <b>860,721,240</b>   |
| <b>Total Assets</b>                 |      | <b>1,268,248,218</b> | <b>1,155,382,525</b> |
| <b>EQUITY AND LIABILITIES</b>       |      |                      |                      |
| <b>Capital and Reserves</b>         |      |                      |                      |
| Stated Capital                      | 10   | 158,250,000          | 158,250,000          |
| Technology Upgrade Reserve          | 11   | 222,035,045          | 229,674,944          |
| Capital Reserves                    |      | -                    | 120,000,000          |
| Retained Earnings                   |      | 816,730,342          | 586,205,886          |
| <b>Total Equity</b>                 |      | <b>1,197,015,387</b> | <b>1,094,130,830</b> |
| <b>Non Current Liabilities</b>      |      |                      |                      |
| Retirement Benefit Obligation       | 12   | 18,388,641           | 17,255,573           |
|                                     |      | <b>18,388,641</b>    | <b>17,255,573</b>    |
| <b>Current Liabilities</b>          |      |                      |                      |
| Trade and Other Payables            | 13   | 34,738,903           | 26,786,093           |
| Income Tax Liability                |      | 18,105,287           | 17,210,029           |
|                                     |      | <b>52,844,190</b>    | <b>43,996,122</b>    |
| <b>Total Equity and Liabilities</b> |      | <b>1,268,248,218</b> | <b>1,155,382,525</b> |
| <b>Net Assets Value Per Share</b>   |      | <b>78.75</b>         | <b>71.98</b>         |

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

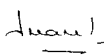


**R. L. Galappaththy**  
Head of Finance

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



**A. Amarasuriya**  
Chairman



**J.P. Mampitiya**  
Director

The Accounting Policies and Notes on pages 86 to 100 form an integral part of these Financial Statements.

15th July 2015  
Colombo

# STATEMENT OF COMPREHENSIVE INCOME

| Year ended 31 March                            | Note | 2015<br>Rs.          | 2014<br>Rs.   |
|--|------|----------------------|---------------|
| <b>Revenue</b>                                 | 14   | <b>517,867,822</b>   | 463,026,429   |
| Direct Operating Expenses                      |      | <b>(270,707,442)</b> | (211,440,602) |
| <b>Gross Profit</b>                            |      | <b>247,160,379</b>   | 251,585,827   |
| Other Income                                   | 15   | <b>68,041,253</b>    | 95,301,719    |
| Administrative Expenses                        |      | <b>(121,812,412)</b> | (118,687,851) |
| Marketing Expenses                             |      | <b>(10,759,080)</b>  | -             |
| <b>Profit Before Tax</b>                       | 16   | <b>182,630,141</b>   | 228,199,695   |
| Income Tax Expense                             | 17   | <b>(53,145,583)</b>  | (41,409,922)  |
| <b>Profit for the Year</b>                     |      | <b>129,484,557</b>   | 186,789,773   |
| Other Comprehensive Income                     |      | -                    | -             |
| <b>Total Comprehensive Income for the Year</b> |      | <b>129,484,557</b>   | 186,789,773   |
| Earnings Per Share                             | 18   | <b>8.52</b>          | 12.32         |

The Accounting Policies and Notes on pages 86 to 100 form an integral part of these Financial Statements.

