

Gearing for Growth

- Strategising for Growth
- The Importance of Increasing Presence
- A Growing Product/Service Portfolio
- A Sweep of the Sectors We Serve
- Our Family Tree - Group Structure
- Acquisitions and Investments - Driving Growth
- Further Strategic Linkages Drive Momentum
- Licensing New Growth Channels
- Managing Direct Investment for Growth
- The Funding Mix
- Global Funding Partners
- Gearing for Asset Quality
- Subsidiary Performance - Helped Shift Gears
- Gearing for Operational Efficiency

Strategising for Growth

The strategic realignment and repositioning of our business model, which we introduced over 2 years ago has been the basis for an even wider evolution, which sees LOLC well placed today and driving towards greater levels of sustainable growth.

Over the years, our well founded strategy has been the key to withstanding many potentially negative pitfalls such as the global financial crisis and local economic factors like high inflation and interest rates, through greater flexibility and resilience built into our business model.

Our focus has remained unerringly on our long-term goal of developing into a total financial solutions provider. Under this overarching 'umbrella', LOLC remains a strong proponent of Microfinance as a key facilitator in placing finance and financial solutions where they are needed most - in the upliftment of people, often in the peripheries, who have little or no access to formal financing.

With the cessation of war in the North and East of Sri Lanka, an era of unprecedented opportunity has dawned in our country. Our strategic Road Map gears the Group towards entering these areas offering a product and service portfolio that is ideally positioned to deliver maximum benefit to customers, which in turn leads to resurgence of impoverished regions and personal development of the population.

Today, this strong strategy drives every facet of LOLC's business.

The Importance of Increasing Presence

Whether in the classroom or the market-place, absence is detrimental to progress. Being present gives one the best chance of success.

LOLC's planned expansion of reach assumed even more significance during the year under review as we put more 'feet on the ground' in the North and East of Sri Lanka with the return of peace to those areas.

Over the period May 2009 to January 2010, LOLC opened five fully-fledged branches in Dambulla, Batticaloa, Ampara, Jaffna and Vavuniya.

In accordance with the overall strategy, we have adopted in terms of recruitment at regional levels, LOLC recruited from the localities of the new branches. The obvious synergies to be derived from this process are also bolstered by the employment opportunities LOLC is able to offer to the regions, with such HR strategies in place.

Gearing for Growth

Our Reach

LOLC Branches

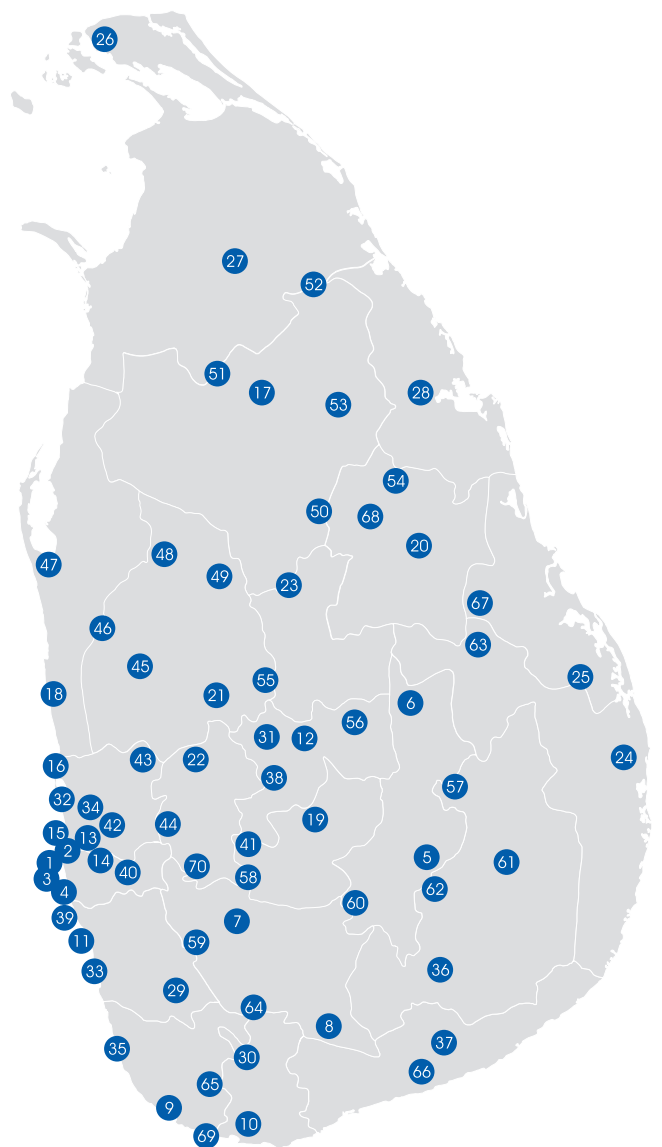
01. Rajagiriya
02. City branch
03. Wellawatta
04. Mount Lavinia
05. Badulla
06. Mahiyangana
07. Ratnapura
08. Embilipitiya
09. Galle
10. Matara
11. Kalutara
12. Kandy
13. Gampaha
14. Kiribathgoda
15. Wattala
16. Kochchikade
17. Anuradhapura
18. Chilaw
19. Nuwara Eliya
20. Polonnaruwa
21. Kurunegala
22. Kegalle
23. Dambulla
24. Ampara
25. Batticaloa
26. Jaffna
27. Vavuniya
28. Trincomalee
29. Elpitiya

