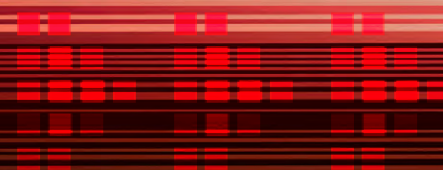


THE AGE OF

RACE



ANNUAL REPORT 2015/16



*In the fast paced world of financial transactions, we are gaining ground in creating a new national payment network that will make a cashless world a reality and financial hassle a thing of the past. As we enter the next chapter of our saga, where transactions are faster, safer and more convenient, we are bettering ourselves to reach international levels of quality, efficiency and security that has won the trust of all Sri Lankans. **Welcome to the age of pace.***

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Our Vision

"To be Asia's most trusted and reliable payment network"

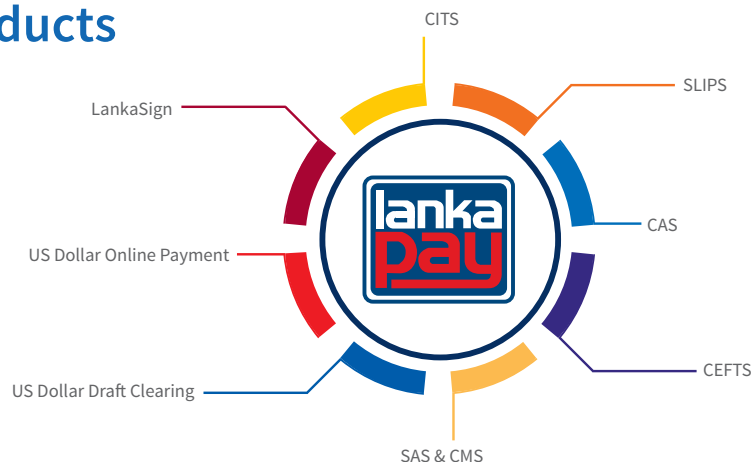
Our Mission

"To be the trusted National Payment Network that facilitates high quality electronic financial services at affordable prices in a secure, reliable and convenient manner to all Sri Lankans"

Our Core Values

- ✦ Responsibility and accountability
- ✦ Respect others as who they are
- ✦ Be a catalyst for change
- ✦ Leadership
- ✦ Integrity and trust
- ✦ Availability and accessibility
- ✦ Teamwork and collaboration

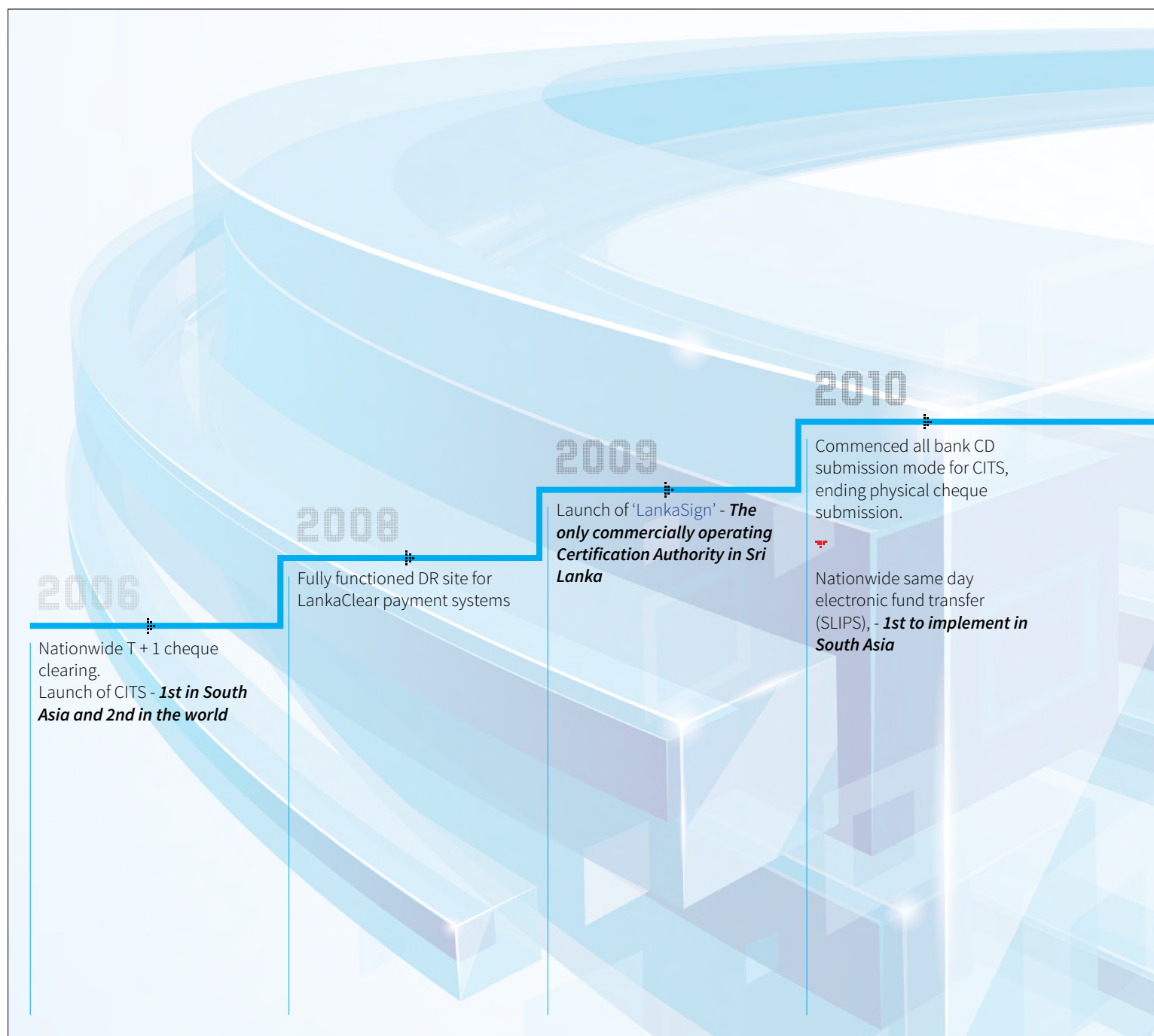
Our Products



Our Strategic Objectives

- ✦ Introduce innovative and technologically advanced payment solutions towards achieving the key objective of driving financial inclusivity
- ✦ Ensure trust and high availability of all payment systems in LankaClear network
- ✦ Enhance information security and compliance on all platforms
- ✦ Enhance customer satisfaction levels
- ✦ Manage and deliver all stakeholder expectations
- ✦ Ensure the availability of highly qualified, trained, efficient and motivated team of staff members
- ✦ Enhance overall financial health of the organisation by attaining revenue and profitability growth, while safeguarding Company assets
- ✦ Increase LankaPay brand awareness and brand loyalty

LankaClear Electronic Payment System Milestones



2011

Introduced the direct connectivity mode for all banks for CITS settlement clearing with digital certificates for greater security.

Due to efficiency enhancements of CITS main clearing, CD (cheque) submission time extended from 6:30 pm to 7:30 pm.

Inward return delivery time advanced from 2 pm to 1:30 pm, to reduce the cheque realisation time and greater convenience to customers.

2013

Launch of 'LankaPay' Common ATM Network

Outward (cheque) clearing cutoff time extended from 7.30 pm to 8.00 pm for customer convenience.

Implemented help desk call monitoring and tracking system.

2014

Launch of BankCSIRT (Computer Security Incident Response Team) – ***A pioneering initiative in South Asia (renamed in 2015 as FinCSIRT)***

Amalgamation of Sri Lanka Rupee Drafts into CITS on 1st of July 2014.

CITS frontend hardware migrated to VM infrastructure for better performance and cost reduction.

2015

Launch of LankaPay Common Electronic Fund Transfer Switch (CEFTS) for real-time payments

Launch of LankaPay Shared ATM Switch (SAS) and LankaPay Card Management System (Cortex), thereby providing a hosted solution for ATM switching and Card Management

Launch of LankaPay Common POS Switch (CPS) & Common Mobile Switch

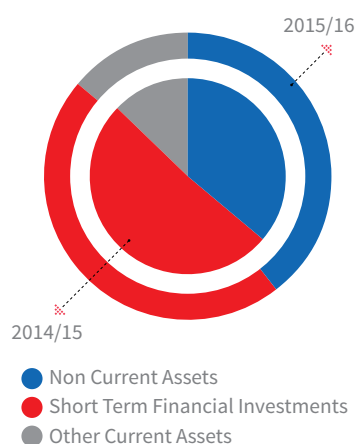
Launch of Online USD Payment System

LankaClear moved to its own 4 storied Disaster Recovery Site (DRS) with a state of the art data center aligning to tier 3 standards, redundancy in power, HVAC, security and online real-time data replication

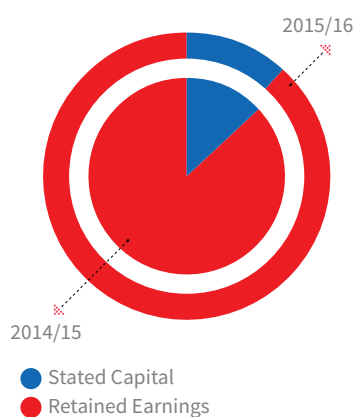
Financial Highlights

	2015/2016	2014/2015	2013/2014	2012/2013	2011/2012
Results for the Year (Rs. mn)					
Revenue	602	518	463	428	390
Gross Profit	262	247	261	282	258
Profit Before Tax	185	183	228	260	190
Income Tax Expense	11	53	41	72	64
Profit for the Year	174	129	187	189	126
At the Year End (Rs. mn)					
Total Assets	1,419	1,268	1,155	997	840
Total Capital Assets	562	461	295	217	107
Shareholders' Funds	1,344	1,197	1,094	930	764
Short Term Financial Investments	660	646	726	672	532
Information Per Ordinary Share					
Earnings Per Share	11.43	8.52	12.32	12.47	8.35
Dividend Per Share	2.00	1.75	1.75	1.75	1.50
Net Assets Value Per Share	88.43	78.75	71.98	61.41	50.44
Ratios					
Gross Profit Ratio	44%	48%	56%	66%	66%
Net Profit Ratio	29%	25%	40%	44%	32%
Return on Equity	13%	11%	17%	20%	17%
Return on Assets	12%	10%	16%	19%	15%

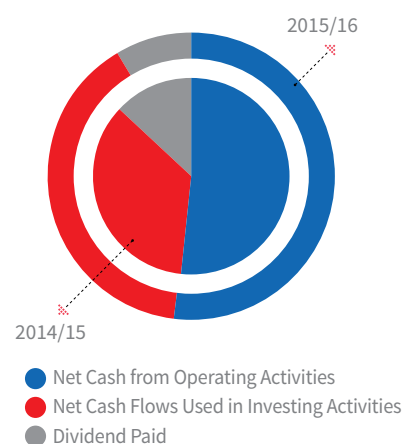
Total Assets Distribution



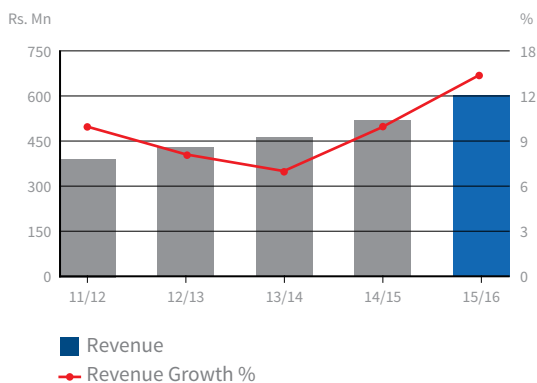
Capital Structure



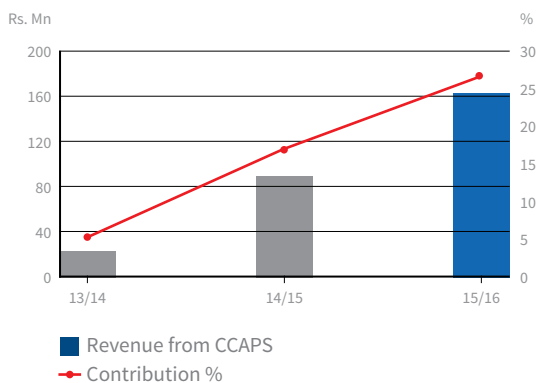
Cash Flow



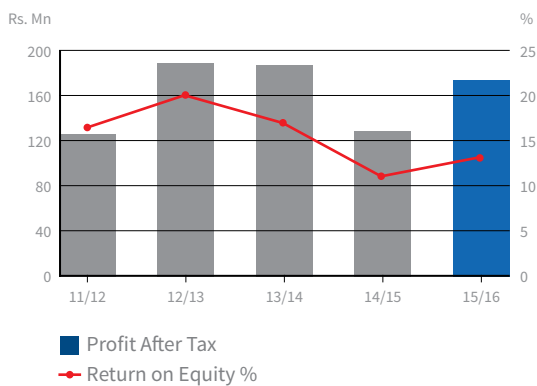
Total Revenue and Growth %

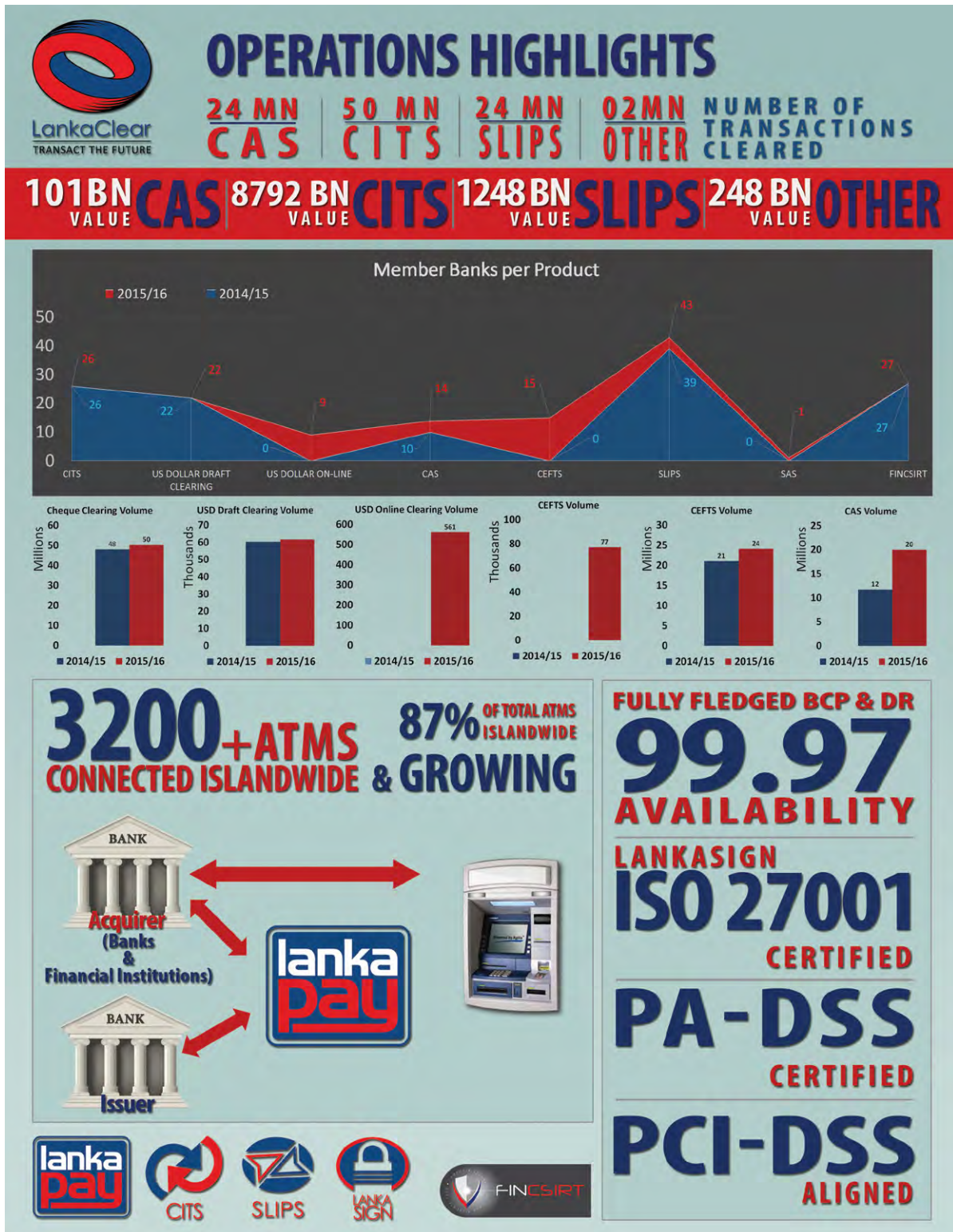


CCAPS Revenue and Revenue Contribution %



Profit After Tax and ROE %





Participants of LankaClear Clearing Systems and Services as at 31st March 2016

Bank Name	CITS	US Dollar Clearing	US Dollar On-line Payment System	CAS	CEFTS	SLIPS	SAS	FINCSIRT
					Real Time	Batch Mode		
Bank of Ceylon	√	√	√	√	√	√		√
Standard Chartered Bank	√	√		√	√	√		√
Citi Bank NA	√	√				√		√
Commercial Bank of Ceylon PLC	√	√	√	√	√	√		√
Habib Bank Ltd	√	√	√	√		√		√
Hatton National Bank PLC	√	√	√	√	√	√		√
The Hongkong & Shanghai Banking Corp. Ltd	√	√			√	√		√
Indian Bank	√	√				√		
Indian Overseas Bank	√					√		√
People's Bank	√	√		√	√	√		√
State Bank of India	√					√		√
Nations Trust Bank PLC	√	√		√	√	√		√
Deutsche Bank AG	√	√				√		√
National Development Bank PLC	√	√		√	√	√		√
MCB Bank Ltd	√	√				√		√
Sampath Bank PLC	√	√	√	√	√	√		√
Seylan Bank PLC	√	√	√	√	√	√		√
Public Bank Berhad	√	√				√		√
Union Bank of Colombo PLC	√	√		√	√	√		√
Pan Asia Banking Corporation PLC	√	√		√		√		√
ICICI Bank Ltd	√	√	√			√		√
DFCC Bank PLC	√	√				√		√
Amana Bank Ltd	√	√	√			√		√
Axis Bank	√					√		
Cargills Bank Ltd	√	√	√	√	√	√		√
National Savings Bank						√		√
Sanasa Development Bank						√		√
HDFC Bank						√		√
Citizen Development Business Finance PLC						√		
Regional Development Bank				√		√	√	
State Mortgage & Investment Bank						√		
L B Finance PLC						√		
Senkadagala Finance PLC					√	√		
Commercial Leasing and Finance PLC					√	√		
Vallibel Finance PLC						√		
Central Finance PLC						√		
Kanrich Finance Limited						√		
Alliance Finance Company PLC						√		
Lanka Orix Finance PLC					√	√		
Merchant Bank of Sri Lanka & Finance PLC						√		
Mercantile Investment and Finance PLC						√		
People's Leasing and Finance PLC						√		
Central Bank of Sri Lanka	√					√		
Lankaputhra Development Bank Ltd								√
Total	26	22	9	14	15	43	1	27

Awards and Recognitions



2011

Certificate of Compliance under Service Organisations Sector at the Annual Report Awards organised by the Institute of Chartered Accountants of Sri Lanka

2012

Bronze Award Under Service Organisations Sector at the Annual Report Awards organised by the Institute of Chartered Accountants of Sri Lanka

2013

Gold Award Winner under Infrastructure and Utilities Sector at the National Business Excellence Awards organised by the Ceylon Chamber of Commerce

Silver Award under Small and Medium sized Entities at the Annual Report Awards organised by the Institute of Chartered Accountants of Sri Lanka

2014

Silver Award Winner under Infrastructure and Utilities Sector at the National Business Excellence Awards organised by the Ceylon Chamber of Commerce

Silver Award under Small and Medium sized Entities at the Annual Report Awards organised by the Institute of Chartered Accountants of Sri Lanka

Merit Award under Commercial Category at the Bestweb.lk Competition organised by LK Domain Registry

2015

Bronze Award under Small and Medium sized Entities at the Annual Report Awards organised by the Institute of Chartered Accountants of Sri Lanka

Introduction to the Report

This is the Company's first Integrated Annual Report for the period covering 1st April 2015 to 31st March 2016, which provides a concise and comprehensive analysis of our strategy and performance in relation to our capitals management and value creation process towards our stakeholders and guided by the guidelines of the International Integrated Reporting Council (IIRC) of 2013.

The Financial Statements are presented in accordance with the Sri Lanka Financial Reporting Standards for small and medium-sized entities issued by the Institute of Chartered Accountants of Sri Lanka. The Audit Committee has reviewed the financial statements to ensure that they present a true and fair view of the Company. External assurance on the financial statements has been provided by E&Y Colombo, Sri Lanka. The report also conforms to the requirements of the Companies Act No.7 of 2007.

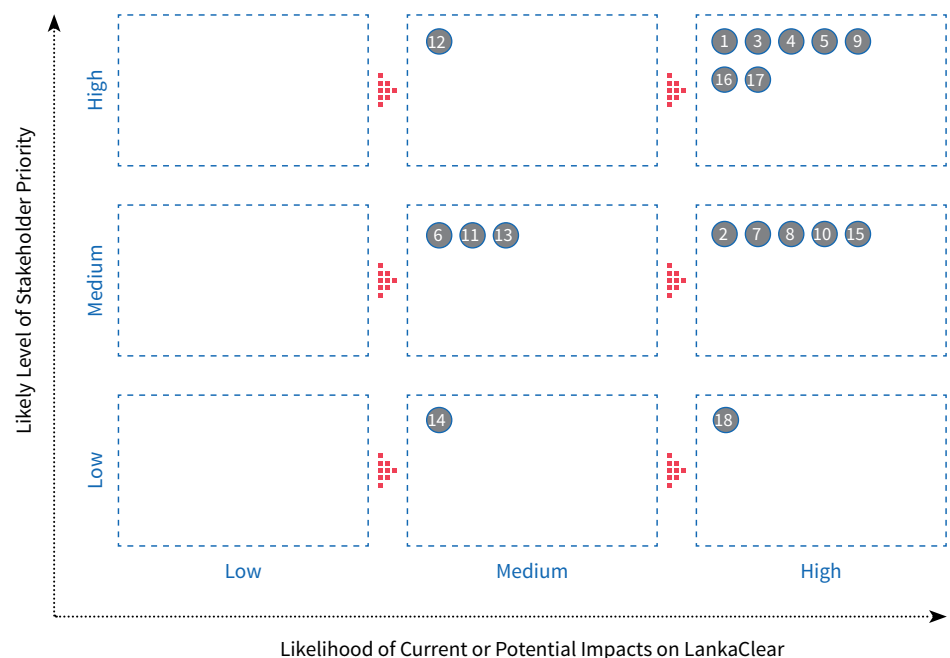
Boundary, Materiality Assessment and Restatement of Information

This report boundary covers the operations of LankaClear (Pvt) Ltd and topics identified as material to the Company, based on an assessment of stakeholder priority and impacts on the Company.

In determining the content to be included in this annual report, the key topics arising from our stakeholder engagement, regulator mandate, industry trends, opportunities and risks have been prioritised based on their significance to the organisation and its key stakeholders.

This activity is carried out on an annual basis with the involvement of the entire management team based on their areas of expertise and stakeholder engagement; and is evaluated on a regular basis at Board meetings and management meetings; and is integrated into organisational and departmental goals.

The main aspects identified, which are of high priority to both LCPL and stakeholder interests are summarised and prioritised below and are discussed in this report.



Introduction to the Report

Topics identified as high, low and mid priority have been mapped onto the above grid. The list of material topics considered for this report is given below.

No.	
1.	Ensure trust and high availability of all payment systems in LankaClear network
2.	Improve, upgrade and continuously maintain the efficiency and reliability of all existing IT infrastructure for smooth functioning of the LCPL payment systems
3.	Enhance information security and compliance
4.	Implement industrial best practices to the LankaPay card operation
5.	Manage the integration of LankaPay products with banks and financial institutions
6.	Providing value added services to customers
7.	Introduce innovative and technologically advanced payment solutions towards achieving the key objective of driving financial inclusivity
8.	Increase LankaPay brand awareness and brand loyalty
9.	Enhance customer satisfaction levels
10.	Ensure the availability of highly qualified, trained, efficient and motivated team of staff members
11.	Optimum engagement with employees to ensure reduction of employee grievances that leads to reduced turnover
12.	Ensure fair and equitable compensation and benefits to all employees
13.	Maintenance of enhanced and effective procurement process to improve operational efficiency and transparency
14.	Reduce consumption by increasing the efficiency of usage energy
15.	Ensure establishment and maintenance of suitable environment that is required for equipments, operations and staff
16.	Enhancing overall financial health of the organisation through attaining revenue and profitability growth while safeguarding Company assets
17.	Ensuring continued contractual safeguards with contractors, vendors, service providers and other parties who transact with the Company
18.	Ensuring of the Company's contractual rights

No information has been restated from the previous annual report.

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

Incorporated as a private limited liability company under the Companies Act No. 17 of 1982 on February 8, 2002 and re-registered under the Companies Act No. 7 of 2007.

Ownership

Operations carried out by Sri Lanka Automated Clearing House which was fully owned and operated by the Central Bank of Sri Lanka, were entrusted to LankaClear (Pvt) Ltd an incorporation of the Company on April 01, 2002.

