

Convenience *to the fore*





The expectation of a customer is when a “Click to Pay” button is pressed the funds should seamlessly transfer from one bank to another. Enabling interbank payments is a complex process connecting multiple components, such as Banks, Payment applications, Kiosks, ATMs, Payment Switches and Telecom networks, using a variety of technologies that have to work in tandem. However, as you may experience by clicking the button on the cover page or understand when you explore this year’s annual report, the network has to ensure that every piece of the puzzle works together. All the components working in unison is what provides ultimate convenience to our customers and that is what we have mastered over the years.

A target icon consisting of three concentric circles, located in the upper right quadrant of the image.

Convenience *to the fore*

In a culture where services are consumed on-demand, we find ultimate convenience to be the single biggest driver to achieve customer loyalty. LankaClear has always been in the forefront in creating convenience in the lives of consumers by making all our services faster, seamless and secure. We are truly committed to invest in technology innovations that provide the best user experience in accessing financial services.

Contents

14

Financial
Highlights

18

Chairman's
Review

22

General Manager/
CEO's Review

36

Management Discussion
& Analysis

52

Capital
Management and
Sustainability

84

Governance
Reports

106

Financial
Information

129

Appendices

Company Overview

About LankaClear 03
Awards and Recognitions 04
Introduction to the Report 05
Corporate Information 07
Share Information 08
Participants of LankaClear
Systems and Services 09
Our Milestones 12
Financial Highlights 14
Operational Highlights 16

Stewardship

Chairman's Review 18
General Manager/CEO's Review 22
Board of Directors 28
Management Team 33

Management Discussion and Analysis

Value Creation Model 36
Corporate Strategy, Resource
Allocation and Future 37
Operations Review 41
System Security and High Availability 47
Security Products and Services 49

Capital Management

Financial Capital 52
Human Capital 58
Intellectual Capital 64
Social and Relationship Capital 67
Natural Capital/Sustainability 80

Governance

Corporate Governance 84
Enterprise Risk Management 91
The Board Audit Committee Report 100
The Board HR Committee Report 102
The Board Integrated Risk Management
Committee Report 103

Financial Reports

Statement of Directors' Responsibilities
for Financial Statements 106
Annual Report of the Board of
Directors 107
Independent Auditor's Report 110
Statement of Financial Position 112
Statement of Comprehensive Income 113
Statement of Changes in Equity 114
Statement of Cash Flows 115
Notes to the Financial Statements 116

Appendices

Ten Year Summary 129
Glossary 130
Notes 132
Notice of Annual General Meeting 134
Form of Proxy 135

About LankaClear

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

Our LankaClear, as the operator of LankaPay - the National Payment Network, endeavours to understand the needs of the customers and make the best effort to provide a seamless user experience with a higher level of security across any device, location or time. We aim to achieve this objective by not only introducing ultra-convenient financial services to the general public via our members, but also 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
- Enhance customer satisfaction levels
- Reduce the cost of all inter-bank financial transactions
- Manage and deliver stakeholder expectations whilst maintaining good governance and contributing to 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
- Promoting 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

2018

- Gold Award under Small and Medium sized Entities at the Annual Report Awards 2018 organised by the Institute of Chartered Accountants of Sri Lanka for the third consecutive year.
- Gold Award under ICT Services Sector at the National Business Excellence Awards organised by the National Chamber of Commerce valid for two years including 2018.

Introduction to the Report

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

This is LankaClear's fourth Integrated Annual Report and covers the period 1st April 2018 to 31st March 2019, providing 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 Ernst & Young Chartered Accountants Sri Lanka. 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 represents 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.

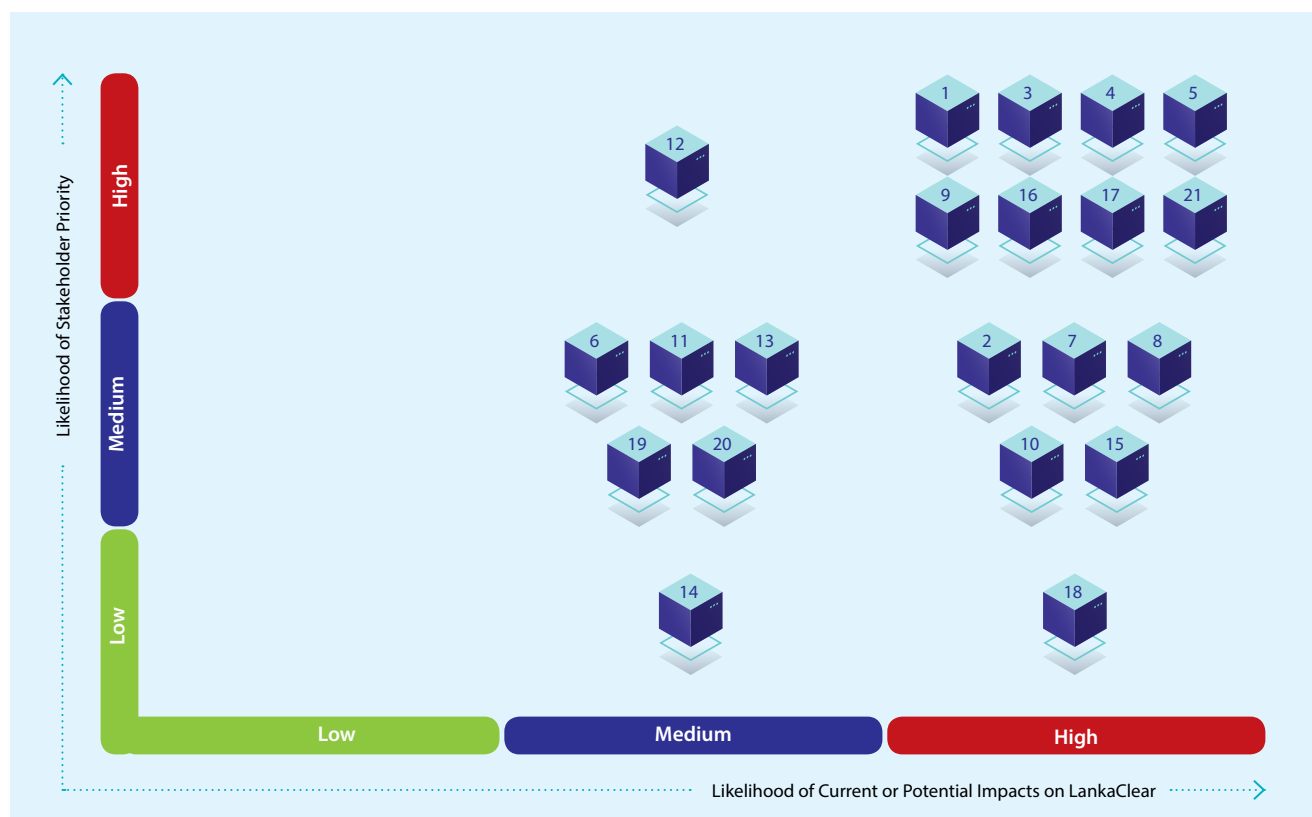
This activity is carried out on an annual basis with the involvement of the whole Management team based on their areas of expertise and stakeholder engagement and is evaluated on a regular basis at Board and Management meetings and is integrated into organisational and departmental goals.

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.



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.

Introduction to the Report



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 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 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 an 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. Enhance overall financial health of the organisation through attaining revenue and profitability growth and attaining cost efficiencies while safeguarding Company assets
17. Ensure 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. Maintain 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 (Central Bank of Sri Lanka), were entrusted to LankaClear (Pvt) Ltd. upon incorporation of the Company on April 01, 2002.

LankaClear (Pvt) Ltd. is owned by the Central Bank of Sri Lanka and all licensed commercial banks of Sri Lanka.

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/FIs (LankaPay – SAS)
- Operating the hosted card management solution for Banks/FIs (LankaPay – CMS)
- Operating the national system for USD online payments

- Operating the national financial sector certificate authority (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 and Financial Services Sector of Sri Lanka

Total No. of Employees

109

Net Revenue

LKR 1,029,057,105

Stated Capital

LKR 165,200,000

Share Information

Shareholding as at 31st March 2019

LankaClear shares were owned by the Central Bank of Sri Lanka (CBSL) and 26 Commercial Banks operating in Sri Lanka, including State Banks, Private Banks and Private Foreign Banks.

Shareholders	Number of shares Mn	Value LKR 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
Bank of China Ltd.	0.05	6.95
Total	15.25	165.20

Participants of LankaClear Systems and Services

Name of the Participant	CITS	US Dollar Draft Clearing	USD Online Payment System	CAS	EFT		SAS	FINCSIRT	LPOPP	JustPay
					Real Time (CEFTS)	Batch Mode (SLIPS)				
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.	●	●	●	●	●	●		●	●	●
Bank of China Ltd.	●									
National Savings Bank				●	●	●		●		
Sanasa Development Bank PLC					●	●		●		
HDFC Bank				●	●	●		●		
Citizens Development Business Finance PLC					●	●		●		●
Regional Development Bank				●	●	●	●	●		
State Mortgage & Investment Bank						●				
L B Finance PLC					●	●		●		

Participants of LankaClear Systems and Services

Name of the Participant	CITS	US Dollar Draft Clearing	USD Online Payment System	CAS	EFT		SAS	FINCSIRT	LPOPP	JustPay
					Real Time (CEFTS)	Batch Mode (SLIPS)				
Senkadagala Finance PLC					●	●				
Commercial Leasing and Finance PLC					●	●				●
Vallibel Finance PLC						●		●		
Central Finance PLC					●	●		●		
Kanrich Finance Ltd.						●		●		
Alliance Finance Company PLC						●				
LOLC Finance PLC					●	●		●		●
Commercial Credit and Finance PLC				●						
Merchant Bank of Sri Lanka & Finance PLC						●				
HNB Finance Ltd.					●	●		●		
Mercantile Investment and Finance PLC						●		●		
People's Leasing and Finance PLC					●	●				
Sarvodaya Development Finance Ltd.				●			●			
Bimpuh Finance PLC				●	●			●		
Siyapatha Finance PLC						●		●		
LOLC Development Finance PLC					●					
Central Bank of Sri Lanka	●					●				
Asia Asset Finance								●		
Capital Alliance Holdings								●		
Colombo Trust Finance PLC								●		
Lankaputhra Development Bank Ltd.								●		
Singer Finance (Lanka) Ltd.								●		
Softlogic Finance PLC								●		
Total	27	23	13	28	39	45	2	43	8	11

Participants joined prior to 2018/19



Participants went live during the year 2018/19





Convenience =

Payments have become so seamless while giving you ample time and opportunity to enjoy your special moments.



**Service
comes to you**

Our Milestones

2006

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

2009

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

2008

- Established a fully-functional DR site for LankaClear payment systems

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 2:00 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 Bank Computer Security Incidents Response Team (BankCSIRT) – 1st in South Asia (renamed in 2015 as FinCSIRT)
- Amalgamated Sri Lanka Rupee Drafts System into CITS in July 2014
- Migrated CITS front-end hardware to virtual infrastructure 'VM' for better performance and achieve cost efficiencies

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

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

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

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

2019

- Implemented the back-end to facilitate LANKAQR – National Quick Response (QR) code-based transactions
- Implemented Payment Exchange Name (PEN) – a nickname system to facilitate fund transfer via bank accounts
- Introduced four settlement cycles among member banks for CAS and CEFTS clearing to reduce the interbank settlement risk
- Implemented Clearing and Settlement Interface (CSI) Project for CITS to fully automate the data submission by banks to LankaClear reducing manual work and enhancing data security
- Designed and built a brand new state-of-the-art data centre with two hour fire resistance enclosure aligned with "Uptime Tier 3" standard
- Obtained the PCI-DSS version 3.2.1 recertification

Financial Highlights

2018/19

	2018/19	2017/18	2016/17	2015/16	2014/15
Results for the Year (LKR Mn)					
Revenue	1,029	918	801	602	518
Gross Profit	533	463	390	262	247
Profit Before Tax	520	425	322	185	183
Income Tax Expenses	90	64	44	11	53
Profit for the Year	430	361	278	174	129
At the Year End (LKR Mn)					
Total Assets	2,586	2,104	1,707	1,419	1,268
Total Capital Assets	608	582	570	562	461
Shareholders' Funds	2,290	1,912	1,592	1,344	1,197
Long-term Financial Investments	1,093	782	-	-	-
Short-term Financial Investments	549	506	695	660	646
Information per Ordinary Share (LKR)					
Earnings Per Share	28.28	23.78	18.32	11.43	8.52
Dividend Per Share (Proposed)	4.95	3.50	2.75	2.00	1.75
Net Assets Value Per Share	150.17	125.78	104.75	88.43	78.75
Ratios					
Gross Profit Ratio	52%	50%	49%	44%	48%
Net Profit Ratio	42%	39%	35%	29%	25%
Return on Equity	19%	19%	17%	13%	11%
Return on Assets	17%	17%	16%	12%	10%

Total Revenue 12% up @

LKR **1** Bn

CCAPS Revenue 29% up @

LKR **417** Mn

Net Profit 19% up @

LKR **430** Mn

Total Assets 23% up @

LKR **2.6** Bn

Total Shareholders' Funds 20% up @

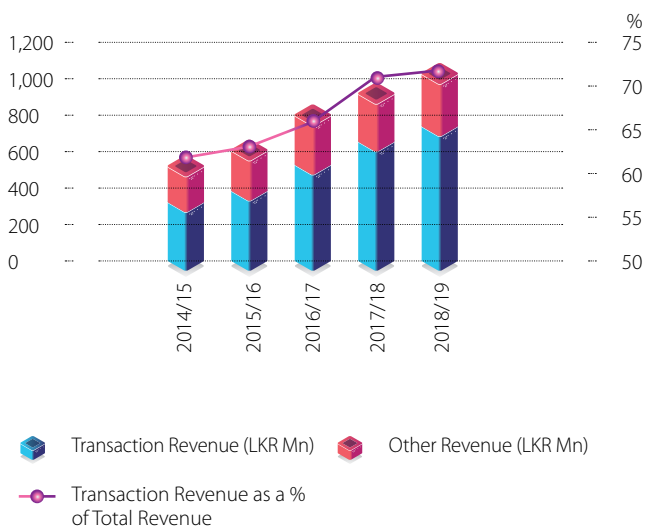
LKR **2.3** Bn

Net Assets Value per Share up 20% @

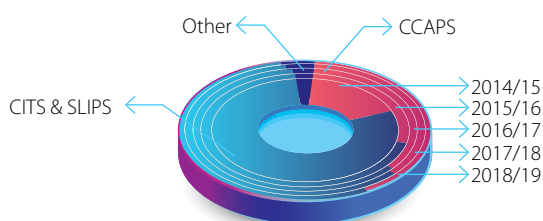
LKR **150.17**

Revenue and Profitability

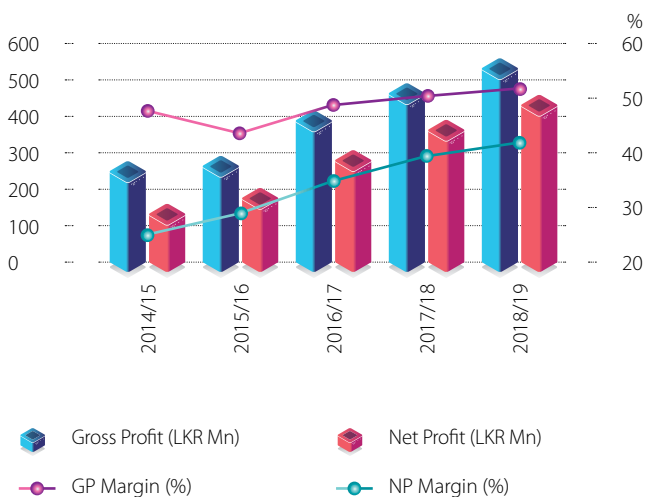
Revenue Analysis



Revenue Mix

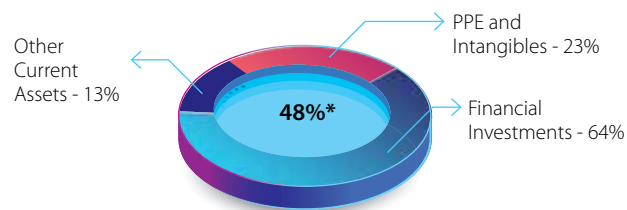


Profitability Analysis



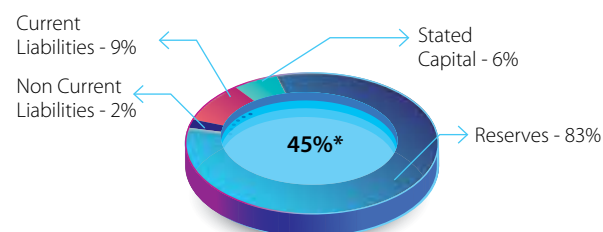
Financial Position vs Return on Investment

Total Assets Distribution



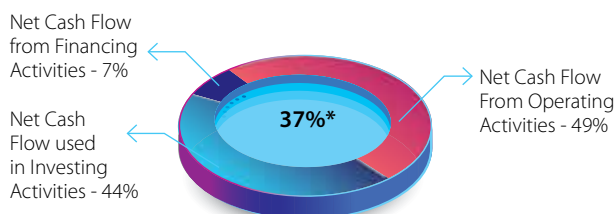
* Return on PPE & Intangibles - the return considered excluding Other Income (Net of Tax).

Capital Structure



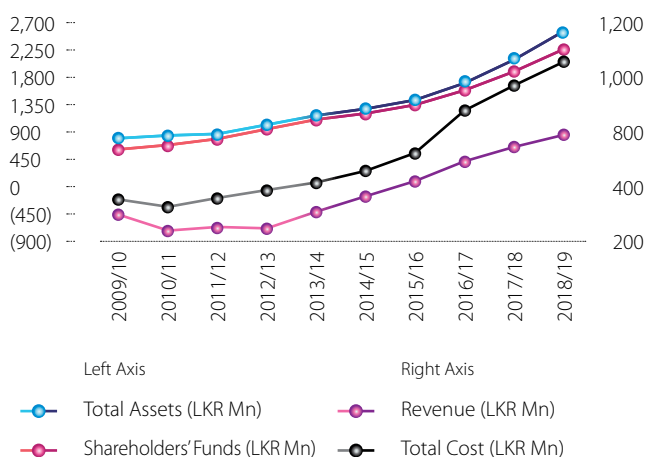
* Return on Equity excluding Equity Invested in Financial Investments - the considered return is Profit After Tax excluding Other Income (Net of Tax) and the considered Equity is excluding the value invested in Financial Investments.

Cash Flow



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

Ten Year Financial Performance



Operational Highlights



Over 57 Mn interbank debit card transactions facilitated for withdrawal of cash



Security of transactions and documents ensured through approx. 40,000 LankaSign digital certificates



24x7 call centre to support banks and financial institutions year around with regard to technical issues



Over LKR 13.53 Tn worth of transactions facilitated through LankaClear Systems



Online real time 24x7 fund transfers/ payments from one participant to another facilitated through 38 CEFTS members for your convenience



Retail sector payment facilitation through JustPay transactions. Growth of 1,767% during the second half of the year compared to the first six months while the customer registrations grew by 197% during the same period

30,000 +

users in the first year itself with **11 mobile payment applications** connected via **5 acquirers** and **11 issuers**

Payments backend is **PCI-DSS/PA-DSS Compliant** and the first entity to do so in Sri Lanka

LankaSign process is **ISO 27001** certified



4,900 +

ATMs islandwide connected to LankaPay - CAS network
99.6% Covered

49 Mn +

Over **LKR 10.325 Tn** worth of cheques cleared

37,000 +

Mobile SDK certificates issued

480 +

Certificates issued to financial sector

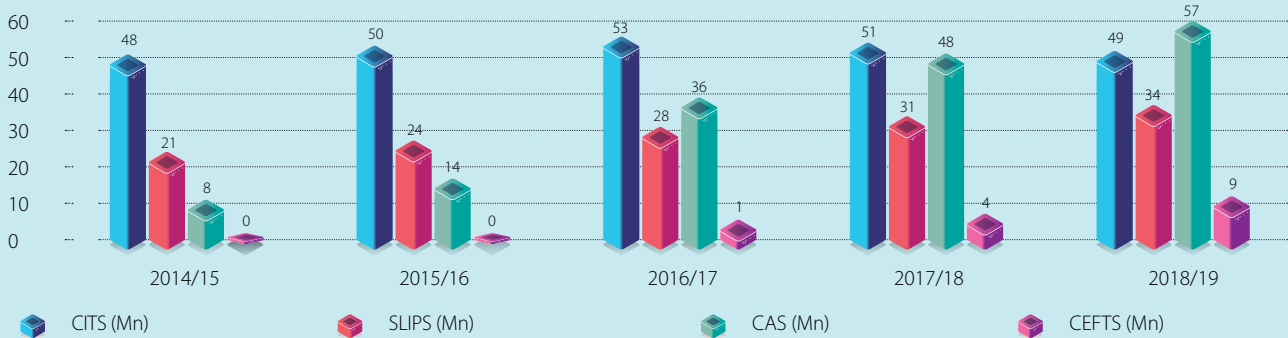
Certification and Integration



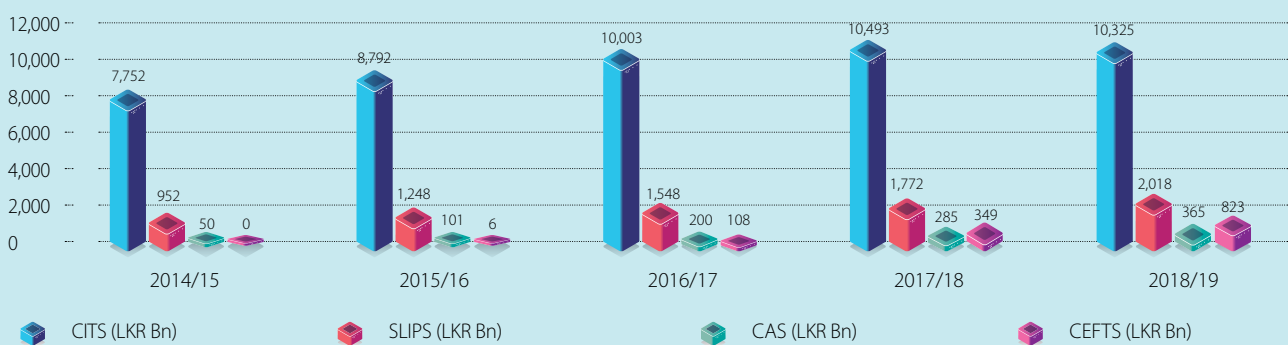
This process ensures connectivity with banks, financial institutions and other participants which indicates the expansion of LankaPay network

JustPay	CEFTS Credit	CEFTS Debit	SAS	EMV Migration
05	05	04	02	09

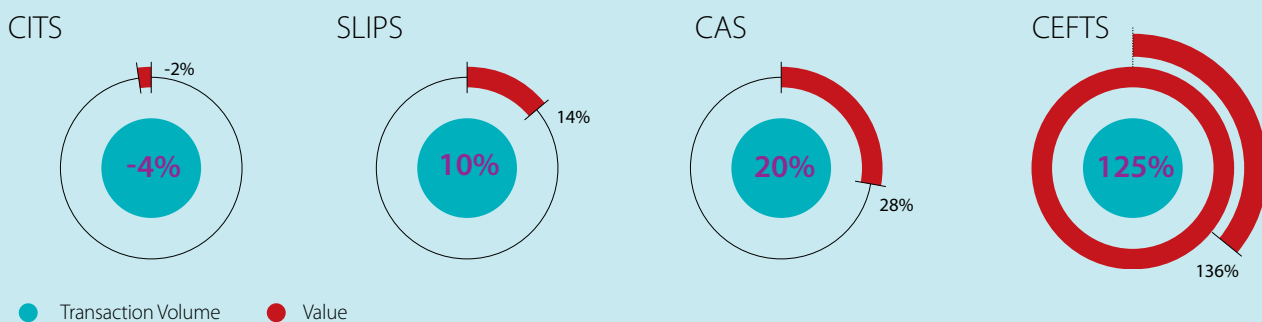
Annual Transaction Volumes by Products



Annual Transaction Value by Products



Growth of Transaction Volume and Value



Infrastructure Enhancements

- Refreshed core firewalls and other related devices
- Implemented Clearing and Settlement Interface (CSI) Project for CITS to fully automate the data submission by banks to LankaClear, reducing manual work and enhancing data security
- Migrated to a virtual infrastructure
- Designed and built a brand new state-of-the-art data centre with 2 hours fire resistance enclosure aligned with 'Uptime Tier 3' standard

Chairman's Review

The LankaClear business model focuses on building mutually beneficial partnerships providing long-term benefits to the Company, the banks as well as their customers. During the period under review, I am proud to state that these partnerships have helped us make further progress towards becoming 'Asia's most trusted and reliable payment network'.

It is my pleasure and privilege to present to you, on behalf of the Board of Directors, the Annual Report of the Company for the financial year ended 31st March 2019. Recording another year of growth, LankaClear delivered a Profit After Tax of LKR 430 Mn in 2018/19 compared to LKR 361 Mn in the previous financial year, which represents an annual growth of 19%. Total Assets of the Company grew by 23% during the year, and now stands at LKR 2.5 Bn. The Company remains resilient with the capital structure fully funded by Equity.

LankaClear is deeply integrated to the fabric of the financial services sector in Sri Lanka. All commercial banks are onboard and the ecosystem created by LankaClear is encouraging greater collaboration amongst the banks in the country. The LankaClear business model focuses on building mutually beneficial partnerships providing long-term benefits to the Company, the banks as well as their customers. During the period under review, I am proud to state that these partnerships have helped us make further progress towards becoming 'Asia's most trusted and reliable payment network'. Importantly, the underlying financial performance of the Company inspires us to set the bar even higher and deliver a sustainable performance in the future.

Economic Background

Global growth was approximately 3% in 2018, easing from 3.1% in 2017 and is expected to further slow down to around 2.9%, driven by a backdrop of elevated US-China trade tensions and political and economic uncertainty around Brexit. As all our stakeholders are aware, the financial year 2018 was exceptionally challenging for all Sri Lankans and businesses. The country was continually battered by errant weather patterns, causing disruptions to the power supply, which had a negative bearing on both businesses and the general public. The political landscape in 2018 was chaotic and further affected business sentiments. Due to successive rate

hikes by the US Federal Reserve and resultant exodus of funds from domestic capital markets coupled with importer demand, the Rupee faced an unprecedented level of depreciation against the US Dollar. These volatilities had a knock-on effect on overall economic performance of the country and Sri Lanka's GDP growth was recorded at 3.2% in 2018, compared to 3.4% in the previous year.

Given this extremely challenging operating environment, I am indeed pleased to acknowledge the financial performance of the Company, where we sharpened our resolve to unearth opportunities in the face of every challenge and made notable progress in our business performance.

Industry Sector Review

The banking sector was challenged with the changing dynamics of saving in high yielding deposits, financial and business implications of Sri Lanka Financial Reporting Standard 9 (SLFRS 9) and the volatility of the currency has thinned the margin for error and increased the pressure on getting the correct product mix. Further, the importance of an effective Fraud Risk Management framework has emerged as an important requirement due to different threats and vulnerabilities on many perspectives such as money laundering and sanctions screening, internal frauds, credit card frauds, mobile frauds and identity frauds etc.

The banking sector granted a record LKR 1.3 Tn in loans over 2018, recording a growth of 19.6% from 2017. With respect to performance of the banking sector, as at the end of Q1 2019 Annualised Return on Equity After Tax remained at 10.3%, Return on Assets Before Tax remained at 1.5% and on Asset Quality, Non-performing Loans to Total Loans and Advances remained at 4.2%.

FinTech players and other digital challengers have begun to disrupt the financial industry coupled with an increasing regulatory burden



A stylized white line graphic, resembling a signature or a decorative flourish, positioned above the text.

A. Amarasuriya
Chairman

Chairman's Review

and changing customer attitudes. Hence, the bankers as well as support role holders were under continuous pressure on multiple fronts to deliver the market demands.

Performance of the Company at a Glance

It is indeed notable to mention that the Company as a whole has yet again concluded a profitable year to continue the growth trajectory seen over the last few years. YoY Revenue and Profits grew by an impressive 12% and 19%, respectively. This growth was propelled primarily by the increase in YoY transaction volumes that we generated through the holistic offering. During the year, the transaction volumes of our real time payments switch (CEFTS) achieved a phenomenal YoY growth of 127.9%, this growth is primarily attributable to the growth in the banking industry as well as the FinTech sector in Sri Lanka. The domestic banking industry fully embraced digital technology. The team at LankaClear has been working tirelessly to feed the ever growing demand for innovative products, which offer both convenience as well as security. The digital penetration by the banking industry into rural areas has also drastically changed the spending patterns of end-users in these areas, thus creating new customer leads, which has contributed to the improved bottom line of the company. Technological expansion into these rural areas has also helped the volume growth of the Common ATM Switch (CAS) transactions, which displayed a YoY growth of 20.75%. Confirming our beliefs, which were based on market dynamics, the cheque volumes of CITS declined by 4.2% during the year under review. However, this decline could be considered as a positive outcome to the banking sector where an upward growth in the area of digital banking is expected in the future.

Our latest payment mode 'JustPay' continued to create a positive impact in the local retail market segment. During the year under review, this product recorded an impressive growth, with customer registrations for this service growing threefold. LankaClear ensures that security measures, which were introduced and upgraded during the previous year, were further enhanced in order to ensure stringent security controls throughout the holistic financial ecosystem.

In keeping with the Payment Systems Road Map 2019 presented by The Governor of the Central Bank, the National Card Scheme (NCS) under the brand name 'LankaPay' was launched in collaboration with an International Card Scheme. Initial steps for this system were engaged in 2018 with licensed commercial banks. Coupled with this initiative, a National Quick Response (QR) Code Standard for local currency payments, branded as 'LANKAQR', was issued to all financial institutions and operators of mobile phone based electronic money (e-money) systems to facilitate QR code based payments.

Stakeholder Relations

At LankaClear, our main aim is to instil a sense of trust in our services by ensuring the highest standards of security in all our

offerings. We took several steps to strengthen the security of our infrastructure including moving into a brand new data center at our primary site. In order to propel the use of our services among our stakeholder groups, during the year under review, we focused on 'Customer Convenience' as our main theme. It is our understanding that given today's fast-paced environment, end-users are motivated by services, which save them time and effort. Hence, we ensured that our services have been designed with the six convenience precepts, Anywhere, Anytime, Any Device, Any Amount, Secure and Interoperability, in mind. Our focus is to further enhance this key imperative not only to reinforce the Company's position as providing the backbone payment infrastructure to Sri Lanka's financial services sector, but also to highlight LankaClear's proposition as an organisation that provides further value.

Sustainable Operation

LankaClear makes its best efforts to drive our business in a sustainable and environmental friendly manner; so the resource requirements of the future generations are not hindered, which has elaborately discussed under the Sustainability section of this report. As a socially responsible organisation, LankaClear actively seeks the support of its employees, stakeholders, financial industry and the banking community that it operates in.

To be sustainable, a business must be profitable in the long-term. However, we at LankaClear made sure that short-term profits cannot simply trump the environment and social pillars. Being a force that disrupts the social fabric and damages the environment for short-term gains is far from who we are. In fact, profit at any cost is not acceptable to any of us at LankaClear where the right significance is given for compliance, proper governance and better risk management. The business is run at the highest level of transparency while being socially responsible and environment friendly. We feel that these are the right ingredients for a sustainable business model that would be successful in the long term.

Corporate Governance, Compliance and Responsible Citizenship

We pursue ethical and transparent business operations, embedding these concepts into our business strategies and operations. In order to achieve a strong corporate governance 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 believe in adhering to high level of compliance, to afore mentioned policies and regulations.

LankaClear funded a number of corporate social responsibility programmes which enabled our employees to contribute their time and energy in support of worthy community initiatives. These projects are empowered by dedicated staff members who work alongside local stakeholders in supporting the activities of various institutions ranging from schools and hospitals to community facilities.

I believe that LankaClear has always looked at challenges and taken them head on, knowing very well that with better preparation and having the right resources, we could turn the tide in our favour. Our track record for introducing innovations and achieving continuous growth has provided us with the agility required to create value in the short, medium and long-term.

Human Capital

LankaClear's approach to managing Human Capital is supported by a strong HR policy framework, and well governed systems and processes. Inspiring and motivating our team to reach higher goals while ensuring regulatory compliance.

Talent development remains high on our agenda and a number of training programmes were delivered covering our employees during the year resulting in over 400 total man days of training. Significant efforts were made to ensure that our teams were up-skilled to embrace a digital future as we built a tech-savvy team. Talent acquisition activities also focused on recruiting talent with strong technology backgrounds to meet our future demands.

The performance-based culture, which was established previously, has indeed borne rich dividends with employees striving towards personal goals that helped to propel the organisational goals. Performance reviews, carried out twice a year, help the Company as well as the employee by encouraging two-way communication, which provides an opportunity for the employees to realign themselves if necessary. Further, training and development requirement were analysed and provided based on the outcome of the performance reviews. The annual bonus too which is based on this framework has indeed been helpful in rewarding the employees who strive in making a difference.

We have developed several communication channels and forums to ensure that all employees were fully informed regarding the Company's operations, strategies, progress against objectives and any other areas, which directly affect them. We openly discuss and identify any areas that may require improvements and put our best effort to implement them.

