

BUSINESS IMPACT REPORT

A Philosophy for a better tomorrow

At LOLC our business philosophy is one that is inspired today, for a better tomorrow. With a vision to be the most innovative financial services provider, we endeavour to create a powerful thrust into all regions of Sri Lanka, touching lives and catalyzing change amongst all Sri Lankans. By reaching out to the most rural of communities we have earned a reputation for building a business concept that is in the truest sense sustainable.

For us sustainability means a lot more than maintaining our marketability. It is about doing business in a manner in which we mould a better tomorrow through sustainable livelihood enhancement, engaging in ethical investments that propel the adoption of best practices and know-how to create a more environmentally sustainable future not just for Sri Lanka but also the region.



Mask Manufacturer in Ambalangoda - funded by Micro Finance Loan

Strategic Realignment

LOLC for the last twenty eight years has been a front runner in financial services. Whilst at the inception its most dominant commercial operation revolved around leasing, in the last decade the company has morphed into one that specializes in an array of financial services. Now looking to the future with a vision to be a total financial solutions provider not only to Sri Lanka but also to the region, the company will continue to focus and move purposefully towards targeting quantum growth in Micro Finance, Agro and Development sectors, identified as the key growth sectors for the next few years, while capitalising on the existing business segments.

To further facilitate the company's vision a strategic realignment was initiated in the year 2006/07 with a view to accelerate its growth momentum. Individual companies of the LOLC Group are now aligned

to a BU structure, thereby moving away from an individual legal entity business model. This we believe, has lent us the ability and tenacity to give greater focus to the BUs to focus on business strategy and product development, better anticipate customer requirements, and clarity in directing each business unit in alignment with the overall Group strategic interest.

In the year 2007/08, the strategic realignment bore substantial fruit, demonstrating the initial signs of success in shifting the legal entity model. With all access points of LOLC delivering every aspect of LOLC's total financial services package, the realignment has truly impacted on the lives of our customers. The one contact point: all financial services offer has thrust our customers to a new realm of experience in financial services and given us the ability to grow our market presence with greater vigor.

The strategic alignment not only aligned the BUs to cater to the customer needs and improved reach, but made the company more effective and efficient in its business operations. The centralisation of all the service units providing synergetic services to all BU's are already reaping benefits for the whole Group with potential to realise more benefits in the coming years.

Innovative Offerings

Aiding this growth momentum has been the alliance between LOLC and LIOC during the year. The alliance will enable LOLC to increase its reach to all regions of the country and serve grass roots level customers more efficiently. During the year in review service centers commenced operations in Morawaka, Trincomalee, Pilimatalawa, Aluthgama, Seeduwa, Kadawatha, Ambalangoda, Debarawewa, Beliatta and Thalawakele.



LOLC Service Center at LIOC fuel station - Morawaka

BUSINESS IMPACT REPORT

In line with the long term need for managing sales and distribution costs which are ever increasing, the company also laid the foundation to establish a low cost sales channel, which will initially sell savings and insurance products. These business associates will add further value to the existing branch network's capability of satisfying customers' total financial needs.

Further the company has entered into an agreement with Citi Bank to join with BOC Branches to offer our customers the ability to make payments for LOLC, at BOC branches, further widening the reach of our services.

The year under review saw the formation of the Islamic Business Unit under the finance company, LOFIN. The unit worked in close collaboration with and under the guidance of the All Ceylon Jamiyyathul Ulama (ACJU), the official proponent of the Shari'ah Law Supervisory in Sri Lanka. LOLC's Islamic Business Unit now offers the following products to customers.

Mudharabah - Profit sharing Investments

Ijarah - Leasing

Murabaha - Trade Finance

Diminishing Musharakah - Property Development Finance

The year evidenced significant growth of business from this sector and the company expects quantum growth in the coming years.

Internal process reviews and alignment were key within the operations teams, with further focus on customer service. All centralized operations teams carried out detailed process reviews and aligned their functions to support the front end sales and channels with delegated authority and autonomy at the branches being the priority.

During the year, the Company committed further in financial and other resources into its Information and Communication Technology infrastructure to support the implementation of new strategies targeting business growth and expansion. We have strengthened our data center and Online Disaster Recovery Center by investing in state-of-the-art technology and introducing carefully planned and documented processes. Significant improvements were made to connectivity with the distribution channels. Plans are under way to implement a redundancy network connection to serve our customer with zero interruptions.

New business systems were introduced to support the new initiatives and Islamic Finance, Working Capital and Savings & Deposits, saw significant process automation and integration enabling the business to be agile and competitive.

During the next few months, the company will launch Automated Teller Machine (ATM) services for our savings customers by commissioning our first ATM installed at our head office in Rajagiriya.

Further, the Group is planning to invest in an e-commerce and mobile commerce platform that will enable us to serve our customers faster, at a lower cost.

Plans are in place to obtain ISO certification for IT infrastructure and Security which will standardize and formalize our approach to information security.

OPERATIONAL REVIEWS OF FINANCIAL SERVICES BUS AUTO

The Auto BU overlooks a variety of services and products that are essentially auto financing or facilities with auto being the collateral. Whilst traditionally the unit focused on Finance Leasing, more recently it has enhanced its business scope to a portfolio of approximately 18 products which caters to different needs of our customers.

The auto portfolio is the highest revenue earner for the group with leasing still contributing the highest. However, loans and hire purchase products are becoming more and more popular, driven by pricing as well as the economic changes steering the vehicle industry into more used vehicles than unregistered/brand new vehicles.

The portfolio of Development Finance managed under the Auto BU



Paddy husk heated boiler - Katana: funded under e-friends scheme

BUSINESS IMPACT REPORT

saw tremendous growth during the past year and has great potential in the coming years. Through Development Finance, LOLC offers most of the low cost refinance (funding) loan schemes to the SME and targeted sectors in the manufacturing and plantation sectors. As a Participating Credit/Financing Institution, LOLC disbursed approximately Rs. 500 Mn during the year through the following development finance loans schemes:

- Tea Development Project : Private Tea Factory owners and Tea Small Holders.
- Plantation Development Project: Regional plantation companies.
- E-friends: Industries investing in environmentally friendly projects.
- European Investment Bank Post Tsunami Credit Line: Industries directly & indirectly affected by the Tsunami.
- European Investment Bank Post Tsunami Credit Line: Industries directly affected by the Tsunami.
- Perennial Crop Development Project - Small and Medium scale perennial crop growers.

In addition, LOLC followed a policy of value addition to development finance by playing an advisory role to support the sustainability of customer's individual business. For LOLC, its role in Development Finance goes beyond the gambit of loan provision to being a stimulant for activation of the sector, in a bid to benefit the sustainable development of the Sri Lankan economy.



Micro Finance recipient - Dairy Farmer, Polonnaruwa

Looking to the future, Auto Business foresees a scenario where taxation and duties on automotives on the rise, leasing reaching a point of market saturation and hire purchase becoming more popular, with the market moving towards used vehicles. The unit will continue to forge partnerships in a bid to expand the business and is currently pursuing an aggressive strategy for geographic expansion. The LIOC alliance serves as a benchmark for future growth strategies given the strategic fit between the BU and the business model of the LIOC.

MICRO

With the realignment of strategic focus, the Micro Finance sector was identified as an area of key importance to LOLC. Essentially, the scope of business extends to lending small value loans to individuals and groups in rural areas.

Over the years, LOLC as the pioneering leasing company has assisted SME's to realise their business potential. Now leveraging on the expertise gained in the SME sector, LOLC strives to fuel economic development through the empowerment of the rural sector. As such, the primary objective of the Micro Finance BU is to provide opportunities through products and services to customers who otherwise have limited or no access to mainstream financial services.

LOLC's foundations in Micro Finance hark from a history of providing solar home systems to rural households who have no access to national grid electricity. Having gained Participatory Credit Institution status for the Renewable Energy for Rural Economic Development (RERED) project of the World Bank, LOLC is now among the largest private sector financiers of solar home systems in Sri Lanka. To date, LOLC has financed over 16,000 solar systems to customers who are predominately engaged in agricultural activities in the rural sector.

The year 2007/2008 was a defining year for the Micro Finance BU. The strategic re-alignment of the Business infused greater strategic intent. In effect the BU posted a growth of 67% from that of the previous year. Numerous capacity building activities were conducted during the year, especially with respect to knowledge enhancement and knowledge management, to enable the sales force across the length and breadth of the organization to not only be conversant with the products on offer but also to be competent in advising potential and existing customers.

