

**WHERE
EVER
YOU
ARE**



WHERE EVER YOU ARE

We at LankaClear truly comprehend your need to have a mobile lifestyle, yet manage your day-to-day activities seamlessly from wherever you are. That is why we are fully focused on providing our services to be faster, convenient and secure to bring financial services to your fingertips. We continue to invest in technology innovations to demonstrate our wholehearted commitment in making all our services omnipresent to support your varied lifestyles.



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.

CONTENTS

COMPANY OVERVIEW

Vision, Mission, Values, Products and Strategic Objectives	3
Awards and Recognitions	4
Introduction to the Report	5
Corporate Information	7
Share Information	8
Participants of LankaClear Clearing Systems and Services	9
LankaClear Payment System	
Milestones	10
Financial Highlights	12
Operational Highlights	14

STEWARDSHIP

Chairman's Review	17
General Manager/CEO Review	20
Board of Directors	24
Management Team	29

MANAGEMENT DISCUSSION & ANALYSIS

Value Creation Model	32
Corporate Strategy, Resource Allocation and Future	33
Operations Review	36
System Security and High Availability	40
Security Products and Services	42

CAPITAL MANAGEMENT

Financial Capital	45
Human Capital	51
Intellectual Capital	57
Social and Relationship Capital	60
Natural Capital	72

GOVERNANCE

Corporate Governance	76
Enterprise Risk Management	83
The Board Audit Committee Report	92
The Board HR Committee Report	94

FINANCIAL REPORTS

Statement of Director's Responsibilities for Financial Statements	96
Annual Report of the Board of Directors on the Affairs of the Company	97
Independent Auditor's Report	100
Statement of Financial Position	102
Statement of Comprehensive Income	103
Statement of Changes In Equity	104
Statement of Cash Flows	105
Notes to the Financial Statements	106
Ten Year Summary	118

APPENDICES

Glossary	119
Notice of Annual General Meeting	120
Notes	121
Form of Proxy	123

OUR VISION

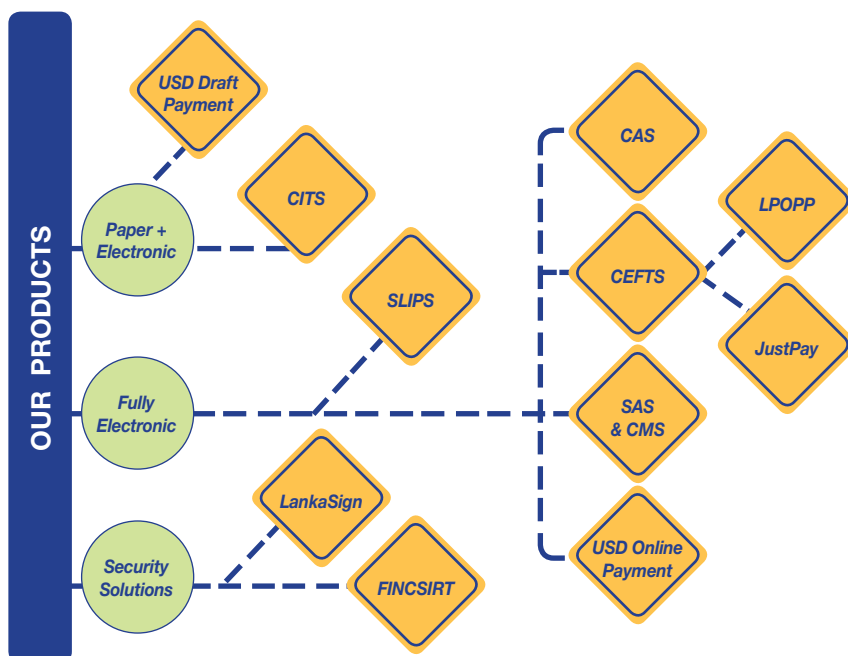
'To be Asia's most trusted and reliable Payment Network'

OUR MISSION

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

OUR CORE VALUES

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



STRATEGIC OBJECTIVES

LankaClear, as the operator of LankaPay National Payment Network, understands the customer need to have a mobile lifestyle and we put all our efforts to provide a seamless user experience with a higher level of security across all devices and payment modes. We aim to achieve this objective by not only introducing ultra-convenient financial services to the general public via our members, but also by getting those services faster to the market in the most appropriate manner. Hence, the strategic objectives listed below are within our focus to facilitate high quality electronic financial services at affordable prices in a secure, reliable, convenient and innovative 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 and sustain information security and compliance on all platforms
- Enhancing customer satisfaction levels
- Reduce the cost of all inter-bank financial transactions
- Manage and deliver stakeholder expectations whilst maintaining good governance and contributing for the sustainable development
- Ensure the availability of a highly-qualified, trained, efficient and motivated team of staff members to facilitate organisational growth
- Enhance overall financial health of the organisation by achieving revenue and profitability growth targets, while safeguarding Company assets
- Take LankaPay brand to the general masses
- Promote social harmony by contributing towards a worthy CSR cause

AWARDS AND RECOGNITIONS



2011

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

2012

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

2013

- Gold Award under Infrastructure and Utilities Sector at the National Business Excellence Awards organised by the Ceylon Chamber of Commerce
- Silver Award under Small and Medium sized Entities at the Annual Report Awards organised by the Institute of Chartered Accountants of Sri Lanka

2014

- Silver Award under Infrastructure and Utilities Sector at the National Business Excellence Awards organised by the Ceylon Chamber of Commerce
- Silver Award under Small and Medium sized Entities at the Annual Report Awards organised by the Institute of Chartered Accountants of Sri Lanka
- Merit Award under Commercial Category at the Bestweb.lk Competition organised by LK Domain Registry

2015

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

2016

- Gold Award under Small and Medium sized Entities at the Annual Report Awards organised by the Institute of Chartered Accountants of Sri Lanka
- Silver Award under ICT Services Sector at the National Business Excellence Awards organised by the Ceylon Chamber of Commerce

2017

- Gold Award under Small and Medium sized Entities at the Annual Report Awards 2017 organised by the Institute of Chartered Accountants of Sri Lanka for the second consecutive year.
- Gold Award under ICT Services Sector at the National Business Excellence Awards 2017 organised by the National Chamber of Commerce.

INTRODUCTION TO THE REPORT

“THIS IS IN RELATION TO OUR CAPITAL MANAGEMENT AND VALUE CREATION PROCESS TO ADDRESS MULTIPLE STAKEHOLDER NEEDS GOVERNED BY THE GUIDELINES OF THE INTERNATIONAL INTEGRATED REPORTING COUNCIL (IIRC) OF 2013.”

This is LankaClear's third attempt at compiling an Integrated Annual Report for the period covering 1st April 2017 to 31st March 2018, which provides a concise and comprehensive analysis of our overall business strategy, performance and process followed to execute same. This is in relation to our capital management and value creation process to address multiple stakeholder needs governed by the guidelines of the International Integrated Reporting Council (IIRC) of 2013.

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

We have taken our best efforts to ensure that this Report reflects a balanced review, which is complete and accurate. It is our intention to provide credible information in a consistent manner facilitating clarity and comparability.

The General Manager/CEO and members of the Corporate Management team of the Company are responsible for sustainability practices and disclosures made in this Report.

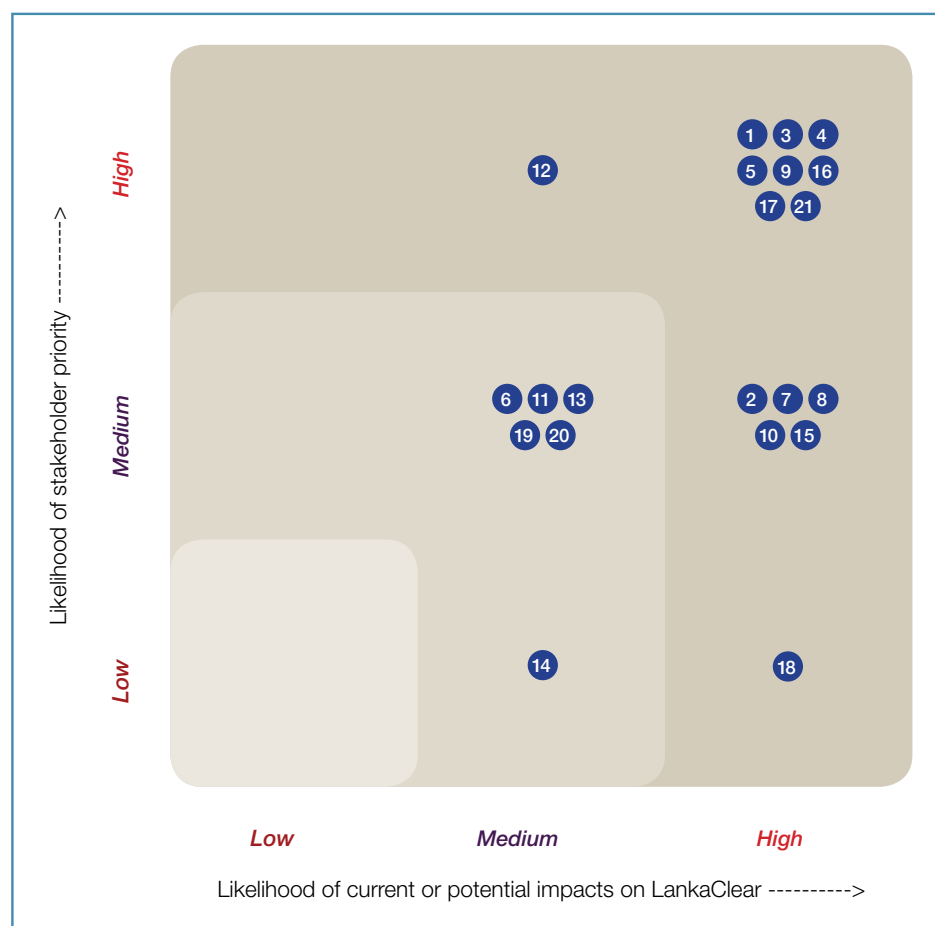
BOUNDARY, MATERIALITY ASSESSMENT AND RESTATEMENT OF INFORMATION

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, regulatory mandate, industry trends, opportunities and risks have been addressed based on their significance to the organisation and our 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 and management meetings and is integrated into organisational and departmental goals.

The main aspects identified as high priority to both LankaClear and stakeholder interests, are summarised and depicted below and they are discussed in detail throughout this report.



INTRODUCTION TO THE REPORT *CONTD.*

Topics identified as high, mid and low 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 within LankaClear network
2. Improve, upgrade and continuously maintain the efficiency and reliability of all existing IT infrastructure for smooth functioning of the LankaClear payment systems
3. Enhance information security and compliance to maintain world-class standards
4. Implement industry best practices to the LankaPay card operation
5. Manage seamless integration of LankaPay products with banks and financial institutions
6. Providing value added services to customers
7. Introduce innovative and technologically advanced payment solutions towards achieving the key objective of driving financial inclusivity to ensure extensive use of LankaClear services by the general public
8. Increase LankaPay brand awareness and brand loyalty among general public via direct and indirect engagements
9. Enhance customer satisfaction levels
10. Ensure the availability of a highly-qualified, trained, efficient and motivated team of staff members
11. Optimum engagement with employees to ensure reduction of employee grievances that leads to reduced turnover
12. Ensure fair and equitable compensation and benefits to all employees
13. Maintain and enhanced and effective procurement process to improve operational efficiency and transparency
14. Reduce consumption by increasing the efficiency in usage of energy
15. Ensure establishment of a suitable environment and carry-out timely maintenance required for equipment, operations and staff
16. Enhancing overall financial health of the organisation through attaining revenue and profitability growth and attaining cost efficiencies while safeguarding Company assets
17. Ensuring continued contractual safeguards with contractors, vendors, service providers and other parties who transact with the Company
18. Ensure the Company's contractual rights
19. Enhance member participation for LankaClear products
20. Contribute towards sustainable development
21. Maintaining good governance controls

No information has been restated from the previous Annual Report.

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)
 - » LankaPay Online Payment Platform (LPOPP)
 - » JustPay
- Operating the hosted ATM switch for Banks/Fls (LankaPay – SAS)
- Operating the hosted card management solution for Banks/Fls (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
 - » LPOPP: LankaPay Online Payment Platform
 - » JustPay
- 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

114

Net Revenue

Rs. 918,503,011

Stated Capital

Rs. 158,250,000

SHARE INFORMATION**SHAREHOLDING AS AT MARCH 31, 2018**

LankaClear shares were owned by the CBSL and 25 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
Citibank NA	0.10	1.00
Standard Chartered Bank	0.15	1.50
Public Bank Berhad	0.10	1.00
ICICI Bank Ltd	0.05	0.50
Amana Bank PLC	0.05	2.00
Axis Bank Ltd	0.05	2.25
Cargills Bank Ltd	0.05	3.50
Total	15.20	158.25

PARTICIPANTS OF LANKACLEAR CLEARING SYSTEMS AND SERVICES

Bank Name	CAS	SAS	CEFTS	SLIPS	USD Online	CITS	USD Draft	FINCSIRT	LPPOP	JustPay
Bank of Ceylon	●		●	●	●	●	●	●		●
Standard Chartered Bank	●		●	●		●	●	●		
Citibank 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 Ltd.	●		●	●		●				
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								●		
HNB Grameen Finance Ltd.				●				●		
Sarvodaya Development Finance Ltd.	●	●								
Asia Asset Finance								●		
Colombo Trust Finance PLC								●		
Singer Finance (Lanka) Ltd.								●		
Siyapatha Finance PLC								●		
Softlogic Finance PLC								●		
Sri Lanka Savings Bank								●		
Total	28	2	34	45	13	26	23	43	8	6

● Participants went live during the year

● Participants joined prior to 2017/18

LANKACLEAR PAYMENT SYSTEM MILESTONES**2006**

- Commenced Nationwide T + 1 cheque clearing and truncation - 1st in South Asia and 2nd in the world

**2008**

- Established a fully functional DR site for LankaClear payment systems

**2009**

- Launched 'LankaSign' - The only commercially operating Certification Service Provider (CSP) in Sri Lanka

**2010**

- Commenced submission of cheque images via CD for CITS, ending the era of physical cheque submission
- Implemented nationwide same day electronic fund transfer (SLIPS) - 1st in South Asia

**2011**

- Introduced the direct connectivity mode for CITS settlement clearing for all banks using digital certificates for greater security
- Extended CD (cheque) submission time from 6:30 pm to 7:30 pm via efficiency enhancements of the CITS main clearing
- Advanced the inward return delivery time from 2 pm to 1:30 pm to reduce the cheque realisation time and provided greater convenience to customers

**2013**

- Launched 'LankaPay' Common ATM Network
- Extended outward (cheque) clearing cutoff time from 7.30 to 8.00 pm for greater customer convenience.
- Implemented the Help Desk call monitoring and tracking system to improve customer service



2014

- Launched BankCSIRT (Computer Security Incident Response Team) – 1st in South Asia (renamed in 2015 as FinCSIRT)
- Amalgamated Sri Lanka Rupee Drafts system into CITS in July 2014
- Migrated CITS frontend hardware to Virtual infrastructure (VM) for better performance and achieve cost efficiencies

2015

- Launched LankaPay Common Electronic Fund Transfer Switch (CEFTS) for real-time payments
- Launched LankaPay Shared ATM Switch (SAS) and LankaPay Card Management System (CMS), thereby providing a shared solution for ATM switching and Card Management
- Launched LankaPay Common POS Switch (CPS) & Common Mobile Switch
- Launched USD Online Payment System

2016

- Launched CITS Online Image Transfer Solution - 1st in South Asia
- Launched “JustPay” via CEFTS to facilitate low value retail payments using mobile devices
- Upgraded CITS System Software for improved performance

2017

- Became the first entity in Sri Lanka to obtain PCI-DSS version 3.2 certification
- Digitised many internal documents and introduced digital signatures to promote a ‘paperless’ environment at LankaClear
- Introduced an additional clearing cycle for SLIPS to ensure faster clearing of SLIPS transactions
- Implemented LankaPay Online Payment Platform to facilitate online payments for customs declarations to be extended later for online payments towards other government services

2018

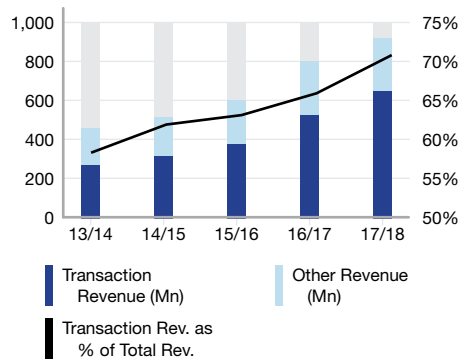
- Introduced a process for liability to shift from issuer to acquirer for EMV enabled transactions
- Launched a number of mobile payment applications facilitated via “JustPay”
- Upgraded LankaSign system to the status of a fully-fledged commercial CSP (Certification Service Provider) via technology and security improvements
- Obtained the PCI DSS version 3.2 recertification

FINANCIAL HIGHLIGHTS

Revenue

Rs. 918 MN**15%**

Revenue Growth

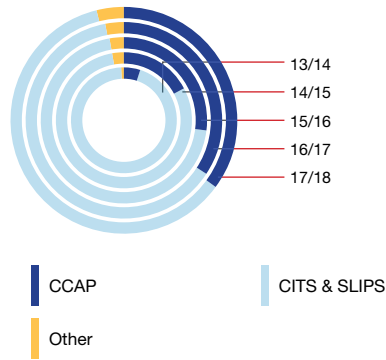


Revenue Analysis

CCAPS Revenue

RS. 323 MN**18%**

CCAPS Revenue Growth

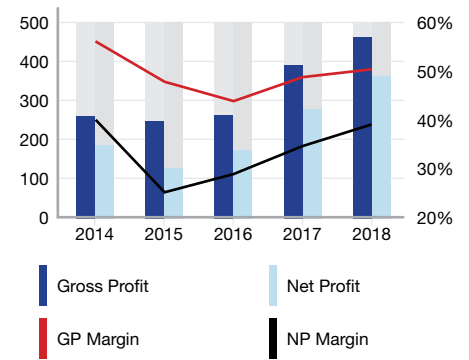


Revenue Mix

Net Profit

RS. 361 MN**30%**

Net Profit Growth



Profitability Analysis

Total Assets

RS. 2.1 BN

as at 31st March 2018

Total Shareholder's Funds

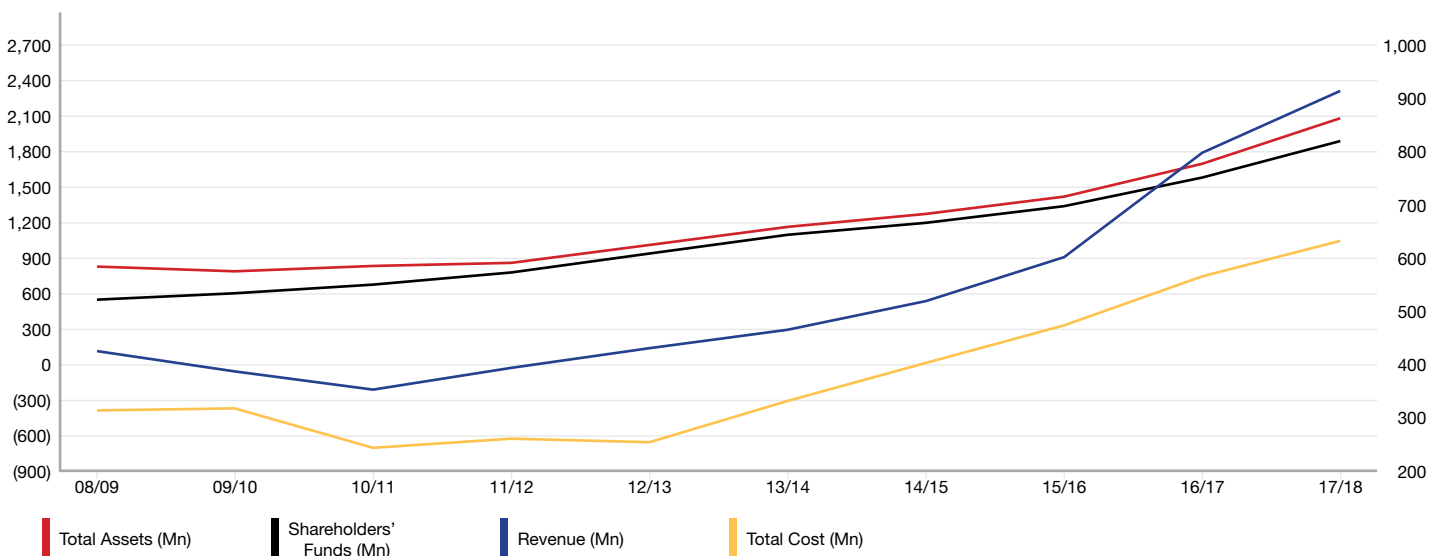
RS. 1.9 BN

as at 31st March 2018

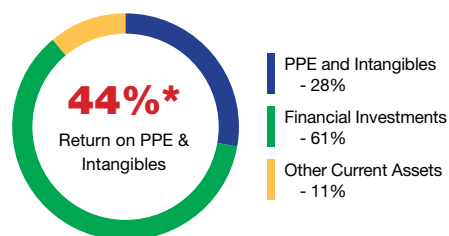
Net Assets Value per Share

RS. 125.78

as at 31st March 2018

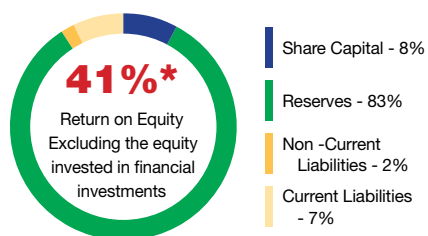


Ten Year Financial Summary



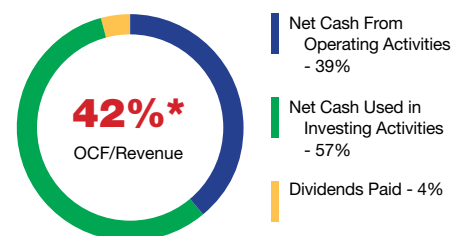
* For the calculation the considered return is excluding the net of tax other income.

Total Assets Distribution



* Return is calculated by Profit After Tax excluding the net of tax and other income. Equity is excluding the value invested in financial investments.

Capital Structure



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

Cash Flow

	2017/2018	2016/2017	2015/2016	2014/2015	2013/2014
Results for the Year (Rs.Mn)					
Revenue	918	801	602	518	463
Gross Profit	463	390	262	247	261
Profit Before Tax	425	322	185	183	228
Income Tax Expenses	64	44	11	53	41
Profit for the Year	361	278	174	129	187
At the Year End (Rs.Mn)					
Total Assets	2,104	1,707	1,419	1,268	1,155
Total Capital Assets	582	570	562	461	295
Shareholders' Funds	1,912	1,592	1,344	1,197	1,094
Long Term Financial Investments	782				
Short Term Financial Investments	506	695	660	646	726
Information Per Ordinary Share					
Earnings Per Share	23.78	18.32	11.43	8.52	12.32
Dividend Per Share (Proposed)	3.50	2.75	2.00	1.75	1.75
Net Assets Value Per Share	125.78	104.75	88.43	78.75	71.98
Ratios					
Gross Profit Ratio	50%	49%	44%	48%	56%
Net Profit Ratio	39%	35%	29%	25%	40%
Return on Equity	19%	17%	13%	11%	17%
Return on Assets	17%	16%	12%	10%	16%

OPERATIONAL HIGHLIGHTS



**99.5%
Covered**



4,400+ ATMs
Connected Islandwide



LankaPay Online Payment
Platform (LPOPP)
Digitising Government Payments

in **Five**
Fintech Mobile Payment
Applications are live

**Online
Real Time
24X7**

Fund transfers/payments
from one bank to another
via LankaPay CEFTS
members

Issuer



Seven

Issuer Banks have
enabled JustPay
mode to their
customers



Acquirer



Five

Acquirer Banks have
connected to enable
Mobile Payment Apps

Secured by



Fully
Fledged
BCP & DR
99.9%
Availability

LankaSign
ISO 27001
Certified

CCAPS
PA-DSS
Compliant

CCAPS
PCI-DSS
Compliant

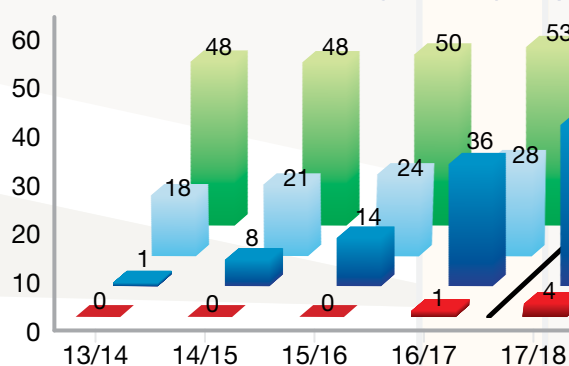
OFFERING NINE PAYMENTS & TWO SECURITY SERVICES

- CEFTS - Common Electronic Fund Transfer Switch
- CAS - Common ATM Switch
- SLIPS - Sri Lanka Interbank Payment System
- CITS - Cheque Clearing and Imaging System
- Product Specific YoY Growth (%)

Accounts for
99%
 of the volume and value

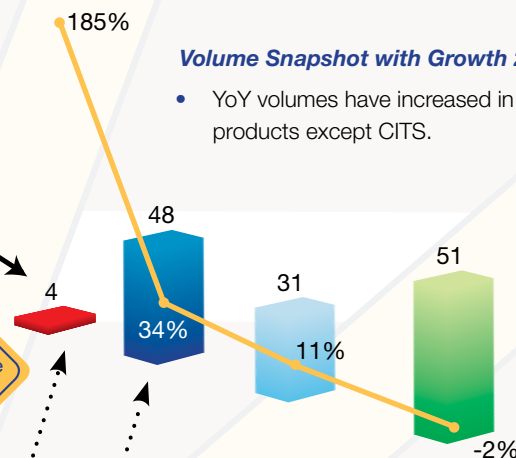
Traditionally, CITS has generated the highest volume among all the products. However, its volume declined by 2% during the year.

Annual Transaction Volumes by Product (in Mn)



Volume Snapshot with Growth 2017/18

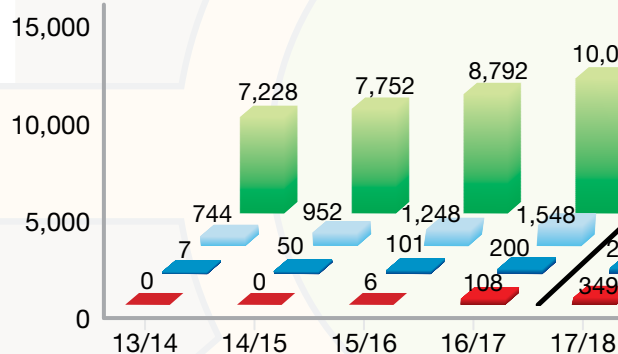
- YoY volumes have increased in all products except CITS.



Even though CEFTS volumes have not grown exponentially during the past three years, these volumes have the potential to grow with the increasing popularity of real time interbank payments.

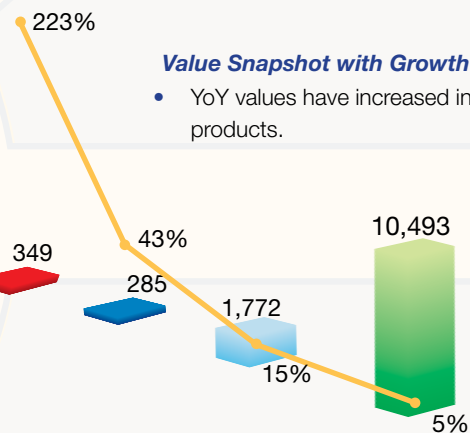
Interbank ATM transaction (CAS) volume has grown exponentially during the last five years to exceed same day payment (SLPIS) volume and almost on par with traditional cheque payment (CITS) volume.

Annual Value of Transaction by Product (in Bn)



Value Snapshot with Growth 2017/18

- YoY values have increased in all products.



AT YOUR SERVICE WHERE EVER YOU ARE

OUR PROMISE IS TO HELP
YOU GET THINGS DONE
WITH MINIMAL HASSLE AND
MAXIMUM PRODUCTIVITY



CHAIRMAN'S REVIEW

“AS THE KEY NETWORK INTEGRATOR FOR THE SRI LANKAN BANKING SECTOR, WE PLAY A CRUCIAL ROLE IN THE NATIONAL FINANCIAL ECO-SYSTEM. OVER THE YEARS, WE HAVE CARVED OURSELVES A NICHE AS THE MARKET LEADER IN THE SECTOR WE SERVE AND THE PAST YEAR SAW LANKACLEAR MAKE STRIDES TOWARDS OUR PROMISE OF BECOMING ‘ASIA’S MOST TRUSTED AND RELIABLE PAYMENT NETWORK’.”

A handwritten signature in black ink, appearing to read 'A. Amarasuriya'.

A. Amarasuriya
Chairman

On behalf of the Board of Directors, it gives me great pleasure to present the Annual Report and the Financial Statements for the year ended 31st March 2018. I take great pride in sharing the progress of yet another remarkable year. Notwithstanding the global and local economic environment, LankaClear managed to leverage on the positive performance of the banking sector to surpass expectations and end the year on a high.

As the key network integrator for the Sri Lankan banking sector, we play a crucial role in the national financial eco-system. Over the years, we have carved ourselves a niche as the market leader in the sector we serve and the past year saw LankaClear make strides towards our promise of becoming ‘Asia’s Most Trusted and Reliable Payment Network’.

Macro-economic Review

Reflecting on macroeconomic developments in 2017, it is clear that the global economy was on the rebound. Ending three years of slow growth, global GDP growth overtook mid-year projections and edged closer to

CHAIRMAN'S REVIEW *CONTD.*

3% in 2017. Both advanced and emerging economies around the world reported improved economic performances, bolstered by a strong revival in global trade and investment as well as an overall improvement in business sentiments.

The Sri Lankan economy too expanded by 3.1%, driven by services and manufacturing, and a sustained increase in expenditure on large infrastructure projects countrywide. However, for the third consecutive year, growth in the agricultural sector was hampered by unfavourable weather conditions resulting in a negative growth of 0.8% for the sector. Inflation rose slightly more than the usual mid-single digit level, ending the year above 7%. The rising cost of living and shrinking disposable incomes prompted changes to consumer spending and market dynamics. With margins shrinking across the financial sector, competition in the non-bank financial services segment intensified. Amidst challenging economic conditions, financial service activities have continued to grow at 9.4% which is slower than the 12.4% witnessed last year. The tight monetary policy stance of the Central Bank as well as the relatively tight fiscal policy stance of the Government, adopted with the aim of regaining macroeconomic stability, partly affected public and private investment spending would have contributed to low economic growth.

Given this operating environment, I believe we have posted a healthy financial performance. Against this backdrop, we redoubled our resolve to discover new opportunities in every challenge.

Performance of Company at a Glance

It is indeed noteworthy to mention that the entire team has pulled together to deliver a year of financial resilience, with the management leading the charge. LankaClear recorded a revenue of Rs. 918Mn (2016/17 - Rs. 801Mn) and a profit after tax of Rs. 361Mn (2016/17 - Rs. 278Mn). Year-on-year revenue increased by 15% (2016/17 - 33%) while profit for the year grew by 30% (2016/17 - 60%). This growth was propelled primarily by expansion in transaction volumes experienced across most of 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 184% (2016/17 - 1,553%). 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 in cash withdrawals of 35% (2016/17 - 83%) in the Common ATM Switch (CAS) where the average monthly volume exceeded 2.9Mn transactions during the year. The transaction volumes of SLIPS also grew by a modest 11% (2016/17 - 15%) over the year, which was primarily driven by the campaigns carried out among the public sector encouraging the move towards electronic payments.

The year was further enriched by the enhancements to our product portfolio. Security measures were increased across the system and helped elevate the trust our customers place in us. There are still numerous opportunities that offer great potential for us to expend to. Our objective is to convert at least 20% of cash based retail payment transactions into the digital channel by the year 2020.

The impressive financial results noted above enabled the Company to report an EPS of Rs.23.78 growing from Rs.18.32 reported last year. The Board has recommended a dividend of Rs.3.50 per share to our shareholders for the current financial year. The financial performance is discussed in greater detail in the financial review section of this report.

Our Role in the National Growth Agenda

LankaClear played has a leading role in revolutionising Sri Lanka's financial services industry over the past six years. Its innovative card-based applications such as LankaPay, our flagship product 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 4400 ATMs island-wide.

The Road Map for the year 2018 published by the Central Bank of Sri Lanka (CBSL) intends to adopt policies to foster digitisation of payments whilst reducing cash and cheque usage in Sri Lanka. LankaClear has being instrumental in driving a healthy growth in electronic payment modes operated by us.

With the aim of popularising electronic payments, during the year we rolled out JustPay and LankaPay Online Payment Platform (LPOPP) which are ground-breaking technologies having high potential to revolutionise the modes of payments. We are on the verge of rolling out the National Card Scheme (NCS) to reach out to the grassroots of society as an affordable and secure payment mode and would greatly enhance the financial inclusivity of the country. Some of the key innovators in propagating the electronic payments would be the standardised QR code and nickname system for banks accounts, to be rolled out during the 2018/19 financial year. As Blockchain technology plays an important role in changing the current financial transaction infrastructure within a digital eco system, LankaClear is currently looking at avenues to facilitate the integration of distributed ledger systems into financial institutions and services in line with the regulations within the country.

JustPay is a brainchild of LankaClear, an initiative that is aptly supported by the Central Bank and all the member banks of LankaPay Common Electronic Fund Transfer (CEFTS) to facilitate secure real-time retail payments below Rs.10,000 under a ground breaking, extremely low tariff scheme. Accordingly, JustPay will enable customers to make everyday payments using their Savings or Current accounts by using smart mobile phones and other smart devices.

LPOPP will facilitate online payments of Sri Lanka Customs from all commercial banks. We expect to integrate LPOPP with other similar Government and private organisations to facilitate convenient electronic transactions which are currently made through cash or cheques.

The Road Map of CBSL had identified Cyber Security as one of the priorities for the stability and credibility of the financial sector. Steps have already been taken to ensure that the core systems of LankaClear are rigorously safeguarded. In this regard, the Central Bank is promoting the adoption of the Payment Application Data Security Standard (PA-DSS) for payment applications.

LankaClear have implemented PA-DSS validated CCAPS (Common Card And Payment Switch) applications and CCAPS environment is also validated for PCI-DSS (Payment Card Industry Data Security Standard) for the second consecutive year being the pioneer institution in Sri Lanka to adopt and retain the PCI-DSS.

