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LankaClear seamless solutions



SEAMLESS

LANKACLEAR (PRIVATE) LIMITED
ANNUAL REPORT 2019/20

SEAMLESS

With technology advancing at breakneck speed, LankaClear has never missed a beat in the development of cutting-edge solutions that are transforming the way we transact. As digital transactions have become prevalent and an everyday occurrence, we took great pains to make them safer, faster and more convenient. We have delivered them with the same vigour as the considerable effort that we are putting in to attract every Sri Lankan on board in this revolution. By launching not only simple, but also innovative solutions that everyone around the island can benefit from, we are edging closer to our aim of making financial services inclusive. LankaClear is focused on providing a seamless experience to all.

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Company Overview /

About LankaClear

Vision

To be Asia's most trusted and reliable payment network

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

Core Values

"This is How We Do It"

01 Responsibility and Accountability

We act responsibly and take accountability for our actions as we know that our decisions and actions affect our stakeholders. We know that the confidence will be built based on our verbal and written commitments, which we reliably meet.

02 Respect Others for Who They Are

It is not by a designation, race, and creed that people are valued and respected by all of us at LankaClear. We respect, value and honour them for who they are and what they do.

03 Be a Catalyst for Change

Change is in our lifeblood and no matter what happens our passion for change and the hunger for finding better ways of doing things will never stop. We continue to search for and provide the latest technology-based solutions to our customers while justifying our drive to become a valued Payment Infrastructure Facilitator.

07 Teamwork & Collaboration

We know that the success of a team is dependent on how well the members of the team care for each other and work as one. It is our forte to bring the members of the team together and lead the process of effective collaboration to bring harmony and success to the working relationships of all levels and to work towards a common objective.

STRATEGIC OBJECTIVES

The ever-changing business dynamic across the world presents many possibilities and benefits to individuals and companies. It enables people to connect more with their loved ones and build new friendships and partnerships all over the world. It also enables companies to reach out more to customers through digital channels, etc. The current lifestyles are just another form of independence, giving people more flexibility to create the life they imagine. When used wisely, there is no doubt that digital has the power to enhance the quality of lives, both now and in the future. From online shopping to social media, people can create their own innovative content and post it on YouTube, Facebook or engage in blogging etc. They can transact or make payments using their smart mobile devices. Digital banking for example allows individuals and companies to open bank accounts, facilitates payments by using savings and current accounts without ever stepping out. This is possible through digitisation, which can essentially turn a smart phone into a wallet, a shopping mall or even a bank branch. Ensuring a seamless experience will allow us to maximise our time, do more things in a day and ultimately use that free time to live a better life. Our objective for the financial year 2019/20 was to provide a seamless experience to all our stakeholders.

- 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 masses
- Promoting social harmony by contributing towards a worthy CSR cause

04 Leadership

Everything we do at LankaClear is aimed at making people passionate about their contribution and to become leaders in their own areas of expertise.

05 Integrity and Trust

We at LankaClear proclaim that we make promises that we can keep while claiming ownership for what we speak and do as individuals as well as a company.

06 Availability and Accessibility

We are available for assistance at all times and our services incorporate a high level of information security. The accuracy, trust, and accessibility of our systems are our strength. We cherish our commitment to Payment Infrastructure Facilitation as the emerging most reliable and trusted entity in the region.

Company Overview /

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.

2019

- Gold Award under Small and Medium sized Entities at the Annual Report Awards 2019 organised by the Institute of Chartered Accountants of Sri Lanka for the fourth consecutive year.

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.

”



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.

Company Overview

Introduction to the Report

This is LankaClear's fifth Integrated Annual Report and covers the period 1st April 2019 to 31st March 2020, 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

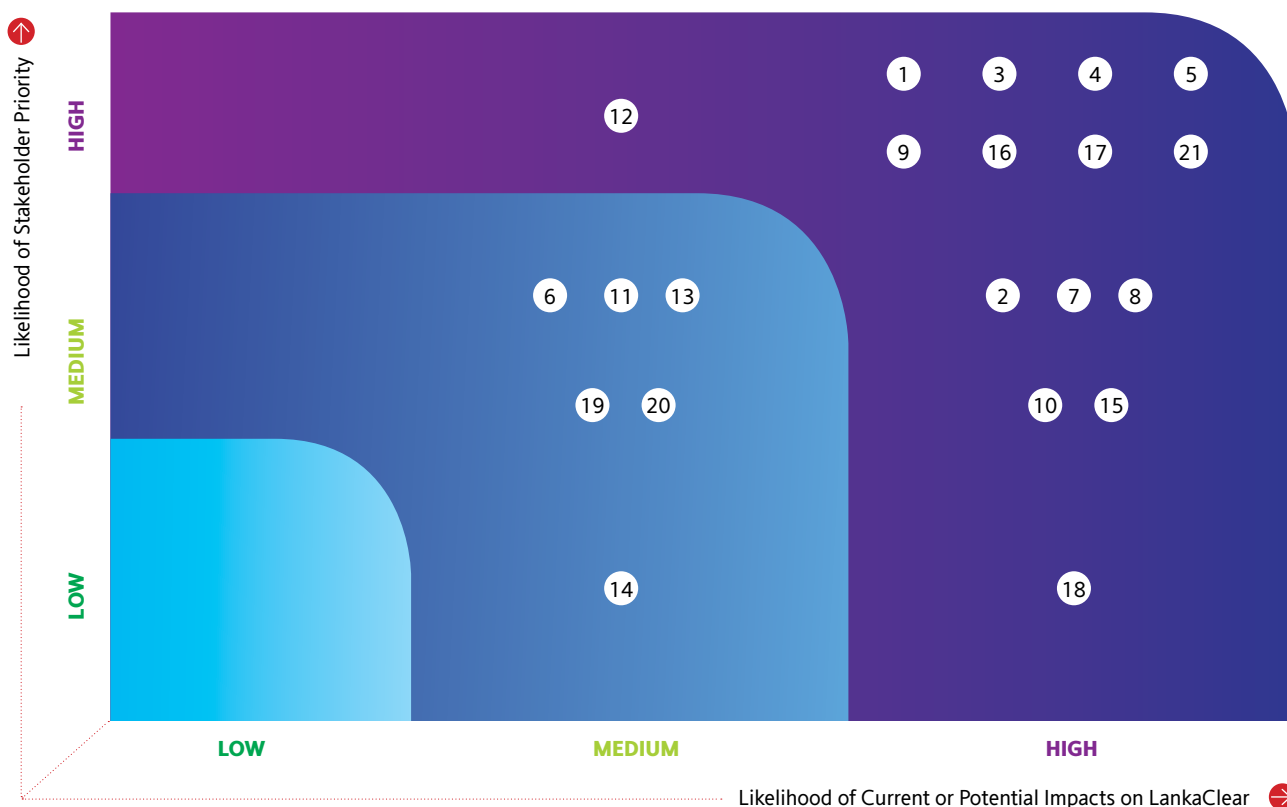
This report boundary covers the operations of LankaClear (Pvt) Ltd. and topics identified as material to the Company, based on an assessment of stakeholder priority and impacts on the Company.

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.



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.



Our Annual Report is also available online.
Please visit our website.

www.lankaclear.com

Company Overview

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

External Services

Tel : +94 11 2356999

Legal Form and Ownership**Legal form**

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

Ownership

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

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.
No. 8, Tickell Road
Colombo 08
Tel : +94 11 2015900
Fax : +94 11 2015960

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
 - PEN: Payment Exchange Name
 - Direct Debit
- Operating the hosted ATM switch for Banks/FIs (LankaPay – SAS)
- Operating the Common POS Switch (LankaPay – CPS)
- Operating the National Card Scheme (LankaPay – NCS)
- 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)
- Operating the National QR – Lanka QR

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 CMS: Card Management system
- LankaPay CEFTS: Common Electronic Fund Transfer Switch
 - LPOPP: LankaPay Online Payment Platform
 - JustPay
 - PEN: Payment Exchange Name
 - Direct Debit
- LankaPay CPS: Common POS Switch
- LankaPay JCB National Card Scheme (NCS)
- 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

Rs. 1,097,709,274

Stated Capital

Rs. 165,200,000

Share Information

Shareholding as at 31st March 2020

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 Rs. Mn
Central Bank of Sri Lanka	2.95	29.50
Hatton National Bank PLC	2.20	22.00
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
Seylan Bank PLC	1.00	10.00
The Hongkong and Shanghai Banking Corporation Ltd.	0.20	2.00
Deutsche Bank AG	0.15	1.50
National Development Bank PLC	0.15	1.50
Nations Trust Bank PLC	0.15	1.50
Standard Chartered Bank	0.15	1.50
Citibank NA	0.10	1.00
DFCC Bank PLC	0.10	1.00
Indian Bank	0.10	1.00
Indian Overseas Bank	0.10	1.00
MCB Bank Ltd.	0.10	1.00
Pan Asia Banking Corporation PLC	0.10	1.00
Public Bank Berhad	0.10	1.00
Amana Bank PLC	0.05	2.00
Axis Bank Ltd.	0.05	2.25
Bank of China Ltd.	0.05	6.95
Cargills Bank Ltd.	0.05	3.50
Habib Bank Ltd.	0.05	0.50
ICICI Bank Ltd.	0.05	0.50
State Bank of India	0.05	0.50
Union Bank of Colombo PLC	0.05	0.50
Total	15.25	165.20

[illegible]

Bank Name	CITS	UITS (US Dollar)	US Dollar Online	CAS	CEFTS	SLIPS	SAS	LPOPP	JustPay		LankaQR	NCS
					Real Time (CEFTS)	Batch Mode SLIPS			Acquirer	Issuer		
National Savings Bank			■	■	■	■		■		■	■	
Sanasa Development Bank PLC				■	■	■			■	■		
HDFC Bank				■	■	■						■
Citizens Development Business Finance PLC					■	■						
Regional Development Bank				■	■	■	■					
State Mortgage & Investment Bank						■						
LB Finance PLC				■	■	■			■	■		
Senkadagala Finance PLC					■	■						
Commercial Leasing and Finance PLC				■	■	■				■		
Vallibel Finance PLC						■						
Central Finance PLC					■	■						
Kanrich Finance Ltd.						■						
Alliance Finance Company PLC						■						
LOLC 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.				■			■					
Bimpu Finance PLC				■	■							
Siyapatha Finance PLC				■		■	■					■
LOLC Development Finance PLC					■							
Dialog Finance PLC				■	■							
Softlogic Finance PLC					■							
Total	27	22	15	32	41	45	3	14	9	15	8	3

Participants joined prior to 2019/20



Participants went live during the year 2019/20



Our Milestones

2006

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

2008

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

2009

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

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 and achieve cost efficiencies

2015

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

2016

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

2017

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

2018

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

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



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 process for financial industry



2020

- Launch of Payment Exchange Name (PEN) to facilitate online payments
This is a mobile number and nickname based payment initiative to facilitate peer-to-peer payments
- Launch of Direct Debit Authorisation (DDA) facility
- Implemented Automated Customer Support System (ACSS)
- Upgraded Facetone to enable ticketing functionality and work delegation
- Successfully migrated all clearing systems from DogTag CA to new Windows CA
- Successfully migrated the entire LankaSign Certificate Authority (CA) process from a physical documents based system to an online approach
- Streamlined both LankaSign CA and SDK operations including the SDK support process to be managed remotely
- Integration of JCB switch to LankaClear switch to enable carrying out cross border transactions through cards issued under the National Card Scheme



Company Overview /

Financial Highlights

	2019/2020	2018/2019	2017/2018	2016/2017	2015/2016
Results for the Year (Rs. Mn)					
Revenue	1,098	1,029	918	801	602
Gross Profit	532	533	463	390	262
Profit Before Tax	561	520	425	322	185
Income Tax Expenses	75	90	64	44	11
Profit for the Year	486	430	361	278	174
As at the Year End (Rs. Mn)					
Total Assets	2,966	2,586	2,104	1,707	1,419
Total Capital Assets	621	608	582	570	562
Shareholders' Funds	2702	2,290	1,912	1,592	1,344
Long-Term Financial Investments	532	1,093	782		
Short-Term Financial Investments	1519	549	506	695	660
Information Per Ordinary Share					
Earnings Per Share	31.85	28.28	23.78	18.32	11.43
Dividend Per Share (Proposed)	6.37	4.95	3.50	2.75	2.00
Net Assets Value Per Share	177.17	150.17	125.78	104.75	88.43
Ratios					
Gross Profit Ratio	48%	52%	50%	49%	44%
Net Profit Ratio	44%	42%	39%	35%	29%
Return on Equity	18%	19%	19%	17%	13%
Return on Assets	16%	17%	17%	16%	12%

Rs. 1.1 Bn 

Total Revenue 7% up @

Rs. 521 Mn 

CCAPS Revenue 25% up @

Rs. 486 Mn 

Net Profit up 13% @

Rs. 3 Bn 

Total Assets 15% up @

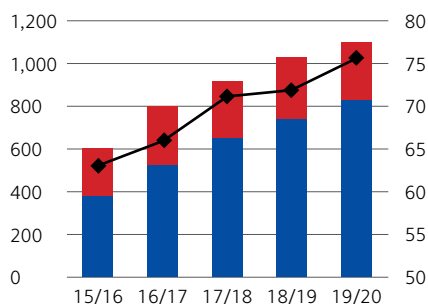
Rs. 2.7 Bn 

Total Shareholder Funds 18% up @

Rs. 177.17 

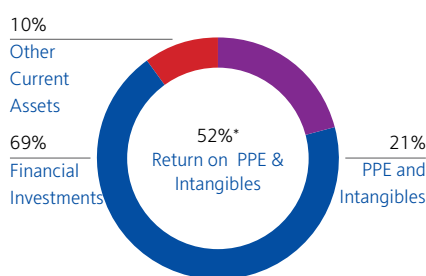
Net Assets Value per Share up 18% @

Revenue Analysis



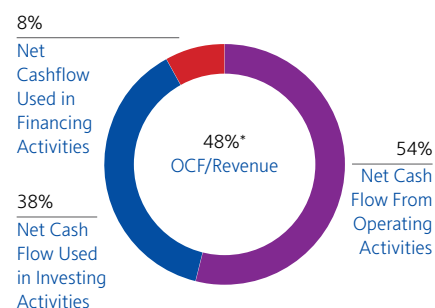
■ Transaction Revenue (Rs. Mn)
 ■ Other Revenue (Rs. Mn)
 ◆ Transaction Rev. as % of Total Rev. (%)

Total Assets Distribution



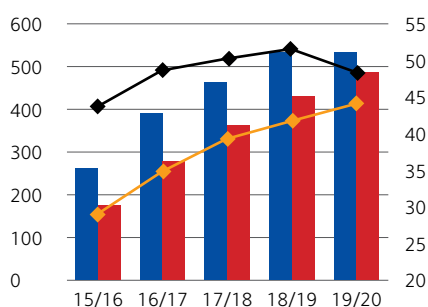
* For the calculation the return considered excluding the net of tax other income.

Cash Flow



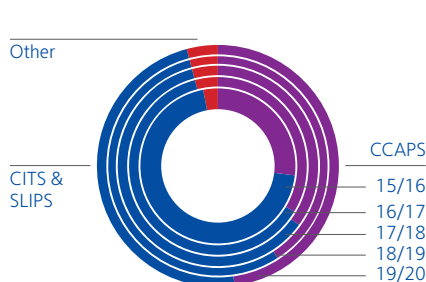
* Operating Cash Flow to Revenue, showing the Company's ability to convert its sales into cash.

Profitability Analysis

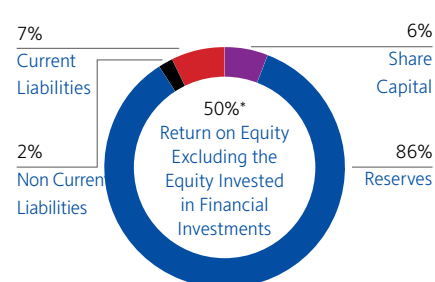


■ Gross Profit (Rs. Mn)
 ■ Net Profit (Rs. Mn)
 ◆ GP Margin (%)
 ◆ NP Margin (%)

Revenue Mix

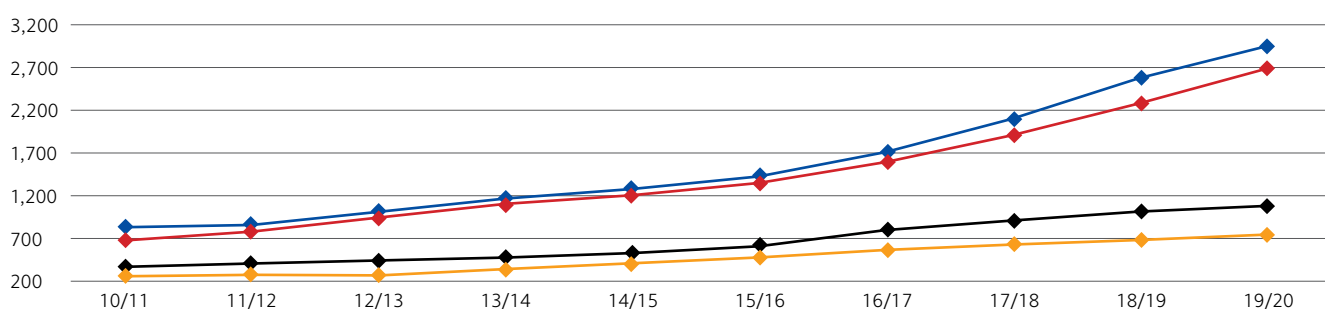


Capital Structure



* For the calculation the considered return is the Profit After Tax excluding the Net of Tax Other Income and the considered Equity is Excluding the Value Invested in Financial Investments.

Ten Year Financial Performance



◆ Total Assets (Rs. Mn)
 ◆ Shareholders' Funds (Rs. Mn)
 ◆ Revenue (Rs. Mn)
 ◆ Total Cost (Rs. Mn)

Company Overview

Operational Highlights



Over 65 Mn interbank debit card transactions facilitated for withdrawal of cash



Security of transactions and documents ensured through **approx. 162,000** LankaSign digital certificates



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



Over Rs. 13.89 Tn and USD 541.66 Mn worth of transactions facilitated through LankaClear Systems



Online real time 24x7 fund transfers/ payments from one participant to another facilitated through **41 CEFTS members** for your convenience



Retail sector payment facilitation through JustPay transactions. **Growth of 346% in JustPay registration and a growth of 963% in JustPay transaction volumes.**

112,000

Mobile SDK certificates issued.

Lanksign process is

ISO 27001

certified.

440+

certificates issued to **financial sector.**

5,200+

ATMs+CRMs+CDMs islandwide connected to LankaPay – CAS network **99.53% covered.**



Connected **6 Participants.**

100,000+

JustPay powered app users when it passes the second year with **15 mobile payment applications connected via 9 acquirers and 14 issuers.**

Payment backend is **PCI-DSS/PA-DSS compliant** and the first entity to do so in Sri Lanka.



45 Mn+

Cheques cleared worth of over **Rs. 9.46 Tn.**



Certification & Integration

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

04

JustPay

02

CEFTS Credit

03

CEFTS Debit

05

EMV Migration

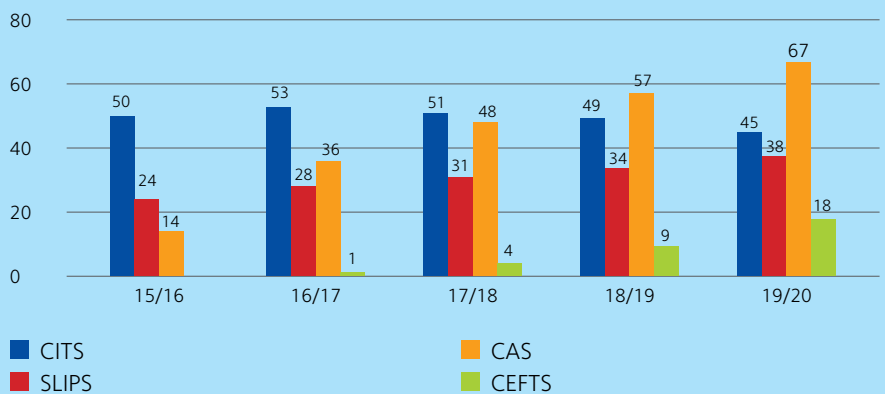
07

CPS

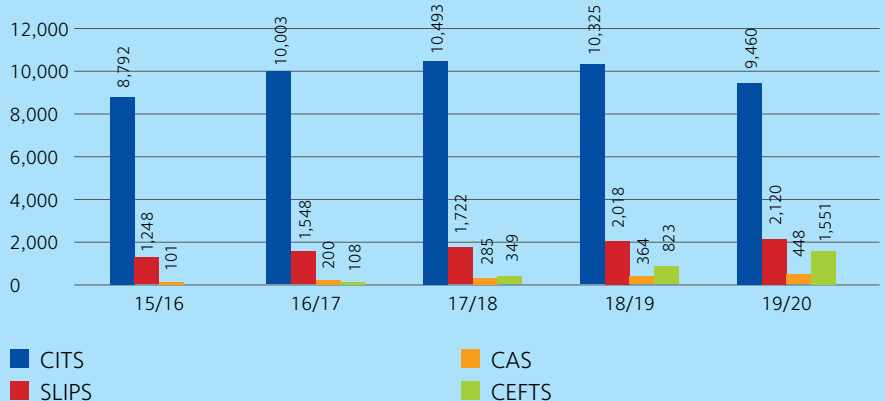
Infrastructure Enhancement

- Refreshed core data centre firewalls and other related devices.
- Enhanced the automated infrastructure monitoring capability at primary and DR site.

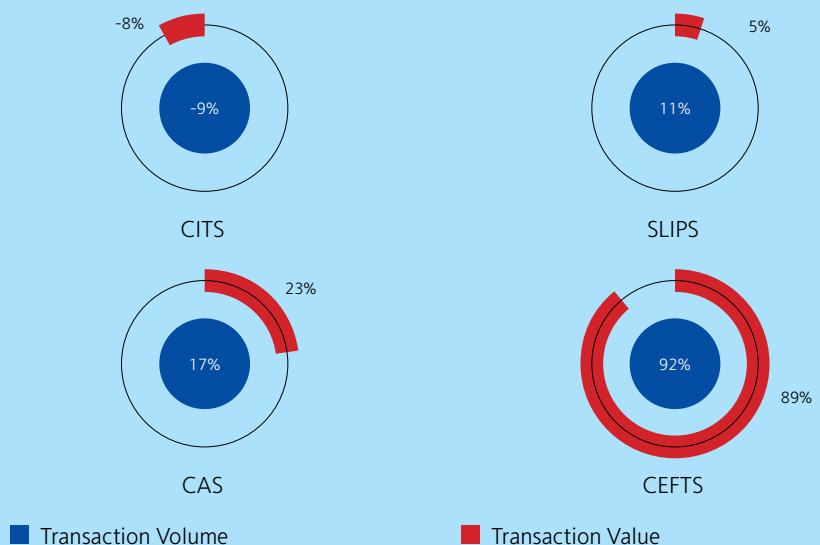
Annual Transaction Volumes By Products (Transaction Volume Mn)



Annual Transaction Value By Products Transaction Value (Rs. Bn)



Growth of Transaction Volume & Value -2019/20



Seamless transactions facilitated at your convenience via a single click of a button



JustPay is one of the breakthrough payment products of LankaPay that allows customers to make retail payments using smart mobile devices by transferring funds from their current or savings account to the merchant's account directly. With a slab based, extremely low tariff scheme, JustPay provides a convenient, secure and affordable option for retail payments which are otherwise made by cash or cards.



Stewardship /

Chairman's Review



“LankaClear has been playing a pivotal role in the digitalisation process by ushering the country towards a less cash economy.

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It gives me great pleasure to present the Annual Report of LankaClear Private Limited for the period ending 31st March 2020. The past year has been unlike any other for everyone in Sri Lanka and across the globe. We have experienced and overcome numerous challenges and have managed to record another year of strong growth. Even in the face of challenging economic conditions, LankaClear has leveraged on our core strengths to drive innovation and improve the product delivery by ensuring an uninterrupted service on a 24 by 365 basis to consumers.

Strong interdependence between the banking system and the development in the rural economy was once again evident in the year under review. During the past few years, enhancing banking services and expanding the network and accessibility across the country has been a key driver of growth in the banking sector and has enabled the sector to remain a key artery in the country's economic progress. As the operator of the national payment network, LankaClear is a key catalyst of this expedition, providing a sound and robust backbone payment infrastructure to the stability and growth of the banking sector.

In addition, LankaClear has been playing a pivotal role in the digitalisation process by ushering the country towards a less cash economy. We have managed to keep transaction costs to the consumers and banks at reasonable levels whilst still expanding our world-class payment solutions that keep pace with the changing market dynamics across the globe. Despite extremely challenging market conditions, LankaClear recorded a Profit after Tax of Rs. 486 Mn in 2019/20 compared to Rs. 430 Mn in the previous financial year, which represents an annual growth of 13%. Total Assets of the Company grew by 15% during the year and stood at Rs. 3 Bn by 31st March 2020. The Company continued to remain resilient with the entirety of operating and capex cash flows met by shareholder funds.

Being the operator of the national payment network with our unparalleled payment infrastructure, LankaClear plays a crucial role in the national financial eco-system. In our quest to become 'Asia's Most Trusted and Reliable Payment Network', LankaClear has strived and made notable progress driving stability, innovation and efficiency in the country's financial sector thereby enhancing the changing lifestyles of consumers.

Economic Background

The financial year 2019/20 turned out to be an exceptionally challenging year. The country was battered by the Easter Sunday attacks in April 2019, which had a severe impact on several industry sectors. Before the economy could fully bounce back, it was hit by the COVID - 19 outbreak from January 2020. Although the year 2020 dawned with a positive growth trajectory with a forecasted economic growth of 3.3% owing to a solid macroeconomic framework, political stability, implementation of planned public infrastructure projects, rising agricultural opportunities and ongoing reforms, the pandemic has taken a toll on the entire economy and civil life, creating a gloomy macro-economic environment superseding the economic outlook prevailed at the beginning of the year 2020. The financial sector too was not immune to these events and succumbed to the negative impacts, reflected in the decelerated growth and profitability across the financial sector. The exodus of funds from domestic capital markets coupled with importer demand, the Rupee faced an unprecedented level of depreciation against the US Dollar marking an exchange rate of close to Rs.200 late in the Financial Year. These volatilities had a knock-on effect on overall economic performance of the country bringing down the GDP growth to 2.3% in 2019, compared to 3.3% in 2018.

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Global economic growth decelerated markedly in 2019 to 2.5%, with weakened global trade and investment. This phenomenon was widespread, affecting both advanced economies particularly the Euro Area and Emerging Market and Developing Economies (EMDEs). Various key indicators of economic activity declined in parallel, approaching their lowest levels since the global financial crisis.

As per the World Bank report on global economic prospects the COVID-19 pandemic has, with alarming speed, delivered a global economic shock of enormous magnitude, leading to steep recessions in many countries. The baseline forecast envisioned a 5.2 percent contraction in global GDP in 2020 the deepest global recession in eight decades, making it the worst economic recession since the great depression. The deteriorated economic conditions will mean that investors and stakeholders need high-quality financial information more than ever.

Despite an extremely challenging operating environment, I believe we have posted a healthy financial performance by leveraging on every single opportunity in the midst of chaos, to have recorded a notable progress in our business performance.

Industry Sector Review

As per Central Bank reporting on financial sector performance and system stability, the growth in the banking sector was at a slower pace during the financial year 2019/20 compared to the previous year, while exhibiting resilience amidst a challenging business environment. The banking sector has spread its dominance in the financial sector by accounting a 62.1% of total assets in the financial system at the end of 2019 and continued to support the financial intermediation of the economy by enhancing banking services and expanding the banking network, thereby promoting financial inclusivity. Across the industry, 42 bank branches and 564 ATMs were established during 2019, while 11 bank

branches and 13 ATMs ceased to operate. Accordingly, the total number of banking outlets and ATMs had increased to 7,387 and 5,571, respectively by the end of 2019.

The profitability of the banking sector, as reflected by the Return on Assets (ROA) and Return on Equity (ROE) declined significantly during the year, mainly due to the deterioration in assets quality, rise in operating costs and increase in taxes. During 2019, the Central Bank continued to introduce prudential policy measures and regulations with a view of enhancing the safety and soundness of the banking sector and facilitating business expansion of banks. Further, the Central Bank completed the implementation of key regulatory elements of the Basel III framework by 1 January 2019 and facilitated consistent adoption of the Sri Lanka Accounting Standard - SLFRS 9 - Financial Instruments for the banking sector in Sri Lanka.

Taking a giant leap towards digitalisation, the Central Bank announced the year 2020 as the "Year of Digital Transactions". This initiative was introduced with the objective of raising awareness and driving adoption of digital payments by the general public. Another noteworthy initiative taken by the Central Bank during the year was the compulsion for financial institutions to provide real time notifications to customers on all electronic transactions. In the midst of rising threats and vulnerabilities in many fronts such as credit card frauds, mobile transaction frauds and identity frauds the above initiative will be a deterrent and would effectively minimize the vulnerability of electronic transactions for fraud, which is critical to build trust and public confidence to drive adoption of electronic payments. Furthermore, the Central Bank established the "FinTech Regulatory Sandbox", which provides innovators a safe space to test their products and services without infringing the regulatory requirements. It is expected to create robust and sustainable innovations that can provide more efficient financial

intermediation, greater financial inclusion, and to create a less-cash society through digitalisation.

LankaClear as the operator of the national payment network has been playing a leading role in shaping and defining the payment industry in the country. With disruptive affordable and unparalleled additions to the national payment network, we have brought in grater competitiveness to the industry, which has benefited the entire financial industry, customers and the national economy alike.

During the year, LankaClear focused more on building, sustaining and strengthening partnerships with its key stakeholders. I am proud to state that these partnerships have helped us make further progress towards becoming 'Asia's most trusted and reliable payment network'.

Performance of the Company at a Glance

It is indeed noteworthy to mention that the Company has pulled together to deliver a year of financial resilience to continue the growth trajectory seen over the last few years. LankaClear recorded a revenue of Rs. 1.097 Bn (2018/19 – Rs. 1.029 Bn) and a profit after tax of Rs. 486 Mn (2018/19 – Rs. 430 Mn). YoY increase in both revenue and profit for the year grew by 7% and 13% respectively. This growth was propelled primarily by the expansion in transaction volumes that we generated through the holistic offerings that fit the current and emerging market needs.

