

Annual Report 2020/21

LankaClear (Private) Limited

Quantum Leap



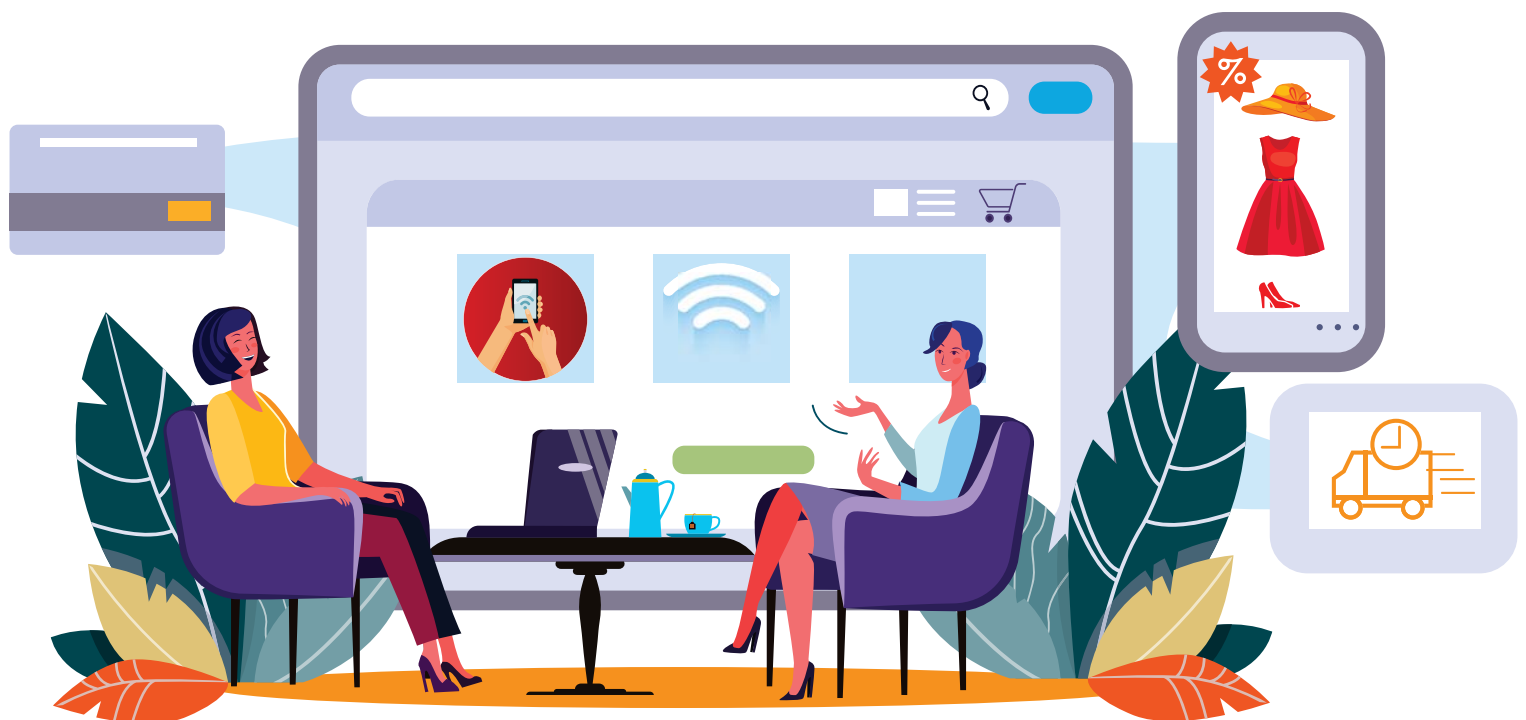


To revolutionize the transport sector in the country, we unveiled the 2in1 payment card technology to enable 'Tap and Go' payment capability in public transport. Ensuring a Quantum Leap in the Transport Sector, this is a pioneering effort to introduce an innovative technology of a single payment card with online and offline capabilities to provide convenience to commuters of public transport. You may get a glimpse of the Sri Lanka Transit Card experience by enabling NFC access in your Smart Phone and tapping the phone on the LankaPay card on the cover page of this year's annual report.

Quantum Leap

LankaClear has always been in the forefront of understanding consumer needs to make their lives and work seamless by providing real-time and secure transactions. In fact, we are well on our way to integrate the latest financial service innovation that will positively impact the lives of a majority of Sri Lankans via our 2 in 1 Payment Card. With a dynamic shift in consumer behaviour and how companies analyse the metrics of online engagement, our services have become indispensable.

Our enviable track record shows that we have always strived to bring world-class technology, speed and convenience to a new breed of digital consumers to meet their demanding expectations in accessing financial services. Similarly, we are making traditional brick mortar business a piece of history by bringing the future ever so closer to facilitate a quantum leap in how people work, live and transact.



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A World Beyond Cash

Bringing the best-of-breed solutions to Sri Lanka's payment infrastructure, LankaClear has been a trailblazer in revolutionizing the country's banking and financial services sector, as the operator of Sri Lanka's National Payment Network - LankaPay, by keeping the elements of 'innovation' and 'cutting-edge technology' at its core.

Grown by leaps and bounds since its incorporation in 2002, LankaClear's quest is to empower every Sri Lankan with faster, convenient, secure and affordable payment solutions thereby taking the lead in driving the nation towards financial inclusivity.



A Quantum Leap in Engagement

Attracting the attention of digital consumers and keeping them engaged is a daunting task. Their attention span is limited to a few seconds and you must capture their interest within that small window. We understood the way forward is to be innovative and thereby introduced the concept of the 2in1 card under the National Card Scheme. By enabling offline 'Tap and Go' capability to public transport via NFC technology, we are bringing seamless convenience to the lives of our digital consumers to be relevant to them.

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OUR VISION

To be Asia's most trusted and reliable payment network



OUR MISSION

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



OUR CORE VALUES

- ▶ Responsibility and Accountability
- ▶ Respect Others for Who They Are
- ▶ Be a Catalyst for Change
- ▶ Leadership
- ▶ Integrity and Trust
- ▶ Availability and Accessibility
- ▶ Teamwork & Collaboration

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, or 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.



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.

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, and 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 2020/21 was to provide a seamless experience to all our stakeholders.

► Timely introduction of innovative and efficient payment solutions and services to exceed customer expectations

► Manage and deliver stakeholder expectations whilst maintaining good governance and contributing to sustainable development

► Enhance overall financial health of the organisation by achieving revenue and profitability growth targets, while safeguarding company assets

► Ensure trust and high availability of all payment systems and services

► Ensure the availability of a highly qualified, trained, efficient and motivated team of staff members to facilitate organisational growth

► Take LankaPay brand to the masses

► Enhance and sustain information security and compliance on all platforms

► Promoting social harmony by contributing towards a worthy CSR cause

► Enhance customer satisfaction levels

► Reduce the cost of all inter-bank financial transactions



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.



“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.



This is LankaClear’s sixth Integrated Annual Report and covers the period 1st April 2020 to 31st March 2021, 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.

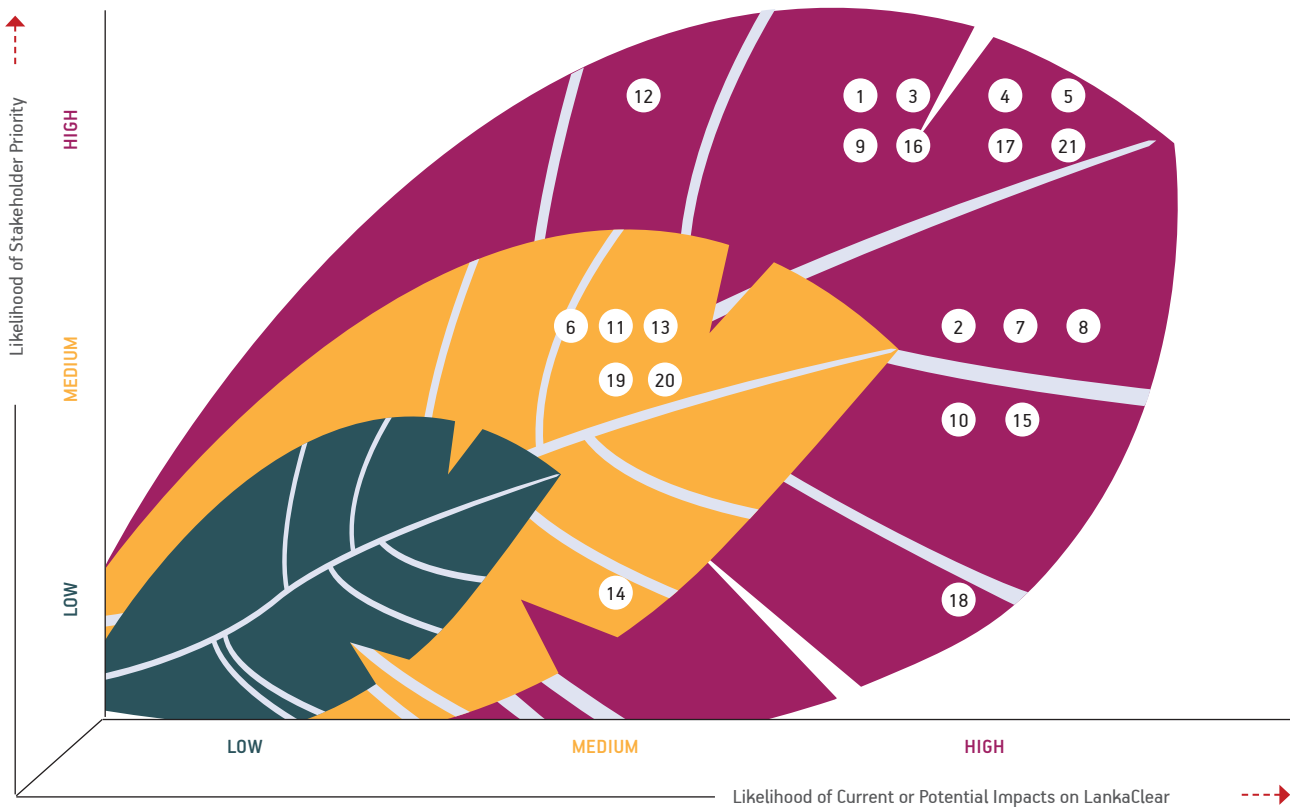
Boundary, Materiality Assessment and Restatement of Information

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 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
- ▶ US Dollar Draft Payment System (UITS)
- ▶ 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

107

Net Revenue

Rs. 1,057,154,707

Stated Capital

Rs. 165,200,000

Shareholding as at 31st March 2021

"LankaClear shares were owned by the Central Bank of Sri Lanka (CBSL) and 24 Commercial Banks operating in Sri Lanka, including State Banks, Private Banks and Foreign Banks."

Shareholders	Number of Shares	%
Central Bank of Sri Lanka	2,986,824	19.59%
Hatton National Bank PLC	2,214,521	14.52%
Bank of Ceylon	2,113,861	13.86%
People's Bank	2,126,213	13.94%
Sampath Bank PLC	2,000,000	13.11%
Seylan Bank PLC	1,006,601	6.60%
Commercial Bank of Ceylon PLC	1,000,000	6.56%
The Hongkong and Shanghai Banking Corporation Ltd	200,000	1.31%
National Development Bank PLC	150,990	0.99%
Standard Chartered Bank	150,990	0.99%
Deutsche Bank AG	150,000	0.98%
Nations Trust Bank PLC	150,000	0.98%
Citibank NA	100,000	0.66%
DFCC Bank PLC	100,000	0.66%
Indian Bank	100,000	0.66%
Indian Overseas Bank	100,000	0.66%
MCB Bank Ltd	100,000	0.66%
Pan Asia Banking Corporation PLC	100,000	0.66%
Public Bank Berhad	100,000	0.66%
Amana Bank PLC	50,000	0.33%
Bank of China Ltd	50,000	0.33%
Cargills Bank Ltd	50,000	0.33%
Habib Bank Ltd	50,000	0.33%
State Bank of India	50,000	0.33%
Union Bank of Colombo PLC	50,000	0.33%
Total	15,250,000	100.00%

ICICI Bank Limited and Axis Bank Limited ceased to operate in Sri Lanka, during the year 2020/21

PARTICIPANTS IN LANKACLEAR PAYMENT SYSTEMS

[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		
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												
Commercial Credit and Finance PLC												
Merchant Bank of Sri Lanka & Finance PLC												
HNB Finance Ltd												
Mercantile Investment and Finance PLC												
People's Leasing and Finance PLC												
Sarvodaya Development Finance Ltd												
Bimpu Finance PLC												
Siyapatha Finance PLC												
LOLC Development Finance PLC												
Dialog Finance PLC												
Softlogic Finance PLC												
Singer Finance (Lanka) Ltd												
CBC Finance Ltd												
Cooperative Regional Rural Bank LTD Polgahawela												
Lanka Credit and Business Finance Limited												
Central Bank of Sri Lanka												
Total	26	22	14	30	42	47	3	15	11	20	13	4

Participants joined prior to 2020/21

Participants went live during the year 2020/21

* From 2020 July, ICICI Bank did not participate in SLIPS & CITS.

2006

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



2008

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



2009

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



2010

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



2011

- Introduced the direct connectivity mode for CITS settlement clearing for all banks using digital certificates for greater security
- Extended CD (cheque) submission time from 6:30 pm to 7:30 pm via efficiency enhancements of the CITS main clearing
- Advanced the inward return delivery time from 2:00 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



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

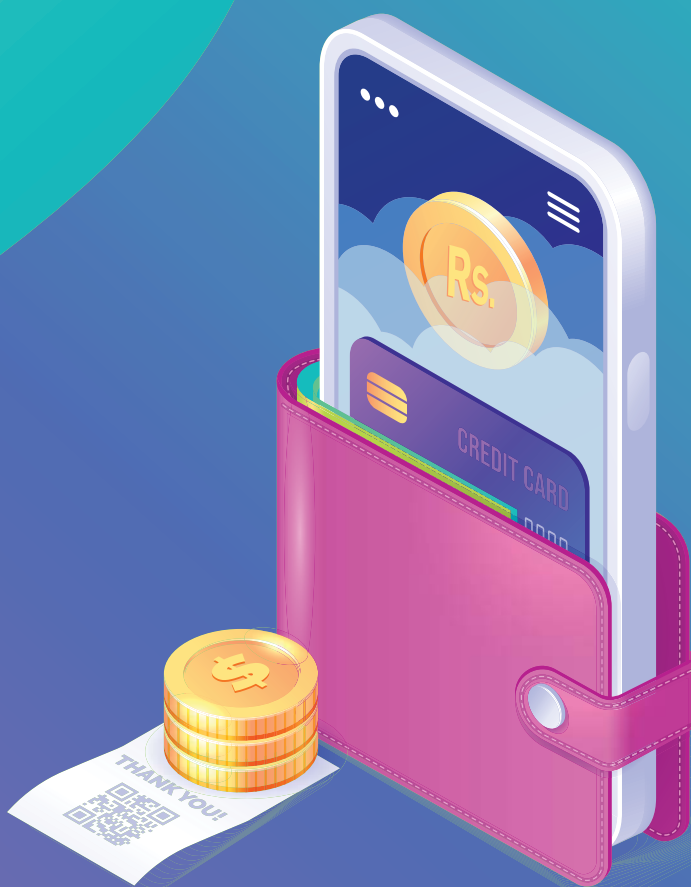
- Implemented the back end to facilitate LANKAQR - National Quick Response (QR) code-based transactions
- Introduced four settlement cycles among member banks for CAS and CEFTS clearing to reduce the interbank settlement risk
- Implemented Clearing and Settlement Interface (CSI) Project for CITS to fully 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
- Implemented an automated clearing process for USD draft/cheque clearing for the convenience of participating banks where bank representatives do not have to carry physical drafts/cheques to LankaClear
- Enabled JCB cross border transactions through cards issued under the National Card Scheme (NCS) and JCB cards issued internationally
- Obtained the PCI-DSS version 3.2.1 recertification

2020

- Launch of Payment Exchange Name (PEN) to facilitate online payments based on a mobile number and a nick name
- Launch of Direct Debit
- Implemented Automated Customer Support System (ACSS) to better serve customer queries
- Migrated all clearing systems from obsolete DogTag Certification Authority (CA) to new Windows CA
- Migrated the entire LankaSign process from a physical documents-based system to an online approach
- Obtained the PCI-DSS version 3.2.1 recertification

2021

- Introduced 5th settlement cycle for Common Card and Payment Switch (CCAPS)
- Enabled online tax payments to Department of Inland Revenue (IRD) via LankaPay Online Payment Platform (LPOPP)
- Enabled online payments to Sri Lanka Ports Authority (SLPA)
- Upgraded Facetone to enable ticketing functionality and work delegation



	2020/2021	2019/2020	2018/2019	2017/2018	2016/2017
Results for the Year (Rs. Mn)					
Revenue	1,057	1,098	1,029	918	801
Gross Profit	477	532	533	463	390
Profit Before Tax	518	561	520	425	322
Income Tax Expenses	28	75	90	64	44
Profit for the Year	490	486	430	361	278
At the Year End (Rs. Mn)					
Total Assets	3,339	2,966	2,586	2,104	1,707
Total Capital Assets	806	621	608	582	570
Shareholders' Funds	3,092	2,702	2,290	1,912	1,592
Long Term Financial Investments	385	532	1,093	782	
Short Term Financial Investments	1,757	1,519	549	506	695
Information Per Ordinary Share					
Earnings Per Share	32.10	31.85	28.28	23.78	18.32
Dividend Per Share (Proposed)	6.42	6.37	4.95	3.50	2.75
Net Assets Value Per Share	202.77	177.17	150.17	125.78	104.75
Ratios					
Gross Profit Ratio	45%	48%	52%	50%	49%
Net Profit Ratio	46%	44%	42%	39%	35%
Return on Equity	16%	18%	19%	19%	17%
Return on Assets	15%	18%	17%	17%	16%

LKR 1.06 Bn 

Total Revenue 4% down

LKR 610 Mn 

CCAPS Revenue 17% up

LKR 490 Mn 

Net Profit 1% up

LKR 3.3 Bn 

Total Assets 13% up

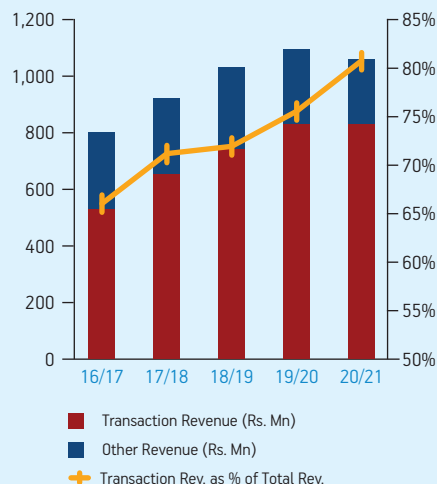
LKR 3.1 Bn 

Total Shareholders' Funds 14% up

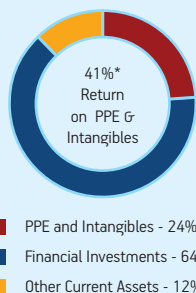
LKR 202.77 

Net Asset Value per Share 14% up

Revenue Analysis

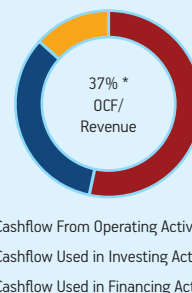


Total Assets Distribution



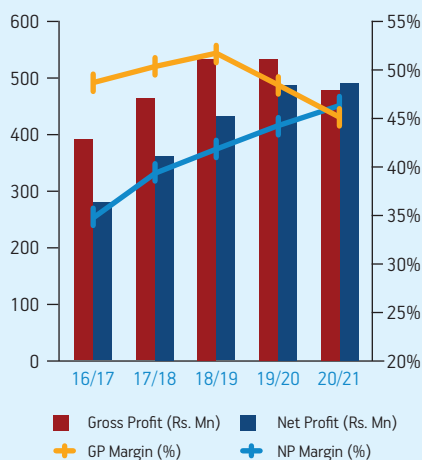
* For the calculation the return considered excluding the net of tax other income.

Cashflow

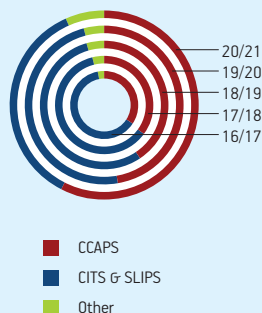


* Operating Cashflow to Revenue, showing the company's ability to convert its sales into cash.

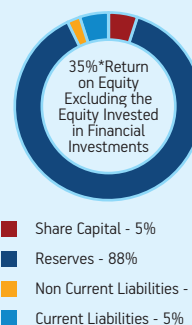
Profitability Analysis



Revenue Mix

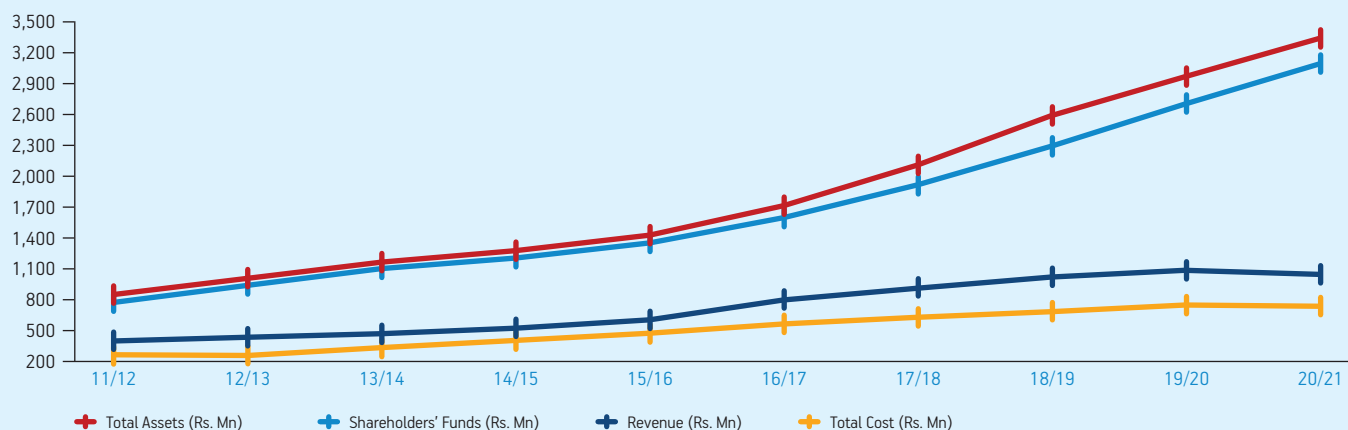


Capital Structure



* 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 - From 2012 to 2021





Over 50 Mn
interbank debit card
transactions facilitated
for withdrawal of cash



Security of transactions and
documents ensured through
approx. 388,000
LankaSign digital certificates



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



**Over LKR
13.42 Tn and
USD 496.28 Mn**
worth of transactions
facilitated through
LankaClear Systems



**33 Mn online real
time 24x7 fund
transfers/payments**
from one participant
to another facilitated
through **42 CEFTS
members** for your
convenience



Retail sector payment
facilitation through JustPay
transactions.
**Growth of 98% in
JustPay registration
and a growth of 195%
in JustPay transaction
Volumes**

55

Connectivity

Connected to 26
Commercial Banks,
6 specialised Banks
and 23 Financial
Institutions.

232,000

Mobile SDK Certificates
issued.

LankaSign process is
**ISO 27001
certified &**

the sole authorised
certification provider in Sri Lanka.

530+

certificates
issued to financial sector.

2 Bn+

Worth of JustPay transactions being
transacted on a monthly basis via 22
mobile applications supported by 11
financial institutions. Customers of
20 financial institutions can add their
accounts and pay.

5,400+

ATMs+CRMs+CDMs
Islandwide connected
to LankaPay - Common
ATM Network 99.52%
covered.

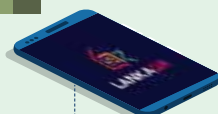
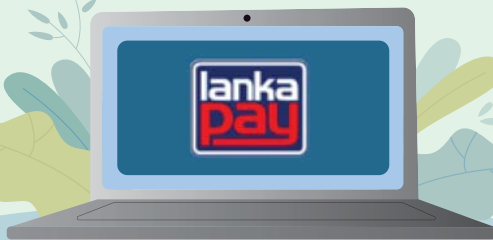
**13
Participants**

Connected to LankaQR.

32 Mn +

Cheques cleared worth of
over LKR 7.55 Tn.

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





Certification & Integration

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

05

JustPay

03

CEFT Credit

10

LankaQR

02

EMV
Migration

02

CPS

01

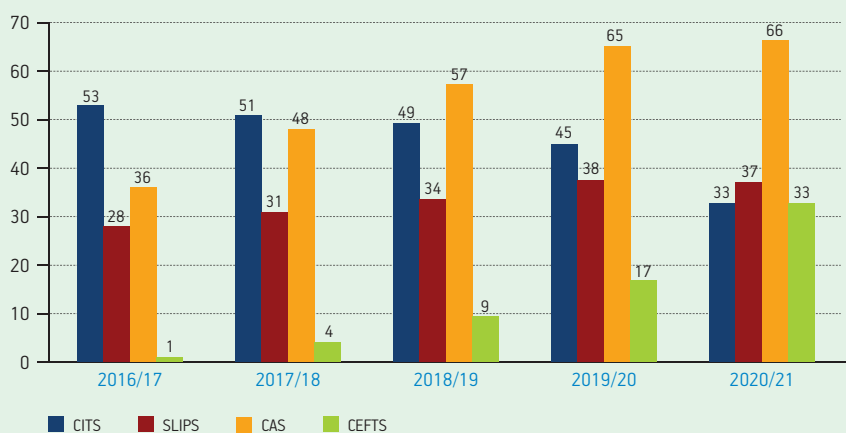
SAS

Infrastructure Enhancement

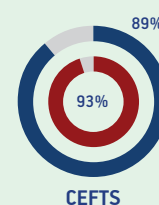
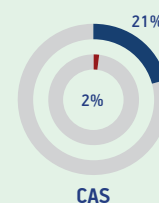
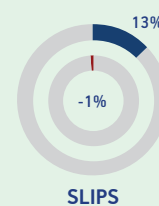
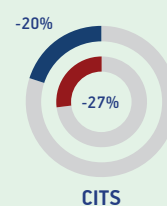
- Refreshed core data centre firewalls and other related devices.
- Enhanced the automated infrastructure monitoring capability at primary and DR site.



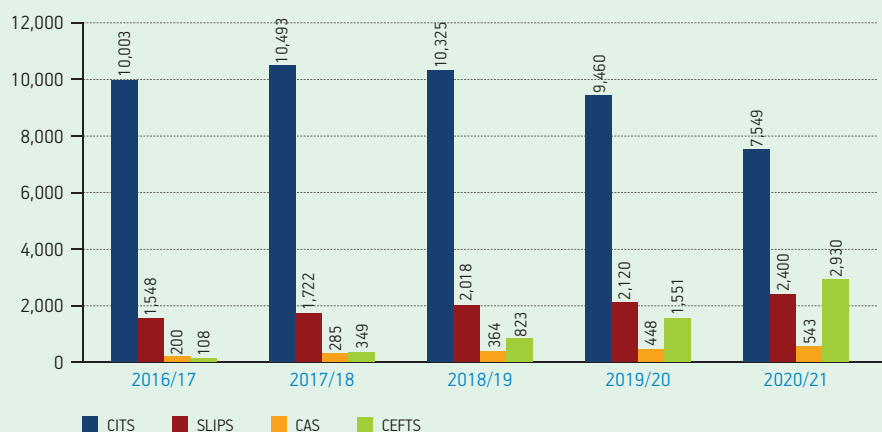
Annual Transaction Volumes by Products
Transaction Volume (Mn)



Growth in Transaction Volume & Value
-2020/21



Annual Transaction Value by Products
Transaction Value (LKR Bn)



■ Growth in Transaction Value
■ Growth in Transaction Volume



A Quantum Leap in Accessibility

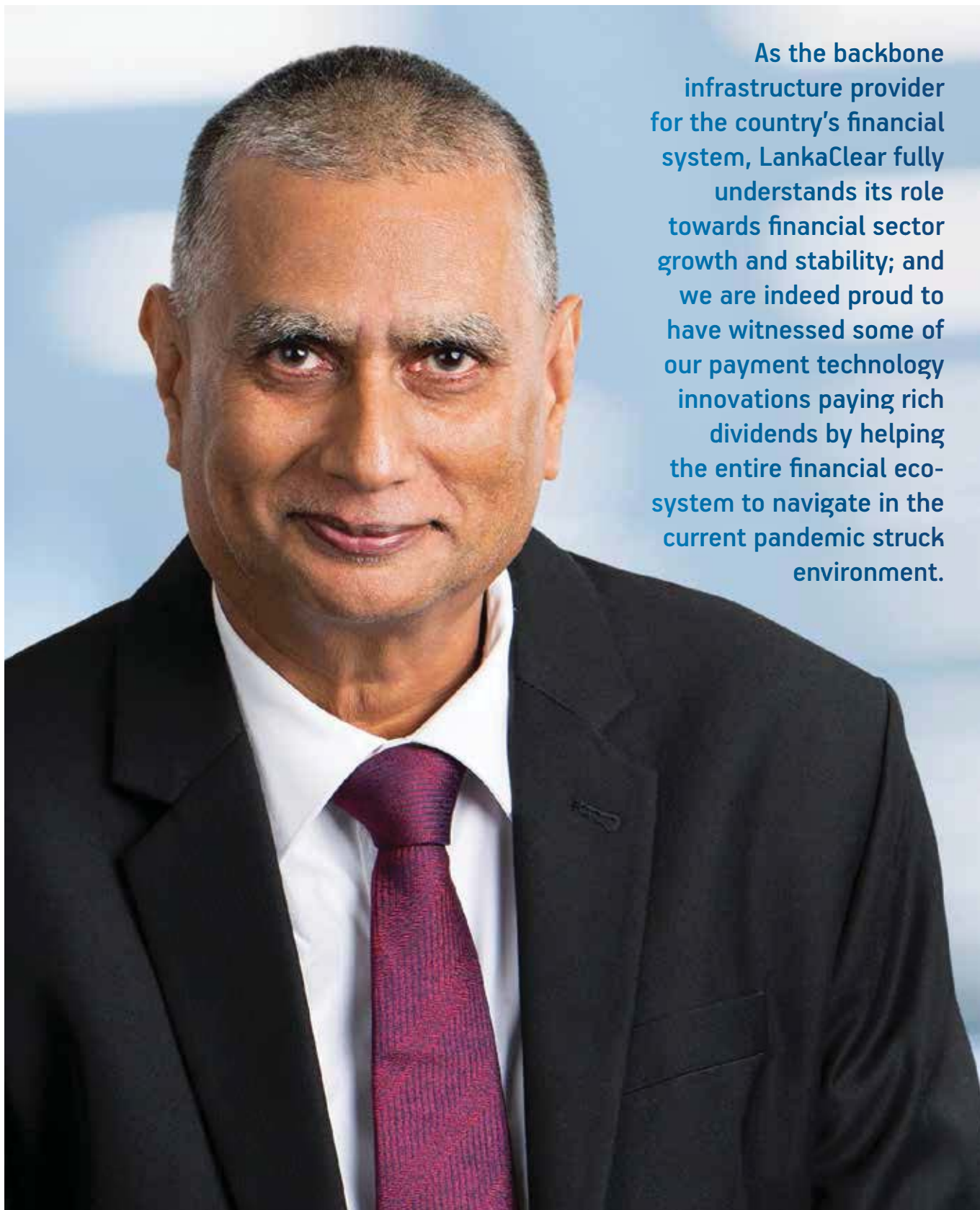
Access to financial services has been a traditional problem for many consumers especially the marginalised communities in our country. By introducing a standardised QR code for payments, we have liberated both merchants and customers alike by enabling consumers to pay any merchant using a payment app they prefer. Lanka QR is fast becoming the de facto standard for on-premise payments by providing accessibility to all.

STEWARDSHIP

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CHAIRMAN'S REVIEW

23



As the backbone infrastructure provider for the country's financial system, LankaClear fully understands its role towards financial sector growth and stability; and we are indeed proud to have witnessed some of our payment technology innovations paying rich dividends by helping the entire financial ecosystem to navigate in the current pandemic struck environment.

Despite an unprecedented decline in cheque volumes, and weakened revenue streams due to several concessions introduced by the Central Bank as a part of the pandemic relief measures, LankaClear delivered a year of financial resilience recording a revenue of Rs. 1.057 Bn (2019/20 - Rs. 1.098 Bn) and a Profit After Tax of Rs. 490 Mn (2019/20 - Rs. 486 Mn).

The financial year 2020/21 marked one of the most challenging years both locally and globally with the COVID-19 pandemic taking a toll on people, economies and businesses across the globe. LankaClear was no exception to this global phenomenon facing numerous challenges over the year. However, the team has performed admirably well to step up to the unprecedented challenges and continue to do their best for the Company and their fellow Sri Lankans. The Company was able to perform appreciably well in terms of a number of key business parameters and have also ensured uninterrupted service to all our customers. LankaClear has also been able to do its part in minimising the impact of the pandemic by rapidly developing, enabling and encouraging contactless and convenient payment options and have been a proponent in driving the adoption of a digital lifestyle by our customers whilst also driving our vision for a less cash economy. It is in this backdrop, that I, on behalf of the Board of Directors, present to you the Annual Report of the Company for the financial year ended 31st March 2021.

The Financial Sector of the country remained resilient amidst substantial disruptions to the domestic economy and its business activities; as well as civil life due to the outbreak of the COVID-19 pandemic. The banking sector experienced deterioration in credit quality coupled with weakened top-line and profitability

during the year despite the monetary policy measures taken by the Central Bank. In spite of the sluggish economic activities observed, the banking sector recorded a reasonable credit expansion during the year under review. The pandemic and travel restrictions on the other hand helped spur digital transactions reflected in an unprecedented growth in digital banking channels during the year. Providing the interbank payment infrastructure to the financial system, LankaClear continued to play a leading role during the year, amidst numerous challenges. In addition, as the operator of the National Payment Network, LankaClear continued to play a central role in supporting the country's journey towards a less cash economy by leading payment technology innovations, lowering transaction costs and enhancing Sri Lanka's international competitiveness.

Despite extremely challenging market conditions, LankaClear delivered a Profit after Tax of Rs. 490 Mn in 2020/21 compared to Rs. 486 Mn in the previous financial year. The Company experienced a dramatic drop in cheque volumes and several fee concessions introduced by the Central Bank as a part of the pandemic relief measures, which had a negative impact on our top-line. Nevertheless, the Total Assets of the Company grew by 13% during the year and stood at Rs. 3.34 Bn as at 31st March 2021. The Company continued to remain resilient with the capital structure fully funded by Equity.

As the backbone infrastructure provider for the country's financial system, LankaClear fully understands its role towards financial sector growth and stability; and we are indeed proud to have witnessed some of our payment technology innovations paying rich dividends by helping the entire financial eco-system to navigate in the current pandemic struck environment.