## STATEMENT OF CHANGES IN EQUITY

| Year ended 31 March                       |      | Stated<br>Capital | Technology<br>Upgrade<br>Reserve | Capital<br>Reserves | Retained<br>Earnings | Total         |
|---|------|-------------------|----------------------------------|---------------------|----------------------|---------------|
|   | Note | Rs.               | Rs.                              | Rs.                 | Rs.                  | Rs.           |
| <b>Balance as at 01 April 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                |      | -                 | -                                | -                   | -                    | -             |
| Trasferred from Capital Reserve           |      | -                 | -                                | (275,000,000)       | 275,000,000          | -             |
| Transferred to Technology Upgrade Reserve | 11   | -                 | 57,049,924                       | -                   | (57,049,924)         | -             |
| Utilisation of Technology Upgrade Reserve | 11   | -                 | (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 |
| Profit for the Year                       |      | -                 | -                                | -                   | 129,484,557          | 129,484,557   |
| Other Comprehensive Income                |      | -                 | -                                | -                   | -                    | -             |
| Trasferred from Capital Reserve           |      | -                 | -                                | (120,000,000)       | 120,000,000          | -             |
| Transferred to Technology Upgrade Reserve |      | -                 | 45,657,535                       | -                   | (45,657,535)         | -             |
| Utilisation of Technology Upgrade Reserve | 11   | -                 | (53,297,434)                     | -                   | 53,297,434           | -             |
| Dividend paid                             |      | -                 | -                                | -                   | (26,600,000)         | (26,600,000)  |
| <b>Balance as at 31 March 2015</b>        |      | 158,250,000       | 222,035,045                      | -                   | 816,730,342          | 1,197,015,387 |

The Accounting Policies and Notes on pages 86 to 100 form an integral part of these Financial Statements.

# CASH FLOW STATEMENT

Year ended 31 March

|   | Note | 2015<br>Rs.      | 2014<br>Rs.       |
|---|------|------------------|-------------------|
| <b>Cash Flows From/(Used in) Operating Activities</b>               |      |                  |                   |
| Profit Before Tax   |      | 182,630,141      | 228,199,695       |
| Adjustments for   |      |                  |                   |
| Depreciation  | 3    | 36,842,179       | 37,712,629        |
| Amortisation of Intangible Assets                                   | 4    | 17,678,148       | 14,774,086        |
| Finance Income  | 15   | (67,841,198)     | (95,206,016)      |
| Retirement Benefit Obligation                                       | 12   | 1,133,068        | 6,614,786         |
| Provision for Bank Claims   |      | 1,906,208        | (13,031,674)      |
| Profit on Disposal of Property, Plant & Equipment                   | 15   | (152,023)        | (42,217)          |
| Operating Profit before Working Capital Changes                     |      | 172,196,522      | 179,021,289       |
| (Increase)/Decrease in Inventories                                  |      | 1,059,279        | (43,143)          |
| (Increase)/Decrease in Trade and Other Receivables                  |      | (20,986,237)     | 1,519,644         |
| Increase/(Decrease) in Trade and Other Payables                     |      | 6,077,991        | 7,109,535         |
| Cash Generated from Operations                                      |      | 158,347,556      | 187,607,326       |
| Income Tax Paid   |      | (51,785,341)     | (48,224,685)      |
| Gratuity Paid   |      | -                | (729,798)         |
| Net Cash From/(Used in) Operating Activities                        |      | 106,562,215      | 138,652,843       |
| <b>Cash Flows From/(Used in) Investing Activities</b>               |      |                  |                   |
| Acquisition of Property, Plant & Equipment                          | 3    | (86,324,394)     | (55,179,226)      |
| Acquisition of Intangible Assets                                    | 4    | (33,195,112)     | (38,993,357)      |
| Investment in Common Card and Payment Switch                        | 4    | (102,050,625)    | (34,916,118)      |
| Proceeds from Disposal of Property, Plant & Equipment               |      | 458,500          | 55,357            |
| Investment in Short Term Financial Investments                      |      | 54,066,346       | (59,887,637)      |
| Finance Income Received   |      | 94,376,776       | 101,114,760       |
| Net Cash Flows From/(Used in) Investing Activities                  |      | (72,668,508)     | (87,806,220)      |
| <b>Cash Flows From/(Used in) Financing Activities</b>               |      |                  |                   |
| Proceeds from Issue of New Ordinary Shares                          | 10   | -                | 3,500,000         |
| Dividend Paid   |      | (26,600,000)     | (26,512,500)      |
| Net Cash Flows From/(Used in) Financing Activities                  |      | (26,600,000)     | (23,012,500)      |
| <b>Net Increase/(Decrease) in Cash and Cash Equivalents</b>         |      | <b>7,293,707</b> | <b>27,834,123</b> |
| Cash and Cash Equivalents at the beginning of the year              |      | 46,161,301       | 18,327,178        |
| Cash and Cash Equivalents at the end of the year (Note A)           |      | 53,455,008       | 46,161,301        |
| <b>Note A</b>   |      |                  |                   |
| <b>Analysis of Cash and Cash Equivalents at the End of the Year</b> |      |                  |                   |
| Investment in REPOs   |      | 51,700,000       | 45,100,000        |
| Accrued Interest on REPOs   |      | 342,289          | 32,088            |
| Cash in Hand and at Bank  |      | 1,412,718        | 1,029,213         |
| Total Cash & Cash Equivalents                                       |      | 53,455,008       | 46,161,301        |