The year was also one of relationship building, with the formalisation of working alliances established with many bilateral agencies such as the GTZ and the USAID.

BUSINESS IMPACT REPORT



Solar powered home system funded under RERED program

From an operational perspective, the BU established 20 rural internet centres under the aegis of the Last Mile Initiative of USAID. Agro loans were provided to farmers through tri-party agreements signed with agro processing companies such as Prima & Hayleys Agro. The year also evidenced the establishment of a centre for Micro Finance activities in Medabedda, Balangoda and the joint venture with Sundaya Lanka Limited, a solar component assembly and marketing facility.

The Micro Finance BU has so far disbursed approximately Rs. 2 Bn worth of micro finance facilities under the flagship of LOLC.

Outreach, sustainability of operations and achieving greater operational efficiencies that will benchmark the BU as the best in South Asia are a few of the future objectives of the BU.

However, the company is looking forward to establishing a business with the support of a reputed AAA rated development financial institution in Europe in the coming year. The roadmap for the coming 3 years ahead spells out the leadership position that LOLC hopes to achieve - to be the premier private Micro Finance company in Sri Lanka. As such, the Micro Finance BU will press ahead extending outreach which also includes special focus in the Eastern Province through its proposed fully fledged branches in Ampara and service centres in Trincomalee, Batticaloa and Kalmunai and Dambulla.

SAVINGS

Lanka ORIX Finance Company Limited (LOFIN) is the Registered Finance Company (RFC) of the LOLC Group which is registered with and licensed by the Monetary Board of the CBSL to mobilize public deposits. As an RFC, LOFIN complies with the stringent controls imposed by the CBSL - the regulatory body for the sector. LOFIN holds

the accolade of being the only Sri Lankan Finance Company with a direct association with a reputed global financial entity. Operating with a Fitch Rating of BBB+ (lka), LOFIN is perceived as a financial institution of strength and stability.

During the financial year 2007/2008, LOFIN performed commendably with its deposit base recording a growth of over 90%, whereas the growth of the Savings & Fixed Deposit market comprising Commercial Banks and other licensed financial institutions including RFCs was less than 20%.

Five key initiatives that contributed towards this exceptional performance are,

- Six new branches, thereby operating from the entire branch network of the LOLC Group,
- A Hospital Savings Center through which a 24 X 7 service is offered for the convenience of our savings account holders and medical practitioners alike, the first such operation established by any financial institution,
- A Students Savings Center, in Polonnaruwa, to inculcate the habit of Savings amongst rural youth,
- Two Service Station Savings Centers at LIOC fuel stations and,
- A unit to provide personalised services to the high net-worth customers.

The restructuring of the LOLC Group, the strong Brand equity of LOLC, and the association with ORIX Corporation of Japan, were also key factors that contributed to the growth of the Deposit base.



Opening of Student Savings Unit at Royal College, Polonnaruwa

BUSINESS IMPACT REPORT

The product range offered by us encompasses all customers ranging from Minors (with the Orix Champ Savings accounts which offer attractive gifts when the balance reaches predetermined slabs), Senior Citizens (with a higher rate of interest linked to an emergency medical service), Corporate entities (with both Super Savings accounts in which the rate increases in relation to the balance) and Corporate Fixed Deposits (which offer a premium rate), and the Rural Community (with Micro Savings accounts specially tailored to cater to their needs).

In looking to the future, LOFIN will continue to add value to Savings and Deposits with innovative features that will leverage on par with all other financial service providers. A tie-up with an ATM/Debit card network is currently in the pipeline and is an initiative that will afford all LOFIN savings account holders the convenience of easy access to their funds.

The landmark achievement during the year under review was the approval obtained from the CBSL to set up an Islamic Business Unit (IBU) through which we now offer the opportunity for investors to make Mudarabah Investments. This is the only such approval granted by the CBSL. These investments offer investors a share of profits of the IBU and have the approval of the Shari'ah Board of the Company and the CBSL. LOFIN is the only such Financial Institution that is registered with the Central Bank.

The challenge that requires tactful management is the necessity to control the cost of deposits in a market where 'price war' is the norm.

INSURANCE

The Insurance Business Unit credits its self as a front-runner in the Insurance Brokering arena, with the Insurance Board of Sri Lanka validating LOIB's position in its annual report 2007 ranking the BU as number 3 in premium value when compared with over 55 registered insurance brokers operating in Sri Lanka. The Insurance BU, is an Honorary Council Member of Sri Lanka Insurance Brokers Association (SLIBA) and an Honorary Council Member of Sri Lanka Insurance Institute (SLII). With a Gross Written Premium of approximately Rs. 867 Mn per annum, this BU is also looking at promoting offshore insurance products through a fully owned subsidiary.



A Poster publicity campaign of the Company

The Insurance BU posted a 30% top line growth in 2007/08. Falling in line with the objectives of the overall strategic re-alignment, the company shifted focus to garner a greater share of the external, corporate customer segment. As a result, LOIB registered a 200% growth in market share and thereby reduced its dependency on the internal group for business. In doing so, the key challenge for the company was to successfully differentiate itself both from the mainstream insurance providers as well as insurance brokers.

Going forward, the BU will seek to create a greater interaction with clients through enhanced process management and customer reach. Its future strategic direction rests surely on a 3-year plan to phase out tangible documentation to an electronic documentation system, thereby becoming paperless. The initiative will optimize the efficiency of the company and enhance its ability to offer more timely, effective and precise service delivery.

With a view to becoming the "Insurance Specialist", the BU will aggressively market its existing portfolio of products, especially its Guardian co-branded range, with product innovation as its selling proposition, thereby overriding a scenario of price war in the market place.

FLEET MANAGEMENT

Fleet Management as the name implies is the management of a fleet of motor vehicles which are offered as short and long term hires. The service provided helps to relieve our clients of the burden of managing their own fleet of motor vehicles. The intention of the BU is to replace the transport division of a corporate by offering an economical alternative and the opportunity to concentrate on their core business activities.

BUSINESS IMPACT REPORT

This is largely an untapped market, dominated by small rent-a-car operators. LOLC has taken the necessary steps to make use of this opportunity and expects rapid growth in the Fleet Management business. The investment in its own work shop cum repair facility will be the key to future growth. It is intended that the workshop will benefit the customer, enhance efficiencies, decrease costs and increase the service orientation of the unit.

In 2007/08, a significant achievement of the BU was the procurement and provisioning of a locomotive to a corporate client. It is believed that this is the first time that such an initiative has been made in Sri Lanka and is a first in the history of a leasing company where a locomotive has been hired to a corporate entity. The success of this kind of business venture is a precursor to LOLC venturing into equipment hires.

The total vehicle fleet managed by LOLC presently is over 900 vehicles, a significant number compared to established rent-a-car companies who have been in this business far longer than LOLC.

WORKING CAPITAL

The Working Capital Business Unit of LOLC was established when we identified the potential in non-securitised assets and the need for cash flow based financing rather than conventional asset back financing. This BU makes LOLC one of the few companies that has a specialised factoring operations. LOLC's Working Capital solutions enables the SME sector entrepreneurs to generate a steady cash flow for growth and expansion. The unit's spectrum of services includes factoring and invoice discounting, receivables management, sales ledger administration and collection, information and data sharing.

The BU recorded impressive gains during the year under review in top



An Outdoor Street Promotion of the Company

line growth as well as bottom line growth. It successfully grew its market share as a result of a progressive market penetration strategy. Moving away from the conventional Colombo market (which in essence is deemed to be the most lucrative for factoring), the company recognised the latent potential of suburban and rural markets. Hence, like all other product offerings of LOLC, factoring too is now been made available to clients through the branch network in selected cities. The strategic re-alignment of the BU proved to pave a new path of success with its access to twenty two direct channels across the country enabling it to secure a number of priority clients in the suburban and rural sectors.

Despite intense competition, the BU continued to achieve operational efficiencies through internal reorganization of functions together with cost control measures. However, high cost of borrowing during the year pushed lending rates upwards.

From a future strategic perspective, we will continue to focus on regional expansion as a means to greater growth in turnover and market share. Market expansion strategies will continue to focus on assisting the SME customer-base through both working capital solutions and advisory services.