Ownership as at March 31, 2016

As at March 31, 2016, LankaClear shares were owned by CBSL and 25 other 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

About Us

Principal Activities

- ▣ Operating the national payment system for cheque clearing (CITS)
- ▣ Operating the national payment system for electronic batch mode payments (SLIPS)
- ▣ Operating the national system for US Dollar draft payments
- ▣ Operating the national system for interbank ATM transaction switching (LankaPay – CAS)
- ▣ Operating the national payment system for real-time retail electronic payments (LankaPay – CEFTS)
- ▣ Operating the hosted ATM switch for Banks/FIs (LankaPay – SAS)
- ▣ Operating the hosted card management solution for Banks/FIs (LankaPay – CMS)
- ▣ Operating the national system for USD online payments
- ▣ Operating the national Financial Sector CA (LankaSign)
- ▣ Attending to financial sector computer security incidents (FINCSIRT)

Principal Products /Brands

CITS: Cheque Imaging and Truncation System
 SLIPS: Sri Lanka Interbank Payment System
 LankaPay CAS: Common ATM Switch
 LankaPay SAS: Shared ATM Switch
 LankaPay CEFTS: Common Electronic Fund Transfer Switch
 LankaPay CMS: Card Management System
 USD Online Payment System
 LankaSign: Digital Certificate Authority for the Financial Sector
 FinCSIRT: Financial Sector Computer Security Incidents Response Team

Markets Served

Banking & Financial Services Sector of
 Sri Lanka

Total No. of Employees

108

Net Revenue

Rs. 601,640,965

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

FAST PACED TRANSACTIONS

*THE TRUST WE HAVE CREATED AMONG ALL OUR
STAKEHOLDERS IS HELD IN GOOD STEAD AS WE
CONTINUE TO BUILD A NATIONAL PAYMENT NETWORK
THAT IS IN **PACE** WITH INTERNATIONAL STANDARDS.*

Chairman's Message

“

A significant achievement for LankaClear during the current financial year, is the marked improvement in financial health, evinced through strong revenue growth and improved profitability. The Company's ROE improved from 11% in the previous year to 13% while, ROA increased from 10% to 12%.

”



LankaClear has continued to support overall national economic goals through the provision of specialised technology solutions that contribute towards national financial inclusiveness. Through the common ATM network and other electronic payment facilities LankaClear has made it possible to connect far flung, rural communities with the formal financial sector, making the financial sector more inclusive and accessible. In addition, the Company plays a central role in supporting the country's transition into a 21st century cashless economy and LankaClear products, under the LankaPay brand, have already commenced contributing towards lowering economic costs and enhancing Sri Lanka's international competitiveness.

However, we continued to face a number of challenges in gaining acceptance for our LankaPay branded products, mainly due to lack of awareness about the products and their benefits.

Macro Environment

The macro environment was largely conducive towards LankaClear's operational growth in 2015-16, despite the slower GDP growth rate. Economic growth slowed marginally in 2015 with real GDP growth estimated at 4.8% compared to 4.9% in 2014. This lower growth rate is mainly attributed to lower export volumes due to instability in traditional export markets and also capital flight due to a stronger US economy. However, it is noteworthy that domestic consumption rebounded as incomes grew, particularly among public sector workers. Agriculture and services related activities grew by 5.5% and 5.3%, respectively, while industry related activities grew by 3.0%.

These developments fueled financial transactions across the country and I believe this growth has created more opportunities for LankaClear.



"During the year we increased the Common ATM coverage to almost all banks in the country and by now over 90% of the country's ATMs are interconnected."

The performance of the financial sector meanwhile, showed improvements, which was reflected in financial markets and payment and settlement systems. The banking sector's total assets increased by 15.9% in 2015, against the 17.3% growth in 2014, to record Rs. 8.1 trillion at the end of the year, while the off-balance sheet exposure showed a growth of 8.1% to reach Rs. 3.4 trillion. Reflecting policy changes as well as continued demand for credit, the country experienced an increase in interest rates but also experienced healthy growth in demand for credit, indicating enhanced economic activity.

Performance of the Company

A significant achievement for LankaClear during the current financial year, is the marked improvement in financial health, evinced through strong revenue growth and improved profitability. The Company's ROE improved from 11% in the previous year to 13% while, ROA increased from 10% to 12%.

Chairman's Message

During the year we increased the Common ATM coverage to almost all banks in the country and by now over 90% of the country's ATMs are interconnected. The challenge faced by LankaClear is in getting account holders of other banks to use the LankaPay Switch. The CEFTS, which provides real time, 24x7, financial transaction facilities via any electronic platform, has been operational for over six months and already 15 banks have joined the system. However, I believe there is still a need to raise awareness among banks and customers, on the availability of the CEFTS and the convenience and cost advantages provided by the CEFTS.

The Common POS Switch and the National Card Scheme are new products that are in our drawing boards and again the challenge is in convincing customers to use domestic credit and debit cards which will be issued by local financial institutions. The LankaClear system is ready to facilitate financial transactions using domestic cards and I believe the cost of issuing domestic credit and debit cards will not be significant for financial institutions. On the other hand, the national card system can significantly reduce operating costs of financial institutions while creating flexibility in issuing innovative product offerings, compared to the costs of international cards. However, these domestic cards will have to compete with international cards in the market. LankaPay will strive to offer a superior customer service at a lower cost to create customer loyalty over competing products in the market place.

Our greatest competition remains cash. We have a long journey in front of us to convert the country's cash customers into e-card customers. Through our electronic payment systems LankaClear has provided the back-end to facilitate this process and it is up to the financial institutions to move customers onto the card based financial platform.

I wish to stress that LankaClear is not in competition with financial institutions. Our objective is to facilitate financial institutions to develop products using our on line, real time, switching facilities that enable convenient and real time settlement facilities to their customers. This message must be clearly conveyed to the financial sector to gain its support in our endeavours. Therefore, during the current financial year, we placed emphasis on taking this message to the general public and financial institutions. In the new financial year we will continue to engage with the financial sector to promote a new cashless era in Sri Lanka.

I would like to thank the Board of Directors for their guidance during the year, the Shareholders for their support and the Customers for the confidence reposed on us. I also express my gratitude to the former Chairperson Mrs. Priyantha Liyanage and former GM/CEO Mr. Sunimal Weerasooriya for their leadership in driving the Company. I would like to thank our GM/CEO Mr. Channa de Silva and his team for their hard work and our customers for their patronage of our services.



Anil Amarasuriya
Chairman

17th May 2016
Colombo, Sri Lanka



The central graphic is a blue-toned illustration featuring a hand holding a card. Surrounding this central image are seven hexagonal icons, each representing a different payment method or service. The icons are: a shopping cart for 'e-Commerce', a debit card for 'Debit Cards', a point-of-sale terminal for 'POS', a double-headed arrow for 'Real-Time Interbank Payment Network', a smartphone for 'Mobile Payments', an ATM machine for 'ATMs', and a hand holding a card with a signal icon for 'Top-Up Cards'. The background of the graphic is a blurred image of a person in a suit.

**TRANSFORMING PAYMENTS..
TRANSFORMING LIVES...**

lanka pay

Your Trusted Payment Network

GM/CEO's Review

“

We crossed the Rs. 600 million revenue milestone for the first time in the history of the Company during the current financial year, which indicated a 16% YOY growth. This was the highest ever recorded percentage revenue growth since the Company started offering online services almost a decade ago.

”



As per our theme for this year's annual report suggests, the focus at a broader national level was on facilitating financial inclusivity for all communities by leveraging on rapid technological advancements. We have been transferring this macro concept of financial inclusivity to implementation level by building a 'chain of trust' from end consumers and all the way back to LankaClear. At a micro level, our priority was to strengthen the Company's financial base through improved revenues and profit growth. This is in line with our commitment to invest in future technologies without having to depend on outside funding sources.

I am happy to report that we have not only achieved, but also exceeded our financial health related targets for the year, and that LankaClear is on track to a stronger balance sheet in the new financial year. Our engagement with all our stakeholders have been significantly improved to encourage adoption of electronic payment systems. We have strived to foster openness and accountability within the organisation to create a high performance culture to take the Company to the next level. In this process, I believe we have also addressed our national value creation objective of supporting financial inclusivity in the country, by helping to link distant and even remote communities to the conveniences and cost benefits of high quality electronic financial transactions.

Operational Excellence

Our focus for the year was to consolidate the products that were already deployed and implement a host of innovative electronic payment instruments to keep pace with rapidly changing technology landscape. During the current financial year, a number of new innovations that were developed in the previous financial year went live. They were Online US Dollar clearing facility, Common Electronic Fund Transfer Switch (CEFTS), Common Mobile Switch (CMobs) and Common POS Switch (CPOS).

From the existing products, Common ATM Switch (CAS) reached a significant milestone by connecting 3000 ATMs (90% of all ATMs) and also achieved another landmark by exceeding 2 million transactions a month during the current year. CAS continues to be one of our flagship innovations to date and except for one local bank and a few foreign banks, all other banks are now on the network. The volumes of the Cheque Imaging and Truncation System (CITS) grew by 4.7% year-on-year (YOY) basis despite the expectation of volumes to go down at the beginning of the year. North and East provinces recorded the highest percentage growth of all CITS volumes during the year, however, we anticipate the volumes to decrease over the next few years due to adoption of real time payment instruments. Sri Lanka Interbank Payment System (SLIPS) continued to perform well during the current year and recorded a volume growth of 14.6% YOY.



"The most innovative of the newly introduced products was CEFTS, which enables real time inter-bank financial transactions on a 24X7 basis. This was extremely successful and 12 major banks and 3 finance companies joined the network during the year."

The most innovative of the newly introduced products was CEFTS, which enables real time inter-bank financial transactions on a 24X7 basis. This was extremely successful and 12 major banks and 3 finance companies joined the

GM/CEO's Review

network during the year. The US Dollar clearing facility was also very well received with several banks and finance companies adopting the solution. We were less successful with deploying CMobs since the financial institutions have still not reached a common agreement to utilise this facility for mobile wallet-to-wallet transactions. Meanwhile, CPOS is expected to experience a longer market gestation period due to the requirement of a National Card Scheme (NCS) to utilise this facility. The process for banks and financial institutions to join CPOS commenced during the current year, but the issuance of domestic credit and debit cards utilising the NCS is yet to commence. However, we anticipate a gradual adoption of both these products over the next few years.

LankaSign, the only Certification Service Provider (CSP) authorised to issue Digital Certificates for the banking and financial sector of the country, continued to add value to all our initiatives by providing the critical layer of security to ensure that we maintain the 'chain of trust' in every service that we provide. The existing BankCSIRT service, which provides critical security incident response support to all banks was renamed to FinCSIRT with the inclusion of finance companies during the year. FinCSIRT also launched a couple of optional new services via the iSOC initiative to provide better value to its members. A new Disaster Recovery (DR) site built utilising the Company's own reserves, became operational during the year and replaced the existing site located on a 3rd party premise. The site was built with provisions to provide DR services to other financial institutions and one such institute had already confirmed their participation during the year. We anticipate a few more to obtain this service in the next financial year.

Our Financial Performance

We crossed the Rs. 600 million revenue milestone for the first time in the history of the Company during the current financial year, which indicated a 16% YOY growth. This was the highest ever recorded percentage revenue growth since the Company started offering online services almost a decade ago. During the previous two financial years, the Company experienced a decline in Gross Profit and PBT on a YOY basis due to a higher rate of growth for costs compared to revenue and also a number of significant capital investments that were made during the same period. The targets that were set for the current financial year also reflected the same trend to continue during the current financial year as well given the anticipated cost escalations.

However, I am pleased to report that we were able to reverse this trend during the current financial year by exceeding both indicators with PBT growing at 54% above target. The Company also recorded the highest ever Net Assets Value per Share during the current year with a 12.3% YOY growth and also was able to reverse the declining trend of Earnings per Share over the last 3 years with a 34% YOY growth. The addition of new products to our portfolio and the growth of existing products due to a significant emphasis being put on increasing revenue during the latter part of the year contributed to enhancing our revenue streams. The establishment of a cross-functional virtual sales team utilising in-house resources to promote and create awareness of our products among multiple stakeholders also contributed towards the same. A conscious effort to reduce our operational overheads by focusing on increasing the efficiency of our systems helped to lower our costs against targets, which was instrumental in improving overall profitability.

Stakeholder Engagement

As the National Payment Network, LankaClear provides the backbone infrastructure to ensure banks and financial institutes expand their coverage without having to make significant investments. Due to an internal focus on operational procedures and practices than a strategy to increase stakeholder engagement, LankaClear was perceived to be competing with the business of financial institutions. However, the Company's primary objective is to support the growth and advancement of financial institutions through the provision of modern technology based services that contribute to reduced overheads and increased scalability. There was also a lack of clear emphasis on promotions and public relation activities, hence, the Company previously suffered from low brand awareness among both the public and financial institutions.

Therefore, a key area of focus during the current financial year was to engage with our stakeholders to build a 'chain of trust' to encourage adoption of electronic payment systems. The first step in this direction was to initiate fresh relationships and awareness building activities with the financial institutions. During the year we conducted many one-on-one engagements, discussions and presentations with all financial institutions to increase trust on LankaClear systems. There was also significant effort towards development of mutually beneficial solutions that would encourage financial institutions to improve their service levels as well as facilitate more opportunities for their customers to engage in inter-bank transactions.

Development and motivation of our people remained to be a focus area with many initiatives such as 'Voice of Change' and 'Crowd Sourcing' to encourage collaboration to build a high performance culture. In order to carry out an extensive brand building exercise, a key strategy was to consolidate all our products under the single umbrella brand of LankaPay, for a clear and relevant brand identity. A significant effort was made during the year to ensure that all stakeholders identify our technologically advanced services under the tag line "LankaPay - Your Trusted Payment Network".

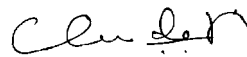
Future Outlook

I firmly believe that we are well on the way to ensure the financial sustainability of the Company as a self-funded entity generating all its investment needs through its own business activities. I am confident that our ongoing marketing and public relations exercises will continue to support the current trend in revenue and profit growth through continued increase in transactions volumes. A concerted effort is also being made for the rapid adoption of some of our new products currently not being utilised. With these initiatives in place, slowly but surely, we are steadily marching towards our original vision of becoming a Rs. 1 Bn Company in the next couple of years.

In the new financial year, we will continue to engage with all our stakeholders and educate the public on the benefits of the National Payment Network. We are also engaging and encouraging the ICT industry players to partner with banks and financial institutes to bring more innovative and technologically advanced electronic payment solutions to customers. The new initiatives for the next financial year would be facilitating low-value CEFTS, implementing National Card Scheme (NCS) and driving the availability and adoption of mobile payment applications in a large scale, which will ensure that our superior technology backend caters to an increasing volume of inter-bank payment transactions in the future. This will naturally drive an increase in revenue and improve the overall profitability of the Company. The expansion of the system, through more financial institutions joining the network and the increased adoption of electronic payment instruments by the general public will directly contribute towards greater national economic value creation. LankaClear stands ready and committed to drive the country's transition into a cashless and efficient economy.

Our Gratitude

I take this opportunity to thank the Chairman, the Board of Directors and the Shareholders for their confidence in me and for their unwavering support throughout the year. I would also like to commend my predecessor for his efforts to ensure all technology backend systems were in place for the Company to grow to the next level. Our significant achievements and successes in overcoming major challenges during the year would not have been possible without the commitment, dedication and hard work of all LankaClear management and staff. I sincerely appreciate every single member of my management team and staff for their exceptional contributions towards the growth of the Company during the year. I would also like to extend my gratitude to our stakeholder banks and financial institutes for their continued support towards the Company, and I look forward to providing even higher quality financial services by deploying cutting edge technology that will facilitate their growth in the new financial year.

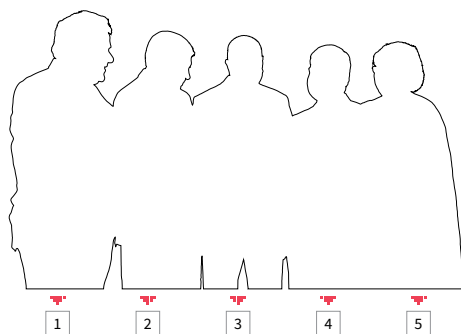


Channa de Silva

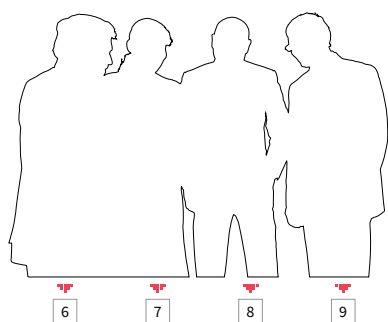
General Manager/CEO

17th May 2016
Colombo, Sri Lanka

Board of Directors



1. Mr. K. Ariyaratne - *Director*
2. Mr. M. U. De Silva- *Observer*
3. Mr. A. Amarasuriya - *Chairman*
4. Mr. D. M. Gunasekara - *Director*
5. Mrs. J. P. Mampitiya - *Director*



- 6. Mr. M. A. B. Silva - *Director*
- 7. Mrs. R. A. S. M. Dayarathna - *Director*
- 8. Mr. P. L. D. N. Seneviratne - *Director*
- 9. Mr. P. K. Dangi - *Director*

Board of Directors

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 the associate Company LankaBangla Finance Ltd. He served as the Director / CEO of Union Bank before his retirement in Nov 2014.

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

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 an Alternate Director of Lanka Financial Services Bureau Ltd and a member of the Committee on National Information for Evidence Based Decision Making.

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.

Mr. D. M. Gunasekara *Director*

Mr. D. M. Gunasekera, the General Manager/Chief Executive Officer of the Bank of Ceylon, was appointed to the Board of Directors of LankaClear (Pvt) Ltd. on 08th January 2013.

He is a career banker with over 33 years of diversified banking experience covering corporate and offshore banking, sales and channel management and international banking operations. Prior to being appointed Chief Executive, he has held a number of key corporate management positions in these areas. He possesses extensive experience in credit management and administration.

He also serves as a Non-Executive nominee Director on the Boards of BOC Travels (Private) Ltd, BOC Property Development & Management (Private) Limited, BOC Management & Support Services (Private) Limited., Bank of Ceylon (UK) Limited, Ceybank Holiday Homes (Private) Limited, Ceybank Asset Management Limited, Hotels Colombo (1963) Limited, Institute of Bankers of Sri Lanka, Credit Information Bureau of Sri Lanka, Lanka Financial Services (Bureau) Limited, Sri Lanka Banks' Association (Guarantee) Ltd., the Financial Ombudsman Sri Lanka (Guarantee) Ltd., Mireka Homes (Pvt) Ltd. and Mireka Capital Land (Pvt) Ltd.

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

Mr. M. A. B. Silva *Director*

Mr. M A Bonniface Silva, is the Deputy General Manager, Channel Management, attached to the Channel Management Department of People's Bank.

Mr. Silva joined the Bank in 1987 and has over 29 years of experience.

He started his career initially as a branch manager and rose to the positions of Regional Manager, Zonal Assistant General Manager and is presently the Deputy General Manager 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 is also an associate member of the Institute of Bankers of Sri Lanka.

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 served as the Director of the Payments and Settlements Department of the CBSL, since February, 2015 prior to that, she served as the Director of Information Technology of the CBSL since September 2008. She also served in different high level internal committees of the CBSL and was 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).

Mrs. Dayarathna resigned from the Board of LankaClear w.e.f. 31.03.2016 pending her retirement from the Central Bank in July 2016.

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.

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

Mr. P. L. D. N. Seneviratne
Director

Mr. Dimantha Seneviratne is the Director/Chief Executive Officer of the Pan Asia Banking Corporation PLC. He counts more than 25 years of banking of which, 15 years was with the HSBC Group including several senior overseas postings covering Thailand, Bangladesh and Saudi Arabia. He has extensive exposure in corporate banking, retail banking and wealth management, credit risk management, operations and market risk, internal control, investment banking and finance. His last three postings with HSBC Group were as Chief Risk Officer, Sri Lanka / Maldives, Bangladesh and Thailand, where he was responsible for credit growth, strategy and governance in those geographies, as a member of the country leadership team.

Mr. Seneviratne holds an MBA from the Postgraduate Institute of Management, University of Sri Jayawardenapura, and BSc, from the same University. He is a Fellow of the Institute of Bankers, Sri Lanka and a Post Graduate Diploma Holder in Computer System Design from the NIBM. Mr. Seneviratne is a Past President of the Association of Professional Bankers (APB) Sri Lanka. He is also a Director at the Credit Information Bureau of Sri Lanka.

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 Lanka Financial Services Bureau 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



1. Mr. Channa de Silva - General Manager/ CEO
2. Mr. Harsha S Wanigatunga - DGM IT & Operations
3. Mr. Rasika L Galappaththy - Head of Finance
4. Mr. Lakshman C Palliyaguruge - Head of HR & Administration
5. Mr. Roshan Hettiarachchi - Senior Manager Operations
6. Mr. Dilantha Samarasinghe - Senior Manager IT
7. Mr. Isuru Jayaweera - Senior Manager Helpdesk & Bank Services
8. Mr. Hemanthe Samaliarachchi - Senior Manager Payment Systems
9. Mr. Lakshman Liyanage - Senior Manager Projects
10. Mr. Dilusha Karunarathna - Information Systems Auditor



11. Mr. Dimuth Weerasinghe - *Manager Facilities and Maintenance*
12. Mr. Danushka Uyanahewage - *Manager CITS*
13. Mr. Duleep Liyanage - *Manager IT Security Solutions*
14. Mr. Indika Fernando - *Systems Operations Manager*
15. Mr. Asela Hapuarachchi - *Manager HR & Administration*
16. Mr. Delan Wimalaratne - *Manager EFT & Mobile Systems*
17. Mr. Hasitha A Dissanayake - *Network Operations Manager*
18. Mr. G Balachandran - *Manager Information Security - FINCSIRT*
19. Mr. Duleep Fernando - *Contract Management Officer*
20. Ms. Wayomi Gunathilaka - *Manager Business Development & Brand Promotions*

RELIABLE AND EFFICIENT

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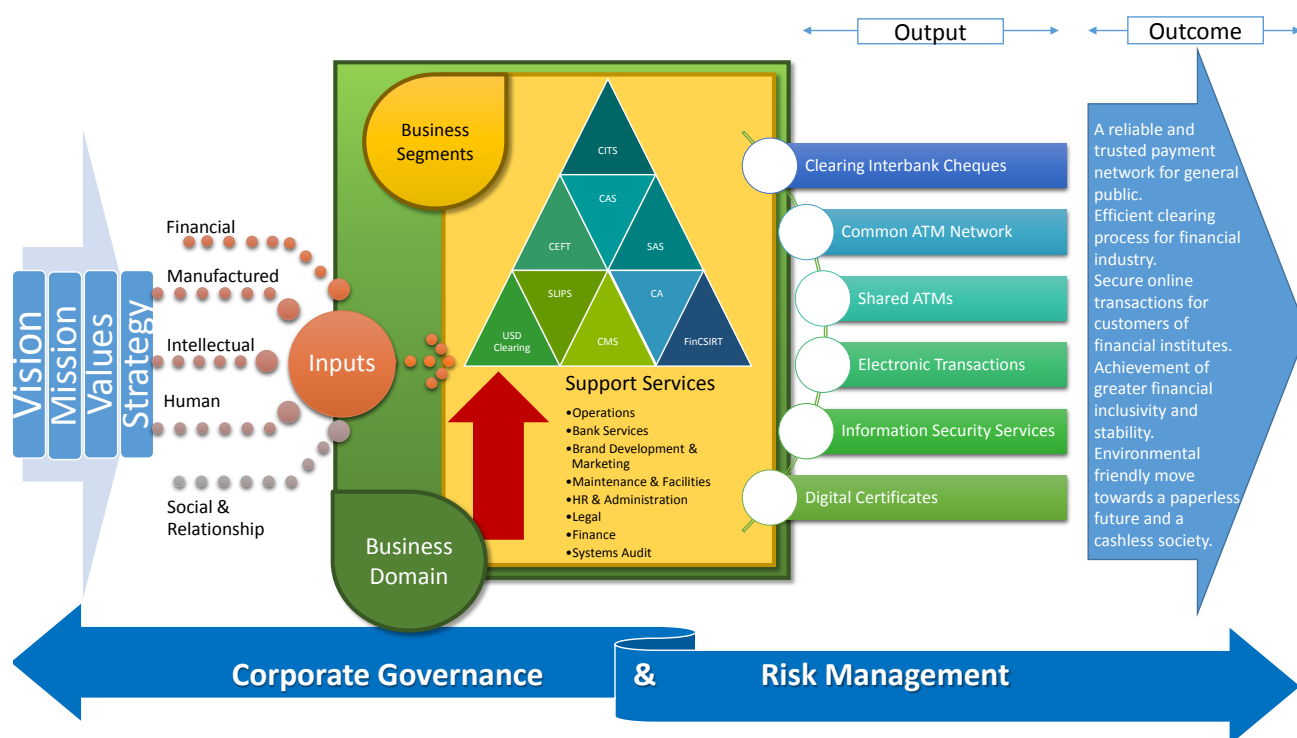
Management Discussion & Analysis Value Creation Model

Value creation is considered the primary objective of any business entity. It is obvious that most of the successful organisations understand that the purpose of any business is to create value for its customers, employees and investors, as well as its shareholders.

LankaClear's value creation process is aimed at creating efficiencies in the clearing and settlement industry with the vision to be the Asia's most trusted and reliable payment network so that greater financial inclusivity can be brought to the Sri Lankan population. The stated objective is achieved by facilitating high quality financial services at affordable prices in a secure, reliable and convenient manner to the general public.