Outlook for 2019

As per the current trends, global growth is expected to weaken in the short-term. Sri Lanka will not be isolated from these global events and our own macro-economic uncertainties will exacerbate the impact of global economic volatilities. We move forward to the next year with expectations that our operating environment will continue to present numerous challenges but we remain confident that strategies are in place to overcome and manage such challenges.

I believe that LankaClear has always looked at challenges and taken them head on, knowing very well that with better preparation and having the right resources, we could turn the tide in our favour. Our track record for introducing innovations and achieving continuous

growth has provided us with the agility required to create value in the short, medium and long-term. Continued growth in IT literacy and smart phone penetration in the country will support our growth strategy, enabling further penetration into the mass-market segments.

A strengthened balance sheet, digitisation and insights through data analytics gives us a strong platform for continued growth. We will continue to invest in developing our capability by enhancing our systems and technology in key areas while providing convenience to its customers.

Our efforts, in being a responsible citizen, were further magnified in the setting up of targets against baseline figures of the carbon footprint, availing us to travel towards a carbon neutral culture. As part of our sustainability strategy, and alongside our comprehensive risk management process, we continuously seek to conserve energy and water, dispose of waste responsibly, provide training and development, maintain a safe working environment and ensure the highest standards of product stewardship.

Appreciations

I take this opportunity to thank my colleagues on the Board for their active participation in all Board matters. While extending my heartfelt thanks to Mr. J. McCabe and Mr. R. Theagarajah for their contribution to the organisation while serving on the Board, I wish them all the best in their future endeavours. I would also like to extend a warm welcome to Mr. K. V. K. Alwis, Mr. P. L. D. N. Seneviratne and Mr. B. C. Thewarathanthri to the Board and look forward to working with them. I wish to thank the GM/CEO, Mr. Channa de Silva and his able team, which remains the foundation of all our success.



A. Amarasuriya
Chairman

06th June 2019

Colombo

General Manager/ CEO's Review

I am pleased to announce that we achieved our targeted revenue objective of becoming a billion rupee company during the year under review. In our quest to provide ultimate customer convenience, we were able to influence the lives of many different segments of the population as well as improve efficiencies in small and large businesses and public sector.

Our Focus is Your Convenience

Convenience, as a concept in retail, once meant providing a product or a service within a reasonable walk or drive, perhaps on the way home from work or in a town nearby. Traditionally, companies bundle similar products and services within well-established industry verticals. Whether it is a bank, an insurer, a healthcare provider, a retailer, a telecommunications provider or a media company, you will find similar operating environments targeting individual consumers, small and large enterprises and government institutions. This grouping or variation, while may provide convenience to the service provider, adds little or no value to the individual, small enterprise or the large corporation.

However, Millennial and Gen-Z customers are responsible for turning this established model upside down since they live, work and consume differently. Today, these customers play by a different set of rules and expectations. Driven by technology and an on-demand culture, younger generations of consumers have grown up with media and services that are available at the push of a button, anytime and anywhere. True convenience, in a digital landscape, means that the products and services are available to come to you at a time you prefer. While every industry is scrambling to realign its approach accordingly, many are missing a simple but one crucial insight: Millennials and Gen-Z are looking for ultimate convenience and the existing rigid product and service verticals are failing to provide them with that.

Our key focus for the year under review was to address these dynamic changes in the behaviour of the modern day consumer and provide solutions to support their multitude of needs. I am happy to note that we achieved our objectives successfully by initiatives that addressed these changes in the market dynamics. In addition, I am pleased to announce that we achieved our targeted revenue objective of becoming a billion rupee company during

the year under review. In our quest to provide ultimate customer convenience, we were able to influence the lives of many different segments of the population as well as improve efficiencies in small and large businesses and public sector. Let me share more on what we delivered in fiscal 2018/19 for our shareholders, our customers and partners as well as the lasting impact we created in the communities we serve by providing convenient financial services.

Competitive Landscape

The financial sector over the years had been primarily focussed on lending and deposits and the importance given to transactional banking has been comparatively low. The larger portion of the asset portfolio is controlled by five to six banks including a few large State sector banks. The primary mode of transactions continues to be cheque and cash payments. Cheques, even though slightly reduced in volume, continued to be one of the largest payment modes. The electronic payments segment has not grown at a pace we have observed in other regional countries, such as China and India, where the consumer adoption is growing phenomenally. Both credit and debit card based transactions, though being in existence for a couple of decades, continued to grow at a very slow pace due to inherent limitations as well as slow adoption by both merchants and consumers alike. The larger banks seemed to be moving at a snail pace in the midst of changing business dynamics, depending on traditional payment modes. However, the presence of a few FinTech companies which have partnered with smaller and aggressive banks and finance companies, have begun to challenge this status quo. Cash continued to remain as the key competitor for electronic payments, especially in the retail segment of the market, and an exponential growth for the latter is possible with a focussed approach to target and convert cash payments. We have seen a few smaller players beginning to emerge as forces to be reckoned with where the consumer adoption of their solutions have increased at a phenomenal rate. Our newest payment mode JustPay was

A professional portrait of Channa de Silva, a man with dark hair, wearing a dark suit, white shirt, and a patterned tie. He is seated, smiling, with his hands clasped. The background is a solid dark red. A signature is visible in the lower-left area.

Channa de Silva

Channa de Silva
General Manager/CEO

General Manager/CEO's Review

designed and implemented with a key focus of targeting the cash based retail payments and we have experienced a remarkable growth during the year under review. Some of the bigger players are beginning to take notice and attempting to move in the direction of mobile payments, which should create healthy competition and result in the growth of electronic payments.

Strategy and Focus

Our strategies for the year, based on inputs from international market research, were formulated around the fact that looking for ultimate convenience by the consumers is a top most influencer predicted to shape the retail shopping experience in Asia for the next few years. Shopping little and often was a growing trend and consumers expect to be able to source products and services anywhere, anytime and in any means they like. In line with this, one of our key focus areas for the year was adopting and pursuing a strategy around the use of smart phone apps for payments, which provides ultimate convenience to busy individuals. Thus, we saw a handful of new technology players coming into the market during the year around the strategy of convenience and making huge inroads in driving consumer adoption.

We embarked on 2018/19 with confidence by gaining sound knowledge on market direction and having the strength of launching JustPay, which is a payment mode to support smart phone-based apps. Combined with the past successes achieved due to our strong business fundamentals and sharpened focus on the correct operational model, we were able to execute our strategies with greater confidence. In line with the theme of convenience, we worked on initiatives such as Lanka QR and Payment Exchange Name (PEN) to provide further convenience to the lives of citizens. We leveraged on our established market position, as the 'Trusted National Payment Network' in the country, to rollout new and innovative financial service models that addressed market needs to achieve significant growth for the company.

We were able to raise the bar even further by attempting to implement new business models for the first time in the region and focussed on achieving the stringent goals set for ourselves as the highest priority. Our focus was not to go after the existing electronic payment market to grab market share, but to create and penetrate into new segments that were potentially untapped. We broadened our service offerings to address real consumer needs based on the strength of market research by utilising our enhanced digital infrastructure and implemented new solutions and processes while sharpening the existing ones. We understood the needs of the holistic market as seeking ultimate convenience and focussed vigorously on addressing this demand through our entire product portfolio.

Operational Review

We made significant progress in identifying and gearing up for future growth by investing in cutting-edge technologies to implement new solutions, which will provide further convenience to the general public in making payments. We achieved success in

most of our business activities throughout the year, with all our key products for the future growing at an accelerated pace.

Cheque Imaging and Truncation System (CITS) continued to contribute heavily towards revenue for yet another year, however, further reduced its significance on the revenue mix to 43% from 48% the previous year. This was in line with our projection that cheque volumes are bound to drop in the face of increased adoption in electronic payments. The total revenue from the products under Common Card and Payment Switch (CCAPS) improved to 41% from a previous 35%, confirming the above assumption. Common Electronic Fund Transfer Switch (CEFTS) had been a highlight during the year increasing its contribution to 11 % of the total revenue from 6% a year ago, thus reducing the dependence on CITS. These trends are likely to continue in the short to medium-term since the efforts to move towards a digitised economy is bound to reduce the significance of cheques, which is expected to gradually decline over the next few years.

As stated above, cheque volume cleared through LankaClear declined by 4.2% YOY (decline of 2.2% in 2017/18). On the contrary, compared to the total ATM transactions in the country, interbank ATM transactions penetrated into an impressive 16% out of the total ATM transaction volume in 2018/19 (14% penetration in 2017/18), which is a commendable growth compared to a low 3% a few years back. This was despite the growth of total ATM withdrawal volumes remaining static at 7% for the last two years, which used to range between 10% to 15% during the previous few years. Further, CEFTS volume represented a significant 27% of the total volume of internet based payment transactions. Sri Lanka Interbank Payment System (SLIPS) and CEFTS, which are our electronic fund transfer arms, contributed 23% of the total revenue compared to 19% in the previous year and increased the total transaction volume by 23%. LankaPay Online Payment Platform (LPOPP) with only Department of Customs going live contributed towards this growth.

Clearing systems under CCAPS continued to grow its contribution towards the revenue growth of the Company. Revenue from CCAPS reached a YOY growth of 29%. Amidst the declining trend in joining fees, transaction revenue from CCAPS showed a significant growth and shouldered the revenue gap, thus reducing the pressure of revenue reduction from CITS and joining fees. The CCAPS transaction revenue grew by an impressive 35% where the contributions came from CAS, CEFTS and Shared ATM Switch (SAS), which increased YOY by 21%, 124% and 37% respectively. This growth was 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.

We invested in implementing SAS as a cost effective solution for the small financial institutions to connect their ATMs, but were able to attract only one participant during the initial years. However, with a focused approach to turnaround the product line, the team worked on onboarding more participants. The number of members

The new investments made to implement systems to manage Lanka QR and Payment Exchange Name (PEN) intended to capitalise on the expanding market opportunities, thus our focus was to build capacity for future growth.

who were already live as well as the new members who signed up to join SAS during the year increased the total member count to seven, which was possible due to the formulation of an OPEX payment model, which was introduced last year as a turnaround strategy to attract small players.

The introduction of our latest payment innovation, 'JustPay', continued to create major ripples in the retail market. This payment mode was intended to convert low-value cash-based transactions in the retail space into electronic mode using smart mobile devices. This new product achieved massive growth during the last six months of the year under review to record a remarkable year. JustPay transaction volume grew by 1,767% during the second half of the year compared to the first six months while customer registrations grew by 197% during the same period to indicate the massive potential for this payment mode in the market. We were able to attract some of the leading payment and lifestyle app companies (FinTech) in Sri Lanka to our low-value retail payment network to facilitate mobile payments. JustPay is now considered as the de facto avenue for the local FinTech companies to enter into the financial services market.

The Common POS Switch (CPS) launched a few years back continued to experience teething issues and struggled to get participant members onboard. The National Card Scheme (NCS) was launched during the previous year to facilitate a lower cost option for banks to operate a debit card scheme. Muslim Commercial Bank (MCB) became the first bank to issue LankaPay-JCB co-branded debit cards under the NCS to be facilitated via CPS during the year. Due to the lower switching costs and reductions in other operational overheads, a few more banks were convinced to sign up and issue LankaPay-JCB co-branded cards during the year. With the implementation of NCS during the financial year 2018/19, CPS was expected to be operational and generate revenue to achieve a breakeven status. However, we had difficulties with member banks joining CPS despite CBSL issuing a directive with a deadline of 31st December 2018 for all acquirer banks to join.

FinCSIRT, our response to enhance information security across the financial sector, continued to grow by adding a few more banks and other non-banking financial institutions into its membership. Even though providing only a 2% contribution towards overall revenue, the services offered by FinCSIRT geared to add stability for the entire financial sector. The contribution of this service to the financial sector is significant and is considered as an important service in our portfolio to be operated at a breakeven level and not as a major revenue contributor.

We continued to invest in strengthening our IT and security infrastructure by obtaining recertification on Payment Card Industry Data Security Standard (PCI-DSS Version 3.2.1). In addition, we

revamped the primary Data Centre and upgraded the virtualised infrastructure during the year to add further stability to the National Payment Network. These upgrades ensured high availability across all systems and enhanced our capacity to launch new products at a faster pace. This also strengthened our core network security infrastructure to protect against new forms of cyber security threats.

Financial Results

I am proud to announce that LankaClear was able to continue and improve upon the high growth trajectory of the previous few financial years to record another year of exceptional performance. The Company recorded the highest-ever revenue to reach LKR 1.029 Bn (2017/18 - LKR 918 Mn), which enabled us to reach the milestone of becoming a billion rupee company, which was one of our key targeted objectives for the year. We achieved a Gross Profit (GP) of LKR 533 Mn (2017/18 - LKR 463 Mn), Profit Before Tax (PBT) of LKR 520 Mn (2017/18 - LKR 425 Mn) and Profit After Tax (PAT) of LKR 430 Mn (2017/18 - LKR 361 Mn). Revenue growth was at a healthy 12% YoY while GP grew by an impressive 15% YoY. Despite tough market conditions throughout the year, we were able to achieve growth in PBT, which grew by an impressive 22% YoY while PAT grew by 19% YoY.

Achieving this growth was quite significant as it came in the backdrop of reducing CITS volumes, which resulted in a decline in CITS revenue for the year. This demonstrated the importance of the Company's strategy of moving into other electronic payments services and reducing the dependency on CITS revenue towards the total revenue mix. The transaction revenue from CCAPS showed an impressive growth and bridged the revenue gap, thus reducing the burden on overall revenue growth. The transaction revenue grew by LKR 87 Mn to record a growth of 13% despite LKR 11 Mn reduction coming from CITS transaction revenue. Main contributions for transaction revenue growth came from CAS, CEFTS, SLIPS and USD Online, which increased by 20% to LKR 258 Mn, 123% to LKR 76 Mn, 9% to LKR 121 Mn and 54% to LKR 2.7 Mn respectively. With a significant effort from the team, we were able to achieve a 26% (2017/18 - 16%) revenue growth for USD Online and surpass the breakeven position for this product for the first time during the year.

We are confident that the growth achieved in transaction volumes is sustainable in the short to medium-term as we intend to add further value by introducing new services to provide further convenience. The new investments made to implement systems to manage Lanka QR and Payment Exchange Name (PEN) intended to capitalise on the expanding market opportunities, thus our focus was to build capacity for future growth. These investments were complemented by new partnerships established with FinTech companies to add a few additional smart phone-based payment applications to our JustPay network during the year, which contributed to the impressive CEFTS volume growth of 128%.

General Manager/CEO's Review

Stakeholder Management

The way our organisation is structured and operated, we are in a unique situation where both our shareholders and key customers are the same set of organisations. Even though banks and financial institutes are our direct customers, the actual consumers of our services are their customers. Hence, in order to provide ultimate customer convenience, we had a difficult task of working through our member banks to provide a better value proposition to their customers. We had to work with multiple technology systems across different stakeholders to provide a seamless end-to-end experience for the general public. However, when we look at the progress we have made in increasing transaction volumes, we can safely assume that our efforts in this regard have paid off.

One of our key stakeholders is the Central Bank of Sri Lanka (CBSL) and we engaged with them in the form of four separate stakeholders in different situations, such as being the regulator for the financial sector, our shareholder, a permanent representative on our Board as well as a customer for some of our services. Since all of our new initiatives had to be carried out with the due approval of the Central Bank, our focus was to work very closely with them to implement solutions to rollout the action items identified under their National Payment System roadmap as the implementer of the national payment infrastructure.

Achieving a deeper understanding of the changing needs of the consumers who are increasingly looking for added convenience in consuming financial services and the mechanism to create awareness on what we have done to cater to their requirements via our products were key success factors. In order to achieve success, we engaged deeply with the end consumers during the year under review via grass root level activations and social media campaigns to create awareness among them on the convenient financial services we offer. How we identified the requirements, especially towards the smart mobile-based services, promotional strategies used and how the ground level activations were carried out are discussed in detail under marketing strategies.

We continued with organising our annual award ceremony, LankaPay Technnovation Awards, for the second successive year to recognise champions who remained steadfast to the cause of promoting digital financial services. The awards competition was conducted with the objective of recognising our members who championed the cause of providing convenient financial services to their customers utilising the LankaPay National Payment network. The second edition of Sri Lanka's only payment technology innovation awards competition created a lot of excitement and resulted in a healthy rivalry among our members, which reached its climax in September 2018 when the glittering awards ceremony was held. As per the feedback we received, the event had been well accepted by Government representatives as well as the entire financial sector.

In order to foster a performance-based culture, we encouraged our team to contribute with their ideas, suggestions and opinions via several initiatives to promote staff harmony, recognition and

inter-departmental collaboration. We also ensured that improved engagement across all levels and teams took place and always recognised high performance. We continued with the practice of investing in people to ensure that our people are ready to face any future eventuality.

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

Corporate Governance

In order to be a responsible corporate citizen, LankaClear pursues an ethical and a transparent business process and inculcates these principles into our strategies and business operations. To fulfil a strong corporate governance and compliance commitment, the organisation 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 ensure that the internal Information Systems Auditor who reports to the Board Audit Committee keeps the team on its toes by maintaining a constant vigil on governance aspects. Our organisation structure including the formation of the Board, which constitutes representatives from all key stakeholders, ensures a high level of compliance in everything we do. In addition, as a team, we strive to exceed expectations of our stakeholders and fully comply with the standards and regulations set by the Central Bank. The governance structure of FinCSIRT, which constitutes representation from Central Bank and our member banks and financial institutes, SLBA and Sri Lanka CERT, ensures that we fulfil the task of facilitating financial sector stability via improved security in all financial systems connected to the National Payment Network.

Corporate Social Responsibility

We worked with all our employees and encouraged them to contribute their time, effort and resources in support of community initiatives through acts of volunteerism and commitment. Throughout the year under review, we engaged as a team in CSR projects funded and organised by LankaClear and empowered our employees to engage in voluntary work alongside other community stakeholders in supporting the activities of various institutions, ranging from Government hospitals, community homes and other public places. We engaged in preserving the environment that we live in by engaging in cleaning activities at public places and ensured the safety of the general public who frequented such places by erecting signboards that carried safety instructions by working closely with local Police and other State authorities.

Accolades

I am honoured to state that LankaClear was able to secure a hat trick of coveted Gold awards for our annual report themed 'Wherever You Go', under the SME category at the CA Sri Lanka Annual Report Awards in 2018. Winning the Gold award for the third consecutive year was a very humbling experience and a testament to the team

I am humbled by the numerous milestones achieved during the year under review, which is directly attributed to the untiring efforts of every single member of our team. Each staff member contributed to our growth trajectory and worked tirelessly to realise our goals. I appreciate their contribution and wholehearted commitment towards achieving our objectives.

who worked tirelessly on this task with very limited resources and yet was able to repeatedly reach the pinnacle of success. We did not take part at the National Business Excellence Awards 2018 since the Gold award we won in the previous year was valid for a period of two years and we are committed to continued improvement in all our business processes to achieve excellence. Winning these prestigious awards continually is a clear indication towards our commitment and resolve to reach the pinnacle in every aspect of our business and operations.

Future Roadmap

We see that the world is moving at a phenomenal pace towards electronic payments and transactional banking is led by China and India. For Sri Lanka to follow in the footsteps of these giants, we must put a concerted effort in future to ensure industry focus on moving away from traditional banking and increasing consumer adoption of electronic payments. The potential remains to be very high to move in this direction, which is currently a greenfield waiting to be harnessed.

As we focussed our strategies during the year under review to address the current and future market needs, we were guided by consistent market research that pointed us to provide financial services that improved customer convenience. We also made certain assumptions driven by statistics from the Central Bank and other market players to identify the current bottlenecks in the market to consume financial services. Some of the new services that we achieved progress during the year, such as JustPay, Lanka QR and Payment Exchange Name (PEN), are believed to be future friendly and based on concepts borrowed from the successful implementations across the world. One of our flagship initiatives, JustPay payment mode is growing at a phenomenal rate and we feel that this is going to change the entire retail payment landscape in the country. We will continue to invest and improve this payment mode to convert the massive cash-based transaction volumes into electronic mode.

We have also invested in an Electronic Bill Presentment and Payment platform during the year via our LPOPP infrastructure, which intends to provide further convenience to the banking population. We are continuing to add many more Government and other organisations to our existing LPOPP infrastructure to enable all citizens to make electronic payments to obtain Government services.

We have identified the limitations in the current card-based payment infrastructure in the country and designed our unique two-in-one LankaPay-JCB co-branded debit card to address these bottlenecks to improve consumer adoption of card-based financial

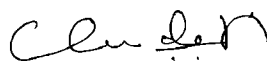
services. We feel that peer-to-peer payments is at a very infant stage with a significant potential for rapid growth and we have designed our PEN infrastructure to address certain limitations identified in the current systems deployed by mobile money operators.

As a company with a national interest and agenda, we will continue to invest in technological advancements to provide convenient financial services to general public to ensure that technology benefits reach people who are underserved. We will focus on services that further improve customer convenience and provide access to financial services to the rural population who do not enjoy the same benefits as their urban counterparts. We are committed to innovate boldly and empower people and organisations by creating the platforms and tools that enable technology to address the pressing financial needs of all communities we serve.

Acknowledgements

I am humbled by the numerous milestones that we achieved during the year under review, which is directly attributed to the untiring efforts of every single member of our team. Each staff member contributed to our growth trajectory and worked tirelessly to realise our goals. I appreciate their contribution and wholehearted commitment towards achieving our objectives.

I wish to thank our Chairman, the Board of Directors and all the shareholders for supporting me throughout the year. My sincere appreciation goes to members of my Management team for their commitment and exceptional contribution towards our growth. I am indebted to all our member banks, financial institutes and their loyal customer base who continue to place their confidence in LankaClear and providing a constant source of feedback to further improve our services. I am committed to forging even stronger partnerships with all our stakeholders as we guide our organisation to raise the bar further and reach even greater heights in the coming years.

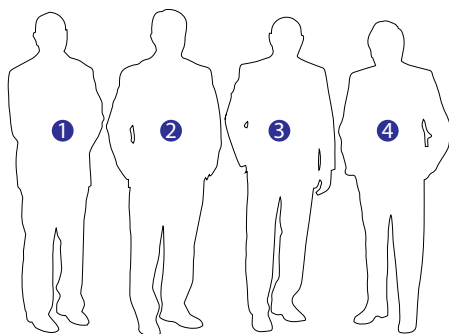


Channa de Silva
General Manager/CEO

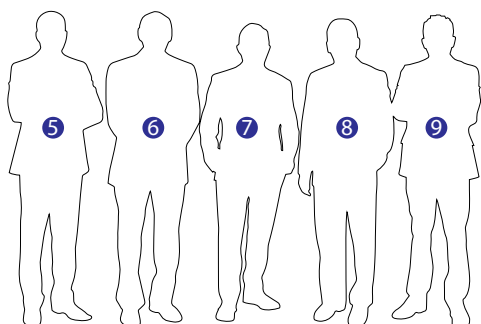
06th June 2019

Colombo

Board of Directors



1. Mr. A. Amarasuriya
2. Mr. R. A. A. Jayalath
3. Mr. D. Seneviratne
4. Mr. M. A. B. Silva



5. Mr. K. V. K. Alwis
6. Mr. E. R. De Silva
7. Mr. S. Bandara
8. Mr. M. N. R. Fernando
9. Mr. B. Thewarathanthri

Board of Directors

Mr. A. Amarasuriya

Chairman

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

He has served as the Chairman of the 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. He is the current Chairman of the Sri Lanka Accounting and Auditing Standards Monitoring Board (SLAASMB), and holds positions in number of other boards and committees representing the Central Bank of Sri Lanka. Mr. Jayalath counts over 30 years of experience and has held the positions of Assistant Governor in charge of regulation and supervision of banks and nonbank 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. 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 the Institute of Chartered Accountants of Sri Lanka.

Mr. K. V. K. Alwis

Director

Mr. Alwis is the Director of the Information Technology Department of the Central Bank of Sri Lanka. Mr. Alwis has a Master's Degree in Information Technology from the Swinburne University of Technology, Australia and a B. SC , Special Degree in Computer Science from the University of Colombo Sri Lanka. Mr. Alwis started his career in the Central Bank in 1997 and he has served in the Sri Lanka Automated Clearing House since 2000, before he was posted to the Information Technology Department of the Central Bank.

He has been specialised in the Financial Market Infrastructures and has played a key role in implementing the Real Time Gross Settlements System (RTGS) and the Scripless Securities Settlement System by the Central Bank in 2003–2004. He is a member of the National Payment Council too.

Mr. Alwis has an excellent track record at the Central Bank by delivering key IT projects.

He has assisted many Cabinet Appointed Procurement Committees by working as a member in the relevant Technical Evaluation Committees.

Mr. S. Bandara

Director

Mr. 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 has 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. He is also the Chairman of the Asia Pacific Rural and Agricultural Credit Association (APRACA).

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.

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 31 years of experience and deep-rooted knowledge in banking operations.

Being the Senior Deputy General Manager – Banking Operations, Mr. Silva oversees the functions of four main divisions preside over by separate heads responsible for the activities of the Channel Management Division, which is the regulatory unit of the branch network and supplementary network comprising ATMs, CDMs and Kiosks, Marketing, Information Technology & Banking 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. M. N. R. Fernando

Director

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

In his banking career spanning 36 years, he served Hatton National Bank for almost six years and Sampath Bank from the year of its inception for the past 30 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 Bankers' 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 S. Thomas' College, Mount Lavinia.

Mr. D. Seneviratne

Director

Mr. Seneviratne is the Group Chief Executive Officer/Director of the National Development Bank PLC. He counts more than 27 years of experience in the Banking industry. Prior to joining NDB in January 2017, he functioned as the Director/Chief Executive Officer of Pan Asia Banking Corporation PLC (PABC) for three years, where he was instrumental in turning around PABC and transforming it into a high performing mid-sized player in the industry.

Prior to that, he spent 15 years with the HSBC Group, where he held key senior management positions including several senior overseas postings covering Thailand, Bangladesh and Saudi Arabia. His last posting with the HSBC Group was as the Chief Risk Officer, Thailand (2011–2013). Prior to that he was the Chief Risk Officer Sri Lanka/ Maldives (2008–2011) and also functioned as the Chief Risk Officer of HSBC Bangladesh in 2010. At HSBC, he was responsible for credit growth, strategy and governance in those respective geographies as a member of the country leadership team. He has gained extensive exposure in corporate banking, retail banking and wealth management, credit risk management, operations and market risk, internal control, investment banking and finance. His banking career commenced with Sampath Bank and has also served in Overseas Trust Bank, Colombo Branch and Saudi British Bank prior to joining HSBC.

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

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

He currently functions as a Director of Lanka Clear (Pvt) Ltd., Credit Information Bureau of Sri Lanka and Sri Lanka Banks' Association (Guarantee) Ltd.

Board of Directors

Mr. B. Thewarathanthri

Director

Mr. Thewarathanthri was appointed as Chief Executive Officer/Head of Global Banking of Standard Chartered Bank, Sri Lanka in January 2019. He is directly responsible for the corporate and institutional, commercial banking and retail banking businesses of the franchise along with setting the country's long-term strategy.

He counts for more than 20 years of experience within the Banking and Finance industry. He joined Standard Chartered in 2004. Over the past 15 years, he has held several leadership positions in Sri Lanka and Africa, including the role of Head, Transaction Banking, Mauritius, where he was responsible for setting up the transaction banking business for the franchise. He was further responsible for setting up the Financial Institutions booking centre for Africa and managed investments going into Sub Saharan Africa via Mauritius Securities Services hub.

Prior to his appointment as CEO, he headed the retail banking business in Sri Lanka and has been a key member of the Country Management Team.

Mr. Thewarathanthri holds a Masters in Business Administration (MBA) Degree from the University of Wales and completed his high school education at Thurstan College, Colombo 7

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 in Sri Lanka and internationally. He left Sri Lanka in 1988 and has had varied international experience with the HSBC Group serving in subsidiaries in the credit and risk function, as Chief Credit Officer and Chief Risk Officer.

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



Mr. Channa de Silva – General Manager/CEO



Mr. Dinuka Perera – DGM IT & Operations



Mr. Rasika L. Galappaththy – DGM Finance



Mr. Lakshman C. Palliyaguruge
Head of HR & Administration



Mr. Dilantha Samarasinghe – AGM IT



Mr. Dilusha Karunaratna – Senior Manager
IS Audit



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



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



Mr. Lakshman Liyanage – Senior Manager
Projects



Mr. Manoj Fernando – Senior Manager IT
Security Solutions



Mr. Danushka Uyanahewage – Senior CITS
Manager



Mr. Indika Fernando – Senior Manager IT

Management Team



Mr. Asela Hapuarachchi – Manager HR & Administration



Mr. Delan Wimalaratne – Manager EFT & Mobile Systems



Mr. Dhammika Guruge – Manager Network Operations & Security



Ms. Wayomi Gunathilaka – Manager Business Development & Brand Promotion



Mr. Shehan Wijewickrama – Management Accountant



Mr. Loshan Wickramasekara – Manager Information Security



Ms. Rasika Wickramanayake – Manager Procurement



Mr. Harsha de Silva – Manager Card Services



Ms. Nishamani Rathnayake – Head of External Services



Mr. Praveen Ramanayake – Manager Facilities & Maintenance



Ms. Sanjeevani Seneviratne – Manager Contracts & Agreements



Mr. Lakdas Ponweera – Acting Manager CAS/CPS

A man wearing a camouflage bucket hat and a green button-down vest over a dark blue shirt is looking down at a silver smartphone in his right hand. He is standing in a lush green jungle. A black strap with 'EOS 7D' written on it is visible across his chest. The background is a soft-focus view of green foliage.

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Value Creation Model

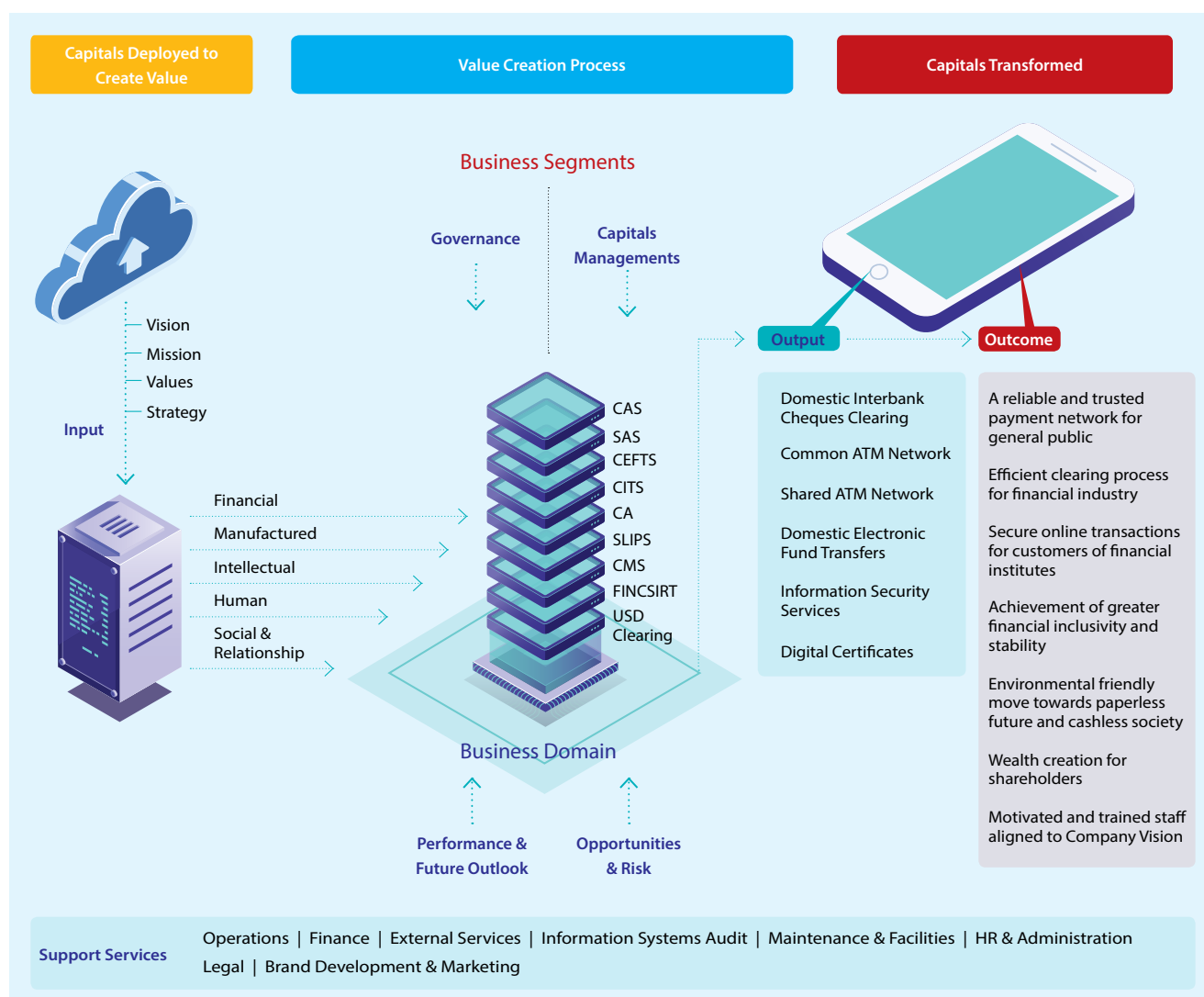
A critical factor that determines the success or the failure of any organisation is their process of value creation. Every successful world-class organisation is operated with a purpose to create value for all its stakeholders including customers, employees, investors as well as shareholders.

