



Value in **every second**



Annual Report 2016/17

Value in every second

A second, or a split second, can determine the difference between two extreme results. A win, a loss, a birth, a death, a miracle or even a catastrophe. That is why we believe in the value of saving every second in whatever we do. To that effect, we at LankaClear have always strived to achieve speed, ease of use and availability in all our services.

By partnering with the best in the industry, we have delivered efficiency in financial services for many Sri Lankans across the island. Value every second; It's the difference between life and a life well lived.



As the operator of Sri Lanka's national payment network, we provide a vital service to the country's banking and financial system by making it possible to carry out day-to-day interbank transactions in a faster, convenient and secure manner. In doing so, we have ensured that affordable financial services are available to a larger segment of the population, thus, harnessing financial inclusivity. Our services save a considerable amount of foreign exchange to the country due to domestic interbank transactions being routed locally.

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As you'd expect from such a customer-focused business, we've created an online reporting suite which works for your specific needs:

www.lankaclear.com

Our Vision

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

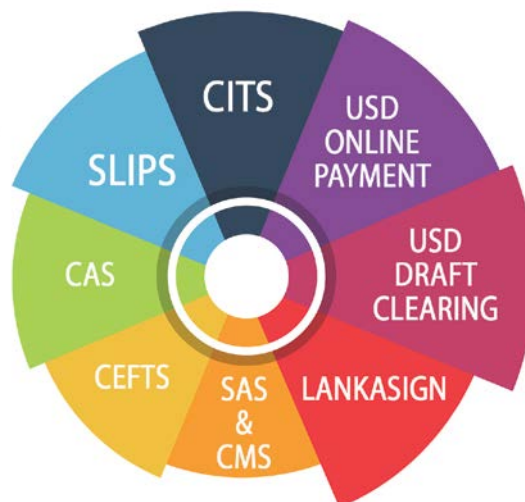
Our Mission

'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 & Collaboration

Our Products



Our Strategic Objectives

LankaClear, who operates the LankaPay national payment network, values the time of every single stakeholder including the general public. Thus, all its activities are geared towards saving valuable time both internally and externally. We aim to achieve this by not only providing convenient financial services to the general public via our members, but also getting those services faster to the market. Hence, the strategic objectives listed below are to facilitate high quality electronic financial services at affordable prices in a secure, reliable and convenient manner to all Sri Lankans;

- Timely introduction of innovative and efficient payment solutions and services to exceed customer expectations
- Ensure trust and high availability of all payment systems and services
- Enhance information security and compliance on all platforms
- Enhancing customer satisfaction levels
- Manage and deliver stakeholder expectations whilst maintaining good governance and contributing for the sustainable development
- 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

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

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

2015

Bronze Award under Small and Medium sized Entities 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

2014

Silver Award 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

2016

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

2013

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

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

Silver Award under ICT Services Sector at the National Business Excellence Awards organised by the Ceylon Chamber of Commerce

Introduction to the Report

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.

This is the Company's second instance of compiling an Integrated Annual Report for the period covering 1st April 2016 to 31st March 2017, which provides a concise and comprehensive analysis of our strategy and performance to achieve same. This is in relation to our capitals management and value creation process towards multiple stakeholders governed by the guidelines of the International Integrated Reporting Council (IIRC) of 2013.

The Financial Statements 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 EY Colombo, Sri Lanka. The Report also conforms to the requirements of the Companies Act No.7 of 2007.

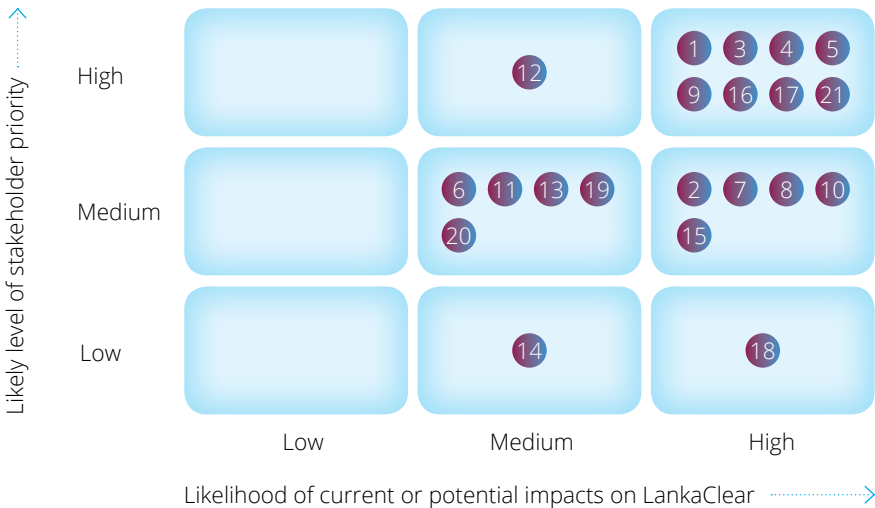
Boundary, Materiality Assessment and Restatement of Information

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 organization and its key stakeholders.

This activity is carried out on an annual basis with the involvement of the whole 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 with 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.

- | | |
|---|---|
| 1. Ensure trust and high availability of all payment systems in LankaClear network | 13. Maintenance of enhanced and effective procurement process to improve operational efficiency and transparency |
| 2. Improve, upgrade and continuously maintain the efficiency and reliability of all existing IT infrastructure for smooth functioning of the LCPL payment systems | 14. Reduce consumption by increasing the efficiency of usage energy |
| 3. Enhance information security and compliance | 15. Ensure establishment and maintenance of suitable environment that is required for equipments, operations and staff |
| 4. Implement industrial best practices to the LankaPay card operation | 16. Enhancing overall financial health of the organisation through attaining revenue and profitability growth while safeguarding Company assets |
| 5. Manage the integration of LankaPay products with banks and financial institutions | 17. Ensuring continued contractual safeguards with contractors, vendors, service providers and other parties who transact with the Company |
| 6. Providing value added services to customers | 18. Ensuring of the Company's contractual rights |
| 7. Introduce innovative and technologically advanced payment solutions towards achieving the key objective of driving financial inclusivity | 19. Enhance member participants for the LankaClear products |
| 8. Increase LankaPay brand awareness and brand loyalty among general public via direct engagements | 20. Contribute for the sustainable development |
| 9. Enhance customer satisfaction levels | 21. Maintaining good governance controls |
| 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 | No information has been restated from the previous annual report. |
| 12. Ensure fair and equitable compensation and benefits to all employees | |

Corporate Information

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 : +94 11 2356900
Fax : +94 11 2544346
Email : info@lankaclear.com

Help Desk

Tel : +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 (SLACH) which was fully owned and operated by the Central Bank of Sri Lanka (CBSL), were entrusted to LankaClear (Pvt) Ltd upon incorporation of the Company on April 01, 2002.

Company Secretaries

Managers & Secretaries Pvt Ltd
8, Tickell Road
Colombo 08
Tel : +94 11 2015900
Fax : +94 11 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 : +94 11 2463500
Fax : +94 11 2697369

Internal Auditors

M/s B R De Silva & Company
Chartered Accountants
No 22/4, Vijaya Kumaranatunga Mawatha
Colombo 05
Tel : +94 11 4510368
Fax : +94 11 4512404

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

112

Net Revenue

Rs. 800,761,303

Stated Capital

Rs. 158,250,000

Share Information

Shareholding as at March 31, 2017

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

Shareholders:	Number of shares Mn	Value Rs. Mn
Central Bank of Sri Lanka	2.95	29.50
Bank of Ceylon	2.10	21.00
People's Bank	2.10	21.00
Sampath Bank PLC	2.00	20.00
Commercial Bank of Ceylon PLC	1.00	10.00
Hatton National Bank PLC	2.20	22.00
Seylan Bank PLC	1.00	10.00
Union Bank of Colombo PLC	0.05	0.50
DFCC Bank PLC	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
Citi bank 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 PLC	0.05	2.00
Axis Bank	0.05	2.25
Cargills Bank Ltd	0.05	3.50
Total	15.20	158.25

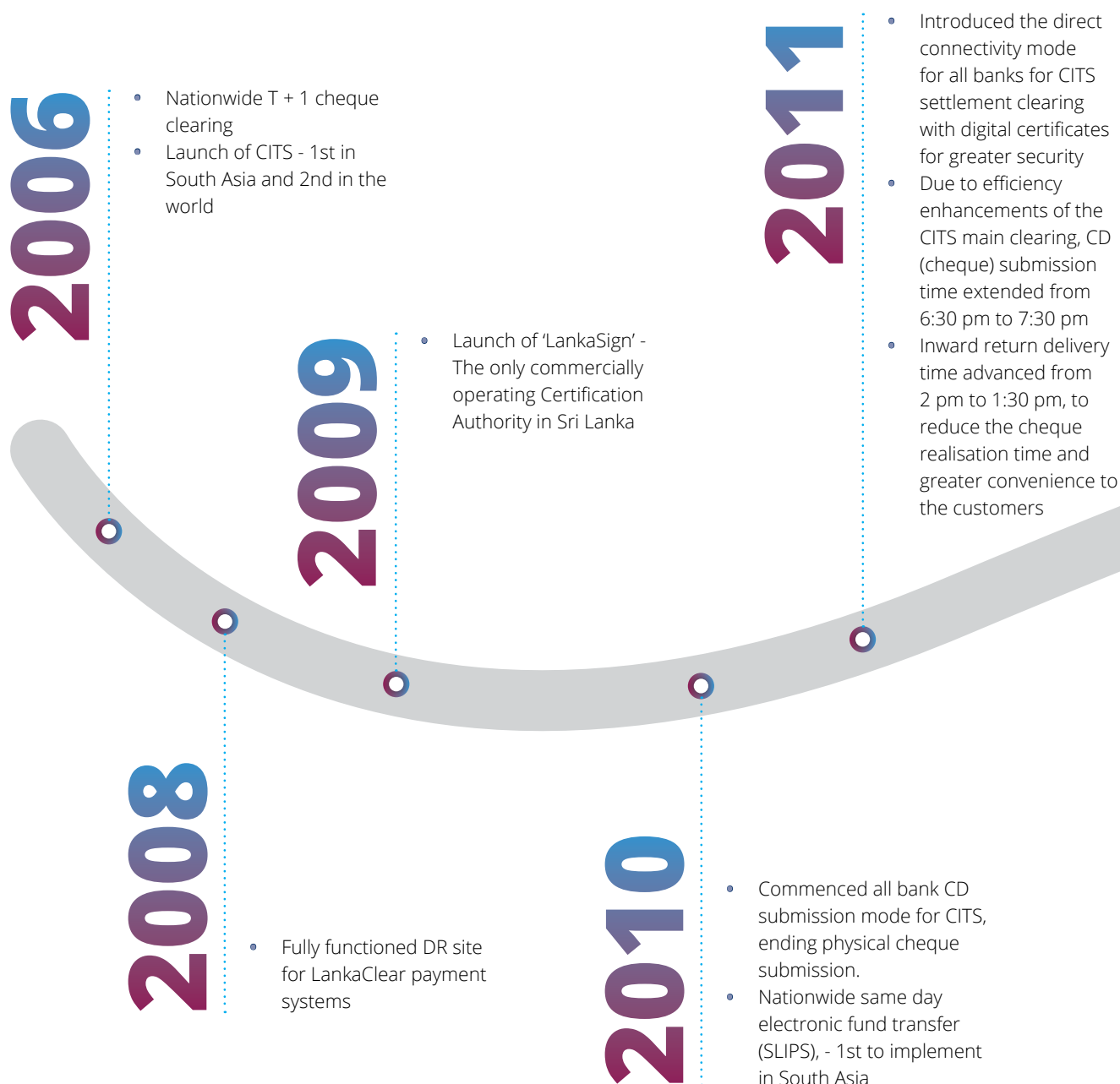
Participants of LankaClear Clearing Systems and Services

As at 31st March 2017

Bank Name	CITS	SLIPS	CAS	CEFTS	SAS	USD Draft	USD Online	FINCSIRT
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 PLC								
Axis Bank								
Cargills Bank Ltd								
National Savings Bank								
Sanasa Development Bank PLC								
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 Ltd								
Alliance Finance Company PLC								
Lanka Orix Finance PLC								
Commercial Credit and 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								
Bimpu Finance PLC								
Capital Alliance Holdings								
Total	26	44	24	24	1	23	11	31

- New participants in 2016/17
- Participants joined prior to 2016/17

LankaClear Electronic Payment System Millstones



2013

- Launch of 'LankaPay' Common ATM Network
- Outward (cheque) clearing cutoff time extended from 7.30 to 8.00 pm for customer convenience.
- Implemented Help Desk call monitoring and tracking system

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

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 CIT System on 1st of July 2014.
- CITS frontend hardware migrated to VM infrastructure for better performance and cost reduction.

2016

- Launch of CITS Online Image Transfer Solution
- Launch of "JustPay" via CEFTS
- Upgrading CITS System Software

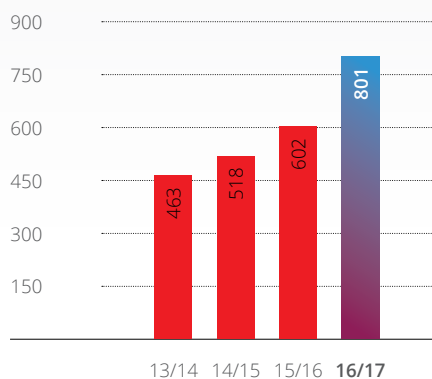
2017

- Deployment of LankaPay Online Payment Platform in Primary/ Standby/DR
- Became the first entity in Sri Lanka to obtain the certification of PCI-DSS version 3.2

Financial Highlights

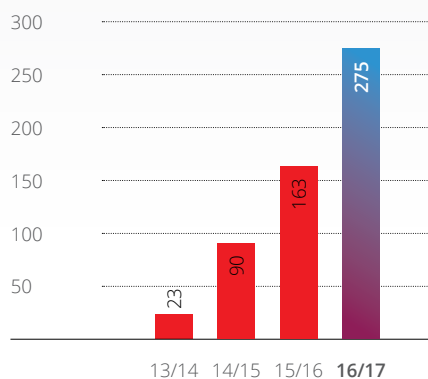
Total Revenue

Rs. Mn



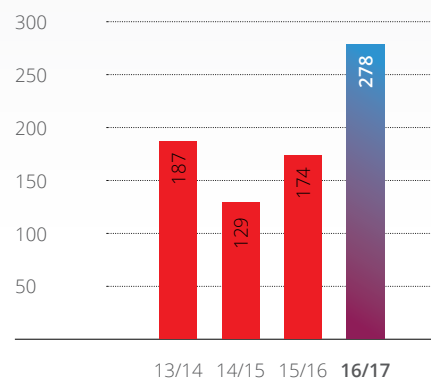
Revenue from CCAPS

Rs. Mn



Profit After Tax

Rs. Mn



33%

Total Revenue
Rs. 801 Mn

69%

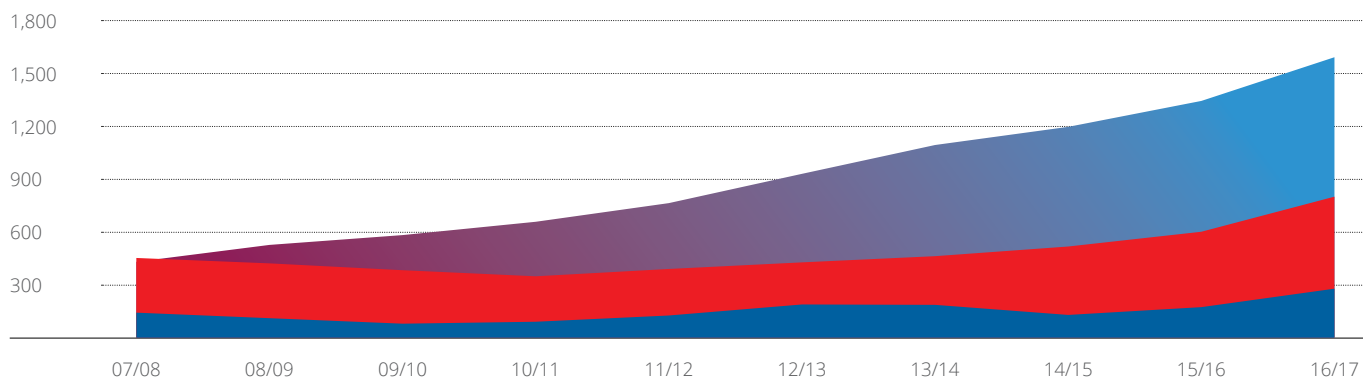
CCAPS Revenue
Rs. 275 Mn

60%

Profit After Tax
Rs. 278 Mn

Ten Year Financial Performance

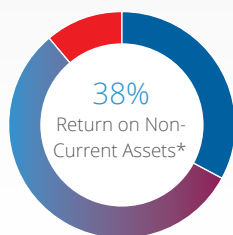
Rs. Mn



- Shareholders' Funds
- Revenue
- Profit After Tax

Total Assets Distribution

%

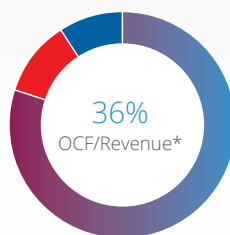


• Non Current Assets	33%
• Short Term Financial Investments	56%
• Other Current Assets	11%

* For the calculation of Return on Non Current Assets, return is considered by excluding the finance income (net of tax)

Cash Flow

%

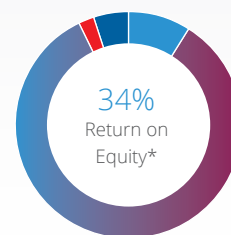


• Net Cash From Operating Activities	81%
• Net Cash Flows Used In Investment Activities	11%
• Dividend Paid	9%

* Operating Cash Flow (OCF) to Revenue, showing the company's ability to convert its sales to cash.

Capital Structure

%



• Share Capital	9%
• Reserves	84%
• Non Current Liabilities	2%
• Current Liabilities	5%

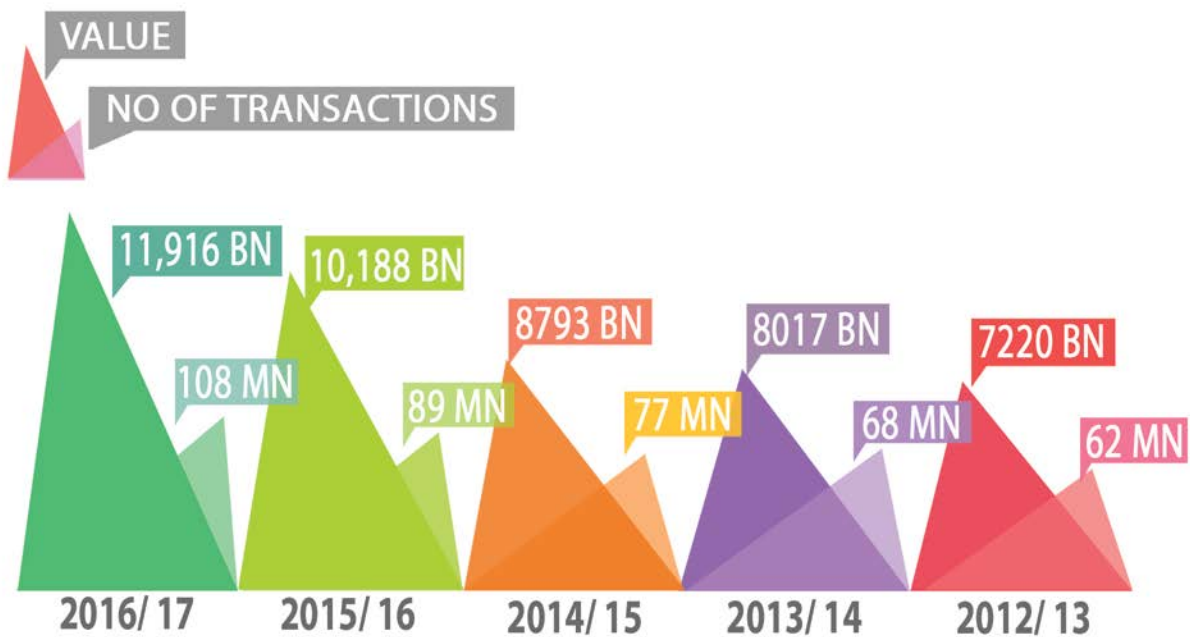
* For the calculation of Return on Equity, Profit After Tax is considered by excluding the finance income (net of tax). Equity is considered by excluding the short term financial investments.

	2016/2017	2015/2016	2014/2015	2013/2014	2012/2013
Results for the Year (Rs. Mn)					
Revenue	801	602	518	463	428
Gross Profit	390	262	247	261	282
Profit Before Tax	322	185	183	228	260
Income Tax Expense	44	11	53	41	72
Profit for the Year	278	174	129	187	189
At the Year End (Rs. Mn)					
Total Assets	1,707	1,419	1,268	1,155	997
Total Capital Assets	570	562	461	295	217
Shareholders' Funds	1,592	1,344	1,197	1,094	930
Short Term Financial Investments	695	660	646	726	672
Information Per Ordinary Share					
Earnings Per Share	18.32	11.43	8.52	12.32	12.47
Dividend Per Share (Proposed)	2.75	2.00	1.75	1.75	1.75
Net Assets Value Per Share	104.75	88.43	78.75	71.98	61.41
Ratios					
Gross Profit Ratio	49%	44%	48%	56%	66%
Net Profit Ratio	35%	29%	25%	40%	44%
Return on Equity	17%	13%	11%	17%	20%
Return on Assets	16%	12%	10%	16%	19%

Operational Highlights



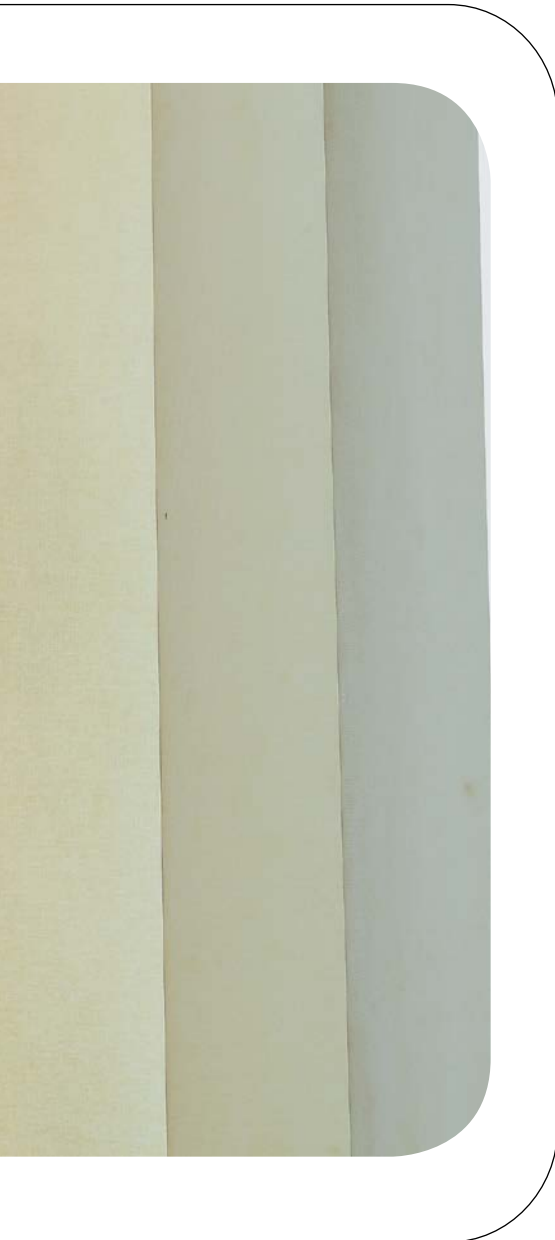
NUMBER OF TRANSACTIONS CLEARED



Chairman's Message

Efficiency at its best





The strong interdependence between the banking system and the development in the real economy once again became evident in 2016. Enhancing banking services and expanding its network and accessibility throughout the country, the banking sector remained a key artery in the country's economic progress. As the main network facilitator for the country's banking system, Lanka Clear remained a key catalyst of this progress.

For the Company, it was a remarkable year of growth and transformation as we continued to make strong progress in achieving our objectives.

Macro-economic Review

Primarily driven by the expansion in investment expenditure, Sri Lanka's economy grew by 4.4% in 2016 in real terms, albeit at a slower rate in comparison to 4.8% recorded in the previous year. Unfavourable weather conditions adversely impacted economic activity, mainly in the Agriculture sector, which reported a decline of 4.2% compared to the previous year. Services related activities, which constitute 56.5% of real GDP, grew by 4.2% in 2016, and was underpinned by a strong growth in the financial services sector.

The financial sector expanded by 12.4% year-on-year, whilst exhibiting resilience amidst challenging market conditions both globally and domestically. I believe this is the result of efforts by the regulatory agencies including the Central

Enhancing banking services and expanding its network and accessibility throughout the country, the banking sector remained a key artery in the country's economic progress. As the main network facilitator for the country's banking system, Lanka Clear remained a key catalyst of this progress.

Bank, to strengthen the supervisory and regulatory framework for financial institutions with a view to further enhancing their stability and soundness, thereby promoting overall public confidence in the country's financial system.

However on a broader perspective; the country's economic growth falling short of expectations only served to reconfirm the necessity of addressing the deep-rooted structural issues in order to enable the country to progress towards

Chairman's Message

a higher growth trajectory, as envisaged. Towards this end, the government's recent efforts, with the support of multilateral agencies including the IMF, to formulate policy frameworks required to address these issues as well as emerging challenges, are commendable. Nevertheless it is essential that such policies are implemented swiftly and with greater consistency in order to improve productivity and efficiency of the economy and to attract much needed foreign direct investments (FDIs) and boost investments from the domestic private sector, all of which would stimulate growth in the economy.

Performance of Company at a Glance

Due to the untiring efforts of the management by driving revenues through focusing on volumes via increasing awareness, LankaClear grew its YoY revenue and profits for the year by an impressive 33% and 49% respectively. The above growth was propelled primarily by the YoY transaction volume growth that we experienced across all our product lines.

The most spectacular growth was achieved in the transaction volumes of our real time payments area (CEFTS) where we achieved a phenomenal YoY growth of 1553%. The primary driver for this was the fact that LankaClear team was able to attract a larger number of new members to the system during the year under review. We also experienced an impressive YoY volume growth of 75% in the Common ATM Switch (CAS) where the monthly volumes exceeded 3.5 Mn transactions. The transaction volumes of SLIPS also grew YoY by a modest 13%, which was primarily driven by the campaigns carried out among the

public sector encouraging them to move towards electronic payments.

Contrary to our beliefs at the beginning of the year that cheque volumes would go down with more and more organizations adopting electronic payment modes, the volume of CITS grew YoY by 4.55%. When we analyzed the reason for this growth, we discovered an interesting phenomena where a major contributor to this growth was volumes from the North and the East. We believe that due to the increased financial opportunities being presented in these areas after 30 years of war, a larger segment of the population are now associating with banks where the first payment instrument is a cheque. In this sense, we are extremely satisfied that some of the interbank financial services that we facilitate are actually reaching the intended audiences.

The year was also further enriched by the launch of JustPay initiative by LankaClear to drive digital payments in the retails segment of the business via CEFTS. This area is currently untapped and most of the transactions happen via cash. With the objective of converting at least 20% of the cash based retail payment transactions into digital mode by the year 2020, the company took the lead role and together with the banks launched this initiative. We believe that this remarkable initiative would be a key driver for the company to increase the real time payment volumes next year.