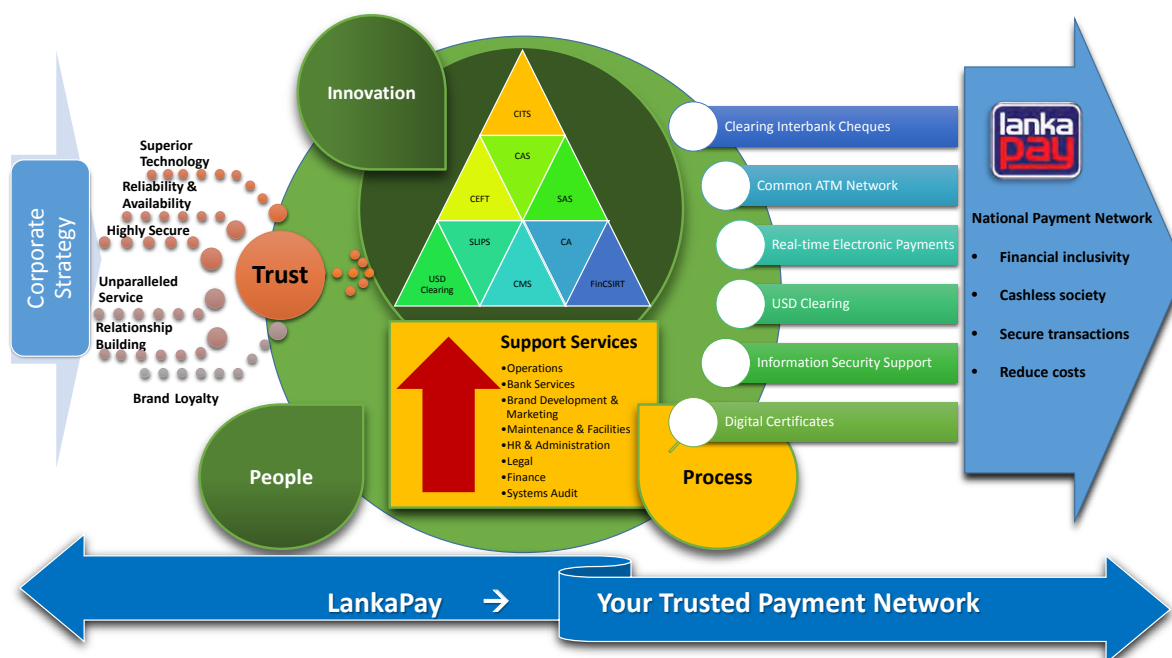
The capitals are utilised in such a way so that clearing systems and other services are performed with the high quality in all intended aspects for the customers and stakeholders.

Our value creation process has been depicted in the diagram below,



Management Discussion & Analysis Corporate Strategy

The primary objective of our Corporate Strategy for the current financial year was to get the Company to be recognised as the 'Trusted National Payment Network'. Originally incorporated in 2002 as the national cheque clearing house, LankaClear moved on to become the National Payment Network by implementing an advanced technology backend to offer real-time payment solutions. The first phase of the implementation concentrated on ensuring a secure, reliable and available technology infrastructure. The second phase constituted of getting all the banks and financial institutions to connect with the technologically advanced backend to ensure that their customers start utilising this secure network to carryout interbank transactions. A key focus of the current financial year was to build trust among the banks and financial institutions as well as extend this to their end consumers who are the general public based on the following model.



Building Trust

The Company previously had an internal focus on operational procedures and practices than a strategy to increase stakeholder engagement in order for the successful implementation of the CCAPS technology backend. Thus, there was no conscious and consistent effort made to engage banks and financial institutions directly at the grass root levels to build trust. The Company's primary objective was to support the growth and advancement of such organisations through the provision of modern technology based services that contribute to reduced overheads and increased scalability. However, LankaClear was perceived to be competing with the business of banks and financial institutions. In addition, there was also a lack of clear emphasis on promotions and public relation activities, hence, the Company previously suffered from low brand awareness among both the public and financial institutions. Therefore, a key area of focus during the current financial year was to engage with our stakeholders to build a 'chain of trust' to encourage adoption of electronic payment systems by ensuring that we adhere to the following pillars of success.

Using Superior Technology

LankaPay network had been established using a mature, robust and operationally proven technology backend, which is highly scalable and secure. This same advanced technology platform that operates LankaPay is implemented in multiple countries as their National Payment Switch and other Payment Networks. The Payment Switch has proven capability of commercially processing approximately 7 million transactions per day. This is tested and proven to be implemented on scalable and world-class enterprise level Hardware and System Software infrastructure.

Ensuring Reliability and Availability

LankaPay focus is to maintain an uptime of 100%. Our network is guarded by a tried and tested Business Continuity Plan and newly acquired State of the Art Disaster Recovery Site to ensure the Reliability and Availability of the network. Systems in the Primary Data Center (PDC) are clustered for high availability, while data is replicated at DR Site (DRS) real-time. This ensure that while PDC has extreme high availability, in the event that PDC is non-functional, DRS can be activated immediately.

All Systems are Highly Secure

All LankaPay Systems were designed and implemented with the highest level of security in mind and are currently PA-DSS certified while aligned with PCI – DSS and ISO 27001 standards. The advance use of MACing and Dynamic Key management ensures greater security is brought in to the payment system. The system is fully EMV ready. The network is structured on a layered and segregated basis for greater security. This is to ensure that we maintain the ‘Chain of Trust’ from end-to-end within our entire network by adhering to the highest security standards.

Provide Unparalleled Service

LankaPay strives to maintain the highest level of service to our member banks and financial institutes by providing round-the-clock 24X7 support service. This service is maintained by highly skilled and trained staff whose performance is evaluated based on the customer feedback. In addition, we also provide banks and financial institutions with incident related support on security via FinCSIRT. We provide critical support to them based on a Central Bank approved Baseline Security Standard. This is to not only ensure that we maintain the highest level of security within our network, but also extend this to our customer banks and financial institutions.

Engage in Relationship Building

In order to improve relationship with banks and financial institutions our strategy was to work closely with them and build trust in our network and people. In order to achieve this objective, during the year, we conducted many one-on-one engagements, discussions and presentations with all financial institutions to increase trust on LankaClear systems. There was also significant effort towards development of mutually beneficial solutions that would encourage financial institutions to improve their service levels as well as facilitate more opportunities for their customers to engage in inter-bank transactions.

Drive Brand Loyalty

There was also a lack of clear emphasis on promotions and public relation activities previously, hence, the Company suffered from low brand awareness among the general public as well as banks and financial institutions. In order to carry out an extensive brand building exercise, a key strategy was to consolidate all our products under the single umbrella brand of LankaPay, for a clear and relevant brand identity. A significant effort was made during the year to ensure that all stakeholders identify our technologically advanced services under the tag line “LankaPay - Your Trusted Payment Network”.

Innovation

A key focus for the current year was to implement a host of innovative electronic payment systems to keep pace with rapidly changing technology landscape. During the current financial year, a number of new innovations went live including Online US Dollar clearing facility, Common Electronic Fund Transfer Switch (CEFTS), Common Mobile Switch (CMobs) and Common POS Switch (CPOS). The most innovative of the newly introduced products was CEFTS, which enables real time inter-bank financial transactions on a 24X7 basis. The US Dollar clearing facility was also very well received with several banks and finance companies adopting the solution. We were less successful with deploying CMobs since the financial institutions have still not reached a common agreement to utilise this facility for mobile wallet-to-wallet transactions. Meanwhile, CPOS is expected to experience a longer market gestation period due to the requirement of a National Card Scheme (NCS) to utilise this facility.

Management Discussion & Analysis Corporate Strategy

People

Development and motivation of our people remained to be a focus area with many initiatives carried out to encourage collaboration in order to build a high performance culture. These initiatives at LankaClear grew stronger during the current financial year benefiting the employees as well as reaching the strategic objectives of creating a people driven business. Few highlights to mention would be the restructuring of the compensation and benefits structure of the organisation which was carried out after a comprehensive market survey of the industry salaries. The investment in training and development was another crucial point to talk about the HR calendar of the year. Further the excises initiated by HR on the succession planning ensured the future sustainability of the Company. Some new innovative concepts such as 'Voice of Change' and generating new ideas via 'Crowd Sourcing' mechanism helped to increase collaboration among the different teams.

Process

All of LankaPay support services underwent significant improvements to strengthen the operations by adhering to a pre-planned process and ensuring continuous improvements to operational manuals. Further Operations were audited by internal and external auditors to mitigate risks and also adhere to our governance principles. Employees were highly trained to acquire relevant domain knowledge of the network operations. A structured approach was followed to ensure that we maintain an efficient operation while we drive our operational costs down. This was to ensure that we would be able to provide the highest level of services at the lowest possible cost.

Final Outcome

As a final outcome of these strategic initiatives carried based on our corporate strategy, LankaClear wanted to achieve the capability to offer secure inter-bank financial transactions at a reduced cost to the general public. The ultimate objective was to support the government's vision of ensuring financial inclusivity and move the country towards a cashless society. We recognised that the way forward to achieve the above high level outcomes was to build trust on the organisation as a whole and built our corporate strategy for the current year via the above clearly defined strategies in order to drive the entire organisation towards the intended outcome.

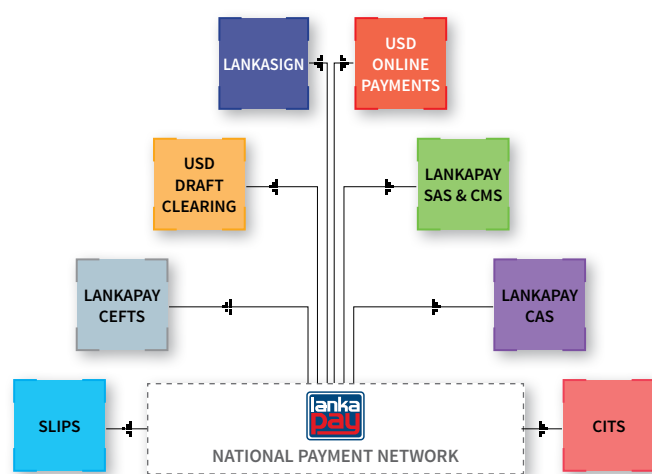
Management Discussion & Analysis Operations Review

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

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

Products and Services Offered by LankaClear

1. Rupee Cheque Clearing - Cheque Imaging & Truncation System (CITS)
2. Sri Lanka Interbank Payment System (SLIPS)
3. LankaPay - Common ATM Switch (LankaPay - CAS)
4. LankaPay – Common EFT Switch (LankaPay – CEFTS)
5. LankaPay – Shared ATM Switch (LankaPay – SAS) and Card Management System (CMS)
6. US Dollar Draft Clearing System
7. US Dollar Online Payment System
8. Digital Certificates – LankaSign



Currently, an average of approximately 207,814 cheques are cleared through LankaClear each business day, through CITS. CITS has even cleared as much as 437,771 cheques on certain days during the year under review. There has been an increase of 4.37% in cheque clearings during the year 2015/2016, compared to the previous financial year, along with a significant increase (over 14%) in electronic payments, reflected by the growth in SLIPS transactions. SLIPS has carried out more than 418,238 transactions per day, at times. LankaPay – CAS had an average of 54,586 approved transactions cleared per day, and the maximum number of approved transactions cleared during a day through the CAS during 2015/2016, amounts to 106,615. LankaPay – CEFTS has cleared 345 transactions on average per day during 2015/2016 and the maximum cleared volume amounts to 2,207 in CEFTS.

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

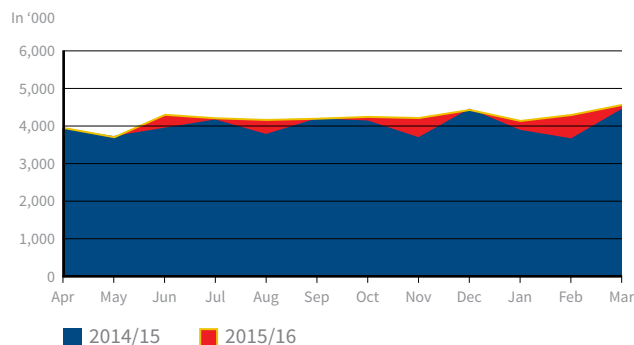
Automated cheque clearing and cheque truncation was enabled by the introduction of the Cheque Imaging & Truncation System (CITS), which utilises digital technology to expedite the clearing and settlement processes. As a result, on depositing a cheque, the public is able to get credit for their funds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

We take pleasure in stating that due to Process and Technological improvements, CITS has achieved a 99.9% system up-time and achieved 99.4% of the delivery cutoff times. We have further improved the Disaster Recovery (DR) processes and have updated the Business Continuity Plan (BCP) by introducing new procedures and processes. We have a fully functional DR Site (DRS) and during this financial year we have conducted two clearing operations for all of the above clearing systems from the DR Site during DR operation drills.

The total number of cheques cleared and the total value of cheques processed through CITS during 2015/2016 as compared with 2014/2015 are depicted in the following diagrams:

Management Discussion & Analysis Operations Review

Cheques Presented for Clearing - Volume Wise



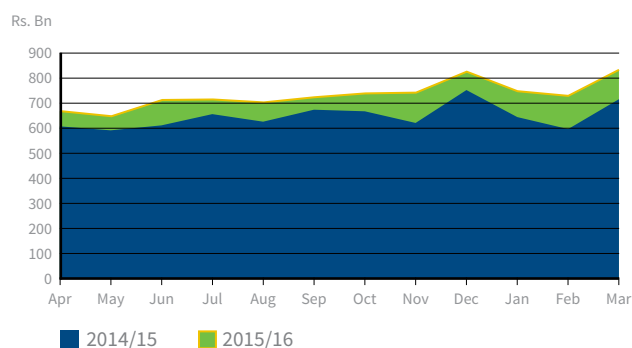
The total number of cheques cleared in 2015/2016 through CITS amounts to 50.29 million compared to 48.02 million in 2014/2015. This is an increase of 4.73%.

The total value of cheques cleared in 2015/2016 through CITS amounts to Rs. 8,792 billion compared to Rs. 7,752 billion in 2014/2015. This is an increase of 13.41%.

1.1 Settlement Clearing (Cheque Returns)

Cheques are still the most convenient and preferred non-cash payment instrument for commercial transactions in Sri Lanka. 3.3% of the cheques presented for clearing were returned unpaid due to various reasons. Of the total cheques returned, around 45% were due to lack of funds.

Cheques Presented for Clearing - Value Wise

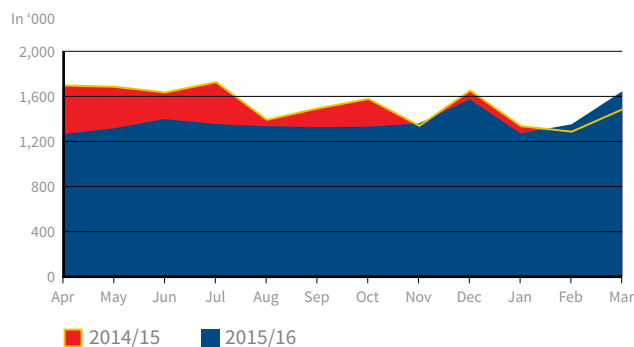


The total volume of cheques returned and the total value of cheques returned during 2015/2016 compared to 2014/2015 are depicted in the following diagrams:

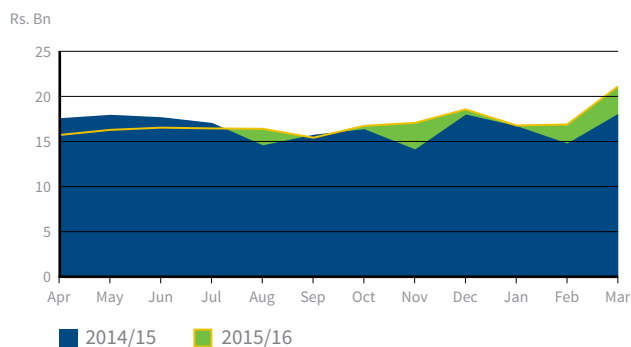
The total number of cheque returns in 2015/2016 through CITS amounts to 1.65 million compared to 1.83 million in 2014/2015. This is a decrease of 9.67%.

The total value of cheque returns in 2015/2016 through CITS amounts to Rs. 204.08 billion compared to Rs. 199.18 billion in 2014/2015. This is an increase of 2.46%.

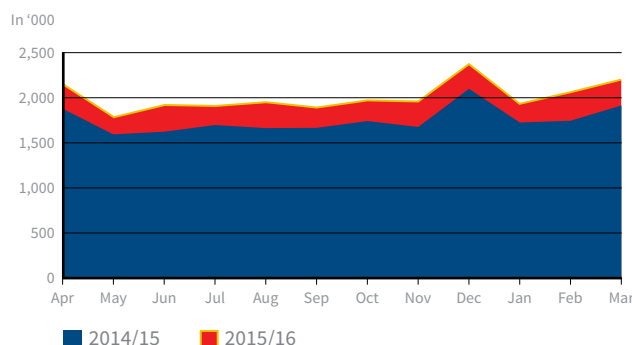
Cheques Returned for Clearing - Volume Wise



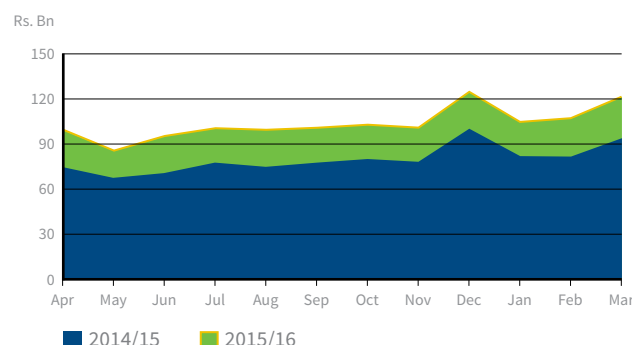
Cheques Returned for Clearing - Value Wise



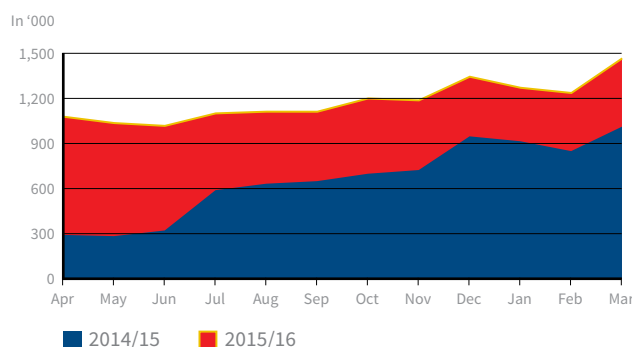
Sri Lanka Inter Bank Payment Systems - Volume Wise



Sri Lanka Interbank Payment Systems - Value Wise



LankaPay - CAS Total Volume of Cash Withdrawals



2. Sri Lanka Interbank Payment System (SLIPS)

Electronic Funds Transfer (EFT) is the movement of funds from one account to another, either between two institutions or across multiple institutions, electronically and without the direct intervention of institution staff. LankaClear provides an online electronic data transferring service via SLIPS to all commercial banks and financial institutions. This system was enhanced in September 2010 to cater to a greater volume of transactions, 100% paperless clearing operations and facilitates same day clearing and provides for greater security by means of digital signing.

An average volume of 98,722 transactions pass through SLIPS during a business day and on a high volume day, the transaction volumes have reached 418,238.

The increase in number of SLIPS transactions and its total value are depicted in the diagrams.

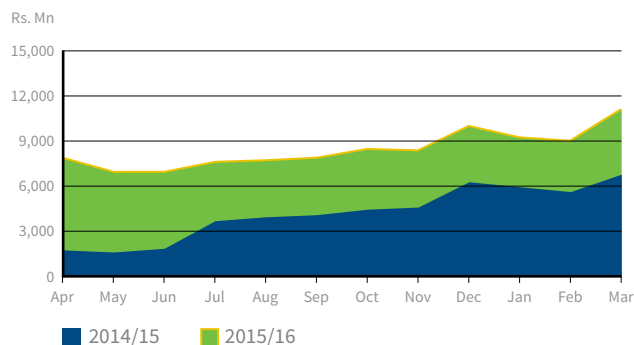
The total volume of items cleared through SLIPS in 2015/2016 amounts to 24.09 million, compared to 21.01 million in 2014/2015. This is an increase of 14.64%. The total value of items cleared through SLIPS in 2015/2016 amounts to Rs. 1,247.89 billion compared to Rs. 952.07 billion in 2014/2015. This is an increase of 31.07%.

3. LankaPay - Common ATM Switch (LankaPay - CAS)

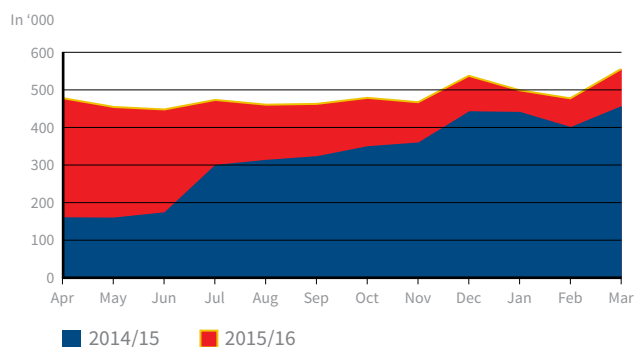
The Common Card and Payment Switch (CCAPS) under the brand name LankaPay is an integrated payment system of multiple domestic payment networks, which is a national initiative implemented under the guidance of the Central Bank and with the collaboration of all banks. CCAPS incorporates international best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

Management Discussion & Analysis Operations Review

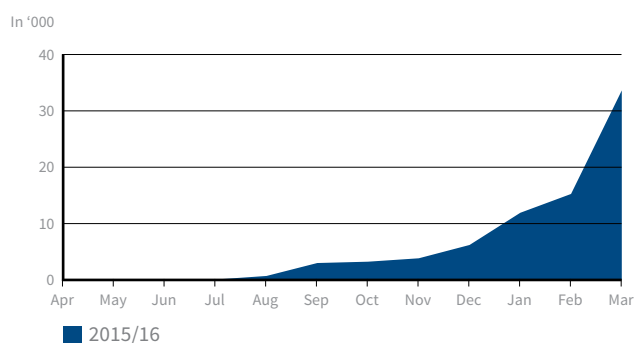
LankaPay - CAS Total Value of Cash Withdrawals



LankaPay - CAS Total Volume of Balance Inquiry



LankaPay - CEFTS Total Volume



At the phase I of CCAPS, LankaPay – CAS (Common ATM Switch) was launched on 23rd July 2013 with the two state sector Banks namely, Bank of Ceylon and People's Bank. At the end of the financial year under review, the switch contained 14 members namely, Bank of Ceylon, People's Bank, Union Bank, Seylan Bank, Hatton National Bank, National Development Bank, Commercial Bank, Standard Chartered Bank, Nations Trust Bank, Cargills Bank, Habib Bank, Regional Development Bank, Pan Asia Bank and Sampath Bank.

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

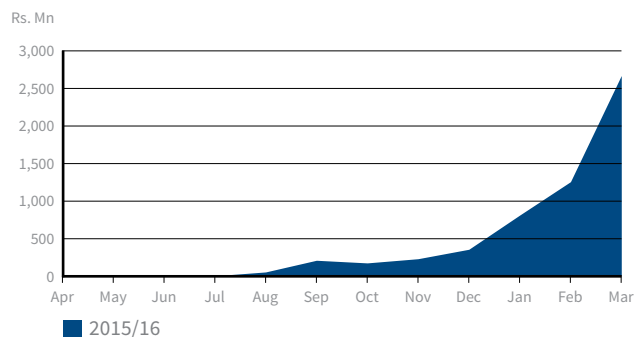
The total number of cash withdrawals, the value of the cash withdrawals and total number of balance inquiry are depicted in the diagrams.

The total volume of cash withdrawals in 2015/2016 amounts to 14.18 million compared to 7.89 million in 2014/2015. This is an increase of 79.70%. The total value of cash withdrawals in 2015/2016 amount to Rs.101.05 billion compared to Rs.50.08 billion in 2014/2015. This is an increase of 101.78%. The total number of balance inquiries amounts to 5.79 million in 2015/2016 compared to 3.87 million in 2014/2015. Currently, an average of approximately 54,586 approved transactions pass through LankaPay – CAS each day and the highest number of transactions cleared during a day in CAS during 2015/2016 is 106,615. It is interesting to note that there is a month-on-month average growth in cash withdrawals of around 3.42% during the period of review.

4. LankaPay - Common EFT Switch (LankaPay - CEFTS)

The LankaPay – CEFTS is the national real-time fund transfer switch that was launched on 20th August 2015 and operates 24x7x365. LankaPay – CEFTS has enabled greater customer convenience due to funds being credited to a beneficiary account at a fraction of a second, ensuring highest security and trust.

LankaPay - CEFTS Total Value



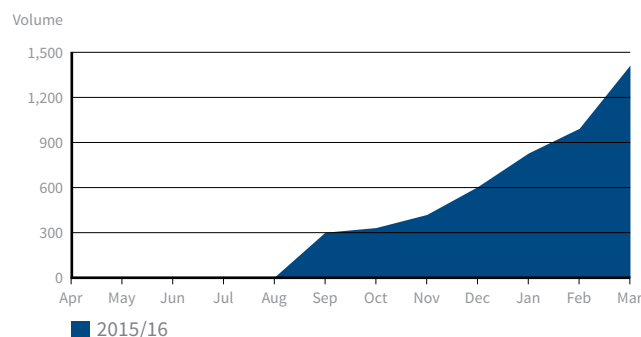
At the end of the financial year under review, the switch contained 15 members namely, Bank of Ceylon, People's Bank, Commercial Bank, Hatton National Bank, National Development Bank, Cargills Bank, HSBC, Union Bank, Seylan Bank, Sampath Bank, Standard Chartered Bank, Nations Trust Bank, Commercial Leasing, LOLC Finance and Senkadagala Finance.

The total volume and value of transactions cleared in LankaPay - CEFTS during 2015/2016 are depicted in the diagrams.

The total number of transactions cleared through LankaPay - CEFTS in 2015/2016 amounts to 77,177.

The total value of transactions cleared through LankaPay - CEFTS in 2015/2016 amounts to Rs.5.74 billion.