STOCK BROKERING

A Member of the Colombo Stock Exchange (CSE), Lanka ORIX Securities (pvt) Ltd operates with a team of 35 stock brokers who have successfully structured and executed many strategic transactions in the CSE during their careers.

LOLC is the registered broker in Sri Lanka for Citigroup Global Markets Limited and possesses a global client portfolio consisting of fund managers such as the reputed Galleon Group, New York, BNP Paribas Asset Management, UK and Lionhart Investment, UK.

In the local market scenario, this BU represents a client base that exceeds 50,000 comprising of most of Sri Lanka's high net worth Individuals and local institutions as well as retail clients from across the island. It has five branches, in Kandy, Matara, Negombo, Kurunegala and Kalutara and all branches are ranked among the top two according to monthly turnover.

During the year 2007/2008, the BU's strategic intent was to increase foreign institutional market share - a goal met successfully. It has remained within the top three stock broking firms in Sri Lanka during the last five years

BUSINESS IMPACT REPORT

Looking to the future, BU plans to optimize its operations to ensure that it retains its position as a top broking firm, and hence it looks to maintain its momentum of growth equally in the foreign, local institutional, high net worth and retail segments.

OPERATIONAL REVIEWS OF OTHER SUBSIDIARIES INFORMATION TECHNOLOGY

Lanka ORIX Information Technology Company (LOIT) supports and services all Business Units and Subsidiaries of the Group with all ICT requirements whilst focusing on providing Application Systems and Business Intelligence Solutions for banking and financial services sector.

Business Intelligence and Data Warehousing (BI & DW) is the key focus area for strategic growth of the company. BI & DW solutions remains relatively new to the Sri Lankan and global markets, and will be focal investment of large corporates, especially in the banking and finance sector over the next two to three years. The company is confident of securing a significant share of the market in this area through strategic investment into product and partnerships. With the experience of the pioneering leasing company of Sri Lanka and the global best practices of the ORIX Corporation of Japan, the IT business pioneered a leasing and loans management solution for Sri Lanka's leasing industry. Leveraging on this position, LOIT believes it will be able to provide best of breed applications solution for financial services sector and become a leader in the BI & DW.

LOIT has in the past engaged in strategic partnerships with global leaders in technology and business solutions such as Oracle and Microsoft, and will continue to secure partnerships for the focus areas of BI & DW in the coming years.

In the long-term, the company envisions being a leader in BI & DW, Banking and Financial Services Solutions and Consultancy in the region.

PROJECT DEVELOPMENT

LOLC established a dedicated projects development company Lanka ORIX Project Development Co. (LOPD) in 2005 to pursue two key objectives: (a) source and partner with reputed, experienced foreign organizations and (b) participate in infrastructure and related projects in Sri Lanka and regional countries.

In the year 2007/2008, LOPD made further progress on two innovative and ambitious projects which have great potential for the group.

The first of these projects pertains to off-shore sand mining, washing sieving & supply to the construction industry. Given the ill impacts of river based sand mining on the eco systems of water ways, the Government of Sri Lanka banned river mining. LOPD recognised the potential of the next best alternative as proposed by experts and embarked on an initiative to mine sand off-shore, wash, sieve and supply to the construction industry.

LOPD in a joint venture with Dredging International, NV of Belgium - the No 1 dredging reclamation, marine engineering and off-shore contractor in the world, looks to cater to the burgeoning sand requirement of Sri Lanka's construction sector. The requirement of sand for the construction industry is approximately 10 Mn metric tons per annum. It is forecasted that this quantity will increase exponentially in the future due to development of new infrastructure facilities, island wide.

During the year the Land Reclamation & Development Corporation allocated 48 Acres of developed land at Muthurajawela for this project. Further Off-Shore mining areas have been identified at five locations for future expansion. The project which is a private public sector partnership is due to commence commercial operations in the near future. The Government of Belgium has pledged to finance this project of national importance.

LOPD's second project - the manufacture of Precipitated Silica using Rice Husk Ash, was further developed during the year. LOPD acquired patent rights from US-based AgriTec for use of their technology in seventeen countries, Sri Lanka, Thailand, China, Vietnam, Philippines, Cambodia, Laos, Indonesia, Myanmar, Bangladesh, India, Pakistan, Malaysia, Australia, Japan, South Korea and Singapore.

Precipitated Silica is used in the manufacture of tires, rubber goods, cosmetics, tooth paste, chocolates, biscuits, computer chips, aircraft components and on many other manufacturing applications. The scale and scope of the usages and demand for the material poses great opportunities for LOPD, especially given the low cost of converting rice husk to precipitated silica.

Identifying Thailand as the most suitable location, given that the country has more than 18 rice de-husking plants where rice husk ash

BUSINESS IMPACT REPORT



PRASAC branch office in Kampong Chhnang province, Cambodia

is a growing concern for plant owners due to a lack of disposal methods - LOPD joined hands with a company in Surin, Thailand to obtain 20,000 tonnes of rice husk ash per annum, to manufacture precipitated Silica & allied products.

During the year negotiations were completed for construction of the first production facility. The plant will near completion by end 2010 and commercial production will commence 03 months thereon. Six more production facilities will follow in Laos, Cambodia and Vietnam.

SUNDAYA

LOLC bought a controlling interest of Sundaya Lanka Pvt. Ltd. during the financial year under review. Sundaya Lanka, is a solar manufacturing and trading company and is one of the largest solar manufacturing company in Sri Lanka. With the expertise LOLC has gained in the financing of home solar systems through the RERED project, LOLC sought to support the rural customer base of the company with solar systems. The systems will also be serviced by the company, a departure from the practice of the past where there was no after sales support available for solar systems provided by other vendors.

Sundaya Lanka is currently in the process of establishing its workshop in Pannala and is hoping to be the number one solar panel manufacturer in the country with aggressive growth plans being drawn to expand into the region in the near future.

PRASAC

LOLC acquired a stake of 19% of PRASAC Micro Finance Company of Cambodia in 2006, in its pursuit to expand business operations in the region. LOLC saw the future potential for Micro Finance business in Cambodia as well as in Sri Lanka which is untapped to a great extent.

The investment in PRASAC has brought in technical expertise in Micro finance business for LOLC and also opened avenues for many business opportunities for LOLC in Cambodia.

PRASAC with the capital infusion and restructure that took place in 2006 and 2007 has shown significant growth in business and generated 60% top line growth compared with the previous financial year. The change in business strategy also delivered 297% growth in profits. The growth in the asset book of the company was an impressive 150%. The net assets recorded a healthy growth of 140% during the last financial year.

LOLC was accepted by The National Bank of Cambodia as one of the two influential shareholders of PRASAC Micro Finance Company and will actively participate in growing Micro Finance Business in Cambodia.



Micro Finance funded pottery project - Cambodia

TOUCHWOOD

Touchwood Investments Ltd. (TIL) pioneered Sri Lanka's forestry plantation, management and investments sector. LOLC identified TIL as a long term strategic fit for the group in terms of a sustainable business model and during 2007/2008, acquired 29.18% of Touchwood by initiating an investment into the company which believes in the triple bottom line; Planet, People and Profit. For both entities - Touchwood and LOLC - this investment is considered to be a symbiotic relationship which will deliver value in the medium and long term. TIL is in the business of managing forestry plantations for customers who invest in forestry for the long term investment growth.

During the year under review, from a performance perspective, Touchwood experienced moderate growth. LOLC's investment adds



Young Mahogany plantation

great value to Touchwood in enhancing its image and is expected to positively contribute to register robust growth in the coming year.

The future plans of Touchwood include rapid expansion of the forestry and plantation cover. In the coming financial year, in excess of 1000 acres of forestry are planned to be planted. It is also hoped that the business proposition will be widened to reach a greater target audience using the LOLC distribution network. The association with LOLC will also allow the company to pitch its offer to international multilateral funding agencies. As a true triple bottom line operator, Touchwood operates with true sustainable principles embedded into the business.

GLOBAL ALLIANCES AND FUNDING PARTNERS

Over its twenty eight years, LOLC has evolved as a total financial solutions provider and is recognized today as a significant player in the industry. The Company's long term vision of sustainable growth and development of the SME and Micro sectors is a vision that is aligned very clearly with the goals of many multilateral and bilateral agencies. LOLC would not have been able to realise its dreams and successes if not for the backing of these funding institutions which, having understood the vision of the company, have supported us with long term funding solutions at attractive terms and conditions.