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 intends to become Asia's most trusted and reliable payment network and aims to achieve this via facilitating high quality electronic financial services at affordable prices in a secure, reliable and convenient manner to all Sri Lankans. The Company has built its strategies of realising the above via the unique selling proposition (USP) of addressing the ultimate convenience requirements of the general public by deploying cutting-edge financial services. We have deployed world-class payment systems, in some instances for the first time in Asia, to ensure all Sri Lankans are in a better footing to meet regional challenges. The organisation's strategic objectives, listed under the strategic section, are discussed under various topics throughout this report.

The new services we introduce and the improvements made to existing ones could be mapped into a single USP under theme of 'Customer Convenience'. Customer convenience is any element of customer experience that saves the customer time and effort. As customers are strongly motivated to save time and effort, modern day business models are designed in a way so that products, services, environments and processes offer maximum customer convenience. Such business models centred on providing convenience has been remarkably successful.

LankaClear, as the operator of LankaPay, the national payment network, is committed to understand the needs of the customers and through our unique business model, make every effort to provide a seamless user experience across all our services. The services are based on:

- Location: Meant to be close to our customers when needed
- Device: Deployed on devices that are highly portable and provide best user experience
- Time: Saving time compared to other alternatives available and allow our customers to use them at their convenience

For example, the service we launched as Payment Exchange Name (PEN) addresses a current inconvenience when transferring funds while Lanka QR enables to offer payment services to our customers that were not available before. Thus, our strategies and product portfolio are aligned to better address the convenience needs of our customers and deployed by collaborating with several likeminded entities. This helped

us to fulfill the demands of our customer that opened up new avenues of revenue for the company to improve both our topline 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 under the below business model.

We achieve competitive advantage via a set of key differentiators against existing and potential competitors. In order to create value in the entire value chains, LankaClear allocated its resources to gear towards future challenges as discussed below.

Use of Advanced Technology

The platform used by LankaPay network is scalable, reliable, and secure while it runs on an operationally-proven technology backend. This superior technology platform has a track record of achieving success in multiple countries as their National Payment Switch while other Payment Networks have also been implemented on same backend. The current switch has been tested and proven to process approximately seven million commercial transactions a day and implemented in multiple countries.

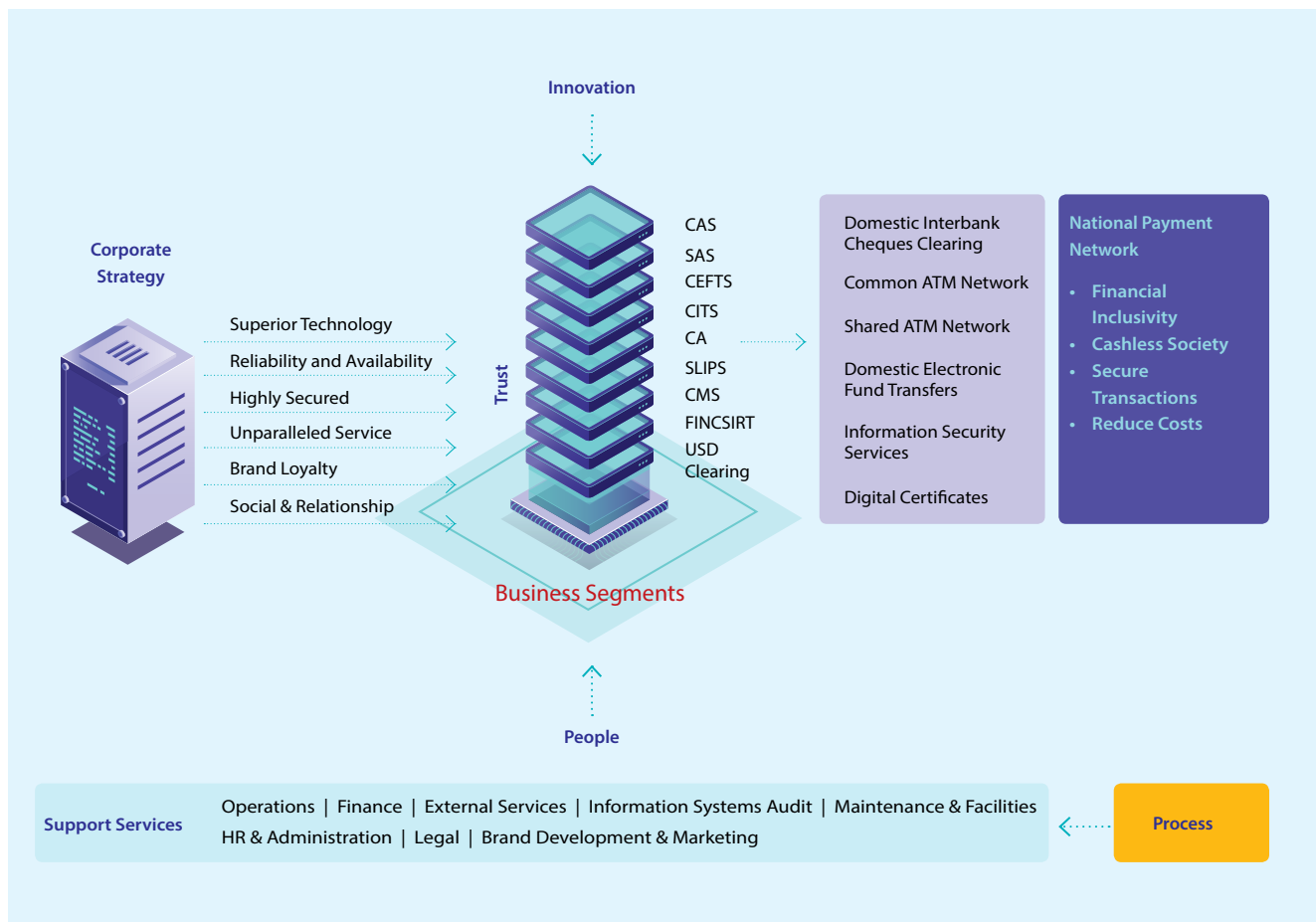
Maintaining Reliability and Availability

Achieving 100% uptime for all our systems throughout the year is a benchmark for the operational team at LankaClear. In addition, high reliability and availability across all our systems was ensured via 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 Centre (PDC) while the 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 was recertified for world-renowned PCI-DSS certification for the third consecutive year, which is the top-notch security standard in the payment card industry. The Company was the first entity in the country to achieve this status a couple of years ago. Hence, all systems of LankaClear have been designed and implemented with the highest level of security in mind and are payment back-end is PA-DSS certified and aligned with ISO 27001 standards. The

Corporate Strategy, Resource Allocation and Future



advance use of MACing and Dynamic Key management ensures greater security, which is an aspect 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'.

Superior Customer Service

LankaClear is committed to provide 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 evaluation is based on the feedback of the customers they serve. In addition, we also provide banks and financial institutions with incident related support and proactive alerts and Security Operations Center (SOC) services via FinCSIRT. The FinCSIRT team provides critical security support to our members based on a Central Bank-approved Baseline Security Standard. This is to not only ensure that we maintain the highest level of security within our network, but also extend this to our customer banks and financial institutions to maintain financial sector stability.

Trust Based on Closer Relationships

During the year under review, 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, we conducted many one-on-one engagements, discussions and presentations with all financial institutions to increase trust across all LankaPay systems. There was also significant effort towards development of mutually beneficial solutions that would encourage financial institutions to improve their service levels as well as facilitate more opportunities for their customers to engage in inter-bank transactions. We also commenced an annual cricket competition among the members, for the second time and organised an annual 'Peduru Party' to improve relationships across multiple levels.

Continuous Innovation as Key for Success

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

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.

LANKAQR (National Quick Response code-based transactions), Payment Exchange Name (a nickname system for bank accounts), four settlement cycles for CAS and CEFTS. to reduce the interbank settlement risk, Clearing and Settlement Interface (CSI) Project to fully automate data submission by banks to LankaClear for CITS reducing manual work and enhancing data security and upgrade modernising the primary Data Centre for increased capacity, efficiency and enhanced security.

Further, there were a few other initiatives to meet the requirements of the member banks, such as US Dollar Draft Online Image Transfer System, which is expected to go live in the month of June 2019 and LankaPay CEFTS Direct Debit Authorisation System (to facilitate automatic drawing of funds from an account on the authorisation of the account holder).

Many new members are in the pipeline to go live with several LankaClear solutions, which would significantly change payment ecosystem. Some of the key members expected to join LankaPay Online Payment Platform would be Board of Investment Sri Lanka, Inland Revenue Department, Department of Local Government and Sri Lanka Ports Authority. Further, some of the payment applications went live with JustPay were Solo the payment application of Hatton National Bank and Pay&Go while Flash, the payment application of Commercial Bank of Sri Lanka and Payment Application of LB Finance are on course to go live shortly.

Some of the services under LankaPay portfolio, such as 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 the efforts to review CPS, LankaClear selected JCB International Co. Ltd. as a suitable International Card Scheme (ICS) to partner with in establishing the National Card Scheme (NCS). Further, this partnership allows LankaClear member banks who issue NCS cards to make use of JCB worldwide network for accessing ATM and POS while in overseas towards the end of the year 2019. During the year, MCB bank was the first bank to issue a debit card under NCS program in August 2018, which is a Chip based (EMV) co-branded LankaPay – JCB card with international

acceptance and it is expected all the major banks and key financial institutions to commence issuing NCS cards towards end of 2019. All major domestic ATM acquirers were certified for acquiring NCS as well as JCB International Cards.

NCS is expected to provide cost efficiencies to the financial sector with lower switching fees 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 with LankaClear out of which two were local players while the other was an Indian Company. We are also pursuing with the two telcos to integrate their wallet applications to facilitate payments among their customers.

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. Upon approval of the Board, the revision of salaries and benefits of all employees took effect from January 2019, which resulted in

Corporate Strategy, Resource Allocation and Future

the increase of overall payroll cost by 22% resolving most of staff salary anomalies against market.

Continuous Process Improvement

LankaPay support services continuously improved our systems and process 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 monitor the outcomes of several initiatives at LankaClear, measurements were taken in two facets, such as the 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 company profitability, annual budgets were submitted for the approval 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 each month and at the end of the year.

Outcome-based Performance

We believe that the only way to determine ultimate success is to measure the outcomes on a regular basis. Hence, as an 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 needs of the general public by providing convenient and relevant financial services at a nominal cost across any location, device or time. 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.

Achieve Success in the Future

LankaClear believes that future success of any technology-based organisation is achieved by being dynamic and able to adapt to the rapidly changing technology and business landscape. In addition, we understand that being relevant to our customers' needs and provide them with options to address their different convenience needs, we would continue be on a growth trajectory. All our services have been designed with an ultimate objective of providing ultimate convenience, as we understood the pulse of the modern day customers are driven by their ability to enjoy an ultra-convenient lifestyle and they may consume the services that are offered from anywhere, anytime and any device. Hence, all our services must be reliable, secure and provide convenience. The future success of our business will depend on our ability to successfully address the ever-changing consumer needs as well as provide convenient mechanism to fulfil them via all the services that we offer.

Operations Review

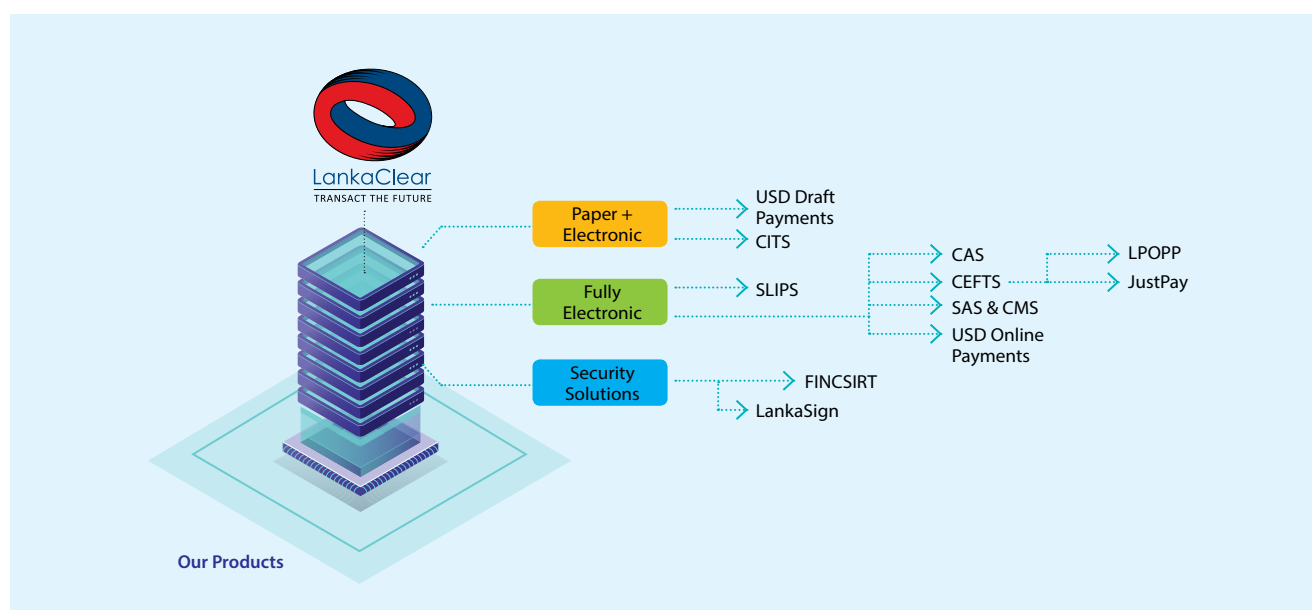
LankaClear plays a key role as the National Payment Network or National Financial Transactions Clearing Hub, as it is the entity in Sri Lanka that owns and operates Cheque Clearing, US Dollar Clearing, Online funds transfers via SLIPS and LankaPay – CEFTS and routing of off-us ATM transactions via the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

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

Products and Services Offered by LankaClear

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



Operations Review

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 99.29% system up-time and achieved 99.37% of the delivery cutoff times in the year 2018/2019. LankaClear has improved the Disaster Recovery (DR) processes and updated the Business Continuity Plan (BCP) by introducing new procedures and processes in the year 2018/2019. For CITS operations, LankaClear conducted two clearing operations successfully from the DR site underlining the rigour of the CITS operations.

The total number of cheques cleared in 2018/2019 through CITS amounts to 49.35 Mn compared to 51.45 Mn in 2017/2018. This is a reduction of 4.07% from the previous year.

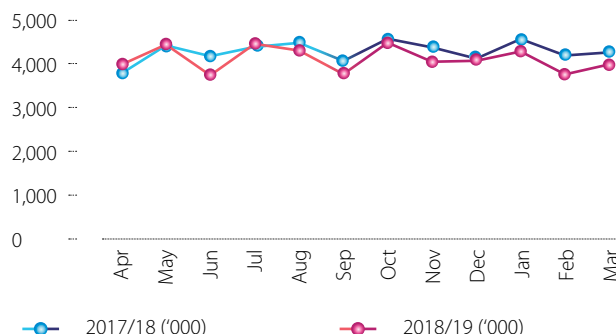
Currently, an average of approximately 204,787 cheques are cleared through LankaClear each business day through CITS. Highest number of cheques cleared on a given day in 2018/2019 is 472,115. There has been a reduction of 4.07% in the number of cheques cleared in 2018/2019 compared to the previous year. The value of the cheques cleared has also fallen by almost 1.59% compared to the previous year. The decrease is approximately LKR 168 Bn when compared with 2017/2018. The total value of cheques cleared in 2018/2019 through CITS amounts to LKR 10,325 Bn compared to LKR 10,493 Bn in 2017/2018.

1.1 Settlement Clearing (Cheque Returns)

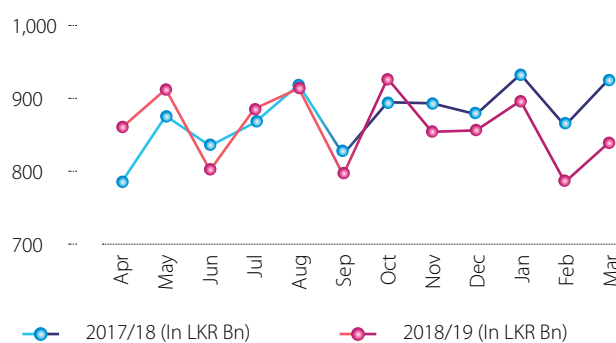
Cheques remain the preferred non-cash payment instrument for commercial transactions in Sri Lanka. Out of the 49.35 Mn cheques presented for clearing, 2.10 Mn cheques were returned due to non-payment. This amounts to 4.26% of the cheques presented for clearing of the total cheques returned, around 48.76% were returned due to lack of funds.

The total number of cheque returns in 2018/2019 through CITS amounts to 2.10 Mn compared to 2.15 Mn in 2017/2018. This is a decrease of 2.13%.

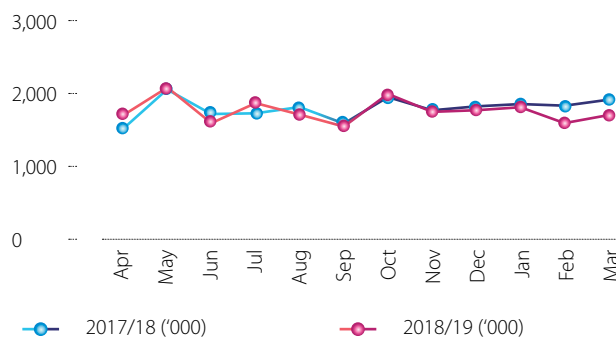
Cheques Presented for Clearing - Volume Wise



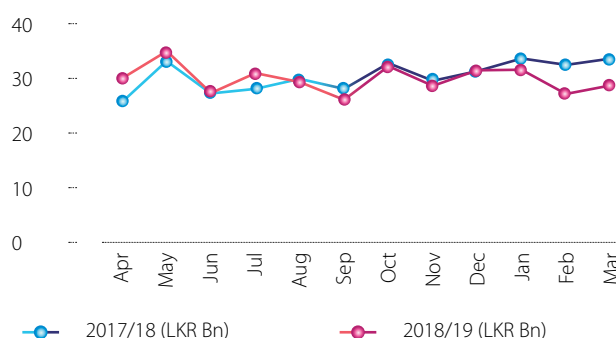
Cheques Presented for Clearing - Value Wise



Cheque Returned for Clearing - Volume Wise



Cheque Returned for Clearing - Value Wise



The total value of cheque returns in 2018/2019 through CITS amounts to LKR 356.94 Bn compared to LKR 364.46 Bn in 2017/2018. This is a decrease of 2.06%.

2. Sri Lanka Interbank Payment System (SLIPS)

Electronic Funds Transfer (EFT) is the movement of funds from one account to another, either between two institutions or across multiple institutions, electronically and without the direct intervention of institution staff. LankaClear provides an online electronic fund transferring 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 institutions to LankaClear.

The total volume of transactions cleared through SLIPS in 2018/2019 amounts to 33.68 Mn, compared to 30.70 Mn in 2017/2018. This is year-on-year increase of 9.70%. The total value of transactions cleared through SLIPS in 2018/2019 amounts to LKR 2,018.28 Bn compared to LKR 1,772.47 Bn in 2017/2018. This is a year-on-year increase of 13.87%. On average, there has been 139,754 SLIPS transactions per day with highest number of SLIPS transactions recorded for a given day being 667,198.

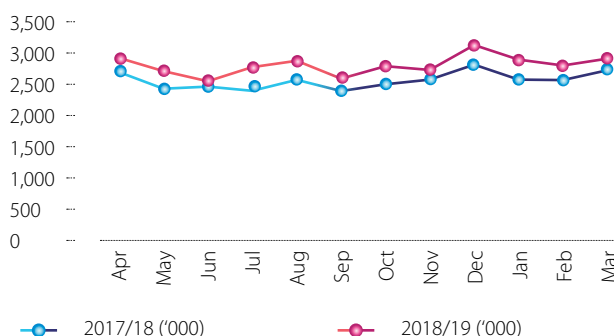
3. LankaPay – Common ATM Switch (LankaPay – CAS)

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 commercial 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.

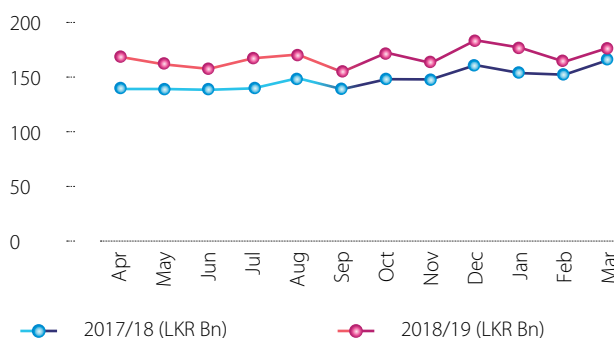
LankaPay – CAS serves the general public of Sri Lanka with utmost excellence, offering convenience of the ability to use the nearest ATM with the highest security rather than having to visit their own bank's ATM. Through LankaPay – CAS, the public is able to conduct transactions using the ATMs of any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

The total volume of cash withdrawals in 2018/2019 amounts to 42.28 Mn compared to 35.02 Mn in 2017/2018. This is an increase of 20.75% compared to the previous year. The total value of cash withdrawals in 2018/2019 amount to LKR 364.50 Bn compared to LKR 285.14 Bn in 2017/2018. This is

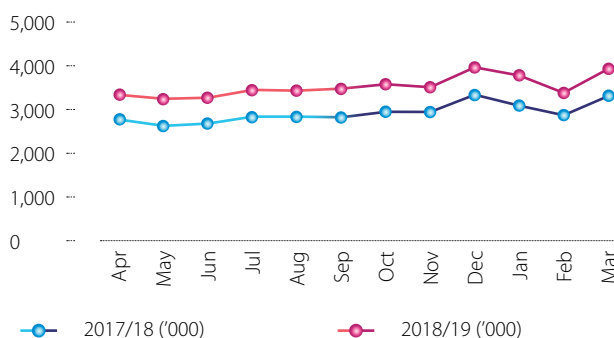
Sri Lanka Inter Bank Payment Systems - Volume Wise



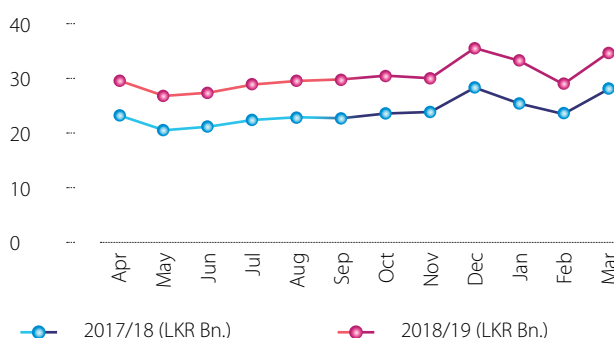
Sri Lanka Interbank Payment Systems - Value Wise



LankaPay - CAS Cash Withdrawals - Volume Wise



LankaPay - CAS Cash Withdrawals - Value Wise



Operations Review

year-on-year increase of 27.83%. The total number of balance inquiries in 2018/2019 amounts to 15.05 Mn in 2018/2019 compared to 12.79 Mn in 2017/2018. In the year 2018/2019, an average of approximately 157,079 approved transactions passed through LankaPay – CAS each day while the highest number of transactions cleared during a day in LankaPay – CAS during 2018/2019 is 284,836.

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 a beneficiary account on a real time basis while ensuring highest security standards. At the end of the financial year under review, there were 39 participants using the CEFTS facility. Within the year 2018/2019, following five institutions joined the LankaPay CEFTS network.

- HDFC Bank
- HNB Finance Limited
- People's Leasing and Finance PLC
- Bimpu Finance PLC
- LOLC Development Finance PLC

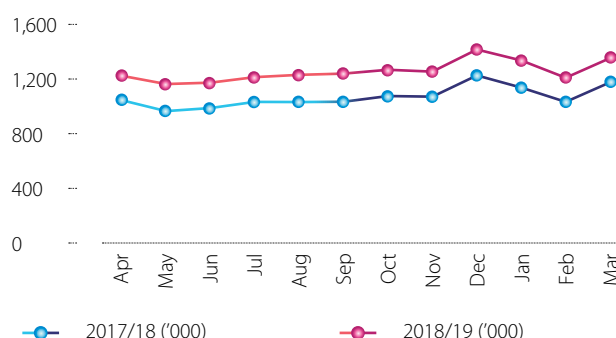
LankaPay – CEFTS recorded the highest-ever increase of 127.39% in number of interbank electronic fund transfers totaling over 8 Mn transactions in the year 2018/2019 compared to 3 Mn transactions in the previous year. The total value of CEFTS transactions in 2018/2019 amount to LKR 822.71 Bn compared to LKR 348.85 Bn in 2017/2018. This is year-on-year increase of 135.83%. On average, there were 24,334 transactions per day with the highest number of transactions recorded for a given day being 58,684.

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

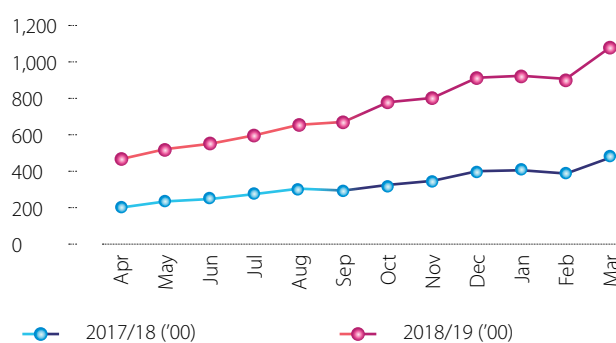
The LankaPay – SAS started operations in September 2015 with Regional Development Bank (RDB) and is expecting a number of other banks to also join this network. Card Management System (CMS) was launched in 2015 and in year 2017/2018, CMS has issued 181,472 proprietary cards to RDB.

The total volume of cash withdrawals in SAS in 2018/2019 amounts to 237,612 compared to 174,598 in 2017/2018. This is an increase of 36.09% compared to the previous year. The total value of cash withdrawals in 2018/2019 amounts to LKR 2,415.60 Mn compared to LKR 1,712.50 Mn in 2017/2018. This is a year on year increase of 41.06%.

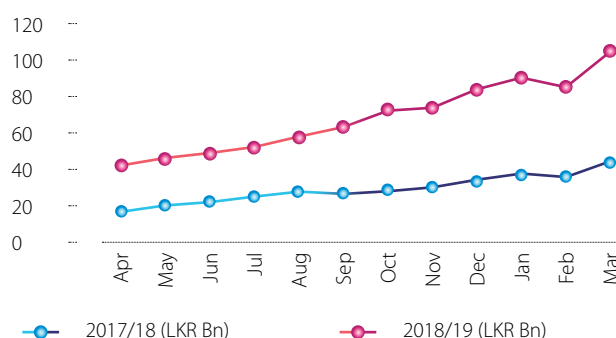
LankaPay - CAS Balance Inquiry - Volume Wise



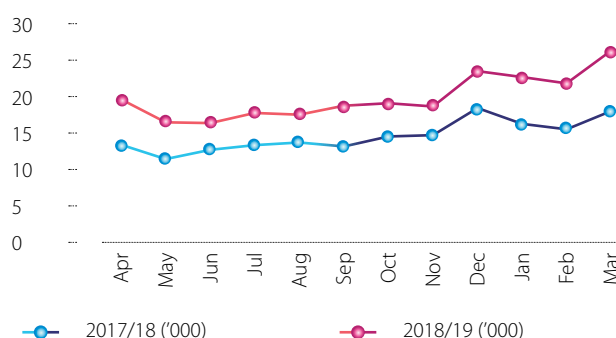
LankaPay - CEFTS - Volume Wise



LankaPay - CEFTS - Value Wise



LankaPay - SAS Cash Withdrawals - Volume Wise



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.

The 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.

The total number of items cleared through US Dollar Clearing in 2018/2019 amounts to 50,997 compared to 2017/2018 of 53,314. This is a decrease of 4.35%.

The total value of items cleared through US Dollar Clearing in 2018/2019 amounts to US\$ 225.10 Mn compared to 2017/2018 of US\$ 473.40 Mn. This is a decrease of 52.44%.

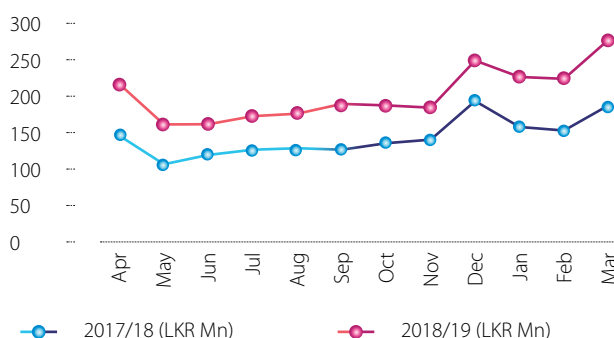
7. US Dollar Online Payment System (USDOPS)

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.

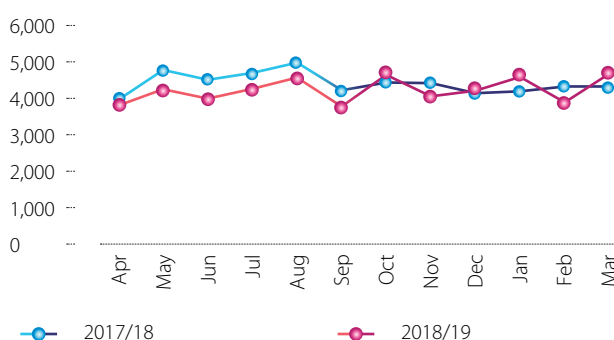
Following types of USD interbank fund transfers are facilitated by the system:

- 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.

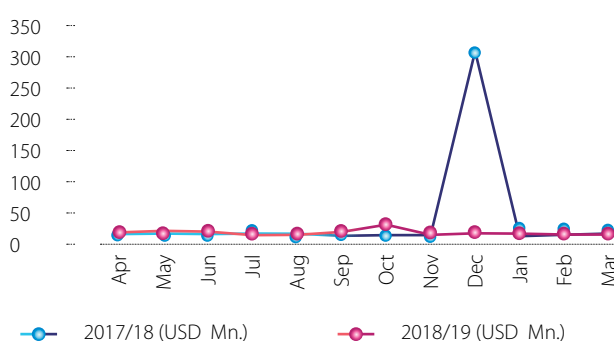
LankaPay - SAS Cash Withdrawals - Value Wise



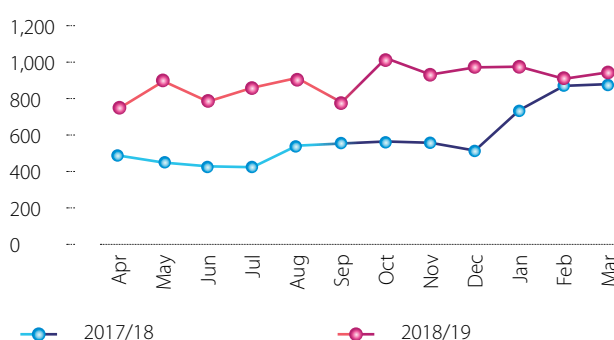
USD Draft Clearing - Volume Wise



USD Draft Clearing - Value Wise



USD Online Payment System - Volume Wise



Operations Review

The total number of transactions cleared through the US Dollar online payment system in 2018/2019 amounts to 10,739 compared 6,974 in the year 2017/2018 which is an increase of 53.99%.

The total value of items cleared through the US Dollar online payment system in 2018/2019 amounts to US\$ 221.50 Mn compared to US\$ 181.70 Mn in the year 2017/2018 which is an increase of 21.93%.

8. LankaPay Online Payment Platform (LPOPP)

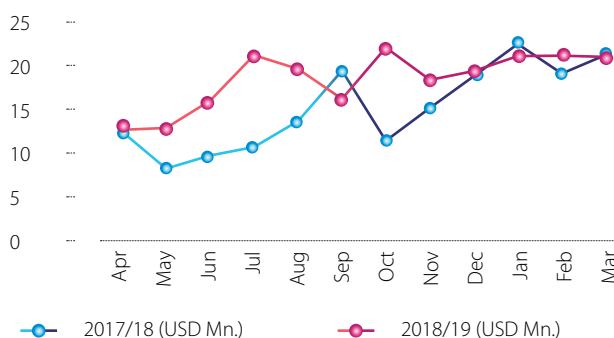
LankaPay Online Payment Platform (LPOPP) has been designed to communicate with a third party system that is connected to LPOPP on one side and the commercial banks, which are connected to LPOPP on the other side. For example, at present, online payments are facilitated for Sri Lanka Customs where Sri Lanka Customs' ASYCUDA system is connected to LPOPP. In addition, Dialog Telecom has connected to facilitate bill presentment and payment service and BOI has connected to facilitate BOI payments 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 24x7 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 1 April 2018 to 31 March 2019, there have been over LKR 16.37 Bn 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.

