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## **CONNECTED ...**

IN A MODERN AND PROGRESSIVE WORLD WHERE CONNECTIVITY IN EVERY ASPECT PLAYS A KEY ROLE, LANKACLEAR TODAY TAKES MUCH PRIDE IN SAYING THAT IT HAS BEEN SUCCESSFULLY PLAYING THE ROLE OF IMPLEMENTING PAYMENT INFRASTRUCTURE SOLUTIONS USING TECHNOLOGY, ON PAR WITH INTERNATIONAL STANDARDS, THEREBY FACILITATING THE WORLD OF ELECTRONIC PAYMENTS TO BE AT THE FINGERTIPS OF THE CITIZENS OF THE COUNTRY. CONNECTIVITY AND INTEROPERABILITY BRINGS THE FINE COMBINATION OF CONVENIENCE AND COST EFFECTIVENESS IN PAYMENT TRANSACTIONS, ALONG WITH EASE OF ACCESS AND READY AVAILABILITY OF SAME TO USERS. WE REMAIN THE BACKBONE OF SRI LANKA'S PAYMENTS INFRASTRUCTURE WHILE CONTINUOUSLY STRIVING TO BE THE FRONTRUNNER AS WELL AS FORERUNNER IN THE PAYMENTS INDUSTRY - BRINGING TO SRI LANKA THE FUTURE OF ELECTRONIC PAYMENTS, TODAY.

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Asia's most Trusted, Secure and Valued Payment Systems Infrastructure Facilitator by 2015.



To be the National Payment Systems Partner; trusted, rated and admired for the most Reliable, Secure, Value Driven and Efficient Solutions in Asia by 2015.



Financial  
Highlights

Gross Profit Margin

**65.94%**

Net Profit Margin

**44.14%**

Earnings Per Share

Rs. **12.47**

Revenue

Rs. **428**  
million

Total Assets

Rs. **997**  
million

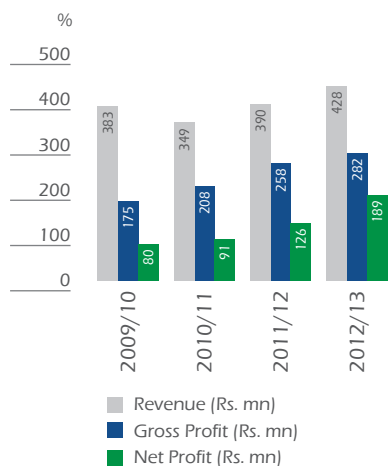
Shareholders' Funds

Rs. **930**  
million

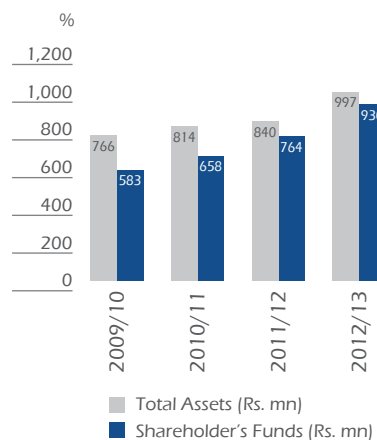
## Financial Highlights Contd.

Year ended 31st March	2009/10	2010/11	2011/12	2012/13
Revenue (Rs. mn)	383	349	390	428
Gross Profit (Rs. mn)	175	208	258	282
Net Profit (Rs. mn)	80	91	126	189
Earnings per Share (Rs)	5.30	6.02	8.34	12.47
Total Assets (Rs. mn)	766	814	840	997
Shareholder's Funds (Rs. mn)	583	658	764	930
Net Assets Value per Share (Rs.)	38.72	43.59	50.44	61.41

Profitability



Stability



## Operational Highlights

Total volume of cheques cleared:

**47.16**  
million

Total value of cheques cleared:

Rs. **6,603**  
billion

Total volume of SLIPS transactions cleared:

**14.92**  
million

Total value of SLIPS transactions cleared:

Rs. **585**  
billion

LankaSign Clearing Application Certificates in use

**108**  
numbers

LankaSign e-mail/document signing Certificates in use

**54**  
numbers

## Chairperson's Review

It gives me great pleasure to present the performance and progress of LankaClear (Private) Limited along with the Audited Financial Statements and Annual Report for the year ended 31st March 2013 to the valued shareholders of LankaClear.

In a modern economy, the payment system is a major component of the country's infrastructure facilities. Developing the payment infrastructure in line with economic growth is of utmost importance. The volume of financial transactions continues to grow rapidly, since the world is now closely connected as a global village. In addition to payments within the country, cross-border payments are also required for import, export, travel and other money and capital market transactions which involve foreign exchange. At the same time, due to technical advancements in the payments arena new innovations take place very frequently. Therefore, efficient and convenient payment methods would be an absolute necessity.

### **Financial Performance**

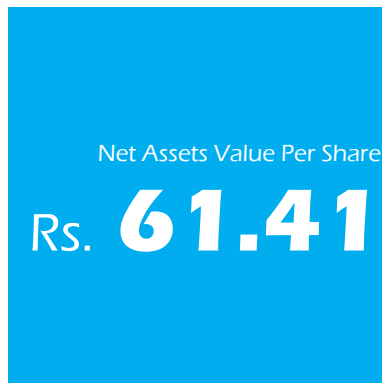
LankaClear as the national payments infrastructure provider is committed to providing accurate, secure and efficient services at cost effective prices to banks which in turn extend these facilities to the general public. LankaClear formulates its policies and activities in line with the above objectives and in keeping with international best practices.

The economic environment which prevailed in the country during the year 2012 presented opportunities as well as challenges. Despite external and internal challenges, the economy adjusted well, reflecting its resilience to absorb shocks. As a result, financial transactions handled by LankaClear showed an increase during the year under review.





The paper based payment systems currently in use are considered as inefficient and costly arrangements. Hence, efforts need to be taken to move towards electronic payment systems which are considered less costly and at the same time more efficient.



The Company continued to demonstrate commendable growth in profits and turnover during the year. Profit before tax for the year recorded Rs. 260mn and profit after tax was Rs. 189mn.

On the long term, the Company's net assets value per share has seen a healthy increase over the years from Rs. 38.72 three years ago to Rs. 61.41 per share in 2012/13, reflecting a cumulative growth rate of 16.6%.

#### **Efficiency Enhancements Made to Existing Clearing Systems**

With the continuous enhancements made to the software systems of the Cheque Imaging and Truncation

System (CITS), we were able to further reduce cheque clearing time. As such, banks are now in a position to credit proceeds to their customers' accounts more expeditiously irrespective of the locations of the Paying and Collecting Banks, thus enabling absolute T+1 clearing of cheques.

Under the said enhancements made to the software systems of Sri Lanka Interbank Payment System (SLIPS) banks can now accept requests for SLIPS transactions from their customers for an extended time.

Considering the importance of securing document transmission via electronic means, LankaClear upgraded the LankaSign Digital Certificate Service Provider System. This Certification system is used for securing electronically transmitted documents which is a timely need of the hour.

During the period under review, preparatory work was done towards building up a fully modernised new Disaster Recovery Site (DRS), using Green Concepts in order to house LankaClear's DRS.

We are proud to mention that even now we maintain a state of the art DRS suited for our mission critical operations and capable of carrying out all our operations without any deficiency or shortcoming whatsoever. All our clearing systems have been replicated at our DRS.

As a national institution, we consider good governance to be a priority. The Audit Committee, the Risk Management Committee, and the Board Human Resources Committee serve as support committees assisting the Board of Directors of LankaClear. Policies and practices have been formulated and introduced at every level to ensure accountability and transparency.

#### **Future Strategy**

In line with the plans of the Government and the Central Bank of Sri Lanka (CBSL), it is expected to expand banking and financial sector related activities/operations in the coming years. The banking sector may align its products and services in keeping with the requirements under the Five Hubs concept i.e. Knowledge,

## Chairperson's Review Contd.

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Energy, Commercial and Financial, Maritime and Aviation including Tourism. Over the years Sri Lanka's banking sector has continuously supported the domestic economic growth momentum. Expansion of banking activities would definitely increase the demand for payments infrastructure facilities. LankaClear can play a critical role in this intermediary function, facilitating clearance of financial transactions expeditiously, smoothly and efficiently.

Commercial banks are known to be innovative and have moved fast in introducing new business propositions. LankaClear which was established as a joint venture between CBSL and the commercial banks was assigned the task of improving efficiency of the retail payment process in Sri Lanka. Therefore, LankaClear also needs to move at a fast pace in order to facilitate current market requirements.

Formulating the future strategy of the Company, it needed to focus on the recent global developments in the payments arena, risks associated

with existing retail payments systems, non-banking institutions entering into the electronic money transfer process, and also domestic payment schemes.

### Global Developments

It is important to note that, in the recent past, modes of non-cash payments such as Credit Cards and Debit Cards, e-payments and m-payments continued to grow, while usage of cheques and other bills of exchange continued to decline across the globe. In Sri Lanka, even though, the volume and value of cheques cleared have increased in 2011 and 2012, transactions in electronic payment instruments have also gradually increased. The Road Map of CBSL for 2013 encourages cost effective electronic payment instruments. Paper based payment systems currently in use are considered as inefficient and costly arrangements. Hence, efforts need to be taken to move towards electronic payment systems which are considered less costly and at the same time more efficient.

### Risks and Solutions

With increased use of electronic payments IT security infrastructure becomes critical in order to prevent the risks associated with information security, unauthorised access and electronic fraud. Currently complete fraud management services are available in the market, such as digital certification of electronically exchanged documents, EMV chip cards and NFC mobile phones etc. Master card and Visa currently set the global standards for operation of Chip Cards.

### Non-Bank Payment Service Providers

Another significant development seen in many countries is increased non-bank payment service providers, promoting electronic money transfers and payments including ATM transactions, e-money transactions and e-bill payments through telecommunication services sometimes collaborating with banks. With the assistance of SWIFT, non-bank companies like Bankserve have become leading innovators in electronic payments. Even in Sri Lanka, custodian based

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mobile payment services have been introduced. Licenses have been issued to a few service providers to engage in debit card business. There is a high possibility that in the near future some of these global developments would enter the payments arena of Sri Lanka.

#### **Domestic Payment Schemes**

Although there are strong global payment networks already available there is a need for domestic payment schemes. Domestic networks are well positioned to support the needs of domestic banks and merchants. At the same time these domestic payment schemes are usually cost effective, while international card schemes tend to have higher costs. Monetary Authorities encourage their market participants to use cost effective and efficient payment schemes.

#### **Common Card and Payment Switch**

Taking into consideration all aforementioned new developments and in order to meet the market demand, LankaClear developed the Common Card and Payment Switch with the brand name of "LankaPay",

with the instructions and guidance of the Central Bank of Sri Lanka (CBSL). LankaPay is an integrated switch, consisting of ATM, POS and Mobile Payment Switches. Such an interoperable switch is the ideally suited solution for Sri Lanka given the fact that the volumes of transactions are small in the country, in different products. When considering the complexity of the national switch requirements, it was decided to implement a proven, well recognised switch used in the international market. The Monetary Board of CBSL has recognised this switch as the National Switch of Sri Lanka. The primary objective of this switch is to provide the general public with banking facilities from any ATM island-wide of any Bank which has joined the National Switch, thereby providing economies of scale.

In this National Switch several functionalities such as, security features, fraud management, back office functions, and dispute resolution are available. It has been planned to comply with Payment Card Industry Data Security Standards (PCIDSS) in the future.

During the period under review resources were diverted towards developing this switch and it was implemented without disrupting or hindering the smooth functioning of the existing payment systems and back-up arrangements.

Phase I of the project i.e. commencement of live operations of the common ATM switch took place in July 2013 and work on the other phases is in progress. We are confident that implementation of this switch will assist Sri Lanka to rise upwards in the country ranking of the Asian Regional Index on Payment Systems and also would the potential to upgrade its present standing in the Doing Business Index, since online real time payments will be available in Sri Lanka with the implementation of this switch. We are committed to developing the retail payment systems and it is the responsibility of all stakeholders of LankaClear to develop Sri Lanka's payment systems to a world class level.

With this switch we would be in a position to connect to the Regional National Switches in countries

## Chairperson's Review Contd.

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such as Singapore, Malaysia, India, Pakistan and the Middle East. Interest has already been shown by certain countries to establish connectivity with our Switch. Once the National Switch is connected to systems of other countries, inward remittances originating from those countries can also be routed through this Switch.

Ability to provide many value added products/services to the Banking community and to the general public of this country is also another advantage of this switch. Availability of a common gateway for internal card schemes for the benefit of financial institutions of Sri Lanka is very important. Such advances would pave way for Sri Lanka to become a financial hub in the future.

In order to help the expansion activities of LankaClear, steps were taken to make changes to its organisational structure and certain new appointments of senior staff were made. Deputy General Manager – IT & Operations and four Senior Managers are among such newly appointed senior officers. The

Board emphasised the importance of recruiting personnel with the required skills. A Compliance Officer will also be appointed in the near future.

### Appreciation

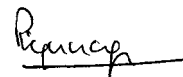
I take this opportunity on behalf of the Board of Directors of the Company to thank and extend our gratitude to CBSL especially the Governor, Mr. Ajith Nivard Cabraal, Deputy Governors, Mr. B. D. W. A. Silva and Dr. P. N. Weerasinghe who have always provided visionary leadership and guidance. Our appreciation is also extended to the Sri Lanka Banks' Association represented by its Secretary General Mr. Upali de Silva who has been a tower of strength to LankaClear.

The success behind LankaClear has undoubtedly been its staff whose unstinted commitment has propelled the Company to such success, their dynamism and commitment being the main factors behind the Company's achievements. My gratitude and appreciation is hereby extended to the staff at all levels who have amply demonstrated their capacity

for hard work. I look forward to their continued support and cooperation.

I also wish to thank my colleagues of the Board of Directors for their unstinted support and cooperation extended to me and for providing LankaClear an appropriate vision and also our stakeholders for placing their trust and confidence in the Company.

Finally, I would like to emphasise that LankaClear is committed to serving all its stakeholders whilst also giving priority to National Payment requirements.



**Priyantha Liyanage**  
Chairperson

31 July 2013  
Colombo, Sri Lanka

## GM/ CEO's Review

The financial year 2012/13 proved to be a year with many new challenges with the commencement of the implementation of the Common Card and Payment Switch (CCAPS) in April 2012. It was a year of new learning and expansion of knowledge to new domains for the LankaClear team. The completion of the LankaPay Common ATM Switch (CAS) for Banks' testing and connectivity was a major milestone achieved during the year and the many obstacles and challenges overcome to make the dream of the CAS a reality was a very self-satisfying, unique and a rewarding experience for all at LankaClear.

The top line of the Company grew by a modest 10% whilst the bottom line grew by a significant 50% on Profit After Tax basis resulting in a 49% increase in Earnings Per Share compared to the previous year recording an Earnings Per Share of Rs. 12.47. The Net Assets per Share increased to Rs. 61.41 from Rs. 50.44 last year. In spite of inflationary pressure, the Company managed to contain the increase in cost of sales to 9.8% compared to the previous year.



The Sri Lanka Interbank Payment System (SLIPS) Bank Communication Module was enhanced to give better efficiency and features to the participating banks and the new system went live in January 2013. This enhancement also resulted in the extension of SLIPS Outward Data submission times to 6.30 PM and 12.30 PM for Sessions 1 and 2 respectively. Process and Systems efficiency improvements were done in the CITS resulting in the extension of the CITS late submission Outward cut-off time until 8.00 PM and advancing of the CITS Inward Return submission time to 1.15 PM from the earlier 1.30 PM. These improvements have now facilitated the participating banks to accept cheque deposits for T + 1 clearing until 3 PM in all branches and credit the accounts of customers by 3 PM the following day. The LankaSign Certification Authority (CA) system was migrated to the new open

## GM/ CEO's Review Contd.

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source DogTag CA system in January 2013 resulting in lower operational costs in the coming years.

### **Operational Performance** **CITS**

The volume of cheques cleared remained the same compared to the previous financial year whilst the total value of cheques cleared increased by 4% to a total value of Rs. 6,603 Bn. The average cheque returns, by volume, for the year increased to 4.91% from 4% in the previous year. The cheque returns by value increased to 3.3% compared to 2.4% in the previous year.