In 1994, LOLC for the first time secured a long term funding line from FMO - the Development Finance Company of the Netherlands, marking the beginning of its success at securing many more such funding lines for SME and Micro Financing activities. Today, LOLC is one of a handful of Sri Lankan private sector entities that partners many of these funding institutions around the world in providing long term funding. The full list of LOLC's partner funding institutions is given below.

LOLC's vision for sustainable development, its drive to develop the SME and the Micro sectors and its superior performance have convinced many funding institutions to consider LOLC, as their preferred local partner to fulfill their developmental goals, that cover attractive long term funding and on capacity building and technical assistance.

In addition to providing funding for lending to the customer, these agencies have driven LOLC to reach the highest standards of ethics, transparency and accountability; they ensure that LOLC follows internationally accepted guidelines such as Anti-Money Laundering (AML) policies, Know Your Client (KYC) policies, and environmental protection procedures and also ensures that the company manages risks involved in its business effectively. They have been instrumental in providing expertise and know how for the implementation of the environmental and AML policies at LOLC which have enabled us to enhance our knowledge and in turn, support our clients better. The agencies' expertise has been transferred to LOLC, with support to train our staff, knowledge transfer and even IT systems support for the development of risk management tools.

While the foreign bilateral and multilateral agencies support the business with attractive funding options, the local commercial banks too play an equal important role in having confidence in LOLC and extending support with further funding lines for business expansion, over the years.

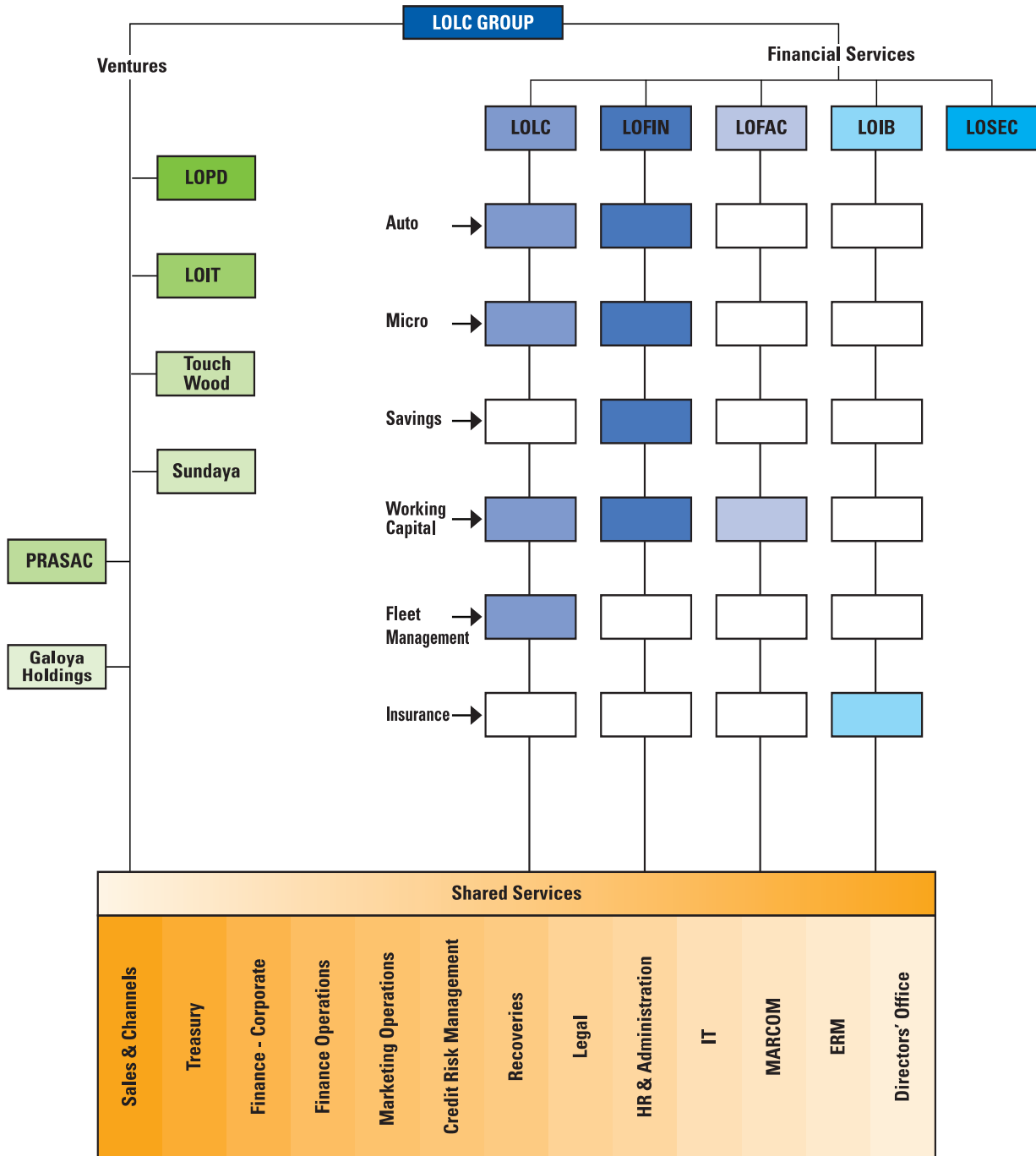
These long-term mutually beneficial partnerships between LOLC and our funding institutions not only provide long term funding solutions to us, but also provide LOLC with a total solution that helps us ingrain best practices into our operations.

BUSINESS IMPACT REPORT

	Institution	Type of Facility	Purpose of funding	Value addition
	OPEC Fund for International Development	US\$ long-term loan	SME sector financing and development	
	FMO	Long-term rupee loan	SME sector financing and development	Environmental policy; Anti Money Laundering policy
	Afd PROPARCO (French Development Agency Group)	Long-term US\$ loan	Tsunami affected SME sector financing	Environmental policy; Anti Money Laundering policy
	DEG	Long-term US\$ loan	SME sector financing and development	Environmental policy; Anti Money Laundering policy, Liquidity risk management technology
	Belgium Investment Organisation (BIO)	Long-term US\$ loan	SME sector financing and development	Environmental policy; Anti Money Laundering policy
	Overseas Private Investment Corporation (OPIC)	Risk Sharing Facility with Citi Bank, Colombo	SME sector financing and development	Environmental policy; Anti Money Laundering policy
	USAID	Portable Guarantee scheme	Micro Finance Sector development in Eastern and Uva province	Environmental policy; Anti Money Laundering policy
	Finn Fund	Long-term US\$ loan	SME sector financing and development	Environmental policy; Anti Money Laundering policy
	European Investment Bank (EIB)	Long-term Rupee/Euro Refinancing scheme	Tsunami affected SME sector development and support in tourism sector	Environmental policy; Anti Money Laundering policy
	World Bank	Long-term Refinancing rupee loan	Refinancing of rural sector renewable energy development	Environmental policy; Anti Money Laundering policy
	Japan Bank for International Corporation (JBIC)	Long-term Rupee loan/ Refinancing scheme	Develop the plantation sector in enhancing profitability and to improve the living and working conditions of the estate workforce	Environmental policy; Anti Money Laundering policy
	ADB	Long-term Rupee loan/ Refinancing scheme	Tea smallholders income improvement and development	Environmental policy; Anti Money Laundering policy
	GTZ	Technical assistance for Micro Finance	Development of Micro Finance Sectors	Promotion of Micro Finance Sector
	Export Development Corporation Canada	Long-term US \$ loan	SME Sector financing & Development with Canadian Imports	

BUSINESS IMPACT REPORT

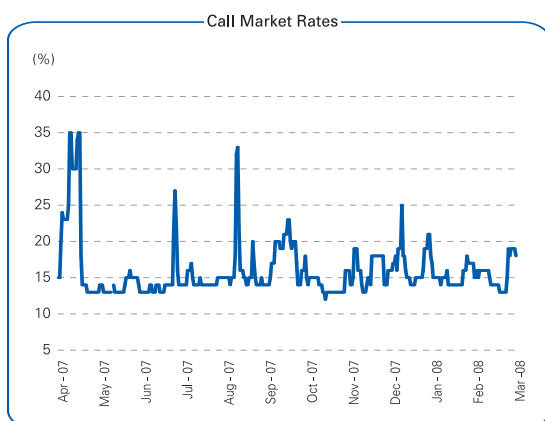
Group Operations Structure



FINANCIAL REVIEW

Industry

The financial year 2007/08 has been a year where the global financial sector was rattled by the US sub prime mortgage crisis, soaring commodity prices and increasing operating expenses, with key global finance houses suffering massive losses.