USD Online Payment System - Value Wise



System Security and High Availability

Security and Availability of Systems Information Technology and Security

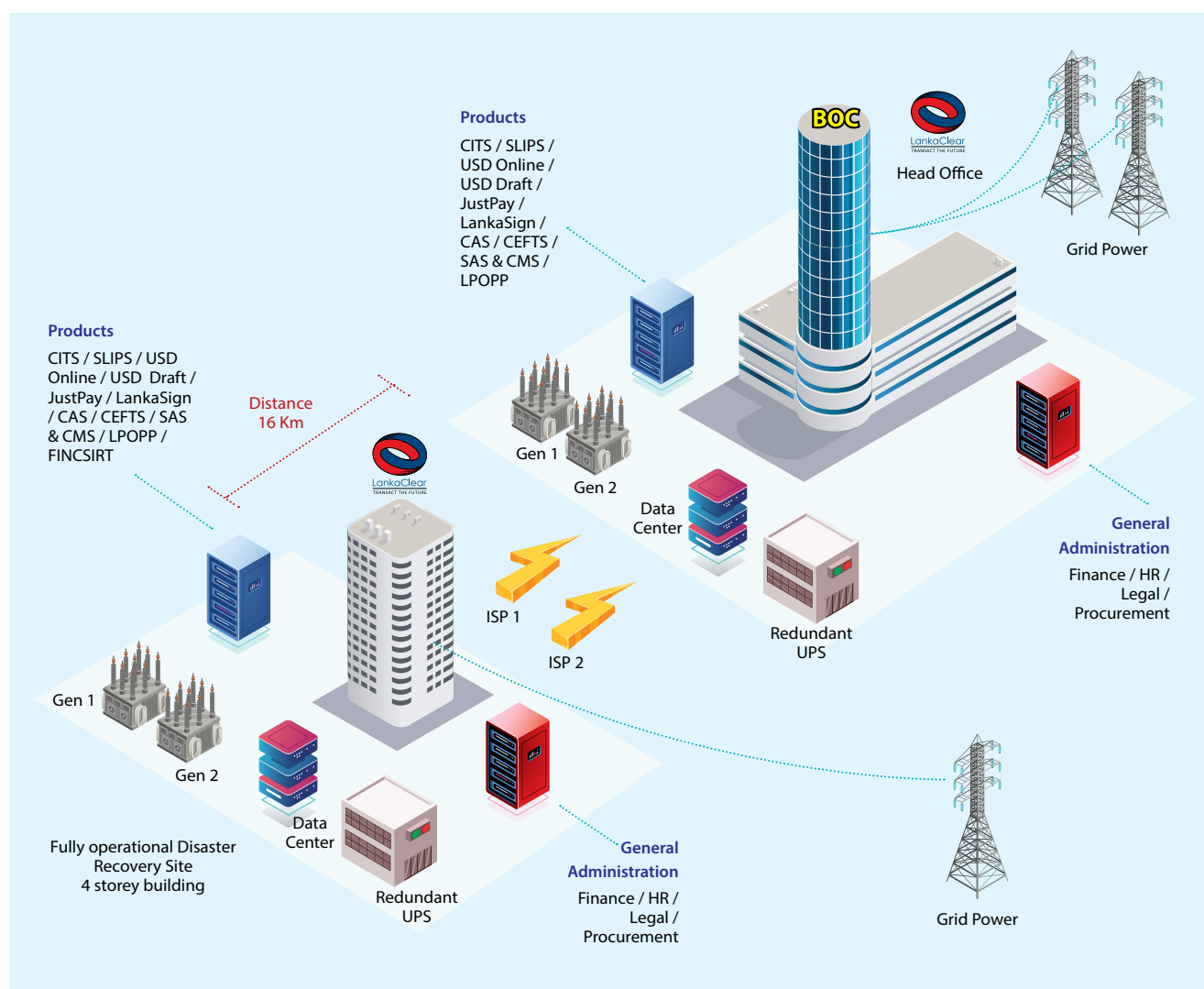
As the backbone network supporting the Sri Lankan payment industry, LankaClear has to ensure that all our systems maintain the highest level of security standards as well as the systems have very high availability. Hence, all our systems are deployed using cutting-edge technology and state-of-the-art infrastructure that are already tried and tested across the world.

As we deploy innovative technology to facilitate all interbank transactions, we have to ensure that the entire financial sector as well as their customers trust our systems. Hence, we have gone the extra mile to maintain the highest levels information security, reliability and high availability. Therefore, we have strived to exceed expectations of our stakeholders by ensuring that all our products and services

are adhered to international security standards and performance benchmarks.

During the year under review, we implemented a brand new primary data centre to further strengthen the IT and security infrastructure of the organisation. We designed and built our brand new state-of-the-art data centre with two hour fire resistance enclosure, which is aligned with 'Uptime Tier 3' standard and has capabilities of N+1 availability on power architected with primary and secondary feeders and precision air-conditioning system.

Further, we upgraded our visualised environment to increase capacity for future growth and improve high availability for all products. LankaClear also upgraded its core network security infrastructure to protect against existing as well as new cyber security threats.



System Security and High Availability

In 2018/2019, we successfully obtained the recertification for the prestigious Payment Card Industry Data Security Standards (PCI-DSS version 3.2.1), which is the highest level of security conformance in the world. This is a testament to our commitment to maintain the highest level of security for our payment systems.

LanakClear also adheres to a robust business continuity plan and in the year 2018/19, conducted two drills to test our preparedness to handle operations in case of a disaster to the primary site. Both the drills were successful and we demonstrated our readiness to operate all systems uninterrupted during any eventuality. We have ensured the continuity of our payment systems in the event of a failure to underlying IT infrastructure by further investing in our world class IT environment. This enterprise grade clustered IT environment was 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 resource utilisation, monitoring and management.

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

Our robust and scalable IT infrastructure along with our continued process and technology improvements ensured that all our payment systems were available 24x7 and 365 days of the year to serve the general public. This is evident by the demonstrated high availability of our key payments systems during the year 2018/19. For example, Cheque Imaging and Truncation System (CITS) achieved a system uptime of 99.29% during the year 2018/19. Common Card and Payment System (CCAPS), which is the interbank payment switch, achieved a system uptime of 99.95%. The high availability features and improvements made by us during the year 2018/19 in people, process and technology 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.

Introduced National Card Scheme

The financial sector in Sri Lanka heavily depends on International Card Schemes (ICS) at present such as VISA, MasterCard and Amex for payment card issuance and interbank card payment routing. Hence, a significant portion of the financial transactions remains within the control of these ICSs. Introduction of the National Card Scheme (NCS) provided a much lower cost alternative and an opportunity to propagate domestic payment card products in the country. The intention is to save valuable foreign exchange for the country via the payments currently made to these ICSs by local banks, especially in the instance of carrying out a domestic transaction.

NCS has enabled even the smallest of the banks and financial institutions to offer lower cost card-based payment services to their



customers via the merchants, which will help promote financial inclusivity in the country. Currently, some banks are even unable to meet the eligibility criteria of ICS to issue their cards.

Muslim Commercial Bank (MCB) was the first bank to issue a debit card under NCS initiative in August 2018, which is a Chip based (EMV) co-branded LankaPay – JCB card with international acceptance via JCB network. LankaClear is in the process of introducing 'LankaPay 2 in 1' card, a chip-based NFC card with both debit and stored value functionality for providing a secure tap-and-go convenience for low value payments. The same card can be utilised at a local corner store to pay for everyday groceries or as a transit card to be used in buses and railways. 'LankaPay 2 in 1' is a unique payment card, positioned as an everyday payment card providing debit card functionality in addition to stored value element for greater consumer convenience. This has taken away the burden from consumers of having to carry separate cards for debit and transport purposes.

Ability to make payments for e-commerce purchases, card tokenisation and issuance of credit cards are already planned to be introduced as the second phase of the NCS initiative. We plan to implement card tokenisation to provide standards-based secure storage of payment card details on a smartphone to bring ultimate customer convenience and mobility in payments. These initiatives will facilitate truly convenient and cost effective payment mechanisms across all payment channels to fit in with the lifestyles of every citizen.

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 bound by the conditions of 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) and Sri Lanka Banks' Association (SLBA). They invited LankaClear to establish LankaSign-CSP to address the banking and financial sector Public Key Infrastructure (PKI) requirements.

Although LankaSign certificates were initially used to facilitate 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 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 this latest technology upgrade, LankaSign CSP is now capable of integrating any system that requires automated certificate issuance. In order for automation and integration requirements, 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 to power their mobile payment applications.



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. Some of the banks are even digitally signing their electronic financial transactions using LankaSign digital certificates. By the end of the financial year under review, LankaSign digital certificates are currently used in;

- 45 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 organisations using 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 – All developments were completed during the year and this project is at the verge of going live to automate the documentation flow of the entire import and export processes.

Business Development and Growth

We were able to improve the topline growth of LankaSign by 29% YoY during the year under review, however, recorded a decreased operating profit of 18% (LKR 9.6 Mn) due to the impact of increased depreciation cost on new project implementations.

New Business Initiative/Prospects;

In order to cater to the dynamic market requirements, LankaSign-CSP ventured into new security solution areas. As a result, we introduced mobile-based security solutions for

Security Products and Services

JustPay enabled mobile applications. JustPay, a new payment mode to facilitate low value cash based transaction via smart devices, is 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 January 2018 and at the end of the financial year many JustPay enabled mobile payment applications commenced their live operations utilising the Security SDK and many new applications are in the process of integrating with JustPay.

Further, we enhanced the LankaSign mobile testing systems, which became the 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 expected to commence its live operations in the near future by expanding the paperless trade facility to the remaining 25,000 organisations which are currently working with Sri Lanka Customs.

During the year, we completed the developments required for LankaSign to cater to newly introduced QR code-based secure payment mechanism for e-commerce merchants for which all testing were conducted during the year under review. This is intended to enable any e-commerce merchant to accept payments via current or savings accounts and enable the consumers who do not have credit cards to carry out financial transactions with e-commerce merchants.

Further, we are in the testing stage of introducing a common User Interface (UI) platform, so that the process flow for binding the bank account to any JustPay-enabled application for any such user would be uniform and seamless.

Contributing Back to Society

We strongly believe that knowledge sharing on security essentials is an investment for the future to safeguard national ICT and Payment infrastructure. Hence, with LankaSign – CSP we continued our contribution to the industry by providing free consultancy and knowledge sharing for numerous stakeholders in the society. During the year under review, we shared the security knowledge of LankaSign with working executives covering service support to the Banking and Financial industry to strengthen financial sector stability.

FinCSIRT Services

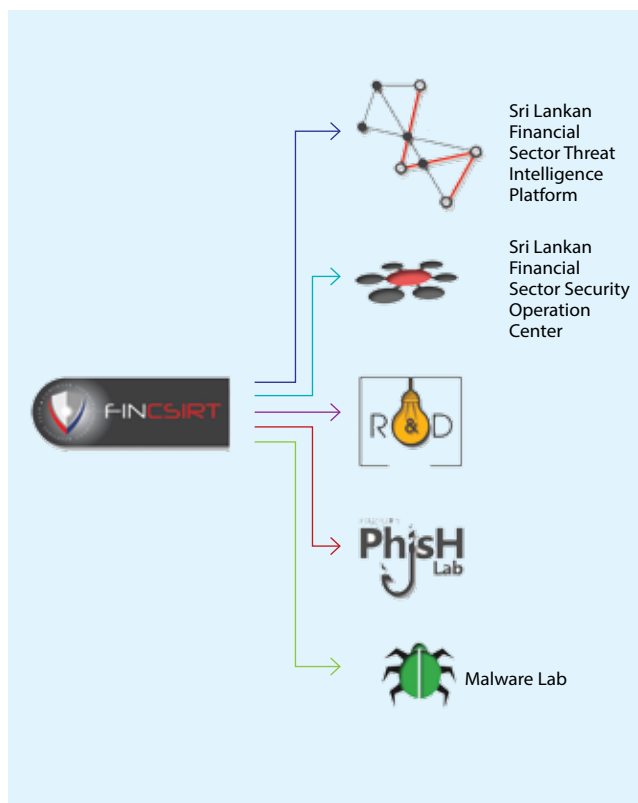
FinCSIRT was a concept initiated by the Central Bank of Sri Lanka, Sri Lanka Computer Emergency Response Team (SLCERT) and Sri Lanka Bankers' Association (SLBA), as an independent unit, to respond and manage information security incidents in the financial sector. This was designed to improve the financial sector capabilities to defend against the rapidly advancing information security threat landscape.

In the initial phase, FinCSIRT commenced its operations to primarily provide reactive response to the reported banking sector security incidents. However, it has now evolved into providing a set of comprehensive services in its move to provide more proactive support to the financial sector, other related parties and sectors, Sri Lanka as a whole as well as the global community. Our efforts were evaluated and recognised by the Asia Pacific Computer Emergency Response Team (APCERT) and we were awarded with the first-ever 'Liaison Membership' with them. This was a formal recognition by global CERTs that FinCSIRT is ready to engage with global players.

After five years of successful operations, FinCSIRT has worked tirelessly to develop and release its own framework for 'Information Security and Resilience Framework' for organisations, formulated with its own experience along with baseline controls and check lists for the identified critical information security risk scenarios.

The services offered by FinCSIRT are as follows:

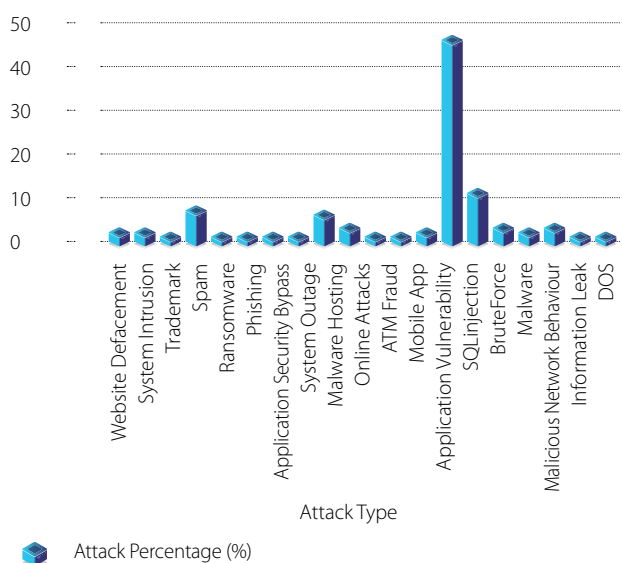
- Sectoral Information Security Development Services
 - Assisting the Central Bank of Sri Lanka (the Regulator) in sector information security posture building
 - Assisting the financial sector affiliated stakeholders in providing secure services to the financial institutes
 - Uplifting the information security resiliency of the Sri Lankan financial sector
 - Developing an algorithm to identify the probability of being vulnerable to common threats against the organisational information security capabilities.



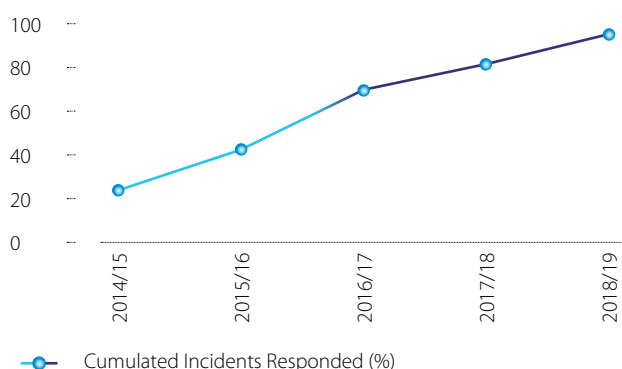
- Uplifting the capabilities of the personal responsible for handling information security incidents with simulated live threat environments (Cyber War Games)
- Uplifting the individual institutes strength in information security resiliency
- Service Level Agreement Based Services by FinCSIRT to its Members (CORE and ISOC Services)
- Act as Internal Information Security Consultant for the Financial Institutes
- Publishing and Assisting the Implementation of Information Security Best Practices and Standards
- Global Information Security Development Services
 - Supports international FinCSIRTs and the CERTs for information security development
 - Coordinate and corporate with international CERTs for incident responses activities

FinCSIRT incident response summary over the years is as follows:

Reported Incidents to FinCSIRT



Incidents Response Growth by FinCSIRT



Cyber War Games 2018



Cyber War Games 2018



Cyber War Games 2018



Cyber War Games 2018

Financial Capital



Financial Review

Overview

Completing another successful financial year, LankaClear crossed the ambitious top-line target of LKR1Bn for the first time recording a revenue of LKR 1.029 Bn (YoY increase 12%). The company managed to nearly double its revenue over the course of 4 years maintaining an average annual growth rate of 19% during this period, which signifies a remarkable achievement.

In doing so, LankaClear recorded a Gross Profit of LKR 532 Mn (YoY Increase 15%), Profit before Tax of LKR 520 Mn (YoY Increase 22%) and Profit After Tax of LKR 430 Mn (YoY Increase 19%). With the above increase of profitability, the company achieved an Earnings Per Share of LKR 28.28 recording a 19% growth YoY (2017/18 – LKR 23.78).

As the operator of the National Payment Network, the continuous investments made by the LankaClear in cutting edge technology was not only to improve the financial performance of the organisation, but also to create an ecosystem to achieve long-term financial inclusivity. The objective is to empower general public access to their financial transactions in a convenient and secure manner while at an affordable cost.

We believe that achieving continuous excellence in financial performance is a testament to the successful strategies that we

have adopted coupled with the trust that we have built with customers who consume our services by bringing convenience to the fore in everything we do.

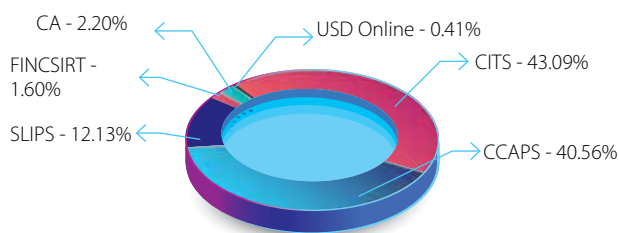
Revenue

During the year under review, the top-line revenue grew by 12%, concluding the year with a revenue of LKR1.029Bn (2017/18 – LKR 918 Mn). CITS continued to remain a key contributor to revenue, however, reducing its significance on revenue mix to 43% from 48% of the previous year whilst the total revenue from the products under Common Card and Payment Switch (CCAPS) improved to 41% from previous 35%. CEFTS had been a highlight during the year increasing its prominence to 11% from 6%, whilst CAS increasing its significance to 28% from previous year of 27%.

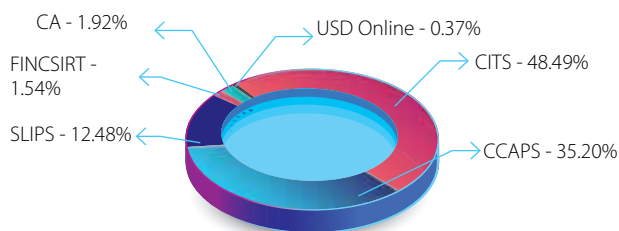
The formation of the current revenue mix clearly demonstrates the impact of moving towards a digital economy where it is expected for cheque volumes and cash in transit to gradually decline. Cheque volume cleared through LankaClear during the year has declined by 4.1% YoY (2017/18 – decrease 2.2% YoY). The results show the effectiveness of the strategies adopted by LankaClear to influence the behaviour of the customers to move them towards adopting electronic payments.

Clearing systems under CCAPS continued to remain a vital contributor towards the overall revenue growth. Revenue from

Revenue Mix 2018/19



Revenue Mix 2017/18



clearing systems under Common Card and Payment Switch (CCAPS) increased by LKR 94 Mn (against 2017/18 – LKR 48Mn), which is a growth of 29% YoY (against 2017/18 – 17.5%).

The above increase in revenue from CCAPS was propelled by the growth of transaction revenue, which grew at an impressive rate of 35% YoY (2017/18 – 47%). The main contributions for this revenue growth came from Common ATM Switch (CAS), Common Electronic Fund Transfer Switch (CEFTS) and Shared ATM Switch (SAS), which increased by 21% to LKR 259Mn (against 2017/18 – 36% / LKR 214 Mn), 124% to LKR 76 Mn (against 2016/17 – 184% / LKR 34 Mn), 37% to LKR 1.5 Mn (against 2016/17 – 121% / LKR 1 Mn) respectively.

The growth momentum experienced in transaction volumes is sustainable in the short to medium term via the technology innovations already implemented and further investments planned in technologies that would bring further convenience to customers in the future. Some of these effected improvements have been 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 2018 – 4th Quarter, LankaPay – CAS had penetrated into an impressive 16% out of the total ATM transaction volume. This is an impressive growth compared to a lower penetration rate of 3% experienced in 2014. However, the growth of total ATM withdrawal volumes had remained at 7% for the last two years, which ranged between 10% to 15% during the previous few years. This clearly demonstrates that the growth experienced in CAS volumes was due to achieving a higher penetration into existing ATM volumes rather than overall ATM volume growth. This success could be directly attributed to the ground level activations carried out throughout the country by the team in partnership with radio stations to promote CAS usage.

Further, the CEFTS volume has represented a 27% of the total volume of internet banking, which was just 14% in the previous year. The growth of internet and mobile-based transactions recorded a higher growth momentum during the year 2018 where the volumes grew by 31% (YoY).

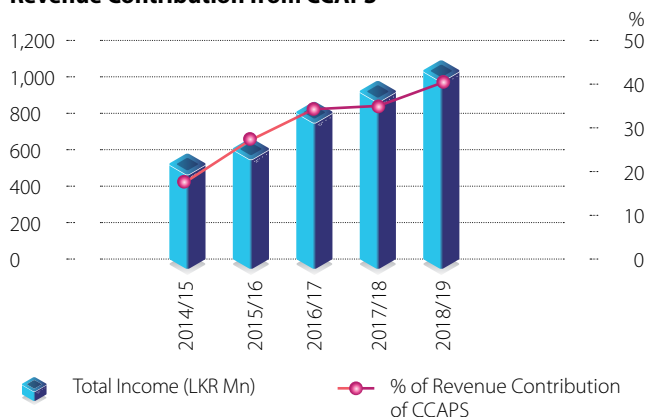
While joining and certification fees for CCAPS was further reduced to LKR 22 Mn (against 2017/18 – LKR 25 Mn and 2016/17 – LKR 69Mn) as most number of potential members had already joined the switch. Cheque Imaging and Truncation System (CITS), thus far the highest revenue generator for the Company (43% of the total revenue), reported a revenue of LKR 443 Mn (2017/18 – LKR 445 Mn) with a decrease of 0.4% YoY (2017/18 – increase of 11% YoY). Both the revenue from cheque submitted for clearing and cheque returns decreased by 4% and 2% YoY respectively. The above figures clearly demonstrates that the strategies adopted by the company in effectively managing the revenue mix is paying rich dividends.

The Sri Lanka Interbank Payment System (SLIPS), LankaSign Certificate Authority (CA) and Financial Sector Computer Security Incident Response Team (FINCSIRT) recorded revenues of LKR 125 Mn (2017/18 – LKR 115 Mn), LKR 23 Mn (2017/18 – LKR 18 Mn) and LKR 16 Mn (2017/18 – LKR 14 Mn) respectively, with a healthy revenue growth of 9%, 29% and 16% 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.

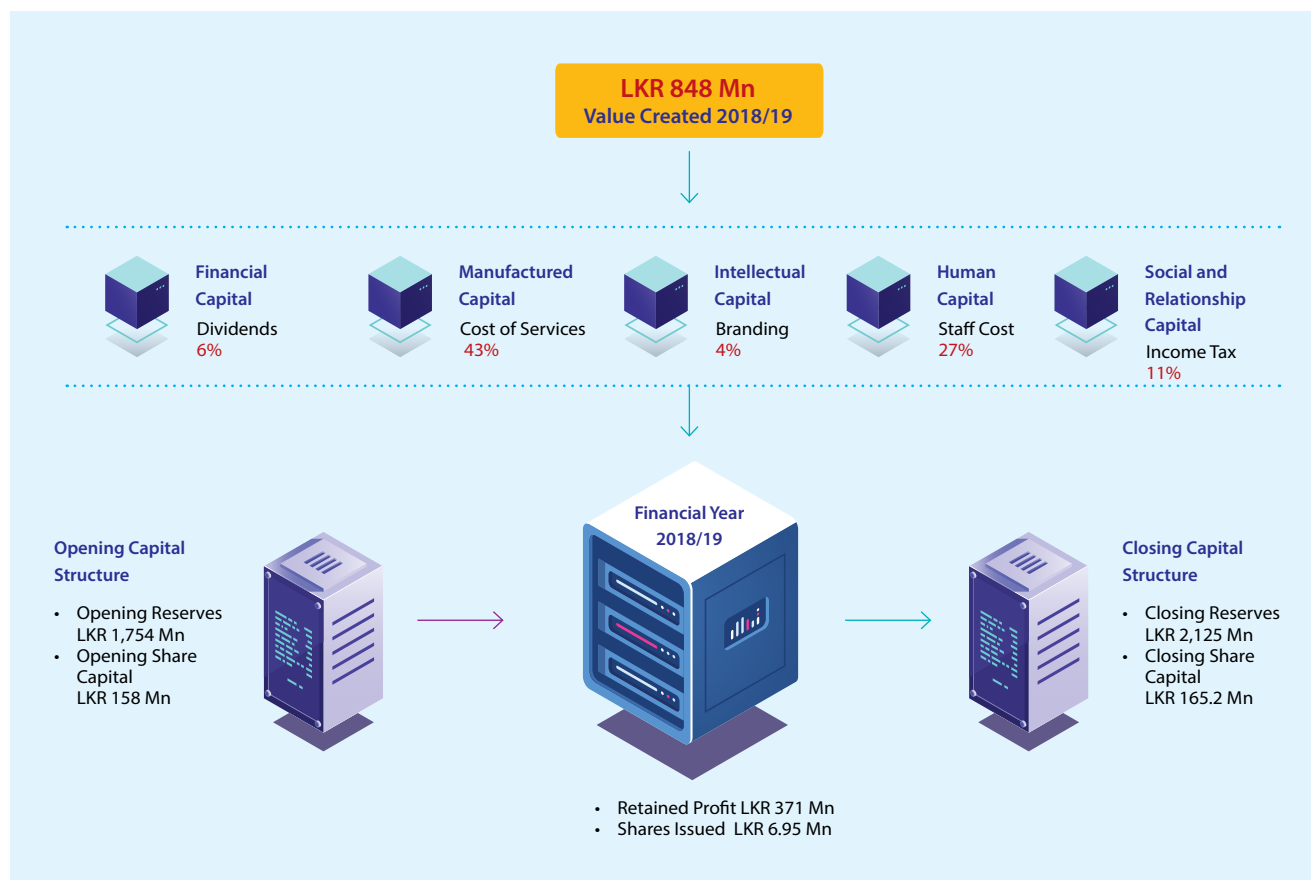
During the year under review, the revenue per employee increased to LKR 9 Mn (against 2017/18 – LKR 8 Mn), which indicates an increased contribution of all employees towards revenue growth. The cadre decreased by 4% (five employees) during the year while the revenue increased by 12%.

On the prospects for the future, the Company is optimistic to sustain the current healthy trends in revenue growth where such growth is expected to come from transaction volume growth of the products classified under electronic payments.

Revenue Contribution from CCAPS



Financial Capital



Expenses

During the year, increase in direct operating expenses was brought down to 9% (LKR496) compared to increase of 11% 2017/18, 21% in 2016/17 and 25% in 2015/16. Further, percentage of direct cost to revenue reduced to 48.3% (against 2017/18 – 49.6%) as most of the costs are fixed in the medium term and the growth of volumes reduce the per transaction cost. The direct operating costs primarily consisted of IT maintenance cost (30% of the total cost), staff cost (27% of the total cost) and depreciation (23% of the total cost). The increments were mainly due to increase in cost of staff expenses (annual salary increments and salary revisions for the existing staff and the increases in performance bonus), IT maintenance (new maintenance costs, cost inflations and unfavourable exchange rate movements), software and hardware depreciation (on capitalisation of IT infrastructure costs on new implementations and upgrades for security and capacity enhancements).

Out of the main expenses, depreciation cost has increased at a faster rate of 12%, which had a slight unfavourable impact on the profit of the Company during the year under review. However, this was due to the prudent investments made by the company in new technology to achieve sustained long-term growth and profitability even though done by marginally compromising short-term profits.

During the year, administration and marketing expenses increased by 2% (against 2017/18 – 17%) and -62% (against 2017/18 – 0.44%) respectively. The increase in administration expenses were mainly due to the salary revisions for the existing staff and the increases to performance bonus. The increase in marketing expenses were due to many promotional campaigns and PR activities carried out to increase the usage of LankaClear products by increasing the awareness among the public. The favourable revenue mix can be attributed to these strategic promotional campaigns to grow transaction volumes.

LankaClear intends to balance its expenses on both short-term and long-term perspectives, as the Company intends to invest continuously in new technologies to keep pace with the innovations that are required to grow the market. In addition, further investments would be required in the future to maintain highest levels of security standards while addressing the market demand of providing convenience and to keep our brand promise of being the Trusted National Payment Network intact.

Capital Expenditure

The Company had a cash outflow of LKR 127 Mn (2017/18 – LKR 118 Mn) spent on acquisition of capital assets during the year under review. The capital expenditure continued to focus on

achieving the changes required to provide further convenience in financial services and also to improving efficiency, reliability and security of all clearing systems to meet the increased demands of the financial sector. The cash outflows on capital expenditure were mainly on improving security of the systems and enhancing the capacity of existing infrastructure by upgrading the network infrastructure and hardware infrastructure and system enhancements to CITS and CA.

Interest Income

Interest income increased by 30% to LKR 179 Mn (against 2017/18 – LKR 138 Mn) 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 LKR 1.6Bn (against 2017/18 – LKR1.3Bn) where the investments were placed at interest rates ranging from 10.54% – 15.22% (against 2017/18 – 11.75% - 14.11%).

Interest income remained a significant source of income adding to the profitability of the Company, which consists of 34% (2017/18 - 32%) of PBT. The retained profits not invested were invested temporarily in financial instruments until appropriately diverted into capital projects at the right time to strengthen the payment infrastructure projects, acquiring benefits to our member banks who are our direct customers as well as primary shareholders.

However, the future interest income could be impacted by the high capital-intensive projects undertaken by LankaClear to address the market dynamics. The Company expects significant cash outflows during the year 2019/20 for capital projects undertook during the year 2018/19 and for the projects expected undertake during the year 2019/20. Further, interest income has a heavy dependency on economic conditions and government policies. The recently-imposed interest cap for fixed deposits is expected have a negative impact on the interest income of the organisation.

Taxation

During the year under review, the tax expenses continued to increase at a steep rate 41% (slight reduction from 2017/18 at 46%) to reach LKR 90 Mn (against 2017/18 – LKR 64 Mn) recording

an increase in effective tax rate to 17% (against 2017/18 – 15%). This increase was mainly due to the increase in profits from Finance Income while all taxable profits were taxed at 28% (2017/18 – 12%) due to taxable revenue surpassing the lower tax threshold of LKR 500 Mn.

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.

Profitability

As explained in the overview, the company again increased its profits, recording a Gross Profit of LKR 532 Mn (2017/18 – LKR 463 Mn), PBT of LKR 520 Mn (2017/18 – LKR 425 Mn) and PAT of LKR 430 Mn (2017/18 – LKR 361 Mn) where the Gross Profit Margin and Net Profit Margin recorded improved to 51.7% (2017/18 – 50.3%) and 41.2% (2017/18 – 39.3%).

The healthy YoY revenue growth has contributed positively to the remarkable financial performance while margins have improved consistently, as we continue to achieve economies of scales with the new product lines beginning to generate increased transaction revenue. We expect the same trends to continue in the short to medium term to achieve sustainable growth.

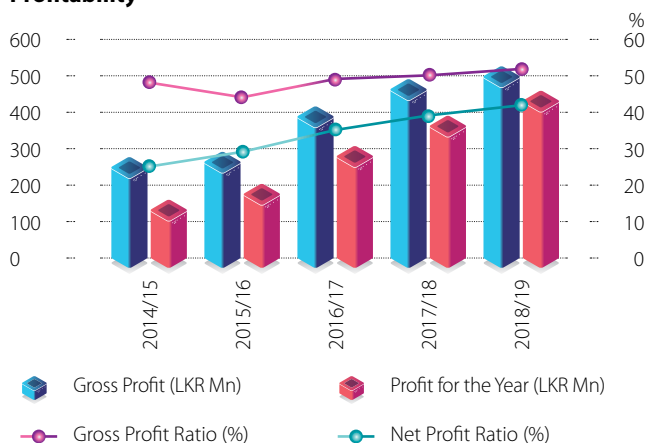
Creating Value for Shareholders

With the continued increase in profitability, the Company recorded an earnings per share (EPS) value of LKR28.28 (2017/18 – LKR23.78), which was a significant increase of 19%. The Return on Equity (ROE) and Return on Assets (ROA) marginally decreased to 18.5% (2017/18 – 18.9%), 16.4% (2017/18 – 17.2%) mainly due to the high tax rates applicable for the year 2018/19.