Our Role in the National Growth Agenda

I am indeed proud to acknowledge the role played by LankaClear in revolutionizing Sri Lanka's financial services industry over the past five

I am indeed proud to acknowledge the role played by LankaClear in revolutionizing Sri Lanka's financial services industry over the past five years through innovative card-based applications. The LankaPay Common ATM Switch, our flagship product, which was launched in 2013 is now well anchored and continues to drive growth in the local financial services sector. Connecting the far regions of the country through a common platform, the LankaPay Common ATM Switch continues to give millions of Sri Lankans easy access to funds through a network of over 3950 ATM's island-wide.

years through innovative card-based applications. The LankaPay Common ATM Switch, our flagship product, which was launched in 2013 is now well anchored and continues to drive growth in the

local financial services sector. Connecting the far regions of the country through a common platform, the LankaPay Common ATM Switch continues to give millions of Sri Lankans easy access to funds through a network of over 3950 ATM's island-wide. Meanwhile the CEFTS (Common Electronic Fund Transfer Switch), rolled out in 2015 has since gained considerable traction in the market. Undoubtedly, these offerings have paved the way for a new chapter in Sri Lanka's financial services sector.

I do believe however that this is just the beginning, and for Lanka Clear there is much more work to be done, especially if we are to support Sri Lanka's goal of becoming a financial hub in the South Asian subcontinent.

As the key network architect for Sri Lanka's banking sector, strictly speaking banks and financial services institutions are our direct customers. However, as the growth of our business solely dependent on the usage by the general public of the services offered by these institutions, our strategic purpose for the year was to stimulate growth of card-based products offered by the local financial services sector, which in turn would cascade into tangible results for the Company. As such, we renewed efforts to increase public awareness of our product propositions. We worked on multiple thrusts, partnering with the media to carry out targeted grass root level campaigns to promote greater financial inclusion, supported by aggressive above the line advertising to create widespread visibility for the Company's flagship brand; LankaPay.

Faced with our greatest competitor - cash - our overarching priority for the year was

to trigger a shift towards cashless society. With customer behaviour increasingly orienting towards digitized banking solutions, we seized the opportunity to broaden our card-based value proposition. Our efforts in this regard also underpin the broader national objective to make Sri Lanka a cashless society in the long term. The introduction of JustPay reinforces our commitment to this goal. Using disruptive technology, JustPay facilitates low value retail payments, direct debits or pull payments, to be enabled via smart devices (mobiles, tabs and kiosks etc.) or internet-based apps. Launched in November 2016, the scheme will be rolled out through vendors who have established working partnership with LankaPay CEFTS member banks.

Further, due to the extremely low transaction costs and the high level of security offered by the JustPay platform, it is expected that the USP will gather momentum in the coming months, to become the primary payment mechanism amongst Sri Lankans for retail payments.

Stakeholder Relations

As in the past, engaging with our stakeholders was a key priority as we continued our efforts to strengthen the "Chain of Trust" in this year as well. This was seen as a key imperative not only to reinforce the Company as the IT backbone for Sri Lanka's financial services sector, but also to showcase the Lanka Clear proposition as a support service and put to rest the misconception that Lanka Clear is in competition with banks and financial institutions. Our efforts included one-on-one meetings, which were also aimed at encouraging financial institutions to improve their service levels

as well as facilitate more opportunities for their customers to engage in inter-bank transactions.

Future Outlook

Moving forward and as we set out in an era which is expected to be both challenging and exciting, due focus will be laid on understanding what markets expect from us and undertaking what we should do to meet their needs in an innovative and adapted manner. I am conscious that our operating context will remain quite demanding, thus calling upon us to take a close look at our operating model, embrace a clear vision, and maintain the necessary hard work to put Lanka Clear on an accelerated growth path in the coming years.

Appreciations

I take this opportunity to thank my colleagues on the Board for their active participation in all Board matters. I wish to thank our GM/CEO Mr. Channa de Silva and his team for their hard work in delivering excellent results in the current financial year. A very big thank you also to our key stakeholders; banks and financial institutions and of course the general public who patronize the services offered by these institutions.



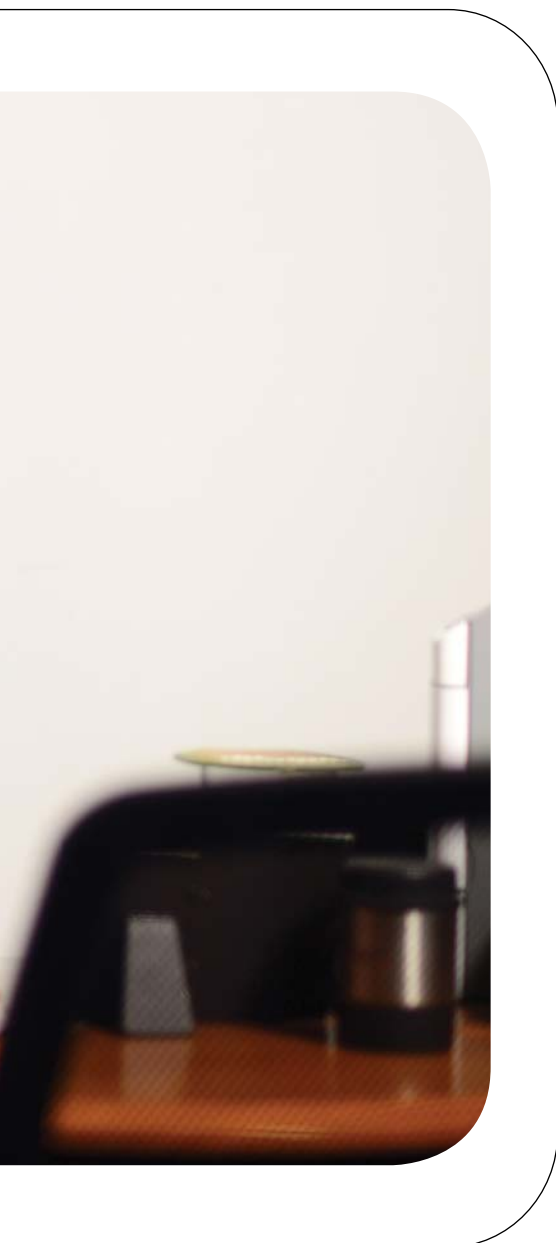
Mr. A. S. Amarasuriya
Chairman

26th May 2017
Colombo

General Manager/CEO Review

We value your time





Even though the task of changing ingrained habits might seem to be a daunting task, our objective for the year under review at a macro level was to reinvent and reposition the perceptions of banking customers towards engaging in technology based payments. As a result of the untiring efforts, we came one step closer to achieving our original vision of becoming a Rs. 1Bn company by recording a phenomenal year of growth. I am happy to announce that not only did we meet our financial targets, but also exceeded them by a significant margin. But, before I elaborate on the numbers achieved, let me enlighten you on the strategies and the processes that got us there.

It is not a new phenomenon to note that change, as we are now experiencing it, is happening at the speed of thought. Globalization and the rapid pace of technological advances are increasingly affecting both private and corporate customers. More than ever before, modern corporate customers need proactive support, efficient processes and customized advice to facilitate growth at each stage of their business lifecycle especially in managing their finances. Meanwhile, many individuals too prefer to do their everyday banking and make payments via their Smart mobile phones or the Internet rather than by visiting a branch.

This ever changing business landscape has triggered the demand for dynamic

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user interfaces, greater availability, higher security and more importantly services at their fingertips. In other words, need of the hour is the availability of convenient services to save valuable time of demanding individuals. This is what motivates us at LankaClear, and we have deepened our resolve to become the main facilitators of our country's economic progress by giving every citizen the opportunity to save that all important factor; TIME. The theme of this years' annual report signifies our unwavering commitment to this national endeavour.

General Manager/CEO Review

Strategy and Focus

Having strengthened our core fundamentals and sharpened the alignment of our business model in the previous year, we stepped into 2016/17 with a great deal of confidence and optimism. Our main objective was to accelerate the growth trajectory of the company by leveraging our established position as the “Trusted National Payment Network” in the country. Achieving this meant one overarching priority; to further enhance our inter-bank payment services and provide greater convenience to banking customers. LankaClear undertook this mammoth task with gusto. We enhanced our digital infrastructure by implementing new technologies and processes while sharpening existing ones, all in order to bring about faster turnaround times. Again the internal focus was on the value of time, thus, reducing the time to market for our services.

In this regard, we revamped the last mile of our cheque clearing service and replaced the decade old CD based system with an online image transfer mode to receive cheques electronically. This enabled us to continue to receive cheques throughout the day, replacing the customary end-of-day practice. I am proud to announce that thanks to our unrelenting efforts we successfully enabled our members to make their cheque clearing process much more efficient and pass on this benefit to their customers by extending the service timelines. In the process, we were able to achieve a rare milestone of becoming the first country in South Asia to complete this enhancement.

However, with the anticipated decline of cheques on the cards, our focus was

more on digital payment solutions that would spearhead the next phase of the Company's growth agenda. As a key outcome of this, we looked to sharpen our revenue focus on each of the other core products offered by LankaClear. The concept of pull-payments, in addition to the existing credit transfers, was identified as a growth area and the launch of JustPay and Direct Debit initiatives were in-line with this thought process. In this context, a Virtual Sales Team (VST) was setup, where we nominated a capable team member for each product to champion its cause by driving adoption and carrying out promotional activities.

Operational Progress

Underpinned by the strategies outlined above, we made steady progress on all our business activities throughout the year, with all our core products growing at a much faster pace than ever before.

However, the volume generated through the Cheque Imaging and Truncation System (CITS) increased marginally compared to the previous year. A further analysis revealed that while, a slight reduction in volumes was observed in the western province, volumes from the North and East achieved a steady growth throughout the year offsetting the former reduction. Despite achieving marginal growth, the contribution made by CITS to total revenue declined to 50% from 90% maintained in previous years prior to the introduction of Common Card and Payment Switch (CCAPS). This notable shift in revenue mix for 2016/17 corresponds to the sharp increase in the use of electronic payment channels, particularly by the corporate sector. But, with a vast majority of businesses and individuals still heavily reliant on cheques,

we remained conscious of the need to enact process efficiencies for same as outlined above.

With a total of 8 banks and 2 financial institutions coming on board during the year, connectivity levels of LankaPay Common ATM Switch (CAS), the company's flagship product, reached 99.55% coverage up from 90% in the previous year. Consequently, transaction volumes increased rapidly to reach 83% growth YoY, while Revenue generated through CAS transactions doubled, growing from an average per month value of Rs. 5.2Mn in the previous year to Rs. 9.7Mn in 2016/17. In order to create greater awareness and promote wider usage of CAS among the general public, we conducted aggressive promotional campaigns, which helped to increase visibility of the LankaPay brand. Our initiatives in this regard were the installation of LankaPay lollipop boards across the country as well as conducting grass root level promotional campaigns in partnership with several media organizations.

Another growth lever for the year was the Common Electronic Fund Transfer Switch (CEFTS), which continued to gather momentum among key stakeholders leading to a 1553% increase in transaction volumes in 2016/17, compared to the previous financial year. In addition, to further grow volumes of CEFTS, LankaClear took a different approach. We leveraged on growing dependence on Smart phones and devices to launch JustPay, a revolutionary new concept that enables a customer to make payments using a Smart device and utilize the debit facility of CEFTS. This was specially targeted at attracting low value retail payments to be transacted

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via CEFTS at a much lower tariff rate. As part of this effort, we also began building a base of application vendors who had innovative cutting edge smart applications that addressed different consumer needs and partnered them with different acquiring banks to facilitate

payment transactions. Customers who use these Smart applications would be able to perform payment transactions via JustPay, using their smart devices even at the rural most locations using their preferred language.

With many banks and financial institutions joining CEFTS and a renewed focus on the platform, we did not want to lose focus on SLIPS (Sri Lanka Interbank Payment System), which was providing a steady revenue stream for the company. We refocused our efforts to promote and grow SLIPS volumes further into areas that were previously not addressed especially promoting the platform in the state sector. Our main thrust was to offer SLIPS as a convenient bulk payment mechanism for state sector to improve their operational efficiencies. I am happy to note that these efforts paid off, which resulted in a YoY volume growth in SLIPS of 15% in the year under review.

The new additions to LankaPay portfolio; Common POS Switch (CPS) and Common Mobile Switch (CMobS), continued to experience teething issues, prompting us to revisit the fundamentals of each product in order to reorient the respective operational models in tandem with market dynamics. As part of this effort, a process was put in operation to identify a suitable International Card Scheme (ICS) to partner with in launching a National Card Scheme (NCS). The idea was to launch NCS and for banks to commence issuing LankaPay branded Debit cards that would augment the value of CPS, which would also provide cost efficiencies to banks. Due to lower switching costs and reductions in other operational overheads, banks would benefit from a substantial cost advantage by issuing LankaPay branded cards as

opposed to the high costs involved in issuing cards of other ICSs. This allows banks to broad base their card portfolio and offer customers a wider selection of more competitive card options, which we believe would be a motivating factor for banks to embrace the LankaPay card value proposition in the future. This was also targeted at encouraging greater usage of debit cards in the consumer market, which we believe is a key volume driver for CPS.

Meanwhile CMobS, which was introduced to facilitate mobile wallet-to-wallet payment transactions, continued to remain a slow mover in the market. Being a product that targets those who lack access to the formal banking channels, growth of CMobS was fundamentally challenged by the heavy island wide branch presence maintained by most banks. Hence, in order to operationalize CMobS, we decided to certify third party mobile wallet application vendors during the year under review to provide banks with multiple options to select their mobile wallet application from.

FinCSIRT, which provides critical security incident response support to all banks and financial institutes is another service managed by LankaClear. Even though, this area is not a key revenue driver for the company, FinCSIRT is more of a value added service offering set up in the interest of enhancing data security across the financial sector. In this context, our goal for the current financial year was to encourage as many industry stakeholders as possible to join the platform, which would further enhance the trust level of the general public placed in the banking system.

General Manager/CEO Review

In other related developments, LankaClear achieved Payment Card Industry Data Security Standard (PCI-DSS) certification, becoming the first entity in Sri Lanka to achieve this global standard for data security systems. This further helped to reaffirm the position of LankaClear as the Trusted National Payment Network.

Financial Results

I am happy to announce that LankaClear, in over 15 years of its existence, achieved the best financial performance during the year under review recording the highest ever Revenue of Rs. 801 Mn, Gross Profit of Rs. 390 Mn, Profit Before Tax of Rs. 322 Mn and Profit After Tax of Rs. 278 Mn. The Revenue growth YoY was at a healthy 33% while the YoY Gross Profit grew by an impressive 49%. However, the most exceptional was the Profit Before Tax, which grew YoY by a staggering 74% while Profit After Tax grew YoY by 60%. This growth was predominantly driven by the new product lines under CCAPS, which grossly confirm that we are on the right track with appropriate strategies that have been executed to perfection during the year paving the way to exceed the anticipated results.

During the year, rate of increase of the operating expenses reduced to 21% against 25% previous year. Since most of the expenses were fixed costs for maintaining, upgrading and securing the payment platforms, managing costs was a challenge, which kept the team on their toes everyday having to focus on increasing the top line revenue on a regular basis. However, every single additional cost element was scrutinized and negotiated to obtain the best possible cost proposition.

In addition to impressive revenue and profit growth, with efficient treasury activities utilizing the funds kept for future use and savings achieved via tax planning, we managed to yield an Earnings Per Share (EPS) of Rs.18.32 for the shareholders, which was a 60% growth compared to previous year whilst the Return on Equity was at 17% improving from 13% previous year recording a growth of 30%. With the above healthy financial results, we have proposed the highest ever dividend per share of Rs. 2.75, which indicated a YoY growth of 37.5%.

A more detailed discussion on financial performance and financial priorities have been included under the financial review section.

Stakeholder Engagement

By analyzing our service offerings, we came to the realization that engaging merely with our key stakeholders, which are banks and financial institutes, is not sufficient and this needs to be extended to their customers as well. Creating awareness among the general public of the services offered by our members was a key focus for the year where we engaged with them at grass root level and social media campaigns aligning with the theme 'value of time'. In addition, to entice our members to promote such services among their customers, we launched a performance based incentive schemes and also an annual award competition - LankaPay Technnovation award - to recognize champions who remained steadfast to this cause. We also facilitated a new activity with the member banks and financial institutions in the form of an annual cricket tournament to increase engagement at multiple levels.

LankaClear, in over 15 years of its existence, achieved the best financial performance during the year under review recording the highest ever Revenue of Rs. 801 Mn, Gross Profit of Rs. 390 Mn, Profit Before Tax of Rs. 322 Mn and Profit After Tax of Rs. 278 Mn. The Revenue growth YoY was at a healthy 33% while the YoY Gross Profit grew by an impressive 49%. However, the most exceptional was the Profit Before Tax, which grew YoY by a staggering 74% while Profit After Tax grew YoY by 60%.

We understood that motivated staff achieves better performance and ensures improved customer service, thus, continued with the successful initiatives such as 'Voice of Change', 'Crowd Sourcing' and 'Engagement awards' commenced in previous years. We also launched a new initiative called "Peduru Party" during the year to

increase inter-departmental engagement to encourage collaboration in order to build a high performance culture.

Responsible Citizenship

Aside from pursuing financial success, as a responsible corporate citizen, our focus for the year under review was to find new ways to save valuable time taken to consume financial services by the general public. This responsibility was driven by the realization that providing convenience equates to saving time, which would have otherwise been wasted in doing mundane tasks. This is not only true when using financial services, but also matters in the everyday lives of citizens. We undertook this gigantic task of changing perceptions via social media and grass root level campaigns to inculcate this message into the subconscious mind of the general public.

In addition, by looking at the bigger picture of financial inclusivity, we came to the conclusion that wider adoption of such a national service would enrich the lives of every citizen. Hence, we also addressed the operational issues that may have caused delays on the part of the banks and advised them on how to minimize downtimes. These efforts were aimed at bringing greater discipline and promoting better standardization among banks and financial institutions in Sri Lanka in a bid to improve the overall customer confidence in the country's banking system.

Awards and Accolades

I am extremely proud to announce that LankaClear received the coveted Gold award, for the very first time, under the SME category at the CA Sri Lanka Annual Report Awards 2016. This was a

very special occasion for the team who worked tirelessly on this task for many years to finally achieve the pinnacle of success. We were also awarded the Silver at the National Business Excellence Awards 2016 signifying our commitment to continued improvement of our business processes. I believe these prestigious awards are a testament to our resolve to achieve success in every aspect of business and operations.

Future Outlook

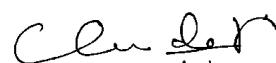
It is satisfying to note that the strategies adopted during the year under review helped the company to not only recover from the declining trend in financial indicators of previous years, but also grow exponentially to record the best ever financial performance. Hence, I believe that the significant progress made in 2016/17 has laid a solid foundation from which the company can reach even higher grounds in the future. I remain extremely optimistic that we are definitely on the right track to fulfil our obligations as the key facilitator in the financial services industry. In doing so, our focus for the immediate future would be to further invest in ICT infrastructure to offer more innovative services that would translate into greater convenience for banking customers. In addition to achieving our ambitious strategic growth objectives for the future, these efforts would also underpin our commitment to bring Sri Lanka closer towards the national endeavour of reaching greater financial inclusivity.

Acknowledgements

In conclusion, I wish to thank the Chairman, the Board of Directors and the Shareholders for the unstinted support extended to me throughout the year. I

take this opportunity to also appreciate members of my management team and staff of LankaClear for their exceptional contributions towards the phenomenal growth of the company during the year under review. I find the commitment of each and every one of you to be truly inspirational.

I would also like to extend my gratitude to our stakeholder banks and financial institutions for their continued support towards the company. Last but not least, I am humbled by the trust placed by banking customers on all inter-bank services provided via LankaClear and would like to offer my heartfelt appreciation for same. I am determined to deploy even more sophisticated technology, which will provide greater customer convenience and help Sri Lanka to attain its goal of becoming a cashless society in the years to come.



Channa de Silva

General Manager/CEO

26th May 2017
Colombo

Board of Directors



Mr. A. S. Amarasuriya

Chairman

Mr. D. M. Gunasekara

Director

Mr. M. U. De Silva

Observer

Mr. P. Mathavan

Director



Mr. M. A. B. Silva

Director

Mr. D. Seneviratne

Director

Mr. C. P. S. Bandara

Director

Mr. A. M. Ali

Director

Mr. S. S. Ratnayake

Director

Board of Directors

Mr. A. S. Amarasuriya

Position: 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 November 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

Mr. Arif M. Ali

Position: Director

Mr. Arif is currently the Regional General Manager for Habib Bank Ltd's operations in Sri Lanka & the Maldives and has over 30 years of experience in banking.

Prior to taking over this role in 2012, Mr. Arif was the CEO for Bank Muscat, Saudi Arabia for 5 years. He was also the Chief Country Officer for Deutsche Bank in Pakistan prior to his move to Saudi Arabia in 2007. Before Deutsche Bank, he held several senior positions with American Express Bank, ANZ Grindlays Bank as well as ANZ Bank in London.

Mr. Arif holds a Bachelor of Science degree in Industrial Engineering & Operations Research and an MBA in Operations Management from Syracuse University.

Mr. D. M. Gunasekera

Position: Director

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

Mr. Gunasekera is a banker by profession with 34 years of diversified banking experience in corporate and offshore banking, sales and channel management and international banking operations. Prior to being appointed the Chief Executive Officer of Bank of Ceylon, he has held a number of key corporate

management positions in these areas. He possesses extensive experience in credit management and administration.

Being a graduate from the University of Colombo, with a Special Degree in Public Finance and Taxation, he has successfully completed the Program on Corporate Management for Sri Lanka (LKCM2) conducted by The Association for Overseas Technical Scholarship (AOTS) Japan and the Advanced Management Program on Corporate Management for Sri Lanka (AMP63) conducted by Wharton University of Pennsylvania, USA. He is also an Associate Member of the Institute of Bankers of Sri Lanka.

He serves as a Non-Executive Nominee Director on the Boards of several subsidiaries and associate companies of Bank of Ceylon including Bank of Ceylon (UK) Ltd. He also chairs the Boards of BoC Management & Support Service (Pvt.) Ltd., Ceybank Holiday Homes (Pvt.) Ltd., the Sri Lanka Banks' Association (Guarantee) Ltd. and the Financial Ombudsman Sri Lanka (Guarantee) Ltd. for the year 2016/2017. He is also a member on the Governing Board of the Institute of Bankers of Sri Lanka (IBSL) and a member of the Association of Professional Bankers (APB Sri Lanka).

He has been appointed as the Vice Chairman of Asia-Pacific Rural and Agricultural Credit Association (APRACA) for the year 2016/2017.

He has also been awarded the '100 GLOBAL SUSTAINABLE LEADERS (CEO)

AWARD' 2016 by the World Sustainability Congress in Dubai. This award is a recognition of most eminent professional and organizations as superlative Sustainability Leaders.

Mr. M. U. De Silva

Position: 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).

Mr. M. A. B. Silva

Position: Director

Mr. Boniface 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 30 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

Mr. P. Mathavan

Position: Director

Mr. Prabhu Mathavan is an Associate Member of the Chartered Institute of Management Accountants (UK) and the Institute of Chartered Accountants of Sri Lanka. He also holds a Bachelor's Degree in Commerce. He possesses over 24 years of experience in the fields of Finance, Auditing, Accounting and Taxation. He serves on the Boards of several other companies of Cargills Group including Cargills (Ceylon) PLC.

Mr. D. Seneviratne

Position: Director

Mr. Seneviratne joined National Development Bank PLC as its Chief Executive Officer/Director on 1 January 2017. He counts more than 26 years of experience in the Banking industry, of which the last 3 years were with Pan Asia Banking Corporation PLC (PABC) where he functioned as Director / CEO. He was instrumental in turning around PABC and transforming it into a high performing mid sized player in the industry.

Prior to that, he spent 15 years with the HSBC Group, where he held key senior management positions including several senior overseas postings covering Thailand, Bangladesh and Saudi Arabia. His last posting with the HSBC Group was as the Chief Risk Officer, Thailand (2011 – 2013). Prior to that he was the Chief Risk Officer Sri Lanka / Maldives (2008 – 2011). He was also the Chief Risk Officer of HSBC Bangladesh in 2010. At HSBC, he was responsible for credit growth, strategy and governance in those respective geographies as a member of the country leadership team. He has gained extensive exposure in Corporate Banking, Retail Banking and Wealth Management, Credit Risk Management, Operations and Market Risk, Internal Control, Investment Banking and Finance.

Mr. Seneviratne commenced his banking career with Sampath Bank and has also served in Overseas Trust Bank, Colombo Branch and Saudi British Bank prior to joining HSBC.

Mr. Seneviratne holds a MBA from the Postgraduate Institute of Management, University of Sri Jayawardenapura, and BSc, from the same University. He is a Fellow Member (FIB) of the Institute of Bankers, Sri Lanka and a Post Graduate Diploma Holder in computer system design from the NIBM. He successfully completed the High Potential Leadership Programme at the Harvard Business School, Boston, USA, in 2016.

Board of Directors

A Past President of The Association of Professional Bankers (APB) Sri Lanka, he has held various positions in the Executive Council of APB for over a decade including the posts of Secretary General (2008 -2009) and Senior Vice President (2009 – 2010).

He currently serves as a Director of the Credit Information Bureau - Sri Lanka.

Mr. S. S. Ratnayake

Position: Director

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

Mr. Ratnayake commenced his career at the Central Bank in 1983 and held the posts of Director of Supervision of Non-Bank Institutions from 2007 – 2010 and Superintendent & Registrar of Public Debt from 2010 – 2011. He holds a BA (Honours) from the University of Kelaniya, an MA from the University of Colombo and an MSc from the Wright State University, USA.

Mr. C. P. S. Bandara

Position: Director

Mr. Bandara holds the position of Additional Superintendent of the Public Debt Department of the Central Bank of Sri Lanka, and has 20 years of experience at the Bank in the areas of financial system stability, economic and price stability, corporate services and agency functions.

Currently, he functions as the Secretary to the Sovereign Ratings Committee. He was the Secretary to the Steering Committee for International Sovereign Bond Issuances by the Government of Sri Lanka; and Payments Reform Steering Committee. He has also served as the Chief Examiner (Information Technology) of Institute of Bankers of Sri Lanka, and was a member of Technical and Steering Committees of LankaClear (Pvt) Ltd.

He was a key player of the project team that implemented the national payments and the scripless securities settlement systems of the country. He was also instrumental in establishing the first on-line communication network between the Central Bank, licensed commercial banks and the primary dealers. He designed and developed the primary auction system for Government securities, the settlement system for open market operations and the on-line financial market monitoring systems of the Central Bank.

Mr. Bandara holds a Bachelor's Degree from the Monash University, Australia, Master's Degree from Charles Sturt University, Australia and a Diploma in Central Banking. He is also a member of the Computer Society of Sri Lanka.