However, this is only the tip of the iceberg in both our service offerings and the revolution which is taking part in the digitised banking sphere. Our support in making Sri Lanka the financial hub in the South Asian subcontinent, stands firm; as we strive to reach this goal while pushing ourselves towards excellence.

While our key customers remain the financial sector, the growth of our product portfolio is dependent on the general public and their usage of the services we offer. Hence in order to increase the usage of our products we collaborated with Derana radio station and introduced a novel concept themed 'Gamata Derana'. This program travelled across the island, introducing our product portfolio and has been successful in increasing the number of users while creating the necessary hype to further boost growth volumes. Our main intention is to instil a sense of trust in our brands in the consumers' minds. Guided by the Central Bank of Sri Lanka, we are paving the way towards a cashless society, with customer ease being the focal point.

Stakeholder Relations

At LankaClear our main aim is to inculcate a sense of safety and security in the minds of our stakeholders. This year we focused on "Where ever you are", to reinforce to our customers the limitless possibilities in our service offerings. While further enhancing

the key imperative, not only to reinforce the Company as the IT backbone for Sri Lanka's financial services sector, but also to showcase the LankaClear proposition as a support service.

Employees are the core stakeholders of the Company who are essential for all operations. Team LankaClear is unique and well-equipped with special industry related skills and the experience needed to operate the National Payment Network and we are keen in developing them to the next level through training and development opportunities.

The suppliers and vendors of technology solutions play a vital role in sourcing and supporting the world-class technology back-end on which the mission critical National Payment Network is operated. At LankaClear, we consider our vendors as business partners which is one of the key aspects of the successful and uninterrupted service offered where the uptime of the systems remained at the 99.9% level.

Stakeholder engagement is further discussed under Stakeholder Engagement Section in this report.

Governance and Board Oversight

The Governance remained at the heart of the organisation correspond to the huge national level responsibilities and discussed under governance sections under this report.

Future Outlook

I am confident that our ongoing marketing and public relations exercises will continue to support the current trend in revenue and profit growth through continued increases in transactions volumes. A concerted effort is also being made to encourage the rapid adoption of our products currently being under-utilised. With these initiatives in place, slowly but surely, we are marching towards our goal of creating a solely digital platform in financial transactions. In the new financial year, we will continue to engage with all our stakeholders and educate the public on the benefits of our product portfolio. We are also engaging and encouraging the ICT industry

players to partner with banks and financial institutes to bring more innovative and technologically advanced electronic payment solutions to customers.

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. I also would like to extend my heartfelt thanks to all our stakeholders; for their continuous trust and support which they have placed in us and our services.



A. Amarasuriya
Chairman

28th May 2018
Colombo



“OUR KEY FOCUS FOR THE YEAR UNDER REVIEW WAS TO IDENTIFY THE UNDERLYING DYNAMIC CHANGES IN THE BEHAVIOUR OF THE MODERN SOCIETY AND PROVIDE SOLUTIONS TO SUPPORT THEIR MULTITUDE OF LIFESTYLE NEEDS.”

A handwritten signature in black ink, appearing to read 'Channa de Silva'.

Channa de Silva
General Manager/CEO

With You Wherever You Are

The world has entered into an era of a modern and dynamic type of workforce. A generation born in the 1980's, Millennials, the first true natives of the new high-tech world, are beginning to make a significant impact. The concept of being able to work collaboratively anywhere, anytime, with anybody and on any device is now considered standard for an increasing number of workers. We are witnessing an influx of hyper-connected employees many who are online for most of their waking hours. Hence, the demarcation line between a mobile work-life and a mobile home-life has become increasingly blurred.

Our key focus for the year under review was to identify the underlying dynamic changes in the behaviour of the modern society and provide solutions to support their multitude of lifestyle needs. I am pleased to report that our objectives were realised successfully via the numerous initiatives carried out throughout the year. These efforts brought us almost to the brink of achieving our targeted

revenue of becoming a one billion rupee company.

The breadth and depth of our vision to be Asia's best unlocks unprecedented opportunity, as technology transforms every industry and has the power to make a difference in the lives of everyone. We strive to unearth local opportunity, growth and create a lasting impact in every community that we serve. Our technology platforms help drive small-business productivity, large business competitiveness and public sector efficiency, which creates an undeniable impact on the lives of every citizen. Let me share more on what we delivered in fiscal 2017/18 for our shareholders, our customers and partners and the positive contribution we made to the communities in which we operate throughout the island.

Strategy and Focus

While we focused on the speed of our services and the value of time in the two preceding years, the driving force and strategy during the year under review was

based on our services being convenient and omnipresent to support the changing lifestyles of every citizen. With an increasing number of people enjoying lifestyles that are 'mobile', their needs and wants have converted into looking for convenience and be accessible from wherever they are.

We moved into 2017/18 with a great deal of confidence and optimism based on the strength of the successes achieved due to our strong business fundamentals and sharpened focus on the correct operational model in the previous year. We leveraged on our established position as the 'Trusted National Payment Network' in the country to roll-out new and innovative financial services to address the needs of the general public to accelerate the growth trajectory of the Company.

Raising the bar even higher for ourselves by setting stringent goals and exceeding them was our overarching priority. We broadened our service offerings to address the varied lifestyles of people through enhanced digital infrastructure and by implementing new solutions and processes while sharpening the existing ones. This combination helped us to ensure faster turnaround times. We have understood the needs of the holistic market, convenience and accessibility from wherever they are, and addressed this demand with vigour thorough our entire product portfolio.

Operational Progress

As a testament to the right strategies adopted and precision execution of our plans, we made steady progress in all our business activities throughout the year, with most of our core products growing at a much faster pace than ever before.

Cheque Imaging and Truncation System (CITS) continued to remain a key contributor to revenue, however, reducing its significance on revenue mix to 48% from 50% of the previous year whilst the total revenue from the products under Common Card and Payment Switch (CCAPS) improved to 35% from previous 34%. Common Electronic Fund Transfer Switch (CEFTS) had been a highlight during the year increasing its prominence to 6% from 5% in previous year, thus, reducing

the significance of Common ATM Switch (CAS) from 27% of the previous year down to 26.8%. Even though the changes are minor for the moment, these trends are expected to continue in the future since the efforts to move towards a digitised economy would potentially reduce the significance of cheques and cash, which would gradually decline over a period of time while electronic payments would fill the void in-line with global tendencies.

Confirming the emergence of electronic payments, cheque volume cleared through LankaClear during the year has declined by 2.2% (YoY). In the context of total ATM withdrawals in the country, CAS had penetrated into an impressive 14% out of the total volume, which is a commendable growth compared to a lower rate of 3% in 2014. Further, CEFTS volume represented a 14% of the total volume of mobile and internet banking, which was just 5% in the previous year. Sri Lanka Interbank Payment System (SLIPS) and CEFTS the electronic fund transfer arms contributed 19% (2016/17 - 18%) of the total revenue and increasing the transaction volumes by 11% (2016/17 - 15%) and 184% (2016/17 - 1,553%) respectively. LankaPay Online Payment Platform (LPOPP) went live during the year to facilitate payments towards customs declarations marking a significant highlight for the year. The other Government departments are also in discussion to join same, which would be the future platform for most government services related payments. These deem to be the future products that is bound to dominate the industry and most of our innovations and campaigns to come would be based on these products.

Clearing systems under CCAPS continued to remain a vital contributor towards the revenue growth. Revenue from clearing systems under CCAPS reached a growth of 17% YOY. Amidst the declining trend in joining fees, transaction revenue from CCAPS showed a tremendous growth and shouldered the revenue gap, thus, reduced the burden on revenue growth. The transaction revenue grew by an impressive 47% where the contributions came from CAS, CEFTS and Shared ATM Switch (SAS), which increased

by 36%, 184% and 121% respectively. The remarkable growth resulted mainly due to the untiring efforts of the team who worked hard to grow the volumes armed with right marketing strategies and building long-term relationships.

Whilst most of the products remained at profitability on the operational level, Shared ATM Switch (SAS), Common POS Switch (CPS) and Common Mobile Switch (CMobS) continued to create a negative impact on the bottom line during the year. However, appropriate strategies were devised during the year under review to be executed to turnaround the product lines in the future. SAS, introduced as a cost effective switch for the small players to connect their ATMs, had only one participant during the initial years, however, with a focused approach to turnaround the product line, team worked on on-boarding more participants. Two additional participants joined during the year to increase the number of members on SAS to three.

The introduction of the latest innovation 'JustPay', which intends to replace low-value cash based transactions in the retail space, was also a significant focus during the year. The concept achieved a significant boost during the latter part of the year where JustPay was able to attract some of the leading payment and lifestyle app companies (FinTech) in Sri Lanka to facilitate mobile payments. We expect this to achieve significant growth and hope to on-board more banks and lifestyle apps in the near future. JustPay would be a good avenue for the local FinTechs to enter into the market comfortably and provide a low cost digital payment mode for both merchants and consumers packaged with convenience, security and speed.

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 and the significant ATM network maintained by most banks. Hence, in order to operationalise CMobS, we decided to certify third party mobile wallet

application vendors to provide banks with multiple options to select their mobile wallet vendor. During the year, three interested parties registered with LankaClear out of which two were local players and the other an overseas Company.

Even though going live a few years back, CPS continued to have no participant members onboard. However, in the year under review, a partnership was established with JCB International to operationalise the National Card Scheme (NCS). The intention was for banks to commence issuing LankaPay-JCB co-branded debit cards via NCS that would augment the value of CPS and provide further 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-JCB co-branded cards encouraging greater usage of debit cards in the consumer market, which we believe to be a key volume driver for CPS. With the implementation of NCS during the latter part of the financial year 2018/19, CPS is expected to be operational and generate revenue to achieve break-even status within a couple of years.

FinCSIRT, our response to enhance data security across the financial sector continued to grow by adding few more banks and other non-banking financial institutions into its membership. Their flagship event of the year was conducting "Cyber War Games", which was a unique cyber-security drill conducted to improve the cyber-security skills of all participant members. The membership involvement also gathered momentum mainly due to the Point of Contact forum, which was conducted on a quarterly basis to improve the collaboration among members of FinCSIRT and our staff.

During the year under review, LankaClear invested further in strengthening IT and security infrastructure by getting recertified on PCI-DSS Version 3.2 standard, initiating the process to revamp the primary Data Centre and upgraded the virtualised infrastructure to provide high availability and cater to new products while upgraded the core network

security infrastructure to protect against new cyber security threats.

Financial Results

I am proud to announce that LankaClear was able to build on the high growth path that it embarked upon during the previous financial year to record another exceptional year. The company recorded the highest-ever Revenue to reach Rs. 918Mn (2016/17 - Rs. 801Mn), which brought us almost to the brink of achieving our targeted objective of becoming a One Billion rupee company. We achieved a Gross Profit (GP) of Rs. 462Mn (2016/17 - Rs. 390Mn), Profit Before Tax (PBT) of Rs. 425Mn (2016/17 - Rs. 322Mn) and Profit After Tax (PAT) of Rs. 361Mn (2016/17 - Rs. 278Mn). Revenue growth was at a healthy 15% (2016/17 - 33%) YoY while GP grew by an impressive 19% (2016/17 - 49%) YoY. However, the highest growth rate was recorded in PBT, which grew by an impressive 32% (2016/17 - 74%) YoY while PAT grew by 30% (2016/17 - 60%) YoY.

The above growth momentum bodes well for the Company as it has put its focus on growing transaction volumes, which is the more sustainable of the two in the longer term. The remarkable growth resulted mainly due to the untiring efforts of the team who worked hard to grow the volumes armed with right marketing strategies and building long-term relationships. The growth momentum experienced during the year under review in transaction volumes is likely to be sustained in the short to medium term as we intend to innovate further by deploying disruptive technologies.

The new investments in technology was targeted to capture the expanding market opportunities, thus, we are building capacity for the future by deploying cutting-edge technologies complemented by new partnerships with Fintech companies. Our focussed investments were intended to further increase the value of the existing product portfolio by deploying new modes of financial services to address the needs of consumers who aspire to enjoy mobile lifestyles.

Stakeholder Engagement

Even though banks and financial institutes are our direct customers, individual consumers are the ultimate beneficiaries of the services we offer through our members. Hence, identifying the needs of the ultimate consumers as well as providing our value proposition to them via the member banks is not only tricky, but also a necessary act that we need to fulfil. How we address the requirements of each stakeholder above is discussed in details under the "Strategy and Focus" section. However, a deeper understanding of the changing needs of the consumers who are increasingly looking for a mobile lifestyle and the way to create awareness among them as to how they can use to address their requirements are key success factors.

We engaged deeply with the end consumer during the year under review via grass root level activations and social media campaigns to create awareness among them of the services that we offer. The requirement gathering, especially for the smart mobile-based services, was via qualitative surveys and ground level activations and discussed in detail under the marketing strategies.

We also designed reward schemes for our members through incentive schemes and organising an annual competition, LankaPay Technnovation Awards, to recognise champions who remained steadfast to the cause of promoting electronic payments. The awards competition was organised with the objective of fostering financial inclusivity in the country by fuelling the use of electronic modes of transactions. Sri Lanka's first and the only payment technology innovation awards created a lot of excitement and resulted in a healthy competition among our members, which reached its climax in June 2017 when the glittering awards ceremony was held. The event was well received by the entire financial sector and we plan to continue this as an annual event.

Further, an annual six-a-side cricket tournament among members and a Paduru Party were organised by our team, which enhanced the relationships among

LankaClear, multiple levels of member banks and financial institutions.

We at LankaClear believe that motivated staff are of paramount importance to achieve improved performance and better results in customer service. Apart from other human resource development activities, we encouraged our team to contribute with their ideas, suggestions and opinions via 'Voice of Change', 'Crowd Sourcing', 'Engagement awards' and "Peduru Party" to promote staff harmony, recognition and inter-departmental collaboration to encourage engagement at all levels to build a high performance culture. We continually invest in people to ensure that we are more than just a "great place to work".

Stakeholder engagement is discussed in detail under the Stakeholder Engagement Section in this report.

Corporate Governance and Compliance

LankaClear pursues ethical and transparent business operations and embedding these concepts in to our strategies and business operations. In order to achieve a strong corporate governance and a compliance regime, the Company complies with the Companies Act No. 07 of 2007 and the Code of Best Practice on Corporate Governance issued jointly by the Securities and Exchange Commission and the Institute of Chartered Accountants of Sri Lanka. We also ensure that we keep a constant vigil on these aspects via an internal Information Systems auditor who directly reports to the board and board-represented audit and risk committees to identify and rectify any gaps in this area. We believe in high levels of compliance in everything we do and strive to exceed standards set by Central Bank policies and regulations and the expectations of our board.

Responsible Citizenship

We continued to support our employees to contribute their time, effort and resources in support of community initiatives through their acts of volunteerism and commitment. Some of the CSR projects funded and organised by LankaClear empowered our employees to work voluntarily alongside other local stakeholders in supporting the activities of

various institutions, ranging from government hospitals, community homes and other public places. We also encouraged our staff to safeguard and value the environment that we live by providing them with opportunities to engage in cleaning activities carried out at public beaches during the year under review.

Awards and Accolades

I am extremely pleased to announce that LankaClear was able to win the coveted Gold award, for the second consecutive year, for our annual report with the theme "Value in every second", under the SME category at the CA Sri Lanka Annual Report Awards in 2017. Winning the Gold award once again was a very special reward for the team who worked tirelessly on this task with very limited resources and yet able to reach the pinnacle of success. We managed to win Gold at the National Business Excellence Awards 2017 against the Silver we bagged the previous year, signifying our commitment to continued improvement in all our business processes. We also took part in SLIM brand excellence awards with LankaPay brand for the very first time and was short-listed to be among the top brands under the category "Turnaround Brand of the Year". I believe these prestigious awards, recognitions and continuous successes are a testament to our resolve to reach the pinnacle in every aspect of our business and operations.

Future Outlook

I am deeply satisfied with our creditable performance during the year under review driven by the right strategies and precision execution of our plans. When I reflect on the past year, we made significant progress in all our product lines leveraging the solid foundation laid for future growth during the previous year. We have made a conscious decision to focus on the end consumers of our services and continue to deploy new technology platforms to empower them and digitally transform their lives.

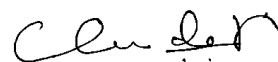
As a local company and the only one with such a wide array of products and services in this sphere, we have both a substantial opportunity and a high responsibility to ensure that technology's benefits reach

people more broadly across our society and economy. Everywhere we operate, we focus on contributing to local communities in positive ways, helping to spark growth, competitiveness and economic opportunity for all. To serve the needs of our customers well into the future by supporting them to enjoy a mobile lifestyle, we will continually transform our services to be convenient and omnipresent to be accessible from wherever they are. We continue to invest in the highest growth opportunities, innovate boldly, and empower people and organisations by creating the platforms and tools that enable others to grow and thrive, now and well into the future.

Acknowledgements

I would like to attribute our achievements during the year to the combined efforts of everyone on our team, starting from the Board of Directors and going all the way to the junior employees. Each member played a pivotal role in our growth and they have, as one team, participated and contributed with wholehearted commitment towards realising our goals.

I wish to thank the Chairman, the Board of Directors and all the shareholders for the unstinted support extended to me throughout the year. My sincere appreciation goes to members of my management team and every employee of LankaClear for their exceptional contribution towards our phenomenal growth. I am grateful to all our members and their loyal and supportive customers who continue to place their confidence in LankaClear and provide a constant source of guidance and encouragement that drives the team forward. We look forward to sustaining an even stronger engagement with all our stakeholders as we guide our organisation to reach even greater heights.



Channa de Silva
General Manager/CEO

28th May 2018
Colombo

BOARD OF DIRECTORS

*Standing from left to right: **Mr. A. Amarasuriya** | **Mr. E. R. de Silva** | **Mr. R. A. A. Jayalath** | **Mr. M. A. B. Silva** |*



Mr. C. P. S. Bandara | Mr. R. Theagarajah | Mr. M. N. R. Fernando | Mr. S. Bandara

BOARD OF DIRECTORS *CONTD.***Mr. A. Amarasuriya**

Chairman

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

Director

Mr. Jayalath is the Assistant Governor In charge of international operations, domestic operations, payments and settlement and information technology. Prior to this, Mr. Jayalath held the positions of Assistant Governor in charge of regulation and supervision of banks and non-bank financial institutions, Head/Superintendent of the Employees Provident Fund, Director of Domestic Operations Department, responsible for implementation of monetary policy covering open market operations and banking services; Additional Head of the International Operations Department, responsible for managing the foreign exchange reserves of the Bank, Chief Dealer, Head of Risk Management; Bank Examiner; Economist and Internal Auditor, since joining the Bank in 1990. He holds graduate degrees in Economics (MA Econ) from the University of Kansas USA and in Business Management (MBA) from the Postgraduate Institute of Management, University of Sri Jayewardenepura Sri Lanka and a Bachelor of Commerce degree from University of Kelaniya Sri Lanka. He is also a Fellow of Chartered Accountants of Sri Lanka.

Mr. M. A. B. Silva

Director

Mr. Silva is the Senior Deputy General Manager- Banking Operations of People's Bank.

Mr. Silva joined the bank in 1987 and counts over 30 years of experience & deep-rooted knowledge in banking operations.

Being the Senior Deputy General Manager – Banking Operations, Mr. Silva oversees the functions of 04 main divisions preside over by separate heads responsible for the activities of Channel Management division , the regulatory unit of the branch network and supplementary network comprised of ATMs, CDMs and Kiosks , Marketing & Research, Information Technology & Support Services division of People's Bank.

Mr. Silva is a Degree holder (B.A) from the University of Peradeniya and has a professional banking qualification AIB-Sri Lanka. With extensive local and international training/ exposure on the subject matter of his specialty. He is also an Associate Member of Institute of Bankers of Sri Lanka.

Mr. C. P. S. Bandara

Director

Mr. C. P. S. Bandara holds the position of Additional Superintendent of the Public Debt Department of the Central Bank of Sri Lanka, and has 21 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 and as a member of the Steering Committee for International Sovereign Bond Issuances by the Government of Sri Lanka; He was the Secretary to the Payments Reform Steering Committee. He has also served as a Chief Examiner of the Institute of Bankers of Sri Lanka, and 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 electronic bidding systems for primary auction of Government securities, the settlement system for open market operations and the on-line financial market monitoring and regulatory reporting systems of the Central Bank. He also played a key role in the project to implement an electronic trading platform and a central counterparty clearing and settlement system for the country.

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.

Mr. S. Bandara

Director

Mr. Senarath Bandara is attached to Bank of Ceylon and presently holds the position of General Manager. Prior to that, he has gained wide experience serving in several key areas of banking including Sales & Channel Management, International Banking Operations, Treasury Management, Corporate Lending, Development Banking and Electronic Banking in senior capacities. He also served as the Chief Executive Officer of Bank of Ceylon (UK) Ltd, London during 2011-2012.

Prior to joining the Bank, he served as an Assistant Lecturer at the University of Kelaniya, Sri Lanka and served at Mahaweli Authority. He had been a resource person at the Institute of Bankers of Sri Lanka in the field of credit and investment management too. He currently serves in the Governing Board of Institute of Bankers of Sri Lanka and is a director of BOC Travels (Pvt) Ltd, BOC Property Development & Management (Pvt) Ltd, Credit Information Bureau of Sri Lanka Ltd, Ceybank Asset Management Ltd, Hotels Colombo (1963) Ltd, Koladeniya Hydropower (Pvt) Ltd, Lanka Financial Services Bureau Ltd, Merchant Bank of Sri Lanka & Finance PLC and Bank of Ceylon (UK) Ltd. He is the Chairman of BOC Management & Support Services (Pvt) Ltd and Ceybank Holiday Homes (Pvt) Ltd.

Mr. Bandara is a Physical Science graduate of the University of Kelaniya and holds a MBA with Merit Pass from the Postgraduate Institute of Management, University of Sri Jayewardenepura. Also, he has successfully completed Advanced Management Program conducted by the Harvard Business School, USA. He is a Fellow Member of Institute of Bankers of Sri Lanka and obtained a Postgraduate Diploma in Bank Management from the same institute together with the best student award in 1998.

Mr. M. N. R. Fernando

Director

Mr. Fernando is currently the Managing Director of Sampath Bank PLC. He is also a Director of Lanka Financial Services Bureau Ltd., LankaClear (Pvt) Ltd. and a Governing Board Director of the Institute of Bankers of Sri Lanka.

In his banking career spanning 35 years, he served Hatton National Bank for almost 6 years and Sampath Bank from the year of its inception for the past 29 years. During this period he has been responsible for driving multiple aspects of the Bank and has supported Transactional Banking covering Retail and Corporate Banking, among many other key growth areas.

He is a Senior Fellow member of the Institute of Bankers of Sri Lanka and holds a Masters of Business Administration specialised in Marketing. He is also the past Chairman of Banker's Technical Advisory Committee which functions under the purview of Sri Lanka Banks' Association. He is a qualified Four Bead Leader Trainer and a past District Commissioner of the Sri Lanka Scout Association and currently functions as the Group Advisor to the Group Committee of St. Thomas' College, Mount-Lavinia.

BOARD OF DIRECTORS *CONTD.***Mr. R. Theagarajah**

Director

Mr. Theagarajah is a veteran banker with a wealth of experience in the Banking and Financial Services sector. He counts over 33 years in banking both locally and overseas.

Presently Mr. Theagarajah is the Managing Director/CEO of Cargills Bank Limited.

Mr. Theagarajah served as Director/ Chief Executive Officer (CEO) of National Development Bank PLC (NDB) from August 2013 till November 30, 2016. Prior to that, he served as CEO/ Managing Director at Hatton National Bank PLC for 9 years. Mr. Theagarajah was also a past Chairman of Sri Lanka Bankers' Association (Guarantee) Ltd, Financial Ombudsman Sri Lanka (Guarantee) Ltd, former Director of Colombo Stock Exchange and former Chairman of the Asian Bankers Association. He has also served as a Council Member of the Sri Lanka Institute of Directors.

He currently serves as the Vice Chairman of the Ceylon Chamber of Commerce is a past Chairman of the Chartered Institute of Management Accountants (UK) Sri Lanka Governing Board. He is currently a co-opted member in CIMA UK's Global Council and also serves as an independent non-executive Director of Carson Cumberbatch PLC.

Mr. E. R. de Silva

Observer

Mr. de Silva brings well seasoned skill and expertise in banking, finance and commerce to his role at SLBA through which he comes to the Board of LankaClear as an observer. His wide ranging knowledge and particular experience in the areas of Credit and Risk has been gained in a career of over 45 years in which he has held progressively senior positions in banking and financial services as well as in general management of diversified private sector commercial entities both in Sri Lanka and internationally.

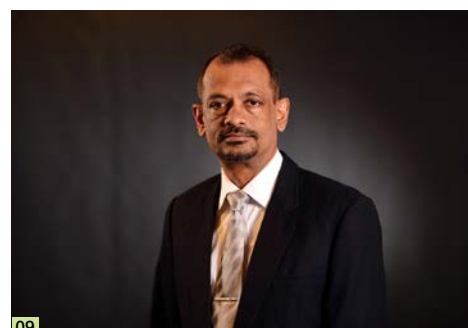
Beginning in Sri Lanka as a Management Trainee at Commercial Bank and progressing through credit and branch managerial roles, Mr. de Silva moved to the private sector at board level with the Lewis Browns Holding Company Group. He left Sri Lanka in 1988 and has had varied international experience with the HSBC Group where he stayed until his retirement at the end of 2012.

At HSBC, Mr. de Silva has headed the Credit and Risk functions in HSBC subsidiaries and new acquisitions. He is familiar with the challenges of managing risk and implementing change; viewed from the Chief Credit Officer's seat in HSBC Bermuda, managing the bank's exposure to the insurance / reinsurance industry,

hedge funds, banks, sovereigns and MNCs during the 'financial crisis'. He also had a quite different experience from the Chief Risk Officer's seat in HSBC / Dar Es Salaam Investment Bank in Baghdad. In both these jurisdictions he was in the midst of managing the significant challenges arising from major system implementations / conversions, in the 'new' HSBC acquisitions.

After retirement from the HSBC Group at end of 2012 he lived in the UK undertaking ad-hoc consultancy assignments until his return to Sri Lanka in August 2016. He assumed the current role as Secretary General at SLBA on 1 August 2017.

Mr. de Silva holds a Bachelor of Laws degree from the University of Sri Lanka, is a Fellow of the Chartered Institute of Bankers UK and has been admitted as an Attorney at Law of the Supreme Court of Sri Lanka.

MANAGEMENT TEAM

01. Mr. Channa de Silva - General Manager /CEO

02. Mr. Dinuka Perera - DGM IT & Operations

03. Mr. Rasika L. Galappaththy - Head of Finance

04. Mr. Lakshman C. Palliyaguruge - Head of HR & Administration

05. Mr. Dilusha Karunarathna - Senior Manager IS Audit

06. Mr. Dilantha Samarasinghe - AGM IT

07. Mr. Roshan Hettiarachchi - Chief Manager Operations (Head of Clearing Systems)

08. Mr. Isuru Jayaweera - Chief Manager External Services Department (Head of External Services Department)

09. Mr. Hemanthe Samaliarachchi - Chief Manager Payment Systems (Head of Certification & Integration)

10. Mr. Lakshman Liyanage - Senior Manager Projects

11. Mr. Duleep Liyanage - Senior Manager IT Security Solutions

12. Mr. Danushka Uyanahewage - Senior CITS Manager

MANAGEMENT TEAM *CONTD.*

01



02



03



04



05



06



07



08



09



10



11



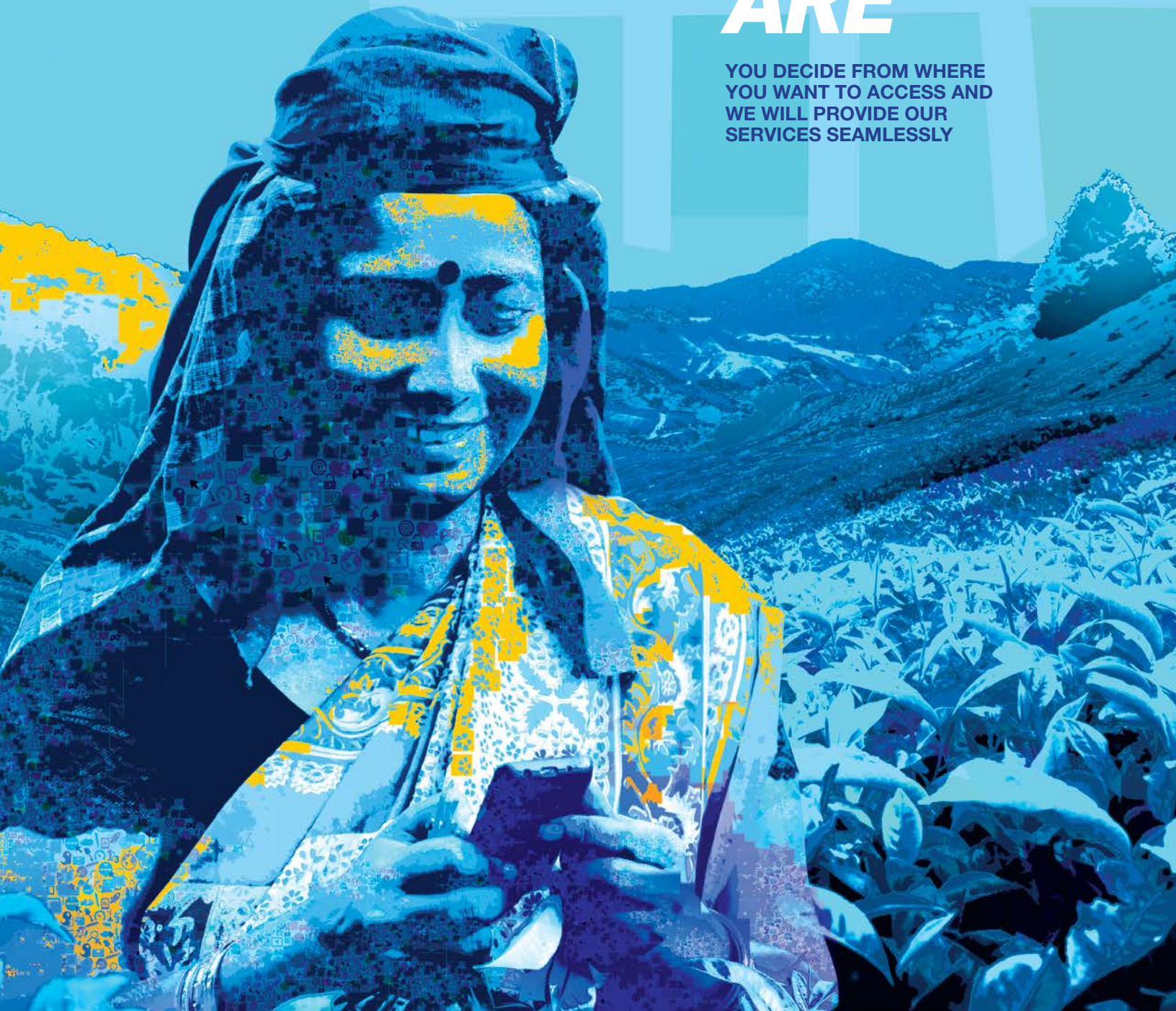
12

01. Mr. Indika Fernando - *Systems Operations Manager*
 02. Mr. Asela Hapuarachchi - *Manager HR & Administration*
 03. Mr. Delan Wimalaratne - *Manager EFT & Mobile Systems*
 04. Mr. Dhammika Guruge - *Manager Network Operations & Security*
 05. Ms. Wayomi Gunathilaka - *Manager Business Development & Brand Promotion*
 06. Mr. Shehan Wijewickrama - *Management Accountant*

07. Mr. Loshan Wickramasekara - *Manager Information Security*
 08. Ms. Rasika Wickramanayake - *Manager Procurement*
 09. Ms. Ama Wimalasena - *Manager Contracts & Agreements*
 10. Mr. Harsha de Silva - *Manager Processing Centre*
 11. Ms. Nishamani Rathnayake - *Manager CAS & CPS*
 12. Mr. Praveen Ramanayake - *Manager Facilities & Maintenance*

MOBILITY WHERE EVER YOU ARE

YOU DECIDE FROM WHERE
YOU WANT TO ACCESS AND
WE WILL PROVIDE OUR
SERVICES SEAMLESSLY



VALUE CREATION MODEL

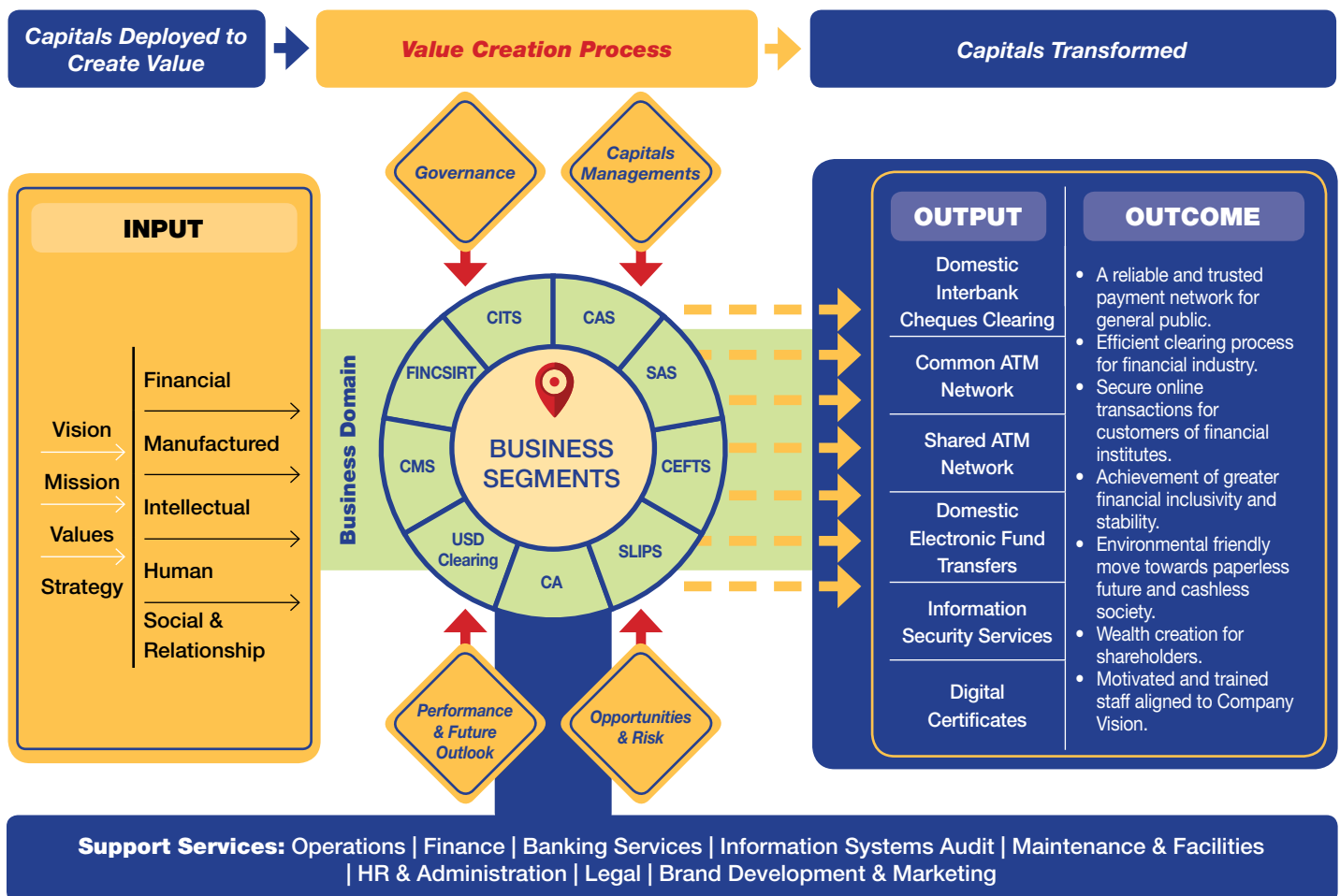
A critical factor that determines the success or the failure of any organisation is their process of Value creation. Every successful world-class organisation is operated with a purpose to create value for all its stakeholders including customers, employees, investors as well as shareholders.