The Accounting Policies and Notes on pages 86 to 100 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 2015 were authorized for issue, in accordance with a resolution of the Board of Directors on 15th July 2015.

## 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.

### *Useful life time of the plant and equipment*

The Company reviews the residual values, useful lives and methods of depreciation of assets at each reporting date. Management estimates these values, rates. Methods and hence they are subject to uncertainty.

### 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 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.

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, 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.

### **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 amortization rate, 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 & 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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTD.)

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***

Gratuity is a defined benefit plan. In order to meet this liability, a provision is carried forward in the balance sheet, equivalent to an amount calculated based on a half month's salary of the last month of the financial year of all employees for each completed year of services, commencing from the first year of service.

The resulting difference between brought forward provision at the beginning of a year net of any payments made, and the carried forward provision at the end of a year is dealt with 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.

Revenue from product lines are recognized per transaction basis, except for certificate authority product and bank CSIRT revenue which recognized revenue on annual basis.

***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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTD.)

### 3. PROPERTY, PLANT AND EQUIPMENT

#### 3.1 At Cost

|                          | Balance as at<br>01.04.2014<br>Rs. | Additions<br>Rs. | Disposals/<br>Transfers<br>Rs. | Balance as at<br>31.03.2015<br>Rs. |
|--------------------------|------------------------------------|------------------|--------------------------------|------------------------------------|
| Computer Equipment       | 413,076,564                        | 40,463,527       | 9,670,723                      | 443,869,367                        |
| Furniture and Fittings   | 20,071,719                         | 613,759          | 311,541                        | 20,373,937                         |
| Electronic Equipment     | 27,500,352                         | 1,024,340        | 19,900                         | 28,504,792                         |
| Other Equipment          | 3,140,091                          | 966,195          | 98,880                         | 4,007,407                          |
| Motor Vehicle            | 6,650,000                          | -                | -                              | 6,650,000                          |
| Freehold Land            | 21,238,620                         | -                | -                              | 21,238,620                         |
|                          | 491,677,345                        | 43,067,821       | 10,101,044                     | 524,644,123                        |
| Capital Work in Progress |                                    |                  |                                |                                    |
| Freehold Building        | 1,543,799                          | 43,256,573       | -                              | 44,800,372                         |
|                          | 1,543,799                          | 43,256,573       | -                              | 44,800,372                         |
| Total Value of Assets    | 493,221,144                        | 86,324,394       | 10,101,044                     | 569,444,495                        |

#### 3.2 Depreciation

|                        | Balance as at<br>01.04.2014<br>Rs. | Charge for the<br>Year<br>Rs. | Disposals/<br>Transfers<br>Rs. | Balance as at<br>31.03.2015<br>Rs. |
|------------------------|------------------------------------|-------------------------------|--------------------------------|------------------------------------|
| Computer Equipment     | 274,756,359                        | 33,023,936                    | 9,496,619                      | 298,283,676                        |
| Furniture and Fittings | 10,612,329                         | 1,872,408                     | 201,922                        | 12,282,814                         |
| Electronic Equipment   | 23,773,215                         | 1,496,782                     | 19,900                         | 25,250,098                         |
| Other Equipment        | 1,836,744                          | 449,052                       | 43,626                         | 2,242,170                          |
| Motor Vehicle          | 6,650,000                          | -                             | -                              | 6,650,000                          |
| Total Depreciation     | 317,628,647                        | 36,842,179                    | 9,762,067                      | 344,708,758                        |