Economic Background

The hopes of a global economic recovery have been dampened in the near term due to a resurgence in COVID-19 cases and mutant variants of the virus surfacing from various parts of the world. Economic activity across most countries continue to be subdued. Countries that struggle to bring the situation under control are engaged in a constant battle between keeping

their economies alive whilst trying to contain the virus.

The International Monetary Fund (IMF) predicts that global growth will be at around 6% in 2021, moderating to 4.4% in 2022. The projections for 2021 and 2022 are stronger than in the October 2020 World Economic Outlook published by the IMF. The upward revision reflects additional fiscal support in a few large economies, an anticipated vaccine-powered recovery in the second half of 2021, and continued adaptation of economic activity to an environment of limited physical mobility. There is a high degree of uncertainty that surrounds this outlook, related to the path of the pandemic, the effectiveness of policy support to provide a bridge to vaccine-powered normalization, and the evolution of financial conditions. The pandemic has had a particularly devastating impact on South Asia, leading to an estimated 6.7% contraction in 2020 reflecting the effects of severe COVID-19 outbreaks and nationwide lockdowns.

The country's economic activity, like many other economies, was severely dampened in 2020 as a result of strict social distancing measures and restrictions imposed as a response to limit the spread of COVID-19 which affected key revenue-generating industries, such as tourism and apparel. The pandemic-induced economic shocks have further increased an already-high debt distress with sovereign spread over a thousand basis points above pre-pandemic levels. The Rupee faced a significant depreciation against the US Dollar with the exchange rate hovering around Rs. 200 by the end of the financial year. The volatility created by these factors had a knock-on effect on the overall economic performance of the country and Sri Lanka's GDP growth recoded the deepest recession since independence with GDP growth at -3.6 % in 2020, compared to the growth of 2.3% recorded in 2019.

Industry Sector Review

The banking sector exhibited sluggish growth but stood resilient amidst risks emerging from the challenging economic environment due to the pandemic that has taken a toll on the entire economy and the people.

The banking sector continued to dominate the financial sector, accounting for 72.5% of the total asset base in the financial system as at end of 2020 and remained the key driver of financial intermediation. By the end of 2020, the banking sector comprised of 30 banks including 24 Licensed Commercial Banks (including 11 branches of Foreign Banks) and 6 Licensed Specialised Banks. Upon completion of the closure procedures which commenced in 2019, ICICI Bank Limited and Axis Bank Limited ceased to operate in Sri Lanka, during the year 2020.

The banking sector continued to support economic growth and promote financial inclusion by enhancing banking services. With the restrictions on physical access to banking services due to curfew and lockdowns, financial services were identified as an essential service in 2020 and all employees in the financial sector including the team at LankaClear played a pivotal role, putting their own lives at risk, in providing financial services to the public with minimal interruptions. Digital banking has gained more prominence amongst the general population over the past year. The profitability of the banking sector, as reflected by the Return on Assets (ROA) Before Tax Ratio remained static at 1.4% and Return on Equity (ROE) After Tax Ratio improved from 10.3% in 2019 to 11.4 % in 2020 despite unfavourable conditions that prevailed throughout the year which impacted operations, growth and profitability across the board.

The Central Bank introduced a loan moratorium scheme as a relief measure for those worst hit by the pandemic. Additionally, several prudential policy measures and regulations were introduced to strengthen the stability and robustness of the banking sector, while vigilantly relaxing some of the regulations to facilitate the banking sector adapting to the 'new normal' and to provide concessions to economic sectors affected by the COVID-19 outbreak.

As announced by the Central Bank prior to the outbreak of the pandemic, the year 2020 truly turned out to be the 'Year of Digital Transactions'. The Central Bank conducted several programmes, themed under "cash wade" and 'රුම පුරාම LANKAQR' in participation with the financial sector towards raising customer

awareness on digital payments and to drive adoption. LankaClear is proud to have been a part of this noteworthy national initiative since conceptualisation apart from its central role as the operator of the National Payment Network.

FinTech companies continued to play a leading role in revolutionising the digital payment landscape driving disruption and consumer centricity, supported by the banking system. LankaClear focused on building sustainable and mutually beneficial partnerships with all industry stakeholders thereby being a catalyst in the country's journey towards digital transformation under the guidance of the Central Bank. Furthermore, the FinTech Regulatory Sandbox launched by CBSL in 2020 received several applications from innovators during 2020 to test their products and services without infringing on regulatory requirements, which 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.

During the period under review, I am proud to state that strengthened partnerships with our key stakeholders have helped us make further progress towards becoming 'Asia's most trusted and reliable payment network' and enable the digital lifestyles of people.

Performance of the Company at a Glance

Despite an unprecedented decline in cheque volumes, and weakened revenue streams due to several concessions introduced by the Central Bank as a part of the pandemic relief measures, LankaClear delivered a year of financial resilience recording a revenue of Rs. 1.057 Bn (2019/20 - Rs. 1.098 Bn) and a Profit After Tax of Rs. 490 Mn (2019/20 - Rs. 486 Mn). The revenue declined by 4% and profit for the year increased by 1%. This was propelled primarily by the drop in transaction volumes from traditional payment products such as CITS and SLIPS; loss of cheque return revenue for six months; in addition to the fee reduction of CEFTS by 40% since January 2021.

The pandemic, on a positive note, has urged the banking sector and the businesses across

the board to relook at their business models and reinvent, in order to be able to cater to the evolving needs of the customers and thereby remain relevant. Owing to this widespread phenomenon, electronic payment products soared high during the year under review. The concentrated efforts put in by the Central Bank, financial sector, FinTechs and LankaClear were instrumental in catering to the surge of electronic payments, effectively.

The transaction volume of our real time fund transfer switch (CEFTS) achieved a remarkable YoY growth of 93% in 2020/21 (2019/20 - 77 %). Continuing on the growth trajectory, 'JustPay' gained further momentum with 21 mobile payment apps, 20 issuer banks and 10 acquirer banks having connected to the network by 31st March 2021. Launched in 2017, 'JustPay' aims to facilitate low value retail transactions thereby helping to attract a portion of the unbanked cash circulation into the banking system which has far-reaching impact on the entire financial system and the economy as a whole. During the year, we made notable progress with an astounding 195% growth in JustPay transaction volumes and 98% growth in JustPay registrations. During the year, JustPay recorded a total of 4.3 Mn successful transactions and a total of 234,584 new registrations. Yet another achievement made during the year was the elevation of per transaction value limit from Rs. 25,000 to Rs. 50,000 although still at a low value. Further security measures were introduced to the JustPay platform to mitigate risks and improve public confidence in the system.

Amongst the other products that recorded a notable growth during the year was LankaPay Online Payment Platform (LPOPP) which grew by 151% over the year. Adding muscle to the LPOPP network, Sri Lanka Port Authority and Inland Revenue Department joined, increasing the total number institutions connected to LPOPP to four by 31st March 2021. US Dollar Online Clearing system too saw a commendable growth of 36% during the year.

In 2018, CBSL introduced LANKAQR specifications for the establishment of a National Quick Response Code Standard branded 'LankaQR'

for local currency payments. This Quick Response (QR) code-based payment solutions provide an alternative channel for initiating and accepting payments between a customer and a merchant for on premise transactions. LANKAQR off-us transactions (inter-bank transactions) are settled through our real-time fund transfer switch - CEFTS. The National QR Code Specification was issued by the Central Bank with the objective of driving customer convenience in retail space with zero transaction cost to the customer. The initiative has gained wide acceptance amongst merchants due to interoperability, zero maintenance cost, low set up and transaction cost. The Central Bank together with financial institutions and LANKAQR enabled mobile payment apps launched 'ඊඑච්එම් LANKAQR' public awareness campaign in 2020.

The number of ATMs in operation reduced during the year to 4,252 by Q4 of 2020 from 5,023 in the same quarter in 2019. In tandem, the total volume of financial transaction performed via ATMs saw a decline from 277.9 Mn transactions in 2019 to 259 Mn transaction in 2020, attributable to slow economic activity and deteriorated disposable income of customers due to the pandemic. Yet, the Common ATM Switch (CAS) experienced a modest growth in transaction volume from 47.44 Mn in 2019 to achieve 48.98 Mn in 2020. During the financial year 2020/21, CAS transaction volume recorded a marginal growth of 2.84% in spite of the decline in overall ATM transaction volume. Owing to the concentrated marketing efforts by the company towards raising customer awareness of the convenience of using the nearest ATM, the Common ATM Switch continued to grow its market share during the year.

Continuing on the downward trend, as expected, the cheque volumes of CITS further declined by 27% during the financial year compared to 9% decline in the preceding year. This was the highest decline in CITS recorded since its launch in 2006, attributed primarily to the decelerated economic activity. The transaction volumes of SLIPS too experienced a slight drop of 1% during the year. In hindsight, due to the company's far sighted business strategy towards reducing reliance on these traditional payment products,

the impact on company's overall performance was minimised.

The National Card Scheme (NCS) launched in partnership with Japan Credit Bureau International made notable progress during the financial year with three banking institutions and one Non-Banking Financial Institution in the pipeline to go live as issuers. Furthermore, by the end of the financial year 5,380 ATMs have been enabled for acceptance of LankaPay/JCB cards and over 12,000 PoS machines island wide have been enabled for LankaPay/JCB card acceptance at merchant points. Another remarkable achievement during the year marked the granting of Cabinet approval for Sri Lanka Transit Card recognising NCS as the network provider of this national initiative.

The impressive financial results noted above enabled the company to report an EPS of Rs. 32.10 growing from Rs. 31.85 reported last year. The Board has recommended a dividend of Rs. 6.42 per share to our shareholders for the current FY. The financial performance is discussed in greater detail in the financial review section of this report.

Stakeholder Relations

At LankaClear, our main aim is to inculcate a sense of payment safety and security in our service offerings by ensuring the highest service and security standards. As a key step towards this end, we moved into a brand-new state-of-the-art data center at our primary site. Our objective for the financial year 2021 is broadened from Digital Lifestyle to support the Digital Consumers both local and international. Being digitally connected will only continue to be more prominent in the future. Digital Consumer behaviour is one of the most important metrics that any organisation can use to measure their consumer reach. Digital Consumer behaviour, in terms of market research, essentially boils down to anything that a person does online, what devices they use, the apps they download and use, the sites they visit, the advertisement they engage with, the pages they navigate through, how and what they buy and what they consume etc. Key behavioural traits of Digital Consumers are: well informed, seek relevant and quick information to be at their fingertips and share

a lot of information. It enables to maximise our time to do more things in a day and ultimately use that free time to live a better life. Hence, we ensured that our services have been designed with the six convenience precepts, Anywhere, Anytime, Any Device, Any Amount, Secure and Interoperability, in mind.

Our focus is to further enhance these key imperatives, not only to reinforce the company as the IT driven backbone payment infrastructure for Sri Lanka's financial services sector, but also add further value to our proposition as an entity that discharge a national service. Stakeholder engagement is further discussed under Stakeholder Engagement Section in this report.

Sustainable Operation

Sustainability is a concept that is ingrained in LankaClear's corporate ethos. The very purpose of our existence is to drive cashless payments and financial inclusivity, which have a far-reaching impact on the planet and people which always supersede commercial intent. LankaClear, since its inception, has been financially self-sufficient without being a burden to the Treasury and has been regarded one of the most successful public private partnerships in the region. The company understands and has been committed to operate in a sustainable and an environmentally friendly manner; being mindful of its impact on the planet and resource requirements of the future generations, elaborated under the Sustainability section of this report. As a responsible corporate citizen, LankaClear actively seeks support from its employees, stakeholders, financial industry and the banking community in its activities.

Operating in a capital-intensive industry which is changing at a rapid pace where technological obsolescence is widespread, to be sustainable in the long run, as a business entity LankaClear needs to be profitable, especially considering the periodical system upgrades and migrations to keep up with the business needs. However, as the operator of the country's National Payment Network, we understand that being a force that disrupts the social fabric and damages the environment for short-term gains is far from our vision as an organisation. LankaClear places

great significance on compliance, governance and risk management which are at the epicenter of its operations. The business is run at the highest level of transparency while being socially responsible and environment friendly. We feel that these are the right ingredients for a sustainable business model that would be successful in the long term.

Corporate Governance, Compliance and Responsible Citizenship

We at LankaClear pursue ethical and transparent business operations and the concepts of corporate governance, compliance and responsible citizenship are key ingredients of our business strategy and operations. In order to achieve a strong corporate governance regime, the Company complies with the Companies Act No. 07 of 2007 and the Code of Best Practice on Corporate Governance issued jointly by the Securities and Exchange Commission and the Institute of Chartered Accountants of Sri Lanka. We believe in adhering to high level of compliance to afore mentioned policies and regulations, and additionally have embraced voluntary measures towards this end, wherever felt necessary.

Human Capital

Operating in a unique and concentrated business sector, LankaClear places great value on its human capital as our employees have a direct bearing on the quality and standard of our services and offerings. Our team has been instrumental to the success we have achieved as an organisation and we too have placed great significance on attracting, developing and retaining the right caliber of employees as a means of maintaining our service standards. This function is supported by a strong HR policy framework in addition to well governed systems and processes.

Making notable progress towards a performance-based culture, during the year under review LankaClear adopted a more systematic approach towards performance evaluation by introducing a world-class online performance management system. We believe that implementation of the new performance management system will bring greater focus and convergence towards our corporate goals

whilst helping employees to progress in their professional careers. Performance reviews were carried out twice a year, which continued to help the organisation as well as the employees by promoting two-way communication and harnessing goal congruence.

With several communication channels, forums for interaction we have inculcated an open and friendly work culture and we are constantly trying to improve on our approach towards human capital management to ensure that all employees were fully informed of the company's vision, mission, objectives and values so that they are fully integrated into our corporate culture.

Outlook for 2021

The Asian Development Outlook (ADO) 2021, projects Sri Lanka's economy to rebound as domestic and global economic activity strengthens and vaccination campaigns gather momentum both here and abroad. ADB projects Sri Lanka's economic growth to rise to 4 % in 2021 from a negative growth in 2020. Growth prospects of Sri Lanka in the short term are expected to improve with increased private consumption supported by low-interest rates and as pent-up demand is released, as well as recovery in investment supported by low-interest rates, stronger global demand, and base effect following the contraction in 2020.

Progress in the development of the Colombo Port City and Hambantota Industrial Zone are envisaged to attract foreign direct investment and spur growth. However, we move forward to the next financial year being fully aware that our operating environment will continue to face numerous challenges. Yet, with a focused approach and right strategies in place, we are optimistic that we shall overcome and manage such challenges effectively and efficiently.

LankaClear has always looked at challenges as opportunities. Despite the adversities, growing technology savviness, smart phone penetration and evolving lifestyles of consumers have presented us with a world of opportunity to further penetrate into untapped segments, going forward.

We will continue to invest in developing our capability by enhancing our systems and technology in key areas by providing greater convenience to our stakeholders.

Appreciations

As I conclude my six-year tenure as the Chairman of LankaClear, I wish to convey my profound appreciation to both my current and past colleagues on the Board for their active participation in all Board matters and being a vital part of the progress that LankaClear has achieved through the years. While extending my heartfelt thanks to Mr. K.B.S. Bandara, Mr. M.A.B. Silva, Mr. P.L.D.N. Seneviratne and Mr. G.B.R.P. Gunawardana for their contribution to the organisation while serving on the Board, I wish them all the best in their future endeavors. I would also like to extend a warm welcome to the new Chairman, Dr. Kenneth De Zilwa and the new Board members - Mr. K.E.D. Sumanasiri, Mr. Ranjith Kodithuwakku and Mr. A.J. Alles.

My sincere appreciation is conveyed to GM/ CEO, Mr. Channa de Silva and the entire LankaClear team for their hard work in delivering excellent results in the current FY. I also would like to extend my heartfelt thanks to all our stakeholders; for their continuous trust and support which they have placed in us and our services.



A. Amarasuriya
Chairman

31st May 2021
Colombo



We derived our strategies for the year based on providing ultimate positive user experiences to digital consumers and managing interactions across all digital payment channels.

To be successful, especially during the height of the pandemic, we had to think out-of-the-box in improving our products and channels.

Digital Consumer

In a dynamic world where the consumers are moving at the speed of thought, the daunting task of keeping pace with the requirements of digital consumers has become increasingly difficult. Simply put, people who use technology to buy and sell products and services are known as digital consumers and the internet has forced most of us to engage in such activity. Digital consumer behaviour is one of the most important metrics that any organisation can use to measure their consumer reach. In terms of market research, digital consumer behaviour essentially boils down to anything people do online. What devices they use, the apps they download and use, the sites they visit, the ads they engage with, the pages they navigate to, how and what they buy and what services and products they consume etc.

As of 2020, 55% of the global population had access to the internet, equating to roughly 4.2 Bn users. The continued rise in connectivity is being driven by the expanding use of smartphones in emerging markets. Mobile internet has been one of the greatest innovations, putting the world at consumers' fingertips and allowing them to use these devices across life, including commerce. Primarily with the use of smartphones, consumers can execute several actions anytime and anywhere. In fact, global consumers used their mobile devices for an average of six distinct activities per day in 2019. Two-thirds of connected consumers access the internet on their mobile devices daily, making this the top activity. Though connected consumers primarily use their smartphones to go online or communicate with others, they are increasingly using these devices for commerce-driven activities as well.

Our objective for the financial year under review was to support the dynamic requirements of our ever-changing digital consumers. We had to deal with the key behavioural traits of digital consumers, which were that they are well informed, want relevant and quick information to be at their fingertips and share a lot of information. I am pleased to note that we achieved our objectives successfully by initiatives that addressed the requirements

of the digital consumer. It is also with great satisfaction that I announce our achievement of the targeted profit objective despite an extraordinarily difficult year, not only for our country, but also the entire world due to the Covid-19 pandemic. In our efforts to address digital consumer needs, we were able to launch many innovative solutions for the different segments of the population. I will share more on how we exceeded expectations of our customers, partners, employees and shareholders during the fiscal year 2020/21 in the next few sections and the impact we have made to the lives of the digital consumer by providing seamless financial services.

Competition and Business Sentiments

The entire country was at a standstill and in lockdown status for several months at the beginning of the financial year under review due to the beginning of the Covid-19 pandemic. The significant negative impact was experienced not only by our business, but the entire business community across the country. The bleak business outlook and the negative sentiments due to travel restrictions led to a downward trend in economic activities, which resulted in a significant reduction in financial transactions especially cheque volumes and cash withdrawals during the entire first quarter of the financial year. In addition, the downturn in business activities resulted in lowered spending capacity of most business and individual customers, which resulted in a reduction in business transactions throughout the year as well. On top of this, the Central Bank instructed all banks and LankaClear to waive off the cheque return fees, which further reduced the potential revenue growth of the company.

The general election held during the financial year added to the volatilities that prevailed during the first six months of the year. Then from October 2020 onwards, the country ran into periods of lockdown once again. Despite intermittent removal of travel restrictions, throughout the year, a gloomy business climate was experienced with the pandemic taking a toll on the entire economy and lives of people.

As per the Central Bank Payments Bulletin Q4 2020, currency in circulation increased to 834

Bn in the 4th quarter of 2020, which was a 23% increase from the same quarter previous year. While cheque volumes reduced by 28% the volume of electronic fund transfers increased by 70% during the same quarter compared to previous year. Thus, the financial sector was able to withstand the negative business sentiments to an extent due to its resilience as well as the readiness to make the shift from paper-based payments to digital modes. Due to the nature of the pandemic and resultant travel restrictions, digital payments grew at a phenomenal pace. Both credit and debit card-based transactions grew at a significant pace while LankaClear's very own JustPay payment mode grew at a phenomenal rate both among merchants and consumers alike. The banks were also eager to drive volumes in addition to establishing partnerships with FinTech companies, which bode well for the future of digital payments. However, cash continued to remain as the key competitor for electronic payments in most segments of the market including retail and the growth in currency in circulation is a testament to this. Almost all banks and a few key finance companies had joined JustPay by the end of the financial year. Phenomenal growth of JustPay and our National Card Scheme also seem to have triggered other players in the market, including the international card schemes to intensify their marketing activities, with some even making significant investments on advertising in TV and other mainstream media. We see this as a positive sign in driving cashless payments in the country. LankaClear is humbled to have become a force to be reckoned with in our quest to lead the country's digital transformation journey.

Our Strategies

We derived our strategies for the year based on providing ultimate positive user experiences to digital consumers and managing interactions across all digital payment channels. To be successful, especially during the height of the pandemic, we had to think out-of-the-box in improving our products and channels. We relooked at our products from the point of view of the needs of the digital consumer to drive digital transformation and remain relevant and compelling in a highly competitive and volatile environment.

Despite an unprecedented volatility in the market due to the negative impact of the Covid-19 pandemic, all our innovative digital payment solutions for the future grew at a healthy pace. We further invested in newer technologies that improved the seamless user experience of the digital consumer, which was targeted to drive the adoption of digital payment services across all segments of the population.

Putting the requirements of the digital consumer at the heart of our agenda meant focusing more on how seamless they want our payment solutions to be and be relevant to them rather than focusing internally. Understanding digital consumer expectations and their relation to the business means achieving a real understanding of the context and motivation for their engagement with our solutions. Our primary focus and a significant portion of our investments went in this direction to make the digital consumer a part of our process and to be more relevant to them. Market research pointed to us that smart phone is the primary instrument that the digital consumer would like to engage with anybody. Thus, we put significant emphasis on our JustPay payment mode to provide an ultimate seamless user experience to the modern-day digital consumer. In addition, we also came up with the concept of Sri Lanka Transit Card (SLTC), which is based on a single chip card under the National Card Scheme initiative for all transport payments with the introduction of the 2in1 card concept to provide the 'Tap-and-Go' capability to the payment requirements of the travelling consumer.

We reorganised our strategies in terms of our people, communication, products, platforms and infrastructure to cater to the digital consumer experience to improve the

quality of engagement with the consumers of our solutions. We saw greater adoption throughout the year, which indicated that we delivered satisfaction to our target market and were relevant to them. Our strong business fundamentals and sharpened focus on the correct operational model enabled us to execute our strategies with greater confidence and efficiency. Our focus was on new initiatives such as LankaQR and Payment Exchange Name (PEN) to provide further seamless experience to the lives of the digital consumers. We realised that payments were not a primary requirement of a digital consumer, but a by-product of a digital service that they consume. Hence, the payment mode had to be seamless and should not bring any negative experience to the user. In addition, we were able to capitalise on our brand equity of being recognised as the 'Trusted National Payment Network', which was developed by many years of hard work, to rollout newer innovative solutions to provide payment service modes that addressed the market needs and achieved significant growth for the company. We did not try to duplicate the existing payment solutions of the competition to generate market share but focused solely on the seamless digital consumer experience to penetrate into new segments that were primarily cash based. The significant growth in our payment modes proved beyond doubt that the digital consumer is looking for a seamless experience across all channels and we religiously embedded this into most of our solutions.

Operational Review

Despite an unprecedented volatility in the market due to the negative impact of the Covid-19 pandemic, all our innovative digital payment solutions for the future grew at a healthy pace. We further invested in newer technologies that improved the seamless user experience of the digital consumer, which was targeted to drive the adoption of digital payment services across all segments of the population.

Cheque Imaging and Truncation System (CITS) reduced its significance on the revenue mix from 36% the previous year to 23% during the year under review. We were proven right in our anticipation that cheque volumes were bound to decline in the face of increased adoption in

electronic payments, but the numbers further reduced because of the travel restrictions due to the pandemic. The total revenue from the products under Common Card and Payment Switch (CCAPS) improved to 58% from a previous 47% confirming the above assumption. Common Electronic Fund Transfer Switch (CEFTS) grew exponentially during the year increasing its contribution to 25% of the total revenue from 15% a year ago, thus, balancing the reduction of CITS volumes. The same trends would certainly continue in the short to medium term since the continuous impact of the pandemic and the resulting travel restrictions would increase the digital transactions in our efforts to move towards a digital economy, which is bound to further reduce the significance of cheques in the future as well.

Cheque volumes cleared through LankaClear declined drastically by 27% YOY (compared to a decline of 9% in 2019/20). On the contrary, compared to the total volume of ATM transactions in the country, volume of interbank ATM transactions penetrated to an impressive 19% out of the total ATM volume in 2020/21 (17% penetration in 2019/20). This was despite a decline of total ATM withdrawal volumes by 7% YOY. Further, CEFTS volume represented an impressive 48% of the total volume of Internet banking transactions. Sri Lanka Interbank Payment System (SLIPS) and CEFTS, which are our electronic fund transfer arms, contributed 38% of the total revenue compared to 28% in the previous year while CEFTS transaction volume increased by 93% YOY. JustPay volumes grew by a mammoth 195% YOY while LankaPay Online Payment Platform (LOPP) had four members with Sri Lanka Customs, BOI, SLPA and IRD onboard, which also contributed towards the growth of CEFTS transactions.

Clearing systems under CCAPS continued to grow its contribution towards the revenue growth of the company. Revenue from CCAPS reached a YOY growth of 17%. Amidst the declining trend in CITS revenue, transaction revenue from CCAPS showed a significant growth and shouldered the revenue gap, thus, reduced the pressure of revenue reduction from CITS. The revenue contribution from CCAPS transaction revenue grew by an impressive 20% where the primary

growth contribution came from CEFTS, which increased YOY by 64%. This growth was mainly due to the introduction of new products such as JustPay and the untiring efforts of the team who worked hard to grow the volumes, armed with right marketing strategies and building long-term relationships.

The growth of our strategic payment innovation, 'JustPay', was an absolute winner in the retail market. This payment mode was designed to convert low-value cash-based transactions in the retail space into digital mode using smart mobile devices. This new product achieved a massive growth during the financial year under review to record an outstanding year. JustPay transaction volume grew by 195% during the year compared to the previous financial year while customer registrations grew at a steady pace to indicate the massive potential for this payment mode in the market. We were able to attract 21 of the leading payment and lifestyle apps (FinTech) in Sri Lanka to JustPay payment network to facilitate mobile payments. JustPay is now considered as one of the fastest growing payment modes where the local FinTech companies can leverage to enter the financial services market.

The National Card Scheme (NCS) in combination with the Common POS Switch (CPS) established to facilitate a lower cost option for banks to operate a debit card scheme was aggressively pursued during the year. MCB Bank, RDB, Siyapatha Finance and HDFC Bank continued to issue LankaPay-JCB co-branded debit cards under 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 were convinced to sign up and issue LankaPay-JCB co-branded debit cards during the year. The cabinet approval to establish the Sri Lanka Transit Card (SLTC) via the 2in1 Card during the year gave a big boost to NCS. People's Bank became the first bank to formally join SLTC as an acquirer as well as an issuer while several other banks have shown keen interest to issue SLTC.

FinCSIRT, our response to enhance information security across the financial sector continued to be critical towards the financial sector stability. The contribution from FinCSIRT to the overall

revenue grew to 2.7% from the 1% a year ago, the services offered by FinCSIRT geared the banks to provide 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 to LankaClear.

We continued to invest in strengthening our ICT infrastructure including upgrading of CCAPS backend software while security infrastructure obtained recertification on Payment Card Industry Data Security Standard (PCI-DSS Version 3.2.1). These upgrades ensured high availability across all systems and enhanced our capacity to launch new products at a faster pace. The security certifications boosted the core network security infrastructure to face any eventuality against the latest forms of cyber security threats.

Financial Results

I am happy to announce that LankaClear was able to withstand significant pressure that was brought upon the business by the unprecedented pandemic throughout the year. The company recorded a revenue of Rs. 1.057 Bn (2019/20 - Rs. 1.097 Bn) for the year under review despite CITS revenue coming down by 155 Mn compared to the previous year. The CITS revenue reduction was due to overall cheque volume reduction as well as waiving off CITS return cheque fees for the first six months based on a Central Bank directive. We achieved a Gross Profit (GP) of Rs. 477 Mn (2019/20 - Rs. 532 Mn), Profit Before Tax (PBT) of Rs. 518Mn (2019/20 - Rs. 561Mn) and Profit After Tax (PAT) of Rs. 490Mn (2019/20 - Rs. 486Mn). Overall revenue had a slight decline by 3.7% YOY while GP declined by 10% YoY. However, despite extremely difficult market conditions throughout the year, we were able to achieve a slight growth in PAT, which achieved a marginal growth of 1% YOY.

Achieving the above positive results despite the worldwide pandemic situation is quite significant as it came on the backdrop of 40% reduction in CITS revenue YOY, which forced all other products combined step up to minimise the gap. It was a remarkable achievement

to achieve a slight growth in PAT despite the significant reductions in CITS revenue and shows the importance of our strategy of putting more focus on growing other digital payments services and reducing the dependency on CITS revenue towards the total revenue mix. The transaction revenue from CCAPS showed 20% growth and helped to bridge the revenue gap. The total transaction revenue grew by Rs. 17 Mn to record a growth of 2%. Main contributions for transaction revenue growth came from CEFTS, which increased by 64% where a key contributor was the significant growth achieved in JustPay volumes.

It is very clear that the more sustainable growth in the short to medium term is achieved via increased transaction volumes in Digital Payment modes and we continued to add further value by introducing new services to provide further convenience. The addition of Sri Lanka Transit Card into our NCS product portfolio is intended to capitalise on the expanding market opportunities while getting more members to join Payment Exchange Name (PEN) is required to increase further penetration into the digital payment landscape. These latest solutions implemented were complementary to the new partnerships established with FinTech companies and helped to increase the number of smartphone based payment applications on our JustPay network.

Managing Stakeholders

If we are to fulfil the seamless experience a digital consumer is expecting from the financial services they are consuming, we need to ensure that all the stakeholders in the entire value chain works in tandem. Providing services to a demanding digital consumer via a series of technology platforms and networks is a complex and a daunting task. Any failure in one of the connected systems create a negative user experience to the consumer. Hence, to provide a seamless experience, we have the difficult task of ensuring all our stakeholder organisations work together to provide a superior value proposition to the end consumer. We have been successful in this aspect thus far when we consider the increased transaction volumes in most of our digital payment offerings, which demonstrates that our efforts have paid off.

The needs of the digital consumer were at the heart of our decision-making process while we strived to achieve a deeper understanding of the requirements of a seamless user experience. We not only had to design and implement an unparalleled consumer experience, but also had to create awareness amongst them about our services to achieve success.

Our key stakeholder, the Central Bank of Sri Lanka is the regulator, a shareholder, a representative on in our Board as well as a consumer of our services. As all the initiatives of LankaClear comes under the directions and supervision of the Central Bank, we have been working very closely with them on multiple fronts. The National Payment Systems Roadmap formulated by the National Payment Council of the Central Bank, which is intended to drive financial inclusivity, is embedded into our strategies as we are the implementor of most items in the roadmap.

The needs of the digital consumer were at the heart of our decision-making process while we strived to achieve a deeper understanding of the requirements of a seamless user experience. We not only had to design and implement an unparalleled consumer experience, but also had to create awareness amongst them about our services to achieve success. Armed with data from market research, we engaged deeply with the digital consumers during the year under review primarily via social media and campaigns via radio channels to create awareness amongst them of the services we offer. Our strategies to identify the requirements, especially towards the smart mobile-based services, promotional strategies used and how the end-consumer promotions were carried out are discussed in detail under marketing strategies.

Due to the travel restrictions and government directions to curtail gatherings, we decided not to hold our flagship annual awards ceremony, LankaPay Technnovation Awards, last year to recognise champions who remained steadfast to the cause of promoting digital financial services. The objective of the competition is to reward our members who championed the cause of providing convenient financial services to their customers utilising the LankaPay National Payment Network. This event helped to create a lot of excitement among our members and resulted in a healthy rivalry among them over the years.

We have always tried to inculcate a performance-based culture amongst our staff and encouraged them to contribute with their ideas, suggestions and opinions via many initiatives to promote innovation, harmony, recognition and inter-departmental collaboration. We also implemented a HRIS system to better manage the expectations of our staff and reward the high performers in a more systematic manner. Despite the pandemic situation that prevailed throughout the year during which physical interactions were prohibited, we engaged with all levels of staff via online tools. We continued with our approach to invest heavily in high performing people to ensure that our people are ready to face any future eventuality. Our stakeholder engagement is discussed in detail under the Stakeholder Engagement Section in this report.

Corporate Governance Model

LankaClear continued to be a role model and a responsible corporate citizen via our ethical and transparent business process and we embedded these principles into our culture. We ensured a practice of strong corporate governance and continuous commitment towards compliance where the organisation is driven by 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. Our internal Information Systems Auditor who reports directly to the Board Audit Committee assisted us to keep the team on track in this regard by

maintaining a constant vigil on governance aspects. Our organisation structure including the formation of the Board that represents key stakeholders, ensures a high level of governance and compliance in all our activities. We have always strived to exceed the expectations of our stakeholders and fully comply with the regulations, directions and standards set by the Central Bank. The governance structure of FinCSIRT, which is governed by a committee consisting of a Central Bank representative as the Chairman and representatives from member banks and financial institutes, SLBA and Sri Lanka CERT, ensures that we support to achieve financial sector stability via improved security in all financial systems connected to the National Payment Network.

Being Socially Responsible

We encouraged all our employees to be socially responsible by contributing their time, effort and skills to support community initiatives through acts of volunteerism and commitment. During the year under review, even though getting engaged in physical activities was almost impossible, we engaged as a team in several projects funded and organised by the company and empowered our employees to engage in voluntary work alongside other community stakeholders. Even our giveaways to some key stakeholders were manufactured using recycled paper to ensure that we contribute to the wellbeing of our environment and be a responsible citizen.

Awards and Accolades

We were planning to take part once again in the renowned CA Sri Lanka Annual Report Awards competition and perform well once again under the SME category with our annual report for the previous year as we won the Gold Award for four consecutive years previously. Unfortunately, due to the prevailing pandemic situation in the country, the said award ceremony was not held in 2020. However, we came up with another masterpiece with the theme "SEAMLESS", which we were hoping to submit for the awards, but instead brought us high praise from all our stakeholders. We did not take part at the National Business Excellence Awards 2020 due to difficulties faced because of the pandemic,

but we are well committed to ensure continued improvement in all our business processes to achieve excellence. Winning prestigious awards continuously is part of our strategy to build trust amongst all our stakeholders and demonstrates our commitment and resolve to reach the pinnacle in every aspect of our business and operations.

Our Future Plans

The unprecedented situation that arose due to the worldwide pandemic conditions ensured that everyone was driven to use technology as the only way forward. A larger segment of our consumer base moved towards technology primarily due to the travel restrictions and it gave us a significant boost to promote our digital payment services. We focused our strategies during the year under review to provide a seamless experience to the digital consumer guided and abetted by data from consistent market research that pointed us to provide financial services that improved customer convenience. We also derived our strategies by statistics from the Central Bank and other market players to identify the current bottlenecks in providing an unparalleled consumer experience. While JustPay was a clear winner in this aspect, we made progress with LankaQR and Payment Exchange Name (PEN) as well. The implementation of the Sri Lanka Transit card by utilising the 2in1 feature of the National Card Scheme (NCS) was a technology differentiator against our international competition, which separated us clearly from the pack. These are our big bets for the future to change the face of the country's retail payment landscape. We will continue to invest and improve these payment modes to convert the massive cash-based transaction volumes into digital mode.