During the year, the transaction volumes of our real time payments switch (CEFTS) achieved a YoY growth of 77% (2018/19 -124%, 2017/18 – 185%). This growth is primarily attributable to the growth in the banking industry as well as the FinTech sector in Sri Lanka. Over these past few years the banking industry has been more receptive to the digital transformation that is taking place and now considers digitalisation to be one of the key drivers for growth. While this is undoubtedly a positive sign of future prospects in this

“One of our newest additions to the portfolio - JustPay continued to grow, making strides in the country’s payments arena. JustPay recorded a total of 1.5 Mn successful transactions and 118,360 registrations.



sphere, LankaClear has been under greater pressure to facilitate the growing demand for innovative products and maintain and improve service levels to support the industry to elevate itself to the next level.

With the increased penetration of the digital banking services into rural areas and entry of FinTechs to payment industry, electronic payment modes have become widespread. Therefore the rural population also can now access banking services and perform day-to-day transactions more conveniently and securely at affordable rates via digital means. In spite of digital banking services, the YoY volume growth in cash withdrawals of the Common ATM Switch (CAS) has increased by 16% (2018/19 - 21%) where the average monthly volume exceeded 4 Mn transactions during the year. Owing to the concentrated marketing efforts towards raising awareness of convenience to use the nearest ATM, rather than the banks’ own ATM, by the end of the financial year, the Common ATM Switch contributed to 17% of the overall ATM transactions in the country. The transaction volumes of SLIPS saw a growth of 11%.

Continuing the downward trend, the cheque volumes of CITS has further declined by 9% (2018/19 -4.2%) during the year under review. We attribute this decline to customers opting for digital

modes of payments, compared to the traditional modes and we expect this trend to continue in the future.

One of our newest additions to the portfolio - JustPay continued to grow, making strides in the country’s payments arena. During the year under review, JustPay recorded a total of 1.5 Mn successful transactions and 118,360 registrations. JustPay transaction limit was increased from Rs.10,000 to Rs.25,000 as directed by Central Bank of Sri Lanka. Total value of the transactions facilitated via JustPay amounted to Rs.5.2 Bn. Upgrades to JustPay system architecture were introduced towards further enhancing security.

Under the patronage of the Central Bank, the National QR Code branded ‘LankaQR’ was launched during the year. LankaQR has taken the domestic retail payment sector by storm with zero maintenance cost, low set-up and transaction cost. LankaQR also ensures interoperability of different payment mechanisms and instruments and facilitates transactions real-time. Several financial institutions launched “LankaQR” based payment products during the year and is growing at a rapid pace.

In 2018 LankaClear launched the National Card Scheme (NCS), in partnership with Japan Credit Bureau (JCB) International

of Japan with a view to promote card payments within the country, introducing a low cost regime that would benefit, customers, merchants and the national economy alike. During 2019, several financial institutions started issuing payment cards under NCS. In addition, 4 licensed financial acquirers joined CPS, which provides switching and clearing facilities for payment cards issued under NCS at point of sale terminals. However we are concerned at the lackadaisical approach of financial institutions to join this national.

The impressive financial results noted above enabled the Company to report an EPS of Rs. 31.85 growing from Rs. 28.28 reported last year. The Board has recommended a dividend of Rs. 6.37 per share to our shareholders for the financial year under review. The financial performance is discussed in greater detail in the financial review section of this report.

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Stakeholder Relations

At LankaClear, our mission is to empower the nation with a world-class backbone payment infrastructure providing every citizen with accessible, affordable, convenient and secure payment options, thereby harnessing financial inclusivity. Accordingly, it is vital to keep pace with the evolving needs of the consumers, changing risk landscape and ever growing demand for our services to ensure a sound and a robust national payment network. Keeping with the Central Bank's Digital 2020 concept, our objective for the financial year 2020 was to support the digital lifestyles of all our stakeholders. Our focus is to further enhance this key imperative moving beyond being an IT driven backbone payment infrastructure provider for the financial services sector. We consider ourselves to be a company which is committed to offering greater consumer convenience and all our offerings are pointed towards this single minded proposition. Stakeholder engagement is further discussed under the Stakeholder Engagement Section in this report.

Sustainable Operation

LankaClear makes its best efforts to drive its business in a sustainable and environmentally friendly manner; so the resource requirements of the future generations are not hindered. This is discussed further under the Sustainability section of this report. Corporate Social Responsibility is the epicenter of our very existence, ensuring that 'national interest' takes precedence over 'commercial intent' at decision making. To be sustainable, a business must be profitable in the long-term. However, we at LankaClear make sure that short-term profits do not 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 at present as well as in future. In fact, profit at any cost is not an acceptable proposition at LankaClear where importance is given to compliance, proper governance and better risk management. The business operates

at the highest level of transparency while being socially responsible and environmentally 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

Corporate governance is the system of rules, practices and processes by which a company is directed and controlled. Accordingly 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 a high level of compliance, to the afore mentioned policies and regulations to provide our stakeholders with greater confidence in our conduct.

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

Human Capital

We consider our employees to be a critical stakeholder of the Company, playing a significant role in ensuring service levels and reaching greater heights. Team LankaClear is unique and well-equipped with industry related skills and the experience needed to operate the National Payment Network and we are keen in developing them to the next level through training and development opportunities. This function is supported by a strong

HR policy framework and well governed systems and processes. Talent acquisition activities also focused on recruiting talent with strong technology backgrounds, right skills and attitudes to help meet the growing business 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.

We have developed several communication channels and forums to ensure that all employees are fully informed, aligned with and embrace company mission, culture, values and actively play a role in achieving the Company's objectives. We openly discuss and identify any areas that may require improvements and put our best effort to implement them.

Outlook

As per the current trends, global growth is expected to weaken in the short-term to long term due to the global pandemic situation with the COVID-19 outbreak. Sri Lanka will not be isolated from these global events and the prevailing macro-economic uncertainties would exacerbate if the pandemic continues to create global economic volatilities. We move forward to the next year 2021 with the expectation that our operating environment will continue to present numerous challenges. However we remain confident that strategies are in place to overcome and manage such challenges effectively and efficiently.


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 favor. 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 is a strong indicator of the growth prospects, enabling further penetration into untapped markets going forward.

A strengthened balance sheet, digitisation and insights through data analytics has given 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 in providing greater convenience to our stakeholders.

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 work in a paperless office environment, 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 during the year under review. While extending my heartfelt thanks to Mr. M.N.R. Fernando, Mr. M.A.B. Silva and Mrs. R.N.K. Fernando 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. G.B.R.P. Gunawardana and Mr. L.P.B. Talwatte to the Board and look forward to working with them. I wish to thank the GM/CEO, Mr. Channa de Silva and his team for their smart work in delivering excellent results. I would also like to extend my heartfelt thanks to all our stakeholders for the continuous support and trust they have placed in us and our services.



A. Amarasuriya
Chairman

20th October 2020

Stewardship /

General Manager/CEO's Review



“Our focus for the year under review was to address the digital lifestyle experiences anticipated by emerging consumers and provide seamless solutions to support their varied needs.

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Seamless Consumer Experience

Living a seamless digital lifestyle means that we are always connected to the internet, to our devices and more importantly to each other. Our lives have become so intertwined with digital technology, we have begun living our lives attached to our devices and constantly connected. With every emerging technology constantly attempting to address our every physical and mental need, there seems to be no reason to not ride the wave. Being digitally connected will only continue to be more prominent in the future. We are constantly online to keep in touch with friends and family, share content to gain recognition, increase our social status and express who we are. Engaging online fulfils our need to be entertained, increases our ability to socialise seamlessly and learn from all these social interactions. Living a digital lifestyle allows us to maximise our time, do more things in a day and ultimately use that free time to live a better life. Our objective for the financial year 2019/20 was to support the seamless digital lifestyles of all our stakeholders.

We live in an age in which the digital and the real worlds have become intertwined. In a relatively short period of time, a variety of computing and communications devices have seamlessly incorporated themselves into our lives. New applications and tools for these devices compete to grab and keep people's attention. At the surface, what is happening may seem to have a certain frenetic mindlessness to it, but at the heart of it, a critical transformation is occurring that will be important for individuals, small to medium companies and large organisations to understand, and even leverage, in the emerging economy. As the basis of a digital lifestyle, most of us have very active social media lifestyles. We have profiles and actively participate on a number of social networks such as LinkedIn, Facebook, Twitter and Snapchat, etc. and social media terms have become verbs for describing a number of our regular daily activities.

Our focus for the year under review was to address the digital lifestyle experiences anticipated by emerging consumers and provide seamless solutions to support their varied needs. I am elated to state that we achieved our objectives successfully by initiatives that provided a seamless experience to all our different customer segments. It is also with great satisfaction that I announce our achievement of the targeted revenue objective of exceeding previous year's revenue and profit numbers despite an extremely tough year for the country and economy as a whole due to Easter Sunday incidents. In our efforts to provide seamless customer experience, we were able to launch many innovative payment options for the different segments of the population, small and large businesses and public sector organisations that we serve. I will share more on how we delivered to exceed expectations of our customers, partners, employees and shareholders during the fiscal year 2019/20 in the next few sections and the impact we made to the lives of the people we serve by providing seamless financial services.

Business Outlook and Competition

The market got off to an extremely inauspicious start due to the Easter Sunday incident, which occurred in April 2019 at the beginning of the financial year. This impacted extremely negatively on the entire tourism sector that trickled down to other businesses as well and created an absolutely bleak business outlook. It also resulted in lower spending capacity for most consumers, which resulted in a downturn in business transactions throughout the year. Having an election during the financial year also didn't help the business sentiments during the first six months of the year either due to the seemingly instability in the political climate. Then at the end of the financial year, the country was lockdown from the middle of March 2020 where the entire business climate came to a standstill.

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General Manager/CEO's Review

The financial sector was able to withstand the negative business sentiments to an extent due to its resilience led by the two State banks and few other private banks that control larger portion of the asset portfolio. Due to the nature of the market, the electronic payments segment did not grow at the pace that we envisaged at the beginning of the financial year. Both credit and debit card based transactions continued to grow at the same slow pace primarily due to the slow adoption by both merchants and consumers alike. The larger banks seem to be more content on traditional payment modes even though a few FinTech companies partnering with smaller and aggressive banks tried to create inroads into the status quo. However, cash continued to remain as the key competitor for electronic payments in most segments of the market including retail. We started to see the potential of the payment mode JustPay, which introduced by us with a key focus of targeting the cash based retail payments and it continued to grow at a remarkable pace during the year under review. Some of the bigger players joined JustPay during the year when they realised the danger of smaller players being able to make inroads into their customer base at an alarming pace. The international card schemes began to take notice of our progress when we launched the National Card Scheme with the involvement of the Central Bank and a few large banks to offer a competitive card product to the market, which was intended to expedite the merchant acceptance of card payments.

Our Strategy

Our strategies for the year were to address the end user requirement for a seamless experience and manage interactions across all digital payment channels. To be successful, we needed to be innovative in improving our products and channels. We looked at our products from the point of view of the end consumer in order to drive digital transformation and remain relevant and compelling in a competitive environment.

Putting the end consumer at the centre of our digital transformation agenda meant focusing more on what they want from our payment solutions and not an internally-focused approach around what is available. Understanding consumer expectations and its relation to our business growth provided a real visibility into the context and motivation of getting them engaged into our process. We focussed all our efforts and investments in this direction to make the consumers a part of the process in order to be more useful and relevant to them. Smart phone based apps for payments was the overriding factor, in which our JustPay payment mode provided the ultimate convenience and a seamless user experience to the modern day consumer. In addition, we also came up with a design of a single chip-based card under the National Card Scheme initiative for all payments with the introduction of the 2in1 card concept to cater to all payment requirements of the consumer.

Our focus during the year was to organize our people, communication, products, platforms and infrastructure in line with the seamless end consumer experience strategy in order to improve the quality of engagement with the users of our solutions. This delivered efficiency and increased satisfaction to them while our strong business fundamentals and sharpened focus on the correct operational model enabled us to execute our strategies with greater confidence. We did not try to match the existing electronic payment solutions of the competition to generate market share, but targeted niche areas with a focus on seamless end consumer experience to penetrate new segments that were potentially untapped. In this context, we focussed on our new initiatives such as Lanka QR and Payment Exchange Name (PEN) to provide further seamless experience to the lives of the consumers. We were able to utilise our brand equity, which was developed over the years as the 'Trusted National Payment Network' in the country, to rollout new and innovative solutions to provide payment service

models that addressed the market needs and achieved significant growth for the company. We did not try to match the existing electronic payment solutions of the competition to generate market share, but created our own niche focussed solely on seamless end consumer experience to penetrate new segments that were potentially untapped. We found that the modern day consumer is looking for a seamless experience across all his channels and diligently focussed on the same to embed this into the DNA of our entire product portfolio.

Operational Review

Despite a downturn in the economy throughout the financial year under review, we made significant progress in most of our business activities, with all our innovative solutions for the future growing at a healthy pace. We further invested in new technologies that provide a seamless experience to the end-users, which was targeted to drive the adoption of digital payment services by the general public.

Cheque Imaging and Truncation System (CITS) reduced its significance on the revenue mix to 36% from 43% the previous year. This was in line with the assumption that cheque volumes would decline in the face of increased adoption in electronic payments. The total revenue from the products under Common Card and Payment Switch (CCAPS) improved to 47% from a previous 41% confirming the above assumption. Common Electronic Fund Transfer Switch (CEFTS) had been a highlight during the year increasing its contribution to 15% of the total revenue from 11% 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 digitized economy is bound to reduce the significance of cheques, which is expected to gradually decline over the next few years.

“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.



As stated above, cheque volume cleared through LankaClear declined by 9% YOY (decline of 4% in 2018/19). On the contrary, compared to the total ATM transactions in the country, interbank ATM transactions penetrated into an impressive 17.2% out of the total ATM volume in 2019/20 (16.6% penetration in 2018/19), which is a commendable growth compared to a low 4% a few years back. This was despite the growth of total ATM withdrawal volumes at 12% for the year. Further, CEFTS volume represented a significant 39% 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 28% of the total revenue compared to 23% in the previous year and increased the total transaction volume by 25%. LankaPay Online Payment Platform (LPOPP) with Sri Lanka Customs and BOI 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 25%. Amidst the declining trend in joining fees, transaction revenue from CCAPS showed a significant growth and shouldered the revenue gap, thus, reduced the pressure of revenue reduction

from CITS and joining fees. The revenue contribution from CCAPS transaction revenue grew by an impressive 28% where the contributions came from CAS, CEFTS and Shared ATM Switch (SAS), which increased YOY by 14%, 77% and 47% 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 was able to attract only one participant during the initial years. However, with a focused approach to turnaround the product line, team worked on onboarding more participants. The number of members who were already live as well as the new members 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 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 a massive growth during the last six months of the year under review to record a remarkable year. JustPay transaction volume grew by 963% during the year compared to the previous financial year while the customer registrations grew by 346% 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 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. MCB Bank became the first bank to issue LankaPay- JCB co-branded debit cards under the NCS to be facilitated via the CPS during the year. Due to the lower switching costs and reductions in other operational overheads, a few more members were convinced to sign up and issue LankaPay-JCB co-branded debit cards during the year. During the year Siyapatha

Stewardship

General Manager/CEO's Review

Finance and HDFC went live on NCS. 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 few more banks and other non-banking financial institutions into its membership. Even though providing only a 1% contribution towards the 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 during previous few financial years to record another year of exceptional performance. The Company recorded the highest-ever Revenue to reach Rs. 1.097 Bn (2018/19 - Rs. 1.029 Bn), which enabled us to grow further after becoming a billion-rupee company last

year, where growth was a key objective for the year. We achieved a Gross Profit (GP) of Rs. 532 Mn (2018/19 - Rs. 533 Mn), Profit Before Tax (PBT) of Rs. 561 Mn (2018/19 - Rs. 520 Mn) and Profit After Tax (PAT) of Rs. 486 Mn (2018/19 - Rs. 430 Mn). Revenue growth was at a healthy 7% YoY while GP slightly decline by 0.03% YoY. Despite tough market conditions throughout the year, we were able to achieve growth in PBT, which grew by an impressive 8% YoY while PAT grew by 13% YoY.

Achieving this growth was quite significant as it came on 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, reduced the burden on the overall revenue growth. The total transaction revenue grew by Rs. 68 Mn to record a growth of 11% despite Rs.24 Mn reduction coming from CITS transaction revenue. Main contributions for transaction revenue growth came from CAS, CEFTS, SLIPS and USD Online, which increased by 14% to Rs. 294 Mn, 77% to Rs. 135 Mn, 11% to Rs. 134 Mn and 19% to Rs. 3.2 Mn, respectively. With a significant effort from the team, we were able to achieve a 23% growth (2018/19 - 26%).

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) intends 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 91%.

How we managed our Stakeholders

We are in a situation where the actual consumers of our services are the general public, businesses and government institutions, however, the services are provided via financial institutions. We as the backbone network provider need to be mindful of the seamless experience the end-consumer is expecting from the financial services they are consuming. Providing a seamless experience via a series of technology platforms and networks is a complex and a daunting exercise. A single point of failure in any one of the systems involved will create a negative experience to the user. Hence, in order to provide a seamless customer experience, we had the difficult task of getting our member organisations to work together in tandem to provide a superior value proposition to their customers. We are extremely satisfied with the progress we made in this direction thus far by looking at the increased transaction volumes in most of our solution offerings and we could safely assume that our efforts have paid off.

Our relationship with our key stakeholder Central bank of Sri Lanka was managed by engaging with them in the form of four separate stakeholder scenarios, such as being the regulator for the financial sector, our shareholder, a permanent representative in our board as well as a customer for some of our services. Since all our new initiatives had to be carried out with the due approval of 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 requirement of a seamless experience of the consumers who are increasingly looking for

“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.



added convenience in consuming financial services was of paramount importance. The mechanisms we have followed to create awareness amongst our stakeholders and the different steps taken to address their requirements via our solutions were key success factors. 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 of the services we offer to provide them convenient financial services. 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 the marketing strategies.

We continued with organising our flagship annual awards ceremony, LankaPay Technnovation Awards, for the third consecutive 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 third edition of Sri Lanka's only payment technology innovation awards competition created a lot of excitement among our members and

resulted in a healthy rivalry among them, which reached its climax in October 2020 when the glittering awards ceremony was held. As per the feedback we received, the event had been well accepted by the government representatives as well as the entire financial sector.

In terms of ensuring a performance-based culture with our staff, we encouraged them to contribute with their ideas, suggestions and opinions via many 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 to invest in people to ensure that our people are ready to face any future eventuality.

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

Corporate Governance

For LankaClear to continually be a responsible corporate citizen, we pursued an ethical and a transparent business process and inculcate these principles into our strategies and business operations. To ensure a strong corporate governance and a commitment towards compliance, 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 of 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.

Our 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 several CSR projects funded and organised by the company and empowered

Stewardship

General Manager/CEO's Review

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 by engaging in cleaning activities at public places and ensured the safety of general public who frequented such places by erecting signboards that carried safety instructions by working closely with local police and other State authorities.

Awards and Accolades

I am honoured to state that LankaClear was able to secure the coveted Gold award for the fourth year in a row, for our annual report with the theme "Convenience to the fore", under the SME category at the renowned CA Sri Lanka Annual Report Awards in 2019. Winning the Gold award for the fourth consecutive year required a phenomenal effort and a testament to the team who worked tirelessly on this task with very limited resources and yet able to repeatedly reach the pinnacle of success. We did not take part at the National Business Excellence Awards 2019 due to other business priorities and we are well committed to continued improvement in all our business processes to achieve excellence. Winning these prestigious awards continuously is a clear indication towards our commitment and resolve to reach the pinnacle in every aspect of our business and operations.

Glimpse of the Future

As we focussed our strategies during the year under review to address the seamless consumer experience, 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 providing a better consumer experience. Some of the new services we progressed during the year, such as JustPay, Lanka QR and Payment Exchange

Name (PEN) and National Card Scheme (NCS) are believed to be future friendly and based on innovative concepts from some of the successful implementations across the world. One of our flagship initiatives, JustPay payment mode grew at a phenomenal pace and this is our big bet for the future 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 identified the limitations in the current card-based payment infrastructure in the country and designed our unique two-in-one LankaPay-JCB cobranded debit card to ensure a proper solution is provided to Sri Lanka Transit Card to be used to consume transport services. We feel that peer-to-peer payments has massive potential for the future with a significant growth opportunity and designed our PEN infrastructure to address certain limitations identified in the current systems deployed by mobile money operators.

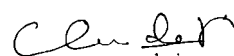
With our national agenda, we will continue to invest in technological advancements to provide seamless financial services to general public to ensure that technology's benefits reach people who are underserved. We will focus on services that further improve customer convenience and provide access to financial services for rural population who do not enjoy the same benefits as their urban counterparts. We continue to innovate 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 overwhelmed by the significant growth achieved during a very challenging year, which can be directly attributed to the uniting 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 their continued support. I would like to recognise the members of my management team for their commitment and exceptional contribution towards our growth. I am grateful to all our member banks, financial institutions and their customer base for their loyalty towards LankaClear. I am determined to move forward with a strong commitment to guide our organisation to reach even bigger milestones in the future.



Channa de Silva
General Manager/CEO

20th October 2020

Board of Directors



Mr. A. Amarasuriya
Chairman



Mr. R. A. Ananda Jayalath
Director



Mr. K. V. K. Alwis
Director



Mr. W. P. R. H. Fonseka
Director



Mr. Ranjith Kodituwakku
Director

Stewardship /
Board of Directors

Mr. D. Seneviratne
Director



Mr. B. Thewarathanthri
Director



Mr. Priyantha Talwatte
Director



Mr. E. R. de Silva
Observer

Mr. A. Amarasuriya*Chairman*

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

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

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

Mr. R. A. Ananda Jayalath*Director*

Mr. Jayalath currently serves as an Assistant Governor of the Central Bank of Sri Lanka. Areas under his purview covers foreign reserves management, monetary policy implementation, domestic banking operations, payments and settlements. Prior to the present assignment, he was overseeing the area of financial regulation and supervision, information technology and economic research at the Central Bank of Sri Lanka. He served as the Chairman of Sri Lanka Accounting and Auditing Standards Monitoring Board during period 2017-2020. Mr. Jayalath counts over 30 years of experience and served in number of capacities from an Auditor to Head of the Department prior to being appointed as an Assistant Governor of the Bank. His experiences covered the areas of fund/investment management, implementation of monetary policy covering open market operations and banking services, managing the foreign exchange reserves, Risk Manager, Senior Dealer (Money and Capital Markets), Bank Examiner, Economist and Auditor. He holds positions in number of boards and has played different roles in several internal and external forums/committees on finance, reserve management, securities financing, monetary policy implementation, financial stability, risk management, payment system regulation and other related fields.

Mr. Jayalath holds an M A in Econ (Kansas, USA), M B A (PIM Sri Jayewardeneperura), B Com (Kelaniya, Sri Lanka) and he is also a Fellow of C A (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. He has more than two decades of experience in the Central Bank.

He is a specialist in the Financial Market Infrastructures(FMI) 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 team that works for the implementation of the Central Counter Party (CCP) Solution and an Electronic Trading Platform (ETP) for Government Securities in Sri Lanka. He is also a member of the National Payment Council.

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. 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. W. P. R. H. Fonseka*Director*

Mr. Fonseka, Senior Deputy General Manager/Chief Financial Officer Bank of Ceylon, appointed as a Director on the Board of LankaClear (Private) Limited with effect from 12th May 2020.

He currently serves as the Chief Financial Officer/Senior Deputy General Manager (Corporate and Offshore Banking) of Bank of Ceylon and has been representing the Corporate Management of the Bank since 2012. He counts more than 30 years of experience in both international and local arenas whilst acquiring wide experience in all aspects of commercial banking including treasury activities, international operations, retail banking and specialised in financial management and strategic planning of the Bank of Ceylon.

Stewardship

Board of Directors

Mr. Fonseka serves as a Director on the Boards of Merchant Bank of Sri Lanka & Finance PLC, Property Development PLC and Transnational Lanka Records Solutions (Private) Limited. He also served as an Alternate Director on the Board of LankaClear (Private) Limited. Mr. Fonseka acts as the Chairman to the Audit Committees of Merchant Bank of Sri Lanka & Finance PLC, Property Development PLC and LankaClear (Private) Limited as well. Mr. Fonseka was appointed to the Council of Association of Accounting Technicians of Sri Lanka with effect from 05th February 2020 and serves as the President of the Governing Council since then.

Mr. Fonseka graduated from the University of Sri Jayewardenepura, Sri Lanka with a Bachelor of Science (Special) Degree in Business Administration and holds a Postgraduate Diploma in Management from the Postgraduate Institute of Management (PIM), University of Sri Jayewardenepura Sri Lanka and a Master Degree of Business Administration from the University of Southern Queensland, Australia. Mr. Fonseka is a Fellow Member of the Institute of Chartered Accountants of Sri Lanka, a Senior Fellow Member of the Institute of Bankers of Sri Lanka and a Member of the Alumni of the Harvard Business School of USA as well

Mr. Ranjith Kodituwakku

Director

Mr. Ranjith Kodituwakku is serving as the Chief Executive Officer/General Manager of People's Bank with effect from 19th June 2020. Commencing a career in 1982 in the Bank, he has specialised in a wide spectrum of areas covering Branch Banking, Consumer Banking, Commercial Banking, Corporate Banking, Off-shore Banking, International Banking, Project Financing, Recoveries, Digitalisation, etc. with extensive local and international training/exposure gained through working in different capacities at different geographical locations.

He is a key figure in driving the bank towards digitalisation on mapping business requirements to a digital platform by adopting best practices in the industry and re-engineering business processes for which the bank was awarded many prestigious awards/recognitions both internationally and locally.

Additionally, he has played a key role in the efforts carried out by People's Bank to re-open bank's branches in the Northern Province with the aim of rebuilding the lives of people and strengthening the economy of the region soon after the end of humanitarian operation in 2009.

He also serves as a Director of People's Insurance PLC, Lanka Alliance Finance Ltd Bangladesh, Regional Development Bank Sri Lanka, Board of Financial Ombudsman Sri Lanka (Guarantee) Ltd, Credit Information Bureau of Sri Lanka and as an Alternate Director of the Lanka Financial Services Bureau.

Mr. Ranjith Kodituwakku holds a Master's Degree in Business Administration specialised in Finance from the University of Colombo, Bachelor of Law (Honours) from the University of New Buckinghamshire, United Kingdom and is an Associate Member of the Institute of Bankers of Sri Lanka.

Mr. D. Seneviratne

Director

Mr. Dimantha Seneviratne is the Group Chief Executive officer of the National Development Bank PLC counts 30 years in the Banking industry. Prior to joining the Bank, he was the Director/Chief Executive Officer of Pan Asia Banking Corporation PLC (PABC) and prior to that, he spent 15 years with the HSBC Group, where he held key senior management positions including Chief Risk Officer Post for Sri Lanka and Maldives, Bangladesh and Thailand where he was also responsible for business growth, strategy and governance in those respective geographies as a member of the Country Leadership Team.

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

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

He is a Past President of The Association of Professional Bankers (APB) Sri Lanka, having held various positions in the Executive Council of the APB for over a decade.

He currently functions as the Chairman of Sri Lanka Banks' Association (Guarantee) Limited and a Director of Credit Information Bureau of Sri Lanka, LankaClear (Pvt) Ltd. and several subsidiaries of the Bank.

Mr. Bingumal Thewarathanthri*Director*

Mr. Bingumal Thewarathanthri was appointed Chief Executive Officer/Head of Global Banking of Standard Chartered Bank, Sri Lanka on 1st January 2019.

He counts for more than 25 years of experience within the banking and finance industry and 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 also responsible for setting up a financial institutions booking centre for Africa and managed investments going in to Sub Saharan Africa via Mauritius Securities Services hub.

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

Mr. Thewarathanthri holds a Masters degree from the University of Wales.

Mr. Priyantha Talwatte*Director*

Mr. Priyantha Talwatte is the Chief Executive Officer of Nations Bank Plc. He has been an integral part of the bank's corporate management team for the past 18 years. He has extensive general management experience with over 27 years of senior management experience in diverse sectors, lead professional teams to deliver exceptional results in Sri Lanka and overseas.

He was part of the senior leadership team who transformed Nations Trust Bank from a small size lender to a medium size lender in Sri Lanka over the last 20 years. He established the bank's American Express franchise in 2003 to become Sri Lanka's largest credit card lender today. He has provided leadership in pioneering Nations Trust Bank as a premier provider of digital banking services to many customer segments.

Prior to being appointed as the Chief Executive Officer he was leading the bank's consumer banking business, which included the branch network, liability franchise, consumer finance business, payment cards business, and direct banking channel. He was instrumental in establishing the bank's sales and service propositions, consumer credit and behaviour scoring capabilities, and establishing the analytics unit of the Bank.

He has contributed as a leadership development resource person, coach and mentor to many Sri Lankan professionals in Sri Lanka and abroad.

Prior to joining the banking industry, he has worked in the telecommunications industry in Sri Lanka and abroad.

Mr. Priyantha Talwatte is an alumnus of the Harvard Business School, Boston USA, Advanced Management Program (AMP-196) and is a qualified Marketer of the Chartered Institute of Marketing (UK).

He is an avid protector of the natural environment, and a professional wildlife photographer providing a voice for Sri Lanka's fauna and flora.

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 ad hoc consultancy assignments until his return to Sri Lanka in August 2016. He assumed the current role as Secretary General at SLBA on 1 August 2017. Mr. de Silva holds a Bachelor of Laws degree from the University of Sri Lanka, is a Fellow of the Chartered Institute of Bankers UK and has been admitted as an Attorney-at-Law of the Supreme Court of Sri Lanka.

Stewardship /

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



Ms. Srimali Premalal
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 Uyanaheewage
*Senior Manager Operations -
Automated Payment Systems*



Mr. Indika Fernando
Senior Manager IT



Mr. Asela Hapuarachchi
Manager HR & Administration



Mr. Delan Wimalaratne
*Manager Operations -
Electronic Payment Systems*



Mr. Dhammika Guruge
Manager Network



Ms. Wayomi Gunathilaka
Manager Marketing



Mr. Shehan Wijewickrama
Management Accountant



Mr. Loshan Wickramasekara
Manager Information Security



Ms. Rasika Wickramanayake
Manager Procurement



Mr. Harsha de Silva
Manager Operations - Card Services



Ms. Nishamani Rathnayake
Head of External Services



Mr. Praveen Ramanayake
Manager Facilities & Maintenance




Ms. Sanjeevani Seneviratne
Manager Legal



Mr. Lakshanth Jayasekara
Manager IT



Mr. Lakdas Ponweera
Acting Manager Operations – Payment Systems Applications



Whether you are a consumer or a business owner, your payments are seamless to save time and money



LANKAQR is a project initiative by the Central Bank of Sri Lanka to ensure all QR codes and QR based transactions in Sri Lanka are standardised and interoperable. LankaClear has been entrusted by CBSL to implement and operate LANKAQR. LankaPay – Common EFT Switch (CEFTS) and JustPay payment platforms are used by LANKAQR members to ensure interoperability.