LIOC Outlets

30. Morawaka
31. Pilimathalawa
32. Seeduwa
33. Aluthgama
34. Kadawatha
35. Ambalangoda
36. Debarawewa
37. Beliatta
38. Talawakelle
39. Panadura
40. Padukka
41. Deraniyagala

Isuru Diriya Centres

42. Divulapitiya
43. Kuliapitiya
44. Warakapola
45. Nikaweratiya
46. Anamaduwa
47. Palaviya
48. Thambuththegama
49. Eppawala
50. Galenbindunuwewa
51. Medawachchiya
52. Padaviya
53. Horowpatana
54. Kantale
55. Melsiripura
56. Matale
57. Bibile
58. Eheliyagoda
59. Bulathsinghala
60. Balangoda
61. Moneragala
62. Bandarawela
63. Dehiattakandiya
64. Godakawela
65. Neluwa
66. Ambalantota
67. Aralaganwila
68. Hingurakgoda
69. Weligama
70. Ruwanwella



Lanka ORIX Finance Company Ltd. (LOFIN) expanded its operations to five new branches of the LOLC branch network during the year at Jaffna, Vavuniya, Ampara, Kattankudy and Dambulla whilst upgrading its Savings Centres in Batticaloa and Trincomalee to fully-fledged branch status. Furthermore, two new LOFIN Savings Centres were opened in Tissamaharama and Oddamavadi, thus taking LOFIN's network to 30 branches and 13 Savings Centres.

LOLC through its ongoing strategic associations with Lanka Indian Oil Company (LIOC) and Sri Lanka Post (the national postal service), has widened its footprint even further, maintaining a presence in selected LIOC fuel stations and post offices around the country, where many of the Group's services and products are easily accessed by customers. The choice of fuel stations and post offices, as disseminators of LOLC's products and services is a strategic fit, when you consider that many of our clients or prospective clients use both channels extensively in their daily enterprise.

During the year under review, the Group enhanced its representation at 12 LIOC stations and 37 post offices. Overall, LOLC's expanded reach complemented the Group's efforts to gear itself for enhanced growth.

A Growing Product/Service Portfolio

Consonant with our focus to become a total financial service provider, LOLC has evolved into a diversified group of business entities offering a varied portfolio of solutions in areas such as leasing, factoring, insurance brokering, working capital, savings and deposits, SME and microfinancing, fleet management, information technology, Islamic financing, foreign currency deposits, which we offer across the entire value chain.

New offerings for the year in review are - a Rent-A-Car scheme under our fleet management sector, the re-launch of an insurance-factored lease product for vehicles and a one-of-a-kind fully-integrated Mudharabah Savings Account with ATM accessibility and Pass Book facility under our Islamic financing entity.

By way of value additions this year, LOLC launched an on-line payment facility in association with the Bank of Ceylon, work is in progress on a mobile banking solution in association with Dialog as the mobile service provider and a customer service enhancement by way of a specially designed docket containing all the information pertaining to the facility as a quick reference guide for the customer.

12

LANKA ORIX LEASING COMPANY PLC
Annual Report 2009/10

Gearing for Growth

A Sweep of the Sectors We Serve

The LOLC Group's interests span the sectors of Finance, Agriculture, Trading, Construction, Fisheries, Transport, Manufacturing, Leisure, Tourism, Education, Information Technology, Power & Energy, Project Development, Real Estate, Plantations and Motor Repairs and Services.

