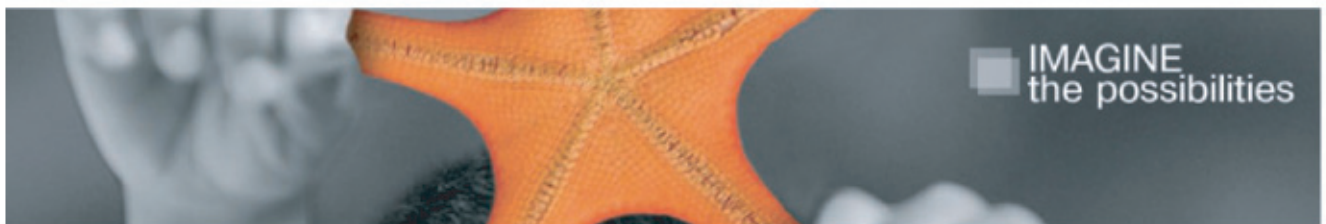




# MANAGING FOR SUSTAINABILITY

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Lanka ORIX Leasing Company PLC.

United Nation Global Compact Communication on Progress for 2008-2010

# MANAGING FOR SUSTAINABILITY

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## LOLC's Communication on Progress for 2008-2010

*At inception, the very nature of the LOLC Group's business rested on a firm tripod of sustainability, where economic, social and environmental implications were intrinsic components of its business model.*

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*Introduction 03*

*Principles of the UN Global Compact 05*

*Group Chairperson's pledge 06*

*Sustainable measures: LOLC in the Community 07*

*Group Deputy Chairperson's message 09*

*Sustaining our world for the future: LOLC in the Environment 10*

*Group Managing Director/CEO's message 12*

*Sustaining good business practices: LOLC's Corporate Governance Measures 13*

*Developing People for Growth: Sustaining LOLC's Future 14*

# MANAGING FOR SUSTAINABILITY



LOLC's Communication on Progress for 2008-2010

*Sri Lanka embraced the open economy back in 1977 which allowed an abundant flow of free market opportunities ready to be put into greater use. This worked favorably for the country's SME sector, positioning it as the key driver of a free market economy. Consequently, in 1980, Lanka ORIX Leasing Company PLC created a historic momentum, when it pioneered the concept of leasing and factoring in Sri Lanka, with assistance from International Finance Cooperation and ORIX Corporation of Japan.*

*Since then, LOLC has been on a tremendous journey of growth; and today, it has come to be regarded as the largest non-bank financial institution in the country, and one of the most highly diversified conglomerates in the Sri Lankan corporate sector. Even to this date, we continue to fuel the spirit of entrepreneurship rising from the grass root level, where a significant portion of our customers come from.*

*With over 30 years of experience working with people from the heart of the country's grass root communities, we know what inspires them to reach the highest pinnacle of success, how Mother Nature provides livelihoods for their survival and how fundamental values of 'giving back to the community' positively enrich a nation and her people.*

*We have had the privilege of taking a total financial solution portfolio with an accent on microfinance and SME empowerment, across the length and breadth of Sri Lanka. Our business has provided us with an insight into the lives of our farmers everywhere; we know their business and its challenges and victories intimately. We are 'on the ground' with start up entrepreneurs, small scale business people, fishermen, dairy and livestock farmers... the list is extensive.*

# MANAGING FOR SUSTAINABILITY

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## LOLC's Communication on Progress for 2008-2010

*We understand weather patterns, harvest times, conservation, renewable energy cultivation and carbon credits. We take great measures to appreciate and safeguard precious natural resources and the environment around us. We have been successful in using this knowledge in ground realities, to incorporate environmental and social risk assessments even within our credit appraisal processes.*

*Confirming our commitment at a global level, in 2008, we became a signatory to the United Nation Global Compact's strategic policy initiative, that strives to promote sustainable and responsible business practices among top corporate and non corporate organizations around the world.*

*In all our internal and external practices we have cultivated a healthy respect for all principles of human rights. We have consciously ensured that all forms of discrimination are eliminated from our workplace and beyond. Moreover, respecting and sustaining the environment that we live in have brought greater benefits to us. We have committed ourselves towards adopting eco-friendly 'green' measures and are exploring new ventures of financing energy sources. We are committed at all times to sustainable development and to treat our environment responsibly.*

*We hereby present our first Communication on Progress (COP) report. Although presenting this key COP report is a first for us, sustainable initiatives have been widely practiced in all LOLC's core businesses since its early inception. Our sustainability measures mentioned here are also available in detail in our 2008-09 and 2009-10 Annual Reports, and on our website ([www.lolc.com](http://www.lolc.com)).*