Management Discussion and Analysis

Value Creation Model

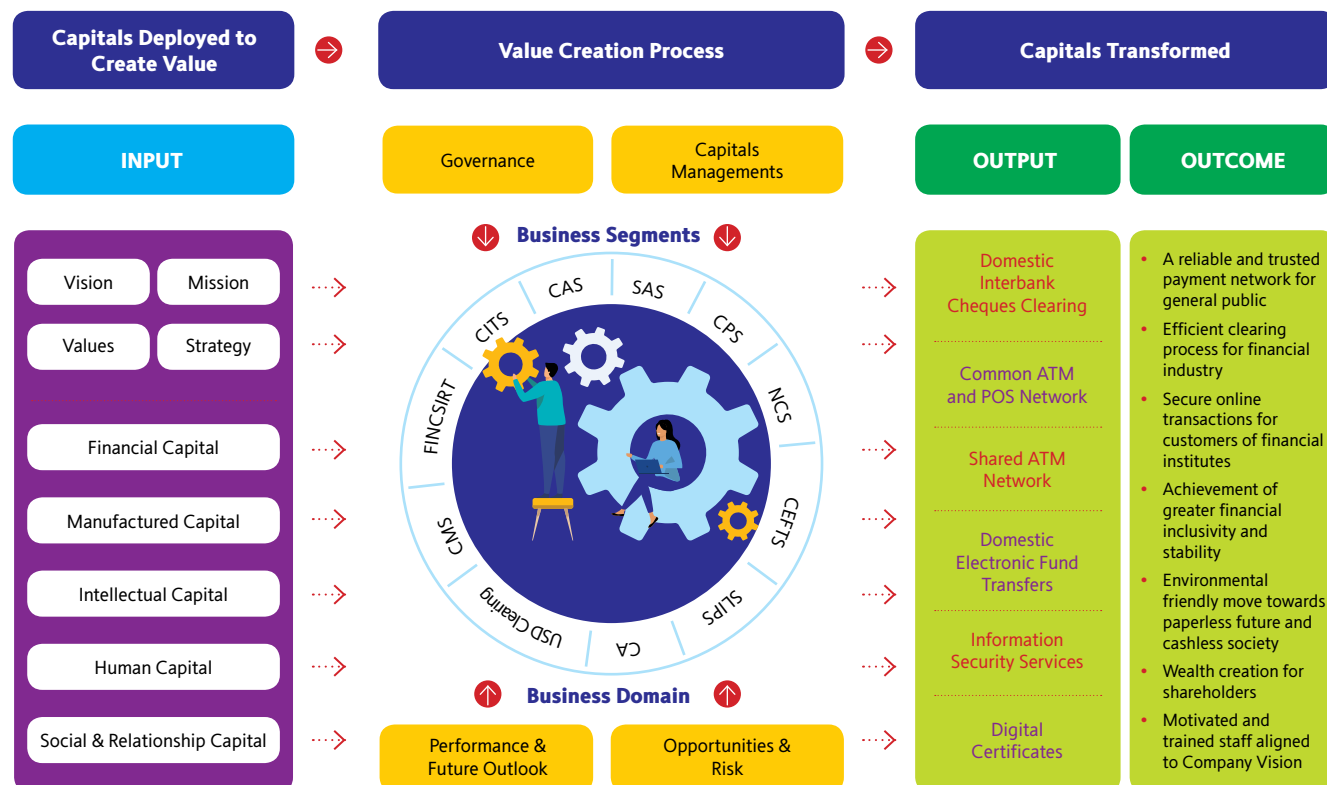
A critical factor that determines the success or the failure of any organisation is their process of value creation. Every successful world-class organisation is operated with a purpose to create value for all its stakeholders including customers, employees, investors as well as shareholders.

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;



Support Services

Operations | Finance | External Services | Information Systems Audit | Maintenance & Facilities | HR & Administration
Legal | Brand Development & Marketing

Corporate Strategy, Resource Allocation and Future

LankaClear with the objective of becoming Asia's most trusted and reliable payment network 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 providing a seamless experience to the general public by deploying cutting-edge financial services. We have implemented world-class payment systems, in some instances for the first time in the region, 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.

At LankaClear, we are providing a seamless experience to all our stakeholders via our existing innovations and what is being planned for the future. In terms of the existing lifestyles of the people, we are always connected to the internet, to our devices and more importantly to each other. Our lives have become inter-connected via digital technology, we have begun living our lives attached to our devices and constantly connected. With every emerging technology constantly attempting to address our every physical and mental need, all our experiences are becoming seamless by the day.

We will always be connected to each other, which will continue to increase our dependency on technology in the future. We are online all the time to keep in touch with friends and family, share content to gain recognition, increase our social status and express who we are. Engaging online fulfills our need to be entertained, increases our ability to socialize and learn from all these social interactions. Ensuring a seamless experience will allow us to maximise our time, do more things in a day and ultimately use that free time to live a better life. Our objective for the

financial year 2020 is to provide a seamless experience to all our stakeholders.

Alongside, uncertainty has become a key consideration and businesses have to deal with an ever-increasing magnitude and our ability to deal with sudden shocks and unexpected risks in the future with improved risk management and agility is a prerequisite. Achieving genuine innovation, delivering demonstrable results and creating deep collaboration are some of the key objectives in the long-term strategy. In short, we have to anticipate tomorrow while delivering today.

The increase of the significance of electronic payments has started to be evident over the last few years, mainly fuelled by the ever-changing technology and lifestyles. The unexpected incidents such as threat of terrorism and pandemic, both of which we experienced during the year under review, have only aggravated the trend with the unprecedented restrictions to the mobility of human beings.

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

The services we launched:

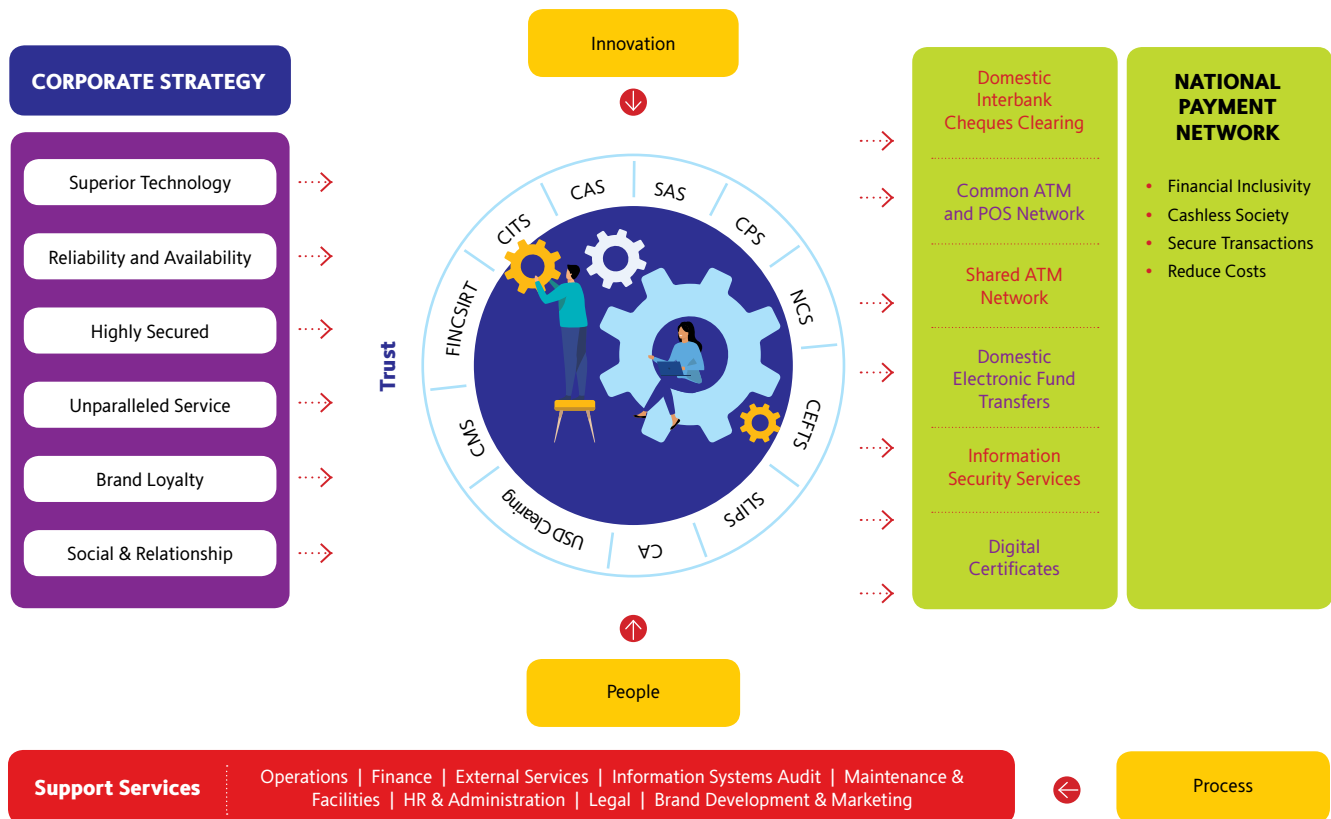
- **Payment Exchange Name (PEN)** addresses a current inconvenience when transferring funds
- **Lanka QR** enables to offer payment services
- **Integration of JCB switch to LankaClear switch**, which has made it possible to carry out cross border transactions through cards issued under the National Card Scheme

Thus, our strategies and product portfolio are aligned to better address the requirement of a seamless experience by 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.

Management Discussion and Analysis

Corporate Strategy, Resource Allocation and Future

**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.

During the year under review, we took steps to improve our critical backend by initiating to upgrade the CCAPS hardware and software while the network infrastructure was also upgraded for better performance and security.

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 fourth 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 few years ago. Hence, all systems of LankaClear have been designed and implemented with the highest level of security in mind and are payment backend is PA-DSS certified and aligned with ISO 27001 standards. The 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 fulfil the security requirements 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. This year we organised an outbound training session to our direct members in anticipation of more participation and greater relationship building.

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 LANKAQR (National Quick Response code-based transactions), Payment Exchange Name (a nickname system for bank accounts), US Dollar Draft Online Image Transfer System, integration of JCB switch to LankaClear switch (which has made it possible to carry out cross border transactions through cards issued under the National Card Scheme) implementation of Automated Customer Support System, upgraded Facetone to enable ticketing functionality and work delegation, successfully migrated all clearing systems from DogTag CA to new Windows CA and enhancing data security and upgrade modernising the primary Data Centre for increased capacity, efficiency and enhanced security.

Many new members are in the pipeline to go live with several LankaClear solutions, which would significantly change payment ecosystem. During the year, Board of Investment of Sri Lanka went live with LankaPay Online Payment Platform.

Further, some of the payment applications went live with JustPay were Flash, the payment application of Commercial Bank., DFCC Pay app- the payment application of DFCC Bank., CIM, the payment application of LB Finance., and UPay, the payment application which was recently acquired by SDB Bank.

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 allowed LankaClear member

banks who issue NCS cards to make use of JCB worldwide network for accessing ATM and POS while in overseas. Integration of JCB switch to LankaClear switch went live during the month of October 2019.

At present, MCB bank, HDFC bank and Siyapatha Finance issues the LankaPay/JCB co-branded debit card to citizens of Sri Lanka. It is expected all the major banks and key financial institutions to commence issuing NCS cards in near future. 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 broad base 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 cobranded card in future.

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.

Throughout the year many opportunities were created for employees through various projects such as National Card Scheme, Payment Exchange Name Project, Development of competency framework, New Performance Management Module and SDK Developments in the LankaSign Certificate Authority. In addition to above many employees were assigned to work with external customers thus creating an opportunity for them to improve selling and marketing skills.

Management Discussion and Analysis

Corporate Strategy, Resource Allocation and Future

This helped employees to develop their skills, knowledge and perspectives and become more recognised not only internally but externally as well. Further, in an age of increasing automation of less-skilled jobs and increasing dependency of high-skilled careers on rapidly changing technology, the management has taken a keen effort to rotate jobs of some staff and urging them to learn and unlearn processes leading up to both personal and organisational development.

Continuous Process Improvement

LankaPay support services continuously improved our systems and processes 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 a seamless experience, 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 seamlessly 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 seamless mechanism to fulfil them via all the services that we offer.

Operational Review

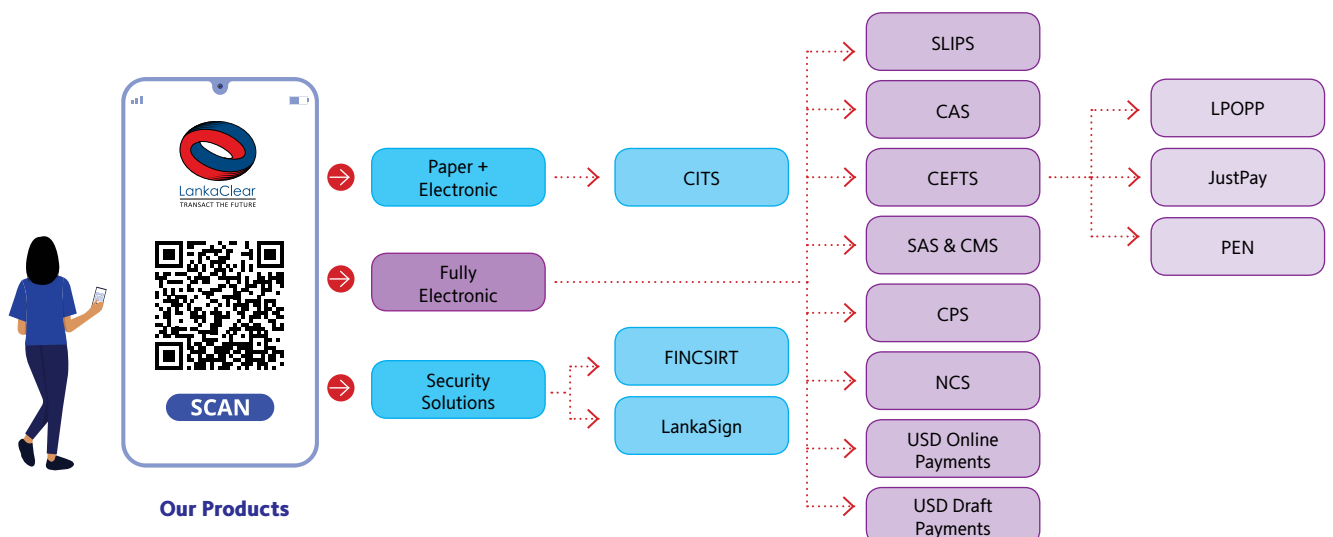
“An efficient and a stable payment and settlement infrastructure is critical for any growing and dynamic economy for secure and fast realisation of payments.”

LankaClear contributes immensely towards this endeavour in the country under the guidance of the Central Bank of Sri Lanka and with 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
 - Payment Exchange Name (PEN)
 - Direct Debit
5. LankaPay Shared ATM Switch (LankaPay – SAS) and Card Management System (CMS)
6. LankaPay Common POS Switch (CPS)
7. LankaPay National Card Scheme (NCS)
8. US Dollar Draft Clearing System (USDDCS)
9. US Dollar Online Payment System (USDOPS)
10. Digital Certificates – LankaSign



Management Discussion and Analysis

Operational 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 three 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 99.54% system up-time and achieved 99.79% of the delivery cutoff times in the year 2019/2020. LankaClear has improved the Disaster Recovery (DR) processes and updated the Business Continuity Plan (BCP) by introducing new procedures and processes in the year 2019/2020. For CITS operations, LankaClear conducted two clearing operations successfully from the DR site underlining the rigour of the CITS operations.

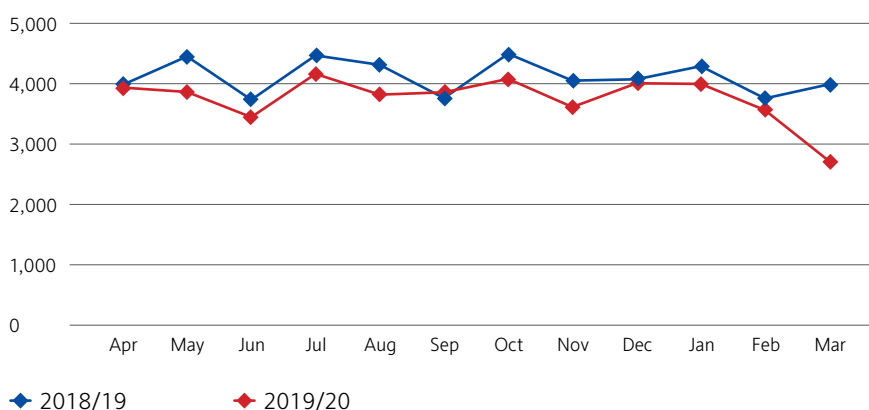
The total number of cheques cleared in 2019/2020 through CITS amounts to 45.05 Mn compared to 49.35 Mn in 2018/2019. This is a reduction of 8.73% compared to 4.07% in 2018/19.

Currently, an average of approximately 186,524 cheques are cleared through LankaClear each business day through CITS. Highest number of cheques cleared on a given day in 2019/2020 is 427,455. The value of the cheques cleared has fallen by almost 8.38% compared to the 1.59% in the previous year. The decrease is approximately Rs. 865 Bn when compared with 2018/2019.

The total value of cheques cleared in 2019/2020 through CITS amounts to Rs. 9,460 Bn compared to Rs. 10,325 Bn in 2018/2019.

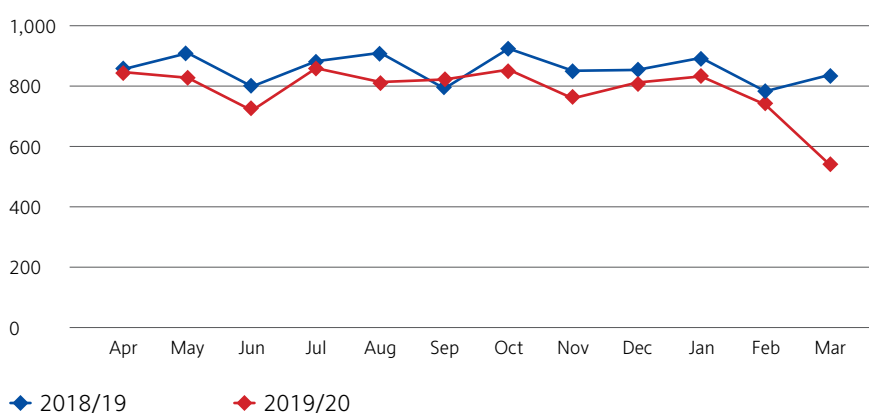
Cheques Presented for Clearing – Volume Wise

Volume (In '000)



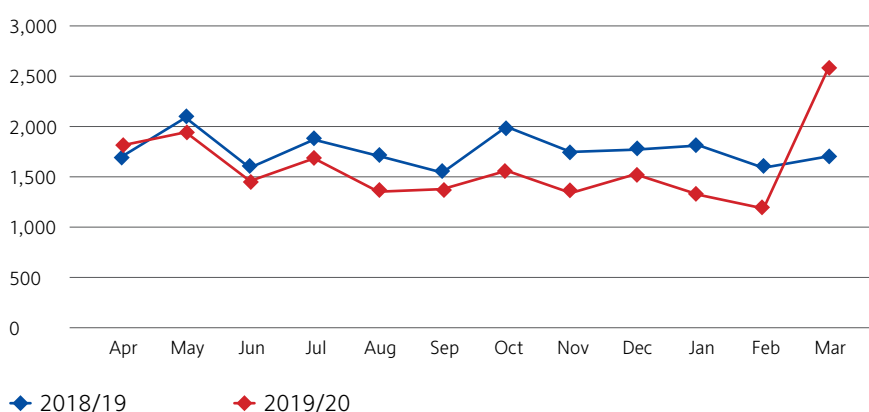
Cheques Presented for Clearing – Value Wise

Value (In Rs. Billion)



Cheque Returned for Clearing – Volume Wise

Volume (In '000)



1.1 Settlement Clearing (Cheque Returns)

Cheques remain the preferred non-cash payment instrument for commercial transactions in Sri Lanka. Out of the 45.05 Mn cheques presented for clearing, 1.90 Mn cheques were returned due to non-payment. This amounts to 4.22% of the cheques presented for clearing of the total cheques returned, around 43.52% were returned due to lack of funds.

The total number of cheque returns in 2019/2020 through CITS amounts to 1.90 Mn compared to 2.10 Mn in 2018/2019. This is a decrease of 9.54%.

The total value of cheque returns in 2019/2020 through CITS amounts to Rs. 310.92 Bn compared to Rs. 356.94 Bn in 2018/2019. This is a decrease of 12.89%.

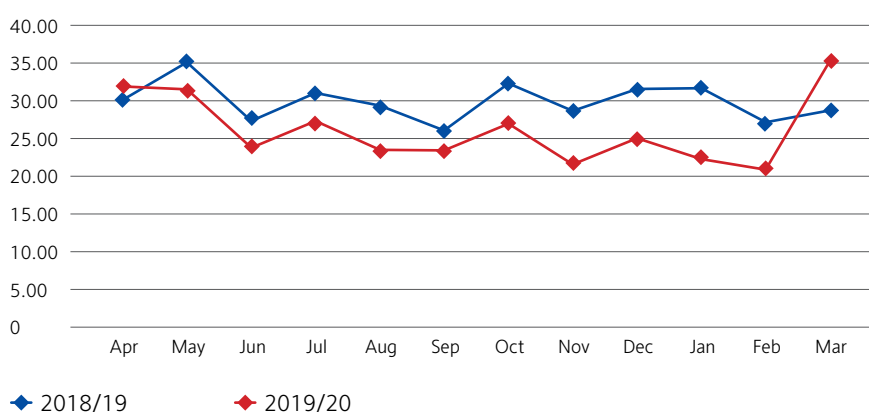
2. Sri Lanka Interbank Payment System (SLIPS)

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 2019/2020 amounts to 37.51 Mn, compared to 33.68 Mn in 2018/2019. This is year-on-year increase of 11.37%. The total value of transactions cleared through SLIPS in 2019/2020 amounts to Rs. 2,120.05 Bn compared to Rs. 2,018.28 Bn in 2018/2019. This is an year-on-year increase of 5.04%. On average, there has been 153,734 SLIPS transactions per day with highest number of SLIPS transactions recorded for a given day being 832,258.

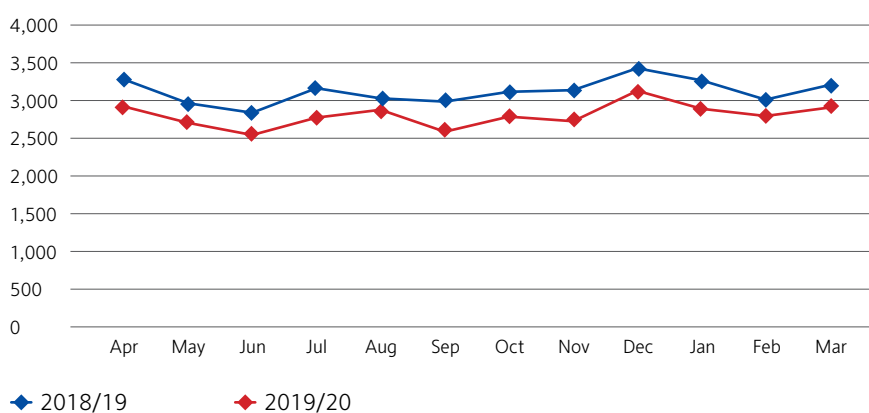
Cheque Returned for Clearing - Value Wise

Value (In Rs. Billion)



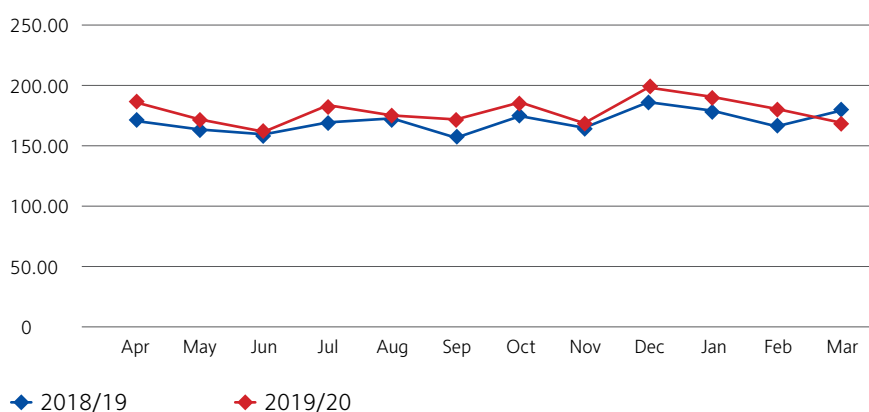
Sri Lanka Inter Bank Payment Systems - Volume Wise

Volume (In '000)



Sri Lanka Interbank Payment Systems - Value Wise

Value (In Rs. Billion)



Management Discussion and Analysis

Operational Review

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.

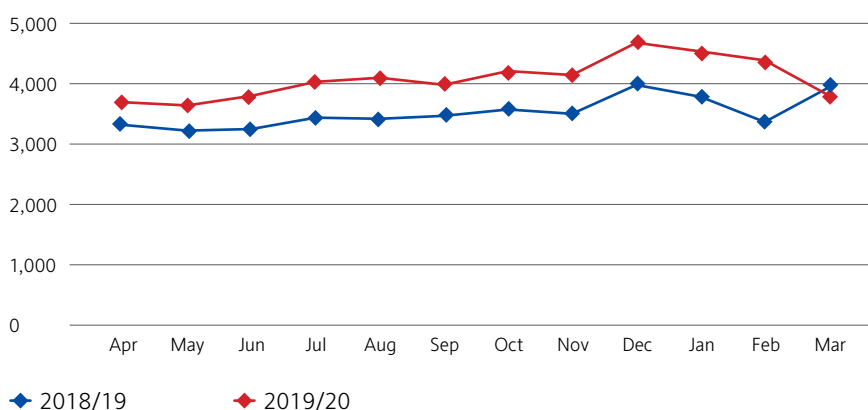
Most importantly, CCAPS enables the participating banks to innovate new payment products to cater to different needs of their customers. This results in the general public accruing the benefits of more efficient and cost effective electronic payment products.

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 2019/2020 amounts to 49.10 Mn compared to 42.28 Mn in 2018/2019. This is an increase of 16.12% compared to the previous year. The total value of cash withdrawals in 2019/2020 amount to Rs. 447.98 Bn compared to Rs. 364.50 Bn in 2018/2019. This is an year-on-year increase of 22.90%. The total number of balance inquiries in 2019/2020 amounts to 16.24 Mn compared to 15.05 Mn in 2018/2019. In the year 2019/2020, an average of approximately 178,527 approved transactions passed through LankaPay – CAS each day while the highest number of transactions cleared during a day in LankaPay – CAS during 2019/2020 is 315,521.

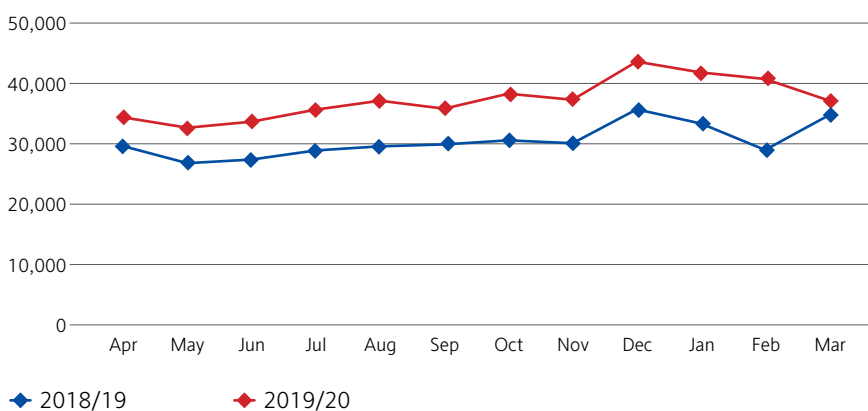
LankaPay – CAS Cash Withdrawals - Volume wise

Volume (In '000)



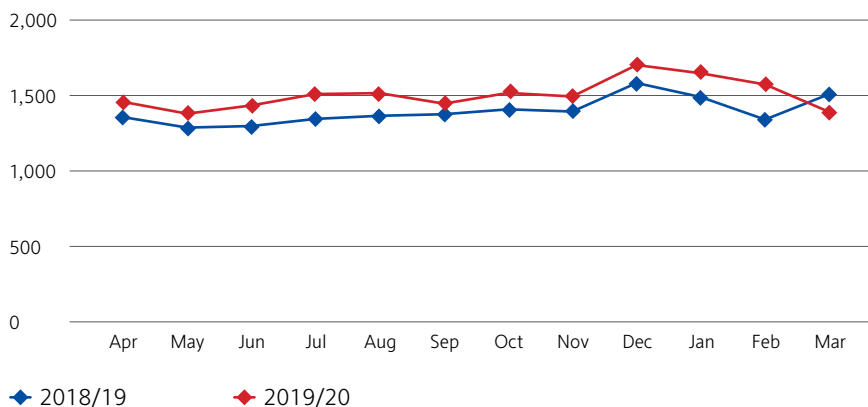
LankaPay – CAS Cash Withdrawals - Value wise

Value (In Rs. Millions)



LankaPay – CAS Balance Inquiry - Volume wise

Volume (In '000)



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 38 participants using the CEFTS facility. Within the year 2019/2020 two participants (Softlogic Finance PLC and Dialog Finance PLC) joined the LankaPay CEFTS network and two participants (Axis Bank & ICICI Bank) left the CEFTS network due to seizing the operations in Sri Lanka.