Micro

- Three Wheeler Loans and Leases
- Motorbike Leases
- Tractor Loans
- Financing for Agriculture Equipment
- Leasing for Light Trucks
- Group Loans (targeting women)
- Pawning

SME

- Term Loans
- Short-Term Working Capital Financing
- Cheque Discounting

Islamic Financing

- Mudharabha
- Ijarah
- Murabaha
- Diminishing Musharakha

Savings

- Savings
- Fixed Deposits
- NRFC
- RFC
- Children's Savings
- Micro Savings
- Senior Citizen Savings
- Corporate FD
- SFIDA Accounts
- ATM/Debit Cards

Insurance

- Life
- Health
- Home
- Travel
- Shop
- Office
- Personal Insurance
- Motor
- Marine
- Fire

Ventures

- Sundaya
- PRASAC
- Project Development
- Galoya Holdings
- United Dendro Energy (Pvt) Ltd.

Corporate

- Terms Loans
- Short-Term Working Capital Financing
- Cheque Discounting

Information Technology

- **Products**
Fusion Financing Management (FFM), Fusion Deposit Management (FDM), Fusion Savings Management, Fusion Pawning Management
- **Partner Solutions**
Oracle ERP, Microsoft SharePoint Portal, Business Intelligence
- **Services**
ERP Implementation Consultancy, ICT Strategy Development, Managed Services

Development Finance

- EIB Post Tsunami Credit Line - Contract A
- World Bank Funded Renewable Energy for Rural Economic Development Project (RERED)
- JICA Funded Poverty Alleviation Microfinance Project II

LOECO

100%

LOLC
Eco Solutions
Ltd.



UDE

75%

United Dendro
Energy (Pvt)
Ltd.

PRASAC

18%

MFI
Cambodia

GPPL

24.50%

Galoya
Plantations
(Pvt) Ltd.

LOIB

100%

Lanka ORIX
Insurance
Brokers
Ltd.

LOMO

100%

LOLC
Motors
Ltd.

LOLL

70%

LOLC
Leisure Ltd.



- Eden Resort & Spa
- Riverina Hotel
- Club Palm Garden

16

LANKA ORIX LEASING COMPANY PLC
Annual Report 2009/10

Gearing for Growth

Acquisitions and Investments - Driving Growth

Our strategy that drives core ambitions to gear LOLC for growth into the coming years was the cornerstone for several key initiatives we took during the year in review.

Through our wholly-owned subsidiary company Commercial Leasing Company Ltd., we acquired a 50% stake in Diriya, the holding company of Brown & Company PLC. We thus gained a substantial stake holding in one of Sri Lanka's well established and much-respected diversified companies, as Browns is regarded today. The synergies derived were from the fact that Browns is a major player in the field of agricultural equipment and accessories in which areas LOLC also has extensive interests.

LOLC has made a strategic investment in United Dendro, an enterprise generating renewable energy from biomass. This project is in its initial stages of planning and is slated to come on-line in the latter half of 2011. It is envisaged that 4 MW of electric power will be generated through this project.

Mindful of the synergistic advantages to be had by increasing its foothold in the financial landscape, the LOLC Group acquired a significant holding in Seylan Bank. The Bank has just written its own turnaround saga, which has been a revelation in its own right and has placed it on a very stable and promising growth path.

The dawn of peace has been a great invigorator for tourism in Sri Lanka and the country is on the threshold of reaping rich rewards with visitor projections up significantly. LOLC made a timely investment in this sector through its acquisition of the Confifi Group of Hotels. This move brings the prime tourist resorts/hotels, Eden, Club Palm Bay and Riverina under the Group's purview.

Further Strategic Linkages Drive Momentum

The ATM operation launched last year by LOFIN, in collaboration with Commercial Bank, continues to be a boon to our savings account holders as the card has been upgraded to a Maestro debit card which allows customers the benefit of accessing their savings account from anywhere internationally or locally through the global Maestro network.

LOLC, via Gal Oya Plantations (Pvt) Ltd. a joint venture of LOLC and Brown & Company PLC, entered into a public/private partnership with the Government of Sri Lanka for the revival of the sugar factory and plantation, formerly of Hingurana Sugar Plantation to revive its operations and to generate new opportunities such as renewable energy production, refining of imported raw sugar and more. We expect the factory to come on line by end 2011.

The Group, through its wholly owned subsidiary Lanka ORIX Finance Company Ltd. (LOFIN) obtained membership of the SWIFT network and is privileged to be the only non-banking financial institution to have been admitted from Sri Lanka. This enables the Group to enjoy secure, speedy business operations with banks worldwide. Furthermore, LOFIN was successful in gaining a listing in the Bankers Almanac, which is a significant achievement for a non-banking finance company and this will enable it to access a wealth of information on local and international banks.