*We are confident that the journey ahead of us is one of progress, where we will be presented with immense opportunities to learn through experience; where gaps are identified and improvements are made to allow greater activation of new and workable ideas; and where we focus on sustaining responsible business practices at all times... We welcome feedback on its content.*

# MANAGING FOR SUSTAINABILITY

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LOLC's Communication on Progress for 2008-2010

## PRINCIPLES OF THE UN GLOBAL COMPACT

### HUMAN RIGHTS

- PRINCIPLE 1 - BUSINESSES SHOULD SUPPORT AND RESPECT THE PROTECTION OF INTERNATIONALLY PROCLAIMED HUMAN RIGHTS; AND
- PRINCIPLE 2 - MAKE SURE THAT THEY ARE NOT COMPLICIT IN HUMAN RIGHTS ABUSES.

### LABOUR

- PRINCIPLE 3 - BUSINESSES SHOULD UPHOLD THE FREEDOM OF ASSOCIATION AND THE EFFECTIVE RECOGNITION OF THE RIGHT TO COLLECTIVE BARGAINING;
- PRINCIPLE 4 - THE ELIMINATION OF ALL FORMS OF FORCED AND COMPULSORY LABOUR;
- PRINCIPLE 5 - THE EFFECTIVE ABOLITION OF CHILD LABOUR; AND
- PRINCIPLE 6 - THE ELIMINATION OF DISCRIMINATION IN RESPECT OF EMPLOYMENT AND OCCUPATION.

### ENVIRONMENT

- PRINCIPLE 7 - BUSINESSES ARE ASKED TO SUPPORT A PRECAUTIONARY APPROACH TO ENVIRONMENTAL CHALLENGES;
- PRINCIPLE 8 - UNDERTAKE INITIATIVES TO PROMOTE GREATER ENVIRONMENTAL RESPONSIBILITY; AND
- PRINCIPLE 9 - ENCOURAGE THE DEVELOPMENT AND DIFFUSION OF ENVIRONMENTALLY FRIENDLY TECHNOLOGIES.

### ANTI-CORRUPTION

- PRINCIPLE 10 - BUSINESSES SHOULD WORK AGAINST ANTI-CORRUPTION IN ALL ITS FORMS, INCLUDING EXTORTION AND BRIBERY.



# MANAGING FOR SUSTAINABILITY

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LOLC's Communication on Progress for 2008-2010

"[...] We are very mindful that our efforts to expand business, must be accompanied by exemplary management, good governance, social responsibility and strategy. Furthermore, we, as a member of the United Nations Global Compact (UNGC), abide by its guiding principles".

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Rohini Nanayakkara

***Chairperson***

*"Gearing for Growth", 2009/10 LOLC Annual Report (Pg 31), 20 July 2010, Colombo.*

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# MANAGING FOR SUSTAINABILITY



## LOLC's Communication on Progress for 2008-2010



### 1. Sustainable measures: LOLC in the Community

LOLC has since its inception been aware of its contribution to the community and the environment it serves. Moreover, the power of uniting with people through business has been the main force that generates ideas, which has steered the growth of the LOLC Group to colossal heights. As part of our business expansion plan, we have set up strategic business units and invested in strategic business ventures which have helped us to reach out to the community and the environment in diverse means. Similarly, we have offered all our employees the opportunity to take part in all our CSR initiatives. Following is a short narration of some of the initiatives taken towards the betterment of the communities we serve.

In 2003, LOLC approached the microfinance sector by way of financing solar systems for rural Sri Lankan households that were not connected to the main grid. As a result, our associate company LOLC Micro Credit Ltd. (LOMC) was born in early 2009. Through our 'credit plus' approach to microfinance, we have enabled a distinctly unique means of empowering people and communities, which includes financing farming and entrepreneurial segment from the SME and micro sector, financing agri-implements, extending credit to the dairy sector, granting small loans to purchase three-wheelers, tractors, motorbikes etc. equipment lending and group lending targeting entrepreneurially active women from the grass roots.

LOMC's core mission which reflects the Groups overall mandate is to deliver integrated financial services to rural Sri Lanka in a cost effective way, to support employment creation and income generation in greater measure, to promote gender equality in all communities we serve, and to support environmental awareness relating to own business and at client level. We have adopted a triple bottom line approach in our micro business and are striving to seek ways to mainstream and implement the same approach in our other businesses.