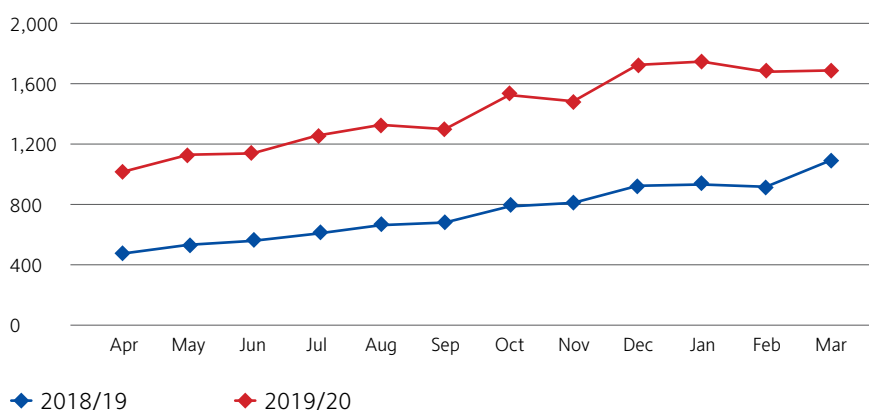
LankaPay – CEFTS recorded the highest-ever increase of 91.32% in number of interbank electronic fund transfers totaling over 16.99 Mn transactions in the year 2019/2020 compared to 8.88 Mn transactions in the previous year. The total value of CEFTS transactions in 2019/2020 amount to Rs. 1,551.12 Bn compared to Rs. 822.71 Bn in 2018/2019. This is a year-on-year increase of 88.54%. On average, there were 46,429 transactions per day with the highest number of transactions recorded for a given day being 94,330.

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). Sarvodaya Finance PLC and Siyapatha Finance PLC also joined this network during the year 2019/2020. Card Management System (CMS) was launched in 2015 and in year 2019/2020, CMS has issued 223,348, 853 and 4 cards respectively for RDB, Sarvodaya Finance PLC and Siyapatha Finance PLC respectively.

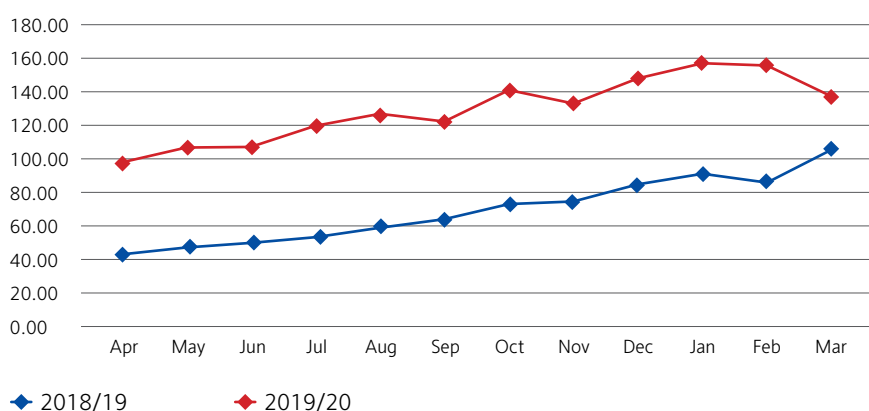
LankaPay – CEFTS – Volume wise

Volume (In '000)



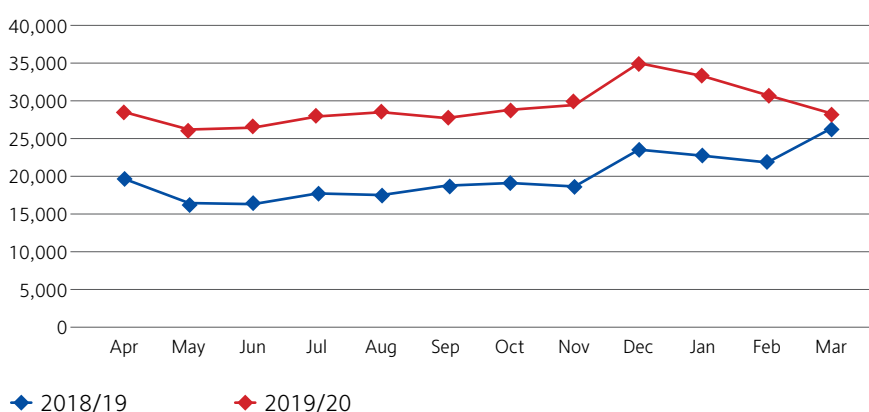
LankaPay – CEFTS – Value wise

Value (In Rs. Billion)



LankaPay – SAS Cash Withdrawals – Volume wise

Volume



Management Discussion and Analysis

Operational Review

The total volume of cash withdrawals in SAS in 2019/2020 amounts to 350,743 compared to 237,612 in 2018/2019. This is an increase of 47.61% compared to the previous year. The total value of cash withdrawals in 2019/2020 amounts to Rs. 3,645.11 Mn compared to Rs. 2415.58 Mn in 2018/2019. This is a year on year increase of 50.90%.

6. US Dollar Draft Online Image Transfer System (UITS)

US Dollar Draft Online Image Transfer 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 Online Image Transfer System. In both the instances, payee is in Sri Lanka.

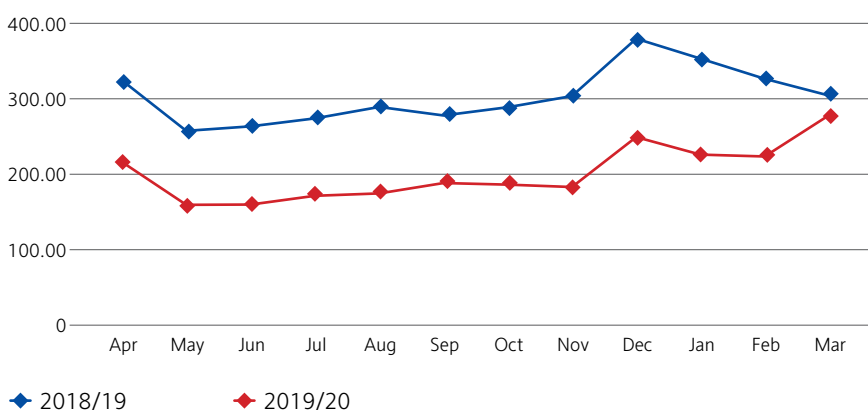
- I. USD drafts issued by licensed commercial banks in Sri Lanka payable to Sri Lankan individuals and institutions.
- II. USD cheques issued by banks or exchange houses abroad drawn on Licensed Commercial Banks in Sri Lanka.

The total number of items cleared through US Dollar Draft Online Image Transfer System in 2019/2020 amounts to 47,480 compared to 2018/2019 of 50,997. This is a decrease of 6.90%.

The total value of items cleared through US Dollar Draft Online Image Transfer System in 2019/2020 amounts to USD 310.20 Mn compared to 2018/2019 of USD 225.11 Mn. This is a increase of 37.80%.

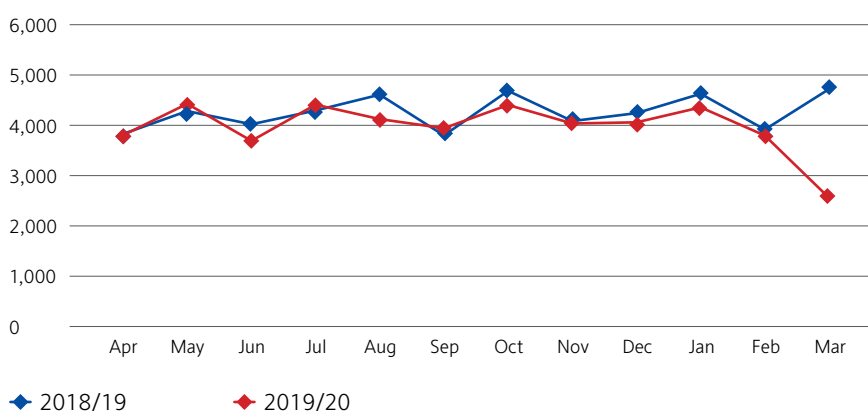
LankaPay - SAS Cash Withdrawals - Value wise

Value (In Rs. Million)



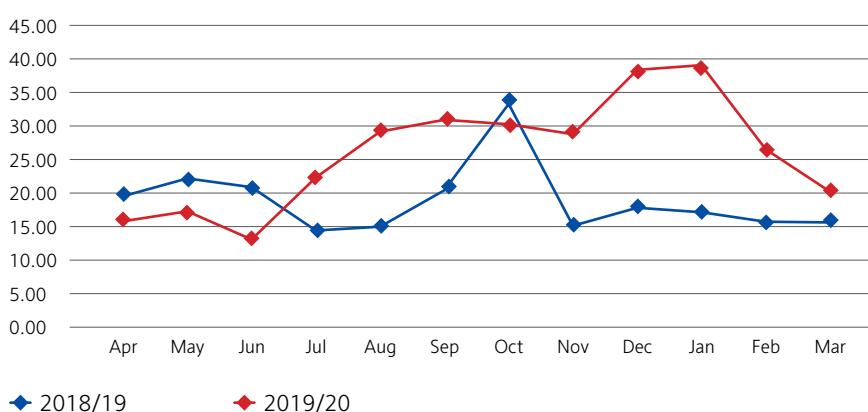
US Dollar Draft Clearing - Volume Wise

Volume



US Dollar Draft Clearing - Value Wise

Value (In USD Million)



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 14 participating banks.

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

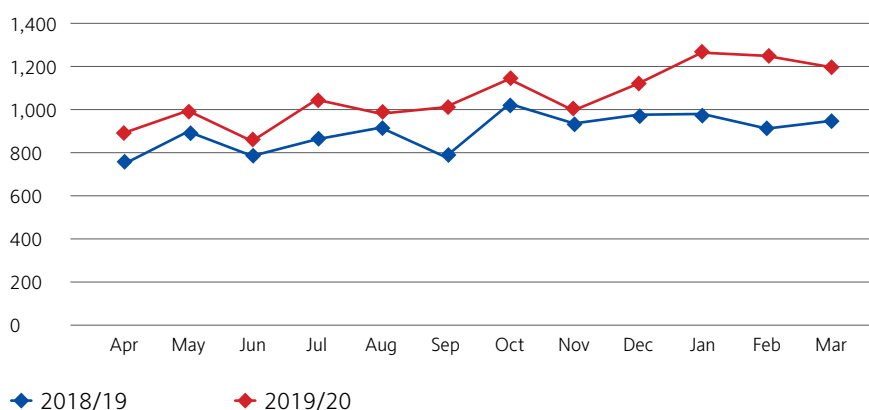
- ❶ Inter-account USD transfers initiated by customers between bank accounts maintained in Sri Lanka.
- ❷ Payments made by the Government, foreign missions, BOI companies and other corporate entities in USD to their beneficiaries maintaining bank accounts in Sri Lanka.
- ❸ Distribution of inward remittances received in USD by banks in Sri Lanka through their overseas correspondent banks/exchange houses.
- ❹ 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.
- ❺ Commercial payments and trade financing related transactions made in USD within Sri Lanka.
- ❻ Inter-bank USD-USD transfers initiated by banks in Sri Lanka on Foreign Exchange borrowings and settlements.

The total number of transactions cleared through the US Dollar online payment system in 2019/2020 amounts to 12,735 compared 10,739 in the year 2018/2019 which is an increase of 18.59%.

The total value of items cleared through the US Dollar online payment system in 2019/2020 amounts to USD 231.47 Mn compared to USD 221.55 Mn in the year 2018/2019 which is an increase of 4.48%.

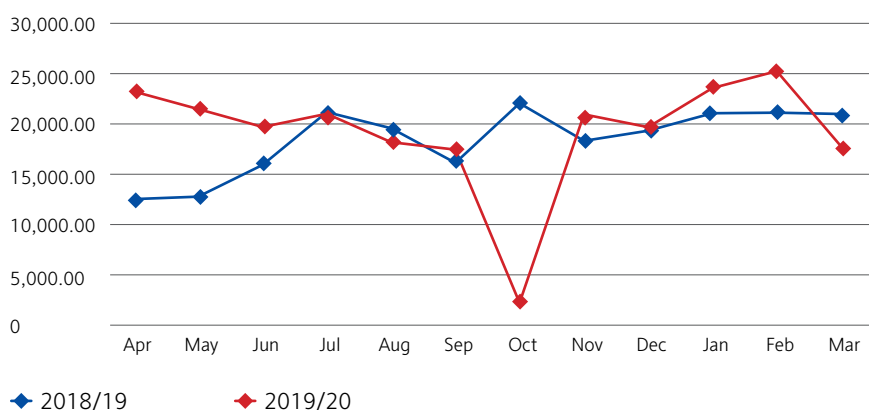
USD Online payment system - Volume wise

Volume



USD Online payment system - Value wise

Value USD (Million)



Management Discussion and Analysis

Operational Review

8. LankaPay Online Payment Platform (LPOPP)

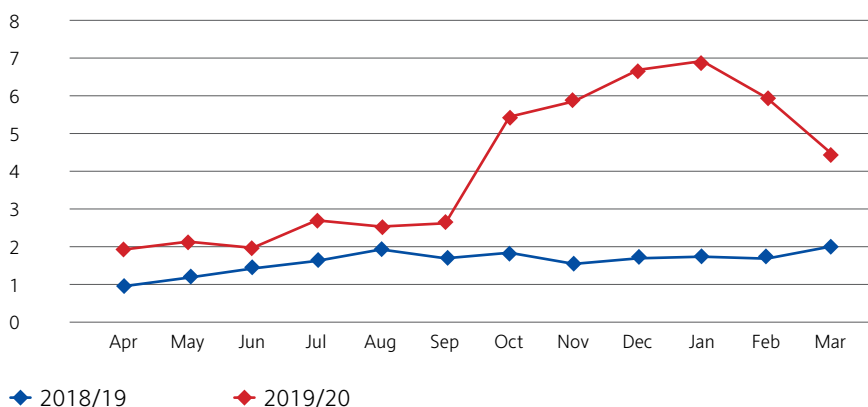
LankaPay Online Payment Platform (LPOPP) has been designed to communicate with a third party system that is connected to LPOPP on one side and the commercial banks, which are connected to LPOPP on the other side. For example, at present, online payments are facilitated for Sri Lanka Customs where Sri Lanka Customs' ASYCUDA system is connected to LPOPP. In addition, 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 from July 2017 and BOI payments from October 2019. For the period 1 April 2019 to 31 March 2020, there have been over Rs. 47.60 Bn worth of payments made through LPOPP compared 16.37 Bn in the year 2018/2019 which is an increase of 190.76%. Several other Government Departments have also agreed to facilitate online payments during the year via LPOPP, which would go live during the next financial year.

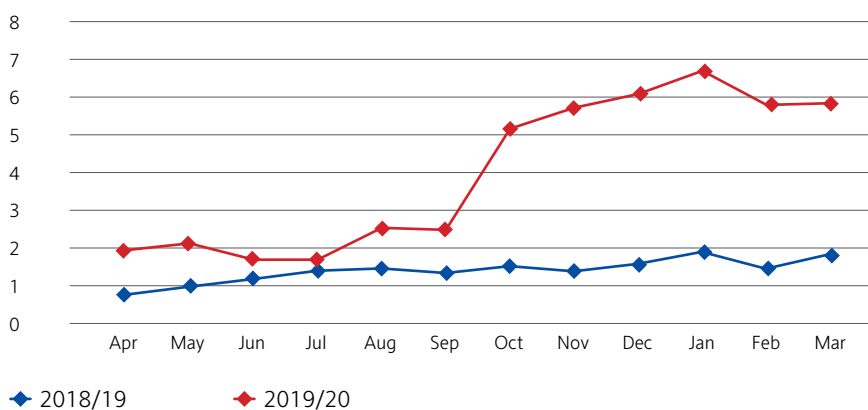
LankaPay - LPOPP - Volume wise

Volume



LankaPay -LPOPP Transactions Total Value

Value (In Rs. Billion)



System Security and High Availability

Security, Availability of Systems with Updated Technology

As the National Payment Network supporting the Sri Lankan financial sector, LankaClear must ensure that all its systems adhere to the highest levels of international security standards and that the system availability is high at all times. Hence, all our systems are deployed using best-in-class technology and state-of-the-art infrastructure that are already tried and tested across the world.

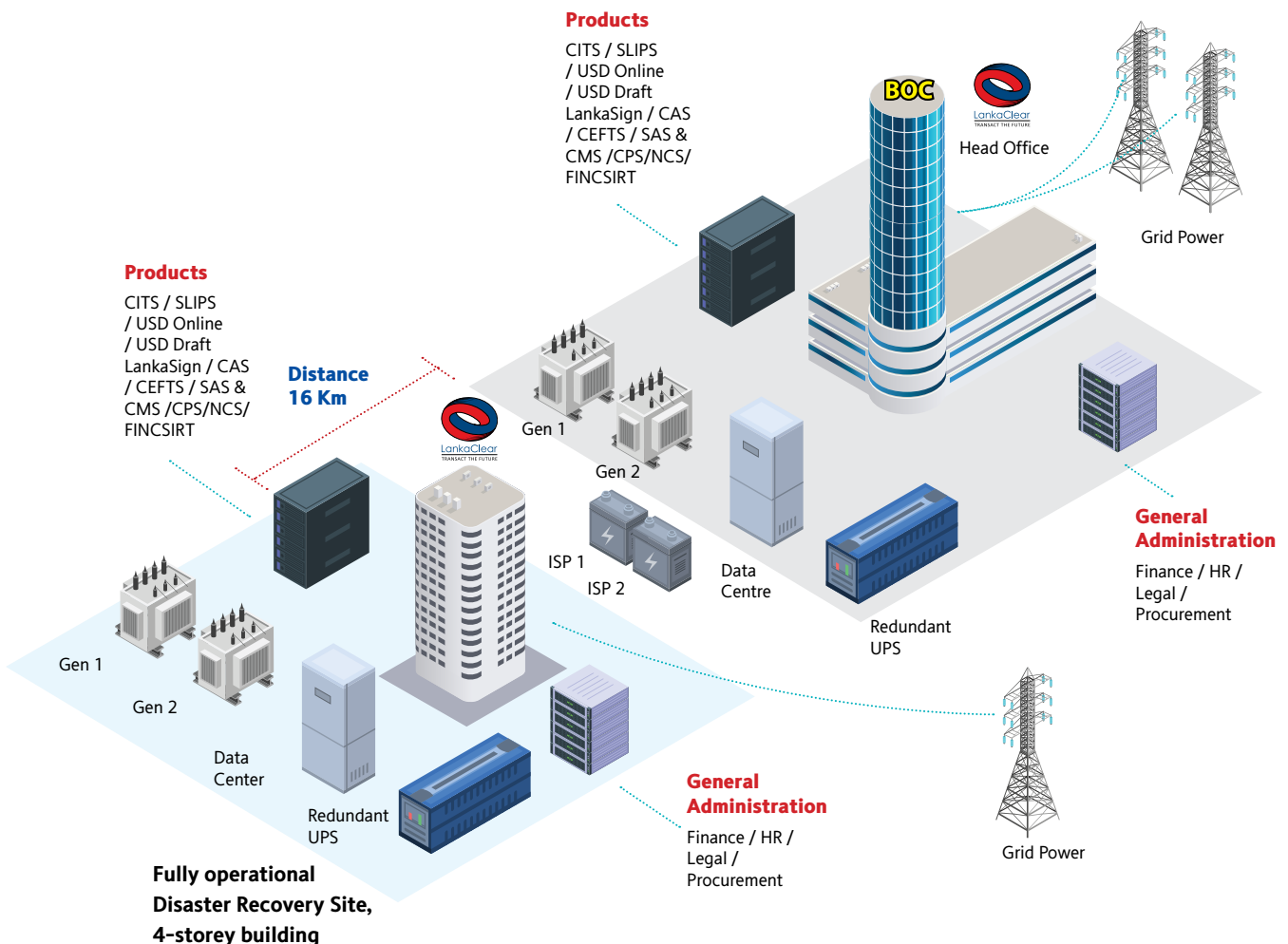
When deploy innovative technology solutions to facilitate all interbank transactions, we need to ensure that the entire financial sector as well as their customers trusts our systems. Hence, we have gone the extra mile to maintain

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 initiated to comprehensively refresh the LankaPay technology stack with improved efficient infrastructure and by migrating the LankaPay core switch to a newer robust version. The entire infrastructure was moved to a newly built state-of-the-art data centre, 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 firewalls and bandwidth to cater to demanding business requirements and growth of increase of digital payments. LankaClear also upgraded our core network security infrastructure to protect against existing as well as new cyber security threats.

Once again in 2019/2020, 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 year after year.



Management Discussion and Analysis

System Security and High Availability

LankaClear also adheres to a robust business continuity plan and in the year 2019/2020 conducted two Disaster Recovery (DR) drills to test our preparedness to handle operations in case of a disaster to the primary site. Both the DR drills were successful, and we demonstrated our readiness to operate all systems in an uninterrupted manner during any eventuality. We have also 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, which was 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 continuous 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 was evident by the demonstrated high availability of our key payments systems during the year 2019/2020. For example, Cheque Imaging and Truncation System (CITS) achieved a system uptime of 99.79% during the year 2019/2020. Common Card and Payment System (CCAPS), which is the interbank payment switch, achieved a system uptime of 100% sans pre-planned downtimes. The high availability features and improvements made by us during the year 2019/2020 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.

National Card Scheme

Contribution to a Socioeconomically Independent Nation

National Card Scheme (NCS), under the direction and supervision of the Central Bank of Sri Lanka, offers financial institutions of Sri Lanka to issue the first-ever local debit/credit card with international acceptance. LankaClear partnered with JCB International Co. Ltd. (JCBI) to enable the card to be accepted outside the territory of Sri Lanka for ATM and POS transactions. In addition, the strategic partnership would also facilitate the acceptance of international JCB and partner network cards at ATMs and merchants (POS terminals) who are on LankaPay network.



LankaPay/JCB co-branded card – Features

- A debit card
- An IC Chip (EMV) card
- Both contact and contactless options are available
- Additional 2in1 option is available with stored value option
- Low card issuance cost
- No ad-hoc, bulk, or hidden charges.

By issuing payments cards under NCS, financial institutions can save a significant amount of foreign exchange that they currently pay international card schemes as various fees and charges. LankaClear together with JCBI has ensured that NCS costs are minimal while the process is convenient to its members. Further, by connecting with NCS, its members automatically obtain access to the entire JCBI ATM and POS market outside Sri Lanka as well.

During the period under review, MCB bank, HDFC bank and Siyapatha Finance issued the LankaPay/JCB co-branded debit card to citizens of Sri Lanka.

Five out of 10 POS acquirers and processors, licensed by the Central Bank of Sri Lanka, has joined LankaPay – Common POS Switch by the end of the financial year to facilitate the routing of LankaPay/JCB co-branded debit cards.

Value Additions

National Card Scheme together with the Sri Lanka Transit Card initiative

The 2 in 1 feature that has enabled in the LankaPay/JCB co-branded debit card enables a customer to access the same card as a debit card and as a stored value pre-paid card. This is a unique feature that has enabled under NCS. Currently the Central Bank of Sri Lanka has recognised NCS to drive the Sri Lanka Transit Card initiative and promote the issuance of LankaPay/JCB co-branded 2in1 debit card enabling the citizens to use their debit card to tap and go in POS terminals at public and private busses and trains.

NCS – THE MERCHANT DISCOUNT RATE (MDR)

The Central Bank of Sri Lanka has mandated that if the LankaPay/JCB co-branded debit card is used at a domestic POS terminal, the MDR should be capped at 1%. This is a very compelling reason for merchants to join this card scheme as current MDRs for international card schemes vary from 2.5% to 3.5% depending on the merchant category.

Future

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. A comprehensive fraud management system will also be implemented with the support of the Central Bank.



Management Discussion and Analysis /

Security Products and Services

Sustainability of a PKI-based niche Security Product in Competitive Market:

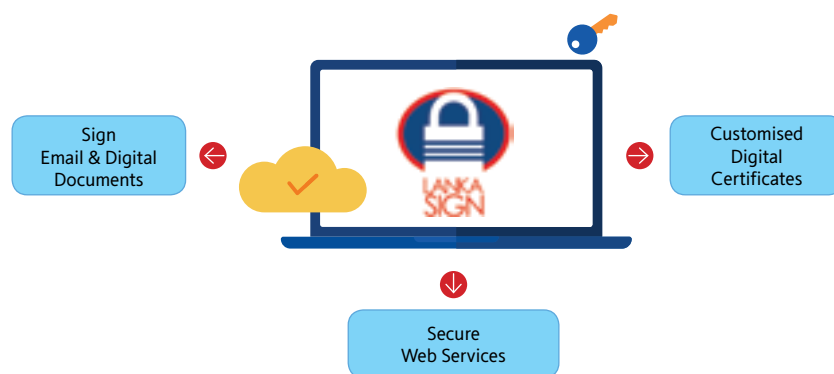
LankaSign IT Security Solutions

LankaSign Digital Certification Service Provider (CSP)

LankaSign commenced its operations more than 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 the Central Bank of Sri Lanka, Sri Lanka Computer Emergency Readiness 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.

"LankaSign is Sri Lanka's first and the only authorised Certification Service Provider (CSP) under National Certification Authority (NCA). LankaSign complies with all the international standards for operating as a commercial Certification Service Provider (CSP) while the stringent process followed is validated by the ISO 27001:2013 certification. LankaSign CA uses military grade secure equipment and implemented in a Payment Card Industry – Data Security Standard (PCI-DSS) complied technology environment.

The difficulties of getting physical signatures while working remotely, obtaining approvals when the signatories are travelling or remotely located and in automating the business process to be efficient and productive, especially during the COVID-19 pandemic, can now be facilitated by the use of LankaSign digital certificates.



For easy 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.

By the end of the financial year under review, LankaSign digital certificates are currently used in;

- 46 banking and financial sector organisations for clearing systems operated by LankaClear,
- Central Bank of Sri Lanka for CITS Online and SLIPS systems,
- Over 200 export-oriented organisations using the solutions given to Ceylon Chamber of Commerce and National Chamber of Exporters for digitising the documentation process,
- Central Depository System (CDS) for digitising its settlement schedules,
- Sri Lanka Customs
- Ceylon Electricity Board and Colombo Municipal Council

Business Development and Growth

We were able to improve the topline growth of LankaSign by 28% YoY during the year under review and recorded an increase in operating profit of 58% (Rs. 9.6 Mn) due to the impact of increased revenue on JustPay related certificate sales.

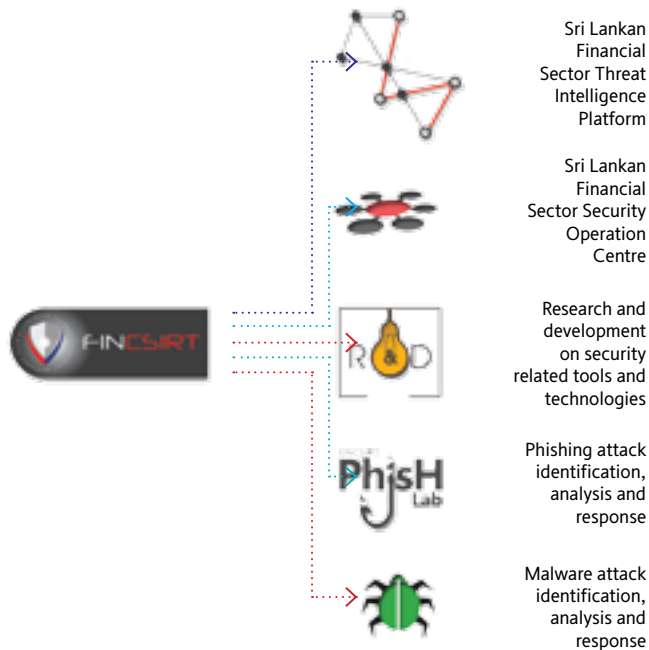
New Business Initiative/Prospects;

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 JustPay enabled mobile applications. JustPay, a new payment mode to facilitate low value cash-based transaction via smart devices, is powered by LankaSign Mobile 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 Mobile SDK and many new applications are in the process of integrating with JustPay.

Further, we enhanced the LankaSign mobile testing systems, which became the test bed 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.

FinCSIRT – Value Added Services



The National Certification Authority (NCA) is the overall governance as well as the standard setting entity required for the smooth and effective functioning of Certification Service Providers (CSPs). The Root CA of National Certification Authority is the highest-level Certification Authority in Sri Lanka. NCA was launched in Feb 2020 and to align with this Government initiative, accordingly LankaSign CSP will also become a CSP under NCA in near future.

Contributing Back to Society

We strongly believe that knowledge sharing on security essentials is an investment for the future to safeguard national ICT and Payments 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 formed as an independent unit that is to handle information security incidents as well as proactively develop the sector capabilities to defend against the rapidly advancing information security threat landscape by the initiation of the Central Bank of Sri Lanka, Sri Lanka Computer Emergency Response Team and Sri Lanka Bankers Association.

In its initial phase FinCSIRT, known at the time as BankCSIRT, commenced its operations primarily providing reactive response to the banking sector where with the evolvement, FinCSIRT has grown its services to provide ever more comprehensive services in its move to provide more proactive services to the entire financial sector, related parties and sectors, country as well as to global community. Above all, FinCSIRT is a “Liaison Membership” member of the Asia Pacific Computer Emergency Response Team which has enabled the formal communication and recognition of global CERTs.