Licensing New Growth Channels

LOLC has received the requisite licence from the regulators to embark on the offer of insurance services in both categories - Life and General.

The reality today is that the market is under-insured and great potential exists for deeper penetration both in the corporate sector and to an even greater extent in the microfinance/SME sector. LOLC, with its considerable strength, particularly in the microfinance/SME sector, projects very healthy growth for this new line of business.

Start up is targeted for 2010 and the Group is actively pursuing strategic alliances with the top global insurance companies to offer truly premium products to the market.

Seven new subsidiaries were incorporated in the Group during the year under review, to facilitate penetration into areas of business with high potential.

These subsidiaries are - LOLC Motors Ltd., LOLC Leisure Ltd., LOLC Securities Ltd., LOLC Eco Solutions Ltd., LOLC Insurance Co. Ltd., United Dendro Energy (Pvt) Ltd. (an existing company in which we acquired a stake) and LOLC Services Ltd.

18

LANKA ORIX LEASING COMPANY PLC
Annual Report 2009/10

Gearing for Growth

Managing Direct Investment for Growth

As we evolve into a total financial service provider, we have been privileged to associate with and partner many of the world's most renowned funding agencies in relationships that have been beneficial not just for LOLC and the agencies, but also for Sri Lanka as a nation.

LOLC's long-term vision of sustainable growth and development of the SME and Micro sectors is one that is aligned very closely with the goals and aspirations of the many multilateral and bilateral agencies who are our funding partners today. The stability, sound business performance and positive results that LOLC posts year-after-year, have been key factors in convincing many funding institutions to opt for LOLC as their preferred local partner in fulfilling their own developmental goals.

The backing we receive from these funding agencies has been invaluable in LOLC achieving its goals on behalf of customers across the length and breadth of Sri Lanka.

Beyond funding, these institutions have developed LOLC's own best practice deployment, helping the Group reach the highest standards of ethics, transparency and accountability. Policies governing areas such as Anti-Money Laundering, Know Your Client (KYC) and Environmental Protection were invaluable in developing a firm ethical business foundation for LOLC. Such is the closeness of our relationship that LOLC is privileged to benefit from staff training, knowledge transfer and other support offered by our lending partners.

We are also supported greatly by our local commercial banks who play an important role in extending support via further funding lines for business expansion over the years.

The list on the following pages depicts the role our funding partners play in the context of LOLC.

The Funding Mix

Whilst the list referring to our global funding partners is self explanatory, some highlights for the year in review would be pertinent to record here.

The significant success and growth enjoyed by LOLC Micro Credit Ltd., which at inception was the first private sector micro credit entity in Sri Lanka with foreign equity participation, also attracted further investment from FMO (our 'founding' foreign equity partner) as well as from Symbiotics and three Triodos Funds, to further expand activities.

LOLC has also been successful in reducing its cost of funds from 20.24% (as at 31 March 2009) to 12.37% (as at 31 March 2010).

Global Funding Partners



Organisation of the Petroleum Exporting Countries Fund for International Development (OPEC)

Type of Facility: Long-term US\$ Loan

Purpose of Funding: SME sector financing and development



Finance for Development

The Netherlands Development Finance Company (FMO) - Netherland

Type of Facility: Long-term Rupee Loan/Equity Tier I & II and debt capital for the microfinance company

Purpose of Funding: SME and Microfinance sector financing and development

Value Addition: Environmental policy; Anti-Money Laundering policy



French Development Agency Group (PROPARCO) - France

Type of Facility: Long-term US\$ loan

Purpose of Funding: Tsunami-affected SME sector financing

Value Addition: Environmental policy; Anti-Money Laundering policy

20

LANKA ORIX LEASING COMPANY PLC
Annual Report 2009/10

Gearing for Growth



Deutsche Investitions- und Entwicklungsgesellschaft mbH (DEG) - Germany

Type of Facility: Long-term US\$ loan

Purpose of Funding: SME sector financing and development

Value Addition: Environmental policy; Anti-Money Laundering policy, Liquidity Risk Management Technology



Belgium Investment Organisation (BIO) - Belgium

Type of Facility: Long-term US\$ loan

Purpose of Funding: SME sector financing and development

Value Addition: Environmental policy; Anti-Money Laundering policy



Overseas Private Investment Corporation (OPIC)