LOLC Care is a strategic CSR project of our Group which aims to help and sustain a home for Mentally Handicapped individuals, situated in Madiwela, Sri Lanka. We have taken many steps to ensure that the home is kept in good order, even taking measures to construct a new building to accommodate more persons. This is a project which has encouraged the participation of all employees of the Group. Community service initiatives are also taken up at the Business Unit level, which includes providing relief

# MANAGING FOR SUSTAINABILITY



## LOLC's Communication on Progress for 2008-2010

items during times of natural disasters and emergency situations along with other projects which seek to help senior citizens, little children, the infirm, differently-abled etc.

### ***Empowering Women: Supporting the Woman Entrepreneur***

Microfinance significantly facilitates women's empowerment at the individual, intra-household, and community levels. Women's status, both in their homes and in their communities, is elevated when they are responsible for managing loans and savings. The ability to generate and control their own income can further empower them. Research shows that credit extended to women has a significant impact on their families' quality of life, especially their children.

Through our associate company LOMC, we have integrated empowerment of women into the microfinance business through issuing loans targeted at female micro-entrepreneurs who do not possess sufficient collateral to obtain credit from banks. The successful implementation of this scheme has resulted in more than 90% of all LOLC Group loan customers being women.

Globally it is accepted that women are more attuned to the concept of micro entrepreneurship demonstrating a far less likelihood to default on loans than men. In view of the multiple, positive effects of female gender aimed micro finance, LOLC has enhanced its focus on the woman as a potential micro finance client. This is also in the hope that by striking a better gender balance, the microfinance business will grow with greater servicing rates, thus bring sustainability of the business model both to the financier as well as the recipient.

In keeping with the aim of meeting the United Nations Millennium Goals by 2010, LOLC is confident that its foray in gender based micro financing will assist Sri Lanka to address poverty reduction by giving women of rural households the ability to lead their families into self - sustenance.

The Group is cognizant of the need to establish market linkages across the business and value cycles of each recipient so as to further their business prospects for the future. Therefore, by integrating with each recipient's business model, LOLC goes beyond the mere role of financier/investor to partner in aiding with better production technologies, Know-how, product packaging advice and marketing. This level of involvement and commitment LOLC believes is a necessity to drive Sri Lanka's rural and impoverished communities to be self-sustainable, thus eradicating the poverty line.



Empowering the hand that rocks the cradle





# MANAGING FOR SUSTAINABILITY

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LOLC's Communication on Progress for 2008-2010



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“Sustainable investment by ‘going green’ is at the very core of our business model and is reflected in every strategic move of the Group [...]”

Ishara Nanayakkara  
***Deputy Chairman***

*“Gearing for Growth”, 2009/10 LOLC Annual Report (Pg 35) , 20 July 2010, Colombo.*

# MANAGING FOR SUSTAINABILITY



## LOLC's Communication on Progress for 2008-2010



### 2. Sustaining our world for the future: LOLC in the Environment

*"The LOLC Commitment – when money grows on trees!" ([www.lankaorix.com](http://www.lankaorix.com))*

At LOLC, we are driven by our passion, aspiration and commitment to being a responsible corporate citizen. We have established forward thinking programs to ensure environmental compliance by targeting conservation of energy and resources through solar, reforestation and encourage waste reduction and recycling. Prior to funding any project, LOLC abides by the Environmental Impact Assessment Report. All our green projects mentioned here onwards reflect our passion towards sustainable investment.

Consequent to a joint public-private partnership with the Government of Sri Lanka (GoSL), we established the Gal Oya Plantations, into which the company has invested, and had progressed into the cultivation of sugar cane. Together with our member company Browns & Company PLC, we have entered into this public-private partnership with the government to reactivate Hingurana Sugar Industries which has been inactive for over a decade. This venture is propelled to produce ethanol as a bio-fuel as a byproduct of sugar production, fuelling the generation of electricity through a 6 MW power plant. New revenue streams have also been identified through this venture, thus better optimizing available resources. Our investments and subsequent enhancement of operations in the Gal Oya plantation will also create many direct employment opportunities that will contribute towards uplifting the livelihoods of more than 300 employees, 4,400 farmer families and 2,000 non-irrigated farmer families in the area.

Our newest addition, LOLC Motors is a state-of-the-art eco-friendly motor garage and vehicle service centre especially designed to implement eco friendly means of vehicle repairing and maintenance. This facility has a micro biological media system on waste water and rain water recycling, eco-friendly paint booths, and air-condition recovery machines as adjuncts to our air-conditioning to prevent release of refrigerant to the atmosphere. In addition, the unique design of the facility is structured to utilize maximum natural light, with plans to install solar panels in the near future. This facility can handle 100 vehicles per day and is an invaluable complement to our fleet management activities.