The value creation process of LankaClear is to ensure that all our services are relevant to our customers, offered faster to the market and secure, which results in business growth for the Company for the benefit of all stakeholders. With a vision to be the Asia's most trusted and reliable payment network, LankaClear's long-term objective is to foster

greater financial inclusivity among the Sri Lankan population. The above objectives are achieved by facilitating high quality financial services at affordable prices in a secure, reliable and a convenient manner to the general public.

The capital is utilised in such a way to ensure that innovative technology based financial services are brought to market continuously maintaining the highest quality in all intended aspects to serve our customers better.

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



CORPORATE STRATEGY, RESOURCE ALLOCATION AND FUTURE

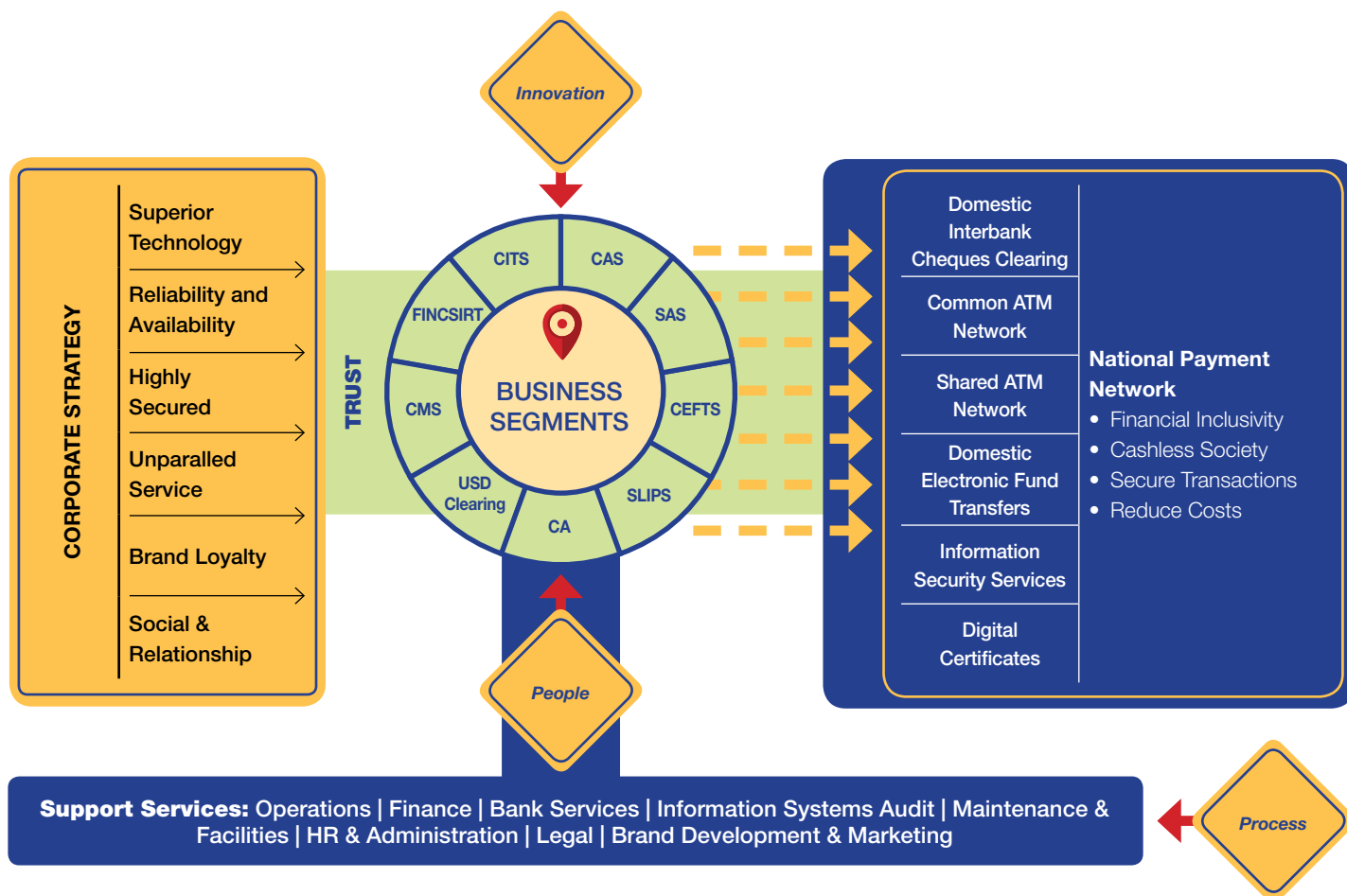
LankaClear has defined their long-term objective of achieving growth momentum with absolute clarity and the mechanism to get there via two strategic questions “Where do we want to go? How do we intend to get there?” via its vision and mission statements. The Company intends to become Asia’s most trusted and reliable payment network while aims to achieve this via facilitating high quality electronic financial services at affordable prices in a secure, reliable, convenient and innovative manner to all Sri Lankans.

Asia consists two of the largest economies in the world in addition to a few other powerhouses in the global economy and LankaClear’s aim is to deploy world-class payment systems, ideally for the first time in Asia, to ensure all Sri Lankans are on a better footing to meet regional challenges. The

organisation’s strategic objectives are listed under the strategic section and discussed throughout the report under various topics.

Stemming from last year’s pivotal focus of saving valuable time via positive user experience, ultra-convenience and seamless security, we dug deeper into the finer needs of our customers and their lifestyles. In an era of Internet of Things making a significant headway into people’s lives, changing technology landscape has profoundly changed human behaviour, which has brought greater freedom and mobility to their lifestyles. This global trend of looking for convenience has resulted in people being more mobile and performing their daily chores from wherever they are by the use of technology. This realisation motivated us to focus on the “Mobile Lifestyles” of

the customers throughout the year, which subsequently led to be our theme for the annual report. We realigned our strategies and product portfolio to better address the mobile lifestyles of our customers and deployed several innovative solution to address the potential market. We collaborated with several like-minded entities to bring to life several innovative solutions to directly support the requirement for mobility of general public who are the ultimate consumers of our services. This helped us to fulfill the demands of our customer that opened up new avenues of revenue for the Company to improve both our top-line and the bottom line. The strategies devised and executed in this regard are discussed in detail under CEO’s Review and Marketing Strategies and further elaborated in the below business model.



CORPORATE STRATEGY, RESOURCE ALLOCATION AND FUTURE *CONTD.*

The organisation depends on a number of identified key differentiators to provide itself with a competitive advantage against potential competitors. In terms of resource allocation, it is also geared to create value in the entire value chains as discuss below.

Use of Advanced Technology

The platform for LankaPay network is based on a scalable, reliable, secure and operationally proven technology back-end. This superior technology platform has a proven track record in multiple countries as their National Payment Switches and other Payment Networks have been implemented on same back-end. The current switch has been tested and proven to process approximately 7 Mn commercial transactions a day. The same system has already been implemented and well tested on world-class enterprise level Hardware and System Software infrastructures in those countries.

Maintaining Reliability and Availability

A primary benchmark that the operational team at LankaClear had been assigned to maintain was to achieve a 100% uptime for all our systems throughout the year. As a national network, high reliability and availability of all our systems were ensured by a tried and tested Business Continuity Plan and our own State- of-the-Art-Disaster Recovery Site (DRS). We are using clustering for high availability for all Systems in the Primary Data Center (PDC) in which data is replicated to DRS in real-time. This was to ensure that PDC had extreme high availability at all times and even in the unlikely event that the PDC becomes non-functional, it is possible to activate DRS immediately.

Maintain High Security across all Systems

During the year under review, LankaClear retained the world-renowned PCI-DSS version 3.2 certification for the second consecutive year, which is regarded as the top-notch security standard in the payment card industry. The Company was the pioneer entity in the country to achieve this status in the previous year. Hence, all systems of LankaClear have been designed and implemented with the highest level of security in mind and are currently PA-DSS certified

and 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 into all our 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 and maintain our status as the 'Trusted National Payment Network'.

Service to be Number One

LankaClear provides round-the-clock 24X7 support service to our member banks and financial institutions by striving to maintain the highest levels of service at all times. The services are provided 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 Centre (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 member banks and financial institutions to maintain financial sector stability.

Improved Relationships to Ensure Trust

We have strived to improve existing 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 introduced an annual cricket tournament among LankaPay members, for the second time and organised an annual "Peduru Party"

to strengthen relationships further at multiple levels.

Success via Continuous Innovation

In order for us to be a successful and a highly competitive force in the market, we sharpened our focus 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 JustPay via CEFTS, Deployment of LankaPay Online Payment Platform and the design for National QR Code. 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 carried out to identify a suitable International Card Scheme (ICS) to partner in order to establish a National Card Scheme (NCS). During the year, LankaClear selected JCB International Co. Ltd. as the partner for acquiring international transactions for NCS and is currently on a strong path to complete technical developments and enroll suitable pilot banks. NCS is expected to provide cost efficiencies to the financial ecosystem with lower switching costs and reductions in other operational overheads. This allows banks to broaden their card portfolio and offer customers with a wider selection of more competitive card options, which we believe would be a motivating factor for banks and consumers to embrace the LankaPay-JCB co-branded card's value proposition in the future. 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 operationalise CMobS, as decided previous year to certify third party mobile wallet application vendors, to provide banks with multiple options to select their mobile wallet application, during the year three interested parties registered out of which two were local players while the other was an Indian company.

People are Our Critical Asset

The management of LankaClear identified that development and motivation of our people was the key aspect for long-term success, hence, 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', 'Engagement Awards' and "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.

Continuous Process Improvement

The process of all of LankaPay support services underwent significant improvements to strengthen the operations by adhering to a structured way of working and ensuring continuous improvements to operational manuals. Further, Operations were audited regularly by internal and external auditors to mitigate risks and to ensure strict adherence to our governance principles. Employees were highly trained to acquire relevant domain expertise 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 gauge the achievements of LankaClear, measurements had to be taken in two facets, such as organisation achieving its objectives provided via the national agenda through Central Bank and the banking fraternity while ensuring the profitability of the organisation. The expectations of the Central Bank and banks were mapped under the stakeholder engagement section while the achievements have been discussed. In order to measure the Company profitability, annual

budgets were submitted for the attention of the board of directors at the beginning of the financial year for them to evaluate and compare against the final achievements at the end of the year.

Outcome-Based Performance

The LankaCelar team believes that the only way to determine the ultimate success is to measure the outcomes on a regular basis. Hence, as a final outcome of the above strategic initiatives, we wanted to achieve a significant growth in the inter-bank financial transaction volumes across all our solution offerings. We recognised that the way forward to achieve the above high-level outcomes was to cater to the changing mobile lifestyles of the general public by providing convenient, relevant and location independent financial services at a nominal cost. Finally, we strived hard to achieve our ultimate objective of supporting the country's vision of ensuring financial inclusivity and move towards a less cash society.

Future Success

We identified that future success of any technology-based organisation is achieved by being dynamic and our ability to adapt to the rapidly changing technology landscape. In addition, we also understand that as long as we are relevant to all our customers and provide them with options to address their different lifestyle needs, we would continue on a growth path. All our services were designed with an ultimate objective of being accessible to our customers from wherever they are. We understand that modern day customers are driven by their ability to enjoy a mobile lifestyle and would consume the services that are offered to them from anywhere, anytime via any device, hence all our services must be reliable, secure and omnipresent. The future success of our business will depend on our ability to successfully address the ever-changing consumer lifestyles via all the services that we offer.

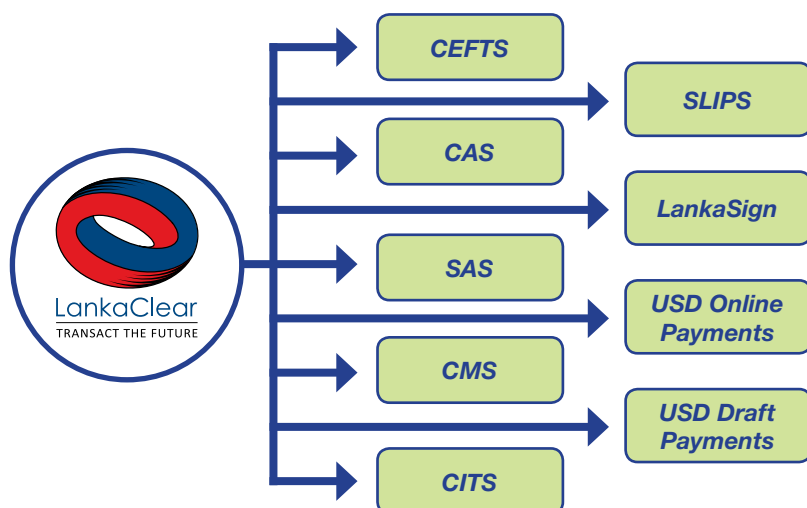
OPERATIONS REVIEW

An efficient and a stable payment and settlement infrastructure is critical for any growing and dynamic economy. Secure and fast realisation of payments within a reliable infrastructure facilitates efficient payments and settlements. LankaClear contributes immensely towards this endeavour in the country under the guidance of the Central Bank of Sri Lanka and the collaboration of all the commercial banks and financial institutions.

LankaClear plays a key role as the National Payment Infrastructure Provider, as it is the entity in Sri Lanka that owns and operates Cheque Clearing, US Dollar Clearing, online funds transfers via SLIPS and CEFTS and routing of off-us ATM transactions via the LankaPay – CAS and LankaPay – SAS.

PRODUCTS AND SERVICES OFFERED BY LANKACLEAR

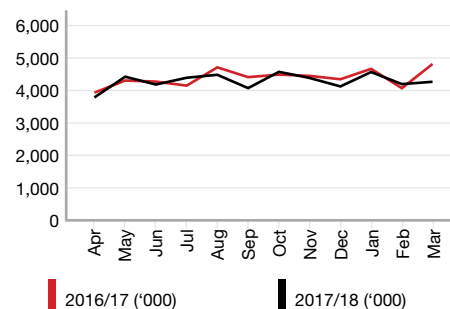
1. Rupee Cheque Clearing - Cheque Imaging & Truncation System (CITS)
2. Sri Lanka Interbank Payment System (SLIPS)
3. LankaPay - Common ATM Switch (LankaPay - CAS)
4. LankaPay – Common EFT Switch (LankaPay – CEFTS)
 - LankaPay Online Payment Platform (LPOPP)
 - JustPay
5. LankaPay – Shared ATM Switch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



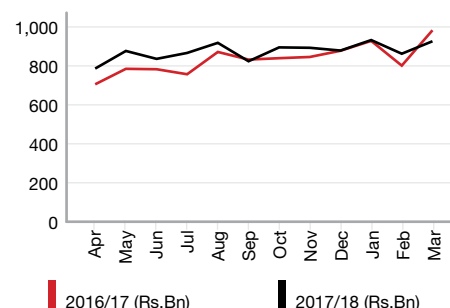
1. Rupee Cheque Clearing - Cheque Imaging & Truncation System (CITS)

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). LankaClear also introduced the online mode of CITS two years ago to further automate the cheque submission process, which allowed to further extend the cut-off times.

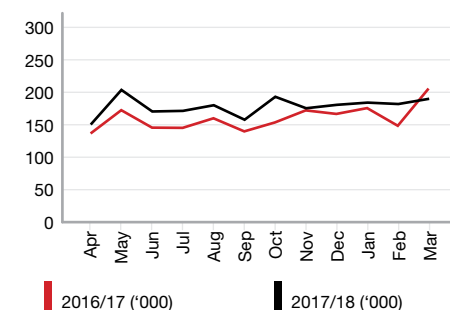
Due to continuous improvements in process and technology along with the commitment of LankaClear staff, CITS has achieved a 99.90% system up-time and achieved 99.59% of the delivery cut-off times in the year 2017/2018. For CITS operations, LankaClear conducted two clearing operations successfully from the Disaster Recovery Site underlining the rigour of the CITS operations.



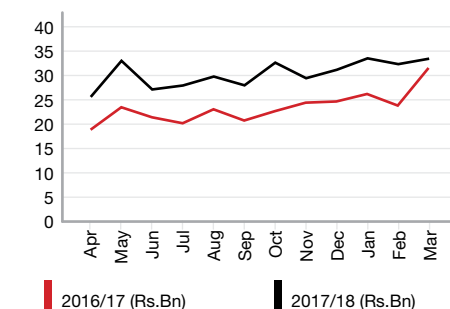
Cheques Presented for Clearing - Volume Wise



Cheques Presented for Clearing - Value Wise



Cheque Returned for Clearing - Volume Wise



Cheque Returned for Clearing - Value Wise

Total number of cheques cleared in 2017/2018 through CITS amounts to 51.45Mn compared to 52.58Mn in 2016/2017. This is a reduction of 2.2% from the previous year.

Currently, an average of approximately 217,090 cheques are cleared through LankaClear each business day through CITS. Highest number of cheques cleared on a given day in 2017/2018 is 458,148. While there has been a reduction of 2.2% in the number of cheques cleared in 2017/2018 compared to the previous year, the value of the cheques cleared has risen by almost 5% compared to the previous year. The increase is approximately Rs.490Bn when compared with 2016/2017. The total value of cheques cleared in 2017/2018 through CITS amounts to Rs. 10,493Bn compared to Rs. 10,003Bn in 2016/2017.

1.1 Settlement Clearing (Cheque Returns)

Cheques remain the preferred non-cash payment instrument for commercial transactions in Sri Lanka. Out of the 51.45Mn cheques presented for clearing, 2.15Mn cheques were returned due to non-payment. This amounts to 4.18% of the cheques presented for clearing of the total cheques returned, around 48% were returned due to lack of funds.

Total number of cheque returns in 2017/2018 through CITS amounts to 2.15Mn compared to 1.92Mn in 2016/2017. This is a YoY increase of 11.67%.

Total value of cheque returns in 2017/2018 through CITS amounts to Rs. 364.46Bn compared to Rs. 281.01Bn in 2016/2017. This is a YoY increase of 29.69%.

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 institutional staff. LankaClear provides an online electronic fund transfer service named SLIPS to facilitate bulk fund transfers, such as employee salaries via all commercial banks and financial institutions. SLIPS is now a 100% paperless

clearing operation, facilitates same day clearing and provides for greater security by means of digitally signing the SLIPS files which are transmitted by member institutions to LankaClear.

Total volume of transactions cleared through SLIPS in 2017/2018 amounts to 30.70Mn, compared to 27.64Mn in 2016/2017. This is a YoY increase of 11.06%.

Total value of transactions cleared through SLIPS in 2017/2018 amounts to Rs. 1,772.47Bn compared to Rs. 1,547.95Bn in 2016/2017. This is a YoY increase of 14.50%. On average, there has been 129,544 SLIPS transactions per day with highest number of SLIPS transactions recorded for a given day being 668,648 in 2017/2018.

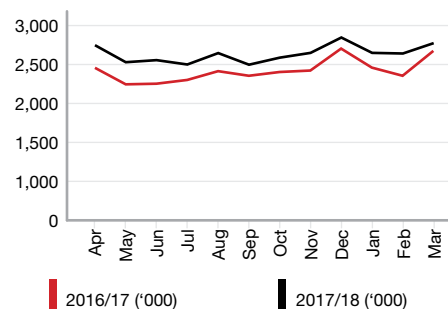
3. LankaPay - Common ATM Switch (LankaPay - CAS)

The Common Card and Payment Switch (CCAPS) is an integrated payment system of multiple domestic payment networks. CCAPS is a national initiative implemented under the guidance of the Central Bank and with the collaboration of all operating licenced banks and financial institutions in Sri Lanka. CCAPS brings greater convenience, security and cost efficiency to retail electronic payments in Sri Lanka. Most importantly, CCAPS enables the participating banks to innovate new payment products to cater to different needs of their customers. This results in the general public accruing the benefits of more efficient and cost effective electronic payment products.

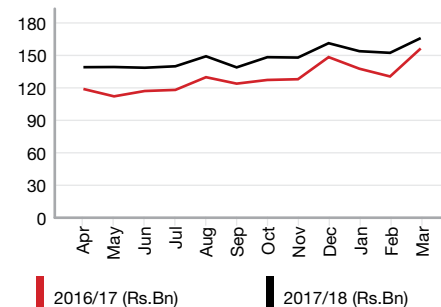
LankaPay - CAS serves the general public of Sri Lanka, offering the convenience to use the nearest ATM with the highest security rather than having to visit their own bank's ATM.

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.

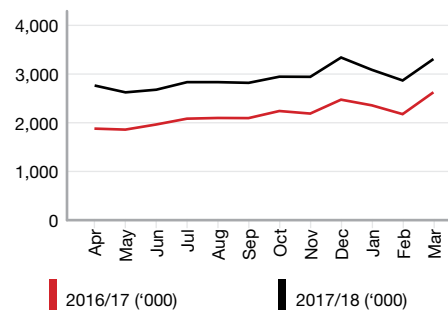
Total volume of cash withdrawals in 2017/2018 amounts to Rs. 35.02Mn compared to Rs. 26.02Mn in 2016/2017. This is an increase of 34.56% compared to the previous year.



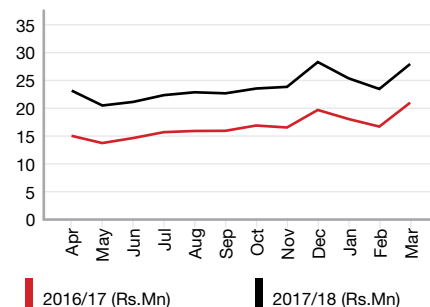
Sri Lanka Inter Bank Payment Systems - Volume Wise



Sri Lanka Interbank Payment Systems - Value Wise



LankaPay - CAS Cash Withdrawals - Volume Wise



LankaPay - CAS Cash Withdrawals - Value Wise

OPERATIONS REVIEW *CONTD.*

The total value of cash withdrawals in 2017/2018 amount to Rs. 285.14Bn compared to Rs. 199.81Bn in 2016/2017. This is a YoY increase of 42.71%.

Total number of balance inquiries in 2017/2018 amounts to Rs. 12.79Mn in 2017/2018 compared to Rs. 9.69Mn in 2016/2017. In the year 2017/2018, an average of approximately 130,979 approved transactions passed through LankaPay – CAS each day while the highest number of transactions cleared during a day in LankaPay – CAS during 2017/2018 is 232,419.

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

The LankaPay – CEFTS is the national real-time electronic fund transfer system. CEFTS was launched in August 2015 and operates 24x7x365. LankaPay – CEFTS has enabled greater customer convenience due to funds being credited to the beneficiary account on a real time basis while ensuring highest security standards. At the end of the financial year under review, there were 34 participants using the CEFTS facility. Within the year 2017/2018, following 10 institutions joined the LankaPay CEFTS network.

- a) MCB Bank
- b) National Savings Bank
- c) Axis Bank Ltd.
- d) Central Finance PLC
- e) Citibank NA
- f) Sanasa Development Bank
- g) State Bank of India
- h) Regional Development Bank
- i) Indian Bank
- j) Indian Overseas Bank

LankaPay – CEFTS recorded the highest ever increase of 184% in number of interbank electronic fund transfers totalling over 4Mn transactions in the year 2017/2018 compared to 1.5Mn transactions in the previous year.

Total value of CEFTS transactions in 2017/2018 amounts to Rs. 348.85Bn compared to Rs. 107.88Bn in 2016/2017. This is a YoY increase of 223%. On average, there were 10,678 transactions per day with the highest number of transactions recorded for a given day being 21,945.

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 expecting a number of other banks to also join this network. Card Management System (CMS) was launched in 2015 and in year 2017/2018, CMS has issued 121,893 proprietary cards to RDB.

Total volume of cash withdrawals in SAS in 2017/2018 amounts to 174,598 compared to 79,440 in 2016/2017. This is an increase of 119.79% compared to the previous year.

Total value of cash withdrawals in 2017/2018 amounts to Rs. 1,712.50Mn compared to Rs. 753.50Mn in 2016/2017. This is a YoY increase of 127.27%.

6. US Dollar Draft Clearing System (USDDCS)

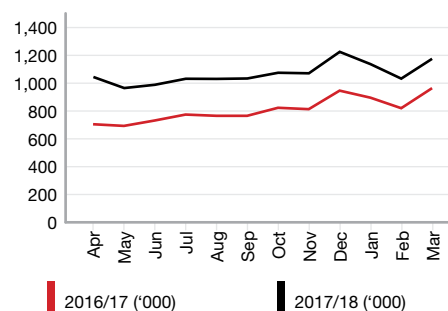
US Dollar Draft Clearing System expedites the realisation of cheques or drafts drawn in favour of payees in Sri Lanka. Traditionally a US Dollar cheques or draft needed to be couriered abroad and usually it took more than 3 weeks for the money to be credited to the payee's account. Now, USDDCS facilitates the depositors to obtain funds as early as the fourth working day, reducing the delay significantly.

Following types of USD cheques or drafts are handled through the US Dollar Draft Clearing System. In both the instances, payee is in Sri Lanka.

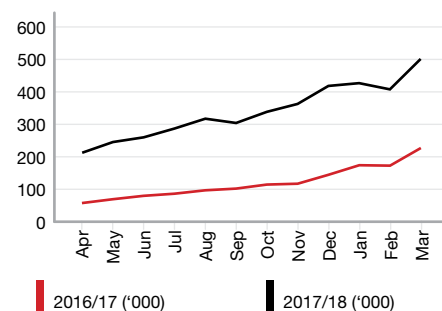
- I. USD drafts issued by licensed commercial banks in Sri Lanka payable to Sri Lankan individuals and institutions.
- II. USD cheques issued by Banks or Exchange Houses abroad drawn on Licensed Commercial Banks in Sri Lanka.

Total number of items cleared through US Dollar Clearing in 2017/2018 amounts to 53,314 compared to 2016/2017 of 59,247. This is a YoY decrease of 10.01%.

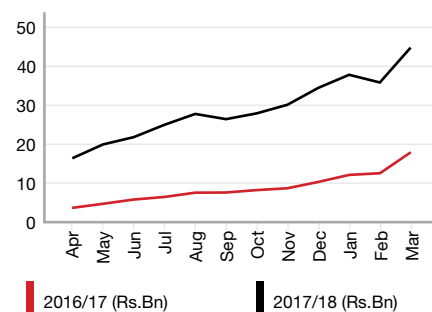
Total value of items cleared through US Dollar Clearing in 2017/2018 amounts to US\$ 473.36Mn compared to 2016/2017 of US\$ 263.34Mn. This is a YoY increase of 79.76%.



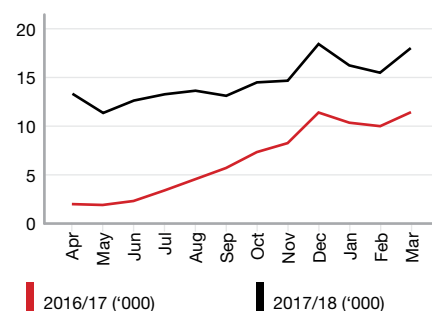
LankaPay - CAS Balance Inquiry - Volume Wise



LankaPay - CEFTS Volume Wise



LankaPay - CEFTS Value Wise



LankaPay - SAS Cash Withdrawals - Volume Wise

7. US Dollar Online Payment System (USDOPS)

US Dollar Online Payment System is an online interbank fund transfer system. It is used for clearing interbank US Dollar payments via LankaClear. USDOPS routes transactions from the originating bank to the receiving bank and LankaClear creates the settlement file to update the participating Banks' accounts at the settlement bank. The US Dollar online payment system currently has 13 participating banks.

Following types of USD interbank fund transfers are facilitated by the system:

- Inter-account USD transfers initiated by customers between bank accounts maintained in Sri Lanka.
- Payments made by the government, foreign missions, BOI companies and other corporate entities in USD to their beneficiaries maintaining bank accounts in Sri Lanka.
- Distribution of Inward Remittances received in USD by banks in Sri Lanka through their overseas correspondent banks / exchange houses.
- Outward transfers to accounts maintained in banks abroad routing the transfer through the USD settlement bank at the domestic counterparty, with instructions for onward delivery to the respective foreign bank.
- Commercial payments and trade financing related transactions made in USD within Sri Lanka.
- Inter-bank USD-USD transfers initiated by banks in Sri Lanka on Foreign Exchange borrowings and settlements.

Total number of transactions cleared through the US Dollar online payment system in 2017/2018 amounts to 6,974 compared to 4,214 in the year 2016/2017 which is a YoY increase of 65.50%.

Total value of items cleared through the US Dollar Online Payment System in 2017/2018 amounts to US\$ 181.70Mn compared to US\$ 111.70Mn in the year 2016/2017 which is a YoY increase of 62.72%.

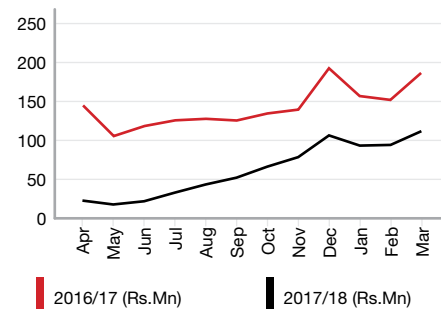
8. LankaPay Online Payment Platform (LPOPP)

LankaPay Online Payment Platform (LPOPP) has been designed to communicate with a third party system that is connected to LPOPP on one side and the commercial banks, which are connected to LPOPP on the other side. For example, at present, online payments are facilitated for Sri Lanka Customs where Sri Lanka Customs' ASYCUDA system is connected to LPOPP. In addition, Dialog Telecom has connected to facilitate bill presentment and payment service to customers of all banks.

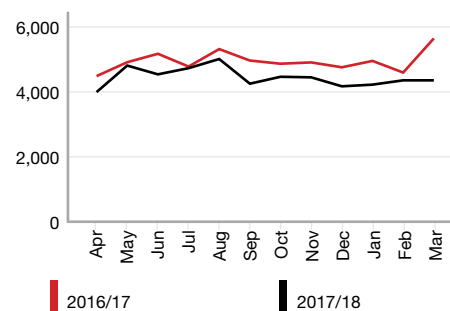
The customers of commercial banks connected to LPOPP can make online payments through their respective banks via internet, mobile, ATM or any other channel that the banks will offer to their customers. These payments will be credited on a real-time and 24 X 7 basis to the designated bank accounts of the organisations.

LankaClear provides the required payment confirmation details on a real-time basis along with the relevant reports and other information necessary for the organisation for reconciliation purposes.

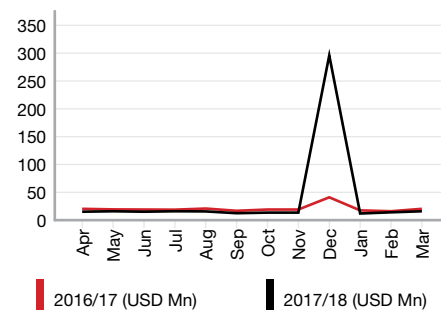
LPOPP facilitated online payments to Sri Lanka Customs in July 2017. For the period July 2017 to 31 March 2018, there have been over Rs. 1.7Bn worth of payments made to Sri Lanka Customs through LPOPP. Several other Government departments have also agreed to facilitate online payments during the year via LPOPP, which would go live during the next financial year.