### **Sri Lanka Interbank Payment System (SLIPS)**

The items cleared through SLIPS increased by 15.4% compared to the previous year whilst the value of SLIPS items cleared grew significantly by 29% compared to the previous year where the total value of items cleared through SLIPS was Rs. 585 Bn.

### **Dollar Clearing and Rupee Draft Clearing**

Repeating the past trend, the dollar clearing volumes slightly declined by 0.6% compared to the previous year whilst the value of the items cleared declined by 9.5% where USD 206 mn worth of Dollar Cheques/Drafts were cleared during the year. The total volume of Rupee Drafts cleared recorded a significant decline of 48.4% and the total value of Rupee Drafts cleared recorded a decline of 36.6% as per the trend experienced in the past couple of years. The value of Rupee Drafts cleared during the year was Rs. 335 mn.

### **LankaSign Certificate Service Provider**

The revenues from the LankaSign Certificate Service Provider (CSP) operated by LankaClear to issue Digital Certificates for the signing of financial transactions carried out online, recorded a very marginal revenue decline of 0.3% compared to the previous year attributable to the lower sales of Secure Crypto Tokens since most LankaSign

customers had already purchased the tokens which is a one-time purchase. However, the number of Certificates in use increased during the year and as at 31st March 2013, 108 Clearing Application Certificates and 54 e-mail/document signing certificates were in use by the Banks. CITS, SLIPS and Dollar Clearing systems use the Digital Certificates issued by LankaSign to sign the transaction files as well as reports submitted from Banks to LankaClear, and vice versa.

### **Financial Performance**

The revenue from Clearing Services grew by 9.6% whilst the interest income from Fixed Deposits, REPOs and Commercial Paper investments increased by 31.5% due to the favourable market interest rates.

The profit before tax grew by 37% whilst the profit after tax grew by an impressive 50% resulting in a 49% increase in earnings per share. The increase in the top line, increase in interest income and the reduction in administration costs by 16% contributed to the significant growth in profits.

The Company was able to maintain an impressive net profit margin of 44%, which was an improvement from the previous year's 32%. Earnings per share increased from Rs. 8.35 to Rs. 12.47 and Net Assets per Share increased from Rs. 50.44 to Rs. 61.41 compared with the previous financial year. The investments in Fixed Deposits, REPOs and Commercial Papers increased marginally by 1.1% compared to the previous year where the Company had investments of Rs. 648mn as at 31st March 2013.

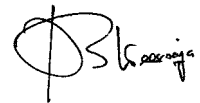
### **Future Outlook and Projects Under Implementation**

LankaClear experienced the stagnation of the growth of the paper based payment systems where there was no growth in cheque volumes compared to the previous year and dollar draft and rupee draft clearing volumes declined by 0.6% and 48.4% respectively. In contrast the SLIPS volumes increased by 15.4% indicating a shift towards

more efficient electronic payment systems. As per the market trends, LankaClear would continue to initiate projects and upgrade the current systems to improve the payment infrastructure for electronic transactions and cater to the rapidly growing market demand for efficient payments and financial transactions through electronic modes.

With the Common Card and Payment Switch (CCAPS) project implementation, the commencement of which was on 30th April 2012, with the signing of the Agreement for same with the Vendor of the system, LankaClear would be able to cater to the market needs of more efficient and cost effective electronic payment solutions. With the LankaPay Common ATM Switch, which is Phase I of the project, already off the ground, LankaClear would next start the implementation of the Common Mobile & EFT Switch, which we are quite confident would bring greater convenience

to customers bringing to them a wide range of payment solutions offered by the banks, using this infrastructure. The implementation of the Common POS Switch is expected to kick-off in early 2014. LankaClear would also be focusing on other value added ancillary services which could be offered to the Banks as a result of this electronic payment infrastructure in order to create greater efficiencies and cost savings to the participating banks.



**Sunimal B. Weerasooriya**  
*General Manager / Chief Executive Officer*

31 July 2013  
Colombo, Sri Lanka

## Board of Directors



### Mrs. P. Liyanage - Chairperson

Mrs. Liyanage has 40 years of experience in the areas of Banking and the Government sector including 31 years of experience at the Central Bank of Sri Lanka. Prior to joining the Central Bank she has served Bank of Ceylon and also was an officer attached to the Sri Lanka Administrative Services.

During her Central Bank carrier, she spent more than 25 years at senior level in the operations and international areas of the Bank where one of her primary responsibilities was the management of foreign exchange reserves of the country. She has had wide experience in the areas of Foreign Exchange Operations, Portfolio Management, Exchange Rate Management, Payments and Settlements, Asian Clearing Union Operations, Back Office Operations of both Rupee and Foreign Exchange Transactions, Public Debt, Central Bank Accounts and Central Bank Balance Sheet. She has served in a number of high level internal Committees of the Central Bank of Sri Lanka.

She held various responsible senior positions such as Accountant, Chief Dealer, Deputy Head of Department, Head of Department and at the time of her retirement she served as one of the Assistant Governors of the Bank.

She holds a B.A. degree with a second class upper division pass from the University of Kelaniya and has obtained professional qualifications from the Bankers Training Institute, Sri Lanka. She also serves as one of the Directors of RAM Rating Lanka Ltd.

### Mr. S. S. Ratnayake - Director

Assistant Governor, Central Bank of Sri Lanka

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

Mr. Ratnayake commenced his career at the Central Bank in 1983 and held the posts of Director of Supervision of Non-Bank Institutions from 2007 – 2010 and





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Superintendent & Registrar of Public Debt from 2010 – 2011. He holds a BA (Honours) degree from the University of Kelaniya, an MA from the University of Colombo and an MSc from the Wright State University, USA.

**Mrs. R. A. S. M. Dayarathna – Director**  
Director IT, Central Bank of Sri Lanka

She has been the Director, Information Technology Department of the Central Bank of Sri Lanka (CBSL) since August, 2008 and commenced her career at the CBSL in 1986 as a Staff Officer. She serves in a number of high level internal committees of the CBSL and also she serves as a Member of the Board of Directors of the Sri Lanka Computer Emergency Response Team (SLCERT).

She holds a BSc degree from the University of Colombo. She is a Certified Information Systems Auditor (CISA).

**Mr. D. M. Gunasekara – Director**  
General Manager, Bank of Ceylon

Mr. Gunasekera was appointed as the General Manager of Bank of Ceylon on 8th January 2013. He has held the position of Deputy General Manager in charge of Retail Banking and Sales and Channel Management from October 2010 to January 2013.

He joined the Bank of Ceylon in 1983 and commenced his career in Retail Banking, which enriched him with a wealth of knowledge and experience in all aspects of Credit Management and Administration. He served at Bank of Ceylon London Branch from 1997 – 2000 and during his tenure in the UK, he gained comprehensive experience in International Banking operations. He counts 29 years of experience in the Banking sector including Corporate and Off-shore Banking. As a resource person at the Bank's Training Institute, Mr. Gunasekara has readily responded to uplifting the knowledge of Bank's staff. He was a Council Member of the Association of Professional Bankers and a resource person at the Institute of Bankers' of Sri Lanka.



## Board of Directors Contd.

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He is a Non-Executive nominee Director on the Boards of BoC Travels (Private) Ltd, BoC Property Development & Management (Pvt) Ltd., BoC Management & Support Services (Pvt) Ltd., Bank of Ceylon (UK) Ltd., Ceybank Holiday Homes (Pvt) Ltd., Ceybank Assets Management (Pvt) Ltd., Hotels Colombo (1963) Ltd., Merchant Bank of Sri Lanka PLC., Institute of Bankers of Sri Lanka, Credit Information Bureau of Sri Lanka and Lanka Financial Services (Bureau) Limited.

He has successfully completed the programme on Corporate Management for Sri Lanka (LKCM2 AOTS) in Japan and Advanced Management Programme conducted by the Wharton University of Pennsylvania, USA. Mr. Gunasekara graduated from the University of Colombo, Sri Lanka with a Special Degree in Public Finance & Taxation in 1981. He is an Associate Member of the Institute of Bankers of Sri Lanka.

### Mr. M. A. B. Silva - Director

Deputy General Manager – Operations, People's Bank

Mr. Silva joined the bank in 1987 as a management trainee and counts over 25 years of service in People's Bank.

His career experience of over 25 years, covers the areas of branch business banking at the levels of Branch Manager, Regional Manager, Zonal Assistant General Manager and presently as the in charge of the branch network of People's Bank.

He served as the in charge of over 150 branches, which were categorized under 08 regions with higher volumes of business until he was chosen to steer the entire branch network of the Bank.

He holds a BA degree from the University of Peradeniya and has a professional banking qualification AIB-Sri Lanka and he is also an associate member of Institute of Bankers of Sri Lanka.

During his period at the People's Bank, he has gained extensive local and overseas training and exposure in Branch Business/Banking.



**Mr. Muhammad Azfar Alam Nomani - Director**

*Country General Manager/ Chief Executive Officer, MCB Bank Limited, Sri Lanka.*

Mr. Nomani is the Country General Manager/ Chief Executive Officer of MCB Bank Limited, Sri Lanka. He possesses more than 20 years of professional expertise in both local and foreign banking and has vast experience in Risk management, Operations, Internal Controls and Compliance functions of the Bank.

Mr. Nomani holds an MBA from Lahore University of Management Sciences (LUMS), Lahore, Pakistan.

**Mr. Faizal Salieh - Director**

*Managing Director / Chief Executive Officer, Amāna Bank Limited*

Mr. Faizal Salieh is the Managing Director/CEO of Amana Bank, Sri Lanka's first and only licensed commercial bank to operate in full compliance with Islamic banking principles. He joined Amana Investments Limited in 2004 and led the company towards obtaining the banking license and the formation and launch of Amana Bank in 2011. He also played a key role in facilitating appropriate changes to the country's regulatory and legislative framework to support Islamic banking.

He holds a Bachelor's Degree in Economics with First Class Honours, a Master's Degree in Business Administration and is a Fellow of the Institute of Certified Professional Managers in Sri Lanka. He counts well over three decades of experience in conventional and development banking both in Sri Lanka and overseas and has held top management positions in leading multinational and local banks such as Grindlays Bank, ANZ Bank and National Development Bank. He has hands-on experience in setting up and initialising Sri Lanka's first Private Sector Housing Bank, NDB Housing Bank, of which he was the CEO and Board Director until 2004.

He has wide business experience having served on the Boards of several companies in the business of banking, finance, fund management, manufacturing, trading and

## Board of Directors Contd.

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education. He has also held several positions in various Governmental Committees in the fields of finance, economic affairs, housing and construction and education as well as in NGOs. He also served on the Boards of the University of Peradeniya, the Postgraduate Institute of Management of the University of Sri Jayewardenepura and the Sri Lanka Vocational Training Authority.

He is an active member of the Main Committee of the Ceylon Chamber of Commerce, the premier Trade Chamber in Sri Lanka, The Finance and Banking Steering Committee and The Financial & Regulatory Reporting Steering Committee. In addition, he serves on the Council of the Sri Lanka Institute of Directors, the Academic Council of The Institute of Bankers of Sri Lanka and The Sri Lanka Accounting Standards Committee. He is the Chairman of the Technical Committee on Islamic Banking of the Sri Lanka Banks' Association and is a Director on the Board of Distance Learning Centre Limited.

He has made several presentations on World Islamic Banking forums and is presently on the select Panel of Advisors of the Islamic Finance News Service based in Kuala Lumpur, Malaysia.



**Mr. Jonathan Alles - Director**

*Chief Executive Officer/Managing Director, Hatton National Bank*

Mr. Jonathan Alles is the Chief Executive Officer/Managing Director of Hatton National Bank.

Mr. Alles holds an MBA from the University of Stirling, Scotland and is an Associate Member of the Institute of Bankers, Sri Lanka. He counts 25 years of banking experience having served International Banks and HSBC, Sri Lanka and also at Hatton National Bank during the period September 2002 to June 2005. Having returned to Sri Lanka from the UAE in September 2010, Mr. Alles re-joined Hatton National Bank in the capacity of the Chief Operating Officer.

He also serves as a Director of Sithma Development (Pvt) Ltd, Acuity Partners (Pvt) Ltd, Acuity Stockbrokers (Pvt) Ltd, Lanka Ventures PLC and HNB Assurance PLC.

**Mr. Upali de Silva - Observer**

*Secretary General, SLBA*

Mr. Upali de Silva presently holds the post of Secretary General, Sri Lanka Banks' Association (Guarantee) Ltd., and is a Director of HNB Assurance Ltd., Lanka Financial Services Bureau Ltd. and of Sri Lanka Cert (Pvt) Ltd. He is a retired Senior Deputy General Manager of Hatton National Bank Ltd. and has over 42 years experience in banking, including 15 years at Corporate Management Level. He is also currently a member of the National Payment Council, Financial Systems Stability Consultative Committee and the Sovereign Rating Committee of the Central Bank of Sri Lanka.

Mr. de Silva is a Fellow of the Chartered Institute of Bankers (London), a Past President of the Association of Professional Bankers and of the Colombo Centre of the Chartered Institute of Bankers (London).

# Management Team



1. Mr. Sunimal B. Weerasooriya – *General Manager/CEO*
  2. Mr. Harsha Wanigatunga – *Deputy General Manager – IT and Operations*
  3. Mr. Algi Wijewickrema – *Head of HR & Administration*
  4. Mr. Rasika Galappaththy – *Head of Finance*
  5. Mr. Roshan Hettiarachchi – *Senior Manager – Operations*
  6. Mr. Dilantha Samarasinghe – *Senior Manager – IT*
  7. Mr. Isuru Jayaweera – *Senior Manager – Help Desk and Bank Services*
  8. Mr. Hemanthe Samaliarachchi – *Senior Manager – Payment Systems*
  9. Mr. Duleep A. Fernando – *Senior Manager – Administration*
  10. Mr. Dimuth Weerasinghe – *Manager – Facilities and Maintenance*
  11. Mr. Uddika Kahawatte – *Network Operations Manager*
  12. Mr. Danushka Uyanahewage – *CITS Manager*
  13. Mr. R. Dimuthu Kumara – *Systems Operations Manager*
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## Corporate Governance

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### **The Board of Directors**

The Board of Directors at LankaClear (Pvt) Ltd. comprises eight Non-executive Directors, including the Chairperson of the Board who is appointed by the Governor of the Central Bank of Sri Lanka, in accordance with the Articles of Association of LankaClear. Two Directors represent the Central Bank of Sri Lanka, while two more represent the two state banks. Three Directors are nominated by the Sri Lanka Banks' Association, two of whom represent the private local commercial banks and the other represents the foreign banks operating in Sri Lanka. The Secretary General of the Sri Lanka Banks' Association participates as an observer and is usually invited to express his views.

Each Board member is well qualified and experienced and brings a wealth of knowledge that contribute towards the effective control and function of the Company.

The Directors are responsible for ensuring the rights and interests of shareholders and are accountable to them for the overall management of the Company.

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 wellbeing of the Company
- Appointing the Chief Executive Officer
- Determining the remuneration of management and staff
- Reporting to shareholders.

### **Board Meetings**

The Board had 13 meetings during the period under review and the attendance of each Director at Board meetings is given in the table in the facing page.

The attendance at Board HR Committee meetings, Board Audit Committee meetings and the Board Risk Committee meetings in respect of the relevant members is also included in this table.

Board Papers are circulated 4 - 5 days prior to a meeting giving adequate time for Board members to prepare for the meeting.



