



Management Discussion and Analysis

LH Financial Group Public Company Limited

For the Second Quarter ended 30 June 2014

(This report discusses principal changes in the reviewed and audited consolidated financial statement)

LH Financial Group Public Company Limited is the non-operating holding company, which currently holds 99.99% of total paid-up shares of Land and Houses Bank Public Company Limited and the bank holds 99.99% of Land and Housed Fund Management Company Limited. Therefore, Land and Houses Bank PCL., is its core company which the company's performances come from the operations of the Bank.

Overview of Economy and Competition in the Commercial Banks

Compared to the first quarter of 2014, the overview of Thai economy in the second quarter of 2014 has a better sign due to the easing political situation. As a result, households and the private sector investment has grown and improved. Additionally, agriculture commodity prices continue to decline and consumer debt still pressure household expenses. Investment and manufacturing industry has slowly recovered due to a lot of excess production. Tourism industry has been affected by the prolonged political situations, declared martial law and curfew announced, as a result, the number of tourists dropped by 10 percent. Exports sector faces a slight slowdown. Despite the great demands trends in Europe and U.S.A. , exports to ASEAN, China and Japan still be weak partly due to the economic downturn of ASEAN. Especially, production structure for Thailand's exports industry has changed to Labor Intensive such as textiles and garment which Thailand has moved production base to neighboring countries with lower wages. As a result, Thailand's textiles and garment exports industry decreased.

In the Commercial Banks, expanded adjustment loans on down and loan approval processes are more strict due to the prolonged political situations and the economic slowdown. However, after the political stability the Commercial Banks start lending again.

Overview of operation

On 22 January 2014, LH Financial Group Public Company Limited has signed Agreement to purchase of the entire issued share capital of CIMB Securities International (Thailand) Public Company Limited at the amount of 99.79% of paid up capital and also purchased a 99.99% paid-up share capital of CIMB Advisory (Thailand) Company Limited. The objective of the mentioned transactions is to extend its services in stock trading and financial advisor services. The company is expected to commence providing

of securities trading services within the third quarter of year 2014. The two companies will be renamed as Land and Houses Securities Public Company Limited and Land and Houses Advisory Company Limited .

Land and Houses Bank Public Company Limited is assigned the company rating of “A-” (Single A Minus) by TRIS Rating and the rating outlook of “Stable”. The rating reflects LH Bank’s continual improvements in its business and financial profiles and takes into consideration as the good asset quality and high capitalization.

Products and Services

Land and Houses Bank Public Company Limited has continuously developed the financial products and services to meet the needs of customers and facilitate the customers in order to increase the fee income. The bank emphasized on developing the wider diversification of products and services by offer various kind of products and services namely;

LH Bank Speedy is an internet banking service which accommodates the financial transactions that can perform transactions on anywhere and anytime. LH Bank Speedy has a Double Security system for ensuring on the transaction. The menus are easy to use. Customers can transfer money, operate products and services payment, check cheque status or seize including monitoring of their accounts. And the bank will send SMS to the customer for the result of the transaction that they do.

Internet Banking on Mobile is a service which can operate transaction easily and quickly on everywhere and every time via a mobile phone without network restrictions. This service has no need to change SIM card, just use a mobile phone to connect internet to access Internet Banking on Mobile for operate transaction easily.

Deposit - withdraw cash without slip is a service with more convenient for customers who operate any transaction at the bank branch. The customer just informs the teller the intend of deposit-withdraw, the teller will perform transaction and slip for the customer to sign.

Credit Bureau checking service is a service with more convenient for customer and people who need to check their credit bureau by all branch’s checking service.

Mobile Branch is considered as a delivery branch of the bank. This service is an additional financial service channel for customer in various areas with the financial transaction service such as open account service, deposit, withdraw, transfer, and pay for product and service including ATM Booth service and applying for an ATM card.

LH Bank SMS Alert is the service for customer to aware of the movements of the various account by sending SMS alert when the customer's account has some movement via mobile phone. Which allow customer know the status of account in order to increase the customer's confidence on financial transaction.

Cash Management Service is a financial service that is convenient and fast, reduces document work, reduce management costs and increase efficiency in business management, including salary payroll, bulk payment for retail fund transfer to another bank, bill payment for products and services via the bank and direct debit / direct credit and automatic transfer system (ATS).