LankaPay - SAS Total Volume of Cash Withdrawals



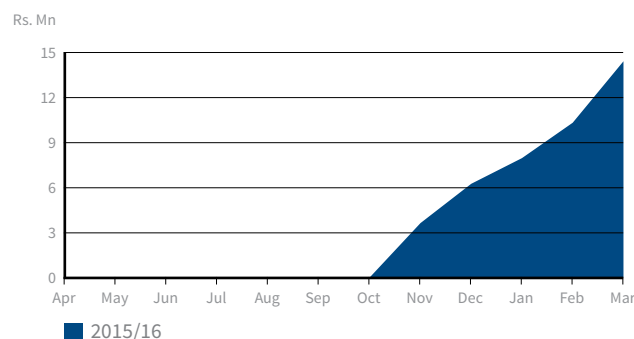
5. LankaPay - Shared ATM Switch (LankaPay - SAS) and Card Management System (CMS)

The LankaPay - SAS started operations in September 2015 with Regional Development Bank (RDB) and is hoping that other banks who wish to obtain the service of a hosted ATM switch will join with LankaPay - SAS. Card Management System (CMS) was launched on 12th June 2015 and at the end of the financial year under review, CMS has issued 10,268 proprietary cards to RDB.

The total volume and value of transactions cleared in LankaPay - SAS during 2015/2016 are depicted in the diagrams.

The total number of transactions cleared through LankaPay - SAS in 2015/2016 amounts to 4,875.

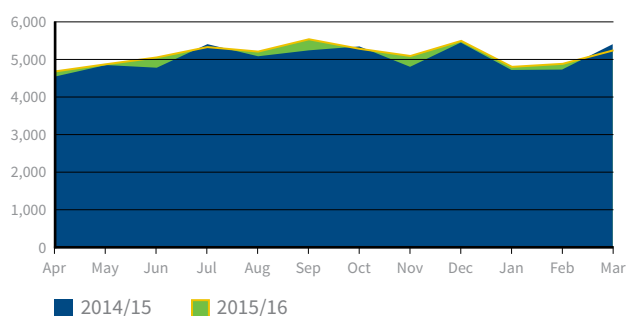
SAS Total Value of Cash Withdrawals



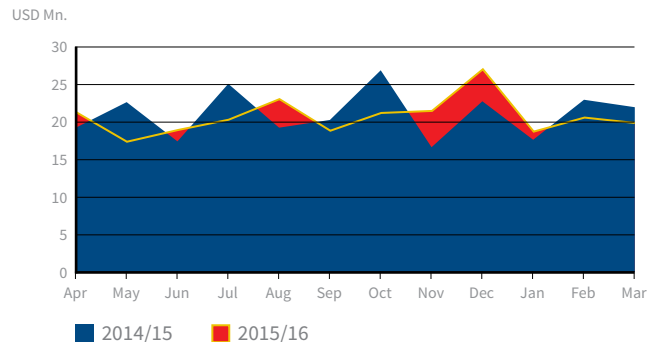
The total value of transactions cleared through LankaPay - SAS in 2015/2016 amounts to Rs.42.6 million.

Management Discussion & Analysis Operations Review

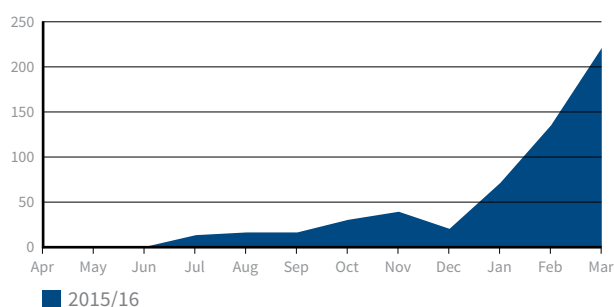
US Dollar Draft Clearing - Volume Wise



US Dollar Draft Clearing - Value Wise



USD Online Payment System Total volume



6. US Dollar Draft Clearing System

The total number of items cleared through US Dollar Clearing in 2015/2016 amounts to 61.65 thousand compared to 2014/2015 of 60.35 thousand. This is an increase of 2.15%.

The total value of items cleared through US Dollar Clearing in 2015/2016 amounts to US\$ 249.1 million compared to 2014/2015 of US\$ 253 million. This is a decrease of 1.53%.

7. US Dollar Online Payment System

The US Dollar Online Payment System was launched on 22nd July 2016 and at the end of the financial year under review, the switch contained nine members namely, Bank of Ceylon, Commercial Bank, Habib Bank, Hatton National Bank, Sampath Bank, Seylan Bank, ICICI Bank, Amana Bank and Cargills Bank.

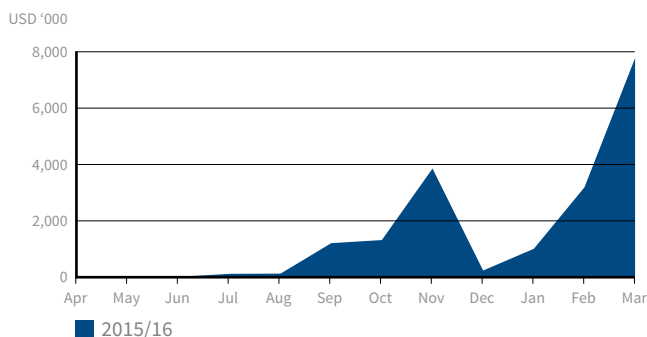
The total volume and value of transactions cleared in US Dollar Online Payment System during 2015/2016 are depicted in the diagrams.

The total number of transactions cleared through the US Dollar Online Payment System in 2015/2016 amounts to 561.

The total value of items cleared through the US Dollar Online Payment System in 2015/2016 amounts to US\$ 18.7 million.

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

USD Online Payment System Total Value



Management Discussion & Analysis System Security & High Availability

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

The LankaPay - National Payment Network, uses the best of class technologies for all infrastructure implementations. The Company exercises its mandate as the National Payment Network by offering high availability and secured payment solutions, thereby transferring the benefits of strategic investments and modernisation to the financial industry and general public alike. We strongly believe based on adherence to our performance benchmarks that we do live up to our motto of “**Your Trusted Payment Network**”.

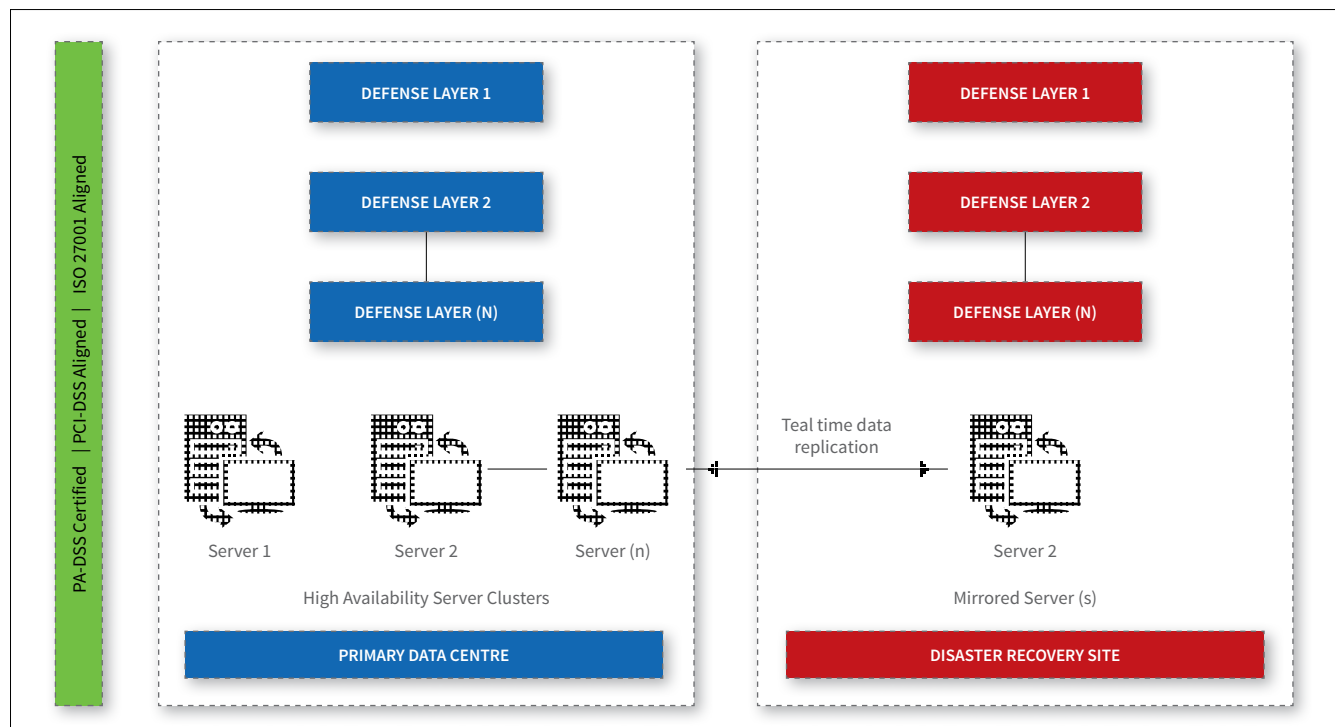
On this journey towards meeting the demands of a rapidly evolving IT landscape, LankaClear has identified the crucial requirements and has developed the enterprise IT architecture for the payment

system where the robustness, scalability, availability and security is guaranteed. The above diagram depicts the general blueprint of the enterprise scale IT systems of the Company.

IT System Security

LankaClear has developed the enterprise IT architecture for the national payment network 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.



▣ Management Discussion & Analysis ▣ System Security & High Availability

- ▣ 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/ IEC 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/ IEC 27001:2013 and PCI – DSS standards.
- ▣ Risk analysis, proactive intelligence gathering and risk treatment was carried-out on a periodic basis.

The above security features of National Payment Network ensures that banks, other financial institutions and the general public get the most secure environment to carry out their daily financial payment transactions and are not inconvenienced by service interruptions due to IT, systems or network failure.

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 are on a virtualised environment, for better IT resource utilisation, IT resource management and better management of National Payment Network. 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 99.9% System Up-time.
- ▣ CCAPS, the Payment Switch branded as LankaPay National Payment Network 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.

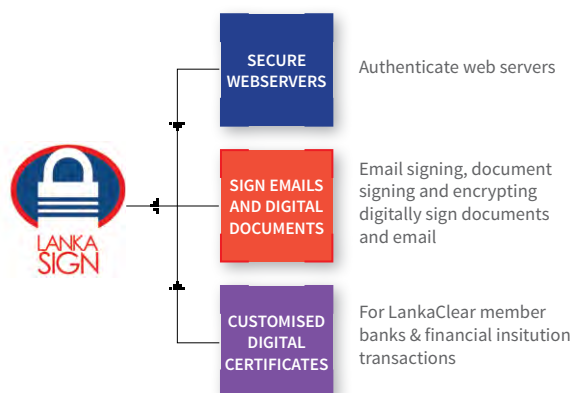
Management Discussion & Analysis Security Products and Services

LankaSign Security Solutions

LankaClear's Certification Service Provider (CSP), LankaSign, is the only commercially operating digital CSP in the country, which provides integrated digital security solutions with the use of Digital Certificates, SSL Certificates and End User Certificates (E-mail/ Document signing Certificates). 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 Public Key Infrastructure (PKI) 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 the 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 requirements.
- Digital Certificates for Email signing, document signing and encrypting digitally signed documents and email.
- Customised Digital Certificates for software applications within the banking and financial sector, to secure electronic transactions and internal software applications.
- IT Security Solutions for digitising paper based business requirements.



Business Development and Growth

In the current financial year, 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 to raise awareness about innovative technology solutions that support business growth in the modern technology era. All these promotional activities and the awareness on LankaSign Security solutions resulted in a revenue growth of 33% compared to the previous financial year. Currently LankaSign caters to 44 banking and financial sector organisations and 80 + other organisations with its security products.

ISO Certification

LankaClear, under the brand name LankaSign, provides the most secured Cryptographic Solutions. As the Company that processes the bulk of the retail payments within the country, the ISO 27001 certification is an achievement for LankaClear, which confirms our continued commitment in maintaining the highest standards of security on the national payment infrastructure we operate.

The ISO 27001:2013 certification provides a framework for assessing aspects of information security related to security policy, management of information assets, human resource security, physical and environmental security, communications and operations management access control, acquisition and maintenance of information systems, information security incident management, business continuity planning and compliance. Every single financial message that flows through our service platform deals with money and as we push towards payment digitalisation, we believe that information security will be a vital factor that provides confidence to all users in making best use of the futuristic payment technology we offer.

This achievement will make a positive difference in developing the objectives of LankaSign. The ISO 25027:2013 standard provides a robust model for information security risk assessment and security design, implementation, and management. With its comprehensive approach that takes into account threats, vulnerabilities, and

Management Discussion & Analysis Security Products and Services

impacts, the standard helps to ensure the adoption of appropriate security controls that protect the information of the Company, customers and other stakeholders. Being certified on ISO 27001 will not only help LankaSign to manage and protect its valuable information assets, but also will enhance its reputation by demonstrating to customers that the security of their information is paramount.

CDS Moves into Paperless Digital Settlements with LankaSign

The Central Depository System (CDS) a fully owned subsidiary of the Colombo Stock Exchange (CSE) recently partnered with LankaSign, the Digital Certification Service Provider, to provide a fully-fledged digital experience to its settlement banks via the CDS – Digitalised Settlement Schedule Signing (DS3) online portal.

The CDS - DS3 solution enables CDS to eliminate physical placement of signatures previously required on the bank settlement schedules that were subsequently hand delivered in physical format to respective banks on a daily basis. This process caused significant information risk and delays in the entire settlement process, which created a requirement for a more secure and faster solution. With the new solution provided by LankaSign, CDS signatories can simply sign the settlement schedules digitally and upload the same instantly onto CDS - DS3 portal to be accessed by the respective settlement bank.

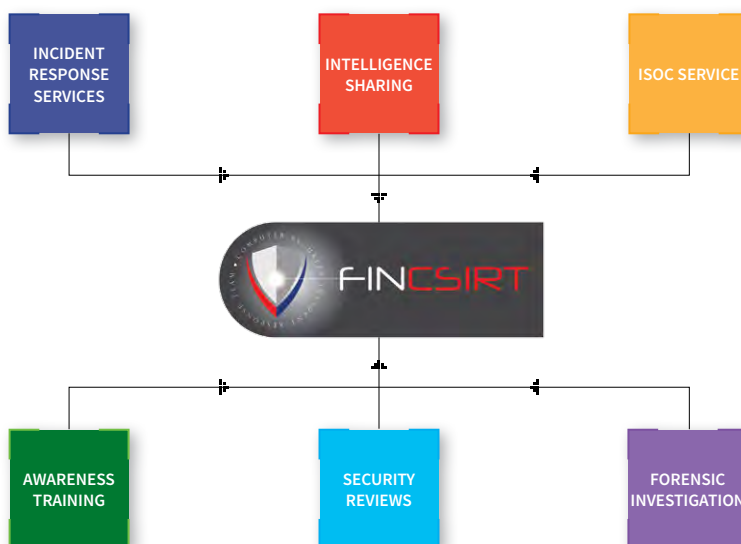
Ethical Hacking to Raise Awareness

LankaSign sponsored the CICRA Security Summit 2015, held at Cinnamon Lakeside Colombo to raise cyber security awareness in the country. The summit featured an ethical hacker from Malaysia and was extremely well received by local audience. All participants at the event was exposed to the LankaSign product offering through branding & information leaflets distributed with the official docket to all participants.

FINCSIRT Services

FINCSIRT (Financial Sector Computer Security Incident Response Team), formerly known as BANKCSIRT, was established as a joint initiative of the Central Bank of Sri Lanka, Sri Lanka CERT I CC and Sri Lanka Banks Association (SLBA). LankaClear was invited to host and function as the administrator of FINCSIRT and to provide consistent Information Security Service support to the Banking and Financial sector.

FINCSIRT was launched on 1st of July 2014 as a pioneering initiative in the South Asian region, and as at March 31st 2016, 27 Commercial Banks and Licensed Specialised Banks have joined as members to obtain its services. Cyber Crime targeting the Finance Sector have indicated an alarming increase in recent years, placing the entire banking systems at risk all over the world. Sri Lanka's FINCSIRT is a proactive response to this growing external threat as the country prepares to shift the entire national financial system onto electronic platforms.



FINCSIRT Safeguards the Sri Lankan Financial Sector through:

- ✦ Maintaining 24X7 global surveillance for potential cyber threats.
- ✦ Immediately alerting financial institutions of impending threats.
- ✦ Incident response service to the financial institutions
- ✦ Recommending suitable mitigation steps for financial institutions 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 its ISOC (Information Security Operations Centre)
- ✦ 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.

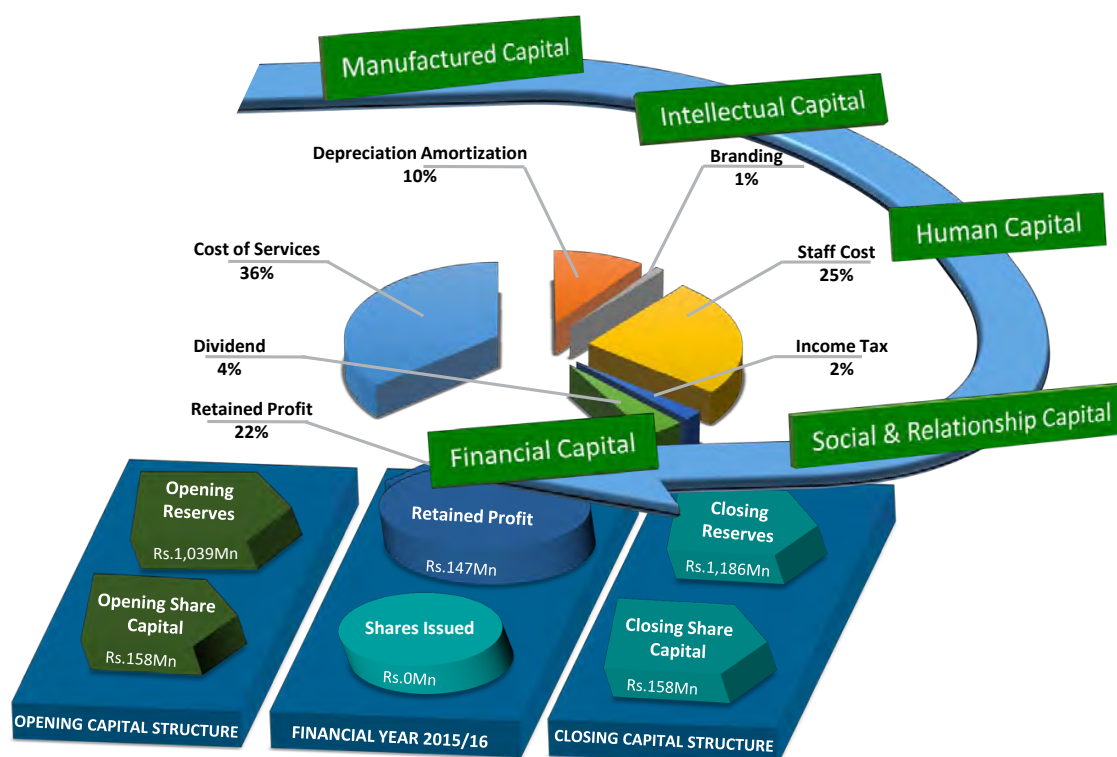
Initiation Meeting for Non-Banking Financial Institutions and Primary Dealers

FINCSIRT conducted initiation programmes for the Non-Banking Financial Institutions and the Primary Dealers to spread awareness about the services offered by FINCSIRT and to get these institutions on board as members. Positive feedback was received from these programmes and the institutions have begun their membership process with FINCSIRT. Some of the new initiatives are;

- ✦ Expand FINCSIRT to include non-bank financial institutions and primary dealers to ensure wider coverage of the Sri Lankan financial sector.
- ✦ Implementing a National ISOC (Information Security Operations Centre) for financial institutions in Sri Lanka.
- ✦ Conduct cyber security drills for members
- ✦ Conduct cyber security skills training workshops for members
- ✦ Offer forensic investigation services
- ✦ Threat Intelligence modelling

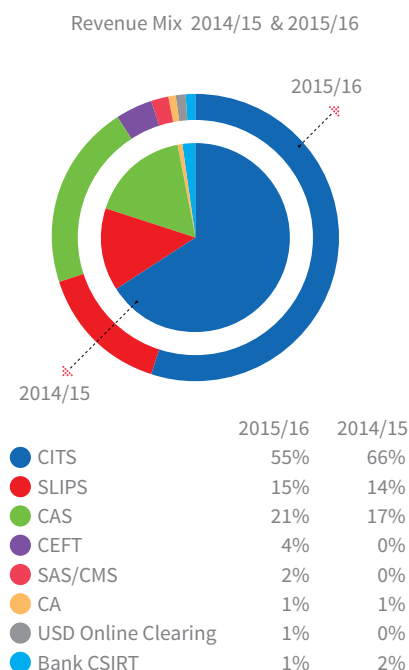
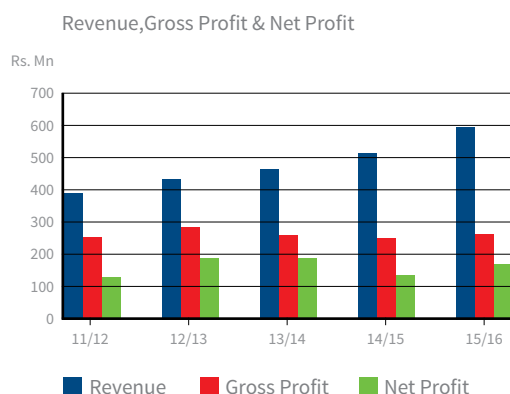
Capitals Management Financial Capital

The financial statements presented in this report explain the generation and utilisation of financial capital and the financial review provides insights to the financial capital. The diagram below summarised the distribution of financial capital among other capitals.



Monetized Value Creation and Distribution – 2015/2016

Financial Review Overview



Reversing the downward trend in profitability, experienced during the FYs 2014/15 and 2013/14, was the most important breakthrough achieved during the financial year under review. The gross profit increased by 6% (2014/15 – decrease 2%), profit before tax (PBT) increased by 1% (2014/15 – decrease 20%) and profit after tax (PAT) increased by 34% (2014/15 – decreased by 31%). Soaring top line growth of 16% has been the main contributor to the turnaround, the highest revenue growth achieved after CITS going live almost a decade ago. The increase in the top line has mainly come about from the clearing systems under the Common Card and Payment Switch (CCAPS), due to higher volumes going through the system and joining fees from new participants. Considering the significant investment on CCAPS, we are happy to see indications of increasing popularity of the product portfolio.

Turnover

The Company has reported a revenue in excess of Rs.600mn for the first time in the history, which is an increase of 16% y.o.y. (2014/15 - 12%). The revenue growth is fuelled by the continued revenue increases from the clearing systems under CCAPS. Revenue from clearing systems under CCAPS has increased by Rs.73mn (2014/15 – Rs.67mn) which is a growth of 81% y.o.y. (2014/15 – 286%).

CCAPS was strengthened with three more products lines (Common Electronic Fund Transfer Switch – CEFTS, Shared ATM Switch – SAS and Card Management System – CMS) going live with banks and financial institutions in addition to the Common ATM Switch (CAS), which went live in the FY 2013/14. During the year, 5 new participants joined CAS bringing the total number of 14 participants at the end of the year. For the new product line CEFT, SAS and CMS, we ended the year with 15, 1 and 1 participants respectively. The clearing systems under CCAPS brought in a total joining fee of Rs. 56mn. Transaction revenue from CAS has increased by 72% to Rs.85mn (2014/15 – Rs.49mn), which is a significant and important improvement since the transaction revenue will be sustained in the long run.

Cheque Image and Truncation System (CITS), thus far the highest revenue maker for the Company, reported a revenue of Rs.330mn (2014/15 - Rs.339mn) with a decrease of 3% in 2015/16 (2014/15 – decrease 9%). Although cheque volumes submitted for clearing grew by 5%, the cheque returns income continued to drop by 12%.

The Sri Lanka Interbank Payment System (SLIPS) and LankaSign Certificate Authority recorded revenues of Rs.92mn and Rs.4.5mn

Capitals Management Financial Capital

respectively, with a healthy revenue growth of 24% and 33% respectively. Revenue from the Financial Sector Computer Security Incident Response Team (FINCSIRT) declined by 24% to Rs.8mn. The decline is due to one time joining fees from the bulk of the financial institutions joined in the financial year 2014/15.

During the year, the revenue mix further skewed towards new products under CCAPS from CITS, which is a welcome trend towards the financial stability of the Company, breaking away from the decade old practice of depending on only two products lines (SLIPS and CITS) for revenue growth. Combined revenues of SLIPS and CITS slipped to 70% from 80% of total revenue in 2014/15 whilst revenue from products under CCAPS increased to 28% from 17%.

Expenses

During the year, direct operating expense increased by 25% to Rs.339mn compared to 28% in 2014/15. The cost increase is mainly due to the new expenses arising from products under CCAPS. The increase of staff costs, commencement of new products related software depreciation and IT maintenance costs, had a significant impact on the bottom line during the year.

During the year, administration expenses increased marginally by 4% and marketing costs decreased by 11% due to the adoption of customer focussed cost effective marketing campaigns.

Capital Expenditure

During the year, the Company had a cash outflow of Rs.167mn (2014/15 – Rs.222mn) spent on acquisition of capital assets. The Company's capital expenditure was aligned to Company vision and mission in developing a "Trusted Payment Network" with high quality clearing systems, whereas the capital expenses were mainly made on CCAPS related developments, upgrading and securing IT infrastructure and constructing the new disaster recovering site. A new motor vehicle was purchased during the year.