Name	Board Meetings			Board HR Committee			Board Audit Committee			Board Risk Committee		
	Meetings Held*	Present	%	Held*	Present	%	Held*	Present	%	Held*	Present	%
1. Ms. P. Liyanage Chairperson	13	13	100	10	10	100						
2. Ms. W. A. Nalani Director (Up to June '12)	2	1	50									
3. Ms. R. A. S. M. Dayaratne Director	13	12	92				5	4	80			
4. Mr. R. Theagarajah Director	13	8	62									
5. Mr. S. S. Ratnayake Director (From January '12)	13	11	85	10	10	100				1	1	100
6. Mr. G. G. C. Ariyaratne Director (Up to October '12)	7	5	71									
7. Mr. Saliya Rajakaruna Director (Up to August '12)	5	3	60				4	4	100			
8. Mr. M. S. A. Fernando Director (Up to August '12)	7	5	71									
9. Mr. K. Dharmasiri Director (Up to January '13)	7	5	71									
10. Mr. M. A. B. Silva Director (From October '12)	6	5	83									
11. Mr. M. A. A. Nomani Director (From August '12)	8	7	88							1	1	100
12. Mr. M. O. F. Salieh Director (From August '12)	8	7	88							1	1	100
13. Mr. D. M. Gunasekara Director (From January '13) (Alternate Director Mr. W. P. R. P. H. Fonseka)	3	2	67				1	1	100			
14. Mr. Upali de Silva Observer	13	11	85	10	10	100	5	3	60			

\*Meetings Held – Denotes meetings held during the term of office

## Corporate Governance Contd.

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### **The Board HR Committee**

The Board HR Committee consists of the Chairperson (who is also the Chairperson of this Committee) and 2 members of the Board.

The Terms of Reference of the Board HR Committee include making recommendations to the Board relating to the regulation of the organisation structure, salary increments, distribution of bonus, amendments to salary scales, changes to Company HR policies or major changes to HR procedures and the final selection of candidates for Senior Management positions.

During the period under review, Ms. W. A. Nalani ceased to be a Director and member of the Board HR Committee and was replaced by Mr. S. S. Ratnayake, Director.

The Board HR Committee held 10 meetings during the year under review and the details of matters discussed and recommendations made which included decisions on

annual increments, bonus, changes to the Organisation Structure, etc. appear in the Board HR Committee Report elsewhere in this Annual Report.

### **The Board Audit Committee**

The Board Audit Committee comprises of 3 Directors. Mr. Saliya Rajakaruna, Director who was the Chairman of the Audit Committee ceased to be a Director during the period under review and Mr. W. P. R. P. H. Fonseka, Director was appointed as the Chairman of this Committee by the Board.

The Audit Committee met on 5 occasions during the year under review and at these meetings the quarterly internal audit reports and actions taken were reviewed whilst actions to be taken were recommended by the Board Audit Committee. In addition, the Audit Committee reviewed the findings of the IT audit carried out by PricewaterhouseCoopers as well as management plans to mitigate identified IT risks.

The Board Audit Committee also reviewed the External Auditors' reports, the management responses and the status of action plans.

These actions were reported to the Board to ensure compliance.

The activities of the Board Audit Committee are reported in the Audit Committee Report appearing elsewhere in this Annual Report.

### **Risk Management**

The Business Risk, Operational Risk and Financial Risk are risks that LankaClear has taken cognizance of in considering Risk Management and action taken in managing these risks are highlighted in the Report on Risk Management included in this Annual Report.

In improving our reporting on risk management a tabular format is also used in describing the actions taken in respect of each identified risk. This tabular report appears on page 34 of this Annual Report.

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### **The Risk Committee**

The Board Risk Committee was formed during the year under reference and the following Directors of the Board serve in the Risk Committee; M/s. S. S. Ratnayake, M. A. A. Nomani and M. O. F. Salieh with Mr. S. S. Ratnayake functioning as the Chairman of the Committee.

In the past, the Company had managed risks at Management level and through the Audit Committee until the Board Risk Committee was appointed in the year under review and the Board Risk Committee commenced activities on 21st March 2013.

The Board Risk Committee is tasked with accountability to the Board to advise the Board on risk management and assist the Board to foster a culture within the Company that emphasises and demonstrates the benefits of a risk-based approach to internal control and management of the Company. The Committee's responsibility and authority spans the entire Organization.

### **Corporate Management**

The Company has set corporate goals and objectives to achieve its strategic aims and to ensure that action taken to achieve these goals and objectives are monitored, formal monthly meetings chaired by the GM/CEO have been initiated during the year under review.

These meetings provide a structured approach for the Senior Management team to discuss action taken, progress achieved and/or resolve issues.

### **Relationships with Shareholders and Disclosures**

In its desire to maintain good relationships with its Shareholders, the LankaClear Board follows a policy of disclosing all relevant information, both financial and non-financial, to Shareholders. The Financial Statements are in accordance with the Sri Lanka Accounting Standard for Small and Medium-sized Entities and the Companies Act No. 07 of 2007 and the generally accepted accounting principles.

### **Compliance Report**

The Directors, to the best of their knowledge have confirmed that all taxes and duties payable by the Company as well as contributions, levies and taxes payable on behalf of and in respect of the employees of the Company and all other statutory dues, as were due as at the Balance Sheet date, have been paid or provided for in the Accounts.

### **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.

### **Senior Management**

All members of the Senior Management team are well qualified and experienced to perform the authorities delegated through the General Manager/CEO.

## Corporate Governance Contd.

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### **Compliance with Statutory and Regulatory Requirements**

The Company is in compliance with the following Acts:

- The Payment and Settlement Act No. 28 of 2005
- Electronic Transactions Act No. 19 of 2006
- Payment Devices Frauds Act No. 30 of 2006
- Monetary Law Act (Chapter 422)
- Companies Act No. 7 of 2007
- In addition, LankaClear complies with the directions and circulars issued by the Central Bank of Sri Lanka (CBSL) from time to time

reports are discussed and required corrective action to be taken by the management is agreed at the Board Audit Committee meetings.

Further, an IT audit was carried out during the year under review and the report by the IT auditor has been submitted to the Audit Committee for their evaluation.

The Financial Audit is conducted by M/s. Ernst and Young while the Internal Audits are conducted by M/s. B. R. De Silva and Company.

### **Audits**

In addition to the annual financial audit, in our desire to ensure compliance with the relevant Acts and Circulars by the CBSL, internal audits are conducted on a quarterly basis and audit

## Operations Review

An efficient payment and settlement system is critical for a growing and dynamic economy. Secure and fast realization of payments within a stable infrastructure facilitates efficient payments and settlements. LankaClear (LCPL) contributes immensely towards this end in Sri Lanka with the guidance of the Central Bank of Sri Lanka and the collaboration of all the commercial banks.

LCPL plays a key role as the *National Financial Transactions Clearing Hub*, as it is the entity in Sri Lanka that owns and operates Cheque Clearing, Rupee Draft Clearing, US Dollar Clearing and online funds transfers via SLIPS.

### Products and Services Offered by LankaClear

1. Rupee Cheque Clearing - Cheque Imaging & Truncation System (CITS)
2. Sri Lanka Rupee Draft Clearing
3. US Dollar Clearing
4. Sri Lanka Interbank Payment System (SLIPS)
5. Digital Certificates – LankaSign

Currently, an average of approximately 197,312 cheques are cleared through LankaClear each business day through CITS. CITS has even cleared as high as 457,700 cheques on certain days during the year under review. There has been an increase of approximately 0.21% in cheque clearing volumes during the year 2012/2013 compared to the previous financial year along with a significant increase (approximately 15.44%) in electronic payments, reflected by the growth in SLIPS transactions. SLIPS has carried out more than 239,715 transactions per day at times.

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

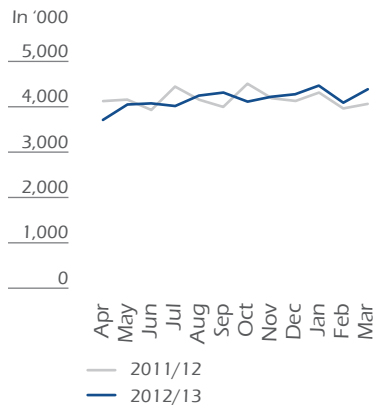
Automated cheque clearing and cheque truncation was enabled by the introduction of the Cheque Imaging & Truncation System (CITS), which utilizes digital technology to expedite the clearing and settlement processes. As a result, on depositing a cheque, the public is able to get credit for their funds on the following business day (T+1).

We take pleasure in stating that due to process and technological improvements, CITS has achieved a 99.86% System Up-Time and achieved 99.15% of the Delivery Cutoff times. We have further improved the Disaster Recovery (DR) Processes and the Business Continuity Plan (BCP). We have a fully functional DR Site and during this financial year we have conducted the clearing operations for all of the above clearing systems from the DR Site during DR Operation Drills.

The total number of cheques cleared and the total value of cheques processed through CITS during 2012/2013 as compared with 2011/2012 are depicted in the following diagrams:

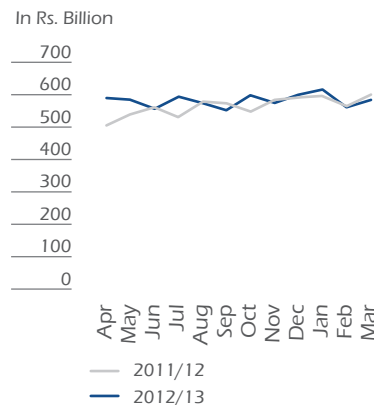
## Operations Review Contd.

### Cheques Presented for Clearing - Volume Wise



The total number of cheques cleared in 2012/2013 through CITS amounts to 47.16 million compared to 47.06 million in 2011/2012. This is an increase of 0.21%.

### Cheques Presented for Clearing - Value Wise



The total value of cheques cleared in 2012/2013 through CITS amounts to Rs. 6,603 billion compared to Rs. 6,335 billion in 2011/2012. This is an increase of 4.23%.

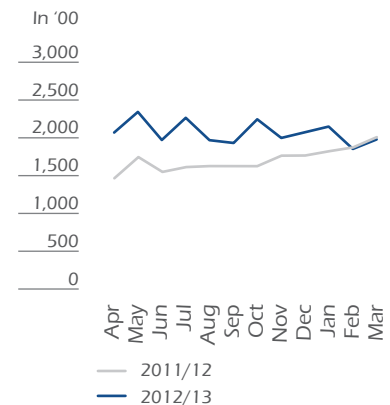
### 1.1 Settlement Clearing (Cheque Returns)

Cheques are still the most convenient and preferred non-cash payment instrument for commercial transactions in Sri Lanka. 4.91% of the cheques presented for clearing were returned unpaid

due to various reasons. Of the total cheques returned, around 46% were due to lack of funds.

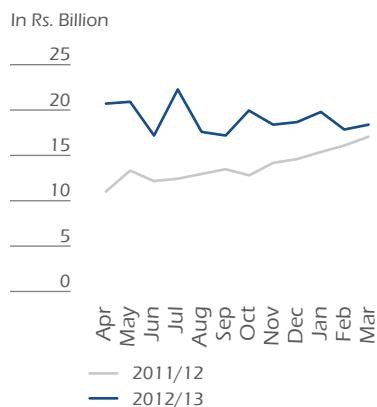
The total volume of cheques returned and the total value of cheques returned during 2012/2013 as compared with 2011/2012 are depicted in the following diagrams:

### Cheque Returned for Clearing - Volume Wise



The total number of cheque returns in 2012/2013 through CITS amounts to 2.32 million compared to 1.87 million in 2011/2012. This is an increase of 24.06%.

### Cheque Returned for Clearing - Value Wise

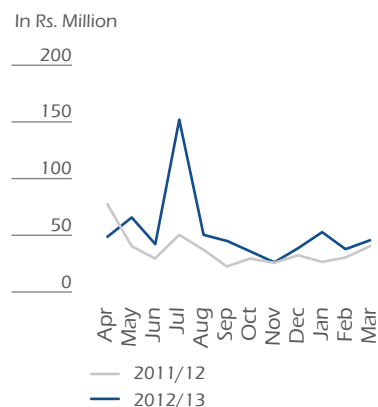


The total value of cheque returns in 2012/2013 through CITS amounts to Rs. 216.09 billion compared to Rs. 151.12 billion in 2011/2012. This is an increase of 42.99%.

### 2. Sri Lanka Rupee Draft Clearing

The value of Rupee Drafts processed during the year 2011/2012 and 2012/2013 is shown below:

### Rupee Draft clearing - Value Wise

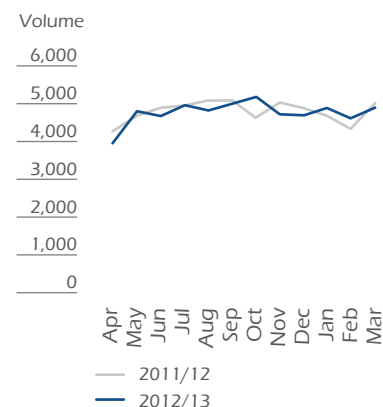


The total value of Rupee Drafts cleared in 2012/2013 through Draft Clearing amounts to Rs. 334.85 million compared to Rs. 528.06 million in 2011/2012. This is a decrease of 36.59%.

### 3. US Dollar Clearing

The total number of items cleared through US Dollar Clearing in 2012/2013 amounts to 54.3 thousand compared to 2011/2012 of 54.6 thousand. This is a decrease of 0.59%.

### US Dollar Clearing - Volume Wise

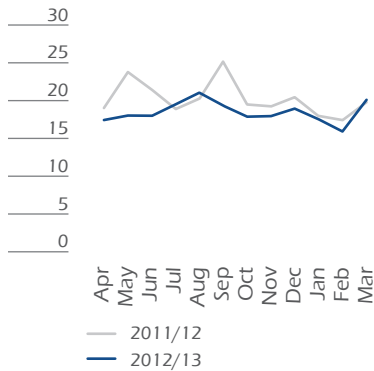


The total value of items cleared through US Dollar Clearing in 2012/2013 amounts to US\$ 206.0 million compared to 2011/2012 of US\$ 227.6 million. This is an increase of 9.48%.

## Operations Review Contd.

### US Dollar Clearing - Value Wise

In USD Million



### 4. Sri Lanka Interbank Payment System (SLIPS)

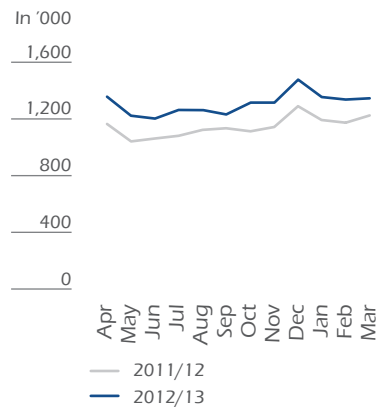
Electronic Funds Transfer (EFT) is a movement of funds from one account to another without a corresponding document to authorize or prove that the transfer has been completed. LankaClear provides an Online Electronic Data Transferring Service via SLIPS to all commercial banks. This system was enhanced in September 2010 to cater for a greater volume of transactions, and facilitates same

day clearing and provides for greater security by means of digital signing.

An average volume of 62,442 transactions pass through SLIPS during a business day and on a high volume day, the transaction volumes have exceeded 239,715.

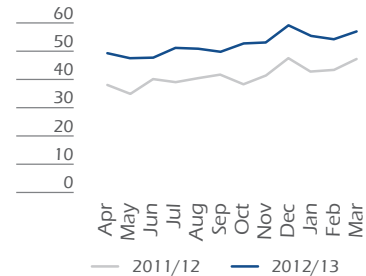
The increase in number of SLIPS transactions and its total value are depicted below:

### Sri Lanka Inter Bank Payment Systems - Volume Wise



### Sri Lanka Interbank Payment Systems - Value Wise

In Rs. Billion



The total volume of items cleared through SLIPS in 2012/2013 amounts to 14.92 million, compared to 12.93 million in 2011/2012. This is an increase of 15.44%. The total value of items cleared through SLIPS in 2012/2013 amounts to Rs. 585.35 billion compared to Rs. 453.65 billion in 2011/2012. This is an increase of 29.03%. This is a trend we expect to see increasing with more individuals and institutions moving towards electronic transactions.