Management Team



Mr. Channa de Silva
General Manager/CEO



Mr. Harsha S Wanigatunga
DGM - IT & Operations



Mr. Rasika L. Galappaththy
Head of Finance



Mr. Lakshman C Palliyaguruge
Head of HR & Administration



Mr. Dilusha Karunarathna
Senior Manager - IS Audit



Mr. Roshan Hettiarachchi
Head of Clearing Systems



Mr. Dilantha Samarasinghe
Head of IT Infrastructure



Mr. Isuru Jayaweera
Head of Bank Services



Mr. Hemanthe Samaliarachchi
Head of Certification & Integration



Mr. Lakshman Liyanage
Senior Manager - Projects



Mr. Dimuth Weerasinghe
Manager - Facilities & Maintenance



Mr. Danushka Uyanahewage
Senior CITS Manager

Management Team



Mr. Duleep Liyanage
Manager - IT Security Solutions



Mr. Indika Fernando
Manager - Systems Operations



Mr. Asela Hapuarachchi
Manager - HR & Administration



Mr. Delan Wimalaratne
Manager - EFT and Mobile Systems



Mr. Hasitha Dissanayake
Manager - Network Operations



Mr. Duleep Fernando
Manager - Contracts & Agreements



Ms. Wayomi Gunathilaka
Manager - Business Development
and Brand Promotion



Mr. Dhammika Guruge
Manager - Network Security



Mr. Shehan Wijewickrama
Management Accountant



Mr. Loshan Wickramasekara
Manager - Information Security



Ms. Rasika Wickramanayake
Manager - Procurement



Be wise by using your limited time for **things that truly matter**

We are not there to determine what is important in your life. Whether it be spending time with family, furthering your career or even making money, we ensure that you spend less time in queues so you have more time for things that matter in life.

Value Creation Model

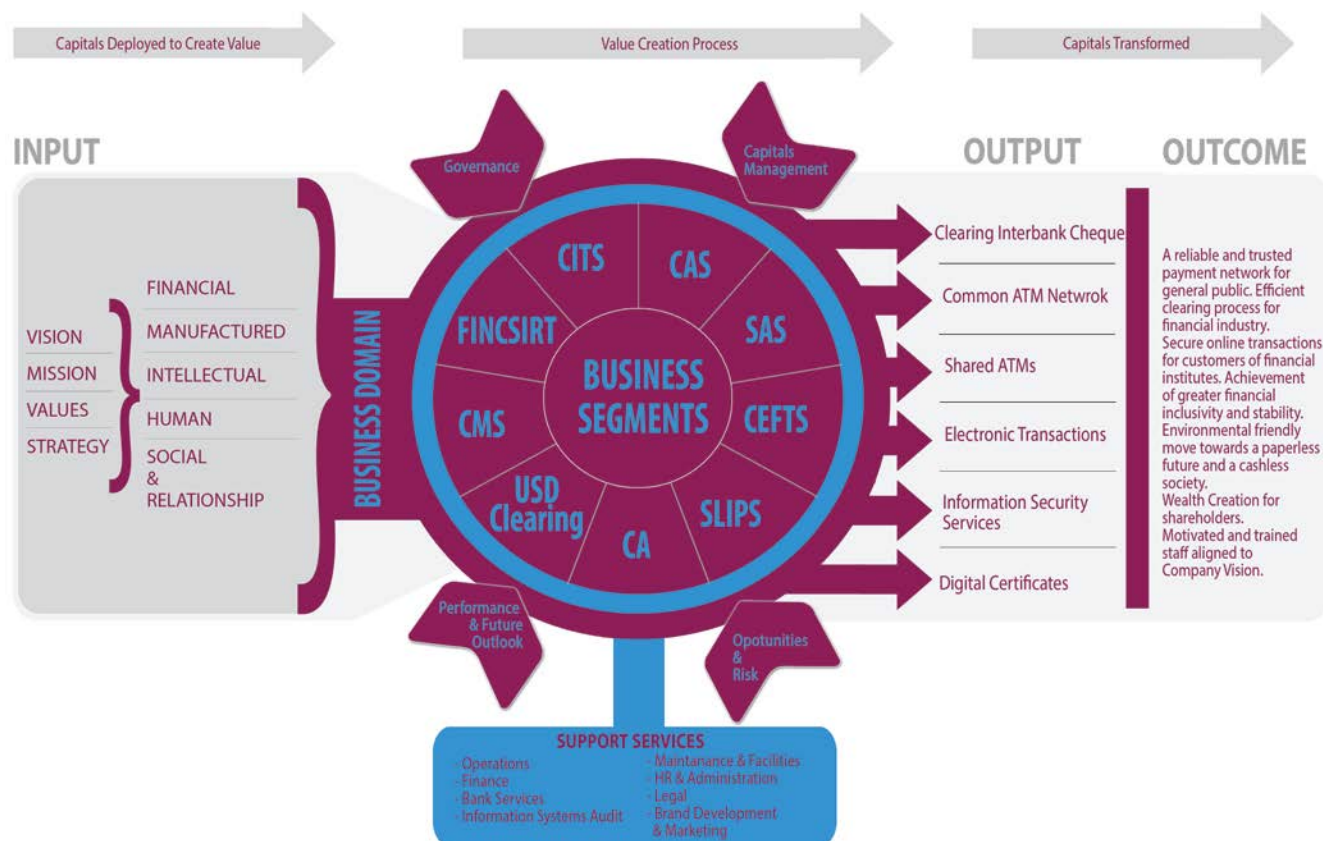
Value creation is considered the primary objective of any business entity. It is obvious that most of the successful organisations understand that the purpose of any business is to create value for its customers, employees and investors, as well as its shareholders.

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,



Corporate Strategy and Resource

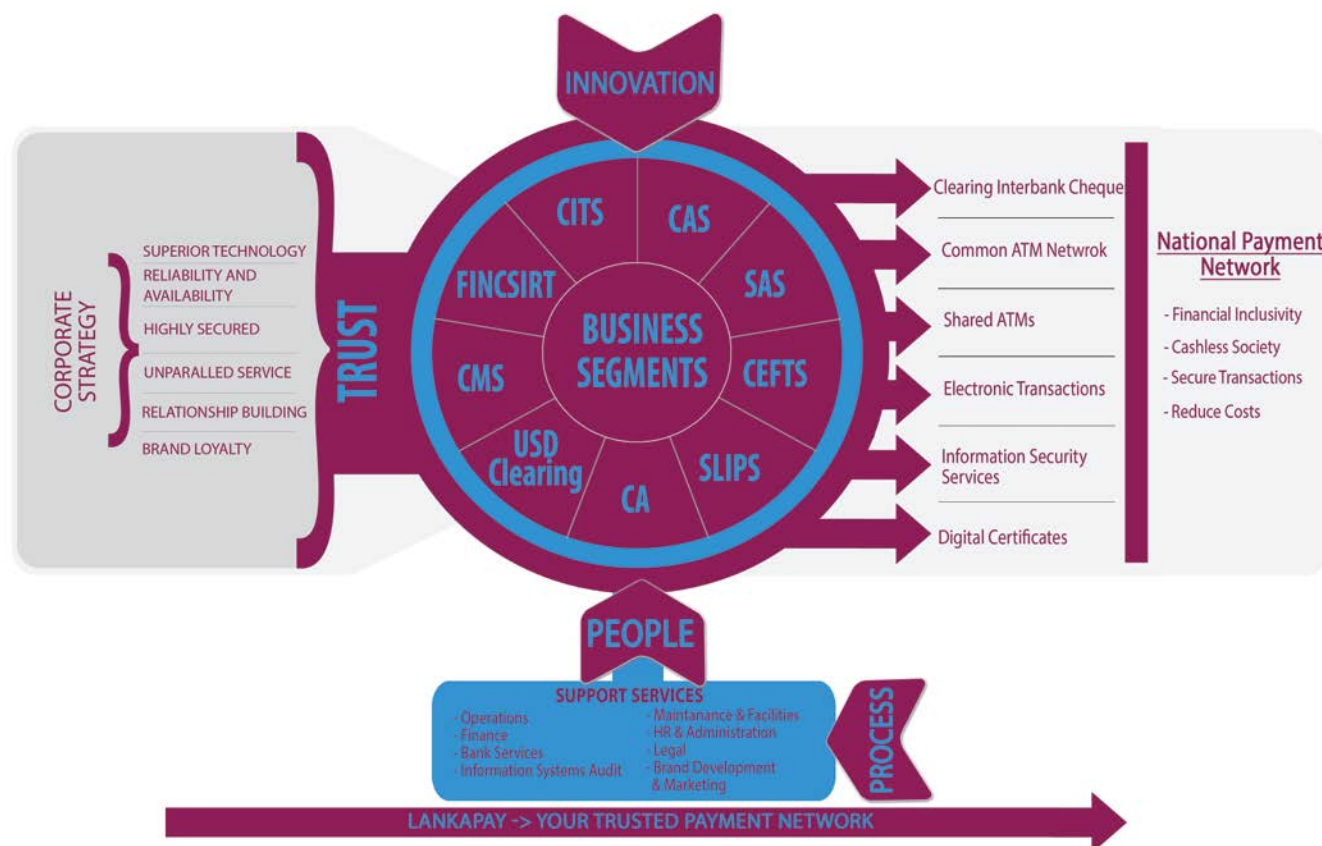
LankaClear clearly identified that its pathway for growth and the mechanism to get the company along this journey could only be achieved by answering the two strategic questions “Where does the organization want to go? How does it intend to get there?” through its vision and mission statements. The company has the long-term objective of becoming Asia’s most trusted and reliable payment network while aims to achieve this via facilitating high quality electronic financial services at affordable prices in a secure, reliable and convenient manner to all Sri Lankans.

Asia consists of many sophisticated and emerging power houses in the global economy and LankaClear’s aim is to

deploy world class payment systems to ensure all Sri Lankans are in a better footing to meet regional challenges. The organization’s strategic objectives are listed under the strategic section and discussed throughout the report under various sections.

Stemming from last year’s corporate strategy of the company to be recognized as the ‘Trusted National Payment Network’, we have sharpened our focus this year by looking at what would the citizens of the country achieve from such a network. We have identified that positive user experience is a primary driver for adopting technology based payments while the end result of such convenience would lead to saving of

valuable time for everybody. In order to get the general public to move towards convenience, all our effort for the year has been to position the theme ‘value of time’ and change people’s perceptions as to why they should be looking to save time. Hence, our main objective for the year under review was to reinvent and reposition the perceptions of banking customers towards engaging in technology based payments by utilizing the LankaPay network. The strategies executed in this regard are discussed in detail under CEO’s Review and Marketing Strategy and further explained under below business model.



Corporate Strategy and Resource

Some of the other key differentiators that the organization depend on to give itself a competitive advantage are below. In terms of resource allocation, it is also geared to create value in the entire value chains as discussed below.

Using Advanced Technology

The platform for LankaPay network is based on a reliable and operationally proven technology backend, which is highly scalable and secure. This superior backend technology platform has been implemented in multiple countries as their National Payment Switches and other Payment Networks. The current switch has been tested and proven to process approximately 7 Mn commercial transactions a day. The system is well tested and has already been implemented on scalable and world-class enterprise level Hardware and System Software infrastructure in many instances.

Maintaining Reliability and Availability

The primary objective of the operational team at LankaClear was to maintain an uptime of 100% throughout the year for all our systems. The network was safeguarded by a tried and tested Business Continuity Plan and our own State of the Art Disaster Recovery Site (DRS) to ensure the high Reliability and Availability of the network. We are using clustering for high availability for all Systems in the Primary Data Center (PDC), while data is replicated to DRS in real-time. This is to ensure that PDC has extreme high availability at all times and even in the unlikely event that the PDC becomes non-functional, DRS can be activated immediately.

No compromise on High Security across all systems

LankaClear achieved world renowned PCI-DSS certification, which is regarded as the top notch security standard in the payment card industry, during the year under review as the first entity in the country to do so. Hence, all systems of LankaClear have been designed and implemented with the highest level of security in mind and are currently PA-DSS certified aligned with ISO 27001 standards in addition to the above certification. The advance use of MACing and Dynamic Key management ensures greater security has been brought in to all payment systems. 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 to justify our status as 'Trusted National Payment Network'.

Service to be second to none

LankaClear provides round-the-clock 24X7 support service to our member banks and financial institutions by maintaining the highest levels of service at all times. This service is maintained by highly skilled and trained staff whose performance is evaluated based on the feedback of the customers they serve. In addition, we also provide banks and financial institutions with incident related support and proactive alerts and Security Operations Center (SOC) services via FinCSIRT. The FinCSIRT team provides critical security support to our members 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.

Relationship Building is key to ensuring trust

We have improved relationships with our member banks and financial institutions by working closely with them and building their trust on our network and people. In order to achieve this objective, during the year under review, we conducted many one-on-one engagements, discussions and presentations with all financial institutions to increase trust on LankaPay 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. We also commenced an annual cricket competition among the members, for the first time, to improve relationships at multiple levels.

Key to Success is Innovation

In order for us to be successful and be a competitive force in the market, we identified that our focus should be to implement a host of innovative electronic payment systems to keep abreast with rapidly changing technology landscape. During the current financial year, a number of new innovations went live including Online Image Transfer Solution for Cheque Image and Truncation System (CITS), launch of JustPay via CEFT and Deployment of LankaPay Online Payment Platform. The new additions to LankaPay portfolio; Common POS Switch (CPS) and Common Mobile Switch (CMobS), continued to experience teething issues, prompting us to revisit the fundamentals of each product in order to reorient the respective operational models in tandem with market dynamics. As part of this effort, a process was put in operation to identify a suitable International

Card Scheme (ICS) to partner with in launching a National Card Scheme (NCS). Meanwhile CMobS, which was introduced to facilitate mobile wallet-to-wallet payment transactions, continued to remain a slow mover in the market. Hence, in order to operationalize CMobS, we decided to certify third party mobile wallet application vendors during the year under review to provide banks with multiple options to select their mobile wallet application from.

People are our most important asset

The management of LankaClear identified that development and motivation of our people was the primary key for long-term success and many initiatives were carried out during the year to encourage collaboration among staff. 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. The management decided to continue with the successful initiatives commenced during the previous year such as 'Voice of Change', 'Crowd Sourcing' and 'Engagement awards'. LankaClear also launched a new initiative called "Peduru Party" during the year to increase inter-departmental engagement to encourage collaboration in order to build a high performance culture. The investment in training and development was also a key enabler and a crucial item in the HR calendar for the year.

Process Improvements

The process of all of LankaPay support services underwent significant improvements to strengthen the operations by adhering to a structured mode of activity and ensuring continuous

improvements to operational manuals. Further, Operations were audited on a regular basis 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.

Monitor achievements

In order to monitor the achievements of LankaClear, measurements had to be done in two facets i.e. organization achieving the objectives provided to it through the national agenda via Central Bank of Sri Lanka and banking fraternity whilst running as a profitable organization. The expectations of the Central Bank of Sri Lanka and banking fraternity were identified under stakeholder engagement section and the achievements have been discussed. With regard to measure the profitability, annual budgets were submitted for the board of directors at the beginning of the financial year for them to evaluate against the final achievements at the end of the year.

Achievement is only based on Outcome

LankaClear believes that the only way to determine the ultimate achievement is to measure the outcomes on a regular basis. Hence, as a final outcome of the above strategic initiatives, we wanted to achieve a higher growth in the inter-bank financial transaction volumes across all our solution offerings. We recognized that the way forward to achieve the

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above high level outcomes was to change the perceptions of general public to value their time and adopt technology based financial services that are convenient. Finally, we understood that our ultimate objective had to be to support the country's vision of ensuring financial inclusivity and move towards a cashless society.

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 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 215,482 cheques are cleared through LankaClear each business day, through CITS. CITS has even cleared as much as 486,075 cheques on certain days during the year under review. There has been an increase of 4.55% in cheque

NATIONAL PAYMENT NETWORK



Secure and fast realisation of payments within a stable infrastructure facilitates efficient payments and settlements. LankaClear 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.

clearings during the year 2016/2017, 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 512,010 transactions per day, at times. LankaPay - CAS had an average of 71,297 approved transactions cleared per day, and the maximum number of approved transactions cleared during a day through the CAS during 2016/2017, amounts to 166,310. LankaPay - CEFTS has cleared 4,006 transactions on average per day during 2016/2017 and the maximum cleared volume amounts to 10,752 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 99.96% system up-time and achieved 99.81% 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 2016/2017 as compared with 2015/2016 are depicted in the given diagrams:

The total number of cheques cleared in 2016/2017 through CITS amounts to 52.58 Mn compared to 50.29 Mn in 2015/2016. This is an increase of 4.55%.

The total value of cheques cleared in 2016/2017 through CITS amounts to Rs. 10,003 Bn compared to Rs. 8,792 Bn in 2015/2016. This is an increase of 13.77%.

1.1 Settlement Clearing (Cheque Returns)

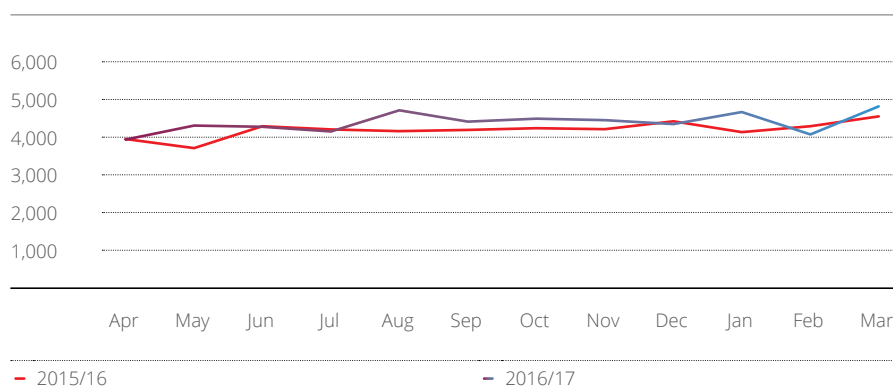
Cheques are still the most convenient and preferred non-cash payment instrument for commercial transactions in Sri Lanka. 3.7% of the cheques presented for clearing were returned unpaid due to various reasons. Of the total cheques returned, around 46% were due to lack of funds.

The total volume of cheques returned and the total value of cheques returned during 2016/2017 as compared with 2015/2016 are depicted in the given diagrams:

The total number of cheque returns in 2016/2017 through CITS amounts to 1.92 Mn compared to 1.65 Mn in 2015/2016. This is an increase of 16.36%.

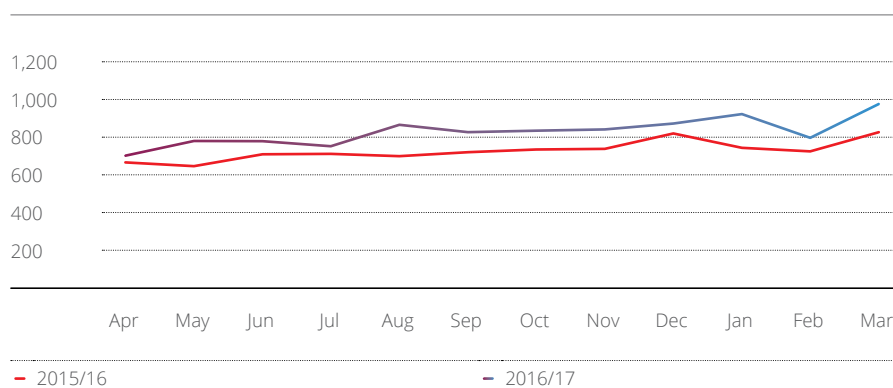
Cheques Presented for Clearing - Volume Wise

'000



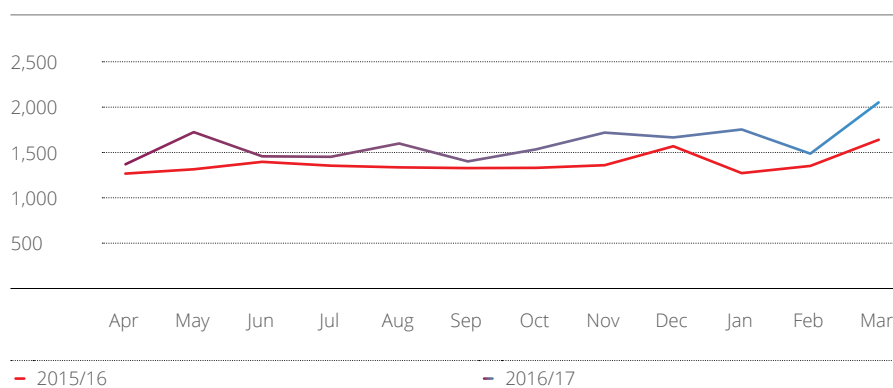
Cheques Presented for Clearing - Value Wise

Rs. Bn



Cheque Returned for Clearing - Volume Wise

'00



Operations Review

The total value of cheque returns in 2016/2017 through CITS amounts to Rs. 281.01 Bn compared to Rs. 204.08 Bn in 2015/2016. This is an increase of 37.70%.

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.

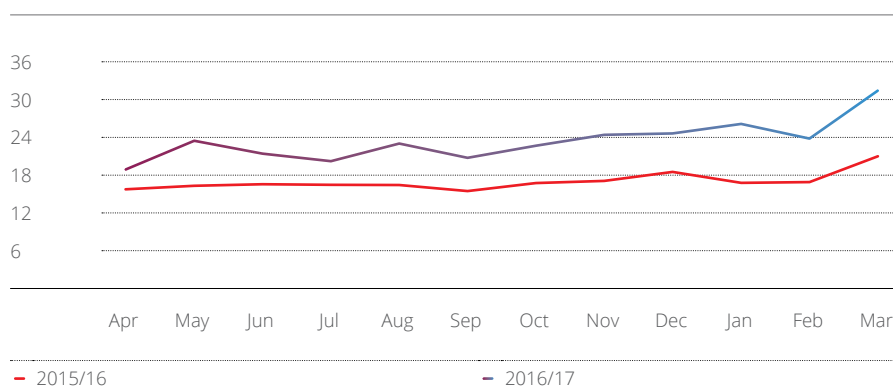
An average volume of 113,295 transactions pass through SLIPS during a business day and on a high volume day, the transaction volumes have reached 512,010.

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

The total volume of items cleared through SLIPS in 2016/2017 amounts to 27.64 Mn, compared to 24.09 Mn in 2015/2016. This is an increase of 14.76%. The total value of items cleared through SLIPS in 2016/2017 amounts to Rs. 1,547.95 Bn compared to Rs. 1,247.89 Bn in 2015/2016. This is an increase of 24.0%.

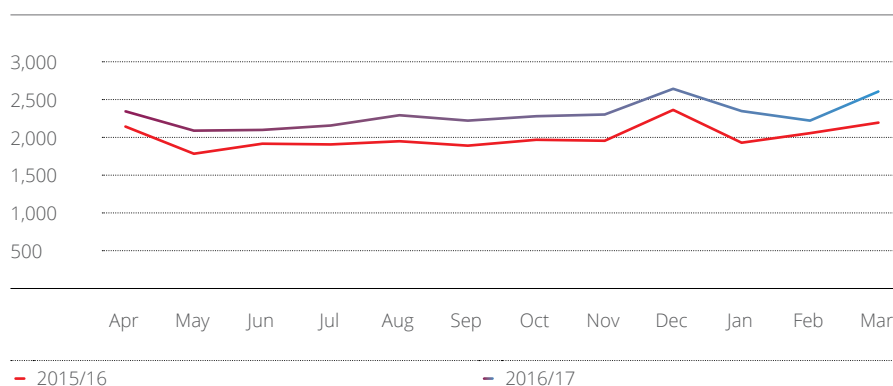
Cheque Returned for Clearing - Value Wise

Rs. Bn



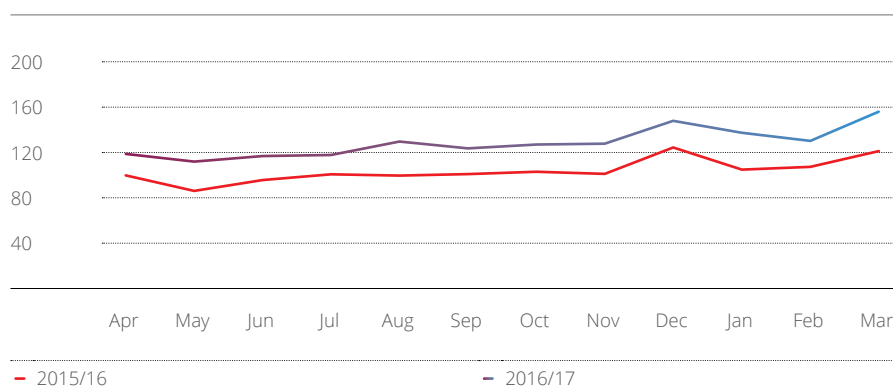
Sri Lanka Inter Bank Payment Systems - Volume Wise

'000



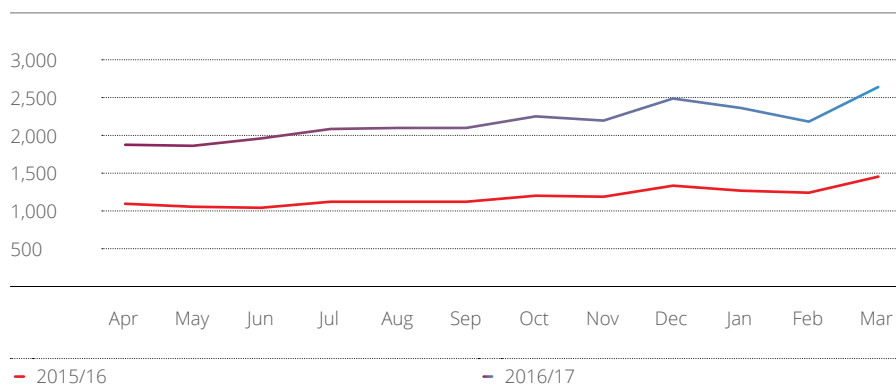
Sri Lanka Interbank Payment Systems - Value Wise

Rs. Bn



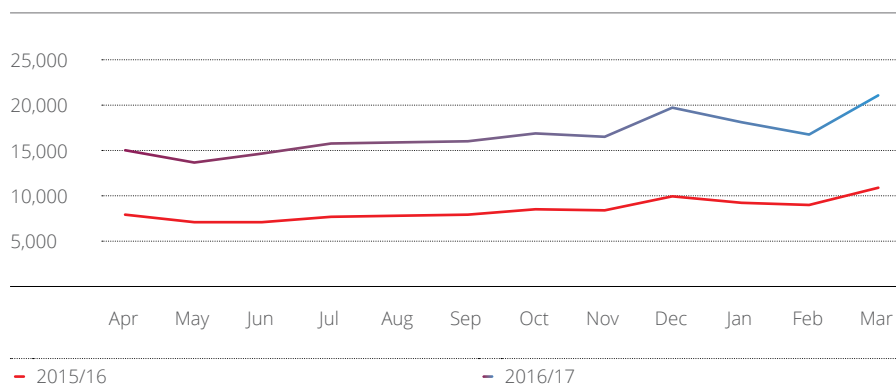
LankaPay - CAS Total Volume of Cash Withdrawals

'000



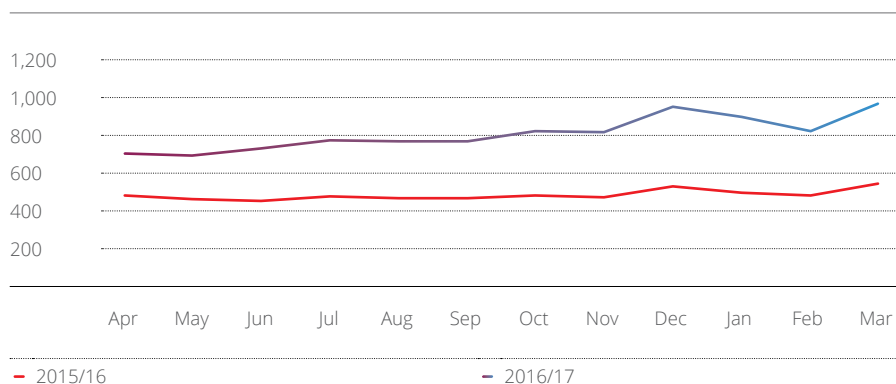
LankaPay - CAS Total Value of Cash Withdrawals

Rs. Mn



LankaPay - CAS Total Volume of Balance Inquiry

'000



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

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

Phase I of CCAPS, LankaPay - CAS (Common ATM Switch) was launched on 23rd July 2013 with the two state sector Banks namely, Bank of Ceylon and People's Bank. At the end of the financial year under review, the switch contains 24 members.