The offered services by the FinCSIRT can be broken down as follows:

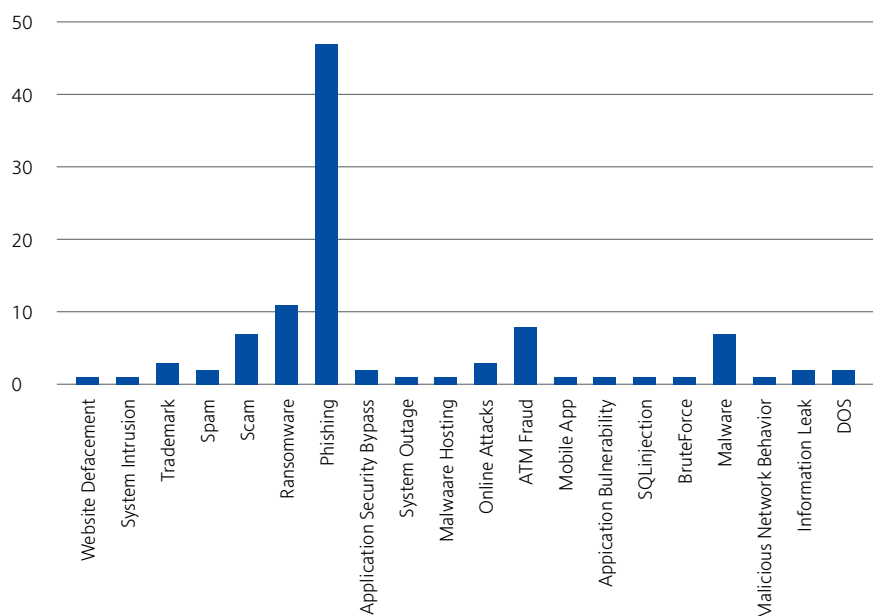
- **Sectoral Information Security Development Services**
 - Assisting the Central Bank of Sri Lanka (the Regulator) in sector information security posture building
 - Assisting the financial sector affiliated stakeholders in providing secure services to the financial institutes
 - Uplifting the information security resilience 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 resilience
- **Service Level Agreement based services by FinCSIRT to its members (CORE & ISOC Services)**
- **Act as internal Information Security Consultant for the Financial Institutes**
- **Publishing and Assisting the implementation of information security best practices and standards**
- **Conduct regular workshops and provide various opportunities for the sector to bridge the security gaps**
- **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

Management Discussion and Analysis

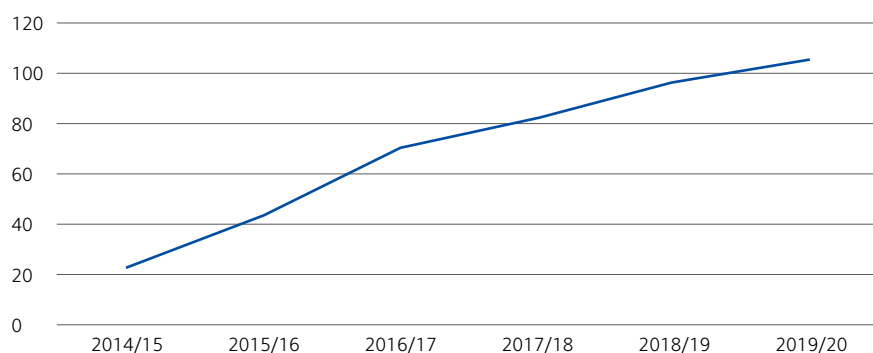
Security Products and Services

FinCSIRT incident response summary over the years are as follows.

Reported Incidents to FinCSIRT 2014 June - 2020 Present



Incidents Response Growth By FinCSIRT 2014 June - 2020 Present



Capital Management /

Financial Capital



Year in Review

Rs. 1,098 Mn
Revenue

Rs. 2,966 Mn
Total Assets

Rs. 486 Mn
Profit for the Year

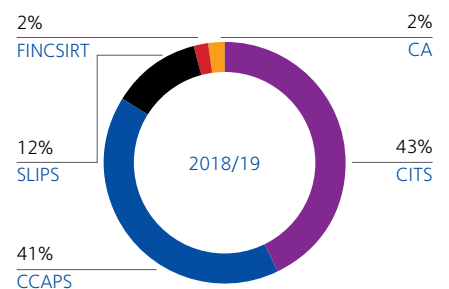
FINANCIAL REVIEW – FY 2019/20

Overview

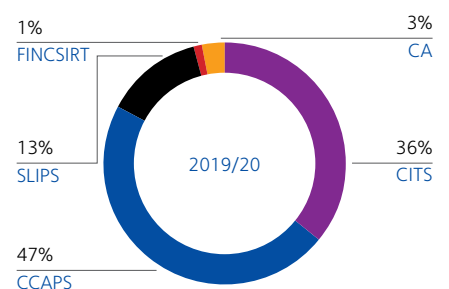
LankaClear (LankaClear), has concluded a challenging, but a successful financial year, managing to top the revenue of Rs.1 Bn for the consecutive second year recording a revenue of Rs. 1.097 Bn with a modest Year over Year (YoY) growth of 7%, the gross profit of Rs. 532 Mn (YOY increase -0.03%), Profit Before Tax (PBT) of Rs. 561 Mn (YoY increase 8%) and profit After Tax (PAT) of Rs. 486 Mn (YoY increase 13%), which is a remarkable accomplishment during a period full of challenges and amidst turbulent economic conditions, a presidential election and the beginning of a health pandemic. With the increase in profitability, the company achieved an Earnings per Share of Rs. 31.85 recording a 13% growth YoY (2018/19 – Rs. 28.28).

The remarkable achievements made during the financial year 2019/20, signify how resilient the Company was against the negative economic conditions and ability to perform financially and operationally under challenging economic conditions. The continuous investments made during the past consecutive years on the right areas and on the right strategies have paved the way for the Company to reap the benefits whilst bolstering the economy and local livelihoods.

Revenue Mix



Revenue Mix



Capital Management

Financial Capital

Society is fast moving towards a digital lifestyle and the current trends and circumstances are driving factors. LankaClear is a cornerstone in the paradigm change and we are happy on how we have delivered on our responsibilities and the financial successes made.

Revenue

During the year under review, the Company's top line grew by 7%, ending the year by recording a revenue of Rs. 1.097 Bn (2018/19 – Rs. 1.029 Bn).

The increase of the significance of electronic payments against the paper-based payments is a trend that has started to be evident for last few years mainly fuelled by the ever-changing technology and lifestyles. The unexpected incidents such as threat of terrorism and pandemic have only aggravated the trend with the unprecedented restrictions to the mobility of the human beings.

LankaClear leveraged on the trends and continued to benefit with its product portfolio, which was a result of the farsighted investment strategy based on the emerging trends. Products such as JustPay, LPOPP, LankaQR Code, PEN and Request to Pay surge ahead by converting more and more paper-based payments to electronic modes, so that products such as CITS and in the long run CAS would continue to diminish. The movement of

volumes of each product is discussed under the operations review.

Shaped by the above trends, clearing systems under CCAPS have become the highest revenue generator of 47% (2018/19 – 41%) of the total revenue for the Company, earning a revenue of Rs. 521 Mn which has increased by Rs. 104 Mn (against 2018/19 – Rs. 94 Mn) which is a growth of 25% YOY (against 2018/19 – 29% YOY). The two main products under CCAPS, CEFTS continued to grow during the year increasing its prominence to 15% from 11%, whilst CAS increasing its significance to 31% from previous year of 28% from the total revenue.

The above increase in revenue from CCAPS was propelled by the growth of transaction revenue, which grew at an impressive rate of 28% YoY (2018/19 – 35%). The main contributions for this revenue growth on transactions came from Common ATM Switch (CAS), Common Electronic Fund Transfer Switch (CEFTS) and Shared ATM Switch (SAS), which increased by 14% to Rs. 294 Mn (against 2018/19 – 21% / Rs. 259 Mn), 77% to Rs. 135 Mn (against 2018/19 – 124% / Rs. 76 Mn), 47% to Rs. 2 Mn (against 2018/19 – 37% / Rs. 1.5 Mn) respectively.

In the context of total volume of ATM transactions, based on the Central Bank's Payment Bulletin of 2020 – 1st Quarter, LankaPay – CAS had sustained market penetration 17% of the total ATM transaction volume for the year 2019/20 as result of number CAS transactions growing at rate 16% when the total volume has grown only by 12%. This is an impressive growth penetration compared to a lower penetration rate of 3% experienced in the year 2014 when the CAS was introduced.

Further, the CEFTS volume has represented a 39% of the total volume of internet banking, growing 27% in the previous year and 14% in year 2017/18. The overall internet banking transaction volumes has grown by 36% YoY.

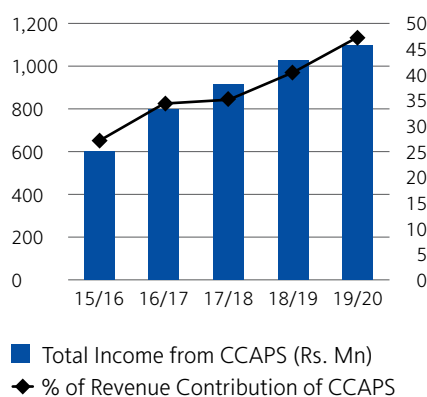
Joining and certification fees for CCAPS was remained at Rs.20 Mn (against 2018/19 – Rs. 22 Mn) as most potential members had already joined the switch.

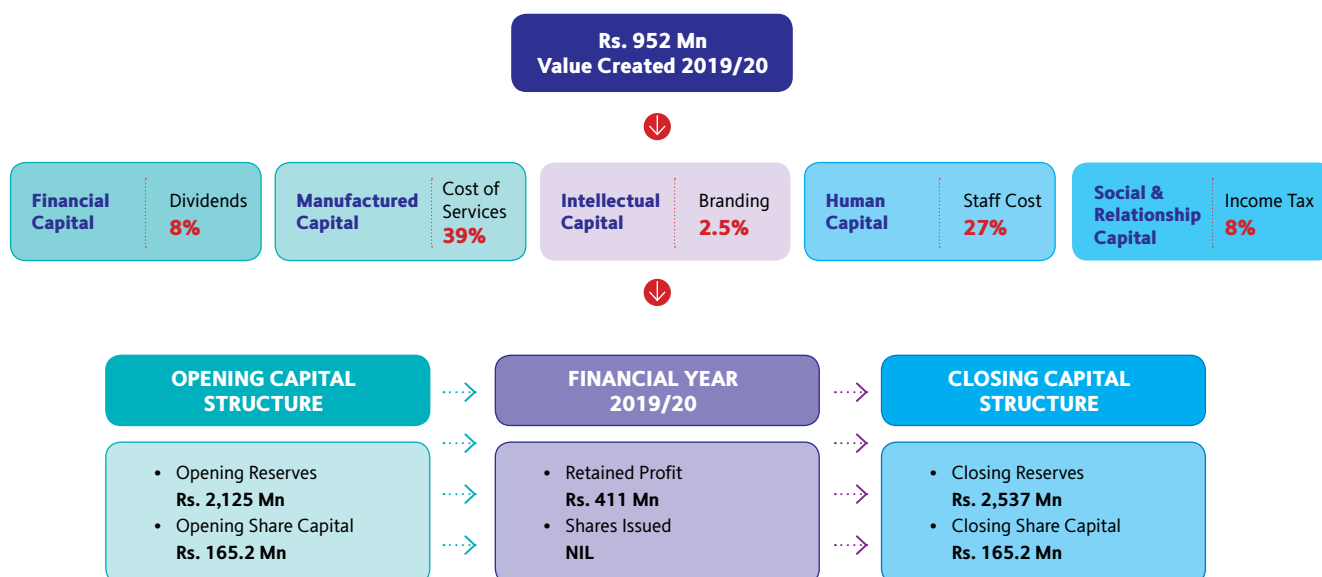
CITS continued to remain a key contributor to revenue, however reducing its significance on revenue mix to 36% from 43% of the previous year. As per the payments bulletin published by Central Bank of Sri Lanka, Cheque is the most popular non-cash retail payment instrument in Sri Lanka which accounted for 51.5% of the value of total non-cash retail payments in the first quarter of 2020 (against 64.8% in the 1st quarter of 2019).

CITS reported a revenue of Rs. 394 Mn (2018/19 – Rs. 443 Mn) with a decrease of 11% YoY. Both the revenue from cheque submitted for clearing and cheque returns decreased by 9% and 13% YoY respectively.

The Sri Lanka Interbank Payment System (SLIPS), LankaSign Certificate Authority (CA), USD Online Payment System and Financial Sector Computer Security Incident Response Team (FINCSIRT) recorded revenues of Rs. 138 Mn (2018/19 – Rs. 125 Mn), Rs. 29 Mn (2018/19 – Rs. 23 Mn), Rs. 5Mn (2018/19 – Rs. 4 Mn) and Rs. 10 Mn (2018/19 – Rs. 16 Mn) respectively, with a healthy revenue growth of 10%, 28% and 23% respectively except for FINCSIRT which has declined by 40%. The decline of FINCSIRT is mainly due to the time taken to renew the agreements with the prevailing participants and the revenue drop will be negated in the next year with the renewal of the agreements. The enhanced scope and additional value-added services offered had influenced the improved financial performances of CA, which is emerging as vital product towards ensuring security of financial sector services. These initiatives and strategies have been discussed in detail under the Security Products and Services section.

Revenue Contribution from CCAPS





During the year under review, the revenue per employee increased to Rs. 10 Mn (against 2018/19 – Rs. 9 Mn), which indicates an increased contribution of all employees towards the revenue growth. The cadre increased by 1% (one employee) during the year while the revenue increased by 7%.

With the conversed developments and equipped with many innovative strategies implemented LankaClear was in high hopes to achieve a significant revenue growth during the year. However, the overriding country situation after the Easter Sunday attacks had a considerable adverse impact on the revenue growth of the Company, which had resulted in a moderate growth.

Furthermore, the prevailing depressed economic condition is expected to continue for an extended period in a worse manner due to lower transaction volumes stemming from lower economic activity and forgoing some revenue streams from penalty charges as a means of helping businesses under prevailing unfavourable business conditions due to the pandemic.

Expenses

During the year, direct operating expenses recorded an expense of Rs. 565 Mn with a YoY increase of 14% compared to an

increase of 9% in 2018/19 and 11% in 2017/18. Further, the percentage of direct cost to revenue increased to 51.5% (against 2018/19 – 48.3%). The direct operating costs mainly consisted of IT maintenance cost (29% of the total cost), staff cost (26% of the total cost) and depreciation (26% of the total cost). The cost increments were mainly due to increase in the cost of staff expenses of 8% YoY (due to annual salary increments), IT maintenance of 10% YoY (new maintenance costs, cost inflations and unfavourable exchange rate movements), software and hardware depreciation of 27% YoY (on capitalisation of IT infrastructure costs on new implementations and upgrades for security and capacity enhancements).

Out of the main expenses, depreciation cost had a significant increase of 27%, which had an 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 compromising short-term profits.

During the year under review, though administration expenses slightly increased by 5% (against 2018/19 – 2%), marketing expenses continued to decrease by 28%

(against 2018/19 – a decrease of 62%). The increases in administration expenses were mainly due to the salary increments for the existing staff. The decrease in marketing expenses was mainly due to curtailing the number of marketing campaigns due to the prevailing security concerns following the Easter Sunday attacks. However alternative marketing campaigns were carried out at a lower cost appropriately.

Maintaining the security standards, speed of innovation, continuous supply of quality service and retaining scarce talent are the main focal aspects of the operation of LankaClear. Hence the investments and expenses are aimed at achieving the said objectives.

Capital Expenditure

The Company had a cash outflow of Rs. 175 Mn (2018/19 – Rs. 127 Mn) on the acquisition of capital assets during the year under review.

The capital expenditure continued to focus on supporting the changes required to bring in further convenience towards the financial services and improving efficiency, reliability and security of all clearing systems to meet the increased demand of the financial sector while empowering all

Capital Management / Financial Capital

our valued stakeholders to be connected digitally within their lifestyles to maximise their time to do more things within a day and ultimately use that free time to live a better life.

During the year, breakthrough capital investment was made with the successful integration of JCB switch to LankaClear switch, which has made it possible to carry out cross border transactions through cards issued under the National Card Scheme.

Further, the capacity enhancements were made in the areas of storage and network security firewalls with the latest technologies in a bid to meet the demands of the parallel developments.

Interest Income

Interest income increased by 20% to Rs. 214 Mn (against 2018/19 – Rs. 179 Mn) during the year. The increase was driven mainly due to the higher investment base and efficiencies in the treasury function. At the end of the year, the investment base stood at Rs. 2.05 Bn (against 2018/19 – Rs. 1.6 Bn) where the investments were placed at interest rates ranging from 8.83% - 15.22% (against 2018/19 – 10.54% – 15.22%).

Interest income remained a significant source of income contributor to the profitability of the Company, which consists of 38% (2018/19 - 34%) of PBT. The retained profits 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, generation of future interest income is highly sensitive to the fund requirements of capital-intensive projects and market dynamics, which are heavily dependent on economic conditions and Government policy changes due to the pandemic.

LankaClear expects to do a complete overhaul of the CCAPS system and hardware which is expected to consume a significant amount cash reserves of the organisation. Further the recently imposed interest cap for fixed deposits is expected to have a negative impact on the interest income of the Company.

Taxation

During the year under review, tax expenses has reduced by 16% YoY (increase from 2018/19 at 41% YoY) to reach Rs. 75 Mn (against 2018/19 – Rs. 90 Mn) recording a decrease in effective tax rate to 13% (against 2018/19 – 17%). This decrease was mainly due to the increase in profits from CCAPS products which enjoys a tax exemption obtained for CCAPS profits under tax planning initiatives. Whole taxable profit was taxed at 28% (2018/19 – 28%).

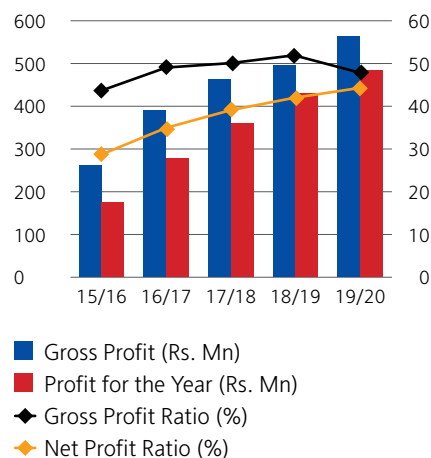
Profitability

As explained in the overview, the Company reported profits, recording a Gross Profit of Rs. 532 Mn (2018/19 – Rs. 532 Mn), PBT of Rs. 561 Mn (2018/19 – Rs. 520 Mn) and PAT of Rs. 4,486 Mn (2018/19 – Rs. 430 Mn) where the Gross Profit Margin recorded 48.5% (2018/19 – 51.8%) and Net Profit Margin recorded improved to 44.2% (2018/19 – 41.8%).

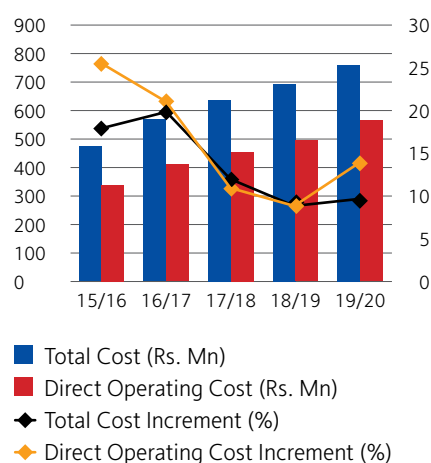
The Return on Capital Employed (ROCE) decreased to 20% (2018/19 – 22%) as a result of YoY net profit before tax increasing at 8% (2018/19 – an increase of 22%) against the increase in capital employed of 18% (2018/19 – an increase of 20%). The lower profit increase is mainly due to the significant cost escalations beyond the growth which has mainly come through the direct cost escalation as evident with deteriorated gross profit margin.

However, the net profit margin has improved with the reduced marketing expenses and increased interest income.

Profitability



Cost Increase



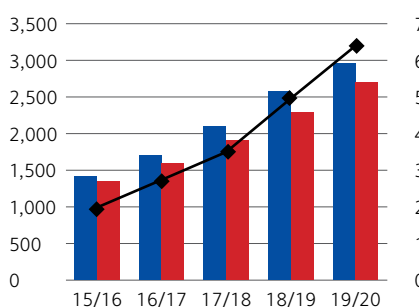


CA Sri Lanka Annual Report Awards 2019

Creating Value for Shareholders

With the continued increase in profitability, the Company recorded an earnings per share (EPS) value of Rs. 31.85 (2018/19 – Rs. 28.28), which was a significant increase of 13%. The Return on Equity (ROE) and Return on Assets (ROA) marginally decreased to 18% (2018/19 – 18.8%), 17.56% (2018/19 – 18.42%) mainly due to the significant increase in direct operating expenses against a moderate growth in revenue as explained under the respective discussions.

Shareholder Funds



- Total Assets (Rs. Mn)
- Shareholders' Funds (Rs. Mn)
- ◆ Dividend Per Share (Proposed) (%)

However, a more focused return on investment (ROI) can be arrived by calculating the return on non-current assets (net profit less other income/total non-current assets less long-term financial investments), which slightly increased as 52% (2018/19 – 48%) 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 Rs. 6.37 (2018/19 – Rs. 4.95) per share is proposed subject to the approval of the shareholders at the next Annual General Meeting of the Company. This is once again the highest-ever dividend per share (DPS) proposed during the 18-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 as the previous year funding its own investments via the internally generated funds.

During the year under review, the company generated net cash from operating activities of Rs. 525 Mn (2018/19 – Rs. 339Mn) with a YoY increase of 55% from operating activities. This increase was mainly due to decrease in trade and other receivables and increase in cash flow from operating activities. The cash flows were utilised on investment activities and dividend payment for Rs. 369 Mn (2018/19 – Rs. 302 Mn) and Rs. 75.4 Mn (2018/19 – Rs. 53.2 Mn) respectively. At the end of the year, Rs. 2.2 Bn (2018/19 – Rs. 1.7 Bn) worth of liquid funds remained in fixed deposits and REPOS whilst Free Cash Flow to Net Cash Flow from Operating Activities remained at 67% (2018/19 – 63%) to be utilised for future investments to cater to rapidly changing technology landscape in the payment industry and for other contingencies. At the end of the year, shareholder funds stood at Rs. 2.7 Bn (2018/19 Rs. 2.3 Bn), which is an increase of 18% (2018/19 – 20%) YoY and Net Assets per Share rose to Rs. 177.17(2018/19 – Rs. 150.17).

Financial Priorities for Future

Uncertainty has become a key consideration and businesses have to deal with an ever-increasing magnitude and our ability to deal with sudden shocks and unexpected risks in the future with improved risk management and agility is a prerequisite. Achieving genuine innovation, delivering demonstrable results and creating deep collaboration are some of the key objectives in the long-term strategy. In short, we have to anticipate tomorrow while delivering today.

In this backdrop, identifying and driving right financial priorities is a key aspect for the short and long-term survival of the organisation. The Company always seeks to identify the right balance of profitability as well as long-term survival as a vital organisation in the financial eco system of the country.

Capital Management /

Financial Capital

Maintaining current products lines to the best performance and security standards and continuously investing in new products and the right projects to provide the financial industry with right platforms in enhancing financial services required as a means of keeping the ultimate promise of uninterrupted and robust service to the financial industry and general public.

Our first reaction to COVID-19 was to provide uninterrupted service to customers in collaboration with employees and service providers. We proudly managed to deliver a commendable service and thrive whilst securing employment.

During the year we managed to improve our value proposition by means of innovative solutions, operational excellence, and enhanced customer service. Innovations materialised by understanding the inner needs of the consumers and fulfilling those needs through financial services that ultimately support a seamless experience. The improved financial performance of the Company amidst significant challenges is a testament to the success of the strategies adopted during the year.

In line with making the envisioned performance a reality, many rolled out products gained market popularity and momentum with positive effects to many lives. CEFTS and JustPay powered many payment apps had played a key role during the period of lockdown where general public was able to carry out the financial transactions with much convenience and confidence. LANKAQR (National Quick Response (QR) code-based transactions) has become a friendly payment mechanism for the lower end merchants who would not be able to afford the costs of POS machines. Payment Exchange Name (a nickname system for bank accounts) was launched, which expects to bring in unprecedented convenience in making peer-to-peer payments. Furthermore, during the year breakthrough capital investment was made with the successful

integration of JCB switch to LankaClear switch, which has made it possible to carry out cross border transactions through cards issued under the National Card Scheme.

One of the foremost financial priority of the company is to nurture payment products and payment enablers and LankaClear continue to invest in such paths. Products such as 2 in 1 card and transit card are some of the innovations which are expected to unveil with regards to National Card Scheme and Request to Pay is another innovative payment enabler in the pipeline.

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 the Chairman and GM/CEO, 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 macroeconomic conditions, such as adverse pandemic impacts to economy, depressed business sentiments and deteriorated global economy continued to impact on the performance of the Company as these conditions affect the volume and the value of the financial transactions and would have a negative outlook on the revenue and the profitability position of the Company.

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;

- ❖ Sustain revenue and profitability while exceeding the annual revenue target of Rs. 1 Bn during year 2020/21 and whilst managing the financial risks with appropriate strategies.
- ❖ 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 and managing costs
- ❖ 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 2019/20

	2019/20	Absolute Growth (YoY) 2019/20	Growth % (YoY) 2019/20	Explanation
Financial Performance				
Revenue	1,097,709,274	68,652,169	+7%	Growth supported by the revenue growth from per transaction revenue, specially from clearing systems under CCAPS, whilst revenue from CITS reduced.
Direct Operating Expenses	565,333,411	68,812,329	+14%	Cost increases in staff expenses, IT maintenance, software and hardware depreciation.
Gross Profit	532,375,862	-160,160	- 0.03%	While revenue was growing slightly, there were significant increases in direct costs.
Other Income	225,812,211	39,788,557	+ 21%	The increase of investment income due to higher investment base, improved efficiencies in the treasury function and comparatively higher interest rates.
Income Tax Expense	75,488,226	-14,323,379	- 16%	Due to the increase in profits from Finance Income by Rs. 35 Mn and decrease in taxable income by Rs. 90 Mn, income tax expense has decreased. CCAPS profits are tax exempted.
Profit for the Year	485,642,499	55,171,763	+ 13%	Due to above mentioned noteworthy improvements amidst lower tax payments.
Financial Position				
Total Non-Current Assets	1,152,562,227	-547,886,948	- 32%	Due to reduction of financial investments beyond one year
Total Equity	2,701,893,236	411,834,839	+ 18%	Due to higher profitability and retention ratio.
Total Non-Current Liabilities	64,373,268.12	9,780,548	+ 18%	Due to increase in Retirement Benefit Obligation due to provisional adjustments based on salary adjustments that took place during the year under review and increase in deferred tax liability.

Capital Management /

Human Capital



Year in Review

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48

Training programs conducted, Local: 46 and Overseas: 02

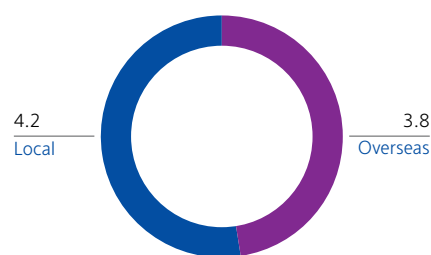
305.5 days

Total man days of training

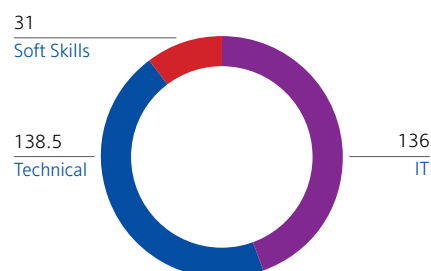
Rs. 8.0 Mn

Total investment on training

Investment of Employee Development (Rs. Mn)



Mandays Utilised on Training



LankaClear is determined to uphold the vision of the organisation supported by core values to continue our drive to achieve customer convenience through the delivery of services. We create Human Capital value through the process of improving the performance of employee capabilities to support our mission. The management believes that Human Capital Development is vital to the growth and productivity improvement of the Company. The employees that make an organisation shine are an asset to be recognised and invested. If the employees can be of greater value by being more productive on an individual basis through the development, the Company will be guaranteed productivity gains. The staff will feel more empowered when the organisation invests in them, and they will feel better and contribute more, maximising employee potential and satisfaction.

Throughout the year many opportunities were created for employees through various projects such as National Card Scheme, Payment Exchange Name project, development of Competency Framework, New Performance Management Module and SDK Developments in the LankaSign Certificate Authority. In addition to the above, many employees were assigned to work with external customers, thus creating an opportunity for them to improve selling and marketing skills. This helped employees to develop their skills, knowledge and perspectives and become more recognised not only internally but externally as well. Further, in an age of increasing automation of less skilled jobs and increasing



Annual Staff Trip 2019 - Anantaya Resort & Spa - Pasikuda

dependency of high-skill careers on rapidly changing technology, the management has taken a keen effort to rotate jobs of some staff and urging them to learn and unlearn processes leading up to both personal and organisational development.

Implementation of New Competency Framework

The most innovative HR policy change during the year was the implementation of the new Competency Framework for the organisation. The new Competency Framework was developed and implemented with the assistance of a consultant who is a subject expert in the industry. The core competencies of the Company refer to bundles of skills and technologies that enable the organisation in general to succeed. During the process of the development of the new competency framework more focus was given to “necessary” and “differentiating” competencies.

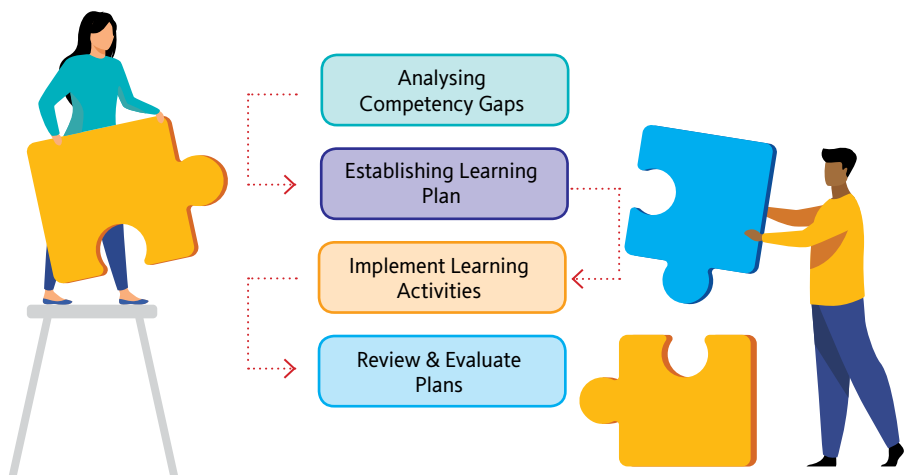
Necessary: those competencies that go into creating value for the Company

Differentiating: those competencies that give a competitive advantage for the Company

The Competency Framework is expected to produce a robust atmosphere in the organisation to measure individual contribution to organisational and personal growth as it is Coachable, Observable, Measurable and Critical to individual and corporate performance.

An Automated Performance Appraisal System is in the Making

Another key strategy of the Company to increase employee contribution and participation is the performance measurement process which is being automated. The automated Performance Management System (PMS) will cover 100% of the Company employees and the dependency of the long manual process will be replaced with the new system. The performance management process of the Company includes two cycles, a bi-annual as well as year-end review. Employees are assigned with goals and measurable KPI's through which the performance is measured during the year. The goal setting process which takes place at the beginning of the year helps the staff members to align their focus on an improved performance throughout the year.



Capital Management /

Human Capital Development**The New Competency Framework****Customer Centric**

Our cultural way of life in keeping the customer at heart, understanding and articulating their needs, willingness to drive business excellence, executing all tasks on time with ownership and accountability.

As we drive business excellence, on time delivery and fulfillment to be the pillars in our pursuit of service excellence.

We walk the extra mile to deliver and exceed their expectations and feedback based continuous improvement with high quality.