Interest Income

Interest income reduced to Rs.53mn (2014/15 – Rs.68mn) during the year. The reduction was due to the low interest rates that prevailed from the last financial year to the current year and reduction of investment base due to use of funds for the capital expenditure and higher operational expenditure. The unfavourable trend was reversed from the last quarter of the year where interest rates

picked up and investment base increased due to growth in revenue, which can be expected to continue in the next financial year as well.

Profitability

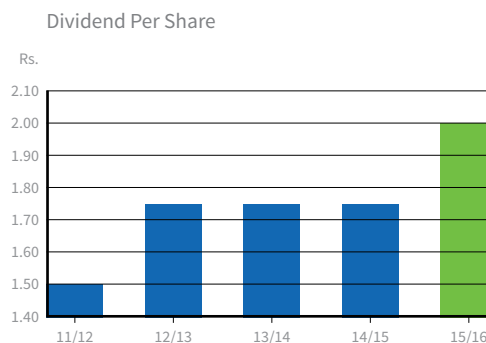
As explained in the overview, the Company has recorded a significant profit growth, recording a PBT of Rs.185mn and PAT of Rs.174mn and the significant revenue growth has contributed to the turnaround of the Company.

The decrease in tax expense is mainly due to reversing an over provision of tax for Rs.19mn during the year from tax exempt operations, which in turn impacted the profit after tax figure.

Creating Value for Shareholders

With the increase of profitability, the Company recorded an earnings per share (EPS) of Rs.11.51, which is a significant improvement compared to Rs.8.52 made in 2014/15. Concurrently, the Return on Equity also increased to 13% (2014/15 – 11%) and Return on Assets increased to 12% (2014/15 – 10%) depicting the improved utilisation of shareholder funds and Company assets.

With the increment of the profitability, we were able to pay a dividend of Rs.2/- per share, which is the highest ever dividend per share (DPS) proposed during the 14 year history of LankaClear. From the year 2012/13 when we made the highest EPS of Rs.12.47, the Company maintained DPS of Rs. 1.75, despite lower EPS for the last three consecutive years. LankaClear has been paying dividends to its shareholders continually and the Company will strive to strike a balance between healthy dividends and retention, to support investment activities to enhance long-term shareholder value.

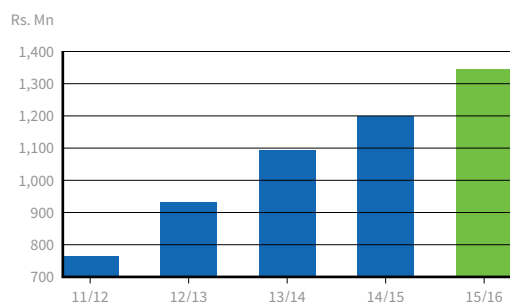


Liquidity, Capital Structure and Shareholders' Funds

The Company remained debt free during the year funding its own investments with internally generated funds. During the current year, the Company generated net cash of Rs.164mn from operating activities. The cash flows were utilised on investment activities and dividend payment for Rs.124mn and Rs.27mn respectively. At the end of the year, Rs.713mn worth of liquid funds remained in fixed deposits and REPOS to be utilised for future investments to cater to rapidly changing technology in the payment industry and for contingencies.

At the end of the year shareholder funds stood at Rs.1.3bn, which is an increase of 12% (2014/15 - 9%) y.o.y. and net assets per share at Rs.88.43 (2014/15 - Rs.78.75). The profits made in consecutive operating periods have consistently added to shareholders wealth for a stronger balance sheet.

Shareholders' Funds



Financial Priorities and Future Outlook

For the next financial year, consolidation of the existing product lines by increasing revenue from both the new and existing product lines is on the cards. Common POS Switch (CPS) would be the next product to be connected and go live with banks and a significant amount of effort is required to take it forward. The concentration would be on increasing transaction revenue by creating greater customer awareness as well as getting more participating financial institutions to join CCAPS. Also it is vital that the Company invests in emerging technologies in the payment industry to cater to existing and new requirements that would occur in this space.

Keeping within enhancing overall financial health of the organisation through attaining increasing revenue and profitability growth and safeguarding Company assets, other financial priorities were identified below.

- Ensuring the availability of adequate finances in maintaining the sustainability of all clearing systems and market acceptance of new clearing systems
- Ensuring and monitoring the profitability of all clearing systems with efficient utilisation of resources
- Identification of new related profitable investment opportunities in the payment space
- Providing adequate return to shareholders whilst meeting other financial obligations towards key stakeholders such as employees, suppliers, government and tax authorities etc.
- Ascertaining and mitigating financial risks to achieve growth, profitability and stability

Capitals Management Human Capital Development

Building the Human Capital Base

Human Capital Management Charter of LankaClear grew stronger during the year under review benefiting the employees as well as reaching the strategic objectives of the organisation. Few highlights to mention would be the restructuring of the compensation and benefits structure of the organisation, which was carried out after a comprehensive market survey of the industry salaries. The investment in training and development was another crucial point to highlight during the HR calendar for the year. Further exercises initiated by HR on the succession planning ensured the future sustainability of the Company.



Compensation and Benefits After a Market Survey

The Company once in three years conducts a market survey on compensation and benefits. Following the same practice and particularly a revision on compensation and benefits had to have a basis, PwC, a professional organisation well recognised in this sphere of activity, was commissioned to carry out a compensation and benefits survey.

Based on the results of the survey conducted and with the concurrence of the Board HR Committee and the Board, action was taken to adjust salaries of staff with effect from 1st January 2016. This included equity adjustments to salaries, revisions of allowances and complete restructure of the salary structures for all categories of employees. The annual increments for 2016 were granted independent of the above salary adjustments and revisions granted for the year 2016.

Training & Development to Accelerate the Performance

The Company is geared to having a strong team of employees who are prepared to meet future challenges of the Company. In making them prepared for the challenges, the training & development initiatives took a major lead during the year.



Summary of Training and Development

Total trainings programmes conducted =
Local 32
Overseas 05

Total Man Days of Training =
308 days

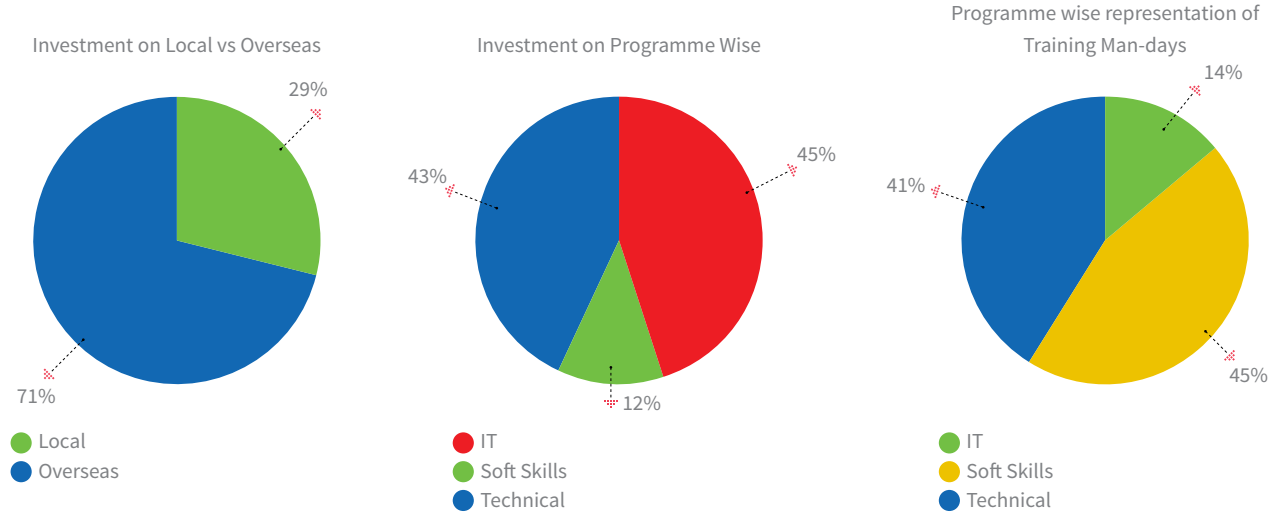
Total Investment on Training:
LKR 4.4 Mn.

Average Annual Appraisal Scores of the Workforce:
81.46 %



Group Photo – Annual Trip at Anilana, Nilaweli

Graphical Representation of Investment on Training

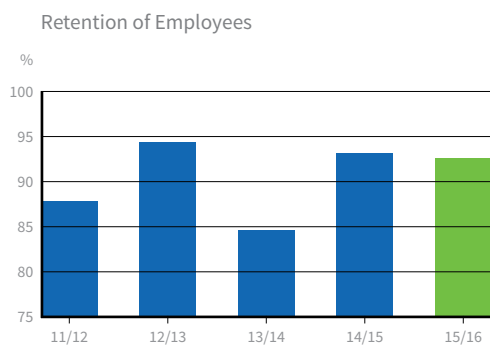


Career Progression and Retention to Achieve Organisational Objectives

The human capital management tools utilised in the career progression and retention of employees included among others the provision of career of progression opportunities for internal candidates at all possible instances where their suitability was tested and proven. LankaClear ensured that those with potential were recognised by the Company. The Management is hopeful that the initiatives the Management took with the blessing of the Board HR Committee and the Board will be of immense importance to the retention of employees in the future.

Year	2011/2012	2012/2013	2013/2014	2014/15	2015/16
Retention Ratios	87.88%	94.32%	84.54%	93.20%	88.79%

As at March 31, 2016, LankaClear did not face any fines or sanctions, or cases filed in a court of law, due to noncompliance with labour regulations.



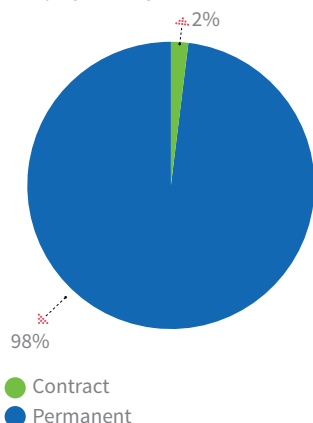
Annual Cricket Match

Capitals Management Human Capital Development

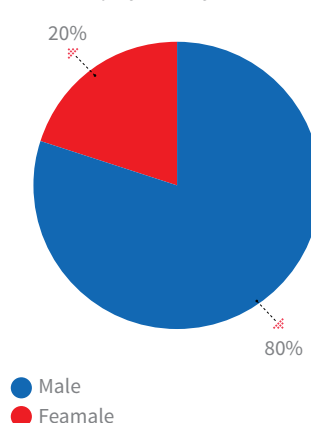
Employee Profile of LankaClear as at March 31, 2016

The LankaClear team comprised 108 personnel as at March 31, 2016 with a 103 permanent cadre and 5 contract based officials.

Employment by Nature of Contract



Employment by Gender



Strategic Priorities and Performance 2015/16

Strategic Priority	Performance
Establishing a fair and equitable compensation and benefit structure after conducting a comprehensive compensation and benefits survey.	<ul style="list-style-type: none"> Established a fair and equitable compensation and benefit structure after conducting a comprehensive compensation and benefits survey. Restructured the compensation and benefits packages of all levels and implemented w.e.f. 1st January 2016 Recommended promotions and changes to 36 positions which represented 34% of the total workforce.
Transform LankaClear workplace culture to improve innovation and productivity	<ul style="list-style-type: none"> Improved the talent development process through training & development and engagement. Increased the number of job portal /online based recruitments thus increasing the quality and reducing the cost of recruitments
Creation of value ensuring that the core values of the organisation were embraced through awareness programmes	<ul style="list-style-type: none"> Launched educational sessions on core values to staff members Incorporated a comprehensive measurement criterion to measure the value creation process with an appropriate weightage.
Enhance employee engagement by implementing the engagement formula by bringing management and employees together	<ul style="list-style-type: none"> Developed employee engagement activity calendar for the year and implemented the same. Conducted a number of engagement activities including leadership round tables, HR skips, one on one discussions and EWS's. Development of an employee grievance resolution mechanism for the organisation and resolution of employee grievances.

Future Outlook

As the Company is moving into a new phase of its growth, the focus from next financial year onwards would be to drive new innovative services in to the market via our customer banks and financial institutes. Hence, ensuring a significant cultural shift from an organisational perspective is of paramount importance to cater to these new business realities. The Company would need to shift gears from the previous focus of setting up internal systems to that of a customer centric organisation. This significant change will be given priority in our human capital development plans from next year onwards via building customer facing skills of our people through training and other developmental activities. The organisation also need to instigate a critical change in the behaviour of people to be more nimble and aggressive in acquiring more customer banks and financial institutes to start utilising our new services. We plan to achieve this via assigning aggressive targets to people and rewarding exceptional performance to drive a high performance culture in order to achieve better outcomes.



Yet Another Winning Team, Slogan Competition 2015



Vesak Festival and Lanterns



Pirith Chanting at the opening Ceremony of the New DR Site



On the way to Trincomalee, Annual Staff Outing

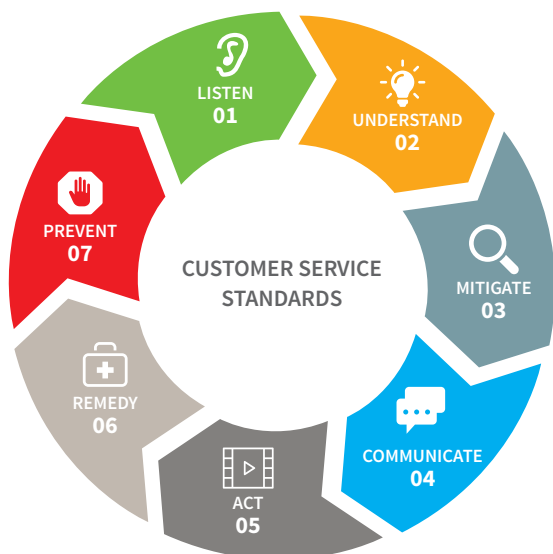


Annual CSR at National Cancer Hospital Maharagama. King Coconut Treat and Gifts to Children's Ward

Capitals Management Social and Relational Capital

Customer Relationship Management

As a trusted National Payment Network, understanding the customer needs is a vital part of our day to day operations with the implementation of new retail payment systems in Sri Lanka. During the current financial year, we have taken several initiatives to enhance the customer service standards of LankaClear. Some of the major initiatives are; the implementation of the customer complaint management process and KPIs for customer services staff of LankaClear.



LankaClear recognises complaint management as a key process in supporting the growth of its business and reducing repeated errors and/or complaints that leads to reputational risk. LankaClear understands that effective customer service retrieval from a service failure, strengthen client loyalty, whereas failure to manage complaints effectively reflects negatively on Company's reputation.

Diligent and prompt attention to customer complaints will identify needs of our customers and stakeholders, help understand our service shortcomings, increase customer satisfaction and improve overall performance of customer service levels. Our performance during the period is as follows.

Description	No of Occurrence
Customer inquiries handled during the year	4085
Customer inquiries/ issues solved within two working days	3754
Customer complaints received during the year	3
Service/operational failures reported during the year	0
New customers joined during the year	33
Customer related events held during the year	5
Training sessions conducted for customers during the year	22



Customer Engagement

There was no consistent effort made previously to engage banks and financial institutions directly at the grass root levels to build trust. In order to improve relationship with banks and financial institutions our strategy was to work closely with them and build trust in our network and people. In order to achieve this objective, during the year, we conducted many one-on-one engagements, discussions and presentations with all financial institutions to increase trust on LankaClear systems.

Customer Recognition

We have taken continuous efforts to celebrate the International Customer Service Week to reorganise the importance of customers and appreciate the internal and external customers for their day to day support.

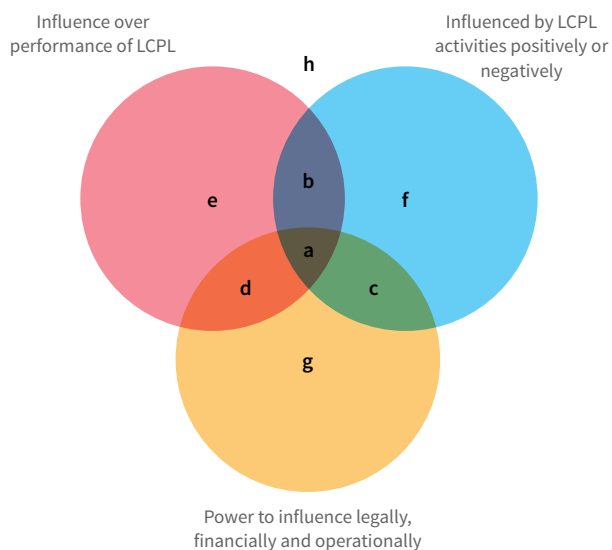
Customer Satisfaction

LankaClear is always committed to assist customers better through a dedicated customer service team. As a measurement, we have been continuously conducting a customer satisfaction survey for all LankaClear customers. Constructive feedback received from our customers during the financial year has enabled us to further improve the quality of our customer service levels.



Capitals Management Social and Relational Capital

Stakeholder Engagement Stakeholder Identification



The Company's stakeholders were comprehensively identified by the criteria depicted in the above diagram.

- 1) Those who exhibited all three of the identified characteristics were regarded as the most important for engagement (a) – Shareholders in the Board (CBSL, SLBA and Board represented Banks) & Employees
- 2) Those who exhibited two of the identified characteristics were regarded as the next most important for engagement. (b, c & d) – Shareholders other than those who are in the board
- 3) Those who exhibited only one or none of the identified characteristics were treated with low significance (e, f, g and h) – Non-Shareholder Customers, Suppliers, General Public, Auditors, Media and Agencies

Careful management of the concerned stakeholders was identified as a business critical activity. In order to ensure that the Company achieves its planned outcomes, a comprehensive mechanism to engage with the identified stakeholders were implemented. The priority and the effort of the stakeholder engagement was based on the above identification criteria. The frequency at which such engagements takes place and the methods of engagement and material aspects with regard to stakeholders and our responses are given in the table below.

Stakeholders and Method of Engagement

Direct Stakeholder Group	Description of Stakeholder	Method of Engagement with Stakeholder in 2015-16
Banking & Financial Sector Regulator	The Regulator – Central Bank of Sri Lanka (CBSL) is the largest shareholder of LankaClear. The National Payment Network operated by LankaClear is done under the guidance and approval of CBSL. LankaClear needs to collaborate with CBSL at multiple levels in designing, implementing and driving national payment network for financial inclusion	<ul style="list-style-type: none"> Monthly Board meetings and other policy driven initiatives such as regular meetings and forums Obtaining support and advisory services on all regulatory matters related to payments and settlements – general directions, mandates, participant approvals Consultancy on best business practices Through the provision of settlement related financial services Driving new payment and settlement initiatives for the banking and finance sector Driving awareness amongst industry stakeholders
SLBA & Board Represented Banks	The board constitutes CBSL, SLBA, permeant slots for two State Banks and 3 from other shareholder banks (rotational basis)	<ul style="list-style-type: none"> Monthly Board Meetings Engagement in Board HR, Risk and Audit committee meetings One-on-one engagements as required Monthly management accounts

Direct Stakeholder Group	Description of Stakeholder	Method of Engagement with Stakeholder in 2015-16
Shareholders (not in the Board)	All Licensed Commercial Banks who are not members of the board at any given time	<ul style="list-style-type: none"> AGMs Annual/monthly reports & circulations
Customers (Banks, non-bank financial institutions & other selected corporates)	<p>LankaClear's direct customers are all licensed financial institutions in the country. These include all banks and non-bank financial institutions.</p> <p>The Company also provides a limited set of customised solutions on digital security and other payment related services outside the scope of the national switch / regulator to a selected number of corporate customers and government organisations.</p>	<ul style="list-style-type: none"> Customer satisfaction surveys Through the provision of LankaPay National Payment Network Through the charges levied for LankaClear services Providing advisory services Banking industry CIO forum Training and awareness programmes Sponsorships provided for customer evenings Joint communications
Employees	These are the core stakeholders of the Company who are essential for all operations. These stakeholders are unique in the sense that they are equipped with special industry related skills and experience in operating the National Payment Network.	<ul style="list-style-type: none"> Engagement with employees happens at multiple levels and done extensively, which is described in detail under the Human Capital Development section of this report.
Suppliers	Suppliers/ Vendors of Technology solutions play a vital role in sourcing and supporting the world-class technology backend on which the mission critical National Payment Network is operated	<ul style="list-style-type: none"> In-house vendor support staff 24X7X365 service support Suppliers' forums (local / foreign) Tender/ RFP/ EOI procedures Timely payments Scheduled meetings Joint customer meetings
General Public	This is the end user group who ultimately benefit from our products. They are customers of our stakeholder banks and financial institutes, however, their adoption of electronic payments instruments have a major impact on LankaClear's business outcomes.	<ul style="list-style-type: none"> General awareness sessions Brand building activities Interactions through joint promotions with banks Media releases, articles and advertising Promotional hoardings and material distribution
Auditors	<p>Auditors of LankaClear carries out following external audits :</p> <ul style="list-style-type: none"> Financial audits IT audits Systems security audits Compliance & procedural audits 	<ul style="list-style-type: none"> Auditor's reports Meetings with management Advisory & assurance services Provision of information required from auditors as and when requested

Capitals Management Social and Relational Capital

Direct Stakeholder Group	Description of Stakeholder	Method of Engagement with Stakeholder in 2015-16
Media	LankaClear wanted to create awareness for the Company under a single umbrella brand name of “LankaPay”. This is to put a concerted effort into building brand awareness and loyalty. The Company increased its media engagements during the current financial year to increase awareness on this single brand. The Company engaged with media buying houses, electronic media stations, print publications, business editors, leading business magazines and outdoor advertising agencies	<ul style="list-style-type: none"> Launch events Press releases Providing interviews Press advertisements Media round tables One-on-one engagements and meetings Customer evenings Other goodwill measures such as sponsorships
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"> Execution of communications and branding Strategy meetings / Pitches & reviews Timely payments

Status of Material Aspects with Regard to Stakeholders

Material Aspects	Concerned Stakeholders	Response
Ensure trust and high availability of all Payment Systems in LankaClear National Payment Network	Regulator/Customer	Our continuous commitment to ensure delivery cut off times, no breaches on financially and legally critical rules & regulations, ensure system patches are implemented at the earliest possible, timely update of operations documents, identification and filling skill gaps, disaster recovery site live runs, business continuity plan management.
Enhance information security and compliance	Regulator/Customer	Working towards compliance with industry security standards
Implement industrial best practices to the LankaPay Card operation	Regulator/Customer	Working towards compliance with industry security standards,
Providing value added services to customers	Customer	<ul style="list-style-type: none"> Taking initial steps in implementing CITS Online Image Transfer solution, Enhancing the FINCSIRT products.
Introduce innovative and technologically advanced payment solutions towards achieving the key objective of driving financial inclusivity	Shareholders/Customer	Introduction of new products Common Electronic Fund Transfer Switch, Shared ATM Switch, USD Online Clearing.
Enhance customer satisfaction levels	Customer	Conduct quarterly progress review meetings, achieving laid out KPI targets.

Material Aspects	Concerned Stakeholders	Response
Ensure the availability of highly qualified, trained, efficient and motivated team of staff members	Management	Local and overseas training programmes are conducted on time and in an efficiently ongoing basis, design and obtain approval for new organisational. Structure to facilitate organisational objectives, maintaining a healthy retention ratio.
Ensure fair and equitable compensation and benefits to all employees	Employees	Developing the revised compensation and benefit structure based on salary survey, seeking additional approval for changes of salaries and perks as appropriate.
Enhancing overall financial health of the organisation through driving increasing revenue and profitability growth while safeguarding Company assets	Shareholders/ Management/Employees	Setting annual and monthly revenue profit targets, monitoring financial performance on a regular basis, undertaking cost control initiatives. Achieving Rs.600mn revenue target and achieving a profit increase by reversing the profit decreasing trend.
Ensuring of continued contractual safeguards and contractual rights	Shareholders/ Management/Suppliers	Timely negotiation, drafting and execution of contracts new contracts or renewing of existing contracts and timely serving of contractual/legal notices, letters of demand or imposition of penalties against defaulting parties .
Increase LankaPay brand awareness and brand loyalty	Shareholders/ Management/Customers	Carrying out print and electronic media promotion campaigns, social media campaigns, outdoor branding and event sponsorships.

Capitals Management Social and Relational Capital

Economic Contributions

Direct Economic Contribution

Statement of Value Addition

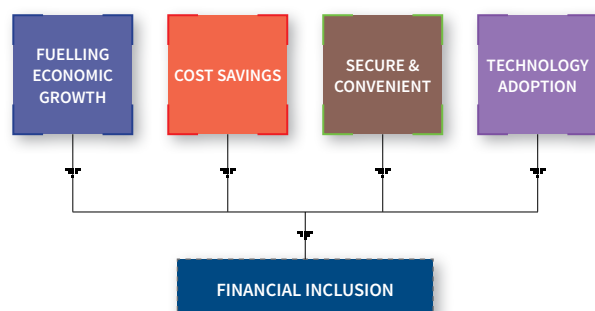
For the year ended 31st March	2015/16 Rs. Mn.	%	2014/15 Rs. Mn.	%	2013/14 Rs. Mn.	%
Value Added						
Business Revenue	601,640,965		517,867,822		463,026,429	
Cost of Services	248,192,845		200,633,988		159,405,957	
Value Added by Business Activities	353,448,120		317,233,833		303,620,472	
Finance & Other Income	58,598,343		68,041,253		95,301,719	
Total	412,046,462		385,275,086		398,922,191	
Distribution of Value Added						
To Employees						
Salaries & Other Benefits	156,061,982		140,186,710		112,026,801	
Training	5,902,383		7,285,704		5,091,792	
Total	161,964,365	39%	147,472,415	38%	117,118,593	29%
To Providers of Capital						
Dividends to Ordinary Shareholders	26,600,000	6%	26,600,000	7%	26,512,500	7%
To the Government						
Income Tax	11,063,885	3%	53,145,583	14%	41,409,922	10%
To Expansion and Growth						
Retained Profits	147,143,774		102,884,557		160,277,273	
Depreciation & Amortisation	69,380,141		54,520,327		52,486,715	
Deferred Taxation	(4,105,703)		652,205		1,117,188	
Total	212,418,212	52%	158,057,089	41%	213,881,176	54%
Total	412,046,462	100%	385,275,086	100%	398,922,191	100%

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, 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 2015/16 LankaClear made a direct economic contribution to the country, to the value of Rs 412mn. Employees benefited from 39% of this value, while 3% went to the state coffers in the form of taxes and 6% was distributed among the shareholders of the Company.

