

Empowerment through Strategy

Group MD/CEO's Review

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The year under review has been one of unprecedented growth for the Group. I am very happy to report that we have achieved results that have never been reached in the history of LOLC.

LOLC Group Profit Before Tax doubled to end the year at Rs. 2.84 Bn. The Profit After Tax was Rs. 2.38 Bn an increase of 126% over last year's Rs. 1.05 Bn. A significant reflection of the solid growth LOLC has achieved may be seen in the size of our Balance Sheet and the manner in which our Assets have grown.

With the Balance Sheet size growing to Rs. 75 Bn LOLC has reached the league of the larger banks in the country.

Our financial services sector companies did extremely well during the year which has contributed positively to the Group's profits.

CLC (Commercial Leasing Company Ltd.) was acquired by LOLC two years ago and the performance achieved by the Company is remarkable with their executions increasing from a Rs. 3.3 Bn in 2008/09 to Rs. 5.6 Bn in 2009/10. The Company's footprint in the regions continued to grow with the current branch network at 19 and 7 post office outlets. Since the acquisition we have been able to unleash the full potential of CLC by expanding the business model to capture the opportunities in the identified market segments and the Company is contributing well to the overall Group's long-term profitability and growth.

LOFIN (Lanka ORIX Finance Company Ltd.) our regulated Finance Company completed another successful year, recording tremendous growth in both foreign currency deposits and local currency deposits. The Company capitalised on the opportunities posed by an environment where finance companies were struggling to survive. LOFIN was well geared to handle the strong inflow of funds with the shift of deposits from weaker finance companies to the strong. The Company's local currency deposit base grew from Rs. 5.1 Bn to Rs. 9.6 Bn by the year end. The foreign currency deposits reached a US\$ 1 Mn in March 2010.

LOMC (Lanka ORIX Micro Credit Ltd.) completed its first year of operations, closing its books at Rs. 3.8 Bn executions. The Company is well established in the Micro Sector and is geared to take advantage of the newly-opened up economies in the North and East. The postal outlet network of LOLC is positively contributing to this business with the micro customers being able to avail themselves of all their financial services needs under the roof of LOLC post office outlets.

Yes, 2009/10 has been a year of solid growth. But even more importantly, it has been a year in which we consciously geared for growth. It is pertinent to examine how this was achieved.

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The cessation of war last year ushered in an era of great opportunity. The market is adjusting to this new era and agility is one of our greatest assets in responding to the new market sentiments. We have positioned ourselves to meet this change and the opportunities arising from this change. Our investments in the tourism and agricultural sectors are geared towards these economic changes and we have strategically expanded our branch network to enter the newly-opened regional economies. We are now reaping the harvests of our ability to gear for growth.

Our footprint is another strength that we have and strategically built and nurtured through the years and the manner in which we have grown our network shows our proactive and aggressive manner in which we strive to grow. Today, we have over 78 branches - 29 main branches, 12 LIOC centres and 37 post office outlets. From a total of 35 branches as at the previous financial year, we have grown to 78 branches in a period of 12 months. I can confidently state that no other financial institution has grown its footprint by this magnitude, in a single year - particularly in 2009/10. It is another example of the agility and speed with which the Company works and gears itself to capture emerging business opportunities.

With the rapid opening up of the North and East of the country, LOLC has embarked on an aggressive campaign to penetrate markets in these regions. We have opened several branches and recruited staff directly from these regions, deriving benefit from aspects like 'staff from the locality', compatibility with language and culture of the territory. The Group is very encouraged by the growth flowing from these markets. Our execution volumes have grown steadily. We have established the LOLC name as one of the primary financial service providers in these areas.

LOLC made several key strategic investments during the year under review.

The Group acquired 50% of Diriya Investments which ultimately owns the Browns Group, through which affords synergies in terms of our mutual strengths particularly in the agricultural sector and the presence in the regions.

Together with Browns Group, LOLC acquired a strategic stake in Seylan Bank, which sees us making our initial entry into the commercial banking sector.

We took a strategic decision to enter the leisure sector and acquired the Confifi Group, owners of several premium hotel properties on Sri Lanka's southern coast. Tourism is a sector tipped for rapid and substantial growth. We are very upbeat about this move and feel confident that we will be able to reap benefits in the medium to long-term time frames.

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We have also made a strategic investment in United Dendro for a power project with capacity to generate 4 MW of power. Construction is to begin in early 2011 and the project will be operational by 2012.

As an extension of our goal to become a total financial solutions provider, I am pleased to report that our desire to enter the insurance sector was rewarded when we were granted licence to operate as a composite insurer offering both life and general insurance products. We believe that LOLC's target clientele in the SME and the Micro Sectors will see immense benefit from the products that LOLC Insurance (LOLC Insurance Co. Ltd.) is planning to offer, LOLC's reach at the grass root level and the operational expertise in these markets. The commencement of the insurance operations will allow LOLC to penetrate into the most under insured market segments in the country. We believe that the synergies of the Group and strategic alliances with our foreign business partners will allow this business to become a formidable force in the insurance industry.

LOLC has won accolades for several aspects of its business. Some, such as winning the Gold at the National Business Excellence Awards on our very first application, have been truly rewarding. The chart appearing on the next page gives full details of these awards.

In the year ahead, we want to pursue this growth strategy and are confident that we will be able to achieve the aggressive targets we have set ourselves.

I would like to thank the Board of LOLC for their support and guidance to strive for remarkable growth and the management and staff of LOLC for their unstinted support and commitment to strive for achieving exemplary performance year after year.

I have no doubt that when we write next year's annual review, we would be able to report on an equally strong performance as we've had the pleasure to bring to you this year.



Kapila Jayawardena
Group MD/CEO

20 July 2010