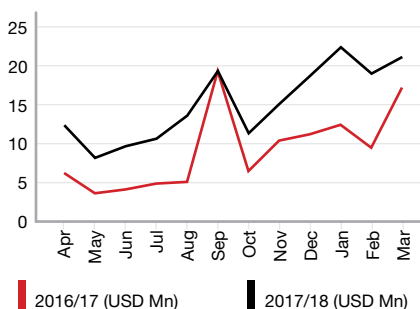
LankaPay - SAS Cash Withdrawals - Value Wise



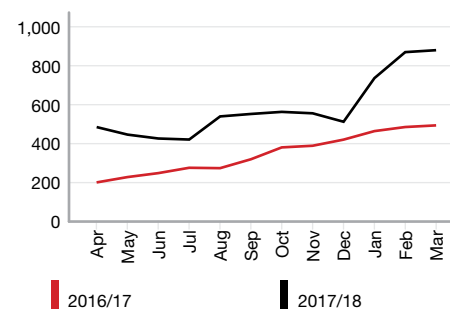
US Dollar Draft Clearing - Volume Wise



US Dollar Draft Clearing - Value Wise



USD Online payment system - Value Wise



USD Online Payment System - Volume Wise

SYSTEM SECURITY AND HIGH AVAILABILITY

INFORMATION TECHNOLOGY AND SECURITY

In an era where electronic payment modes are gaining popularity worldwide, LankaClear has set the platform to move Sri Lanka to a less-cash society. As the catalyst of change in the Sri Lankan payment ecosystem, LankaClear has continuously endeavored to maintain the highest technology and security standards in catering to this emerging market need. All the products and services offered by LankaClear are backed by high-end robust IT infrastructure and state-of-the-art applications that have been implemented at its own data centre. As one of the most critical financial infrastructure service providers of the country, LankaClear has recognised that information security and reliability of the technology infrastructure is of utmost importance in order to provide a reliable, efficient and a robust service to the financial sector. Therefore, LankaClear always strives to live up to its motto of "Your Trusted

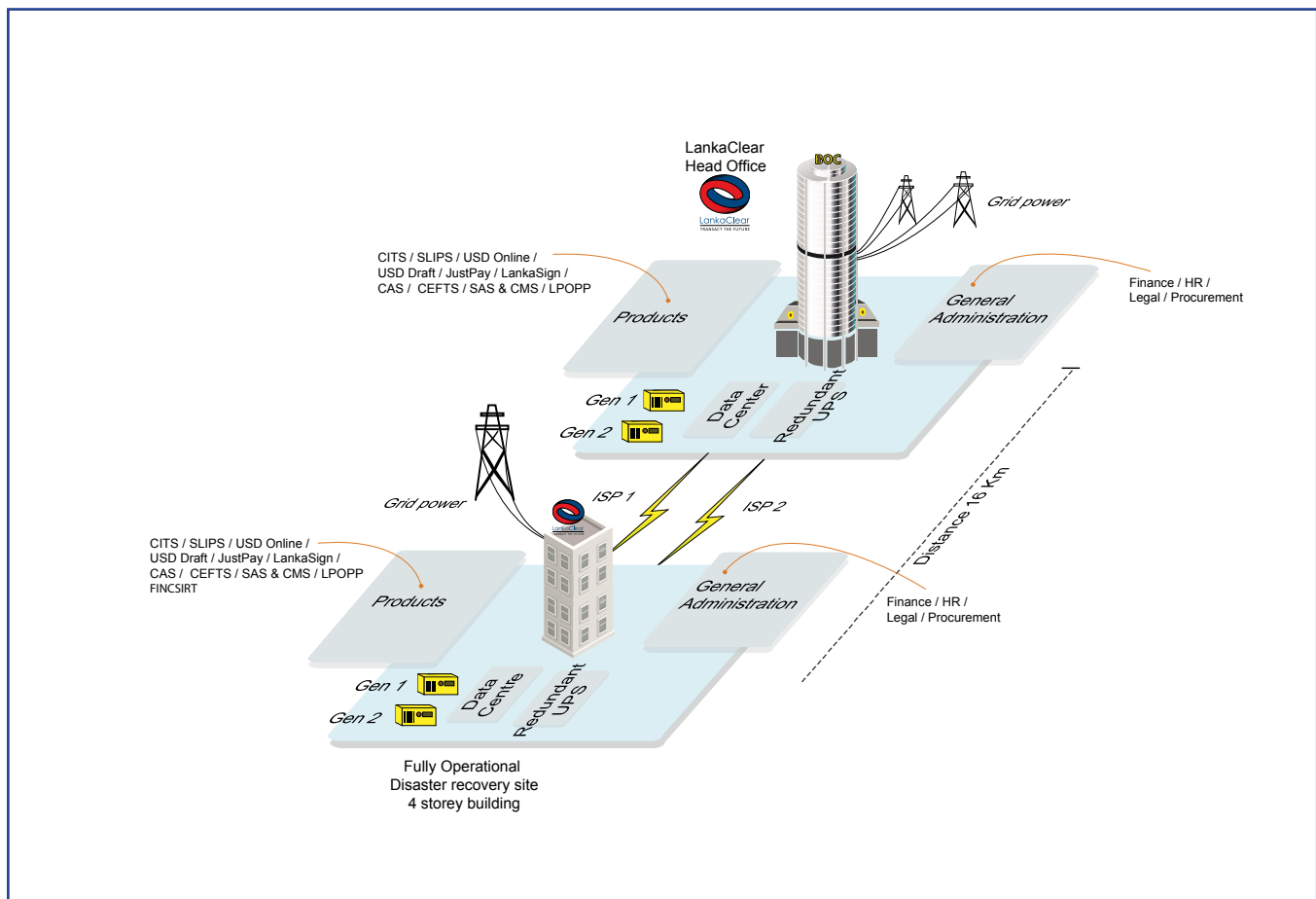
Payment Network" by ensuring that its products and services are adhered to stringent security and performance benchmarks.

During the year 2017/18, LankaClear invested further in strengthening the IT and security infrastructure by initiating the revamping of the existing primary Data Centre, upgrading the visualised infrastructure to enhance capacity and ensure high availability for new products. LankaClear is also upgrading the core network infrastructure to protect against new cyber security threats.

In 2017/2018, LankaClear successfully obtained the recertification for the prestigious Payment Card Industry Data Security Standards (PCI DSS version 3.2) underlining the rigour in which LankaClear is maintaining the security of its payment systems.

LankaClear also has a robust business continuity plan and in the year 2017/18, conducted two drills to test their preparedness to handle operations in case of a disaster to its primary site. Both the drills were successful and demonstrated the readiness of LankaClear to operate its systems uninterrupted during any eventuality. LankaClear has ensured the continuity of its payment systems in the event of a failure to underlying IT infrastructure by investing in a world class IT environment. This enterprise grade clustered IT environment is designed by adopting application and database clustering and based on 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.

The above diagram shows the general blueprint of the Business Continuity at LankaClear.



The afore-stated robust and scalable IT infrastructure along with our continued process and technology improvements ensured that all payment systems were available 24X7 to serve the general public throughout the year. This is evident by the high availability of the key payments systems of LankaClear during the year 2017/18. For example, Cheque Imaging and Truncation System (CITS) achieved a system up-time of 99.87% during the year 2017/18. Common Card and Payment System (CCAPS), which is the interbank payment switch, branded as 'LankaPay', achieved a system uptime of 100%. The high availability features and improvements made during the year 2017/18 in people, process and technology of LankaClear has ensured that banks, other financial institutions and the general public get a secure environment to carry out their daily financial transactions without being inconvenienced by intermittent service interruptions due to IT systems or network failure.

NATIONAL CARD SCHEME (NCS)

The Central Bank of Sri Lanka (CBSL) assigned the task of implementing a National Card Scheme (NCS) in Sri Lanka to LankaClear subsequent to the approval of the Monetary Board of CBSL. After a comprehensive selection and a negotiation process, LankaClear chose to partner with JCB International to obtain their assistance in terms of technology and expertise to implement the National Card Scheme (NCS). JCB International is one of the six members of EMV Co, the international body, which defines standards for secure, interoperable electronic payment instruments such as chip cards, QR-codes and related processing devices. With the implementation of NCS, local inter-bank financial transactions under NCS will be routed via the LankaClear Common POS switch and the JCB international switch will be used for international transactions.

Currently Sri Lankan banks heavily depend on International Card Schemes (ICS) such as VISA, MasterCard and Amex for payment card issuance and interbank card payment routing. Hence, a critical segment of the financial sector transactions is within the control of these ICSs. Introduction of the NCS

will provide a much lower cost alternative and provide an opportunity for the propagation of domestic payment card products in the country. This will save valuable foreign exchange that is currently being paid to these ICSs by local banks even in the case of carrying out domestic transactions.

NCS will also enable small banks and financial institutions with multiple modes to offer lower cost card based payment options to their customers and merchants, which will promote financial inclusivity in the country. Currently, some banks are even unable to meet the eligibility criteria of ICS to issue their cards.

LankaClear will first introduce debit and pre-paid cards to the market through banks and financial institutions. These cards, issued as co-branded LankaPay – JCB cards, will be Chip based (EMV) cards where many banks may opt for NFC variant for providing an environment for tap-and-go payments. NCS card products could be used as every-day payment cards for even low value payments at the local corner store to pay for groceries or as a transit card that can be used in buses and railways and even to transact with government agencies. Ability to make payments for e-commerce purchases, card tokenisation and issuance of credit cards are planned to be introduced during the second phase of the NCS program. Card tokenisation will provide for standards based secure storage of payment card details on a smartphone to provide ultimate convenience and mobility in payments. These initiatives will facilitate truly convenient payment mechanisms across all payment channels to fit in with the mobile lifestyles of every citizen, especially among the millennials who are now a key contributor to the national economic fabric.



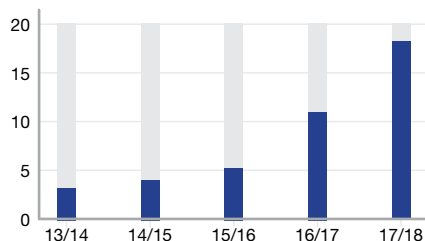
SECURITY PRODUCTS AND SERVICES

Sustainability of a PKI based niche Security Product in competitive market: LankaSign IT Security Solutions LankaSign Digital Certification Service Provider (CSP)

LankaSign commenced its operations almost a decade ago in May 2009 in accordance with the Electronic Transaction Act (ETA) No. 19 of 2006, based on a request of Central Bank of Sri Lanka, Sri Lanka Computer Emergency Response Team (SLCERT) in collaboration with Sri Lanka Banking Association (SLBA). They invited LankaClear (Pvt) Ltd to establish LankaSign-CSP to initially address the need of the banking sector Public Key Infrastructure (PKI) requirements.

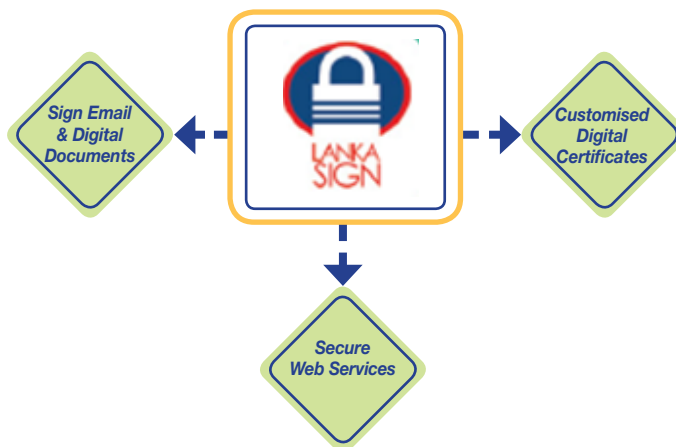
Although LankaSign was initially managing the requirement of facilitating the PKI requirements of LankaClear's internal systems, the management decided to expand its scope in the year of 2012 by issuing digital certificates to all the clearing systems handled by LankaClear covering banks and financial institutes. The system was further upgraded during the year under review to become a fully-fledged Commercial CSP to serve the current market demands and to enhance its capabilities to address the latest PKI requirements for mobile payments.

With its latest technology upgrades, LankaSign CSP is now capable of integrating any automated system that requires automated certificate issuance. In order for automation integration requirements,



Rs. Mn

LankaSign Revenue



LankaSign CSP has introduced a software development kit (SDK) for Android, iOS and Java platforms which is currently used by many mobile application developers and solution developers.

Currently the system is widely used in almost all financial sector organisations as well as few other sectors for automating their documentation process by digitally signing electronic copies of documents and adding high security for electronic documentation exchange process. By end of 2017 / 2018 financial year, LANKASIGN digital certificates are currently being used by;

- 44 banking and financial sector organisations for clearing systems operated by LankaClear,
- Central Bank of Sri Lanka for CITS Online and SLIPS systems,
- Over 150 export oriented organisation under the solutions given to Ceylon Chamber of Commerce & National Chamber of Exporters for digitising the documentation process,
- Central Depository System (CDS) for digitising its settlement schedules,
- Sri Lanka Customs – Under this project, it is expected to automate the entire documentation process of import and export needs. Currently by end of 2017/2018 financial year, a total of 33 organisations holding the green channel facility has obtained their LankaSign

digital certificates to automate their import and export documentation.

Business development and growth

Continuing the growth trend of 109% during the previous year, LankaSign was able to improve the topline growth by 66% YoY during the year under review while recording a remarkable bottom line improvement of 105% YoY. The CSP was also able to record a gross profit ratio increase of 65% compared to 52% in the previous year. This was the result of better managing costs in all aspects of the CSP business.

New business initiative / prospects;

Adopting to the changing market requirements, LankaSign ventured into new security solutions areas. As a result, the CSP was introduced mobile-based security solutions for JustPay enabled mobile applications. JustPay, a system to facilitate low value cash based transaction via smart devices were powered by LankaSign Security SDK to cater to the requirements of mobile application security and digital signing requirements of mobile and online users. This solution went live in the month of Jan 2018 and at the end of the financial year many JustPay enabled mobile payment applications commenced their live operations utilising the Security SDK.

In the next financial year, LankaSign is planning to introduce distributed ledger

technology (Block Chain) for the financial sector by designing a testing platform as Phase I. The total PKI requirements for this initiative is proposed to be provided by the LankaSign CSP infrastructure.

Further, LankaSign is geared to enhance its mobile testing systems and to become a testbed for the financial sector to test their mobile payment applications with multiple devices and technologies. The Phase II of the Sri Lanka Customs project is scheduled to commence its operations within the next financial year by expanding the paperless trade facility to the remaining 25,000 organisations currently dealing with Sri Lanka Customs.

LankaSign is also expected to introduce QR Code based secured payment mechanism for e-commerce merchants next year of which the final testing was conducted during the year under review. This will enable any e-commerce merchant to accept payments via current or savings accounts of citizens and will enable the consumers who do not have credit cards to carry out business with e-commerce merchants.

Contributing back to the Society;

LankaSign CSP strongly believes that knowledge sharing on security essentials is an investment for the future to safeguard national ICT and Payment infrastructure. Hence, the CSP continued its contribution by providing free consultancy and knowledge sharing for numerous stakeholders in the society. During the year under review, LankaSign shared its security knowledge with 2000 + working executives covering multiple industries by actively participating, demonstrating and delivering lectures.

FINCSIRT SERVICES

FINCSIRT (Financial Sector Computer Security Incident Response Team) was established in 2014, as a joint initiative by the Central Bank of Sri Lanka, Sri Lanka CERT I CC and Sri Lanka Banks Association (SLBA). LankaClear was invited to function as the administrator of FINCSIRT and to host the required technology back-end. This was to provide consistent Information Security

Service support to the Banking and Financial industry to strengthen financial sector stability.

FINCSIRT was launched on 1 July 2014 with the initial name of BankCSIRT, as a pioneering initiative in the South Asian region, and as at 31st March 2018, 43 Commercial Banks, Licensed Specialised Banks, Finance Companies and Primary Dealers have joined as members to obtain its services.

With the successful operation of the Security operation centre and the threat Intelligence Platform, FINCSIRT is able to keep up-to-date knowledge on the financial sector targeted threats and via the intelligence gathered, it has enabled better information security resilience in the Sri Lankan Financial Sector.

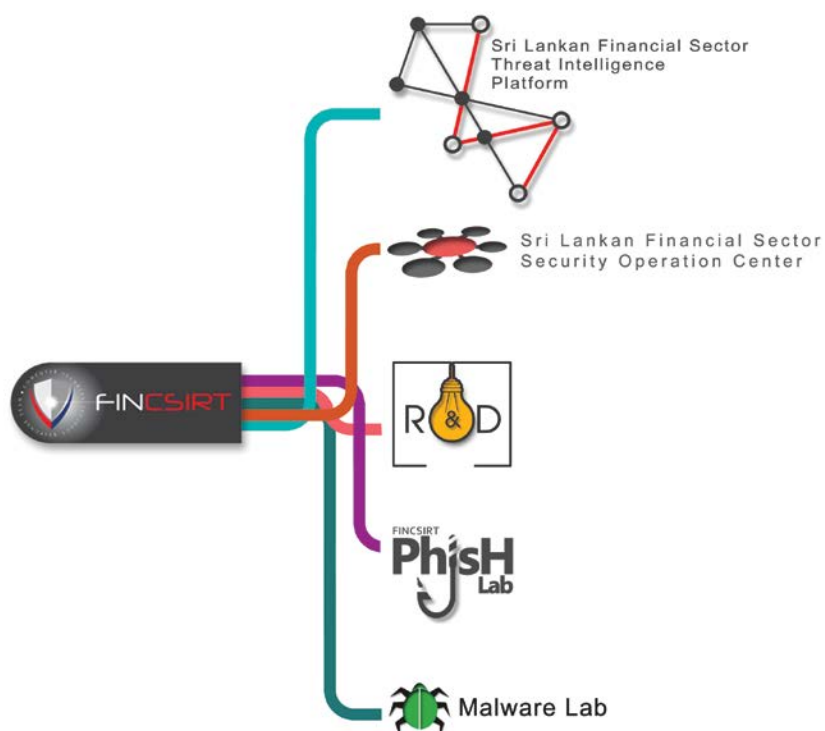
Continuing its efforts throughout the 2017/18 year, FINCSIRT was able to provide consultancy and assistance for many banks and finance companies on upgrading their

information security resilience. It also held the first Sri Lankan Financial Sector Cyber War Games – focusing on enabling better incident handling in the financial sector, having hands on information security incidents by handling activities running throughout the day, which were simulated actual incidents that could occur with non-security tested systems. The event was held on 25th of July 2017 at the Hilton Residence Colombo with the collaboration of Sri Lanka Computer Emergency Response Team (Sri Lanka CERT | CC).

With the rapid advancement of the threat landscape, FINCSIRT focus has shifted to mainly five areas as stated below, which enables FINCSIRT to provide better and effective service to the sector stability.

- Financial Sector Security Operation Centre
- Financial Sector Threat Intelligence Platform

Financial Sector Computer Security Incident Response Team



SECURITY PRODUCTS AND SERVICES *CONTD.*

- Specialised lab on Malware Analysis
- Specialised lab on Phishing Analysis
- Specialised lab on Research and Development

Further, in order to facilitate a forum to discuss and find solutions pertaining to technical and policy related matters, FINCSIRT created the Point of Contact Forum (PoC forum), which meets regularly every quarter. The forum consists of representatives from the FINCSIRT member

organisations and discusses matters pertaining to individual organisations as well as representatives from the Central Bank and the FINCSIRT Steering Committee.

Moreover, FINCSIRT has established contacts with global FINCSIRTs as well as the APCERT in order to provide better service to all its members apart from the aforementioned services to strengthen the financial sector information security for it to become more sustainable in the long-term.



Workshop for Sri Lanka Customs



Sri Lankan Financial Sector Cyber War Games



Digitising Documentation Process - Ceylon Chamber of Commerce



Sri Lankan Financial Sector Cyber War Games



Sri Lankan Financial Sector Cyber War Games

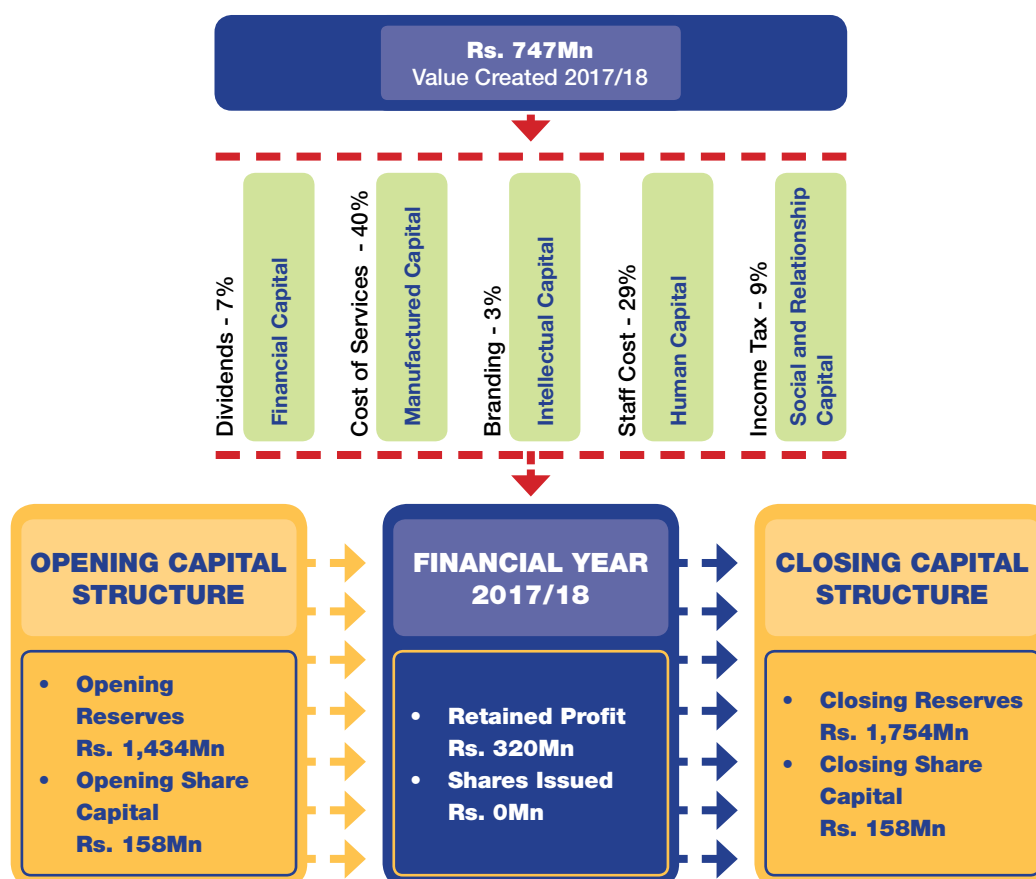


Sri Lankan Financial Sector Cyber War Games



Sri Lankan Financial Sector Cyber War Games

FINANCIAL CAPITAL



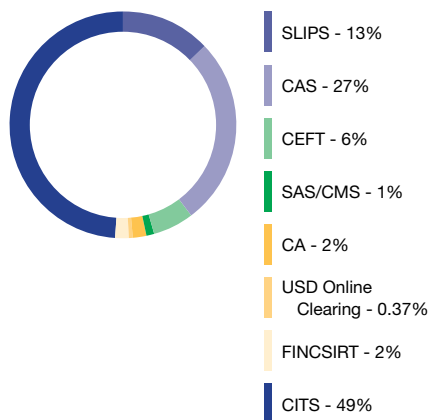
“ON A FUTURE PERSPECTIVE, THE COMPANY IS VERY OPTIMISTIC TO SUSTAIN THE HEALTHY TRENDS IN REVENUE GROWTH WHERE SUCH GROWTH IS ANTICIPATED TO COME FROM THE PRODUCTS CLASSIFIED UNDER ELECTRONIC PAYMENTS.”

FINANCIAL REVIEW

Overview

The growth momentum experienced during the last financial year continued for LankaClear as another flawless year concluded with more than impressive financial results. LankaClear surpassed its top-line revenue of the financial year quite easily and recorded Rs.918Mn (YoY Increase 15%) while Gross Profit of Rs.463Mn (YoY Increase 19%), Profit Before Tax of Rs.425Mn (YoY Increase 32%) and Profit

“WITH THE CONTINUED INCREASE IN PROFITABILITY, THE COMPANY RECORDED AN EARNINGS PER SHARE (EPS) VALUE OF RS. 23.78 (2016/17 – RS.18.32), WHICH WAS A SIGNIFICANT INCREASE OF 30%.”



Revenue Mix 2017/2018

After Tax of Rs.361Mn (YoY Increase 30%) were even more impressive.

Even though LankaClear is a significant contributor to the Sri Lankan financial ecosystem, providing the required platform to meet the demanding needs of the financial sector and its customers was never an easy task. The rapid technology advancements, influence of FinTech companies together with the changing lifestyles of people have shaken the very pillars that the traditional financial sector was built upon. Hence, the impressive financial results of LankaClear is a testament to the fact that the Company had successfully weathered the storm during the financial year with appropriate strategies and right spirit to fulfil the demands of its stakeholders.

Revenue

During the year the top-line revenue grew by 15%, ending the year by recording a revenue of Rs.918Mn (2016/17 - Rs.801Mn). CITS continued to remain a key contributor to revenue, however, reducing its significance on revenue mix to 48% from 50% of the previous year whilst the total revenue from the products under Common Card and Payment Switch (CCAPS) improved to 35% from previous 34%. CEFTS had been a highlight during the year increasing its prominence to 6 % from 5%, thus, reducing the significance of CAS from 27.3% of the previous year down to 26.8%. Further, cheque volume cleared through LankaClear during the year has declined by 2.2% (YoY). Even though the changes are minor for the moment, these trends are expected to continue in the future since the efforts to move towards a digitised economy would potentially reduce the significance of cheques and cash, which would gradually decline over a period of time while electronic payments would fill the void in line with global tendencies.

Clearing systems under CCAPS continued to remain a vital contributor towards the revenue growth. Revenue from clearing systems under Common Card and Payment Switch (CCAPS) increased by Rs.48Mn (against 2016/17 – Rs.112Mn), which is a growth of 17% YoY (against 2016/17 – 69%). However, it was evident that the growth of the revenue from CCAPS decelerated significantly, which is

mainly due to the joining fees under CCAPS products recording merely Rs.25mn which is a sharp decline of 63% YoY (against 2016/17 – Rs.69Mn and 2015/16 Rs.64Mn) as most number of potential players had already joined the switch.

Amidst the declining trend in joining fees, transaction revenue from CCAPS showed a tremendous growth and shouldered the revenue gap, thus, reduced the burden on revenue growth. The transaction revenue grew by an impressive 47% where the contributions came from Common ATM Switch (CAS), Common Electronic Fund Transfer Switch (CEFTS) and Shared ATM Switch (SAS), which increased by 36% to Rs.214Mn (against 2016/17 – Rs.158Mn), 184% to Rs.34Mn (against 2016/17 – Rs.12Mn), 121% to Rs.1Mn (against 2016/17 – Rs.0.5Mn) respectively. The remarkable growth resulted mainly due to the untiring efforts of the team who worked hard to grow the volumes armed with right marketing strategies and building long-term relationships, which would be discussed under the marketing strategies. These efforts were ably supported by the enthusiasm of Central Bank to drive the country towards a less cash society, banks who enabled the payment rails, disruptive FinTech and the changing lifestyles of the consumers.

The growth momentum experienced in transaction volumes is expected to be sustained in the short to medium term via the innovations already executed and more disruptive technologies in the pipeline to be deployed. Some of these changes are discussed in detail under the reviews of Chairman and the General Manager/CEO.

In the context of total ATM withdrawals (based on the Central Bank's Payment Bulletin of 2017 - 4th Quarter), LankaPay CAS had penetrated into an impressive 14% out of the total volume, which is a commendable growth compared to a lower rate of 3% in 2014. However, the growth of total ATM withdrawal volumes have decelerated to 7%, which was 10%, 15% and 12% for previous years respectively. Further the CEFTS volume has represented a 14% of the total volume of mobile and internet banking, which was

just 5% in the previous year. The growth of Internet and mobile-based transactions remained at a higher growth momentum and in the year 2017 where the volumes grew by 24% (YoY).

Cheque Imaging and Truncation System (CITS), thus far the highest revenue generator for the Company (48% of the total revenue), reported a revenue of Rs.445Mn (2016/17 - Rs.400Mn) with an increase of 11% YoY. Both the revenue from cheque volumes submitted for clearing and cheque returns grew by 11% and 13% YoY respectively. The revenue growth from cheque clearing was primarily due to the impact of a tariff increase effected after a technology upgrade during the middle of previous year. This has contributed throughout the year under review, which helped to negate the revenue decline due to clearing 2.2% (YoY) lower volume of cheques compared to previous year. Even though not anticipated, the cheque return volume increased by 12.7% YoY.

The Sri Lanka Interbank Payment System (SLIPS), LankaSign Certificate Authority (CA) and Financial Sector Computer Security Incident Response Team (FINCSIRT) recorded revenues of Rs.115Mn (2016/17 - Rs.102Mn), Rs.18Mn (2016/17 - Rs.11Mn) and Rs.14Mn (2016/17 - Rs.10Mn) respectively, with a healthy revenue growth of 12%, 60% and 44% respectively. The enhanced scope and additional value added services offered

had influenced the improved financial performances of CA and FINCSIRT, which are emerging as vital entities towards ensuring security of financial sector products and services. These initiatives and strategies have been discussed in detail under the Security Products and Services section.

During the year, the revenue per employee increased to Rs.8Mn (against 2016/17 - Rs.7Mn), which indicates the commendable contribution of all the employees towards revenue growth. The cadre increased only by two employees (1.8%) during the year, however, the revenue increased by 15%.

On a future perspective, the Company is very optimistic to sustain the healthy trends in revenue growth where such growth is anticipated to come from the products classified under electronic payments.

Expenses

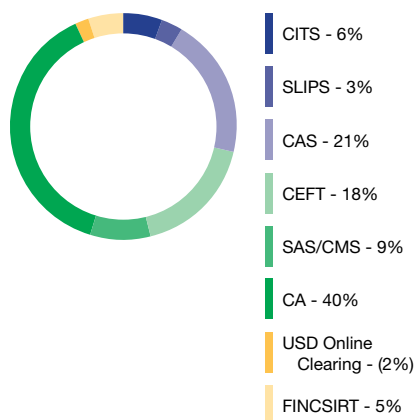
During the year, increase in direct operating expenses was brought down to 11% (Rs.456Mn) compared to increase of 21% in 2016/17 and 25% in 2015/16. Further, percentage of direct cost to revenue reduced to 49.6% (against 2016/17 - 51.3%) even though out of total direct operating costs approximately 90% were fixed costs. The direct operating costs primarily consisted of IT maintenance cost (30% of the total cost), staff cost (27% of the total cost) and depreciation (22% of the total cost). The increments

were mainly due to increase in cost of staff expenses (annual salary increments for the existing staff and the increases in performance bonus scheme), IT maintenance (new maintenance costs, cost inflations and unfavourable exchange rate movements), Software and Hardware depreciation (capitalisation of IT infrastructure costs on new implementations such as LankaPay Online Payment Platform and JustPay), security and capacity enhancements.

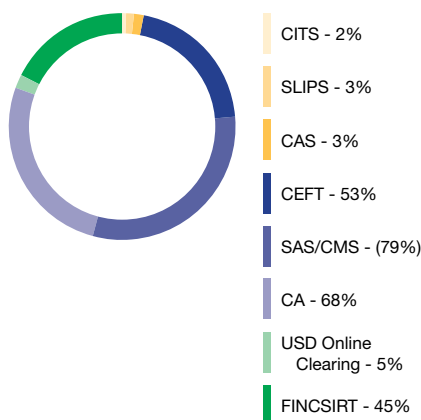
During the year, administration and marketing expenses increased by 17% (against 2016/17 - 9%) and -0.44% (against 2016/17 - 114%) respectively. The increase in administration expenses were mainly due to the annual salary increments for the existing staff and the amendments to performance bonus scheme. In addition, significant strategic marketing campaigns were carried out with the intention of increasing awareness among general public at the grass root level.

Depreciation and staff costs increased faster than the growth rate of top-line revenue, which had a slight unfavourable impact on the profit of the Company during the year under review. However, in order to achieve sustained long-term growth and profitability, this is an investment the Company had to make by slightly compromising short-term profits.

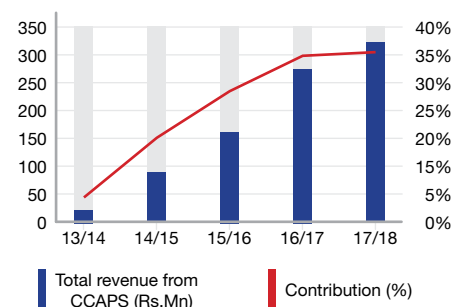
LankaClear intends to balance its expense on both short-term and long-term perspectives,



Revenue Growth Mix 2016/2017



Revenue Growth Mix 2017/2018



Contribution from CCAPS

FINANCIAL CAPITAL *CONTD.*

as the Company has to invest continuously in new technologies to keep pace with the innovations that have brought about in the market. In addition, further investments would be required to maintain highest security standards while addressing these market demands to keep our brand promise of being the Trusted National Payment Network intact.

Capital Expenditure

The Company had a cash outflow of Rs.118Mn (2016/17 – Rs.84Mn) spent on acquisition of capital assets in the year under review. The capital expenditure continued to focus on achieving the status of “Trusted National Payment Network” by further improving efficiency, reliability and security of all clearing systems to meet the changing demands of the financial sector. The cash outflows on capital expenditure were mainly on new implementations such as NCS, LPOPP and JustPay, further improving security of the systems and enhancing the capacity of existing infrastructure.

Interest Income

Interest income increased by 62% to Rs.138 Mn (against 2016/17 – Rs.85Mn) during the year. The increase was driven by higher interest rates, higher investment base and improved efficiencies in the treasury function. At the end of the year, the investment base stood at Rs.1.3Bn (against 2016/17 – Rs.979Mn) where the investments were placed at interest rates ranging from 11.75% - 14.11% (against 2016/17 – 10.15% - 14.11%).

Future revenue potential is highly sensitive to market dynamics, which has a heavy dependency on economic conditions and Government policies. Interest income remained a significant source of income adding to the profitability of the Company, which consists of 32% of PBT since we do not see any significant costs attributable over this revenue. However, the retained profits are appropriately diverted into capital expenditure at the right time to implement infrastructure projects to provide additional benefits to our members who are our direct customers as well as primary shareholders.

Taxation

During the year the tax expense increased by a steep 46% to reach Rs.64Mn (against 2016/17 – Rs.44Mn) recording an increase in effective tax rate to 15% (against 2016/17 – 14%). This increase was mainly due to the increase in profits coming from taxable revenue such as Finance Income, CITS and SLIPS.

However, the impact of tax increase was lower compared to the increase in profits primarily due to tax exemptions obtained for CCAPS profits under tax planning initiatives. The lower tax regime on LankaClear operations is expected to be diminished in the coming year as the threshold to be recognised as a SME was brought down to Rs.500Mn. This would be due to profits from CITS and SLIPS, which is currently taxed at 12%, experiencing a sharp increase to reach 28%.

Profitability

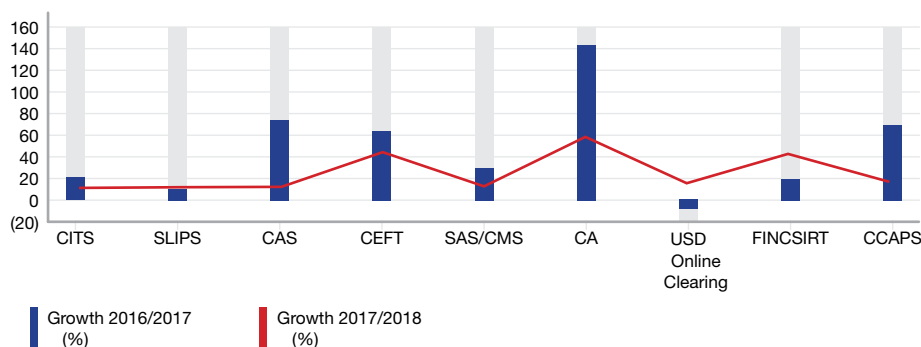
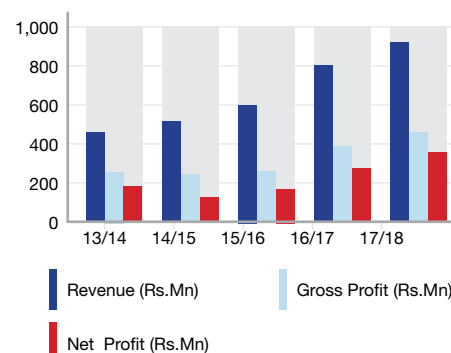
As explained in the overview, the Company again topped its previous year's profits, recording a Gross Profit of Rs.462Mn (2016/17 – Rs. 390Mn), PBT of Rs.425Mn (2016/17 – Rs. 322Mn) and PAT of Rs.361Mn (2016/17 – Rs. 278Mn) where the Gross Profit Margin and Net Profit Margin recorded had improved to 50.3% (2016/17 – 49%) and 39.3% (2016/17 – 35%).