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 given diagrams.

Operations Review

The total volume of cash withdrawals in 2016/2017 amounts to 26.02 Mn compared to 14.18 Mn in 2015/2016. This is an increase of 83.47%. The total value of cash withdrawals in 2016/2017 amount to Rs. 199.81 Bn compared to Rs. 101.05 Bn in 2015/2016. This is an increase of 97.7%. The total number of balance inquiries amounts to 9.69 Mn in 2016/2017 compared to 5.79 Mn in 2015/2016. Currently, an average of approximately 97,853 approved transactions pass through LankaPay – CAS each day and the highest number of transactions cleared during a day in CAS during 2016/2017 is 166,310. It is interesting to note that there is a month-on-month average growth in cash withdrawals of around 5.62% during the period of review.

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

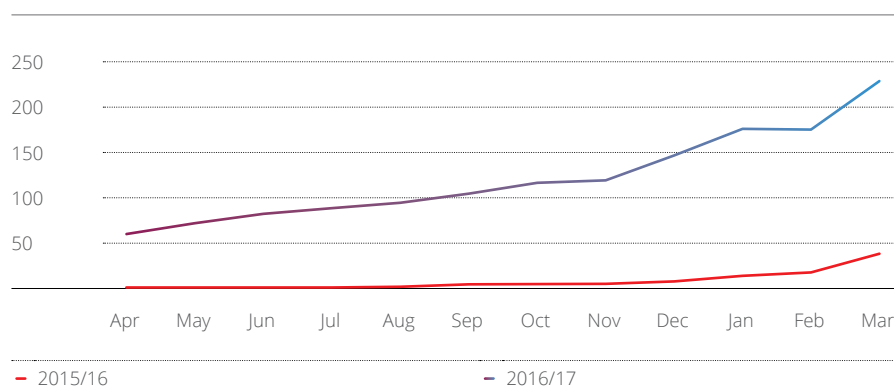
The LankaPay – CEFTS is the National real-time fund transfer switch that was launched on 20th August 2015 and operates 24x7x365. LankaPay – CEFTS has enabled greater customer convenience due to funds being credited to a beneficiary account at a fraction of a second, ensuring highest security and trust.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

The total volume and value of transactions cleared in LankaPay – CEFTS during 2016/2017 and 2015/2016 are depicted in the given diagrams:

The total volume of transactions cleared through LankaPay – CEFTS in 2016/2017 amounts to 1.46 Mn compared to 0.09 Mn in 2015/2016. This is an increase of 1553%. The total value of cleared transactions in 2016/2017 amount to Rs. 107.88 Bn compared to Rs. 5.74 Bn in

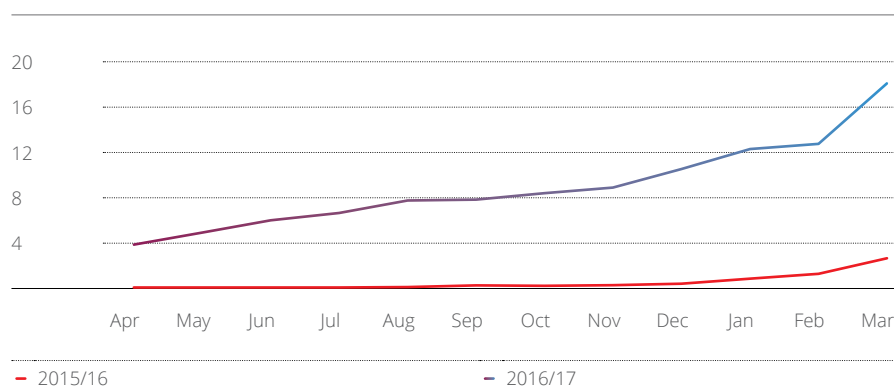
LankaPay - CEFTS Total volume

'000



LankaPay - CEFTS Total Value

Rs. Bn



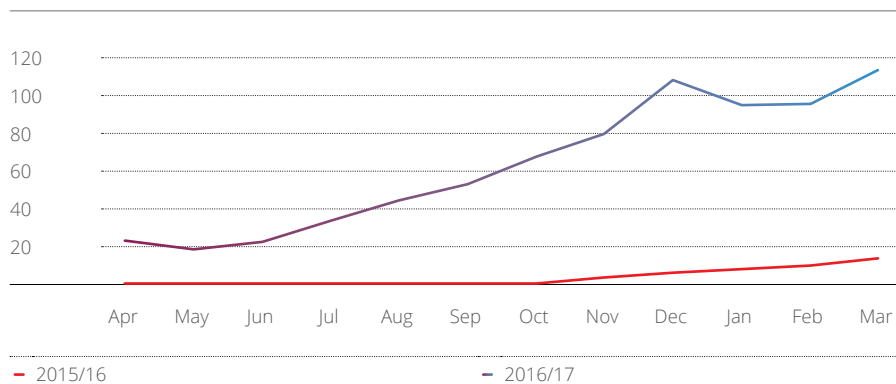
LankaPay - SAS Total Volume of Cash Withdrawals

Volume



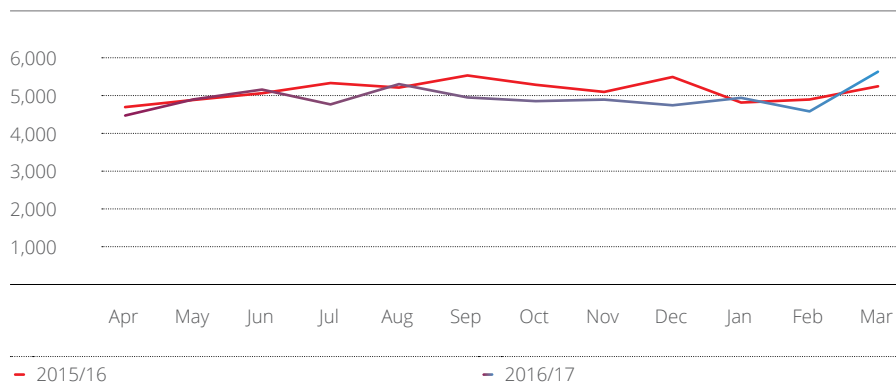
SAS Total Value of Cash Withdrawals

Rs. Mn



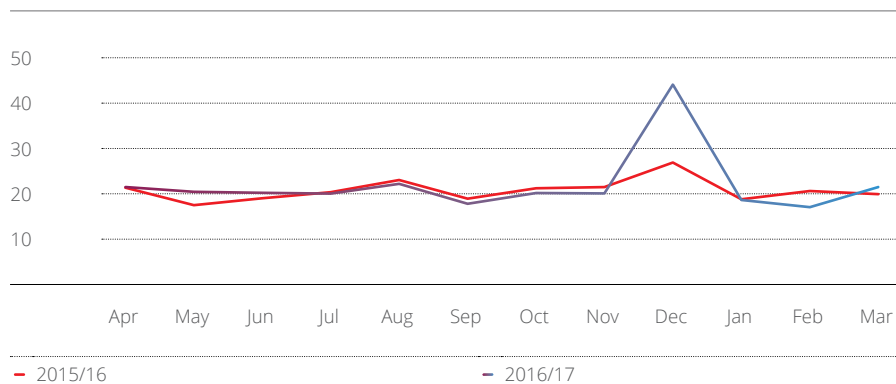
US Dollar Draft Clearing - Volume Wise

Volume



US Dollar Draft Clearing - Value Wise

USD Mn



2015/2016. This is an increase of 1779%. Currently, an average of approximately 4,006 transactions pass through LankaPay – CEFTS each day and the highest number of transactions cleared during a day in CEFTS during 2016/2017 is 10,752.

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.

The total volume and value of transactions cleared in LankaPay – SAS during 2016/2017 and 2015/2016 are depicted in the given diagrams:

The total volume of cash withdrawals in 2016/2017 amounts to 79,440 compared to 4,875 in 2015/2016. This is an increase of 1530%. The total value of cash withdrawals in 2016/2017 amount to Rs. 753.5 Mn compared to Rs. 42.6 Mn in 2015/2016. This is an increase of 1669%.

6. US Dollar Draft Clearing System

The total number of items cleared through US Dollar Clearing in 2016/2017 amounts to 59,247 compared to 2015/2016 of 61,652. This is a decrease of 3.90%.

The total value of items cleared through US Dollar Clearing in 2016/2017 amounts to US\$ 263.3 Mn compared to 2015/2016 of US\$ 249.1 Mn. This is an increase of 5.70%.

Operations Review

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 contains 11 members.

The total volume and value of transactions cleared in US Dollar Online Payment System during 2016/2017 and 2015/2016 are depicted in the given diagrams:

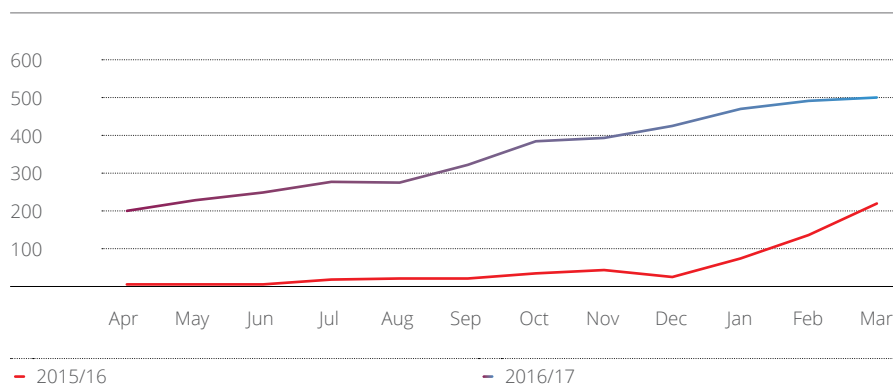
The total number of transactions cleared through the US Dollar online payment system in 2016/2017 amounts to 4,214 compared 561 in the year 2015/2016 which is an increase of 651%.

The total value of items cleared through the US Dollar online payment system in 2016/2017 amounts to US\$ 111.7 Mn compared to US\$ 18.7 Mn in the year 2015/2016 which is an increase of 496%.

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.

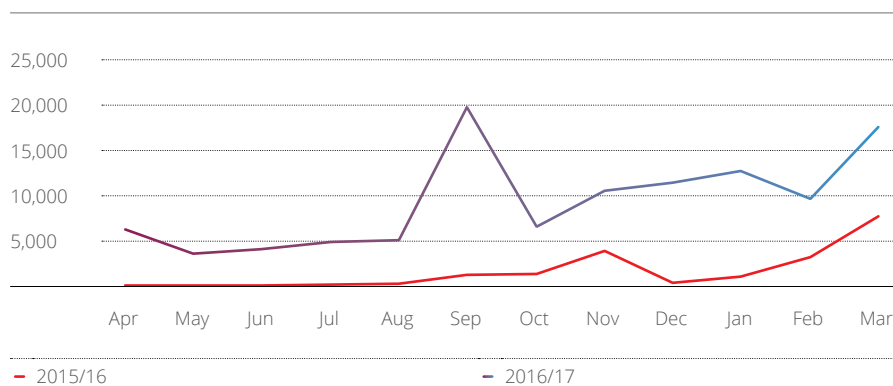
USD Online Payment System Total Volume

Volume



USD Online payment system Total Value

USD In '000



System Security & High Availability

Security and availability are of paramount importance for any National Payment Network. All LankaClear payment systems are designed, implemented and operated following industry best practices in information security in addition to high availability and reliability. The end result is that the general public are able to make use of payment instruments inter-institution with peace of mind saving their valuable time.

The LankaPay - National Payment Network, uses the best in class technologies for all its infrastructure implementations. The company exercises its mandate diligently as the National Payment Network by offering high availability and secure payment solutions, thereby transferring the benefits of its strategic investments and modernisation efforts to the general public via the financial industry. LankaClear firmly believes that it does live up to its motto of "Your Trusted Payment Network" by adhering to stringent security and performance benchmarks.

IT System Security

The feather in LankaClear's information security compliance cap is obtaining prestigious PCI-DSS certification for its critical payment systems which handle payment card data, as detailed under "Information Security - LankaPay on-line National Payment System" in this report.

Following a robust information security discipline, LankaClear has continued to develop and improve all its enterprise IT systems and processes in alignment with ISO 27001 suite of Information Security Management Systems standards:

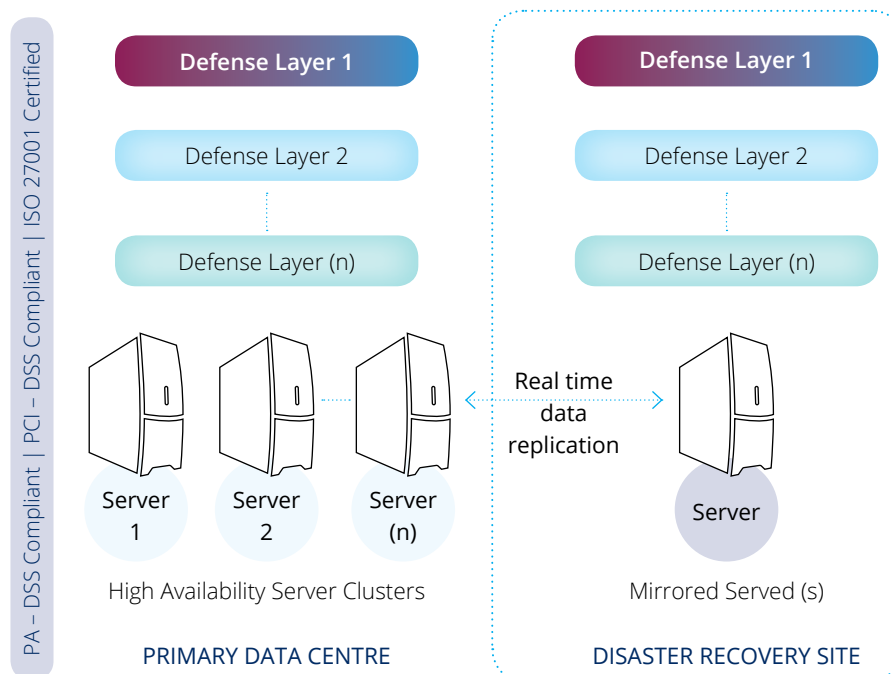
- A layered design strategy has been adopted, segregating the network into discrete functional layers. Each

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 design is modular to accommodate the segregation of diversified functions in the network whilst facilitating scalability, high availability and performance without compromising security.
- All payment system applications and their underlying databases are designed incorporating encryption and hashing in line with the principles of stringent industry standards such as PCI PA-DSS. This enables LankaClear IT systems to be aligned to ISO/ IEC 27001 and PCI-DSS standards.
- IT Security Policies and Procedures are implemented in alignment to the ISO/ IEC 27001:2013 and certified to PCI -DSS standards.
- Risk analysis, proactive intelligence gathering and risk treatment is carried-out as an on-going exercise, not only as a requirement of continuing PCI-DSS compliance of critical payment applications but also to ingrain information security in LankaClear DNA.

System Availability and Uptime

LankaClear designs and operates "clustered environment" to ensure that payment application systems continue to function, in the event of a failure of underlying IT infrastructure component, such as a server or a network router server. This enterprise scale clustered IT environment is designed by adopting application and database 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, providing for better IT resource utilisation, monitoring and management.



System Security & High Availability

The above diagram depicts the general blueprint of the enterprise scale IT systems at LankaClear.

The aforesaid robust and scalable IT infrastructure along with our continued process and technology improvements, ensured that our payment systems are always available to serve the general public, a claim which is supported by:

- During the current financial year CITS achieved a System Up-time of 99.96%.
- CCAPS, the Payment Switch branded as LankaPay National Payment Network had an uptime of 100%.
- End-end SLIPS switch-over time was improved from a couple of hour to around 15 minutes with the implementation of on-line replication of BCM data between Primary and DR sites.
- Two live DR operations were conducted for each payments system. The improvements made to Business Continuity Planning (BCP) and Disaster Recovery (DR) processes ensured that CCAPS switch-over times were limited to less than 4 minutes.
- Member banks are now not required to do any network re-configurations whatsoever at their end to accommodate DR movements involved with LankaClear payment systems.

The high availability features and improvements made during the year in “People, Process and Technology” has ensured that banks, other financial institutions and the general public get the most secure environments to carry out their daily financial transactions without being inconvenienced by intermittent service interruptions due to IT, systems or network failures - *Yes, we value every second of your time.*

LankaClear achieved a significant milestone in the history of the company to affirm its status as the trusted national payment network in the country by being the first and the only entity in Sri Lanka to obtain Payment Card Industry Data Security Standard (PCI-DSS), version 3.2 certification. Obtaining PCI-DSS certification status is considered to be achieving the highest security standard in the payment card industry.

PCI-DSS certification involves a very rigorous and exhaustive audit process and achieving such a standard is a testament that LankaClear has its “People, Process and Technology” standards and practices fully geared towards meeting an internationally recognized level of trust in payments for its participant banks, financial institutions and general public.



Why PCI-DSS?

With the growing number of payment card data security incidents the world over, today, data security is of paramount importance. The fact that vulnerabilities can't be totally eliminated, no organization can be immune to card data thefts. The Payment Card Industry Security Standards Council (PCISSC), governing body of PCIDSS, came up with a unified information security program for the payment card industry, which saw the debut of the Payment Card Industry Data Security Standard (PCI-DSS), along with some of the other supporting

standards such as PA-DSS, PCI-PIN and P2PE providing international best practices for securing payment card data.

Further, when security threats are identified globally, PCI-DSS is updated as required in order to ensure that the standard is always relevant and up to date and certified agencies are required to comply with updated standards ensuring the best possible security measures are in place to combat card data thefts.

Security Products and Services

Transformation of a struggling business unit in to a Profitable Business: LankaSign Certification Service Provider

Background of LankaSign Security Solutions

The Payment Industry in Sri Lanka has evolved towards greater efficiencies and customer centricities, which has resulted in high reliance on advance technology. The use of the Internet and electronic transactions have evolved rapidly in Sri Lanka facilitating greater customer convenience and attracting new customers, irrespective of their demographics.

Though advance technology brings about many advantages to institutions and its customers, it also brings in greater risks of information security and electronic fraud. Therefore, as the use of electronic payments (e-payments) increases, the need for advanced IT security systems become critical in order to mitigate the risks associated with information security and unauthorized accesses.

Catering to the niche market segment of Public Key Infrastructure (PKI) Technology, LankaSign, the Certification Service Provider (CSP) that functions under LankaClear, enables secure exchange of financial data within the national payment system. As the only commercially operating digital CSP in the country, LankaSign provides integrated digital security solutions with the use of Digital Certificates.

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.

Business development and growth

Ending the negative revenue trend, LankaSign reported an approximate revenue hike of 109% YOY recording a total revenue of Rs. 10,994,176 compared with the Rs. 5,251,600 in 2016/17 financial year.

Revenue Trend;

LankaSign recorded a significant operating profit of Rs. 5,758,037.00 compared to the marginal loss of Rs. 152,717.00 incurred in the previous financial year. With the recorded profits, the business unit has put an end to its negative profits trend since 2013/14 financial year.

Profit/Loss Trend;

New business initiative / prospects; Changing the marketing strategies, LankaSign adopted a mechanism of enhancing security requirements of National Payment Network by providing new security solutions. As a result, CITS system was enhanced with online image transfer solution with end to end encryption.



JustPay, a system to facilitate low value cash based transaction via smart devices would be powered by LankaSign Security SDK to cater to the requirements of mobile application security and digital signing requirements of mobile and online users. Currently LankaSign is in the process of upgrading its systems to a full-fledged commercially operational CSP to address the business requirements of the future. By doing so, LankaSign is expecting to provide online real time certificate issuance competing with international service providers.

In the upcoming financial year, LankaSign is expected to be in line with the government policy of doing business online and expand its services to government organizations with its security products and customized solutions.

Further, the IT Security Solutions division is also expected to address the niche market segment of specialized data center hosting facilities.

Contributing back to the Society;

Apart from sponsoring numerous security events, LankaSign also sponsored the CICRA Security Summit 2016 for the 3rd consecutive year, which was held at the Cinnamon Lakeside Colombo to support cyber security awareness in the country.

Security Products and Services

LankaSign actively participated in roundtable Discussions on 'Acceptance of Electronic signatures: strengthening Sri Lanka's trade related government services' organized by Ceylon Chamber of commerce on sharing required domain knowledge and its experience gained through the years on active participation on issuing and managing electronic signatures to the financial sector of Sri Lanka.

Currently LankaSign is hand holding SL Customs on its efforts to digitize its clearance operations online by facilitating the required Digital Certificates and PKI infrastructure.

FinCSIRT Services (Financial Sector Computer Security Incident Response Team)

FinCSIRT (Financial Sector Computer Security Incident Response Team) was established as a joint initiative of the Central Bank of Sri Lanka, Sri Lanka CERT 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 industry to strengthen the security infrastructure of the entire sector.

FinCSIRT was launched on 1st July 2014 as a pioneering initiative in the South Asian region, and as at 31st March 2017, 34 Commercial Banks, Licensed Specialized Banks, Finance Companies and Primary Dealers have joined as members to obtain its services.

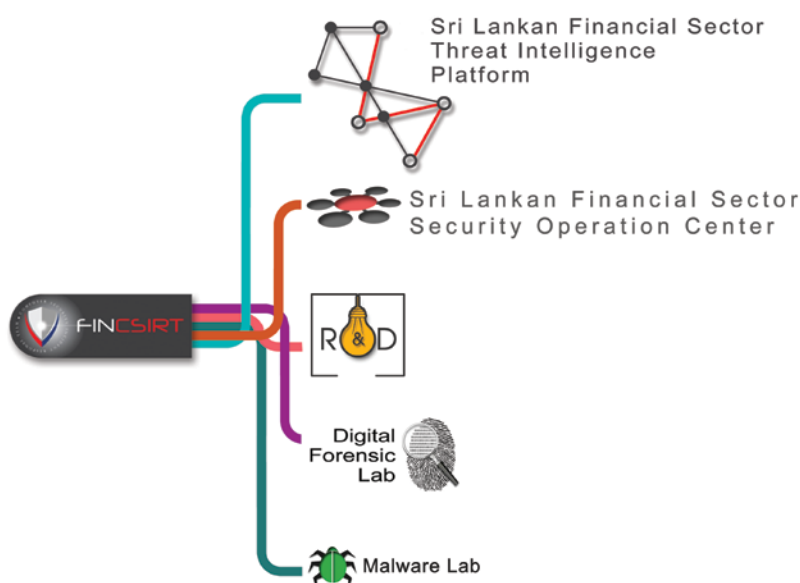
With the rapid advancement of the threat landscape, FinCSIRT has spread its wings to address multiple areas of information security requirements in the Sri Lankan Financial sector, thus, further addressing the needs of its members. Commencing

its operations by providing proactive services, FinCSIRT has come a long way where it now provides both proactive and reactive incident support by responding via the only Security Operation Center (SOC) that functions in Sri Lanka, which is completely focused at the Sri Lankan Financial Sector. It further connects to a threat intelligent platform where the intelligence is gathered from various threat intelligence sharers around the world and provides a better perspective towards the threats that may be heading towards the financial Sector in Sri Lanka.

The Information Security Risk is an area that needs to be addressed by collective collaboration of the entire Sri Lankan Financial Sector, individual organizations and FinCSIRT to address unique and common perspectives. FinCSIRT functions under the governance of the Steering committee headed by Central Bank to implement baseline security standards (BSS) to the sector as well as to discuss and provide the expertise on certain information security issues. Further, FinCSIRT provides its services to all its members as an information security consultant to uplift their information security resiliency against the internal and external threats while working with member staff and their connected external parties, such as vendors.

FinCSIRT brings more value, to the sector with the Point of Contact Forum (PoC forum), which meets every quarter, where technical discussions and policy related matters are discussed with the FinCSIRT member organization representatives pertaining to individual organizations as well as the entire sector.

FinCSIRT has further plans to implement its own cyber forensic division, which would bring more value to the sector in the future and at the same time to operate its own malware and phishing labs to analyze incidences in-depth in order to identify attacks and conduct research to explore other possible ways to address information security issues effectively and efficiently.

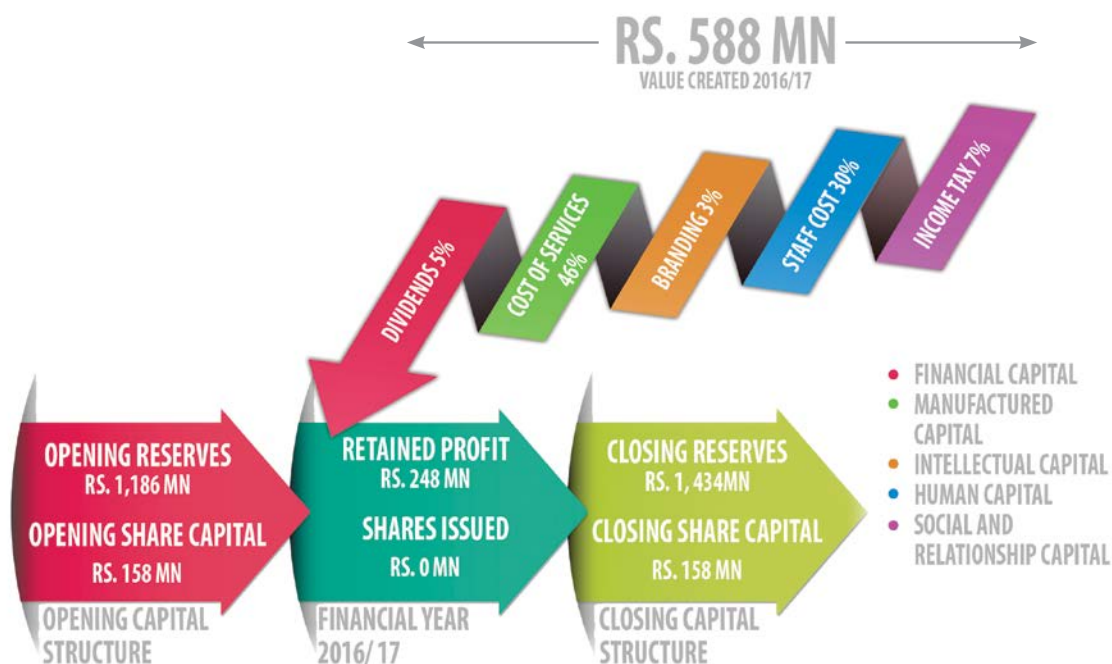




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Financial Capital



Financial Review

Overview

Year 2016/17 had been a momentous one for LankaClear (LCPL) on many fronts as reflected in the financial results. LCPL has recorded the highest ever Revenue of Rs.801Mn (against 2015/16 – Rs. 602 Mn - YOY Increase 33%), Gross Profit of Rs.390Mn (against 2015/16 – Rs. 262 Mn - YOY Increase 49%), Profit Before Tax of Rs.322Mn (against 2015/16 – Rs. 185 Mn - YOY Increase 74%) and Profit After Tax of Rs.278Mn (against 2015/16 – Rs. 174 Mn - YOY Increase 60%).