Type of Facility: Risk sharing facility with Citibank, Colombo

Purpose of Funding: SME sector financing and development

Value Addition: Environmental policy; Anti-Money Laundering policy



United States Agency for International Development (USAID) - USA

Type of Facility: Portable guarantee scheme

Purpose of Funding: Microfinance Sector Development in Eastern and Uva Provinces

Value Addition: Environmental policy; Anti-Money Laundering policy



Finish Development Finance Company (FINNFUND) - Finland

Type of Facility: Long-term US\$ loan

Purpose of Funding: SME sector financing and development

Value Addition: Environmental policy; Anti-Money Laundering policy



European Investment Bank (EIB)

Type of Facility: Long-term Rupee/Euro refinancing scheme

Purpose of Funding: Tsunami-affected SME sector development and support in tourism sector

Value Addition: Environmental policy; Anti-Money Laundering policy

Gearing for Growth



World Bank

Type of Facility: Long-term refinancing Rupee loan

Purpose of Funding: Refinancing of rural sector renewable energy development

Value Addition: Environmental policy; Anti-Money Laundering policy



Japan Bank for International Cooperation (JBIC) - Japan

Type of Facility: Long-term Rupee loan/refinancing scheme

Purpose of Funding: Environmental Protection/Mitigate and eliminate industrial pollution and waste/Energy saving, Recycling and resource recovery in industries

Value Addition: Environmental policy; Anti-Money Laundering policy



Asian Development Bank (ADB)

Type of Facility: Long-term Rupee loan/refinancing scheme

Purpose of Funding: SME sector financing and development/Tea smallholders income improvement and development. Development of the plantation sector in enhancing profitability. Improve the living and working conditions of the workforce

Value Addition: Environmental policy; Anti-Money Laundering policy



Export Development Corporation (EDC) - Canada

Type of Facility: Long-term US\$ loan

Purpose of Funding: SME Sector financing and development with Canadian imports



ING Bank - Japan



Citi - Japan



Nippon Export and Investment Insurance (NEXI) - Japan

Citibank and ING Bank Tokyo being the lenders and Nexi as the guarantor

Type of Facility: Long-term US\$ loan

Purpose of Funding: SME and Leasing Sector Financing

Gearing for Growth



Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ) - Germany

Type of Facility: Technical assistance for Microfinance

Purpose of Funding: Development of Microfinance sectors

Value Addition: Promotion of Microfinance Sector



Triple Jump - Netherlands

Type of Facility: Long-term EURO loan

Purpose of Funding: Microfinance sector development



Triodos Bank - Netherlands

Type of Facility: Long-term US\$ loan

Purpose of Funding: Microfinance sector development



Symbiotics -Switzerland

Type of Facility: Long-term US\$ loan

Purpose of Funding: Microfinance sector development

Gearing for Asset Quality

Credit Rating

In an era of financial turmoil, it is extremely creditable to report that Fitch has reaffirmed LOLC's rating this year at A(lka) whilst also reaffirming its rating for our finance company, Lanka ORIX Finance Company Ltd. at A-(lka).

A Pragmatic Approach to Recoveries

Always a sensitive area of operations, we accept that an optimum balance between the activities of lending and recovery are a *sine qua non* for the well being of both lender and borrower.

During the year under review, several initiatives were taken to streamline this area of our business.

A dedicated Recoveries Unit was set up for our microfinance sector to offer a specialised and focused approach towards portfolio quality management.

The process of auctioning repossessed vehicles was streamlined whereby an auction was conducted every three months, in order to ensure the best sale price was secured for them.

LOLC maintains a very conservative policy towards writing off default contracts. When all else fails, these contracts are put up for legal recourse where further representations are made to clients and their guarantors.

During the year in review, the Legal Division was able to negotiate and arrive at 167 out-of-court settlements with default clients and whilst providing an ever-increasing volume of legal services to the Group, was also able to effect a collection of Rs. 115.4 Mn.

The balanced approach LOLC adopts in this sensitive area has yielded dividends - the Group's NPLs were managed at low levels whilst the collection ratio grew significantly, thus allowing us to maintain a healthy portfolio in a 'difficult' environment.

Gearing for Growth

Subsidiary Performance - Helped Shift Gears

LOLC Al Falaah recorded a phenomenal growth during the year in review, viewed particularly in the context that this was its first year of operation as a separate entity under the LOLC umbrella. The Company recorded a growth of 300% in its advances portfolio, whilst growing its deposits portfolio also by 300%.

It assumed market leadership position in terms of advances measured on a month-on-month basis for the year 2009/10.