**Harsha Wanigatunga**  
Deputy General Manager – IT & Operations

31 July 2013  
Colombo, Sri Lanka



## Financial Review

### Our bottom line displays strength, stability and consistency.

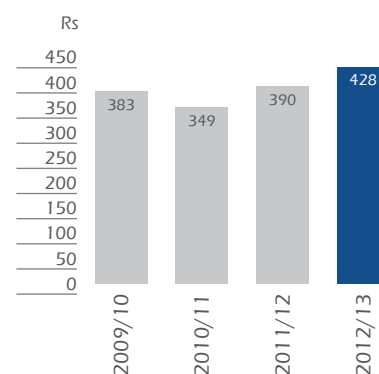
LankaClear recorded a net profit margin of 44%, highest in its history, for the financial year ended 31st March 2013 from a revenue of Rs. 428mn. The significance of this achievement is that the high profit was derived from the same cheque volumes cleared a year ago. As a payment infrastructure provider, LankaClear derives 87% of its total income from cheque clearing related activities and the number of cheques cleared during the year remained at 47mn, almost similar to that of last year. The Company managed to fund its entire operation and its expansion activities without depending on external funding facilities, which yet again is an achievement due to sound fund management policies in place within the Company. The Company's financial performance and stability is well positioned to cater to the future expansion demands of the payment industry

on its own, so that Sri Lanka can realise its vision of evolving into a financial services hub in the region.

#### Revenue

The Company's top line reached Rs. 428mn, enabled through a 9.6% growth compared to the previous year's revenue of Rs. 390mn, primarily driven by cheque return income due to the increase in annual average cheque returns percentage from 3.9% to 4.9%, while the cheque volume remained almost constant compared to the previous year. A 1% growth in cheque returns volume resulted in an incremental revenue of Rs. 31mn. The revenue on SLIPS recorded a growth of 15.4% over the previous year and made a noteworthy contribution to achieving the recorded revenue in 2012/2013.

Revenue (Rs. mn)



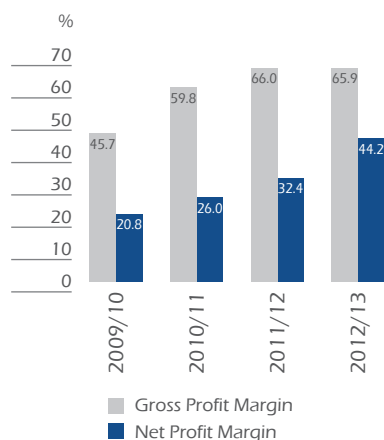
#### Profit before Tax

LankaClear's profit before tax (PBT) grew by more than 37% to record a PBT of Rs. 260mn. This is the highest ever PBT achieved by LankaClear. The Company managed to maintain the gross profit margin of 66% as recorded in the previous year. Rs. 282mn gross profit together with other income and expenses resulted in an exceptional net profit margin of 44%. Even though costs have increased, various attempts were made to keep the overheads and administration costs within acceptable limits. It is observed that operating expenses have increased by 9.8% in line with inflation

## Financial Review Contd.

rates that prevailed during the period in review. 16% reduction in administrative expenses compared to the previous year is a result of Rs. 32mn impairment and write off taken place in year 2011/12 as disclosed in the note 18 to the financial statements. Factoring out that expense, the increase in the administrative expenses is 13%. Staff related costs included in administrative expenses have increased by 20% due to new recruitment for the CCAPS project and staff retention strategies adopted by the Company.

### Profit Margin



### Interest Income

The measures implemented by the Central Bank of Sri Lanka to tighten the monetary policy resulted in an upward movement in market interest rates. The interest income generated from the short term financial investments benefited from this upward movement by recording Rs. 83mn. This is a 32% contribution to Profit before Tax. In addition, proactive measures deployed to invest surpluses enabled the treasury to efficiently manage the pool of funds and make them available for expansion operations.

### Earnings per Share

The Company reported Earnings per Share of Rs. 12.47 for the financial year under review, which was a 49% strong improvement in relation to the previous financial year's figure of Rs. 8.35 in line with the growth seen in the net profit of the Company.

### Capital Expenditure

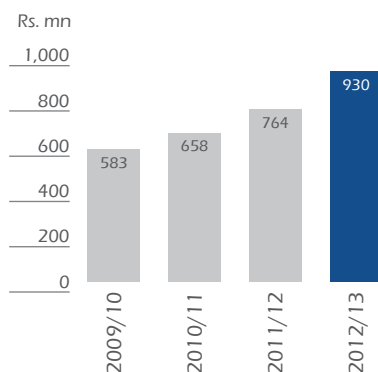
As the national payment and settlement infrastructure solutions provider, LankaClear was mandated

by Central Bank of Sri Lanka to establish a Common Card and Payment Switch in Sri Lanka to facilitate the clearing and settlement of all electronic transactions aligned with the country's vision of far reaching development in respect of expansive connectivity. In order to accomplish that mandate, investment in capital projects and initiatives were upped considerably this year while at the same time, accelerating our corporate plans to reach milestone revenue growth and profitability. The total value of capital expenditure incurred by the Company was Rs. 138mn during the year under review compared to a value of Rs. 12mn the previous year.

### Shareholders' Funds

The Company delivered a total shareholders' value of Rs. 930mn for the financial year 2012/13 compared to Rs. 764mn in the previous year which is an improvement of 21.7%. The recorded Net Assets value per share was Rs. 61.41 during the year under review.

### Shareholders' Funds



### Return on Equity

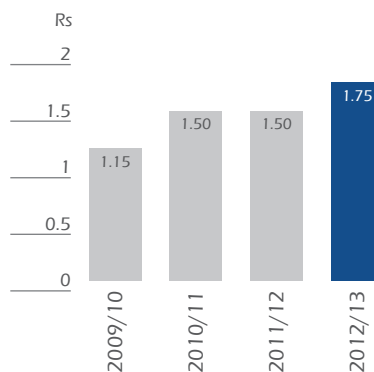
The Company recorded a Return on Equity of 20.3% for the financial year under review compared to 16.5% reported in the previous year. The significant improvement in the profitability coupled with the results of cost rationalization and efficiency improvement initiatives undertaken by the Company were the main reasons for the increase in Return on Equity.

### Dividend per Share

LankaClear has been paying dividends to its shareholders consistently and the Company will

consistently strive to strike a balance between healthy dividends and retention to support investment activities to enhance long-term shareholder value. Accordingly a dividend of Rs. 1.75 per share was declared for the year. This amount stands as the highest ever Dividend per share declared by the Company from its inception.

### Dividend Per Share



### Total Assets

The total assets of the Company have reached a value of almost Rupees one billion as at the end of the reporting date. This was an increase of 19% compared to the previous year. Investment in

property, plant and equipment and the short term financial investments were the main components of these total assets with a value of Rs. 217mn and Rs. 672mn respectively totalling to 89% of the total assets. These figures for the previous year were Rs. 107mn and Rs. 532mn respectively.

### Cash Flow

Cash generated from operating activities during the year was Rs. 123mn reflecting upon the ability of the Company to generate cash from its business operation. Net cash used in investing activities was Rs. 223mn due to high capital investment made in CCAPS project and investment in short term financial investments. As a result, there was an overall decrease of Rs. 122mn in cash and cash equivalents in 2012/13 compared to cash surplus of 127mn in 2011/12.

**R. L. Galappaththy**  
Head of Finance

31 July 2013  
Colombo, Sri Lanka



## Risk Management

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### **Risk Management**

As the national payment infrastructure provider facilitating numerous payment and settlement transactions on behalf of the Central Bank of Sri Lanka and all Commercial Banks, it is critical that LankaClear has a robust and effective risk management framework in which material risks are proactively identified, analysed, communicated, mitigated and managed across the organisation and across all functions.

LankaClear recognises risk management as an integral part of sound management practice and good corporate governance as it improves decision making and enhances outcomes and accountability. Management is committed to 'best practice' risk management practices across its business at all times striving to adhere to best standards and benchmarks where applicable.

### **Risk Management Framework**

The year 2012/2013 was a year where special focus was given in establishing better mechanisms in managing enterprise risks to an even greater extent by appointing a Board Risk Committee comprising of three Directors of LankaClear's Board on the recommendation of the Board Audit committee of LankaClear. This was a major stepping stone in achieving greater excellence in managing risk at the Board appointed subcommittee level going beyond the Management and the Audit Committee initiatives. The Company is on the verge of formalising a risk management framework.

### **Weathering the storm**

Among various types of risk that LankaClear is exposed to, and based on our current state of affairs, the following types of risks are specifically identified due to the significant impact such risks could have on the organisation.

Business Risk		
Strategic Risk	Impact	Risk Management Strategies
Failure of timely implementation of strategic plans and addressing the market needs on payment systems infrastructure	Loss of credibility in the market and impact on the efficiency levels of national payment systems	<ul style="list-style-type: none"> <li>● 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.</li> <li>● All senior managers attend regular workshops, seminars and professional training programmes in order to update their skills and knowledge and also to keep abreast of international trends and developments in the industry.</li> <li>● Aligning strategies with the road map of the National Payments Council (NPC) convened by the Central Bank.</li> </ul>
	Possible reduction in revenues from existing payment systems due to shifts towards more efficient payment systems	<ul style="list-style-type: none"> <li>● Continuously keeping abreast of technological developments in the payments industry globally.</li> <li>● Continuous monitoring of the customer demand for efficient payment systems in the local market.</li> <li>● Investments made in upgrading the electronic payment systems infrastructure to meet the growing demand for electronic payment. The proposed Common Card and Payment System (CCAPS) will create the national infrastructure covering most of the electronic payment systems such as ATM transactions, Card Payments, Mobile Payments and Electronic Fund Transfers.</li> </ul>

## Risk Management Contd.

	Continuous Increase in operational costs due to increase in prices relating to maintenance of technology, systems and equipment	<ul style="list-style-type: none"> <li>● LankaClear Management has been wary of rising costs and conscientious and stringent steps have been taken in managing cost under various cost management programmes.</li> <li>● Procedures are in place to reduce sourcing costs through structured and extensive negotiations by procurement committees and formal procurement processes by the Procurement Division.</li> <li>● The IT Division significantly emphasises on green technology in technology upgrades and new procurements to reduce the impact on the environment and on operational costs respectively.</li> </ul>
<b>Socio-economic, Political and Environmental Risk</b>	<b>Impact</b>	<b>Risk Management Strategies</b>
Business impact due to risks relating to the Political-Economic climate	Impact on revenues due to lower growth rates and increase in costs due to inflationary effects and exchange rate fluctuations	<ul style="list-style-type: none"> <li>● Regular reviews undertaken on the socio-economic climate impact on the payment industry of the country and making necessary alignments.</li> <li>● Facilitating the government objectives by introducing new payment systems and improving existing systems to create higher efficiency thereby contributing to higher economic growth.</li> </ul>
Risks from natural or man-made disasters	Loss of assets resulting in financial losses and loss of image and financial losses due to prolonged non availability of payment systems operated by the Company.	<ul style="list-style-type: none"> <li>● Financial losses due to loss of physical assets are covered by the Company's comprehensive insurance arrangements with leading insurance companies.</li> <li>● 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</li> </ul>

Competitive Risk		
Competitive Risk	Impact	Risk Management Strategies
Risks from competitive actions from existing market participants and new entrants.	Reduced volumes of transactions through existing payment systems and reduced viability of new payment systems	<ul style="list-style-type: none"> <li>● Some of the national payment systems operated by the Company are protected from competitive risks due to the monopolistic status enjoyed. However, the Company takes every possible action to ensure that a superior service is offered to customers in order to protect the monopolistic status.</li> <li>● 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.</li> <li>● The strategy of offering world class quality at the lowest possible cost to the customer and the primary objective of sustainable growth against high profits has mitigated the competitive pressure.</li> </ul>
Operational Risk		
Violation or Inadequate Process Risk	Impact	Risk Management Strategies
Inadequate or break down of Internal controls, processes and procedures.	Loss of reputation, business integrity and stakeholder trust, financial losses, and negative effects on National Payment Systems.	<ul style="list-style-type: none"> <li>● LankaClear has formalised adherence to Operational Manuals for all Clearing Systems, Desk Instruction Manuals and Dual-Control mechanisms. We ensure that participating Banks and our staff strictly adhere to these processes and guidelines by means of Interdepartmental Peer Audits, Corporate Internal and IT Audits, continuous process improvements and training.</li> <li>● Continuous improvements to these Operational Manuals and Desk Instruction Manuals.</li> <li>● Central Bank's monitoring of activities through the involvement of two Directors of the Company appointed by the Central Bank.</li> </ul>

## Risk Management Contd.

Violation or Inadequate Process Risk	Impact	Risk Management Strategies
Information Technology and Security	Loss of key confidential information resulting in damage to reputation and possibility of being subject to litigation.	<ul style="list-style-type: none"> <li>● LankaClear has a well-defined Information Security Policy, which is closely aligned with ISO 27001 standards in order to mitigate risks associated with violation of information security. The strict adherences to these IT Security Policies are ensured by daily monitoring of IT systems, IT housekeeping and through IT audits. During the last year, the IT infrastructure was re-examined with a comprehensive IT audit carried out independently by a reputed IT auditor followed by immediate action taken wherever any deficiencies/shortcomings were identified meeting industry standards. Further, every aspect relating to procedural controls is currently audited via the internal audit function enabling further and continuous identification of any deficiencies/shortcomings.</li> <li>● A memorandum of preserving confidentiality of Information at LankaClear was signed by all employees committing them to securing of confidentiality of company information.</li> <li>● Entering into maintenance agreements in IT related areas to ensure continuity.</li> </ul>
Inability to operate from the Primary Data Centre due to natural disaster or technical failure or unanticipated/unforeseen occurrence/development.	The National Payment Systems operated by the Company (e.g. CITS, SLIPS, SL Rupee Draft Clearing, USD Draft Clearing) will be affected and hence could have an impact on the Sri Lankan business community, state sector, other sectors and the general public.	<ul style="list-style-type: none"> <li>● At the DRS, all Clearing Systems are replicated in order to mitigate the risks associated with natural disasters and/or inability to operate from the Primary Site in Colombo.</li> <li>● This is above and beyond having a Near-Site system for all Clearing Systems operated by LankaClear, which is activated if the Primary System fails.</li> <li>● LankaClear has a formalised BCP and several DR drills have been conducted annually in accordance with the BCP to ensure LankaClear's capability to effectively and expeditiously rebound from a disaster or setback. The CIT System having an uptime of 99.9% for the year under review is testimony to the effectiveness of the Near-Site IT systems and the fully functional DR site.</li> </ul>



Employee Risk	Impact	Risk Management Strategies
<p>Risk from inability to attract the right staff, develop existing staff and retain skilled and experienced staff.</p>	<p>Reduced productivity. Reduced quality of service.</p>	<ul style="list-style-type: none"> <li>● In order to minimise people related risks, the Company has well defined Human Resource (HR) policies, practices and procedures - spanning hiring, general conduct and a performance based management system that is linked to a strong HR development programme. This would ensure that our employees possess the right skills and are given correct guidance to minimise and avoid operational risks associated with the National Clearing Systems.</li> <li>● Human Resource processors currently in place facilitate the recruitment of the right staff, manage performance &amp; rewards, plan and implement training &amp; development programmes and handle succession planning &amp; career progression of employees.</li> <li>● Additional tools such as staff satisfaction surveys, salary surveys have been also used.</li> <li>● The Board HR Committee is involved in taking major decisions in HR Management and also participates in the selection process of Senior Managerial staff reporting directly to the General Manager/CEO.</li> </ul>

## Risk Management Contd.

Legal Risk	Impact	Risk Management Strategies
<p>Risk of legal action due to non performance of legal and statutory requirements and poorly drafted legal agreements</p>	<p>Inability to enforce terms against vendors, contractors, service providers etc., due to their obligations, the Company's rights and other protective provisions benefitting the Company, indemnities for the Company, etc. not being adequately and/or accurately addressed.</p> <p>Higher default rate by parties to contracts with the Company.</p> <p>Inability to impose or enforce penalties against parties to contracts with the Company in events of default.</p> <p>High cost of legal and penalty fees resulting in reduction in profits.</p>	<ul style="list-style-type: none"> <li>● A comprehensive internal control system is in place supplemented by regular audit from the corporate internal audit</li> <li>● The Company has with effect from June, 2013, recruited a dedicated Manager specialised in managing/drafting legal agreements to inter alia monitor/draft legal agreements and related obligations and to advise the Company as to its rights and liabilities under contracts and other transactions, analyze 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.</li> <li>● Ensuring of all statutory and legal obligations are met in all transactions</li> <li>● Obtaining competent external consultancy services in fulfilling legal obligations where necessary.</li> </ul>