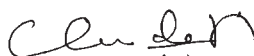
With a national agenda being of paramount importance, we will continue to invest in dynamic technological advancements to provide seamless user experience to digital consumers and achieve our objective of ensuring that technology's benefits reach people who are underserved. Our focus on future investment would be to further improve customer convenience and provide access to

financial services for the rural population who do not enjoy the same benefits as their urban counterparts. We will continue to innovate and invest in cutting-edge technology to empower our people and organisations, so that they could address the pressing financial needs of all communities we serve.

Acknowledgements

I am humbled by the resilience shown by our staff during the worst pandemic situation during our lifetime to provide a seamless 24X7 service to all our digital consumers throughout the year. I would like to highlight the untiring efforts of every single member of our team in making sure that none of our services were affected throughout the year. Each staff member contributed to our growth trajectory and worked effectively and had to undergo a lot of personal sacrifices amidst trying conditions to realise our goals. I applaud their contribution and wholehearted commitment to keep the financial sector lights on during an exceptionally difficult year.

I wish to appreciate the support of our Chairman, the Board of Directors and all the shareholders for their continued encouragement. I would like to thank the members of my management team for their commitment and exceptional contribution towards our growth. I am indebted to all our member banks, financial institutions and their digital consumers for their loyalty towards LankaClear. I am revitalised to serve all our stakeholders after successfully concluding the most challenging period of my tenure and determined to move forward with vigour to guide our organisation to be the best in everything we do in the future as well.



Channa de Silva
General Manager/CEO

15th June 2021



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[1] 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.

[2] 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 & settlements and policy review and monitoring and financial consumer relations. 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 is a Co-Chair of National Certification Authority Task Force established under the Digital Transactions Act of Sri Lanka and 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 experience cover the areas of monetary policy, foreign reserves management, risk management, fund/investment management, financial regulation, economic research and auditing. He holds positions in a number of boards and has played different roles in several internal and external forums/committees on finance, reserve management, securities financing, monetary policy, financial stability, risk management, payment system regulation, and payment technology related fields.

Academic/Professional Qualifications

M A Econ. (Kansas, USA), M B A (PIM USJ Sri Lanka), Fellow C A (Sri Lanka), B Com (Kelaniya, Sri Lanka)

[3] 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.

[4] Mr. W. P. R. H. Fonseka

Director

Mr. Fonseka was appointed to the Board of LankaClear on 18th May 2020. Mr. Fonseka has been a member of corporate management of the Bank of Ceylon since 2012 and currently serves as the Chief Financial Officer of the Bank. He has also held the positions of Senior Deputy General Manager (Corporate & Offshore Banking), Deputy General Manager (International, Treasury and Investment), Deputy General Manager (Retail Banking), and Deputy General Manager (Finance & Planning) of the Bank.

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.

Mr. Fonseka serves as a Director on the Boards of Merchant Bank of Sri Lanka & Finance PLC, Property Development PLC, LankaClear (Private) Limited and Transnational Lanka Records Solutions (Private) Limited. Mr. Fonseka acts as the Chairman to the Audit Committees of 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 February 2020 and serves as the President of the Governing Council since then.

[5] Mr. Ranjith Kodituwakku

Director

Mr. Kodituwakku is a veteran banker, serving as the Chief Executive Officer/General Manager of People's Bank since June 2020. He joined the bank in 1982 and has nearly four decades of multi-faceted experience in local as well as cross border operations.

He has a wealth of banking knowledge in a wide spectrum of areas covering Branch Banking, Consumer Banking, Commercial Banking, Corporate Banking, Off-shore Banking, International Banking, Project Financing, Recoveries and Digitalisation etc.

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. He was also bestowed upon "Sri Lanka Innovation Leadership Awards 2020" - awarded by World Innovation Congress, for his innovative role played in transforming the bank from a conventional set up to contemporary set up through digitalisation. Further he has been named as Banking CEO of the year Sri Lanka 2021 by the well known International Business Magazine.

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 the 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 Leasing & Finance PLC, People's Insurance PLC, People's Merchant Finance PLC, People's Travels Ltd., Lankan Alliance Finance Ltd. Bangladesh, Financial Ombudsman Sri Lanka (Guarantee) Ltd, Credit Information Bureau of Sri Lanka, Lanka Clear (Pvt) Ltd., National Payments Council, Sri Lanka Banks' Association (Guarantee) Ltd, Lanka Financial Services Bureau and Institute of Bankers of Sri Lanka.

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

[6] Mr. Bingumal Thewarathanthri

Director

Mr. Bingumal Thewarathanthri was appointed Chief Executive Officer of Standard Chartered Bank, Sri Lanka on 1st January 2019. He is the first Sri Lankan national to be appointed to the position. Apart from his role as CEO, he also heads Sri Lanka's Commercial, Corporate and Institutional Banking (CCIB) business.

Having joined Standard Chartered in July 2004, Mr. Thevarathanthri counts for more than 25 years of experience within the Banking and Finance industry. During his tenure at Standard Chartered, he has held several leadership positions in Sri Lanka and Africa, including the role of Head, Transaction Banking in Mauritius, where he was responsible for setting up the Transaction Banking business for the franchise.

He was also responsible for setting up the Financial Institutions booking centre for Africa and managed investments going in to Sub Saharan Africa via the Mauritius Securities Services hub.

Prior to his appointment as CEO, he headed the Retail Banking business in Sri Lanka. Bingu holds an MBA from the University of Wales, UK.

[7] Mr. Priyantha Talwatte

Director

Mr. Priyantha Talwatte is Director/Chief Executive Officer of Nations Trust Bank PLC, and has been an integral part of the bank for the past 19 years. A professional with over 27 years of experience in diverse sectors, Mr. Talwatte is recognised as a transformative business leader, and a proponent of digital banking in a changing consumer landscape.

Mr. Talwatte cemented Nations Trust Bank's position in consumer banking and was responsible for contracting and launching the American Express franchise in Sri Lanka. An expert in setting up new business units; expanding and scaling existing business and the start-up of new businesses, he reshaped the Bank's operations by developing a sales, service and business development culture driven by data analytics for risk management and decision making.

An alumnus of the Advanced Management Programme of the Harvard Business School, Boston, USA (AMP-196) and a qualified Marketer of the Chartered Institute of Marketing (UK), Mr. Priyantha Talwatte is an avid nature lover and a professional wildlife photographer lending a voice for Sri Lanka's fauna and flora.

[8] Mr. Jonathan Alles

Director

Mr. Jonathan Alles is an experienced banker counting over 34 years in the industry with experience in both international and Sri Lankan Banks, within the country and overseas. He holds an MBA from the University of Stirling, UK and is an Associate Member of the Institute of Bankers of Sri Lanka.

Mr. Alles is the Chairman of HNB Finance PLC and Acuity Partners (Pvt) Ltd, Managing Director/CEO of HNB Plc and a Director of Lanka Financial Services Bureau Ltd, Lanka Ventures PLC, LVL Energy Fund, Lanka Clear (Pvt) Ltd and Sri Lanka Banks' Association. He was appointed the Chairman of Asian Bankers Association for the period 2018-2021.

Mr. Alles is a dynamic Banker and a corporate leader; he has contributed to HNB's macro development with the Bank now operating through 253 customer centres, using cutting edge technological platforms and enabling a new paradigm in Sri Lanka's banking culture. Under his leadership, HNB has received recognition from numerous international and local institutions and continues to set new benchmarks in the Sri Lankan banking industry.

[9] Mr. E. R. de Silva

Observer

Mr. Ravi 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.



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[1] Mr. Channa de Silva
General Manager/CEO

[2] Mr. Dinuka Perera
Chief Operating Officer

[3] Mr. Rasika L. Galappaththy
DGM Finance

[4] Mr. Lakshman C. Palliyaguruge
Head of HR & Administration

[5] Mr. Dilantha Samarasinghe
AGM IT

[6] Ms. Srimali Premalal
Senior Manager IS Audit

[7] Mr. Roshan Hettiarachchi
Chief Manager Operations (Head of
Clearing Systems)

[8] Mr. Hemanthe Samaliarachchi
Chief Manager Payment Systems
(Head of Certification & Integration)

[9] Mr. Manoj Fernando
Senior Manager IT Security Solutions

[10] Mr. Danushka Uyanahewage
Senior Manager Operations -
Automated Payment Systems

[11] Mr. Indika Fernando
Senior Manager IT

[12] Mr. Asela Hapuarachchi
Manager HR & Administration

[13] Mr. Delan Wimalaratne
Manager Operations - Electronic
Payment Systems

[14] Mr. Dhammika Guruge
Manager Network

[15] Ms. Wayomi Gunathilaka
Manager Marketing



16	17	18	19	20
21	22	23	24	25

[16] Mr. Shehan Wijewickrama
Management Accountant

[17] Mr. Loshan Wickramasekara
Manager Information Security
FINCSIRT

[18] Ms. Rasika Wickramanayake
Manager Procurement

[19] Mr. Harsha de Silva
Manager Operations - Card Services

[20] Ms. Nishamani Rathnayake
Head of External Services

[21] Mr. Praveen Ramanayake
Manager Facilities & Maintenance

[22] Ms. Sanjeevani Seneviratne
Manager Legal

[23] Mr. Lakshanth Jayasekara
Manager IT

[24] Mr. Lakdas Ponweera
Manager Operations -
Payment Systems Applications

[25] Mr. Sashika Kaushalya
Manager - Business Development



A Quantum Leap in Convenience

We believe that the letter 'C' in consumer stands for convenience seeking and we therefore strive to make all our services seamless for our customers. That is why we have implemented a one-click payment mode to be relevant to the new generation of digital consumers who have a very short attention span. By introducing JustPay, we have revolutionized the in-app payments market and made the service ultra-convenient to all.

MD & A

MANAGEMENT DISCUSSION AND ANALYSIS

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CAPITAL MANAGEMENT

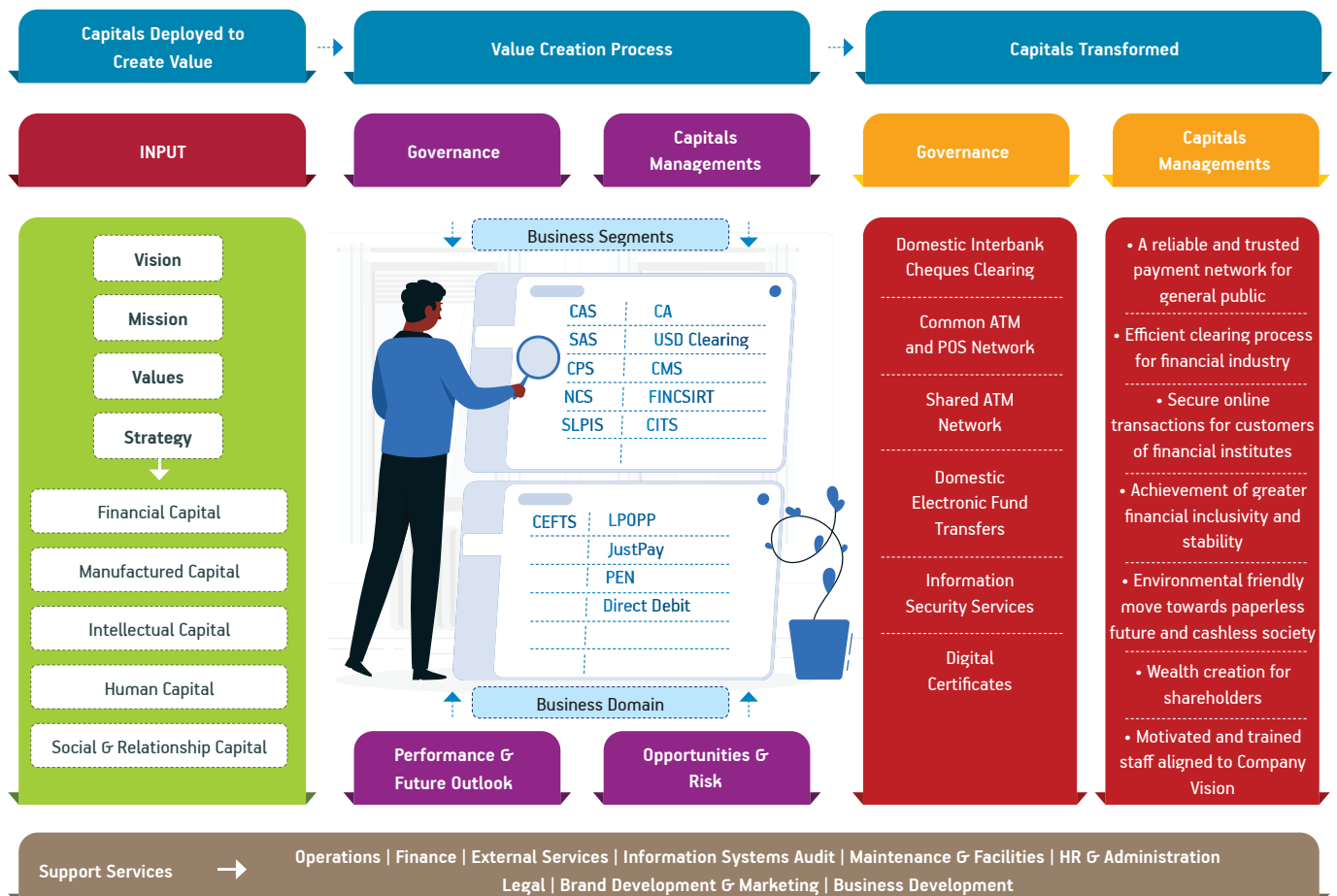
Financial Capital	61
Human Capital	68
Intellectual Capital	73
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A critical factor that determines the success or the failure of any organisation is their process of value creation. Every successful world-class organisation is operated with a purpose 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;



LankaClear with a primary objective of driving financial inclusivity in the country, aims to achieve this via facilitating high quality digital financial services at affordable prices in a secure, reliable and convenient manner to all Sri Lankans. The Company envisages to become Asia's most trusted and reliable payment network and has built its strategies of realising the above by providing a seamless experience to the digital consumers of the country by deploying cutting-edge technology based 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 on par with their regional peers. The organisation's strategic objectives, listed under the strategic section, are discussed in details under various subjects throughout this report.

In an era where businesses depend on technology for its survival, every human activity is significantly impacted by these technologies creating new business models and lifestyles, which are growing by leaps and bounds every day without any exceptions to the evolving buying and selling habits of digital consumers. Digital-savvy consumers who are well informed, require relevant and quick information and have the habit of sharing a lot of information in the

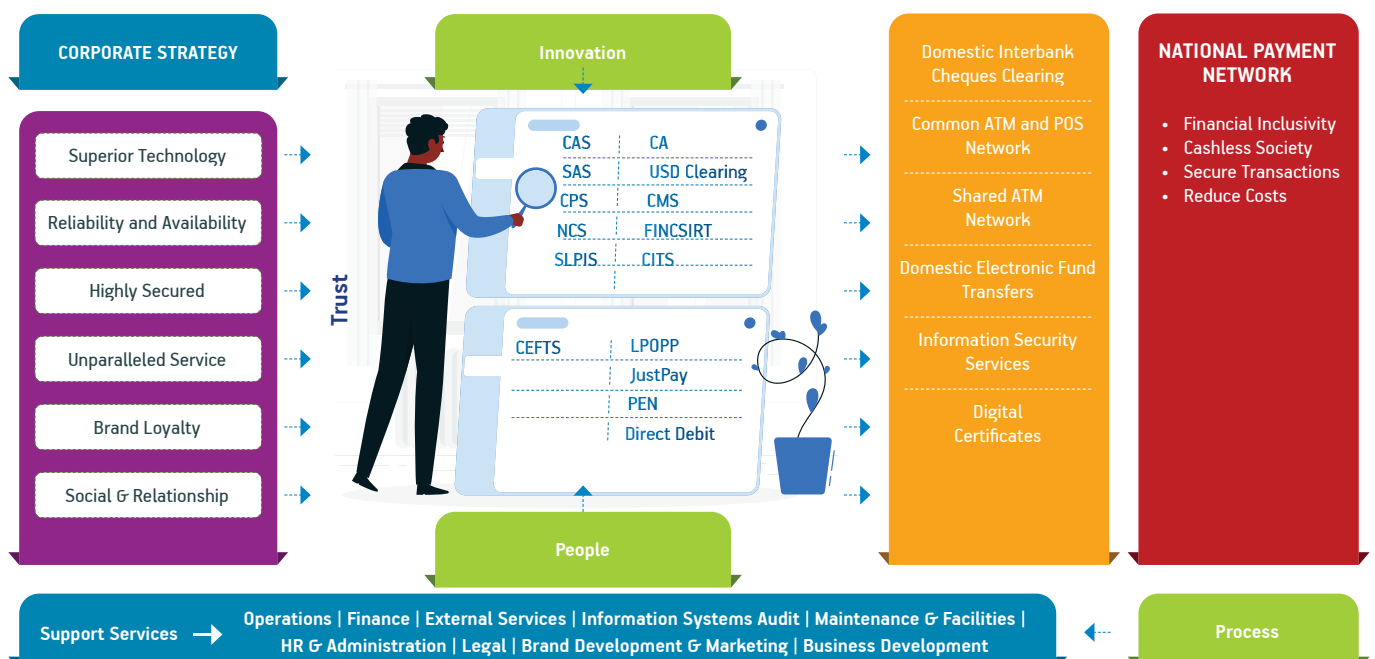
digital space. Online consumers have unlimited opportunities and platforms where they can talk about their experiences, share valuable information, ask for recommendations, provide reviews and leave comments so that user-generated content plays a crucial role in online success.

This means that organisations have no option, but to perform at their best in order to win and keep well-informed consumers who possess excessive information with a variety of options open to them and demanding tailor-made solutions within seconds. Hence, the trends that are embraced by the digital consumers need to be understood in real-times and converted to meaningful products and services in an extremely short span of time to remain valid to the emerging digital consumer.

Absolute uncertainty in the environment has become a key consideration where businesses have to deal with an ever-increasing magnitude of risks and their ability to deal with sudden and unexpected risks in the future that must be managed via improved risk management and agility. The unprecedented pandemic situation in the country and the world has only aggravated restrictions in business activity where the

mobility of human beings coming to almost a stand still. How we strategised to help the digital consumer is via continuous innovation, delivering demonstrable outcome and creating a deep collaboration with all stakeholders as per the key objectives in our long-term strategy. In other words, we must proactively anticipate the drastic changes in the future and be ready with solutions just in time.

LankaClear facilitates Fintech activities via financial institutions and must offer the required shared platforms using newest technologies for the financial industry to serve their digital consumers seamlessly in a secure, reliable and cost-effective manner. Thus, our strategies and product portfolio were aligned to better address the requirement of the digital consumers to have a seamless experience in partnership with our members in collaboration with multiple stakeholders. This helped us to fulfill the demands of our customers and opened new revenue opportunities for the company to improve both our top line and the bottom line. The strategies devised and executed in this regard are discussed in detail under the 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 sufficient value in the entire value chain, LankaClear allocated its resources in several aspects below to gear towards future challenges.

Use of Advanced Technology

The platform used by the 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 the 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 carrying out numerous improvements to the CCAPS 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 were ensured via a tried and tested Business Continuity Plan and our 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 extremely 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 fifth 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 our payment back-end is PA-DSS complied and aligned with ISO 27001 standards. The advanced 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 fulfill the security requirements from end-to-end within our entire network to justify and maintain our status quo as the 'Trusted National Payment Network'.

Superior Customer Service

LankaClear is geared to provide 24x7 support services to our member banks and financial institutions by striving to always maintain the highest level of service. The services are provided by highly skilled, committed and trained staff whose performance evaluation is tied to 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 in our network and people. To achieve this objective, we implemented the account and relationship management concept via one-on-one engagements, discussions and presentations with all financial institutions to increase trust across all LankaPay systems. There was also a significant effort towards the development of mutually beneficial solutions that would encourage financial institutions to improve their service levels as well as facilitate

more opportunities for their digital consumers to engage in inter-bank transactions.

Continuous Innovation is Key for Success

In order for us to be a highly competitive force in the market, we sharpened our focus to implement a host of innovative digital payment solutions to keep abreast with the rapidly-changing technology landscape. During the year under review, a major upgrade of the infrastructure of Common Card and Payment Switch was undertaken with respect enhancing software, capacity and the security by many folds.

As a result of many innovative solutions introduced by LankaClear in the recent past, many banks and financial institutions had the opportunity to start reaping the benefits by going live with these new products during the year under review.

During the year, Inland Revenue Department and Sri Lanka Ports Authority Cargo Section and Entry Permit Section went live with LankaPay Online Payment Platform.

National Development Bank and the Nations Trust Bank went live with the common interface provided by LankaClear for LankaPay Online Platform, which was a significant cost saving option initiated by LankaClear for the participating institutions.

Sampath Bank and National Savings Bank that went live with Payment Exchange Name (PEN) during the previous year, which is a super user-friendly tool for peer-to-peer fund transfers, further consolidated their positions.

Further, some of the payment applications went live with JustPay were OnePay, Marx, PayMaster and DLB.

For LankaQR, 13 participants connected during the year.

Some of the services under the 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 established the National Card Scheme (NCS) in partnership with JCB International Co. Ltd. as a suitable International Card Scheme (ICS). Further, this partnership allowed LankaClear member banks who issue NCS cards to make use of JCB worldwide network for accessing ATM and POS while overseas JCB customers are able to use the internationally issued cards in Sri Lanka via LankaPay CPS.

Another remarkable achievement during the year marked the obtaining approval for Sri Lanka Transit Card (SLTC) by the of Cabinet of Sri Lanka, which recognised LankaClear as the network provider of this national initiative. The cards to be used for SLTC are the 2in1 cards issued under the NCS.

At present, MCB bank, HDFC bank, Siyapatha Finance and Regional Development Bank issue 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 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 cards value proposition in the future.

People are Our Critical Asset

During the year under review, the country was significantly affected by the pandemic conditions and the company had to carry out 24x7 operations, which had a significant national wide importance. Safeguarding the lives of the employees and their families while providing continuous service was a huge dilemma the

management had to grapple with throughout the year. The organisation was never prepared to sacrifice the safety standards of employees and made untiring efforts to safeguard staff by taking bold and efficient decisions in achieving both objectives where work from home arrangements, providing transport and accommodation and keeping to the health regulation were some of the key success factors, which ultimately paved the way for success in both aspects where not a single employee was reported positive for Covid 19 amidst providing uninterrupted service during the year under review.

Even though the year was absolutely a challenging one, the company was able to create many learning and development opportunities for our employees in the accomplishment of new projects. Integration of IRD with LankaPay Online Payment Platform (LPOPP), integration of SLPA with LPOPP, the introduction of 05 settlement cycles in a day to LankaPay CEFTS, integration of EPF with LPOPP, integration of SLSI with LPOPP, implementing Payment Exchange Name (PEN) live operation, end to end data encryption for SLIPS are some of the key projects deployed in this period where the employees assigned were given very rare opportunities to learn on-the-job while doing self-research and testing.

The right training needs of the staff were identified according to the established mechanism while prioritising the most needed products and services covering all departments. The right online trainings were provided to individuals with the purpose of either filling a competency gap or as an improvement to the process or the individual. As a fundamental protocol, the competency gaps of staff have been identified by measuring the current and required competency level for each job position holder. During the period under review, the company was able to fill many of the identified competency gaps even though the facilitating of external training were beyond our reach. The challenge of facilitating external training were turned to be an opportunity to design more and more training with internal resources as well as online trainings.

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

To monitor the outcomes of several initiatives at LankaClear, measurements were taken in two aspects, such as the organisation achieving its objectives provided via the national agenda through the 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 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 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 digital consumer 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 understands that the future success of any technology-based organisation is achieved by being dynamic and its ability to adapt to the rapidly changing business environment. In addition, we believe that by being relevant to the digital consumer's needs and providing them with options to address their different convenience needs, we would continue to be on a growth trajectory. All our services have been designed with an ultimate objective of catering to the needs of the digital consumer, 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 have to be reliable, secure and provide convenience. The future success of our business will depend on our ability to successfully address the ever-changing needs of the digital consumer as well as providing a seamless mechanism to fulfill them via all the services that we offer.

The Effectiveness of the Strategies Implemented by LankaClear to Mitigate the Risk of COVID-19 Outbreak

Sri Lanka reported the first local Corona Virus patient in early March 2020. The patient being a tourist guide, led to the threat of the virus being spread to the tourism sector.. As a responsible employer LankaClear was one of the first companies to implement the Working From Home mechanism from 20th March 2020. The strategy and the policy for WFH was implemented covering all employees and all remotely accessible processes were enabled to Work From Home.

During the past 12 months of living with the pandemic the strategy of the company was to ensure the services to clients were not disrupted, safety and security of staff is guaranteed, continuing to make the systems available at all times the general public and the premises is maintained Covid free.

During the time a small team of employees reported to work throughout the lockdown and curfews and the safety and security of staff was considered as paramount importance to the organization. Every effort was taken to minimise their exposure by implementing the following strategy,

- a) All those who reported to work underwent a PCR Test to make sure that the employee and their families were safe. By the end of the 12 months, the company had sponsored more than 100 PCR tests including those who WFH. The total workforce of the company during the time was 107 employees.
- b) Provided full accommodation to those who travelled from further distances, mitigating their risk of exposure.
- c) Ensured that no one took public transport to work by ensuring company transportation and reimbursed the cost of transport if the staff had to use their own vehicles to travel to office.
- d) Established an HR helpdesk to keep-in-touch with all employees.
- e) Opened up an open communication channel through social media as well as through company official communication channels and updated all important information to employees.
- f) Went to the extent of helping the staff to get the Covid- 19 vaccination, and for some informed the areas of vaccination centers and directed them to get vaccinated.

The WFH practice was very successful in maintaining the day-to-day operations of the company. We made sure that significant systems upgrades were also planned and implemented while working from home and received client accolades for same. The WFH was a challenge at the start, but the management was confident of the tasks to be accomplished to make the effort a success by following the right strategy.

- a) Ensured the laptops and desktops were distributed to staff and all necessary program and tools were installed as in the office.
- b) Made sure the necessary IT security controls were installed including VPN to ensure no malware can intrude the office computer system through remotely working individuals.
- c) All authorised signatories were entrusted with the digital signature platform of the company.
- d) Bandwidth for WFH was provided and when needed additional bandwidth was also provided by the company.

Considering the progress of the above control measures implemented by the company and the impact of the WFH practices the company was able to continue through the operations without any major incidents during the period.

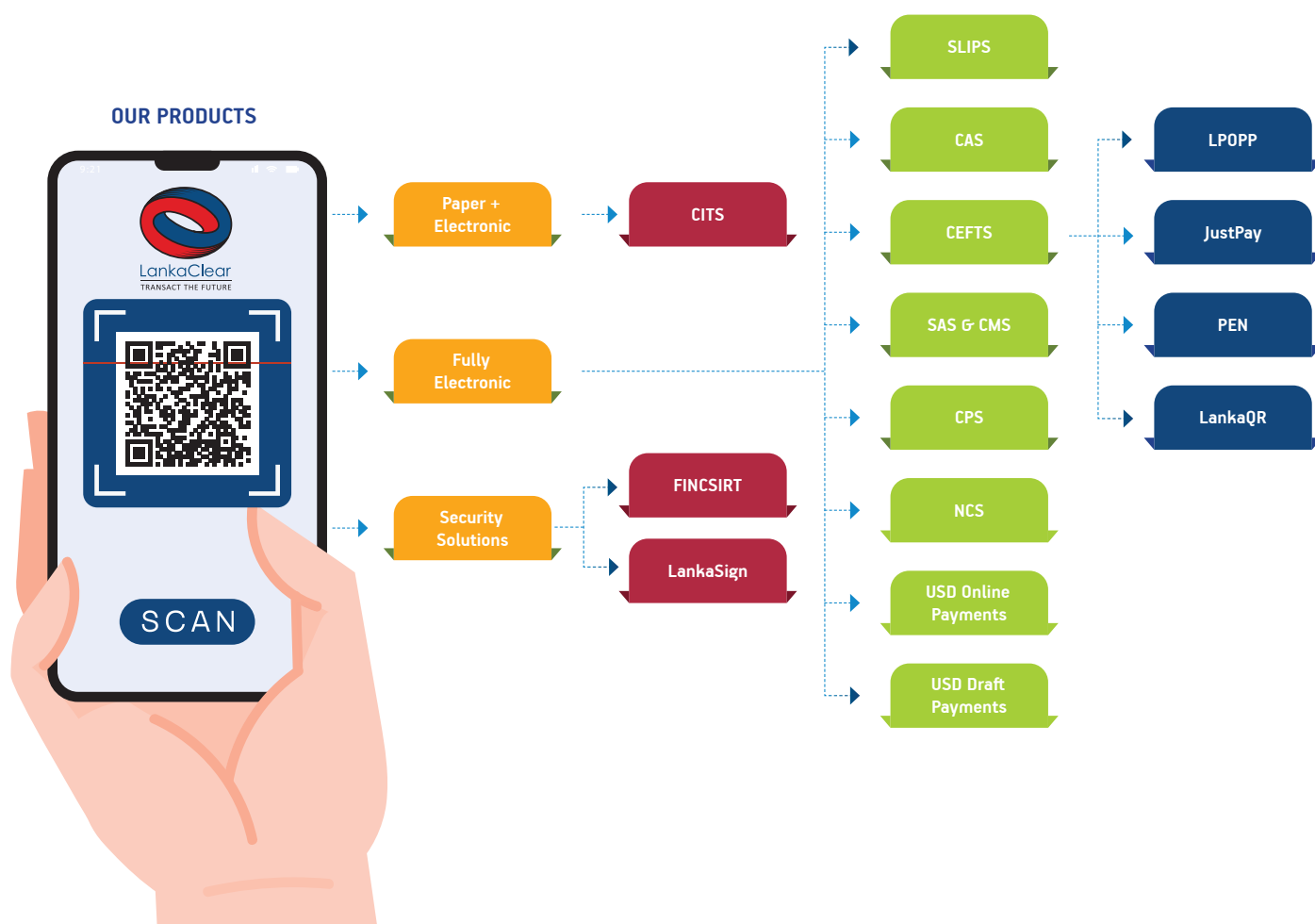
LankaClear contributes immensely towards this endeavour in the country under the guidance of the Central Bank of Sri Lanka and with the collaboration of all the commercial banks and financial institutions.

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. US Dollar Draft Clearing System (USDDCS)
7. LankaPay Common POS Switch (CPS)
8. LankaPay National Card Scheme (NCS)
9. US Dollar Online Payment System (USDOPS)
10. Digital Certificates - LankaSign

OUR PRODUCTS



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

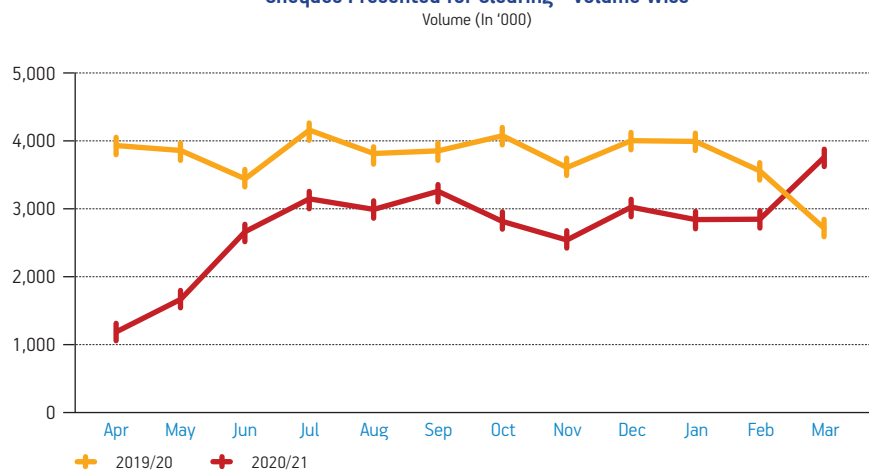
Automated cheque clearing and cheque truncation was enabled by the introduction of the Cheque Imaging & Truncation System (CITS), which utilises digital technology to expedite the clearing and settlement processes. As a result, on depositing a cheque, the public is able to get credit for their funds on the following business day (T+1). LankaClear also introduced the online mode of CITS four 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 99.82% system up-time and achieved 98.02% of the delivery cutoff times in the year 2020/2021. LankaClear has improved the Disaster Recovery (DR) processes and updated the Business Continuity Plan (BCP) by introducing new procedures and processes in the year 2020/2021. For CITS operations, LankaClear conducted one clearing operation successfully from the DR site underlining the rigour of the CITS operations.

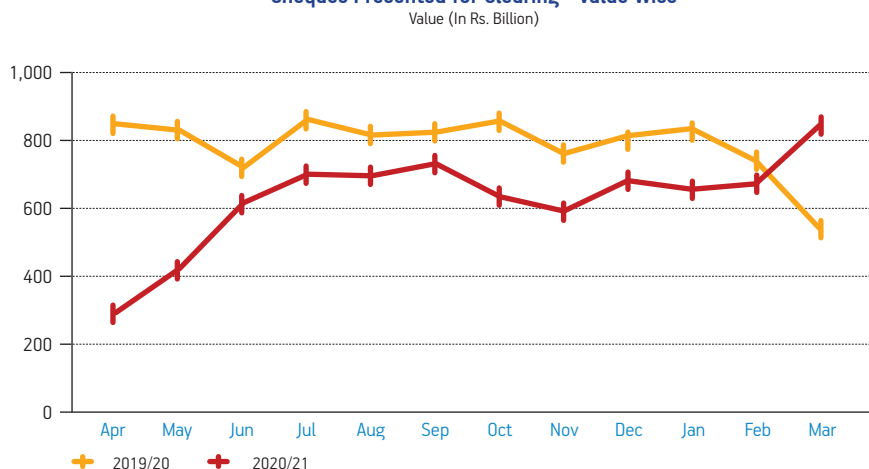
The total number of cheques cleared in 2020/2021 through CITS amounts to 32.82 Mn compared to 45.05 Mn in 2019/2020. This is a reduction of 27.15% from the previous year.

Currently, an average of approximately 136,168 cheques are cleared through LankaClear each business day through CITS. Highest number of cheques cleared on a given day in 2020/2021 is 361,150. The value of the cheques cleared has also fallen by almost 20.20% compared to the previous year. The decrease is approximately LKR 1911 Bn when compared with 2019/2020. The total value of cheques cleared in 2020/2021 through CITS amounts to LKR 7,549 Bn compared to LKR 9,460 Bn in 2019/2020.