The key challenges faced by the local financial sector were highly volatile and increasing interest rates, intense competition, a saturated market as well as increasing commodity prices and rising inflation. The high level of inflation left the financial sector having to face the daunting task of containing non performing loans arising from non settlement of dues, caused by an overall reduction in disposable income.

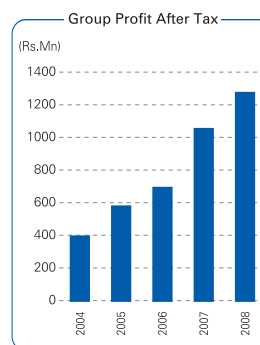
Intensified war efforts in the North and East together with security concerns in other areas of the country hampered the economic development of the country.

The credit ratings of a number of financial institutions were downgraded by rating agencies due to the rise in non performing loans, high exposure to interest rate risk, narrowing margins and reduced profitability amidst rising operational costs.

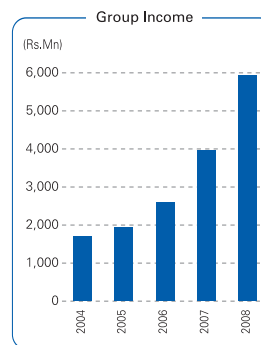
The Agro and Micro financing sectors received a lot of attention during the year with state patronage for efforts to develop the rural economy. Competition in this sector increased with the two state banks entering the fray, offering agricultural loans at subsidised rates.

Group

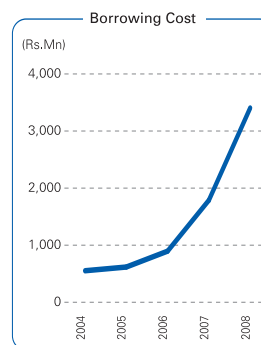
2007/08 has been an extremely challenging year for LOLC with the Group having to face many external as well as internal pressures. Taking the unfavourable market condition as an opportunity, where most financial institutions were unwilling to move forward, the Group was able to forge ahead and report a net profit of Rs.1.3 Bn for the year. This is an increase of 21% over the previous year.



During the year, the Group's income increased by 50% over the previous year to Rs.5.9 Bn. Considering the high volatility of interest rates, regular price reviews as well as effective changes to the product mix were critical aspects considered in maintaining top line growth.



The Group's borrowing cost increased by 90% over the previous year due to the sharp increase in cost of funds during the year, as well as the quantum growth in borrowings in line with the aggressive growth in Group assets.



The total receivables of the Group increased by 26% over the previous year while the increase in total assets was 38%.

Significant investments were made in developing and modernising office infrastructure, refurbishing branch offices and expanding the head office building.

FINANCIAL REVIEW

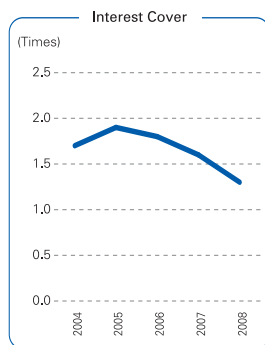
In addition, to expand the reach and deliver greater convenience to our customers, LOLC entered into a strategic alliance with LIOC to establish LOLC service points at LIOC filling stations. Ten such service points were opened during the year.

The Group strategic plan was rolled out during the year, moving into a Business Unit structure that allows specialised units to concentrate on market and customer development. Support functions were centralised to increase efficiencies and eliminate duplication of resources, thereby reducing the Group's overhead cost. The most critical aspect of the new structure is the centralisation of the sales and distribution channels, resulting in all branches being able to offer the entire range of LOLC products and services.

Taking an affirmative stride in the direction of sustainable development, the Group made a number of investments in environmentally friendly ventures locally as well as overseas. These include a 29.2% investment in Touchwood Investments Ltd., a forestry company; Agritech Inc, which explores the production of precipitated silica and generation of electricity from paddy husk; and the purchase of a 51% stake in Sundaya Lanka (Pvt) Ltd, a company involved in assembly of solar systems.

Rs. 58 Mn has been recognised as post acquisition profit share from Touchwood. The investment in PRASAC, the micro finance company in Cambodia, in which LOLC holds a 19% stake, contributed Rs. 37 Mn as share of profit to the Group. The profit from PRASAC is recognised on equity basis of accounting as LOLC has been appointed the influential shareholder by PRASAC as per requirements of the National Bank of Cambodia.

Goodwill of Rs. 126 Mn on account of Touchwood, and Rs. 5 Mn on account of Sundaya, has been recognised, the basis of which is explained in detail in the notes to the financial statements.

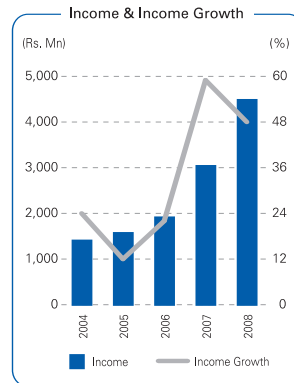


The Group's interest cover dropped to 1.3 times from 1.6 times at the end of the previous year due to the higher interest cost.

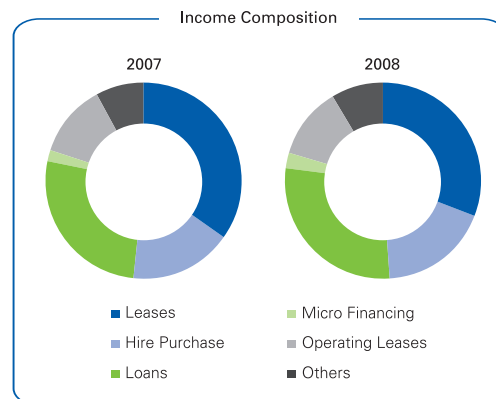
The earnings per share increased by 22% to Rs. 26.69 from Rs. 21.91 last year.

LOLC Company

LOLC continued its trend of recording strong top line growth with an year on year income growth of 48%, income increasing from Rs. 3.0 Bn to Rs. 4.4 Bn. The holding company's income did not record the same breathtaking top line growth as the previous year, but this year's figures were a tremendous achievement, given the challenging environment that all financial institutions were operating within.



The contribution of income from leases reduced to 31% from 35% during the year as a result of leases becoming less attractive to customers because of the Value Added Tax that lease rentals attract. Income from leases, although representing a smaller portion of the Company's income when compared with the previous year, increased by 31% over the previous year and was the main contributor to the Company's income.



Income from loans increased by 57% over the previous year and constituted 28% of the income. Income from hire purchase too showed a strong growth, increasing by 58% over the previous year.

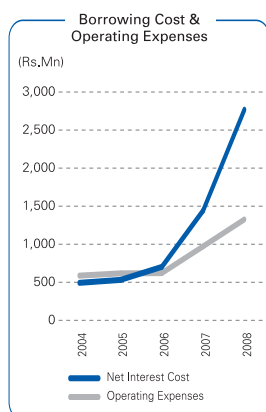
Income from micro financing products increased by 103% when compared with the previous year, in line with the emphasis that the Company is placing on developing this sector.

Although the top line of the Company showed strong growth, the bottom line of the Company remained at the same levels due to increased borrowing costs arising from high interest rates.

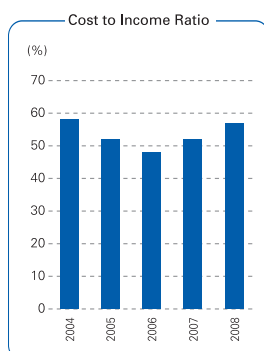
FINANCIAL REVIEW

The borrowing costs increased by 92% to end the year at a very high level of Rs. 2.8 Bn.

In addition, the Company was further affected by the increase in operating expenses as well as higher provisioning for doubtful debt, leading to a drop of 38% in operating profit.



Due to the prevalent weak macro economic conditions, the Company placed strong emphasis on maintaining a healthy collection ratio. Non-performing loans have been contained within manageable levels through strict controls on credit, coupled with strong recovery efforts. The Company's provisioning for bad and doubtful debt was a conservative Rs. 108 Mn. Specific bad debts of Rs. 41 Mn were written off during the year in line with the Company's write off policy. The Company's ratio of non performing loans at the end of the financial year was 0.7%, well above industry average.