Ability to penetrate the market and demonstrate the value release of our services and managing healthy B2B Relationships in the long term. Impacting everything from our colleague's engagement to an amazing experience to end consumers of our service.

Customer focused Integration where all cross functional teams read and respond with solutions and exceed the expectations.

**Creativity and Sustainable Innovation**

Tailor made bright and light Intention: Ability to create easy to use, sustainable innovative solutions whilst catering to the dynamic customer requirements, ubiquitous with simplicity and convenience.

Create a culture where innovative ideas are encouraged and sought after to form an integral part of LankaClear.

Open to new ideas and to ensure the technical value offerings and solutions remain current and robust.

Agility to meet the challenges in the fast-changing business environment and new technology to be imbedded in the DNA of LankaClear.

**Go-Getter Mindset**

The ability to analyse volatile situations, dig into the root cause, explore new ways to solve problems and implement effective solutions.

Resolves problems with little supervision or guidance and has knowledge of problems solving tools and techniques.

Identify the activities or projects, planning and organising the resources with a view to achieve desired goals.

Accountability and persistency in achieving outcomes amidst challenges and extreme conditions.



Assertive Communication

Drive an effective two-way communication mechanism within the organisation and cascade all important information at all levels. Brief team members or customers in a timely manner.

Through assertive communication, we ensure our written and verbal commitment are met.

A well-structured, process driven communication pathways will ensure our end customer will be serviced at their soonest and enhance service levels.

Provides suggestions that help during the negotiating process and listens to others and understands their perspective.

The ability to communicate with clarity and respond in a timely manner.



"We Culture"

A culture in the organisation to think as a team and take responsibility beyond our job description.

Everyone to offer a helping hand in our daily work and to bring overall team expertise to be agile to meets the needs of our fast-paced business.

Motivate and inspire teams to achieve desired results in a VUCA world.

A mentoring culture to develop, share and expand the knowledge portal and learning academy at LankaClear.

Identify opportunities and develop a growth mind set at LankaClear and trust to be a key value in the "We Culture".

Compensation and Benefits Structure of the Organisation

The Company offers an array of benefits to employees, which includes not only salaries, but also various other allowances, insurance benefits covering family members, bonus schemes and monetary incentives and career advancements, etc.

The Board approved the 3 year compensation and benefits roadmap for the employees and same was implemented starting from the year 2019. According to the above roadmap the entire compensation package of the Company was revised and benchmarked with the industry as recommended by the salary survey conducted through KPMG. The Board approved the annual

salary increments and promotions from January 2020 after the annual appraisals for 2019. However, due to the current pandemic situation and the economic slowdown the implementation of Phase 2 of the compensation and benefits revision for employees was deferred to next year.



Capital Management /

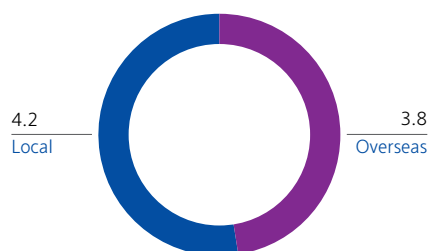
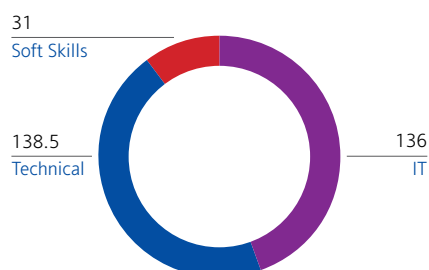
Human Capital Development

A Novel Way to Training & Development

With an investment over 8 Mn rupees in training, the employees were provided with various training opportunities during the year in order to develop them to face challenges and become more valuable individuals in the Company. The opportunities paved the way for them to acquire new skills and competencies. The employees learned new and improved methods of performing an activity, which helps the organisation to survive, compete and grow in the current challenging environment. Training will also result in the reduction of employee turnover as it develops a positive attitude in employees towards the work and organisation, as well as boosts their morale, which helps them adapt themselves to the changing environment.

Investment of Employee Development

(Rs. Mn)

**Man Days Utilised on Training**

The management believes that the training and development initiatives of the Company thus far has been able to fill the most required skill competency gaps of our employees.

During the year under review a majority of the employees were granted various training and development opportunities and we invested in them to make them capable of handling future challenges. The total training and development investment for the year exceeds Rs. 8.0 Mn including overseas trainings to many IT staff members.

Summary of Training Investment

Total training programs conducted, Local: 46 and Overseas: 02

Total man days of training: 305.5 days

Total investment on training: Rs. 8.0 Mn.

Average goal achievement percentage of the workforce: 87 % (from the annual appraisals)

Talent Retention

The main challenge the organisation faced from all corners during the year was how to retain the best and core and critical talent. The employee drain during the year was although significant, the overall strategy of the Company helped to change the decisions of some key employees from leaving. The strategy of the Company helped retain the critical talent as the drain from the level of senior executives and above was only 1.8% which is quite negligible. 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 technology, processes, and systems in this challenging environment, which also attracts the attention of committed employees. Empowerment of employees and generating organisational commitment from those engaged are therefore more beneficial to the Company as it is a differentiator for LankaClear from the rest.



Annual Staff Family Outing -2019



Annual Sports Day



Annual Staff Trip 2019



Employee Educational Assistance Programme (EAP)



CSR Activities at Apeksha Cancer Hospital



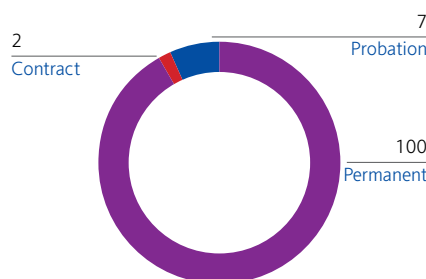
Donation to Lewis Perera Elders Home

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

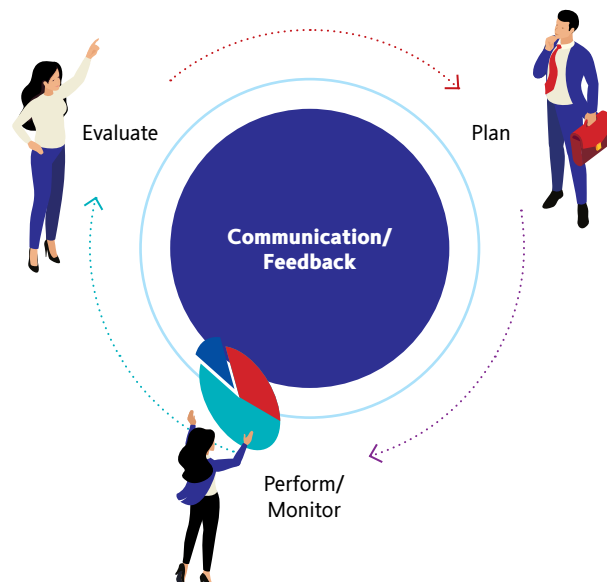
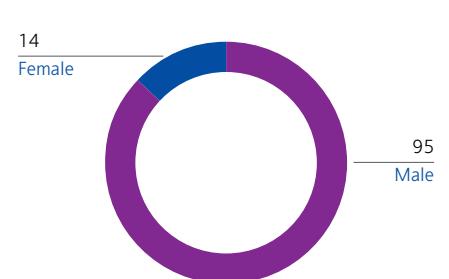
However, the overall retention ratio of the year was 83.5% amidst all above retention strategies of the Company.

The LankaClear workforce comprised 109 employees as at March 31, 2020 with the composition of 100 permanent, 7 probationary and 2 fixed term contract staff. As at March 31, 2020, LankaClear did not face any litigation issues, was not fined, did not get any sanctions imposed nor had any case filed in a court of law for non-compliance with any labour regulations.

Employment by Contract

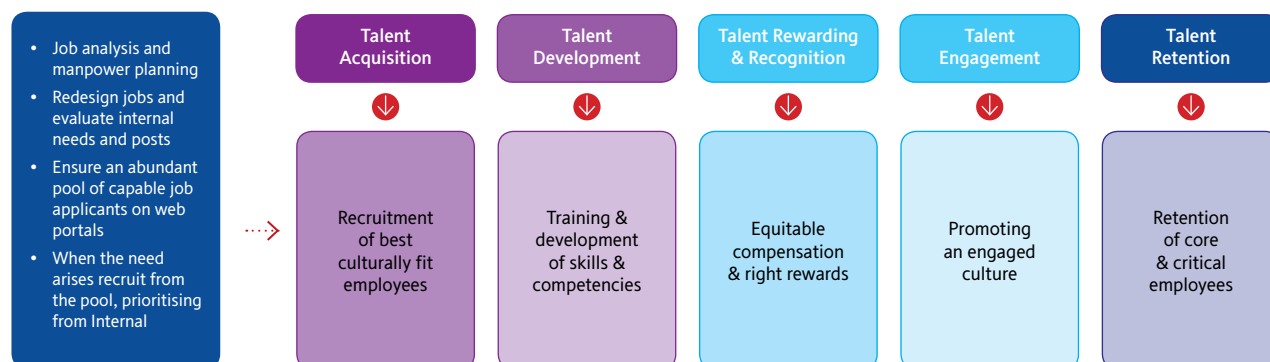


Employment by Gender



Capital Management /

Human Capital Development



HR Score Card – 2019/20

No.	Key Enabling Factors/Strategic Priority	Actual Performance in 2019/20
1	Continuation of compensation and benefits strategy of the Company	<ul style="list-style-type: none"> ➤ The 1st Phase of the Board-approved 3-year compensation and benefits strategy was implemented in January 2019. The 2nd Phase which was due from January 2020 was deferred to next year. ➤ Amidst the threat of pandemic a nominal salary increment was awarded to employees.
2	HR capacity building and career development opportunities to employees	<ul style="list-style-type: none"> ➤ Promotions for the year was implemented from January 2020 after the conduct of formal annual appraisals. ➤ Organisation structure of the Company was revised with several key changes and new positions being added to the structure. ➤ While providing opportunities to employees several key new positions were filled with internal promotions.
3	Implementation of new Competency Framework of the Company	<ul style="list-style-type: none"> ➤ The competency profile of the Company was revised with the assistance of a consultant. ➤ The new competency framework was implemented with adequate awareness and training to employees.
4	The new and automated Performance Management System (PMS) and Training and Development Modules	<ul style="list-style-type: none"> ➤ With the approval of the Board the current manual PMS will be revamped with the introduction of an automated Performance Management System (PMS) from hSenid. ➤ The administration of the training and development function will also be revamped with the introduction of the new T & D Module.
5	Retention of core and critical employees by providing them with internal growth opportunities.	<ul style="list-style-type: none"> ➤ The retention of core and critical staff at the level of senior executives and above was 98.16% as only two such employees had left during the year. ➤ However, the overall attrition rate for the year including none executives had risen to 16.5%, making it challenging to keep talent. The overall retention rate therefore was 83.5%.
6	Profit sharing with employees	<ul style="list-style-type: none"> ➤ 5.5% of the Company profit before tax was shared among all employees during the year under review. ➤ The Fixed Terms contract employees who had worked for more than a year were also granted the bonus.

No.	Key Enabling Factors/Strategic Priority	Actual Performance in 2019/20
7	Value addition process while upholding the values of the organisation.	<p>The new PMS will rejuvenate the value measurement process as it is considered most important for the organisation.</p> <ul style="list-style-type: none"> ➤ Involvement of the top leadership of the Company through Leadership Round Table. ➤ HR Skips to understand the pulse of the employees and how they react to immediate superiors. ➤ Assisted the management to implement effective change management process before the implementation of every HR Policy.



Employee Performance Recognition



Job Fair-Sabaragamuwa University of Sri Lanka

Strategic Objectives and Goals for the Financial Year 2020/21

1. Implementing the 2nd phase of the compensation and benefits structure of the Company from January 2021. This will help reduce overall attrition and “maintain the organisation’s compensation and benefit structure in a manner that will support the recruitment of best talent and motivation of outstanding performers.
2. Improvement of the talent development process of the organisation to bridge talent gaps help employees to achieve organisational goals.
3. Ensuring that the employee engagement formula of the organisation is implemented, bringing management and employees together.
4. Implementation of the automated Performance Management and Training and Development modules.
5. Improved retention of employees to ensure the core and critical staff is retained.
6. To ensure the right employees are recruited at the right time to increase the human capital value of LankaClear.

Capital Management /

Intellectual Capital**Marketing Performance**

The year 2019/20 was one of the most challenging years in the recent past. The first quarter performance was affected due to the Easter Sunday attacks and the tail end of the financial year was affected by the corona outbreak. Furthermore, CITS revenue experienced a 3.3% decrease compared to the 2% decrease in the previous year, amounting to a Rs. 24 Mn hit on the top line. Nevertheless, the transactional revenue increased significantly by Rs. 83.2 Mn compared to the previous year, negating the negative impact on the top line due to reduction in one time joining fees and other income. Primarily due to macro-economic dynamics, the transactional revenue grew by only 11% in 2019/20 compared to 13% in 2018/19 whilst once time joining fees saw a decline of 18% and other income by 4% compared to the previous year. Owing to the concentrated efforts towards driving transaction volumes over the last few years, the Company is now at a relatively healthy position in terms of revenue, with 75% contribution from transactional revenue backed by a healthy product portfolio.

Marketing related activities suffered due inability to continue some of the regular ground level awareness campaigns and social media promotions, which were effective mediums for marketing communications. Hence, more prominence was placed on radio to maintain brand presence.

During the year, the Company carried out several promotional campaigns to drive CEFTS and JustPay volumes, which contributed to a huge 100% growth in CEFTS and a staggering 740% growth in JustPay. The Company continued to strengthen its relationship with the key stakeholders with different engagement activities. Several awareness sessions were conducted in association with industry bodies such as APB, Computer Society of Sri Lanka, CIMA, AAT Sri Lanka and FITIS towards raising awareness on electronic payments amongst professionals and making them the catalyst for digital transformation in their respective organisations.

For the third consecutive year, LankaClear organised the LankaPay Technnovation Awards held on 7th October 2019 at the Shangri-La Hotel, Colombo. The event, which is Sri Lanka's first and the only payment technology innovation awards, has already become one of the flagship corporate events eagerly awaited by the banking fraternity.



Technnovation Awards

Social and Relationship Capital



Gratify Customers Through Our Values

As we have done in the past, LankaClear understands the significance of providing exceptional service to its customers, even if there is no direct competition for LankaClear in the market for certain services. Our customer service policy governs as to how the organisation and our employees interact with our customers. It comprises 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. Therefore, being a trusted payment network in Sri Lanka, understanding customer needs and meeting them is one of our uppermost priorities.

We are humbled that LankaClear operates the only secure and reliable network for all Sri Lankans to process financial transactions under the supervision of the Central Bank of Sri Lanka. However, this does not preclude us from maintaining the highest level of customer service. We strive to serve our customers better by implementing a reliable, cost-effective, and secure retail payment system to meet our customers' daily payment needs. We serve the entire Sri Lankan population as the ultimate consumers of our services via banks, financial institutes, and other authorised service providers.

Seamless Customer Experience

We believe that customer service constitutes the entire life cycle of the customers' experience. It is the general perception of the public about their experience with LankaPay services.

For example, providing friendly guidance and assistance to use a customer's mobile/ internet banking facility to transfer funds from his bank account to another is the superior customer service. The customer service representative supports the customer to carry out the transaction successfully on time.

On the other hand, the person accesses internet banking at home and transfers money to another person who has an account in a different bank within a few seconds at the lowest possible cost. If the process has delighted him as our service has saved him the effort, time, and money to visit his bank to do the transaction, then we have achieved our target in customer experience.

A most recent example of extended customer experience is providing continuous clearing and transaction facility to the public and financial institutes during the COVID-19 pandemic. Considering the safety of our customers, we have assured there is no interruption to our operations by letting customers do daily retail services via electronic banking systems when they are at home. Also, being an infrastructure provider for banking and financial industry, our main obligation was to assure the processing of salary payments and cheque clearing on time which has a direct impact on the country's economy. Our task force made it achievable by understanding the essentiality of the service provided by our Company to the country.

Capital Management /

Social and Relationship Capital

We, as an organisation, have always strived to provide superior customer service and great customer experience and benefited with customer loyalty, customer satisfaction, better word-of-mouth marketing, positive reviews, and recommendations.

Like every year, to improve customer relationships, we have focused on:

1. Setting mutually satisfying goals by streamlining to offer what the customer requires and not limit ourselves to offer what the organisation can provide
2. Shifting our focus from a product perspective to customer perspective
3. Finding new ways of doing things by aligning structures and systems to support the business requirements of our customers

Investments in Improving Customer Experience**Workflow Automation**

External Services Department is the most customer interactive department of the Company. Starting from the Company initiation, many of the customer services has been processed manually including below major functions.

1. Cheque retrieval requests
2. Cheque Image requests
3. CITS adjustment entries
4. Empty carton requests
5. Cheque archival requests

Understanding the importance of reducing manual work we have successfully automated all these functions and introduced a system called "Automated Customer Support System (ACSS)".

This system can generate reports and statistics, enhance the processing time of the requests, reduce paperwork, provide online status tracking of the requests and reduce human intervention of LankaClear.

International Customer Service Week - 2019

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.

This year too, we have celebrated International Customer Service Week to recognise the importance of our customers and appreciate their contribution to our business.

1. Raised Company-wide awareness on the importance of the customer service by conducting a small presentation, to deliver guidance to all employees
2. Reward LankaClear staff who excelled in customer service and organised team building activities

Outbound Training

We have been organizing LankaPay Six-a-Side Cricket Tournament for last three years. However, this year we organised an outbound training session to our direct members in anticipation of more participation and more relationship building.

Raising our hopes, there were over 60 people who participated in the session and it was a great opportunity for all the participants to gather 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.

LankaPay Customer Get-together

For the third time, LankaClear organised a felicitation dinner for all our member participants at Taj Samudra. This was very successful and was a relationship-building 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 for all.

Awareness Sessions on Clearing Products

Throughout the year, the LankaClear representatives have visited member banks to enhance awareness of LankaClear services, which helped them to support their customers who are using the retail payment systems implemented by us. This led to an increase in 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 to enhance new product awareness and to address their common queries in an open forum. It allowed our team to respond to common issues immediately by understanding and discussing with the audience.

Seasonal Gifts for Members

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



Outbound Training with Banks



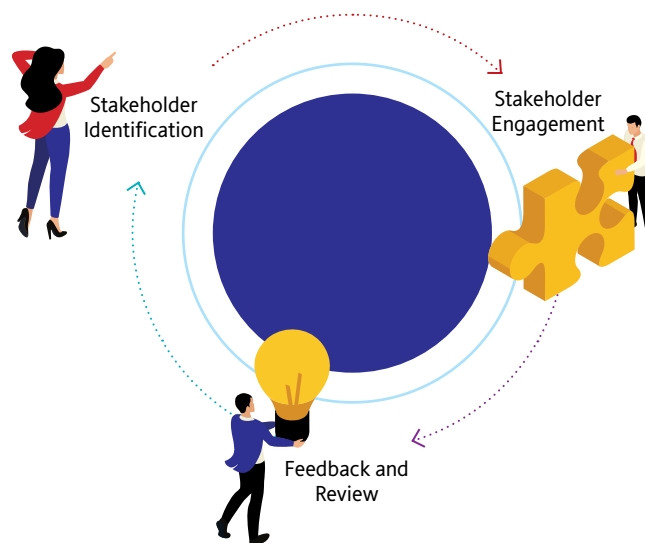
International Customer Service Week Celebrations 2019



LankaPay Felicitation Dinner for 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;



Capital Management /

Social and Relationship Capital

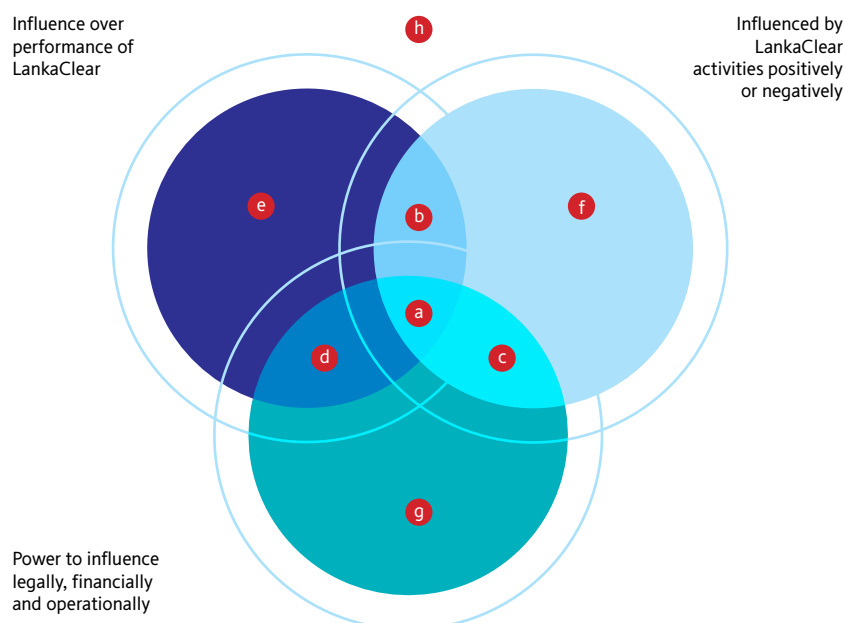
Stakeholder Identification

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.

- 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 and 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 2019-20
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

Capital Management /

Social and Relationship Capital

Stakeholder group	Method of engagement with stakeholder in 2019-20
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 Supporting industry events 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"> Radio campaigns and brand engagement activities carried out together with popular radio stations. 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 getting into direct competition 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 2019-20
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 2019. 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 2019/20 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 of 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>

Capital Management /

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 recertification 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. MCB Bank 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. ➤ 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.

Capital Management /

Social and Relationship Capital

Concerned Stakeholders	Material Aspects/Stakeholder Expectations	Response
Shareholders/ Management/Customers	Take the LankaPay brand to the 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 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	<p>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.</p>
Management/Employees/ Customers/General Public	Promoting social harmony by contributing for a worthy CSR cause	<p>We are at LankaClear value of being a responsible corporate citizen. To address this, we embarked on several CSR activities during the year contributing to various CSR activities.</p>

Economic Contributions
Direct Economic Contributions
Statement of Value Addition

For the year ended 31st March	2019/20		2018/19		2017/2018	
	Rs. Mn		Rs. Mn		Rs. Mn	
Value Added						
Business Revenue	1,097,709,274		1,029,057,105		918,503,011	
Cost of Services	371,369,782		366,996,530		332,508,473	
Value Added by Business Activities	726,339,492		662,060,574		585,994,538	
Finance & Other Income	225,812,211		186,023,654		144,466,245	
Total	952,151,703		848,084,229		730,460,783	
Growth in Value Addition	12%		16%		24%	
Distribution of Value Added						
To Employees						
Salaries & Other Benefits	248,049,621		225,511,631		205,594,814	
Training	7,892,675		6,229,034		11,114,358	
	255,942,296	27%	231,740,665	27%	216,709,172	30%
To Providers of Capital						
Dividends to Ordinary Shareholders	75,487,500		53,200,000		41,800,000	
	75,487,500	8%	53,200,000	6%	41,800,000	6%
To the Government						
Income Tax	75,488,226		89,811,604		63,673,461	
	75,488,226	8%	89,811,604	11%	63,673,461	9%
To Expansion and Growth						
Retained Profits	411,834,841		371,231,152		319,629,200	
Depreciation & Amortisation	152,805,327		117,216,505		105,052,797	
Deferred Taxation	(19,406,487)		(15,115,697)		(16,403,847)	
	545,233,681	57%	473,331,959	56%	408,278,150	56%
Total	952,151,703	100%	848,084,229	100%	730,460,783	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.

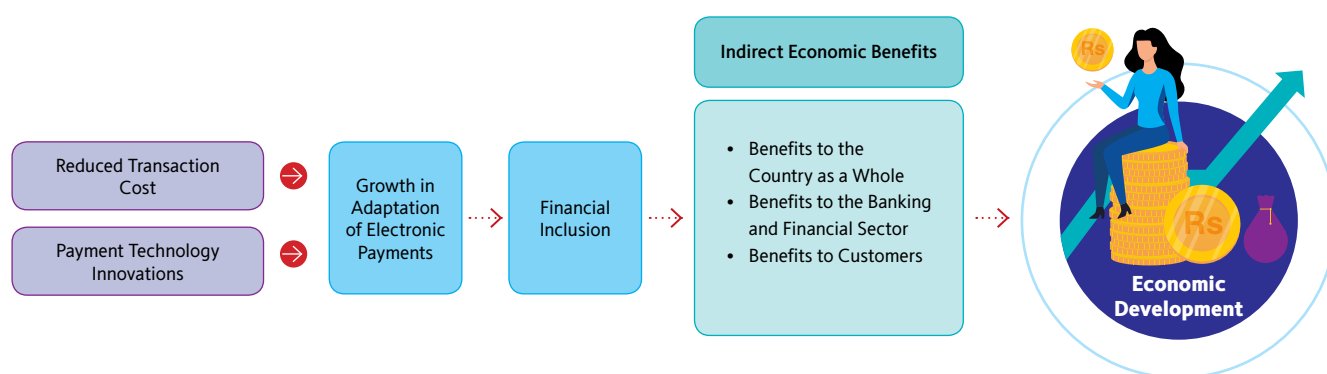
During the financial year 2019/20 LankaClear made a direct economic contribution to the country, to the value of Rs. 952 Mn. Employees benefited from 27% of this value, while 8% went to the State coffers in the form of taxes and 8% was distributed among the shareholders of the Company.

Capital Management /

Social and Relationship Capital

LankaClear retained 57% 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 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	➤ Nationwide T + 1 Cheque Clearing – 1st in South Asia/2nd in the World
2009	➤ Launch of 'LankaSign' – The only commercially operating Certification Authority (CA) in Sri Lanka
2010	➤ Launch of Nationwide Same Day Electronic Fund Transfer for bulk payments (SLIPS) – 1st in South Asia
2013	➤ Launch of 'LankaPay' Common ATM Switch
2014	➤ Launch of BankCSIRT (Computer Security Incident Response Team renamed in 2015 as FinCSIRT) – 1st in South Asia
2015	➤ 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

Year	Remarkable Milestones
2016	<ul style="list-style-type: none"> ➤ Introduction of online transfer mode of CITS where banks can now transfer cheque images in real-time – 1st in South Asia ➤ Launch of JustPay – Special low tariff scheme to facilitate real-time retail payments up to Rs. 10,000 through account to account pull payments via smart mobile devices
2017	<ul style="list-style-type: none"> ➤ Became the first and only entity in the country to be PCI-DSS (ver. 3.2) certified, achieving the highest international standard for payment card industry ➤ LankaClear launched Sri Lanka's first and the only Payment Technology Innovation Awards – LankaPay Technnovation Awards ➤ Launch of National Card Scheme in partnership with JCB International to issue a new debit card scheme
2018	<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.
2020	<ul style="list-style-type: none"> ➤ Integration of JCB switch to LankaClear switch, which has made it possible to carry out cross border transactions through cards issue

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 have 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.

Capital Management /

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 is the non-consumption of resources that 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 the sustainability concept to ensure the reduction of total emissions due to its daily operations. 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's positive contribution towards that area.

Environmental Responsibility

LankaClear's business activities revolve 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 scarce nonrenewable energy for production purposes, water and plants so it 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 being largely environmental friendly by contributing significantly towards reducing paper consumption, which leads to reduction of cutting down trees. This is achieved in two ways.

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

With the regulations and awareness programs initiated by the LankaClear all waste is segregated and sent for the recycling or disposal based on the type of waste. Awareness and monitoring programs have significantly contributed to achieve 100% waste segregation and address environmental concerns.

For the second consecutive year, the company carried out a CSR initiative towards recycling office paper waste to produce note books that are given as new year compliments to staff and other stakeholders.

Energy Management

LankaClear initiated a new state-of-the-art data centre which is more efficient than the previous data centre. The total and sectional energy consumption is regularly monitored and recorded to make sure that the efficiency of the system is always higher which will save energy as well as reduce emissions. In addition to the data centre there is a special team to make sure that the wastage of energy is always less than the previous operations. All the staff was requested to switch off AC, lights, and computers when they leave the office. Several awareness programmes were conducted to achieve this target. Furthermore, all bulbs were replaced with highly efficient LED bulbs to reduce energy wastage.

Impact of Online and Mobile Transactions on Sustainability

Online transactions can be identified as the one of most convenient means to transfer money from a bank to another bank and pay your bills including electricity bills,

water bills, telephone bills etc. For instance, with tons of duties piled up at the place of work, wasting your time for deposits and to pay bills staying in never ending queues at banks would lead to a much inconvenience and discomfort.

But if people tend to transfer money and pay their bills online, all those unnecessary burdens will be off their shoulders. The time spent and cost incurred for transportation to pay the bills would be saved as you can pay wherever 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 (Common Electronic Fund Transfer Switch) within 30 seconds. The time that is spent on counting the cash stack can be saved when doing transactions online. And above all, the most cumbersome step, which people dislike the most is filling numerous forms just to pay a single bill will be eliminated.

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 consider the environmental and social performance of the Company which holds a major role in sustainable development in addition to financial performance.