We extended our interests in green investment towards the plantation sector through Browns Investment Ltd. – subsidiary of our member company Browns Group PLC, where we invested in tea and

# MANAGING FOR SUSTAINABILITY



## LOLC's Communication on Progress for 2008-2010

rubber cultivation in Maturata and Pussellawa plantations. We saw the potential use in the widespread unused land mass that existed between the two plantations. Thus, with a view to maintaining a 360 degree holistic approach, this provided us with a lucrative opportunity to grow teak and mahogany - timber considered to be of high commercial value – in addition to tea and rubber cultivation.

We have also embarked on 14 mini-hydropower projects which are expected to generate 27 MW in total at an initial investment of approximately US\$ 30Mn. Presently, two mini-hydro projects have already been commissioned producing a total of 3.2MW at Pussellawa Plantations. All these projects are registered for carbon credit and the two projects commissioned are perhaps the only mini-hydro projects to be earning carbon credits in the country.

Extending our green efforts in the renewable energy sector, LOLC invested in a Company that is involved in generating renewable energy from biomass. United Dendro Energy is thus far the only company that will produce 4MW electricity to be supplied to the national grid using glyricidia as the bio fuel. A project of this magnitude faces risk in sourcing adequate raw material, which we are mitigating by having our own plantation of glyricidia. Land has been identified for this purpose and the project is in its design stage with the expectation of commissioning by end of 2011.

We recently installed 2,000 solar panels at our Head Office premises in Rajagiriya, with the assistance of our subsidiary Sundaya Lanka, who possess valuable expertise in the field of Solar Technology. Now we enjoy a 48KW grid-connected solar system with net metering, which generates 15% of our power requirement at Head Office in Rajagiriya, Sri Lanka. This, thus far, is the largest installation in a commercial building in Sri Lanka. This project solely stems from our passion for sustainable investments through eco-friendly business solutions.

LOLC is greatly honoured by the continuing support and encouragement we receive from our funding partners. We have been fortunate indeed not only to establish and maintain an excellent track record with a most illustrious portfolio of funding agencies over so many years, but also to be their preferred conduit to attain their developmental and commercial funding goals in Sri Lanka. Their valued contribution beyond funding has enabled us to attain operational excellence, fine-tune processes and procedures and improve compliance and governance over the years.





# MANAGING FOR SUSTAINABILITY

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LOLC's Communication on Progress for 2008-2010

“One of the key attributes of LOLC is its agility- not just in character and performance ‘on the ground’ but in strategic thinking and across all other parameters of business.”

Kapila Jayawardena  
**Group MD/CEO**

*“Gearing for Growth”, 2009/10 LOLC Annual Report (P 39), 20 July 2010, Colombo.*

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# MANAGING FOR SUSTAINABILITY



## LOLC's Communication on Progress for 2008-2010



### 3. Sustaining good business practices: LOLC's Corporate Governance Measures

We at LOLC are committed towards sustaining good governance in all our business practices in terms of both conformance and performance. All our financial statements and reviews are published in a transparent manner in all media, from annual publication of our financial statements, media releases announcing quarterly financial performances, to our website updates.

As a quoted company licensed to engage in leasing, LOLC is regulated by the Central Bank of Sri Lanka (CBSL) and the Colombo Stock Exchange (CSE), where all our business practices are in compliance with the rules and regulations stipulated by these regulatory authorities. Strict adherence to them has minimized undue risks of corruption and mismanagement of financial resources to a greater extent. Other internal risk management measures have ensured a strict policy of protection, assurance, reliability, transparency, accountability and confidentiality as lasting values. Our standards of enterprise governance have instilled confidence in regulators and stakeholders, whilst ensuring that resources are optimized for profitability.

We strongly believe that the best risk management practice is when each and every employee irrespective of his/her level is truly conscious of the risk environment and knowledgeable of the operations within their scope and is equipped with the skills and experience to perform their duties in a professional and ethical manner. All our initiatives have always encompassed process efficiencies, resource optimizations which is fine tuned and managed by a controlled environment, guided by values and ethics and driven by good governance to reach excellence.

*(For a full account of our corporate governance measures, please refer "Governance for Growth" and "Managing Risk for Growth" sections of our 2009/10 Annual report, Pgs 46-61).*

## LOLC's Communication on Progress for 2008-2010



### 4. Developing People for Growth: Sustaining LOLC's future

The HR strategy, which is firmly embedded in the overall business strategy of the LOLC Group, seeks to construct an apt, pragmatic and dynamic HR architecture for the organization which effectively engages and develops employees to realize business strategies and objectives leading to growth in profitability and sustainability of the organization. The strategy contributes to ascertaining and delivering HR requirements by ensuring that the opposite mix in quality and quantity of personnel exists in the Group through the implementation of effective people management policies, processes and technology thus making Human Resource Management and Development an influential part of the organization's overall management.