The cost to income ratio increased by 5 percentage points over the previous year. This relatively low increase, amidst an annual average inflation of 19% is attributable to the positive impact from centralisation of shared services, as well as planned expense management initiatives.

The Company capitalised its fully owned subsidiaries LOFIN and LOFAC supporting their business growth.

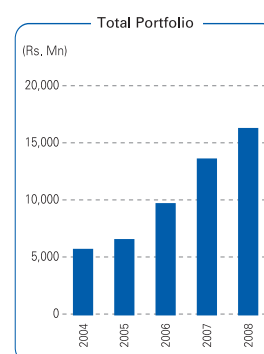
During the year, the Company acquired 29.2% of Touchwood Investments Ltd., the pioneering forestry company in Sri Lanka.

The Company acquired 19.9% of People's Merchant Bank Ltd. during the year. Further, a strategic investment was made in Gal Oya Holdings (Pvt) Ltd. for the purpose of investing in Gal Oya Plantations, formerly known as Hingurana Sugar Company.

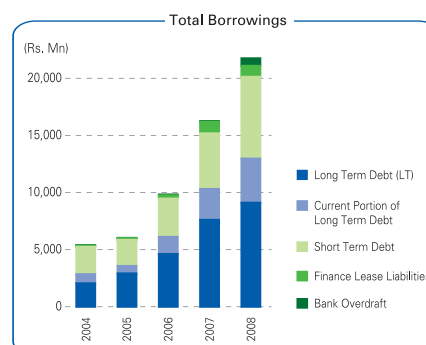
Other income for the year, including income from strategic investments as well as royalty income and treasury management fees from subsidiaries was Rs. 441 Mn, an increase of 51% from the previous year. A significant portion of this income was attributable to an increase in the market price of the People's Merchant Bank investment, which is marked to market.

The negative effects of the increase in interest cost as well as operating expenses were off-set by the increase in other income, which includes income from strategic investments, resulting in a Profit After Tax of Rs. 978 Mn for the year.

The Company made a provision of Rs. 88 Mn as corporate tax and Rs. 151 Mn as deferred tax. The Company recognised the balance 50% of the tax asset for this year in line with the previous years recognition of the tax asset having a net tax impact of positive Rs. 182 Mn on the Profit After Tax.

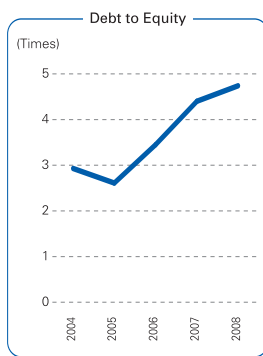


The total portfolio grew by 20% during the year to Rs. 16.2 Bn following the aggressive marketing strategy adopted by the Company. In addition, the Company's operating lease fleet too grew by 25% to Rs. 1.7 Bn during the year. The growth of operating leases is expected to slow down following the change in tax legislation.



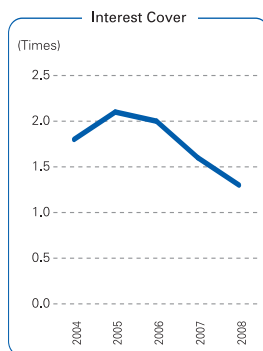
FINANCIAL REVIEW

The Company's aggressive expansion was supported through borrowings from local commercial banks as well as borrowings from foreign bilateral and multilateral funding agencies. In line with the treasury strategy of the Company, LOLC's foreign currency denominated debt has been fully hedged, thereby eliminating any exposure to movements in exchange rates. Part of the foreign currency exposure was hedged through back to back borrowings in local currency by collateralising the foreign currency borrowings. As a strategy to reduce the Company's borrowing cost, the Group treasury was able to negotiate foreign currency swaps through local commercial banks.



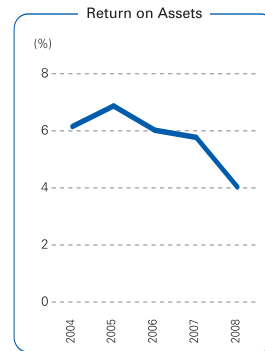
The Company's debt to equity ratio at the end of the financial year was at a healthy 4.7 times, well below the statutory ceiling of 10 times.

The Company's debt to equity ratio excluding the back to back borrowings on account of foreign currency loans, is at 3.8 times.



The higher quantum of borrowing at high rates had a negative impact on the Company's interest cover. The interest cover dropped to 1.3 times from 1.6 times by the end of the year. As the Company continues to expand its reach and increase its lending volume, we anticipate that the interest cost will be the main cost element in the coming year as well.

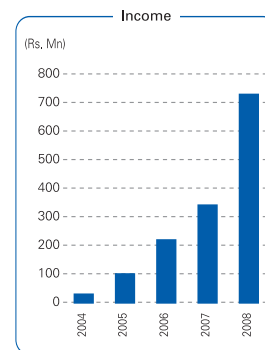
The return on equity was adversely affected by the steep increase in borrowing costs. The return on average equity dropped to 23% during the year. Total assets of the company increased by 32% from the previous year to Rs. 28 Bn as a result of aggressive marketing strategies adopted by the company.



The return on assets decreased to 4.0% from 5.8% the previous year.

Lanka ORIX Finance Company Ltd (LOFIN)

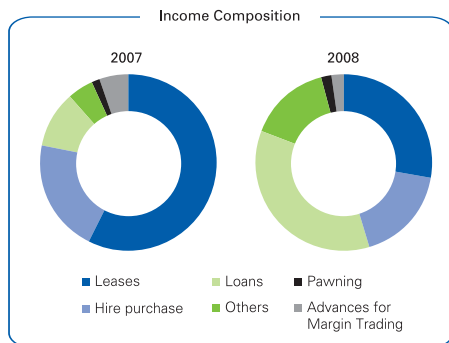
2007/08 was a year of tremendous growth for LOLC's fully owned subsidiary, LOFIN, a finance company licensed by the CBSL. Continuing with the growth momentum of the previous year, the income of the company increased by 115%. Income for the year was Rs. 725 Mn.



The Company's product mix and income composition too changed from the previous year, marking the transition from a company with a predominant leasing portfolio to a mature company with a balanced portfolio of products.

Income from leases was 30% of the total income for the year, whereas it was 57% of the gross income during the previous year. Interest income on loans increased to 39% of the gross income from 10% the previous year. Income from hire purchases constituted 19% of the gross income of the Company.

The Company's leasing income increased by 14% from the previous year and the income from hire purchases increased by 98% when compared with the previous year. The income from loans grew by Rs. 247 Mn and constituted the largest share of the Company's income. Growth in income from margin trading advances was a marginal 4% due to the low level of activity at the bourse. Income from pawning was Rs. 15 Mn.



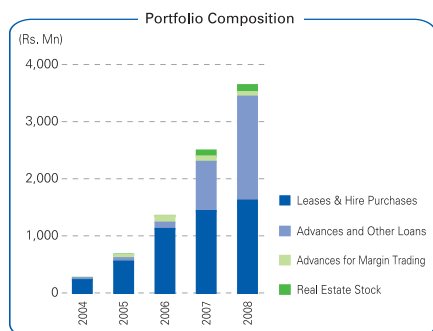
The main strategy of LOFIN during the year was to increase its deposit mobilisation through a mix of savings and fixed deposit products. With the concurrence of the CBSL, LOFIN's presence has been established at each of LOLC's 22 branches and some of the LIOC outlets island wide.

LOFIN's total deposit base increased to Rs. 3.3 Bn during the year following the aggressive deposit mobilisation campaign carried out by the Company. This was a growth of 91% when compared with the Company's deposit base at the end of the previous year.

With the increase in the deposit base, the Company's debt to equity ratio was 3.8 times compared to 2.3 times at the end of the previous year, which is well within the statutory ceiling of 10 times. LOFIN has the distinction of being one of the highest capitalised finance companies in Sri Lanka with a stated capital of Rs. 800 Mn, providing a stable foundation for growth in deposit mobilisation.

Due to the high interest rates prevalent in the country and the increase in LOFIN's deposit base, LOFIN's interest cost saw a steep increase compared with the previous year. LOFIN's operating costs too increased during the year as the Company increased its reach throughout the country.