LH Bank Privilege Banking service is a financial advisory service to the clients for obtaining most effective and highest profit including fee discount and other privileges.

Currency Exchange service: The bank has expanded the service for fulfilling and facilitating the clients completely at one-stop service. The bank primarily only buys overseas currency such as USD, EUR, GBP, JPY, CNY and HKD to exchange into Thai Baht. The clients can check the currency exchange rate at 9 branches as follows:

Bangkok and Vicinity: Lumpini, Banglumpu and Terminal 21

Provincial Areas: Big C Pattaya Klang, Phuket, Tesco Lotus Phuket, Patong,
Mega Home Mae sot, Mega Home Nong khai

Automatic Teller Machine (ATM) provides withdrawal services, intrabank fund transfer, interbank fund transfer, and payment for commodities and services, including the bank's ATM support to withdraw Baht currency accepts to JCB and CUP cards to provide service for foreign businessman and traveler.

As of 30 June 2014, there are 175 Automatic Teller Machines, increasing by 23 machines from year 2013.

Branches Network

At the end of second quarter of 2014, Land and Houses Bank Public Company Limited has totaling 114 branches, increased 14 branches when compared with the end of 2013. Almost of expanded branches were branches in HomePro. The bank was a partnership with Home Product Center Public Company Limited on the purpose to expand branches in every province which HomePro located. This was the strategic on branches expansion to coverage service in all area and to expand its customer base.

Analysis of the operating results

The Management discussion and Analysis of operating results of the Company and its subsidiaries performance is comparative performance of the second quarter of 2014 compared to the second quarter of 2013.

LH Financial Group Public Company Limited and its subsidiaries had net operating profit on the second quarter of 2014 amounted of Baht 306.45 million, increased by Baht 12.38 million, or up 4.21% when compared to the second quarter of 2013. The increase was the result of net interest income up to 15.77% following the growth of loan. Net fees and service income down 24.63%.

As the first half year of 2014, the company and its subsidiary had the net profit amounted of Baht 532.69 million, increased by Baht 29.45 million or up 5.85% when compared to the same period of last year amounted of Baht 503.24 million, mainly from net interest income up 16.51% following the growth of loan. Net fees and service income down 32.97%.

Basic earnings per share for the second quarter and the sixth month of 2014 were 0.0237 Baht per share and 0.0413 Baht per share, respectively, compared to the same period of last year were 0.0233 Baht per share and 0.0402 Baht per share, respectively. The return on equity (ROE) for the sixth month of 2014 and 2013 were 6.94% and 6.96% per year, respectively.

Net Interest Income

In the second quarter of 2014, the company had net interest income amounted of Baht 805.47 million, increased by Baht 109.72 million or up 15.77% when compared to the same period of last year at amounted of Baht 695.75 million, following the growth of loan. In the second quarter of 2014, the company had the interest expenses amounted of Baht 994.69 million increase from the same period of last year at amounted of Baht 886.51 million or up 12.20% due to an increasing of market interest rates and the growth of deposit.

Net Interest Income after deducted Bad Debt and Doubtful Accounts

Land and Houses Bank Public Company Limited records allowances for bad debt and doubtful accounts based on the guideline of the Bank of Thailand. It evaluates the status of debtors based on its experiences.

Net interest income after deducted bad debt and doubtful accounts amounted of Baht 655.47 million, increased by Baht 44.72 million, or up 7.32% when compared to the second quarter of 2013.

The bank has recorded allowances for bad debt and doubtful accounts including revaluation allowance for debt restructuring at amounted of Baht 150.00 million, Loan loss reserves ratio should made up is at 145.09%.

Net non-interest Income

Net non-interest incomes are including net fees and service income, net gains (loss) on trading and foreign exchange transactions, gains on investments, dividend income, and other operating income. Net non-interest income at amounted of Baht 220.98 million, or up Baht 52.32 million compared to the second quarter of 2013 or up 31.02%. Almost of net non-interest incomes are gains on investments are 68.80% of net non-interest incomes.

Other Operating Expenses

In the second quarter of 2014, the company had other operating expenses at amounted of Baht 499.79 million, increased by Baht 89.15 million, compared to the second quarter of 2013 or up 21.71%, as a result of the increase of employees' expenses that provide for branch expansion of the bank, premises and equipment expenses and other expenses that varied according to the growth of the business. The ratio of other operating expenses ratio to total revenue from operations for the quarter is at 48.69% , which is higher when compared to the same period of last year at 47.51%.