The contribution of HR has been significant during the period under review, which enabled LOLC to really drive its rapid expansion, particularly in the North and East. HR processes were strengthened and they continued to perform on a shared service platform for the entire Group.

#### ***Managing and Retaining Talent***

Through our HR processes, we have managed staff growth effectively by job rationalization and restructuring of departments during the economic downturn, which was in existence globally and locally from 2008 to mid 2009.

Assessment centres and screening processes were introduced for all positions of the Group and new recruits were required to follow these processes.

Many initiatives were taken to retain the existing talented employees which included performance-based rewards and recognition, employee engagement activities, learning initiatives, etc. A significant improvement of our attrition rate is visible over the past few years, which stood at 10.65% at the end of the 2009/10 financial year.

A performance driven climate helped strengthen the performance management system, which applies to all employees of the Group. Goal setting was optimally carried out, so that individual and team goals were linked to the Business Unit as well as Corporate Objectives.

# MANAGING FOR SUSTAINABILITY



## LOLC's Communication on Progress for 2008-2010

### ***Effective Employee Engagement***

Many opportunities were afforded to employees to formulate and contribute their own ideas and initiatives towards improving existing business practices, a system which has brought many benefits to the Group. During the year, employees were seen keenly involved in many decision making activities of the Group.

### ***Continuous Learning and Development***

We were focused mainly on internal and external customized multi-disciplinary training programmes during the period where 94% of the total staff cadre has been trained which is a key achievement.

Yet another successful Management Development Programme was conducted for young high flyers to train and prepare them for key leadership positions in the future. Thus, the corporate objective of creating a continuous learning climate and developing future leaders has been fulfilled.

Moreover, the Group has conducted many training programmes for the microfinance staff, in order to strengthen and establish its presence in the emerging microfinance field. With this intention, LOLC has also invested in the formation of a separate training academy for microfinance.

An industrial placement/internship programme was also introduced for undergraduates and school leavers with the idea of training and developing the younger generation to become the driving force of the country in the future.

### ***Work/Life Balance***

In addition, many recreational activities were conducted by the Group's Recreation Club 'SPIRIT'. A Sports Day was held regionally. The Annual Dinner Dance, Kiddies Party and religious ceremonies were also major events on the Group Calendar.

Winning the Silver for Best HR Practices at the Sri Lankan HR Awards 2010 organized by the Association of HR Professionals Sri Lanka in collaboration with Hewitt Associates - India, clearly demonstrates for the strong HR practices adopted by the Group and the employee value proposition of 'As we grow, so would you'.





## ACCOLADES

Brand Power – within the Top 50 Most Valuable Brands, LOLC improved its ranking from 26 in 2008/09 to 18 in 2009/10.

National Business Excellence Awards – conducted by the National Chamber of Commerce of Sri Lanka – winner of the specialized banking and financial services sector 2008/09.

Best Annual Reports Award – Winner. Conducted by the Association of Development Financial Institutions of Asia Pacific (ADFIAP) in 2009/10.

Best Website – Plaque of Merit for the Annual Report Website conducted by the Association of Development Financial Institutions of Asia Pacific (ADFIAP) in 2009/10.

Best HR Practices – Silver Award at the HR Awards 2010 organized by the Association of HR Professionals Sri Lanka in collaboration with Hewitt Associates – India.

National Business Excellence Awards – conducted by the National Chamber of Commerce of Sri Lanka – Gold for the “Diversified Group of Companies Sector”, Silver at the Best “Capacity Builder” category, and Bronze at the “Extra Large Sector” category. Associate company LOLC Leisure Ltd. was awarded Silver at the “Hospitality” category for Eden Resorts and Spa 2010.

Listed amongst the Top 20 Corporates 2009/10

Top 20 most valuable stocks in the Colombo Bourse 2009/10 (Source: Daily Financial Times, front page, 02.01.2011)

LACP Awards – LOLC AL-Falaah’s inaugural Annual Report won the Bronze award presented by the League of American Communications Professionals LLC (LACP) at the Vision Awards 2009

MTI Case Study – LOLC turnaround case study has entered into the Top 06 of the CIMA Global Consultant of the Year 2209/10. (Source: Daily Financial Times, 19.11.2010)





# MANAGING FOR SUSTAINABILITY

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LOLC's Communication on Progress for 2008-2010

*All information inclusive in this COP report can be found in LOLC's 2009-10 Annual Report and its corporate website [www.lolc.com](http://www.lolc.com). Images used in this report were derived from the LOLC image archive and [www.google.lk](http://www.google.lk).*