### 3.3 Net Book Values

|  | 2015<br>Rs. | 2014<br>Rs. |
|--|-------------|-------------|
| Computer Equipment                                     | 145,585,691 | 138,320,205 |
| Furniture and Fittings                                 | 8,091,123   | 9,459,390   |
| Electronic Equipment                                   | 3,254,694   | 3,727,136   |
| Other Equipment  | 1,765,237   | 1,303,348   |
| Motor Vehicle  | -           | -           |
| Land   | 21,238,620  | 21,238,620  |
|  | 179,935,365 | 174,048,699 |
| Capital Work in Progress                               |             |             |
| Freehold Building                                      | 44,800,372  | 1,543,799   |
|  | 44,800,372  | 1,543,799   |
| Total Carrying Amount of Property, Plant and Equipment | 224,735,737 | 175,592,498 |

**3.4** During the financial year, the Company acquired Property, Plant & Equipment by means of cash with an aggregate cost of Rs. 86,324,394/- (2014 – Rs. 55,179,226/-).

**3.5** The total investment made as at the balance sheet date in Common Card and Payment Switch was Rs. 360mn (2014 – Rs. 249mn) which is an IT infrastructure project and qualifying for the income tax exemption under section 17A of Inland Revenue Act No. 10 of 2006 and amendments thereto.

**3.6** Based on the assessment of potential impairment carried out internally as at 31 March 2015 no provision was required to be made in the financial statements as at the balance sheet date.

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTD.)

### 4. INTANGIBLE ASSETS

#### 4.1 At Cost

|                                | Balance as at<br>01.04.2014<br>Rs. | Additions<br>Rs. | Disposals/<br>Transfers<br>Rs. | Balance as at<br>31.03.2015<br>Rs. |
|--------------------------------|------------------------------------|------------------|--------------------------------|------------------------------------|
| Computer Software              | 350,764,036                        | 33,195,112       | -                              | 383,959,148                        |
|                                | 350,764,036                        | 33,195,112       | -                              | 383,959,148                        |
| Capital Work in Progress       |                                    |                  |                                |                                    |
| Common Card and Payment Switch | 34,916,118                         | 102,050,625      | -                              | 136,966,742                        |
|                                | 34,916,118                         | 102,050,625      | -                              | 136,966,742                        |
| Total Value of Assets          | 385,680,153                        | 135,245,737      | -                              | 520,925,890                        |

#### 4.2 Amortization

|                    | Balance as at<br>01.04.2014<br>Rs. | Charge for the<br>year<br>Rs. | Disposals/<br>Transfers<br>Rs. | Balance as at<br>31.03.2015<br>Rs. |
|--------------------|------------------------------------|-------------------------------|--------------------------------|------------------------------------|
| Computer Software  | 267,728,554                        | 17,678,148                    | -                              | 285,406,702                        |
| Total Amortisation | 267,728,554                        | 17,678,148                    | -                              | 285,406,702                        |

#### 4.3 Net Book Values

|  | 2015<br>Rs. | 2014<br>Rs. |
|--|-------------|-------------|
| Computer Software                          | 98,552,445  | 83,035,481  |
| Capital Work in Progress                   |             |             |
| Common Card and Payment Switch             | 136,966,742 | 34,916,118  |
| Total Carrying Amount of Intangible Assets | 235,519,188 | 117,951,599 |



4.4 During the financial year, the Company acquired intangible assets by means of cash with an aggregate cost of Rs.135,245,737/- (2014 – Rs. 73,909,477/-).

4.5 Based on the assessment of potential impairment carried out internally as at 31 March 2015, no provision was required to be made in the Financial Statements as at the balance sheet date.