In line with previous year's closing remarks of the financial review, the anticipated consolidation of the existing product lines and increased revenue through greater market penetration via product development and promotion

The company revenue continued to grow at a rapid pace, ending the year recording a revenue of Rs.801Mn where the increase was a significant 33%.

led to the achievement made financially. Increased participation for CCAPS product lines driven by new participants joining the network, customer centric deeper marketing strategies and further introduction of innovative technologies had been the cornerstones for these numerous financial accomplishments.

Revenue

The company revenue continued to grow at a rapid pace, ending the year recording a revenue of Rs.801Mn (2015/16 - Rs. 602 Mn) where the increase was a significant 33%. Most importantly the clearing systems under CCAPS remained the main contributors for the revenue growth for this year as well. Revenue from clearing systems under Common Card and Payment Switch (CCAPS) has increased by Rs.112Mn (against 2015/16 – Rs.73 Mn) which is a growth of 69% YOY (against 2015/16 – 81%).

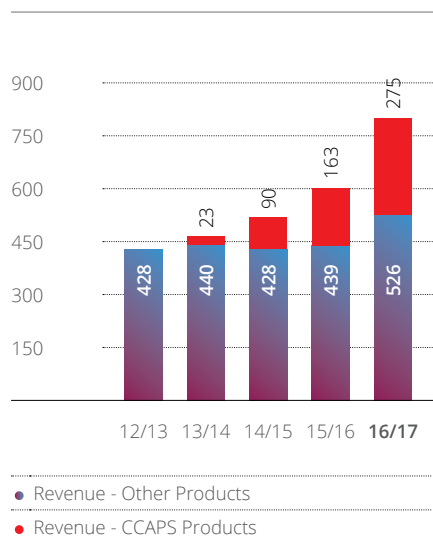
During the year 10 new participants joined CAS, which brought the total number of participants to 24 by the end of the year. For the new product line CEFTS, SAS and CMS we ended the year with 24, 1 and 1 participants respectively.

Whilst clearing systems under CCAPS brought in a total joining fee of Rs.62Mn (against 2015/16 – Rs.56Mn), the transaction revenue has continued to increase impressively due to enhanced participation for CCAPS product lines with crucial participants joining the network and the adoption of customer centric deeper marketing strategies. Transaction revenue from Common ATM Switch (CAS), Common Electronic Fund Transfer Switch (CEFTS) and Shared ATM Switch (SAS) increased by 87% to Rs.158Mn (against 2015/16 – Rs.85Mn), 1,680% to Rs.12Mn (against 2015/16 – Rs.0.7Mn), 988% to Rs.0.5Mn (against 2015/16 – Rs.0.04Mn) respectively. Increase of transaction revenue compared to joining fees is an important improvement since the transaction revenue would be more sustainable in the long run.

Cheque Imaging and Truncation System (CITS), thus far the highest revenue generator for the Company (50% of the

Revenue

Rs. Mn



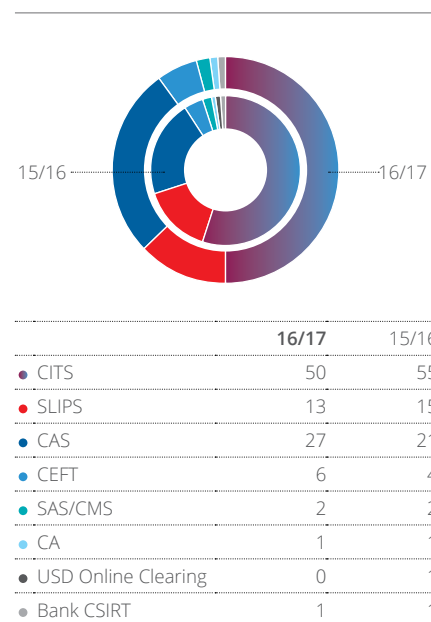
total revenue), reported a revenue of Rs.400Mn (2015/16 - Rs.330Mn) with an increase of 21% YOY (against 2015/16 – decrease 3% YOY). Both the revenue from cheque volumes submitted for clearing and charge on cheque returns grew YOY by 25% and 18% respectively. During the year the CITS tariff was revised after 10 years subsequently enhancing CITS for transmission of the cheque images among LCPL and participants through a virtual private network (VPN). The tariff revision and the increase of cheque volumes submitted for clearing by 5% YOY contributed for the related revenue growth. Even though not anticipated, the cheque return volume has also increased by 16% YOY.

The Sri Lanka Interbank Payment System (SLIPS), LankaSign Certificate Authority and Financial Sector Computer Security Incident Response Team (FinCSIRT) recorded revenues of Rs.102Mn, Rs.11Mn and Rs.10Mn respectively, with a healthy revenue growth of 11%, 109% and 18% respectively.

During the year, the revenue mix continued to improve towards new products under CCAPS moving away from CITS, which is a welcome change considering the financial stability of the Company, breaking away from the decade old tradition of only depending on two product lines (SLIPS and CITS) for revenue growth. Combined revenue contribution of SLIPS and CITS further reduced to 63% of total revenue compared to 70% in 2015/16 and 80% in 2014/15 whilst revenue from products under CCPAPS increased to 34% from 28% the previous year.

Revenue Mix 2015/16 & 2016/17

%



Expenses

During the year, direct operating expense increased by 21% to Rs.413Mn compared to 25% increase in 2015/16. Whilst approximately 90% of direct operating cost structure consisted of fixed costs, the increases mainly arose from higher IT maintenance costs, software depreciation, staff costs and system certification expenses. The cost increases for stated costs items were mainly due to the new expenses arising from products under CCAPS, upgrades made to CITS infrastructure and annual costs increases for the existing staff. During the year LCPL emerged as the first Sri Lankan entity to be the Payment Card Industry Data Security Standard (PCI-DSS) certified entity, which also impacted the cost increase due to higher system certification expenses.

Financial Capital

During the year, administration expenses and marketing expenses increased by 9% and 114% respectively. Administration expenses increased mainly due to the annual increments of salary and new recruitments. During the year, significant strategic marketing campaigns were carried out with the aim of reaching out further to general public to increase awareness.

Capital Expenditure

During the year, the Company had a cash outflow of Rs.88Mn (2015/16 – Rs.167Mn) spent on acquisition of capital assets. The Company's capital expenditure continued to focus on the Company vision and mission of being accepted as the "Trusted National Payment Network" with high quality clearing systems, whereas the capital expenses were mainly spent on CCAPS related developments to upgrade and further secure the IT infrastructure.

Interest Income

Interest income increased to Rs.85Mn (against 2015/16 – Rs.53Mn) during the year. The increase was driven by higher interest rates, higher investment base and improved efficiencies in the treasury function. As at the end of the year the investment base stood at Rs.953Mn (against 2015/16 – Rs.713Mn) where the investments were placed at interest rates ranging from 10.15% - 14.11% (against 2015/16 – 7% - 10.75%) at the end of the year.

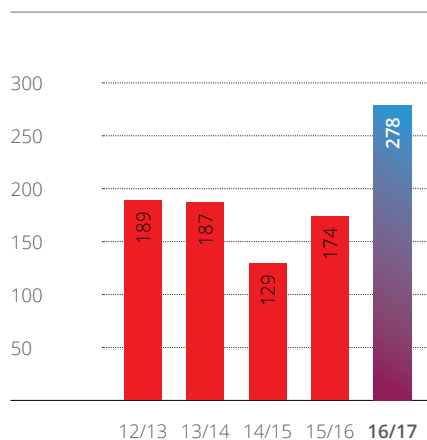
Profitability

As explained in the overview, the Company has recorded the highest ever profit, recording a PBT of Rs.322Mn (against 2015/16 – Rs.185Mn - YOY increase of 74%) and PAT of Rs.278Mn (2015/16 – Rs.174Mn - YOY increase of 60%) and the significant YOY revenue

growth has contributed positively to this exceptional performance.

Net Profit

Rs. Mn



Taxation

The comparative increase in tax expenses is mainly due to reversal effect of a tax over provision for the year 2015/16 of Rs.19Mn. Further, the increase in interest income and revenue had impacted the increase of tax expenditure.

However, the increase in tax expense was lower when compared to the increase in profits due to tax exemptions obtained for CCAPS profits under tax planning aspects.

Creating Value for Shareholders

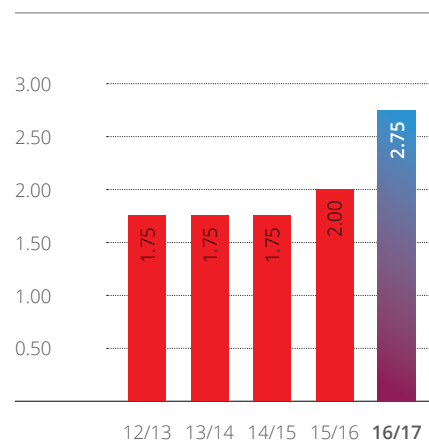
With the continued increase of profitability, the Company recorded an earnings per share (EPS) of Rs.18.32, which is a significant 60% improvement compared to Rs.11.43 made in 2015/16. Concurrently, the Return on Equity also increased to 17% (against 2015/16 – 13%) and Return on Assets increased to 16% (against 2015/16 – 12%) depicting a better utilization of shareholder funds and Company assets.

However, a more focused return on investment can be arrived by calculating the return (net profit less other income) on non-current assets, which recorded a strong 33% (against 2015/16 – 20%) since most of the other assets under current assets were parked under financial investments for future use.

With the increase in profitability, a dividend of Rs .2.75 - per share was proposed, which is the highest ever dividend per share (DPS) proposed during the 15 year history of LankaClear. 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.

Dividend per Share

Rs.

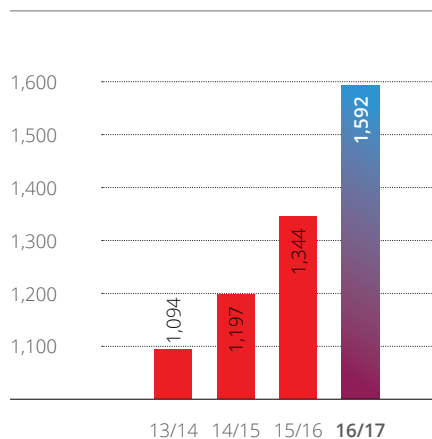


Liquidity, Capital Structure and Shareholders' Funds

The Company continued to remain debt free during the year funding its own investments with internally generated funds. During the current year, the Company generated net cash of Rs.285Mn (against 2015/16 Rs.164Mn – YOY increase 74%) from operating

Shareholders' Funds

Rs. Mn



activities. The cash flows were utilized on investment activities and dividend payment for Rs.38Mn and Rs.30Mn respectively. At the end of the year, Rs.953Mn worth of liquid funds remained in fixed deposits and REPOS to be utilized for future investments to cater to rapidly changing technology landscape in the payment industry and for other contingencies.

At the end of the year, shareholder funds stood at Rs.1.6Bn, which is an increase of 18% (against 2015/16 - 12%) YOY and net assets per share at Rs.104.75 (against 2015/16 - Rs.88.43). The profits made in consecutive operating periods have consistently added to shareholders' wealth for a much stronger balance sheet.

Financial Priorities and Future Outlook
LankaClear being a significant contributor to the Sri Lankan financial ecosystem, providing the right platform in meeting the demands of the banking sector is never an easy task. In a world where digital transformation has become a common occurrence, we consider that deeper understanding of customer

needs and behaviors to be of paramount importance. Ever changing facets of the lives of the customers of banks and non-banking financial institutions could cause renewed challenges every second. Hence, providing the right solution at the right time will be the key game changer and our promise for next year will be to keep innovating and provide value in every second. The improved financial performance of the company would continue to be a net indicator for same.

In making the envisioned performance a reality, key new solutions such as JustPay and LankaPay Online Payment Platform were introduced last year while planned Mobile Number Based Payment Platform is also in line to support the same among many other new solutions. Common POS Switch (CPS), which was expected to go live in the year 2016/17 made significant inroads into becoming a revenue contributor and management is confident that CPS would be able to offer the service during the financial year 2017/18. Continued focus would be put on increasing revenue streams from current and new product lines, which will be supported by appropriate marketing strategies for market penetration and business development.

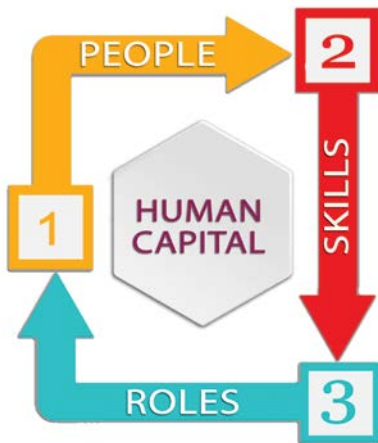
At LankaClear, we understand that identifying our financial priorities is essential for the long term success of the organization whilst meeting the expectations of the shareholders. Some of the key financial priorities are listed below;

- Attaining a healthy growth in revenue and profitability are key financial objectives and reaching an annual revenue of Rs.1Bn target during year 2017/18 is an ambitious financial target.

- Ensuring the availability of adequate finances in maintaining all clearing systems, rolling out new systems and effort for market and brand building. Although compared to the scale of the organization a higher finance reserve is kept, based on the expected future finance requirements on product and market developments and to cater to anticipated competition from international payment industry giants, retained reserves are highly justified and essential.
- Ensuring and monitoring the profitability of all clearing systems with efficient utilization of resources
- Identification of new related profitable investment opportunities in the payment industry and evaluation of financial feasibilities.
- 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.
- Safeguarding company assets.

Attaining a healthy growth in revenue and profitability are key financial objectives and reaching an annual revenue of Rs.1Bn target during year 2017/18 is an ambitious financial target.

Human Capital Development



Human Capital Value Creation

Value Creation through Human Capital Management was one of the main areas that LankaClear undertook as a challenge during the year under review. Participation of employees in every value creation process was promoted among every level in the organization. The year had abundant opportunities for employees to grow and be recognized through various engagements as well as reward and recognition programs. Apart from those, the employee involvement and engagement was also ensured in many crowdsourcing activities that the organization undertook to promote products with the engagement of a wider segment of staff members.

As an example of a crowdsourcing activity, it was through the employee participation and healthy competition

that the brand name “JustPay” and the tag line ‘Be Smart - Pay Smart’ was created. This was a new initiative of the organization where the employees were recognized and appreciated at the highest level as partners in the value creation process. The partnership grew to a much greater level during the year and as a result many volunteered for product promotions and, thus, enabled the company to reach highest ever revenue and profitability achievements.

New Compensation and Benefits Structure with monetary rewards for sales performance

The partners of value creation process was not only recognized through appreciation and recognition of their contributions, but also by providing new monetary incentives to motivate further performance improvements. The Board, as recommended by the management, approved the new compensation and benefits structure for the Virtual Sales Team (VST), which enabled the team to reach greater heights, thus, improving sales performance. This was one of the first in LankaClear where a team comprising all departments collectively contributed to achieve a common objective of boosting revenue.



JustPay Slogan Competition Winners being awarded



10th Anniversary of CITS



The Board also approved the new salary and benefits structure proposed by the management after the annual appraisals of the year were conducted through which 22% of the staff members got



Virtual Sales Team Reviews the Progress

either promoted or their remuneration was adjusted in recognition of their contributions to the organization. The changes in compensation and benefits were substantial in nature and met the expectations of majority team members.

Performance Measurements and Rewards



The key strategy of the organization was to reward and recognize key talent in the company, which ultimately leads to more value creation by a productive, loyal and an engaged workforce. The commitment to improved performance was a passion for many employees in the organization and they demonstrated same while at work as well as in their professional life outside work. Reaching up to peak performance as well as climbing Mount Everest were of similar nature to our staff members since they were filled with passion for excellence.

The annual performance of all employees reached its peak during the year under review. The overall goal achievement percentage of the organization stood at 87%, which reveals that the commitment and contribution of employees for the growth of the organization was substantial. The total performance management plan of the organization included not only appreciation, but also rewarding of peak performers as indicated above. The plan also included steps to enhance and improve performance of lower performing members as well by way



Gold award under small and medium size entities at the annual report awards organized by the Institute of Chartered Accountants of Sri Lanka 2016



Silver award under ICT services at the National Business Excellence awards 2016

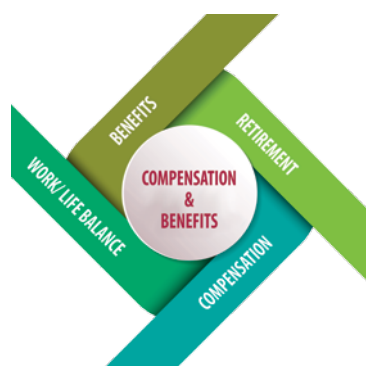


Reaches Greater Heights – Lakdas Ponweera being recognized for his Tracking to Everest Base Camp in February 2017

Human Capital Development

of establishing Performance Improvement Plans, PIP's. The PIP's were helpful to rejuvenate the performance of certain staff members who ultimately ended up being excellent performers towards the latter part of the year.

Compensation and Benefits Structure of the Organization



The total compensation package offered to staff members included not only salaries, but also various allowances, incentives, insurance benefits including family members, contribution to retirement plans, bonus schemes and monetary incentives and career advancements etc.

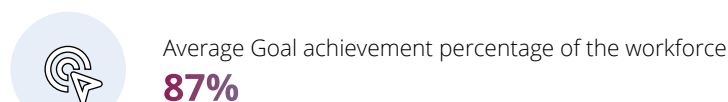
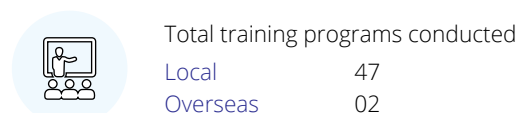
As approved by the Board, the compensation and benefits structure of the organization was revised during the year to enable the management to reward and recognize the key performers. New incentive schemes were implemented during the year under review to revitalize company as well as individual performances. As a result, every member of the organization was provided an opportunity to reap the benefits of the new financial incentives in various forms including the award of annual increments and bonuses to all staff members. In addition, the revised schemes had a direct impact on 22%

of the total staff members whose salaries were either adjusted to market levels or promoted to next levels based on their level of contribution to the company.

Training & Development to Rejuvenate Performance

The year under review offered varied opportunities to staff members to improve and enhance their performance through training and development. This required gaining new skills and competencies of areas that the staff members had no prior experience. Training and Development adequately filled the skill competency gaps of above members through the delivery of right training and continuous evaluation programs throughout the year.

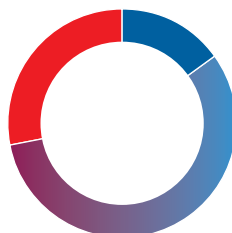
Summary of Training & Development Initiatives



Graphical representation of Investment on Training

Field of Trainings

%



IT	15%
Technical	57%
Soft Skills	28%

Training Investment

%

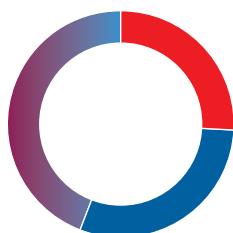


Overseas	23%
Local	77%

Program wise representation of Training Man-days

Training Man-days

%



IT	26%
Technical	30%
Soft Skills	44%

Retention of employees and ensuring Career Progression

The year was full of challenges to the organization where several key implementation projects were planned in parallel. The challenge the management faced was to allocate the same resources in multiple projects without leaving room for failure. The team, although challenging, ensured that those with right level of competency and potential to grow with the company were retained and delivered the required outcome. The retention tools, among others, included provision of challenging goals, ensuring career progression, providing the right level or rewards and recognition, change of compensation and benefit plans, promotion of staff members, provision of right training and most importantly engaging staff members via valuing their contribution.

The retention ratio from 2011/12 to 2016/17

As at March 31, 2017, LankaClear did not face any litigation issues, was not fined, did not get any sanctions imposed nor had any case filed in a court of law for non-compliance with labour regulations.

Retention of Employees

%

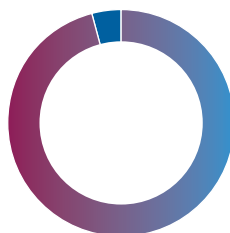


Employee profile of LankaClear as at March 31, 2017

The LankaClear team comprised of 112 employees as at March 31, 2017 with the composition of 108 permanent and 4 contract based staff.

Employment by Nature of Contract

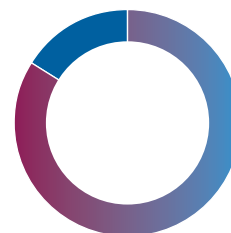
%



Contract	4%
Permanent	96%

Employment by Gender

%



Male	84%
Female	16%

Human Capital Development

Strategic priorities and performance 2016/17

Strategic priority	Performance
Establishing a fair and equitable compensation and benefit structure	<ul style="list-style-type: none"> Board approved the Compensation and Benefits Structure for the year under review. Board also approved promotions and equity adjustments to 22% of the total workforce. Established a new incentive scheme for the Virtual Sales Team The IT and Data Centre, Operations and Helpdesk staff incentive schemes provided a substantial monthly monetary benefit to the staff members. In addition the bonus scheme, which covers all employees yielded a promising benefit to the staff members by disbursing 3% of annual revenue as Bonuses for the year under review. Restructured the FinCSIRT Department by adding 5 more staff members to continue their journey of value addition through enhancing IT Security of the financial sector of the country
Transform LCPL workplace culture to improve innovation and productivity	<ul style="list-style-type: none"> Changed the workplace as demanded by the workforce after the conclusion of the Employee Satisfaction Survey. The survey yielded more than 75% of positive responses from staff members. Conducted a Speech Craft Programme in the organization by joining hands with Millennium Toast Masters Club of Colombo. Continued the "Voice of Change" employee Suggestion Box Program commenced during the previous year although it had a lower response compared to previous year.
Creation of Value ensuring that the Core Values of the organization are lived by bringing about adequate awareness programs	<ul style="list-style-type: none"> Continued the value measurement process using already developed criteria for same. Organized Leadership Round Tables to share the views of the leadership and associated values with LCPL Leaders
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 same. Conducted number of engagement activities including Leadership Round Tables, HR Skips and One-on-One discussions with all levels of employees.

Strategic Objectives and Goals for the financial year 2017/18

1. "Improve the talent development process of the organization to bridge talent gaps to help employees to achieve organizational goals, including 1 Billion+ Revenue target for the year"
2. Grow the year-on-year profit per headcount by 5%
3. "Ensure that the employee engagement formula of the organization is implemented bringing Management and Employees together"
4. Improve the retention of employees to ensure that critical staff are retained
5. "Maintain the organization's compensation and benefit structure in a manner that will support the recruitment of best talent and motivation of outstanding performers."
6. Implementation of an e-procurement process during the year.



Cricket match 2016



Family outing 2016



Paduru party



Annual trip 2016

Intellectual Capital

Marketing Strategy

In view of the company's ambitious and aggressive growth plan, the marketing strategy had been significantly revamped during the year.

It was identified at the end of the previous financial year, in order to grow its bottom line, the top line revenue of LankaClear had to be increased significantly. Hence, in order to grow the top line revenue, the company decided to strengthen its marketing and business development activities. The challenge was to identify employees who could stretch from their current role and step into a more business development role to grow. The idea was to aggressively grow the revenue without hiring additional staff.

Accordingly, a Virtual Sales Team (VST) was formed internally, consisting of a high performance staff from few divisions directly reporting to GM/CEO to drive product level sales by closely liaising with banks and financial institutions. These individuals had to play a more sales and marketing role in addition to their current role. This provided more resources for strategic marketing and communication activities, without incurring additional costs, which has been the sole responsibility of Manager Business Development and Brand Promotions prior to that.

As the operator of Sri Lanka's National Payment Network - LankaPay, the company is providing the nation and the entire banking industry with vital financial services to the general public and the business community as the end customers. Therefore, the marketing strategy had to extend beyond mere commercial intent and encompass a value creation process with financial

inclusivity as the envisaged end result and make every Sri Lankan aware of the availability of fast, convenient, reliable, affordable and secure interbank payment options.

Following a comprehensive situational analysis and a stakeholder mapping, the company strategized an integrated marketing plan. The two main objectives of the company's new marketing strategy were to enhance brand equity and drive revenue by adopting of a more sustainable transaction based revenue model.

In analyzing the payment related statistics of the country, LankaClear identified that its biggest challenge did not really come from any market competition, however, it actually came from people's preference to use "cash". As per the statistics from Central Bank's Payment Bulletin and other sources, over 90% of the retail payment transactions were identified to be taking place using cash while the adoption of electronic payments is still at an unacceptably low level. In order to overcome these challenges, the company had to take extra measures to urge for participation of all industry participants such as Central Bank, LankaClear, banks and financial institutions to take this daunting task forward.

Enhancing the adoption of electronic payments

As per the recommendation of the National Payment Council and the directive of the Monetary Board of the Central Bank, LankaClear has been entrusted with implementing the National Payment Network and driving electronic payments in the country. With the implementation of the Common Cards and Payment Switch (CCAPS) in

As the operator of Sri Lanka's National Payment Network LankaPay, the company is providing the nation and the entire banking industry with vital financial services with general public and the business community as the end customers

2013 under the brand name LankaPay, the company has provided the backbone payment network for all domestic interbank electronic payments and settlements. Today, it boasts of a world class payment network that is on par with any international network.

LankaClear as the operator of the national payment network functions on a unique business model. While our primary customers remain the banks and non-banking financial institutions, the real users of our products and services are their customers who are businesses and general public.

Enhancing the adoption of electronic payments is one of the primary challenges that the company aimed to overcome via its new marketing strategy. One of the main reasons for slow adoption of electronic payments was identified as the lack of awareness across the board including within banks as well as their customers.

Accordingly, LankaClear's marketing strategy for the year was devised to be two pronged. On one hand the need to enhance the relationship with its members and on the other hand to increase awareness among the general public of the availability of its services. The company identified the need to strengthen its relationship with member institutions by engaging them to promote electronic payments amongst their customers by creating a healthy competition. As a part of this, the company introduced a performance based incentive scheme for SLIPS and CEFTS among its members, where quarterly reports on their performance in terms of volumes and their reward entitlement were shared.

Another such important initiative was the launch of LankaPay Technnovation Awards, which goes down in history as Sri Lanka's first payment technology innovation awards. The purpose of this initiative was to recognize the member banks and financial institution who have steadfast in promoting electronic payments in the country thereby giving a further boost to usher the nation towards a cashless economy, in line with the vision of the Central Bank.

Raising awareness amongst the end users

With the Central Bank's mandate on deadlines to integrate with the national switch, the company saw a greater interest from banks to join LankaPay network during the year. LankaClear identified the need to create awareness amongst the end users, who are the customers of banks, in order to increase the transaction volumes. Accordingly the company carried out several grass root

level awareness activities targeting the general public.

- During the year 2016/17 LankaClear carried out outdoor promotional activities in 30 locations across the country coinciding with Sinhala Tamil New Year. This was organized together with two renowned radio stations and as a result LankaPay also received above the line media presence with considerable air time offered as a part of the agreement with the radio station.
- A similar out door promotional activity was carried out coinciding with the Nallur Kovil Festival in Jaffna in August 2016
- The company participated in several Gamata Derana events together with a popular radio station and created grass root level awareness sessions covering 80 locations across two districts during the last financial year.
- Installation of 'lollypop boards' (promotional hoarding) to promote CAS in identified high density locations in and around Western Province was yet another promotional activity carried out during the year.
- LankaClear increased its media presence throughout the year with visibility in several English, Sinhala and Tamil newspapers. In addition to paid advertising, significant portion of the media visibility was obtained free of charge, utilizing the relationship with local media agencies. The company did not outsource any of its PR activities to an advertising agency, but handled them in-house, which too brought in a considerable amount of cost savings for the company.