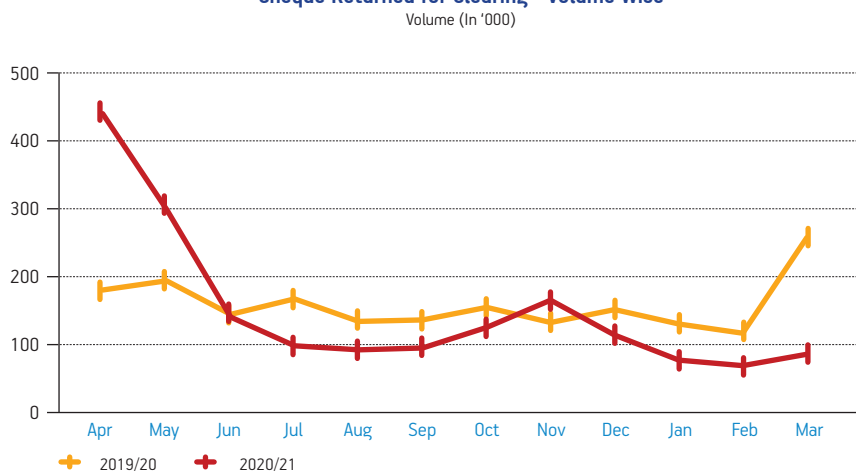
Cheques Presented for Clearing - Volume Wise



Cheques Presented for Clearing - Value Wise



Cheque Returned for Clearing - Volume Wise



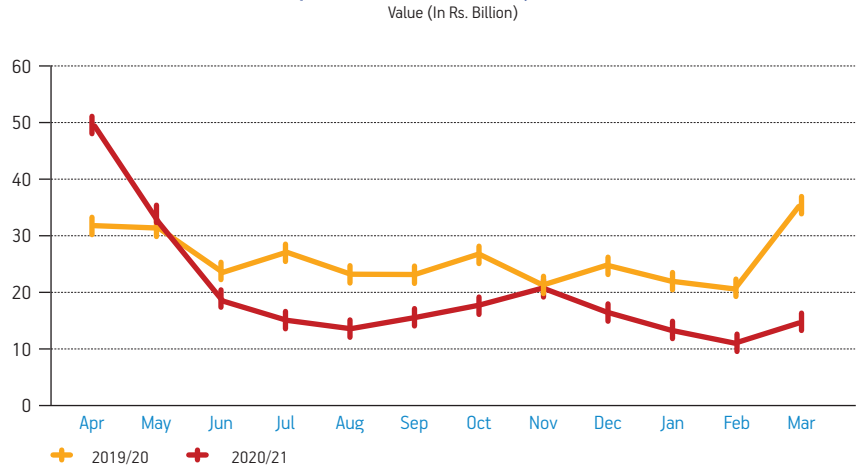
1.1 Settlement Clearing (Cheque Returns)

Out of the 32.82 Mn cheques presented for clearing, 1.81 Mn cheques were returned due to non-payment. This amounts to 5.5% of the cheques presented for clearing of the total cheques returned, around 22% were returned due to lack of funds.

The total number of cheque returns in 2020/2021 through CITS amounts to 1.81 Mn compared to 1.90 Mn in 2019/2020. This is a decrease of 5%.

The total value of cheque returns in 2020/2021 through CITS amounts to LKR 238.47 Bn compared to LKR 310.92 Bn in 2019/2020. This is a decrease of 23.30%.

Cheque Returned for Clearing - Value Wise

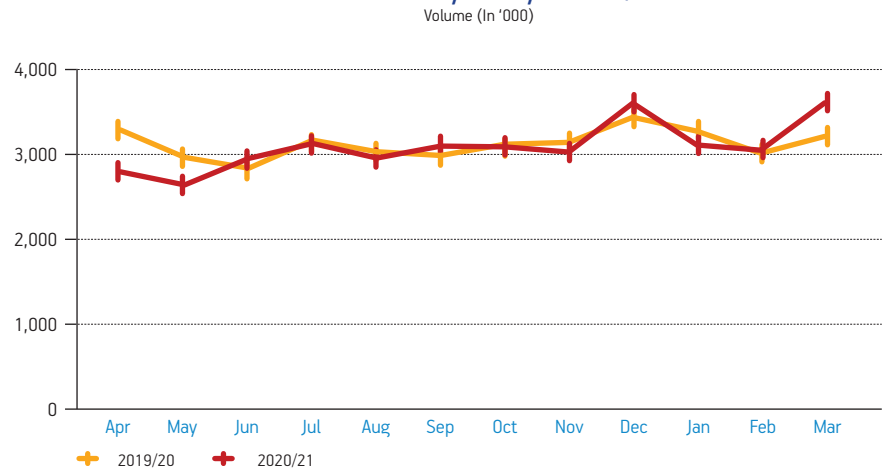


2. Sri Lanka Interbank Payment System (SLIPS)

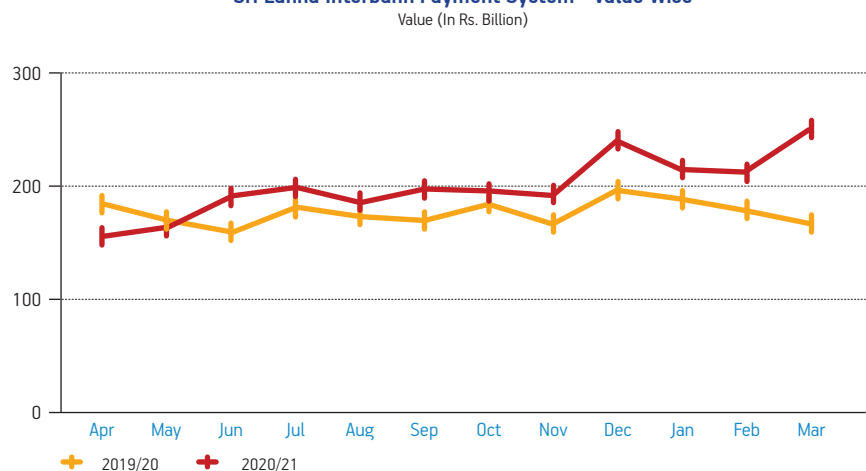
Electronic Funds Transfer (EFT) is the movement of funds from one account to another, either between two institutions or across multiple institutions, electronically and without the direct intervention of institution staff. LankaClear provides an electronic fund transferring service named SLIPS to facilitate 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 2020/2021 amounts to 37.09 Mn, compared to 37.51 Mn in 2019/2020. This is YoY decrease of 1.11%. The total value of transactions cleared through SLIPS in 2020/2021 amounts to LKR 2,399.91 Bn compared to LKR 2,120.05 Bn in 2019/2020. This is a YoY increase of 13.20%. On average, there has been 153,916 SLIPS transactions per day with highest number of SLIPS transactions recorded for a given day being 773,320.

Sri Lanka Interbank Payment System - Volume Wise



Sri Lanka Interbank Payment System - Value Wise



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

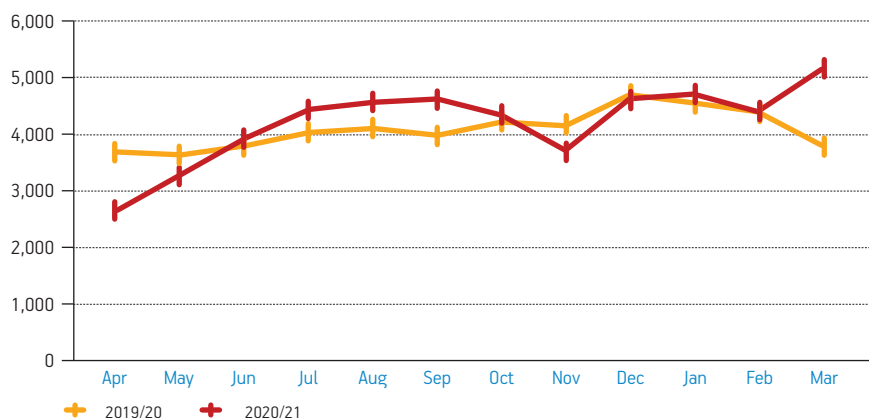
The Common Card and Payment Switch (CCAPS) is an integrated payment system of multiple domestic payment networks. CCAPS is a national initiative implemented under the guidance of the Central Bank and with the collaboration of all operating commercial banks and financial institutions in Sri Lanka. CCAPS 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 the different needs of their customers. This results in the general public accruing the benefits of more efficient and cost effective electronic payment products.

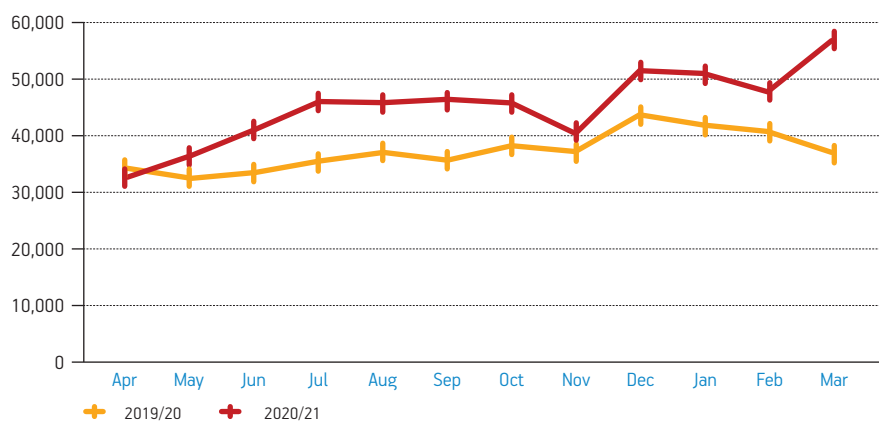
LankaPay - CAS serves the general public of Sri Lanka with utmost excellence, offering convenience of the ability to use the nearest ATM with the highest security rather than having to visit their own bank's ATM. Through LankaPay - CAS, the public is able to conduct transactions using the ATMs of any 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 2020/2021 amounts to 50.49 Mn compared to 49.10 Mn in 2019/2020. This is an increase of 2.84% compared to the previous year. The total value of cash withdrawals in 2020/2021 amount to LKR 543.01 Bn compared to LKR 447.98 Bn in 2019/2020. This is YoY increase of 21.21%. The total number of balance inquiries in 2020/2021 amounts to 15.93 Mn compared to 16.24 Mn in 2019/2020. In the year 2020/2021, an average of approximately 181,980 approved transactions Cleared through LankaPay - CAS each day while the highest number of transactions cleared during a day in LankaPay - CAS during 2020/2021 is 380,089.

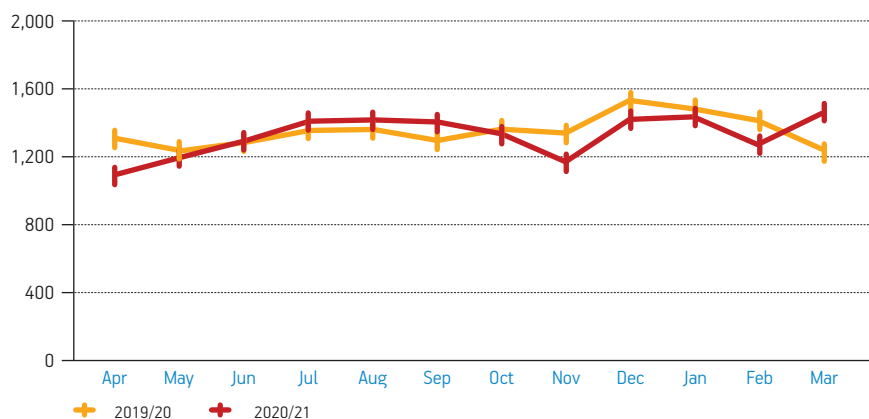
LankaPay - CAS Cash Withdrawals - Volume Wise
Volume (In '000)



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 42 participants using the CEFTS facility. Within the year 2020/2021, following three institutions joined the LankaPay CEFTS network.

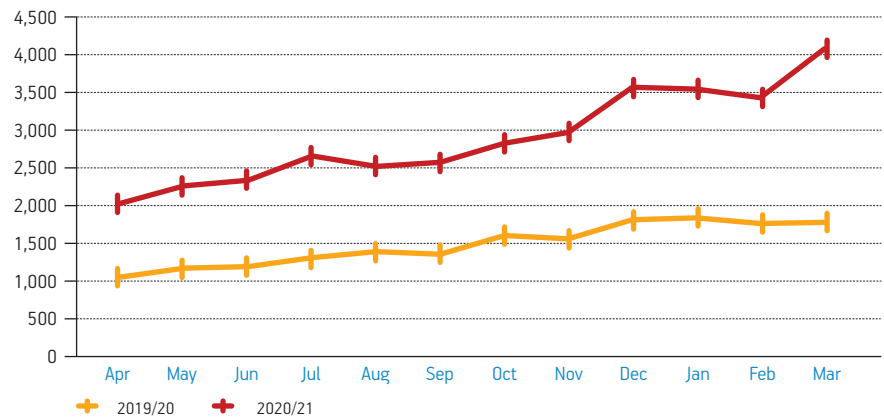
- a) Merchant Bank of Sri Lanka & Finance PLC
- b) Singer Finance PLC
- c) CBC Finance Limited

LankaPay - CEFTS recorded the highest-ever increase of 92.61% in the number of interbank electronic fund transfers totaling over 32.73 Mn transactions in the year 2020/2021 compared to 16.99 Mn transactions in the previous year. The total value of CEFTS transactions in 2020/2021 amount to LKR 2,929.98 Bn compared to LKR 1,551.12 Bn in 2019/2020. This is YoY increase of 88.89%. On average, there were 90,498 transactions per day with the highest number of transactions recorded for a given day being 177,805.

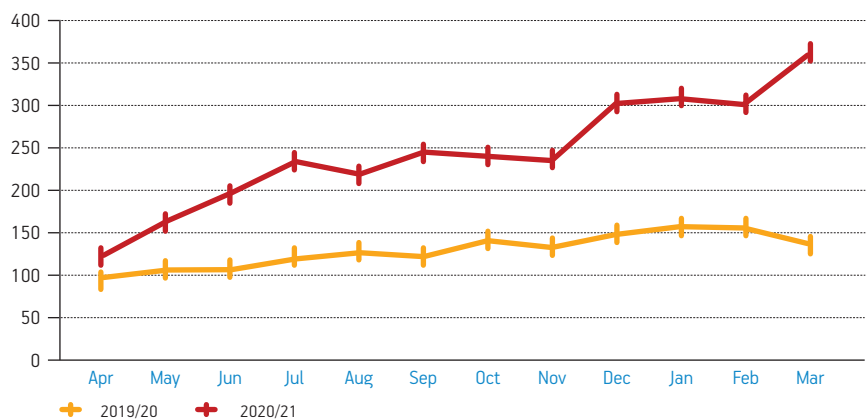
5. LankaPay - Shared ATM Switch (LankaPay - SAS) and Card Management System (CMS)

The LankaPay - SAS started operations in September 2015 with Regional Development Bank (RDB). Sarvodaya Development Finance and Siyapatha Finance also joined this network during the year 2019/2020. Card Management System (CMS) was launched in 2015 and, CMS has issued 297,194, 993 & 4156 cards respectively to RDB, Sarvodaya Development Finance and Siyapatha Finance.

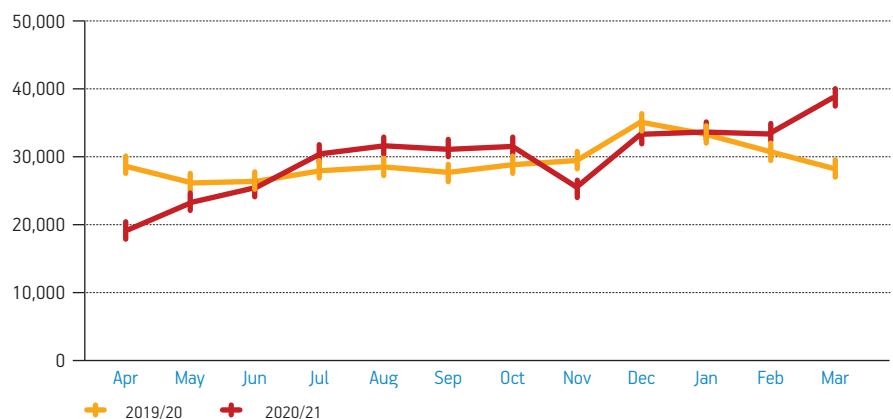
LankaPay - CEFTS - Volume Wise
Volume (In '000)



LankaPay - CEFTS - Value Wise
Value (In Rs. Billion)



LankaPay - SAS Cash Withdrawals - Volume Wise
Volume



The total volume of cash withdrawals in SAS in 2020/2021 amounts to 356,911 compared to 350,743 in 2019/2020. This is an increase of 1.76% compared to the previous year. The total value of cash withdrawals in 2020/2021 amounts to LKR 4,263.50 Mn compared to LKR 3,645.11 Mn in 2019/2020. This is a YoY increase of 16.96%.

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.

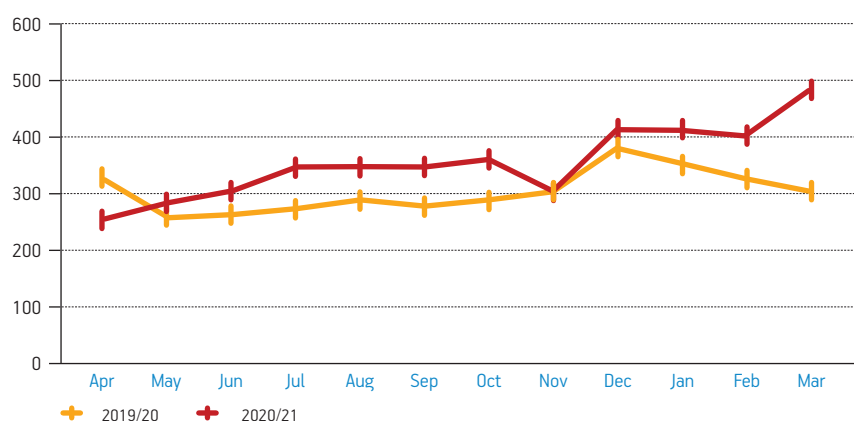
- I. USD drafts issued by licensed commercial banks in Sri Lanka payable to Sri Lankan individuals and institutions.
- II. USD cheques issued by Banks or Exchange Houses abroad drawn on Licensed Commercial Banks in Sri Lanka.

The total number of items cleared through US Dollar Draft Online Image Transfer System in 2020/2021 amounts to 28,565 compared to 2019/2020 of 47,480. This is a decrease of 39.84%.

The total value of items cleared through US Dollar Draft Online Image Transfer System in 2020/2021 amounts to USD 241.47 Mn compared to 2019/2020 of USD 310.20 Mn. This is a decrease of 22.16%.

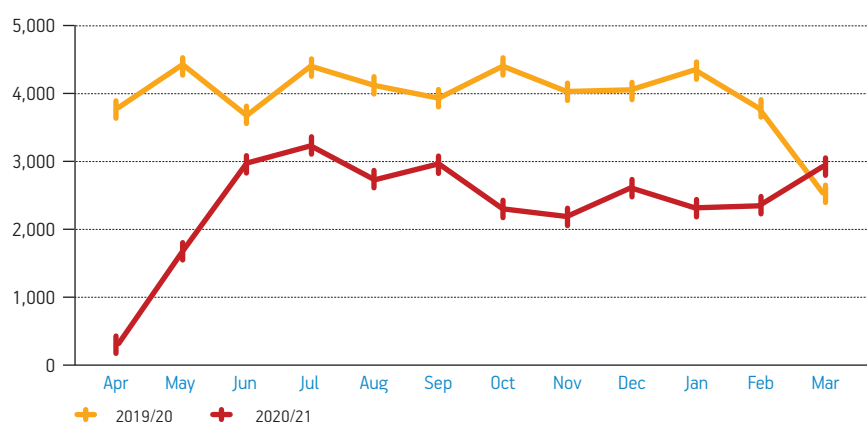
LankaPay - SAS Cash Withdrawals - Value Wise

Value (In Rs. Million)



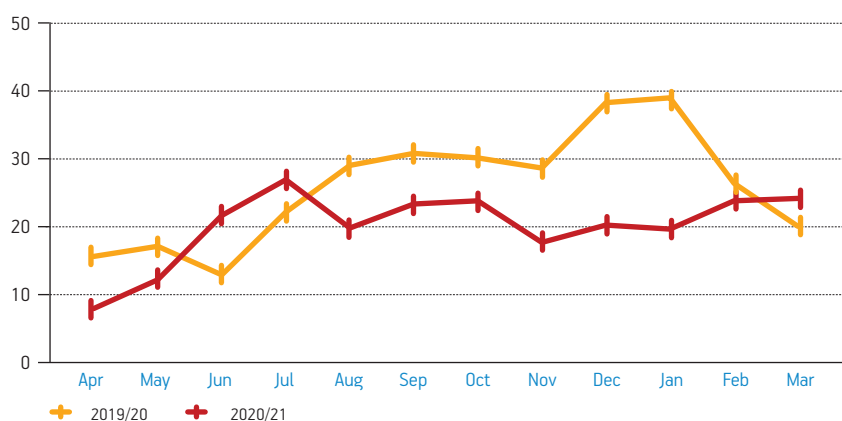
US Dollar Draft Clearing - Volume Wise

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.

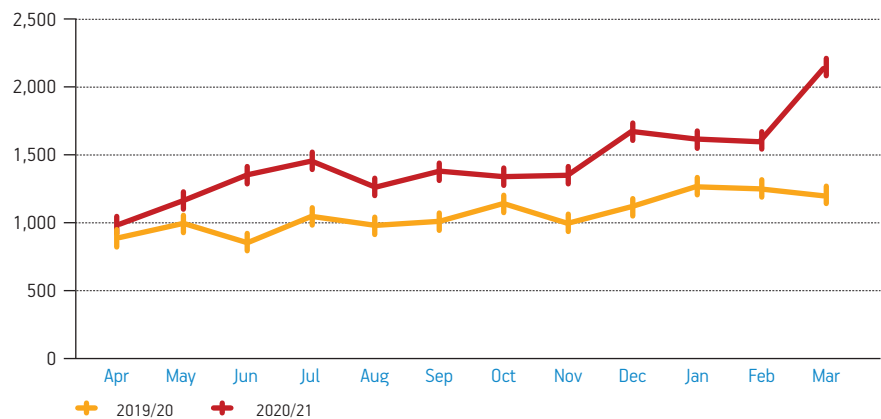
Following types of USD interbank fund transfers are facilitated by the system:

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

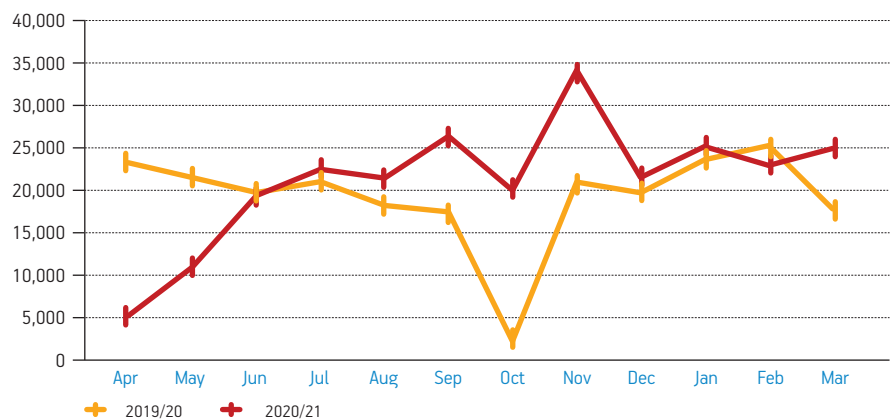
The total number of transactions cleared through the US Dollar online payment system in 2020/2021 amounts to 17,305 compared 12,735 in the year 2019/2020 which is an increase of 35.89%.

The total value of items cleared through the US Dollar online payment system in 2020/2021 amounts to USD 254.82 Mn compared to USD 231.47 Mn in the year 2019/2020 which is an increase of 10.09%.

USD Online Payment System - Volume Wise
Volume



USD Online Payment System - Value Wise
Value (In USD Million)



8. LankaPay Online Payment Platform (LPOPP)

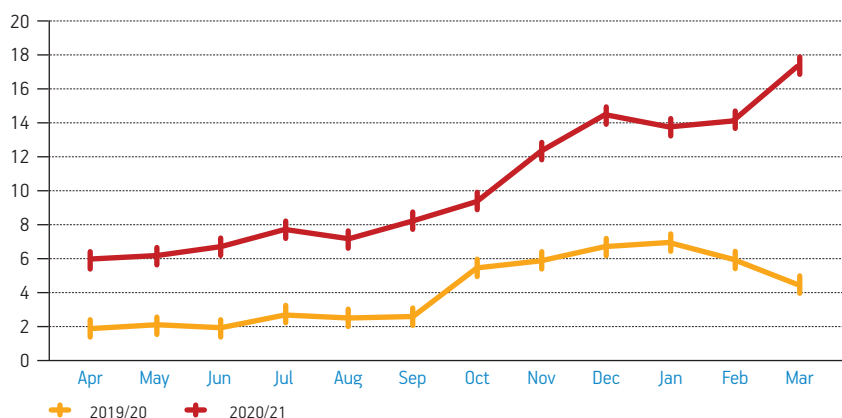
LankaPay Online Payment Platform (LPOPP) has been designed to communicate with a third party system that is connected to LPOPP on one side and the commercial banks, which are connected to LPOPP on the other side. For example, at present, online payments are facilitated for Sri Lanka Customs where Sri Lanka Customs' ASYCUDA system is connected to LPOPP. In addition, Board of Investment (BOI), Sri Lanka Ports Authority (SLPA) and Inland Revenue Department (IRD) have connected to facilitate payments to customers of all banks.

The customers of commercial banks connected to LPOPP can make online payments through their respective banks via internet, mobile, ATM or any other channel that the banks will offer to their customers. These payments will be credited on a real-time and 24x7 basis to the designated bank accounts of the organisations.

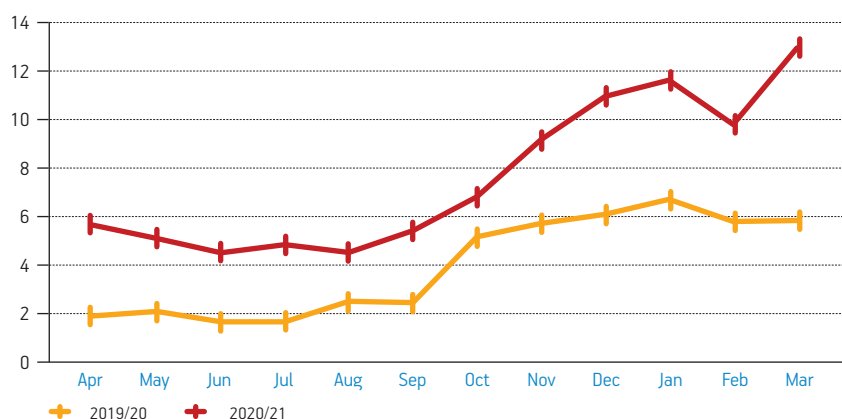
LankaClear provides the required payment confirmation details on a real-time basis along with the relevant reports and other information necessary for the organisation for reconciliation purposes.

LPOPP facilitated online payments to Sri Lanka Customs in July 2017, BOI payments in October 2019, SLPA payments in August 2020 and IRD payments in February 2021. For the period 1st April 2020 to 31st March 2021, there have been over LKR 91.35 Bn worth of payments made through LPOPP compared 47.60 Bn in the year 2019/2020 which is an increase of 91.92%. 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 - Value Wise
Value (In Rs. Billion)



9. JustPay

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 primarily made by cash and cards. Maximum per transaction value allowed through JustPay network is Rs. 50,000. JustPay is initiative that is aptly supported by the Central Bank and aims to convert over 95% of the retail transactions that currently made via cash into electronic modes.

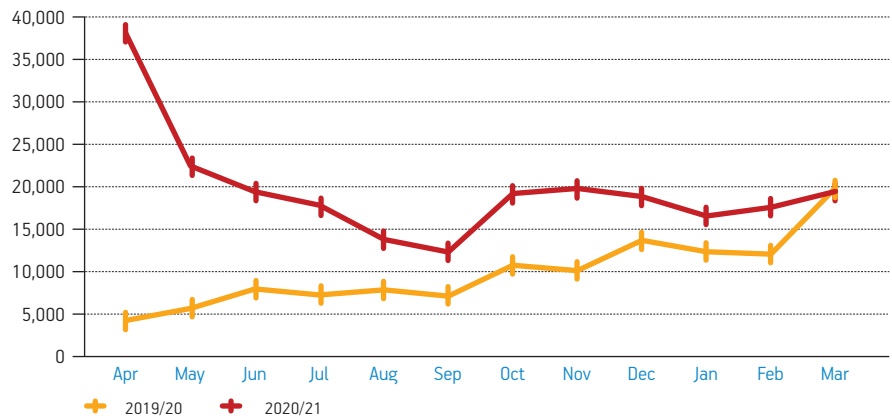
JustPay, is a sub-product of LankaPay-CEFTS allowing the real-time debit option. Further LANKAQR is also powered by JustPay when a customer uses a bank account to pay. Currently JustPay transacts over 500,000 approved transactions per month and over 40,000 customers are onboarding on a monthly basis. Specially during the pandemic situation, customer have shown a positive trend of moving to digital payments allowing their day-to-day payment needs to be transacted via their smart phone.

JustPay network currently has 21 mobile application providers supporting its users to add and pay via their bank accounts. These 21 mobile application providers are supported by 11 financial institutions to enable real-time payments. Further customers of 20 financial institutions in Sri Lanka allows their customers to register and pay via their bank accounts via JustPay.

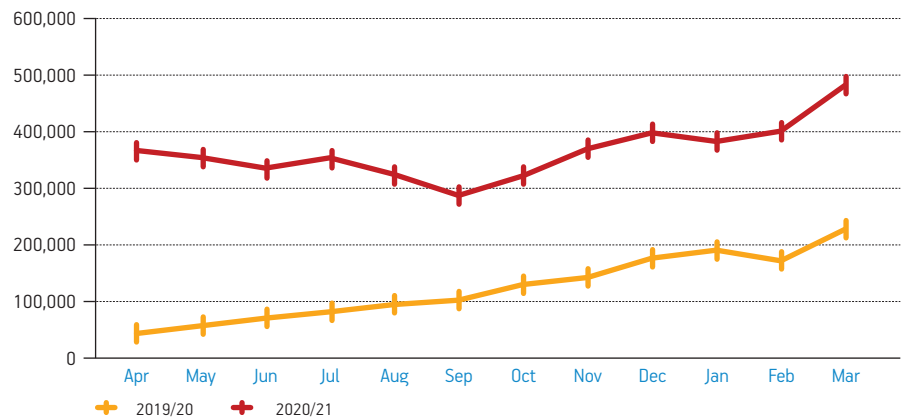
Going one step ahead, certain mobile application providers allow its customers to do a fund transfer between two financial institutions by consuming two payment systems of LankaPay. Namely JustPay and normal CEFTS (pull and push). Further JustPay option is available to top-up any legit virtual wallet or instrument available in a mobile application.

Further, there is a 195% increase in JustPay transaction volume increase in 2020/21 financial year when compared with 2019/20 financial year.

JustPay Registration - Volume Wise
Volume



JustPay Transaction - Volume Wise
Volume



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.

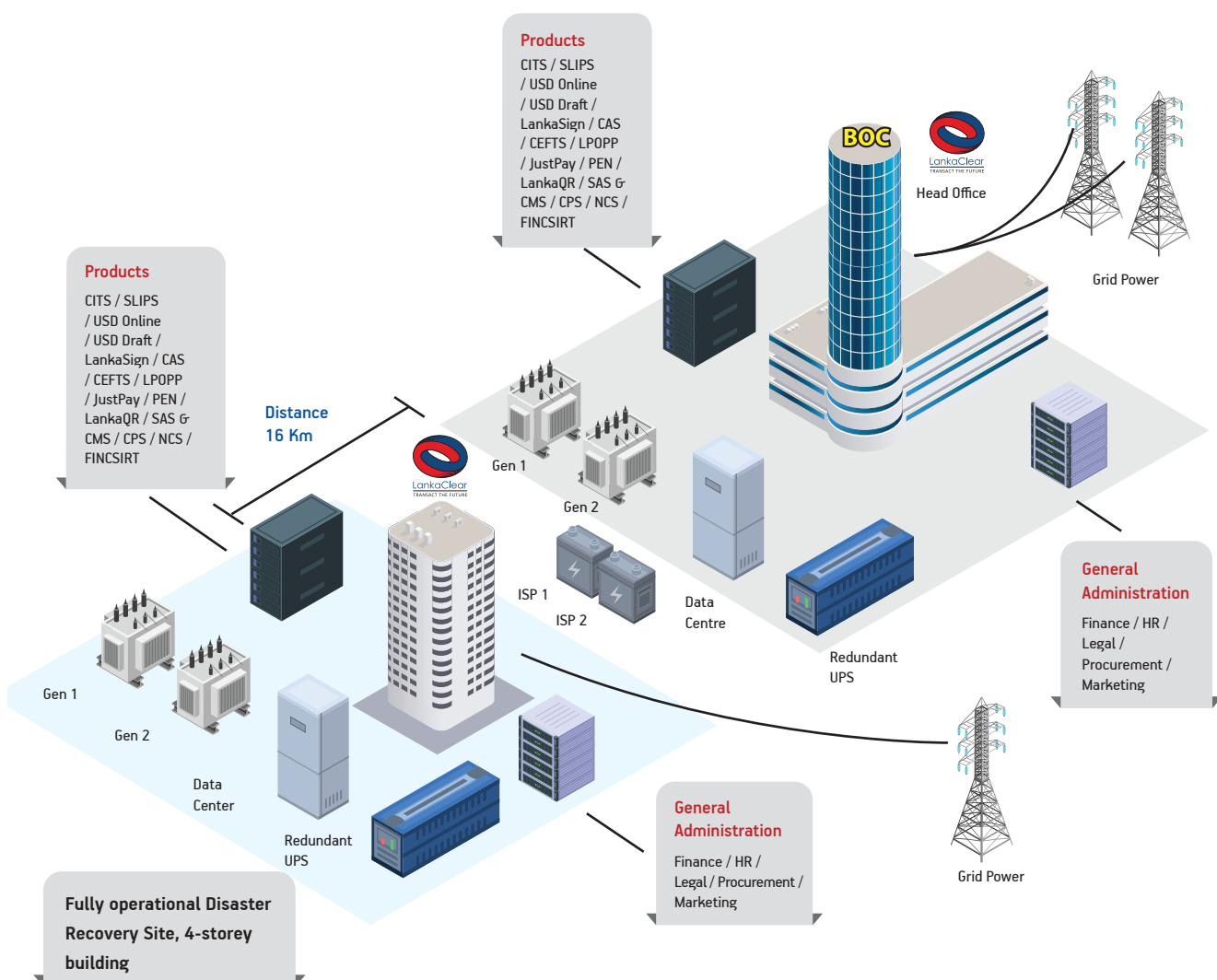
When deploying innovative technology solutions to facilitate all interbank transactions, we need to ensure that the entire financial sector as well as their customers trust our systems. Hence, we have gone the extra mile to maintain the

highest levels of information security, reliability, and high availability. Therefore, we have strived to exceed expectations of our stakeholders by ensuring that all our products and services adhere 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 its core network security infrastructure to protect against existing as well as new cyber security threats.