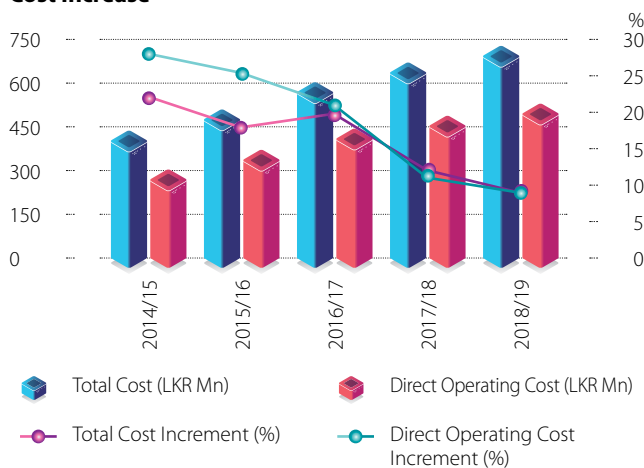
However, a more focused return on investment can be arrived by calculating the return (net profit less other income) on non-current assets, which recorded a strong 48% (2017/18 – 44%) since most of the other assets were parked under financial investments for future use.

With the increase in profitability, a first and final dividend of LKR4.95 (2017/18 – LKR3.50) per share is proposed subject to the approval of the shareholders at the next Annual General Meeting

Profitability



Cost Increase



Financial Capital

of the Company, which is a dividend payout ratio of 17.5%. This is once again the highest-ever dividend per share (DPS) proposed during the 17-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 via the internally generated funds.

During the year under review, the company generated net cash of LKR 339 Mn (2017/18 - LKR 390 Mn) with a YoY decrease of 13% from operating activities. This decrease was mainly due to non-trade receivables and an increase of tax expenses with the increase of tax rate to 28% from 12% in the previous year. The cash flows were utilised on investment activities and dividend payment for LKR 302 Mn and LKR 53 Mn respectively. At the end of the year, LKR1.7Bn worth of liquid funds remained in fixed deposits and REPOS whilst Free Cash Flow to Net Cash Flow from Operating Activities remained at 63% (2017/18 - 70%) to be utilised for future investments to cater to rapidly changing technology landscape in the payment industry and for other contingencies. By the year end, shareholder funds stood at LKR2.3Bn, which is an increase of 20% (2017/18 - 20%) YoY and net assets per share rose to LKR 150.17 (2017/18 - LKR125.78). The profits made in consecutive operating periods have consistently added to shareholders' wealth and crossed the LKR 2Bn mark, which doubled within five years of achieving LKR 1Bn mark in the year 2013/14, thus, demonstrates the significant growth trajectory of the Company.

Financial Priorities for Future

As our strategies geared to address the current and future market needs during the year under review, our direction was dependent on consistent market research that pointed us to provide financial

services that improved customer convenience. 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 and fulfilling those needs through financial services that provided them with ultimate convenience. The improved financial performance of the Company is a testament to the success of the strategies adopted during the year.

In line with making the envisioned performance a reality, we implemented few solutions to improve customer convenience in accessing financial services during the year. Some of the key implementations during the year were LANKAQR (National Quick Response (QR) code-based transactions), Payment Exchange Name (a nickname system for bank accounts), introduce four settlement sessions among member banks for CAS and CEFTS, Clearing and Settlement Interface (CSI) Project for CITS and implementation of a brand new data centre for capacity, efficiency and security enhancements. Further, there were many other initiatives to meet the requirements of the customers, which helped to propel the growth in revenue and profitability of the organisation.

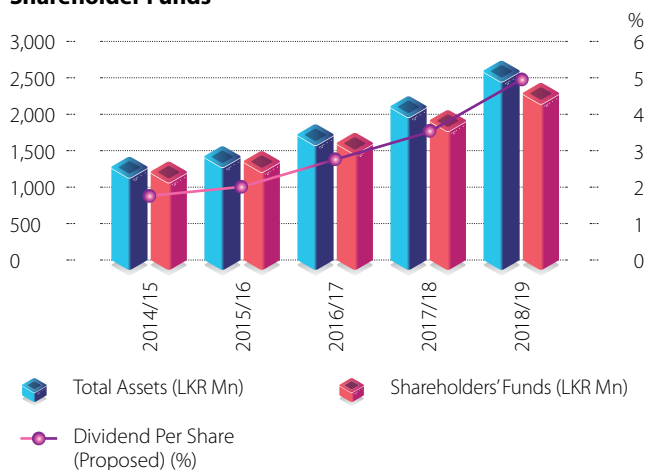
Our financial priorities were in accordance to keep pace with the trends in the payment industry and introducing innovations to the market in a bid to change the ingrained habits of consumers. As discussed in the reviews of Chairman and General Manager, strategies that focus on future innovations, changing 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. 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.

However, we would like to highlight that unfavourable macro-economic conditions, such as status of economy, business sentiments and cash in transit, would have an impact on the performance of the company as these conditions affect the volume and the value of the transactions in the market. When looking at the first few months of 2019 including the incidents that took place in April, as the market conditions had a negative outlook, there is a possibility that the revenue and the profitability position of the company could have a negative impact in the short term.

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 LKR 1.2Bn during year 2019/20 and align the entire organisations for same.

Shareholder Funds

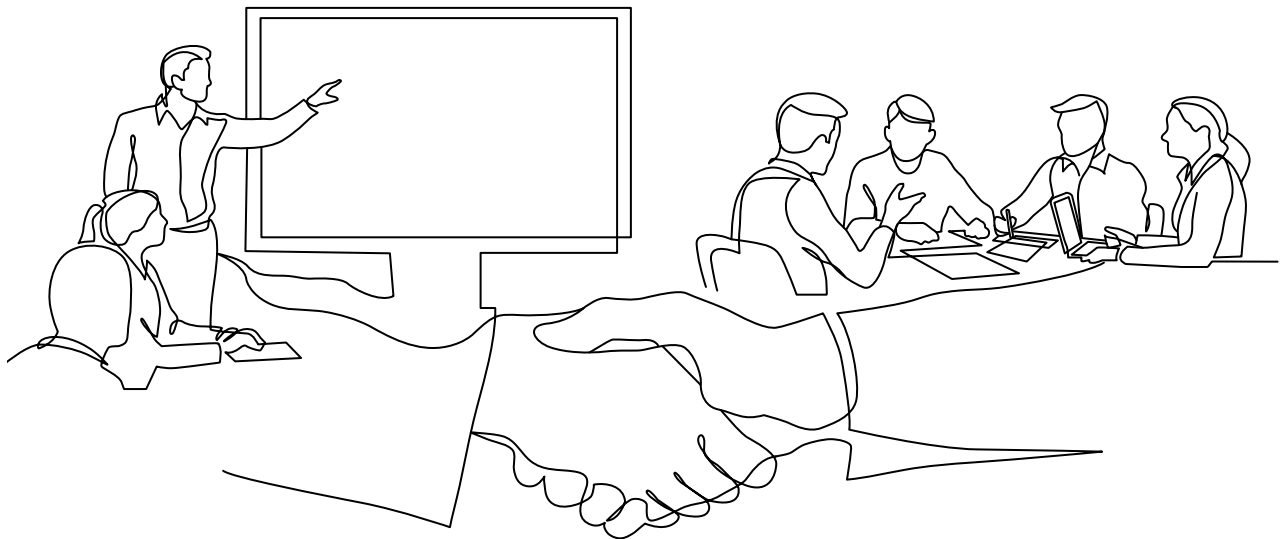


- Ensure the availability of adequate finances to maintain all clearing systems, roll out new systems and increase market and brand building efforts. Compared to the scale of the organisation, a higher finance reserve is maintained. This is to cater to future finance requirements on product and market 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 new profitable investment opportunities in the payment industry and evaluate financial feasibilities.
- 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 2018/19

	2018/19	Absolute Growth (YoY) - 2018/19	Growth % (YoY) - 2018/19	Explanation
Financial Performance				
Revenue	1,029,057,104	110,554,093	12%	Growth supported by the revenue growth from per transaction revenue. Specially from clearing systems under CCAPS whilst revenue from CITS reduced.
Direct Operating Expenses	(496,521,082)	40,631,524	9%	Cost increases in staff expenses, IT maintenance, software and hardware depreciation
Gross Profit	532,536,022	69,922,569	15%	Revenue was growing faster and slowing the growth of direct costs.
Other Income	186,023,654	41,557,408	29%	The increase of investment income due to higher interest rates, higher investment base and improved efficiencies in treasury.
Income Tax Expense	(89,811,604)	26,138,143	41%	Due to the increase in profits from Finance Income and all taxable profits are taxed at 28% (2017/18 – 12%) due to taxable revenue surpassing the lower tax threshold of LKR 500 Mn. CCAPS profits are tax exempted.
Profit for the Year	430,470,735	75,332,378	19%	Due to above mentioned noteworthy improvements amidst higher tax payments.
Financial Position				
Total Non Current Assets	1,700,449,174	336,259,249	25%	Due to making investments beyond one year and growth in investment base.
Total Equity	2,290,058,396	378,181,151	20%	Due to higher profitability and retention ratio.
Total Non Current Liabilities	54,592,720	12,286,845	29%	Due to increase in Retirement Benefit Obligation due to the provisional adjustments based on salary adjustments took place during the year under review.

Human Capital



Formulating and implementing HR strategies is a vital aspect in our annual plan to develop a sustainable organisation, guided by company values and governance principles to serve all our stakeholders. At LankaClear, our focus for the year was to differentiate ourselves from the rest of the pack as an organisation dedicated to provide Customer Convenience via all our services including HR services. Our overall objective for HR development is to achieve a long-term sustainable competitive advantage through achieving excellence in HR Services by delivering a quality and timely service to all employees.

When you strive towards a high performance culture, it is natural for the workforce to expect or demand more opportunities for growth, competitive pay, timely and quality internal services, improved transparency and enhanced trust levels in the workplace. A significant challenge posed to HR in the current business environment is to maintain an experienced workforce, which continues to raise the bar to fulfill internal customer convenience as well as employee satisfaction. We are pleased to inform that we were successful in fulfilling a great HR Year having delivered our key HR objectives to the satisfaction of all stakeholders of the company.

The HR Team had to play a key role in driving a high performance customer with a focus on employee satisfaction, which always puts the employees at the centre stage of the organisation. In

the process, we had to modify many HR policies and procedures, revise the entire compensation and benefits strategy and amalgamate and restructure all customer-facing departments to enhance customer convenience. We were successful in contributing to overall performance improvement, trust building and engagement of employees of the company through overall HR Performance improvement initiatives during the year.

Compensation and Benefits Strategy

One of the key activities carried out by HR during the year under review was to conduct a Compensation and Benefits Survey via KPMG to drive an employee centric culture in the organisation. Based on the results of the survey, the salaries of all staff members were revised with effect from 1st January 2019 with the concurrence of the Board HR Committee and approval of the Board. We are happy to note that we were able to grant of salary increments to all employees and that these salary adjustments were independent of the annual increments for the year where the benefits of continuous Company growth was shared among most of the staff members.

The survey also resulted in increasing the allowances to all permanent staff members. The upward revision of compensation and benefits of all employees were substantial in nature and met the expectations of a majority of the team.

Favourable Bonus Scheme

Another key aspect towards employee satisfaction was the Company Bonus Scheme, introduced last year, to share profits with the employees, which contributed to improve productivity and create greater harmony in the organisation. The revised bonus scheme provides the opportunity for all to receive a substantial portion of Company profits as annual bonus.

For the year under review, a total of LKR 34 Mn was provided to be disbursed among employees while 99% of all staff members are eligible to receive bonus payments.

Career Progression to All

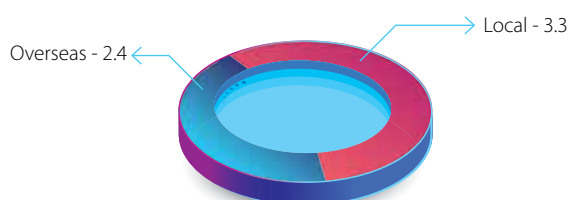
One of the key items in the HR Policy of the Company is to ensure that any new role or a role vacant by the resignation of an employee to be made available to internal candidates first, before looking for outside candidates and thereby increasing the growth potential of employees. In line with this policy, we ensured that those who had the potential to grow were given sufficient opportunities for career progression while their performance was given due recognition by the Company.

Training and Development

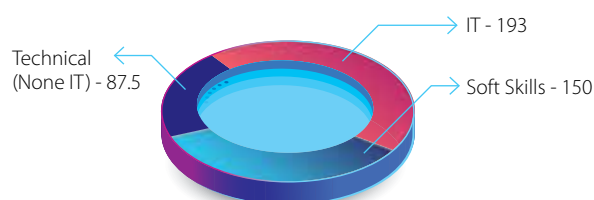
Training and development is also a key activity that is within HR's purview where many focused training sessions were provided to over 72% of our employees. The total investment on employee training by the Company exceeded LKR 6 Mn including overseas trainings to many IT staff members.

- Total training programs conducted
 - Local - 42
 - Overseas - 03
- Total man days of training - 428.5 days
- Total investment on training - LKR 6.2 Mn
- Average goal achievement percentage of the workforce (as enumerated from annual appraisals) - 87 %

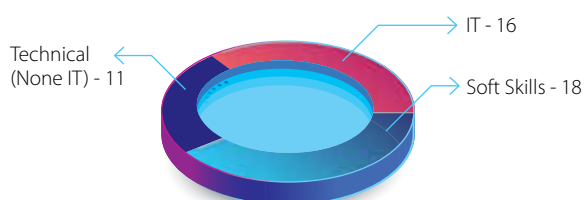
Investment on Employee Development (LKR Mn.)



Man Days Utilised on Training



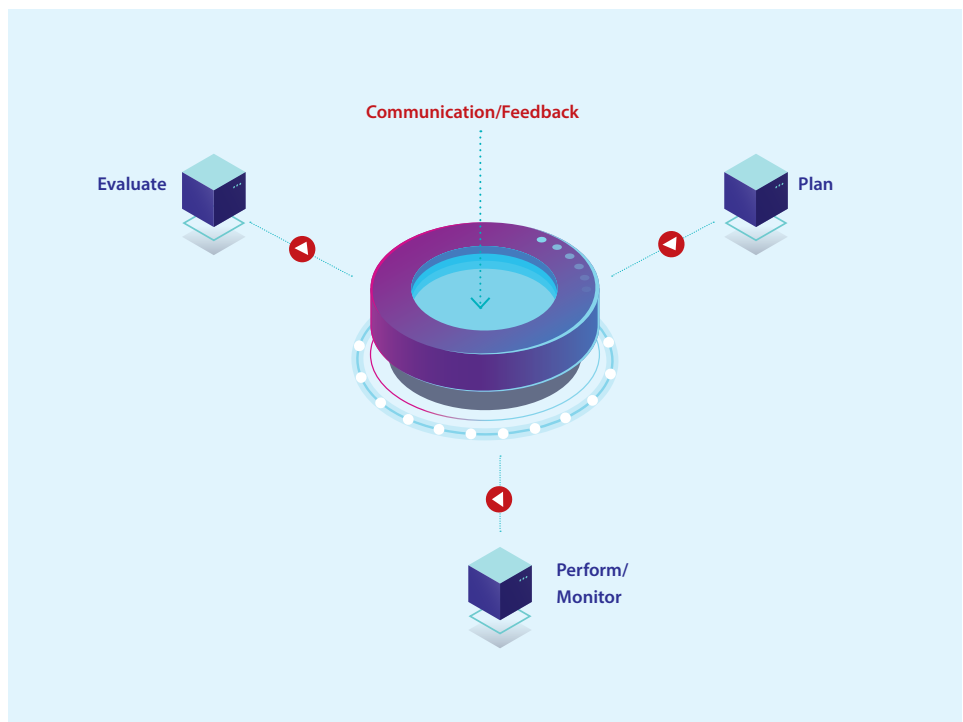
Training by Category



Human Capital

Performance Measurements

Another key HR strategy of the Company was to increase employee contribution via the performance management process, through which 100% of the employees are covered. The current performance management process includes two cycles, a bi-annual as well as a year-end review. Employees are assigned with goals and measurable KPI at the beginning of the year and these are used to measure their performance during the two reviews for the year. The goal setting process that takes place at the beginning of each year helps the staff members to identify their focus areas and contribute towards the overall objectives of the Company.



Annual Staff Trip 2018 - Shangri-la Hambantota

Another important event of the Company calendar for the year was the LankaPay six-a-side Cricket Tournament, organised by the External Services Department, in which all our member organisations take part. This event was conducted with the aim of improving our engagement with the employees of our members and to improve our relationship with them. This is a highly participated customer event by all our members and employees alike where we fielded a competent team to take part.



LankaPay six-a-side Cricket Tournament



New Year Celebrations



CSR Activities at Mawanella Udagama Ganthuna Vidyalaya



CSR Activities at Maharagama Cancer Hospital

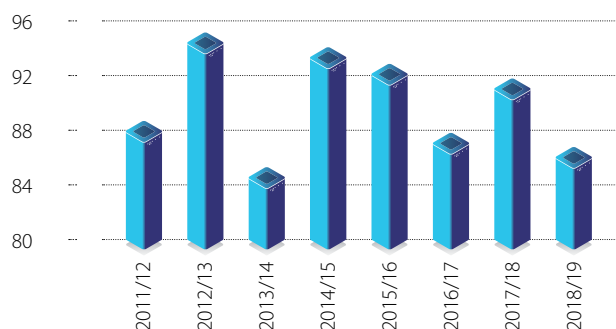
Our Welfare Association was very active throughout the year and helped to organise many CSR activities that contributed more than 500 staff hours to various CSR activities. In addition, the association actively took part in organising many other welfare initiatives to provide benefits to all employees. We are happy to note that the Welfare Association was involved in organising many events, including the New-year Table on 1st January, that created social value and brought enjoyment and entertainment to our employees.

Talent Retention

One of the fundamental challenges the HR department faced during the year was to ensure that we retain and motivate the best and critical talent of the organisation. The employee turnover during the year was significant. Due to the overall employee retention strategy of the Company we were able to prevent some key employees from leaving. We continue to believe that there is a positive relationship between the employee commitment and organisational empowerment to retain the committed employees. The organisation is continuously upgrading its technology, processes, and systems in a bid to provide customer convenience, which also helped to attract the interest of committed employees. Empowerment of employees and creating loyalty among the engaged employees is a significant differentiator for LankaClear from the rest.

We have seen an improvement in employee willingness to remain with the organisation as they perceive it as a personal investment in the form of a non-transferable asset such as close working relationships with co-employees, working in virtual groups, opportunities to further their career via additional responsibilities in sales, IT and customer service, etc.

Retention of Employees



Employee Retention Ratio (%)

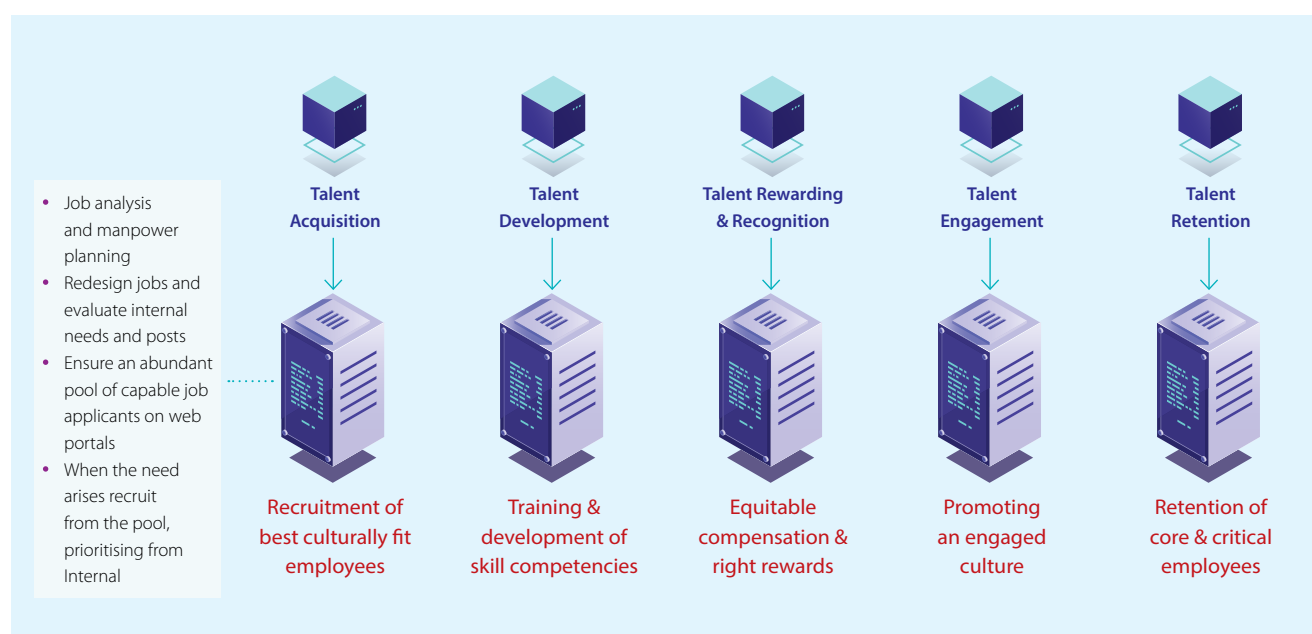
Year	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
Retention Ratios (%)	87.88	94.32	84.54	93.20	92	87	91	86

Human Capital

Talent Acquisition, Recruitment and Placement Strategies;

At LankaClear we strive 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 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 – 2018/19

No.	Key Enabling Factors/Strategic Priority	Actual Performance in 2018/19
1	Revision of Compensation and Benefits of all employees after the Salary Survey conducted by KPMG.	<p>Upon approval of the Board, the revision of salaries and benefits of all employees effective January 2019 resulted the increase of overall payroll cost by 22%.</p> <ul style="list-style-type: none"> • All monthly cash allowances of all employees were increased by 100% • IT, Operations and External Service Staff incentive schemes provided a substantial monthly monetary incentive to the staff members
2	Empowerment of employees through creation of additional opportunities	Total Internal promotions were seven including one promotion to Senior Corporate Management Level as DGM – Finance and several Management and Executive level promotions.

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.

No.	Key Enabling Factors/Strategic Priority	Actual Performance in 2018/19
3	Implementation of revised Training Bond Procedure encouraging employee participation including overseas trainings	Delivered more than 3400 hours of training during the year.
4	Approval for Educational Assistance Programme to assist employees to follow MBA or MSc programmes	<p>The Employee Education Assistance policy through which financial grants are to be granted to follow MBA or MSc programmes was approved by the Board.</p> <p>The policy facilitates the employees to apply for financial grants exceeding LKR 1.5 Mn to further their higher educational aspirations.</p>
5	Retention of best talent was a struggle during the year	It was challenging to retain employees and the ratio of retention during the year was 86 %. However, after the salary revisions were implemented we noted a significant improvement in this area.
6	Sharing of profits by way of payment of bonus and the quantum of profits shared among employees	6.5 % of the Company profit before tax was shared among all employees during the year under review.
7	Creation of value ensuring that the core values of the organisation are lived by bringing about adequate awareness programs	<p>The organisation core value measurement process was continued using the already developed criteria for same.</p> <ul style="list-style-type: none"> • Involvement of the senior leadership of the Company through Leadership Round Table • ‘HR Skips’ helped to understand the pulse of the employees and how they responded to their immediate superiors • Assisted the Management to implement effective Change Management Process before the implementation of every HR Policy
8	Engagement of employees and uphold partnership of effective relations with all levels	<p>Developed employee engagement activity calendar for the year and implemented same.</p> <ul style="list-style-type: none"> • Deployed several engagement activities including Leadership Round Tables, ‘HR Skips’, etc. • Engaged with employees in Company CSR activities that contributed more than 500 CSR hours to various CSR initiatives

Intellectual Capital



Marketing Strategy

The Year 2018/19 marked an eventful and a very challenging year for Sri Lanka economically, politically and socially. Despite the external challenges that casted a negative impact on overall demand and consumption, the year under review marked a remarkable year for the Company where we surpassed one billion revenue for the first time with a commendable 12% growth in topline. The growth in revenue was primarily constituted of an impressive 13% increase in transaction revenue while the revenue from one time joining fees continued to dip by a further 11% compared to the previous year.

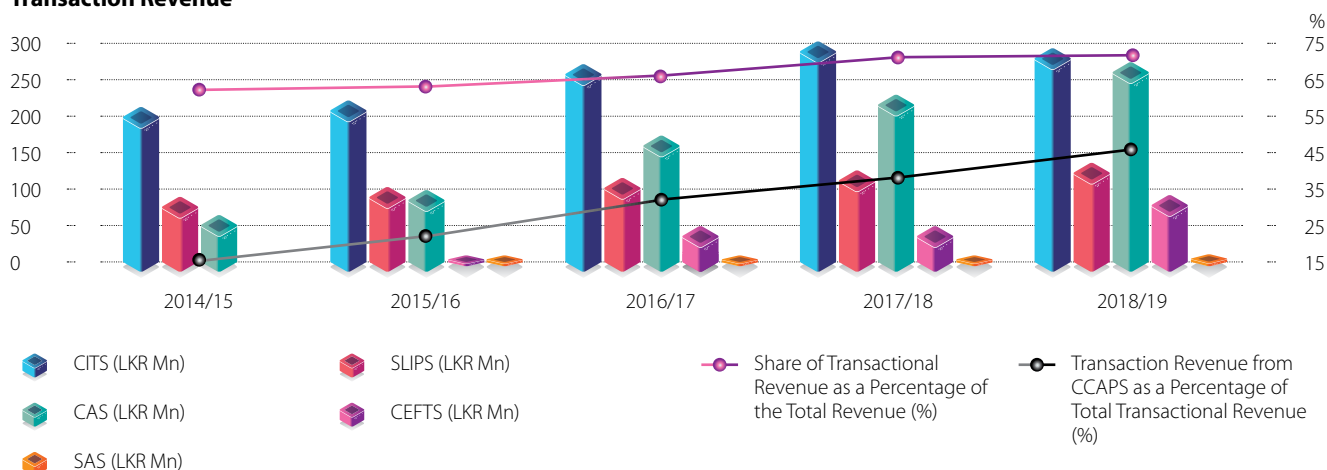
With the anticipation of joining fee revenue to come down further during the year under review, the overall marketing objective was to grow the transaction revenue to keep the upward revenue growth momentum. Confirming our assumptions, the revenue from CITS dropped by 4.2% bringing down its contribution to the overall revenue to 43% while transactional revenue from CCAPS saw an impressive 35% growth contributing to 46% of the overall transactional revenue, which saw an 8% growth in share compared to the previous year.

In furtherance of the Company's ambitious and aggressive growth plan, the marketing strategy was further reviewed and executed precisely with more intensity.

With the participation of seminar management of the Company and led by GM/CEO, a cross functional team was formed towards soliciting new members to LankaPay network and increasing transaction revenue. This proved to be an effective strategy to cope with the resource limitations, especially in terms of business development cadre, following the progress achieved with the Virtual Sales Team originally created in the last quarter of 2015/16. Separating the business development activities from marketing helped to deploy more management time to address strategic marketing and communication issues; and the focus was to improve brand awareness and enhancing brand equity, drive transaction volumes and creating a more sustainable transaction volume-based revenue model as opposed to being more reliant on joining fees.

As the operator of Sri Lanka's National Payment Network, LankaClear is providing a vital service to the entire financial sector and the nation while we consider financial inclusivity to be at the heart of our marketing strategy. Hence, our marketing effort surpasses mere commercial intent to encompass a value creation process that empower every Sri Lankan with fast, convenient, reliable, affordable and secure payment options.

Transaction Revenue



The two main objectives of the Company's current marketing strategy is to enhance brand equity and create a more sustainable transaction-based business model. Owing to the steady progress achieved in this sphere, the Company was able to secure 72% of its total revenue through transactional income with a 46% contribution from the CCAPS project. Despite the drop in CITS revenue and adverse macroeconomic conditions that negatively impacted the overall demand for financial services, the Company was able to achieve an impressive 8% growth in CCAPS revenue compared to 6% growth in the preceding year owing to the concentrated marketing effort.

With the Central Bank revising the liability limits upwards for interbank fund transfers, the CEFTS transaction declines that were at an unacceptably high level was reduced propelled the CEFTS volumes upwards. In 2018/19 too the marketing efforts were initially focused on driving CAS volumes until November 2018 where JustPay was commercially launched. In terms of product wise revenue growth, CAS brought in a LKR 44.29 Mn incremental revenue with a 21% growth while CEFTS contributed by a remarkable LKR 42.13 Mn with a staggering 124% year on year growth becoming the fastest growing product in the Company portfolio.

Harnessing Financial Inclusivity

Harnessing financial inclusivity being at the heart of our very purpose, LankaClear as the operator of Sri Lanka's National Payment Network is expected to drive electronic payments adoption in the country. With the Common Cards and Payment Switch (CCAPS) that rolled out in 2013 under the brand name LankaPay, the company provides the nation with the much-needed backbone infrastructure that facilitate multiple domestic interbank electronic payments and settlements. With state of the art payment infrastructure and compliance with the highest payment card industry security standards – PCI-DSS ver 3.2.1, the company boasts of a truly world-class payment network.

LankaClear considers that its primary competitor is the use of "cash" and our marketing communications are aimed at diverting unbanked transactions towards the banking system by introducing faster, convenient, secure and affordable payment

options to all Sri Lankans. Therefore, 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.

The commendable 35% growth in CCAPS revenue is a testament to the effectiveness of our efforts in driving electronic payments in the country. The commitment and forward thinking approach by banks and financial institutions towards promoting electronic payments in the country is indeed noteworthy towards the progress that has been achieved in this sphere. During the year under review several banks, financial institutions and FinTechs introduced innovative mobile payment applications enabling retail payments via smart mobile devices, which are powered by our real time mobile payment mode, JustPay, enabling retail payments to be done on a real-time basis by connecting bank accounts. With increased smart phone usage and acquaintance with technology, we are optimistic that mobile phone will become the preferred mode for retail transactions in near future.

Operating on a unique business model, the Company's marketing strategy constitutes of both 'pull' and 'push' strategies. On one hand, the Company endeavours 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 a demand for its services.

Initiated in 2017, LankaPay Technnovation Awards – Sri Lanka's first and the only payment technology innovation awards was organised for the second consecutive year in 2018, held at Shangri-la Colombo. The event was found to be a platform that create a healthy competition among our members and recognised the frontrunners of payment technology innovations in the country. Bank of Ceylon emerged the overall winner for the second year in a row under the Banking Institutions Category whilst LOLC Finance PLC emerged the winner under the Financial Institutions Category.

Intellectual Capital

Driving Electronic Payment Adoption

LankaClear identified that one of the primary reasons for slow adoption of electronic payments being lack of awareness. With a remarkable growth in transaction volumes experienced in the last two years, the Company continued to carry out awareness campaigns targeting the general public with the objective of driving transaction volumes.

During the year 2018/19 LankaClear carried out 22 brand activations across the island in partnership with popular radio stations and newspapers in Sinhala, Tamil and English languages. With the positive relationship the Company has fostered, the partnerships provided much publicity for the said promotional activities giving frequent brand exposure.

- Brand activations targeting Sinhala and Tamil New Year were carried out with three of the leading Sinhala radio stations across 40 locations island-wide.
- For the third consecutive year, LankaClear joined hands with the Hindu community of the country in celebrating the Nallur Festival promotion in collaboration with a leading Tamil radio station and a special brand activation with a leading Tamil newspaper, which was well received based on the responses.
- During the year, Gamata Derana promotion was continued covering 240 locations island-wide. With this initiative, LankaClear comprehensively covered the top ten districts in terms of population and transaction volume.
- In December 2018, LankaClear conducted another brand activation with a Tamil newspaper.
- Additionally we carried out numerous social media activations towards increasing brand awareness and engagement.
- With the official launch of JustPay in November 2018, several brand activations and awareness sessions were carried out targeting the specific target group.
- 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 an effective channel for communication. During the year under review, the Company surpassed 70,000 fans on LankaPay Facebook Page and over 12,000 fans for JustPay Facebook page. In total, the social media activities recorded closer to 6 Mn impressions, which provided a much needed reinforcement for the brand message.

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.

- Partnered with FITIS as the sponsor of the startup pavilion at INFOTEL National IT exhibition.
- 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) for the third consecutive year. 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 2018 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.
- Together with AAT Sri Lanka LankaClear conducted an interactive session towards raising awareness on electronic payment amongst financial professionals.
- The Company also sponsored several key events organised by the Clearing Association of Bankers.
- Sponsoring the National IT Conference organised by the Computer Society of Sri Lanka, 11th National Cyber Security Summit organised by SL CERT and CICRA Summit were the other key activities undertaken during the year under review, which were strategically important for the Company.