The healthy YoY revenue growth has contributed positively to the remarkable financial performance and margins have improved consistently, as new product lines are beginning to generate increased revenue, while we expect the same trend to continue.

Creating Value for Shareholders

With the continued increase in profitability, the Company recorded an earnings per share (EPS) value of Rs. 23.78 (2016/17 – Rs.18.32), which was a significant increase of 30%. Concurrently, the Return on Equity (ROE) also increased to 19% (2016/17 – 17%) and Return on Assets (ROA) also increased to 17.2% (2016/17 – 16.3%) depicting a better utilisation 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 44% (2016/17 – 37%) since most of the other assets were parked under financial investments for future use.

**Comparison of Growth of Revenue Mix****Revenue, Gross Profit & Net Profit**

With the increase in profitability, a dividend of Rs. 3.50 - per share was proposed, which is the highest-ever dividend per share (DPS) proposed during the 16-year history of the Company. LankaClear has been disbursing dividends to its shareholders continually and the Company will strive to strike a balance between healthy dividend payout to retention in order to support future investment requirements to enhance long-term shareholder value.

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 year, the Company generated net cash of Rs.390Mn (2016/17 Rs.285Mn – YoY increase of 37%) from operating activities. The cash flows were utilised on investment activities and dividend payment for Rs.572Mn and Rs.42Mn respectively. At the end of the year, Rs.1.3Bn worth of liquid funds remained in fixed deposits and REPOS whilst Free Cash Flow to Net Cash Flow from Operating Activities remained at 70% to be utilised 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.1.9Bn, which is an increase of 20% (2016/17 - 18%) YoY and net assets per share rose to Rs.125.78 (2016/17 – Rs.104.75). The profits made

in consecutive operating periods have consistently added to shareholders' wealth and the total assets crossed the Rs.2Bn mark, which was achieved within four years of achieving Rs.1Bn mark in the year 2013/14, thus, coinciding with the significant growth path that the Company envisages.

Future Outlook and Financial Priorities

In keeping to the promises made during the year, we managed to improve our value proposition by means of innovative solutions, operational excellence and enhanced customer service. Innovations materialised by understanding the inner needs of the consumers to fit their mobile lifestyles and mapping that to financial services. The improved financial performance of the Company is a clear indicator of adopting the right strategies.

In making the envisioned performance a reality, key new solutions such as JustPay and LankaPay Online Payment Platform went live during the year and their importance would be further felt once the other initiatives in the pipeline are executed, such as nickname system for banks accounts and standardised QR code, in the coming year. The continuous growth of revenue and in turn the profits would heavily depend on the success of these new initiatives.

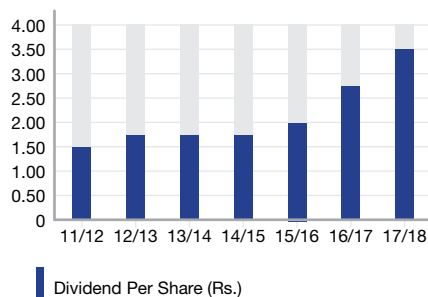
Our financial priorities have been primarily targeted at keeping pace with the trends in the payment industry and taking the

innovations to the market in a bid to change the ingrained habits of consumers. As discussed in the reviews of Chairman and General Manager, strategies that focus on future innovations, changing with the market dynamics and creating awareness of the new services among the masses are essential to remain at the top of our game and we would continue to invest on these aspects in the future.

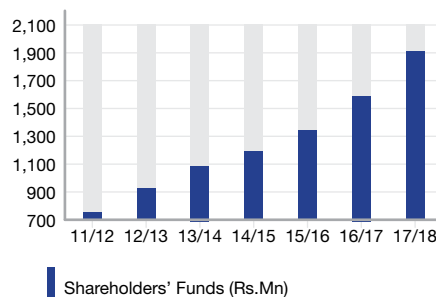
In line with our future strategies, we expect to create further value to all our stakeholders, such as increase of profits to shareholders, benefits to financial sector and general public and long-term sustainability of the organisation.

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

- Attain a healthy growth in revenue and profitability while exceeding the annual revenue target of Rs.1Bn during year 2018/19 and align the entire organisations for same.
- Ensure the availability of adequate finances to maintain all clearing systems, roll out new systems and increase market and brand building efforts. Even though compared to the scale of the organisation a higher finance reserve is maintained; this is to cater to future finance requirements on product and market developments and respond to anticipated competition from international payment industry giants, thus retained reserves are justified and essential.
- Ensure and monitor the profitability of all clearing systems with efficient utilisation of resources
- Turnaround current unprofitable investments into profitability
- Identify of new profitable investment opportunities in the payment industry and evaluate financial feasibilities.



Dividend Per Share



Shareholders' Funds

FINANCIAL CAPITAL *CONTD.*

- Provide adequate return to shareholders and meet obligations towards other stakeholders such as employees, suppliers, Government and tax authorities etc.
- Ascertain and mitigate financial risks to achieve growth, profitability and stability.
- Safeguard Company assets.

Snapshot - Financial Results 2017/18

	2017/18	Absolute Growth (YoY) - 2017/18	Growth % (YoY) - 2017/18	Explanation
Financial Performance				
Revenue	918,503,011.09	117,741,707.85	15%	Growth supported by the revenue growth from per transaction revenue. Specially from clearing systems under CCAPS.
Direct Operating Expenses	(455,889,558.29)	(45,164,651.29)	11%	Cost increases in staff expenses , IT maintenance , Software and Hardware depreciation
Gross Profit	462,613,452.80	72,577,056.56	19%	Revenue was growing faster and slowing the growth of direct costs.
Other Income	144,466,245.32	53,779,986.38	59%	The increase of investment income due to higher interest rates, higher investment base and improved efficiencies in treasury.
Income Tax Expense	(63,673,460.61)	(20,120,441.00)	46%	Due to increase income from Investment Income, CITS and SLIPS. CCAPS profits are exempted.
Profit for the Year	361,429,200.00	82,940,316.25	30%	Due to above mentioned noteworthy improvements.
Financial Position				
Total Non Current Assets	1,364,189,925.46	794,298,787.24	139%	Due to making investments beyond one year and growth in investment base.
Total Equity	1,911,877,245.38	319,629,201.38	20%	Due to higher profitability and retention ratio.
Total Non Current Liabilities	42,305,875.53	8,552,495.53	25%	Due to increase of Deferred Tax Liability due to expected higher tax rates.

HUMAN CAPITAL

“WE ADMIRE AND PLACE OUR EMPLOYEES AT THE FOREFRONT OF THE ORGANISATION, AS WE BELIEVE THAT THEY ARE THE DRIVING FORCE BEHIND OUR SUCCESS.”

HR PHILOSOPHY AND HUMAN CAPITAL VALUE CREATION

Our HR philosophy is based on the values and the principles that we would envisage to uphold as an organisation where we have identified seven such values starting from Responsibility and Accountability to Teamwork and Collaboration. The management is taking maximum effort to uphold the Company values and even has taken steps to measure the employees' commitment to live by the Company values. This is being done at every annual appraisal cycle by establishing an appropriate weightage for Company values for each employee. We admire and place our employees at the forefront of the organisation, as we believe that they are the driving force behind our success. It is because of this fact that we take every step to managing talent and creating a long-lasting change in the lives of our employees while making their stay in the organisation challenging, vibrant, engaged and empowered.

The process of Employee Value Creation in LankaClear follows a multi-pronged approach developed over many years in operation. In this exercise, the organisation takes a complete look at every stage of HR life-cycle from Talent Acquisition, Talent Development, Talent Reward and Recognition, Talent Engagement to Talent Retention. It is through this process that the employee skills and competency development, employee commitment and empowerment, positive employee attitudes and behavioural traits development and employee motivation, which contributes to value creation, are addressed and inculcated into the organisation culture.

Talent Acquisition, Recruitment and Placement Strategies;

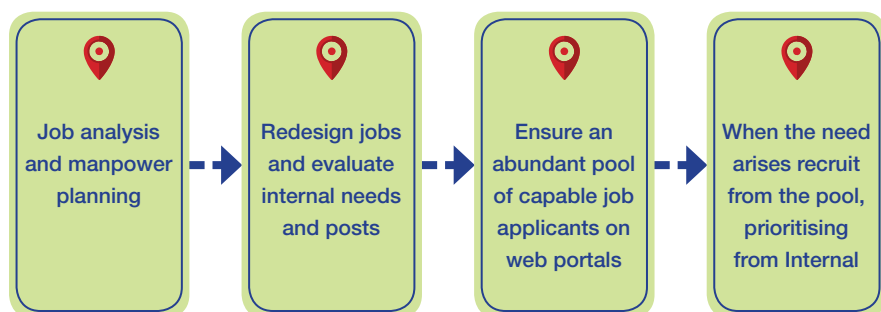
At LankaClear we thrive to foster a culture that helps to recruit and retain employees who will best fit in with the Company culture and become fully engaged and productive. This will be accomplished by pursuing a systematic, efficient and effective recruitment



HUMAN CAPITAL *CONTD.*

approach geared towards matching the skill competencies, knowledge, experience and career aspirations of candidates.

The process of selection of employees are based on the concept of “fitting the person to a job” in accordance with the educational and professional qualifications together with the competency requirements of the job and the competencies of the job seekers. The hiring policy establishes the fact that LankaClear is an equal opportunity employer who strives to create a truly diverse workforce. The Company also views the recruitment process as an integral part of its employer branding and in this endeavour all candidates are to be treated with courtesy, professionalism and objectivity, so that no matter what the outcome of the recruitment process is, a candidate will walk away with a feeling of fair and professional treatment.

**HR Score Card in Talent Acquisition**

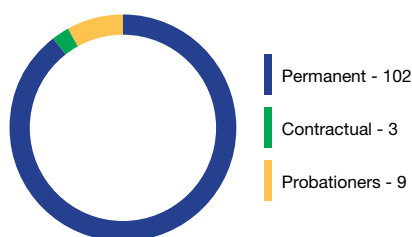
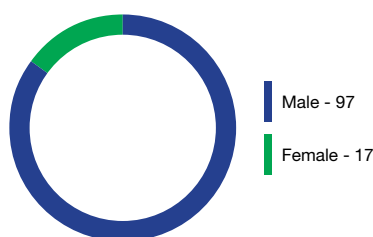
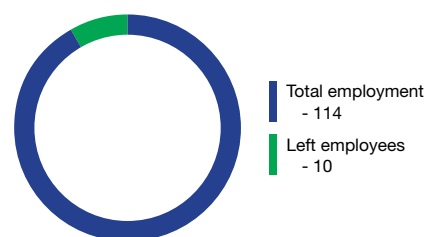
#	Key Enabling Factors	Actual Performance in 2017/18
1	Recruitment lead time from the date of placement of the job advert to the date of on boarding of new recruits	Lead time of recruitment for Management is 6 Weeks while for all other levels it is 5 Weeks
2	Retention of the newly recruited employees	Total number of new recruits for the last two years was 22 and 95% of them continue to work as of today
3	Recruitment cost is one of the most important when it considered the loss of talent compared to the time it takes to a new-employee to perform at the equal level of the leaver	The new-comers have been able to grasp the new technologies and have performed above the set standards

Talent Development and Performance Improvement

Skill and Competency Development of employees, one of the key enablers of value creation, is carried out by regular training, development and awareness programs. The key objective of this is the making of an innovative organisation with a learning culture. The management believes that this will help to creating a culture of learning and understanding of new knowledge with a process of communicating same to employees whilst endeavouring to raise the bar of performance, the quality levels and timeliness of decisions across the organisation.

Further, as a matter of policy, the Company assists the employees to obtain more skills and knowledge through educational lifelines for acquiring professional qualifications to further their career in the organisation through the reimbursement of professional membership fee, etc. This professional education support comes as an important element to career advancement of staff as well as for the mutual benefit of the organisation. This is an extra opportunity for those who are seeking to gain higher qualifications that will not only enhance their knowledge but will also increase their chances of qualifying for higher positions and career progression in the Company.

Parallel to talent development process the Performance Management System also ensures that it measures and records the quantity of goal achievements as against the set objectives for the year.

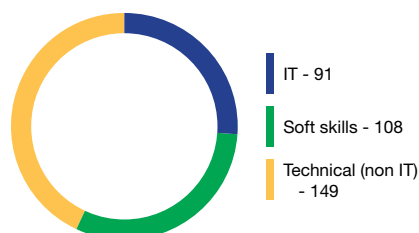
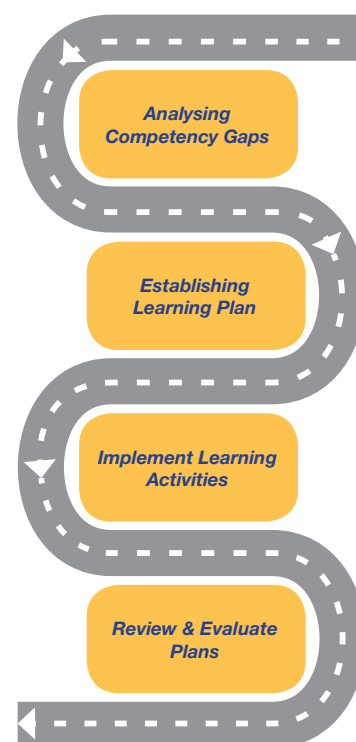
**Employment by Nature****Employment by Gender****Employee Turnover**

Score Card of HR in the Skills and Competency Development Process of Employees;

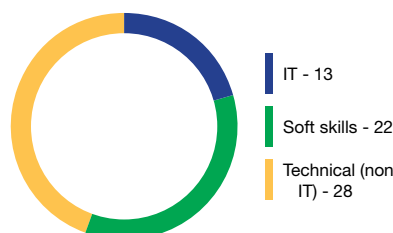
#	Key Enabling Factors	Actual Performance in 2017/18
1	Implementation of annual training plan covering all employees in the organisation	Total T&D Man-days: 348 Non-Executive Level: 63 Junior Executive Level: 47 Executive Level: 69 Senior Executive Level : 65 Management Level : 75 Senior Management Level : 29 Programmes 63 (Investment Rs.8.4Mn) - Local: 58 (Investment Rs.3.9Mn) - Overseas: 5 (Investment Rs.4.5Mn)
2	Creating opportunities to internal staff to climb up the career ladder by learning other jobs, on the job training	New opportunities created for 7.8% of the total workforce
3	Performance appraisals as a means of measuring goals and performance of individual employees	100% of the workforce is covered with performance appraisals
4	Development and communicating performance measurements and new goals, objectives for the year	A collective management approach which accomplishes at the 1st quarter of every new financial year
5	Percentage of goal achievements and measurement of performance as against the set goals and objectives	Those who are assigned with goals have performed achieving more than 82% of the set goals and objectives
6	Implementing retraining programs while maximising investment on training by ensuring the staff gets trained by those who already attended similar trainings	Mostly in IT the retraining programs were conducted during the year
7	Ensure employees attending ad-hoc training programs to enable more opportunities to employee for learning	Employees attended 47 ad-hoc training programs, which yielded 376 training hours
8	Internal training and awareness session to enhance knowledge and skills	10 internal training programs were conducted which produced 83 man-hours
9	Creating a positive approach of the organisation through a well thoughts out familiarisation programs	6.25% of the workforce was facilitated with professional membership reimbursement facilitation
10	Education support lifeline by payment of examination or course fees	7.14% of the total workforce was facilitated with the reimbursement of educational course fees

The learning culture of the organisation was very helpful to the value creation process of the Company and as a philosophy it continue to get the support of the leadership. The value of training and development is highlighted and educated through various means in the organisation to inculcate a learning culture among the staff members. This strategy has helped the Company to attract attention and support from the senior management and staff to reinforce training initiatives thereby to establish a more balanced learning environment.

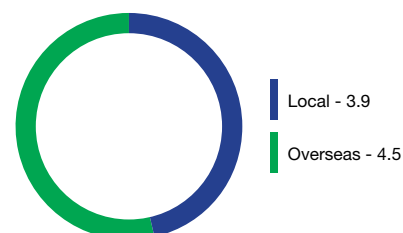
Talent Development Process



Man Days Utilised for Trainings



Training by Category



Investment on Employee Development (Rs.Mn)

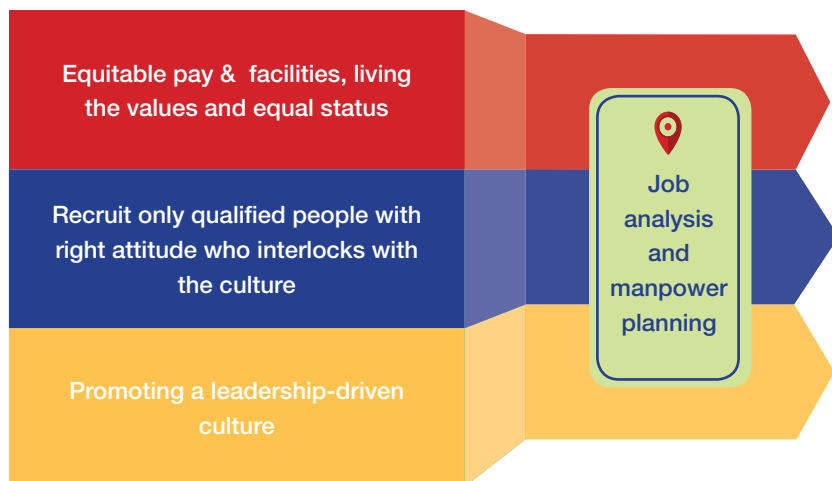
HUMAN CAPITAL *CONTD.***Talent Rewarding & Recognition**

We believe in the philosophy of pay for performance and effective visible commitment to the achievement of goals. The LankaClear compensation structure is designed to encourage recruitment, engagement, motivation and retention of outstanding employees so that the organisation could achieve its mission and objectives. The Management believes in the philosophy of communicating performance expectations to each individual enabling them to adjust and improve performance in accordance with the Company expectations. This will lead to improving service levels and productivity enhancements and help the Management to recognising contributions of different levels of employees in the Company.

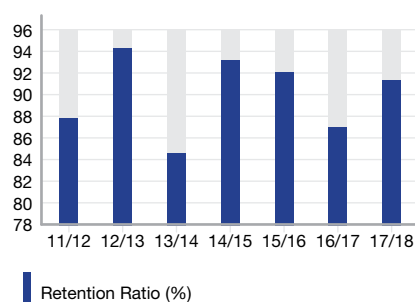
#	Key Enabling Factors	Actual Performance in 2017/18
1	Establishment of new performance driven bonus scheme covering all levels of employees	Implemented the new bonus scheme benefiting all employees thus achieving the profitability and non-profitability criteria thereof
2	Encouraged a culture of internal talent acquisition by internal job postings	16 internal employees were recruited to replace the vacant positions thereby promoting them to management and executive levels during the year under review
3	Percentage of internal promotions granted supporting the policy on internal job posting	14% of the staff was promoted to different levels including senior management level

Talent Engagement

The employee engagement strategy of LankaClear is a three-step formula, which helps bringing the Management and employees together to achieve organisational success through engagement. The engagement formula has helped the organisation to create a very conducive environment and a friendly atmosphere within work groups, which leads to the creation of a fully- engaged workforce. In order to further progress from where we are today it is indeed important to create a full-engagement culture that defines the organisation and drives performance.

Three Step Formula to Engagement*Annual Staff Trip to Jungle Beach - Trinco**Annual Staff Trip to Jungle Beach - Trinco**Vesak Lantern Competition**Family Outing at Club Hotel Dolphin - Negombo**Family Outing at Club Hotel Dolphin - Negombo*

“THE ORGANISATION VALUES THE EMPLOYEE COMMITMENT AND THE RESULTING EMPOWERMENT TO SUSTAIN A LONG-STANDING RELATIONSHIP WITH ALL EMPLOYEES. THE MANAGEMENT BELIEVES THAT THERE IS A POSITIVE RELATIONSHIP BETWEEN THE EMPLOYEE COMMITMENT AND ORGANISATIONAL EMPOWERMENT TO RETAIN COMMITTED EMPLOYEES.”



Retention of Staff

#	Key Enabling Factors	Actual Performance in 2017/18
1	Implementation of engagement calendar of the year	Number of various engagement activities implemented during the year was; 12
2	Conducting an employee engagement survey to find out the health of the organisation and the trust index using the GPTW Survey for 2017	The trust index was 62% as against 42% in 2015
3	Implementation of internal feedback and suggestion scheme including distress signal receiving mechanism	Implementation workable Voice of Change proposals

Talent Retention

The organisation values the employee commitment and the resulting empowerment to sustain a long-standing relationship with all employees. The Management believes that there is a positive relationship between the employee commitment and organisational empowerment to retain committed employees. The organisation has been continuously upgrading its technology, processes, and systems in this challenging business environment, which also attracts the attention of committed employees. Empowerment of employees and generating organisational commitment from those who are highly engaged is therefore beneficial to the Company as it is a differentiator for LankaClear from the rest.

The retention strategies of the organisation have been strengthened due to the employee commitment and empowerment. Employee's willingness to remain in the organisation is enhanced as they perceive it as a personal investment in the form of non-transferable investment such as close working relationships with co-employees, working in virtual groups, opportunities to career advancement in sales, IT and customer service, etc.

HR Score Card in Employee Commitment and Empowerment

#	Key Enabling Factors	Actual Performance in 2017/18
1	Willingness of employees to remain in the organisation and the retention of employees	91.23% retention rate in the overall organisation during the year under review
2	Internal empowerment through the creation of more opportunities	Total internal promotions 16 (Jnr Ex: 2 Exec: 4 Snr Ex: 5 Management: 3 Senior Mgr: 2)
3	Expansion of the Virtual Sales Team size to facilitate and empower a larger group in active sales promotions	Increased the team size from 13 to 45 employees
4	Opportunities made available to all in the crowd-sourcing initiatives	Ability to submit any number of entries to crowd-sourcing events and win valuable prizes
5	New bonus scheme and the quantum of profits shared among employees	7.75 % of the profit before tax was shared among all employees during the year under review

Retention of Staff over the years

Year	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
Retention Ratios	87.88%	94.32%	84.54%	93.20%	92.00%	87.00%	91.23%

As at March 31, 2018, 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.

Strategic Priorities and Performance 2017/18

Strategic priority	Performance
Establishing a fair and equitable compensation and benefit structure	<ul style="list-style-type: none"> • A new bonus scheme was implemented for the year under review benefiting all levels of employees. The returns of the new scheme was promising as it shared 7.75% of the profits among employees. • Board approved the Compensation & Benefits structure for the year under review. • Board also approved promotions and equity adjustments to 14% of the total workforce. • The IT and Data Centre, Operations and Help Desk staff incentive schemes brought substantial monthly monetary benefits to the members. • Introduced a new Research and Development Unit in the organisation.
Conduct an Employee Engagement Survey through a recognised third party service provider, GPTW Inc.	<ul style="list-style-type: none"> • Achieved a Trust Index of mark of 62% as compared to 42% in 2015. • Continued the 'Voice of Change' employee Suggestion Box Program although it had a low participation during latter part of the year.
Creation of Value ensuring that the Core Values of the organisation 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. • Organised Leadership Round Tables to share the views of the leadership and associated values with LankaClear Leaders. • Conducted several HR Skips to understand the pulse of the employees and how they react to their immediate superiors. Assisted the management to implement effective change management process.
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.
Implementation of the New Growth Strategy Team	<ul style="list-style-type: none"> • Implemented the new Growth Strategy Team comprising 45 members to replace the Virtual Sales Team.

INTELLECTUAL CAPITAL

INTELLECTUAL CAPITAL

MARKETING STRATEGY

	2017/18	2016/17	2015/16	2014/15	2013/14
Transaction Revenue					
CITS	290,693,941	257,150,837	206,192,887	196,883,570	197,926,127
SLIPS	110,966,154	100,607,905	88,261,281	74,546,545	63,262,490
CAS	214,410,862	157,848,247	84,559,093	49,072,876	8,518,662
SAS	1,070,687	483,640	28,148	-	-
CEFTS	34,095,241	12,020,138	675,308	-	-
Total Transaction Revenue	651,236,884	528,110,766	379,716,716	320,502,991	269,707,278
Income from One Time Joining Fees	25,359,511	68,952,500	63,730,000	38,515,000	12,460,000
Other Income	241,906,616	203,698,037	158,194,249	158,849,831	180,859,151
Total Revenue	918,503,011	800,761,303	601,640,965	517,867,822	463,026,429
Growth in Transactional Revenue (%)	23%	39%	18%	19%	
Growth in Income from One -Time Joining Fees	-63%	8%	65%	209%	
Growth in Other Income (%)	19%	29%	0%	-12%	
Share of Transactional Revenue as a Percentage of the Total Revenue	71%	66%	63%	62%	58%
Revenue from CCAPS	249,576,790	170,352,024	85,262,549	49,072,876	8,518,662
Growth in CCAPS Transactional Revenue	47%	100%	74%	476%	
Revenue from CCAPS as a Percentage of Transactional Revenue	38%	32%	22%	15%	

The year 2016/17 marked the best performance year in the history of LankaClear with an unprecedented 33% growth in top-line, which constituted an impressive 39% increase in transaction revenue. With the anticipation of joining fee revenue to drastically come down during the year under review, the overall marketing objective was to grow the transaction revenue much faster to address the revenue gap and keep the same revenue growth momentum. In furtherance of the Company's ambitious and aggressive growth plan, an aggressive marketing strategy was designed and executed and some of the successful components in 2016/17 were continued, however, with more intensity and cohesiveness.

Given that the a majority of the current cost structure of the Company is fixed in nature, in order to grow the bottom line, the only option available was to significantly grow the top line revenue. With the progress achieved in the preceding year, the Virtual Sales Team that consisted of a high-performing cross-functional team under the leadership of GM/CEO continued to be in operation soliciting new members and increasing transaction revenue. This provided a tremendous boost to our business development activities without having to increase the marketing cadre. Reducing the business development activities from marketing helped to deploy more management time to address strategic marketing and communication issues. This in turn helped to improve brand awareness, which led to higher transactional revenue and position LankaPay brand more favourably amongst diverse stakeholders.

“WITHIN THE LAST FIVE FINANCIAL YEARS, THE COMPANY HAS BEEN ABLE TO DEVELOP A HEALTHY REVENUE STRUCTURE AND JUMP TO AN IMPRESSIVE 71% CONTRIBUTION FROM TRANSACTIONAL REVENUE IN 2017/18 COMPARED TO 58% IN 2013/14 SINCE THE ROLL-OUT OF THE CCAPS PROJECT.”

As the operator of Sri Lanka's National Payment Network, the Company is providing a vital service to the entire financial sector and the country as a whole. Therefore, we believe that our the marketing strategies must extend beyond mere commercial intent to encompass a value creation process with financial inclusivity as the envisaged end result to make every Sri Lankan aware of the availability of fast, convenient, reliable, affordable and secure interbank payment service options.

The two main objectives of the Company's current marketing strategy is to enhance brand equity and drive revenue by adopting of a more sustainable transaction revenue based business model. Within the last five financial years, the Company has been able to develop a healthy revenue structure and jump to an impressive 71% contribution from transactional revenue in 2017/18 compared to 58% in 2013/14 since the roll-out of the CCAPS project. In 2017/18 revenue from CCAPS project contributed to 38% of the total transaction revenue compared to a share of 32% in 2016/17. Despite the adverse macroeconomic conditions that prevailed during the year under review, which casted a negative influence in many sectors, LankaClear recorded a healthy 23% growth in transaction revenue. With a 19% growth in other incomes and the above growth in transactional revenue, the Company was able to increase its top-line by nearly 118 Mn compared to the previous year, despite a drastic 63% drop in income from the joining fees, which are one time in nature.

Considering the potential for growth, more emphasis was placed on driving volumes of CAS and CEFTS and especially in the densely populated areas of the country. Accordingly, CAS maintained its status as the second biggest contributor to the Company's top-line for the second consecutive year while CEFTS transactional revenue saw a staggering growth of 184% YoY.

Enhancing the adoption of electronic payments

LankaClear enjoys the envious status of being the only National Payment Network in Sri Lanka and is entrusted with the tedious task

of driving electronic payments in the country. With the implementation of the Common Cards and Payment Switch (CCAPS) in 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 and secured by acquiring international security certifications, which is on par with any international network.

In analysing the payment related statistics of the country, LankaClear identified that its biggest competition for its business activities come from the use of “cash”. According to the Central Bank's Payment Bulletin in excess of 90% of the total retail payments continue to be made via cash. Despite the steady growth in electronic payments in relation to banking transactions over the years, the adoption of electronic payments as a whole is still at an unacceptably low level. Therefore, as the operator of the country's national payment network, we consider enhancing the adoption of electronic payments to be one of our key objectives to be embedded into our marketing strategy. We identified that one of the primary reasons for the slow adoption of electronic payments to be the lack of awareness across the board including within banks as well as amongst their customers.

LankaClear's marketing strategy constitutes a combination of both ‘pull’ and ‘push’ strategies. On one hand, the Company make every effort to strengthen its relationship with the member banks, financial institutions and other stakeholders who are influential in driving electronic payments in the country; and on the other hand carry out awareness campaigns towards raising awareness amongst end consumers of the services, thus, creating demand for its services.

Accordingly, the Company identified the need to strengthen its relationship with member institutions by engaging them to promote electronic payments amongst their customers. We realised that the best way to achieve this was to create a healthy competition among our members and recognise the best who have been successful in promoting same. Taking a major leap

towards this end, LankaClear launched LankaPay Technnovation Awards, which is Sri Lanka's first and the only payment technology innovation awards, during the year under review. The purpose of this initiative was to recognise the member banks and financial institutions who have steadfast in promoting electronic payments in the country thereby giving a further boost to usher the nation towards a cashless economy. The awards generated a considerable excitement amongst the banking fraternity as well as the general public with an unprecedented engagement and response. Bank of Ceylon claimed the top spot as the overall Winner of Excellence in Interbank Payments, whilst Seylan Bank became the Runner-Up.

Raising Awareness Amongst the end users

LankaClear identified the need to create awareness amongst the end users, who are the customers of banks, in order to increase the transaction volumes. With 39% impressive growth in transactional revenue recorded in the preceding year, the Company continued to conduct grass root level awareness activities targeting the general public with the objective of driving transaction volumes.

- During the year 2017/18 LankaClear carried out outdoor promotional activities in 30 locations across the country coinciding with Sinhala and Tamil New Year. This was organised together with two renowned radio stations and, as a result, LankaPay received above the line media presence with considerable airtime offered as a part of the agreement with the radio stations.
- A similar out-door promotional activity was carried out coinciding with the Nallur Kovil Festival in Jaffna town in August 2017, which was conducted for the second consecutive year.
- The Company participated in several outdoor activations together with a popular radio station and created grass root level awareness sessions covering 280 locations across Gampaha, Kurunegala, Puttalam, Badulla, Galle, Kalutara Districts. Throughout the campaign period, LankaPay received free airtime allowing the Company to take its brand message to a considerable

segment of the population.

- A similar promotion was carried out with another Sinhala radio station in Colombo, Gampaha and Kalutara Districts covering 60 locations.
- Installation of 'lollypop boards' (promotional hoarding) to promote CAS in identified and densely-populated locations in out stations was yet another promotional activity carried out during the year. Accordingly, during the year under review, 40 such promotional hoardings were deployed across the island, including the 30 boards, which were installed in areas in and around Colombo district during the preceding financial 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, utilising 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.
- Social media was identified as one of the most appropriate modes for communication campaigns considering our target audience and product offerings. During the year under review, the Company's Facebook page grew phenomenally to over 63,000 fans. Several competitions and promotional activities were carried via the LankaPay Facebook page to increase engagement.

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.

- At the invitation of the Ministry of Telecommunication and Digital Infrastructure, LankaClear had the opportunity to showcase its contribution towards digital economy at the "40th Anniversary of the Open Economy

Exhibition" held at the National Youth Council Maharagama. The three-day exhibition was opened by Mr. Ranil Wickremesinghe, Hon. Prime Minister.

- LankaClear together with Sri Lanka Customs and Ministry of Finance, under the guidance of the Central Bank, launched Customs Online Payment mode as the first phase of LankaPay Online Payment Platform, at a press conference held under the aegis of Mr. Eran Wickramaratna, Hon. State Minister of Finance.
- LankaClear partnered with the Sri Lankan chapter of British Computer Society to introduce "Best Mobile Payment Application Award" at the National Best Quality Software Awards (NBQSA). The objective was to encourage Fintech companies to come up with disruptive mobile payment applications.
- The Company was on board as a corporate sponsor of the Association of Accounting Technicians (AAT) Sri Lanka for the year 2017 and Chartered Institute of Management Accountants Sri Lanka for the year 2018 to create awareness amongst their valuable membership. The objective was to promote electronic payments in corporate via the financial decision makers in the country.
- The company also sponsored several key events organised by the Clearing Association of Bankers and Association of Professional Bankers during the year.
- LankaClear partnered with the Information and Communication Technology Agency of Sri Lanka to launch e-local government, an initiative to facilitate local government payments via LankaPay Online Payment Platform.
- Sponsoring the SLIM Peoples Awards, 10th National Cyber Security Summit and CICRA Summit were other key activities undertaken during the year under review, which were strategically important for the Company.

SOCIAL AND RELATIONSHIP CAPITAL

“IN-LINE WITH OTHER WORLD-CLASS ORGANISATIONS ACROSS THE GLOBE, LANKACLEAR RECOGNISES THE IMPORTANCE OF PROVIDING UNPARALLELED SERVICE TO ALL ITS CUSTOMERS.”

CUSTOMER RELATIONSHIP MANAGEMENT TO DELIGHT ALL CUSTOMERS

In-line with other world-class organisations across the globe, LankaClear recognises the importance of providing unparalleled service to all its customers. Customer service consists of a collective set of policies that govern every way the organisation and its employees interact with their customers. It encompasses everything from how you greet customers, handle service complaints and back-up available to the product or service. At its core, quality customer service is about making sure your customers feel they are valued, treated fairly, and appreciated by everybody in the organisation. Hence, being the trusted payment network of Sri Lanka, understanding and catering to customer needs have become one of our key focus areas.