Once again in 2020/2021, 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.



LankaClear also adheres to a robust business continuity plan and in the year 2020/2021 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 2020/2021. For example, Cheque Imaging and Truncation System (CITS) achieved a system uptime of 99.82% during the year 2020/2021. 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 2020/2021 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

The Monetary Board of Sri Lanka approved LankaClear to implement the National Card Scheme in Sri Lanka way back in July 2016. After a comprehensive selection and negotiation process, LankaClear partnered with JCB International for technology and knowhow in implementing the NCS. JCB International is one of the six members of EMV Co, the international body which defines standards for secure, interoperable electronic payment instruments such as chip cards QR-codes and related processing devices.

Sri Lankan banks were dependent on International Card Schemes (ICS) for payment card issuance. Hence, an important financial sector of the economy was within the control of ICS. Introduction of the NCS intends to break this monopoly and provide an opportunity for the propagation of domestic payment card products in the country while saving foreign exchange that needs to be remitted to these ICSs when making settlements by local banks even for domestic transactions.

NCS has enabled banks and financial institutions to offer a variety of card-based payment options to their customers, which will promote financial inclusivity in the country. This also addresses a current issue where certain banks and most financial institutions are unable to meet the eligibility criteria of ICS to issue cards.

LankaClear has introduced the LankaPay/JCB co-branded debit card to the market through several banks and financial institutions. Currently the following financial institutions are issuing this card.

- ▶ MCB bank limited.
- ▶ Siyapatha Finance PLC.
- ▶ HDFC bank.
- ▶ Regional Development Bank.



These cards, issued as LankaPay/JCB co-branded debit cards, with chip based (EMV) cards.

Further, The Central Bank of Sri Lanka has recently entrusted LankaClear to implement the Sri Lanka Transit Card (SLTC) and has also standardised the NCS to be the card that will be utilised for SLTC. Currently, LankaClear together with Sri Lanka Transport Board, National Transport Commission and People's Bank is working towards issuing the first ever Transit Card to Sri Lanka with the support of the Ministry of Transport.

NCS card is positioned as truly an every-day payment card instrument, which can be used at a corner store to pay for groceries, as a transit card that can be used in buses and railways and even to transact with government agencies. Ability to make payments for E-Commerce purchases and card tokenisation will be introduced in second stage of the NCS programme. These initiatives will provide truly convenient payment mechanisms across all payment channels to fit in with lifestyles of the digital consumer, especially the millennials and Generation Z who are now the main contributors to the national economic fabric.

Further, the NCS card is not just a domestic card. It has international ATM and POS transaction access through the JCB network worldwide.

Some of the benefits under NCS for financial institutions and merchants in Sri Lanka.

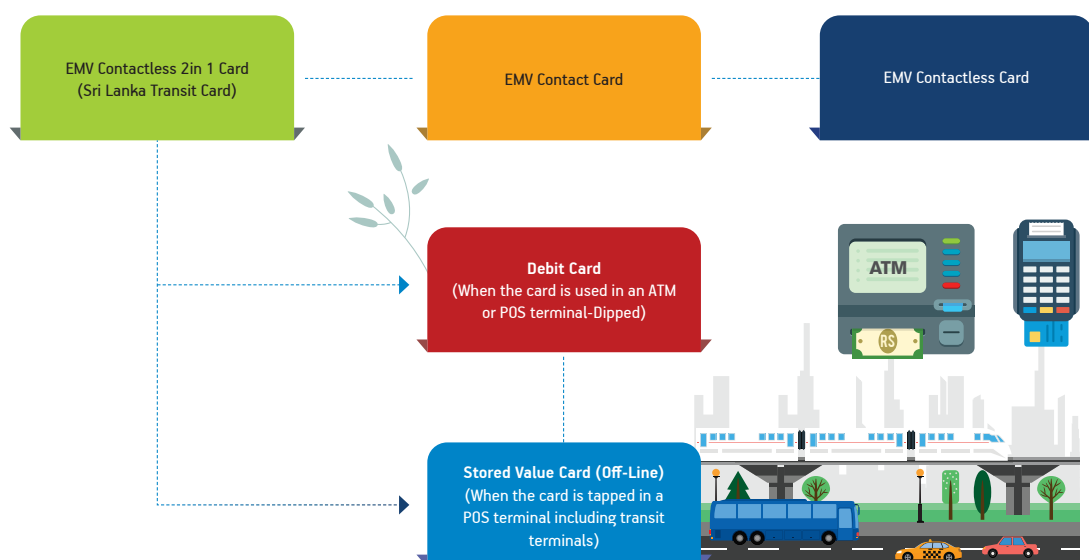
- ▶ Merchant Discount Rate (MDR) is mandated at 1%.
- ▶ Interchange fee payable by the acquirer to issuer is mandated at 0.5%.
- ▶ As an issuer no switching fee for non-PIN domestic POS transactions.
- ▶ Reduced interchange fee and customer fee for domestic ATM transactions.
- ▶ No bulk or volume-based fees.
- ▶ No integration with JCB and obtains the full access of JCB network via LankaPay.



Historic Agreement signed to implement Sri Lanka Transit Card



Card Issuance Options under NCS



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 has been used by;

- 46 banking and financial sector organisations for clearing systems operated by LankaClear,
- All commercial banks participating on CITS, SLIPS, UITS & USD Online 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 top-line growth of LankaSign by 26% YoY during the year under review 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.

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, with the initiation by the Central Bank of Sri Lanka, Sri Lanka Computer Emergency Response Team, and Sri Lanka Bankers Association, 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.

In its initial phase, FinCSIRT started its operations primarily providing a reactive response to the banking sector, and with the evolvement, FinCSIRT has grown its services to provide even more comprehensive services in its move to provide more proactive services to the entire financial sector, related parties and sectors, the country as well as to the 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.

FinCSIRT currently provides its services to 38 banks, finance companies and primary dealers. Despite the current pandemic situation, FinCSIRT took measures to ensure its importance and that its service delivery capabilities are intact from day one and therefore, was able to continue providing its dedicated assistance to its members upholding its importance.

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

Sectoral Information Security Development Services

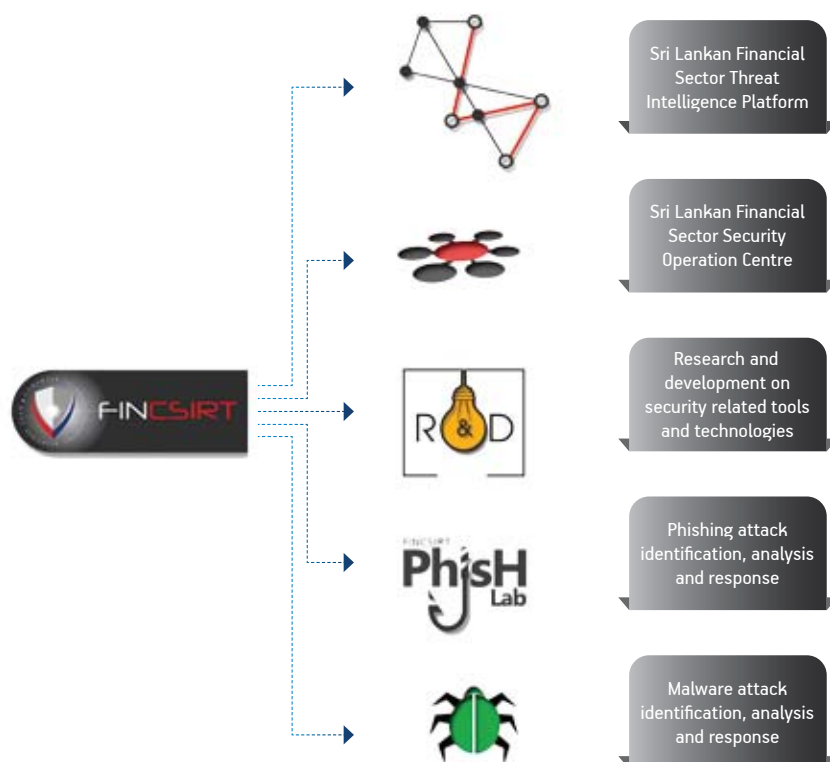
- ▶ Assisting the Central Bank of Sri Lanka (The Regulator) in sector information security posture building
- ▶ Assisting the financial sector affiliated stakeholders in providing secure services to the financial institutes
- ▶ Uplifting the information security resiliency of the Sri Lankan financial sector
 - ▶ Conduct twice a year cyber security readiness assessment of the sector institutes based on a methodology developed by the FinCSIRT
 - ▶ Uplifting the capabilities of the personnel responsible for handling information security incidents with simulated live threat environments (Cyber War Games)
 - ▶ Conduct cybersecurity research and developments to enhance cybersecurity readiness of the sector
 - ▶ Uplifting the individual institutes' strength in information security

resiliency

- ▶ 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

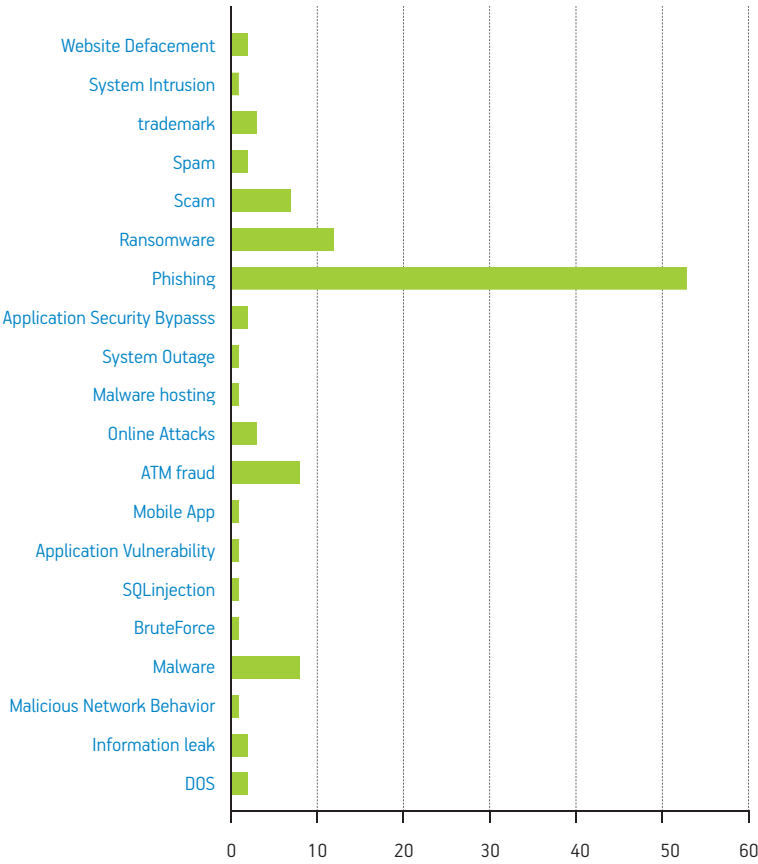
Global Information Security Development Services

- ▶ Supports international FinCSIRTs and the CERTs for information security development
- ▶ Coordinate and corporate with international CERTs for incident responses activities

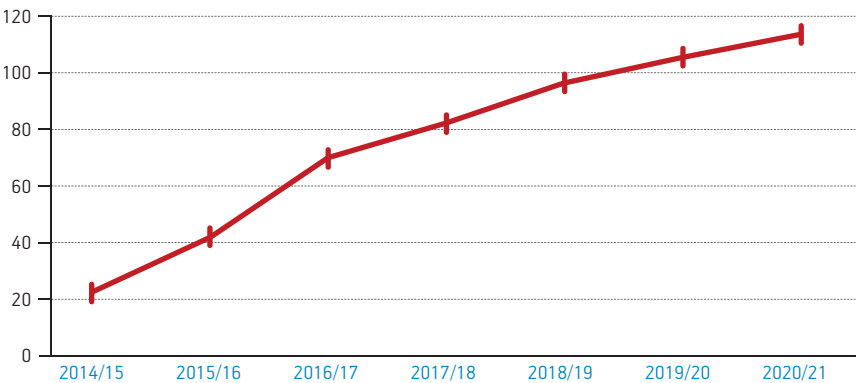


FinCSIRT incident response summary over the years are as follows.

Reported Incidents to FinCSIRT From June 2014 to March 2021



Incidents Response Growth By FinCSIRT from June 2014 to March 2021



FINANCIAL CAPITAL



Financial Capital is the collection of funds that are available to an organisation or business to use to produce goods or provide services. These funds can be obtained through financing such as debt, equity or grants or generated through operations or investments.

Overview

Despite an unprecedented worldwide pandemic situation making the business environment extremely challenging, LankaClear was able to weather the storm due to its financial resilience and stability, unique position as the trusted national payment network, farsighted strategic moves and innovative product range.

Different revenue sources were impacted in a varied manner from the effects of the pandemic, but due to a well-diversified product portfolio we were able to cushion the impact. During the year under review, the organisation facilitated 33 Mn real-time electronic transactions for people who were stuck at home, which resulted in a soaring 93% YoY increase whilst the traditional payment mode of cheque volume reduced by 27% YoY.

In this context, LankaClear was also able to withstand a massive negative revenue impact due to waiving off cheque return income for the first six months (negative impact Rs.69.1 Mn) and reducing the fee on CEFTS transactions by 40% from the month of January 2021 (negative impact Rs.27.4 Mn). Apart from the gloomy business outlook and the reduced business activities due to the pandemic, the combined negative impact on revenue from the above two was Rs.96.5 Mn, which was 9.1% decline affecting the total income generated for the year under review.

However, the concerted cost reduction initiatives carried out by the management during the year resulted in the overall costs decreasing by 2% (2019/20 - 10% increase) whilst the anticipated direct operating expense increase was contained at 2.6% (2019/20 - 14%).

On the positive side during the year under review, the company managed to top the revenue over Rs.1 Bn for the third consecutive year, recording a revenue of Rs.1.057 Bn (2019/20 - 1.098 Bn), a gross profit of Rs.477 Mn (2019/20 - Rs.532 Mn), a Profit Before Tax (PBT) of Rs.518 Mn (2019/20 - Rs.561 Mn) and a profit After Tax (PAT) of Rs.490 Mn (2019/20 - Rs.486 Mn). It was remarkable to record a marginal increase in overall profitability YoY, despite extreme conditions, while the company recorded a growth in Earnings per Share of Rs.32.10 from Rs.31.85 recorded during the year 2019/20.

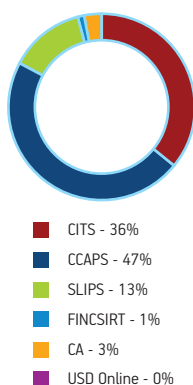
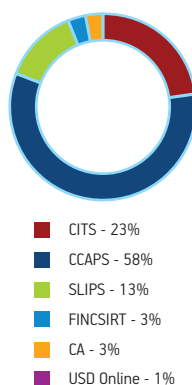
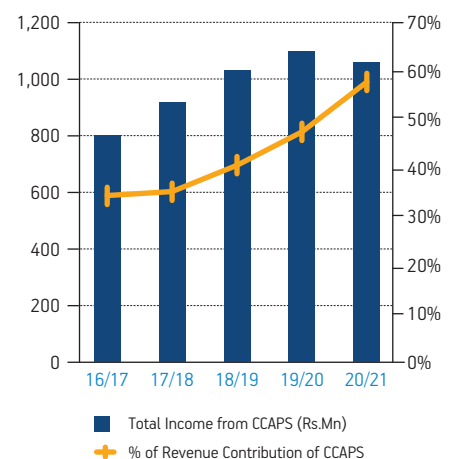
Revenue

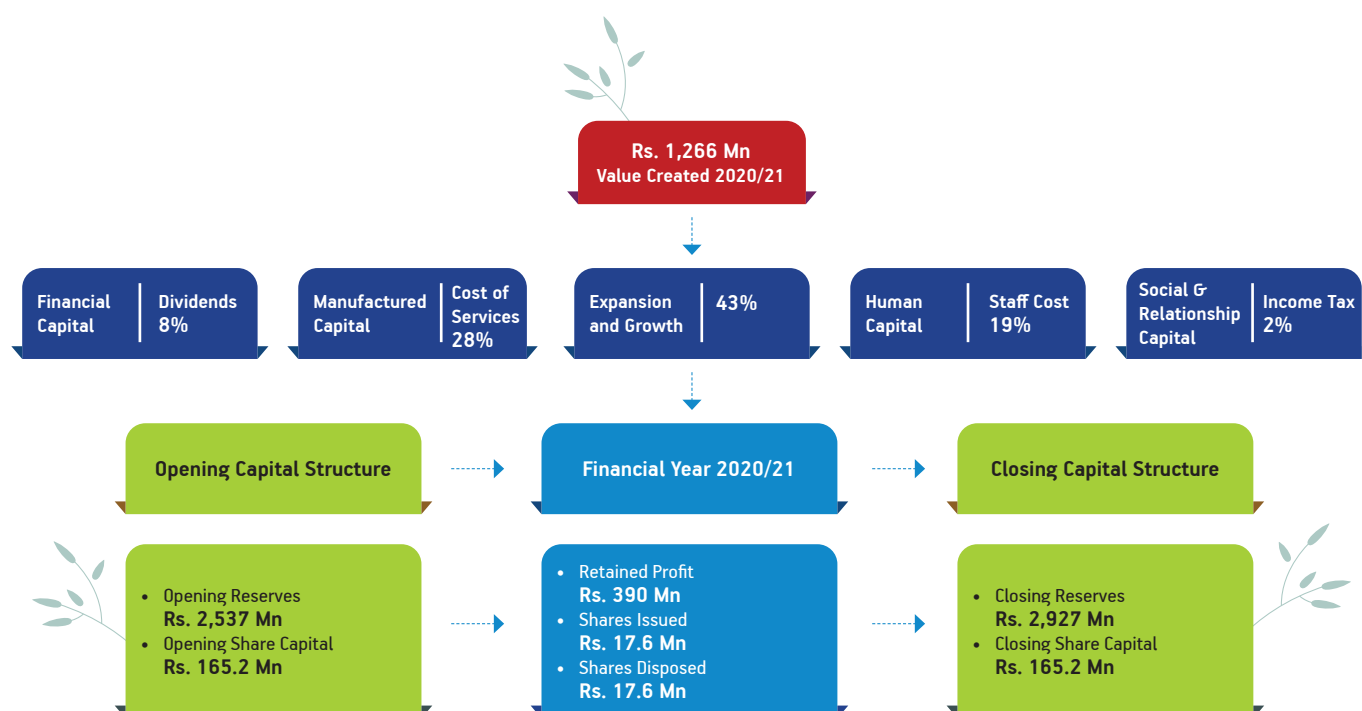
During the year under review, the company recorded a revenue of Rs.1.057 Bn (2019/20 - Rs. 1.098 Bn), which was an exceptional achievement due to the business challenges faced by the organisation. As explained under the overview there was an income reduction due to not charging for cheque returns for 6 months and a 40% fee reduction on CEFTS, which had a direct revenue impact of Rs.96.5 Mn (9.1%

on the total revenue) apart from the pandemic impact of reduction in business activities itself. However, the increase in electronic transactions has greatly mitigated the negative impact, containing the contraction to only 3.7% in revenue.

In a technology dominant era, every human activity is significantly impacted by technology. Digital consumers who are well informed, require relevant and quick information, share the habit of sharing a lot of information in the digital space. This means that organisations must perform at their best to win well-informed prospects who possess excessive information and a variety of options that have made consumers accustomed to getting the right and hazard-free solutions within seconds. Hence, the trends that are embraced by the digital consumers are required to be understood in real-time and converted to meaningful products in an extremely short span of time to remain relevant to them.

Alongside the business uncertainty, the businesses must deal with an ever-increasing magnitude of disasters and our ability to deal with sudden shocks and unexpected risks in the future with improved risk management and agility is of paramount importance. The unexpected incidents of the pandemic we experienced during the year under review have aggravated the negative business trend with unprecedented restrictions imposed on

Revenue Mix - 2019/20**Revenue Mix - 2020/21****Revenue Contribution from CCAPS**



the mobility of people. Achieving growth via innovation, delivering demonstrable results and creating deep collaborations among stakeholders are some of the key aspects in our long-term strategy. In essence, being proactive has become a necessity.

The services we offer at LankaClear, reside between Fintech and financial institutions and we have built the right shared platforms with the newest technologies so that the financial industry can serve the digital consumers seamlessly in a secure, reliable and cost-effective manner. Our unique business model has helped us to fulfill the demands of our customers and opened new avenues of revenue for the company to improve both our top line and the bottom line.

Shaped by the above trends, clearing systems under CCAPS has delivered 58% (2019/20 - 47%) of the revenue pie, recording a revenue of Rs.611 Mn (2019/20 - Rs.521 Mn), which is a growth of 17% YOY (against 2019/20 - 25% YOY).

The CCAPS revenue composites of CAS of Rs.323 Mn (2019/20 - Rs.336 Mn) or 53% (2019/20 - 64%), CEFTS of Rs.263 Mn (2019/20 - Rs.168 Mn) or 43% (2019/20 - 32%), SAS and CMS

Rs.21 Mn (2019/20 - Rs.13 Mn) or 3% (2019/20 - 3%), CPS Rs.3.4 Mn (2019/20 - Rs.3.5Mn) or 1% (2019/20 - 1%).

The balance revenue proportions were represented by CITS of Rs.239 Mn (2019/20 - Rs.394 Mn) or 23% (2019/20 - 36%), SLIPS Rs.137 Mn (2019/20 - Rs.138 Mn) or 13% (2019/20 - 13%), CA Rs.36 Mn (2019/20 - Rs.29 Mn) or 3% (2019/20 - 3%), FINCSIRT of Rs.28 Mn (2019/20 - Rs.10 Mn) or 3% (2019/20 - 1%), USD Online Clearing System of Rs.6 Mn (2019/20 - 5 Mn) or 1% (2019/20 - 0.5%).

Under the pandemic conditions, the real-time electronic transactions gained momentum and consequently the revenue from CEFTS grew by a staggering 56%. During the year under review, the revenue from Internet and mobile banking transactions grew by 64% and revenue from JustPay transactions grew by an impressive 98%. Launched in 2017, 'JustPay' aims to facilitate low-value retail transactions thereby help to attract a portion of the unbanked cash that is being circulated into the banking system. During the year, JustPay transaction volumes grew by an impressive 195% and JustPay registrations by 98%. The efforts in promoting CEFTS transactions are elaborated under the marketing and promotion section.

During the year, the revenue from CAS decreased by 4% mainly due to travel restrictions and not materialising any new joining fees as the year before and a mere 1% growth in transaction fee revenue has not adequately compensated to cover the revenue drop. The CAS transaction fee includes the switching fee on interbank cash withdrawals, balance inquiry and declined transactions. CAS was one of the products hardest hit by the pandemic, which was a product in a high growth trajectory recording a growth in revenue 16%, 21% and 36% in the years of 2019/20, 2018/19 and 2017/18 respectively. Further, in the long term with less use of cash for transactions the revenue from CAS is expected to gradually decline.

New revenue from joining and certification fees for CCAPS reduced to Rs.9.5 Mn (against 2019/20 - Rs. 20 Mn) as most of the potential members have already joined the services.

CITS continued to remain a significant contributor to revenue, however, further reduced its significance on revenue mix to 23% from 36%. Apart from the general trend of decline in cheque payments YOY, the issues of practical difficulties of making cheque payments during the travel restrictions coupled with cheque return fees being waiving off for 6 months made the situation worse.

Revenue from FINCSIRT, CA and USD Online Clearing System have displayed healthy growth levels by 181%, 26% and 15% respectively. However, the exponential revenue increase of FINCSIRT was mainly due to the completion of the signing of pending agreements with the participants during the year under review along with the impact of tariff revisions.

The enhanced scope and additional value-added services offered had influenced the improved financial performances of CA, which is emerging as a vital product towards ensuring the security of financial sector services. These initiatives and strategies have been discussed in detail under the Security Products and Services section.

Further as per the payment bulletin of the Central Bank of Sri Lanka which provides the industry-wide information for the calendar year 2020,

- ▶ The total volume of cash withdrawals (financial transactions) via ATMs declined by 7% (2020 - 259 Mn, 2019 - 277.9 Mn) whilst the total withdrawals through the Common ATM Switch (CAS) increased by 3% (2020 - 48.98 Mn, 2019 - 47.44 Mn), which indicates a higher customer preference to use the closest ATM against their bank ATMs.
- ▶ The total volume of internet-banking transactions increased by 57% (2020 - 57 Mn, 2019 - 36 Mn) whereas the volume of electronic transactions initiated through Common Electronic Fund Switch (CEFTS) increased by 87% (2020 - 28 Mn, 2019 - 15 Mn), which has enhanced the dominance of CEFTS in the electronic payment sphere to 48% out of the total electronic transactions processed.
- ▶ Out of the total LKR transactions cleared by LankaClear, CITS still accounts for 59% (2019/20 - 72%) of the total transaction value, which depicts the popularity of cheques among the non-cash retail payment systems & instruments in Sri Lanka.

The revenue per employee remained constant at Rs.10Mn (against 2019/20 - LKR 10Mn) where the cadre decreased by 3% during the year under review.

Expenses

During the year under review, direct operating expenses recorded a cost of Rs.580 Mn (2019/20 - Rs.565 Mn) with a YoY increase of 2.6% (2019/20 - 14%), which was a remarkable achievement. This was achieved despite many financial pressures throughout the year due to the conscious cost management initiatives implemented during the year.

The service level agreements were renegotiated to obtain considerable discounts and rebates and some expenses were scrutinised and curtailed to remain in the affordable range under the financial pressures. The company-wide support was extended for the cost management programme.

The direct operating costs mainly consisted of IT maintenance costs of 29% (2019/20 - 29%), staff cost of 25% (2019/20 - 26%) and depreciation of 27% (2019/20 - 26%) and consequent to the cost management drive, the cost increments were reined at 2% (2019/20 - 10%), -2% (2019/20 - 8%) and 7% (2019/20 - 27%) respectively.

During the year under review, further administration expenses reduced by 13% (against 2019/20 - 5%) while marketing expenses continued to decrease by 23% (against 2019/20 - a decrease of 28%). The decreases in administration expenses were mainly due to the cost management activities and the decrease in marketing expenses was mainly due to curtailing the number of planned outdoor marketing campaigns due to the prevailed pandemic conditions. However, alternative marketing campaigns using social media were carried at much lower costs.

Maintaining the security standards, speed of innovation, continuous supply of quality service and retaining scarce talent is the main focal aspects of the operation of LankaClear. Hence investments were keenly focused on these strategic aspects.

Capital Expenditure

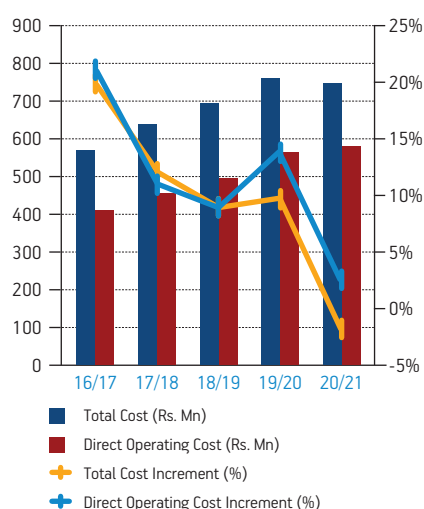
The Company had a cash outflow of Rs. 285 Mn (2019/20 - Rs. 175 Mn) on the acquisition of capital assets during the year under review. The capital expenditure continued to focus on supporting the changes required to bring in further convenience towards the financial services and improving efficiency, reliability and security of all clearing systems to meet the increased demand of the financial sector while empowering all 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.

A major hardware and software upgrade was completed for CCAPS, which is expected to enhance the performance and the security of the switch in many folds.

Interest Income

During the year under review, an unprecedented interest rate cut was experienced to revive the recessed economy, which resulted in a drastic reduction of the interest income by 9% to Rs.195 Mn (2019/20 - 20% increase, Rs.214Mn). At the end of the year, the investment base stood at Rs.2.1 Bn (2019/20 - Rs.2.05 Bn) where the investments were placed at interest rates

Cost Increase



ranging from 5.25% - 15.22% (against 2019/20 - 8.83% - 15.22%).

However, interest income remained a significant source of income to the profitability of the Company, which consists of 38% (2019/20 - 38%) 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.

The generation of future interest income is highly dependent on the disbursement of large funds for capital-intensive projects, market dynamics, economic conditions and government policy changes due to the pandemic.

LankaClear expects to complete the overhaul of the CCAPS and CITS Systems and infrastructure, which is also expected to consume a significant amount of cash reserves of the organisation.

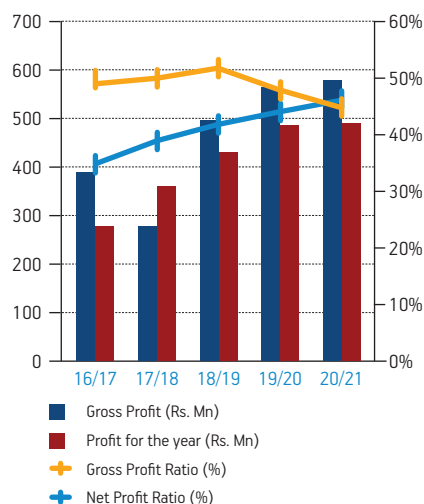
Taxation

During the year under review, the tax expenses have been reduced to Rs.28 Mn (2019/20 - Rs.75 Mn), which is a significant reduction by 63% YoY (2019/20 - (-16%) YoY). This decrease was mainly due to the lower tax rate compared to previous year, decrease in profits from CITS and interest income whilst CCAPS products enjoy a tax exemption obtained for CCAPS profits under tax planning initiatives. The whole taxable profit was taxed at 24% (2019/20 - 28%). The tax exemption on CCAPS profits would end from the year 2021/22 and the tax expense are expected to rise significantly thereafter.

Profitability

As explained in the overview, the company withstood its profit after tax position at Rs.490 Mn (2019/20 - Rs.486 Mn) with an increase of 1% (2019/20 - 13%), whilst recording a Gross Profit of Rs.477 Mn (2019/20 - Rs.532 Mn), and PBT of Rs.518 Mn (2019/20 - Rs.561 Mn) where the Gross Profit Margin recorded 45% (2019/20 - 48%) and Net Profit Margin improved to 46% (2019/20 - 44%).

Profitability



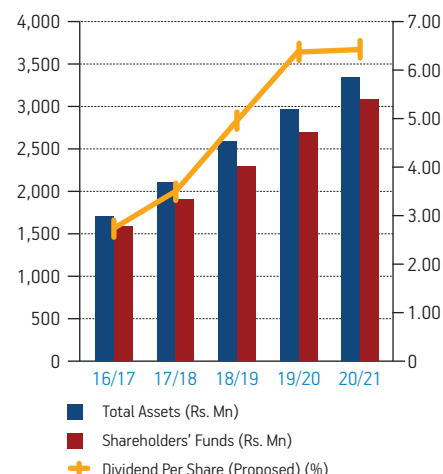
The Return on Capital Employed (ROCE) decreased to 16% (2019/20 - 20%) because of the net profit after tax increasing at 1% YoY (2019/20 - 13%) against the increase in capital employed of 14% (2019/20 - 18%). The lower profit increase is mainly due to the revenue decline from the pandemic conditions and other factors discussed under areas covered under the revenue section, which is expected to improve with the recovery of the economy and the initiatives taken by management to improve the performance of the electronic payment products with a bigger potential.

Creating Value for Shareholders

With the continued increase in profitability, the Company recorded an earnings per share (EPS) value of LKR 32.10 (2019/20 - Rs.31.85), which was an increase of 1% (2019/20 - 13%). The Return on Equity (ROE) and Return on Assets (ROA) decreased to 16% (2019/20 - 18%) and 15% (2019/20 - 16%) mainly due to the drop in revenue as explained under the respective discussions though the overall expenses reduced during the year under review.

However, a more focused return on investment (ROI) can be arrived at by calculating the return on non-current assets (net profit less other income after tax/total non-current assets less long-term financial investments), as 41%

Shareholders' Funds



(2019/20 - 52%) 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.6.42(2019/20 - Rs. 6.37) 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 19-year history of the Company amidst the year under review was subjected to financial pressures.

LankaClear has been disbursing dividends to its shareholders continually and the company will strive to strike a balance between healthy dividend payout and retention to support future investment requirements to enhance long-term shareholder value.

Liquidity, Capital Structure and Shareholders' Funds

The Company continued to remain debt free throughout the year funding its investments via internally generated funds.

During the year under review, the company generated net cash from operating activities of Rs.395 Mn (2019/20 - LKR 525 Mn) with a YoY decrease of 25%. This decrease was mainly due

to an increase in trade and other receivables and decrease in cash flow from revenue. The cash flows were utilised on investment activities and dividend payment for Rs.247 Mn (2019/20 - Rs.369 Mn) and Rs.97.1 Mn (2019/20 - Rs.75.4 Mn) respectively.

At the end of the year, LKR 2.3 Bn (2019/20 - Rs.2.2 Bn) worth of liquid funds remained in fixed deposits and REPOS whilst Free Cashflow to Net Cashflow from Operating Activities remained at 11% (2019/20 - 67%) to be utilised for future investments to cater to a rapidly changing technology landscape in the payment industry and for other contingencies. The ratio has declined significantly during the year with the lower revenue and the higher investment in the capital assets which is expected to be improved during the next financial years. At the end of the year, shareholder funds stood at Rs.3.1 Bn (2019/20 LKR 2.7 Bn), which is an increase of 14% (2019/20 - 18%) YoY and Net Assets per Share rose to Rs.202.77 (2019/20 - Rs.177.17).

Financial Priorities for Future

Uncertainty has become a daily occurrence that businesses must grapple with at 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. Introducing innovative solutions, delivering demonstrable results and collaboration with key stakeholders are some of the KPIs in our long-term strategy.

In this backdrop, identifying and driving the 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 ecosystem of the country.

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

Our first reaction to COVID-19 pandemic was to provide uninterrupted service to customers in collaboration with employees and other stakeholders. We were able to manage the situation to deliver a commendable service and thrive whilst securing employment of all our staff.

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 digital consumer and fulfilling those needs through financial services that ultimately support a seamless experience. The resilient 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 on people's lives. CEFTS and JustPay powered many payment apps played a key role during the period of travel restrictions where the general public was able to carry out their financial transactions with much convenience and confidence.

Our financial priorities were in accordance to keep pace with the trends in the payment industry and introducing innovations to the market in a bid to change the ingrained habits of consumers. As discussed in the reviews of Chairman and General Manager, strategies that focus on future innovations, changing with the market dynamics and creating awareness of the new services among the masses is essential to remaining at the top of our game and we would continue to invest in these aspects in the future. We expect to create further value for all our stakeholders, such as an increase of profits to shareholder and employees, benefits to the financial sector and the general public and the long-term sustainability of the organisation.