Operating Profit before Bad Debts and Doubtful Accounts, and Tax

The company and its subsidiaries had operating profit before bad debts and doubtful accounts and tax grew constantly from Baht 453.77 million in the second quarter of 2013 to Baht 526.67 million in the second quarter of 2014 or up 16.06%, due to net interest income increased by the expansion of loans and gains on investments.

Analysis of the Financial Position

The Management Discussion and Analysis of operating results of the company and its subsidiaries is a comparison of the financial positions as of 30 June 2014 and as of 31 December 2013.

Total assets

As of 30 June 2014, the company had total assets amounted of Baht 155,201.79 million, increased by Baht 6,103.07 million compared to year 2013 or up 4.09%. Core assets comprise of loans to

customer and accrued interest receivables – net at 68.20% of total assets, followed by investments- net, at 23.80% of total assets.

Loans

As of 30 June 2014, Land and Houses Bank Public Company Limited had loans at amounted of Baht 108,362.37 million, increased by Baht 4,713.27 million compared to year 2013 or up 4.55%.

Allowance for doubtful debts

As of 30 June 2014, the bank had allowance for doubtful debts amounted of Baht 1,702.72 million, increased by Baht 280.43 million compared to year 2013, or up 19.72%.

Non-performing Loans

As of 30 June 2014, the bank had non-performing loans (Gross) amounted of Baht 2,158.56 million, increased by Baht 178.42 million compared to year 2013 or up 9.01%. The ratio of NPLs (Gross) to total loans ratio at 1.88% of total loans.

Non-performing loans (Net) amounted of Baht 1,344.39 million, increased by Baht 116.95 million compared to year 2013 or up to 9.53%. The ratio of NPLs (Net) to total loans at 1.18% of total loans after deducted allowance for doubtful debts of non-performing loans.

Investments in securities

As of 30 June 2014, the company had net investments in securities which had book value at amounted of Baht 36,937.29 million, increased by Baht 471.19 million compared to year 2013, or up 1.29%.

Total liabilities

As of 30 June 2014, the company had total liabilities amounted of Baht 139,500.15 million, increased by Baht 5,422.64 million compared to year 2013, or up 4.04%. Almost of total liabilities were net deposits and interbank and money market items, which were 83.42% and 14.89% of total liabilities, respectively.

Shareholders' Equity

As of 30 June 2014, shareholders' equity amounted of Baht 15,701.63 million, increased by Baht 680.43 million compared to year 2013, or up 4.53%. Almost are the increase in capital by right offering of Baht 423.99 million and resulting from the exercise of the warrants of Baht 42.82 million.

Employees

As of 30 June 2014, the company and its subsidiaries had 1,464 employees, representing an increase of 99 employees compared to 31 December 2013.

Capital Adequacy and Total Capital Fund to Risk Assets

As at 30 June 2014, Land and Houses Bank Public Company Limited maintained the ratio of total capital fund to risk assets (BIS ratio) at 13.16%, higher than the 8.50% minimum rate required by the Bank of Thailand and decreasing when compared with 31 December 2013 at 13.38%.

The ratio of Tier I capital fund to risk assets was 12.56%, higher than the 6.00% minimum requirement of the Bank of Thailand.

Table: The ratio of capital fund to risk assets

| The ratio of capital fund to risk assets | 30 June 2014 | | 31 December 2013 | |
|--|--------------------------|--------------|--------------------------|--------------|
| | Amount (million Baht) | Ratio (%) | Amount (million Baht) | Ratio (%) |
| Common Equity Tier-1 capital fund | | | | |
| The Bank | 13,449.04 | 12.56 | 13,206.94 | 12.69 |
| Minimum rates required by law | | 4.50 | | 4.50 |
| The Difference | | 8.06 | | 8.19 |
| Tier 1 capital funds | | | | |
| The Bank | 13,449.04 | 12.56 | 13,206.94 | 12.69 |
| Minimum rates required by law | | 6.00 | | 6.00 |
| The Difference | | 6.56 | | 6.69 |
| Total capital funds | | | | |
| The Bank | 14,093.33 | 13.16 | 13,921.53 | 13.38 |
| Minimum rates required by law | | 8.50 | | 8.50 |
| The Difference | | 4.66 | | 4.88 |