We are humbled to note that LankaClear operates the only secure and trusted network to process the financial transactions for all Sri Lankans under the supervision of Central Bank of Sri Lanka. We have served our customers well by implementing a reliable and secure retail payment system to cater the

customer's daily payment requirements. We serve the entire Sri Lankan population as our ultimate customers via the banks, financial institutes and other certified service providers.

Customer Service to Enhance Customer Experience

We believe that customer service is a key aspect of the entire life-cycle of the customers' experience.

For example, Customer Service is; if you need help to transfer funds from one account to another, the customer service representative must give you the friendly guidance as how to use your mobile/internet banking to accomplish same.

However, Customer Experience is; when you access the bank account from home and transfer money to any person that you wish within a few seconds at the lowest charge and in the process if you are delighted as a customer since your time and money to visit the bank is saved, this we consider as superior customers experience.

We always strive to provide superior customer service and customer experience.

Customer Recognition

International Customer Service Week - 2017

A significant steps have been taken to celebrate the International Customer Service Week to recognise the importance of our customers and appreciate them for their contribution towards our business.



International Customer Service Week - 2017

LankaPay Six-a-Side Cricket Fiesta

Continuing last year's successful initiative, we organised LankaPay Six-a-Side Cricket Tournament by inviting our valued LankaPay customers to Moors Ground with a guest appearance from Kaushal Silva, an opening batsman of the Sri Lanka Test Cricket Team as the Chief Guest.

It was a great opportunity for participating 19 teams and for the audience gathered to mingle and create a friendly atmosphere with the representatives from other banks and financial institutions.



International Customer Service Week - 2017



LankaPay Six-a-Side Cricket Fiesta

This enhanced the current relationships and mutual understanding of each other, which automatically led to strengthening the relationships among all members.

LankaPay Paduru Party 2017/18

As a fresh initiative, LankaClear arranged a Paduru Party for all our member participants at "Ape Gama". This was a very successful and an enjoyable event to build trust and companionship among all members of LankaPay. We invited bank representatives from our all service lines and LankaClear staff to make this event more fruitful and enjoyable.



LankaPay Six-a-Side Cricket Fiesta



LankaPay Six-a-Side Cricket Fiesta

Awareness Sessions on Clearing Products

Throughout the year, External Services Department has contributed by visiting member banks to enhance the product awareness of their staff, which helped them to support their customers who are using the retail payment systems implemented by LankaClear. This led to increase in usage of all inter-bank services and increase the existing market share of the Company.



Mt. Lavinia Beach Cleaning Project



LankaPay Paduru Party at "Ape Gama"



LankaPay Paduru Party 2017/18



LankaPay Paduru Party 2017/18

SOCIAL AND RELATIONSHIP CAPITAL *CONTD.***STAKEHOLDER ENGAGEMENT PROCESS**

As an organisation that is involved in facilitating financial services, LankaClear has to engage with a diverse set of stakeholders including both direct and indirect customers. The Company's stakeholder engagement process could be illustrated as follows;

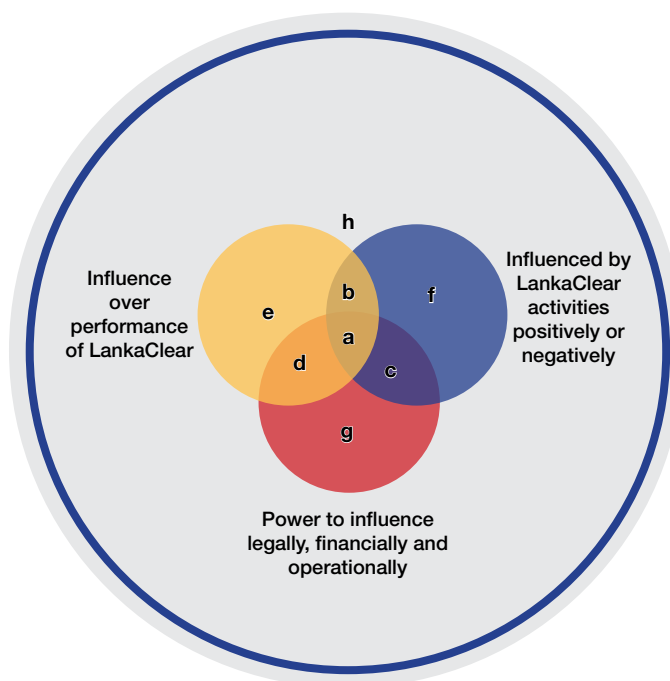
**Stakeholder Identification**

Stakeholder Group	Description
Central Bank of Sri Lanka	The Central Bank of Sri Lanka (CBSL) is the financial sector regulator and the largest shareholder of LankaClear. The National Payment Network operated by LankaClear is operated under the guidance and approval of the CBSL. LankaClear needs to collaborate with the CBSL at multiple levels in designing, implementing and driving an agenda for financial inclusivity via the national payment network.
Board of Directors	The board constitutes of two Directors and Chairman of the Board nominated by CBSL, two Directors representing the two state banks, two Directors representing the private local commercial banks, one Director representing the branches of the foreign banks and one observer representing the Sri Lanka Banks Association.
Shareholders	Central Bank and all Licensed Commercial Banks which have contributed to the share capital of LankaClear.
Banks, Non-Bank Financial Institutions & other Select Corporates	All licensed banks and Non-Banking Financial Institutions serve as one of the prime stakeholder segment of LankaClear as all its services are offered via those institutions. 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 to selected number of corporate customers and Government organisations.
Relevant Ministries and Government Institutions	The company works closely with Ministry of Finance, Ministry of Telecommunication and Digital Infrastructure and other Ministries and government institutions when required to facilitate citizen payments towards government services as well as digital certificate based services.
Employees	A core set of stakeholders equipped with special technology and financial industry related skills and experience in operating the National Payment Network.
General Public	This is the ultimately consumers of all our services who benefit from the convenience and the security it provides. They are customers of our stakeholder banks and financial institutions while their adoption of electronic payment instruments directly affect the business outcomes of the Company.
Competitors	Other organisations who carry similar business activities as LankaClear in the local market such as International Card Schemes
Suppliers	Suppliers/ vendors of technology solutions play a vital role in providing and supporting the world-class technology back-end on which the mission critical National Payment Network is being operated

Stakeholder Group	Description
International Business Partners	International organisations LankaClear would partner with to service its customers such as JCB International which partnered to establish the National Card Scheme and facilitate co-branded LankaPay/JCB payment cards.
Third Party Payment App Developers (Fintech)	Innovative software development companies that create creative payment applications partner with LankaClear and banks to facilitate initiatives such as JustPay.
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
Media	LankaClear intends to create awareness for its services under a single umbrella brand name of "LankaPay". This is to put a concerted effort into building the brand equity (awareness and loyalty). The Company engaged with media houses, electronic media stations, publications, business editors, leading business magazines and outdoor advertising agencies during the year under review to increase awareness of this single brand.
Agencies	LankaClear engaged with a wide range of external agencies to carry out its branding and communications related activities. These include advertising, media, outdoor, digital media and research agencies.

The Company's stakeholders were clearly identified via a comprehensive process governed by the criteria depicted in the following diagram.

- Those who exhibited all three of the identified characteristics were considered as the critical stakeholders for engagement (a) – Central Bank of Sri Lanka as the regulator, Shareholders, Other Relevant Ministries and Government Institutions, Board of Directors, Management & Employees and Licensed Commercial Banks
- Those who exhibited two of the identified characteristics were identified as the next most important stakeholders for engagement. (b, c & d) – Shareholders other than those who are in the board, competitors, Third Party Payment App Developers and General Public
- Those who exhibited only one or none of the identified characteristics were treated with the lowest significance (e, f, g and h) – Non-Shareholder Customers, Suppliers, International Business Partners, Auditors, Media and Agencies



SOCIAL AND RELATIONSHIP CAPITAL *CONTD.***STAKEHOLDERS AND METHOD OF ENGAGEMENT**

A close engagement and careful management of activities with the relevant stakeholders was a critical business activity. In order to ensure that the Company achieves its planned outcomes, a comprehensive mechanism to engage with each stakeholder category was devised and implemented. The priority and the effort of the stakeholder engagement was based on the above selection criteria. The frequency at which such engagements takes place, methods of engagement, other material aspects with regard to stakeholders and our responses are listed in the table below.

Stakeholder Group	Method of Engagement with Stakeholder's in 2017/18
Central Bank of Sri Lanka	<ul style="list-style-type: none"> Support and assist in devising and executing the payment systems road map of the Central Bank via the National Payment Council Discussions at 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 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	<ul style="list-style-type: none"> Engagement at monthly Board meetings via submitting 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	<ul style="list-style-type: none"> AGMs Annual/monthly reports and circulations
Banks, non-bank financial institutions & other selected corporates	<ul style="list-style-type: none"> Customer satisfaction surveys Engage via LankaPay Technnovation Awards to promote healthy competition among members Networking events such as LankaPay Interbank Cricket Tournament, LankaPay Customer evenings and Annual Peduru Party. Supporting industry events such as Clearing Association of Banks Cricket Tournament and Annual Quiz Competition Provision of clearing and other services Regular progress review meetings Charges levied for LankaClear services Providing advisory services Training and awareness programmes Joint communications
Employees	<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.
Relevant Ministries and Government Institutions	<ul style="list-style-type: none"> Meetings and deliberations relating to payment related policy making and e-government initiatives Joint initiatives to digitalise payments at Government institutions towards efficiency improvement such as the launch of Customs Online Payment Platform. Taking part in joint events to educate public on the progress achieved as a country in terms of payments. In 2017 at the invitation of the Ministry of Telecommunication and Digital Infrastructure, LankaClear was present at the 40th Anniversary of Open Economy Exhibition held at Maharagama Youth Council where all ministries demonstrated their achievements in respective spheres.

Stakeholder Group	Method of Engagement with Stakeholder's in 2017/18
General Public	<ul style="list-style-type: none"> • Grass root level awareness campaigns and brand activations carried out in partnership with popular radio stations throughout the year (RataWata Awurudu, Gamata Derana and Nallur Festival etc.) • Market research activities • Brand building activities • Interactions through joint promotions with banks • Many social media interactions • Media releases, articles and advertising • Promotional hoardings and material distribution
Competitors	<ul style="list-style-type: none"> • With the launch of the National Card Scheme (NCS), the Company foresee fierce competition from the existing International Cards Schemes in relation to compete for card based payments • Prior to NCS, LankaClear considered its biggest competition to come from people's habit of using cash with over 95% of retail transactions taking place via cash. In this light, the Company constantly monitors the market to understand the emerging and unmet needs of the public, as our prime objective is to promote financial inclusivity by ensuring that our offerings are accessible, affordable to a larger segment of the population in addition to being convenient and secure.
Suppliers	<ul style="list-style-type: none"> • In-house vendor support staff • 24X7X365 service support • Suppliers' forums (local / foreign) • Tender/RFP/ EOI procedures • Timely payments • Scheduled meetings • Joint customer meetings
International Business Partners	<ul style="list-style-type: none"> • Service provision to LankaClear customers internationally • Agreements • Technology sharing • Brand support • Marketing support
Third Party Payment App Developers (Fintech)	<ul style="list-style-type: none"> • Integrating to LankaClear systems • Joint initiative with BCS Sri Lanka to introduce "The Best Mobile Payment Application of the Year" category at the NBQSA 2017 • Technical guidance • Facilitating partnerships with LankaClear members to promote such payment application
Auditors	<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	<ul style="list-style-type: none"> • Media events such as press conferences • Press releases and interviews. • Press advertisements • One-on-one engagements and meetings • Other goodwill measures such as sponsorships
Agencies	<ul style="list-style-type: none"> • Execution of communications and branding • Strategy meetings/Pitch presentations & reviews • Timely payments

STAKEHOLDER FEEDBACK AND REVIEW

Status of material aspects with regard to stakeholders during the year 2017/18 are elaborated in the below table.

Concerned Stakeholders	Material Aspects / Stakeholder Expectations	Response
Regulator/ Customers	Ensure trust and high availability of all payment systems in LankaPay National Payment Network	<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 times, timely update of operations documents, identification and filling skill gaps, ensure required Disaster Recovery Site live runs and Business Continuity Plan Management.</p> <p>During the year, uptime of 99.9% and 100% was maintained for CITS and CCAPS respectively. End-to-end SLIPS switch-over time was improved to 15 minutes with the implementation of on-line replication of business communication module 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 to ensure that CCAPS switch-over times were limited to less than 4 minutes.</p> <p>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.</p>
	Enhance information security and compliance	LankaClear as the first entity in Sri Lanka to obtain the certification of PCI-DSS reaffirmed the compliance for the second consecutive year as well, which affirmed the best of class security standards. Regular scans, tests and audits were carried out during the year to identify gaps, which were bridged immediately.
	Implement industrial best practices for LankaClear products	<ul style="list-style-type: none"> • Obtaining PCI-DSS certification for CCAPS • Maintaining ISO 27001 certification for LankaSign • Maintaining Business Continuity Plan Management in-line with the industry best practices
Customers	Timely introduction of innovative and efficient payment solutions and services to best meet customer expectations whilst driving financial inclusivity	<p>We have continuously strived to deliver value for customers where new products were introduced while others were further improved. During the year under review;</p> <ul style="list-style-type: none"> • JustPay went live as a pilot project with a few Fintech applications enabling customers to make retail payments by simply transferring money from their account to the merchants account via the JustPay enabled apps. • LankaClear together with Sri Lanka Customs under the guidance of the Central Bank and patronage of the Ministry of Finance launched LankaPay Online Payment Platform to facilitate customs payments. This provided a much convenient and economical option to the existing manual process, which was cumbersome and time consuming. With the new system customers can now make payments to Sri Lanka Customs online and in real-time by simply logging into the member banks' internet banking portal. • Significant progress was made to implement National Card Scheme towards making 'cards' to be an affordable option to many customers. • Common QR code for financial sector and mobile number based real time payment platform also made significant progress during the year. • Introducing Payment Exchange Number (PEN), another novel initiative, was initiated during the year.

Concerned Stakeholders	Material Aspects / Stakeholder Expectations	Response
Customer	Enhance customer satisfaction levels	<ul style="list-style-type: none"> • Conduct quarterly progress review meetings, achieving laid out KPI targets. • Market research • Customer surveys during brand activations and awareness campaigns • We have taken continuous efforts to celebrate the International Customer Service Week to reorganise the importance of customers and appreciate the internal and external customers for their day-to-day support. • All inquiries/activities and complaints are resolved within the stipulated target time-lines unless otherwise extended due to official reasons. <ul style="list-style-type: none"> * Inquires/Activities: 24 hours * Complaints: 48 hours
Management/ Employees	Ensure the availability of a highly qualified, trained, efficient and motivated team of staff members	Local and overseas training programs were conducted on time and in an efficiently ongoing basis, design and obtain approval for a new organisational structure to facilitate organisational objectives, maintaining a healthy retention ratio. Discussed in detail under the human capital section.
Employees	Ensure fair and equitable compensation and benefits to all employees	Developing the annual revised compensation and benefit structure based on salary survey, seeking additional approval for changes of salaries and perks as appropriate.
Shareholders/ Management/ Employees	Enhancing overall financial health of the organisation through driving increasing revenue and profitability growth while safeguarding Company assets	<p>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.</p> <p>Virtual sales team created with the available human resources to shed special attention on enhancing revenue and driving required promotional activities and customer enrolments was instrumental on achieving the improved financial results.</p> <p>Achieving best financial results over the years is a key indicator to sound financial performance and health of the organisation and further details are discussed under financial review.</p>
Shareholders/ Management/ Suppliers /Customers	Ensuring of continued contractual safeguards and contractual rights	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.
Shareholders/ Management/ Customers	Take the LankaPay brand to the general masses	<p>Brand building and creating awareness is one of the key challenges that LankaClear had to address to make optimum use of the payment systems offered for the greater benefit of the society, which would lead to adequate revenue generation for the Company and its members.</p> <p>During the year under review, a strong promotional brand development plan was executed through print, media, outdoor promotion campaigns, social media campaigns, outdoor branding and event sponsorships. Further details are discussed under marketing strategy.</p>

SOCIAL AND RELATIONSHIP CAPITAL *CONTD.*

Concerned Stakeholders	Material Aspects / Stakeholder Expectations	Response
Customers	Manage banks and financial institution integration with LankaClear products	<p>Smooth integration of the new participants to LankaClear product is a vital task in an environment where the product line is continuously enhancing.</p> <p>The task was achieved whilst keeping the systems stable and providing the best experience for new participants. Altogether 33 new participants joined LankaClear systems during the year.</p>
Shareholders/ Management/ Customers /General Public	Contribute for the sustainable development	<p>Contribution for the sustainable development is one of the key expectations of the stakeholders.</p> <p>We made our best efforts to contribute for the sustainable development. Our highest energy consumers were data centres at primary and disaster recovery sites, which were designed to minimise the energy use with technologies such as use of virtual servers, identifying optimum temperature levels etc. LankaClear initiated a process to revamp its data centre to further reduce its power consumption.</p> <p>The possibility of generating power through solar energy was also looked into, which would be a more sustainable and cleaner source of energy.</p> <p>Sustainable development is further discussed under the sustainable development section.</p>
Regulator/ Shareholders/ Management /Customers/ General Public	Maintaining good governance controls	Maintaining good governance within the organisation is an essential aspect as an organisation with a national importance. The higher levels of governance and controls maintained at all times within LankaClear is discussed in detail under the governance section.
Management/ Employees/ Customers/ General Public	Promoting social harmony by contributing for a worthy CSR cause	We are at LankaClear value of being a responsible corporate citizen. To address this, we embarked on several CSR activities during the year. A few of them were donating essential drugs to Maharagama Cancer Hospital, helping flood victims and engagements to clean beaches, etc.

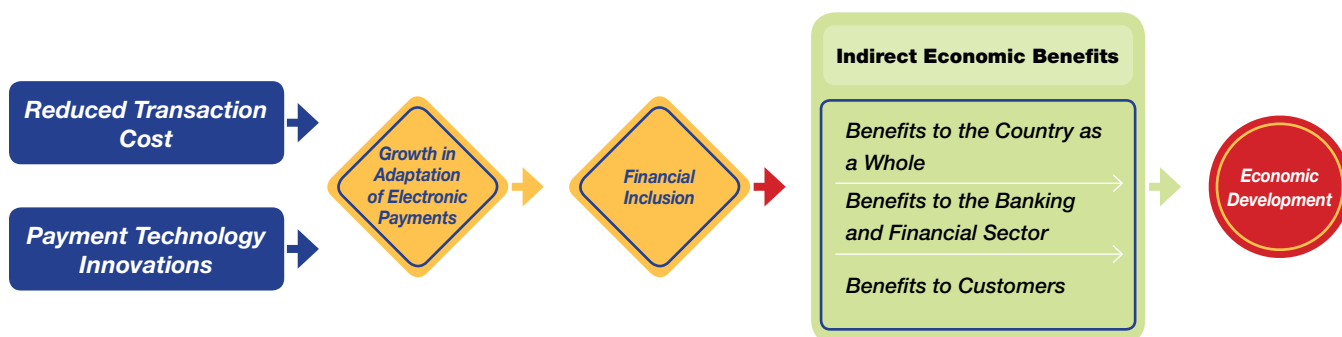
ECONOMIC CONTRIBUTIONS**Direct Economic Contributions****Statement of Value Addition**

For the year ended 31st March	2018 Rs.	2017 Rs.	2016 Rs.
Value Added			
Business Revenue	918,503,011	800,761,303	601,640,965
Cost of Services	316,104,627	294,955,990	244,087,142
Value Added by Business Activities	602,398,384	505,805,313	357,553,823
Finance & Other Income	144,466,245	90,686,259	58,598,343
Total	746,864,630	596,491,572	416,152,165
Growth in Value Addition	25%	43%	7%
Distribution of Value Added			
To Employees			
Salaries & Other Benefits	205,594,814	178,521,854	156,061,982
Training	11,114,358	4,221,483	5,902,383
	216,709,172	182,743,336	161,964,365
	29%	31%	39%
To Providers of Capital			
Dividends to Ordinary Shareholders	53,200,000	41,800,000	30,400,000
	53,200,000	41,800,000	30,400,000
	7%	7%	7%
To the Government			
Income Tax	63,673,461	43,553,020	11,063,885
	63,673,461	43,553,020	11,063,885
	9%	7%	3%
To Expansion and Growth			
Retained Profits	308,229,200	236,688,883	143,343,774
Depreciation & Amortisation	105,052,797	91,706,333	69,380,141
	413,281,997	328,395,216	212,723,915
	55%	55%	51%
Total	746,864,630	596,491,572	416,152,165
	100%	100%	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 in real time through LankaPay network.

During the financial year 2017/18 LankaClear made a direct economic contribution to the country, to the value of Rs. 747Mn. Employees benefited from 29% of this value, while 9% went to the State coffers in the form of taxes and 7% was distributed among the shareholders of the Company.

LankaClear retained 55% 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.

SOCIAL AND RELATIONSHIP CAPITAL *CONTD.***Indirect Economic Contributions**

The Company through its operations as the National Payment Network has contributed immensely towards indirect economic value creation, which far supersedes its direct economic value creation.

Indirect Economic Benefits to the Banking and Financial Services Sector

By implementing a common payment infrastructure to be shared amongst all its members, LankaClear has created a level playing field for all industry players irrespective of their capacity, resource capabilities and size. As a result, any LankaPay member can now offer the same level of convenience and accessibility to their customers irrespective of their individual financial and operational prowess to invest in and maintain a fully-fledged payment system. By doing so, the Company has been able to increase the usage and enhance the economies of scale of the existing payment infrastructure of the country. The existence of a common national payment infrastructure by itself has helped foster competition in the industry, which in turn has created numerous benefits to the general public.

Prior to LankaClear commencing its operations, the current services offered by the Company were provided by international payment switches at a considerably higher cost. This had a significant impact on the operational cost structure of banking and financial services sector. By routing these transactions locally, LankaClear has been able to bring down the transaction fees to its member banks drastically, and thereby be a catalyst of growth and profitability of the country's banking and financial sector. The country has also saved a significant amount of valuable foreign exchange, which were previously paid to international payment switches.

Furthermore, by pioneering payment technology innovations, LankaClear has facilitated the banking and financial sector to be innovative and enhance their product offering. Below are some of the payment technology innovations pioneered by LankaClear throughout its 16-year existence.

Year	Remarkable Milestones
2006	Nationwide T + 1 Cheque Clearing - 1st in South Asia / 2nd in the World
2009	Launch of 'LankaSign' - The only commercially operating Certification Authority (CA) in Sri Lanka
2010	Launch of Nationwide Same Day Electronic Fund Transfer for bulk payments (SLIPS) - 1st in South Asia
2013	Launch of 'LankaPay' Common ATM Switch
2014	Launch of BankCSIRT (Computer Security Incident Response Team renamed in 2015 as FinCSIRT) - 1st in South Asia
2015	<ul style="list-style-type: none"> Launch of LankaPay Common Electronic Fund Transfer Switch (CEFTS) enabling real-time domestic interbank fund transfers Launch of LankaPay Common POS Switch (CPS) & Common Mobile Switch Launch of USD Online – a system for banks to manage local interbank USD payments without having to go through a NOSTRO account
2016	<ul style="list-style-type: none"> Introduction of online transfer mode of CITS where banks can now transfer cheque images in real-time. - 1st in South Asia Launch of JustPay – special low tariff scheme to facilitate real-time retail payments up to Rs. 10,000 through account to account pull payments via smart mobile devices
2017	<ul style="list-style-type: none"> Became the first and only entity in the country to be PCI-DSS (ver. 3.2) certified, achieving the highest international standard for payment card industry LankaClear launched Sri Lanka's first and the only Payment Technology Innovation Awards – LankaPay Technnovation Awards Launch of National Card Scheme in partnership with JCB International to issue a new debit card scheme
2018	Launch of Payment Exchange Name (PEN) system to facilitate peer-to-peer payments via a mobile number and a nickname

Indirect Economic Benefits to the General Public

We at LankaClear understand the value of convenience and we also realise that with the emerging mobile lifestyles of people, time factor has become an even more critical resource that cannot be replenished. In addition, we believe that consumers expect our services to be omnipresent to be accessible from wherever they are. Therefore, the ultimate objective of LankaClear is to help every citizen to enjoy a mobile lifestyle and thereby allowing them to engage in what really matters to them.

Anyone with a bank account is a potential customer of LankaClear services. Being the country's national payment network, one of LankaClear's primary objectives is to create financial inclusivity and thus providing the backbone infrastructure to banks and financial institutions to provide access to financial services to every citizen immaterial of their location. By establishing the critical interbank payment infrastructure, LankaClear was instrumental in drastically bringing down the transaction costs to banking customers. By doing so, the Company has made banking services to be an affordable option to a larger segment of the population. This is clearly reflected by the growth experienced in interbank transactions during the last few years.

Reduced transaction costs and multiple payment options that can cater to the changing customer lifestyles has propelled greater adoption and wide spread use of electronic payments. With consumer confidence on electronic payments improving, it is envisaged that the adoption of other payment instruments, such as payment cards, digital wallets and mobile payments, will also increase in future.

Indirect Economic Benefits to the Country

Establishment of LankaClear as a national entity marks a significant milestone in the history of Sri Lanka, where the country was able to have its own local switch to facilitate domestic interbank transactions, without having to depend on international payment switches for the same. Having an

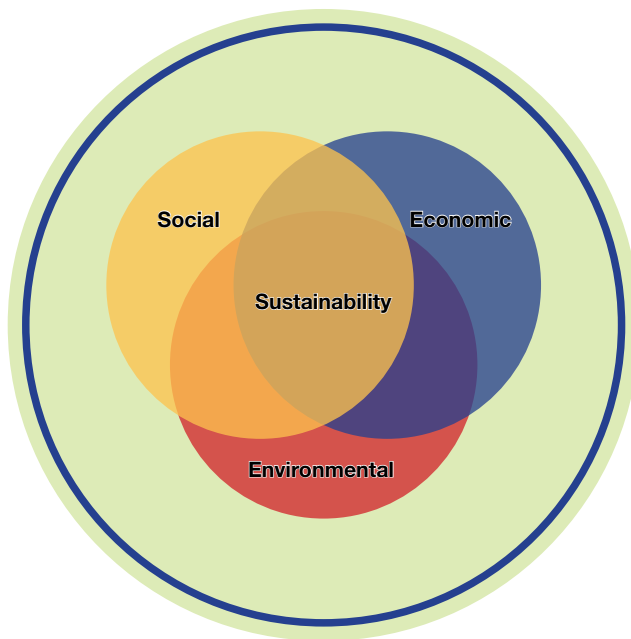
autonomous domestic switch allows the country to be independent and develop and operate a system that caters to greater socio-economic needs of the country on terms that are favourable to the country as a whole.

Furthermore, by routing transactions that were previously facilitated via international payment switches, LankaClear has helped save the country a substantial amount of valuable foreign exchange.

Lower transaction fees and greater convenience have helped taking banking services to a larger segment of the population, by making it far more affordable and accessible to them. The ultimate objective of gaining financial inclusivity is expected to make a positive contribution to attract currently unbanked cash into the financial ecosystem that in turn would reduce cash in circulation. This would help to save valuable GDP spent on managing cash, which would result in a greater economic benefit for the country.

NATURAL CAPITAL

“AS A RESPONSIBLE CORPORATE ENTITY AND THE OPERATOR OF THE NATIONAL PAYMENT NETWORK, LANKACLEAR IS CONSCIOUS OF ITS ENVIRONMENTAL RESPONSIBILITY AND HAS INTRODUCED MANY INTERNAL PROCESSES TO IDENTIFY AND MINIMISE THE POTENTIAL NEGATIVE ENVIRONMENTAL IMPACTS DUE TO ITS OPERATIONS.”



OUR SUSTAINABILITY FOOTPRINT

The concept of sustainability is critical in almost all the disciplines and fields across the globe. The integration of this concept into any business through combination of economic, environmental and social aspects will pave the way to myriads of positive outcomes. This will ensure future success and thereby help to achieve sustainability related, environmental and socially friendly goals and objectives for the organisation. Global developments have already demonstrated that the concept of sustainability has increasingly gained momentum throughout the last few years.

Sustainability, simply put, is the non-consumption of resources that do not hold the ability to replace themselves, when producing goods and services. A sustainable business is an entity that strives to meet the triple bottom line, which consists of social, environmental and economic pillars. Since, promoting sustainability concept into LankaClear would yield nothing but the best upshots. In broad, this concept of sustainability can be implemented in a vast range of activities that are done on a regular basis. Since the company has made significant profits, which is addressed in the financial review and audited financial statements comprehensively, we are not covering the area of profitability in this section. Also with respect to people or social aspect, this is discussed comprehensively in Human Capital Value creation covering CSR Activities that the company has carried out during the year under review. Therefore, we are limiting this section only to the planet or environmental related activities and the positive contribution that LankaClear made in this area.

Environmental Responsibility

LankaClear's business activities revolves around facilitating electronic payments, which does not lead to significant negative environmental impacts made by traditional businesses such as companies in the manufacturing sector. It does not also utilise any scarce non-renewable energy for production purposes, water, which in turn does not lead to deforestation. On the contrary, the Company's business activity of moving the country towards a cashless society, or moving away from a paper based economy, could be viewed as largely environmental friendly and thereby contributing significantly towards reducing paper consumption, which leads to reduction of cutting down trees. This is achieved via two mechanisms;

Impact of Cheque Payments on Sustainability

Cash notes utilise the trees for its production. To print the cash requirement for a country such as Sri Lanka, imagine the number of trees that must be cut down. The resources that are required to print the currency notes with the special security features in addition to ink are significant. In addition, we need space to store cash once it is printed and need to destroy all those cash, which needs to be removed from circulation. There are organisations that provide the service of filling up ATMs when the stored currency notes needs to be replenished. If we can bring down the trees that needs to be cut down

to produce paper notes by actively engaging in activities that would reduce the circulation of cash, that would impact positively on the environment. LankaClear is in the business of doing just that. Assuming a transaction needs a one suitcase of cash notes, all those cash can be replaced by a single cheque. Even that one Cheque can be replaced in the future by electronic payments. Considering the earlier example of a cash filled suitcase while it needs to be transported from one place to another by a person spending own time, energy and also the transportation that would utilise scarce non-renewable energy. Again, if we use cheques, they can be sent via post and personal attention is not needed as required as in the case of cash.

Apart from the obvious advantages of sustainability areas discussed above, cheques would have added security features considering the safety features it offers compared to cash, which can be easily stolen and untraceable unless we take a note of the currency note numbers that are stolen prior to that.

When it comes to withdrawing cash from ATMs, traditional model was going to an own bank ATM without going to the closest ATMs. Now LankaPay network has connected all the ATMs in the country via a unified network to function as your own bank's ATM, allowing you to use the closest ATM without having to spend time to visit your own bank's ATM, which may be located far away.

Impact of Online and Mobile Transactions on Sustainability

The second consideration is the online transactions, which can be identified as the optimal way to transfer money from one bank to another to pay any bill including electricity, water and telephone bills etc. For an instance, with a lot of duties to attend at your place of work, wasting valuable time to deposits money and pay bills by staying in never ending queues at banks lead us to a lot of inconveniences and discomforts.

If people begin to transfer money and pay their bills online, all those unnecessary burdens will be off their shoulders. The time spent, cost incurred for transportation to pay the bills would be saved, as you can be where ever you and attend to them without having to physically move. Further people do not have to worry whether the bank is closed or not, as most of the online transactions happen via CEFTS, while it operates 24X7X365 days and completes transaction within a maximum of 30 seconds.

Analysing the situation in detail, online transactions can be recognised as an effortless, trouble free and a simple mode to augment the concept of sustainability.

For an organisation that is driving towards success, implementing the sustainable concept widely within the organisation is vital. In order to promote this concept within the business, the governance structure



NATURAL CAPITAL *CONTD.*

must explicitly and directly consider the environmental and social performance of the company. This plays a major role in sustainable development in addition to achieving financial performance.

Therefore, while the company's direct negative environmental impacts are minimum, its indirect positive environmental impacts are of greater significance and bound to improve with time, as an increasing number of Sri Lankans are anticipated to move towards a less cash economy. A future with electronic and mobile transactions powered by the LankaPay National Payment Network would contribute immensely towards this endeavor.

Minimising Environmental Impacts

As a responsible corporate entity and the operator of the National Payment Network, LankaClear is conscious of its environmental responsibility and has introduced many internal processes to identify and minimise the potential negative environmental impacts due to its operations.

At LankaClear, we put every possible effort to ensure all e-waste produce is disposed according to the current international best practices. As a technology intensive company, it is absolutely critical to ensure all e-waste corresponding to servers, storage drives and other portable media are disposed and recycled without compromising sensitive data and meets the guidelines set by the Central Environmental Authority (CEA) of Sri Lanka. During the year under review, the company has successfully disposed over hundred and sixty (160) items of e-waste with the assistance of a leading CEA certified waste processor. A similar process is followed in disposing archived CITS CDs where the company has crushed and sent for recycling approximately two hundred thousand CD's in the past year alone.

Hazardous waste such as used lead acid batteries are returned to the authorised local agent for proper disposal, which ensures no

waste is used for landfills and hazardous materials are added to the soil. This is a commitment that LankaClear has maintained from the inception while the company has not participated or encouraged any landfills to date, which signifies our commitment towards environmental conservation and sustainability. Effectively, we have taken substantial measures to reduce its carbon footprint by implementing;

- 1) Close monitoring of energy consumption through sectional measurement and monitoring of different work areas (data centre, office area, etc.)
- 2) Lighting in common areas are powered by LED lights and natural light is integrated into the office areas where possible.
- 3) Generator fuel consumption is monitored in each run at our DR site and test runs are carried out on a scheduled basis to optimise consumption and equipment wear.
- 4) Water consumption is closely monitored at all times and the use of Air-cooled precision air conditioners at the Data Centres has led to minimum use of water for cooling the Data Centre environment.
- 5) Inverter type air conditioners are used for comfort cooling in office spaces while strictly non-CFC based refrigerants are used.
- 6) Municipal waste is segregated into organic and inorganic waste to be disposed in an environmentally friendly manner.
- 7) All paper waste is sent for recycling, to a CEA approved company.
- 8) Automated systems and procedures are in place to reduce the physical printing requirements, thereby reducing paper consumption of all business activities.