However, we would like to highlight those unfavourable macroeconomic conditions, such as adverse pandemic impacts to the economy, depressed business sentiments and deteriorated global economy continued to impact 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 LKR 1Bn during the year 2021/22 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 2020/21

	2020/21	Absolute Growth (YoY) 2020/21	Growth % (YoY) 2020/21	Explanation
Financial Performance				
Revenue	1,057,154,707	-40,554,567	- 4%	Not charging for cheque returns for the first 6 months, 40% reduction of CEFTS fees and the impact from prevailed pandemic condition caused the reduction in revenue.
Direct Operating Expenses	579,792,751	14,459,340	+3%	Cost increases in the depreciation of software and hardware due to the increased capital expenditure from the preceding year.
Gross Profit	477,361,956	-55,013,907	- 10%	Direct Costs grew slightly and reduction in Revenue.
Other Income	209,155,196	-16,657,015	-7%	The decrease in investment income due to comparatively lower interest rates driven by economic policies.
Income Tax Expense	28,175,912	-47,312,314	- 63%	Due to lower tax rate compared to previous year, decrease in profits from CITS and interest income whilst CCAPS products enjoyed a tax exemption obtained for CCAPS profits.
Profit for the Year	489,578,135	3,935,636	+ 1%	Reduced revenue mitigated by lower tax and overall company expenses.
Financial Position				
Total Non-Current Assets	1,191,151,347	38,589,120	+ 3%	Due to higher investment in PPE and negating impact by the reduced investments in long term financial investments.
Total Equity	3,092,313,360	390,420,123	+ 14%	Due to higher profitability and retention ratio.
Total Non-Current Liabilities	67,526,126	3,152,858	+ 5%	Due to increase in Retirement Benefits and the provisional adjustments based on salary increments that took place during the year under review.

HUMAN CAPITAL



Human Capital deals with the team, but more specifically their competencies, capabilities and experience. The alignment that staff have to the governance framework of the business, risk management approach, ethics, understanding and promotion of the strategy is also considered under this capital.

Sustainable Human Resources Management

In the journey of shaping our HR strategies to facilitate our everchanging business environment and to create a sustainable HRM in the Volatile, Uncertain, Complex and Ambiguous (VUCA) world, LankaClear strongly believes that every challenge we encountered in 2020/21 opened an opportunity to improve our HRM practices. As a result, this same sentiment separated us from the rest of the business community as a service organisation dedicated to serve the nation on a 24X7 basis during an extremely challenging period to excel in providing all our services including HR. Our overall objective in HR was to be a strategic business partner in any VUCA environment and to create a sustainable competitive advantage through HR service excellence.

Facing the Pandemic

When the unprecedented pandemic was creeping into the organisation from every corner similar to many businesses in the globe where the challenge was of catastrophic proportions, we were still able to continue our HR services to ease the burden of the company operations. In that process, employees were provided with computers and other necessary infrastructure for them to work from home according to the same work schedules they were assigned before the pandemic. Employees who had to report to office were provided with mandatory travel passes, transport, meals and other necessary facilities to assure an uninterrupted service to the public. Our HR services were expanded to the level where the company provided accommodation with meals for employees those who could not cross

provincial borders. In addition, many safety measures were implemented in the office even up to the level where staff do not mix with each other by grouping the staff into separate work bubbles. This was to ensure that we provide an uninterrupted service to the digital consumers across the country.

In addition to providing all necessities to staff enabling them to either work from home or from office and attending to the daily needs of the staff, the HR also expanded its services to facilitate PCR Testing for those who had been exposed to the pandemic conditions. HR also implemented a helpdesk to touch base with employees by calling them weekly, saying "hello" and providing emotional support when needed.

Human Capital Development

Even though the year was extremely challenging, the company was able to create many learning and development opportunities for our employees in the implementation of new projects. Integration of IRD with LankaPay Online Payment Platform (LPOPP), integration of SLPA, EPF and SLSI with LPOPP, introduction of 05 settlement cycles in a day to LankaPay CEFTS, implementing Payment Exchange Name (PEN) live operations and end to end data encryption for SLIPS were some of the key projects deployed in this period where the employees assigned were given a rare opportunity to learn on-the-job while doing self-research and testing.

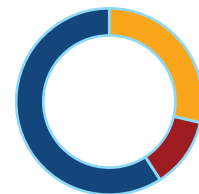
The right training needs of the staff were identified according to the established mechanism while prioritising the most needed products and services covering all departments. The right training was provided to individuals with the purpose of either filling a competency gap or as an improvement to the process or the individual. As a fundamental protocol, the competency gaps of staff have been identified by measuring the current and required competency level for each job position holder. During the period under review the company was able to fill many of the identified competency gaps even though the facilitating of external trainings were beyond our reach. The challenge of facilitating external trainings were turned to be an opportunity to design more and more trainings with internal resources.

Training Investment

Total training programmes conducted: 27
Total Man Hours of Training : 610 hours
Total investment on Training : 2.1 Mn

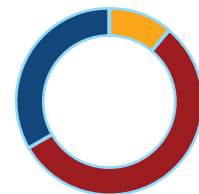
Average Goal achievement percentage of the workforce: 80.38 (from the annual appraisals).

Man Hours Utilised on Training



IT Skills - 29%
Technical Skills - 12%
Soft Skills - 59%

No. of Trainings Conducted by Category



IT Skills - 11%
Technical Skills - 56%
Soft Skills - 33%



Operating under health guidelines during the pandemic

Gender Parity

At LCPL we take every effort to ensure the importance of creating a diverse team in achieving common goals of the company. We ensure that equal opportunities are created and made available for them to work in harmony with the strong backing of company policy procedures which support gender equality. Specially at LankaClear where the opportunity for women to work in senior managerial positions are available, we encourage gender parity as a level playing field for women to reach their professional goals.

Females are represented at every level of the company, and we are proud to note that women accounted for 20% of the management team in the company. The company also in the process of reviewing the company HR Policy to include more opportunities to female staff including appointing female staff to more accountable and responsible positions in the execution of company policy procedures. The company has also appointed female staff to Board committees to ensure equal; treatment to all. LCPL as a policy provided additional benefits to feeding mothers in the past and continue to do so in the future. The company is determined to strengthen our policies to create a culture of acceptance and non-discrimination through training and awareness and strong grievance handling process. There were no incidents of discrimination or human rights violations during the year.

Retaining our talent within the organization is an important aspect of building a strong team and we are proud to note that we continue to achieve high levels of retention across all levels of employment. We ensured that no jobs were eliminated because of COVID-19 and taken care of all our staff members. Employee retention ratio of the year was 93% which evident the employee services and equal treatment to all.

Gender Equality Enablers	<ul style="list-style-type: none"> ▶ The HR Policy and Manual clearly describes the company gender parity initiatives where no discrimination at recruitment and placement. ▶ Grievance Handling Procedure of the company was reviewed during the year to ensure that all areas of grievances are covered. ▶ No gender base pay discrimination as specifically stated in our HR Policies. ▶ Establishment of Whistleblowing policy and appointing a Female Senior Manager in-charge-of the policy execution.
Indicators of Equality in the execution	<ul style="list-style-type: none"> ▶ Board level importance to HR Policy setting through the Board HR Committee. ▶ Every recruitment /Replacement is submitted to the Board as an information paper.

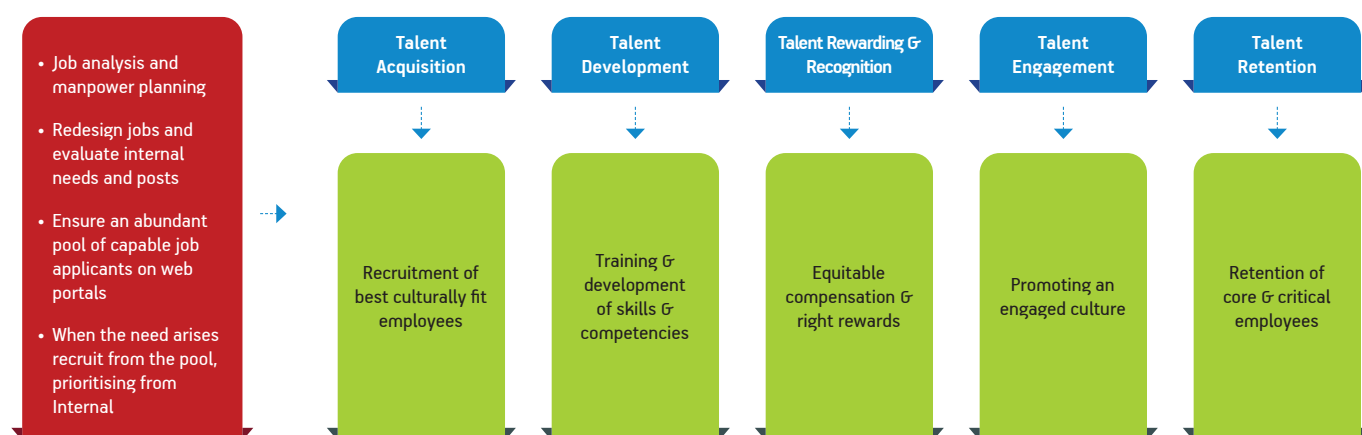


New Year celebrations during the pandemic

Retention of Talent

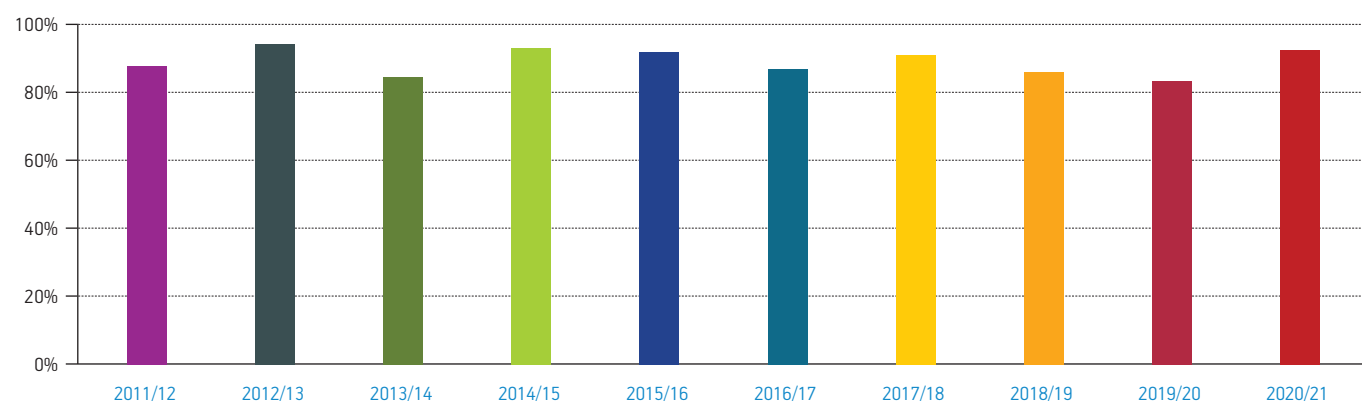
The company always values employee commitment and the resulting empowerment to sustain a long-lasting relationship of employment. The management believes that there is a positive relationship between employee commitment and organisational empowerment to retain committed employees.

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, IT, customer service etc.



Year	2011/ 12	2012/ 13	2013/ 14	2014/ 15	2015/ 16	2016/ 17	2017/ 18	2018/ 19	2019/ 20	2020/ 21
Retention Ratios	88%	94%	85%	93%	92%	87%	91%	86%	84%	93%

Employee Talent Retention (%)



The implementation of the Automated Performance Appraisal System and the T & D Module

HR was able to implement the new automated performance appraisal system for the year and conduct both the bi-annual and annual reviews through the systems despite many challenges due to the pandemic. The new system encouraged the staff to give and receive feedback for appraisals making the process more transparent and open. Every step of the new system is recorded enabling both parties to review and improve and take corrective or preventive action to ensure the right approach is taken in correcting the overall performance of the appraisee. The competency model adopted by the company during the year helped the staff to focus more on self-learning and personal development.



HR Score Card - 2020/21

#	Key Enabling Factors/Strategic Priority	Actual Performance in 2020/21
1	Implementation of new automated Performance Management System	A new automated Performance Management System (PMS) has been successfully implemented and periodical employee performance evaluations were carried out on the new PMS.
2	Implementation of automated Training & Development Module	The administration of the Training and Development operation of the company has also been revamped with the introduction of the new T & D Module.
3	Protection of employees by introducing new work arrangements and facilities to provide uninterrupted services to the country	With the spreading of Covid 19 virus, and as many parts of the country were locked down from time to time, the management introduced many new facilities to employees to continue LankaClear services without interruption. Company-provided accommodation, transport services, work from home facilities are some of them.
4	Introduction of new health and safety guidelines to protect employees from the Covid 19 virus	The company introduced new health and safety guidelines and practices, as well as sanitary and disinfectant services in both office locations.
5	Profits sharing with employees	2.1 % of the company profit before tax was shared among all employees during the year under review. The Fixed Terms contract employees those had worked for more than a year was also granted a bonus.

Strategic Objectives and Goals for the Financial Year 2020/21

- Ensure automated Performance Management System and Training & Development Module development and integration project is completed.
- Improve the talent development process of the organisation to bridge talent gaps to help employees to achieve organisational goals by implementing identified training programmes in the new normal working environment.
- To ensure the recruitment and retention capability of the company is improved to achieve following indicators.
 - Retention ratio to be 90%
 - Complete recruitments within 3 months of the resignation confirmation to fill vacant positions
- Ensure that the employee engagement formula of the organisation is implemented bringing management and employees together by implementing the engagement formula.
- Maintain the organisation's compensation and benefit structure in a manner that will support the recruitment of best talent and motivation of outstanding performers and improve productivity by 5%.

INTELLECTUAL CAPITAL



Intellectual Capital is the tangible organisational or industry knowledge including intellectual property such as copyrights, patents, software, rights and licences. This Capital also includes tacit knowledge, systems, procedures and protocols that are unique to the business.

Marketing Performance

The outbreak of COVID-19 and its implications on the economy and people had a devastating impact on all fronts leading to major contraction in demand and consumption, across the board, not limiting to mere health related concerns. LankaClear was not immune to this macroeconomic phenomenon, and experienced a major hit on its top line during the year under review, especially in terms of the conventional payment products - CITS and SLIPS.

LankaClear identified its heavy reliance on CITS and SLIPS which accounted for 78% of the total transactional revenue in 2015/16. Considering the stagnant growth and the business risk associated with over-reliance on these two mature products, the Company made a few key strategic business decisions, back then to diversify its product portfolio and gradually develop a more sustainable revenue model with less dependence on one time joining fees. Due to this farsighted move, the company managed to weather the unprecedented decline in revenue from CITS and SLIPS during (27% and 1%, respectively) to record a growth in transactional revenue during the year under review despite a negative impact on revenue due to revision of CEFTS fee structure by the Central Bank. The growth came from primarily the CCAPS products - CEFTS, JustPay, LPOPP, Doller Online, CAS; and LankaSign with a commendable 20% growth in transaction volume.

Furthermore, due to the efforts of the LankaClear team, the company managed to bring in new members onboard for some products which helped increase the revenue from one time joining fees to Rs. 32.72 mn in 2020/21 compared to Rs. 24.33 mn in 2019/20.

As a result, the negative impact on the overall revenue due to low interest rate income, reduced revenue from CITS and SLIPS, while revenue loss due to regulatory decisions as a part of Covid relief scheme by the Central Bank; could be negated to a great extent.

Despite the numerous challenges posed by the turbulent operating environment, the company posted a commendable performance to report a transactional revenue of Rs. 836.67 mn in 2020/21



Members of LankaPay Direct-Debit Facility

over Rs. 819.30 mn in 2019/20. Amidst several factors that had a negative impact on the overall performance of the company, we consider the year 2020/21 being a great opportunity to propagate and drive electronic payments. The pandemic and the subsequent lock downs, travel restrictions, limited banking hours etc urged the customers to resort to electronic payments, moving away from their regular payment habits. The pandemic therefore had a major impact on consumer behavior, which in turn urged us to relook at our overall marketing strategy, to ensure a return on investment of our marketing effort.

In terms of driving transactional revenue, during the year, more focus was placed on CEFTS, CAS and JustPay and LankaSign.

During the first lockdown banks and financial institutions under the guidance of the Central Bank carried out a mobile ATM service for nearly a month and LankaClear provided communication support for this campaign. The overall campaign generated closer to 7 Mn impressions, reflecting on the usefulness of this timely initiative. At the end of the first lockdown, the company carried out a campaign on social media and radio towards raising awareness on the financial benefits and convenience of using the Common ATM Network. The campaign was received well and was reflected in the post lockdown CAS volume recording an impressive growth of 10.36 % although it could not be sustained at the same rate with the second lockdown coming into effect from October 2020. Nevertheless, CAS recorded 2.84 % growth during the year under review, when the overall number of ATM transactions in the country experienced a decline of 6.8% in 2020 compared to 2019.

LankaClear together with the Central Bank as well as TRCSL carried out two trilingual public awareness campaigns to drive people towards electronic payments during the year. Several radio campaigns were conducted mainly in English and Sinhala for CEFTS.

Our key emphasis during the year was placed on JustPay considering the practical difficulties that

the public had to undergo to perform daily chores in the pandemic-struck environment. LankaClear carried out several radio campaigns and social media campaigns targeting both customers as well as merchants. LankaClear was also invited to present at several forums during the year particularly those that targeted the SMEs. It was heartening to note that we were able to keep some of the micro and SME enterprises alive by empowering them with a convenient, affordable and accessible mode of payment to operate during lockdown, in partnership with the JustPay enabled apps and member banks. Moreover, our efforts helped the economy to function in an exceptionally challenging environment. During the year JustPay continued to grow at an astounding 195% in terms of transaction volume, although the number of transactions were expected to come down with the per value transaction limit being increased to Rs. 50,000. JustPay registrations too recorded a commendable 98% growth during the year.

With the pandemic and organisations resorting to work from home, LankaClear identified the need to facilitate the corporate sector with digital solutions. In this context, we found a great scope for growth for LankaSign digital signatures. The company carried out a print and social media campaign for LankaSign during the year to raise awareness and drive adoption of digital signatures. The communication campaign supported the growth of the product by 39% in 2020/21.

In addition to the above, the company continued to campaign towards raising public awareness on its leading role as the national payment network, which felt timely as 'going local' became a focal point with import restrictions to curb rupee depreciation.

During the year, preparatory work continued towards the launch of the communication campaign for National Card Scheme due in the next financial year. Accordingly, in line with merchant and ATM enablement for NCS card acceptance, LankaPay/ JCB branding at merchant points and ATMs were put in place in partnership with the acquirer banks.



Members of Payment Exchange Name - (PEN)

SOCIAL AND RELATIONSHIP CAPITAL



Social and Relationship Capital measures the network of relationships and communities that your business holds, including stakeholders, investors, customers and other groups. This is intrinsically linked to the brand and the reputation that the organisation has built.

Maintaining Customer Satisfaction through Our Values Even in a Pandemic Situation

As we have done in the past, LankaClear understands the importance of providing uninterrupted service to our customers, even though there is no direct competition for LankaClear in the market for certain services. This has not dampened our resolve to provide best-in-class customer service. Especially in the face of the pandemic that has led to the global economic downturn, we have worked to provide high-quality services without compromising our customer services. Our visionary customer service policy governs how the organisation and our employees deal with our customers and has proven in practice that it is a robust set of policies that can be applied at any time. It comprises how you greet customers, handle service complaints and the backup 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 and meeting timely customer needs is one of our top priorities.

We are humbled that LankaClear operates the only secure and reliable common backend 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 strive to ensure that the uptime of our network would be very close to 100% at all times. We serve the entire Sri Lankan population as the ultimate consumers of our services via banks, financial institutes and other authorised service providers.

Heighten Customer Experience during Uncertainties

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 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 services has saved him the effort, time and money to visit his bank to do the transaction, then we have achieved a great customer experience.

A most recent example of extended customer experience is providing continuous clearing and transaction facility to the public and the 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 the 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 as well. Our task force achieved the task successfully by understanding the essentiality of the services provided by our company to the country.

Besides that, we have updated our service guidelines to provide all our services that we have so far physically provided to all our members, via email and scanned documents. For example: We started accepting scanned copies of request forms that previously required the submission of a physical documents. Here, our LankaSign digital signing service did an exceptional job.

We, as an organisation, have always strived to provide superior customer service and great customer experience and have benefited from 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. Finding new ways of doing things by aligning structures and systems to support the business requirements of our customers.

Investments in Improving Customer Experience

International Customer Service Week - 2020

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 customer service by conducting a small online presentation, to deliver guidance to all employees.
2. Reward LankaClear staff who excelled in customer service and organised team building activities.



Organising team of the Customer Service Week 2020

Awareness Sessions of Clearing Products

Before the lockdown commenced, LankaClear representatives 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.



Online - Progress Review Sessions for Participating Members

We have continued to serve our customers by organising periodical progress review sessions to enhance the new product awareness and to address their common queries in an open forum. It allowed our team to respond to their typical issues immediately by understanding and discussing with the audience. Online technology has enabled us to continue our customer service despite the pandemic situation prevailing in the country and the world.



Winners of LankaClear team building activities and the winning puzzle



Celebration cake under the theme Dream team



Rewards to LankaPay Dream Team employees

LankaPay Online Quiz - 2020

We have been organising the LankaPay Six-a-Side Cricket Tournament for the past three years and have organised an outbound training session for our direct members to build more participation and stronger relationships.

This year, however, we had to limit our relationship building activities to online activities. In doing so, we decided to hold an online quiz session for our participating members this year.

In November 2020, the event was successfully completed, with PABC Team A taking first place and PABC Team B taking second place. Third place went to the LOLC team. Valuable prizes were awarded to the winning teams.



LankaPay Online Quiz 2020 - 1st Runner Up (PABC - Team B)



LankaPay Online Quiz 2020 - 2nd Runner Up (LOLC)

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.



LankaPay Online Quiz 2020 - Winners (PABC - Team A)

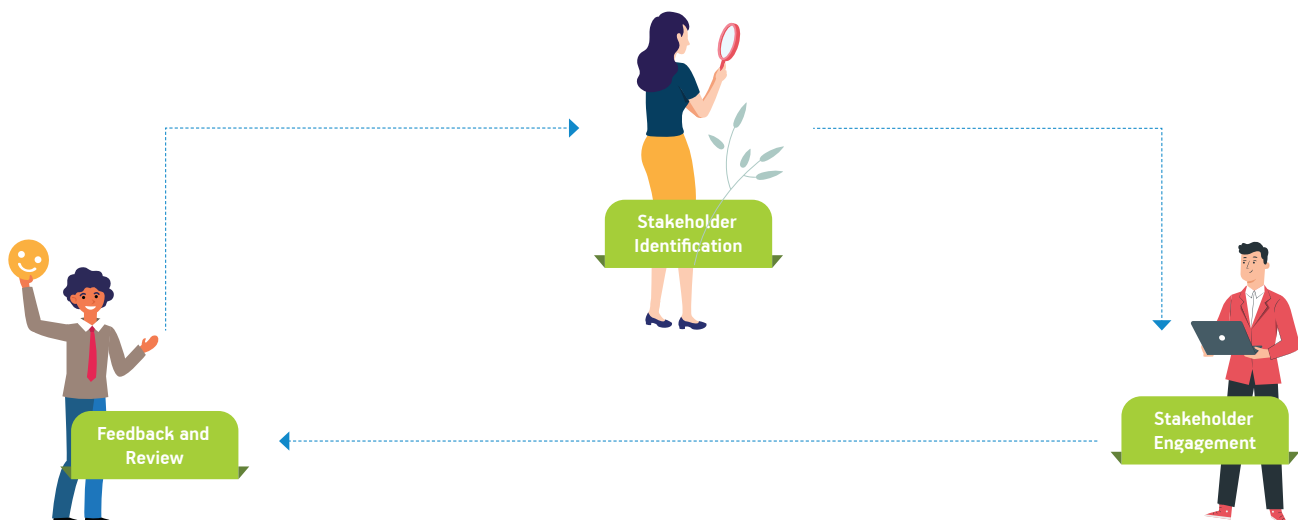


Seasonal Gifts for Members



Stakeholder Engagement Process

LankaClear, as the operator of the National Payment Network, has to engage with 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.



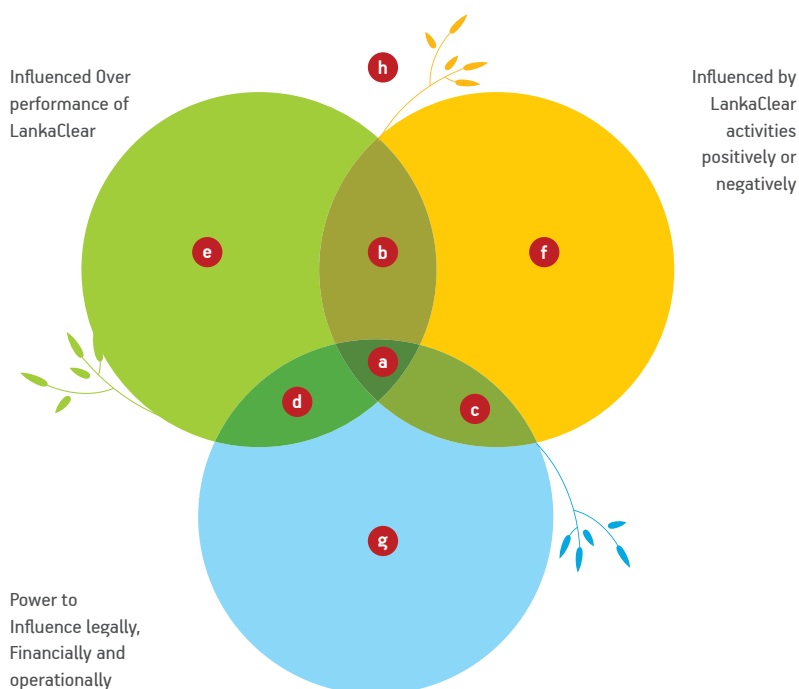
Stakeholder Identification

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 a selected number of corporate customers and government organisations.
Relevant Ministries and Government Institutions	The company works closely with the 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 ultimately the 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 out 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 2020-21
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

Stakeholder group	Method of engagement with stakeholder in 2020-21
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. Currently LankaClear together with National Transport Commission, Sri Lanka Transport Board and People's bank is working towards issuing the first ever Transit Card to Sri Lanka.
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 the 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 ▶ The 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 2020-21
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 2020/21 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 99.82% and 100% 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 a 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>During the year under review, a major upgrade of the infrastructure of Common Card and Payment Switch was undertaken with respect to hardware and software enhancing the capacity and the security in many folds.</p>
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

Concerned Stakeholders	Material Aspects/ Stakeholder Expectations	Response
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 the Inland Revenue Department, Board of Investment, Sri Lanka Ports Authority, Sri Lanka Customs and e-LocalGovernment to facilitate tax and government payments. This would provide a more 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 the 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. <p>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. Currently LankaClear together with National Transport Commission, Sri Lanka Transport Board and People's bank is working towards issuing the first ever Transit Card to Sri Lanka with use of "LankaPay 2in1" functionality.</p> <ul style="list-style-type: none"> ▶ Common QR code for financial sector and Payment Exchange Number (PEN) which are novel solutions were introduced, and gained momentum during the year.
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 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	Even though the year was very differently challenged, the company was able to create many learning and development opportunities to our employees in the accomplishment of new projects. During the period under review the company was able to fill many of the identified competency gaps even though the facilitating of external trainings were beyond our reach.
Employees	Ensure fair and equitable compensation and benefits to all employees	Amidst challenging financial conditions full salary amounts were paid with fair increments and bonuses.

Concerned Stakeholders	Material Aspects/ Stakeholder Expectations	Response
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.</p> <p>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>Account management initiated special attention on enhancing revenue and driving required promotional activities and customer enrolments.</p> <p>The close monitoring of revenue accounts and cost management initiatives were instrumental in achieving the improved financial results.</p> <p>Achieving healthy financial results over the years is a key indicator to sound financial performance and the health of the organisation and further details are discussed under financial review.</p>
Shareholders/ Management/Suppliers /Customers	Ensuring of continued contractual safeguards and contractual rights	Timely negotiation, drafting and execution of contracts new contracts or renewing of existing contracts and timely serving of contractual/legal notices, letters of demand or imposition of penalties against defaulting parties.
Shareholders/ Management/Customers	Take the LankaPay brand to the 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, social media campaigns, 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.</p>
Shareholders/ Management/ Customers/General Public	Contribute for sustainable development	<p>Contribution for sustainable development is one of the key expectations of the stakeholders.</p> <p>We made our best efforts to contribute to sustainable development. Our highest energy consumers were data centres at primary and disaster recovery sites, which were designed to minimise the energy use with technologies such as use of virtual servers, identifying optimum temperature levels etc. LankaClear implemented a process to revamp its data centre to further reduce its power consumption.</p> <p>The possibility of generating power through solar energy was also looked into, which would be a more sustainable and cleaner source of energy.</p> <p>Sustainable development is further discussed under the sustainable development section.</p>
Regulator/Shareholders/ Management/ Customers/General Public	Maintaining good governance controls	Maintaining good governance within the organisation is an essential aspect as an organisation with a national importance. The higher levels of governance and controls maintained at all times within LankaClear is discussed in detail under the Governance section.
Management/ Employees/Customers/ General Public	Promoting social harmony by contributing for a worthy CSR cause	We are at LankaClear value of being a responsible corporate citizen.

Economic Contributions

Direct Economic Contributions

Statement of Value Addition

For the year ended 31st March	2020/21 LKR Mn		2019/20 LKR Mn		2018/19 LKR Mn	
Value Added						
Business Revenue	1,057,154,707		1,097,709,274		1,029,057,105	
Cost of Services	356,709,788		371,369,782		366,996,530	
Value Added by Business Activities	700,444,919		726,339,492		662,060,574	
Finance & Other Income	209,155,196		225,812,211		186,023,654	
Total Income	1,266,309,903		1,323,521,485		1,215,080,759	
Growth in Value Addition	-4%		9%		14%	
Distribution of Value Added						
To Employees						
Salaries & Other Benefits	236,967,390		248,049,621		225,511,631	
Training	2,165,997		7,892,675		6,229,034	
	239,133,387	19%	255,942,296	19%	231,740,665	19%
To Providers of Capital						
Dividends to Ordinary Shareholders	97,142,500		75,487,500		53,200,000	
	97,142,500	8%	75,487,500	6%	53,200,000	4%
To the Government						
Income Tax	28,175,912		75,488,226		89,811,604	
	28,175,912	2%	75,488,226	6%	89,811,604	7%
To Expansion and Growth						
Retained Profits	390,420,123		411,834,841		371,231,152	
Depreciation & Amortisation	166,347,093		152,805,327		117,216,505	
Deferred Taxation	(11,618,899)		(19,406,487)		(15,115,697)	
	545,148,317	43%	545,233,681	41%	473,331,959	39%
Cost of Services	356,709,788	28%	371,369,782	28%	366,996,530	30%
Total Distribution	1,266,309,903	100%	1,323,521,485	100%	1,215,080,759	100%

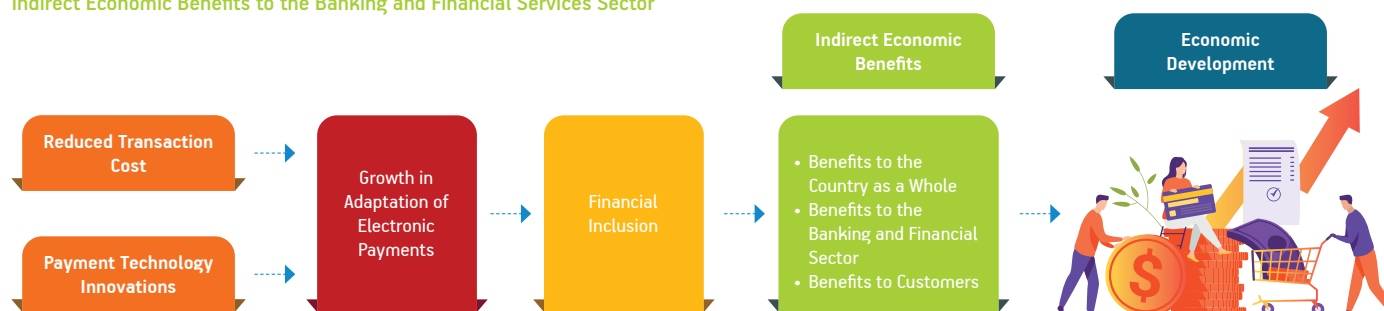
The value of LankaClear's direct economic contribution to the nation may seem relatively insignificant in contrast to its actual economic impact to the nation. LankaClear has a multiplier effect on the national economy of Sri Lanka, via its role of facilitating interbank payments and settlements nationwide. 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 2020/21 LankaClear made a direct economic contribution to the country, to the value of Rs. 1.3 Bn. Employees benefited from 19% of this value, while 2% went to the State coffers in the form of taxes and 8% was distributed among the shareholders of the Company.

LankaClear retained 43% 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 19-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
2016	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	Became the first and only entity in the country to be PCI-DSS (ver. 3.2) certified, achieving the highest international standard for payment card industry LankaClear launched Sri Lanka's first and the only Payment Technology Innovation Awards - LankaPay Technnovation Awards Launch of National Card Scheme in partnership with JCB International to issue a new debit card scheme
2018	Launch of Payment Exchange Name (PEN) system to facilitate peer-to-peer payments via a mobile number and a nickname
2019	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	Integration of JCB switch to LankaClear switch, which has made it possible to carry out cross border transactions through cards issue
2021	Integrating Sri Lanka Ports Authority and Department of Inland Revenue to the LankaPay Online Payment Platform (LPOPP)

Indirect Economic Benefits to the General Public

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

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

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

Indirect Economic Benefits to the Country

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

allows the country to be independent, develop and operate a system that caters to greater socioeconomic needs of the country on terms that are favourable to the country as a whole.

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

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

NATURAL CAPITAL



Natural Capital can be classified as all renewable and non-renewable environmental resources and processes that provide goods or services which support the prosperity of an organisation. This could include air, water, land, minerals, forests, biodiversity and ecosystem.

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 and social and relationship capital sections. 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 introduction of the digital signature system has cut down on paperwork significantly and extensively used during the pandemic to 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 introduction of 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 programmes initiated by LankaClear all waste is segregated and sent for recycling or disposal based on the type of waste. Awareness and monitoring programmes have significantly contributed to achieve 100% waste segregation and address environmental concerns.