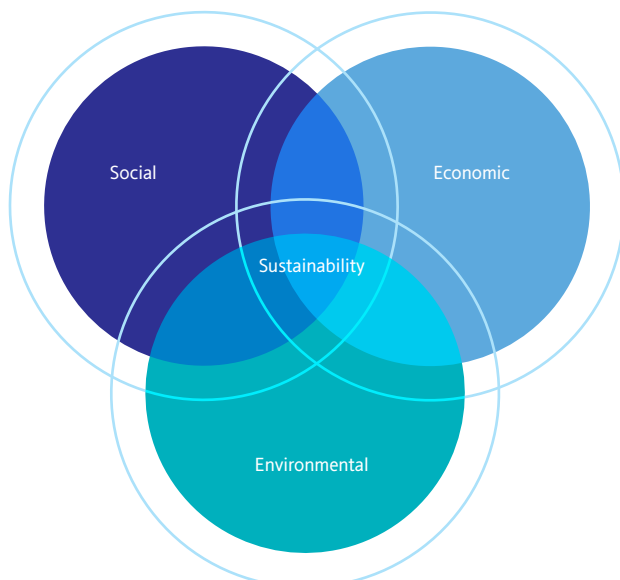
Therefore, while the Company's direct negative environmental impacts are minimum, its indirect positive environmental impacts are much more significant and will also improve with time, as an increasing number of Sri Lankans are expected to move towards a paperless future electronic and mobile transactions 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 CDs, where the Company has crushed and sent for recycling approximately 100,000 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



Capital Management /

Natural Capital

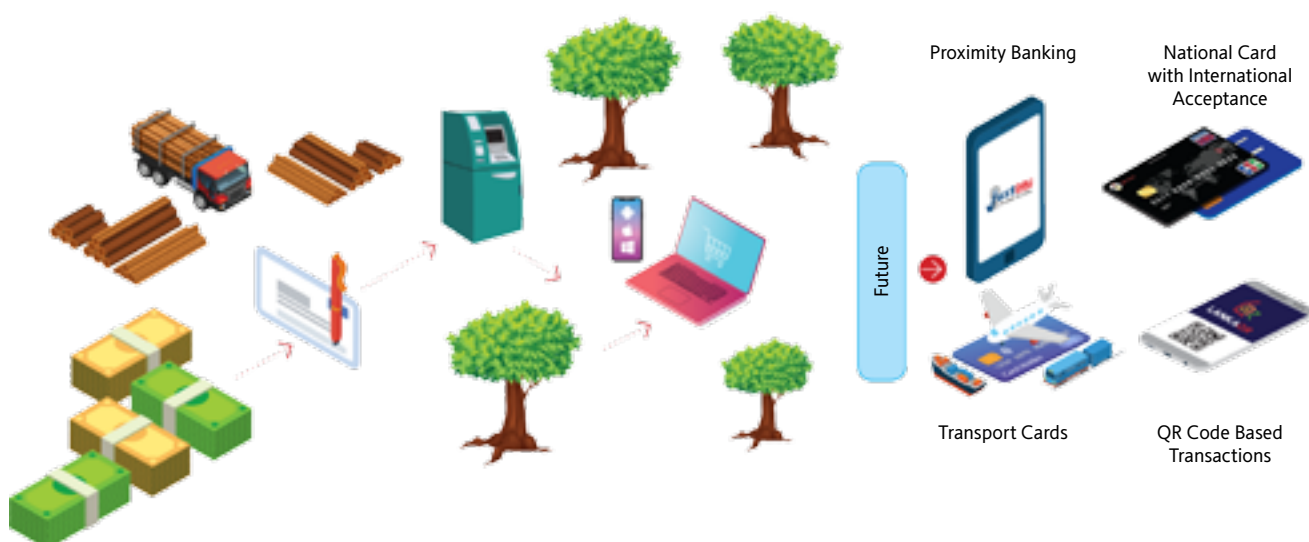
hazardous materials are added to the soil. This is a commitment LankaClear has maintained since inception and to date the Company has not participated in or encouraged any landfills which signifies the Company's commitment towards environmental conservation and sustainability. Effectively the Company has taken substantial measures to reduce its carbon footprint by implementing,

- 1) Close monitoring of energy consumption through sectional measurement and monitoring of different work areas (Data Centre, office area etc.)
- 2) Lighting in common areas is 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 Centers has led to minimum use of water usage by the Data Centre infrastructure.

- 5) Air conditioners are used for comfort cooling in office spaces fitted with micro energy meters to monitor and optimise energy consumption while strictly non-CFC based refrigerants are used.
- 6) Municipal waste is segregated into organic and inorganic waste to be disposed of 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.
- 9) Recycling office paper waste to produce note books for staff and other stakeholders making optimal use of resources.

Highlights		
Type of Waste	Quantities (2019/20)	Method of Disposal
CDs (Units)	100,000	Crushed and sent for recycling
UPS Batteries (units)	256	Sealed lead batteries handed over to local authorised agent
Landfills	0	Zero landfills 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 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.

Our contribution to save the environment is by reducing emission and pollution via seamless transactions



The Common ATM Switch was launched in 2013, as the first phase of the Common Card & Payment Switch (CCAPS) under the brand name LankaPay. Over the years, the network has grown to connect 99.95% of all ATMS in the country with 24 * 7 * 365 operation, enabling customers to use literally any ATM in the country, at their convenience. With LankaPay Common ATM Switch customers can now use any ATM to withdraw money and check account balance at an affordable cost.



Governance /

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

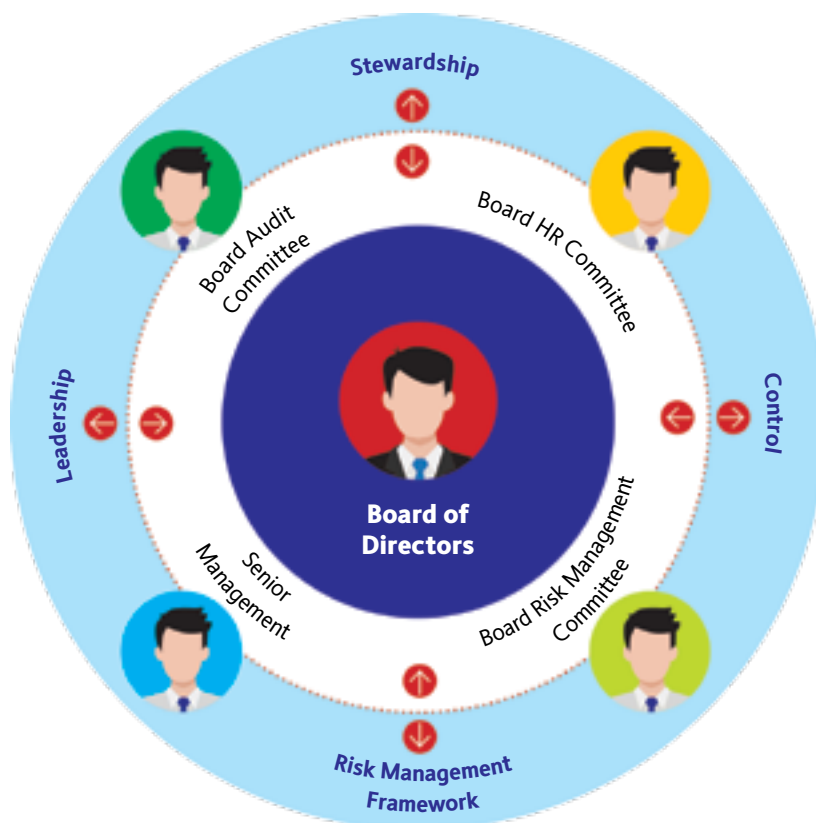
The Company operates adhering to the mandatory requirements of the Companies Act No. 07 of 2007, directions, rules, regulations and circulars issued by the Central Bank of Sri Lanka, rules and regulations of the Institute of Chartered Accountants of Sri Lanka, legislations of the Government of Sri Lanka 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.

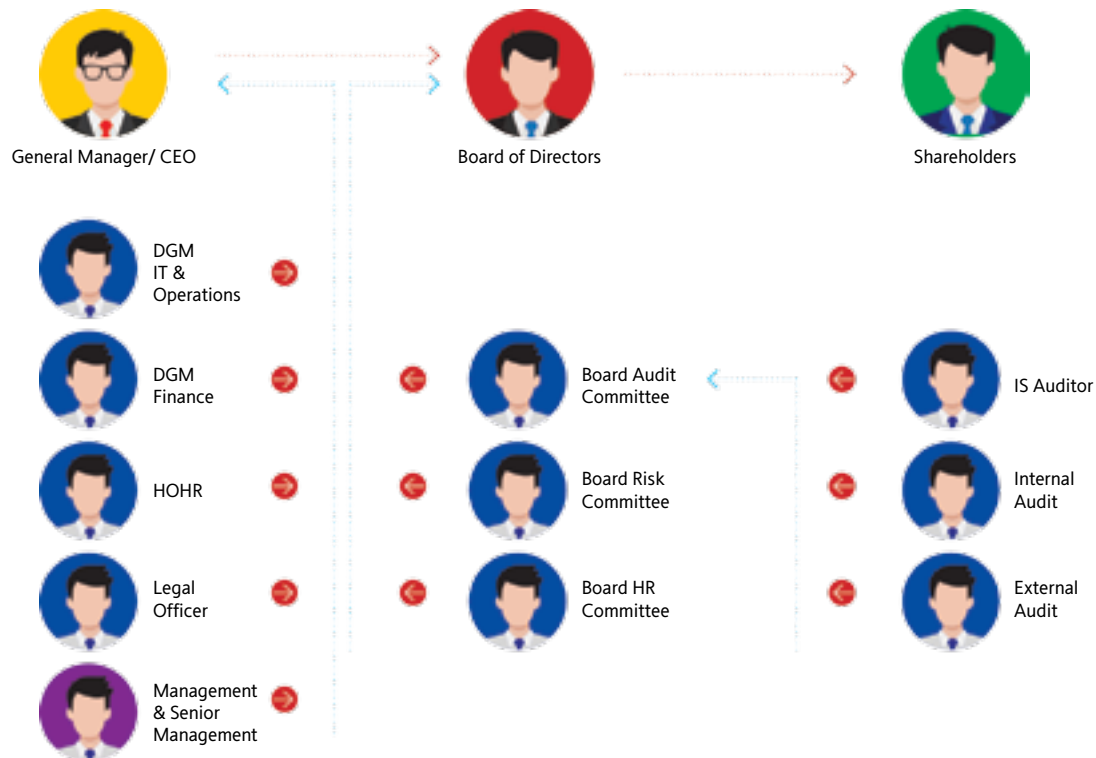
The governance structure of LankaClear, as given below, facilitates efficient operation of its business while encouraging all its employees to elevate the corporate governance standards at all times. We have established a sound transparent channel to communicate all decisions, policies, processes and 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



Governance Structure



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 35 to 39.

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.

Governance / Corporate Governance

We at LankaClear have adopted best practices stated in the 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 11 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.1.8	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;

- a) Mr. W. P. R. H. Fonseka – Chairman
- b) Mr. K. V. K. Alwis
- c) Mr. E. R. De Silva

The Audit Committee met on two 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;

- a) Mr. A. Amarasuriya – Chairman
- b) Mr. S. Bandara
- c) 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 two 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. G.B.R.P. Gunawardana

The committee is governed by the 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 two meetings 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 11 Board meetings during the year under review and the attendance of each Director at Board and Board Sub Committee meetings are given in Table No. 01.

Table No. 01 – Board and Board Sub-Committees Composition and Attendance –2019/20

Name	Board Meetings		Board HR Committee		Board Audit Committee		Board Integrated Risk Management Committee	
	Held*	Present	Held*	Present	Held*	Present	Held*	Present
1. Mr. Anil Amarasuriya - Chairman (Re appointed w.e.f. 01st June 2018)	11	11	2	2				
2. Mr. M A B Silva - Director (Resigned w.e.f.19th November 2019)	7	6						
3. Mr. R A A Jayalath - Director (Appointed w.e.f . 05th October 2017)	11	11						
4. Mr. M N R Fernando – Director (Resigned w.e.f. 08th July 2019)	3	1						
5 .Mr. K B S Bandara (Appointed w.e.f.20th March 2018)	11	5	2	2				
6. Mr. W P R P H Fonseka Alternate Director to Mr. K B S Bandara (Appointed w.e.f.20th March 2018)	11	0			2	1		
7. Mr. K V K Alwis (Appointed w.e.f. 05th July 2018)	11	10			2	2	2	2
8. Mr. P L D Seneviratne - Director (Appointed w.e.f. 17th July 2018)	11	5					2	1
9. Mr. B C Thewarathanthri - Director (Appointed w.e.f. 26th February 2019)	11	6						
10. Ms. R N K Fernando (Appointed w.e.f. 08th July 2019 Resigned w.e.f. 01st April 2020)	8	4						
11. Mr. Rasitha Gunawardana Appointed w.e.f. 19th November 2019)	3	3					2	2
12.. Mr. E R De Silva - Observer (Appointed w.e.f . 22nd August, 2017)	11	7	2	2	2	2		
13. Mr. L P Talwatte (Appointed w.e.f. 31st March 2020)	0	0						

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

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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 Bankers' 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 142) 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 2020.</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 115.</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>

Governance /

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 Companies 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.
H.	Internet of Things and Cyber Security	<p>Cyber security and information security remains at the heart of LankaClear due to its paramount importance to the economy and country. We have laid down latest technologies and best practices to safeguard information and fight against cyber threats. All the devices connected to our network are monitored for security and conformity.</p> <p>Information systems audits are carried out regularly by the Senior Manager - Information Systems Audit and by external expertise audit terms on various scopes and aspects.</p> <p>The board Integrated Risk Committee deals with all the risks of the organisation including the Cyber security at the board level and reports to the Board.</p>

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			●

Governance /

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. 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.

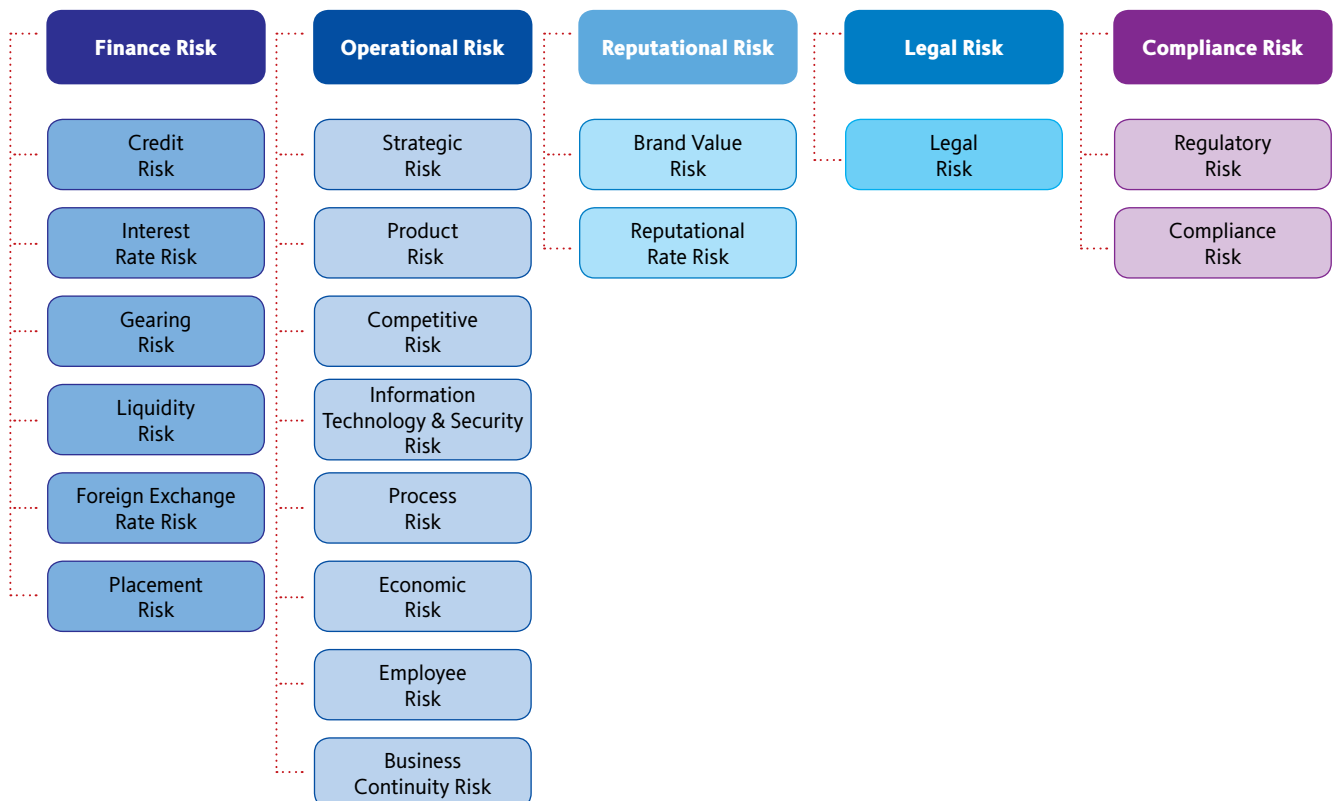
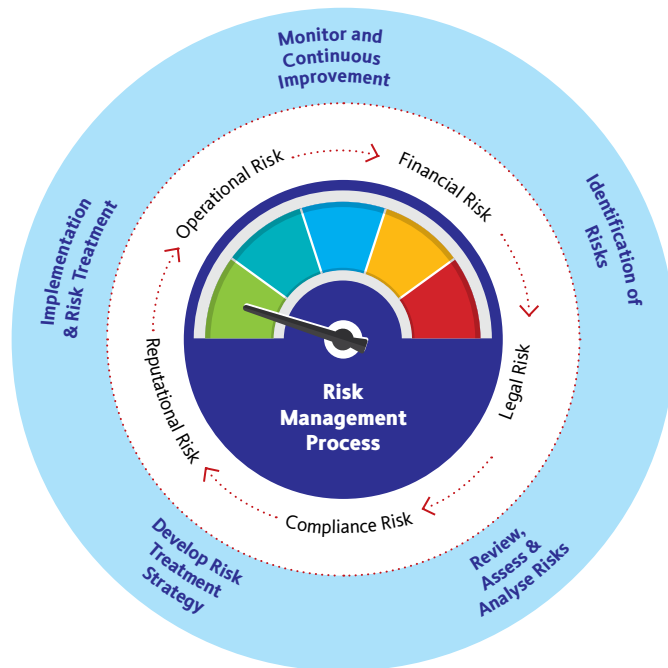
How We Oversee Risk



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.



Governance /

Enterprise Risk Management

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	Minor	Moderate	Major	Severe
				1	2	3	4	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.

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.

Governance /

Enterprise Risk Management

Operational Risk	
Business Continuity Risk	Moderate
Risks from natural or man-made disasters	
Impact/Implication	Risk Management Strategy
Loss of assets resulting in financial losses 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.

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, CCAPS) 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.

Governance /

Enterprise Risk Management

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 and 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. ➤ Ensuring of all statutory and legal obligations are met in all transactions ➤ Obtaining expert external consultancy services in fulfilling legal obligations where necessary.
Higher default rate by parties to contracts with the Company	
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	

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.

Governance /

Enterprise Risk Management

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 Rs. 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 assist the committee to fulfil their obligations effectively on different perspectives.

Mainly External Auditors carryout the audit on financial statements in a view of providing an opinion on the same. Internal Auditors mainly carryout their audit on internal controls of the 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

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

Compliance

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

External Audit

- Reviews the External Auditor's independence, audit scope and plan, its audit quality control/assurance processes.
- Reviews the performance of External Auditor and makes recommendations to the Board of Directors on their appointment, reappointment, discharge or rotation if necessary.
- Reviews the External Audit Report on the financial statements and any supplementary report (e.g., Management Letter) outlining the findings, observations and recommendations and management responses and the status of any corrective action plans.
- As part of the routine Committee meeting agenda, meets separately with the External Auditors to discuss any matters that the Committee or Auditors believe should be discussed privately.

Internal Audit

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

External IT Audit

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

Composition of the Board Audit Committee

LankaClear Board Audit Committee comprised of three Non-Executive Directors of the Board. The following Directors served as the members of the Committee during the year under review.

- ◆ Mr. W. P. R. H. Fonseka
- ◆ Mr. K. V. K. Alwis
- ◆ Mr. E. R. De Silva

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.

Governance /

Board Audit Committee Report

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 three 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 'LankaSign operation and application review' 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.

Whistle Blowing Policy

The Board Audit Committee reviewed the proposed 'Whistle Blowing Policy' for LankaClear during the year under review.

Reappointment of Auditors

The Board Audit Committee recommended the reappointment of M/S Ernst & Young (Chartered Accountants) as the External Auditors for the year ending 31st March 2021 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. R. H. Fonseka

Chairman - Board Audit Committee

20th October 2020
Colombo

The Board HR Committee Report

The Board HR Committee of LankaClear was established under the direction of the Board in order to provide the strategic HR Direction to the Human Resource function of the organisation. The Terms of Reference of the Board HR Committee was approved by the Board.

The Board HR Committee during the year under review consisted of three Board Members namely Mr. Senarath Bandara, Mr. Ravi De Silva and the undersigned.

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


- ❶ Changes to the Organisational structure and HR strategy
- ❷ Human Capital development policies and processes
- ❸ Compensation and Benefits Policy setting
- ❹ Health and Occupational Safety including approvals for Management recommendations on physical environment improvements and enhancements

The Board HR Committee reviewed and recommended to the Board the annual salary revisions for the year 2019 subsequent to the Compensation and Benefits Survey conducted by KPMG. The salary revision road map as recommended by the Board HR Committee covered a period of 3 years starting from 2019. The Board HR Committee also gave directions to revise the Organisation structure making the revised structure more consistent with the IT Industry. Further the Board HR Committee helped the organisation to streamline several HR policies including “Bring Your Own Mobile Policy” and “Training Policy”. The expertise shared by the members of the Board HR Committee helped the organisation to improve the HR risk mitigation initiatives and succession planning process.

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

On behalf of the Board of Directors, I wish to thank Mr. Senarath Bandara and Mr. Ravi De Silva for their untiring efforts to fulfill their duty as members of the HR Committee.

In conclusion, I on behalf of the committee wish to thank Mr. Channa de Silva, the General Manager/CEO and Mr. Lakshman C Palliyaguruge, Head of HR & Administration, for their contribution to the functioning of the Board HR Committee.



Anil Amarasuriya

Chairman – Board HR Committee

Colombo, Sri Lanka
20th October 2020

Governance /

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 2020.

The committee is governed by a formal Risk Committee Charter that is reviewed regularly. This charter guides the committee in terms of its objectives, authorities 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.

1. Mr. Dimantha Seneviratne – Chairman
2. Mr. K.V. K. Alwis
3. Mr. Rasitha Gunawardena

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

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

Committee Functions

Overall, the 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.

Meetings

The Risk Committee met twice 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 on page 101 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 identified Risks, the Risk Mitigation Mechanisms, and the Residual Risks. The Committee has also made recommendations to be implemented where necessary. Thus, the Committee is of 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*

20th October 2020

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**Providing
seamless access
to money even
in the most
rural location
has made your
life convenient**



CEFTS

LankaPay CEFTS real-time fund transfer switch is yet another revolutionary move by LankaClear where customers can now carry out domestic interbank fund transfers upto Rs.5 Mn real-time at their convenience.



Financial Reports /

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 126 of the Annual Report.

By Order of the Board
LankaClear (Private) Limited



Managers & Secretaries (Pvt) Limited
Secretaries

Colombo, Sri Lanka
20th October 2020

Annual Report of the Board of Directors

The Directors of LankaClear (Pvt) Ltd have pleasure in presenting the 18th Annual Report of your Company together with the Audited Financial Statements for the year ended March 31, 2020.

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, Bank of Ceylon Head Office, 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 QR – Lanka QR
- ❖ LankaPay Common POS Switch (LankaPay – CPS)
- ❖ LankaPay National Card Scheme (LankaPay – NCS)
- ❖ 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, 2020 and future business developments of the Company are provided in the Chairman's message on pages 22 to 27, GM/ CEO's review on pages 28 to 34, Management discussion & analysis appearing on pages 44 to 62 and capital management on pages 63 to 95. 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, 2020 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 126 to 144.

Corporate Governance

The Corporate Governance principles and practices of the Company are described from pages 98 to 105 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 106 to 114 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 132 to 135. There have been no changes in the accounting policies adopted by the Company during the year under review. For all periods up to and including the year ended 31st March 2020, the Company prepared its financial statements in accordance with Sri Lanka Accounting Standards for Small and Medium-sized Entities (SLFRS for SME's) and Companies Act No. 7 of 2007.

Revenue

Revenue generated by the Company amounted to Rs. 1.098Bn (2019 – Rs. 1.029 Bn)

Financial Reports /

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

Profit & Appropriations

The profit after tax of the Company and the profit attributable to the equity holders for the year was Rs. 486 Mn (2019 - Rs. 430 Mn) 20% of the profit after tax amounted to Rs. 97 Mn recommended by the Board to distribute among the Shareholders of the Company as Dividend.

Dividends

A final dividend of Rs. 6.37 per share for the Financial Year ended March 31, 2020 was recommended by the Board of Directors on October 20, 2020 resulting in a total cash payout amounting to Rs. 97 Mn (2019 Rs.75Mn)

As required by Section 56 (2) of the Companies Act No. 7 of 2007, the Board of Directors has confirmed that the Company satisfies the solvency test in accordance with Section 57 of the Companies Act No. 7 of 2007, and has obtained a certificate from the Auditors, prior to paying the final dividend of Rs.6.37 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 Rs. 115Mn (2019 - Rs. 54Mn) and all other related information and movements have been disclosed in the note 5 (page 136) to the financial statements.

Intangible Assets

Additions of intangible assets of the Company during the year amounted to Rs. 59 Mn (2019- Rs. Rs. 72 Mn) and all other related movements are disclosed under the note 6 (page 137)

Investments

Detailed description of the long-term and short-term financial investments held as at the reporting date, are given in note 7 (page 138) and note 10 (page 138) to the financial statements.

Stated Capital

The total stated capital of the Company as at March 31, 2020 was Rs. 165 Mn (2019 - Rs.165 Mn). The Stated Capital of the Company comprises of 15 million Ordinary Shares fully paid up.

Reserves

Total reserves as at March 31, 2020 for the Company amounted to Rs. 2.54 Bn (2019 - Rs. 2.12 Bn). The movement of reserves during the year is disclosed in the Statement of Changes in Equity on page 130.

Contingent Liabilities & Capital Commitments

Commitments made for capital expenditure as at March 31, 2020 and the contingent Liabilities as at that date are given in Note 24 to the Financial Statements.

Events after the end of the Reporting Period

There have been no events subsequent to the reporting date, which would have any material effect on the Company other than those disclosed in Note 25 to the Financial Statements.

Share Information & Shareholding

The Net Assets Value per Ordinary Share of the Company as at March 31, 2020 was Rs.177.17 (2019 - Rs. 150.17). The number of shareholders as at March 31, 2020 was 27 (2019 - 27). An analysis of shareholders based on shares held, during the year are provided on page 11 of this report.

The Board of Directors

The Board of Directors of the Company as at March 31, 2020 and their brief profiles are given in the Board of Directors section of the Annual Report (Pages 35 to 39)

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

- Mr. M.N.R. Fernando resigned w.e.f. 08th July 2019 and Mrs. R.N.K. Fernando was appointed w.e.f. 08th July 2019 in his place.

- Mr. M.A.B. Silva resigned w.e.f. 19th November 2019 and Mr. G.B.R.P. Gunawardana was appointed w.e.f. 19th November 2019 in his place.

- Mrs. R.N.K. Fernando resigned w.e.f. 31st March 2020 and Mr. L.P.B. Talwatte was appointed w.e.f. 31st March 2020 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 98 to 105.

Related Party Transactions

Details of the transactions with Director-related entities are disclosed in Note 23 to the financial statements on page 143 and have been declared at the Board meeting, pursuant to Section 192 (2) of the Companies Act No. 7 of 2007.

Directors' Remuneration

Details of the remuneration and other benefits received by the Directors are set out in Note 19 of the financial statements.

Disclosure of Directors dealing in Shares

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

Employment

The Company practices equality of opportunity for all employees irrespective of ethnic origin, religion, political opinion, gender, marital status or physical disability. Details of the Company's Human Resource initiatives are detailed on pages 70 to 77.

The number of persons employed by the Company as at March 31, 2020 was 109 (2019 - 109). 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

Donations

Donations made during the year is disclosed in Note 19 to the financial statements.

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-audit services to Messrs. B.R. De Silva & Company a firm of Chartered Accountants amounted to Rs. 194,820/-.

Further details on the work of the Auditor and the Audit Committee are set out in the Board Audit Committee Report on pages 115 to 116.

Annual Report

The Board of Directors approved the Audited Financial Statements for issue on 20th October 2020

Notice of Meeting


The Annual General Meeting will be held at the Board Room of LankaClear (Private) Limited, Level 18, Bank of Ceylon Head office, "BOC Square", No.01, Bank of Ceylon Mawatha, Colombo 01 on 05th February 2021 at 10.00 am.

The Notice of the Annual General Meeting appears on page 150.

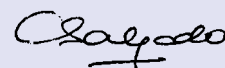
For and on behalf of the Board.



A. Amarasuriya
Chairman



K. V. K. Alwis
Director



Managers & Secretaries (Pvt) Ltd
Secretaries

LankaClear (Private) Limited
20th October 2020
Colombo

Financial Reports /

Independent Auditor's Report



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

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

TO THE SHAREHOLDERS OF LANKACLEAR (PRIVATE) LIMITED

Report on the 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 2020, 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 2020, 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 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.

Partners: W R H Fernando FCA FCMA R N de Saram ACA FCMA Ms. N A De Silva FCA Ms. Y A De Silva FCA W R H De Silva ACA ACMA 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
Principals: G B Goudian ACMA A A J R Perera ACA ACMA T P M Ruberu FCMA FCCA

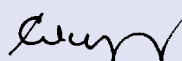
A member firm of Ernst & Young Global Limited

- 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.