## 5. DEFERRED TAXATION

|  | 2015<br>Rs.                    |                   | 2014<br>Rs.                    |                   |
|--|--------------------------------|-------------------|--------------------------------|-------------------|
| Deferred Tax Asset                                     | 652,205                        |                   | 1,117,188                      |                   |
|  | 652,205                        |                   | 1,117,188                      |                   |
|  |                                |                   |                                |                   |
|  | 2015                           |                   | 2014                           |                   |
|  | Temporary<br>Difference<br>Rs. | Tax Effect<br>Rs. | Temporary<br>Difference<br>Rs. | Tax Effect<br>Rs. |
| Balance at the Beginning of the Year                   | 3,989,958                      | 1,117,188         | (233,636)                      | (65,418)          |
| Transferred to/(from) Income Statement                 | (1,660,656)                    | (464,984)         | 4,223,594                      | 1,182,606         |
| Balance at the End of the Year                         | 2,329,302                      | 652,205           | 3,989,958                      | 1,117,188         |
| Deferred Tax Asset/(Liability) consisted of followings |                                |                   |                                |                   |
| Property, Plant and Equipment and Intangible Assets    | (16,059,339)                   | (4,496,615)       | (13,265,615)                   | (3,714,372)       |
| Retirement Benefit Obligation                          | 18,388,641                     | 5,148,819         | 17,255,573                     | 4,831,560         |
|  | 2,329,302                      | 652,205           | 3,989,958                      | 1,117,188         |

## 6. INVENTORIES

|                           | 2015<br>Rs. | 2014<br>Rs. |
|---------------------------|-------------|-------------|
| Consumable and Stationery | 1,468,237   | 2,527,516   |
|                           | 1,468,237   | 2,527,516   |

## NOTES TO THE FINANCIAL STATEMENTS (CONTD.)

### 7. TRADE AND OTHER RECEIVABLES

|  | 2015<br>Rs. | 2014<br>Rs. |
|--|-------------|-------------|
| Trade Receivables                              | 59,112,412  | 50,867,907  |
| Advances & Prepayments                         | 12,020,836  | 13,460,604  |
| Refundable Deposits                            | 412,700     | 228,700     |
| Advance Payment for CCAPS Application Software | 35,000,000  | 21,000,000  |
| Other Receivables                              | 111,681     | 114,180     |
|  | 106,657,629 | 85,671,392  |

### 8. SHORT TERM FINANCIAL INVESTMENTS

|                                       | 2015<br>Rs. | 2014<br>Rs. |
|---------------------------------------|-------------|-------------|
| Investment in Fixed Deposits          | 457,817,721 | 564,885,418 |
| Accrued Interest on Fixed Deposits    | 2,903,454   | 26,251,695  |
| Investment in Commercial Papers       | 57,014,562  | 120,659,689 |
| Accrued Interest on Commercial Papers | 4,144,831   | 8,236,850   |
| Investment in REPOs                   | 122,646,477 | 6,000,000   |
| Accrued Interest on REPOs             | 1,233,168   | 327,378     |
|                                       | 645,760,214 | 726,361,031 |

### 9. CASH AND CASH EQUIVALENTS

|  | 2015<br>Rs. | 2014<br>Rs. |
|--|-------------|-------------|
| Investment in REPOs  | 51,700,000  | 45,100,000  |
| Accrued Interest on REPOs  | 342,289     | 32,088      |
| Cash in Hand and at Bank   | 1,412,718   | 1,029,213   |
| Total Cash and Cash Equivalents for the Purpose of Cash Flow Statement | 53,455,008  | 46,161,301  |

## 10. STATED CAPITAL

|                                      | 2015       |             | 2014       |             |
|--------------------------------------|------------|-------------|------------|-------------|
|                                      | 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 | 15,200,000 | 158,250,000 | 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 | 15,200,000 | 158,250,000 |

## 11. TECHNOLOGY UPGRADE RESERVE

|   | 2015<br>Rs.  | 2014<br>Rs. |
|---|--------------|-------------|
| Balance at the Beginning of the Year      | 229,674,944  | 174,944,118 |
| Transferred from Retained Earnings        | 45,657,535   | 57,049,924  |
| Utilisation of Technology Upgrade Reserve | (53,297,434) | (2,319,097) |
| Balance at the End of the Year            | 222,035,045  | 229,674,944 |

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.