Energy Management

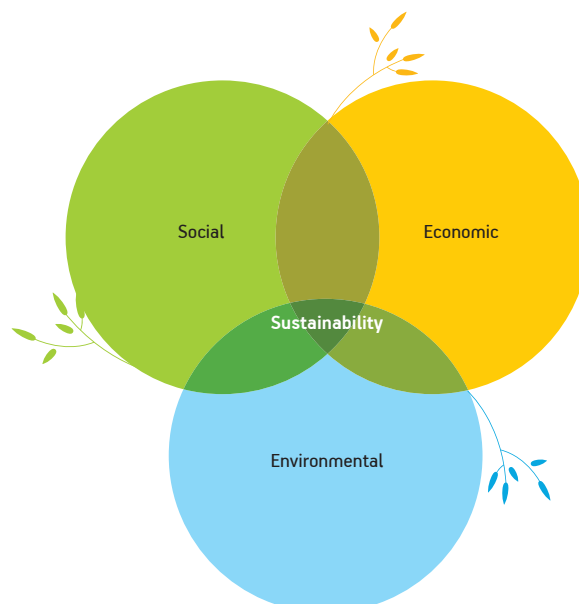
LankaClear initiated a new state-of-the-art data centre which is more efficient than the previous data centre. The total and sectional energy consumption is regularly monitored and recorded to make sure that the efficiency of the system is always higher which will save energy as well as reduce emissions. All the staff were 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 in never ending queues at banks would lead to 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. 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.

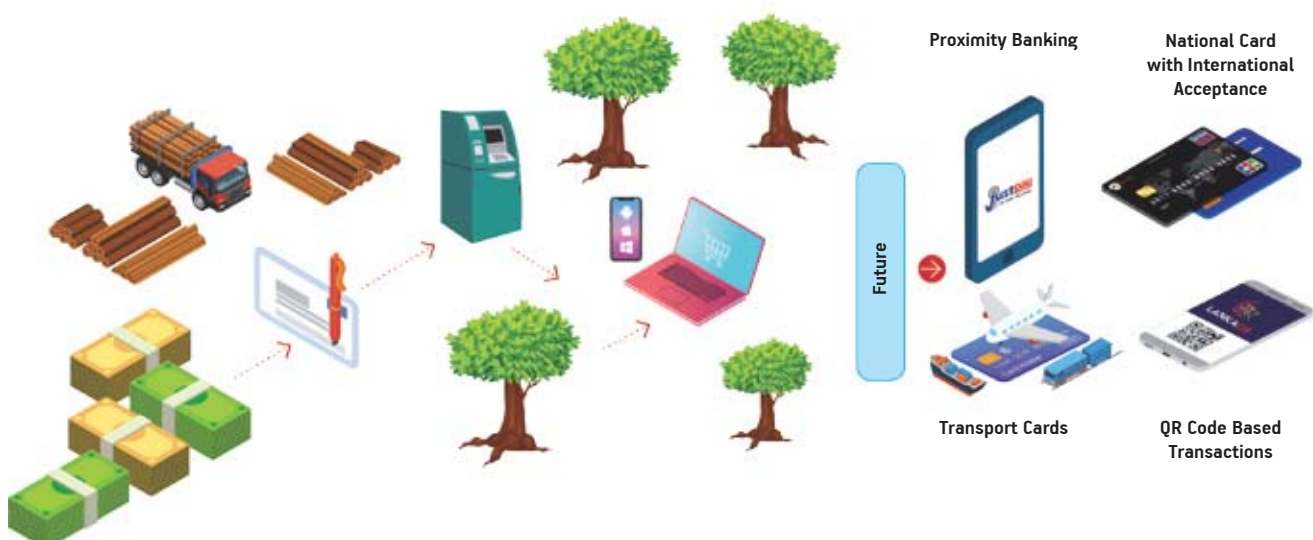
Minimising Environmental Impacts

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 disposed 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 which 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 12,000 CD's in the past year alone and expects to dispose the e-waste accumulated due to the ongoing CCAPS Server upgrade and staff work station upgrades in a 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 or hazardous materials 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 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) Inverter type 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 e-waste is sent for recycling to a CEA approved recycling company.
- 8) Automated systems and procedures have been implemented to reduce 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 (2020/21)	Method of Disposal
CDs (Units)	12,000	Crushed and sent for recycling
UPS Batteries (units)	38	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.



A Quantum Leap in Speed

Organisations that have succeeded in the digital adoption game recognised early in their game plan that they must reimagine and digitise the entire customer journey to be relevant to them. This is the end-to-end process that digital consumers experience in getting the product or service they need, at the speed they want and across whichever channels they choose. That is why we have realigned all our solutions to be seamless to ensure that we provide our services at the speed the digital consumers are expecting them to be.

GOVERNANCE

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We at LankaClear believe that Corporate Governance is the mechanism by which a company is directed, controlled and monitored in the right direction. This includes mechanisms, rules, practices, processes and procedures, which essentially 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. By doing so, 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 good Integrated Corporate Governance Framework which is 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

With adherence to the mandatory requirements of the Companies Act No 07 of 2007, the directions, rules, regulations and circulars issued by the Central Bank of Sri Lanka from time to time, rules and regulations of the Institute of Chartered Accountants of Sri Lanka and legislations of the government of Sri Lanka as applicable, PCIDSS requirements and also with the guidance of accepted National and/or International policies, procedures and best practices relevant to the business of LankaClear.

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

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

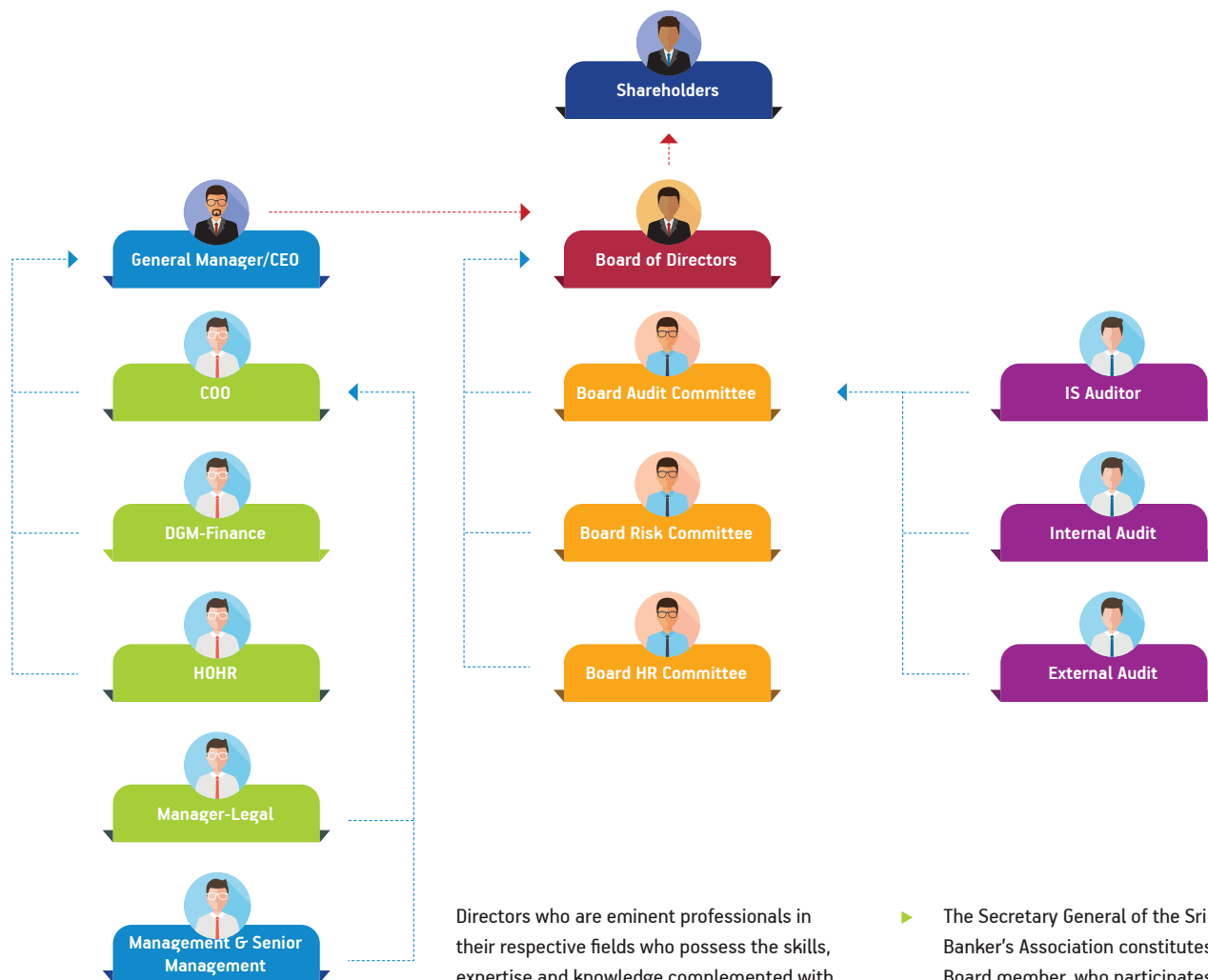
LankaClear further ensures that the company has sound levels of risk management processes, and also periodic, effective financial, operational and IT/IS audits are performed and findings are closely monitored through risk management not merely to satisfy regulatory requirements, but also to showcase transparency of LankaClear to all our stakeholders and to the general public.

Corporate Governance Framework

Corporate Governance Framework

Our Governance Structure facilitates efficient operation while ensuring sufficient checks and balances to safeguard the rights and interests of all stakeholders and 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 is the ultimate governing body which directs, leads and controls LankaClear. It comprises of eight Non-Executive

Directors who are eminent professionals in their respective fields who possess the skills, expertise and knowledge complemented with a high sense of integrity and independent judgement, who collectively contributes towards the effective control and overall management of the Company. Individual profiles of the Board of Directors are given under the Board of Director's section of this Annual Report on pages 34 to 37.

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 interest of Central Bank of Sri Lanka.
- Two Directors represent the two state banks.(Bank Of Ceylon & People's Bank)
- Three Directors are nominated by the Sri Lanka Banker's Association, two of whom represent the private local commercial banks and the other represents foreign banks.

- The Secretary General of the Sri Lanka Banker's Association constitutes the final Board member, who participates as an observer and is usually invited to express his views.

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

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

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

A.1.2 Board Responsibilities

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

The Board is primarily responsible for:

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

Board Sub-Committees

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

The Board Sub-Committees are as follows;

The Board Audit Committee

The Board Audit Committee comprises of three Directors as follows;

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

The Audit Committee met on two occasions (02) 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 four members of the Board of Directors as follows;

- a) Mr. Anil Amarasuriya, Chairman
- b) Mr. P. Talwatte,
- c) Mr. K. E. D. Sumanasiri
- d) 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.

Matters discussed and recommendations by the Board HR Committee 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. A. J. Alles - Chairman
- b) Mr. K. V. K. Alwis
- c) Mr. R. Kodituwakku

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

Table no. 01 - Board and Board Sub-Committees Composition and Attendance - 2020/21

Name	Appointments and Resignations Made During the year under Review	Board Meetings		Board Audit Committee Meetings		Board HR Committee Meetings		Board Integrated Risk Committee	
		Held*	Present	Held*	Present	Held*	Present	Held*	Present
Mr. A. Amarasuriya - Chairman	Re appointed w.e.f. 01st June 2018	12	12			02	02		
Mr. R. A. A. Jayalath - Director	Appointed w.e.f. 05 th October 2017	12	11						
Mr. K.B.S. Bandara - Director	Resigned w.e.f. 20 th April 2020	00	00						
Mr. W.P.R.H. Fonseka - Alternate Director to Mr. K.B.S. Bandara	Resigned w.e.f. 20 th April 2020	00	00						
Mr. K.V.K. Alwis - Director	Appointed w.e.f. 05 th July 2018	12	11	02	02			01	01
Mr. P.L.D.Seneviratne - Director	Resigned w.e.f. 05 th February 2021	11	06					01	01
Mr. B.C.Thewarathanthri - Director	Appointed w.e.f. 26 th February 2019	12	08						
Mr. W.P.R.H. Fonseka- Director	Appointed w.e.f. 18 th May 2020	10	07	02	01				
Mr. K.E.D. Sumanasiri - Alternate Director to Mr. W.P.R.H. Fonseka	Appointed w.e.f. 18 th May 2020	10	00			02	02		
Mr. L.P.B. Talwatte - Director	Appointed w.e.f. 31 st March 2020	12	09			02	02		
Mr. R. Gunawardana - Director	Resigned w.e.f. 12 th May 2020	01	00						
Mr. M.A.B. Silva - Director	Appointed w.e.f. 12 th May 2020 & Resigned w.e.f. 18 th June 2020	02	01						
Mr. R. Kodituwakku - Director	Appointed w.e.f. 21 st July 2020	09	08					01	01
Mr. A. J. Alles - Director	Appointed w.e.f. 05 th February 2021	01	01						
Mr. E. R. de Silva - Observer (SLBA)	Appointed w.e.f. 22 nd August 2017	12	10	02	02	02	02		

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

Rule No.	Subject	Compliance Status and Comments
A.2	Chairman and CEO	Due to the nature of roles and responsibilities, 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 interest of the Central Bank of Sri Lanka, two State Banks, private local banks, foreign banks and also the Sri Lanka Banker's Association, this composition ensures that one individual or group of individuals cannot dominate others.</p>
A.6	Supply of Information	<p>The Board was provided with timely and appropriate information by the Management by way of Board papers, Information Papers and Circular papers during the year under review. The Board sought additional information as and when necessary.</p> <p>Board papers are usually sent to the Directors at least a 4-5 days before the respective Board meetings giving adequate time for Directors to study the related papers and prepare for a meaningful discussion at the respective meetings.</p>
A.7	Appointments to the Board	The appointment of new directors to the Board is carried out in a transparent manner. Details are given under 'Composition of the Board of Directors' section in this Report.
A.8	Re-Election	<p>At LankaClear, we have a process of re-nomination. The directors nominated by the Board of the Sri Lanka Banker's Association shall unless they earlier vacate their office, hold office for a minimum period of one year from the date of nomination and may serve for a further term of one year unless otherwise decided against by the nominee.</p> <p>The Directors nominated by the two state banks and the director nominated by the Governor of the Central Bank shall unless they earlier vacate their office, hold office for a period of two years from the date of nomination and shall retire at the end of period and unless disqualified, be eligible for re-nomination.</p>
A.10	Disclosure of information in respect of Directors	Details of the Directors are given on their individual profiles, appointments, attendance at the Board and Sub-Committee Meetings are given on this Report.
B.	Director's Remuneration	The Board decides the remuneration of the Chairman. The Chairman shall not participate in such decision making nor have any influence. The Director's 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 136) 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 which has 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 2021.</p> <p>The Director's Report forms part of the Annual Report and the Financial Statements are in accordance with the Sri Lanka Accounting Standards for Small and Medium sized Entities (SLFRS for SME's) and the Companies Act No. 07 of 2007 and the generally accepted accounting principles.</p> <p>Going Concern</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, internal and external IT audits were carried out during the year under review and the report by the auditor has 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 pages 110 to 111.</p> <p>IT Governance</p> <p>Information Technology (IT) landscape is increasingly complex and vulnerable. Also 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 the IT Governance also plays a pivotal role under the wings of Corporate Governance. Being an organisation powered by IT, it is imperative that LankaClear manages 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 organisation's overall business direction.</p>

Rule No.	Subject	Compliance Status and Comments
		<p>Code of Business conduct and ethics</p> <p>The Code of Conduct is affirmed by the seven core principles/values of the company which are well institutionalised through structured communication. The degree of employee conformance to same is monitored and considered with a reward recognition scheme.</p> <p>Whistle Blowing Policy</p> <p>A whistle blowing policy was introduced during the year under review enhancing the corporate governance of the organisation.</p> <p>Voluntary disclosures</p> <p>Under the stipulations of the Company's Act No. 07 of 2007, LankaClear is required to provide its audited financial statements to all shareholders, at the end of the financial year. LankaClear acknowledges the importance of maintaining high standards of governance within the organisation and among all stakeholders.</p> <p>As the National Payment Network, LankaClear voluntarily publishes an Annual Report at the end of each fiscal year, and ensures its circulation to all member institutions. In addition, the Annual Report is made available to the general public through the LankaClear website. All department heads of the company take direct responsibility for their areas of operations by personally providing information. This high level of voluntary disclosure is considered an element of good governance by the Board and the Management of LankaClear, as a responsible corporate citizen and further more as the National Payment Network.</p>
E & F.	Institutional investors and other investors	The company generally maintains a good relationship with the shareholders and potential investors.
G.	Sustainability Reporting	We believe that the combination of, financial performance, brand image, a productive workforce along with a prudent and independent Board carries great importance in 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 the 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 cyber security at the board level and reports to the Board.</p> <p>LankaClear Pvt Ltd has been continuing to maintain its certifications on ISO 27001 and PCI DSS. Additionally, LankaClear Pvt Ltd maintains an up-to-date vulnerability management programme to ensure it remains ahead of the rapidly evolving threat landscape.</p> <p>LankaClear Pvt Ltd has spread its wings to establish and maintain secure communications between entities. LankaSign is the only authorised Certification Service Provider (CSP) in Sri Lanka under the National Certification Authority. LankaSign caters to Public Key Infrastructure (PKI) requirements of the banking and financial sector & other sectors of the country.</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 governs LankaClear operations. As at March 31st, 2021, 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 31st, 2021			•
Shop and Office Employees Act No. 19 of 1954			•
Right to Information Act No.12 of 2016			•

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

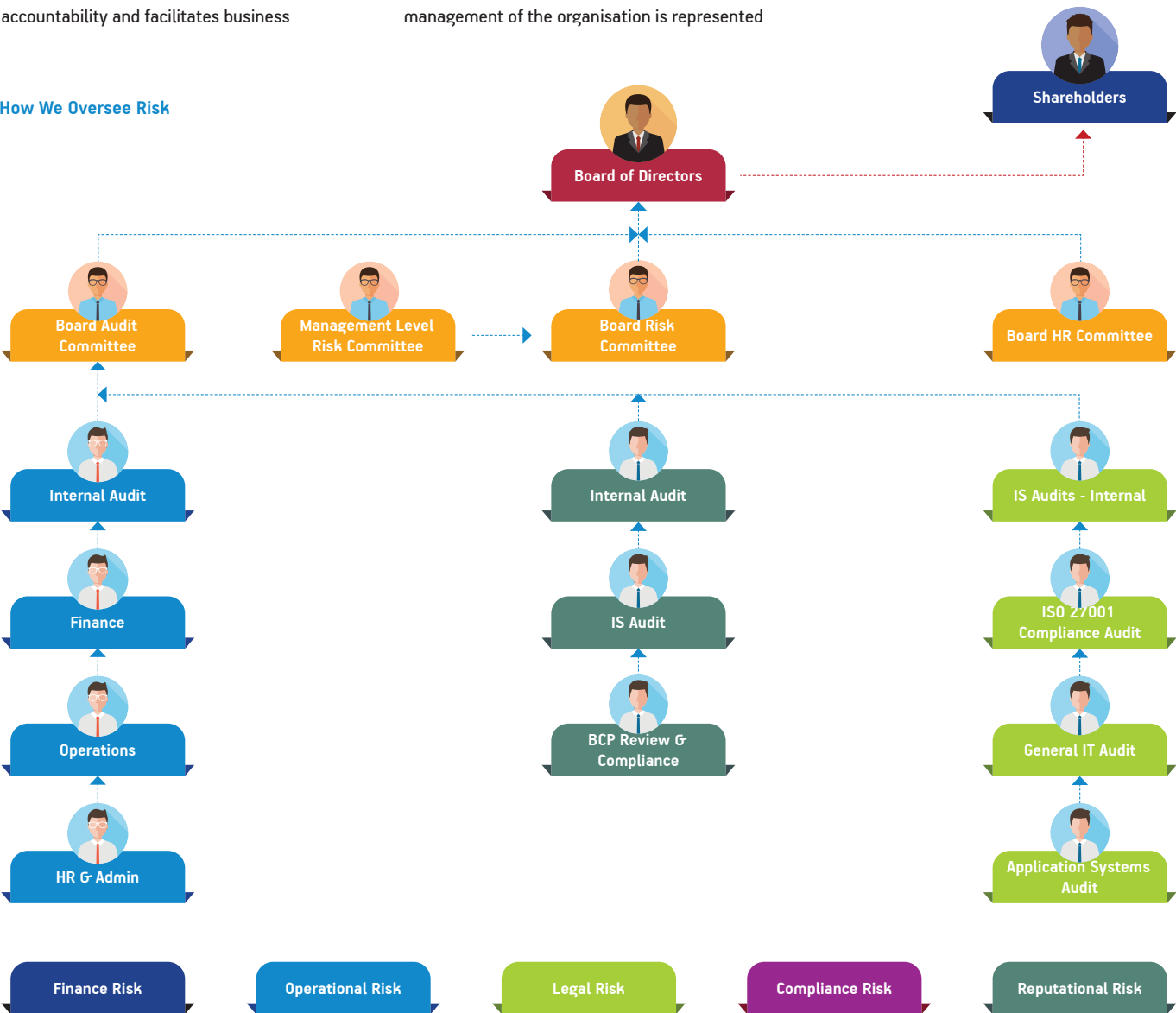
continuity and resilience to achieve greater profits. LankaClear Management is committed to adopting 'Best Practices' in enterprise risk management continuously across all our businesses while striving to adhere to international standards and benchmarks where applicable.

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, Chief Operating Officer, 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.

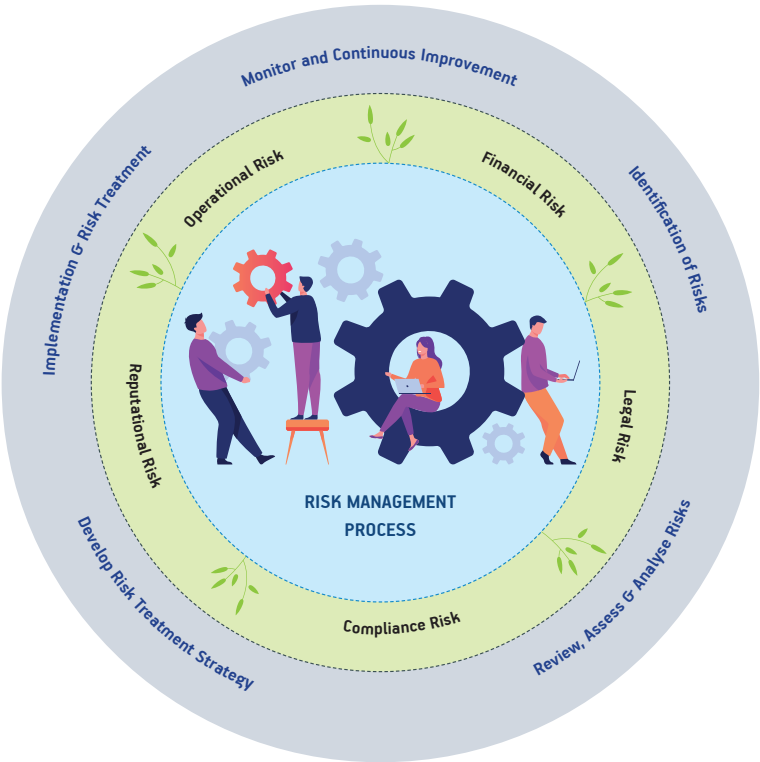
How We Oversee Risk



Risk Management Process

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

Identified product related risks have been classified under five broad risk categories such as Operational Risk, Financial Risk, Legal Risk, Compliance Risk and Reputational Risk and are monitored, controlled and managed through the Risk Management Process of LankaClear.



Risk Categorisation

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

Risk Matrix

Previous experience has been used to assess likelihood of occurrence. To identify and define the 'Likelihood of Occurrence', outcomes of the corporate-wide Business Impact Analysis was considered. The Impact of the event was assessed by determining the potential loss or unavailability of service that may result and the severity of the impact.

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

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

Risk Categorisation and Risk Management Strategies

The following types of risks are specifically identified due to the severity of the implications/impact such risks could pose on the organisation and its business from among the various types of risks that LankaClear is exposed to base on the current state of our business.

Operational Risk	
Strategic Risk	Low
Failure to implement strategic plans and address market needs of payment systems on time	
Impact/Implication	Risk Management Strategy
Loss of credibility in the market and impact on the efficiency levels of national payment network.	<ul style="list-style-type: none"> ▶ Regular meetings are held by the Board of Directors and members of the Management in order to formulate future strategies and to review and revise (where necessary) corporate plans, taking into consideration the dynamic business environment and technology landscape. ▶ All senior managers attend regular workshops, seminars and professional training programmes in order to update their skills and knowledge and to keep abreast of international trends and technology developments concerning the financial industry. ▶ Aligning organisational strategies with the payment systems roadmap of the National Payments Council (NPC) of the Central Bank.

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 stationery has been minimised by digitising most of the commonly circulated documents within LankaClear and introducing digital signatures.

Operational Risk	
Product Risk	Moderate
Risks associated with system security, reliability and availability of the system.	
Impact/Implication	Risk Management Strategy
Loss of confidence and reputation on LankaClear products leading to reputational damage and loss of revenue	<ul style="list-style-type: none"> ▶ A layered design had been adopted to segregate functions to reduce risks ▶ All systems are designed to be PA - DSS certified and PCI - DSS and ISO 27001:2013 aligned ▶ IT security and procedure documents are continuously reviewed and enhanced ▶ Security risk analysis and proactive intelligence gathering is carried out on a periodic basis ▶ Process and technological improvements to achieve 99.97% system uptime ▶ Establishment of a new and improved DR site to ensure high availability

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

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

Operational Risk	
Competitive Risk	Low
Risks from competitive actions of existing market participants and new entrants.	
Impact/Implication	Risk Management Strategy
Reduced transaction volumes of existing payment systems and reduced financial viability of new payment systems	<ul style="list-style-type: none"> Some of the national payment systems operated by the company are protected from competitive risks due to the non-presence of credible competitors. However, the company takes every possible action to ensure that a superior service is offered to the customers in order to protect and improve on the current financial status. The company concentrates on the maintenance of high level of standards with respect to its employees, processes and technology in order to mitigate competitive risks. The strategy of offering world-class services at the lowest possible cost to the customer has mitigated the competitive pressure.

Operational Risk	
Process Risk	Low
Inadequate or break down of internal controls, processes and procedures.	
Impact/Implication	Risk Management Strategy
Loss of reputation, business integrity and stakeholder trust on National Payment Systems.	<ul style="list-style-type: none"> LankaClear ensures adherence to operational guidelines for all clearing systems, Desk Instruction Manuals and Dual-Control mechanisms. We ensure that participating banks also adhere to these processes and guidelines by means of interdepartmental peer audits, internal audits and training. Continuous improvements to operational manuals and Desk Instruction Manuals. The monitoring of activities by the Central Bank through the involvement of two Directors of the Company appointed by Central Bank and also through periodic system audits. 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. ▶ All documents and communications are annotated with the level of confidentiality as the relevant policy.

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 99.8% and 100% uptime for CCAPS for the year under review is testimony to the effectiveness of the fully functional DR site.

Operational Risk	
Employee Risk	Low
Inability to attract the right staff, develop existing staff and retain skilled and experienced staff	
Impact/Implication	Risk Management Strategy
Reduced productivity and quality of service.	<ul style="list-style-type: none"> ▶ In order to minimise people related risks, LankaClear sets SMART (Specific, Measurable, Achievable, Relevant and Time bound) corporate objectives to ensure the staff has clarity of what should be achieved. Having a clear direction and clarity of what is expected of employees help the employees to focus on their objectives and evaluate their own performance against the objectives. The well-defined HR policies, practices and procedures – spanning from hiring, familiarisation, training 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
Higher default rate by parties to contracts with the company	<ul style="list-style-type: none"> ▶ Obtaining expert external consultancy services in fulfilling legal obligations where necessary. ▶ Introduction of an automated agreement tracking system to mitigate any risks on non-renewal of agreements on a timely basis.
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 had reached to its lowest levels, LankaClear did not investment in longer tenures to make use of possible increases to the rates in future.

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. ▶ Credit terms provided by vendors are utilised in full to manage cash outflows of the company. Further, emphasis for bringing down the debtors' collection period was carried out by mandating all customers to settle payments via direct debits so that the dues are automatically drawn from the customers' bank accounts.

Financial Risk	
Foreign Exchange Rate Risk	Moderate
Risk from fluctuating foreign exchange rates	
Impact/Implication	Risk Management Strategy
The possibility of incurring higher costs related to foreign currency payments	<ul style="list-style-type: none"> Foreign exchange risk has not been a major concern to LankaClear previously, however, with the significant fluctuations of the exchange rates, mainly costs of the IT maintenance and IT equipment procurement was impacted significantly. LankaClear has limited avenues to mitigate foreign exchange related risks for the moment and leaves us with limited option and to apply the conversion rate prevailing at the time to pay for such crucial services. Hence, the prices were extensively negotiated to obtained lowest prices and required procurements were done expeditiously to minimise the impact. Most of the maintenance contracts were negotiated in 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. * Business plans were submitted to the Board depicting the plans for achieving the required financial returns from the invested projects.

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 performance incentives.

Reputational Risk	
Reputational Risk	Moderate
Failure to manage public relationships	
Impact/Implication	Risk Management Strategy
Negative effects of public opinion, customer opinion and market reputation, and the damage caused to the brand by failing to manage public relations	<ul style="list-style-type: none"> Continuous awareness amongst employees, customers and general public. Several ground level activation initiatives to improve customer awareness and brand equity. Strong controlled environment with policies procedures and compliance

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

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

Financial information

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

Compliance

- a) Reviews the effectiveness of the systems and procedures adopted by the company and monitors compliance with applicable laws and regulations of the country.

- b) Reviews the findings of any examination by regulatory agencies and/or any auditor on compliance with such laws and regulations.
- c) Follows-up of any instances of non-compliance.

External Audit:

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

Internal Audit

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

External IT Audit

Reviews the findings of IT Audits carried out by external parties & 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 - Chairman
- ▶ Mr. K. V. K. Alwis - Member
- ▶ Mr. E. R. De Silva - Member

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

The quorum to the Committee is two members.

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

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

Meetings

The Committee held two 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 and proposed for board approval.

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 2022 subject to the approval of the shareholders at the Annual General Meeting

Conclusion

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

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



W. P. Russel Fonseka
Chairman
Board Audit Committee

Colombo, Sri Lanka
15th June 2021

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 four Board Members namely Mr. P. Talwatte, Mr. K. E. D. Sumanasiri, Mr. E. R. 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;

- ▶ Changes to the Organisational Structure and HR Strategy
- ▶ Human capital development policies and processes
- ▶ Compensation and Benefits policy setting
- ▶ Health and Occupational Safety including approvals for management recommendations on physical environment improvements and enhancements.

Board HR Committee reviewed and recommended to the Board the annual salary revisions and promotions for the year. The recommendation by the Board HR Committee to award the salary increments effective January 2020 was received well by all at a time where the country was facing the threat of the pandemic. The Board HR Committee also gave directions to revise the Organisation Structure introducing key positions and making several changes for the betterment of the organisation. 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. P. Talwatte, Mr. K. E. D. Sumanasiri and Mr. E. R. De Silva for their untiring efforts to fulfill their duty as members of the Board HR Committee.

In conclusion, on behalf of the committee I 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.



Mr. Anil Amarasuriya
Chairman - Board HR Committee

31st May 2021

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 31st March 2021.

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. Jonathan Alles - Chairman (Former Chairman, Mr. Dimantha Seneviratne retired on 05th February 2021)
2. Mr. K.V. K. Alwis
3. Mr. Ranjith Kodithuwakku

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. Dinuka Perera: Chief Operating Officer
3. Mr. Rasika Galappaththy: Deputy General Manager Finance
4. Mr. Lakshman Palliyaguruge: Head of HR & Administration
5. Mr. Dilantha Samarasinghe: Assistant General Manager IT
6. Mr. Roshan Hettiarachchi: Head of Clearing Systems

Ms. Srimali Premalal, Senior Manager Information Systems Audit commenced functioning as the secretary of the risk committee towards the end of the financial year after taking over from Mr. Rasika Galappaththy,

DGM Finance who served as secretary of the risk committee from 2013. On behalf of previous committees and current committee, we extend our thanks to him and his team for the valuable work done from inception, including setting up with appropriate documentation, creating the company wide risk culture and risk reporting, introducing appropriate formats with the support of the previous Senior Manager Information Systems Audit, Dilusha Karunaratna.

Committee Functions

Overall, LankaClear Board remains accountable to ensure that risks are effectively managed and it has delegated the oversight of risk management, control implementation and compliance to designed controls are being delegated between Risk and Audit Committees in terms of two separate but aligned mandates.

LankaClear adheres to the industry best practice approach for Risk Management i.e. 3 Lines of Defense. Each business unit, as the 1st Line, is responsible for identifying applicable risk to its own processes and assets, bringing in appropriate mitigation controls, adhering to same and continuously monitoring the effectiveness. As the 2nd Line, Enterprise Risk Management function (ERM) holds the responsibility of assuring completeness of risks identification, challenging the proposed controls and presenting the progress to the Corporate Management and BIRMC. The BIRMC reviews significant risk items of each BU with applicable mitigation. It also evaluates the risk appetite and appropriateness of risk acceptances and continues monitoring that the accepted risks will not exceed the prevailing appetite and cause any unforeseen issues. BIRMC reports back to the LankaClear Board with any improvements needed, while the Internal Audit and Audit Committee, as the 3rd line of defense, focuses on providing an independent assurance on adequacy level of controls and adherence. The combined assurance process of 3 lines of defense 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.

Preliminary responsibility of Risk Management falls under MLRC which will identify risks and opportunities throughout the year and treat them appropriately to minimise risks and optimise opportunities.

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

Due to the change of the risk committee members and with the pandemic conditions BIRMC met once during the financial year to evaluate and address risks faced by the organisation. Attendance at the meetings are given in page 96 of this report.

Discharge of Responsibilities

- ▶ Based on activities which lead up to submitting reports to the MLRC chaired by GM/CEO, supporting organisational risk identification and rectification activities at various levels throughout the organisation year-round.
- ▶ Reports were submitted, discussed and reviewed at 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 the 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. The discussions and conclusions reached at the meeting were recorded in minutes and circulated to the Board of Directors for information and advice. Critical issues were 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 management process provides a reasonable assurance towards meeting the challenges of risk management and compliance, safeguarding the interest of the stakeholders and towards sustainable operations.



Mr. Jonathan Alles

Chairman

Board Integrated Risk Management Committee

15th June 2021



A Quantum Leap in Security

Security is the single most critical success factor that establishes trust in driving consumption of peer-to-peer and other payments. We have secured our backend by adhering to world-renowned and stringent PCI-DSS security standards. Our P2P payment mode Payment Exchange Name is further secured via digital certificates and payment apps follow two-factor authentication to ensure that we abide by our promise as 'Your Trusted Payment Network'.

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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 120 of the Annual Report.

By Order of the Board
LankaClear (Private) Limited



Managers & Secretaries (Pvt) Limited
Secretaries

15th June 2021
Colombo, Sri Lanka

The Directors of LankaClear (Pvt) Ltd have pleasure in presenting the 19th Annual Report of your Company together with the Audited Financial Statements for the year ended March 31, 2021.