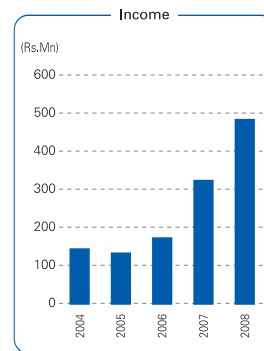
LOFIN recorded a pre tax profit of Rs. 100 Mn for the year and the Profit After Tax for the year was Rs. 50 Mn. Rs. 50 Mn has been provided as taxes and deferred taxes. Although the interest rates were extremely high during the year, LOFIN's interest cover improved to 1.2 times from 1.1 times last year through diligent management of interest rate risk.



The company's portfolio of income generating assets changed in composition during the year from a portfolio dominated by facilities executed at fixed rates, to one with a balance between fixed and flexible rate income generating assets. The Company is financed mainly through customer deposits with a tenure of up to one year, this shift in portfolio composition reduces the Company's exposure to changes in interest rates.

Lanka ORIX Factors Ltd (LOFAC)

In keeping with the growth momentum of the rest of the Companies in the Group, the income of LOFAC, a fully owned subsidiary of LOLC, too recorded an income of Rs. 471 Mn, an increase of 46% over the previous year.



Income from factoring activities increased by 30% when compared with the previous year. However the strongest growth in income was from loans granted for working capital requirements, income from which increased by 67% when compared with the previous year.

The income composition of the current financial year saw the income being almost equally split between loans and factoring.

The net interest cost of the Company increased by 47% during the year due to the growth of its lending portfolio as well as the increase in cost of funds. Despite this, the Company was able to maintain its interest cover at the same level as the previous year at 1.1 times. The Company posted a healthy bottom line with Profit Before Tax of Rs. 16 Mn. The company's Profit After Tax is Rs. 9 Mn after providing Rs. 7 Mn for taxation.

A total of Rs.93 Mn was paid to the Parent Company as royalty and treasury management fees.

As a result of the aggressive marketing campaign carried out by the Company, the factoring portfolio grew by 45% whilst the strongest growth was in the working capital loan portfolio, which increased by 74%. This change in the composition of the portfolio has now converted LOFAC from a predominantly factoring company to a working capital solutions provider.

FINANCIAL REVIEW

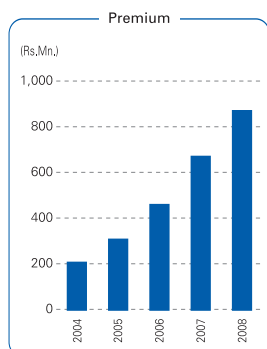
The capital structure of the Company was strengthened with an equity infusion of Rs. 205 Mn, during the year, increasing the stated capital of the Company to Rs. 282 Mn and total share holders' funds to Rs. 330 Mn. This strengthening of the Company's capital structure will provide a firm foundation for the Company to expand its activities and grow further.

The capital infusion also contributed towards a significant reduction in the Company's gearing, resulting in the debt to equity ratio of the Company coming down to 2.8 times at the end of the year from 6.9 times last year.

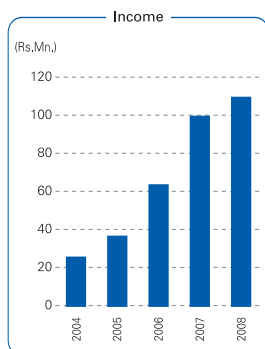
In September, LOFAC acquired 51% of Sundaya Lanka (Pvt) Ltd., a company engaged in assembly and distributing solar systems, an investment in line with the Group's policy of sustainable rural development. Sundaya's profit after tax for the year was Rs. 0.3 Mn.

Lanka ORIX Insurance Brokers (LOIB)

The year 2008 was another year of growth for LOIB, with total gross written premiums increasing by 30% over the previous year to Rs. 867 Mn. The total value of premiums included the sales of LOIB's own Guardian range of products.



The highest premium collection for the year was from Colombo, followed by Kandy and Negombo.



LOIB's commission income for the year was Rs. 109 Mn, an increase of 9% over the previous year. The company reported a Profit Before Tax of Rs.12 Mn for the year and Rs. 5 Mn has been provided for as tax. During the year, the Company contributed Rs. 11 Mn as royalty to the parent company.

Lanka ORIX Information Technology (LOIT)

The Company currently engaged in providing IT support internally to the Group, has made a significant contribution by deploying effective IT solutions, thereby enhancing customer services as well as improving the quality of information. The income of the company increased by 48% over the last year to Rs. 74 Mn.

Efforts have been made to ensure that necessary resources required to cater to the demands of the Group are in place for the implementation of the strategic plan. Accordingly, investments were made by the Company in its human capital by way of developing and strengthening the skills of the staff as well as in acquiring new members to the staff. The total staff cost of the Company increased by 62% over the previous year.

The Company reported a profit of Rs. 33 Mn for the year.

Lanka ORIX Securities (Pvt.) Ltd. (LOSEC)

LOSEC recorded Rs. 134 Mn as commission income during the year. The Company continues to enjoy the position of being one of the two top stock brokering companies in the country in terms of turnover. LOSEC contributed Rs. 16 Mn as royalty to the Holding Company.

Lanka ORIX Project Development Ltd (LOPD)

LOPD was at the forefront of the Group's Sustainable Development initiatives, forging alliances with local and overseas partners.

The Company still in its early years incurred project development and setting up expenses of Rs. 14 Mn for the year and is yet to generate an income, therefor recorded a loss of Rs. 14 Mn for the year.

RISK MANAGEMENT REPORT

At LOLC, risk is defined as “any thing which hinders the achievement of our corporate objectives”. Having understood the myriad of risks and their inter-related nature, LOLC took a strategic decision in 2007 to change the focus from traditional risk management to enterprise level risk management. LOLC has adopted enterprise risk management through the development of a risk management framework that is effective in providing assurance over strategy delivery, implementation of plans and change management initiatives. This approach allows the Group to pull together all of the elements required to integrate the risk management initiatives in to everyday management of the business.

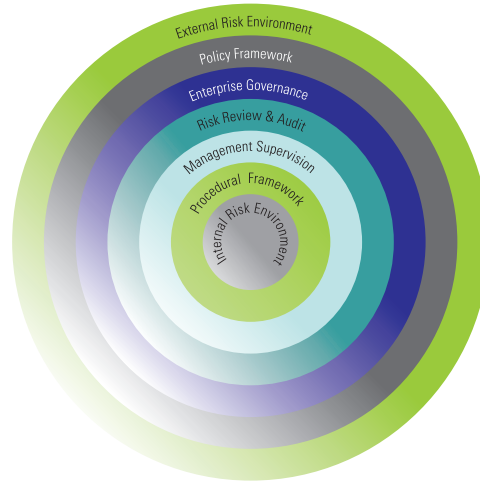
As such, at LOLC we strive to inculcate a culture where responsiveness to risk pervades across the organizational hierarchy, at all levels of operations. Therefore, the ensuing risk visibility allows for decisions to be taken with a consciousness of potential outcomes that the business will encounter, which will lead to reasonable assurance that adequate measures are in place to control the risks within acceptable levels .

The Enterprise Risk Management (ERM) division was formed by synergizing the resources of the Internal Audit, IT Audit and Risk Management functions, to facilitate the aforesaid organizational strategy. The division's primary responsibility lies in providing the Board and the Audit Committee with a reasonable assurance that LOLC's risk control framework is consistent and effective against the identified profile of risks.



Risk Management Framework

The Risk Management framework is formulated encompassing the Business Units, Sales and Channels and Corporate Solutions whilst keeping the risk ownership with them. The frame work addresses both macro and micro level risks.



LOLC handles all risks at three levels

1. Enterprise Level Risks → Policy level Decisions to mitigate risk
2. Management Level Risks → Formulation of Internal Controls
3. Compliance Level → Procedures & Staff Guidelines

The main objective of the aforesaid strategy is to lower the risks to a compliance level where proper mitigation mechanisms are formulated. The risk owners are then required to comply with the laid down controls in order to mitigate the risks at an acceptable level within the risk appetite of the organization. Due to the dynamic nature of the business' operational environment, once the control frame work is established, the documented business processes have a document life of one year. Upon expiry of this term, the risk owners are required to sign off on the status of the business or operational processes, thereby giving leeway to adjust for changes and to assess and formulate countermeasures if new risks emerge. Further the risk and compliance reviews on a process requires the internal audit arm of the Enterprise Risk Management division to validate the existing operational processes and internal controls.