- With the objective of maintaining consistency and professionalism, several corporate promotional material including a new corporate AV was developed during the year.
- Having considered the availability of marketing funds and the rapid growth of social media, the company's social media was given a further boost with the commissioning of a professional agency to manage the company's social media platforms. Since the commission of the social media agency in September 2016, several social media promotions were conducted. Consequently, the LankaPay Facebook page has grown its acceptance by ten folds to achieve 50,000 fans, with engagement levels way above industry averages. Several competitions and promotional activities were carried via the LankaPay Facebook page to increase engagement.

Introducing innovative and practical payment solutions

Going beyond our role of being a facilitator, LankaClear identified the necessity of being the driver of innovation in the country's payment arena. With the formation of the VST team who are both technically savvy and attuned to the needs of our primary and secondary customers, the company was able to be in the forefront of introducing new payment technologies. One of the noteworthy initiatives taken during the year was the launch of 'JustPay' – a special initiative for real time retail payments below Rs. 10,000 in value. From a marketing perspective, this was one of the most important expansionary strategies taken during the year, where

Intellectual Capital

we stepped into the retail market space for the first time. With the unpredicted growth of smart phone penetration in the country and extremely low transaction costs, convenience and security features the company believes that it would permit banks and financial institutions to actively compete with 'cash' in the retail payment segment of the market.

Forging a positive relationship with other industry participants

Forging a closer relationship with other industry participants was another aspect of LankaClear's new marketing strategy. Accordingly, the following activities were carried out during the year under review.

- For the first time, LankaClear sponsored the start-up pavilion of INFOTEL 2016 National IT Exhibition – the largest IT exhibition in the country organized by the industry body FITIS. The company launched its ground breaking initiative 'JustPay' during the financial year under the patronage of Dr. Indrajit Coomaraswamy, Governor of the Central Bank. This was found to be a great platform to educate the IT fraternity about the electronic payments particularly CEFTS as well as JustPay. As a part of the sponsorship, LankaClear operated a stall at the exhibition on all three days of the event. GM/CEO Mr. Channa de Silva was also a resource person during the CEO Forum where he elucidated the IT fraternity leaders on the role of LankaPay as the national payment network and some of the innovations that we have driven in the payment arena.
- LankaClear was also a sponsor of the National Best Quality Software Awards (NBQSA) organized by the Sri Lankan chapter of British Computer Society and encouraged the IT fraternity to develop innovative payment applications to be used by the general public.
- The company also sponsored several key events organized by the Clearing Association of Bankers and Association of Professional Bankers during the year.
- Sponsoring the NCE Awards and CICRA Summit were two other key sponsorships undertaken during the year, which were strategically important.

For the first time, LankaClear sponsored the start-up pavilion of INFOTEL 2016 National IT Exhibition – the largest IT exhibition in the country organized by the industry body FITIS. The company launched its ground breaking initiative 'JustPay' during the financial year under the patronage of Dr. Indrajit Coomaraswamy, Governor of the Central Bank.

Social and Relationship Capital

Customer Relationship Management for a superior customer experience

A business cannot exist without its customers, and this is why companies are focusing on how to win new customers and perhaps more importantly, retaining existing customers.

As the trusted 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.

LankaClear strongly considers that excellent and consistent customer service is the foundation of any successful business.

How is customer experience different from customer service?

We believe that customer service is only one aspect of the entire customer experience. For example, if you book a vacation on the phone and the person you are speaking to is friendly and helpful, that's good customer service. Yet, if your tickets arrive earlier than anticipated and the hotel upgrades your room, then that's a better customer experience. Likewise at LankaClear, we attempt to be more proactive to delight our customers to provide a positive customer experience.

Customer Recognition

International Customer Service Week - 2016

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



Social and Relationship Capital

LankaPay 6-A-Side Cricket Fiesta

This year we managed to take the customer experience to the next level. For the first time, We arranged a LankaPay 6-A-side Cricket tournament to gather our valued LankaPay customers to a single location and provide them with an opportunity to get to know each other as well as LankaClear staff members better to create a friendly atmosphere. This also led to streamlining some of our processes with mutual discussions and consent based on the relationships that were built among all members.



LankaPay Cricket match 2016

Customer Satisfaction

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

Awareness Session on Clearing Products

LankaClear Bank Services department has carried out various awareness sessions to banks and other non-banking financial institutions to promote features and functionalities of clearing systems. This enabled member staff to promote more electronic payment modes to general public.



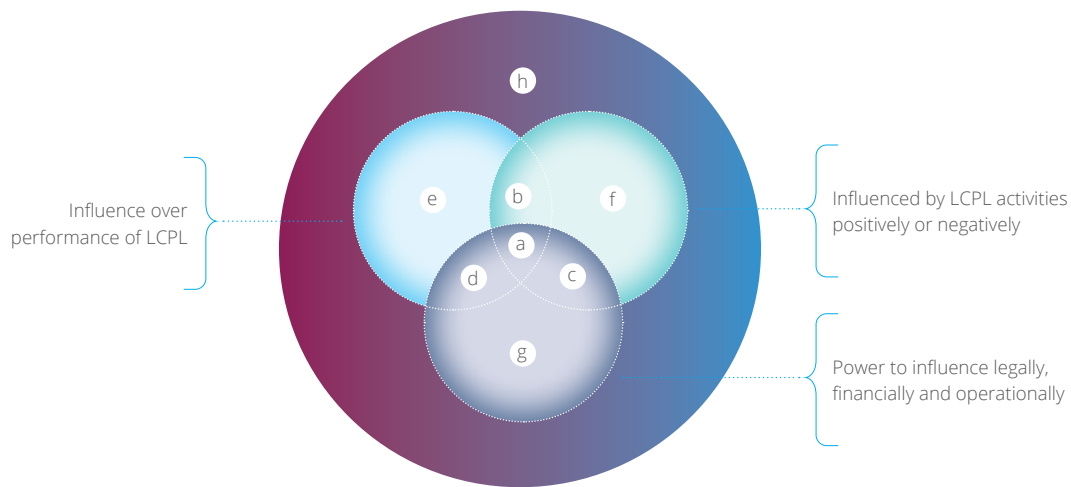
Bank Awareness Session

Why Customer Satisfaction

- Customer is the boss of the market.
- Customer dictates market trends and direction.
- The organisation is dependent on the customer and not the other way around.
- Customer satisfaction means loyalty towards the organisation.
- The satisfied customer will help in bringing new customers by the 'word of mouth'.



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) – **Central Bank of Sri Lanka as the regulator, Shareholders, Board of Directors, Management & Employees and Licensed Commercial Banks**
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 and General Public**
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, 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.

Social and Relationship Capital

Stakeholders and method of engagement

Stakeholder group	Description of stakeholder	Method of engagement with stakeholder in 2016/17
Central Bank of Sri Lanka	Central Bank of Sri Lanka (CBSL) is the Regulator and the largest shareholder of LankaClear. The National Payment Network operated by LankaClear is done with the guidance and approval of the CBSL. LankaClear needs to collaborate with the 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
Board of Directors	The board constitutes of two directors representing the two state banks, two directors representing the private local commercial banks, one director representing the branches of the foreign banks, two directors and chairman are nominated by CBSL.	<ul style="list-style-type: none"> Monthly Board Meetings Submitted Board Papers for Approval and Information Engagement in Board HR, Risk and Audit committee meetings One-on-one engagements as required Monthly and Quarterly management accounts and annual audited financial statements
Shareholders	All Licensed Commercial Banks who have contributed to the share capital of LankaClear	<ul style="list-style-type: none"> AGMs Annual/monthly reports & circulations
Customers (Banks, non-bank financial institutions & other select 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 selected number of corporate customers and government organisations.</p>	<ul style="list-style-type: none"> Customer satisfaction surveys Incentive scheme for SLIPS and CEFTS to encourage banks to grow transaction volumes Launch of LankaPay Technnovation awards to promote healthy competition among members Through the provision of clearing and other services 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 stake holders 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.

Stakeholder group	Description of stakeholder	Method of engagement with stakeholder in 2016/17
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 to electronic payments instruments have a major impact on LankaClear's business outcomes.	<ul style="list-style-type: none"> • Grass root level awareness campaigns by partnering with radio stations throughout the year (RataWata Awurudu, Gamata Derana and Nallur Festival etc.) • Brand building activity • Interactions through joint promotions with banks • Extensive campaigns conducted via Facebook and other social media including blogging • Multiple competitions conducted via social media • Media releases, articles and advertising • Promotional hoardings and material distribution
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 • 24 x 7 x 365 service support • Suppliers' forums (local / foreign) • Tender/ RFP/ EOI procedures • Timely payments • Scheduled Meetings • Joint customer meetings
Auditors	Auditors of LankaClear carries out following external audits : <ul style="list-style-type: none"> • Financial audits • IT audits • Systems security audits • Compliance & Procedural audits 	<ul style="list-style-type: none"> • Auditors' reports • Meetings with board audit committee, management etc. • Advisory & assurance services • Provision of information required to auditors as and when requested
Media	<p>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.</p> <p>The company increased its media engagements during the current financial year to increase awareness on this single brand.</p> <p>The company engaged with media buying houses, electronic media stations, news print publications, business editors, leading business magazines and outdoor advertising agencies</p>	<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

Social and Relationship Capital

Status of material aspects with regard to stakeholders

Material Aspects / Stakeholder Expectations	Concerned Stakeholders	Response
Ensure trust and high availability of all Payment Systems in LankaClear National Payment Network	Regulator/ Customer	<p>We are continuously committed to ensure delivery cut off times, no breaches on financially and legally critical rules and regulations, ensuring system patches are implemented at the earliest possible, timely update of operations documents, identification and filling skill gaps, ensure required Disaster Recovery site live runs, Business Continuity Plan Management.</p> <p>During the year 99.96% and 100% uptime has been maintained for CITS and CCAPS respectively. Due to improvements made, switchover time from primary to DR Site has reduced to 15 minutes and 4 minutes for SLIPS and CCAPS respectively. Further information is discussed under "System Security & High Availability" section.</p>
Enhance information security and compliance	Regulator/ Customer	<p>During the year LankaClear became the first entity in Sri Lanka to obtain the certification of PCI-DSS version 3.2 reaffirming the best of class security standards implemented at LankaClear. Regular scans, tests and audits were carried out during the year to identify gaps and bridged immediately.</p>
Implement Industrial best practices for LankaClear products	Regulator/ Customer	<ul style="list-style-type: none"> • Obtaining PCI-DSS certification for CCAPS • Maintaining ISO 27001 certification for LankaSign • Maintaining Business Continuity Plan Management to the industry best practices
Timely introduction of innovative and efficient payment solutions and services to best meet customer expectations whilst driving financial inclusivity	Customer	<p>We have continuously striven to deliver value for customers and products were introduced and enhanced in meeting the same. During the year,</p> <ul style="list-style-type: none"> • Online Image Transfer Solution for CITS was launched and cutoff times were enhanced, so banks can achieve greater time efficiencies whilst providing their customers extended services and achieve improved security via encryption. • JustPay was launched to increase use of electronic payments for low value transactions via CEFTS, which is expected to increase customer convenience and drive towards a cashless society. • LankaPay Online Payment Platform was deployed to facilitate different institutes, including government departments, allowing them to collect their payments electronically by joining this platform. • Significant progress was made in implementation of National Card Scheme so that Common POS Switch will be able to go live with banks to further drives financial inclusivity and independence whilst achieving cost reductions.
Enhance Customer Satisfaction Levels	Customer	<ul style="list-style-type: none"> • Conduct quarterly progress review meetings, achieving laid out KPI targets. • We have taken continuous efforts to celebrate the International Customer Service Week to reorganize the importance of customers and appreciate the internal and external customer for their day to day support. • All inquiries/activities and complaints are resolved within the stipulated target timelines unless otherwise extended due to official reasons. <ul style="list-style-type: none"> - Inquires/Activities: 24 hours - Complaints: 48 hours
Ensure the availability of highly qualified, trained, efficient and motivated team of staff members	Management	<p>Local and overseas training programs are conducted on time and in an efficiently ongoing basis, design and obtain approval for new Organizational structure to facilitate organizational objectives, maintaining a healthy retention ratio.</p>

Material Aspects / Stakeholder Expectations	Concerned Stakeholders	Response
Ensure fair and equitable compensation and benefits to all employees	Employees	<ul style="list-style-type: none"> Developing the annual 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	<ul style="list-style-type: none"> Annual and monthly revenue profit targets were set and financial performance was monitored on a regular basis. Further cost management initiatives were undertaken continuously. Cost items were regularly monitored and procurements were negotiated to obtain best prices in the market. A separate virtual sales team was created with the available human resources to shed special attention on enhancing revenue and driving required promotional activities and customer enrolments. Achieving best financial results over the years is a key indicator to sound financial performance and health of the organization and further details are discussed under financial review.
Ensuring of continued contractual safeguards and contractual rights	Shareholders/ Management/ Suppliers /Customers	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> Brand building and creating awareness is one of the challenges LankaClear has in making the optimum use of the payment systems offered by LankaClear for the greater betterment of the society and adequate revenue generation for LankaClear and its participants. During the year strong promotional brand development underwent through print, media, outdoor promotion campaigns, social media campaigns, outdoor branding and event sponsorships. Further details are discussed under marketing strategy.
Manage banks and financial institution integration with LankaClear products	Customers	<ul style="list-style-type: none"> Smooth integration of the new participants to lankaClear product is a vital task in an environment where the product line is continuously enhancing. The task was achieved whilst keeping the systems stable and providing the best experience for new participants. 23 new participants were integrated for the LankaClear products during the year.
Contribute for the sustainable development	Shareholders/ Management/ Customers /General Public	<ul style="list-style-type: none"> Contribution for the sustainable development is one of the expectations of the stakeholders which gradually gaining higher importance in the business world. We at LankaClear make our best efforts to contribute for the sustainable development. Our highest energy consumers are data centres at primary and disaster recovery sites which are designed to minimise the energy use with technologies such as use of virtual servers, identifying optimum temperature levels etc.
Maintaining good governance controls	Regulator/ Shareholders/ Management /Customers/ General Public	<ul style="list-style-type: none"> Maintaining good governance within the organization is an essential aspect as an organization having a national importance. The higher levels of governance and controls maintained at LankaClear is discussed under the governance section in detail.

Social and Relationship Capital

Economic contributions

Direct Economic Contribution

Statement of Value Addition

For the year ended 31st March	2016/17 Rs. Mn.	%	2015/16 Rs. Mn.	%	2014/15 Rs. Mn.	%
Value Added						
Business Revenue	800,761,303		601,640,965		517,867,822	
Cost of Services	303,303,975		248,192,845		200,633,988	
Value Added by Business Activities	497,457,328		353,448,120		317,233,833	
Finance & Other Income	90,686,259		58,598,343		68,041,253	
Total	588,143,587		412,046,462		385,275,086	
Distribution of Value Added						
To Employees						
Salaries & Other Benefits	178,521,854		156,061,982		140,186,710	
Training & Development	4,221,483		5,902,383		7,285,704	
	182,743,336	31%	161,964,365	39%	147,472,415	38%
To Providers of Capital						
Dividends to Ordinary Shareholders	30,400,000		26,600,000		26,600,000	
	30,400,000	5%	26,600,000	6%	26,600,000	7%
To the Government						
Income Tax	43,553,020		11,063,885		53,145,583	
	43,553,020	7%	11,063,885	3%	53,145,583	14%
To Expansion and Growth						
Retained Profits	248,088,883		147,143,774		102,884,557	
Depreciation & Amortisation	91,706,333		69,380,141		54,520,327	
Deferred Taxation	(8,347,985)		(4,105,703)		652,205	
	331,447,231	56%	212,418,212	52%	158,057,089	41%
Total	588,143,587	100%	412,046,462	100%	385,275,086	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 of Sri Lanka, through its business role of facilitating payments and settlements nationwide. Via its ever emerging IT systems the payment and settlements have seen greater efficiencies. Previously where a cheque took many days to realise funds, today we are clearing transactions real time through LankaPay network.

During the financial year 2016/17 LankaClear made a direct economic contribution to the country, to the value of Rs 588Mn. Employees benefited from 31% of this value, while 7% went to the State coffers in the form of taxes and 5% was distributed among the shareholders of the Company.

LankaClear retained 56% 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.

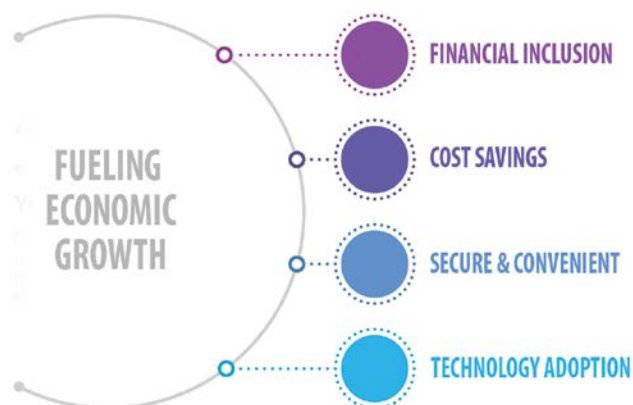
Indirect economic contributions

Innovations in Payment Systems are the catalysts for growth in financial inclusivity and in expansion of fast and convenient payment avenues for the general public.

Innovative payment systems alone would be of little merit to the general public at if they are not affordable. By facilitating fast, convenient and secure electronic transactions, LankaClear contributes immensely to the economic development in a variety of forms and at multiple levels of the economy. Affordable innovations in Payment systems will promote adoption of latest technology advancements, which would fuel increased technology adoption in the country as well.

Fast and Convenient Payment Systems

We at LankaClear recognizes value of time when advocating and designing payment systems. While there are a few such fast and convenient payment systems are in development, LankaClear was able to announce JustPay to the market in this year.



The consumers have continued to realize the “value in every second” with the speed and convenience offered by LankaPay Common ATM Switch (CAS) and Common EFT Switch (CEFT) for inter-bank payments. The growth in volumes observed from quarter-on-quarter of such inter-bank transaction, as depicted below, does demonstrates aforementioned claim of general public realizing the “value of every second” utilizing such secure and convenient payment systems.

	Jul-Sep 2015	Jul-Sep 2016	Jan-Mar 2016	Jan-Mar 2017
Inter-bank ATM Transaction volume	5,758,276	8,552,775	6,725,341	9,898,136
Inter-bank CEFTS Transaction volume	4,534	277,243	68,766	539,642

Increased and widespread consumer adoption of the aforesaid payment solutions will also propel consumer confidence in utilizing other payment instruments such as payment cards, digital wallets and mobile payments in future.

Reduced Transaction Costs

LankaClear has been able to make a substantial contribution towards reducing the overall 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 quite significantly lower around 0.5-1.0%. Hence, Domestic clearing and settlement of electronic transactions by LankaClear, which does not require making payment to International Networks, has saved the country millions of rupees in terms of retained foreign exchange.

Social and Relationship Capital

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 CEFTS initiative is intended to move general public away from cash based transaction into making payments using their smart phones.

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.

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 last financial year by implementing the Common POS Switch (CPOS) 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.

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 National Payment Network.

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 re-using. 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 2016/17	Method of disposal
Toners (units)	35	Empty toners were returned to the supplier
CD's (units)	22,400	Crushed and sent for recycling
Batteries (units) (Hazardous)	3	Sealed LED UPS batteries were returned to the authorised local agent
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 three 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. 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 was constructed on an eco-friendly model. 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 environmental friendly manner in the DR site.



Convenience and safety will **work in your favour**

Ease of use and peace of mind are two things that you must have in a financial transaction. We work tirelessly to ensure that all our services are convenient and secure, so that you don't have to work overtime to achieve what you deserve.

Corporate Governance

We at LankaClear believe that Corporate Governance is the mechanism by which a company is directed, controlled and monitored in the right direction. This includes mechanisms, rules, practices, processes and procedures, which essentially involves in balancing the interest of the company's stakeholders, such as shareholders, board of directors, management, employees, customers, suppliers, creditors, government and the community as a whole whilst specifying the rights and responsibilities of each stakeholder for better decision making. By doing so, this provides a framework through which the objectives and targets of the company are set and means of attaining same while periodically monitoring its performance and compliance.

Accordingly, LankaClear operates within a good integrated Corporate Governance Framework which is built on the core principles of;

- (1) Responsibility and Accountability
- (2) Respect others as who they are
- (3) Be a catalyst for change
- (4) Leadership
- (5) Integrity and Trust
- (6) Availability and Accessibility and
- (7) Teamwork and Collaboration

with adherence to the mandatory requirements of the Companies Act No 07 of 2007, the directions, rules, regulations and circulars issued by the Central Bank of Sri Lanka from time to time, rules and regulations of the Institute of Chartered Accountants of Sri Lanka and amendments thereto and any other legislation of the government of Sri Lanka as applicable and also with the guidance

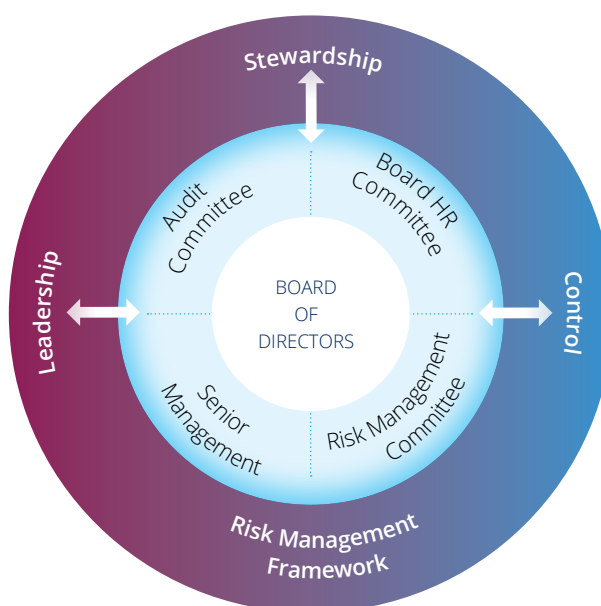
of accepted National and/or International policies, procedures and best practices relevant to the business of LankaClear.

We have also established our own set of internal policies and procedures in meeting accepted best practices in governance with the guidance and direction of the Board of Directors to ensure a long-term sustainable economic growth of LankaClear.

The Governance Structure of LankaClear, which is given below, facilitates efficient operation of our business while encouraging all its employees to elevate the Corporate Governance standards at all times. It has established a proper communication channel to communicate all decisions, policies, processes and procedures laid down by the Board to all employee levels by internal circulars; authority has been given to the Senior Management to review same periodically and inform the Board whether any amendment is required to ensure that all elements of our governance framework are fit for our purpose.

It further ensures that the Company has adequate level of risk management processes, and also periodic, effective financial, operational and IT/IS audits are performed and findings are closely monitored through risk management not merely to satisfy regulatory requirements, but also to show the openness of LankaClear to all our stakeholders and to the general public.

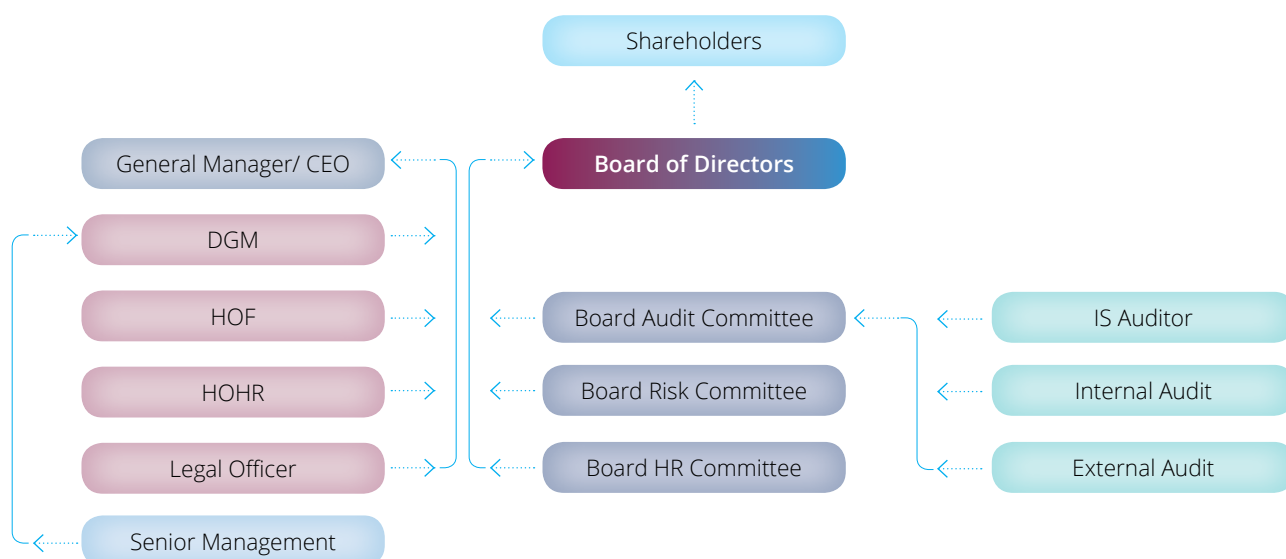
Corporate Governance Framework



Corporate Governance

Governance Structure

Our Governance Structure facilitates efficient operation while ensuring sufficient checks and balances to safeguard the rights and interest of all stakeholders and it also ensures compliance with regulatory requirements and internal policies.



Voluntary Disclosures and Good Governance

Under the stipulations of the Company's Act No 07 of 2007, 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 further more as the National Payment Network.

A.1-The Board of Directors

The Board of Directors is the ultimate governing body which directs, leads and controls LankaClear. It comprises of eight Non-Executive Directors who are eminent professionals in their respective fields who possess the skills, expertise and knowledge complemented with a high sense of integrity and independent judgement, who collectively contributes towards the effective control and overall management of the Company. Individual profiles of the Board of Directors are given under the Board of Director's section of this Annual Report.

Composition of the Board of Directors:

- The Chairman is appointed by the Governor of the Central Bank of Sri Lanka, in accordance with the Articles of Association.
- Two Directors represent the Central Bank of Sri Lanka.
- 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, who participates as an observer and is usually invited to express his views.

The Board is responsible for setting the strategic direction and establishing a sound control framework and the

ultimate supervision and accountability for the stewardship function of the Company. It is overriding objective is to deliver superior returns to stakeholders, demonstrating responsible corporate behaviour and acting in a transparent manner. In all actions taken by the Board, the Directors are expected to exercise their business judgment considering the best interests of the Company.

We at LankaClear have adopted relevant best practices stated in the Code of Best Practices on Corporate Governance issued by the Securities and Exchange Commission of Sri Lanka (SEC) and the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka). The executive summary of same is given as follows;

Rule No.	Subject	Compliance Status and Comment
A.1.1	Board Meetings	The Board meets regularly and there had been 12 Board Meetings during the year under review. (Refer Table No.1)
A.1.2	Board Responsibilities	Separately given in detail in this Report.
A.1.3	Access to independent professional advise	The Board collectively and individually acts in accordance with the laws of Sri Lanka. Provisions are made for the Directors to seek independent professional advise, in furtherance of their duties, if required where necessary.
A.1.4	Access to Company Secretary	The Board has access to the Company Secretary. Details are separately given in detail in this Report.
A.1.5	Independent Judgement	The Board brings independent judgment to with the expertise required for the business of the company.
A.1.6	Dedication of adequate time and effort by the Board	The Board has dedicated adequate time for the fulfilment of their duties as Directors of LankaClear. Other than attending to Board Meetings and Sub-Committee Meetings the Board of Directors has also contributed to decision making via circular resolution where necessary.
A.1.7	Training for Directors	When a new Director appointed to the Board, Chairman give a brief idea of the business of the Company and when necessary LankaClear may arrange for the required training or workshop for the Directors.