Few Highlights

Type of Waste	Quantities in 2017/18	Method of Disposal
CD's (units)	200,000	Crushed and sent for recycling
Batteries (units) (Hazardous)	96	Sealed LED UPS batteries were returned to the Authorised local agent
Landfill	Nil	We are happy to report zero landfill from LankaClear business operations
e- waste	166	Server hard disks, monitors, printers, etc. were sent to a CEA authorised e-waste manager for disposal

The company envisions strengthening its commitment towards greater sustainability by implementing best practices in Green Building concept for its upcoming Data Centre upgrade project as well as cover the existing Data Centre at DR site. The implementation of Green Practices would contribute to better efficiencies within the organisation, which in turn would lead to improved margins and further reduce any adverse environmental impacts.

All the stakeholders of the organisation, including both internal and external parties, have been made aware of the positive consequences of working in accordance with the concept of sustainable development. We also understand the numerous benefits that can be obtained via these initiatives, including effective use of resources, reduced costs and wastage and improved staff morale of our people. Finally, all these lead to an enhanced business image, which would help to identify and undertake new business opportunities and ventures.

PEACE OF MIND WHERE EVER YOU ARE

WE CONSIDER IT OUR DUTY
TO MAKE PAYMENTS SIMPLE
TO TAKE THE BURDEN OFF
YOUR SHOULDERS



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
7. Teamwork and Collaboration

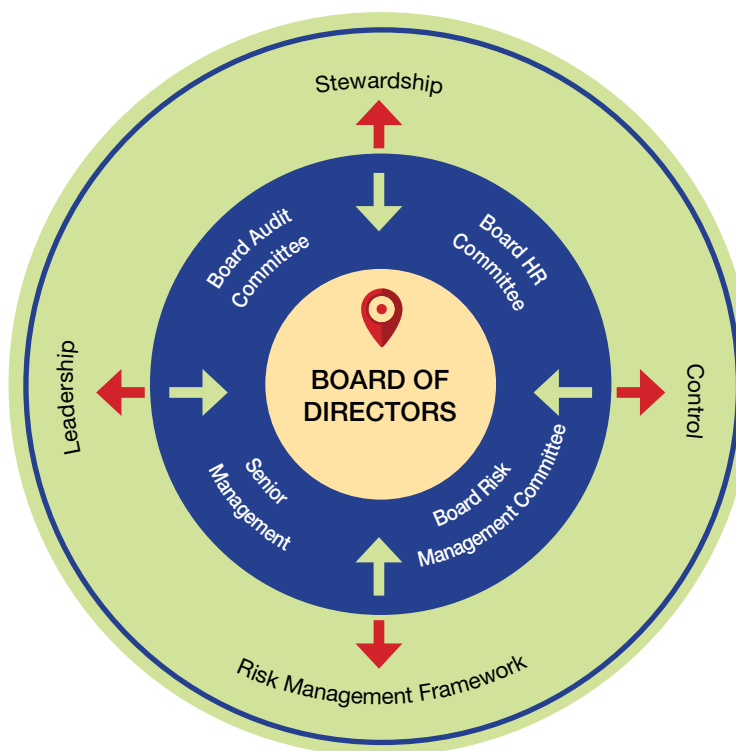
With adherence to the mandatory requirements of the Companies Act No 07 of 2007, the directions, rules, regulations and circulars issued by the Central Bank of Sri Lanka from time to time, rules and regulations of the Institute of Chartered Accountants of Sri Lanka and amendments thereto and any other 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.

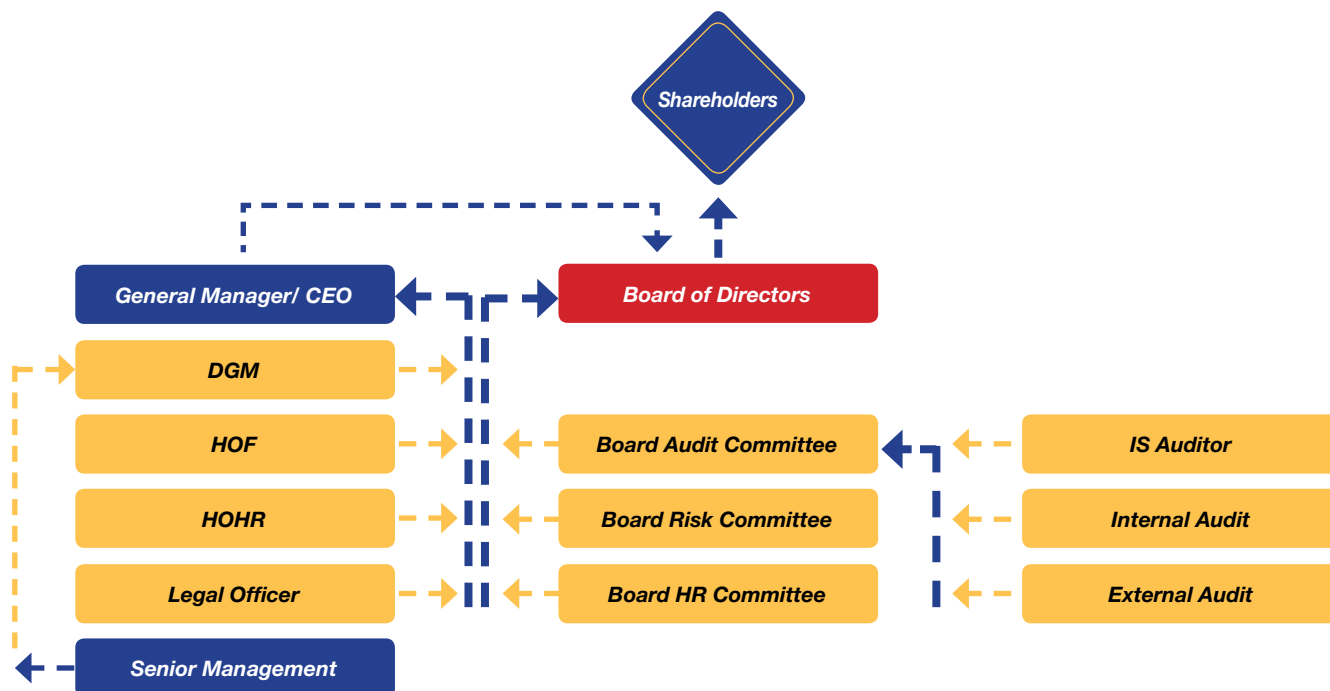
It further ensures that the Company has adequate level of risk management processes, and also periodic, effective financial, operational and IT/IS audits are performed and findings are closely monitored through risk management not merely to satisfy regulatory requirements, but also to show the openness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

CORPORATE GOVERNANCE FRAMEWORK



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.



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 in page 24.

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 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 this Report.
A.1.5	Independent Judgement	The Board brings independent judgment 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. S. Bandara - Director)
- Mr. C. P. S. Bandara
- Mr. E. R. De Silva

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;

- Mr. A. Amarasuriya - Chairman
- Mr. C. P. S. Bandara
- Mr. E. R. 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 six (06) meetings during the year under review. Matters discussed and recommendations made appear in the Board HR Committee Report of this Annual Report.

Board Integrated Risk Management Committee

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

Board and Board Sub Committee Meetings

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

Table No. 01 - Board and Board Sub-Committees Composition and Attendance -2017/18

Name	Appointments and Resignations Made During the year Under Review	Board Meetings		Board Audit Committee Meetings		Board HR Committee Meetings	
		Held*	Present	Held*	Present	Held*	Present
Mr. A. Amarasuriya - Chairman	N/A	12	12			06	06
Mr. S. S. Ratnayake - Director	Resigned on 05/06/2017	02	02				
Mr. C. P. S. Bandara - Director	N/A	12	11	04	04	06	06
Mr. C. J. P. Siriwardana - Director	Appointed w.e.f. 05/06/2017 Resigned on 04/10/2017	03					
Mr. R. A. A. Jayalath - Director	Appointed w.e.f. 05/10/2017	06	05				
Mr. D. M. Gunasekara or his Alternate Director Mr. W. P. R. H. Fonseka	Resigned on 22/02/2018	11	10	04	02		
Mr. S. Bandara or his Alternate Director Mr. W. P. R. H. Fonseka	Appointed w.e.f. 20/03/2018	01					
Mr. M. A. B. Silva - Director	N/A	12	08				
Mr. P. L. D. N. Seneviratne - Director	Resigned on 28/06/2017	03	01				
Mr. P. S. Mathavan - Director	Resigned on 12/01/2018	09	08				
Mr. A. M. Ali - Director	Resigned on 20/03/2018	11	05				
Mr. M. N. R. Fernando - Director	Appointed w.e.f. 28/06/2017	09	04				
Mr. R. Thiagarajah - Director	Appointed w.e.f. 20/02/2018	01	0				
Mr. M. U. de Silva - Observer (SLBA)	Resigned on w.e.f. 22/08/2017	04	04			02	02
Mr. E. R. de Silva - Observer (SLBA)	Appointed w.e.f. 22/08/2017	08	07	04	04	04	04

* Held - Meetings held during the term of office

Rule No.	Subject	Compliance Status and Comments
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 represent 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 Banker'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.
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. Details of remuneration of the Board as a whole are disclosed in note 23 (page 117) to the financial statements.

Rule No.	Subject	Compliance Status and Comments
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 organisation.</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 LankaClear has reported a true and fair view of its financial position and performance for the year ended 31st March 2018.</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 for Small and Medium sized Entities (SLFRS for SME's) and the Companies Act No. 07 of 2007 and the generally accepted accounting principles.</p> <p>Going Concern 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 At LankaClear we have established a sound framework of risk management & internal controls and monitoring its effectiveness on a continuous basis.</p> <p>Audits 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>Board Audit Committee The details and required disclosures of the Board Audit Committee are given on Board Audit Committee Report in page 92.</p> <p>IT Governance 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 organisation, it is imperative that LankaClear manages 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 organisation's overall business direction.</p>

Rule No.	Subject	Compliance Status and Comments
		<p>Code of Business Conduct & Ethics 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 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 circulation 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.

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, 2018, 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			•
Circulars issued by the Central Bank of Sri Lanka during the period April 1, 2014 – March 31, 2018			•
Shop and Office Employees Act No 19 of 1954 as amended			•

ENTERPRISE RISK MANAGEMENT

As the operator of the national payment network, facilitating numerous inter-bank payment and settlement transactions on behalf of all Banks and financial institutions, it is critical that LankaClear has a robust and an effective Risk Management Process in which material risks are pro-actively identified, analysed, communicated and managed across the organisation as well as across all functions.

LankaClear recognises Enterprise Risk Management to be an integral part of sound management practices and good corporate governance as it improves decision making, ensures smooth functioning of the business operations, enhances the accountability and facilitates business continuity and resilience

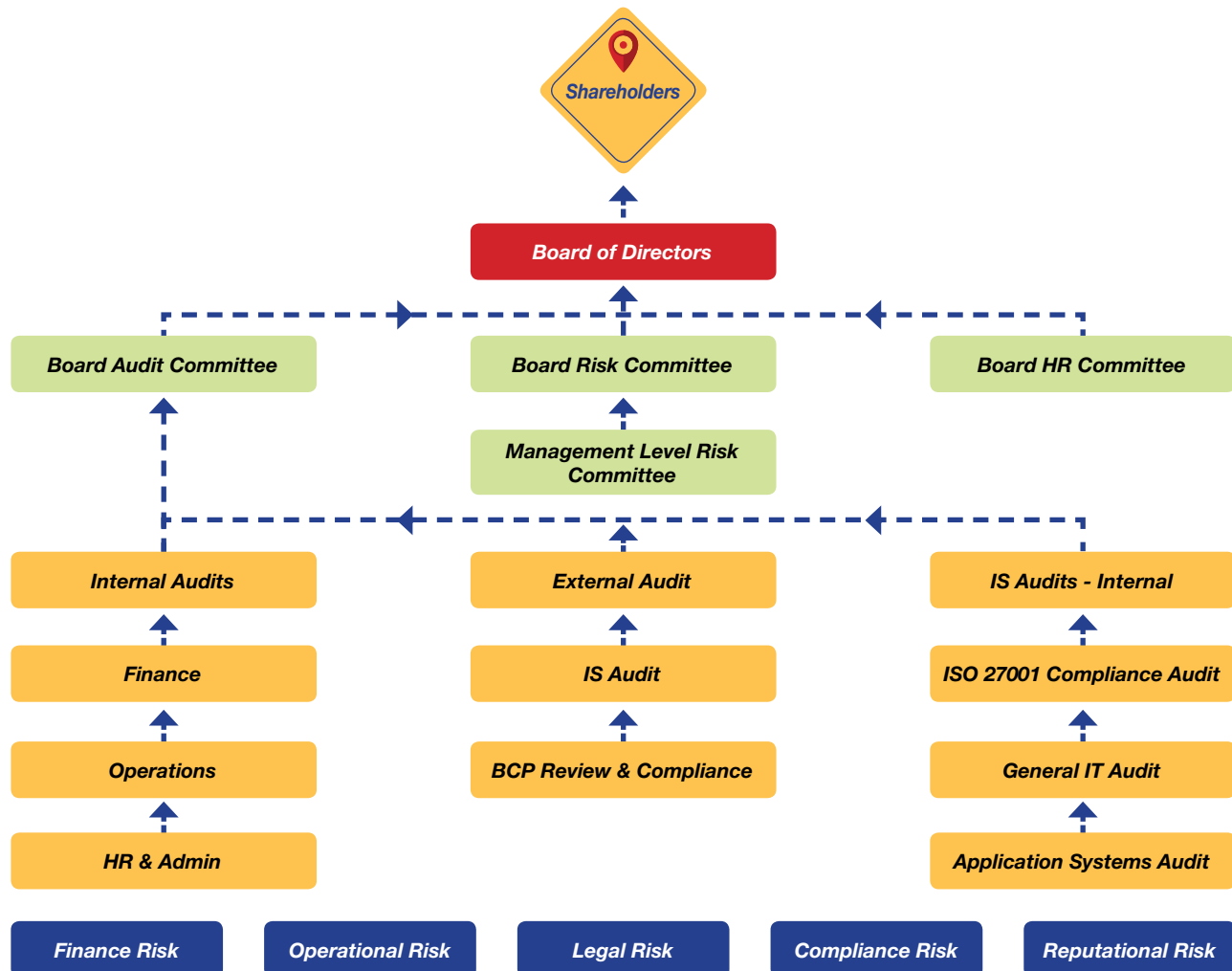
towards greater profits. Management is committed to adopt "Best Practices" in Enterprise Risk Management across all its businesses at all times while striving to adhere to the best standards and benchmarks where applicable.

RISK MANAGEMENT FRAMEWORK

Currently, the Risk management at LankaClear is governed by the 'Risk Charter', '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' responsible and accountable for overall risk management of the organisation is represented by General Manager/Chief Executive Officer, DGM - IT

& Operations, Head of Finance, Head of HR and Administration, AGM - IT, Head of Certification and Integration, Head of Clearing Systems, Head of External Services. With the involvement of the management, risk management activities took place throughout the year. The Information Systems Auditor who reports directly to the Board is tasked with strengthening IT risk aspects of the organisation and to have assurance on timely identification, analysis and monitoring of IT risks and vulnerabilities. Following diagram depicts the current Risk Management Framework in keeping with good governance.

HOW WE OVERSEE RISK



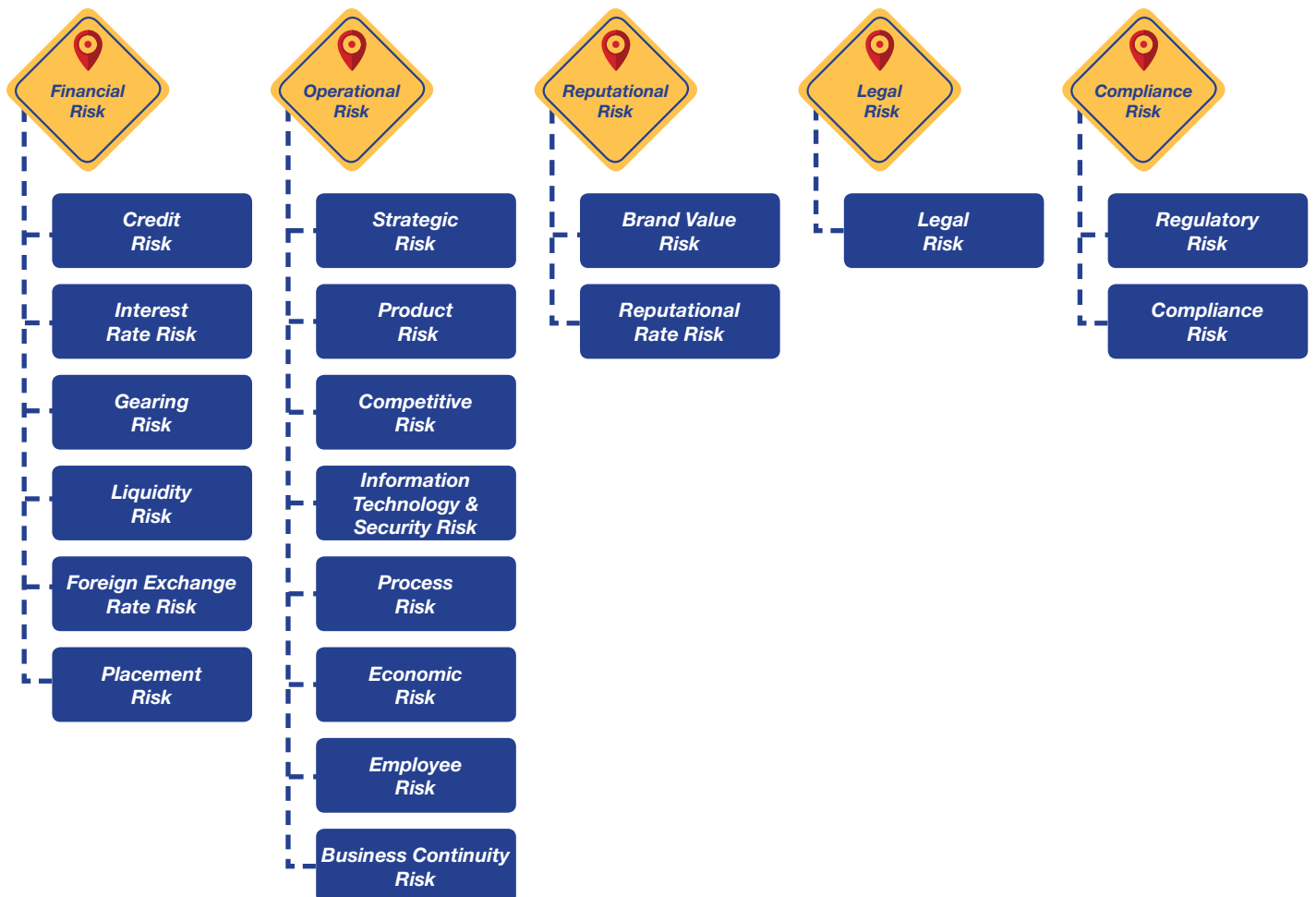
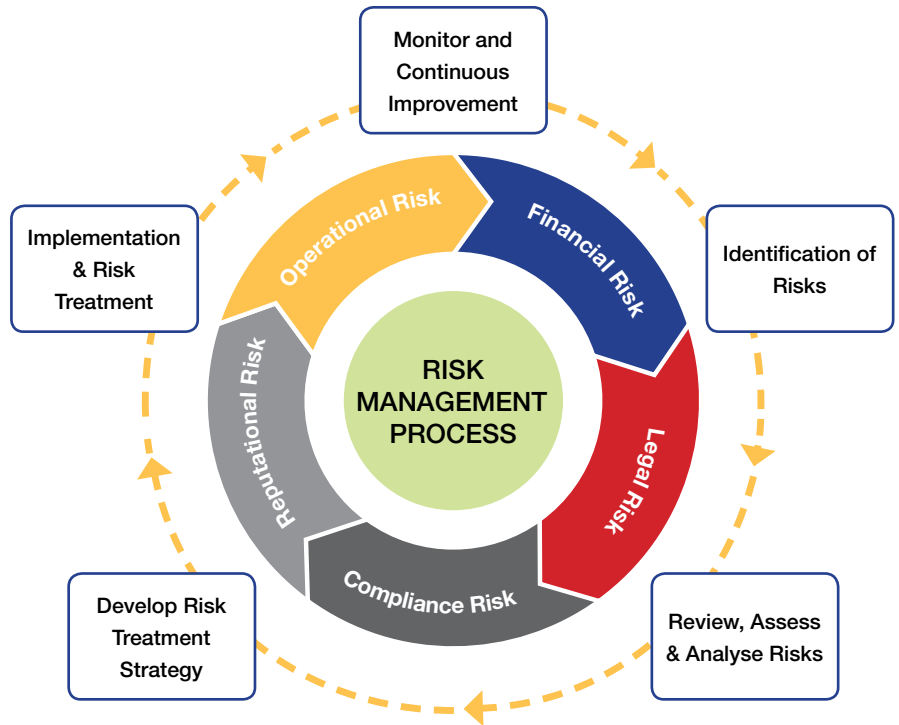
ENTERPRISE RISK MANAGEMENT *CONTD.***RISK MANAGEMENT PROCESS**

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

Risks with respect to all LankaClear 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 monitored, controlled and managed through the Risk Management Process of LankaClear.

RISK CATEGORISATION

As per the Enterprise Risk Management Framework of LankaClear, all potential risks are categorised among pre-defined risk categories.



RISK MATRIX

Likelihood of occurrence has been assessed based on past experience. Outcomes of the corporate wide Business Impact Analysis is also considered on identifying and defining the 'Likelihood of Occurrence'. The Impact of the event was assessed by determining the potential loss or unavailability of service that may result 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	Minor	Moderate	Major	Severe
			1	2	3	4	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

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 and its business.

Operational Risk	
Strategic Risk	Low
Failure to implement strategic plans and address market needs of payment systems on time	
Impact/ Implication	Risk Management Strategy
Loss of credibility in the market and impact on the efficiency levels of national payment systems.	<ul style="list-style-type: none"> Regular meetings are held by the Board of Directors and members of the Management in order to formulate future strategies and to review and revise (where necessary) corporate plans, taking into consideration the dynamic business environment and technology landscape. All senior managers attend regular workshops, seminars and professional training programmes in order to update their skills and knowledge and to keep abreast of international trends and technology developments concerning the financial industry. Aligning organisational strategies with the payment systems roadmap of the National Payments Council (NPC) of the Central Bank.
Possible reduction in revenues from existing payment systems due to shifts towards more technologically advanced competitor systems.	<ul style="list-style-type: none"> Continuously keeping abreast of technological developments in the payments industry globally. Continuous monitoring of the customer demand for efficient payments systems in the local market. Investments made in upgrading the electronic payments systems infrastructure to meet the growing demand for electronic payments. The Common Card and Payment Switch (CCAPS) is continuously being explored to provide additional payment options to the general public via multiple payment channels such as ATMs, payment cards, Smart Mobile Devices, Internet and payment Kiosks.

Operational Risk		
Strategic Risk		Low
Failure to implement strategic plans and address market needs of payment systems on time		
Impact/ Implication	Risk Management Strategy	
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 cost and continuously looked for ways to better manage cost under various cost management programmes. Procedures are in place to reduce sourcing cost through structured and extensive negotiations by procurement committees and following the formal procurement processes. The IT Division significantly emphasises on green technology in technology upgrades to reduce the impact on the environment and better management of operational cost. Use of stationary has been minimised by digitising most of the commonly circulated documents within LankaClear and introducing digital signatures. 	

Operational Risk		
Product Risk		Moderate
Risks associated with system security, reliability and availability of the system		
Impact/ Implication	Risk Management Strategy	
Loss of confidence and reputation on LankaClear products leading to reputational damage and loss of 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 99.9% 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 due to a prolonged non availability of payment systems operated by the Company.	<ul style="list-style-type: none"> Financial losses due to loss of physical assets are covered by the Company's comprehensive insurance arrangements with leading insurance companies. LankaClear has a comprehensive Business Continuity Plan (BCP) in place which is reviewed and revised (where necessary) regularly and has a fully functional and tested Disaster Recovery Site (DRS) where all Clearing Systems and their functions have been replicated in order to mitigate the risks associated with natural disasters and/or inability to operate from the Primary Site in Colombo. 	

Operational Risk		
Competitive Risk		Low
Risks from competitive actions of 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 non-presence of credible competitors. However, the Company takes every possible action to ensure that a superior service is offered to the customers in order to protect and improve on the current financial 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 has mitigated the competitive pressure. 	

Operational Risk		
Process Risk		Low
Inadequate or break down of internal controls, processes and procedures		
Impact/ Implication	Risk Management Strategy	
Loss of reputation, business integrity and stakeholder trust on National Payment Systems.	<ul style="list-style-type: none"> LankaClear ensures adherence to operational guidelines of all clearing systems, Desk Instruction Manuals and Dual-Control mechanisms. LankaClear also ensures that participating banks also adhere to these processes and guidelines by means of interdepartmental peer audits, internal audits and training. Continuous improvements to operational manuals and Desk Instruction Manuals. The monitoring of activities by the Central Bank through the involvement of two Directors of the Company appointed by Central Bank and also periodic system audits conducted by them. CCAPS has obtained PCI-DSS version 3.2 certification, which is the National Payment Switch that processes the retail electronic payments and the LankaSign Certificate Authority has obtained ISO 27001 certification. Annual review of Business Continuity Plan (BCP) and conducting two operations switch-overs between Primary and DRS annually which enables LankaClear to ascertain adequacy and accuracy of BCP procedures in place. 	

Operational Risk		
Information Technology and Security Risk		Low
Information Technology and Security		
Impact/ Implication	Risk Management Strategy	
Loss of confidential information resulting in damage to reputation and possibility of being subject to litigation.	<ul style="list-style-type: none"> LankaClear has a well-defined Information Security Policy, which is closely aligned with PCI-DSS and ISO 27001 standards and international best practices in order to mitigate risks associated with violation of information security. The strict adherences to these IT Security Policies are ensured by daily monitoring of IT systems, IT housekeeping and through numerous IT audits and assessments. Further, IT infrastructure is 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. In addition, every aspect relating to procedural controls is audited via an internal audit function enabling continuous identification of any deficiencies/shortcomings. Obtaining timely annual recertification of PCI-DSS version 3.2 for CCAPS by conducting regular audits during the prior year. Non-disclosure agreements are signed with all LankaClear employees committing them to ensure the confidentiality of company information. IT systems related to payment and clearing systems are replicated at DRS and clustered at Head Office for maintaining zero data loss. 	

Operational Risk		
Process Risk		Low
Inability to operate from the Primary Data Centre due to natural disaster or technical failure or unanticipated/unforeseen situation		
Impact/ Implication	Risk Management Strategy	
The National Payment Systems operated by the Company (Eg. CITS, SLIPS, USD Draft Clearing) will be affected and hence could have an impact to the Sri Lankan business community, state sector, and general public.	<ul style="list-style-type: none"> Fully functional DR site is available for business continuity for all clearing systems in order to mitigate the risks associated with natural disasters and/or inability to operate from the Primary Site in Colombo. LankaClear has a formalised Business Continuity Plan (BCP) and several DR drills are conducted annually in accordance with the BCP to ensure LankaClear's capability to effectively and expeditiously rebound from a disaster or setback. The CITS having an uptime of 99.9% and 100% uptime for CCAPS for the year under review is testimony to the effectiveness of the fully functional DR site. 	

Operational Risk		
Employee Risk		Low
Inability to attract the right staff, develop existing staff and retain skilled and experienced staff		
Impact/ Implication	Risk Management Strategy	
Reduced productivity. Reduced quality of service.	<ul style="list-style-type: none"> In order to minimise people related risks, LankaClear sets SMART (Specific, Measurable, Achievable, Relevant and Time bound) corporate objectives to ensure the staff has clarity of what should be achieved. Having a clear direction and clarity of what is expected of employees help the employees to focus on their objectives and evaluate their own performance against the objectives. 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 ensures a strong and satisfied workforce. Human Resource processes currently in place to facilitate the recruitment of the right staff, manage performance and rewards, plan and implement training and development, employee engagement and handle succession planning and career progression of employees. LankaClear 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 three Board Members provides the strategic direction to the HR Function of the organisation while ensuring compliance, growth and staff development. 	

Legal Risk		
Legal Risk		Low
Risk of litigation 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 obligations.		
Impact/ Implication	Risk Management Strategy	
Loss of principal amount invested and loss of interest/return on investment	<ul style="list-style-type: none"> • Cash surpluses are invested with commercial banks and subsidiaries of banks identifying the most profitable investment opportunities. • The credit rating of the financial institution is considered and a maximum limit is determined with regard to any single financial institution in which an investment is made. • Following the investment policy to regulate the investment of surplus funds until they are utilised. 	

ENTERPRISE RISK MANAGEMENT *CONTD.*

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

Financial Risk		
Interest Rate Risk		Low
Risk of fluctuating interest rates		
Impact/ Implication	Risk Management Strategy	
The possibility of lower returns on investments due to interest rates' (downward movements)	<ul style="list-style-type: none"> In mitigating such risks, the interest rate movements are closely monitored and the investment tenure is decided accordingly Since the rates were on a declined trend, LankaClear adopted an investment in mixed tenure to make use of possible increases to the rates in future as well as high interest rates offered for longer tenure 	

Financial Risk		
Liquidity Risk		Low
Risk of not having sufficient resources to meet financial obligations in full, at a reasonable cost		
Impact/ Implication	Risk Management Strategy	
Penalty charges and unfavourable terms when obtaining future loans or loan facilities.	<ul style="list-style-type: none"> Regular cash flow forecasts, monitoring of disbursements and collections are used as tools by LankaClear to mitigate the liquidity risk The Company keeps an adequate amount of resources in short term financial instruments to purchase consumables and pay short-term liabilities and used unfixed deposit instruments to get the advantage of higher interest as well as premature flexibility without any penal interest Credit terms provided by vendors are utilised in full to manage cash outflows of the Company. Further, emphasis for bringing down the debtors' collection period was carried out by agreeing with customers to settle payments with convenient payment mechanisms such as SLIPS transfers 	

Financial Risk		
Foreign Exchange Rate Risk		Moderate
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 has not been a major concern to Lankaclear previously, however, with the introduction of National Card Scheme where the Company would be exposed to such risks. In addition, in 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 would also subject the company to same risks. LankaClear has limited avenues to mitigate foreign exchange related risks at the moment and leaves us with limited option and to apply the conversion rate prevailing at the time to pay for such crucial services. This is an area that needs to be looked in the future. 	

Financial Risk		
Placement Risk		Low
Risk of placing funds in projects which do not give adequate returns		
Impact/ Implication	Risk Management Strategy	
Affects profitability of the Company	<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 improper use of Social Media		
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 or external parties.	<ul style="list-style-type: none"> Introduction of a brand guideline and an internal clearing process for all external communications Social media listening and on-time feedback for queries 	

Reputational Risk		
Reputational Risk		Moderate
Failure to manage 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 Several ground level activation initiatives to improve customer awareness and brand equity Introduction of policies and procedures relating to corporate communications and brand usage 	

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

The following areas come under the purview of the Board Audit Committee:

Financial Information

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

Compliance

- Reviews the effectiveness of the systems and procedures adopted by the Company and monitors compliance with applicable laws and regulations of the country.
- Reviews the findings of any examination by regulatory agencies and/or any auditor on compliance with such laws and regulations.

- Follows-up of any instances of non-compliance

External Audit:

- Reviews the External Auditor's independence, audit scope and plan, its audit quality control/assurance processes.
- Reviews the performance of External Auditors and makes recommendations to the Board of Directors on their appointment, reappointment, discharge or rotation if necessary.
- 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.
- 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

- 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.
- Reviews findings and recommendations by the Internal Auditors, together with comments made by Management.
- 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 LankaClear. LankaClear Board Audit Committee is overseeing the tasks assigned to Information Systems Auditor. Internal IT Audit Charter and IT Audit Plan are reviewed by the Board Audit Committee.

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. S. Bandara)
- Mr. C. P. S. Bandara
- Mr. E. R. De Silva

Presently the Audit Committee of LankaClear (Pvt) Ltd is chaired by Mr. Russel Fonseka, Deputy General Manager, Corporate & Offshore Banking/Chief Financial Officer, Bank of Ceylon, a Fellow of the Institute of Chartered Accountants of Sri Lanka.

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, AGM - IT Infrastructure, Head of Clearing Systems, Head of External Services, Information Systems Auditor, Manager Facilities & Maintenance and Network Operations Manager from LankaClear together with representatives of the Internal Auditors were present by invitation at the meetings held.

The Secretary to the Board functions as the Secretary to the Committee and Head of Finance liaise Board Audit Committee Meetings and related Board Audit Committee activities as the Audit Representative based on the instruction of the Board Audit Committee.

Meetings

The Committee held 4 meetings during the year under review. The attendance of the members at these meetings is shown under Corporate Governance in the Annual Report. 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 IT Audit Reports submitted on 'Payment Applications', 'Accounting Application', 'General IT Controls', 'DR Drill Reports', compliance reporting on ISO/ IEC 27001 and PCI-DSS and other reporting on IT Governance, Risk and Compliance, and monitors the implementation of the risk re-mediation actions recommended by the Senior Manager - Information Systems Audit 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 2019 subject to the approval of the shareholders at the Annual General Meeting

Conclusion

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

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



W. P. Russel Fonseka
Chairman - Board Audit Committee

Colombo, Sri Lanka
28th May 2018

THE BOARD HR COMMITTEE REPORT

As Chairman of the Board HR Committee it is my pleasure to report on the active involvement of the Board HR Committee in the decision making process of the HR Management at LankaClear. The Board HR Committee is a Board level committee established by the Main Board, and functions under Terms of Reference agreed with the Board of Directors.

The Committee consists of 3 Board members, namely Mr. C. P. S. Bandara, Mr. E. R. de Silva and the undersigned. Mr. M. U. de Silva ceased to be a member of this Committee during the period under review. Mr. E. R. de Silva was appointed to the Board HR committee on 22nd August 2017 consequent to the resignation of Mr. M. U. de Silva on his retirement from the Sri Lanka Bankers Association. We wish to place on record the immense contribution of Mr. M. U. de Silva to the decision making process and the strategic direction of the Committee.

The responsibilities of the Board HR Committee include, inter alia, making recommendations to the Main Board on the following:

- Organisation structure and manpower planning
- Reviewing recruitment policies
- Recruitments
- Compensation and benefits
- Training and development policies and processes
- Health and occupational safety including approvals for Management recommendations on physical environment improvements and enhancements

06 meetings were held during the period under review in which many significant Strategic HR Decisions were made benefiting the people and the organisation. The Committee recommendations were received in relation to the right level of staff remuneration, revision of Virtual Sales Team Incentives Scheme, payment of annual bonuses, granting annual increments based on individual performance, promotions and designation changes awarded to employees.