LOLC Al Falaah paid the highest profit returns out of all similar operators in Sri Lanka, to its Mudharabha investors.

LOLC Micro Credit Ltd. grew its borrower base by 65% and its loans portfolio by 61% during the year in review. Furthermore, it increased its footprint by entering new regional markets around the country and was also the market leader in the agriculture equipment financing sector.

Our subsidiary Commercial Leasing Company Ltd. achieved a 3-month NPL ratio of below 3.5%, which is one of the lowest in the financial sector of Sri Lanka.

LOLC has a fully-fledged Business Unit to focus on Working Capital. Notable results this year are as follows:

Whilst the overall Funds-In-Use (FIU) at the beginning of the financial year under review stood at an impressive Rs. 2.74 Bn, a drop in the third quarter lowered this figure to Rs. 2 Bn. However, improvements in the economy and the lowering of interest rates served to improve the situation and the year closed with the FIU at Rs. 2.69 Bn.

It is of significance to note that the loan component has shrunk to 1/3 of the overall portfolio and the specialised product component has grown to record levels. This has been due to several factors - the improvement in economic activity; lower interest rates; the cessation of war which has generated a positive outlook for the future and has opened up the prospect of limiting loans to ancillary products and shifting more focus to core products. This is in sharp contrast to the position at the beginning of the year, where the loan portfolio was 60% of the overall funds outstanding.

Gross income recorded by the Working Capital BU stood at Rs. 652 Mn and profit from operations was Rs. 168 Mn.

Gearing for Growth

The year end cumulative portfolio yield was 28.98% and since LOLC's cost of funds was 12.37% at the end of March 2009, the gross spread was an impressive 17.99%. This is a significant improvement on the figure of 14.09% that prevailed at the beginning of the year.

Inward Worker Remittances channelled through LOFIN exceeded US\$ 10 Bn.

Our Fleet Management Unit achieved Rs. 1 Bn in executions for the first time ever, in the financial year under review and the fleet now consists of over 1,000 vehicles. Furthermore, the division ventured into the short-term rent-a-car market and has made significant progress during a short period; over a 100 vehicles are mobilised towards this operation. A computerised reservation system is currently being developed to facilitate the increased activity in this area.

Our Valuation Unit achieved a 66% growth in revenue over the previous financial year and expanded its operations to Negombo during the year in review.

Our Group Treasury had a year of noteworthy performance, during which they recorded the following achievements:

- LOLC received a US\$ 5 Mn guarantee facility from USAID.
- Trade on Fixed Income Securities issued by the Government saw LOLC make a marked to market profit of Rs. 500 Mn during the year in review.
- A Rs. 700 Mn unsecured redeemable debenture was negotiated for Commercial Leasing Company Ltd.
- A sum of Rs. 500 Mn was sourced for the Group from capital markets.

Gearing for Growth

Gearing for Operational Efficiency

Several initiatives stand testimony to LOLC's drive to achieve even higher levels of operational efficiency across the gamut of its enterprise.

A Cost Management Committee was set up during the year and the following initiatives were implemented:

- Minimising the usage of envelopes for external communications and updating client address database in the system, to avoid undelivered mails thus yielding cost savings on post.
- Energy saving measures such as encouraging operations staff in our Head Office and Branches to switch off Lights, Computers, Printers and Typewriters in their respective work areas when not at their station, as well as using only location specific adequate lighting.
- Using 'within the Group' telecommunications packages and limiting personal calls.
- Stationery savings by double sided use of paper, preventing duplication of information on multiple papers and migrating to online systems.

Optimising Process Efficiency

Several initiatives have been implemented or are in a work-in-progress stage to address the search for greater process efficiency. Measures such as a document management solution for the semi-automated Decentralised Payment Process, converting vehicle CR to digital imagery and uploading it to our portal for remote access and download at all branches, decentralisation across a multitude of functions, going live with a fully-integrated GL system for LOLC Group, giving finance users and Management the opportunity to benefit from a Group wide financial system resulting in much needed standardisation and efficiencies in financial reporting, achieved through simplification of processes and smooth integration with multiple and diverse operations.

Optimising Service Efficiency

During the year, LOLC moved to decentralise credit approval processes thus devolving more control and responsibility. At the same time we set about motivating and empowering staff to help them cope with the new system and its responsibilities.

We saw an increase in the use of telemarketing as a cost efficient and effective channel for business promotion. The LOLC Call Centre has been successful in contributing to an increase in the volume of business generated via telemarketing and cross-selling operations.