Legal Risk	Impact	Risk Management Strategies
	Adverse impact to the organisation's credibility, reputation and brand image.	
Financial Risk		
Credit Risk	Impact	Risk Management Strategies
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.	<p>Loss of principal amount invested</p> <p>Loss of interest/return on investment</p>	<ul style="list-style-type: none"> <li>• Cash surpluses are invested with commercial banks and subsidiaries of banks identifying the most profitable investment opportunities.</li> <li>• 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.</li> <li>• Following the investment policy to regulate the investment of surplus funds until they are utilised.</li> </ul>
Gearing Risk	Impact	Risk Management Strategies
Risks from high financial gearing	The possibility of excessive losses is greatly enhanced in highly geared positions	<ul style="list-style-type: none"> <li>• The Company is debt free and has generated cash surpluses enabling the funding of all its proposed investments from internally generated funds.</li> </ul>
Interest Rate Risk	Impact	Risk Management Strategies
Interest rate risk is the risk that arises from fluctuating interest rates	The possibility of lower returns on investments due to interest rates' downward movements.	<ul style="list-style-type: none"> <li>• In mitigating such risks the interest rate movements are closely monitored and the investment tenure is decided accordingly.</li> </ul>

## Risk Management Contd.

Liquidity Risk	Impact	Risk Management Strategies
<p>Liquidity risk is the risk of not having sufficient resources to meet financial obligations in time of need in full at a reasonable cost</p>	<p>Penalty charges and unfavourable terms when obtaining future loans or loan facilities.</p>	<ul style="list-style-type: none"> <li>● Regular cash flow forecasts, monitoring of disbursements and collections are used as tools by LankaClear to mitigate the liquidity risk</li> <li>● The Company keeps an adequate amount of resources in short term financial instruments to purchase consumables and pay short term liabilities.</li> <li>● Credit terms provided by vendors are utilised in full to manage cash outflows of the Company. Further, emphasis for bringing down the debtors' collection period was carried out by agreeing with customers to settle payments with convenient payment mechanisms such as SLIPS transfers.</li> </ul>
Foreign Exchange Rate Risk	Impact	Risk Management Strategies
<p>Foreign exchange rate risk is the risk that arises from fluctuating foreign exchange rates</p>	<p>The possibility of the need to incur higher costs related foreign currency payments</p>	<ul style="list-style-type: none"> <li>● Foreign exchange risk is not a major concern to us except for circumstances where high valued software and hardware purchases, consultancy assignments or maintenance services are sourced from international parties where the payment is made in foreign currency. LankaClear has limited avenues to mitigate foreign exchange related risks and leaves us no option but to apply the conversion rate prevailing at the time to pay for such crucial services</li> </ul>

## Our HR As Brand Ambassadors

You'd wonder what Branding or Brand Ambassadors have to do with HR. Read on and you will see what LankaClear has done about mixing HR and Branding.

### **A Challenging Year**

Since the launch of the Cheque Imaging and Truncation System (CITS) in 2006, the launch of the Common Card and Payment Switch (CCAPS) planned for 2012/13 was to be the most significant task undertaken by LankaClear.

No doubt then the HR Department had to gear its actions around this to ensure not only that the right talent was recruited but also ensure that the staff in employment is motivated to ensure the success of CCAPS not to mention the ongoing operations i.e. CITS, SLIPS, etc.

The CCAPS being a new venture, even the pre recruitment requirements such as creating job profiles could not be easily done to ensure that recruitment could be completed on time. This proved a major challenge but thanks to the

cooperation and cordial relations that exist among Departments in LankaClear, overcoming such challenges was not difficult. It must also be mentioned that the HR Department staff naturally had to put in a lot of work and use their ingenuity to ensure that recruitment was done on time to ensure that the targets were achieved.

While external recruitment was progressing, as per the Company HR policy internal staff who had the necessary qualifications were also encouraged to apply for the positions available.

We record with satisfaction that almost 1/3 of the vacancies were filled through promotions awarded to internal applicants.

Even in the external recruitment of required staff, for CCAPS and other HR requirements, the HR Department takes pleasure in recording that opportunities were given to some of the ex LankaClear staff who had been released earlier at the time we closed our

Regional Centres in 2010. HR Department takes justifiable pride that as many as 10 ex-employees chose LankaClear as their preferred employer and rejoined the Company.

### **Training & Development**

Training and development continued to play the significant role it normally does play at LankaClear in ensuring that our staff are up to date in their knowledge and skills to play their roles, particularly in an year when LankaClear has to deliver a key result for the benefit of the nation.

Over 90% of our staff was given relevant training and the Company's investment in this regard was over Rs. 7mn including overseas training in some cases which cost the Company over Rs. 4mn.

The post training evaluation process currently in place includes knowledge sharing by employees who undergo training and/or commitments given by them to implement action based on

## Our HR As Brand Ambassadors Contd.

knowledge gained. With a view to improving efficiency in this area, during the year under review, the Company invested in procuring additional modules of the HRIS (Human Resource Information



System) currently in use, including the Training & Development module.

### Leisure

As much as efficient delivery of results is stressed, LankaClear did not forget that relaxation is also a necessity for employees to recharge their batteries.

One such event in this cause is the annual outing and this year's outing was to Hambantota and a visit to the Yala wildlife sanctuary was the highlight of the outing.

Recognising the need for the involvement of the family in



supporting our employees, an year-end get together was held where husbands, wives and children of staff met in an informal atmosphere to forge new friendships or renew old ones.

### Welfare Association in Action

The Welfare Association supported in organising the leisure activities and in addition took the lead in organising a day for cricket and some fun activities. A quiz programme was also thrown in for the families to take part and needless to say it was a fun filled day for all who made it to the MIT grounds for the occasion. The Welfare Association which was formed only 2 year ago was keenly involved in assisting in the organising of all these events



that were for the enjoyment and entertainment of our staff.

### **Brand Ambassadors**

When Marketing launched the new logo last year to coincide with the 10th anniversary of LankaClear, instead of popular personalities as brand ambassadors we chose to have our employees as Brand Ambassadors. Every time they wear the Company T shirt or carry an article bearing the Company logo,

they do so with pride and loyalty as the Company's Brand Ambassadors.

So let me end the report with a toast to our Human Resource – our Brand Ambassadors.

**A. J. F. Wijewickrema**  
*Head of HR & Administration*

31 July 2013  
Colombo, Sri Lanka

## An Overview to the Common Card and Payment Switch (CCAPS)

The Common Card and Payment Switch (CCAPS) has been designated by the Monetary Board of the Central Bank of Sri Lanka (CBSL) as the National Payment Switch, which will facilitate real-time communication and processing of payment orders and other messages, effecting, ordering, enabling, authorizing and facilitating money transactions, money withdrawals and monetary value transfers between LankaPay Common ATM Switch (CAS) Members. LankaClear (Pvt.) Ltd. has been appointed by CBSL to set up, administer and operate CCAPS, which is a network of interoperable switches (i.e. Common ATM Switch, Common POS Switch, Common EFT Switch, Common Mobile Switch and Shared Services Switch) collectively incorporating a common brand name as "LankaPay".

Some of the key benefits of this centralized national infrastructure are that there is one integrated electronic payment system that has:

- i. Secure real-time payments
- ii. Unified System Rules and Procedures
- iii. Standardized Security
- iv. Greater efficiency in payment scheme integration
- v. Faster introduction of new Payment Schemes and Systems
- vi. Greater inclusion of all demographics
- vii. Ubiquity
- viii. Greater cost benefits

The CAS which is Phase I of CCAPS is referred to as "LankaPay - CAS". It links all ATM switches of the LankaPay - CAS Members to facilitate domestic transactions originated from any ATM of a LankaPay - CAS Member in a unified infrastructure to ensure seamless interoperability across the LankaPay - CAS. The main function of the LankaPay - CAS is switching and clearing of Not-on-Us payment card based domestic ATM transactions between the Acquirers and the Issuers. The settlement between the CAS Members will be via the Real Time Gross Settlement System (RTGS) operated by CBSL. Here a

customer of any LankaPay - CAS Member Bank can use any ATM of any other LankaPay - CAS Member in order to withdraw cash or do a balance inquiry at a minimal cost.

The Common EFT Switch (CEFTS) and the Common Mobile Switch (CMobS) will be implemented during Phase II of CCAPS. Both switches will facilitate real-time transactions, but will differ primarily based on how the transactions were initiated. Further, batch mode transactions will be allowed in the CEFTS. CEFTS and CMobS which could facilitate the merger of retail EFT systems to a single platform, providing a significant economy of scale and will have the ability to introduce new payment products (e.g. eShares, eDebit, etc.) based on market demand. CEFTS will be an ideal environment to integrate with the Online-Banking for real-time fund transfers and utility bill payments. Given the fact that a mobile phone is an instrument that anyone carries nowadays, EFT on Mobile and other new channels could provide payment services to



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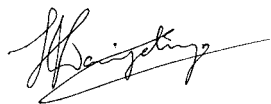
a larger part of the population that does not have access to card and online payment services.

Phase III of CCAPS will see the implementation of The Common POS Switch (CPS), which will facilitate the routing of POS transactions when the Issuing and Acquiring banks are local, but not the same. Together with the CPS, LankaClear plans on launching the National Card Scheme, which will facilitate secure and cost effective issuance and acquiring of cards and thus all demographics of Sri Lanka can enjoy the convenience and cost effectiveness of card payments.

With sufficient market demand we could host ATM switches for banks under the Shared Services Switch hosted on CCAPS or be a gateway for other international payment networks or facilitate other forms of payment systems in keeping with the market demand.

CCAPS will bring in greater convenience, security and cost efficiency to retail payments in Sri

Lanka and banks can innovate new payment products to cater to their customers using CCAPS. The full implementation of CCAPS will be a “game changer” that will benefit all banks/ financial institutions operating in the country and the customer of all demographics.



**Harsha Wanigatunga**  
*Deputy General Manager – IT & Operations*

31 July 2013  
Colombo, Sri Lanka

## Board Committees

### The Board HR Committee

The Board HR Committee was established by the Board and functions under Terms of Reference issued by the Board of Directors.

The Committee consists of 3 Board members, namely Mr. S. S. Ratnayake, Mr. Upali de Silva and the writer. Ms. W. A. Nalani ceased to be a member of this Committee during the period under review.

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

- Organisational Structure and Manpower planning
- Reviewing recruitment policies
- Compensation and benefits
- Training and development policies and processes

As Chairperson of the Board HR Committee I am happy to place on record the active involvement of the Committee in the decision making process of all important matters of HR Management at LankaClear.

10 meetings were held during the period under review and it is noteworthy to mention that all members of the Committee participated at all 10 meetings.

The Committee recommendations were received in relation to the right levels of staff remuneration, payment of annual bonus, granting annual increments based on individual performance, promotions and appointments awarded to employees, etc. In addition, the Board HR Committee gave their valuable inputs with regard to the adjustments that had to be undertaken in respect of the revision of the organisation structure due to the addition of the CCAPS function.

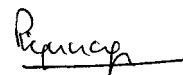
With the assistance of the Board HR Committee the performance evaluation process was improved encouraging better performance by employees.

The advice given by members of the Committee and their suggestions and recommendations were valuable in all these areas and was extremely helpful in

obtaining Board approval and in the final implementation. This was particularly relevant and invaluable when the organisation structure of the Company was subject to major changes to accommodate CCAPS needs.

As the Chairperson of the Committee I am happy to confirm that the Committee fulfilled its role as a Board sub-committee with great care and diligence and wish to thank the other members of this Committee, namely M/s. S. S. Ratnayake and Upali de Silva.

In conclusion I also thank Mr. Sunimal Weerasooriya, General Manager/CEO of LankaClear and Mr. Algi Wijewickrema, Head of HR & Administration, who is also the Secretary of the Board HR Committee, for the roles played by them.



**Priyantha Liyanage**  
*Chairperson – Board HR Committee*

31 July 2013  
Colombo, Sri Lanka

### **The Board Audit Committee Composition of the Board Audit Committee**

LankaClear Board Audit Committee comprised of two Non-Executive Directors and the Representative from Sri Lanka Banks' Association to the LankaClear (Pvt) Ltd (LCPL) Board. Mr. Russel Fonseka, Deputy General Manager (Retail Banking), Bank of Ceylon, a Fellow of the Institute of Chartered Accountants of Sri Lanka was appointed as the Chairman of the Audit Committee. Mr. Saliya Rajakaruna, former Director/CEO of Nations Trust Bank PLC, Chaired the Audit Committee during the first two quarters of the year.

### **The members of the Audit Committee as at 31st March 2013 were:**

Mr. W. P. R. P. H. Fonseka (Chairman), Deputy General Manager (Retail Banking), Bank of Ceylon  
Mrs. R. A. S. M. Dayaratne, Director, Information Technology, Central Bank of Sri Lanka  
Mr. M. U. De Silva, Secretary General, Sri Lanka Banks' Association

DGM Operations & IT, Head of HR & Administration, Head of Finance, Senior Manager IT, Senior Manager Operations, Manager Facilities & Maintenance, Senior Manager Helpdesk & Bank Services and Network Operations Manager from LCPL together with representatives of the Internal Auditors were present by invitation at the meetings held. Chairperson, General Manager/CEO and IT Auditors attended a Special Audit Committee Meeting held to discuss IT Audit observations. The Head of Finance at LCPL functioned as the Secretary of the Committee.

### **Meetings**

The Committee held 05 meetings during the year under review. The attendance of the members at these meetings is shown in the Annual Report under Corporate Governance. Out of the 05 meetings 3 meetings were held with full quorum in attendance. The proceedings of the Audit Committee are reported regularly to the Board of Directors.

### **Terms of Reference**

The functioning of the Committee is regulated by the scope of the Audit Charter, the Board approved Terms of Reference incorporating the provisions of the many regulatory bodies, standards and Acts. The following areas come under the purview of the Audit Committee:

### **Compliance:**

- a) Review the effectiveness of the Company's systems for monitoring compliance with any applicable laws and regulation of the country and the results of management's investigations and follow-up of any instances of non-compliance.
- b) Review the findings of any examination by regulatory agencies and/or any auditor on compliance with such laws and regulations.

## Board Committees Contd.

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### External Audit:

- a) Review the External Auditor's proposed Audit Scope and Plan including coordination of audit effort with Internal Audit and its audit quality control/assurance processes.
- b) Review the performance of External Auditors and make recommendations to the Board of Directors on their appointment, reappointment, discharge or rotation if necessary.
- c) Review with Management and External Auditors the results of the audit, including any difficulties encountered.
- d) Review the External Audit Report on the financial statements and any supplementary report (e.g Management Letter) outlining the findings, observations and recommendations and management responses and the status of any corrective action plans.

- e) As part of the routine Committee meeting agenda, meet separately with the External Auditors to discuss any matters that the Committee or Auditors believe should be discussed privately.

### Internal Audit

- a) Review with Management and the Internal Auditor, the charter, plans, activities, scope, report requirements, etc. of the internal audit function of the company and approve same.
- b) Review findings and recommendations by the Internal Auditors, together with comments made by Management and assess the effectiveness of such findings and responses.

### IT Audit

To review the findings of IT Audit carried out by the Messrs PricewaterhouseCoopers & monitoring the implementation of the recommendations to manage the risks highlighted in their reports.

### Summary of Activities

During the year under review the Committee discharged its duties as follows:

#### External Audit

Board Audit Committee reviewed the External Auditors' report on the financial statements and supplementary reports outlining the findings, observations, recommendations, management responses and the status of any action plans.

#### Internal Audits

- a) Mandated the Internal Auditors at regular intervals to review effectiveness of the internal control procedures, accounting systems and operations procedures of the organisation.
- b) Reviewed the Internal Audit programmes to ensure that implementation of internal control is monitored and their adequacy is assessed on a continuous basis.

- 
- c) Reviewed the Internal Audit reports and monitored the implementation of recommendations made therein.

Internal Audit functions were carried out by Messrs. B R De Silva & Company.


#### **IT Audit**

Board Audit Committee reviewed the IT Audit Report submitted by PricewaterhouseCoopers as well as management response plan in mitigating the observed risks and provided recommendations. Further at subsequent meetings Board Audit Committee followed up the progress of the response plan.