The inputs provided by the Board HR Committee on the revised Bonus Scheme was one of the commendable tasks undertaken during the year. The inputs helped the management to demarcate the quantum of bonus to be disbursed on merit basis and the quantum of Bonus to be disbursed on Profit & Merit combined.

In addition, the Board HR Committee gave their valuable inputs with regard to the revision of the organisation structure resulting in the formation of the Research & Development Unit and amalgamation of Help-desk and Front Office Divisions.

The advice given by members of the Committee and their suggestions and recommendations were valuable in all these areas and was extremely helpful in obtaining Main Board's approval and respective implementations.

As the Chairman of the Committee I am happy to confirm that the Committee fulfilled its role as a Board sub-committee with great care and diligence and wish to thank the other members of this Committee, namely Mr. C. P. S. Bandara and Mr. E. R. de Silva.

In conclusion I also wish to thank Mr. Channa de Silva, General Manager/ CEO of LankaClear and Mr. Lakshman C. Palliyaguruge, Head of HR & Administration, who is also the Secretary of the Board HR Committee, for the support extended by them.



A. Amarasuriya
Chairman – Board HR Committee

Colombo, Sri Lanka
28th May 2018

WITH YOU WHERE EVER YOU ARE

OUR SERVICES
ARE CONVENIENT
AND OMNIPRESENT
TO BE WITH YOU IMMATERIAL
OF YOUR LIFESTYLE



STATEMENT OF DIRECTOR'S 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 100 of the Annual Report.

By Order of the Board
LankaClear (Private) Limited



Managers & Secretaries (Pvt) Limited
Secretaries

28th May 2018
Colombo, Sri Lanka

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

The Directors of LankaClear (Pvt) Ltd have pleasure in presenting the 16th Annual Report of your Company together with the Audited Financial Statements for the year ended 31st March 2018.

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 2018 and future business developments of the Company are provided in the Chairman's

message on pages 17 to 19, GM/CEO's review on pages 20 to 23, Management discussion & analysis appearing on pages 32 to 44 and capital management on pages 45 to 74. 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 2018 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 100 to 117.

Corporate Governance

The Corporate Governance principles and practices of the Company are described from pages 76 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 91 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 the page 106 to 109. There have been no changes in the accounting policies adopted by the Company during the year under review. For all periods up to and including the year ended 31 March 2018, the Company prepared its financial statements in accordance with Sri Lanka Accounting Standards for Small and Medium-sized Entities (SLFRS for SME's) and Companies Act No. 7 of 2007.

Revenue

Revenue generated by the Company amounted to Rs. 918Mn (2017 - Rs. 801 Mn).

Profit & Appropriations

The profit after tax of the Company and the profit attributable to the equity holders for the year was Rs. 361 Mn (2017 - Rs. 278 Mn). 15% of the profit after tax amounted to Rs. 53 Mn recommended by the Board to distribute among the Shareholders of the Company as Dividend.

Dividends

A final dividend of Rs. 3.50 per share for the Financial Year ended 31st March 2018 was recommended by the Board of Directors

ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE AFFAIRS OF THE COMPANY *CONTD.*

on 15th May 2018 resulting in a total cash payout amounting to Rs. 53 Mn (2017 Rs. 42 Mn)

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. 3.50 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. 60 Mn (2017 – Rs. 18 Mn) and all other related information and movements have been disclosed in the note 5 (page 110) to the financial statements.

Additions of intangible assets of the Company during the year amounted to Rs. 58 Mn (2017- Rs. 66 Mn) and all other related movements are disclosed under the note 6 (page 111).

Investments

Detailed description of the long term and short term financial investments held as at the reporting date, are given in note 7 and 10 (page 112) to the financial statements.

Stated Capital

The total stated capital of the Company as at 31st March 2018 was Rs. 158 Mn (2017 - 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 2018 for the Company amounted to Rs. 1,912 Mn (2017 - Rs. 1,592 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 2018 and the contingent Liabilities as at that date are given in note 24 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 25 to the Financial Statements.

Share Information & Shareholding

The Net Assets Value per Ordinary Share of the Company as at 31st March 2018 was Rs. 125.78 (2017 - Rs. 104.75). The number of shareholders as at 31st March 2018 was 26 (2017 - 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 2018 and their brief profiles are given in the Board of Directors section of the Annual Report (Pages 24 to 28).

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

- Mr. D. M. Gunasekara was resigned w.e.f. 22nd February 2018 and Mr. S. Bandara was appointed w.e.f. 20th March 2018 in his place.
- Mr. M. U. de Silva was resigned w.e.f. 22nd August 2017 and Mr. E. R. de Silva was appointed w.e.f. 22nd August 2017 in his place.
- Mr. P. Mathavan was resigned w.e.f. 12th January 2018 and Mr. R. Thiagarajah was appointed w.e.f. 20th February 2018 in his place.
- Mr. D. Seneviratne was resigned w.e.f. 28th June 2017 and Mr. M. N. R. Fernando was appointed w.e.f. 28th June 2017 in his place.

- Mr. A. M. Ali was resigned w.e.f. 20th March 2018 and there is no one appointed to his place.
- Mr. S. S. Ratnayake was resigned w.e.f. 05th June 2017 and Mr. C. J. P. Siriwardana was appointed w.e.f. 05th June 2017 in his place.
- Mr. C. J. P. Siriwardana was resigned w.e.f. 04th October 2017 and Mr. R. A. A. Jayalath was appointed w.e.f. 05th October 2017 in his place.

Board Committees

Information relating to members of the Audit Committee, Human Resources 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 76 to 82.

Directors' Interests in Contracts

Details of the transactions with Director-related entities are disclosed in note 23 to the financial statements on page 117 and have been declared at the Board meeting, pursuant to Section 192 (2) of the Companies Act No. 7 of 2007.

Directors' Remuneration

Details of the remuneration and other benefits received by the Directors are set out in note 23 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 51 to 56.

The number of persons employed by the Company as at 31st March 2018 was 114 (2017 - 112). 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 that have caused detriment to the environment.

Statutory Payments

The Directors to the best of their knowledge are satisfied that all statutory payments in relation to the Government, other regulatory institutions and the employees have been either duly paid or appropriately provided for in the financial statements. The tax position of the Company is disclosed in note 20 to the financial statements.

Donations

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

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 External Auditors are set out in note 19 of the financial statements. Fees paid to the auditors for performing internal audit services to Messrs. B. R. De Silva & Company amounting to Rs. 358,224/-. Further details on the work of the Auditor and the Audit Committee are set out in the Audit Committee Report on pages 92 to 93.

Annual Report

The Board of Directors approved the Audited Financial Statements for issue on 15th May 2018.

Notice of Meeting

The Annual General Meeting will be held at "Bougainvillea Ballroom", Galadari Hotel, 64, Lotus Road, Colombo 01 on 28th June 2018 at 11.30 am.

The Notice of the Annual General Meeting appears on page 120.

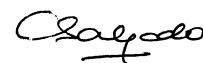
For and on behalf of the Board.



A. Amarasuriya
Chairman



C. P. S. Bandara
Director



Managers & Secretaries (Pvt) Ltd.
Secretaries

LankaClear (Private) Limited
28th May 2018
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 2018, 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.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 March 2018, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Financial Reporting Standards for Small and Medium-sized Entities (SLFRS for SMEs).

Basis for Opinion

We conducted our audit in accordance with Sri Lanka Auditing Standards (SLAuSs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Company in accordance with the Code of Ethics issued by CA Sri Lanka (Code of Ethics) and we have fulfilled our other ethical responsibilities in accordance with the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not

a guarantee that an audit conducted in accordance with SLAuSs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with SLAuSs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.

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 Ms. P V K N Sajeevani FCA N M Sulaiman ACA ACMA B E Wijesuriya FCA FCMA
Principal T P M Ruberu FCA FCCA

A member firm of Ernst & Young Global Limited

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

As required by Section 163(2) of the Companies Act No. 7 of 2007, we state the following:

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



15 May 2018
Colombo

STATEMENT OF FINANCIAL POSITION

As at 31 March	Notes	2018 Rs.	2017 Rs.
ASSETS			
Non Current Assets			
Property, Plant and Equipment	5	249,555,005	241,955,966
Intangible Assets	6	332,903,053	327,935,172
Long Term Financial Investments	7	781,731,867	-
		1,364,189,925	569,891,138
Current Assets			
Inventories	8	2,519,397	1,691,001
Trade and Other Receivables	9	170,840,520	155,863,885
Short Term Financial Investments	10	506,417,039	695,280,544
Cash and Cash Equivalents	11	59,745,472	284,103,917
		739,522,428	1,136,939,347
Total Assets		2,103,712,353	1,706,830,485
EQUITY AND LIABILITIES			
Capital and Reserves			
Stated Capital	12	158,250,000	158,250,000
Technology Upgrade Reserve	13	265,559,108	245,584,502
Retained Earnings		1,488,068,137	1,188,413,542
Total Equity		1,911,877,245	1,592,248,044
Non Current Liabilities			
Retirement Benefit Obligation	14	25,902,029	25,405,395
Deferred Tax Liability	15	16,403,847	8,347,985
		42,305,876	33,753,380
Current Liabilities			
Trade and Other Payables	16	118,554,242	64,391,227
Deferred Revenue		7,225,521	5,423,805
Income Tax Liability		23,749,469	11,014,029
		149,529,232	80,829,061
Total Equity and Liabilities		2,103,712,353	1,706,830,485
Net Assets Value Per Share		125.78	104.75

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



R. L. Galappaththy
Head of Finance

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



A. Amarasuriya
Chairman



C. P. S. Bandara
Director

The Accounting Policies and Notes on pages 106 to 117 form an integral part of these Financial Statements.

15th May 2018
Colombo

STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 March	Notes	2018 Rs.	2017 Rs.
Revenue	17	918,503,011	800,761,303
Direct Operating Expenses		(455,889,558)	(410,724,907)
Gross Profit		462,613,453	390,036,396
Other Income	18	144,466,245	90,686,259
Administrative Expenses		(161,568,213)	(138,180,975)
Marketing Expenses		(20,408,824)	(20,499,777)
Profit Before Tax	19	425,102,661	322,041,903
Income Tax Expense	20	(63,673,461)	(43,553,020)
Profit for the Year		361,429,200	278,488,884
Other Comprehensive Income		-	-
Total Comprehensive Income for the Year		361,429,200	278,488,884
Earnings Per Share	21	23.78	18.32

The Accounting Policies and Notes on pages 106 to 117 form an integral part of these Financial Statements.

STATEMENT OF CHANGES IN EQUITY

Year ended 31 March	Note	Stated Capital Rs.	Technology Upgrade Reserve Rs.	Retained Earnings Rs.	Total Rs.
Balance as at 01 April 2016		158,250,000	236,150,081	949,759,080	1,344,159,161
Profit for the Year		-	-	278,488,883	278,488,883
Transferred to Technology Upgrade Reserve	13	-	80,510,476	(80,510,476)	-
Utilisation of Technology Upgrade Reserve	13	-	(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	1,592,248,045
Profit for the Year		-	-	361,429,200	361,429,200
Transferred to Technology Upgrade Reserve	13	-	106,275,665	(106,275,665)	-
Utilisation of Technology Upgrade Reserve	13	-	(86,301,060)	86,301,060	-
Dividend paid		-	-	(41,800,000)	(41,800,000)
Balance as at 31 March 2018		158,250,000	265,559,107	1,488,068,137	1,911,877,245

The Accounting Policies and Notes on pages 106 to 117 form an integral part of these Financial Statements.

STATEMENT OF CASH FLOWS

Year ended 31 March	Notes	2018 Rs.	2017 Rs.
Cash flows from operating activities			
Profit Before Tax		425,102,661	322,041,903
Adjustments for			
Depreciation	5	52,360,218	48,400,623
Amortisation	6	52,692,579	43,305,710
Finance Income		(138,123,686)	(85,161,046)
Gratuity Charge for the Year	14	6,452,323	5,295,214
Profit on Disposal of Property, Plant & Equipment		(230,000)	-
Operating Profit before Working Capital Changes		398,254,094	333,882,404
(Increase)/Decrease in Inventories		(828,396)	(196,980)
Increase in Trade and Other Receivables		(14,976,635)	(39,001,794)
Increase in Deferred Revenue		1,801,716	-
Increase in Trade and Other Payables		54,163,017	16,316,820
Cash Generated from Operations		438,413,796	311,000,451
Income Tax Paid		(42,882,159)	(25,520,673)
Gratuity Paid	14	(5,955,689)	(104,034)
Net Cash From Operating Activities		389,575,948	285,375,744
Cash flows from Investing Activities			
Acquisition of Property, Plant & Equipment		(59,959,258)	(18,145,065)
Acquisition of Intangible Assets		(57,660,460)	(65,954,352)
Investment in Common Card and Payment Switch under Work in Progress		-	(3,500,000)
Proceeds from Disposal of Property, Plant & Equipment		230,000	-
Investment in Long Term Financial Investments		(781,731,867)	-
Investment in Short Term Financial Investments		188,863,505	(23,192,729)
Finance Income Received		138,123,686	73,105,957
Net Cash Flows Used in Investing Activities		(572,134,394)	(37,686,189)
Cash flows from Financing Activity			
Dividend Paid	22	(41,800,000)	(30,400,000)
Net Cash Flows Used in Financing Activity		(41,800,000)	(30,400,000)
Net Increase in Cash and Cash Equivalents		(224,358,445)	217,289,555
Cash and Cash Equivalents at the beginning of the year		284,103,917	66,814,362
Cash and Cash Equivalents at the end of the year	11	59,745,472	284,103,917

The Accounting Policies and Notes on pages 106 to 117 form an integral part of these Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

1.1 Reporting Entity

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

1.2 Principal Activities and Nature of Operations

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

1.3 Financial Period and Date of Authorisation for Issue

The Statement of Financial Position, Statements of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows, together with accounting policies and notes, ("Financial Statements") of the Company, for the year ended 31 March 2018, covering the period from 01 April 2017 to 31 March 2018 was authorised for issue by the Board of Directors on 15th May 2018.

2. BASIS OF PREPARATION

These financial statements have been prepared in accordance with the Sri Lanka Accounting Standard for Small and Medium-sized Entities (SLFRS for SME's) issued by the Institute of Chartered Accountants of Sri Lanka. The Financial Statements of the Company have been prepared on an accrual basis and under the historical cost convention method unless stated otherwise. These Financial Statements are presented in Sri Lankan Rupees (Rs.) and all financial information presented in Sri Lankan Rupees has been rounded to the nearest rupee

2.1 Statement of Compliance

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

2.2 Comparative Information

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

3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

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

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

Assessment of Impairment

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

Useful 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.

Useful-lives of intangible assets

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

Going Concern

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

4.1 Foreign Currency Translation

All foreign exchange transactions are converted to functional currency, at the rates of exchange prevailing at the time the transactions are affected.

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

4.2 Property, Plant and Equipment

Property, plant and equipment are recognised if it is probable that future economic benefits

associated with the assets will flow to the entity and cost of the asset can be reliably measured.

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

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

Computer Equipment	4 - 8 years
Furniture and Fittings	10 years
Electronic Equipment	5 years
Other Equipment	5 years
Motor Vehicles	5 years
Building	30 years

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

Capital Work-in-Progress

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

4.3 Borrowing Costs

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

4.4 Impairment of Assets

At each reporting date, property, plant and equipment and intangible assets are reviewed to determine whether there is any indication that those assets have suffered an impairment

loss. If there is an indication of possible impairment, the recoverable amount of any affected asset (or group of related assets) is estimated and compared with its carrying amount. If estimated recoverable amount is lower, the carrying amount is reduced to its estimated recoverable amount, and an impairment loss is recognised immediately in profit or loss.

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

4.5 Intangible Assets

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

Computer Software

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

4.6 Inventories

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

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

4.7 Trade and other receivables

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

4.8 Trade and other payables

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

4.9 Financial Assets and Liabilities

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

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

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

Investments with maturities more than three months and less than one year from the date of acquisition are considered as short term financial investments and are initially recognised at fair value. Investments with maturity more than one year from

NOTES TO THE FINANCIAL STATEMENTS *CONTD.*

the date of acquisition are considered as long term financial investments and are initially recognised at fair value. After initial measurement, such financial assets are subsequently measured at amortised cost using Effective Interest Rate method (EIR), less impairment.

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

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

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

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

4.10 Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in profit or loss net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected

future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as an interest expense.

4.11 Employee Benefits***Defined Benefit Plans – Gratuity***

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

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

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

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contribution into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contribution to Employee Provident and Employee Trust Funds covering all employees are recognised as an expense in profit or loss as incurred. The Company contributes 12% and 3% of gross emoluments of employees to Employees' Provident Fund and Employees' Trust Fund respectively.

4.12 Revenue Recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue and associated costs incurred or to be incurred can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable, net of discounts and sales-related taxes collected on behalf of the government of Sri Lanka. Revenue from product lines is recognised on per transaction

basis, except for certificate authority and FINCSIRT (Financial Sector Computer Security Incident Response Team) products which recognised on annual basis.

Interest Income

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

Rental Income

Rental income is recognised on an accrual basis.

4.13 Expenditure Recognition

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

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

4.14 Income Tax

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

Profits and income earned from Common Card and Payment Switch is exempt from income tax for a period of 6 years in terms of section 17(A) of the Inland Revenue Act No. 10 of 2006 and amendments thereto. The tax exemption period will be ended on 31st March 2021.

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

4.15 Deferred Taxation

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

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

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

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

Deferred tax assets and liabilities are not discounted.

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

4.16 Earnings Per Share

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

4.17 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.

NOTES TO THE FINANCIAL STATEMENTS *CONTD.***5. PROPERTY, PLANT AND EQUIPMENT****5.1 At Cost**

	Balance as at 01.04.2017 Rs.	Additions Rs.	Disposals/ Transfers Rs.	Balance as at 31.03.2018 Rs.
Computer Equipment	447,448,306	54,895,661	-	502,343,966
Furniture and Fittings	21,628,591	1,006,792	-	22,635,383
Electronic Equipment	34,510,029	3,012,704	(4,423,757)	33,098,976
Other Equipment	15,028,351	1,044,101	-	16,072,452
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	615,489,524	59,959,258	(4,423,757)	671,025,025

5.2 Depreciation

	Balance as at 01.04.2017 Rs.	Charge for the Year Rs.	Disposals Rs.	Balance as at 31.03.2018 Rs.
Computer Equipment	326,869,675	40,407,835	-	367,277,511
Furniture and Fittings	11,923,439	1,593,742	-	13,517,181
Electronic Equipment	22,167,506	3,981,665	(4,423,757)	21,725,415
Other Equipment	6,430,975	2,756,886	-	9,187,861
Motor Vehicle	2,678,000	1,339,000	-	4,017,000
Freehold Building	3,463,963	2,281,090	-	5,745,053
Total Depreciation	373,533,558	52,360,218	(4,423,757)	421,470,019

5.3 Net Book Values

	2018 Rs.	2017 Rs.
Computer Equipment	135,066,456	120,578,630
Furniture and Fittings	9,118,202	9,705,152
Electronic Equipment	11,373,561	12,342,522
Other Equipment	6,884,591	8,597,376
Motor Vehicle	2,678,000	4,017,000
Freehold Land	21,238,620	21,238,620
Freehold Building	63,195,575	65,476,665
Total Carrying Amount of Property, Plant and Equipment	249,555,005	241,955,966

5.4 During the financial year, the Company acquired Property, Plant & Equipment by means of cash with an aggregate cost of Rs. 59,959,258/- (2017 - Rs.18,145,065/-).

5.5 The total investment made as at the reporting date in Common Card and Payment Switch was Rs. 494mn (2017 - Rs. 469mn) 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 2018 no provision was required to be made in the financial statements as at the reporting date.

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

6. INTANGIBLE ASSETS

6.1 At Cost

	Balance as at 01.04.2017 Rs.	Additions Rs.	Disposals/ Transfers Rs.	Balance as at 31.03.2018 Rs.
Computer Software	585,103,125	57,660,460	-	642,763,584
	585,103,125	57,660,460	-	642,763,584
Capital Work in Progress				
Common Card and Payment Switch	99,064,917	-	-	99,064,917
	99,064,917	-	-	99,064,917
Total Value of Assets	684,168,042	57,660,460	-	741,828,501

6.2 Amortisation

	Balance as at 01.04.2017 Rs.	Charge for the Year Rs.	Disposals Rs.	Balance as at 31.03.2018 Rs.
Computer Software	356,232,869	52,692,579	-	408,925,448
Total Amortisation	356,232,869	52,692,579	-	408,925,448

6.3 Net Book Values

	2018 Rs.	2017 Rs.
Computer Software	233,838,136	228,870,256
Capital Work in Progress		
Common Card and Payment Switch	99,064,917	99,064,917
Total Carrying Amount of Intangible Assets	332,903,053	327,935,172

6.4 During the financial year, the Company acquired intangible assets by means of cash with an aggregate cost of Rs. 57,660,460/- (2017 - Rs. 65,954,352/-).

NOTES TO THE FINANCIAL STATEMENTS *CONTD.***6. INTANGIBLE ASSETS (CONTD.)**

6.5 Based on the assessment of potential impairment carried out internally as at 31 March 2018, no provision was required to be made in the Financial Statements as at the reporting date.

6.6 The Common Card and Payment Switch comprise with 5 phases including Common ATM Switch, Common Electronic Fund Transfer Switch, Shared ATM Switch, Common POS Switch and Common Mobile Switch. As at the end of the financial year Common POS Switch and Common Mobile Switch has not yet gone live operation and their investments awaiting for capitalisation in next financial year.

7. LONG TERM FINANCIAL INVESTMENTS

	2018 Rs.	2017 Rs.
Investment in Fixed Deposits	729,002,069	-
Accrued Interest on Fixed Deposits	52,729,799	-
	781,731,867	-

8. INVENTORIES

	2018 Rs.	2017 Rs.
Consumable and Stationery	2,519,397	1,691,001
	2,519,397	1,691,001

9. TRADE AND OTHER RECEIVABLES

	2018 Rs.	2017 Rs.
Trade Receivables	133,510,357	120,596,104
Advances & Prepayments	36,281,310	33,989,138
Refundable Deposits	440,700	371,200
Other Receivables	608,153	907,443
	170,840,520	155,863,885

10. SHORT TERM FINANCIAL INVESTMENTS

	2018 Rs.	2017 Rs.
Investment in Fixed Deposits	496,824,792	654,138,777
Accrued Interest on Fixed Deposits	9,592,247	18,173,780
Investment in Securities Purchase under Resale Agreement	-	21,000,000
Accrued Interest on Securities Purchase under Resale Agreement	-	1,967,988
	506,417,039	695,280,544

11. CASH AND CASH EQUIVALENTS

	2018 Rs.	2017 Rs.
Investment in Fixed Deposits	-	273,115,679
Accrued Interest on Fixed Deposits	-	3,996,529
Securities Purchase under Resale Agreement	12,000,000	5,000,000
Cash in Hand and Bank Balances	47,745,472	1,991,710
	<u>59,745,472</u>	<u>284,103,917</u>

12. STATED CAPITAL

	2018		2017	
	Number	Rs.	Number	Rs.
Fully paid Ordinary Shares	15,200,000	158,250,000	15,200,000	158,250,000

13. TECHNOLOGY UPGRADE RESERVE

	2018 Rs.	2017 Rs.
Balance at the Beginning of the Year	245,584,502	236,150,081
Transferred from Retained Earnings	106,275,665	80,510,476
Utilisation of Technology Upgrade Reserve	(86,301,060)	(71,076,055)
Balance at the End of the Year	<u>265,559,108</u>	<u>245,584,502</u>

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.

14. RETIREMENT BENEFIT OBLIGATION

	2018 Rs.	2017 Rs.
Balance at the Beginning of the Year	25,405,395	20,214,215
Gratuity Charge for the Year	6,452,323	5,295,214
Payments made during the Year	(5,955,689)	(104,034)
Balance at the End of the Year	<u>25,902,029</u>	<u>25,405,395</u>

NOTES TO THE FINANCIAL STATEMENTS *CONTD.***15. DEFERRED TAXATION**

	2018 Rs.	2017 Rs.
Deferred Tax Liability	16,403,847	8,347,985
	16,403,847	8,347,985

	2018		2017	
	Temporary Difference Rs.	Tax Effect Rs.	Temporary Difference Rs.	Tax Effect Rs.
Balance at the Beginning of the Year	(29,814,232)	(8,347,985)	(14,663,223)	(4,105,702)
Transferred to/(from) Income Statement	(28,770,934)	(8,055,862)	(15,151,009)	(4,242,283)
Balance at the End of the Year	(58,585,166)	(16,403,847)	(29,814,232)	(8,347,985)

Deferred Tax Asset/(Liability) consisted of followings

Property, Plant and Equipment and Intangible Assets	(84,487,195)	(23,656,415)	(55,219,628)	(15,461,496)
Retirement Benefit Obligation	25,902,029	7,252,568	25,405,396	7,113,511
	(58,585,166)	(16,403,847)	(29,814,232)	(8,347,985)

The Turnover of the Company for liable operations is less than Rs. 750mn. Therefore, profits and income of the liable operations is liable to income tax at the rate of 12% as per Section 59 (B) of the Inland Revenue Act No. 10 of 2006. However this concessionary rate will no longer applicable in next year and therefore Deferred Tax has been computed at the rate of 28%.

16. TRADE AND OTHER PAYABLES

	2018 Rs.	2017 Rs.
Sundry Creditors and Accruals	108,568,585	53,629,222
Value Added Tax (VAT)	8,066,146	8,723,674
Nation Building Tax (NBT)	1,919,511	2,038,331
	118,554,242	64,391,227

17. REVENUE

	2018 Rs.	2017 Rs.
Revenue from Cheque Imaging and Truncation System (CITS)	445,396,942	399,683,113
Revenue from Common Card and Payment Switch (CCAPS)	323,269,268	275,099,501
Revenue from Sri Lanka Interbank Payment System (SLIPS)	114,655,829	102,249,230
Revenue from Financial Sector Computer Security Incident Response Team (FINCSIRT)	14,189,409	9,841,783
Revenue from LankaSign Certificate Authority (CA)	17,638,064	10,994,176
Revenue from USD Online Clearing System	3,353,500	2,893,500
	918,503,011	800,761,303

18. OTHER INCOME

	2018 Rs.	2017 Rs.
Interest on Fixed Deposits	136,656,877	80,451,382
Interest on Securities Purchase under Resale Agreement	1,437,830	4,709,664
Profit on Disposal of Property, Plant and Equipment	230,000	-
Rental Income	4,454,373	4,242,260
Interest on Saving Account - USD	28,978	-
Other Income	1,658,187	1,282,953
	144,466,245	90,686,259

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.143,783/- (2017 - Rs. 470,966/-).

19. PROFIT BEFORE TAX

	2018 Rs.	2017 Rs.
Profit Before Tax is stated after charging all expenses including the following:		
Directors' Emoluments	4,030,000	3,980,000
External Auditors' Fee	631,633	733,280
Depreciation (Note 5.2)	52,360,218	48,400,623
Amortisation (Note 6.2)	52,692,579	43,305,710
Impairment on Receivables	1,837,653	-
Personnel Costs includes		
- Defined Contribution Plan Cost - EPF & ETF	19,384,366	17,777,278
- Salaries and Other Staff Costs	186,210,448	160,744,576

20. INCOME TAX EXPENSES

	2018 Rs.	2017 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 20.1)	55,612,895	39,381,896
(Over)/Under Provision of Current Taxes in Respect of Previous Year	4,704	(71,159)
Deferred Income Tax Expense		
Deferred Tax Originating During the Year (Note 15)	8,055,862	4,242,283
Charge to the Income Statement	63,673,461	43,553,020

NOTES TO THE FINANCIAL STATEMENTS *CONTD.***20. INCOME TAX EXPENSES (CONTD.)****20.1 Reconciliation of Accounting Profit to Income Tax Expense**

	2018 Rs.	2017 Rs.
Profit Before Tax	425,102,661	322,041,903
(Profit)/Loss on Tax Exempt Operation	(120,823,434)	(94,543,132)
Aggregate Allowable Items	(226,385,052)	(151,179,255)
Aggregate Disallowable Items	63,325,633	53,153,844
Taxable Income	141,219,808	129,473,360
Interest Income	138,094,707	85,161,046
Income Tax @ 12%	16,946,377	15,536,803
Income Tax @ 28%	38,666,518	23,845,093
	55,612,895	39,381,896

Profits and income earned from Common Card and Payment Switch is exempt from income tax for a period of 6 years in terms of section 17(A) of the Inland Revenue Act No. 10 of 2006 and amendments thereto. The tax exemption period will be ended on 31st March 2021.

21. 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.

	2018 Rs.	2017 Rs.
Amount used as the Numerator		
Net Profit attributable to Ordinary Shareholders	361,429,200	278,488,884
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	23.78	18.32

22. DIVIDEND PER SHARE

	2018 Rs.	2017 Rs.
Final Dividend paid in respect of 2015/16	-	30,400,000
Final Dividend paid in respect of 2016/17	41,800,000	
Dividend Per Share	2.75	2.00

23. RELATED PARTY DISCLOSURES

Transactions with Related Parties

	2018 Rs.	2017 Rs.
Central Bank of Sri Lanka *		
Service rendered through Cheque Imaging and Truncation System (CITS)	177,343	175,801
Service rendered through Sri Lanka Interbank Payment System (SLIPS)	308,178	320,736
Dividend paid	8,112,500	5,162,500

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

Transactions with key Management Personnel of the Company (KMP)

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

	2018 Rs.	2017 Rs.
Short Term Employment Benefits	4,030,000	3,980,000

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.

24. 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.

24.1 Capital Expenditure Commitments

Capital Expenditure committed by the Board of Directors for which a provision has not been made in the Financial Statements amounted to Rs. 40Mn (2017 - Rs. NIL)

24.2 Litigation against the Company

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

25. 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)	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
-----------------------------	------	------	------	------	------	------	------	------	------	------

OPERATING RESULTS

Revenue	422.23	383.36	348.81	390.43	427.85	463.03	517.87	601.64	800.76	918.50
Gross Profit	210.07	175.00	208.40	257.74	282.11	260.90	247.16	262.17	390.04	462.61
Other Income	86.82	72.43	61.98	63.30	83.13	95.30	68.04	58.60	90.69	144.47
Administrative Expenses	99.58	107.35	99.40	124.73	104.78	128.01	121.81	126.40	138.18	161.57
Finance Cost	21.53	17.31	9.34	6.39	-	-	-	-	-	-
Marketing Expenses	-	-	-	-	-	-	10.76	9.57	20.50	20.41
Profit Before Tax	175.77	122.77	161.65	189.92	260.46	228.20	182.63	184.81	322.04	425.10
Income Tax Expenses	64.76	42.95	70.80	63.61	71.55	41.41	53.15	11.06	43.55	63.67
Profit for the Year	111.01	79.82	90.85	126.31	188.91	186.79	129.48	173.74	278.49	361.43

CAPITAL EMPLOYED

Stated Capital	150.50	150.50	152.50	154.75	154.75	158.25	158.25	158.25	158.25	158.25
Technology Upgrade Reserve	53.25	83.95	72.01	110.21	167.51	229.67	222.04	236.15	245.58	265.56
Capital Reserves	195.00	195.00	300.00	395.00	395.00	120.00	-	-	-	-
Retained Earnings	128.21	153.26	133.75	104.20	213.10	586.21	816.73	949.76	1,188.41	1,488.07
Non Current Liabilities	215.36	114.13	83.50	9.19	11.44	17.26	18.39	24.32	33.75	42.31
Total	742.32	696.83	741.76	773.36	941.79	1,111.39	1,215.40	1,368.48	1,626.00	1,954.19

ASSETS EMPLOYED

Property, Plant and Equipment	220.90	113.64	132.99	91.57	206.24	175.59	224.74	268.86	241.96	249.55
Intangible Assets	85.48	30.12	29.19	15.28	10.71	117.95	235.52	293.04	327.94	332.90
Long Term Financial Investments	-	-	-	-	-	-	-	-	-	781.74
Deferred Tax Asset	-	1.20	-	-	-	1.12	0.65	-	-	-
Net Current Assets	435.94	551.87	579.58	666.51	724.83	816.72	754.50	806.58	1,056.11	590.00
Total	742.32	696.84	741.76	773.36	941.79	1,111.39	1,215.40	1,368.48	1,626.00	1,954.19

CASH FLOW

Cash Flows from/(used in)										
Operating Activities	72.62	101.83	118.18	138.47	96.80	138.65	106.56	164.31	285.38	389.57
Cash Flows from/(used in)										
Investing Activities	241.69	(67.70)	(77.40)	83.47	(196.01)	(87.81)	(72.67)	(124.35)	(37.69)	(572.13)
Cash Flows from/(used in)										
Financing Activities	(42.33)	(51.36)	(42.72)	(94.58)	(22.73)	(23.01)	(26.60)	(26.60)	(30.40)	(41.80)
Net increase/(decrease) in										
Cash and Cash Equivalents	271.97	(17.23)	(1.93)	127.36	(121.93)	27.83	7.29	13.36	217.29	(224.36)

KEY INDICATORS

Net Profit Margin	26%	21%	26%	32%	44%	40%	25%	29%	35%	39%
Earnings Per Share	7.38	5.30	6.02	8.35	12.47	12.32	8.52	11.43	18.32	23.78
Net Assets Per Share	35.01	38.72	43.59	50.44	61.41	72.18	78.75	88.41	104.75	125.78
Revenue Growth Rate	-7%	-9%	-9%	12%	10%	8%	12%	16%	33%	15%
Dividend Per Share	1.60	1.15	1.50	1.50	1.75	1.75	1.75	2.00	2.75	3.50*
Dividend Payout (Rs.Mn)	24.08	17.3075	22.65	22.73	26.51	26.53	26.60	30.40	41.80	53.20
Return on Equity	21%	14%	14%	17%	20%	17%	11%	13%	17%	19%

* Dividend Proposed in 2017/2018

GLOSSARY

'ATM' shall mean an 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

'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.

'JustPay' Highly secured payment mechanism which facilitate secure real-time retail payments below Rs.10,000 under an extremely low tariff scheme, enable customers to make everyday payments by using their Savings or Current account by using smart mobile phones and other smart devices.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the 16th Annual General Meeting of LankaClear (Private) Limited will be held on 28th June 2018 at 11.30 am at "Bougainvillea Ballroom", Galadari Hotel, 64, Lotus Road, Colombo 01 for the following purposes:

- 1) To receive and consider the Report of the Directors and the Statement of Accounts for the year ended 31st March 2018 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.3.50 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

Colombo,
28th May 2018

[illegible]

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 16th Annual General Meeting of the Company to be held on 28th June 2018 and at any adjournment thereof and at every poll which may be taken in consequence thereof.

Signed this day of 2018.

.....

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.



www.lankaclear.com