## 12. RETIREMENT BENEFIT OBLIGATION

|                                      | 2015<br>Rs. | 2014<br>Rs. |
|--------------------------------------|-------------|-------------|
| Balance at the Beginning of the Year | 17,255,573  | 11,370,585  |
| Gratuity Charge for the Year         | 1,133,068   | 6,614,786   |
| Payments made during the Year        | -           | (729,798)   |
| Balance at the End of the Year       | 18,388,641  | 17,255,573  |

## NOTES TO THE FINANCIAL STATEMENTS (CONTD.)

### 13. TRADE AND OTHER PAYABLES

|                               | 2015<br>Rs. | 2014<br>Rs. |
|-------------------------------|-------------|-------------|
| Value Added Tax               | 4,216,155   | 3,318,835   |
| Nation Building Tax           | 1,033,338   | 888,687     |
| Sundry Creditors and Accruals | 29,489,410  | 22,578,571  |
|                               | 34,738,903  | 26,786,093  |

### 14. REVENUE

|   | 2015<br>Rs. | 2014<br>Rs. |
|---|-------------|-------------|
| Revenue from Cheque Imaging and Truncation System | 339,028,884 | 373,733,478 |
| Revenue from Sri Lanka Interbank Payment System   | 74,546,545  | 63,262,490  |
| Revenue from Certificate Authority                | 3,421,601   | 2,706,800   |
| Revenue from Common Card and Payment Switch       | 89,941,626  | 23,323,662  |
| Revenue from Bank CSIRT                           | 10,929,166  | -           |
|   | 517,867,822 | 463,026,429 |

### 15. OTHER INCOME

|   | 2015<br>Rs. | 2014<br>Rs. |
|---|-------------|-------------|
| Interest on Fixed Deposits                          | 46,411,088  | 66,428,702  |
| Interest on REPOs                                   | 9,040,373   | 2,405,478   |
| Interest on Commercial Papers                       | 12,389,737  | 26,371,835  |
| Other Income  | 48,032      | 53,486      |
| Profit on Disposal of Property, Plant and Equipment | 152,023     | 42,217      |
|   | 68,041,253  | 95,301,719  |

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. 904,037/- (2014 – Rs. 240,548/-).

## 16. PROFIT BEFORE TAX

|   | 2015<br>Rs. | 2014<br>Rs. |
|---|-------------|-------------|
| <b>Profit Before Tax is stated after charging all expenses including the following:</b> |             |             |
| Directors' Emoluments   | 4,089,000   | 3,240,000   |
| Auditors' Fee   | 488,257     | 922,880     |
| Depreciation  | 36,842,179  | 37,712,629  |
| Amortisation of Intangible Assets   | 17,678,148  | 14,774,086  |
| Personnel Costs includes  |             |             |
| - Defined Contribution Plan Cost – EPF & ETF  | 14,520,615  | 10,744,471  |
| - Other Staff Costs   | 125,666,095 | 101,282,330 |

## 17. INCOME TAX EXPENSE

|  | 2015<br>Rs. | 2014<br>Rs. |
|--|-------------|-------------|
| <b>The major components of Income Tax expense for the Year ended 31 March are as follows :</b> |             |             |
| Current Income Tax Expense   |             |             |
| Current Income Tax Charge (Note 17.1)  | 52,674,847  | 42,618,863  |
| (Over)/Under provision of current taxes in respect of previous year                            | 5,752       | (26,334)    |
| Deferred Income Tax Expense  |             |             |
| Deferred Tax originating/(reversing) during the Year (Note 5)                                  | 464,984     | (1,182,606) |
| Charge to the Income Statement   | 53,145,583  | 41,409,922  |