LankaClear retained 52% of its earnings to reinvest in technology and capacity enhancements, to support Sri Lanka's long term development. To date, all LankaClear operations and investments in new technologies have been met through reinvested profits.

Indirect Economic Contributions



As per the original objectives of forming LankaClear to drive financial inclusivity across rural masses, our indirect economic contributions by far exceeds, even though less quantifiable, its direct economic benefits. By facilitating real time, convenient and secure electronic transactions, LankaClear contributes immensely to economic development in a variety of forms and at multiple levels of the economy. The overall impact would be for the society to adopt latest technological advancements, which would fuel increased technology adoption in the country as well.

Fuelling Economic Growth

The consumers are beginning to realise and harvest the convenience and speed of electronic transactions through continued expansion of the LankaPay Common ATM Switch (CAS) and the introduction of the Common EFT Switch (CEFT) during the current financial year. The growth in volumes observed from quarter-on-quarter of such inter-bank transaction, as depicted below, demonstrates that more and more consumers are increasingly utilising such services.

Inter-bank ATM and CEFT Volumes

	Apr-June 2015	Jul-Sep 2015	Oct-Dec 2015	Jan-Mar 2016
ATM volume	5,515,678	5,758,276	6,356,867	6,725,341
CEFT volume	-	4,534	15,126	68,766

The first initiative has encouraged consumers to withdraw funds in an as needed basis from an ATM of any bank rather than opting to withdraw money in "one big chunk" using their own bank's ATM to be utilised subsequently and keeping it in a safe at home. The latter initiative has encouraged consumers to engage in inter-bank electronic transactions in a real-time basis to move the population into a cashless society. These significant changes in consumer behaviour promotes money to remain within the financial ecosystem, which enables bank and financial institutions to consider additional investment options facilitating and contributing towards increased economic activities.

Increased and widespread consumer adoption of the aforesaid electronic transactions mechanisms will also propel consumer confidence in utilising other payment instruments such as payment card usage and mobile payments in future.

Cost Savings

A significant contribution is made by LankaClear towards reducing the cost of financial transactions within the country for both individuals and institutions. Estimates show that a majority of the financial transactions are carried out within the country and international transaction volume to be significantly minute. Hence, Domestic clearing and settlement of electronic transactions by LankaClear, which does not require making payment to International financial institutions, has saved the country billions of rupees in terms of retained foreign exchange.

Secure & Convenient

LankaPay national payment network facilitates transactions between financial institutions in a very secure manner while providing convenience to customers and institutions alike. LankaClear has invested heavily in implementing and maintaining world leading technologies hosted in highly secured and fully fledged data centres, so the customers can have the confidence that the highest level of security is afforded immaterial whether the transaction they carried out is as low as 100 Rupees or high as 5,000,000 Rupees.

Capitals Management Social and Relational Capital

District	CAS Transaction Volume Growth Jan 2016 to Mar 2016
Badulla	12.7%
Galle	13.2%
Jaffna	10.1%
Kegalla	16.7%
Kurunegala	17.1%
Matale	14.7%
Nuwara Eliya	19.4%
Puttalam	15.1%

The inter-bank financial transaction connectivity LankaPay has introduced through Common ATM Switch at a lower cost has enabled customers in rural and regional areas to experience a better banking experience especially when own bank's ATM services are not available during infrastructural deficiencies such as connectivity failures of their own bank.

The introduction of inter-bank real time fund transfers provided unprecedented convenience to the retail banking community in addition to lowering transaction costs. The individuals are now able to complete a person-to-person interbank fund transfer securely through an ATM, through internet banking or any other medium of their choice and at any time of the day at their convenience.

Technology Adoption

As the technology landscape of the country is changing the way people live, we are beginning to observe more and more people are adopting technology based payment instruments including mobile payment systems. The implementation of CEFTS during the current financial year coupled with our low value CEFT initiative is intended to move general public away from cash based transaction into making payments using their smart phones. The current 22 million penetration of mobile phones in the country coupled with 4 million Smart phone users would encourage an increasing number of new mobile payment applications to enter into the market. This would significantly increase the current Smart Phone usage, expected to reach 10 million in a relatively short period of time, and drive even the rural population to use technology for their day-to-day activities to increase technology adoption in the country.

Financial Inclusion

LankaPay Shared ATM Switch (SAS) was implemented during the current financial year at Regional Development Bank (RDB) along with a Card Management System for them to commence issuing debit cards cost effectively. LankaClear was delighted to partner with RDB to reach the rural populace for tapping into a sizeable segment of the “unbanked/underbanked” population.

District	2014 Volume	2015 Volume	%	District wise contribution
Kilinochchi	144,853	169,316	17%	0.35%
Mullativu	95,765	108,492	13%	0.22%
Monaragala	426,732	482,970	13%	0.99%
Mannar	136,684	152,447	12%	0.31%
Jaffna	892,447	993,504	11%	2.04%
Vavuniya	290,403	322,729	11%	0.66%
Batticaloa	750,860	826,167	10%	1.70%
Puttalam	1,300,775	1,430,280	10%	2.94%

As per the above volumes for Cheque Truncation (CITS) depicts, the highest number of growth percentages are generated from the North and East during the calendar years 2014 and 2015, which is a significant achievement and clearly demonstrates that an increasing volume of population in those previously war-torn areas are engaging with banks and truly benefiting from financial inclusivity.

LankaClear is also investing heavily in further technology based solutions to facilitate cost effective means of disbursing local inter-bank payments electronically via payment cards with a view of reaching a majority of the current “unbanked population”. The initiative that commenced during the current year by implementing the Common POS Switch (CPS) coupled with a National Card Scheme that the Company intends to roll out during the next financial year, is anticipated to move the population to increasingly adopt card payments. Such initiatives will truly contribute towards financial inclusion, which the Company has propagated through deploying advanced technology.

Capitals Management ■ Natural Capital

Environmental Responsibility

LankaClear's business activities revolving around facilitating electronic payments do not lead to a significant negative environmental impacts like the traditional businesses do. On the contrary, the Company's business activity of moving the general public into a cashless society, or moving away from a paper based economy, could be viewed as largely environmentally beneficial primarily in contributing significantly towards reducing paper consumption, which leads to reduction of cutting down trees. In addition, reducing time and energy wastage by people having to travel to across the Country to reach their own bank also leads to reduction in environmental pollution. Therefore, while the Company's direct negative environmental impacts are minimum, its indirect positive environmental impacts are much more significant and will also improve with time, as an increasing number of Sri Lankans is expected to move towards a paperless future powered by LankaPay.

Minimising Environmental Impacts

As a responsible corporate entity and as the operator of the National Payment Network, LankaClear is conscious of its environmental responsibility and has also introduced many internal processes to identify and minimise potential direct negative environmental impacts. As identified by the Company, any sizeable long term negative impact 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 in 2015/16	Method of Disposal
Toners (units)	19	Empty toners were returned to the supplier
CD's (units)	17,500	Crushed and sent for recycling
Batteries (units) (Hazardous)	96	Sealed LED UPS batteries were returned to the Authorised local agent
Paper (Kgs)	68 approximately	Shredded and sent for recycling
Landfill	0	We are happy to report 0 landfill from LankaClear business operations

Conserving Electricity

High energy consumption in the form of electricity usage is one of the main environmental impacts of LankaClear's business activities where the Company has taken a numerous steps to address through many mechanisms out of which four have been explained below.

1. Lighting of most of the common areas have been replaced with LED lamps.
2. Segregating the electricity consumption in to sub circuits and monitor and control them through internally installed KWH meters to economise electricity consumption.
3. Installed 03 No's of energy efficient Precision Air conditioning units with intelligent controls at the DR Data Centre to minimise the AC related energy consumption to greater extend.
4. Daily monitoring of electricity consumption location wise to see variations with the view of addressing deviations in consumption. Also continually finding innovative ways to conserve energy.

Green DR Building

In line with LankaClear's objective of driving a green initiative that leads to a minimum environmental impact in carrying out its business activities, the Company's new Disaster Recovery (DR) site has been constructed on an eco-friendly manner. The DR Site that went in to operation during the current financial year has least disruptive use of land, water, energy and resources in the following manner.

1. The building has been designed to make best use of natural light to conserve electricity.
2. Waste is segregated in to organic and inorganic waste and handed over to the municipality as a responsible corporate entity to support waste disposal in an environmentally friendly manner in the DR site.

Governance Corporate Governance

Corporate Governance is a system of mechanisms, processes and relations by which organisations are directed and controlled in the proper manner. Corporate Governance structure specifies the distribution of rights and responsibilities among different participants within the organisation, such as, the shareholders, the Board of Directors, senior management, auditors, etc., and spells out the rules, norms and procedures for decision making. This provides a structure/ framework in which the organisation's objectives and targets are set. Governance Framework brings transparency, accountability and responsibility not merely to satisfy regulatory requirements but also to show the openness of LankaClear to all our stakeholders and to the general public.

Globally Corporate Governance generic principles include:

- ▣ Importance of effective Corporate Governance Framework.
- ▣ Overall responsibility of managing and ensuring the availability of policies and procedures which stipulate accountability, roles, responsibilities and obligations.
- ▣ Ensure that the Organisation has adequate level of risk management process.
- ▣ Ensure periodic effective financial, operational and IT/ IS audit are performed and findings are closely monitored through risk management.

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. LankaClear acknowledges the importance of maintaining high standards of governance within the organisation and among all stakeholders.

As the National Payment Network, 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. This high level of voluntary disclosure is considered an element of good governance by the Board and the Management of LankaClear, as a responsible corporate citizen and furthermore as the National Payment Network.

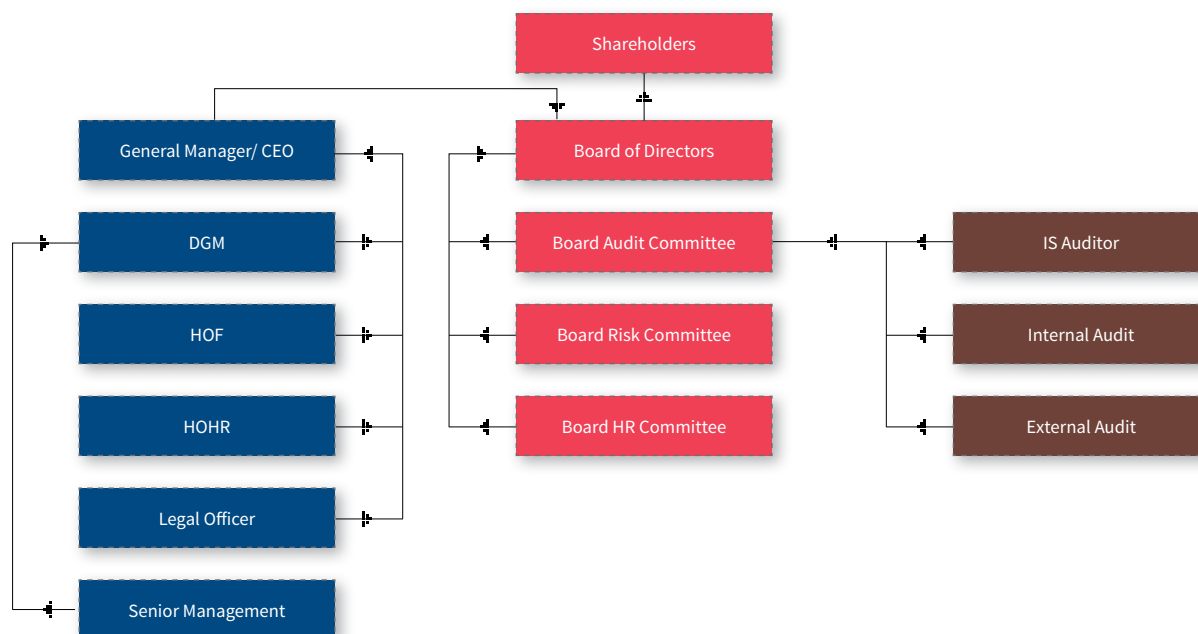
Corporate Governance Framework

At LankaClear, shareholder's primary role in governance is to appoint a Board of Directors. Board of Directors are the primary group of individuals who are responsible for the implementation and management of governance within the organisation. The responsibilities of the Board of Directors expands towards setting up the organisation's strategic targets, providing leadership on executing strategic targets, supervising the senior management of the business and shareholder expectations and finally reporting to shareholders on the stewardship.

LankaClear operates within an integrated governance framework, which was defined taking into consideration the regulations and circulars issued by the Central Bank of Sri Lanka, and other international frameworks as presented in the diagram.



Governance Structure



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.

Governance Corporate Governance

Board Sub Committees

The Board Audit Committee

The Board Audit Committee comprises 3 Directors.

The Audit Committee met on 4 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 and governance.

The Board HR Committee

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.

Board Integrated Risk Management Committee

The Risk Committee met on one occasion during the current financial year. However, business risk, operational risk and financial risk are the risks that LankaClear have to take cognisance of, when considering risk management. Action taken in managing these risks are highlighted in detail the Risk Management section of this Annual Report.

Board and Board Sub Committee Meetings

The Board held 12 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.

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

*Held – Meetings held during the term of office

Name	Board Meetings			Board HR Committee			Board Audit Committee		
	Held*	Present	%	Held*	Present	%	Held*	Present	%
Mrs. P Liyanage, Chairperson	2	2	100	01	01	100			
Mr. A S Amarasuriya, Chairman	10	10	100	07	07	100			
Mrs. J P Mampitiya, Director	12	12	100	08	08	100			
Mrs. R A S M Dayarathna, Director	12	12	100				04	04	100
Mr. D M Gunasekara or his Alternate Director Mr. W P R H Fonseka	12	8	67				04	04	100
Mr. M A B Silva, Director	12	8	67						
Mr. J Durairatnam, Director	5	5	100						
Mr. P L D N Seneviratne, Director	7	6	85.7						
Mr. K P Ariyaratne, Director	12	9	75						
Mr. P K Dang, Director	12	11	91.7						
Mr. M U de Silva, Observer (SLBA)	12	10	83.3	08	08	100	04	04	100

Role of the Chairman and CEO

Due to the nature of roles and responsibilities, the positions of Chairman and CEO are held by different persons in order to ensure controlled authority and to maintain good governance.

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 with Statutory and Regulatory Requirements

LankaClear operations are governed by a number of statutes. As at March 31, 2016, 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, it 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, internal and external IT audits were carried out during the year under review and the report by auditors has been submitted to the Board Audit Committee for their evaluation.

Governance Enterprise Risk Management

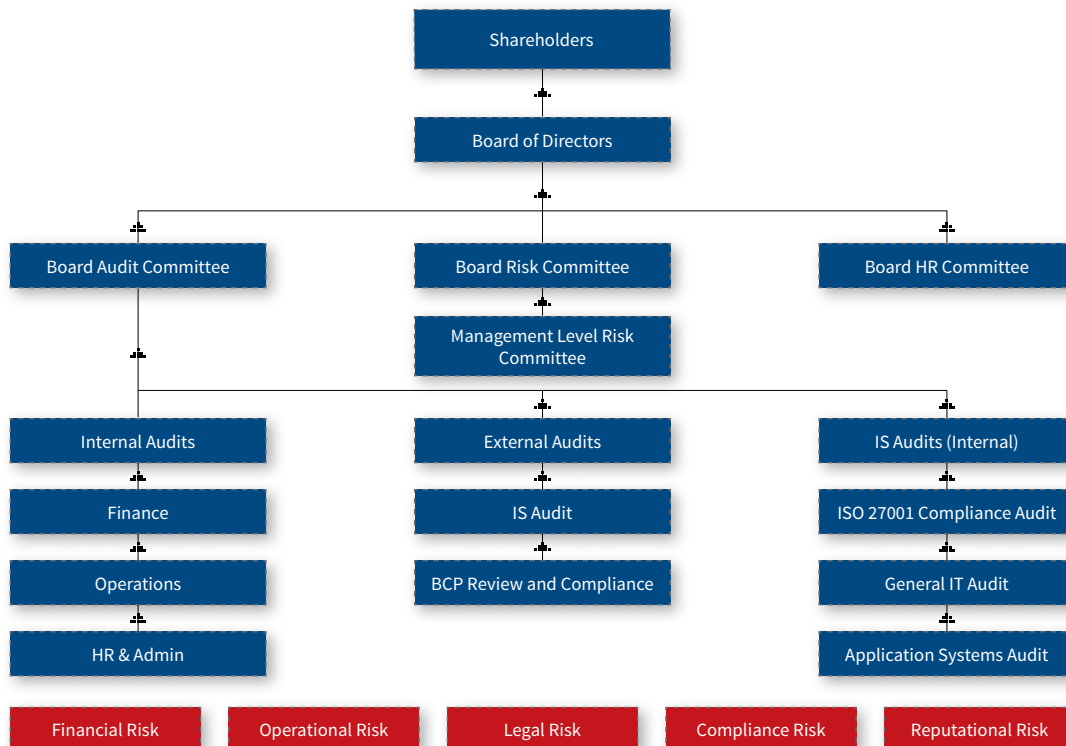
As The National Payment Network facilitating numerous payment and settlement transactions on behalf of the Central Bank of Sri Lanka and all commercial Banks, it is critical that LankaClear has a robust and effective Risk Management Process in which material risks are proactively identified, analysed, communicated, managed across the organisation and across all functions.

LankaClear recognises Enterprise Risk Management as an integral part of sound management practice and good corporate governance as it improves decision making and it ensures smooth functioning of the business operations and enhanced accountability while also ensuring business continuity and resilience towards greater profits. Management is committed to 'Best Practices' in Enterprise Risk Management 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' and 'Enterprise Risk Management Policy' and Terms of Reference for the Risk Committee. As per the Enterprise Risk Management Policy Statement, the 'Management Level Risk Committee' is responsible and accountable for overall risk management of the organisation represented by General Manager/ Chief Executive Officer, DGM IT & Operations, Head of Finance, Head of HR and Administration, Chief Manager – IT, Chief Manager – Payment Systems, Chief Manager – Operations and Chief Manager – Bank Services. With the involvement of the management, risk management activities were taking place throughout the year. The Board has recruited an Information Systems Auditor to strengthen IT risk aspects of the organisation and to have assurance on timely identification, analysis and monitoring of IT risks and vulnerabilities. Following diagram depicts the Risk Management Framework in keeping with good governance.

How We Oversee Risk



Risk Management Process

Under the supervision of Board Risk Committee, the LankaClear Enterprise Risk Management process was defined and developed along with Risk Managements Framework and Strategies.

Risk with respect to the LankaClear's products have been identified and classified under five broad Risk Categories as Operational Risk, Financial Risk, Legal Risk, Compliance Risk and Reputational Risk which are controlled and managed through the Risk Management Process of LankaClear.



Risk Categorisation

FINANCIAL RISK	OPERATIONAL RISK	REPUTATIONAL RISK	LEGAL RISK	COMPLIANCE RISK
<ul style="list-style-type: none"> Credit Risk Interest Risk Gearing Risk Liquidity Risk Foreign Exchange Rate Risk Placement Risk 	<ul style="list-style-type: none"> Strategic Risk Project Risk Competitive Risk Information Technology and Security Risk Process Risk Economic Risk Employee Risk 	<ul style="list-style-type: none"> Brand Value Risk Reputational Risk 	<ul style="list-style-type: none"> Legal Risk 	<ul style="list-style-type: none"> Regulatory Compliance

Governance & Enterprise Risk Management

Risk Matrix

Likelihood of occurrence is assessed on the basis of past experience. Outcomes of the corporate wide Business Impact Analysis was also considered on identifying and defining the 'Likelihood of Occurrence'. The Impact of the event is assessed by determining the loss or unavailability that could cause and the severity of the impact.

Risk is measured based on the values of 'Likelihood of Occurrence' and by the 'Impact'.

LankaClear's Risk Categorisation and Risk Management Strategies

Among various types of risks that LankaClear is exposed to, and based on our current state of affairs, the following types of risks are specifically identified due to the severity of the implications/ impact such risks could pose on the organisation.

		Type	Business Impact Classification				
			Insignificant - 1	Minor - 2	Moderate - 3	Major - 4	Severe - 5
Frequency			5	10	15	20	25
Has occurred 9-10 times in last 10 years in the organisation	5	Almost certain	25	50	75	100	125
Has occurred 7-9 times in last 10 years in the organisation or it is likely to occur in next couple of years	4	Likely	20	40	60	80	100
Has occurred 3-7 times in last 10 years in the organisation or it is considered to have reasonable likelihood of occurrence in next couple of years	3	Possible	15	30	45	60	75
Has occurred 2 or 3 times in last 10 years in the organisation	2	Unlikely	10	20	30	40	50
Has occurred or reasonably be considered to occur only a few times in 100 years	1	Rare	5	10	15	20	25

Operational Risk	
Strategic Risk	Low
Failure to implement strategic plans and address market needs of payment systems on time.	
Impact/ Implication	Risk Management Strategy
Loss of credibility in the market and impact on the efficiency levels of national payment systems.	<ul style="list-style-type: none"> 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. 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. Aligning strategies with the road map of the National Payments Council (NPC) convened by the Central Bank.
Possible reduction in revenues from existing payment systems due to shifts towards more technologically advanced competitor systems.	<ul style="list-style-type: none"> Continuously keeping abreast of technological developments in the payments industry globally. Continuous monitoring of the customer demand for efficient payments systems in the local market. 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.

Continuous Increase in operational costs due to increase in prices relating to maintenance of technology, systems and equipment.	<ul style="list-style-type: none"> ▪ LankaClear management has been conscious of rising costs and conscientious and stringent steps have been taken in managing cost under various cost management programmes. ▪ Procedures are in place to reduce sourcing costs through structured and extensive negotiations by procurement committees and formal procurement processes by the Procurement Division. ▪ The IT Division significantly emphasises on green technology in technology upgrades and new procurements to reduce the impact on the environment and on operational costs respectively.
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Operational Risk	
Project Risk	Moderate
Risks associated with system security, reliability and availability of the system.	
Impact/ Implication	Risk Management Strategy
Loss of confidence and reputation of all systems leading to negative impact on revenue.	<ul style="list-style-type: none"> ▪ A layered design had been adopted to segregate functions to reduce risks. ▪ All systems are designed to be PA – DSS certified and PCI – DSS and ISO 27001:2013 aligned. ▪ IT security and procedure documents are continuously reviewed and enhanced ▪ Security risk analysis and proactive intelligence gathering is carried out on a periodic basis. ▪ Process and technological improvements to achieve 99.97% system uptime. ▪ Establishment of a new and improved DR site to ensure high availability.

Operational Risk	
Economic Risk	Moderate
Business impacts due to risks relating to the Political-Economic climate.	
Impact/ Implication	Risk Management Strategy
Impact on revenues and profitability due to lower growth rates, cost increases due to inflationary effects and exchange rate fluctuations.	<ul style="list-style-type: none"> ▪ Regular reviews undertaken on the socio-economic climate impact on the payment industry of the country and making necessary alignments. ▪ Facilitating the government objectives by introducing new payment systems and improving existing systems to create higher efficiency thereby contributing to financial inclusivity.

Governance Enterprise Risk Management

Operational Risk	
Business Continuity Risk	Moderate
Risks from natural or man-made disasters.	
Impact/ Implication	Risk Management Strategy
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"> Financial losses due to loss of physical assets are covered by the Company's comprehensive insurance arrangements with leading insurance companies. 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.

Operational Risk	
Competitive Risk	Low
Risks from competitive actions from existing market participants and new entrants.	
Impact/ Implication	Risk Management Strategy
Reduced volumes of transactions through existing payment systems and reduced viability of new payment systems.	<ul style="list-style-type: none"> 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. 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. The strategy of offering world-class services at the lowest possible cost to the customer and the primary objective of sustainable growth against high profits has mitigated the competitive pressure.

Operational Risk	
Process Risk	Low
Inadequate, or break down of, Internal controls, processes and procedures.	
Impact/ Implication	Risk Management Strategy
Loss of reputation, business integrity and stakeholder trust, financial losses, and negative effects on National Payment Systems.	<ul style="list-style-type: none"> ▪ LankaClear has formalised adherence to Operational Manuals for all Clearing Systems, Desk Instruction Manuals and Dual-Control mechanisms. We ensure that participating Banks and our staff strictly adhere to these processes and guidelines by means of Interdepartmental Peer Audits, Corporate Internal and IT Audits, continuous Process improvements and training. ▪ Continuous improvements to these Operational Manuals and Desk Instruction Manuals. ▪ Central Bank's monitoring of activities through the involvement of two Directors of the Company appointed by Central Bank. ▪ While CCAPS is PCI-DSS aligned, we are working towards to obtain PCI-DSS certification for CCAPS, which is the National Payment Switch that processes the retail electronic payments and has obtained ISO 27001 certification for CA. ▪ Annual review of Business continuity Plan (BCP) and conduct of two operations switch-overs between Primary and Disaster recovery (DR) sites annually which enables LankaClear to ascertain adequacy and accuracy of BCP procedures in place. ▪ Further, there is a formalised IT Auditing plan, where penetration & vulnerability assessments, general IT audits, BIA (Business Impact Analysis) and RA (Risk Assessment) audits are conducted at least on an annual basis.