#### **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 provide reasonable assurance that the affairs of the organisation are managed in accordance with policies of the organisation and that the organisation's assets are properly accounted for and adequately safeguarded.



**W. P. R. P. H. Fonseka**  
*Chairman*

Board Audit Committee  
Colombo, Sri Lanka  
16 July 2013

Steward &  
Controller

Business  
Partner

Trusted  
Reporter

Technical  
Expert

# **FINANCIAL INFORMATION**

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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 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 Standard for Small and Medium-sized Entities as laid down by the Institute of Chartered Accountants of Sri Lanka.

The Directors endeavour to ensure that the Company maintains sufficient records to be able to disclose with reasonable accuracy, the financial position of the Company and to be able to ensure that the Financial Statements of the Company meet with the requirements of the Companies Act and Sri Lanka Accounting Standard 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 58 of the Annual Report.

By Order of the Board  
LankaClear (Private) Limited



Managers & Secretaries (Pvt) Limited  
Secretaries

Colombo  
31 July 2013



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

The Directors are pleased to submit their report together with the Auditors' Report and Financial Statements for the year ended 31st March 2013, to be presented at the 11th Annual General Meeting of the Company.

## **Review of the Year**

The Chairperson's review on page 6 describes the Company's affairs and mentions significant events that occurred during the year under review, and up to the date of this Report. The Financial Highlight on page 3 elaborates the financial results of the Company. These reports together with the audited financial statements reflect the state of the affairs of the Company.

## **Principal Activities**

The Principal activities of the Company were providing cheque clearing facilities to commercial banks on behalf of the Central Bank of Sri Lanka and facilitating interbank electronic fund transfers through SLIPS.

## **Financial Statements**

The financial statements prepared in compliance with the requirements of Section 151 of the Companies Act No. 7 of 2007, are given on page 60-84 in this Annual Report.

## **Independent Auditors' Report**

The Auditors' Report on the financial statements is given on page 58 in this report.

## **Accounting Policies**

The Accounting Policies adopted in the preparation of the financial statements are given on page 66-71. There were no changes in Accounting Policies adopted by the Company during the year under review.

## **Fixed Assets**

Details of fixed assets are given in Note 3 to the accounts.

## **Directors' Responsibilities**

The Statement of the Directors' Responsibilities is given on page 54 of this Report.

## **Corporate Governance**

The Company has complied with the corporate governance rules published by the Institute of Chartered Accountants of Sri Lanka and details appear in the Corporate Governance Report on pages 22-26.

## **Reserves**

The Reserves and Retained Earnings as at 31st March 2013 amount to Rs. 775,603,559 vs Rs. 609,416,491 as at 31st March 2012. The breakup and the movement are shown in the Statement of Changes in Equity in the financial statements.

## **Stated Capital**

In terms of the Companies Act No. 7 of 2007, the stated capital of the Company was Rs. 154,750,000/- as at 31st March 2013. The details are given in Note 10 to the financial statements on page 76.

## **Post Balance Sheet Events**

Post balance sheet events of the Company are given in Note 24 to the financial statements on page 84.

## Annual Report of the Board of Directors on the Affairs of the Company Contd.

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### Interests Register

Details of the transactions with Director-related entities are disclosed in Note 22 to the financial statements on page 83 , and have been declared at the Board meeting, pursuant to Section 192 (2) of the Companies Act No. 7 of 2007.

### BOARD COMMITTEES

#### Board Audit Committee

Following are the names of the Directors comprising the Audit Committee of the Board.

1. Mr. W. P. R. P. H. Fonseka - Chairman
2. Mrs. R. A. S. M. Dayaratne
3. Mr. M. U. de Silva

Mr. S. G. Rajakaruna who was the Chairman of the Board Audit Committee ceased to be a director in August 2012 and consequently ceased to be the Chairman of the Board Audit Committee from August 2012.

### Board HR Committee

Following are the names of the Directors comprising the Board HR Committee.

1. Mrs. P. Liyanage - Chairperson
2. Mr. S. S. Ratnayake
3. Mr. M. U. de Silva

Ms.W. A. Nalani who was a member of the Board HR Committee ceased to be a director in June 2012 and consequently ceased to be a member of the Board HR Committee from June 2012.

### Board Risk Committee

Following are the names of the Directors comprising the Board Risk Committee

1. Mr. S. S. Ratnayake - Chairman
2. Mr. M. O. F. Salieh
3. Mr. M. A. A. Nomani

### Directors

The Board of Directors of LankaClear (Private) Limited as at 31st March 2013 were:

Mrs. Priyantha Liyanage – Chairperson

Mr. S. S. Ratnayake  
Mr. D. M. Gunasekara  
Mr. M. A. B. Silva  
Mrs. R. A. S. M. Dayarathna  
Mr. R. Theagarajah  
Mr. M. A. A. Nomani  
Mr. M. O. F. Salieh

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

- Ms. W. A. Nalani resigned w.e.f. 3rd June 2012 and Mr. K. Dharmasiri was appointed w.e.f. 4th June 2012 in her place.
- Mr. S. G. Rajakaruna and Mr. M. S. A. Fernando resigned w.e.f. 30th August 2012.
- Mr. M. O. F. Salieh and Mr. M. A. A. Nomani were appointed w.e.f. 30th August 2012 as Directors to represent the private local commercial banks of SLBA.

- Mr. G. G. C. Ariyaratne resigned w.e.f. 22nd October 2012 and Mr. M. A. B. Silva was appointed w.e.f. 22nd October 2012 in his place.
- Mr. K. Dharmasiri resigned w.e.f. 7th January 2013 and Mr. D. M. Gunasekara was appointed w.e.f. 8th January 2013 in his place.

#### **Donations**

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

#### **Auditors**

The resolutions to appoint the present Auditors, Messrs. Ernst & Young Chartered Accountant, who have expressed their willingness to continue in office, will be proposed at the Annual General Meeting.

The Audit and non-audit fees paid to the auditors is disclosed in Note 18 on page 81 in this Annual Report.

As far as the Directors are aware, the Auditors do not have any relationship to or interest in the Company.

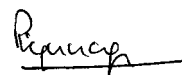
The Audit Committee reviews the appointment of the Auditor, its effectiveness and its relationship with the Company including the value of audit and non-audit fees paid to the Auditor. Details regarding the work of the Audit Committee are set out in the Audit Committee Report.

#### **Notice of Meeting**

The Annual General Meeting will be held at Galadari Hotel, 64, Lotus Road, Colombo 01 on 30th August 2013 at 11.30 a.m.

The Notice of the Annual General Meeting appears on page 90.

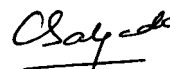
For and on behalf of the Board.



**P. Liyanage**  
Chairperson



**S. S. Ratnayake**  
Director



**Managers & Secretaries (Pvt) Ltd**  
Secretaries

LankaClear (Private) Limited  
31 July 2013  
Colombo

# Independent Auditors' Report



**Building a better  
working world**

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

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

WRHF/PATR/DM

## **TO THE SHAREHOLDERS OF LANKACLEAR (PRIVATE) LIMITED**

### **Report on the Financial Statements**

We have audited the accompanying financial statements of LankaClear (Private) Limited which comprise the statement of financial position as at 31 March 2013, statement of comprehensive income, statement of changes in equity, cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standard for Small and Medium-Sized Entities (SLFRS for SMEs). This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### **Scope of Audit and Basis of Opinion**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Sri Lanka Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting policies used and significant estimates made by management,

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as well as evaluating the overall financial statement presentation.

We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit. We therefore believe that our audit provides a reasonable basis for our opinion.

#### **Opinion**

In our opinion, so far as appears from our examination, the Company maintained proper accounting records for the year ended 31 March 2013 and the financial statements give a true and fair view of the Company's state of affairs

as at 31 March 2013 and its profit and cash flows for the year then ended in accordance with Sri Lanka Accounting Standard for Small and Medium-Sized Entities.

#### **Report on Other Legal and Regulatory Requirements**

In our opinion, these financial statements also comply with the requirements of Section 151(2) of the Companies Act No. 07 of 2007.



16 July 2013  
Colombo

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

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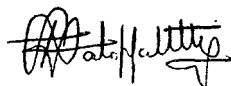
# Statement of Financial Position

As at 31 March	Note	2013 Rs.	2012 Rs.
<b>ASSETS</b>			
<b>Non Current Assets</b>			
Property, Plant & Equipment	3	206,243,462	91,573,343
Intangible Assets	4	10,711,792	15,277,972
		216,955,254	106,851,315
<b>Current Assets</b>			
Receivable from Subsidiary	5	-	3,438,690
Inventories	6	2,484,373	1,956,510
Trade and Other Receivables	7	87,191,036	55,834,471
Short Term Financial Investments	8	672,382,138	531,896,408
Cash and Cash Equivalents	9	18,327,178	140,257,781
		780,384,725	733,383,861
<b>Total Assets</b>		<b>997,339,979</b>	<b>840,235,176</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Capital and Reserves</b>			
Stated Capital	10	154,750,000	154,750,000
Technology Upgrade Reserve	11.1	174,944,117	110,213,819
Capital Reserves	11.2	395,000,000	395,000,000
Retained Earnings		205,659,442	104,202,672
<b>Total Equity</b>		<b>930,353,559</b>	<b>764,166,491</b>
<b>Non Current Liabilities</b>			
Retirement Benefit Obligation	12	11,370,585	7,994,731
Deferred Tax Liability	13	65,418	1,197,867
		11,436,003	9,192,598

As at 31 March	Note	2013 Rs.	2012 Rs.
<b>Current Liabilities</b>			
Trade and Other Payables	14	32,708,232	49,787,596
Income Tax Liability		22,842,185	17,088,491
		55,550,417	66,876,087
<b>Total Equity and Liabilities</b>		997,339,979	840,235,176
<b>Net Assets Value Per Share</b>		61.41	50.44

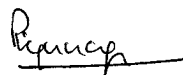
The Accounting Policies and Notes on pages 66 to 84 form an integral part of these Financial Statements.

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



**R. L. Galappaththy**  
Head of Finance

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



**P. Liyanage**  
Chairperson



**S. S. Rathnayake**  
Director

16 July 2013  
Colombo

## Statement of Comprehensive Income

Year ended 31 March	Note	2013 Rs.	2012 Rs.
<b>Revenue</b>	15	427,853,866	390,429,865
Cost of Sales		(145,742,452)	(132,689,423)
<b>Gross Profit</b>		282,111,414	257,740,443
Other Income	16	83,130,665	63,300,728
Administrative Expenses		(104,778,885)	(124,727,784)
Finance Cost	17	-	(6,390,572)
<b>Profit Before Tax</b>	18	260,463,194	189,922,814
Income Tax Expense	19	(71,551,126)	(63,613,541)
<b>Profit for the Year</b>		188,912,068	126,309,273
Other Comprehensive Income		-	-
<b>Total Comprehensive Income for the Year</b>		188,912,068	126,309,273
Earnings Per Share	20	12.47	8.35

The Accounting Policies and Notes on pages 66 to 84 form an integral part of these Financial Statements.



## Statement of Changes in Equity

Year ended 31 March	Note	Stated Capital Rs.	Technology Upgrade Reserve Rs.	Capital Reserves Rs.	Retained Earnings Rs.	Total Rs.
<b>Balance as at 01 April 2011</b>		152,500,000	72,005,490	300,000,000	133,751,728	658,257,218
Proceeds from New Share Issue		2,250,000	-	-	-	2,250,000
Profit for the Year		-	-	-	126,309,273	126,309,273
Transferred to Technology Upgrade Reserve		-	47,480,704	-	(47,480,704)	-
Utilisation of Technology Upgrade Reserve		-	(9,272,374)	-	9,272,374	-
Transferred to Capital Reserve		-	-	95,000,000	(95,000,000)	-
Dividend paid		-	-	-	(22,650,000)	(22,650,000)
<b>Balance as at 31 March 2012</b>		154,750,000	110,213,819	395,000,000	104,202,672	764,166,491
Profit for the Year		-	-	-	188,912,068	188,912,068
Other Comprehensive Income		-	-	-	-	-
Transferred to Technology Upgrade Reserve	11.1	-	65,115,798	-	(65,115,798)	-
Utilisation of Technology Upgrade Reserve	11.1	-	(385,500)	-	385,500	-
Dividend paid		-	-	-	(22,725,000)	(22,725,000)
<b>Balance as at 31 March 2013</b>		154,750,000	174,944,117	395,000,000	205,659,442	930,353,559

The Accounting Policies and Notes on pages 66 to 84 form an integral part of these Financial Statements.

## Cash Flow Statement

Year ended 31 March	Note	2013 Rs.	2012 Rs.
<b>Cash Flows From/(Used in) Operating Activities</b>			
Profit Before Tax		260,463,194	189,922,814
Adjustments for			
Depreciation	3	22,991,347	22,834,601
Amortisation of Intangible Assets	4	7,760,095	15,361,814
Finance Income	16	(82,779,611)	(62,962,455)
Retirement Benefit Obligation	12	3,375,854	2,672,797
Provision for Bank Claims		(9,557,090)	2,373,940
Profit on Disposal of Property, Plant & Equipment	16	(300,899)	(152,166)
Impairment Losses		-	27,734,792
Project Expenses Written Off		-	4,345,493
Loss of Investment in Subsidiary	5	1,185,078	-
Finance Cost		-	6,390,572
Operating Profit before Working Capital Changes		203,137,968	208,522,202
(Increase)/Decrease in Inventories		(527,864)	(614,399)
Decrease in Trade and Other Receivables		(4,831,076)	13,137,896
Increase/(Decrease) in Trade and Other Payables		(7,522,274)	778,404
Cash Generated from Operations		190,256,754	221,824,102
Income Tax Paid		(66,929,882)	(76,579,647)
Gratuity Paid		-	(383,635)
Net Cash From/(Used in) Operating Activities		123,326,872	144,860,820

Year ended 31 March	Note	2013 Rs.	2012 Rs.
<b>Cash Flows From/(Used in) Investing Activities</b>			
Acquisition of Property, Plant & Equipment	3	(7,822,381)	(9,272,374)
Acquisition of Intangible Assets	4	(3,193,915)	(1,450,745)
Investment in Common Card and Payment Switch	3	(129,850,186)	(2,448,638)
Proceeds from Subsidiary	5	2,253,612	4,379,404
Proceeds from Disposal of Property, Plant & Equipment		312,000	280,002
Investment in Short Term Financial Investments		(126,286,549)	55,597,250
Finance Income Received		42,054,944	36,387,359
<b>Net Cash Flows From/(Used in) Investing Activities</b>		<b>(222,532,475)</b>	<b>83,472,258</b>
<b>Cash Flows From/(Used in) Financing Activities</b>			
Proceeds from Issue of Ordinary Shares		-	2,250,000
Interest Paid		-	(6,390,572)
Dividend Paid		(22,725,000)	(22,650,000)
Repayment of Interest Bearing Loans & Borrowings		-	(74,180,789)
<b>Net Cash Flows From/(Used in) Financing Activities</b>		<b>(22,725,000)</b>	<b>(100,971,361)</b>
<b>Net Increase/(Decrease) in Cash and Cash Equivalents</b>		<b>(121,930,603)</b>	<b>127,361,717</b>
Cash and Cash Equivalents at the Beginning of the Year		140,257,781	12,896,064
Cash and Cash Equivalents at the End of the Year (Note A)		18,327,178	140,257,781
<b>Note A</b>			
<b>Analysis of Cash and Cash Equivalents at the End of the Year</b>			
Short Term Investment in Fixed Deposits		-	41,005,645
Short Term Investment in Commercial Papers		-	13,747,200
Investment in REPOs		16,700,000	80,500,000
Accrued Interest on REPOs		34,508	49,607
Cash in Hand and at Bank		1,592,670	4,955,329
<b>Total Cash &amp; Cash Equivalents at the End of the Year</b>		<b>18,327,178</b>	<b>140,257,781</b>

The Accounting Policies and Notes on pages 66 to 84 form an integral part of these Financial Statements.

# Notes to the Financial Statements

## 1. CORPORATE INFORMATION

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.