A.1.2-Board Responsibilities

The business of the Company is conducted by its senior managers, managers and employees under the direction and the oversight of the Board. The Board aims at fulfilling its responsibilities by creating value that is sustainable and beneficial for all stakeholders.

The Board is primarily responsible for:

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

Board Sub-Committees

The Board has delegated some of its functions to Board Sub-Committees while retaining final decision rights, pertaining to matters under the purview of these committees.

The Board Sub-Committees are as follows;

The Board Audit Committee

The Board Audit Committee comprises of three Directors as follows;

- Mr. W. P. R. H. Fonseka – Chairman (Alternate Director to Mr. D. M. Gunasekara-Director)
- Mr. C. P. S. Bandara
- Mr. M. U. de Silva

Corporate Governance

The Audit Committee met on four (04) 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 of LankaClear (who is also the Chairman of this Committee) and two members of the Board of Directors as follows;

- a) Mr. A. S. Amarasuriya - Chairman
- b) Mr. C. P. S. Bandara
- c) Mr. M. U. de Silva

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 four (04) 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 Board Integrated Risk management Committee consists of the following members;

- a) Mr. D. Seneviratne - Chairman
- b) Mr. M. A. B Silva
- c) Mr. A. M. Ali

The risk committee meets as and when required. Business risk, operational risk and financial risk are the risks that LankaClear have to take cognizance of, when considering risk management. Actions taken in managing these risks are highlighted in detail in the Risk Management section of this Annual Report.

Board and Board Sub Committee Meetings

The Board held twelve (12) meetings during the year under review and the attendance of each Director at Board meetings and Board Sub Committees are given in the Table No. 01 below.

Table No. 01-Board and Board Sub-Committees: Composition and Attendance at the Meetings -2016/17

Name	Board Meetings			Board Audit Committee		Board HR Committee	
	Appointments and Resignations made during the year under review	Held*	Present	Held*	Present	Held*	Present
Mr. A. S. Amarasuriya - Chairman	N/A	12	12			04	04
Mrs. J. P. Mampitiya - Director	Resigned on 07/10/2016	06	05			01	01
Mr. D. M. Gunasekara or his Alternate Director Mr. W. P. R. H. Fonseka	N/A	12	11	04	03		
Mr. M. A. B. Silva - Director	N/A	12	07				
Mr. P. L. D. N. Seneviratne - Director	N/A	12	07				
Mr. K. P. Ariyaratne - Director	Resigned on 30/06/2016	03	02				
Mr. P. K. Dangi - Director	Resigned on 30/06/2016	03	03				
Mr. C. P. S. Bandara - Director	Appointed w.e.f. 28/04/2016	11	10	04	04	03	03
Mr. P. S. Mathavan - Director	Appointed w.e.f. 30/06/2016	09	06				
Mr. A. M. Ali - Director	Appointed w.e.f. 30/06/2016	09	06				
Mr. S. S. Ratnayake - Director	Appointed w.e.f. 20/12/2016	04	03				
Mr. M. U. de Silva - Observer (SLBA)	N/A	12	11	04	03	04	04

* Held - Meetings held during the term of office

Rule No.	Subject	Compliance Status and Comment
Role of the Chairman and Chief Executive Officer (CEO)		
A.2	Chairman and CEO	Due to the nature of roles and responsibilities, the positions of Chairman and CEO are held by two different persons. This ensures a balance of power and authority such that any individual has no unfettered powers of decisions.
A.3	Chairman's Role	<p>The primary role of the Chairman is to provide effective leadership to the Board to discharge its responsibilities. The chairman is also responsible to conduct Board proceedings in a proper manner by ensuring that the Directors receive accurate, timely and clear information, on the Company's current performance, to enable the Board to take sound decisions, monitor effectively and provide advice to promote the success of the Company.</p> <p>The General Manager/CEO is responsible for the day to day management of the business of LankaClear, in line with the strategy and long term objectives approved by the Board.</p>
A.4	Financial Acumen	The Board consists of members who have sufficient financial acumen and knowledge to offer guidance on respective matters and business of the Company.
A.5	Board Balance	<p>The purpose of having a balanced board with executive and non-executive directors is to ensure that no individual or small group of individuals can dominate the Board's decision-taking.</p> <p>As given in this Report, the composition of the Board at LankaClear is such that, it has members to represents the Central Bank of Sri Lanka, two State Banks, private local banks and foreign banks and also the Sri Lanka Banker's Association, this composition ensures that one individual or group of individuals cannot dominate others.</p>
A.6	Supply of Information	<p>The Board was provided with timely and appropriate information by the Management by way of Board papers, Information Papers and Circular papers during the year under review. The Board sought additional information as and when necessary.</p> <p>Board papers are usually sent to the Directors at least a 4-5 days before the respective Board meetings giving adequate time for Directors to study the related papers and prepare for a meaningful discussion at the respective meetings.</p>
A.7	Appointments to the Board	The appointment of new directors to the Board is carried out in a transparent manner. Details are given under 'Composition of the Board of Directors' section in this Report.
A.8	Re-Election	<p>At LankaClear, we have a process of re-nomination. The directors nominated by the Board of the Sri Lanka Bank's Association shall unless they earlier vacate their office, hold office for a minimum period of one year from the date of nomination and may serve for a further term of one year unless otherwise decided against by the nominee.</p> <p>The Directors nominated by the two state banks and the director nominated by the Governor of the Central Bank shall unless they earlier vacate their office, hold office for a period of two years from the date of nomination and shall retire at the end of period and unless disqualified, be eligible for re- nomination.</p>
A.10	Disclosure of information in respect of Directors	Details of the Directors are given on their individual profiles, appointments, attendance at the Board and Sub-Committee Meetings are given on this Report.

Corporate Governance

Rule No.	Subject	Compliance Status and Comment
B.	Director's Remuneration	The Board decides the remuneration of the Chairman. The chairman shall not participate in such decision making nor have any influence. The Directors remuneration is decided by the Board as a whole, in which remuneration will be a nominal value. This Financial Statements provides details of remuneration of the Board as a whole.
C.	Relations with shareholders and disclosures	<p>In its desire to maintain good relationships with Shareholders, the Board of LankaClear follows a policy of disclosing all relevant information, both financial and non-financial to Shareholders. The Board constantly strives to enhance shareholders' values who have built this winning organization.</p> <p>The shareholders are given the opportunity of exercising their rights at the Annual General Meeting. Each resolution brought before the shareholders at the Annual General Meeting is voted on separately by them. The notice of the Annual General Meeting and the relevant documents required are published and sent to the shareholders within the statutory period.</p>
D.	Accountability and Audit	<p>Financial Reporting</p> <p>LankaClear has reported a true and fair view of its financial position and performance for the year ended 31st March 2017.</p> <p>The Director's Report forms part of the Annual Report and 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.</p> <p>Going Concern</p> <p>The Board of Directors, upon the recommendation of the Audit Committee, is satisfied that the Company has sufficient resources to continue in operation for the foreseeable future.</p> <p>Internal Control</p> <p>At LankaClear we have established a sound framework of risk management & internal controls and monitoring its effectiveness on a continuous basis.</p> <p>Audits</p> <p>In addition to the annual financial audit it is our desire to ensure compliance with the relevant Directions, Rules and Circulars by the Central Bank of Sri Lanka. Internal audits are conducted on a quarterly basis and audit reports are discussed and required corrective actions to be taken by the management is agreed at the Board Audit Committee meetings.</p> <p>Further, an internal and external IT audit was carried out during the year under review and the report by the auditor has been submitted to the Audit Committee for their evaluation.</p> <p>Audit Committee</p> <p>The details and required disclosures of the Audit Committee are given on the Audit Committee Report.</p>

Rule No.	Subject	Compliance Status and Comment
		<p>IT Governance</p> <p>Information Technology (IT) landscape is increasingly complex and vulnerable. Plus there is an unprecedented dependency on the technology and intolerable consequences when technology fails. Effective IT Governance is required to address such challenges by managing the risks associated with IT.</p> <p>We, LankaClear believe in that the IT Governance also plays a pivotal role under the wings of Corporate Governance. Being an IT driven organization, it is imperative that LankaClear manage all IT related risks to an acceptable level in keeping with required level of availability in services rendered. We manage technology risks by adhering to the IT Governance Framework which identifies the mechanisms to create value and manage risks associated with IT. LankaClear's IT Governance framework provides the business with a structure, process and authorities to set IT direction and oversee key activities in support of Business Strategy. Additionally IT Governance helps LankaClear ensure that key IT decisions are made in alignment with organization's overall business direction.</p> <p>Code of Business Conduct & Ethics</p> <p>The Code of Conduct is affirmed by the seven core principles/values of the company which are well institutionalised through structured communication. The degree of employee conformance to same is monitored and considered in reward recognition scheme.</p> <p>Voluntary Disclosures</p> <p>Under the stipulations of the Company's Act No 07 of 2007, 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.</p> <p>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 further more as the National Payment Network.</p>
E & F.	Institutional investors and other investors	The company generally maintains a good relationship with the shareholders and potential investors.
G.	Sustainability Reporting	We believe that among others, financial performance, brand image, a productive workforce along with prudent and independent Board place a great importance on sustainable development. The Company align its strategies, plans and goals according to the sustainability content annually.

Corporate 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.

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, 2017, 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			✓
Shop and Office Employees Act No 19 of 1954 as amended			✓

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

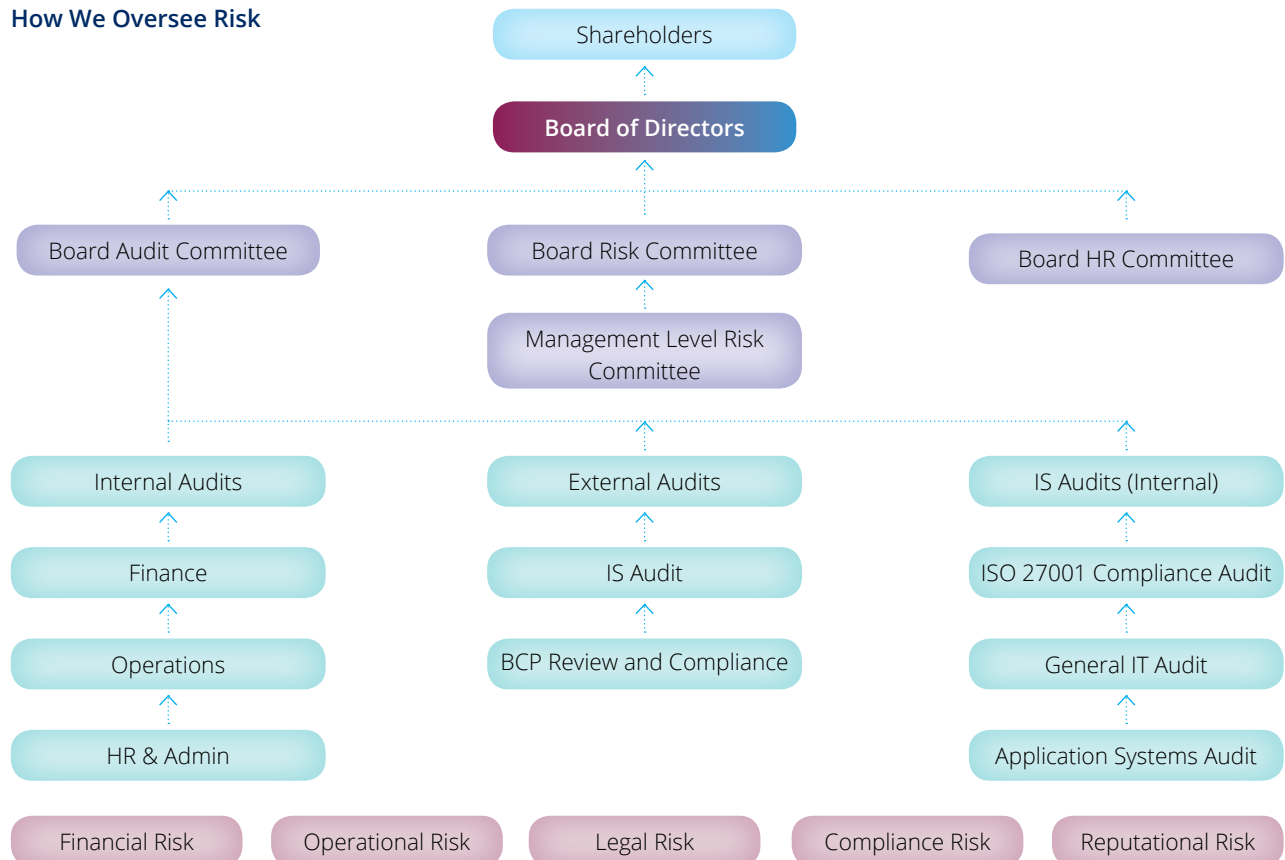
functioning of the business operations and enhanced accountability while also ensuring business continuity and resilience towards greater profits. Management is committed to 'Best Practices' in Enterprise Risk Management across its business at all times striving to adhere to best standards and benchmarks 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

How We Oversee Risk



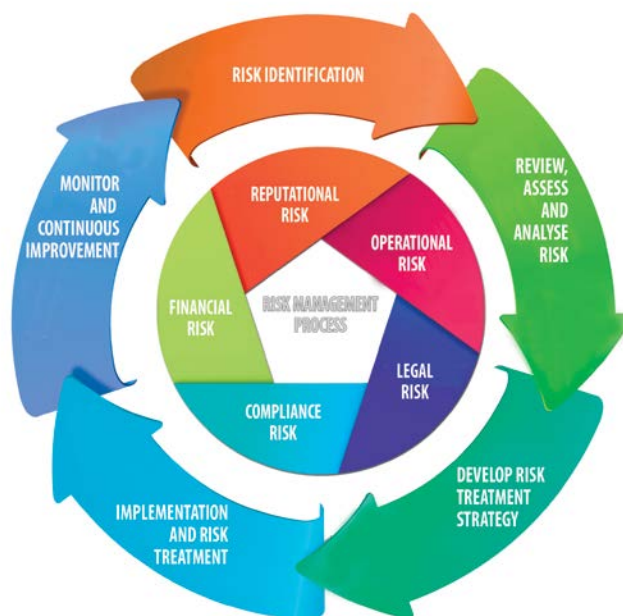
Enterprise Risk Management

monitoring of IT risks and vulnerabilities. Following diagram depicts the Risk Management Framework in keeping with good governance.

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

- Credit Risk
- Interest Risk
- Gearing Risk
- Liquidity Risk
- Foreign Exchange Rate Risk
- Placement Risk

Operational Risk

- Strategic Risk
- Project Risk
- Competitive Risk
- Information Technology and Security Risk
- Process Risk
- Economic Risk
- Employee Risk

Reputational Risk

- Brand Value Risk
- Reputational Risk

Legal Risk

- Legal Risk

Compliance Risk

- Regulatory Risk
- Compliance Risk

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'.

Frequency	Business Impact Classification						
	Type		Insignificant - 1	Minor - 2	Moderate - 3	Major - 4	Severe - 5
			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

Impact

Likelihood

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.

Operational Risk	
Strategic Risk	
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.

Enterprise Risk Management

Operational Risk	
Strategic Risk	Low

Failure to implement strategic plans and address market needs of payment systems on time.

Impact/ Implication	Risk Management Strategy
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.

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.

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.

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.

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.

Enterprise Risk Management

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. CCAPS is PCI-DSS certified, 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.

Information Technology and Security Risk	Low
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Information Technology and Security.

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 certified 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****Low**

Inability to operate from the Primary Data Centre due to natural disaster or technical failure or unanticipated/unforeseen occurrence/development.

Impact/ Implication

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.

Risk Management Strategy

- 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.

Employee Risk**Low**

Risk of inability to attract the right staff, develop existing staff and retain skilled and experienced staff.

Impact/ Implication

Reduced productivity.
Reduced quality of service.

Risk Management Strategy

- 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.

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

Loss of principal amount invested
Loss of interest/return on investment.

Risk Management Strategy

- 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.

Gearing Risk

Low

Risks from high financial gearing.

Impact/ Implication

The possibility of excessive losses is greatly enhanced in highly geared positions.

Risk Management Strategy

- The Company is debt free and has generated cash surpluses enabling the funding of all its proposed investments from internally generated funds.

Interest Rate Risk

Low

Risk of fluctuating interest rates.

Impact/ Implication

The possibility of lower returns on investments due to interest rates' downward movements.

Risk Management Strategy

- 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.

Liquidity Risk

Low

Risk of not having sufficient resources to meet financial obligations in full, at a reasonable cost.

Impact/ Implication

Penalty charges and unfavorable terms when prematurely uplifting the investments .

Risk Management Strategy

- 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.

Enterprise Risk Management

Financial Risk	
Foreign Exchange Rate Risk	Low

Risk from fluctuating foreign exchange rates.

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

Placement Risk	Low
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Risk of placing funds in projects which do not give adequate returns.

Impact/ Implication	Risk Management Strategy
Affects profitability of the Company.	<ul style="list-style-type: none"> 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.	<ul style="list-style-type: none"> 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	Moderate
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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.	<ul style="list-style-type: none"> Continuous awareness amongst employees, customers and general public. Strong controlled environment with policies procedures and compliance.

The Board Audit Committee Report

The Board Audit Committee functioned in terms of the Audit Committee Charter approved by the Board of Directors and purposed to assist the Board of Directors of the Company in fulfilling its oversight responsibilities for financial reporting process, internal control, the audit process, and the monitoring process for compliance with laws and regulations.

The scope of the Audit Committee Charter is reviewed and updated regularly incorporating the provisions of the many regulatory requirements, standards and Acts.

Apart from the direct inquiries of Board Audit Committee, External Auditors, Internal Auditors and Senior Manager - Information Systems Audit who specifically reporting to the Board Audit Committee assist the committee to fulfil their obligations effectively on different perspectives.

Mainly External Auditors carryout the audit on financial statements in a view of providing an opinion on the same. Internal Auditors mainly carryout their audit on internal controls of the organization based on the assigned scope by the Board Audit Committee. Senior Manager - Information Systems Audit ensure overall IT governance, risk and compliance of the organization.

The following areas come under the purview of the Board 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 and risk management systems.

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.
- 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 independence, 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. This includes findings submitted on ISO/ IEC 27001:2013 and PCI-DSS compliance.

Internal IT Audit

Internal IT Audit is carried out by the Senior Manager - Information Systems Audit (SM – ISA) of LCPL. The 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.

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. R. H. Fonseka – (Alternate Director to Mr. D. M. Gunasekara-Director)
- Mr. C. P. S. Bandara
- Mr. M. U. de Silva

Presently the Audit Committee of LankaClear (Pvt) Ltd is chaired by Mr. Russel Fonseka, Deputy General Manager International, Treasury and Investment / CFO, Bank of Ceylon, a Fellow of the Institute of Chartered Accountants of Sri Lanka

The Board Audit Committee Report

The wide range of experience mainly on financial and IT controls and banking industry brought to the Committee from positions held by the present members can be seen from the Directors biographical details appearing in this annual report.

The quorum to the Committee is three members.

DGM IT & Operations, Head of Finance, Head of HR & Administration, Head of IT Infrastructure, Head of Clearing Systems, Head of 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 Audit Committee and Head of Finance liaise Board Audit Committee Meetings and related Board Audit Committee activities as the Audit Representative based on the instructions of the Board Audit Committee.

Meetings

The Committee held four (4) meetings during the year under review. The attendance of the members at these meetings is shown under Corporate Governance (page 75) in the Annual Report. The proceedings of the Audit Committee are reported regularly to the Board of Directors through Board Audit Committee Meeting Minutes and special remarks made by Board Audit Committee Chairman at the Board Meetings.

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) Reviewed the internal audit scope and assigned the Internal Auditors at regular intervals to review effectiveness of the internal control procedures, accounting systems and operations procedures of the organisation through quarterly audits.
- 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).

Internal IT Audit

The Board Audit Committee reviewed the findings of the 'General IT Controls Review', 'Business Continuity Plan', compliance reporting on ISO/ IEC 27001 and other reporting on IT Governance, Risk and Compliance, and monitors the implementation of the risk remediation actions recommended by the (SM – ISA) in order to mitigate/ remedy the prevailing risks and vulnerabilities.

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 2018 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 organization are managed in accordance with policies of the organization and that the organisation's assets are properly accounted for and adequately safeguarded.



W. P. Russel Fonseka
Chairman - Board Audit Committee

26th May 2017
Colombo

The Board HR Committee Report

The Board HR Committee of LCPL was established under the direction of the Board in order to provide the strategic HR Direction to the Human Resource Function of the organization. The Terms of Reference of the Board HR Committee was approved by the Board.

The Board HR Committee during the year under review consisted of three Board Members namely Mr. C. P. S. Bandara, Mr. M. U. de Silva and the undersigned.

Mr. C. P. S. Bandara was appointed to the Board HR committee on 28th April 2016 consequent to the resignation of Ms. J. Mampitiya as a Director of LCPL on her retirement from the Central Bank of Sri Lanka. We wish to place on record the immense contribution made by Ms Mampitiya to the decision making and strategic direction process of the Board HR committee

The mandate of the Board HR Committee, as approved by the Board, includes, in addition to providing strategic leadership and direction to the organization, making recommendations to the Board inter-alia on the following;

- Changes to the Organizational Structure and HR Strategies
- 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

According to the mandate of the Board HR Committee, it reviewed and recommended to the Board the annual salary increases and promotion

of staff members ensuring retention of key employees and the process of succession planning. Further, the Board HR Committee helped the organization to streamline several policies such as Training & Development Policy, Sales & Marketing Incentive Policy in addition to its contribution to strengthen the Organization Structure of the FinCSIRT to ensure stability of the department. The expertise shared by the members of the Board HR Committee helped the organization to improve the HR Risk mitigation initiatives and succession planning process.

As the Chairman of the Board HR Committee I wish to place on record my appreciation of the valuable inputs provided by the members of the Board HR Committee that helped the decision making process of the HR management function of the company while improving profitability and employee satisfaction.

On behalf of the Board of Directors, I wish to thank Mr. C. P. S. Bandara and Mr. M. U. de Silva for their untiring efforts to fulfill their obligations as members of the HR Committee.

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



Mr. A. S. Amarasuriya
Chairman – Board HR Committee

26th May 2017
Colombo



We always **strive for the best**

And so should you; that's why we consider innovation as part of our DNA. We believe, by being creative and innovative in all our services, we could ensure that your life and business are not put on hold.

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.

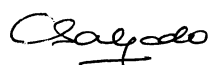
The Directors are of the view that, these Financial Statements have been prepared under the generally accepted accounting principles and in accordance with the Sri Lanka Accounting Standards for small and medium – sized entities as laid down by the Institute of Chartered Accountants of Sri Lanka.

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 101 of the Annual Report.

By Order of the Board
LankaClear (Private) Limited



Managers & Secretaries (Pvt) Limited
Secretaries

26th May 2017
Colombo

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

The Directors of LankaClear (Pvt) Ltd have pleasure in presenting the 15th Annual Report of your Company together with the Audited Financial Statements for the year ended 31st March 2017.

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 System 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 2017 and future business developments of the Company are provided in the Chairman's message on pages 16 to 19 GM/ CEO's review on pages 20 to 25 Management discussion & analysis appearing on pages 34 to 48 and capital management on pages 50 to 73 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 for the year ended 31st March 2017 have been prepared in accordance with the Sri Lanka Accounting Standard for Small and Medium-sized Entities (SLFRS for SME's) duly signed by the Directors and the auditor's report on the financial statements are provided on pages 101 to 119.

Corporate Governance

The Corporate Governance principles and practices of the Company are described from pages 75 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 acts 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 Management. Foreseeable risks that may materially impact business are disclosed in the Enterprise Risk Management Statement on pages 83 to 92 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.

Accounting Policies

All the significant accounting policies adopted by the Company are mentioned on pages 106 to 110 There have been no changes in the accounting policies adopted by the Company during the year under review.

Revenue

Revenue generated by the Company amounted to Rs. 801 Mn (2016 - Rs. 602 Mn).

Profit & Appropriations

The profit after tax of the Company and the profit attributable to the equity holders for the year was Rs. 278 Mn (2016 - Rs. 174 Mn). 15% of the profit after tax amounted to Rs. 42 Mn recommended by the Board to distribute among the Shareholders of the Company as Dividend.

Dividends

A final dividend of Rs. 2.75 per share for the Financial Year ended 31st March 2017 (2016 - Rs. 2.00 per share) was recommended by the Board of Directors, resulting in a total cash payout amounting to Rs. 42 Mn (2016 Rs. 31Mn)

As required by Section 56 (2) of the Companies Act No. 7 of 2007, the Board of Directors has confirmed that the Company satisfies the solvency test in accordance with Section 57 of the Companies Act No. 7 of 2007, and has obtained a certificate from the Auditors, prior to paying the final dividend of Rs. 2.75 per share. The final dividend will be paid after obtaining the approval from the Shareholders.

Property, Plant & Equipment and Intangible Assets

The Company's capital expenditure on property, plant and equipment amounted to Rs. 18 Mn (2016 - Rs. 70 Mn) and all other related information and movements have been disclosed in the note 5 (page 111) to the financial statements.

Additions of intangible assets of the Company during the year amounted to Rs. 66 Mn (2016- Rs. 23 Mn) and all other related movements are disclosed under the note 6 (page 113).

Investments

Detailed description of the short investments held as at the reporting date, are given in note 9 (page 114) to the financial statements

Stated Capital

The total stated capital of the Company as at 31st March 2017 was Rs. 158 Mn (2016 - Rs. 158 Mn). The Stated Capital of the Company comprises of 15 Mn Ordinary Shares fully paid up.

Reserves

Total reserves as at 31st March 2017 for the Company amounted to Rs. 1,592 Mn (2016 - Rs. 1,344 Mn). The movement of reserves during the year is disclosed in the Statement of Changes in Equity on page 104.

Contingent Liabilities & Capital Commitments

Commitments made for capital expenditure as at 31st March 2017 and the contingent Liabilities as at that date are given in note 23 (page 119) 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 (page 119) to the Financial Statements.

Share Information & Shareholding

The Net Assets Value per Ordinary Share of the Company as at 31st March 2017 was Rs. 104.75 (2016 - Rs. 88.43). The number of shareholders as at 31st March 2017 was 26 (2016 - 26). An analysis of shareholders based on shares held, during the year are provided on page 8. of this report.

The Board of Directors

The Board of Directors of the Company as at 31st March 2017 and their brief profiles are given in the Board of Directors section of the Annual Report (Pages 26 to 30).

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

- Mr. K. Ariyaratne resigned w.e.f. 30th June 2016 and Mr. A. M. Ali was appointed w.e.f. 30th June 2016 in his place.
- Mrs. J. P. Mampitiya resigned w.e.f. 07th October 2016 and Mr. S. S. Ratnayake was appointed w.e.f. 20th December 2016 in her place.
- Mrs. R. A. S. M. Dayarathna resigned w.e.f. 31st March 2016 and Mr. C. Bandara was appointed w.e.f. 28th April 2016 in her place.
- Mr. P. K. Dangi resigned w.e.f. 30th June 2016 and Mr. P. S. Mathavan was appointed w.e.f. 30th June 2016 in his place.