Operational Risk	
Process Risk	Low
Inadequate, or break down of, Internal controls, processes and procedures.	
Impact/ Implication	Risk Management Strategy
Loss of reputation, business integrity and stakeholder trust, financial losses, and negative effects on National Payment Systems.	<ul style="list-style-type: none"> ▪ LankaClear has formalised adherence to Operational Manuals for all Clearing Systems, Desk Instruction Manuals and Dual-Control mechanisms. We ensure that participating Banks and our staff strictly adhere to these processes and guidelines by means of Interdepartmental Peer Audits, Corporate Internal and IT Audits, continuous Process improvements and training. ▪ Continuous improvements to these Operational Manuals and Desk Instruction Manuals. ▪ Central Bank's monitoring of activities through the involvement of two Directors of the Company appointed by Central Bank. ▪ While CCAPS is PCI-DSS aligned, we are working towards to obtain PCI-DSS certification for CCAPS, which is the National Payment Switch that processes the retail electronic payments and has obtained ISO 27001 certification for CA. ▪ Annual review of Business continuity Plan (BCP) and conduct of two operations switch-overs between Primary and Disaster recovery (DR) sites annually which enables LankaClear to ascertain adequacy and accuracy of BCP procedures in place. ▪ Further, there is a formalised IT Auditing plan, where penetration & vulnerability assessments, general IT audits, BIA (Business Impact Analysis) and RA (Risk Assessment) audits are conducted at least on an annual basis.

Governance Enterprise Risk Management

Operational Risk	
Information Technology and Security Risk	
Information Technology and Security.	
Low	
Impact/ Implication	Risk Management Strategy
Loss of key confidential information resulting in damage to reputation and possibility of being subject to litigation.	<ul style="list-style-type: none"> ▪ 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. ▪ A memorandum of preserving confidentiality of Information at LankaClear was signed by all employees committing them to securing of confidentiality of Company information. ▪ IT systems related to Payment and Clearing systems are replicated at DR Site and clustered at Head Office for maintaining zero data loss. ▪ Entering into maintenance Service Level Agreements for maintaining in IT related infrastructure areas to ensure service continuity.

Operational Risk	
Process Risk	
Inability to operate from the Primary Data Centre due to natural disaster or technical failure or unanticipated/unforeseen occurrence/development.	
Low	
Impact/ Implication	Risk Management Strategy
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"> ▪ 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. ▪ 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. ▪ Controlled and managed ICT environment maintained by adhering to formalised Change Management processes oversighted by a Change Advisory Board (CAB). ▪ LankaClear has a formalised 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.

Operational Risk	
Employee Risk	Low
Risk of inability to attract the right staff, develop existing staff and retain skilled and experienced staff.	
Impact/ Implication	Risk Management Strategy
Reduced productivity. Reduced quality of service.	<ul style="list-style-type: none"> In order to minimise people related risks, the Company has set corporate objectives to ensure the staff satisfaction and thereby to enhance the retention of staff. The well-defined HR policies, practices and procedures - spanning from hiring, familiarisation, Training & development, Performance Review, Personal Improvement Plans, compensation and benefits, employee engagement to general conduct and a grievance resolution mechanisms to ensure a strong and satisfied workforce. This would ensure that our employees possess the right skills and are given correct guidance to minimise and avoid operational risks associated with the National Clearing Systems. Human Resource processes currently in place facilitate the recruitment of the right staff, manage performance & rewards, plan and implement training & development, employee engagement and handle succession planning & career progression of employees. One of the major cause for high risk is the implementation of initiatives without having a touch and feel of the market conditions. LCPL HR Initiatives involve strong market survey initiatives such as staff satisfaction surveys, salary surveys, networking with the industry which has helped timely adoption of change. The Board HR Committee which comprises of the three Board Members provides the strategic direction to the HR Function of the organisation while ensuring compliance, growth and staff development.

Governance Enterprise Risk Management

Legal Risk	
Legal Risk	Low
Risk of legal action due to non-performance of legal and statutory requirements and poorly drafted legal agreements.	
Impact/ Implication	Risk Management Strategy
<p>Inability to enforce terms against vendors, contractors, service providers etc., due to their obligations, the Company's rights, and other protective provisions benefitting the Company, indemnities for the Company, etc. not being adequately and/or accurately addressed.</p> <p>Higher default rate by parties to contracts with the Company.</p> <p>Inability to impose or enforce penalties against parties to contracts with the Company in events of default.</p> <p>High cost of legal and penalty fees resulting in reduction in profits.</p> <p>Adverse impact to the organisation's credibility, reputation and brand image.</p>	<ul style="list-style-type: none"> • A comprehensive internal control system is in place supplemented by regular audit from the corporate internal audit. • The Company has a dedicated Manager specialised 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. • Ensuring of all statutory and legal obligations are met in all transactions. • Obtaining expert external consultancy services in fulfilling legal obligations where necessary.

Financial Risk	
Credit Risk	Low
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.	
Impact/ Implication	Risk Management Strategy
<p>Loss of principal amount invested</p> <p>Loss of interest/return on investment.</p>	<ul style="list-style-type: none"> • Cash surpluses are invested with commercial banks and subsidiaries of banks identifying the most profitable investment opportunities. • 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. • Following the investment policy to regulate the investment of surplus funds until they are utilised.


Financial Risk	
Gearing Risk	
Risks from high financial gearing.	
Low	
Impact/ Implication	Risk Management Strategy
The possibility of excessive losses is greatly enhanced in highly geared positions.	<ul style="list-style-type: none"> The Company is debt free and has generated cash surpluses enabling the funding of all its proposed investments from internally generated funds.


Financial Risk	
Interest Rate Risk	
Risk of fluctuating interest rates.	
Low	
Impact/ Implication	Risk Management Strategy
The possibility of lower returns on investments due to interest rates' downward movements.	<ul style="list-style-type: none"> In mitigating such risks the interest rate movements are closely monitored and the investment tenure is decided accordingly. 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.



Financial Risk	
Liquidity Risk	
Risk of not having sufficient resources to meet financial obligations in full, at a reasonable cost.	
Low	
Impact/ Implication	Risk Management Strategy
Penalty charges and unfavorable terms when prematurely uplifting the investments .	<ul style="list-style-type: none"> Regular cash flow forecasts, monitoring of disbursements and collections are used as tools by LankaClear to mitigate the liquidity risk The Company keeps an adequate amount of resources in short term financial instruments to purchase consumables and pay short term liabilities. 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.

Financial Risk	
Foreign Exchange Rate Risk	
Risk from fluctuating foreign exchange rates.	
Low	
Impact/ Implication	Risk Management Strategy
The possibility of incurring higher costs related to foreign currency payments.	<ul style="list-style-type: none"> 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

Governance Enterprise Risk Management

Financial Risk	
Placement Risk	Low
Risk of placing funds in projects which do not give adequate returns.	
Impact/ Implication	Risk Management Strategy
Affects profitability of the Company.	 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.

Reputational Risk	
Reputational Risk	Moderate
Risks arising from the use of Social Media Marketing.	
Impact/ Implication	Risk Management Strategy
Use of Social media marketing could impact on the organisation if social media posts are used in an inappropriate or abusive manner by the staff.	 Development of a culture where we encourage a positive culture regarding compliance with laws and regulations. Strong corporate values, supported by the performance incentives.

Reputational Risk	
Reputational Risk	Moderate
Failure to manager public relationships.	
Impact/ Implication	Risk Management Strategy
Negative effects of public opinion, customer opinion and market reputation, and the damage caused to the brand by failing to manage public relations.	 Continuous awareness amongst employees, customers and general public.  Strong controlled environment with policies procedures and compliance.

Governance The Board Audit Committee Report

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) Reviews the financial information of the Company in order to ensure the integrity of the financial statements, its annual report, accounts etc.
- b) Evaluates the adequacy and effectiveness of internal controls.

Compliance

- a) Reviews the effectiveness of the systems and procedures adopted by the Company and monitors compliance with applicable laws and regulations of the country and the results of investigations carried out by the management.
- b) Reviews the findings of any examination by regulatory agencies and/or any auditor on compliance with such laws and regulations.
- c) Follows-up of any instances of non-compliance.

External Audit

- a) Reviews the External Auditor's audit scope and plan, its audit quality control/assurance processes.
- b) Coordination with Internal Audit.
- c) Reviews the performance of External Auditors and makes recommendations to the Board of Directors on their appointment, reappointment, discharge or rotation if necessary.
- d) Reviews 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, meets separately with the External Auditors to discuss any matters that the Committee or Auditors believe should be discussed privately.

Internal Audit

- a) Reviews with Management and the Internal Auditor, the audit charter, audit plans, activities, audit scope, reporting requirements, etc. of the internal audit function of the Company and approves same.
- b) Reviews findings and recommendations by the Internal Auditors, together with comments made by Management
- c) Assesses the effectiveness of such findings and responses.

External IT Audit

Reviews the findings of IT Audits carried out by external parties & monitors the implementation of the recommendations to manage the risks highlighted in their reports.




Internal IT Audit

Internal IT Audit is carried out by the Information Systems Auditor of LCPL. LankaClear Board Audit Committee is overseeing the tasks assigned to Information Systems Auditor. Internal IT Audit Charter and IT Audit Plan are reviewed by the Board Audit Committee.

The Board Audit Committee reviews the findings of the 'General IT Controls Review' and 'Business Continuity Plan' and monitors the implementation of the risk remediation actions recommended by the Information Systems Auditor in order to mitigate/ remedy the prevailing risks and vulnerabilities.

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, Chief Financial Officer / 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.

Governance The Board Audit Committee Report

The quorum to the Committee is three members.

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

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

Meetings

The Committee held 4 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 Carried out During the Year

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 (Chartered Accountants).

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 (Chartered Accountants).

IT Audit

Board Audit Committee reviewed the implementation of IT Audit Report recommendations submitted by PricewaterhouseCoopers as well as management response and their action plan to mitigate the observed risks through obtaining regular feedback.

Reappointment of Auditors

The Audit Committee recommended the reappointment of M/S Ernst & Young, (Chartered Accountants) as the External Auditors for the year ending 31st March 2017 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 which provide a reasonable assurance that the affairs of the organisation are managed in accordance with policies of the organisation and that the organisation's assets are properly accounted for and adequately safeguarded.



W.P. Russel Fonseka

Chairman

Board Audit Committee

17th May 2016
Colombo, Sri Lanka





Governance The Board HR Committee Report

The Board HR Committee of LCPL was established under the direction of the Board to provide strategic direction to the Human Resource Function of the organisation. The Terms of Reference for the proper functionality of the Board HR Committee was spelled out by the Board.

The Board HR Committee during the year under review consisted of three Board Members namely Ms. J P Mampitiya, Mr. M U De Silva and the undersigned.

However, during the first 2 months of the year, the Board HR Committee was chaired by the former Chairperson Mrs. Priyantha Liyanage. The Board HR Committee has held 8 meetings during the period under review.

The mandate of the Board HR Committee includes the following while providing strategic leadership and direction to the organisation.

-  Changes to the Organisational 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

During the year the Board HR Committee reviewed and recommended to the Board salary revisions and changes to the organisational structure. The Board HR Committee also helped the organisation to improve the HR risk mitigation initiatives and succession planning process.

As the current Chairman of the Board HR Committee I'm pleased to place on record the valuable inputs shared by the members of the Board HR Committee that helped the decision making process of the HR management function while improving profitability and employee satisfaction of the organisation.

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 duties as members of the HR Committee. We also wish to thank Ms. Priyantha Liyanage, the past Chairperson for her contribution during her tenure of office as the Chairperson of the Board HR Committee.

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



Anil Amarasuriya

Chairman – Board HR Committee

17th May 2016
Colombo, Sri Lanka

Governance The Board Integrated Risk Management Committee Report

Composition

The Board Integrated Risk Management Committee (BIRMC) comprises three members who are Non-Executive Directors.

Mr. P. K. Dangi, Chairman (Chief Executive Officer, Indian Bank) - Chairman

Mr. M. A. B. Silva (Deputy General Manager – Operations, Peoples Bank) - Committee member

Mr. K. P. Ariyaratna (General Manager/ CEO, Seylan Bank) - Committee member

Permanent members of the management level risk committee are as follows:

Mr. Channa de Silva	- General Manager/ CEO
Mr. Rasika Galappaththy	- Secretary of the Risk Committee, Head of Finance
Mr. Harsha Wanigatunga	- DGM IT & Operations
Mr. Lakshman Palliyaguruge	- Head of HR & Administration
Mr. Roshan Hettiarachchi	- Senior Manager Operations
Mr. Dilantha Samarasinghe	- Senior Manager IT

Terms of Reference

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

1. Review and analyse the relationship and alignment of risk management with business strategies.
2. Review, analyse the Risk Management Framework at regular intervals in order to assess and recommend on the maturity of the framework.
3. Oversee the formal development of risk management policies within the Entity, encompassing all products and business and support units and ensuring the development of policy manuals and procedures.
4. Oversee the criteria and methods defined for the identification of risks.
5. Oversee the formulation of risk treatment strategies and managing of the overall risks associated with the Entity's activities.
6. Oversee the communication of risks and treatment plans across the organisation.
7. To consider any breaches of the Entity's Risk Appetite and each of the approved Risk Type Limits and to approve a reduction plan and/or ratify the excess request.
8. Ensure that the Board of Directors is continuously aware of the Entity's risk exposure, realised or potential losses (substantial incidents) and key risk indicators.

9. Submit regular operational risk assessments to the Board, seeking its views, concurrence or specific directions.
10. To review relationships with the regulatory authorities in Sri Lanka and to review developments and prospective changes in the regulatory environment, and the Company's plans to help influence future regulatory policies
11. To review the adequacy and quality of the Company's Compliance and Risk management functions.

Meetings

For the year one meeting was held.

Attendances at the meetings are given in table on page 66 of the Annual Report.

The discussions and conclusions reached at the meeting are recorded in minutes and circulated to the Board of Directors for information and advice in accordance with corporate governance framework of LCPL.

The Risk Charter, the Terms of Reference for the Risk Committee and Risk Management Policy Statement were drafted and presented to the Board and obtained approval. Also the Management Level Risk Committee met two times chaired by GM/CEO to attend to matters of risk management within their respective divisions and across the organisation. Head of Finance functions as the secretary of the risk committee. The Management Level Risk Committee has identified and presented the risks to the risk committee along with the risk treatment strategies.

Conclusion

The members of the Integrated Risk Management Committee collectively evaluated the adequacy of the Risk Charter, Terms of Reference, maturity of the Risk Management Framework, risks identified along with the risk treatment strategies. The committee is in the view that LankaClear is on the right path towards meeting the challenges of risk management and compliance safeguarding the interest of the stakeholders.



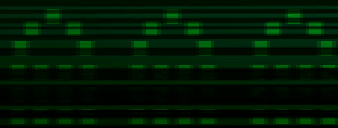
P. K. Dangi

Chairman

Board Integrated Risk Management Committee

17th May 2016
Colombo, Sri Lanka

SAFE AND CONVENIENT



AS WE COMMIT TO MAKING THE WORLD A CASHLESS ENVIRONMENT, WE CREATE A **SAFER** AND **MORE CONVENIENT** WAY FOR TRANSACTIONS TO TAKE PLACE VIA A TRUSTED PAYMENT NETWORK.

Statement of Directors' Responsibilities for Financial Statements

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

The Directors are also required to ensure that the Financial Statements have been prepared and presented in accordance with the Sri Lanka Accounting Standards for Small and Medium - sized Entities and provide the information required by the Companies Act No. 07 of 2007. They are also responsible for taking reasonable measures to safeguard the assets of the Company, and in that context to have proper regard to the establishment of appropriate systems of internal control with a view to prevention and detection of fraud and other irregularities.

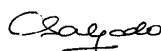
The Directors are of the view that, these Financial Statements have been prepared under the generally accepted accounting principles and in accordance with the Sri Lanka Accounting Standards for Small and Medium - sized Entities as laid down by the Institute of Chartered Accountants of Sri Lanka.

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

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

Messrs. Ernst & Young the Auditors of the Company have examined the Financial Statements made available by the Board of Directors together with all relevant financial records, related data, minutes of Shareholders and Directors meeting and express their opinion in their report on page 89 of the Annual Report.

By Order of the Board
LankaClear (Private) Limited



Managers & Secretaries (Pvt) Limited
Secretaries

17th May 2016
Colombo, Sri Lanka

Annual Report of the Board of Directors on the Affairs of the Company

The Directors of LankaClear (Pvt) Ltd have pleasure in presenting the 14th Annual Report of your Company together with the Audited Financial Statements for the year ended 31st March 2016.

General

LankaClear (Pvt) Ltd was incorporated as a private limited liability Company under the Companies Act No. 17 of 1982 on February 8, 2002 and re-registered under the Companies Act No. 7 of 2007 on September 18, 2008 under the Company Registration No. PV 7551. The registered office of the Company is at Level 18, BOC Square, No. 1, Bank of Ceylon Mawatha, Colombo 01.

Principal Activities

- ✦ Operating the national payment system for cheque clearing (CITS)
- ✦ Operating the national payment system for electronic batch mode payments (SLIPS)
- ✦ Operating the national system for US Dollar Draft payments
- ✦ Operating the national system for interbank ATM transaction switching (LankaPay – CAS)
- ✦ Operating the national payment system for real-time retail electronic payments (LankaPay – CEFTS)
- ✦ Operating the hosted ATM switch for Banks/Finance Institutions (LankaPay – SAS)
- ✦ Operating the hosted Card Management Solution for Banks/Finance Institutions (LankaPay – CMS)
- ✦ Operating the national system for USD online payments
- ✦ Operating the national Financial Sector CA (LankaSign)
- ✦ Attending to financial sector computer security incidents (FINCSIRT)

Review of the Business and Future Developments

The financial and operational performance during the year ended 31st March 2016 and future business developments of the Company are provided in the Chairman's message on pages 16 to 18, GM/CEO's review on pages 20 to 23 Management Discussion & Analysis appearing on pages 31 to 45 and Capital Management on pages 46 to 63. These reports which form an integral part of the 'Annual Report of the Board of Directors' together with the Audited Financial Statements reflect the state of affairs of the Company.

Financial Statements and Auditor's Report

The Financial Statements of the Company duly signed by the Directors and the Auditor's Report on the Financial Statements are provided on pages 89 to 108.

Corporate Governance

The Corporate Governance principles and practices of the Company are described from pages 64 to 82 of this report. The Directors confirm that the Company is in compliance with the Companies Act No. 7 of 2007.

System of Internal Control and Risk Management

The Board has implemented an effective and comprehensive system of internal controls which provide reasonable but not absolute assurance that assets are safeguarded and that the financial reporting system may be relied upon in the preparation of the Financial Statements. The Audit Committee receives and act upon reports on the results of internal control reviews carried out by independent external auditors.

The Board confirms that there is an ongoing process for identifying, evaluating and managing any significant risks faced by the Company and that financial, operational and compliance controls have been reviewed. Risk assessment and evaluation for the Company takes place as an integral part of the business and the principal risks and mitigating actions in place are reviewed regularly by the Board Risk Committee. Foreseeable risks that may materially impact business are disclosed in the Risk Management Statement on pages 68 to 78 of this Report.

Going Concern

The Board of Directors after considering the financial position, operating conditions, regulatory and other factors has made an assessment of the Company's ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future.

For this reason, they continue to adopt the Going Concern basis in preparing the Financial Statements.

Annual Report of the Board of Directors on the Affairs of the Company

Accounting Policies

Respective Responsibilities of Directors and Auditors for the Financial Statements

Details of accounting policies have been discussed in Note 1 to 4 to the Financial Statements. There have been no changes in the accounting policies adopted by the Company during the year under review.

The Directors are responsible for the preparation of the Financial Statements so that they present a true and fair view of the state of affairs of the Company. The Directors are of the view that these Financial Statements have been prepared in conformity with the requirements of the Sri Lanka Accounting Standards for Small and Medium - sized Entities and Companies Act No. 7 of 2007.

Revenue

Revenue generated by the Company amounted to Rs. 602 million (2015 - Rs. 518 million).

Results & Appropriations

The profit after tax of the Company and the profit attributable to the equity holders for the year was Rs. 174 million (2015 - Rs. 129 million). 17% of the profit after tax amounted to Rs. 30 million recommended by the Board to distribute among the Shareholders of the Company as Dividend.

Dividends

A final dividend of Rs. 2.00 per share for the Financial Year ended 31st March 2016 was recommended by the Board of Directors on 17th May 2016 resulting in a total cash payout amounting to Rs. 30 million (2015 - Rs. 27mn)

As required by Section 56 (2) of the Companies Act No. 7 of 2007, the Board of Directors confirmed that the Company satisfied the solvency test in accordance with Section 57 of the Companies Act No. 7 of 2007, and have obtained a certificate from the Auditors, prior to paying the final dividend of Rs. 2.00 per share.

Property, Plant & Equipment

The book value of Property, Plant & Equipment as at the reporting date amounted to Rs. 269 million (2015 - Rs. 225 million) for the Company.

Details of property, plant and equipment and their movements are given in Note 5 to the Financial Statements on page 99 of this report.

Stated Capital

The total stated capital of the Company as at 31st March 2016 was Rs. 158 million (2015 - Rs. 158 million). The Stated Capital of the Company comprises of 15 million Ordinary Shares fully paid up.

Reserves

Total reserves as at 31st March 2016 for the Company amounted to Rs. 1,344 million (2015 - Rs. 1,197 million). The movement of reserves during the year is disclosed in the Statement of Changes in Equity on page 92.

Contingent Liabilities & Capital Commitments

Commitments made for capital expenditure as at 31st March 2016 and the contingent Liabilities as at that date are given in Note 23 to the Financial Statements.

Events after the end of the Reporting period

There have been no events subsequent to the reporting date, which would have any material effect on the Company other than those disclosed in Note 24 to the Financial Statements.

Share Information & Shareholding

The Net Assets Value per Ordinary Share of the Company as at 31st March 2016 was Rs. 88.43 (2015 - Rs. 78.75). The number of shareholders as at 31st March 2016 was 26 (2015 - 26). An analysis of shareholders based on shares held, during the year are provided on page 13 of this report.

Directors

The Board of Directors of LankaClear (Private) Limited as at 31st March 2016 were:

Mr. A S Amarasuriya – Chairman
Mrs. J P Mampitiya
Mrs. R A S M Dayarathna
Mr. D M Gunasekara
Mr. M A B Silva
Mr. K P Ariyaratne
Mr. P K Dang
Mr. D Seneviratne

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

- Mrs. P.Liyanage (Former Chairperson) was resigned w.e.f. 31.05.2015 and Mr. Anil Amarasuriya was appointed w.e.f. 01.06.2015 in her place.
- Mr. J. Durairatnam was resigned w.e.f. 28.08.2015 and Mr. D.Seneviratne appointed w.e.f. 28.08.2015 in his place.

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 Dayarathna
3. Mr. M U De Silva

The report of the Board Audit Committee is given on pages 79 to 80 of this report.

Board HR Committee

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

1. Mr. A S Amarasuriya - Chairman
2. Mrs. J P Mampitiya
3. Mr. M U De Silva

The report of the Board HR Committee is given on page 81 of this report.

Board Risk Committee

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

1. Mr. P K Dangi - Chairman
2. Mr. K P Ariyaratne
3. Mr. M A B Silva

The report of the Board Risk Committee is given on page 82 of this report.

Interests in Contracts

The Directors have all made a general disclosures to the Board of Directors as provided for by section 192 (2) of the Companies Act

No. 07 of 2007 and no additional interests have been disclosed by any director.

Directors' Remuneration

Details of the remuneration and other benefits received by the Directors are set out in Note 22 of the Financial Statements.

Disclosure of Directors Dealing in Shares

There were no shares held by the directors as at the reporting date.

Employment

The Company practices equality of opportunity for all employees irrespective of ethnic origin, religion, political opinion, gender, marital status or physical disability. Details of the Company's Human Resource initiatives are detailed on pages 50 to 53. The number of persons employed by the Company as at 31st March 2016 was 108 (2015 - 104). There were no material issues pertaining to employees and industrial relations during the Financial Year.

Environmental Protection

The Company has not engaged in any activities which have caused detriment to the environment.

Statutory Payments

The Directors to the best of their knowledge are satisfied that all statutory payments in relation to the Government, other regulatory institutions and the employees have been either duly paid or appropriately provided for in the Financial Statements. The tax position of the Company is disclosed in Note 19 to the Financial Statements.

Donations

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

Auditors

Auditor's Remuneration and Appointment of Auditors

The Audit Committee reviews the appointment of the Auditors, their effectiveness, independence and relationship with the Company, including the level of audit. Messrs Ernst & Young, Chartered Accountants have indicated their willingness to continue as Auditors of the Company, and a resolution proposing their reappointment as auditors will be tabled at the Annual General Meeting.

Annual Report of the Board of Directors on the Affairs of the Company

Details of the Audit Fees paid to the Auditors are set out in Note 18 of the Financial Statements. Fees paid to the auditors for performing non-audit services to Messrs B. R. De Silva & Company amounting to Rs. 407,490/-. Further details on the work of the Auditor and the Audit Committee are set out in the Audit Committee Report on pages 79 to 80.

Annual Report

The Board of Directors approved the Audited Financial Statements for issue on 17th May 2016.

Notice of Meeting

The Annual General Meeting will be held at “Salon Anthurium” Galadari Hotel, 64, Lotus Road, Colombo 1 on 30th June 2016 at 11.30 a.m.

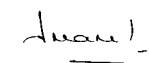
The Notice of the Annual General Meeting appears on page 109.

For and on behalf of the Board.