### 1.1 Principal Activities and Nature of Operations

During the year, the principal activities of the Company were to provide cheque clearance transactions to all licensed Commercial Banks on behalf of the Central Bank of Sri Lanka, facilitating online interbank electronic fund transfers through Sri Lanka Interbank Payment System (SLIPS) and provide digital certification services (LankaSign) to the financial sector.

### 1.2 Date of Authorization for Issue

The Financial Statements of LankaClear (Private) Limited for the year ended 31 March 2013 were authorised for issue, in accordance with a resolution of the Board of Directors on 16th July 2013.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 2.1 Basis of Preparation

The Financial Statements of LankaClear (Private) Limited have been prepared in accordance with the 'Sri Lanka Accounting Standard for Small and Medium – Sized Entities (SME)' issued by the Institute of Chartered Accountants of Sri Lanka. The Financial Statements of the Company have been prepared on an accrual basis and under the historical cost convention basis unless stated otherwise. The Financial Statements are presented in Sri Lankan Rupees, which is the Company's functional and presentation currency and all financial information presented in Sri Lankan Rupees has been rounded to the nearest Rupee.

### 2.2 Statement of Compliance

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

### 2.3 Going Concern

The Management is satisfied that the Company has adequate resources to continue its operations in the foreseeable future. Therefore we continue to adopt going concern assumption in preparing these Financial Statements.

### 2.4 Key Sources of Estimation Uncertainty and Judgments

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

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

### **Assessment of Impairment**

The Company assesses at each balance sheet date 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.

### **Defined Benefit Plans**

The cost of defined benefit plan – gratuity is determined using gratuity formula method. The gratuity formula method involves making assumptions about discount rates, future salary increases, staff turnover rates etc. Due to the long term nature of these plans, such estimates are subject to significant uncertainty. All assumptions are reviewed at each reporting date.

### **2.5 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 balance sheet date. 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.

### **2.6 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 Company and cost of the asset can be reliably measured.

Items of property, plant and equipment are measured at cost less accumulated depreciation

and any accumulated impairment losses. Cost of day to day servicing of an item of property, plant and equipment are recognised in profit or loss in the period in which the costs are incurred.

Depreciation is charged so as to allocate the cost of assets less residual values over their estimated useful lives, using the straight-line method. The following annual rates are used for the depreciation of property, plant and equipment

Computer Equipment	25%
Furniture and Fittings	10%
Electronic Equipment	20%
Other Equipment	20%
Motor Vehicles	20%

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

## Notes to the Financial Statements Contd.

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### **Capital Work in Progress**

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

### **2.7 Borrowing Costs**

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

### **2.8 Impairment of Non Financial Assets**

At each reporting date, property, plant and equipment and intangible assets are reviewed to determine whether there is any indication that those assets have suffered an impairment loss. If there is an indication of possible impairment, the recoverable amount of any affected asset (or group of related

assets) is estimated and compared with its carrying amount. If estimated recoverable amount is lower, the carrying amount is reduced to its estimated recoverable amount, and an impairment loss is recognised immediately in profit or loss.

Similarly, at each reporting date, inventories are assessed for impairment by comparing the carrying amount of each item of inventory (or group of similar items) with its selling price less costs to complete and sell. If an item of inventory (or group of similar items) is impaired, its carrying amount is reduced to selling price less costs to complete and sell, and an impairment loss is recognised immediately in profit or loss.

If an impairment loss subsequently reverses, the carrying amount of the asset (or group of related assets) is increased to the revised estimate of its recoverable amount (selling price less costs to complete and sell, in the case of inventories), but not in excess of the amount that

would have been determined had no impairment loss been recognised for the asset (or group of related assets) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

### **2.9 Intangible Assets**

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

### **Computer Software**

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

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## 2.10 Inventories

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

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

Consumables & Stationery - On a weighted average basis

## 2.11 Financial Assets and Liabilities.

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

Trade and other receivables are initially recognised at the transaction price. All sales are made on the basis of normal credit terms. At the end of each reporting period,

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

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

After initial measurement, such financial assets are subsequently measured at amortised cost using effective interest rate method (EIR), less impairment.

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

For the purpose of cash flow statement, cash and cash equivalents consist of cash in hand and deposits in banks net

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

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

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

## 2.12 Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, where it is probable

## Notes to the Financial Statements Contd.

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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 discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as an interest expense.

### **Provision for Bank Claims**

Provision for bank claims is made for any financial year on 0.05% of the average value of a day's clearing in previous year and will be reversed at the end of second financial year if claims are not made within two consecutive financial years.

### **2.13 Retirement Benefit Obligation Defined Benefit Plan – Gratuity**

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan.

The defined benefit obligation is measured using the Projected Unit Credit method assuming an 11 per cent average annual salary increase, with 3 per cent employee turnover based on the Company's recent experience. The present value of the defined benefit obligation is determined by discounting the estimated future payments by reference to market yields at the reporting date on high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related liability.

Actuarial gains and losses and the past services costs are charged or credited to profit or loss in the period they arise. Past service costs are recognised immediately in profit or loss.

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

Employees are eligible for Employees' Provident Fund

Contributions and Employees' Trust Fund Contributions in line with the respective statutes and regulations. The Company contributes 12 % and 3% of gross emoluments of employees to Employees' Provident Fund and Employees' Trust Fund respectively.

### **2.14 Revenue Recognition**

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

### **Interest Income**

Interest income is recognised as the interest accrued unless collectability is in doubt.



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## 2.15 Income Tax Expenses

Income tax expense represents the sum of the tax currently payable and deferred tax. The tax currently payable is based on taxable profit for the year.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and their corresponding tax basis (known as temporary differences). Deferred tax liabilities are recognised for all temporary differences that are expected to increase taxable profit in the future. Deferred tax assets are recognised for all temporary differences that are expected to reduce taxable profit in the future, and any unused tax losses or unused tax credits. Deferred tax assets are measured at the highest amount that, on the basis of current or estimated future taxable profit, is more likely than not to be recovered.

The net carrying amount of deferred tax assets is reviewed at each reporting date and is adjusted

to reflect the current assessment of future taxable profits. Any adjustments are recognised in profit or loss

Deferred tax is calculated at the tax rates that are expected to apply to the taxable profit (tax loss) of the periods in which it expects the deferred tax asset to be realised or the deferred tax liability to be settled, on the basis of tax rates that have been enacted or substantively enacted by the end of the reporting period.

## 2.16 Earnings Per Share

The Company presents Earnings per Share (EPS) for its ordinary shares. 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.

## 2.17 Cash Flow Statement

The cash flow statement has been prepared using the "Indirect Method". Cash and cash equivalents are defined as cash in hand and

demand deposits, readily converted to known amounts of cash and subject to insignificant risk of changes in value.

## 2.2 Transition to the SLFRS for SMEs

### 2.2.1 Basis of transition to the SLFRS for SMEs

The Financial Statements of LankaClear (Private) Limited, for the year ended 31 March 2013 are the first annual Financial Statements prepared to comply with SLFRS for SMEs.

The date of transition is the 01 January 2012. However, this transition does not have an impact on the Financial Statements of the Company.

## Notes to the Financial Statements Contd.

### 3. PROPERTY, PLANT & EQUIPMENT

#### 3.1 At Cost

	Balance as at 01.04.2012 Rs.	Additions Rs.	Disposals Rs.	Balance as at 31.03.2013 Rs.
Computer Equipment	281,203,094	2,599,019	13,938,729	269,863,384
Furniture and Fittings	13,174,032	3,241,129	-	16,415,161
Electronic Equipment	24,587,560	1,538,780	-	26,126,341
Other Equipment	1,714,596	443,453	14,172	2,143,877
Motor Vehicle	6,650,000	-	-	6,650,000
	327,329,282	7,822,381	13,952,901	321,198,762
<b>Capital Work in Progress</b>				
Common Card and Payment Switch	36,656,131	129,850,186	-	166,506,317
	36,656,131	129,850,186	-	166,506,317
<b>Total Value of Assets</b>	<b>363,985,413</b>	<b>137,672,567</b>	<b>13,952,901</b>	<b>487,705,079</b>

#### 3.2 Depreciation

	Balance as at 01.04.2012 Rs.	Charge for the Year Rs.	Disposals Rs.	Balance as at 31.03.2013 Rs.
Computer Equipment	236,357,354	18,823,054	13,938,729	241,241,678
Furniture and Fittings	7,712,908	1,320,384	-	9,033,292
Electronic Equipment	21,135,156	1,868,845	-	23,004,001
Other Equipment	1,332,487	203,230	3,070	1,532,646
Motor Vehicle	5,874,166	775,834	-	6,650,000
<b>Total Depreciation</b>	<b>272,412,070</b>	<b>22,991,347</b>	<b>13,941,800</b>	<b>281,461,617</b>

### 3.3 Net Book Values

	2013 Rs.	2012 Rs.
Computer Equipment	28,621,706	44,845,741
Furniture and Fittings	7,381,869	5,461,124
Electronic Equipment	3,122,340	3,452,405
Other Equipment	611,231	382,109
Motor Vehicle	-	775,834
	39,737,146	54,917,212
<b>Capital Work in Progress</b>		
Common Card and Payment Switch	166,506,317	36,656,131
	166,506,317	36,656,131
<b>Total Carrying Amount of Property, Plant and Equipment</b>	<b>206,243,462</b>	<b>91,573,343</b>

3.4 During the financial year, the Company acquired Property, Plant & Equipment to the aggregate value of Rs. 137,672,567/- (2012 - Rs. 11,721,012/-) by means of Cash.

3.5 Based on the assessment of potential impairment carried out internally as at 31st March 2013, no provision was required to be made in the Financial Statements as at the Balance Sheet date.

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

## Notes to the Financial Statements Contd.

### 4. INTANGIBLE ASSETS

#### 4.1 Cost

	2013 Rs.	2012 Rs.
Balance at the Beginning of the Year	260,472,345	259,021,600
Additions during the Year	3,193,915	1,450,745
Balance at the End of the Year	263,666,260	260,472,345

#### 4.2 Accumulated Amortisation

Balance at the Beginning of the Year	245,194,373	229,832,559
Amortisation for the Year	7,760,095	15,361,814
Balance at the End of the Year	252,954,468	245,194,373

#### 4.3 Net Book Value

	10,711,792	15,277,972
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4.4 During the financial year Company has paid Rs. 3,193,915/- for acquisition of Intangible Assets. (2012 - Rs.1,450,745/-)

4.5 Based on the assessment of potential impairment carried out internally as at 31st March 2013, no provision was required to be made in the Financial Statements as at the Balance Sheet date.

## 5. RECEIVABLE FROM SUBSIDIARY

	2013 Rs.	2012 Rs.
LankaClear Cash Management (Pvt) Ltd.	3,438,690	7,818,094
Proceeds from Final distribution of the Liquidation	(2,253,612)	(4,379,404)
Loss from Investment in Subsidiary	(1,185,078)	-
	-	3,438,690

Final distribution was made for the Liquidation of Subsidiary, LankaClear Cash Management (Pvt) Ltd amounting to Rs. 2,253,612/- and a full provision of Rs.1,185,078/- was made for the balance against the investment as at the Balance Sheet date.

## 6. INVENTORIES

	2013 Rs.	2012 Rs.
Consumable and Stationery	2,484,373	1,956,510
	2,484,373	1,956,510

## 7. TRADE AND OTHER RECEIVABLES

	2013 Rs.	2012 Rs.
Trade Receivables	41,023,497	42,699,254
Advances & Prepayments	10,825,829	12,956,516
Refundable Deposits	228,700	178,700
Advance Payment on CCAPS Application Software	35,000,000	-
Other Receivables	113,010	-
	87,191,036	55,834,471

## Notes to the Financial Statements Contd.

### 8. SHORT TERM FINANCIAL INVESTMENTS

	2013 Rs.	2012 Rs.
Investment in Fixed Deposits	386,072,768	335,094,150
Accrued Interest on Fixed Deposits	21,038,185	17,678,920
Investment in Commercial Papers	245,584,702	170,276,768
Accrued Interest on Commercial Papers	19,686,483	8,846,569
	<b>672,382,138</b>	<b>531,896,408</b>

### 9. CASH AND CASH EQUIVALENTS

	2013 Rs.	2012 Rs.
Short Term Investment in Fixed Deposits	-	41,005,645
Short Term Investment in Commercial Papers	-	13,747,200
Investment in REPOs	16,700,000	80,500,000
Accrued Interest on REPOs	34,508	49,607
Cash in Hand and at Bank	1,592,670	4,955,329
Total Cash and Cash Equivalents for the Purpose of Cash Flow Statement	<b>18,327,178</b>	<b>140,257,781</b>

### 10. STATED CAPITAL

	2013		2012	
	Number	Rs.	Number	Rs.
Fully paid Ordinary Shares	15,150,000	154,750,000	15,150,000	154,750,000
Balance at the Beginning of the Year	15,150,000	154,750,000	15,100,000	152,500,000
Issue of Shares for Cash	-	-	50,000	2,250,000
Balance at the End of the Year	<b>15,150,000</b>	<b>154,750,000</b>	<b>15,150,000</b>	<b>154,750,000</b>

## 11. RESERVES

### 11.1 Technology Upgrade Reserve

	2013 Rs.	2012 Rs.
Balance at the Beginning of the Year	110,213,819	72,005,489
Transferred from Retained Earnings	65,115,798	47,480,704
Utilisation of Technology Upgrade Reserve	(385,500)	(9,272,374)
Balance at the End of the Year	174,944,117	110,213,819

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.

### 11.2 Capital Reserve

	2013 Rs.	2012 Rs.
Reserve for Common Card and Payment Switch Project	360,000,000	360,000,000
Reserve for Direct Connectivity Project	25,000,000	25,000,000
Reserve for Certificate Authority Project	5,000,000	5,000,000
Reserve for Bank CSIRT Project	5,000,000	5,000,000
	395,000,000	395,000,000

Reserve for Common Card and Payment Switch Project comprises amounts set aside by the Entity for the purpose of meeting the Capital Infrastructure requirements for the implementation of the Project.

Reserve for Certificate Authority and Direct Connectivity Projects represents profits that have been held in Reserve to fund for further developments and improvements which can be taken place in the future.

Reserve for Bank CSIRT Project for the Financial sector reflects the amounts the Company has reserved to implement a system to reduce Internet related Frauds in the future.

## Notes to the Financial Statements Contd.

### 12. RETIREMENT BENEFIT OBLIGATION

	2013 Rs.	2012 Rs.
Balance at the Beginning of the Year	7,994,731	5,705,569
Interest Charge for the Year	367,314	353,358
Gratuity Charge for the Year	2,508,973	1,915,410
(Gain)/Loss arising from changes in the assumptions	499,566	404,030
Payments made during the Year	-	(383,635)
Balance at the End of the Year	11,370,585	7,994,731

The Company has adopted Section 28 of Sri Lanka Accounting Standard for SMEs - Employee Benefits in determining the Retirement Benefit Obligation as at the Balance Sheet date. 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,

	2013	2012
Discount Rate	11.80%	11.00%
Salary Increment Rate	11.00%	11.00%
Staff Turnover Factor	3.00%	6.00%

### 13. DEFERRED TAXATION

	2013 Rs.	2012 Rs.
Deferred Tax Liability	65,418	1,197,867
	65,418	1,197,867



	2013		2012	
	Temporary Difference Rs.	Tax Effect Rs.	Temporary Difference Rs.	Tax Effect Rs.
Balance at the Beginning of the Year	4,278,099	1,197,867	12,914,767	3,616,135
Transferred to/(from) Income Statement	(4,044,463)	(1,132,450)	(8,636,669)	(2,418,267)
Balance at the End of the Year	233,636	65,418	4,278,099	1,197,867
Deferred Tax Liability/(Asset) consisted of followings				
Property, Plant and Equipment	11,604,221	3,249,182	12,272,830	3,436,392
Retirement Benefit Obligation	(11,370,585)	(3,183,764)	(7,994,731)	(2,238,525)
	233,636	65,418	4,278,099	1,197,867

#### 14. TRADE AND OTHER PAYABLES

	2013 Rs.	2012 Rs.
Value Added Tax	2,719,881	2,869,722
Nation Building Tax	718,364	756,816
Economic Service Charges	-	1,079,041
Sundry Creditors and Accruals	29,269,987	45,055,452
Advance Received	-	26,566
	32,708,232	49,787,596

## Notes to the Financial Statements Contd.

### 15. REVENUE

	2013 Rs.	2012 Rs.
Revenue from Sri Lanka Interbank Payment System	52,261,772	45,273,029
Revenue from Cheque Imaging and Truncation System	373,251,690	342,809,425
Revenue from Certificate Authority	2,340,404	2,347,411
	<b>427,853,866</b>	<b>390,429,865</b>

### 16. OTHER INCOME

	2013 Rs.	2012 Rs.
Interest on Fixed Deposits	45,754,646	36,177,842
Interest on REPOs	3,938,592	2,626,024
Interest on Commercial Papers	33,086,373	24,158,590
Other Income	50,155	186,106
Profit on Disposal of Property, Plant and Equipment	300,899	152,166
	<b>83,130,665</b>	<b>63,300,728</b>

Section 137 of the Inland Revenue Act No. 10 of 2006 provides that a Company which derives interest income from the Secondary market transaction with Government securities be entitled to a Notional Tax credit provided such interest income forms part of a statutory income of the Company for that year of assessment.