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, 2021 and future business developments of the Company are provided in the Chairman's message on pages 23 to 27, GM/ CEO's review on pages

28 to 33, Management discussion & analysis appearing on pages 41 to 60 and capital management on pages 61 to 91. 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, 2021 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 120 to 140.

Corporate Governance

The Corporate Governance principles and practices of the Company are described from pages 93 to 100 of this report. The Directors confirm that the Company is in compliance with the Companies Act No. 7 of 2007.

System of Internal Control and Risk Management

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

The Board confirms that there is an ongoing process for identifying, evaluating and managing any significant risks faced by the Company and that financial, operational and compliance controls have been reviewed. Risk assessment and evaluation for the Company takes place as an integral part of the business and the principal risks and mitigating actions in place are reviewed regularly by the Management. Foreseeable risks that may materially impact business are disclosed in the Risk Management Statement on pages 101 to 109 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 126 to 129. 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 2021, 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. 1.057 Bn (2020 - Rs. 1.098 Bn)

Profit & Appropriations

The profit after tax of the Company and the profit attributable to the equity holders for the year was Rs. 490 Mn (2020 - Rs. 486 Mn) 20% of the profit after tax amounted to Rs. 98 Mn recommended by the Board to distribute among the Shareholders of the Company as Dividend.

Dividends

A final dividend of Rs. 6.42 per share for the Financial Year ended March 31, 2021 was recommended by the Board of Directors on resulting in a total cash payout amounting to Rs. 97,905,000 (2020 - Rs. 97,142,500)

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. 6.42 per share. The final dividend will be paid after obtaining the approval from the Shareholders.

Property, Plant & Equipment and Intangible Assets

The Company's capital expenditure on property, plant and equipment amounted to Rs. 251 Mn (2020 - Rs. 115 Mn) and all other related information and movements have been disclosed in the note 5 (page 130 to the financial statements).

Additions of intangible assets of the Company during the year amounted to Rs. 34 Mn (2020 - Rs. 59 Mn) and all other related movements are disclosed under the note 06 (page 131).

Investments

Detailed description of the short term financial investments held as at the reporting date, are given in note 10 (page 132) to the financial statements.

Stated Capital

The total stated capital of the Company as at March 31, 2021 was Rs. 165 Mn (2020 - 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, 2021 for the Company amounted to Rs. 2.93 Bn (2020 - Rs. 2.54 Bn). The movement of reserves during the year is disclosed in the Statement of Changes in Equity on page 124.

Contingent Liabilities & Capital Commitments

Commitments made for capital expenditure as at March 31, 2021 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, 2021 was Rs. 202.77 (2020 - Rs. 177.17). The number of shareholders

as at March 31, 2021 was 25 (2020 - 27). An analysis of shareholders based on shares held, during the year are provided on page 13 of this report.

The Board of Directors

The Board of Directors of the Company as at March 31, 2021 and their brief profiles are given in the Board of Directors section of the Annual Report (Pages 34 to 37).

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

- ▶ Mr. G.B.R.P. Gunawardana resigned w.e.f. 12th May 2020 and Mr. M.A.B. Silva was appointed w.e.f. 12th May 2020 in his place.
- ▶ Mr. M.A.B. Silva resigned w.e.f. 18th June 2020 and Mr. Ranjith Kodituwakku was appointed w.e.f. 02nd July 2020 in his place.
- ▶ Mr. K.B.S. Bandara and (his alternative) Mr. Russell Fonseka resigned w.e.f. 20th April 2020, and Mr. Russell Fonseka and (his alternative) Mr. K.E.D. Sumanasiri were appointed w.e.f. 18th May 2020 in his place respectively.
- ▶ Mr. P.L. Dimantha Senevirathne retired having completed two years w.e.f. 05th February 2021. Mr. Jonathan Alles was appointed w.e.f. 05th February 2021 respectively.

Board Committees

Information relating to members of the Audit Committee, Human Resources Committee, 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 93 to 100.

Related Party Transactions

Details of the transactions with Director-related entities are disclosed in Note 23 to the financial statements on page 137, 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 68 to 72.

The number of persons employed by the Company as at March 31, 2021 was 107 (2020 - 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

There were no donations made during the Year.

Auditor's Remuneration and Appointment of Auditors

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

Details of the Audit Fees paid to the Auditors are set out in Note 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. 258,000/-.

Further details on the work of the Auditor and the Audit Committee are set out in the Audit Committee Report on pages 110 to 111.

Annual Report

The Board of Directors approved the Audited Financial Statements for issue on June 15, 2021.

Notice of Meeting

The Annual General Meeting will be held at Level 18, Bank of Ceylon Head office, "BOC Square", No. 01, Bank of Ceylon Mawatha, Colombo 01 via Microsoft Teams Audio / Video on 06th August 2021 at 10.00 am.

The Notice of Annual General Meeting appears on page 146.

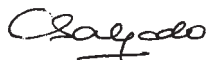
For and on behalf of the Board.



Dr. Kenneth De Zilwa
Chairman



W. P. R. H. Fonseka
Director



Managers & Secretaries (Pvt) Ltd
Secretaries
LankaClear (Private) Limited

15th June 2021
Colombo



Ernst & Young
Chartered Accountants
201 De Saram Place
P.O. Box 101
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Tax : +94 11 5578180
eysl@lk.ey.com
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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 2021, 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 2021, 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.
- 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.



15 June 2021
Colombo

STATEMENT OF FINANCIAL POSITION

LankaClear (Private) Limited
Annual Report 2020/21

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As at 31 March	Notes	2021 Rs.	2020 Rs.
ASSETS			
Non Current Assets			
Property, Plant and Equipment	5	461,923,646	288,014,043
Intangible Assets	6	343,778,940	332,860,331
Long Term Financial Investments	7	385,448,761	531,687,853
		1,191,151,347	1,152,562,227
Current Assets			
Inventories	8	4,157,775	3,937,825
Trade and Other Receivables	9	204,847,958	159,276,429
Short Term Financial Investments	10	1,756,872,736	1,519,243,975
Cash and Cash Equivalents	11	182,446,875	131,338,580
		2,148,325,344	1,813,796,809
Total Assets		3,339,476,691	2,966,359,036
EQUITY AND LIABILITIES			
Capital and Reserves			
Stated Capital	12	165,200,000	165,200,000
Technology Upgrade Reserve	13	-	139,131,459
Retained Earnings		2,927,113,360	2,397,561,778
Total Equity		3,092,313,360	2,701,893,237
Non Current Liabilities			
Retirement Benefit Obligation	14	55,907,227	44,966,781
Deferred Tax Liability	15	11,618,899	19,406,487
		67,526,126	64,373,268
Current Liabilities			
Trade and Other Payables	16	171,026,103	179,482,975
Deferred Revenue		8,279,152	3,614,823
Income Tax Liability		331,950	16,994,733
		179,637,205	200,092,531
Total Equity and Liabilities		3,339,476,691	2,966,359,036
Net Asset Value Per Share		202.77	177.17

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.

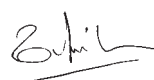


R. L. Galappaththy
Deputy General Manager Finance

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



Dr. Kenneth De Zilwa
Chairman



W. P. R. H. Fonseka
Director

The accounting policies & notes on pages 126 to 140 form an integral part of these Financial Statements.

15 June 2021
Colombo

STATEMENT OF COMPREHENSIVE INCOME

LankaClear (Private) Limited
Annual Report 2020/21

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Year ended 31 March	Notes	2021 Rs.	2020 Rs.
Revenue	17	1,057,154,707	1,097,709,274
Direct Operating Expenses		(579,792,751)	(565,333,411)
Gross Profit		477,361,956	532,375,863
Other Income	18	209,155,196	225,812,211
Administrative Expenses		(150,231,765)	(173,134,574)
Marketing Expenses		(18,531,340)	(23,922,775)
Profit Before Tax	19	517,754,047	561,130,725
Income Tax Expense	20	(28,175,912)	(75,488,226)
Profit for the Year		489,578,135	485,642,499
Other Comprehensive Income			
Remeasurement Gain / (Loss) on Retirement Benefit Obligation (Net of Tax)	14.2	(2,015,512)	1,679,842
Total Comprehensive Income for the Year		487,562,623	487,322,341
Earnings Per Share	21	32.10	31.85

The accounting policies & notes on pages 126 to 140 form an integral part of these Financial Statements.

STATEMENT OF CHANGES IN EQUITY

LankaClear (Private) Limited
Annual Report 2020/21

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Year ended 31 March	Stated Capital Rs.	Technology Upgrade Reserve Rs.	Retained Earnings Rs.	Total Rs.
Balance as at 01 April 2019	165,200,000	258,157,071	1,866,701,325	2,290,058,396
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	2,701,893,236
Total Comprehensive Income				
Profit for the Year	-	-	489,578,135	489,578,135
Other Comprehensive Income, Net of Tax	-	-	(2,015,512)	(2,015,512)
Total Comprehensive Income	-	-	487,562,623	487,562,623
Changes in Ownership				
Shares Disposed during the Year	(17,623,000)	-	-	(17,623,000)
Shares Issued during the Year	17,623,000	-	-	17,623,000
Total Changes in Ownership	-	-	-	-
Transactions with Owners of the Company				
- Contribution and Distribution				
Dividend Paid	-	-	(97,142,500)	(97,142,500)
Transferred to Technology Upgrade Reserve	-	129,438,512	(129,438,512)	-
Utilisation of Technology Upgrade Reserve	-	(268,569,971)	268,569,971	-
Total Contributions and Distributions	-	(139,131,459)	41,988,959	(97,142,500)
Balance as at 31st March 2021	165,200,000	-	2,927,113,360	3,092,313,360

The accounting policies & notes on pages 126 to 140 form an integral part of these Financial Statements.

STATEMENT OF CASH FLOWS

LankaClear (Private) Limited
Annual Report 2020/21

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Year ended 31 March	Notes	2021 Rs.	2020 Rs.
Cash Flows from Operating Activities			
Profit Before Tax		517,754,047	561,130,725
Adjustments for			
Depreciation	5.2	77,328,844	74,597,161
Amortisation	6.2	89,018,249	78,208,166
Impairment on Intangible Assets		-	7,875,000
Finance Income		(195,264,519)	(214,524,270)
Gratuity Charge for the Year	14.1	10,355,429	9,948,337
Profit/(Loss) on Disposal of Property, Plant & Equipment		(150,098)	369,314
Operating Profit before Working Capital Changes		499,041,951	517,604,433
(Increase)/Decrease in Inventories		(219,950)	(1,251,230)
(Increase)/Decrease in Trade and Other Receivables		(45,571,529)	123,907,028
Increase in Deferred Revenue		4,664,329	(3,199,983)
Increase/(Decrease) in Trade and Other Payables		(8,456,873)	(15,448,015)
Cash Generated from Operations		449,457,928	621,612,232
Income Tax Paid		(51,989,805)	(94,693,660)
Gratuity Paid	14	(2,066,973)	(2,248,262)
Net Cash From Operating Activities		395,401,150	524,670,311
Cash Flows from Investing Activities			
Acquisition of Property, Plant & Equipment	5.1	(251,238,446)	(115,457,888)
Acquisition of Intangible Assets	6.1	(33,813,341)	(59,321,769)
Common Card and Payment Switch Application Software Upgrade	6.2	(66,123,515)	-
Proceeds from Disposal of Property, Plant & Equipment		150,098	501,700
Investment in Long Term Financial Investments		146,239,092	561,115,260
Investment in Short Term Financial Investments		(237,628,761)	(969,900,079)
Finance Income Received		195,264,519	214,524,270
Net Cash Flows Used in Investing Activities		(247,150,355)	(368,538,505)
Cash Flows from Financing Activity			
Dividend Paid	22	(97,142,500)	(75,487,500)
Net Cash Flows Used in Financing Activity		(97,142,500)	(75,487,500)
Net Increase in Cash and Cash Equivalents		51,108,295	80,644,305
Cash and Cash Equivalents at the Beginning of the Year	11	131,338,580	50,694,275
Cash and Cash Equivalents at the End of the Year	11	182,446,875	131,338,580

The accounting policies & notes on pages 126 to 140 form an integral part of these Financial Statements

1. CORPORATE INFORMATION

1.1 Reporting Entity

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

1.2 Principal Activities and Nature of Operations

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

1.3 Financial Period and Date of Authorization for Issue

The Statement of Financial Position, Statements of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows, together with accounting policies and notes, ("Financial Statements") of the Company, for the year ended 31 March 2020, covering the period from 01 April 2020 to 31 March 2021 was authorized for issue by the Board of Directors on 15th June 2021.

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 - lives of Intangible Assets

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

Going Concern

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

4.1 Foreign Currency Translation

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

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

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

4.2 Property, Plant and Equipment

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

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

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

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

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

4.2.1 De-recognition

An item of property & equipment and any significant part initially 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 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 amortization 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 capitalization. Capital work-in progress would be transferred to the relevant asset when it is available for use i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management.

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

The cost incurred in bringing inventories to its present location and condition, are accounted for as follows;

Consumables & Stationery - On a weighted average basis

4.8 Trade and Other Receivables

Most sales are made on the basis of normal credit terms, and the receivables do not bear interest. Where credit is extended beyond normal credit terms, receivables are measured at amortised cost using the effective interest method. At the end of each reporting period, the carrying amounts of trade and other receivables

are reviewed to determine whether there is any objective evidence that the amounts are not recoverable. If so, an impairment loss is recognised immediately in profit or loss.

4.9 Short Term Financial Investment

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

5. PROPERTY, PLANT AND EQUIPMENT

	Balance as at 01.04.2020 Rs.	Additions Rs.	Disposals Rs.	Balance as at 31.03.2021 Rs.
5.1 At Cost				
Computer Equipment	624,608,960	250,514,173	298,390	874,824,743
Furniture and Fittings	24,883,219	254,531	4,439,394	20,698,357
Electronic Equipment	26,207,106	196,467	732,001	25,671,572
Other Equipment	19,859,563	273,274	-	20,132,838
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	792,433,096	251,238,446	5,469,785	1,038,201,757

	Balance as at 01.04.2020 Rs.	Charge for the Year Rs.	Disposals Rs.	Balance as at 31.03.2021 Rs.
5.2 Depreciation				
Computer Equipment	436,311,224	68,049,172	298,390	504,062,005
Furniture and Fittings	16,896,719	1,667,650	4,439,394	14,124,976
Electronic Equipment	21,981,107	2,507,788	732,001	23,756,894
Other Equipment	12,193,908	2,806,212	-	15,000,121
Motor Vehicle	6,695,000	-	-	6,695,000
Freehold Building	10,341,095	2,298,021	-	12,639,116
Total Depreciation	504,419,053	77,328,844	5,469,785	576,278,111

	2021 Rs.	2020 Rs.
5.3 Net Book Values		
Computer Equipment	370,762,738	188,297,736
Furniture and Fittings	6,573,381	7,986,500
Electronic Equipment	1,914,678	4,225,999
Other Equipment	5,132,717	7,665,655
Motor Vehicle	-	-
Freehold Land	21,238,620	21,238,620
Freehold Building	56,301,512	58,599,533
Total Carrying Amount of Property, Plant and Equipment	461,923,646	288,014,043

5.4 During the financial year, the Company acquired Property, Plant & Equipment by means of cash with an aggregate cost of Rs. 251mn (2020 - Rs.115mn)

5.5 The total investment made as at the reporting date in Common Card and Payment Switch was Rs. 864mn (2020 - Rs. 561mn) 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 2021, 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 01.04.2020 Rs.	Additions Rs.	Disposals/ Transfers Rs.	Balance as at 31.03.2021 Rs.
6.1 At Cost				
Computer Software	881,345,100	33,813,341	-	915,158,441
	881,345,100	33,813,341	-	915,158,441
Capital Work in Progress				
Application Software Upgrade - Common Card and Payment Switch	-	66,123,516	-	66,123,516
	-	66,123,516	-	66,123,516
Total Value of Assets	881,345,100	99,936,857	-	981,281,957

	Balance as at 01.04.2020 Rs.	Charge for the Year Rs.	Disposals/ Transfers Rs.	Balance as at 31.03.2021 Rs.
6.2 Amortisation				
Computer Software	548,484,769	89,018,249	-	637,503,018
Total Amortisation	548,484,769	89,018,249	-	637,503,018

	2021 Rs.	2020 Rs.
6.3 Net Book Values		
Computer Software	277,655,424	332,860,331
Capital Work in Progress		
Application Software Upgrade - Common Card and Payment Switch	66,123,516	-
Total Carrying Amount of Property, Plant and Equipment	343,778,940	332,860,331

6.4 During the financial year, the Company acquired intangible assets by means of cash with an aggregate cost of Rs. 34Mn (2020 - Rs. 59mn).

6.5 Based on the assessment of potential impairment carried out internally as at 31 March 2021, no provision was required to be made in the financial statements as at the reporting date.

7. LONG TERM FINANCIAL INVESTMENTS

	2021 Rs.	2020 Rs.
Investment in Fixed Deposits	351,769,615	461,668,784
Accrued Interest on Fixed Deposits	33,679,146	70,019,069
	385,448,761	531,687,853

8. INVENTORIES

	2021 Rs.	2020 Rs.
Consumable and Stationary	4,157,775	3,937,825
	4,157,775	3,937,825

9. TRADE AND OTHER RECEIVABLES

	2021 Rs.	2020 Rs.
Trade Receivables	137,449,270	124,282,323
Advances & Prepayments	62,181,677	33,542,576
Refundable Deposits	450,700	450,700
Other Receivables	4,766,311	1,000,830
	204,847,958	159,276,429

10. SHORT TERM FINANCIAL INVESTMENTS

	2021 Rs.	2020 Rs.
Investment in Fixed Deposits	1,728,150,290	1,469,843,697
Accrued Interest on Fixed Deposits	28,722,446	49,400,278
	1,756,872,736	1,519,243,975

11. CASH AND CASH EQUIVALENTS

	2021 Rs.	2020 Rs.
Cash in Hand and Bank Balances	182,446,875	131,338,580
	182,446,875	131,338,580

12. STATED CAPITAL

	2021		2020	
	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
Shares Disposed during the Year	(100,000)	(17,623,000)	-	-
Shares Issued during the Year	100,000	17,623,000	-	-
Balance at the End of the Year	15,250,000	165,200,000	15,250,000	165,200,000

13. TECHNOLOGY UPGRADE RESERVE

	2021 Rs.	2020 Rs.
Balance at the Beginning of the Year	139,131,459	258,157,071
Transferred from Retained Earnings	129,438,512	140,282,681
Utilisation of Technology Upgrade Reserve	(268,569,971)	(259,308,293)
Balance at the End of the Year	-	139,131,459

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.

Due to significant capital assets replacements in the financial year 2020/2021, the available reserve balance was not sufficient to fully utilize the replacements. As a result an approval was given from the board to transfer Rs 900 Mn from Retained Earning to Technology Upgrade Reserve in 2021/2022.

14. RETIREMENT BENEFIT OBLIGATION

	2021 Rs.	2020 Rs.
Balance at the Beginning of the Year	44,966,781	39,477,024
Gratuity Charge for the Year (Note 14.1)	10,355,429	9,948,337
	55,322,210	49,425,361
Payments made during the Year	(2,066,973)	(2,248,262)
(Gain)/Loss arising from Changes in Assumptions (Note 14.1)	2,651,990	(2,210,318)
Balance at the End of the Year	55,907,227	44,966,781

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 2021. 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,

	2021	2020
Discount Rate	8.19%	10.00%
Salary Increment Rate	9.00%	9.00%
Staff Turnover Factor	5.66%	14.29%

14.1 Expenses recognised during the year in Statement of Comprehensive Income

	2021 Rs.	2020 Rs.
Gratuity Charge for the Year recognised in Profit or Loss	10,355,429	9,948,337
Actuarial (Gain)/Losses recognised in Other Comprehensive Income	2,651,990	(2,210,318)

14.2 Retirement Benefit Obligations (Net of Taxes)

	2021 Rs.	2020 Rs.
Actuarial (Gain)/Losses recognised in Other Comprehensive Income	2,651,990	(2,210,318)
Tax Expense/(Refund) Tax at 24%	(636,477)	530,476
	2,015,512	(1,679,842)

15. DEFERRED TAXATION

	2021 Rs.	2020 Rs.
Deferred Tax Liability	11,618,899	19,406,487
	11,618,899	19,406,487

Deferred tax relates to the following:

	Statement of Financial Position		Statement of Comprehensive Income	
	2021 Rs.	2020 Rs.	2021 Rs.	2020 Rs.
Property, Plant and Equipment and Intangible Assets	(25,036,634)	(30,198,514)	5,161,880	(1,680,523)
Retirement Benefit Obligation	13,417,734	10,792,027	2,625,707	(2,610,267)
Deferred Tax Asset / (Liability)	(11,618,899)	(19,406,487)		
Deferred Tax (Expense) / Benefit			7,787,588	(4,290,790)

Reconciliation of deferred tax liabilities, net

	2021 Rs.	2020 Rs.
As of 1 April	19,406,487	15,115,698
Tax Expense during the Period Recognised in Profit or Loss	(7,151,111)	3,760,313
Tax Income/ (Expense) during the Period Recognised in OCI (Note 14.2)	(636,477)	530,476
As at 31 March	11,618,899	19,406,487

16. TRADE AND OTHER PAYABLES

	2021 Rs.	2020 Rs.
Sundry Creditors and Accruals	165,718,654	174,553,070
Value Added Tax (VAT)	5,307,449	4,929,905
	171,026,103	179,482,975

17. REVENUE

	2021 Rs.	2020 Rs.
Revenue from Cheque Imaging and Truncation System (CITS)	239,109,026	394,484,960
Revenue from Common Card and Payment Switch (CCAPS)	610,592,243	521,290,369
Revenue from Sri Lanka Interbank Payment System (SLIPS)	137,049,693	137,713,671
Revenue from Financial Sector Computer Security Incident Response Team (FINCSIRT)	27,963,411	9,960,432
Revenue from LankaSign Certificate Authority (CA)	36,454,083	29,036,092
Revenue from USD Online Clearing System	5,986,250	5,223,750
	1,057,154,707	1,097,709,274

18. OTHER INCOME

	2021 Rs.	2020 Rs.
Interest on Fixed Deposits	192,457,956	211,780,599
Interest on Securities Purchase under Resale Agreement	1,077,905	1,090,309
Interest on Saving Account - LKR	1,120,564	1,176,056
Interest on Saving Account - USD	608,094	477,307
Rental Income	5,156,494	4,910,946
Other Income	2,269,685	2,084,610
Exchange Gain	6,314,400	4,292,384
Profit on Disposal of Fixed Assets	150,098	-
	209,155,196	225,812,211

19. PROFIT BEFORE TAX

	2021 Rs.	2020 Rs.
Profit Before Tax is stated after charging all expenses including the following:		
Directors' Emoluments	4,760,000	5,039,000
External Auditors' Fee	621,300	621,300
Depreciation (Note 5.2)	77,328,844	74,597,161
Amortisation (Note 6.2)	89,018,249	78,208,166
Donation	-	710,447
Impairment Loss on Receivable	6,391,926	1,278,385
Impairment Loss on Intangible Assets	-	7,875,000
Personnel Costs includes		
- Defined Contribution Plan Cost - EPF & ETF	25,044,651	23,928,548
- Salaries and other staff costs	211,922,739	224,121,073

20. INCOME TAX EXPENSES

	2021 Rs.	2020 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)	35,327,022	72,207,777
(Over)/Under Provision of Current Taxes in respect of Previous Year	-	(479,864)
Deferred Income Tax Expense		
Relating to Origination and (Reversal) of Temporary Differences (Note 15)	(7,151,111)	3,760,312
Total Income Tax Expense	28,175,912	75,488,225

20.1 Reconciliation of Accounting Profit to Income Tax Expense

	2021 Rs.	2020 Rs.
Profit Before Tax	517,754,047	561,130,725
Profits not liable for Tax	(364,315,720)	(278,319,389)
Aggregate Allowable Expenses	(293,663,798)	(323,831,541)
Aggregate Disallowable Expenses	87,608,479	89,127,268
Adjusted Business Income	(52,616,992)	48,107,063
Other Income	199,812,919	219,435,217
Taxable Income	147,195,926	267,542,280
Current Tax on Profit for the Year	35,327,022	72,207,777

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 was ended on 31 March 2021.

Current tax has been computed in accordance with the provisions of Inland Revenue Act No. 10 of 2006 and amendments thereto.

21. EARNINGS PER SHARE

	2021 Rs.	2020 Rs.
Amount Used as the Numerator		
Net Profit Attributable to Ordinary Shareholders	489,578,135	485,642,499
Number of Ordinary Shares Used as the Denominator		
Weighted Average Number of Ordinary Shares in Issue	15,250,000	15,250,000
Earnings Per Share	32.10	31.85

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

	2021 Rs.	2020 Rs.
Final Dividend Paid in respect of 2018/19	-	75,487,500
Final Dividend Paid in respect of 2019/20	97,142,500	-
Dividend Per Share	6.37	4.95

23. RELATED PARTY DISCLOSURES

Transactions with Related Parties	2021 Rs.	2020 Rs.
Central Bank of Sri Lanka *		
Service rendered through Cheque Imaging and Truncation System (CITS)	79,272	257,385
Service rendered through Sri Lanka Interbank Payment System (SLIPS)	379,526	365,775
Purchase of Digital Signing Certificates	385,328	-
Dividend Paid	19,026,069	14,602,500

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

Transactions with Key Management Personnel of the Company (KMP)

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

	2021 Rs.	2020 Rs.
Short Term Employment Benefits	4,760,000	5,039,000

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

24. COMMITMENTS AND CONTINGENCIES**24.1 Capital Expenditure Commitments**

The capital expenditure approved by the Board of Directors for which provision has not been made in the Financial Statements is as follows:

	2021 Rs.	2020 Rs.
Commitments in relation to Intangible Assets - Approved and Contracted for	46,499,392	-

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.

26. FINANCIAL RISK MANAGEMENT

The Company has exposure to the following Risks from its use of Financial Instruments. These are monitored by the Board Risk Management Committee and the Investment Committee on a regular basis.

i Credit Risk

Credit risk is the risk of financial losses to the Company if a recipient of a Service or Counterparty to a financial instrument fails to meet its contractual obligations.

Maximum Exposure to Credit Risk

The maximum risk exposure of financial assets which are generally subject to credit risk are equal to their carrying amounts.

Carrying Value as at 31 March	2021	2020
Investment in Fixed Deposits	2,142,321,497	2,050,931,828
Investment in REPOs	103,000,000	-
Loans and Receivables	204,847,958	159,276,429
Maximum exposure to credit risk	2,450,169,455	2,210,208,257

To minimize the credit risk fixed deposits are held with the licensed Banking and Financial institutions with higher credit ratings and investments are approved by the board appointed investment committee and REPOs held with state owned banking institution.

ii Liquidity Risk

Liquidity risk is the risk that the Company may not have sufficient liquid funds to meet its obligations when they fall due.

The Company is managing the liquidity risk by ensuring that there will always be sufficient liquidity to meet its obligations when due without incurring a loss damage to the Company.

iii Market Risk

Market risk is the risk that the changes in interest rates which will affect the Company's finance income or the value of its holding of financial instruments.

The Company manages and control the market risk exposure within acceptable parameters and minimizing the exposure while optimizing the return.

iv Foreign Exchange Risk

Foreign exchange risk refers to the losses that an international financial transaction may incur due to currency fluctuations.

The risk is reduced by minimizing the exposure where most of the maintenance contracts are negotiated in Rupees to reduce exchange risk.

v Gearing Risk

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

Operational gearing: Due to the nature of the operations, organization has a high operational gearing hence continuous efforts are made to keep the transaction volumes at a high level and structuring the tariff to cover the initial investments earliest possible.

27. COVID 19 - DISCLOSURE

Since the start of April 2020, the COVID 19 outbreak has created disruption to our operations and our key stakeholders such as staff, shareholders, customers and suppliers. We understand the difficulties this poses and have put measures in place to overcome the challenges. Depending on how the situation develops, there is a potential for any associated economic slowdown which would impact our operational activities. Cheque clearing operation and Common ATM Switch operations were adversely affected due to decrease in volumes during the lockdown period. We continue to monitor the situation closely and develop strategies to turnaround.

Health and Safety Measures

In response to the COVID 19 outbreak, our priority is to ensure the health and safety of our stakeholders. Furthermore, we have had to incur expenses that were otherwise unplanned in response to COVID 19. These related costs included, but not limited to

- ▶ Cleaning and Disinfecting
- ▶ Training and Professional development
- ▶ Regular temperature measurements
- ▶ Screening of visitors
- ▶ Unplanned Travelling reimbursement expenses
- ▶ Additional IT infrastructure facilities due to work from home arrangements

Financial Impact

Our financials were affected due to Outbreak. The volumes in Cheques and Common ATM Switch were significantly reduced due to the restrictions imposed by the government. In addition to that Cheque Return income was waived off for the first six months in line with the Circular No. 05 of 2021 issued by the Central Bank of Sri Lanka as a Concessions for Covid-19 affected businesses and individuals. Further we had to curtail the Technnovation event, the most flagship event in our Organisation.

As a result of these effects our cumulative revenue in the first six months of 2020/2021 was approximately 14% lower than 2019/2020 revenue in the same period with the major negative impact identified in April and May 2020.

However, since our product portfolio structured in a well-diversified manner, the electronic transactions gain a high growth and with increased revenue, mitigating significantly the adverse impact on Covid 19 which is a significant positive factor with respect to our current and future financial periods. We expect to implement strategies to maximize the revenue from electronic transactions for the long-term sustainability of the organization.

Year ended 31 March (Rs. Mn)	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
OPERATING RESULTS										
Revenue	390.43	427.85	463.03	517.87	601.64	800.76	918.50	1,029.06	1,097.71	1,057.15
Gross Profit	257.74	282.11	260.90	247.16	262.17	390.04	462.61	532.54	532.38	477.36
Other Income	63.30	83.13	95.30	68.04	58.60	90.69	144.47	186.02	225.81	209.16
Administrative Expenses	124.73	104.78	128.01	121.81	126.40	138.18	161.57	165.26	173.13	150.23
Finance Cost	6.39	-	-	-	-	-	-	-	-	-
Marketing Expenses	-	-	-	10.76	9.57	20.50	20.41	33.02	23.92	18.53
Profit Before Tax	189.92	260.46	228.20	182.63	184.81	322.04	425.10	520.28	561.13	517.75
Income Tax Expenses	63.61	71.55	41.41	53.15	11.06	43.55	63.67	89.81	75.49	28.18
Profit for the Year	126.31	188.91	186.79	129.48	173.74	278.49	361.43	430.47	485.64	489.58
CAPITAL EMPLOYED										
Stated Capital	154.75	154.75	158.25	158.25	158.25	158.25	158.25	165.20	165.20	165.20
Technology Upgrade Reserve	110.21	167.51	229.67	222.04	236.15	245.58	265.56	258.16	139.13	-
Capital Reserves	395.00	395.00	120.00	-	-	-	-	-	-	-
Retained Earnings	104.20	213.10	586.21	816.73	949.76	1,188.41	1,488.07	1866.70	2397.56	2,927.11
Non Current Liabilities	9.19	11.44	17.26	18.39	24.32	33.75	42.31	54.59	64.37	67.53
Total	773.36	941.79	1,111.39	1,215.40	1,368.48	1,626.00	1,954.19	2,344.65	2,766.27	3,159.84
ASSETS EMPLOYED										
Property, Plant and Equipment	91.57	206.24	175.59	224.74	268.86	241.96	249.55	248.02	288.01	461.92
Intangible Assets	15.28	10.71	117.95	235.52	293.04	327.94	332.90	359.63	332.86	343.78
Long Term Financial Investments	-	-	-	-	-	-	781.74	1092.80	531.69	385.45
Deferred Tax Asset	-	-	1.12	0.65	-	-	-	-	-	-
Net Current Assets	666.51	724.83	816.72	754.50	806.58	1,056.11	590.00	644.20	1613.70	1,968.69
Total	773.36	941.79	1,111.39	1,215.40	1,368.48	1,626.00	1,954.19	2,344.65	2,766.27	3,159.84
CASH FLOW										
Cash Flows from/(used in) Operating Activities	138.47	96.80	138.65	106.56	164.31	285.38	389.57	338.81	524.67	395.40
Cash Flows from/(used in) Investing Activities	83.47	(196.01)	(87.81)	(72.67)	(124.35)	(37.69)	(572.13)	(301.61)	(368.54)	(247.15)
Cash Flows from/(used in) Financing Activities	(94.58)	(22.73)	(23.01)	(26.60)	(26.60)	(30.40)	(41.80)	(46.25)	(75.49)	(97.14)
Net Increase/(Decrease) in Cash and Cash Equivalents	127.36	(121.93)	27.83	7.29	13.36	217.29	(224.36)	(9.05)	80.64	51.11
KEY INDICATORS										
Net Profit Margin	32%	44%	40%	25%	29%	35%	39%	42%	44%	46%
Earnings Per Share	8.35	12.47	12.32	8.52	11.43	18.32	23.78	28.28	31.85	32.10
Net Assets Per Share	50.44	61.41	72.18	78.75	88.41	104.75	125.78	150.17	177.17	202.77
Revenue Growth Rate	12%	10%	8%	12%	16%	33%	15%	12%	7%	-4%
Dividend Per Share	1.50	1.75	1.75	1.75	2.00	2.75	3.50	4.95	6.37	6.42*
Dividend Payout (Rs. millions)	22.73	26.51	26.53	26.60	30.40	41.80	53.20	75.49	97.14	97.91
Return on Equity	17%	20%	17%	11%	13%	17%	19%	19%	18%	16%

* Dividend Proposed in 2020/2021

'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 unsecured 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 facilitates 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.

This image shows a full page of blank, lined paper. It features approximately 20 horizontal blue lines spaced evenly across the page, typical of notebook paper. The lines are thin and light blue, set against a plain white background. There is no handwriting or other markings on the page.

This image shows a full page of blank, lined paper. It features approximately 20 horizontal blue lines spaced evenly across the page, typical of notebook or composition paper. The lines are thin and light blue, set against a plain white background. There is no handwriting, printed text, or other markings on the page.

This image shows a single sheet of white paper with horizontal blue ruling lines. The lines are evenly spaced and run across the width of the page. There are no margins, text, or other markings on the paper.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the 19th Annual General Meeting of LankaClear (Private) Limited will be held on 06th August 2021 at 10.00 am at 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 2021 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. 6.42 per share as recommended by the Directors.
- 4) To transact any other business of which due notice has been given.

By Order of the Board
LankaClear (Private) Limited



Managers & Secretaries (Pvt) Limited
Secretaries

Colombo,
15th June 2021

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 19th Annual General Meeting of the Company to be held on 06th August 2021 at 10.00 am at 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 August 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.

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 communicate 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

15th June 2021



LankaClear (Private) Limited

Level 18, Bank of Ceylon Head Office, BOC Square

No. 01, Bank of Ceylon Mawatha, Colombo 01

Tel: +94 11 2356900 | Fax: +94 11 2544346