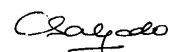
Anil Amarasuriya

Chairman



J. P. Mampitiya

Director



Managers & Secretaries (Pvt) Ltd)

Secretaries

LankaClear (Pvt) Limited

17th May 2016

Colombo, Sri Lanka

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 2016, 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 90 to 108.

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 2016, 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:

- a) The basis of opinion and scope and limitations of the audit are as stated above.
- b) 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.

17 May 2016
Colombo

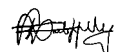
Partners: W R H Fernando FCA FCMA M P D Cooray FCA FCMA R N de Saram ACA FCMA Ms. N A De Silva FCA Ms. Y A De Silva FCA W K B S P Fernando FCA FCMA
Ms. L K H L Fonseka FCA A P A Gunasekera FCA FCMA A Herath FCA D K Hulangamuwa FCA FCMA LLB (Lond) H M A Jayasinghe FCA FCMA
Ms. A A Ludowyke FCA FCMA Ms.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

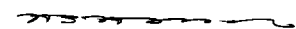
As at 31 March	Notes	2016 Rs.	2015 Rs.
Assets			
Non Current Assets			
Property, Plant and Equipment	5	268,861,958	224,735,737
Intangible Assets	6	293,036,530	235,519,188
Deferred Tax Asset	7	-	652,205
		561,898,488	460,907,130
Current Assets			
Inventories	8	1,494,021	1,468,237
Trade and Other Receivables	9	128,388,126	106,657,629
Short Term Financial Investments	10	660,032,728	645,760,214
Cash and Cash Equivalents	11	66,814,362	53,455,008
		856,729,237	807,341,088
Total Assets		1,418,627,725	1,268,248,218
Equity and Liabilities			
Capital and Reserves			
Stated Capital	12	158,250,000	158,250,000
Technology Upgrade Reserve	13	236,150,082	222,035,045
Retained Earnings		949,759,078	816,730,342
Total Equity		1,344,159,160	1,197,015,387
Non Current Liabilities			
Retirement Benefit Obligation	14	20,214,215	18,388,641
Deferred Tax Liability	7	4,105,703	-
		24,319,918	18,388,641
Current Liabilities			
Trade and Other Payables	15	50,148,647	34,738,903
Income Tax Liability		-	18,105,287
		50,148,647	52,844,190
Total Equity and Liabilities		1,418,627,725	1,268,248,218
Net Assets Value Per Share		88.43	78.75

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

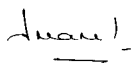


R. L. Galappaththy
Head of Finance

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



A. Amarasuriya
Chairman



J. P. Mampitiya
Director

The Accounting Policies and Notes on pages 94 to 108 form an integral part of these Financial Statements.

Statement of Comprehensive Income

Year ended 31 March	Notes	2016 Rs.	2015 Rs.
Revenue	16	601,640,965	517,867,822
Direct Operating Expenses		(339,466,057)	(270,707,442)
Gross Profit		262,174,908	247,160,380
Other Income	17	58,598,343	68,041,253
Administrative Expenses		(126,400,053)	(121,812,412)
Marketing Expenses		(9,565,539)	(10,759,080)
Profit Before Tax	18	184,807,659	182,630,141
Income Tax Expense	19	(11,063,885)	(53,145,583)
Profit for the Year		173,743,774	129,484,558
Other Comprehensive Income		-	-
Total Comprehensive Income for the Year		173,743,774	129,484,558
Earnings Per Share	20	11.43	8.52

The Accounting Policies and Notes on pages 94 to 108 form an integral part of these Financial Statements.

Statement of Changes In Equity

	Note	Stated Capital	Capital Reserves	Technology Upgrade Reserve	Retained Earnings	Total
		Rs.	Rs.	Rs.	Rs.	Rs.
Balance as at 01 April 2014		158,250,000	120,000,000	229,674,944	586,205,886	1,094,130,830
Profit for the Year		-	-	-	129,484,558	129,484,558
Other Comprehensive Income		-	-	-	-	-
Trasferred from Capital Reserve		-	(120,000,000)	-	120,000,000	-
Transferred to Technology Upgrade Reserve	13	-	-	45,657,535	(45,657,535)	-
Utilisation of Technology Upgrade Reserve	13	-	-	(53,297,434)	53,297,434	-
Dividend paid		-	-	-	(26,600,000)	(26,600,000)
Balance as at 31 March 2015		158,250,000	-	222,035,045	816,730,342	1,197,015,387
Profit for the Year		-	-	-	173,743,774	173,743,774
Other Comprehensive Income		-	-	-	-	-
Transferred to Technology Upgrade Reserve	13	-	-	46,201,915	(46,201,915)	-
Utilisation of Technology Upgrade Reserve	13	-	-	(32,086,878)	32,086,878	-
Dividend paid		-	-	-	(26,600,000)	(26,600,000)
Balance as at 31 March 2016		158,250,000	-	236,150,082	949,759,078	1,344,159,160

The Accounting Policies and Notes on pages 94 to 108 form an integral part of these Financial Statements.

Statement of Cash Flows

Year ended 31 March	Notes	2016 Rs.	2015 Rs.
Cash flows from operating activities			
Profit Before Tax		184,807,659	182,630,141
Adjustments for			
Depreciation	5.2	41,859,684	36,842,179
Amortisation	6.2	27,520,457	17,678,148
Finance Income		(52,715,603)	(67,841,198)
Gratuity Charge for the Year	14	4,835,895	1,133,068
Provision for Bank Claims		-	1,906,208
Profit on Disposal of Property, Plant & Equipment	17	(4,226,633)	(152,023)
Operating Profit before Working Capital Changes		202,081,458	172,196,522
(Increase)/Decrease in Inventories		(25,784)	1,059,279
Increase in Trade and Other Receivables		(18,954,462)	(20,986,237)
Increase in Trade and Other Payables		11,409,743	6,077,991
Cash Generated from Operations		194,510,955	158,347,556
Income Tax Paid		(27,187,299)	(51,785,341)
Gratuity Paid	14	(3,010,321)	-
Net Cash From Operating Activities		164,313,335	106,562,215
Cash flows from Investing Activities			
Acquisition of Property, Plant & Equipment		(70,371,442)	(86,324,394)
Acquisition of Intangible Assets		(22,718,842)	(33,195,112)
Investment in Common Card and Payment Switch		(74,053,100)	(102,050,625)
Proceeds from Disposal of Property, Plant & Equipment		4,346,314	458,500
Investment in Short Term Financial Investments		(14,467,289)	54,066,346
Finance Income Received		52,910,378	94,376,776
Net Cash Used in Investing Activities		(124,353,981)	(72,668,508)
Cash flows from Financing Activities			
Dividend Paid	21	(26,600,000)	(26,600,000)
Net Cash Used in Financing Activities		(26,600,000)	(26,600,000)
Net Increase in Cash and Cash Equivalents		13,359,354	7,293,707
Cash and Cash Equivalents at the beginning of the year		53,455,008	46,161,301
Cash and Cash Equivalents at the end of the year	11	66,814,362	53,455,008

The Accounting Policies and Notes on pages 94 to 108 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, facilitating real-time interbank Electronic Fund Transfers (EFT) through Common EFT switch and provide digital certification services (LankaSign) to the financial sector.

1.3 Financial Period and Date of Authorisation for Issue

The Statement of Financial Position, Statements of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows, together with accounting policies and notes, (“Financial Statements”) of the Company, for the year ended 31 March 2016, covering the period from 01 April 2015 to 31 March 2016 was authorised for issue by the Board of Directors on 17 May 2016.

2. Basis Of Preparation

These financial statements have been prepared in accordance with the Sri Lanka Accounting Standard for Small and Medium-sized Entities (SLFRS for SME’s) 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. These Financial Statements are presented in Sri Lankan Rupees (Rs.) and all financial information presented in Sri Lankan Rupees has been rounded to the nearest rupee

2.1 Statement of Compliance

The Financial Statements have been prepared in compliance with Sri Lanka Accounting Standard for Small and Medium-sized Entities (SLFRS for SME’s) issued by the Institute of Chartered Accountants of Sri Lanka and the requirements of the Companies Act No.7 of 2007.

2.2 Comparative Information

The accounting policies have been consistently applied by the Company with those of the previous financial year in accordance with Sri Lanka Accounting Standard for Small and Medium-sized Entities (SLFRS for SME’s) issued by the Institute of Chartered Accountants of Sri Lanka.

3. Significant Accounting Judgments, Estimates and Assumptions

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 recognised 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 - Lives of Property, 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.

Useful -Lives of Intangible Assets

The Company reviews the residual values, useful lives and methods of amortisation of assets as at each reporting date. Judgment by the management is exercised in the estimation of these values, rates, methods and hence they are subject to uncertainty.

Going Concern

The board has made an assessment of the Company's ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, the Board is not aware of any material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern and they do not intend either to liquidate or to cease operations of the Company. Therefore, the financial statements continue to be prepared on the going concern basis.

4. Summary of Significant Accounting Policies

4.1 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.

4.2 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
Building	30 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 capitalisation. 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.

4.3 Borrowing Costs

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

4.4 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 recognised 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 recognised for the asset (group of related assets) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

4.5 Intangible Assets

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

Notes to the Financial Statements

Computer Software

Purchased computer software is stated at cost less accumulated amortisation and any accumulated impairment losses. It is amortised 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 amortisation rate, useful life or residual value of an intangible asset, the amortisation is revised prospectively to reflect the new expectations.

4.6 Inventories

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

The cost incurred in bringing inventories to its present location and condition, are accounted for as follows; Consumables & Stationery - On a weighted average basis

4.7 Trade and Other Receivables

Most sales are made on the basis of normal credit terms, and the receivables do not bear interest. Where credit is extended beyond normal credit terms, receivables are measured at amortised cost using the effective interest method. At the end of each reporting period, the carrying amounts of trade and other receivables are reviewed to determine whether there is any objective evidence that the amounts are not recoverable. If so, an impairment loss is recognised immediately in profit or loss.

4.8 Trade and Other Payables

Trade and other payables are obligations on the basis of normal credit terms and do not bear interest.

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

At the end of each reporting period, the carrying amounts of trade and other receivables are reviewed to determine whether there is any objective evidence that the amounts are not recoverable. If so, an impairment loss is recognised 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 recognised at fair value. After initial measurement, such financial assets are subsequently measured at amortised 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 collateralised 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 recognised at the transaction price (including transaction costs). Trade payables are obligations on the basis of normal credit terms and do not bear interest.

4.10 Provisions

Provisions are recognised 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 recognised as an interest expense.

4.11 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 statement of financial position, 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 recognised 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.

4.12 Revenue Recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue and associated costs incurred or to be incurred can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable, net of discounts and sales-related taxes collected on behalf of the government of Sri Lanka. Revenue from product lines is recognised on per transaction basis, except for certificate authority and FINCSIRT (Financial Sector Computer Security Incident Response Team) products which are recognised on annual basis.

Interest Income

Revenue is recognised on a time proportion basis that takes in to accounts the effective interest rate on asset.

Rental Income

Rental income is recognised on an accrual basis.

4.13 Expenditure Recognition

Expenditure is recognised in the Income Statement on the basis of a direct association between the cost incurred and the earnings of specific items of income. All expenditure incurred in the running of the business and in maintaining the Property, Plant and equipment in state of efficiency has been charged to income in arriving at the profit for the period.

For the presentation of the Income Statement, the Directors are of the opinion that the nature of expense method presents fairly the element of the Company's performance, and hence such presentation method is adopted.

4.14 Income Tax

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

Company is taxed under Inland Revenue Act No. 10 of 2006 and amendments thereto. 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.

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

4.15 Deferred Taxation

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Notes to the Financial Statements

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefits will be realised.

Deferred tax assets and liabilities are not discounted.

The net increase in the carrying amount of deferred tax liability net of deferred tax asset is recognised as deferred tax asset is recognised as deferred tax expense and conversely any net decrease is recognised as reversal to deferred tax expense, in the income statement.

4.16 Earnings Per Share

The Company presents Basic 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.

4.17 Statement of Cash Flows

The statement of cash flows has been prepared using the “indirect method” Cash and cash equivalents are short-term, highly liquid investments held to meet short-term cash commitments rather than for investment or other purposes. Therefore, an investment normally qualifies as a cash equivalent only when it has a short maturity of, say, three months or less from the date of acquisition.

5. Property, Plant and Equipment

	Balance as at 01.04.2015 Rs.	Additions Rs.	Disposals/ Transfers Rs.	Balance as at 31.03.2016 Rs.
5.1 At Cost				
Computer Equipment	443,869,367	28,937,704	42,169,893	430,637,178
Furniture and Fittings	20,373,937	3,670,306	3,513,373	20,530,870
Electronic Equipment	28,504,791	12,196,036	9,221,924	31,478,904
Other Equipment	4,007,407	10,466,286	-	14,473,693
Motor Vehicle	6,650,000	6,695,000	6,650,000	6,695,000
Freehold Land	21,238,620	-	-	21,238,620
Freehold Building	-	68,940,628	-	68,940,628
	524,644,122	130,905,960	61,555,190	593,994,893
Capital Work in Progress				
Freehold Building	44,800,372	24,140,256	68,940,628	-
	44,800,372	24,140,256	68,940,628	-
Total Value of Assets	569,444,494	155,046,216	130,495,818	593,994,893

5.2 Depreciation

	Balance as at 01.04.2015 Rs.	Charge for the Year Rs.	Disposals Rs.	Balance as at 31.03.2016 Rs.
Computer Equipment	298,283,676	34,095,667	42,169,892	290,209,451
Furniture and Fittings	12,282,814	1,461,028	3,393,690	10,350,152
Electronic Equipment	25,250,098	2,308,363	9,221,925	18,336,536
Other Equipment	2,242,170	1,506,616	-	3,748,786
Motor Vehicle	6,650,000	1,339,000	6,650,000	1,339,000
Freehold Building	-	1,149,010	-	1,149,010
Total Depreciation	344,708,758	41,859,684	61,435,507	325,132,935

Notes to the Financial Statements

5.3 Net Book Values

As at 31 March	2016 Rs.	2015 Rs.
Computer Equipment	140,427,728	145,585,691
Furniture and Fittings	10,180,718	8,091,123
Electronic Equipment	13,142,368	3,254,694
Other Equipment	10,724,907	1,765,237
Motor Vehicle	5,356,000	-
Freehold Land	21,238,620	21,238,620
Freehold Building	67,791,618	-
	268,861,958	179,935,365
Capital Work in Progress		
Freehold Building	-	44,800,372
	-	44,800,372
Total Carrying Amount of Property, Plant and Equipment	268,861,958	224,735,737

5.4 During the financial year, the Company acquired Property, Plant & Equipment by means of cash with an aggregate cost of Rs. 86,105,588/- (2015 - Rs. 86,324,394/-) out of which Rs. 15,734,142/- incurred for Common Card and Payment Switch.

5.5 The total investment made as at the reporting date in Common Card and Payment Switch was Rs. 429mn (2015 - Rs. 360mn) 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.

5.6 Based on the assessment of potential impairment carried out internally as at 31 March 2016 no provision was required to be made in the financial statements as at the reporting date.

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

6. Intangible Assets

6.1 At Cost

	Balance as at 01.04.2015 Rs.	Additions Rs.	Disposals/ Transfers Rs.	Balance as at 31.03.2016 Rs.
Computer Software	383,959,148	109,314,761	-	493,273,909
	383,959,148	109,314,761	-	493,273,909
Capital Work in Progress				
Common Card and Payment Switch	136,966,742	64,947,572	115,099,397	86,814,917
Computer Software Upgrade	-	25,874,864	-	25,874,864
	136,966,742	90,822,436	115,099,397	112,689,781
Total Value of Assets	520,925,890	200,137,197	115,099,397	605,963,689

6.2 Amortisation

	Balance as at 01.04.2015 Rs.	Charge for the Year Rs.	Disposals Rs.	Balance as at 31.03.2016 Rs.
Computer Software	285,406,702	27,520,457	-	312,927,159
Total Amortisation	285,406,702	27,520,457	-	312,927,159

6.3 Net Book Values

As at 31 March

	2016 Rs.	2015 Rs.
Computer Software	180,346,749	98,552,446
Capital Work in Progress		
Common Card and Payment Switch	86,814,917	136,966,742
Computer Software Upgrade	25,874,864	-
Total Carrying Amount of Intangible Assets	293,036,530	235,519,188

6.4 During the financial year, the Company acquired intangible assets by means of cash with an aggregate cost of Rs. 81,037,800 /- (2015 - Rs. 135,245,737/-).

6.5 Based on the assessment of potential impairment carried out internally as at 31 March 2016, no provision was required to be made in the Financial Statements as at the reporting date.

Notes to the Financial Statements

7. Deferred Taxation

As at 31 March

	2016 Rs.	2015 Rs.
Deferred Tax (Liability) / Asset	(4,105,703)	652,205
	(4,105,703)	652,205

	2016 Temporary Difference Rs.	2016 Tax Effect Rs.	2015 Temporary Difference Rs.	2015 Tax Effect Rs.
Balance at the Beginning of the Year	2,329,302	652,205	3,989,958	1,117,188
Transferred to/(from) Income Statement	(16,992,526)	(4,757,908)	(1,660,656)	(464,983)
Balance at the End of the Year	(14,663,224)	(4,105,703)	2,329,302	652,205
Deferred Tax Asset/(Liability) consisted of followings				
Property, Plant and Equipment and Intangible Assets	(34,877,439)	(9,765,683)	(16,059,339)	(4,496,615)
Retirement Benefit Obligation	20,214,215	5,659,980	18,388,641	5,148,820
	(14,663,224)	(4,105,703)	2,329,302	652,205

8. Inventories

As at 31 March

	2016 Rs.	2015 Rs.
Consumable and Stationary	1,494,021	1,468,237
	1,494,021	1,468,237

9. Trade and Other Receivables

As at 31 March

	2016 Rs.	2015 Rs.
Trade Receivables	97,249,896	59,112,412
Advances & Prepayments	19,087,209	12,020,836
Advance Payment for Application Software	8,750,000	35,000,000
Income Tax Receivable	2,776,035	-
Refundable Deposits	411,200	412,700
Other Receivables	113,786	111,681
	128,388,126	106,657,629

10. Short Term Financial Investments

As at 31 March

	2016 Rs.	2015 Rs.
Investment in Fixed Deposits	651,946,047	457,817,720
Accrued Interest on Fixed Deposits	8,086,681	2,903,454
Investment in Commercial Papers	-	57,014,561
Accrued Interest on Commercial Papers	-	4,144,834
Securities Purchase under Resale Agreement	-	122,646,477
Accrued Interest on Securities Purchase under Resale Agreement	-	1,233,168
	660,032,728	645,760,214

11. Cash and Cash Equivalents

As at 31 March

	2016 Rs.	2015 Rs.
Securities Purchase under Resale Agreement	20,400,000	51,700,000
Investment in Fixed Deposits	40,651,945	-
Accrued Interest on Fixed Deposits	136,435	-
Accrued Interest on Securities Purchase under Resale Agreement	5,688	342,290
Cash in Hand and Bank Balances	5,620,294	1,412,718
	66,814,362	53,455,008

12. Stated Capital

As at 31 March

	2016		2015	
	Number	Rs.	Number	Rs.
Fully paid Ordinary Shares	15,200,000	158,250,000	15,200,000	158,250,000

Notes to the Financial Statements

13. Technology Upgrade Reserve

As at 31 March	2016 Rs.	2015 Rs.
Balance at the Beginning of the Year	222,035,045	229,674,944
Transferred from Retained Earnings	46,201,915	45,657,535
Utilisation of Technology Upgrade Reserve	(32,086,878)	(53,297,434)
Balance at the End of the Year	236,150,082	222,035,045

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. Company allocates 25% of profit before tax for the Technology Upgrade Reserve annually.

14. Retirement Benefit Obligation

As at 31 March	2016 Rs.	2015 Rs.
Balance at the Beginning of the Year	18,388,641	17,255,573
Gratuity Charge for the Year	4,835,895	1,133,068
Payments made during the Year	(3,010,321)	-
Balance at the End of the Year	20,214,215	18,388,641

15. Trade And Other Payables

As at 31 March	2016 Rs.	2015 Rs.
Sundry Creditors and Accruals	43,072,865	29,489,410
Value Added Tax (VAT)	5,869,073	4,216,155
Nation Building Tax (NBT)	1,206,709	1,033,338
	50,148,647	34,738,903

16. Revenue

Year ended 31 March	2016 Rs.	2015 Rs.
Revenue from Cheque Imaging and Truncation System	330,530,059	339,028,884
Revenue from Common Card and Payment Switch	162,664,000	89,941,626
Revenue from Sri Lanka Interbank Payment System	92,510,906	74,546,545
Revenue from Financial Sector Computer Security Incident Response Team (FINCSIRT)	8,268,750	10,929,166
Revenue from LankaSign Certificate Authority	4,534,100	3,421,601
Revenue from USD Online Clearing System	3,133,150	-
Net Revenue	601,640,965	517,867,822

17. Other Income

Year ended 31 March

	2016 Rs.	2015 Rs.
Interest on Fixed Deposits	41,556,219	46,411,088
Interest on Securities Purchase under Resale Agreement	10,752,078	9,040,373
Profit on Disposal of Property, Plant and Equipment	4,226,633	152,023
Rental Income	1,402,400	-
Interest on Commercial Papers	407,306	12,389,737
Other Income	253,707	48,032
	58,598,343	68,041,253

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. 1,075,208/- (2015 - Rs. 904,037/-).

18. Profit Before Tax

Year ended 31 March

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

	2016 Rs.	2015 Rs.
Directors' Emoluments	4,460,208	4,089,000
External Auditors' Fee	641,480	595,000
Depreciation (Note 5.2)	41,859,684	36,842,179
Amortisation (Note 6.2)	27,520,457	17,678,148
Personnel Costs includes		
- Defined Contribution Plan Cost - EPF & ETF	15,896,747	14,520,615
- Other Staff Costs	140,165,235	125,666,095

Notes to the Financial Statements

19. Income Tax Expenses

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

	2016 Rs.	2015 Rs.
Current Income Tax Expense		
Current Income Tax Charge (Note 19.1)	25,570,705	52,674,847
(Over)/Under provision of current taxes in respect of previous year	(19,264,728)	5,752
Deferred Income Tax Expense		
Deferred Tax originating during the Year (Note 7)	4,757,908	464,984
Charge to the Income Statement	11,063,885	53,145,583
19.1 Reconciliation of Accounting Profit to Income Tax Expense		
Profit Before Tax	184,807,659	182,630,141
(Profit)/Loss on Tax Exempt Operation	(25,796,001)	4,474,272
Aggregate Allowable Items	(102,131,014)	(97,697,235)
Aggregate Disallowable Items	33,205,491	30,876,078
Taxable Income	90,086,135	120,283,255
Interest Income	52,715,603	67,841,198
Income Tax @ 12%	10,810,336	-
Income Tax @ 28%	14,760,369	52,674,847
	25,570,705	52,674,847

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.

20. 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.

Year ended 31 March	2016 Rs.	2015 Rs.
Amount used as the Numerator		
Net Profit attributable to Ordinary Shareholders	173,743,774	129,484,558
Number of Ordinary Shares used as the Denominator		
Weighted average number of Ordinary Shares in Issue	15,200,000	15,200,000
Earnings Per Share	11.43	8.52

21. Dividend Per Share

Year ended 31 March

	2016 Rs.	2015 Rs.
Final Dividend paid in respect of 2013/14	-	26,600,000
Final Dividend paid in respect of 2014/15	26,600,000	
Dividend Per Share	1.75	1.75

22. Related Party Disclosures

Year ended 31 March

Transactions with Related Parties

	2016 Rs.	2015 Rs.
Central Bank of Sri Lanka *		
Service rendered through Cheque Imaging and Truncation System (CITS)	175,801	170,758
Service rendered through Sri Lanka Interbank Payment System (SLIPS)	320,736	275,793
Dividend paid	5,162,500	5,162,500

*Central Bank of Sri Lanka is the main investor of the Company and it gives the main guidance for strategies of the Company.

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, General Manager/CEO, Deputy General Manager-IT & Operation and their immediate family members have been classified as Key Management Personnel.

Year ended 31 March

	2016 Rs.	2015 Rs.
Short Term Employment Benefits	4,460,208	4,089,000

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

23. 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.

23.1 Capital Expenditure Commitments

Company has a Capital Commitments of Rs.32mn for Cheque Imaging and Truncation System Software Upgrade (2015 - Rs. 22 Mn for the building categorised under working progress and Rs. 15 Mn for CCAPS), but not provided for as at the financial reporting date.

23.2 Litigation against the Company

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

24. Events After the End of the Reporting Period

There were no material events occurring after the reporting period 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.

‘BCP’ shall mean Business Continuity Plan

‘BIRMC’ shall mean Board Integrated Risk Management Committee

‘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.

‘CMS’ shall mean Card Management System

‘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 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.

‘CSP’ shall mean Certification Service Provider

‘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.

‘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 shall mean Credit Information Bureau of Sri Lanka

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

‘FINCIRT’ shall mean Financial Sector Computer Security Incidents Response Team

‘ISOC’ shall mean Information Security Operations Centre

‘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.

‘NCS’ shall mean National Card Scheme.

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

‘PA-DSS’ shall mean Payment Application Data Security Standards

‘PCI-DSS’ shall mean Payment Card Industry Data Security Standards

‘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.

‘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 14th Annual General Meeting of **LankaClear (Private) Limited** will be held on 30th June 2016 at 11.30 a.m. at “Salon Anthurium” Galadari Hotel, 64, Lotus Road, Colombo 1 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 2016 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

17th May 2016
Colombo, Sri Lanka

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 **14th** Annual General Meeting of the Company to be held on **30th** June 2016 and at any adjournment thereof and at every poll which may be taken in consequence thereof.

Signed this day of2016.

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.