Board Committees

Information relating to members of the Board Audit Committee, Board HR Committee including reports of each of the committees and attendance of Directors for each of the committee meetings are disclosed under Corporate Governance in pages 75 to 82.

Directors Responsibilities for the Financial Statements

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

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

Small and Medium - sized Entities and Companies Act No. 7 of 2007.

Director's Interests in Contracts

Details of the transactions with Director-related entities are disclosed in note 22 to the financial statements on page 119, and have been declared at the Board meeting, pursuant to Section 192 (2) of the Companies Act No. 7 of 2007.

Director's Remuneration

Details of the remuneration and other benefits received by the Directors are set out in note 22 (page 119) 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 54 to 59.

The number of persons employed by the Company as at 31st March 2017 was 112 (2016 - 108). 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 detrimental 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 (page 118) to the financial statements

Donations

There were no donations made during the Year.

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.

Details of the Audit Fees paid to the Auditors are set out in note 18 (page 117) of the financial statements. Fees paid for performing non-audit services to Messrs. B. R. De Silva & Company a firm of Chartered Accountants amounted to Rs. 429,114/-. Further details on the work of the Auditor and the Audit Committee are set out in the Audit Committee Report on pages 93 to 94.

Annual Report

The Board of Directors approved the Audited Financial Statements for issue on 26th May 2017.

Notice of Meeting

The Annual General Meeting will be held at "The Victorian", The Kingsbury Hotel, Level 10, 48, Janadhipathi Mawatha, Colombo 01 on 28th June 2017 at 11.30 am.

The Notice of the Annual General Meeting appears on page 122.

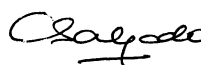
For and on behalf of the Board.



D. M. Gunasekara
Director



S. S. Ratnayake
Director



Managers & Secretaries (Pvt) Ltd
Secretaries

LankaClear (Private) Limited
26th May 2017
Colombo

Independent Auditor's Report



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

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

TO THE SHAREHOLDERS OF LANKACLEAR (PRIVATE) LIMITED

Report on the Financial Statements

We have audited the accompanying financial statements of LankaClear (Private) Limited, ("the Company"), which comprise the statement of financial position as at 31 March 2017, 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 102 to 119.

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 2017, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards for Small and Medium-sized Entities (SLFRS for SMEs).

Report on Other Legal and Regulatory Requirements

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

- The basis of opinion and scope and limitations of the audit are as stated above.
- In our opinion:
 - we have obtained all the information and explanations that were required for the audit and, as far as appears from our examination, proper accounting records have been kept by the Company.
 - the financial statements of the Company, comply with the requirements of section 151.

26th May 2017
Colombo

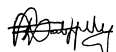
Partners: W R H Fernando FCA FCMA M P D Cooray FCA FCMA R N de Saram ACA FCMA Ms. N A De Silva FCA Ms. Y A De Silva FCA W K B S P Fernando FCA FCMA
Ms. K R M Fernando FCA ACMA Ms. L K H L Fonseka FCA A P A Gunasekera FCA FCMA A Herath FCA D K Hulangamuwa FCA FCMA LLB (Lond) H M A Jayasinghe FCA FCMA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

A member firm of Ernst & Young Global Limited

Statement of Financial Position

As at 31 March 2017		2017	2016
	Notes	Rs.	Rs.
Assets			
Non Current Assets			
Property, Plant and Equipment	5	241,955,966	268,861,958
Intangible Assets	6	327,935,172	293,036,530
		569,891,138	561,898,488
Current Assets			
Inventories	7	1,691,001	1,494,021
Trade and Other Receivables	8	155,863,885	128,388,126
Short Term Financial Investments	9	695,280,544	660,032,728
Cash and Cash Equivalents	10	284,103,917	66,814,362
		1,136,939,347	856,729,237
Total Assets		1,706,830,485	1,418,627,725
Equity and Liabilities			
Capital and Reserves			
Stated Capital	11	158,250,000	158,250,000
Technology Upgrade Reserve	12	245,584,502	236,150,082
Retained Earnings		1,188,413,542	949,759,078
Total Equity		1,592,248,044	1,344,159,160
Non Current Liabilities			
Retirement Benefit Obligation	13	25,405,395	20,214,215
Deferred Tax Liability	14	8,347,985	4,105,703
		33,753,380	24,319,918
Current Liabilities			
Trade and Other Payables	15	69,815,032	50,148,647
Income Tax Liability		11,014,029	-
		80,829,061	50,148,647
Total Equity and Liabilities		1,706,830,485	1,418,627,725
Net Assets Value Per Share		104.75	88.43

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



R. L. Galappaththy

Head of Finance

The Board of Directors is responsible for the preparation and presentation of these Financial Statements.

Signed for and on behalf of the Board by:



D. M. Gunasekara

Director



S. S. Ratnayake

Director

The Accounting Policies and Notes on pages 106 to 119 form an integral part of these Financial Statements.

26th May 2017

Colombo

Statement of Comprehensive Income

Year ended 31 March 2017		2017	2016
	Notes	Rs.	Rs.
Revenue	16	800,761,303	601,640,965
Direct Operating Expenses		(410,724,907)	(339,466,057)
Gross Profit		390,036,396	262,174,908
Other Income	17	90,686,259	58,598,343
Administrative Expenses		(138,180,975)	(126,400,053)
Marketing Expenses		(20,499,777)	(9,565,539)
Profit Before Tax	18	322,041,903	184,807,659
Income Tax Expense	19	(43,553,020)	(11,063,885)
Profit for the Year		278,488,884	173,743,774
Other Comprehensive Income		-	-
Total Comprehensive Income for the Year		278,488,884	173,743,774
Earnings Per Share	20	18.32	11.43

The Accounting Policies and Notes on pages 106 to 119 form an integral part of these Financial Statements.

Statement of Changes in Equity

Year ended 31 March 2017		Stated Capital	Technology Upgrade Reserve	Retained Earnings	Total
	Note	Rs.	Rs.	Rs.	Rs.
Balance as at 01 April 2015		158,250,000	222,035,045	816,730,342	1,197,015,387
Profit for the Year		-	-	173,743,774	173,743,774
Transferred to Technology Upgrade Reserve	12	-	46,201,915	(46,201,915)	-
Utilisation of Technology Upgrade Reserve	12	-	(32,086,878)	32,086,878	-
Dividend paid		-	-	(26,600,000)	(26,600,000)
Balance as at 31 March 2016		158,250,000	236,150,081	949,759,079	1,344,159,160
Profit for the Year		-	-	278,488,884	278,488,884
Transferred to Technology Upgrade Reserve	12	-	80,510,476	(80,510,476)	-
Utilisation of Technology Upgrade Reserve	12	-	(71,076,055)	71,076,055	-
Dividend paid		-	-	(30,400,000)	(30,400,000)
Balance as at 31 March 2017		158,250,000	245,584,502	1,188,413,542	1,592,248,044

The Accounting Policies and Notes on pages 106 to 119 form an integral part of these Financial Statements.

Statement of Cash Flows

Year ended 31 March 2017		2017	2016
	Notes	Rs.	Rs.
Cash flows from operating activities			
Profit Before Tax		322,041,903	184,807,659
Adjustments for			
Depreciation	5	48,400,623	41,859,684
Amortisation	6	43,305,710	27,520,457
Finance Income		(85,161,046)	(52,715,603)
Gratuity Charge for the Year	13	5,295,214	4,835,895
Profit on Disposal of Property, Plant & Equipment		-	(4,226,633)
Operating Profit before Working Capital Changes		333,882,404	202,081,459
Increase in Inventories		(196,980)	(25,784)
Increase in Trade and Other Receivables		(39,001,794)	(18,954,462)
Increase in Trade and Other Payables		16,316,820	11,409,743
Cash Generated from Operations		311,000,451	194,510,956
Income Tax Paid		(25,520,673)	(27,187,299)
Gratuity Paid	13	(104,034)	(3,010,321)
Net Cash From Operating Activities		285,375,744	164,313,336
Cash flows from Investing Activities			
Acquisition of Property, Plant & Equipment		(18,145,065)	(70,371,442)
Acquisition of Intangible Assets		(65,954,352)	(22,718,842)
Investment in Common Card and Payment Switch under Work in Progress		(3,500,000)	(74,053,100)
Proceeds from Disposal of Property, Plant & Equipment		-	4,346,314
Investment in Short Term Financial Investments		(23,192,729)	(14,467,289)
Finance Income Received		73,105,957	52,910,376
Net Cash Flows Used in Investing Activities		(37,686,189)	(124,353,982)
Cash flows from Financing Activity			
Dividend Paid	21	(30,400,000)	(26,600,000)
Net Cash Flows Used in Financing Activity		(30,400,000)	(26,600,000)
Net Increase in Cash and Cash Equivalents		217,289,555	13,359,354
Cash and Cash Equivalents at the beginning of the year		66,814,362	53,455,008
Cash and Cash Equivalents at the end of the year	10	284,103,917	66,814,362

The Accounting Policies and Notes on pages 106 to 119 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 Authorization 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 2017, covering the period from 01 April 2016 to 31 March 2017 was authorized for issue by the Board of Directors on 26th May 2017

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 recognized in the period in which the estimate is revised and in any future periods affected.

3.1 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.

3.2 Useful life-time of the Property 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.

3.3 Useful -lives of intangible assets

The Company reviews the residual values, useful lives and methods of amortization 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.

3.4 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 capitalization. Capital work-in progress would be transferred to the relevant asset when it is available for use i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management.

4.3 Borrowing Costs

All borrowing costs are recognized 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 recognized immediately in profit or loss.

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

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.

Computer Software

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

4.6 Inventories

Inventories are valued at the lower of cost and net realizable value, after making due allowances for obsolete and slow moving items. Net realizable value is the price at which inventories can be sold

Notes to the Financial Statements

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

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

Investments with maturities more than three months and less than one year from the date of acquisition are considered as short term financial investments and are initially recognized at fair value. After initial measurement, such financial assets are subsequently measured at amortized cost using Effective Interest Rate method (EIR), less impairment.

Cash and cash equivalents are cash in hand, demand deposits and short-term highly liquid investments, readily convertible to known amounts of cash and subject to insignificant risk of changes in value.

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

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

The Company's financial liabilities include trade and other payables. Financial liabilities are initially recognized at the transaction price (including transaction costs). Trade payables are obligations on the basis of normal credit terms and do not bear interest.

4.10 Provisions

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

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 recognized as an expense in profit or loss as incurred. The Company contributes 12 % and 3% of gross emoluments of employees to Employees’ Provident Fund and Employees’ Trust Fund respectively.

4.12 Revenue Recognition

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

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 recognized 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.

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 realized simultaneously.

A deferred tax asset is recognized 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 utilized. 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 realized.

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 recognized as deferred tax asset is recognized as deferred tax expense and conversely any net decrease is recognized as reversal to deferred tax expense, in the income statement.

Notes to the Financial Statements

4.16 Earnings Per Share

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

4.17 Net Assets per Share

Net Assets per Share is calculated by dividing net assets value of the Company as at the year end by the weighted average number of ordinary shares outstanding during the period.

4.18 Cash Flow Statement

The cash flow statement 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 01.04.2016 Rs.	Additions Rs.	Disposals/ Transfers Rs.	Balance as at 31.03.2017 Rs.
5.1 At Cost				
Computer Equipment	430,637,178	16,811,127	-	447,448,306
Furniture and Fittings	20,530,870	1,097,721	-	21,628,591
Electronic Equipment	31,478,904	3,031,125	-	34,510,029
Other Equipment	14,473,693	554,658	-	15,028,351
Motor Vehicle	6,695,000	-	-	6,695,000
Freehold Land	21,238,620	-	-	21,238,620
Freehold Building	68,940,628	-	-	68,940,628
Total Value of Assets	593,994,893	21,494,631	-	615,489,524

5.2 Depreciation

	Balance as at 01.04.2016 Rs.	Charge for the Year Rs.	Disposals/ Transfers Rs.	Balance as at 31.03.2017 Rs.
Computer Equipment	290,209,450	36,660,225	-	326,869,675
Furniture and Fittings	10,350,152	1,573,287	-	11,923,439
Electronic Equipment	18,336,536	3,830,970	-	22,167,506
Other Equipment	3,748,786	2,682,190	-	6,430,975
Motor Vehicle	1,339,000	1,339,000	-	2,678,000
Freehold Building	1,149,010	2,314,952	-	3,463,963
Total Depreciation	325,132,935	48,400,623	-	373,533,558

Notes to the Financial Statements

5. PROPERTY, PLANT AND EQUIPMENT (Contd.)

5.3 Net Book Values

	2017	2016
	Rs.	Rs.
Computer Equipment	120,578,630	140,427,728
Furniture and Fittings	9,705,152	10,180,718
Electronic Equipment	12,342,522	13,142,368
Other Equipment	8,597,376	10,724,907
Motor Vehicle	4,017,000	5,356,000
Freehold Land	21,238,620	21,238,620
Freehold Building	65,476,665	67,791,618
Total Carrying Amount of Property, Plant and Equipment	241,955,966	268,861,958

5.4 During the financial year, the Company acquired Property, Plant & Equipment by means of cash with an aggregate cost of Rs.18,145,065/- (2016 - Rs. 70,371,442/-)

5.5 The total investment made as at the reporting date in Common Card and Payment Switch was Rs. 469Mn (2016 - Rs. 429Mn) 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 2017 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

	Balance as at 01.04.2016 Rs.	Additions Rs.	Disposals/ Transfers Rs.	Balance as at 31.03.2017 Rs.
6.1 At Cost				
Computer Software	493,273,909	91,829,216	-	585,103,125
	493,273,909	91,829,216	-	585,103,125
Capital Work in Progress				
Common Card and Payment Switch	86,814,917	12,250,000	-	99,064,917
Computer Software Upgrade	25,874,864	35,542,700	(61,417,565)	-
	112,689,781	47,792,700	(61,417,565)	99,064,917
Total Value of Assets	605,963,689	139,621,917	(61,417,565)	684,168,042

6.2 Amortisation

	Balance as at 01.04.2016 Rs.	Charge for the Year Rs.	Disposals/ Transfers Rs.	Balance as at 31.03.2017 Rs.
Computer Software	312,927,159	43,305,710	-	356,232,869
Total Amortisation	312,927,159	43,305,710	-	356,232,869

6.3 Net Book Values

	2017 Rs.	2016 Rs.
Computer Software	228,870,256	180,346,749
Capital Work in Progress		
Common Card and Payment Switch	99,064,917	86,814,917
Computer Software Upgrade	-	25,874,864
Total Carrying Amount of Intangible Assets	327,935,172	293,036,530

6.4 During the financial year, the Company acquired intangible assets by means of cash with an aggregate cost of Rs.65,954,352/- (2016 - Rs. 22,718,842/-).

6.5 Based on the assessment of potential impairment carried out internally as at 31 March 2017, no provision was required to be made in the Financial Statements as at the reporting date.

Notes to the Financial Statements

7. INVENTORIES

	2017	2016
	Rs.	Rs.
Consumable and Stationary	1,691,001	1,494,021
	1,691,001	1,494,021

8. TRADE AND OTHER RECEIVABLES

	2017	2016
	Rs.	Rs.
Trade Receivables	120,596,104	97,249,896
Advances & Prepayments	33,989,138	19,087,209
Advance Payment for Application Software	-	8,750,000
Income Tax Receivable	-	2,776,035
Refundable Deposits	371,200	411,200
Other Receivables	907,443	113,786
	155,863,885	128,388,126

9. SHORT TERM FINANCIAL INVESTMENTS

	2017	2016
	Rs.	Rs.
Investment in Fixed Deposits	654,138,777	651,946,047
Accrued Interest on Fixed Deposits	18,173,780	8,086,681
Investment in Securities Purchase under Resale Agreement	21,000,000	-
Accrued Interest on Securities Purchase under Resale Agreement	1,967,988	-
	695,280,544	660,032,728

10. CASH AND CASH EQUIVALENTS

	2017	2016
	Rs.	Rs.
Investment in Fixed Deposits	273,115,679	40,651,945
Accrued Interest on Fixed Deposits	3,996,529	136,435
Securities Purchase under Resale Agreement	5,000,000	20,400,000
Accrued Interest on Securities Purchase under Resale Agreement	-	5,688
Cash in Hand and Bank Balances	1,991,710	5,620,294
	284,103,917	66,814,362

11. STATED CAPITAL

	2017		2016	
	Number	Rs.	Number	Rs.
Fully paid Ordinary Shares	15,200,000	158,250,000	15,200,000	158,250,000

12. TECHNOLOGY UPGRADE RESERVE

	2017	2016
	Rs.	Rs.
Balance at the Beginning of the Year	236,150,082	222,035,045
Transferred from Retained Earnings	80,510,476	46,201,915
Utilisation of Technology Upgrade Reserve	(71,076,055)	(32,086,878)
Balance at the End of the Year	245,584,502	236,150,082

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 to the Technology Upgrade Reserve annually.

13. RETIREMENT BENEFIT OBLIGATION

	2017	2016
	Rs.	Rs.
Balance at the Beginning of the Year	20,214,215	18,388,641
Gratuity Charge for the Year	5,295,214	4,835,895
Payments made during the Year	(104,034)	(3,010,321)
Balance at the End of the Year	25,405,395	20,214,215

14. DEFERRED TAXATION

	2017	2016
	Rs.	Rs.
Deferred Tax Liability	8,347,985	4,105,703
	8,347,985	4,105,703

Notes to the Financial Statements

14. DEFERRED TAXATION (Contd.)

	2017		2016	
	Temporary Difference Rs.	Tax Effect Rs.	Temporary Difference Rs.	Tax Effect Rs.
Balance at the Beginning of the Year	(14,663,224)	(4,105,703)	2,329,302	652,205
Transferred to/(from) Income Statement	(15,151,009)	(4,242,283)	(16,992,526)	(4,757,907)
Balance at the End of the Year	(29,814,233)	(8,347,985)	(14,663,224)	(4,105,703)
Deferred Tax Asset/(Liability) consisted of followings				
Property, Plant and Equipment and Intangible Assets	(55,219,628)	(15,461,496)	(34,877,439)	(9,765,683)
Retirement Benefit Obligation	25,405,395	7,113,511	20,214,215	5,659,980
	(29,814,233)	(8,347,985)	(14,663,224)	(4,105,703)

15. TRADE AND OTHER PAYABLES

	2017 Rs.	2016 Rs.
Sundry Creditors and Accruals	59,053,027	43,072,865
Value Added Tax (VAT)	8,723,674	5,869,073
Nation Building Tax (NBT)	2,038,331	1,206,709
	69,815,032	50,148,647

16. REVENUE

	2017 Rs.	2016 Rs.
Revenue from Cheque Imaging and Truncation System (CITS)	399,683,113	330,530,059
Revenue from Common Card and Payment Switch (CCAPS)	275,099,501	162,664,001
Revenue from Sri Lanka Interbank Payment System (SLIPS)	102,249,230	92,510,906
Revenue from Financial Sector Computer Security Incident Response Team (FinCSIRT)	9,841,783	8,268,750
Revenue from LankaSign Certificate Authority (CA)	10,994,176	4,534,100
Revenue from USD Online Clearing System	2,893,500	3,133,150
	800,761,303	601,640,965

17. OTHER INCOME

	2017	2016
	Rs.	Rs.
Interest on Fixed Deposits	80,451,382	41,556,219
Interest on Securities Purchase under Resale Agreement	4,709,664	10,752,078
Profit on Disposal of Property, Plant and Equipment	-	4,226,633
Rental Income	4,242,260	1,402,400
Interest on Commercial Papers	-	407,306
Other Income	1,282,953	253,707
	90,686,259	58,598,343

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.470,966/- (2016 - Rs. 1,075,208/-).

18. PROFIT BEFORE TAX

	2017	2016
	Rs.	Rs.
Profit before tax is stated after charging all expenses including the following:		
Directors' Emoluments	3,980,000	4,460,208
External Auditors' Fee	733,280	641,480
Depreciation (Note 5.2)	48,400,623	41,859,684
Amortisation (Note 6.2)	43,305,710	27,520,457
Personnel Costs includes		
- Defined Contribution Plan Cost - EPF & ETF	17,777,278	15,896,747
- Salaries and other staff costs	160,744,576	140,165,235

19. INCOME TAX EXPENSES

	2017	2016
	Rs.	Rs.
The major components of Income Tax expense for the Year ended 31 March are as follows:		
Current Income Tax Expense		
Current Income Tax Charge (Note 19.1)	39,381,896	25,570,705
(Over)/Under provision of current taxes in respect of previous year	(71,159)	(19,264,728)
Deferred Income Tax Expense		
Deferred Tax originating during the Year (Note 14)	4,242,283	4,757,908
Charge to the Income Statement	43,553,020	11,063,885

Notes to the Financial Statements

19. INCOME TAX EXPENSES (Contd.)

	2017 Rs.	2016 Rs.
19.1 Reconciliation of Accounting Profit to Income Tax Expense		
Profit Before Tax	322,041,903	184,807,659
Profit on Tax Exempt Operation	(94,543,132)	(25,796,001)
Aggregate Allowable Items	(151,179,255)	(102,131,014)
Aggregate Disallowable Items	53,153,844	33,205,491
Taxable Income	129,473,359	90,086,136
Interest Income	85,161,046	52,715,603
Income Tax @ 12%	15,536,803	10,810,336
Income Tax @ 28%	23,845,093	14,760,369
	39,381,896	25,570,705

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.

	2017 Rs.	2016 Rs.
Amount used as the Numerator		
Net Profit attributable to Ordinary Shareholders	278,488,883	173,743,774
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	18.32	11.43

21. DIVIDEND PER SHARE

	2017 Rs.	2016 Rs.
Final Dividend paid in respect of 2014/15	-	26,600,000
Final Dividend paid in respect of 2015/16	30,400,000	
Dividend Per Share	2.00	1.75

22. RELATED PARTY DISCLOSURES

	2017	2016
	Rs.	Rs.
Transactions with Related Parties		
Central Bank of Sri Lanka *		
Service rendered through Cheque Imaging and Truncation System (CITS)	178,246	175,801
Service rendered through Sri Lanka Interbank Payment System (SLIPS)	317,208	320,736
Dividend paid	5,310,000	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, DGM IT & Operation and their immediate family members have been classified as Key Management Personnel.

	2017	2016
	Rs.	Rs.
Short Term Employment Benefits	3,980,000	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.

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

There were no Capital Expenditure Commitments as at the 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 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.

Ten Year Summary

Year ended 31 March (Rs. Mn)	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Operating Results										
Revenue	452.85	422.23	383.36	348.81	390.43	427.85	463.03	517.87	601.64	800.76
Gross Profit	275.61	210.07	175.00	208.40	257.74	282.11	260.90	247.16	262.17	390.04
Other Income	70.41	86.82	72.43	61.98	63.30	83.13	95.30	68.04	58.60	90.69
Administrative Expenses	91.94	99.58	107.35	99.40	124.73	104.78	128.01	121.81	126.40	138.18
Finance Cost	25.40	21.53	17.31	9.34	6.39	-	-	-	-	-
Marketing Expenses	-	-	-	-	-	-	-	10.76	9.57	20.50
Profit Before Tax	228.67	175.77	122.77	161.65	189.92	260.46	228.20	182.63	184.81	322.04
Income Tax Expenses	86.23	64.76	42.95	70.80	63.61	71.55	41.41	53.15	11.06	43.55
Profit for the Year	142.44	111.01	79.82	90.85	126.31	188.91	186.79	129.48	173.74	278.49
Capital Employed										
Stated Capital	150.50	150.50	150.50	152.50	154.75	154.75	158.25	158.25	158.25	158.25
Technology Upgrade Reserve	18.00	53.25	83.95	72.01	110.21	167.51	229.67	222.04	236.15	245.58
Capital Reserves	-	195.00	195.00	300.00	395.00	395.00	120.00	-	-	-
Retained Earnings	262.50	128.21	153.26	133.75	104.20	213.10	586.21	816.73	949.76	1,188.41
Non Current Liabilities	315.41	215.36	114.13	83.50	9.19	11.44	17.26	18.39	24.32	33.75
Total	746.41	742.32	696.84	741.76	773.36	941.79	1,111.39	1,215.40	1,368.48	1,626.00
Assets Employed										
Property, Plant and Equipment	230.32	220.90	113.64	132.99	91.57	206.24	175.59	224.74	268.86	241.96
Intangible Assets	128.56	85.48	30.12	29.19	15.28	10.71	117.95	235.52	293.04	327.94
Deferred Tax Asset	3.20	-	1.20	-	-	-	1.12	0.65	-	-
Net Current Assets	384.32	435.94	551.87	579.58	666.51	724.83	816.72	754.50	806.58	1,056.11
Total	746.41	742.32	696.84	741.76	773.36	941.79	1,111.39	1,215.40	1,368.48	1,626.00
Cash Flow										
Cash Flows from/(used in)										
Operating Activities	181.37	72.62	101.83	118.18	138.47	96.80	138.65	106.56	164.31	285.38
Cash Flows from/(used in)										
Investing Activities	(256.19)	241.69	(67.70)	(77.40)	83.47	(196.01)	(87.81)	(72.67)	(124.35)	(37.69)
Cash Flows from/(used in)										
Financing Activities	(40.28)	(42.33)	(51.36)	(42.72)	(94.58)	(22.73)	(23.01)	(26.60)	(26.60)	(30.40)
Net increase/(decrease) in										
Cash and Cash Equivalents	(115.10)	271.97	(17.23)	(1.93)	127.36	(121.93)	27.83	7.29	13.36	217.29
Key Indicators										
Net Profit Margin	31%	26%	21%	26%	32%	44%	40%	25%	29%	35%
Earnings Per Share	9.46	7.38	5.30	6.02	8.35	12.47	12.32	8.52	11.43	18.32
Net Assets Per Share	28.64	35.01	38.72	43.59	50.44	61.41	72.18	78.75	88.41	104.75
Revenue Growth Rate	5%	-7%	-9%	-9%	12%	10%	8%	12%	16%	33%
Dividend Per Share	1.00	1.60	1.15	1.50	1.50	1.75	1.75	1.75	2.00	2.75*
Dividend Payout (Rs. Mn)	15.05	24.08	17.3075	22.65	22.73	26.51	26.53	26.60	30.40	41.80*
Return on Equity	33%	21%	14%	14%	17%	20%	17%	11%	13%	17%

* Dividend Proposed in 2016/2017

Glossary

'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.

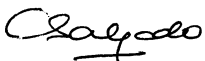
'SLIPS' shall mean Sri Lanka Interbank Payment System.

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the 15th Annual General Meeting of **LankaClear (Private) Limited** will be held on **28th June 2017 at 11.30 am at "The Victorian", The Kingsbury Hotel, Level 10, 48, Janadhipathi Mawatha, Colombo 01** for the following purposes:

- 1) To receive and consider the Report of the Directors and the Statement of Accounts for the year ended 31st March 2017 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 declare the payment of a First & Final Dividend of Rs.2.75 per share as recommended by the Directors.
- 4) 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

26th May 2017
Colombo

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 15th Annual General Meeting of the Company to be held on 28th June 2017
and at any adjournment thereof and at every poll which may be taken in consequence thereof.

Signed this day of 2017.

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.

LankaClear (Private) Limited

Level 18, Bank of Ceylon Head Office,
BOC Square, No. 01, Bank of Ceylon Mw,
Colombo 01, Sri Lanka.

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Scan to view the online version

<http://www.lankaclear.com/downloads>