## NOTES TO THE FINANCIAL STATEMENTS (CONTD.)

### 17.1 Reconciliation of Accounting Profit to Income Tax Expense

|  | 2015<br>Rs.  | 2014<br>Rs.   |
|--|--------------|---------------|
| <b>The major components of Income Tax expense for the Year ended 31 March are as follows :</b> |              |               |
| Profit Before Tax  | 182,630,141  | 228,199,695   |
| Loss on Tax Exempt Operation   | 4,474,272    | 35,283,705    |
| Aggregate Allowable Items  | (97,697,235) | (129,513,386) |
| Aggregate Disallowable Items   | 30,876,078   | 25,641,772    |
| Taxable Income   | 120,283,255  | 159,611,787   |
| Interest Income  | 67,841,198   | 95,206,016    |
| Income Tax @ 10%   | -            | 15,961,179    |
| Income Tax @ 28%   | 52,674,847   | 26,657,684    |
|  | 52,674,847   | 42,618,863    |

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.

### 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.

|   | 2015<br>Rs. | 2014<br>Rs. |
|---|-------------|-------------|
| Amount used as the Numerator                        |             |             |
| Net Profit attributable to Ordinary Shareholders    | 129,484,557 | 186,789,773 |
| Number of Ordinary Shares used as the Denominator   |             |             |
| Weighted average number of Ordinary Shares in Issue | 15,200,000  | 15,158,607  |
| Earnings Per Share                                  | 8.52        | 12.32       |

## 19. DIVIDEND PER SHARE

|   | 2015<br>Rs. | 2014<br>Rs. |
|---|-------------|-------------|
| Final Dividend paid in respect of 2012/13 |             | 26,512,500  |
| Final Dividend paid in respect of 2013/14 | 26,600,000  |             |
| Dividend Per Share                        | 1.75        | 1.75        |

## 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.

|                                | 2015<br>Rs. | 2014<br>Rs. |
|--------------------------------|-------------|-------------|
| Short Term Employment Benefits | 4,089,000   | 3,240,000   |

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.



## NOTES TO THE FINANCIAL STATEMENTS (CONTD.)

### 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

Company has a capital commitment of Rs. 22mn and Rs. 15mn for building contract and common card and payment switch contract respectively, but act provided for as at the financial reporting date.

#### 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 Balance Sheet date that requires adjustments to or disclosure in the Financial Statements other than those disclosed.

## 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.

**'CAS'** shall mean Common ATM Switch

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

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

**'CEFTS'** shall mean Common Electronic Fund Transfer 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.

**'CMobS;** shall mean Common Mobile Switch

**'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.

**CPS** shall mean Common POS Switch

**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.

## GLOSSARY AND INTERPRETATION (CONTD.)

**'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.

**'NCS'** shall mean National Card Scheme.

**'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.

**'SAS'** shall mean Shared ATM Switch.

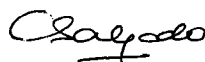
**'SLIPS'** shall mean Sri Lanka Interbank Payment System.

## NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the 13th Annual General Meeting of LankaClear (Private) Limited will be held on 28th August 2015 at 11.30 a.m. at 'Winchester Hall', Kingsbury Hotel, Janadhipathi Mawatha, Colombo 01. for the following purposes:

- 1) To receive and consider the Report of the Directors and the Statement of Accounts for the year ended 31st March 2015 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,  
15th July 2015

## NOTES

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## NOTES

This image shows a single sheet of white paper with horizontal ruling lines. The lines are evenly spaced and run across the width of the page. There are no margins, text, or other markings on the paper.



## 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 13th Annual General Meeting of the Company to be held on ..... 2015  
and at any adjournment thereof and at every poll which may be taken in consequence thereof.

Signed this ..... day of ..... 2015.

Signature.....

**NOTE:**

To be valid the completed form of proxy should be deposited at the Registered Office of the Company at 18th Floor, Bank of Ceylon 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.