Accordingly, Net income earned from Secondary market transactions in Government securities for the year by the entity has been grossed up in the Financial Statements and the resulting Notional Tax credit amounted to Rs. 393,859/- (2012 - Rs. 262,602/-).

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## 17. FINANCE COST

	2013 Rs.	2012 Rs.
Interest Expense on Interest Bearing Loans & Borrowings	-	6,390,572
	-	6,390,572

## 18. PROFIT BEFORE TAX

Profit Before Tax is stated after charging all expenses including the following:

	2013 Rs.	2012 Rs.
Directors' Emoluments	3,363,500	2,663,250
Auditors' Fee - External	412,500	331,100
- Internal	422,586	370,719
Loss of Investment in Subsidiary	1,185,078	-
Impairment Losses	-	27,734,792
Project Expenses Written Off	-	4,345,493
Depreciation	22,991,347	22,834,601
Amortisation of Intangible Assets	7,760,095	15,361,814
Personnel Costs includes		
- Defined Benefits Plan Cost - Gratuity	3,375,854	2,672,797
- Defined Contribution Plan Cost - EPF & ETF	7,516,854	5,969,759
- Other Staff Costs	69,675,680	58,494,980

## Notes to the Financial Statements Contd.

### 19. INCOME TAX EXPENSE

The major components of Income Tax expense for the Year ended 31 March are as follows :

	2013 Rs.	2012 Rs.
<b>Current Income Tax Expense</b>		
Current Income Tax Charge (Note 19.1)	72,683,576	66,031,808
<b>Deferred Income Tax Expense</b>		
Deferred Tax originating/(reversing) during the Year (Note 13)	(1,132,450)	(2,418,267)
Charge to the Income Statement	71,551,126	63,613,541
<b>19.1 Reconciliation of Accounting Profit to Income Tax Expense</b>		
<b>At the statutory income tax rate of 28%</b>		
Profit Before Tax	260,463,194	189,922,814
Aggregate Allowable Items	(29,609,553)	(31,144,165)
Aggregate Disallowable Items	28,730,559	77,049,237
Taxable Income	259,584,200	235,827,886
Income Tax @ 28%	72,683,576	66,031,808

## 20. EARNINGS PER SHARE

The calculation of Earnings Per Share is based on the Profit attributable to Ordinary Shareholders and the Weighted average number of Ordinary Shares outstanding during the year.

	2013 Rs.	2012 Rs.
Amount used as the Numerator Net Profit attributable to Ordinary Shareholders	188,912,068	126,309,273
Number of Ordinary Shares used as the Denominator Weighted average number of Ordinary Shares in Issue	15,150,000	15,120,355
Earnings Per Share	12.47	8.35

## 21. DIVIDEND PER SHARE

	2013 Rs.	2012 Rs.
Final Dividend paid in respect of 2010/11	-	22,650,000
Final Dividend paid in respect of 2011/12	22,725,000	-
Dividend Per Share	1.50	1.50

## 22. RELATED PARTY DISCLOSURES

### 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 and their immediate family members have been classified as Key Management Personnel.

## Notes to the Financial Statements Contd.

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	2013 Rs.	2012 Rs.
Short Term Employment Benefits	3,363,500	2,663,250

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

### 23 COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Company makes various Commitments and incurs certain contingent liabilities with legal recourse to its customers and would be party to litigation due to its operations. No material losses are anticipated as a result of these transactions.

#### 23.1 Capital Expenditure Commitments

Capital expenditure approved by the Board of Directors for which provision has not been made in the Financial Statements amounts to approximately Rs.194mn.

#### 23.2 Litigation against the Company

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

### 24. EVENTS AFTER THE END OF REPORTING DATE

The Company has purchased a Land at Malabe on 02nd May 2013 in order to relocate the Disaster Recovery Site amounting to Rs 20.3mn. There were no material events occurring after the Balance Sheet date that requires adjustments to or disclosure in the Financial Statements other than those disclosed.

### 25. COMPARATIVE FIGURES

To facilitate comparison balances pertaining to the previous year have been re-classified to conform to current year classifications and presentation.



## Corporate Profile

### **Name of the Company**

LankaClear (Private) Limited

### **Legal Status**

A Private Company with Limited liability incorporated in Sri Lanka on 8th February 2002.

### **History**

Former Sri Lanka Automated Clearing House (SLACH), owned and operated by the Central Bank of Sri Lanka divested by the Central Bank to LankaClear (Pvt) Limited. LankaClear (Pvt) Limited commenced operations under its name on 1st April 2002.

### **Principal Activities**

Providing of cheque clearing facilities to commercial banks on behalf of the Central Bank and facilitation of secure interbank electronic fund transfers through SLIPS.

### **Product Range**

Sri Lanka Rupee Cheque Clearing  
US Dollar Clearing  
Sri Lanka Rupee Draft Clearing  
Sri Lanka Inter Bank Payment System (SLIPS)  
Certification Service Provider (CSP)

### **Board of Directors**

#### **Mrs. P. Liyanage - Chairperson**

Ex-Assistant Governor, Central Bank of Sri Lanka

#### **Mr. S. S. Ratnayake - Director**

Assistant Governor, Central Bank of Sri Lanka

#### **Mr. D. M. Gunasekara - Director**

General Manager  
Bank of Ceylon

#### **Mr. M. A. B. Silva - Director**

Deputy General Manager –  
Operations  
People's Bank

#### **Mrs. R. A. S. M. Dayarathna - Director**

Director IT, Central Bank of Sri Lanka

#### **Mr. M. A. A. Nomani - Director**

Country General Manager/ Chief  
Executive Officer  
MCB Bank Limited, Sri Lanka.

#### **Mr. Faizal Salieh – Director**

Managing Director / Chief Executive  
Officer  
Amāna Bank Limited

#### **Mr. Jonathan Alles - Director**

Chief Executive Officer/Managing  
Director,  
Hatton National Bank

#### **Mr. Upali de Silva – Observer**

Secretary General, SLBA

### **Management Team**

#### **Mr. Sunimal B. Weerasooriya**

General Manager/CEO

#### **Mr. Harsha Wanigatunga**

Deputy General Manager – IT and  
Operations

#### **Mr. Algi Wijewickrema**

Head of HR & Administration

#### **Mr. Rasika Galappaththy**

Head of Finance

#### **Mr. Roshan Hettiarachchi**

Senior Manager – Operations

#### **Mr. Dilantha Samarasinghe**

Senior Manager – IT

#### **Mr. Isuru Jayaweera**

Senior Manager – Help Desk and  
Bank Services

## Corporate Profile Contd.

Mr. Hemanthe Samaliarachchi Senior Manager – Payment Systems	Stated Capital		
	Number	Rs.	
	Fully paid Ordinary Shares	15,150,000 154,750,000	
Mr. Duleep A. Fernando Senior Manager – Administration	Shareholders		
	Shareholder	Number of Shares 'mn'	Value 'Rs. mn'
Mr. Dimuth Weerasinghe Manager – Facilities and Maintenance	Central Bank of Sri Lanka	2.95	29.50
	Bank of Ceylon	2.10	21.00
Mr. Uddika Kahawatte Network Operations Manager	People's Bank	2.10	21.00
	Sampath Bank PLC	2.00	20.00
	Commercial Bank of Ceylon PLC	1.00	10.00
	Hatton National Bank PLC	2.20	22.00
Mr. Danushka Uyanahewage CITS Manager	Seylan Bank PLC	1.00	10.00
	Union Bank of Colombo PLC	0.05	0.50
Mr. R. Dimuthu Kumara Systems Operations Manager	DFCC Vardhana Bank Ltd	0.10	1.00
	Pan Asia Banking Corporation PLC	0.10	1.00
	Nations Trust Bank PLC	0.15	1.50
	National Development Bank PLC	0.15	1.50
	Habib Bank Ltd	0.05	0.50
	Indian Bank	0.10	1.00
	Indian Overseas Bank	0.10	1.00
	State Bank of India	0.05	0.50
	MCB Bank Ltd	0.10	1.00
	The Hongkong and Shanghai Banking Corporation Ltd	0.20	2.00
	Deutsche Bank AG	0.15	1.50
	Citibank NA	0.10	1.00
	Standard Chartered Bank	0.15	1.50
	Public Bank Berhad	0.10	1.00
	ICICI Bank Ltd	0.05	0.50
Amana Bank Ltd	0.05	2.00	
Axis Bank	0.05	2.25	
	<b>Total</b>	<b>15.15</b>	<b>154.75</b>



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**Registered Office and Principal Place of Business:**

Level 18, Bank of Ceylon Head Office, "BOC Square", No. 01, Bank of Ceylon Mawatha, Colombo 1.

**Company Secretaries**

Managers & Secretaries (Pvt) Ltd.  
8, Tickell Road, Colombo 08.  
Tel: 5579900  
Fax: 5579950

**Bankers**

Bank of Ceylon  
Seylan Bank  
Union Bank

**External Auditors**

M/s. Ernst and Young  
Chartered Accountants  
201, De Saram Place,  
Colombo 10.  
Tel: 2463500  
Fax: 2697369

**Internal Auditors**

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

**Contact**

Voice - 2356900 to 2356999  
Fax - 2544346  
E-mail - [info@lankaclear.com](mailto:info@lankaclear.com)

## Glossary and Interpretation

**'ATM'** shall mean a Automated Teller Machine

**'Bank'** shall mean a company or body corporate licensed under the Banking Act No. 30 of 1988 to carry on banking business in Sri Lanka; and the Central Bank of Sri Lanka in the capacity of a CITS participant.

**'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.

**'CBSL'** shall mean the Central Bank of Sri Lanka.

**'CCAPS'** shall mean Common Card and Payment Switch.

**'CITS'** shall mean the 'Cheque Imaging and Truncation System' which includes LCPL systems, processes and procedures for the electronic clearing and archiving of CITS items and non-clearing items, if any.

**'CITS Image Items'** shall mean CITS items in image format, including electronic images of Articles, and complying with such format, content and image quality requirements, specifications and other requirements specified by LCPL from time to time.

**'CITS Clearing'** shall mean the process of receiving, sorting and exchanging of CITS image items among CITS participants, balancing of the amounts expressed in Articles thus exchanged and consequently deriving the net balances.

**'CIT System'** shall mean systems operated and maintained by LCPL for, clearing of cheques including without any limitation, receiving, processing, clearing and archival of cheque images and data which could be accessed by participants through direct connectivity mode.

**'CITS Participants'** shall mean all licensed commercial banks operating in Sri Lanka; and the Central Bank of Sri Lanka in the capacity of a participating Bank in the CIT System.

**'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.

**'CMPC shall mean'** Colombo Main Processing Centre' which is located at the Head Office of LCPL.

**'Cut-off Times'** shall mean times specified with respect to action to be undertaken or effected in relation to CITS as may be notified by CBSL to LCPL; and by LCPL to CITS participants from time to time.

**'Cheque Return Notification'** shall mean the Image Return Document defined in Section 34 (1) and (2) of part III of the Payment and

Settlement Systems Act No. 28 of 2005.

**CRIB** – Credit Information Bureau of Sri Lanka

**DR Site** – Disaster Recovery site of LCPL located at 1st Floor, Bank of Ceylon Training Centre, 55, Highlevel Road, Maharagama.

**‘Inward CITS Items’** shall mean CITS Items which have been generated by LCPL through the CITS in respect of a Paying Bank based on the Outward CITS Files.

**‘Inward Return CITS Items’** shall mean Return CITS items which have been generated by LCPL through the CITS in respect of a Presenting Bank based on the Outward Return CITS files.

**‘LCPL’** shall mean LankaClear (Pvt) Limited, incorporated under the Companies Act No. 17 of 1982, and re-registered under the Companies Act No. 07 of 2007.

**‘MICR’** shall mean the data known as ‘Magnetic Ink Character Recognition’ data, encoded on articles in accordance with the

specifications and standards as laid down by LCPL and as amended by LCPL from time to time.

**‘Outward CITS Items’** shall mean CITS items of an outward CITS File generated by a presenting Bank and provided or transmitted to LCPL.

**‘Outward Return CITS Items’** shall mean Return CITS Items of an Outward Return CITS File generated by a Paying Bank.

**‘Paying Bank’** in respect of a CITS Item shall mean a CITS participant to whom an Article is drawn.

**‘POS’** shall mean Point of Sales

**‘Presenting Bank’** or **‘Collecting Bank’** in respect of a CITS Item shall mean a CITS participant which presents or represents the Articles for clearing through the CITS System.

**PKI: Public Key Infrastructure**

A PKI enables users of a basically unsecure public, private network such as the Internet or Virtual Private Network to securely and

privately exchange data through the use of a public and a private cryptographic key pair that is obtained and shared through a trusted certification authority.

**‘Return CITS Items’** shall mean CITS Items that are submitted to LCPL as returned CITS Items by Paying Banks due to any of the return reasons as specified by LCPL from time to time.

**‘RTGS’** shall mean Real Time Gross Settlement System which is, operated by CBSL.

**‘SLIPS’** shall mean Sri Lanka Interbank Payment System



Notice of  
Annual General  
Meeting

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**NOTICE IS HEREBY GIVEN** that the 11th Annual General Meeting of **LankaClear (Private) Limited** will be held on **Friday, 30 August 2013 at 11.30 a.m. at Galadari Hotel, 64, Lotus Road, Colombo 01** for the following purposes:

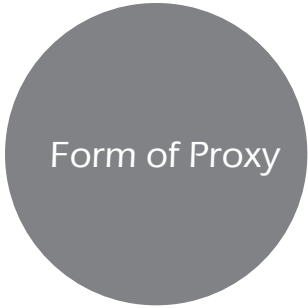
- 1) To receive and consider the Report of the Directors and the Statement of Accounts for the year ended 31st March 2013 together with the Report of the Auditors thereon.
- 2) To re-appoint M/s Ernst & Young, Chartered Accountants as Auditors of the Company and to authorise the Directors to determine their remuneration.
- 3) To 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,  
31 July 2013



Form of Proxy

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We .....

of.....

being a member of LankaClear (Private) Limited, hereby appoint .....

.....

of ..... as our proxy to represent us and vote for us and on our behalf at the 11th Annual General Meeting of the Company to be held on 30 August 2013 and at any adjournment thereof and at every poll which may be taken in consequence thereof.

Signed this ..... day of ..... 2013.

Signature.....

**NOTE:**

To be valid the completed form of proxy should be deposited at the Registered Office of the Company at Level 18, Bank of Ceylon Head Office, "BOC Square", No. 01, Bank of Ceylon Mawatha, Colombo 01, not less than 48 hours before the appointed time for holding of the meeting.



LankaClear (Pvt) Ltd  
Level 18, Bank of Ceylon Head Office,  
"BOC Square", No. 01, Bank of Ceylon Mawatha, Colombo 1.  
Voice - 2356900 to 2356999 Fax - 2544346  
E-mail - [info@lankaclear.com](mailto:info@lankaclear.com) Web - [www.lankaclear.com](http://www.lankaclear.com)