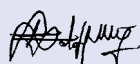
20 October 2020
Colombo

Financial Reports /

Statement of Financial Position

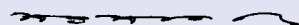
As at 31 March	Notes	2020 Rs.	2019 Rs.
ASSETS			
Non Current Assets			
Property, Plant and Equipment	5	288,014,043	248,024,334
Intangible Assets	6	332,860,331	359,621,728
Long Term Financial Investments	7	531,687,853	1,092,803,113
		1,152,562,227	1,700,449,175
Current Assets			
Inventories	8	3,937,825	2,686,594
Trade and Other Receivables	9	159,276,429	283,183,457
Short Term Financial Investments	10	1,519,243,975	549,343,897
Cash and Cash Equivalents	11	131,338,580	50,694,275
		1,813,796,809	885,908,223
Total Assets		2,966,359,036	2,586,357,398
EQUITY AND LIABILITIES			
Capital and Reserves			
Stated Capital	12	165,200,000	165,200,000
Technology Upgrade Reserve	13	139,131,459	258,157,071
Retained Earnings		2,397,561,778	1,866,701,326
Total Equity		2,701,893,237	2,290,058,397
Non Current Liabilities			
Retirement Benefit Obligation	14	44,966,781	39,477,024
Deferred Tax Liability	15	19,406,487	15,115,697
		64,373,268	54,592,721
Current Liabilities			
Trade and Other Payables	16	179,482,975	194,930,989
Deferred Revenue		3,614,823	6,814,807
Income Tax Liability		16,994,733	39,960,484
		200,092,531	241,706,280
Total Equity and Liabilities		2,966,359,036	2,586,357,398
Net Assets Value Per Share		177.17	150.17

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 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 Page 132 to 144 form an integral part of these Financial Statements

20 October 2020
Colombo

Statement of Comprehensive Income

Year ended 31 March	Notes	2020 Rs.	2019 Rs.
Revenue	17	1,097,709,274	1,029,057,105
Direct Operating Expenses		(565,333,411)	(496,521,083)
Gross Profit		532,375,863	532,536,022
Other Income	18	225,812,211	186,023,654
Administrative Expenses		(173,134,574)	(165,257,445)
Marketing Expenses		(23,922,775)	(33,019,891)
Profit Before Tax	19	561,130,725	520,282,340
Income Tax Expense	20	(75,488,226)	(89,811,604)
Profit for the Year		485,642,499	430,470,736
Other Comprehensive Income			
Remeasurement Gain / (Loss) on Retirement Benefit Obligation (Net of Tax)	14.2	1,679,842	(6,039,584)
Total Comprehensive Income for the Year		487,322,341	424,431,152
Earnings Per Share	21	31.85	28.28

The Accounting policies & Notes on Page 132 to 144 form an integral part of these Financial Statements

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Statement of Changes in Equity

Year ended 31 March	Note	Stated Capital Rs.	Technology Upgrade Reserve Rs.	Retained Earnings Rs.	Total Rs.
Balance as at 01 April 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 Shares		6,950,000	-	-	6,950,000
Total Changes in Ownership		6,950,000	-	-	6,950,000
Transactions with Owners of the Company					
- Contribution and Distribution					
Dividend paid		-	-	(53,200,000)	(53,200,000)
Transferred to Technology Upgrade Reserve		-	130,070,585	(130,070,585)	-
Utilisation of Technology Upgrade Reserve		-	(137,472,622)	137,472,622	-
Total Contributions and Distributions		-	(7,402,037)	(45,797,963)	(53,200,000)
Balance as at 31st March 2019		165,200,000	258,157,071	1,866,701,326	2,290,058,397
Total Comprehensive Income					
Profit for the Year		-	-	485,642,499	485,642,499
Other Comprehensive Income, net of tax		-	-	1,679,842	1,679,842
Total Comprehensive Income		-	-	487,322,341	487,322,341
Transactions with Owners of the Company					
- Contribution and Distribution					
Dividend paid		-	-	(75,487,500)	(75,487,500)
Transferred to Technology Upgrade Reserve		-	140,282,681	(140,282,681)	-
Utilisation of Technology Upgrade Reserve		-	(259,308,293)	259,308,293	-
Total Contributions and Distributions		-	(119,025,612)	43,538,112	(75,487,500)
Balance as at 31st March 2020		165,200,000	139,131,459	2,397,561,778	2,701,893,237

The Accounting policies & Notes on Pages 132 to 144 form an integral part of these Financial Statements

Statement of Cash Flows

Year ended 31 March

	Notes	2020 Rs.	2019 Rs.
Cash flows from operating activities			
Profit Before Tax		561,130,725	520,282,340
Adjustments for			
Depreciation	5.2	74,597,161	55,865,351
Amortisation	6.2	78,208,166	61,351,155
Impairment on Intangible Assets		7,875,000	-
Finance Income		(214,524,270)	(179,215,578)
Gratuity Charge for the Year	14.1	9,948,337	8,514,375
Loss on Disposal of Property, Plant & Equipment		369,314	-
Operating Profit before Working Capital Changes		517,604,433	466,797,642
(Increase)/Decrease in Inventories		(1,251,230)	(167,197)
(Increase)/Decrease in Trade and Other Receivables		123,907,028	(112,342,937)
Increase in Deferred Revenue		(3,199,983)	(410,715)
Increase/(Decrease) in Trade and Other Payables		(15,448,015)	60,799,998
Cash Generated from Operations		621,612,232	414,676,790
Income Tax Paid		(94,693,660)	(72,540,011)
Gratuity Paid	14	(2,248,262)	(3,327,691)
Net Cash From Operating Activities		524,670,311	338,809,088
Cash flows from Investing Activities			
Acquisition of Property, Plant & Equipment	5.4	(115,457,888)	(54,334,681)
Acquisition of Intangible Assets		(59,321,769)	(72,493,077)
Proceeds from Disposal of Property, Plant & Equipment		501,700	-
Investment in Long Term Financial Investments		561,115,260	(311,071,246)
Investment in Short Term Financial Investments		(969,900,079)	(42,926,859)
Finance Income Received		214,524,270	179,215,578
Net Cash Flows Used in Investing Activities		(368,538,506)	(301,610,285)
Cash flows from Financing Activities			
Dividend Paid	22	(75,487,500)	(53,200,000)
Proceeds from Issue of Ordinary Shares		-	6,950,000
Net Cash Flows Used in Financing Activity		(75,487,500)	(46,250,000)
Net Increase/(decrease) in Cash and Cash Equivalents		80,644,305	(9,051,197)
Cash and Cash Equivalents at the beginning of the year	11	50,694,275	59,745,472
Cash and Cash Equivalents at the end of the year	11	131,338,580	50,694,275

The Accounting policies & Notes on Pages 132 to 144 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 2020, covering the period from 01 April 2019 to 31 March 2020 was authorized for issue by the Board of Directors on 20 October 2020.

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

Assessment of Impairment

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

Useful life-time of the Plant and Equipment

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

Useful life-time of intangible assets

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

Going Concern

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

4.1 Foreign Currency Translation

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

Monetary assets and liabilities denominated in foreign currency are translated to functional currency equivalents at the exchange rate prevailing at the end of the reporting period.

Non-monetary assets and liabilities are translated using exchange rates that existed when the values were determined. The resulting gains and losses are recognised in profit or loss.

4.2 Property, Plant and Equipment

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

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

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 plant and equipment and any significant part initially recognized is derecognized 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 recognized within "Other Income" in the Statement of Comprehensive Income.

4.2.2 Restoration Costs

Expenditure incurred on repairs or maintenance of property plant and equipment in order to restore or maintain future economic benefits expected from originally assessed standard of performance is recognized 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 amortized over its estimated life of 4 - 8 years using the straight-line method. If there is an indication that there has been a significant change in 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 recognized 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 recognized immediately in profit or loss.

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

4.6 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 recognized at fair value. After initial measurement, such financial assets are subsequently measured at amortized cost using Effective Interest Rate method (EIR), less impairment.

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.

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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 recognized 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 collateralized by purchase of treasury bills subject to a commitment to re-sale them at a predetermined price. Such securities remain on the statement of financial position of the Company and the asset is recorded

in respect of the consideration paid and interest accrued thereon.

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 recognized 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 derecognized 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 derecognizes 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 amortized cost.

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 amortized cost. If there is objective evidence of impairment, the impairment loss is immediately recognized in surplus or deficit.

4.13 Provisions

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

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

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

4.15 Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue and associated costs incurred or to be incurred can be reliably measured. Revenue 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 recognized on per transaction basis, except for FINCSIRT (Financial Sector Computer Security Incident Response Team) products which recognized on annual basis.

Interest Income

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

Rental Income

Rental income is recognised on an accrual basis.

4.16 Expenditure Recognition

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

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

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

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

Deferred tax assets and liabilities are not discounted.

The net increase in the carrying amount of deferred tax liability net of deferred tax asset is recognized as deferred tax expense and conversely any net decrease is recognized 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.

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Notes to the Financial Statements

5. PROPERTY, PLANT AND EQUIPMENT

	Balance as at 01.04.2019 Rs.	Additions Rs.	Disposals Rs.	Balance as at 31.03.2020 Rs.
5.1 At Cost				
Computer Equipment	519,026,445	108,850,846	3,268,331	624,608,960
Furniture and Fittings	24,883,219	-	-	24,883,219
Electronic Equipment	34,080,476	721,305	8,594,675	26,207,106
Other Equipment	16,957,025	5,885,737	2,983,199	19,859,563
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	691,821,413	115,457,888	14,846,205	792,433,096

	Balance as at 01.04.2019 Rs.	Charge for the Year Rs.	Disposals Rs.	Balance as at 31.03.2020 Rs.
5.2 Depreciation				
Computer Equipment	378,184,968	61,394,587	3,268,331	436,311,224
Furniture and Fittings	15,212,185	1,684,534	-	16,896,719
Electronic Equipment	25,782,952	3,983,750	7,785,595	21,981,107
Other Equipment	11,217,900	3,897,270	2,921,262	12,193,908
Motor Vehicle	5,356,000	1,339,000	-	6,695,000
Freehold Building	8,043,074	2,298,021	-	10,341,095
Total Depreciation	443,797,078	74,597,161	13,975,188	504,419,053

	2020 Rs.	2019 Rs.
5.3 Net Book Values		
Computer Equipment	188,297,736	140,841,477
Furniture and Fittings	7,986,500	9,671,035
Electronic Equipment	4,225,999	8,297,523
Other Equipment	7,665,655	5,739,125
Motor Vehicle	-	1,339,000
Freehold Land	21,238,620	21,238,620
Freehold Building	58,599,533	60,897,554
Total Carrying Amount of Property, Plant and Equipment	288,014,043	248,024,334

5.4 During the financial year, the Company acquired Property, Plant & Equipment by means of cash with an aggregate cost of Rs. 115mn (2019 - Rs.54mn)

5.5 The total investment made as at the reporting date in Common Card and Payment Switch was Rs. 561mn (2019 - Rs. 523mn) 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 2020 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 01.04.2019 Rs.	Additions Rs.	Disposals/ Transfers Rs.	Impairment Rs.	Balance as at 31.03.2020 Rs.
6.1 At Cost					
Computer Software	730,833,414	150,511,686	-	-	881,345,100
	730,833,414	150,511,686	-	-	881,345,100
Capital Work in Progress					
Common Card and Payment Switch	99,064,917	-	91,189,917	7,875,000	-
	99,064,917	-	91,189,917	7,875,000	-
Total Value of Assets	829,898,331	150,511,686	91,189,917	7,875,000	881,345,100

	Balance as at 01.04.2019 Rs.	Charge for the Year Rs.	Disposals/ Transfers Rs.	Impairment	Balance as at 31.03.2020 Rs.
6.2 Amortisation					
Computer Software	470,276,603	78,208,166	-	-	548,484,769
Total Amortisation	470,276,603	78,208,166	-	-	548,484,769

	2020 Rs.	2019 Rs.
6.3 Net Book Values		
Computer Software	332,860,331	260,556,811
Capital Work in Progress		
Common Card and Payment Switch	-	99,064,917
Total Carrying Amount of Intangible Assets	332,860,331	359,621,728

6.4 During the financial year, the Company acquired intangible assets by means of cash with an aggregate cost of Rs. 59 Mn (2019 - Rs. 72 Mn).

6.5 Based on the assessment of potential impairment carried out internally as at 31 March 2020, a full provision was made to the investment in Application Software for Common Mobile Switch (CMOBS) in the Financial Statements as at the reporting date.

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Notes to the Financial Statements

7. LONG TERM FINANCIAL INVESTMENTS

	2020 Rs.	2019 Rs.
Investment in Fixed Deposits	461,668,784	1,017,377,256
Accrued Interest on Fixed Deposits	70,019,069	75,425,857
	531,687,853	1,092,803,113

8. INVENTORIES

	2020 Rs.	2019 Rs.
Consumable and Stationary	3,937,825	2,686,594
	3,937,825	2,686,594

9. TRADE AND OTHER RECEIVABLES

	2020 Rs.	2019 Rs.
Trade Receivables	124,282,323	135,460,596
Advances & Prepayments	33,542,576	96,715,072
Refundable Deposits	450,700	450,700
Other Receivables	1,000,830	50,557,089
	159,276,429	283,183,457

10. SHORT TERM FINANCIAL INVESTMENTS

	2020 Rs.	2019 Rs.
Investment in Fixed Deposits	1,469,843,697	539,940,540
Accrued Interest on Fixed Deposits	49,400,278	9,403,357
	1,519,243,975	549,343,896

11. CASH AND CASH EQUIVALENTS

	2020 Rs.	2019 Rs.
Cash in Hand and Bank Balances	131,338,580	50,694,275
	131,338,580	50,694,275

12. STATED CAPITAL

	2020		2019	
	Number	Rs.	Number	Rs.
Fully paid Ordinary Shares	15,250,000	165,200,000	15,250,000	165,200,000
Balance at the Beginning of the Year	15,250,000	165,200,000	15,200,000	158,250,000
Issue of Shares for Cash	-	-	50,000.00	6,950,000.00
Balance at the End of the Year	15,250,000	165,200,000	15,250,000	165,200,000

13. TECHNOLOGY UPGRADE RESERVE

	2020 Rs.	2019 Rs.
Balance at the Beginning of the Year	258,157,071	265,559,108
Transferred from Retained Earnings	140,282,681	130,070,585
Utilisation of Technology Upgrade Reserve	(259,308,293)	(137,472,622)
Balance at the End of the Year	139,131,459	258,157,071

Technology Upgrade Reserve represents profits reserved by the Company for the replacement of capital assets that have either completed their useful economic life or with outdated technology necessitating replacements. Company allocates 25% of profit before tax to the Technology Upgrade Reserve annually.

14. RETIREMENT BENEFIT OBLIGATION

	2020 Rs.	2019 Rs.
Balance at the Beginning of the Year	39,477,024	25,902,029
Gratuity Charge for the Year (Note 14.1)	9,948,337	8,514,375
	49,425,361	34,416,404
Payments made during the Year	(2,248,262)	(3,327,691)
(Gain)/Loss arising from Changes in Assumptions (Note 14.1)	(2,210,318)	8,388,311
Balance at the End of the Year	44,966,781	39,477,024

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 2020. 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,

	2020	2019
Discount Rate	10.00%	11.00%
Salary Increment Rate	9.00%	11.66%
Staff Turnover Factor	14.29%	8.00%

Financial Reports /

Notes to the Financial Statements

14. RETIREMENT BENEFIT OBLIGATION (Contd...)

	2020 Rs.	2019 Rs.
14.1 Expenses recognised during the year in Statement of Comprehensive Income		
Gratuity Charge for the Year recognised in Profit or Loss	9,948,337	8,514,375
Actuarial (Gain)/Losses recognised in Other Comprehensive Income	(2,210,318)	8,388,311
14.2 Retirement Benefit Obligations (Net of Taxes)		
Actuarial (Gain)/Losses recognised in Other Comprehensive Income	(2,210,318)	8,388,311
Tax Expense/(Refund)	530,476	(2,348,727)
	(1,679,842)	6,039,584

15. DEFERRED TAXATION

	2020 Rs.	2019 Rs.
Deferred Tax Liability	19,406,487	15,115,697
	19,406,487	15,115,697

Deferred tax relates to the following:

	Statement of financial position		Statement of Comprehensive Income	
	2020 Rs.	2019 Rs.	2020 Rs.	2019 Rs.
Property, Plant and Equipment and Intangible Assets	(30,198,514)	(28,517,991)	(1,680,523)	(4,861,576)
Retirement Benefit Obligation	10,792,027	13,402,294	(2,610,267)	6,149,726
Deferred tax asset / (Liability)	(19,406,487)	(15,115,697)		
Deferred tax (expense) / benefit			(4,290,790)	1,288,150

Reconciliation of deferred tax liabilities, net

	2020 Rs.	2019 Rs.
As of 1 April	15,115,698	16,403,847
Tax expense during the period recognised in profit or loss	3,760,312	1,060,578
Tax income/(expense) during the period recognised in OCI (Note 14.2)	530,476	(2,348,727)
As at 31 March	19,406,487	15,115,698

16. TRADE AND OTHER PAYABLES

	2020 Rs.	2019 Rs.
Sundry Creditors and Accruals	174,553,070	185,167,919
Value Added Tax (VAT)	4,929,905	7,894,001
Nation Building Tax (NBT)	-	1,869,069
	179,482,975	194,930,989

17. REVENUE

	2020 Rs.	2019 Rs.
Revenue from Cheque Imaging and Truncation System (CITS)	394,484,960	443,443,981
Revenue from Common Card and Payment Switch (CCAPS)	521,290,369	417,360,428
Revenue from Sri Lanka Interbank Payment System (SLIPS)	137,713,671	124,862,888
Revenue from Financial Sector Computer Security Incident Response Team (FINCSIRT)	9,960,432	16,485,521
Revenue from LankaSign Certificate Authority (CA)	29,036,092	22,669,537
Revenue from USD Online Clearing System	5,223,750	4,234,750
	1,097,709,274	1,029,057,105

18. OTHER INCOME

	2020 Rs.	2019 Rs.
Interest on Fixed Deposits	211,780,599	177,700,497
Interest on Securities Purchase under Resale Agreement	1,090,308	1,068,869
Interest on Saving Account - LKR	1,176,056	99,338
Interest on Saving Account - USD	477,307	346,874
Rental Income	4,910,946	4,677,092
Other Income	2,084,610	2,130,984
Exchange Gain	4,292,385	-
	225,812,211	186,023,654

Financial Reports /

Notes to the Financial Statements

19. PROFIT BEFORE TAX

	2020 Rs.	2019 Rs.
Profit Before Tax is stated after charging all expenses including the following:		
Directors' Emoluments	5,039,000	4,195,400
External Auditors' Fee	621,300	621,300
Depreciation (Note 5.2)	74,597,161	55,865,351
Amortisation (Note 6.2)	78,208,166	61,351,155
Donation	710,447	1,294,181
Impairment Loss on Receivable	1,278,385	1,115,417
Impairment Loss on Intangible Assets	7,875,000	-
Personnel Costs includes		
- Defined Contribution Plan Cost - EPF & ETF	23,928,548	21,482,952
- Salaries and other staff costs	224,121,073	204,028,678

20. INCOME TAX EXPENSES

	2020 Rs.	2019 Rs.
The major components of Income Tax expense for the Year ended 31 March are as follows :		
Current Income Tax Expense		
Current Income Tax Charge (Note 20.1)	72,207,777	88,757,089
(Over)/Under provision of current taxes in respect of previous year	(479,864)	(6,063)
Deferred Income Tax Expense		
Relating to Origination and (Reversal) of Temporary Differences (Note 15)	3,760,312	1,060,578
Total Income Tax Expense	75,488,226	89,811,604
20.1 Reconciliation of Accounting Profit to Income Tax Expense		
Profit Before Tax	561,130,725	520,282,340
Profits not liable for Tax	(278,319,389)	(192,241,527)
Aggregate Allowable Expenses	(323,831,541)	(263,878,010)
Aggregate Disallowable Expenses	89,127,268	73,611,222
Taxable Income	48,107,063	137,774,025
Interest Income	219,435,217	179,215,578
Income Tax	72,207,777	88,757,089
Current Tax on Profit for the Year	72,207,777	88,757,089

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 31 March 2021.

Current tax has been computed in accordance with the provisions of Inland Revenue Act No. 24 of 2017 and amendments thereto

21. EARNINGS PER SHARE

	2020 Rs.	2019 Rs.
Amount used as the Numerator		
Net Profit attributable to Ordinary Shareholders	485,642,499	430,470,736
Number of Ordinary Shares used as the Denominator		
Weighted average number of Ordinary Shares in Issue	15,250,000	15,220,411
Earnings Per Share	31.85	28.28

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

	2020 Rs.	2019 Rs.
Final Dividend paid in respect of 2017/18	-	53,200,000
Final Dividend paid in respect of 2018/19	75,487,500	-
Dividend Per Share	4.95	3.50

23. RELATED PARTY DISCLOSURES

Transactions with Related Parties	2020 Rs.	2019 Rs.
Central Bank of Sri Lanka *		
Service rendered through Cheque Imaging and Truncation System (CITS)	257,385	279,901
Service rendered through Sri Lanka Interbank Payment System (SLIPS)	323,775	329,533
Dividend paid	14,602,500	10,325,000

*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.

	2020 Rs.	2019 Rs.
Short Term Employment Benefits	5,039,000	4,195,400

No other significant transactions had taken place during the year with the parties/entities in which Key Management Personnel or their close family members were involved.

Notes to the Financial Statements

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.

Appendices

Ten Year Summary

Year ended 31 March (Rs. Mn)	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Operating Results										
Revenue	348.81	390.43	427.85	463.03	517.87	601.64	800.76	918.50	1,029.06	1,097.71
Gross Profit	208.40	257.74	282.11	260.90	247.16	262.17	390.04	462.61	532.54	532.38
Other Income	61.98	63.30	83.13	95.30	68.04	58.60	90.69	144.47	186.02	225.81
Administrative Expenses	99.40	124.73	104.78	128.01	121.81	126.40	138.18	161.57	165.26	173.13
Finance Cost	9.34	6.39	-	-	-	-	-	-	-	-
Marketing Expenses	-	-	-	-	10.76	9.57	20.50	20.41	33.02	23.92
Profit Before Tax	161.65	189.92	260.46	228.20	182.63	184.81	322.04	425.10	520.28	561.13
Income Tax Expenses	70.80	63.61	71.55	41.41	53.15	11.06	43.55	63.67	89.81	75.49
Profit for the Year	90.85	126.31	188.91	186.79	129.48	173.74	278.49	361.43	430.47	485.64
Capital Employed										
Stated Capital	152.50	154.75	154.75	158.25	158.25	158.25	158.25	158.25	165.20	165.20
Technology Upgrade Reserve	72.01	110.21	167.51	229.67	222.04	236.15	245.58	265.56	258.16	139.13
Capital Reserves	300.00	395.00	395.00	120.00	-	-	-	-	-	-
Retained Earnings	133.75	104.20	213.10	586.21	816.73	949.76	1,188.41	1,488.07	1,866.70	2,397.56
Non Current Liabilities	83.50	9.19	11.44	17.26	18.39	24.32	33.75	42.31	54.59	64.37
Total	741.76	773.36	941.79	1,111.39	1,215.40	1,368.48	1,626.00	1,954.19	2,344.65	2,766.26
Assets Employed										
Property, Plant and Equipment	132.99	91.57	206.24	175.59	224.74	268.86	241.96	249.55	248.02	288.01
Intangible Assets	29.19	15.28	10.71	117.95	235.52	293.04	327.94	332.90	359.63	332.86
Long Term Financial Investments	-	-	-	-	-	-	-	781.74	1,092.80	531.69
Deferred Tax Asset	-	-	-	1.12	0.65	-	-	-	-	-
Net Current Assets	579.58	666.51	724.83	816.72	754.50	806.58	1,056.11	590.00	644.20	1,613.70
Total	741.76	773.36	941.79	1,111.39	1,215.40	1,368.48	1,626.00	1,954.19	2,344.65	2,766.26
Cash Flow										
Cash Flows from/(used in) Operating Activities	118.18	138.47	96.80	138.65	106.56	164.31	285.38	389.57	338.81	524.67
Cash Flows from/(used in) Investing Activities	(77.40)	83.47	(196.01)	(87.81)	(72.67)	(124.35)	(37.69)	(572.13)	(301.61)	(368.54)
Cash Flows from/(used in) Financing Activities	(42.72)	(94.58)	(22.73)	(23.01)	(26.60)	(26.60)	(30.40)	(41.80)	(46.25)	(75.49)
Net increase/(decrease) in Cash and Cash Equivalents	(1.93)	127.36	(121.93)	27.83	7.29	13.36	217.29	(224.36)	(9.05)	80.64
Key Indicators										
Net Profit Margin	26%	32%	44%	40%	25%	29%	35%	39%	42%	44%
Earnings Per Share	6.02	8.35	12.47	12.32	8.52	11.43	18.32	23.78	28.28	31.85
Net Assets Per Share	43.59	50.44	61.41	72.18	78.75	88.41	104.75	125.78	150.17	177.17
Revenue Growth Rate	-9%	12%	10%	8%	12%	16%	33%	15%	12%	7%
Dividend Per Share	1.50	1.50	1.75	1.75	1.75	2.00	2.75	3.50	4.95	*6.37
Dividend Payout (Rs.millions)	22.65	22.73	26.51	26.53	26.60	30.40	41.80	53.20	75.49	97.14
Return on Equity	14%	17%	20%	17%	11%	13%	17%	19%	19%	18%

*Dividend proposed in 2019/20

Appendices / 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 LankaClear 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 LankaClear 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 LankaClear; and by LankaClear 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 LankaClear 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.

'LankaClear' 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 Rs. 10,000 under an extremely low tariff scheme, enable customers to make everyday payments by using their Savings or Current account by using smart mobile phones and other smart devices.

Notes

Appendices /

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the 18th Annual General Meeting of LankaClear (Private) Limited will be held on 05th February 2021 at 10.00 a.m. at the Board Room of LankaClear (Private) Limited, Level 18, Bank of Ceylon Head office, "BOC Square", No.01, Bank of Ceylon Mawatha, Colombo 01 via Microsoft Teams Audio / Video – (Virtual AGM) 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 2020 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 authorize the Directors to determine their remuneration.
- 3) To declare the payment of a First & Final Dividend of Rs. 6.37 per share as recommended by the Directors.
- 4) To approve following amendments to Articles of Association of the Company as directed by the Central Bank of Sri Lanka as Special Resolutions.

a) Article 4 (ii) of the Articles of Association of the Company

IT IS HEREBY RESOLVED that the amendment to Article number 4 (ii) of the Articles of Association, with the inclusion of the following content, be and is hereby approved;

"Any subsequent transfer of shares shall ensure that the cumulative percentage of issued share capital held by the Central Bank of Sri Lanka and the Licensed State Commercial Banks is not less than 48% of the issued share capital, and that the percentage of issued share capital held by the Central Bank of Sri Lanka shall be maintained as far as possible, subject to regulations and standards followed by Central Bank of Sri Lanka, the proportion of which the

Central Bank of Sri Lanka, held shares at its first allotment, which was at 20% of the issued share capital."

Accordingly, article 4(ii) of the Article of Association will be duly amended to read as follows;

"At the first allotment of shares the percentage of shares held by the Central Bank of Sri Lanka and the Licensed State Commercial Banks shall not exceed 48% of the issued share capital. Any subsequent transfer of shares shall ensure that the cumulative percentage of issued share capital held by the Central Bank of Sri Lanka and the Licensed State Commercial Banks is not less than 48% of the issued share capital, and that the percentage of issued share capital held by the Central Bank of Sri Lanka shall be maintained as far as possible, subject to regulations and standards followed by Central Bank of Sri Lanka, the proportion of which the Central Bank of Sri Lanka, held shares at its first allotment, which was at 20% of the issued share capital."

b) Article 22 (a) of the Articles of Association of the Company

IT IS HEREBY RESOLVED that the amendment to Article number 22 (a) of the Articles of Association, with the inclusion of the following content, be and is hereby approved;

"categories (a),(b) and (c) of Article 3 (ii) shall maintain the shares percentages stated in Article 4."

Accordingly, article 22 (a) of the Article of Association will be duly amended to read as follows;

"Shares shall not be transferred to any person other than an existing member provided that by such transfer the percentage of shares held by the categories (a), (b) and (c) of Article 3 (ii) shall maintain the shares percentages stated in Article 4."

(c) Article 42 of the Articles of Association of the Company

IT IS HEREBY RESOLVED that the amendment to Article number 42 of the Articles of Association, with the inclusion of the following content, be and is hereby approved;

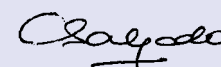
"with the concurrence of the Central Bank."

Accordingly, article 42 of the Article of Association will be duly amended to read as follows;

"The company may, by special resolution reduce its share capital out of any capital redemption reserve fund or any share premium account in any manner and with any subject to any incident authorized and consent required by law, with the concurrence of the Central Bank."

- 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

Colombo,
07th January 2021

Form of Proxy

We the undersigned, bearing
Registration No. of
.....
being a member of LankaClear (Private) Limited, hereby appoint

1. Full name of Proxy :
2. NIC of Proxy :
3. Address of Proxy :
4. Contact Numbers Land, Mobile
5. Email address :

as our Proxy/Representative to represent us and vote for us on our behalf at the 18th Annual General Meeting of the Company to be held on 05th February 2021 at 10.00 am at the Board Room of LankaClear (Private) Limited, Level 18, Bank of Ceylon Head office, "BOC Square", No. 01, Bank of Ceylon Mawatha, Colombo 01 via Microsoft Teams Audio / Video and at any adjournment thereof and at every poll which may be taken in consequence thereof.

Signed this day of 2021.

.....
Signature

Authorized Officer

(Under the common seal of company)

Notes and Instructions as to completion of Form of Proxy/Form of Registration of Shareholder

1. A Shareholder entitled to attend and vote at the meeting but is unable to attend the meeting, can appoint not more than one proxy to attend and vote at the AGM instead of him/her, by completing the Form of Proxy.
2. Please complete the Form of Proxy by filing in legibly, the requested details with date and sign in the space provided.
3. In order to be valid, the Form of Proxy must be duly completed and forwarded to renuka.fernando@lankaclear.com and must be received not later than 48 hours before the time appointed for holding the meeting, i.e. before 04th February 2021.
4. If the Proxy is a Company or Corporation, the Form of Proxy should be executed either under its Common Seal or by a duly authorized officer of the Company or Corporation in accordance with its Articles of Association or Constitution.
5. The "Web Link" for participation at the AGM through the online platform will be forwarded to the Shareholder's / Proxy holders above noted email address.

Appendices /

Supplementary Notice to Shareholders

Dear Shareholder/s,

Considering the prevailing situation in the country and the restrictions enforced by the Government of Sri Lanka, the Board of Directors of LankaClear (Private) Limited (Company) has decided to proceed with the AGM using audio visual technology.

Please note the following procedure to be adopted in terms of the same;

1. Only the key officials who are essential for the administration of the formalities of the meeting will be physically present at the venue. All Shareholders, will participate via the online meeting platform. This measure is being adopted to observe “social distancing” requirements to mitigate the danger of spreading the virus (COVID 19).
2. Adequate arrangements will be made for Shareholders who wish to participate in the AGM via the online meeting platform, with log-in information forwarded to the representatives of the Shareholders in advance of the meeting.

In order to enable such facilities, Shareholders who wish to participate in the meeting are requested to forward us their details as per the attached Proxy Form/Registration Form.

3. The meeting Invitation / link along with necessary details will be forwarded to the Shareholders for information and connecting to the meeting, on receipt of the completed Form of Proxy/Form of Registration.
4. Shareholders will be given opportunity to raise any questions or comment on the matters listed on the Agenda and Vote on the items via the online platform or the designated ancillary online application. All of such procedures will be explained to the Shareholders along with the communique on the meeting link.
6. The Proxy/Registration must be forwarded to renuka.fernando@lankaclear.com 48 hours prior to the date of the AGM.

For any queries regarding any of the documents sent, please contact the Chairman’s Secretary on Tel: 0769735635 during regular office hours.

The Board wishes to thank the Shareholders of the company for their unwavering cooperation and support to ensure a smooth and uninterrupted process at this Annual General Meeting of the Company.

By Order of the Board

Lankaclear (Private) Limited



Managers & Secretaries (Private) Limited
Director/Secretaries

07th January 2021



LankaClear (Private) Limited

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