RISK MANAGEMENT REPORT

The Risk Management Process at LOLC

Risk Assessment

The ERM division adopts a three pronged approach to risk assessment.

- Self Risk Assessment by the risk owners**

The self risk assessment by the risk owners is an essential feature since the primary responsibility of risk mitigation is vested with the risk owners and a formalized process is in place that all internal controls formulated through self assessments are validated by the ERM division for adequacy as well as validity.

- Risk Assessment by the Internal Audit /ERM**

Any risk review by internal audit/ERM requires documenting the process map of the risk sources under review, or validation of the existing process map against the current business environment and operational practices to ensure that all subsequent changes and amendments are taken in to consideration during the risk assessment stage.

- Perceived risk by the stake holders**

The Internal Audit/ERM interviews the stakeholders who have no direct involvement in the process to understand their perceived levels of risks with regard to the risk sources being reviewed. This allows for a 360 degree view of the risk profile.

		RISK MATRIX					
		(1) Isolated	(2) SBU Level	(3) Process Level	(4) Regional /Channel Level	(5) Enterprise Level	
PROBABILITY (P)	(5) Very High	p>80%	5	10	15	20	25
	(4) High	60%<p<80%	4	8	12	16	20
	(3) Medium	40%<p<60%	3	6	9	12	15
	(2) Low	20%<p<40%	2	4	6	8	10
		P<20%	1	2	3	4	5
		IMPACT					

Risk Categorization & Prioritization

LOLC adopts a two dimensional risk categorization matrix which is customized to profile risks both on a qualitative aspect as well as a quantitative aspect.

Given that historical data is not available or relevant for all situations, we have developed a risk matrix which is capable of rating risk qualitatively or quantitatively. The same matrix is enhanced to function as a risk scoring model which the Enterprise Risk Management division uses to rate the processes on risk and to decide on the audit frequency of the same.

Risk Score	Qualitative Measure	Rank Priority for action
1-3	Negligible/low	Acceptable risk
4-5	Low /Medium Risk	5
6-8	Medium Risk	4
9-12	High Risk	3
13-20	Critical	2
20>	Catastrophic	1

Risk Control & Monitoring

In addition to management involvement in risk control and monitoring activities by the risk owners, ERM adopts a two tier approach

- Risk Reviews by the Internal Audit /ERM (Primary)**

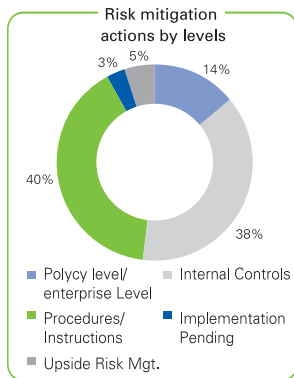
The Internal Audit carries out its review function of the internal control framework and reports to the Audit Committee, the weaknesses on the internal control structure with their recommendations. Weaknesses identified and established by the internal Audit/ERM will necessitate the risk owners to specify an action plan and a date of implementation or give their counter proposal to mitigate the risk element identified or to rectify the internal control weaknesses. The same is monitored by Internal Audit/ERM in their follow up reviews.

- Monthly Reporting Line to ERM (Secondary)**

Risk owners including branch offices have a compulsory reporting requirement to ERM where they report on Operational Risk, Information System Risks as well as any other important matter or perceived risk. The report has to be submitted to ERM immediately or minimum, on a monthly basis, based on the severity of the event being reported.

The Recommendations made by ERM/Internal Audit based on the risk reviews which resulted in implementation level decisions are categorized and depicted in the graph below, based on the three levels

RISK MANAGEMENT REPORT



Risk Profile of LOLC

EERM updates and maintains the risk register based on the reviews carried out listing the risk, risk category and the internal control available. This is still at the formulation stage and we hope to complete this exercise within the next financial year. The broad categorization of the risk profile of LOLC is depicted in the table over leaf.

of risk mitigation practiced by LOLC. 5% of these measures resulted in process improvements and cost reduction capitalizing on the opportunities emerged (upside Risk Management).

Risk Reporting

ERM conducts its risk audits and report to the Audit Committee. Reporting mechanism constitutes of a three tier approach

- Pre Planned Reviews within the annual Plan of ERM
- Reviews initiated by ERM based on emerging risks and changing business and operational practices
- Investigative & forensics oriented reviews & reviews requested by the management.

RISK MANAGEMENT REPORT

Risk Category	Risk	Primary Impact	Secondary Impact	Control Level	Confidence
Financial	Liquidity	Solvency	Sustainability	<ul style="list-style-type: none"> Maintenance of the appropriate asset & liability mix & maturity structure via constant monitoring by ALCO 	High
	Interest Rate	Profitability	Cost of funds	<ul style="list-style-type: none"> Maintenance of matching interest rate maturity structure 	Medium
				<ul style="list-style-type: none"> Negotiating Long term funding lines 	High
				<ul style="list-style-type: none"> Maintenance of an appropriate volume of floating rate assets 	High
	Balance Sheet Structure	Financial Leverage		<ul style="list-style-type: none"> Maintenance of appropriate asset & liability mix 	High
				<ul style="list-style-type: none"> Asset Securitisation 	High
				<ul style="list-style-type: none"> Constant Monitoring by ALCO 	High
Income and profitability structure risk	Profitability		<ul style="list-style-type: none"> Strategic steering of the business 	High	
			<ul style="list-style-type: none"> Maintenance of a diverse product portfolio 	High	
			<ul style="list-style-type: none"> Diversification of income generation activities 	Medium	
Capital Adequacy	Borrowing		<ul style="list-style-type: none"> Constant monitoring & maintenance of a healthy gearing ratio 	High	
			<ul style="list-style-type: none"> Asset securitization 	High	
Credit	Asset Quality and Profitability		<ul style="list-style-type: none"> Credit Policy 	High	
			<ul style="list-style-type: none"> Delegated Lending Limits 	V. High	
			<ul style="list-style-type: none"> Monitoring of credit concentration 	High	
			<ul style="list-style-type: none"> Constant credit monitoring 	V. High	
			<ul style="list-style-type: none"> Aggressive recovery mechanisms 	V. High	
Investment	Asset Value	Return on assets	<ul style="list-style-type: none"> Diversified investments 	Medium	
			<ul style="list-style-type: none"> Marking to market & prudent provisioning policies 	V. High	
Operational	Failure of internal controls	Operational effectiveness	Reputation & Image	<ul style="list-style-type: none"> Internal control framework 	High
				<ul style="list-style-type: none"> Internal control reviews 	V. High
				<ul style="list-style-type: none"> Review by external auditors 	High
Technology	Operational Effectiveness	Availability		<ul style="list-style-type: none"> Implementation of a proper ICT security infrastructure 	High
				<ul style="list-style-type: none"> Recovery Strategies 	High
				<ul style="list-style-type: none"> IT audit reviews 	High
Mismanagement & Fraud	Finance	Reputation & Image		<ul style="list-style-type: none"> Fraud Management Policy & Guidelines 	V. High
				<ul style="list-style-type: none"> Zero Tolerance on fraud & abuse 	V. High
				<ul style="list-style-type: none"> Corporate whistle blowing hot line & witness protection program 	High
				<ul style="list-style-type: none"> Management insight 	High

RISK MANAGEMENT REPORT

Risk Category	Risk	Primary Impact	Secondary Impact	Control Level	Confidence
Business	Business Strategy	Market Share	Profitability	<ul style="list-style-type: none"> • Regular review of the Strategic Plan • Aggressive marketing strategy • Market research & intelligence 	High V. High High
	Legal	Regulatory	Reputation & Image	<ul style="list-style-type: none"> • Anti Money Laundering policies • 100% regulatory compliance • Constant monitoring of the legal environment & regulatory requirements 	High V. High V. High
	Image & Reputation	Public Confidence	Reputation	<ul style="list-style-type: none"> • Corporate Governance policy • Code of ethics • Strategic CSR 	V. High V. High Medium
Event	Disaster Recovery	Availability	Sustainability	<ul style="list-style-type: none"> • Disaster recovery & business continuity planning framework & periodic testing 	Medium
				<ul style="list-style-type: none"> • Reduction of inter-dependancy of branch network & Head office 	High

We believe the ultimate risk management strategy is to inculcate an organization culture where every employee consciously appraises and manages the risk on activities performed within their scope of operations which will invariably enhance value creation at LOLC