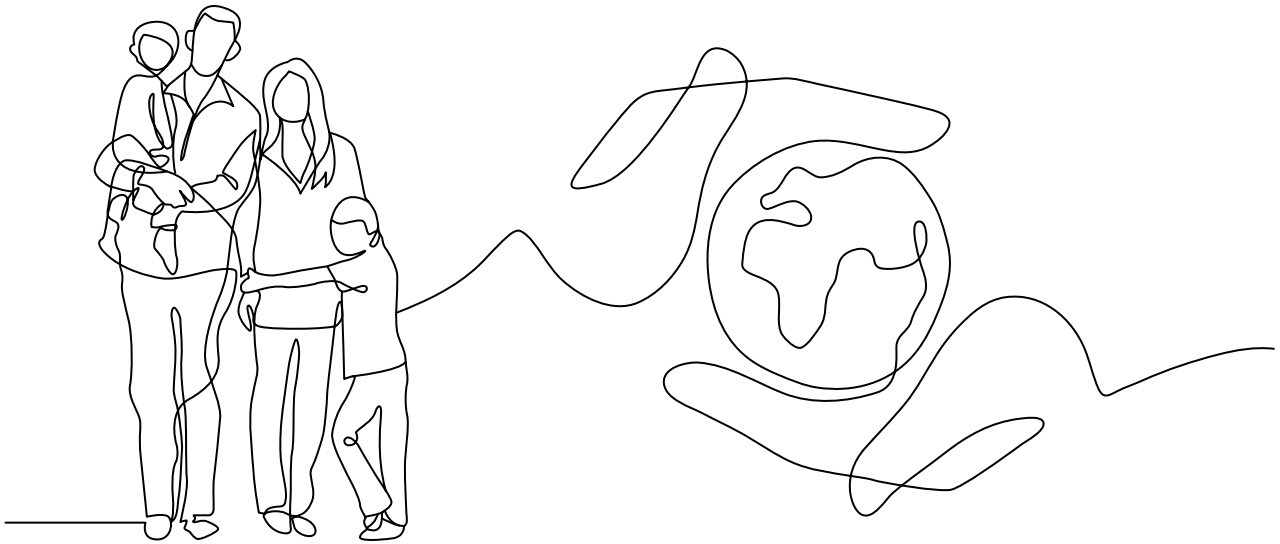


Sponsoring the National IT Conference



Awareness on electronic payments amongst financial professionals with AAT

Social and Relationship Capital



Delight All Our Customers

We recognise the importance of providing an unparalleled service to all our customers even though some of the services we offer have no direct competition in the market. Our customer service policy governs as to how the organisation and our employees interact with our customers. It encompasses everything from how you greet customers, handle service complaints and the back-up services available to the product or service. At its core, quality customer service is about making sure our customers feel that they are valued, treated fairly and appreciated by every single person in the organisation. Hence, being the trusted payment network of Sri Lanka, understanding and catering to customer needs have become one of our key priorities.

We are humbled by the fact 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. However, this is by no means a deterrent for us to maintain highest levels of customer service. We have strived to serve our customers better by implementing a reliable, cost effective and secure retail payment system to cater to their customer's daily payment requirements. We serve the entire Sri Lankan population as our ultimate consumers of our services via banks, financial institutes and other authorised service providers.

Enhance Customer Experience

We believe that customer service constitutes of the entire life cycle of the customers' experience.

For example, a superior customer service is to provide friendly guidance and assistance in helping to use a customer's mobile/ internet banking facility to transfer funds from one bank account to another. The customer service representative must provide all the assistance to successfully carry out the transaction in a timely manner.

On the other hand, a great customer experience is achieved when a person accesses internet banking at home and transfer money to any person who has an account in another bank within a few seconds at the lowest possible cost and in the process if he is delighted since the service has saved him the effort, time and money to visit his bank to do the same.

We, as an organisation, have always strived to provide superior customer service and a great customer experience.

In order to improve customer relationships this year, we have focused on;

- Setting mutually-satisfying goals by streamlining to offer what the customer requires and not limit ourselves to offer what organisation can provide

Social and Relationship Capital

- Shifting our focus from a product perspective to customer perspective
- Finding new ways of doing things by aligning structures and systems that supports a business centered on our customers

Customer Recognition

International Customer Service Week - 2018

Significant steps were taken to celebrate International Customer Service Week to recognise the importance of our customers and appreciate them for their contribution towards our business.

- Raised company-wide awareness on importance of the customer service by inviting a professional mentor, to deliver guidance to all employees



International Customer Service Week 2018

- Offered corporate gifts to participating members to convey our commitment towards their satisfaction
- Reward LankaClear staff who excelled in customer service and organised team building activities

LankaPay Six-a-Side Cricket Fiesta

For the third consecutive year, we organised LankaPay Six-a-Side Cricket Tournament by inviting our valued LankaPay members to Bloomfield Ground. It was a great opportunity for the participating 25 teams and for the audience gathered in a friendly atmosphere to mingle with the representatives from other banks and financial institutions. This enhanced already established relationships and mutual understanding of each other and helped to create stronger bonds, which automatically led to strengthening the relationships among all our members.



International Customer Service Week 2018



International Customer Service Week 2018



LankaPay Interbank Cricket Tournament 2018



LankaPay Technnovation Awards 2018 - Overall Winner



LankaPay Technnovation Awards 2018 - Panel of Judges

LankaPay Customer Get-together – Peduru Party 2018

For the second time, LankaClear organised a 'Peduru Party' and felicitation dinner for all our member participants at 'Havelock City Clubhouse'. This was a very successful and was an enjoyable event for all 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 for all.

Awareness Sessions on Clearing Products

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

Progress Review Sessions for Participating Members

We have continued to serve our customers by organising periodical progress review sessions in order to enhance the new product awareness and to address their common queries in an open forum. It allowed our team to respond to their typical issues immediately by understanding and discussing with the audience.

Seasonal Gifts for Members

We have offered LankaPay branded seasonal gifts to all our points of contact as a token of appreciation for their increased business activities and work contribution. This has helped to build a stronger relationships and enhanced the personal connection between Lankaclear and its customers.

Stakeholder Engagement Process

LankaClear, as the operator of the National Payment Network, has to engage with a multiple stakeholders including both direct and indirect customers in the financial sector. The Company's stakeholder engagement process has evolved over the years and is illustrated below;



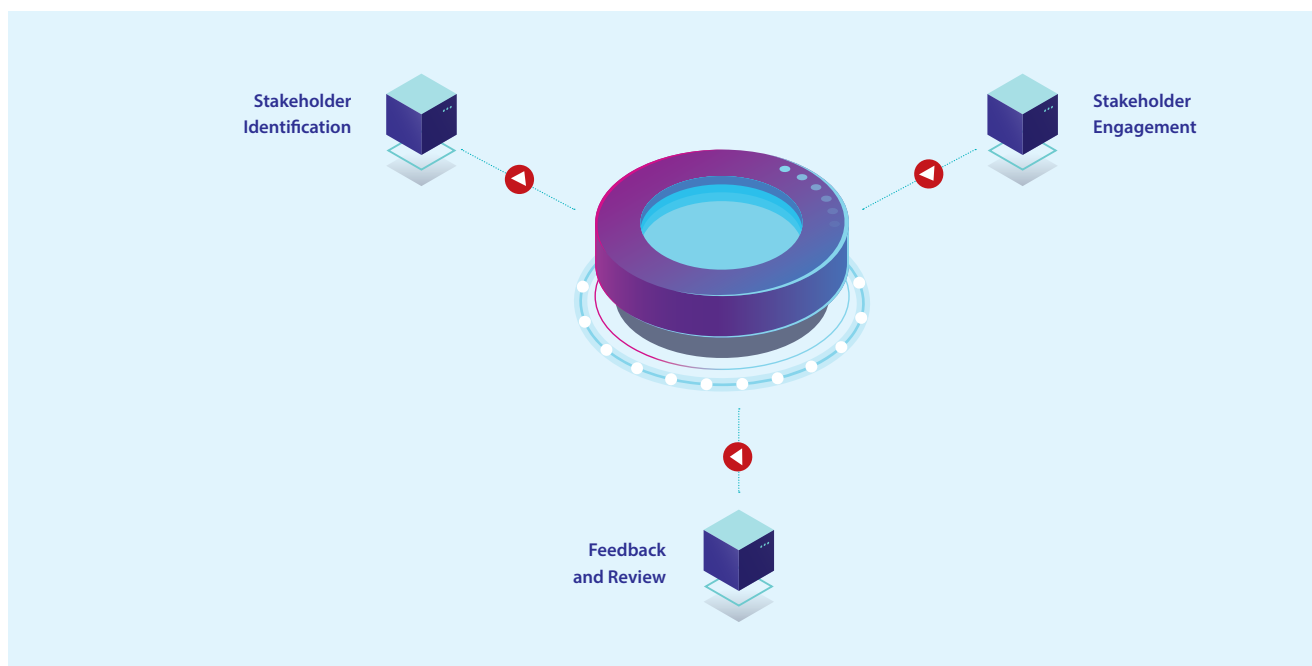
LankaPay Peduru Party 2018



LankaPay Peduru Party 2018



LankaPay Peduru Party 2018



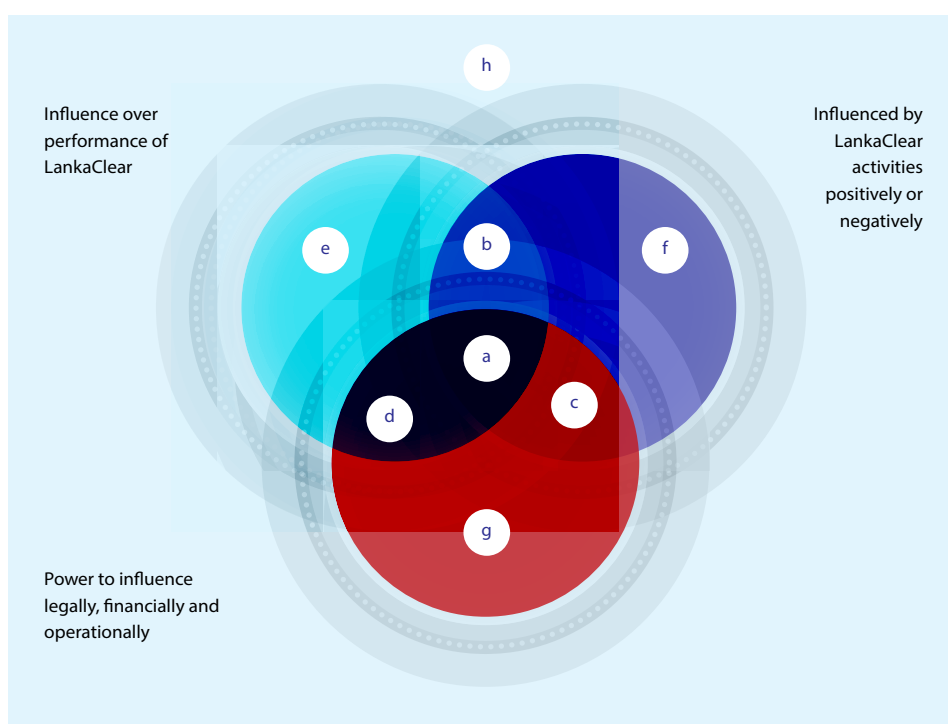
Social and Relationship Capital

Stakeholder Identification

Stakeholder Group	Description
Central Bank of Sri Lanka	Central Bank of Sri Lanka (CBSL) is the financial sector regulator and the largest shareholder of LankaClear. The National Payment Network 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 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 and Other Select Corporates	All licensed banks and non-banking financial institutions serve as direct customers 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 backend on which the mission critical National Payment Network is being operated
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)	LankaClear collaborates with innovative software development companies that create creative payment applications and their acquiring banks to facilitate initiatives such as JustPay.
Auditors	Auditors of LankaClear carry out the following external audits: <ul style="list-style-type: none"> • Financial audits • IT audits • Systems security audits • Compliance and procedural audits
Media	LankaClear intends to create awareness for its services under a single umbrella brand name of 'LankaPay'. The brand name 'JustPay' with the association 'powered by LankaPay' for smart phone based payment services was created to distinguish it from cheque and cash payments. This is to put a concerted effort into building the brand equity (awareness and loyalty). The Company engaged with media buying houses, electronic media stations, newsprint 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 buying, outdoor, digital media, PR and research agencies, etc.

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

- 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**



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 designed 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 in 2018-19
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 Through the provision of settlement related financial services Driving new payment and settlement initiatives for the banking and finance sector Driving awareness amongst industry stakeholders
Board of Directors	<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

Social and Relationship Capital

Stakeholder group	Method of engagement with stakeholder in 2018-19
Banks, Non-bank Financial Institutions and Other Select 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 • Through the provision of clearing and other services • Regular progress review meetings • Through the 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 the Customs Online Payment Platform. • Taking part in joint events to educate public on the progress achieved as a country in terms of payments. • LankaClear partnered with the Ministry of Telecommunication and Digital Infrastructure to conduct several awareness programmes to the Government sector stakeholders to update them on the latest payment methods available in the country.
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 National Card Scheme (NCS), the Company would be going head-on with existing International Cards Schemes 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

Stakeholder group	Method of engagement with stakeholder in 2018-19
Third Party Payment App Developers	<ul style="list-style-type: none"> Integrating to LankaClear systems. LankaClear continued with the joint initiative with BCS Sri Lanka to support 'The Best Mobile Payment Application of the Year' category at the NBQSA 2018. 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 and 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 and reviews Timely payments

Stakeholder Feedback and Review

Status of material aspects with regard to stakeholders during the year 2018/19 are elaborated in the below table.

Concerned Stakeholders	Material Aspects/Stakeholder Expectations	Response
Regulator/Customer	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 99.79% and 99.95% was maintained for CITS and CCAPS respectively. Two live DR operations were conducted for each payments system.</p> <p>During the year under review, we implemented a brand new primary data centre to further strengthen the IT and security infrastructure of the organisation. We designed and built our brand new state-of-the-art data centre with 2 hours fire resistance enclosure, which is aligned with 'Uptime Tier 3' standard and has capabilities of N+1 availability on power architected with primary and secondary feeders and precision air-conditioning system.</p> <p>Further, we upgraded our visualised environment to increase capacity for future growth and improve high availability for all products. LankaClear also upgraded its core network security infrastructure to protect against existing as well as new cyber security threats.</p>

Social and Relationship Capital

Concerned Stakeholders	Material Aspects/Stakeholder Expectations	Response
Regulator/Customer	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 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.
Regulator/Customer	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 to the industry best practices
Customer	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 is in full-scale operation with many 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 through LankaPay Online Payment Platform extended its services to Inland Revenue Department and e-Local Government to facilitate tax and rates payments. This would provide a much convenient and economical option to the existing manual process, which is cumbersome and time consuming. With the new system customers could make payments 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. Muslim Commercial Bank (MCB) was the first bank to issue a debit card under NCS initiative in August 2018, which is a Chip based (EMV) co-branded LankaPay – JCB card with international acceptance via JCB network. LankaClear is in the process of introducing "LankaPay 2in1" card, a chip based NFC card with both debit and stored value functionality for providing a secure tap-and-go convenience for low value payments. • Common QR code for financial sector and mobile number based real time payment platform was implemented during the year. • Introducing Payment Exchange Number (PEN), another novel initiative, which was implemented 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 customer 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	Ensure the availability of 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 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.

Social and Relationship Capital

Concerned Stakeholders	Material Aspects/Stakeholder Expectations	Response
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>
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 14 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 implemented 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 contributing more than 500 staff hours to various CSR activities.

Economic Contributions
Direct Economic Contributions
Statement of Value Addition

For the year ended 31st March	2018/19		2017/2018		2016/17	
	LKR Mn		LKR Mn		LKR Mn	
Value Added						
Business Revenue	1,029,057,105		918,503,011		800,761,303	
Cost of Services	366,996,530		332,508,473		303,303,975	
Value Added by Business Activities	662,060,574		585,994,538		497,457,328	
Finance & Other Income	186,023,654		144,466,245		90,686,259	
Total	848,084,229		730,460,783		588,143,587	
Growth in Value Addition		16%		24%		43%
Distribution of Value Added						
To Employees						
Salaries & Other Benefits	225,511,631		205,594,814		178,521,854	
Training	6,229,034		11,114,358		4,221,483	
	231,740,665	27%	216,709,172	30%	182,743,336	39%
To Providers of Capital						
Dividends to Ordinary Shareholders	53,200,000		41,800,000		30,400,000	
	53,200,000	6%	41,800,000	6%	30,400,000	6%
To the Government						
Income Tax	89,811,604		63,673,461		43,553,020	
	89,811,604	11%	63,673,461	9%	43,553,020	3%
To Expansion and Growth						
Retained Profits	371,231,152		319,629,200		248,088,883	
Depreciation & Amortisation	117,216,505		105,052,797		91,706,333	
Deferred Taxation	(15,115,697)		(16,403,847)		(8,347,985)	
	473,331,959	56%	408,278,150	56%	331,447,231	52%
Total	848,084,229	100%	730,460,783	100%	588,143,587	100%

The value of LankaClear's direct economic contribution to the nation may seem relatively insignificant in contrast to its actual economic impact to the nation. LankaClear has a multiplier effect on the national economy of Sri Lanka, via its role of facilitating interbank payments and settlements nationwide. By implementing most modern 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.

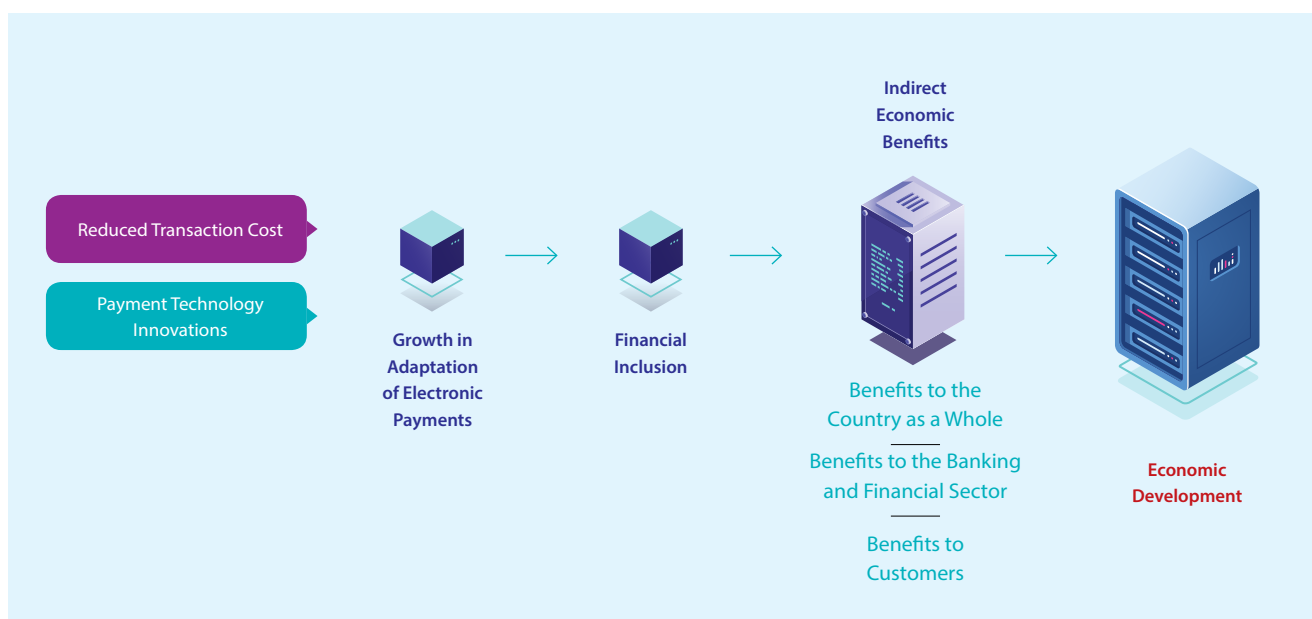
Social and Relationship Capital

During the financial year 2018/19 LankaClear made a direct economic contribution to the country, to the value of LKR 848 Mn. Employees benefited from 27% of this value, while 11% went to the State coffers in the form of taxes and 6% was distributed among the shareholders of the Company.

LankaClear retained 56% of its earnings to reinvest in technology and capacity enhancements, to support Sri Lanka's long-term development. To date, all LankaClear operations and investments in new technologies have been met through reinvested profits.

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. Under the operations review we have discussed the value of transactions that had cleared through our different clearing products.

Indirect Economic Benefits to the Banking and Financial Services Sector



By implementing a common payment network 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	<ul style="list-style-type: none"> Nationwide T + 1 Cheque Clearing – 1st in South Asia/2nd in the World
2009	<ul style="list-style-type: none"> Launch of 'LankaSign' – The only commercially operating Certification Authority (CA) in Sri Lanka
2010	<ul style="list-style-type: none"> Launch of Nationwide Same Day Electronic Fund Transfer for bulk payments (SLIPS) – 1st in South Asia
2013	<ul style="list-style-type: none"> Launch of 'LankaPay' Common ATM Switch
2014	<ul style="list-style-type: none"> 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) and 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 LKR 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	<ul style="list-style-type: none"> Launch of Payment Exchange Name (PEN) system to facilitate peer-to-peer payments via a mobile number and a nickname
2019	<ul style="list-style-type: none"> LANKAQR - National Quick Response (QR) Code Standard for local currency payments with the aim of establishing a standard for payments carried out through mobile phones.

Indirect Economic Benefits to the General Public

We at LankaClear understand the value of convenience and we also realise that with the emerging 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, any device they use, at a time convenient for them and with minimum effort and time. Therefore, the ultimate objective of LankaClear is to help every citizen to enjoy their life by 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.

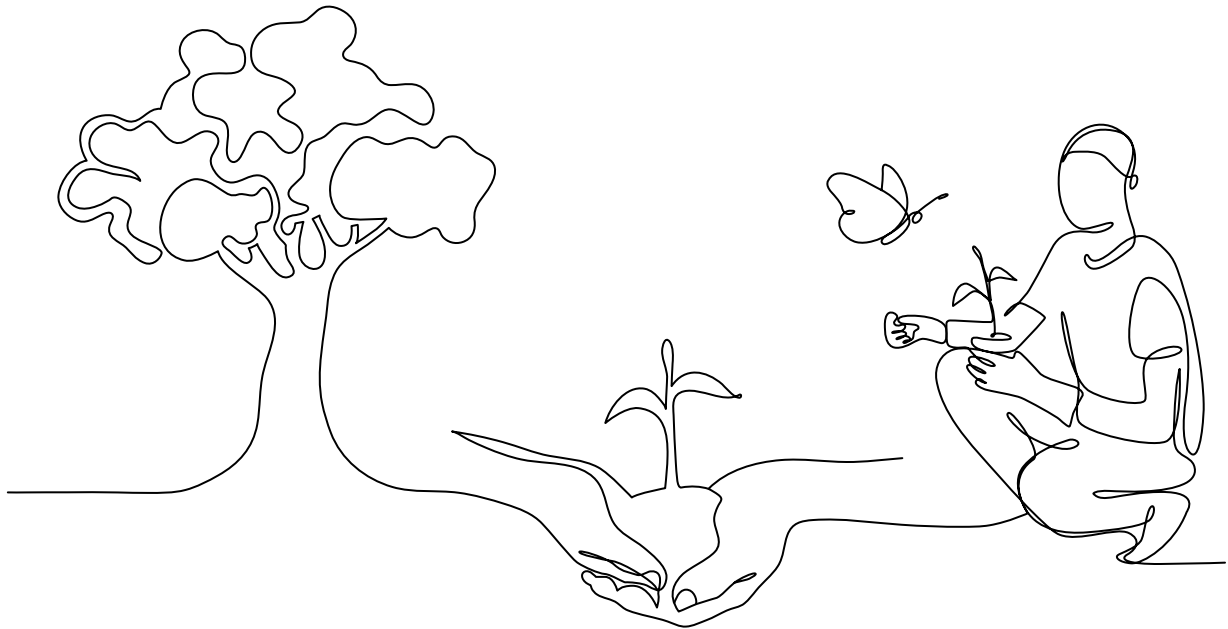
Indirect Economic Benefits to the Country

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, develop and operate a system that caters to greater socioeconomic 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

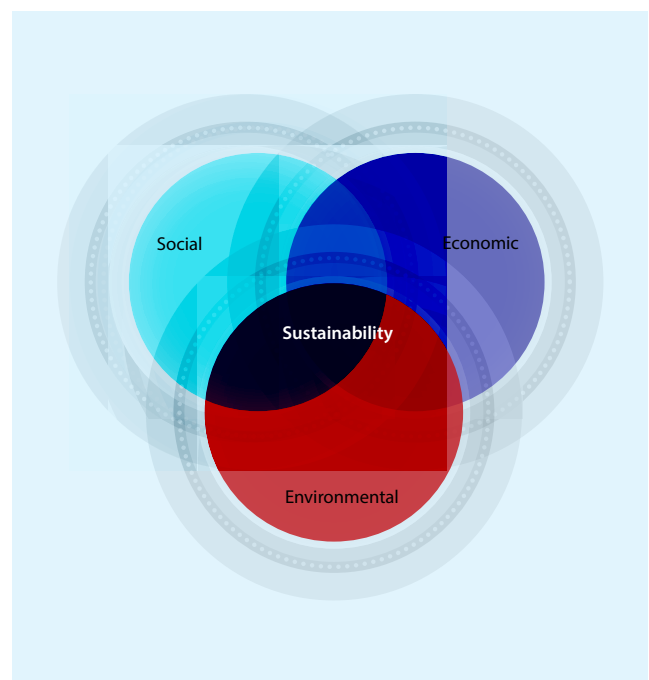


Sustainability

The concept of sustainability is of paramount importance 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, ensuring the future success and thereby to achieve the sustainability related, environmental and social friendly goals and objectives of the organisation. Global developments have already ensured that the concept of sustainability has increasingly gained momentum throughout the last few years.

Sustainability, in simply is the non-consumption of resources that do not hold the chance to replace themselves, when producing goods and services. A sustainable business is a business that strives to meet the triple bottom line, which are the social, environmental and economic pillars. Since, LankaClear (Private) Limited is promoting sustainability concept to ensure that the reduction of the total emissions due to its daily operations. 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 and it is covered in the financial review and audited financial statements comprehensively, we are not touching the area of profitability in this section. Also with respect to people or social aspect, it is covered comprehensively in Human Capital Value creation covering CSR Activities Company has carried out over

time. Therefore, we are limiting this article only to the planet or environmental activities and LankaClear positive contribution towards that area.



Environmental Responsibility

LankaClear's business activities revolves around facilitating electronic payments do not lead to significant negative environmental impacts made by traditional businesses such as companies in the manufacturing sector. Also it does not utilise the scarce nonrenewable energy for production purposes, water and does not lead to deforestation, On the contrary, the Company's business activity of moving the general public into a cashless society, or moving away from a paper based economy, could be viewed as largely environmental friendly by contributing significantly towards reducing paper consumption, which leads to reduction of cutting down trees. This is achieved in two folds.

The newly introduced digital signature system has completely cut down the paper works significantly and expecting to expand the concept for more areas so that gradually we would become a paperless office. The system uses the digital signing certificates maintained by certificate authority of LankaClear and used since 2018. The usage of CD's for cheque clearing is no more with the newly introduced online system which will lead the cut down the total emissions due to the activities of the LankaClear's business.

With the regulations and awareness programs initiated by the LankaClear all the wastes are segregated and send for the recycling or disposal based on the type of waste. Awareness and monitoring programs has significantly contribute to achieve the 100% waste segregation and improvement of the Environmental concerns.

Energy Management

LankaClear initiated for a new state of art data centre which is more efficient than the previous data centre. The total energy consumption is regularly monitored and recorded in order make sure that the efficiency of the system is always higher which will save the energy as well as reduce the emissions. Addition to the data centre there is a special team to make sure that the wastage of the energy is always less than the previous. All the staff were requested to switch off AC, lights and computers when they leave from office. Several awareness programs were conduct to achieve this target. Furthermore all the bulbs are currently converting in to the energy efficiency bulbs to reduce the energy wastage.

Impact of Online and Mobile Transactions on Sustainability

And the second matter of consideration is the online transactions which can be identified as the one of most facile means to transfer money from a bank to another bank and pay your bills including electricity bills, water bills, telephone bills etc. For an instance, with tons of duties piled up at the place of work, wasting your time to deposits and pay bills staying in never ending queues at banks would lead us to a lot of inconveniences and discomforts.

But if people tend 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 pay where ever you are instead of physically moving. Further people do not have to worry whether the bank is closed or not as most of the online transactions happen via CEFTS (The Common Electronic Fund Transfer Switch) and it completes

just within 30 seconds maximum. It is an undeniable fact that the time that is spent on counting the cash stack can be saved when doing transactions online although it sounds less important. And above all, the most annoying thing which people hate the most is to fill numerous forms just to pay a single bill and it won't be in the scene anymore.

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

As an organisation driving towards success, implementing the sustainable concept more widely within the organisation is vital. To promote this concept within the business, the governance structure should explicitly and directly take into account the environmental and social performance of the company which holds a major role in sustainable development in addition to financial performance.

Therefore, while the company's direct negative environmental impacts are minimum, its indirect positive environmental impacts are much more significant and will also improve with time, as an increasing number of Sri Lankans are expected to move towards a paperless future electronic and mobile transactions powered by the LankaPay National Payment Network.

Minimising Environmental Impacts

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

At LankaClear (Pvt) Ltd. every possible effort is put forward in making sure all e-waste produced is deposited according to the current 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 issued by the Central Environmental Authority (CEA) of Sri Lanka. A similar process is followed when disposing of archived CITS CD's, where the company has crushed and sent for recycling approximately one hundred thousand CD's in the past year alone and expects to dispose the e-waste accumulate due to revamping of the data centre in the eco-friendly manner.

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 LankaClear has maintained since inception and to date the company has not participated or encouraged any landfills which signifies the company's commitment towards environmental conservation and sustainability. Effectively the company has taken substantial measures to reduce its carbon foot print by implementing,

- 1). Close monitoring of energy consumption though sectional measurement and monitoring of different work areas (Data Centre, Office area etc.)

Natural Capital

- 2). Lighting in common areas are provided with the use of LED lights and natural light is integrated to the office areas where possible
- 3). Generator fuel consumption is monitored in each run and test runs are scheduled to optimise consumption and equipment wear.
- 4). Water consumption on site is closely monitored and the use of Air cooled precision air conditioners for the Data Centres has led to minimum use of water usage by the Data Centre infrastructure
- 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 recycling company.
- 8). Automated systems and procedures have been implemented to reduce the physical printing requirements, thereby reducing paper consumption as a result of business activities.

Few Highlights

Type of waste	Quantities in 2018/19	Method of disposal
CD's (units)	100,000	Crushed and sent for recycling
Batteries (units) (Hazardous)	98	Sealed LED UPS batteries were returned to the Authorised local agent
Landfill	Nil	We are happy to report 0 landfill from LankaClear business operations

The company has further strengthened its commitment towards greater sustainability by implementing best practices in Green Building concepts in its new Data Centre construction with the integration of high efficiency Precision Air Conditioning units and UPS systems along with sectional measurement to ensure higher efficiencies which would lead to improved margins. At its core structure the Data Centre dry walls are constructed using compressed paddy straw boards which are fully recyclable and are manufactured locally according to international standards while ensuring optimum fire protection capability using native paddy waste.

Moving forward the company hopes to strengthen its commitment towards greater sustainability by implementing green practices, using the renewable energy and several other practices which would contribute to better efficiencies within the organisation 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.





Convenience =

No more waiting in lines to make payments
with the introduction of smart kiosks
providing a connected experience.

Where you want it

Corporate Governance

Corporate Governance is a critical pillar at LankaClear that determines how the Company is directed, controlled and monitored in the right direction. This includes mechanisms, rules, practices, processes and procedures which essentially involve 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. It provides a framework through which the objectives of the Company are set and means of attaining same while periodically monitoring its performance and compliance.

Accordingly, LankaClear operates within a well-defined Integrated Corporate Governance Framework built on the core principles of;

1. Responsibility and Accountability
2. Respect for others as who they are
3. Being a catalyst for change
4. Leadership
5. Integrity and trust
6. Availability and accessibility
7. Teamwork and collaboration

The company operates adhering to the mandatory requirements of the Companies Act No. 07 of 2007, directions, rules, regulations and circulars issued by the Central Bank of

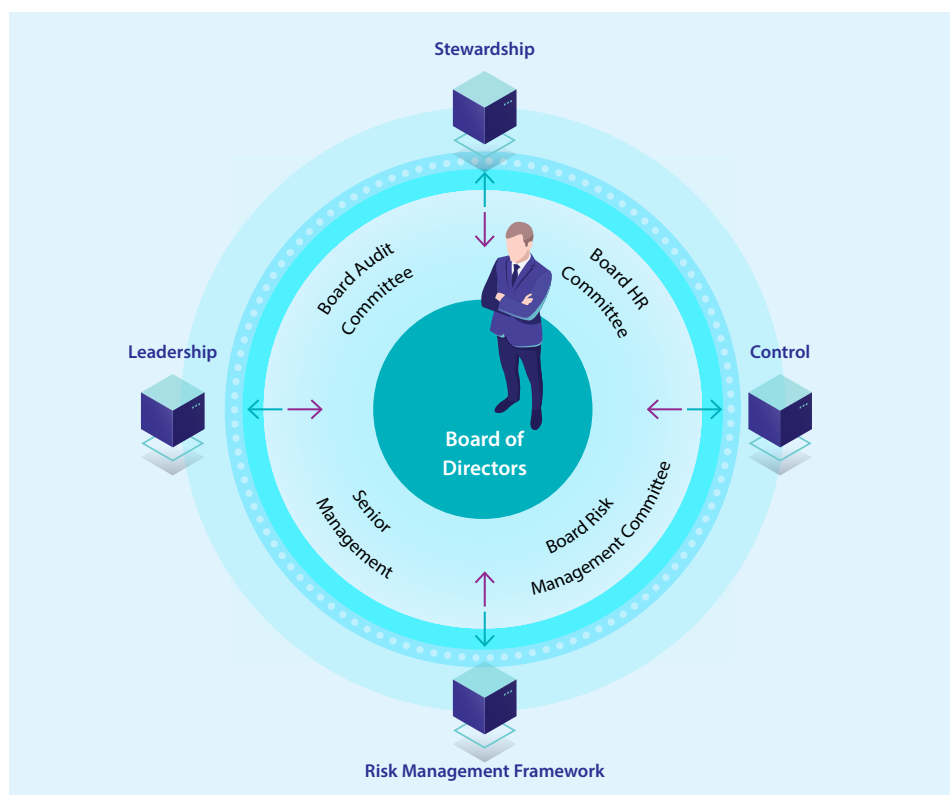
Sri Lanka, rules and regulations of the Institute of Chartered Accountants of Sri Lanka, legislations of the government of Sri Lanka as applicable, PCIDSS requirements and accepted National and/or International policies, procedures and best practices relevant to the business of LankaClear.

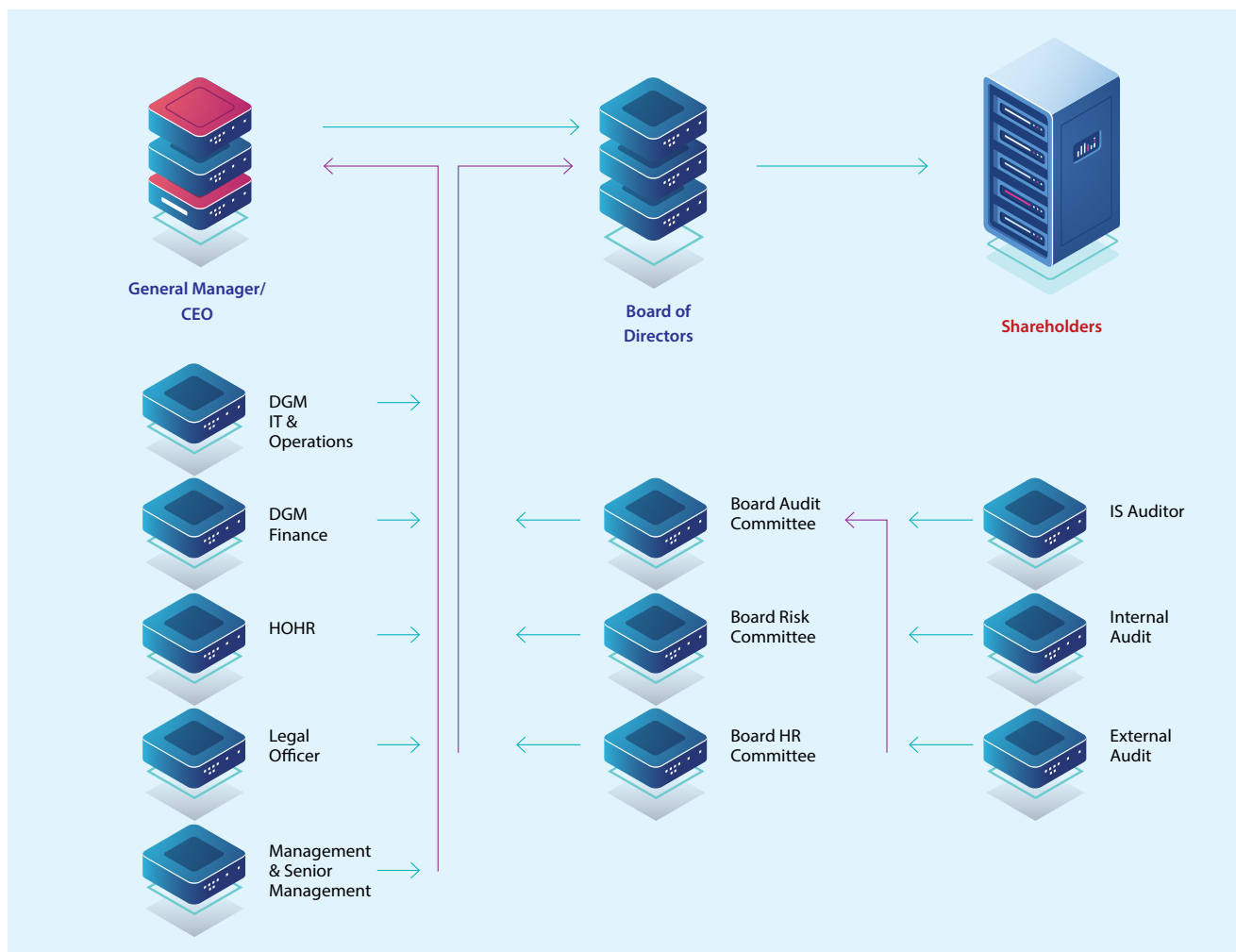
We have also established our own set of internal policies and procedures in meeting accepted best practices in governance with the guidance and direction of the Board of Directors to ensure a long-term sustainable economic growth for the company.

The Governance Structure of LankaClear, as given below, facilitates efficient operation of its business while encouraging all its employees to elevate the Corporate Governance standards at all times. We have established a sound transparent channel to communicate all decisions, policies, processes and procedures laid down by the Board to all employee levels by internal circulars. Authority is provided to the Senior Management to review the same periodically and inform the Board whether any amendments are required to ensure that all elements of its Governance Framework are fit for its purpose.

LankaClear further ensures that the Company has sound levels of risk management processes and periodic and effective financial, operational and IT/IS audits are performed while the findings are closely monitored through the risk management process not only to satisfy regulatory requirements, but also to improve the conduct of the organisation in every perspective.

Corporate Governance Framework





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

A.1 The Board of Directors

The Company's Articles of Association define LankaClear's purpose, duties and responsibilities of its members. The Board of Directors is the Company's highest governing body and the formation of the board is as stipulated in the Articles of Association. Conscious of their obligation to comply with applicable laws and regulations, the Board of Directors of LankaClear have committed themselves to ensure that there is effective overseeing of the business affairs of the Company and to ensure that all such business affairs of the Company are conducted adhering to the best practices and highest business standards

The Board of Directors, as the ultimate governing body, directs, leads and controls the functions of 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 provided under the Board of Director's section of this Annual Report on pages 28 to 32.

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 interests of Central Bank of Sri Lanka.
- Two Directors represent the two State banks (Bank of Ceylon and People's Bank).
- Three Directors are nominated by the Sri Lanka Bank's Association out of which two nominees represent the private local commercial banks and the other foreign banks.
- The Secretary General of the Sri Lanka Bank'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, establishing a sound control framework ultimate supervision and accountability for the stewardship function of the Company. Its overriding objective is delivering 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.

Corporate Governance

We at LankaClear have adopted 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 which is given as follows;

Rule No.	Subject	Compliance Status and Comment
A.1.1	Board Meetings	The Board meets regularly and there had been 13 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 Advice	The Board collectively and individually acts in accordance with the laws of Sri Lanka. Provisions are made for the Directors to seek independent professional advice, in furtherance of their duties, 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 is appointed to the Board, Chairman will 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-making 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 three Directors as follows;

- Mr. W. P. R. H. Fonseka – Chairman (Alternate Director to Mr. S. Bandara – Director)
- Mr. K. V. K. Alwis
- Mr. E. R. De Silva

The Audit Committee met on four occasions during the year under review and at these meetings the quarterly Internal Audit Reports, Information System 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. 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 five meetings during the year under review. Matters discussed and recommendations made appear in the Board HR Committee Report of this Annual Report.

Board Integrated Risk Management Committee

The Board Integrated Risk Management Committee consists of three members of the Board of Directors as follows;

- a) Mr. P. L. D. N. Seneviratne – Chairman
- b) Mr. K. V. K. Alwis
- c) Mr. M. A. B. Silva

The committee is governed by Risk Committee Charter and Terms of References and reviews significant risks and their related mitigations and reports back to the LankaClear Board

The committee held a meeting during the year under review. Matters discussed and recommendations made appear in the Board Integrated Risk Management Committee Report of this Annual Report.

Further actions taken in managing the risks are highlighted in detail in the Enterprise Risk Management section of this Annual Report.

Board and Board Sub Committee Meetings

The Board held 13 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 –2018/19

Name	Appointments and Resignations made during the year under Review	Board Meetings		Board Audit Committee Meetings		Board HR Committee Meetings		Board Integrated Risk Management Committee Meetings	
		Held*	Present	Held*	Present	Held*	Present	Held*	Present
Mr. A. Amarasuriya – Chairman	N/A	13	13			05	05		
Mr. C. P. S. Bandara – Director	N/A	03	03			01	01		
Mr. R. A. A. Jayalath – Director	Appointed w.e.f. 05/10/2017	13	11						
Mr. K. V. K. Alwis – Director	Appointed w.e.f. 05/07/2018	10	10	02	01			01	01
Mr. S. Bandara or his Alternate Director Mr. W. P. R. H. Fonseka	Appointed w.e.f. 20/03/2018	13	06	04	03	04	04		
Mr. M. A. B. Silva – Director	N/A	13	09					01	-
Mr. P. L. D. N. Seneviratne – Director	Appointed w.e.f. 17/07/2018	10	05					01	01
Mr. M. N. R. Fernando – Director	Appointed w.e.f. 28/06/2017	13	02						
Mr. R. Thiagarajah – Director	Resigned on w.e.f. 06/07/2018	03	02						
Mr. E. R. de Silva – Observer (SLBA)	Appointed w.e.f. 22/08/2017	13	13	04	04	05	05		
Mr. J. F. McCabe	Appointed w.e.f. 04/09/2018 Resigned on w.e.f. 01/12/2018	04	03						
Mr. B. C. Thewarathanthri	Appointed w.e.f. 26/02/2019	02	02						

* Held – Total number of meetings held during the term of office

Corporate Governance

Rule No.	Subject	Compliance Status and Comments
A.2	Chairman and CEO	Due to the nature of roles and responsibilities, two different persons hold the positions of Chairman and CEO. This ensures the balance of power and authority such that any individual does not have any unfettered power of making all the 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-making.</p> <p>As given in this Report, the composition of the Board at LankaClear is such that, it has members to represent the interests of 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 four to five 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 done 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 Banks' 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.	Directors' 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 19 (page 126) 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</p> <p>LankaClear has reported a true and fair view of its financial position and performance for the year ended 31st March 2019.</p> <p>The Directors' 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</p> <p>The Board of Directors, upon the recommendation of the Audit Committee, is satisfied that the Company has sufficient resources to continue in operation for the foreseeable future.</p> <p>Internal Control</p> <p>At LankaClear we have established a sound framework of risk management and internal controls and monitoring its effectiveness on a continuous basis.</p> <p>Audits</p> <p>In addition to the annual financial audit, it is our desire to ensure compliance with the relevant Directions, Rules and Circulars by the Central Bank of Sri Lanka. Internal audits are conducted on a quarterly basis and audit reports are discussed and required corrective actions to be taken by the Management is agreed at the Board Audit Committee meetings.</p> <p>Further, an internal and external IT audits were carried out during the year under review and the report by the Auditors had been submitted to the Audit Committee for evaluation.</p> <p>Board Audit Committee</p> <p>The details and required disclosures of the Board Audit Committee are given on Board Audit Committee Report on page 100.</p> <p>IT governance</p> <p>The Information Technology (IT) landscape is increasingly complex and vulnerable. 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 at LankaClear believe that IT governance also plays a pivotal role under the wings of corporate governance. Being an organisation powered by IT, it is imperative that we manage all-IT related risks to an acceptable level in keeping with required levels 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 the organisation's overall business direction.</p>

Corporate Governance

Rule No.	Subject	Compliance Status and Comments
		<p>Code of Business Conduct and Ethics</p> <p>The Code of Conduct, affirmed by the seven core principles/values of the Company is well institutionalised through structured communication. The degree of employee conformance to the same is monitored while considered in reward recognition schemes.</p> <p>Voluntary Disclosures</p> <p>Under the stipulations of the Company's Act No. 07 of 2007, LankaClear is required to provide its audited financial statements to all shareholders, at the end of the financial year. The Company acknowledges the importance of maintaining high standards of governance within the organisation and among all stakeholders.</p> <p>As the National Payment Network, we voluntarily publish an Annual Report at the end of each fiscal year, and ensure 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 furthermore 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 the combination of financial performance, brand image and a productive workforce along with a prudent and independent Board carries great importance in terms of sustainable development. The Company aligns its strategies, plans and goals according to the sustainability content on an annual basis.

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

A number of statutes govern LankaClear operations. As at 31st March 2019, 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, 2019			●
Shop and Office Employees Act No 19 of 1954			●
Right to Information Act No.12 of 2016			●

Enterprise Risk Management

LankaClear has a robust and an effective Risk Management Process where material risks are proactively identified, analysed, communicated and managed across the organisation and as well as all functions. This is of paramount importance in order for us to operate the National Payment Network to facilitate numerous inter-bank payment and settlement transactions on behalf of all Banks and financial institutions.

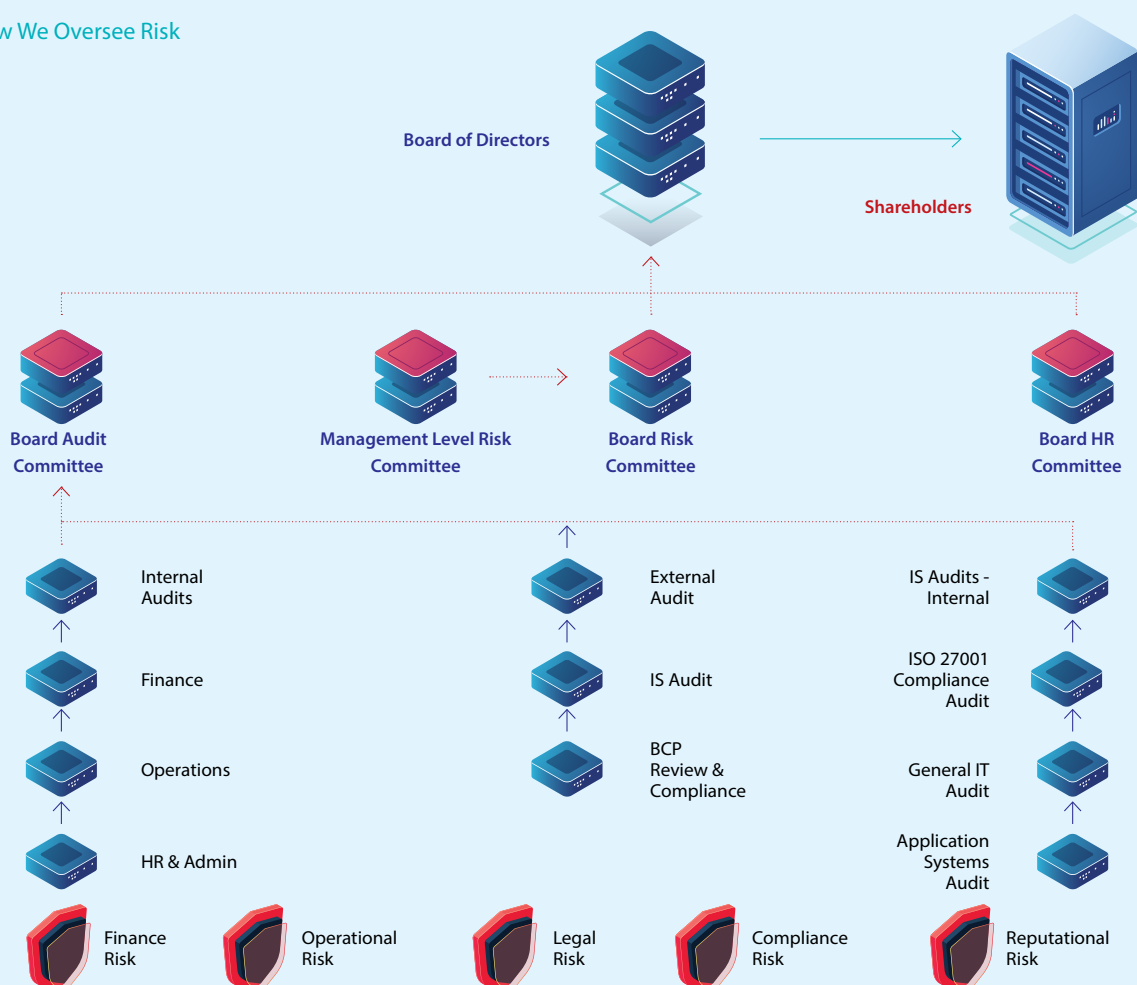
We recognise enterprise risk management as an integral part of our management practices and good corporate governance as it improves decision-making, ensures smooth functioning of the business operations, enhances the accountability and facilitates business continuity and resilience to achieve greater profits. LankaClear Management is committed to adopting 'Best Practices' in enterprise risk management continuously across all

our businesses while striving to adhere to international standards and benchmarks where applicable.

Risk Management Framework

Risk management at LankaClear for the year under review was governed by the Risk Charter, Enterprise Risk Management Policy Statement and Terms of Reference for the Risk Committee. As per the current Enterprise Risk Management Policy, the 'Management Level Risk Committee' responsible and accountable for overall risk management of the organisation is represented by the General Manager/Chief Executive Officer, Deputy General Manager IT & Operations, Deputy General Manager Finance, Head of HR and Administration, Assistant General Manager – IT, Head of Clearing Systems. All the risk management activities took place throughout the year with the involvement of the Management.

How We Oversee Risk



Enterprise Risk Management

The Information Systems Auditor (ISA) who functionally reports to the Board Audit Committee was given the task of strengthening IT risk aspects of the organisation. The ISA had to assure timely identification, analysis and monitoring of IT risks and vulnerabilities. The following diagram depicts the current Risk Management Framework in keeping with good governance.

Risk Management Process

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

Identified product related risks have been classified under five broad risk categories such as Operational Risk, Financial Risk, Legal Risk, Compliance Risk and Reputational Risk and 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 into pre-defined risk categories.

Risk Matrix

Previous experience has been used to assess likelihood of occurrence. To identify and define the 'Likelihood of Occurrence', outcomes of the corporate-wide Business Impact Analysis was considered. 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.

The values of 'Likelihood of Occurrence' and 'Impact' were used to measure the risk.

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

Risk Categorisation and Risk Management Strategies

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 from among the various types of risks that LankaClear is exposed to base on the current state of our 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 network.	<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.

Enterprise Risk Management

Operational Risk	
Strategic Risk	Low
Failure to implement strategic plans and address market needs of payment systems on time	
Impact/Implication	Risk Management Strategy
Possible reduction in revenue from existing payment systems due to shifts towards more technologically advanced competitor products	<ul style="list-style-type: none"> Continuously keeping abreast of technological developments in the payments industry globally. Continuous monitoring of the customer demand for efficient payments systems in the local market. Investments made in upgrading the electronic payments systems infrastructure to meet the growing demand for electronic payments. The Common Card and Payment System (CCAPS) 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.
Continuous increase in operational costs due to the increase technology, systems and equipment maintenance charges	<ul style="list-style-type: none"> LankaClear Management has been conscious of rising costs and continuously looked for ways to better manage costs under various cost management programmes. Procedures are in place to reduce sourcing costs through structured and extensive negotiations by procurement committees and following the procurement processes. The IT division emphasises on green technology in technology upgrades to reduce the impact on the environment and better manage operational costs. 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 99.97% system uptime Establishment of a new and improved DR site to ensure high availability
Operational Risk	
Economic Risk	Moderate
Business impacts due to risks relating to the political-economic climate	
Impact/Implication	Risk Management Strategy
Impact on revenue 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 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 transaction volumes of existing payment systems and reduced financial 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 for all clearing systems, Desk Instruction Manuals and Dual-Control mechanisms. We ensure 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.CCAPS has obtained PCI-DSS version 3.2.1 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 Disaster recovery (DR) sites annually which enables LankaClear to ascertain adequacy and accuracy of BCP procedures in place.

Enterprise Risk Management

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 aligned and governed by PCI-DSS and ISO 27001 standards and international best practices in order to mitigate risks associated with information security. Strict adherences to these IT Security Policies is 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 to ensure continuous identification of any deficiencies/shortcomings. Obtaining timely annual recertification of PCI-DSS version 3.2 for CCAPS by conducting regular audits during the previous year. Non-disclosure agreements are signed by all LankaClear employees committing them to ensure the confidentiality of company information. IT systems related to payment and clearing systems are replicated to DR Site 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 (i.e. CITS, SLIPS, SL Rupee Draft Clearing, USD Draft Clearing) will be affected and hence could have an impact to the Sri Lankan business community, State sector 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 takes place annually in accordance with the BCP to ensure our capability to effectively and expeditiously recover from a disaster or setback. The CIT System having an uptime of 99.9% and 100% uptime for CCAPS for the year under review is testimony to the effectiveness of the 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 and 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 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 legal action due to non-performance of legal and statutory requirements and poorly drafted legal agreements**

Impact/Implication	Risk Management Strategy
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	<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, 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.
Higher default rate by parties to contracts with the Company	<ul style="list-style-type: none">• Ensuring of all statutory and legal obligations are met in all transactions• Obtaining expert external consultancy services in fulfilling legal obligations where necessary.
Inability to impose or enforce penalties against parties to contracts with the Company in events of default	
High cost of legal and penalty fees resulting in reduction in profits	
Adverse impact to the organisation's credibility, reputation and brand image	

Enterprise Risk Management

Financial Risk

Credit Risk

Low

The risk of loss of principal or loss of a financial reward stemming from a borrower's failure to repay a loan or otherwise meet a contractual obligation

Impact/Implication	Risk Management Strategy
Loss of principal amount invested 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.

Financial Risk

Gearing Risk

Low

Risks from high financial gearing

Impact/Implication	Risk Management Strategy
The possibility of excessive losses is 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 longer tenures 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 mandating all customers to settle payments via direct debits so that the dues are automatically drawn from the customers' bank accounts.

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 significant fluctuations of the exchange rates, mainly costs of the IT maintenance and IT equipment procurement was impacted significantly. LankaClear has limited avenues to mitigate foreign exchange related risks for the moment and leaves us with limited option and to apply the conversion rate prevailing at the time to pay for such crucial services. Hence, the prices were extensively negotiated to obtained lowest prices and required procurements were done expeditiously to minimise the impact. Most of the maintenance contracts were negotiated in LKR to reduce exchange risk.Further introduction of National Card Scheme where the Company would be exposed to foreign exchange

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 the use of Social Media Marketing

Impact/Implication	Risk Management Strategy
Use of Social media marketing could affect the organisation if social media posts are used in an inappropriate or abusive manner by the staff	<ul style="list-style-type: none">Development of a culture where we encourage a positive attitude regarding compliance with laws and regulations of the country. Strong corporate values, supported by the performance incentives.

Reputational Risk**Reputational Risk****Moderate**

Failure to manager public relationships

Impact/Implication	Risk Management Strategy
Negative effects of public opinion, customer opinion and market reputation, and the damage caused to the brand by failing to manage public relations	<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.Strong controlled environment with policies procedures and compliance

The Board Audit Committee Report

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

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

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

Mainly External Auditors 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, IT risk and IT compliance of the organisation.

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

Financial information

- a) Reviews the financial information of the Company in order to ensure the integrity of the Financial Statements, its annual report, accounts, etc.
- b) Evaluates the adequacy and effectiveness of internal controls and risk management systems over financial reporting.

Compliance

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

External Audit

- a) Reviews the External Auditor's independence, audit scope and plan, its audit quality control/assurance processes.

- b) Reviews the performance of External Auditor and makes recommendations to the Board of Directors on their appointment, reappointment, discharge or rotation if necessary.
- c) 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.
- d) As part of the routine Committee meeting agenda, meets separately with the External Auditors to discuss any matters that the Committee or Auditors believe should be discussed privately.

Internal Audit

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

External IT Audit

Reviews the findings of IT Audits carried out by external parties and 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 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. Russel Fonseka – (Alternate Director to Mr. S. Bandara)
- Mr. K. V. K. Alwis
- 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 two members.

DGM IT & Operations, DGM – Finance, Head of HR & Administration, AGM – IT Infrastructure, Head of Clearing Systems, Head of External Services, Information Systems Auditor, Manager Facilities & Maintenance, Network Operations Manager and other relevant Managers 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 Board Audit Committee and DGM – 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 four 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

- Reviewed the financial information and annual Financial Statements of the Company.
- Evaluated the adequacy and effectiveness of internal controls.

Compliance

- 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

- 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.
- Reviewed the Internal Audit programmes to ensure that implementation of internal control is monitored and their adequacy is assessed on a continuous basis.
- 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', 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 remediation actions recommended by the Senior Manager – Information Systems Audit in order to mitigate/remedy the prevailing risks and vulnerabilities.

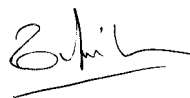
Reappointment of Auditors

The Audit Committee recommended the reappointment of M/S Ernst & Young, (Chartered Accountants) as the External Auditors for the year ending 31st March 2020 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

06th June 2019

The Board HR Committee Report

The Board HR Committee consists of three Board members, namely Mr. Senarath Bandara, Mr. Ravi de Silva and the undersigned. Mr. Chaminda Bandara ceased to be a member of this Committee consequent to his resignation from the Board on assuming additional responsibilities at Central Bank. Mr. Senarath Bandara was appointed to the Board HR committee on 17th July 2018 consequent to the resignation of Mr. Chaminda Bandara. We wish to place on record the immense contribution of Mr. Chaminda Bandara in 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 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

Five 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 organisation structure, payment of annual bonuses, granting of annual increments based on individual performance, promotions and designation changes awarded to employees.

The inputs provided by the Board HR Committee in the implementation of the revised Compensation and Benefits to all employees was one of the critical tasks undertaken by the Committee during the year. The inputs helped the Management to implement the salary revisions in a more uniform manner across the organisation. In this exercise I would also like to mention the contribution extended by Mr. Vasantha Alwis, Director as an invitee to the committee.

As the Chairman of the Committee I am happy to confirm that the Committee fulfilled its role as a Board committee with great care and diligence and wish to thank the other members of this Committee, namely Mr. Senarath Bandara and Mr. Ravi 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.



Anil Amarasuriya

Chairman – Board HR Committee

06th June 2019

The Board Integrated Risk Management Committee Report

The Board Integrated Risk Management Committee (BIRMC) is pleased to present its report for the financial year ended 31 March 2019.

The committee is governed by a formal Risk Committee Charter that is reviewed regularly. This charter guides the committee in terms of its objectives, authority and responsibilities, as assigned by Board of the LankaClear (Pvt) Ltd.

Enterprise Risk Management (ERM) framework of LankaClear (Pvt) Limited provides a structured, integrated, dynamic and consistent approach to risk management. This integrated approach recognises that effective risk management and governance oversight is critical to the achievement of strategic objectives and the long-term sustainable growth of the business.

Composition

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

- Mr. Dimantha Seneviratne – Chairman
- Mr. K.V.K. Alwis
- Mr. M.A.B.Silva

Permanent members of the Management Level Risk Committee (MLRC) are as follows:

- Mr. Channa de Silva: Chairman of MLRC, General Manager/ CEO
- Mr. Rasika Galappaththy: Secretary of the Board Risk Committee, Deputy General Manager Finance
- Mr. Dinuka Perera: Deputy General Manager IT & Operations
- Mr. Lakshman Palliyaguruge: Head of HR & Administration
- Mr. Dilantha Samarasinghe: Assistant General Manager IT
- Mr. Roshan Hettiarachchi: Head of Clearing Systems

Committee Functions

Overall, LankaClear Board remains accountable to ensure that risks are effectively managed and it has delegated the oversight of risk management to the Risk and Audit Committees in terms of two separate but aligned mandates. The BIRMC reviews significant risks and their related risk management and mitigation and reports back to the LankaClear Board any improvements needed, while the Audit Committee focuses predominantly on the financial risks and reviews the effectiveness of the risk process as a third line of defense. Each business area is responsible for identifying,

assessing and managing the risks in their respective area. The combined assurance process optimises assurance coverage and ensures that significant risks are adequately addressed, enabling an effective control environment and ensuring the integrity of information used for decision-making and reporting.

Risks and opportunities are identified by the MLRC throughout the year and assessed on the basis of likelihood of occurrence and potential impact to the Company (risk exposure) and mitigations are identified against each risk.

Terms of Reference

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

1. Review and analyse the relationship and alignment of risk management with business strategies.
2. Review and analyse the Risk Management Framework at regular intervals in order to assess and recommend on the maturity of the framework.
3. Oversee the formal development of risk management policies within the entity, encompassing all products and business and support units and ensuring the development of policy manuals and procedures.
4. Oversee the criteria and methods defined for the identification of risks.
5. Oversee the formulation of risk treatment strategies and managing of the overall risks associated with the entity's activities and satisfies itself on the design and completeness of the framework relative to the entity's activities and risk profile.
6. Oversee the communication of risks and treatment plans across the organisation.
7. To consider any breaches of the entity's risk appetite and each of the approved risk type limits and to approve a reduction plan and/or ratify the excess request.
8. Ensure that the Board of Directors is continuously aware of the Entity's risk exposure, realised or potential losses (substantial incidents) and key risk indicators.
9. Submit regular operational risk assessments to the Board, seeking its views, concurrence or specific directions.
10. To review relationships with the regulatory authorities in Sri Lanka and to review developments and prospective changes in the regulatory environment, and the Company's plans to help influence future regulatory policies.
11. To review the adequacy and quality of the Company's compliance and risk management functions.

The Board Integrated Risk Management Committee Report

Meetings

The newly-reappointed Risk Committee towards the end of the year met during the financial year to evaluate and address risks faced by the organisation. Activities which lead up to submitting reports up to the MLRC chaired by GM/CEO and supportive organisational risk identification and rectification activities were taking at various levels throughout the organisation year round. Reports were submitted, discussed and reviewed at MLRC twice during the year before submitting them to the BIRMC. Since the last review of the Risk Charter and Risk Policy, the Risk Committee approved the changes made to them after thorough review of those documentations. The Risk Committee reviewed the significant observations submitted to them and provided their recommendations. The Company continuously seeks to improve and enhance the risk management process, while at the same time maintaining a practical and business minded approach.

Attendances at the meetings are given in page 87 of this Report.

The discussions and conclusions reached at the meeting are recorded in minutes and circulated to the Board of Directors for information and advice. Critical issues are taken for discussion at the Board level.

Conclusion

The members of the integrated Risk Management Committee collectively evaluated the performance of the newly-set-up committee. The committee is on the view that LankaClear is on the right path towards meeting the challenges of risk management and compliance, safeguarding the interest of the stakeholders and towards sustainable operations.



Mr. Dimantha Seneviratne

Chairman

Board Integrated Risk Management Committee

06th June 2019



Way you
want it

Statement of Directors' Responsibilities for Financial Statements

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

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

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

The Directors endeavor 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 110 of the Annual Report.

By Order of the Board
LankaClear (Private) Limited



Managers & Secretaries (Pvt) Limited
Secretaries

06th June 2019

Annual Report of the Board of Directors

The Directors of LankaClear (Pvt) Ltd have pleasure in presenting the 17th Annual Report for the year ended March 31, 2019, that includes and covers the Audited Financial Statements, Chairman's Message, General Manager/CEO's Review, Corporate Governance, Board Committee Reports, Enterprise Risk Management Report, Capitals Management Report, Value Creation Report, Auditors' Report and other relevant information

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 March 31, 2019 and future business developments of the Company are provided in the Chairman's review on pages 18 to 21, GM/ CEO's review on pages 22 to 27, Management discussion & analysis appearing on pages 36 to 51 and capital management on pages 52 to 82. 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 March 31, 2019 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 110 to 128.

Corporate Governance

The Corporate Governance principles and practices of the Company are described from pages 84 to 90 of this report. The Directors confirm that the Company is in compliance with the Companies Act No. 7 of 2007.

System of Internal Control

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.

Risk Management

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 Risk Management Statement on pages 91 to 99 of this Report.

Going Concern

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

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

Accounting Policies

All the significant accounting policies adopted by the Company are mentioned on pages 116 to 119. There have been no changes in the accounting policies

Annual Report of the Board of Directors

adopted by the Company during the year under review. For all periods up to and including the year ended 31 March 2019, 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 LKR 1.029 Bn (2018 – LKR 918 Mn).

Profit & Appropriations

The profit after tax of the Company and the profit attributable to the equity holders for the year was LKR 430 Mn (2018 - LKR 361 Mn). 17.5% of the profit after tax amounted to LKR 75 Mn recommended by the Board to distribute among the Shareholders of the Company as Dividend.

Dividends

A final dividend of LKR 4.95 per share for the Financial Year ended March 31, 2019 was recommended by the Board of Directors on May 21, 2019 resulting in a total cash payout amounting to LKR 75 Mn (2018 - LKR 53 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 External Auditors, prior to paying the final dividend of LKR 4.95 per share. The final dividend will be paid after obtaining the approval from the Shareholders.

Property, Plant & Equipment

The Company's capital expenditure on property, plant and equipment amounted to LKR 54 Mn (2018 – LKR 60 Mn) and all other related information

and movements have been disclosed in the note 5 (page 120) to the financial statements.

Intangible Assets

Additions of intangible assets of the Company during the year amounted to LKR 88 Mn (2018 – LKR 58 Mn) and all other related movements are disclosed in note 6 (page 121).

Investments

Detailed description of the long term and short term financial investments held as at the reporting date, are given in note 7 (page 122) and note 10 (page 123) to the financial statements.

Stated Capital

The total stated capital of the Company as at March 31, 2019 was LKR 165 Mn (2018 – LKR 158 Mn). The Stated Capital of the Company comprises of 15.25 Mn Ordinary Shares fully paid up. Movement of the stated capital is disclosed in note 12 (page 123) to the financial statements.

Reserves

Total reserves as at March 31, 2019 for the Company amounted to LKR 2.12 Bn (2018 – LKR 1.75 Bn). The movement of reserves during the year is disclosed in the Statement of Changes in Equity on page 114.

Contingent Liabilities & Capital Commitments

Commitments made for capital expenditure as at March 31, 2019 and the contingent Liabilities as at the reporting 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 (page 128).

Share Information & Shareholding

The Net Assets Value per Ordinary Share of the Company as at March 31, 2019 was LKR 150.17 (2018 – LKR 125.78). The number of shareholders as at March 31, 2019 was 27 (2018 - 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 March 31, 2019 and their brief profiles are given in the Board of Directors section of the Annual Report (Pages 28 to 32).

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

- Mr. C P S Bandara resigned w.e.f. 05th July 2018 and Mr. K V K Alwis was appointed w.e.f. 05th July 2018 in his place.
- Mr. R Theagarajah resigned w.e.f. 06th July 2018 and Mr. P L D N Seneviratne was appointed w.e.f. 17th July 2018 in his place.
- Mr. J F McCabe appointed w.e.f. 04th September 2018, resigned on 01st December 2018. Mr. B C Thewarathanthri appointed w.e.f. 26th February 2019 in his place.

Board Committees

Information relating to members of the Audit Committee, Human Resources Committee and Risk 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 84 to 90.

Related Party Transactions

Details of the transactions with Director-related entities are disclosed in Note 23 to the financial statements on page 128, and have been declared at the Board meeting, pursuant to Section 192 (2) of the Companies Act No. 7 of 2007.

Directors' Emoluments

Details of the remuneration and other benefits received by the Directors are set out in note 19 of the financial statements (page 126).

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 58 to 63.

The number of persons employed by the Company as at March 31, 2019 was 109 (2018 - 114). There were no material issues pertaining to employees and industrial relations during the financial year.

Environmental Protection

The Company has not engaged in any activities detrimental to the environment.

Statutory Payments

The Directors to the best of their knowledge are satisfied that all statutory payments in relation to the Government, other regulatory institutions and the employees have been either duly paid or appropriately provided for in the financial statements. The tax position of the Company is disclosed in Note 20 to the financial statements (page 126).

Donations

During the year donations amounting to LKR 643,882 (2018 - LKR 258,500) were made by the Company.

Responsible Corporate Behaviour

The Board is committed to and considers it a key priority to act responsibly towards its stakeholders and to manage economic, environmental and social impacts during value creation activities, efficiently and effectively.

Auditor's Remuneration and Appointment of Auditors

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

Details of the Audit Fees paid to the Auditors are set out in Note 19 of the financial statements. Fees paid for performing non-assurance services to Messrs. B.R. De Silva & Company a firm of Chartered Accountants amounted to LKR 507,654/-. (2018 - LKR 358,224/-)

Further details on the work of the Auditor and the Audit Committee are set out in the Audit Committee Report on pages 100 to 101.

Annual Report

The Board of Directors approved the Audited Financial Statements for issue on May 21, 2019.

Notice of Meeting

The Annual General Meeting will be held at "The Winchester", The Kingsbury Hotel, 48, Janadhipathi Mawatha, Colombo 01, on 08th July 2019 at 11.30 am.

The Notice of the Annual General Meeting appears on page 134.

For and on behalf of the Board.



A. Amarasuriya
Chairman



K. V. K. Alwis
Director



Managers & Secretaries (Pvt) Ltd
Secretaries

LankaClear (Private) Limited

06th June 2019

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
eysi@lk.ey.com
ey.com

TO THE SHAREHOLDERS OF LANKACLEAR (PRIVATE) LIMITED

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of LankaClear (Private) Limited, which comprise the statement of financial position as at 31 March 2019, 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.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 March 2019, and of its financial performance and its 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 skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether

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 Sajeewani FCA N M Sulaiman ACA ACMA B E Wijesuriya FCA FCMA
Principal T P M Ruberu FCMA FCCA

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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.
- 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.

Report on Other Legal and Regulatory Requirements

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



21 May 2019
Colombo

Statement of Financial Position

As at 31 March	Notes	2019 LKR	2018 LKR
Assets			
Non Current Assets			
Property, Plant and Equipment	5	248,024,334	249,555,005
Intangible Assets	6	359,621,728	332,903,053
Long Term Financial Investments	7	1,092,803,113	781,731,867
		1,700,449,175	1,364,189,925
Current Assets			
Inventories	8	2,686,594	2,519,397
Trade and Other Receivables	9	283,183,457	170,840,520
Short Term Financial Investments	10	549,343,897	506,417,039
Cash and Cash Equivalents	11	50,694,275	59,745,472
		885,908,223	739,522,428
Total Assets		2,586,357,398	2,103,712,353
Equity and Liabilities			
Capital and Reserves			
Stated Capital	12	165,200,000	158,250,000
Technology Upgrade Reserve	13	258,157,071	265,559,108
Retained Earnings		1,866,701,326	1,488,068,137
Total Equity		2,290,058,397	1,911,877,245
Non Current Liabilities			
Retirement Benefit Obligation	14	39,477,024	25,902,029
Deferred Tax Liability	15	15,115,697	16,403,847
		54,592,721	42,305,876
Current Liabilities			
Trade and Other Payables	16	194,930,989	118,554,242
Deferred Revenue		6,814,807	7,225,521
Income Tax Liability		39,960,484	23,749,469
		241,706,280	149,529,232
Total Equity and Liabilities		2,586,357,398	2,103,712,353
Net Assets Value Per Share		150.17	125.78

It is hereby certified that the above financial statements have been prepared in compliance with the requirements of the Companies Act. No. 7 of 2007

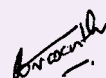


R. L. Galappaththy
Deputy General Manager Finance

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



K. V. K. Alwis
Director

The Accounting policies & Notes on pages 116 to 128 form an integral part of these Financial Statements.

21 May 2019
Colombo

Statement of Comprehensive Income

For the Year ended 31 March	Notes	2019 LKR	2018 LKR
Revenue	17	1,029,057,105	918,503,011
Direct Operating Expenses		(496,521,083)	(455,889,558)
Gross Profit		532,536,022	462,613,453
Other Income	18	186,023,654	144,466,245
Administrative Expenses		(165,257,445)	(161,568,213)
Marketing Expenses		(33,019,891)	(20,408,824)
Profit Before Tax	19	520,282,340	425,102,661
Income Tax Expense	20	(89,811,604)	(63,673,461)
Profit for the Year		430,470,736	361,429,200
Other Comprehensive Income			
Remeasurement Gain / (Loss) on Retirement Benefit Obligation (Net of Tax)	14.2	(6,039,584)	-
Total Comprehensive Income for the Year		424,431,152	361,429,200
Earnings Per Share	21	28.28	23.78

The Accounting policies & Notes on pages 116 to 128 form an integral part of these Financial Statements

Statement of Changes in Equity

For the Year ended 31 March	Note	Stated Capital LKR	Technology Upgrade Reserve LKR	Retained Earnings LKR	Total LKR
Balance as at 01 April 2017		158,250,000	245,584,503	1,188,413,542	1,592,248,045
Total Comprehensive Income					
Profit for the Year		-	-	361,429,200	361,429,200
Other Comprehensive Income, net of tax		-	-	-	-
Total Comprehensive Income		-	-	361,429,200	361,429,200
Transactions with Owners of the Company					
- Contributions and Distributions					
Dividend paid	22	-	-	(41,800,000)	(41,800,000)
Transferred to Technology Upgrade Reserve	13	-	106,275,665	(106,275,665)	-
Utilisation of Technology Upgrade Reserve	13	-	(86,301,060)	86,301,060	-
Total Contributions and Distributions		-	19,974,606	(61,774,606)	(41,800,000)
Balance as at 31 March 2018		158,250,000	265,559,108	1,488,068,137	1,911,877,245
Balance as at 01st April 2018		158,250,000	265,559,108	1,488,068,137	1,911,877,245
Total Comprehensive Income					
Profit for the Year		-	-	430,470,736	430,470,736
Other Comprehensive Income, net of tax		-	-	(6,039,584)	(6,039,584)
Total Comprehensive Income		-	-	424,431,152	424,431,152
Changes in Ownership					
Proceeds from New Share Issue	12	6,950,000	-	-	6,950,000
Total Changes in Ownership		6,950,000	-	-	6,950,000
Transactions with Owners of the Company					
- Contributions and Distributions					
Dividend paid	22	-	-	(53,200,000)	(53,200,000)
Transferred to Technology Upgrade Reserve	13	-	130,070,585	(130,070,585)	-
Utilisation of Technology Upgrade Reserve	13	-	(137,472,622)	137,472,622	-
Total Contributions and Distributions		-	(7,402,037)	(45,797,963)	(53,200,000)
Balance as at 31 March 2019		165,200,000	258,157,071	1,866,701,326	2,290,058,397

The Accounting policies & Notes on pages 116 to 128 form an integral part of these Financial Statements.

Statement of Cash Flows

For the Year ended 31 March	Notes	2019 LKR	2018 LKR
Cash flows from Operating Activities			
Profit Before Tax		520,282,340	425,102,661
Adjustments for			
Depreciation	5.2	55,865,351	52,360,218
Amortisation	6.2	61,351,155	52,692,579
Finance Income		(179,215,578)	(138,123,686)
Gratuity Charge for the Year	14.1	8,514,375	6,452,323
Profit on Disposal of Property, Plant & Equipment		-	(230,000)
Operating Profit before Working Capital Changes		466,797,642	398,254,094
(Increase)/Decrease in Inventories		(167,197)	(828,396)
Increase in Trade and Other Receivables		(112,342,937)	(14,976,635)
Increase in Deferred Revenue		(410,715)	1,801,716
Increase in Trade and Other Payables		60,799,998	54,163,017
Cash Generated from Operations		414,676,790	438,413,796
Income Tax Paid		(72,540,011)	(42,882,159)
Gratuity Paid	14	(3,327,691)	(5,955,689)
Net Cash Flows from Operating Activities		338,809,088	389,575,948
Cash flows from Investing Activities			
Acquisition of Property, Plant & Equipment	5.4	(54,334,681)	(59,959,258)
Acquisition of Intangible Assets	6.4	(72,493,077)	(57,660,460)
Proceeds from Disposal of Property, Plant & Equipment		-	230,000
Investment in Long Term Financial Investments		(311,071,246)	(781,731,867)
Investment in Short Term Financial Investments		(42,926,859)	188,863,505
Finance Income Received		179,215,578	138,123,686
Net Cash Flows Used in Investing Activities		(301,610,285)	(572,134,394)
Cash flows from Financing Activities			
Dividend Paid	22	(53,200,000)	(41,800,000)
Proceeds from Issue of Ordinary Shares	12	6,950,000	-
Net Cash Flows Used in Financing Activities		(46,250,000)	(41,800,000)
Net Increase in Cash and Cash Equivalents		(9,051,197)	(224,358,445)
Cash and Cash Equivalents at the beginning of the year	11	59,745,472	284,103,917
Cash and Cash Equivalents at the end of the year	11	50,694,275	59,745,472

The Accounting policies & Notes on pages 116 to 128 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 2019, covering the period from 01 April 2018 to 31 March 2019 was authorised for issue by the Board of Directors on 21 May 2019.

2. BASIS OF PREPARATION AND MEASUREMENT

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 are in compliance with Companies Act No.7 of

2007 and the Sri Lanka Accounting and Auditing Standards Act No.15 of 1995.

2.1.1 Basis of Measurement

The Financial Statements have been prepared based on the historical cost, except for the following matters:

- Employee Benefit is measured using the projected unit credit method.
- Interest Income is recognised as it accrues in the Statement of Comprehensive Income.

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. The previous year's figures and phrases have been rearranged wherever necessary, to conform to the current presentation as indicated.

2.3 Functional Currency

The financial statements are presented in Sri Lankan Rupees, which is the Association's functional currency. All the financial information presented in Rupees has been rounded to the nearest Rupee.

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.

3.1 Assessment of Impairment

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

3.2 Useful life-time of the Plant and Equipment

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

3.3 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.

3.4 Going Concern

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

4.1 Foreign Currency Translation

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

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

4.2 Property, Plant and Equipment

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

Items of property, plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses.

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.

4.2.1 De-recognition

An item of property & equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising from de-recognition of the assets are determined by comparing the proceeds from disposal with the carrying amount of the property, plant and equipment and recognised within "Other Income" in the Statement of Comprehensive Income.

4.2.2 Restoration Costs

Expenditure incurred on repairs or maintenance of property and equipment in order to restore or maintain future economic benefits expected from originally assessed standard of performance is recognised as an expense when incurred.

4.3 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.

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.

4.3.1 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.

4.4 Borrowing Costs

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

4.5 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.

4.6 Long Term Financial Investments

Investments with maturity more than one year from 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.

Notes to the Financial Statements

4.7 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

4.8 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.

4.9 Short Term Financial Investment

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 short maturities i.e. three months or less from the date of acquisition are also treated as cash equivalents

4.10 Cash and cash equivalents

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. Investment with short maturities i.e. three months or less from the date of acquisition are also treated as cash equivalents.

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.

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

4.11 Trade and other payables

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

4.12 Basic Financial Instruments

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are measured initially at the transaction price (including transaction cost except in the initial measurement of the financial assets and liabilities that are measured at fair value through surplus or deficit). Financial assets are derecognised when the contractual rights to the cash flows from the financial assets have expired or settled and the Company has transferred substantially all risk and rewards of ownership of the financial assets to another party. The Company derecognises a financial liability when the obligation specified in the contract is discharged, cancelled or expires.

At the end of each reporting period, the financial instruments are measured at amortised cost using effective interest rate.

At the end of each reporting period, the Company assesses whether there is objective evidence of impairment of any financial assets that are measured at cost or amortised cost. If there is objective evidence of impairment, the impairment loss is

immediately recognised in surplus or deficit.

4.13 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.

4.14 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. The provision is calculated based on a projected unit credit method considering the future salary increment rates, discount rates and the expected staff turnover rate (these assumptions are shown in the Note 14 to the Financial Statements). The resulting difference between the brought forward provision at the beginning of the year and the carried forward provision at the end of the year is dealt within the Statement of Comprehensive Income. However, as per the payment of the Gratuity Act No.12 of 1983, gratuity liability is not externally funded. This liability is grouped under non-current liabilities in the Statement of Financial Position

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.

4.15 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 from rendering services 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 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.

4.16 Expenditure Recognition

Expenditure is recognised in the Statement of Comprehensive Income 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 Statement of Comprehensive Income, 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.

4.17 Income Tax

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

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

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

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

4.19 Earnings Per Share

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

4.20 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.

4.21 Capital Commitments and Contingent Liabilities

All material capital commitments and contingent liabilities are considered and necessary adjustments or disclosures are made in these financial statements.

Notes to the Financial Statements

5. PROPERTY, PLANT AND EQUIPMENT

	Balance as at 01.04.2018 LKR	Additions LKR	Disposals LKR	Balance as at 31.03.2019 LKR
5.1 At Cost				
Computer Equipment	502,343,966	49,402,792	32,720,313	519,026,445
Furniture and Fittings	22,635,383	2,247,836	-	24,883,219
Electronic Equipment	33,098,976	981,500	-	34,080,476
Other Equipment	16,072,452	1,702,553	817,980	16,957,025
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	671,025,025	54,334,681	33,538,293	691,821,413

	Balance as at 01.04.2018 LKR	Charge for the Year LKR	Disposals LKR	Balance as at 31.03.2019 LKR
5.2 Depreciation				
Computer Equipment	367,277,511	43,627,770	32,720,313	378,184,968
Furniture and Fittings	13,517,181	1,695,004	-	15,212,185
Electronic Equipment	21,725,415	4,057,537	-	25,782,952
Other Equipment	9,187,861	2,848,019	817,980	11,217,900
Motor Vehicle	4,017,000	1,339,000	-	5,356,000
Freehold Building	5,745,053	2,298,021	-	8,043,074
Total Depreciation	421,470,019	55,865,351	33,538,293	443,797,078

	2019 LKR	2018 LKR
5.3 Net Book Values		
Computer Equipment	140,841,477	135,066,456
Furniture and Fittings	9,671,035	9,118,202
Electronic Equipment	8,297,523	11,373,561
Other Equipment	5,739,125	6,884,591
Motor Vehicle	1,339,000	2,678,000
Freehold Land	21,238,620	21,238,620
Freehold Building	60,897,554	63,195,575
Total Carrying Amount of Property, Plant and Equipment	248,024,334	249,555,005

- 5.4 During the financial year, the Company acquired Property, Plant & Equipment by means of cash with an aggregate cost of LKR 54 mn (2018 - LKR 60 mn)
- 5.5 The total investment made as at the reporting date in Common Card and Payment Switch was LKR 523 mn (2018 - LKR 494 mn) 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 2019 no provision was required to be made in the financial statements as at the reporting date.
- 5.7 There were no items of Property, Plant and Equipment pledged as securities for liabilities.

6. INTANGIBLE ASSETS

	Balance as at 01.04.2018 LKR	Additions LKR	Disposals/ Transfers LKR	Balance as at 31.03.2019 LKR
6.1 At Cost				
Computer Software	642,763,584	88,069,830	-	730,833,414
	642,763,584	88,069,830	-	730,833,414
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	741,828,501	88,069,830	-	829,898,331

	Balance as at 01.04.2018 LKR	Charge for the Year LKR	Disposals LKR	Balance as at 31.03.2019 LKR
6.2 Amortisation				
Computer Software	408,925,448	61,351,155	-	470,276,603
Total Amortisation	408,925,448	61,351,155	-	470,276,603

	2019 LKR	2018 LKR
6.3 Net Book Values		
Computer Software	260,556,811	233,838,136
Capital Work in Progress		
Common Card and Payment Switch	99,064,917	99,064,917
Total Carrying Amount of Intangible Assets	359,621,728	332,903,053

Notes to the Financial Statements

- 6.4 During the financial year, the Company acquired intangible assets by means of cash with an aggregate cost of LKR 72mn (2018 - LKR 58mn).
- 6.5 Based on the assessment of potential impairment carried out internally as at 31 March 2019, 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 (CAS), Common Electronic Fund Transfer Switch (CEFTS), Shared ATM Switch (SAS), Common POS Switch (CPS) and Common Mobile Switch (CMOBS). CPS will be going live in next financial year with the implementation of National Card Scheme (NCS) which is in the testing stage. Certifications have been already completed for CMOBS and expecting to go live in next financial year. Therefore investments for both CPS and CMOBS awaiting for capitalisation in the next financial year.

7. LONG TERM FINANCIAL INVESTMENTS

	2019 LKR	2018 LKR
Investment in Fixed Deposits	1,017,377,256	729,002,069
Accrued Interest on Fixed Deposits	75,425,857	52,729,799
	1,092,803,113	781,731,867

8. INVENTORIES

	2019 LKR	2018 LKR
Consumable and Stationary	2,686,594	2,519,397
	2,686,594	2,519,397

9. TRADE AND OTHER RECEIVABLES

	2019 LKR	2018 LKR
Trade Receivables	135,460,596	133,510,357
Advances & Prepayments	96,715,072	36,281,310
Refundable Deposits	450,700	440,700
Other Receivables	50,557,089	608,153
	283,183,457	170,840,520

10. SHORT TERM FINANCIAL INVESTMENTS

	2019 LKR	2018 LKR
Investment in Fixed Deposits	539,940,540	496,824,792
Accrued Interest on Fixed Deposits	9,403,357	9,592,247
	549,343,897	506,417,039

11. CASH AND CASH EQUIVALENTS

	2019 LKR	2018 LKR
Securities Purchased under Resale Agreement	-	12,000,000
Cash in Hand and Bank Balances	50,694,275	47,745,472
	50,694,275	59,745,472

12. STATED CAPITAL

	2019		2018	
	Number	LKR	Number	LKR
Fully paid Ordinary Shares	15,250,000	165,200,000	15,200,000	158,250,000
Balance at the Beginning of the Year	15,200,000	158,250,000	15,200,000	158,250,000
Issue of Shares for Cash	50,000	6,950,000	-	-
Balance at the End of the Year	15,250,000	165,200,000	15,200,000	158,250,000

13. TECHNOLOGY UPGRADE RESERVE

	2019 LKR	2018 LKR
Balance at the Beginning of the Year	265,559,108	245,584,502
Transferred from Retained Earnings	130,070,585	106,275,665
Utilisation of Technology Upgrade Reserve	(137,472,622)	(86,301,060)
Balance at the End of the Year	258,157,071	265,559,108

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.

Notes to the Financial Statements

14. RETIREMENT BENEFIT OBLIGATION

	2019 LKR	2018 LKR
Balance at the Beginning of the Year	25,902,029	25,405,395
Gratuity Charge for the Year (Note 14.1)	8,514,375	6,452,323
	34,416,404	31,857,718
Payments made during the Year	(3,327,691)	(5,955,689)
(Gain)/Loss arising from Changes in Assumptions (Note 14.1)	8,388,311	-
Balance at the End of the Year	39,477,024	25,902,029

The Company has adopted Section 28 of Sri Lanka Accounting Standard for SMEs - Employee Benefits in determining the Retirement Benefit Obligation as at 31st March 2019. The Present Value of the Retirement Benefit Obligation is estimated using Projected Unit Credit method under Actuarial Valuation.

The principal assumptions used in determining this obligation were,

Discount Rate	11.66%
Salary Increment Rate	11.00%
Staff Turnover Factor	8.00%

	2019 LKR	2018 LKR
14.1 Expenses recognised during the year in Statement of Comprehensive Income		
Gratuity Charge for the Year recognised in Profit or Loss	8,514,375	6,452,323
Actuarial (Gain)/Losses recognised in Other Comprehensive Income	8,388,311	-
14.2 Retirement Benefit Obligations (Net of Taxes)		
Actuarial (Gain)/Losses recognised in Other Comprehensive Income	8,388,311	-
Tax Expense/(Refund) Tax at 28%	(2,348,727)	-
	6,039,584	-

15. DEFERRED TAXATION

	2019 LKR	2018 LKR
Deferred Tax Liability	15,115,697	16,403,847
	15,115,697	16,403,847

Deferred Tax relates to the following:

	Statement of financial position		Statement of Comprehensive Income	
	2019 LKR	2018 LKR	2019 LKR	2018 LKR
Property, Plant and Equipment and Intangible Assets	(28,517,991)	(23,656,415)	(4,861,576)	(8,194,919)
Retirement Benefit Obligation	13,402,294	7,252,568	6,149,726	139,058
Deferred Tax Asset / (Liability)	(15,115,697)	(16,403,847)		
Deferred Tax (Expense) / Benefit			1,288,150	(8,055,861)

Reconciliation of Deferred Tax Liability, net	2019 LKR	2018 LKR
Balance at the Beginning of the Year	16,403,847	8,347,985
Tax expense during the period recognised in profit or loss	1,060,578	8,055,861
Tax income/(expense) during the period recognised in OCI (Note 14.2)	(2,348,727)	-
Balance at the End of the Year	15,115,697	16,403,847

16. TRADE AND OTHER PAYABLES

	2019 LKR	2018 LKR
Sundry Creditors and Accruals	185,167,919	108,568,585
Value Added Tax (VAT)	7,894,001	8,066,146
Nation Building Tax (NBT)	1,869,069	1,919,511
	194,930,989	118,554,242

17. REVENUE

	2019 LKR	2018 LKR
Revenue from Cheque Imaging and Truncation System (CITS)	443,443,981	445,396,942
Revenue from Common Card and Payment Switch (CCAPS)	417,360,428	323,269,268
Revenue from Sri Lanka Interbank Payment System (SLIPS)	124,862,888	114,655,829
Revenue from Financial Sector Computer Security Incident Response Team (FINCSIRT)	16,485,521	14,189,409
Revenue from LankaSign Certificate Authority (CA)	22,669,537	17,638,064
Revenue from USD Online Clearing System	4,234,750	3,353,500
	1,029,057,105	918,503,011

Notes to the Financial Statements

18. OTHER INCOME

	2019 LKR	2018 LKR
Interest on Fixed Deposits	177,700,497	136,656,877
Interest on Securities Purchased under Resale Agreement	1,068,869	1,437,830
Interest on Saving Account - LKR	99,338	28,978
Interest on Saving Account - USD	346,874	-
Profit on Disposal of Property, Plant and Equipment	-	230,000
Rental Income	4,677,092	4,454,373
Other Income	2,130,984	1,658,187
	186,023,654	144,466,245

19. PROFIT BEFORE TAX

	2019 LKR	2018 LKR
Profit Before Tax is stated after charging all expenses including the following:		
Directors' Emoluments	4,195,400	4,030,000
External Auditors' Fee	621,300	631,633
Depreciation (Note 5.2)	55,865,351	52,360,218
Amortisation (Note 6.2)	61,351,155	52,692,579
Donations	643,882	258,500
Impairment on Receivables	1,115,417	1,837,653
Personnel Costs includes		
- Defined Contribution Plan Cost - EPF & ETF	21,482,952	19,384,366
- Salaries and other staff costs	204,028,678	186,210,448

20. INCOME TAX EXPENSES

	2019 LKR	2018 LKR
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)	88,757,089	55,612,895
(Over)/Under provision of current taxes in respect of previous year	(6,063)	4,704
Deferred Income Tax Expense		
Relating to Origination/(Reversal) of Temporary Differences (Note 15)	1,060,578	8,055,862
Total Income Tax Expense	89,811,604	63,673,461

	2019 LKR	2018 LKR
20.1 Reconciliation of Accounting Profit to Income Tax Expense		
Profit Before Tax	520,282,340	425,102,661
Profits not liable for Tax	(192,241,527)	(120,823,434)
Aggregate Allowable Expenses	(263,878,010)	(226,385,052)
Aggregate Disallowable Expenses	73,611,222	63,325,633
Taxable Income	137,774,025	141,219,808
Interest Income	179,215,578	138,094,707
Income Tax @ 12%	-	16,946,377
Income Tax @ 28%	88,757,089	38,666,518
Current Tax on Profit for the Year	88,757,089	55,612,895

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 6 year tax exemption period will be ended on 31st March 2021.

21. EARNINGS PER SHARE

	2019 LKR	2018 LKR
Amount used as the Numerator		
Net Profit attributable to Ordinary Shareholders	430,470,736	361,429,200
Number of Ordinary Shares used as the Denominator		
Weighted average number of Ordinary Shares in Issue	15,220,411	15,200,000
Earnings Per Share	28.28	23.78

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.

22. DIVIDEND PER SHARE

	2019 LKR	2018 LKR
Final Dividend paid in respect of 2016/17	-	41,800,000
Final Dividend paid in respect of 2017/18	53,200,000	-
Dividend Per Share	3.50	2.75

Notes to the Financial Statements

23. RELATED PARTY DISCLOSURES

	2019 LKR	2018 LKR
Transactions with Related Parties		
Central Bank of Sri Lanka *		
Service rendered through Cheque Imaging and Truncation System (CITS)	279,901	177,343
Service rendered through Sri Lanka Interbank Payment System (SLIPS)	329,533	308,178
Dividend paid	10,325,000	8,112,500
At the end of the year		
Amounts due from Related Party	150,313	114,705

*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.

	2019 LKR	2018 LKR
Short Term Employment Benefits	4,195,400	4,030,000

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

There were no material Capital Expenditure Commitments as at the reporting date.

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 (LKR Mn)	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Operating Results										
Revenue	383.36	348.81	390.43	427.85	463.03	517.87	601.64	800.76	918.50	1,029.06
Gross Profit	175.00	208.40	257.74	282.11	260.90	247.16	262.17	390.04	462.61	532.54
Other Income	72.43	61.98	63.30	83.13	95.30	68.04	58.60	90.69	144.47	186.02
Administrative Expenses	107.35	99.40	124.73	104.78	128.01	121.81	126.40	138.18	161.57	165.26
Finance Cost	17.31	9.34	6.39	-	-	-	-	-	-	-
Marketing Expenses	-	-	-	-	-	10.76	9.57	20.50	20.41	33.02
Profit Before Tax	122.77	161.65	189.92	260.46	228.20	182.63	184.81	322.04	425.10	520.28
Income Tax Expenses	42.95	70.80	63.61	71.55	41.41	53.15	11.06	43.55	63.67	89.81
Profit for the Year	79.82	90.85	126.31	188.91	186.79	129.48	173.74	278.49	361.43	430.47
Capital Employed										
Stated Capital	150.50	152.50	154.75	154.75	158.25	158.25	158.25	158.25	158.25	165.20
Technology Upgrade Reserve	83.95	72.01	110.21	167.51	229.67	222.04	236.15	245.58	265.56	258.16
Capital Reserves	195.00	300.00	395.00	395.00	120.00	-	-	-	-	-
Retained Earnings	153.26	133.75	104.20	213.10	586.21	816.73	949.76	1,188.41	1,488.07	1866.70
Non Current Liabilities	114.13	83.50	9.19	11.44	17.26	18.39	24.32	33.75	42.31	54.59
Total	696.83	741.76	773.36	941.79	1,111.39	1,215.40	1,368.48	1,626.00	1,954.19	2,344.65
Assets Employed										
Property, Plant and Equipment	113.64	132.99	91.57	206.24	175.59	224.74	268.86	241.96	249.55	248.02
Intangible Assets	30.12	29.19	15.28	10.71	117.95	235.52	293.04	327.94	332.90	359.63
Long Term Financial Investments	-	-	-	-	-	-	-	-	781.74	1092.80
Deferred Tax Asset	1.20	-	-	-	1.12	0.65	-	-	-	-
Net Current Assets	551.87	579.58	666.51	724.83	816.72	754.50	806.58	1,056.11	590.00	644.20
Total	696.84	741.76	773.36	941.79	1,111.39	1,215.40	1,368.48	1,626.00	1,954.19	2,344.65
Cash Flow										
Cash Flows from/(used in)										
Operating Activities	101.83	118.18	138.47	96.80	138.65	106.56	164.31	285.38	389.57	338.81
Cash Flows from/(used in)										
Investing Activities	(67.70)	(77.40)	83.47	(196.01)	(87.81)	(72.67)	(124.35)	(37.69)	(572.13)	(301.61)
Cash Flows from/(used in)										
Financing Activities	(51.36)	(42.72)	(94.58)	(22.73)	(23.01)	(26.60)	(26.60)	(30.40)	(41.80)	(46.25)
Net increase/(decrease) in Cash and Cash Equivalents	(17.23)	(1.93)	127.36	(121.93)	27.83	7.29	13.36	217.29	(224.36)	(9.05)
Key Indicators										
Net Profit Margin (%)	21%	26%	32%	44%	40%	25%	29%	35%	39%	42%
Earnings Per Share (LKR)	5.30	6.02	8.35	12.47	12.32	8.52	11.43	18.32	23.78	28.28
Net Assets Per Share (LKR)	38.72	43.59	50.44	61.41	72.18	78.75	88.41	104.75	125.78	150.17
Revenue Growth Rate (%)	-9%	-9%	12%	10%	8%	12%	16%	33%	15%	12%
Dividend Per Share (LKR)	1.15	1.50	1.50	1.75	1.75	1.75	2.00	2.75	3.50	4.95*
Dividend Payout (LKR Mn)	17.31	22.65	22.73	26.51	26.53	26.60	30.40	41.80	53.20	75.49
Return on Equity (%)	14%	14%	17%	20%	17%	11%	13%	17%	19%	19%

* Dividend proposed in 2018/19

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, High level Road, Maharagama.

'FINCIRT' shall mean Financial Sector Computer Security Incidents Response Team

'ISOC' shall mean Information Security Operations Centre

'LANKAQR' - National Quick Response (QR) Code Standard for local currency payments with the aim of establishing a standard for payments carried out through mobile phones.

'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

‘PEN’ - System to facilitate peer-to-peer payments via a mobile number and a nickname.

‘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 LKR 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.

Notes

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Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the 17th Annual General Meeting of LankaClear (Private) Limited will be held on 08th July 2019 at 11.30 am at "The Winchester", The Kingsbury Hotel, 48, Janadhipathi Mawatha, Colombo 01, for the following purposes:

- 1) To receive and consider the Report of the Directors and the Statement of Accounts for the year ended 31st March 2019 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 LKR 4.95 per share as recommended by the Directors.
- 4) To approve amendment to Articles of Association of the Company.

IT IS HEREBY RESOLVED that the existing Article numbered 73 (ii) be and is hereby amended as follows.

The Board of Directors shall comprise of two Directors representing the two state banks nominated by the Boards of Directors of those banks, two Directors representing the private local commercial banks who are shareholders of the Company, and one Director representing the branches of foreign banks who are shareholders of the Company, all of whom to be nominated by the Board of the Sri Lanka banks' Association (Guarantee) Limited in consultation with those banks, **one director nominated by the Monetary Board of the Central bank of Sri Lanka to represent the interests of Central Bank of Sri Lanka as the regulator of payments, clearing and settlement systems of Sri Lanka** and one Director nominated by the Governor of the Central Bank to function as the Chairman of the Board of Directors and one director nominated by the Governor of the Central Bank from among persons who in the opinion of the Governor has had experience or has professional qualifications in banking technology.

- 5) 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

06th June 2019

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 on our behalf at the 17th Annual General Meeting of the Company to be held on 08th July 2019 and at any adjournment thereof and at every poll which may be taken in consequence thereof.

Signed this day of 2019.

.....
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