



Management Discussion and Analysis

LH Financial Group Public Company Limited

For the Year ended 31 December 2014

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

LH Financial Group Public Company Limited is a non-operating holding company and a parent company of the financial business group, the company holds shares in other companies for the purpose of acquiring their management control. The financial business group consists of the following companies;

LH Financial Group Public Company Limited

Land and Houses Bank Public Company Limited

Land and Houses Fund Management Company Limited

Land and Houses Securities Public Company Limited

Land and Houses Advisory Company Limited

Economic Overview and Competition in the Banking Industry

The Thai economy in 2014 expanded by 1.2-1.7%, in addition, in the second half of the year, expanded by 2.9%. This is a result of the clear direction of political situation. Accompany with the economic development measurement that has been carried out during the end of the year that supported the expansion, especially, the private consumption and the private investment were good during the last quarter of the year. As the public consumption is the significant factor for supporting the expansion of the Thai economy continuously. However, export and tourism sector recovered slower than expectation. Partially, as a result of partner Countries economy, especially, European Union, has unstably recovered. Moreover, export prices such as agriculture products were at low price.

Export sector at the third quarter has decreased by 1.7%, due to the economy of the partner Countries. The economy of the United States of America and China were slow-growing since the second quarter while Japan's economy and Euro Zone economy were weak and the export prices of agriculture produces became lower. In the third quarter, the amount of an export decreased by 1.4% and export prices decreased by 0.3% and export values of the following produces were decreased namely, gold, automobile, petroleum products, para rubber and canned shrimp and crab products. However, the export value of the following products were increased, namely, rice, cassava, petrochemical, machinery and equipment and electric appliance. During the first nine months of 2014, the export values reduced by 0.7% while the amount of export increased by 0.3%. However, export prices has decreased by 0.9% calculated the price in Baht.

The banking industry is growing constantly from the previous quarter. Loan has slowed – down growing. Loan quality decreased marginal followed in the economic direction that recovered slowly due to the slowing down of the internal demand and domestic demand. However, the banking industry had set aside allowance and reserved capital fund at high level.

Overview of Operation

Land and Houses Securities Public Company Limited, one of the subsidiaries of LH Financial Group Public Company Limited was granted license from the Securities and Exchange commission to operate the securities business on September 29th, 2014 cause the financial group has expanded its diversified financial services thoroughly.

The Company Rating

Land and Houses Bank Public Company Limited is affirmed the company rating of “A-” (Single A Minus) by TRIS Rating and the rating tend to being “stable”. The rating reflects LHBANK’s continual improvements in its business and financial profiles including the good quality of asset and strong base of capital funds.

Certified Companies of Thailand's Private Sector Collective Action Coalition Against Corruption

LH Financial Group Public Company Limited, Land and Houses Bank Public Company Limited and Land and Houses Fund Management Company Limited have joined with the Thailand's Private Sector Collective Action Coalition Against Corruption (CAC) Council. On October, 2014 , all of them has certified the companies that have met the commitments to the CAC declaration on anti-corruption the companies, consequently, is proclaimed now a full member of the CAC.

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.

LH Bank Speedy is an internet banking service which accommodates the financial transactions that can perform transactions at 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.

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 a 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 services.

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 customers to help them keep track of any transactions in or out of account by warning via an SMS alert which sent to customers cell phone whenever a transaction is made, therefore, customers will know the status of their account in order to increase the customer's confidence on financial transactions.

Cash Management Service is a convenient and a fast financial service and 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 an 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 provided both of buying and selling services for USD, EUR, GBP, AUD, JPY, SGD and HKD. The Currency Exchange service has delivered at 16 branches as follows:

Bangkok and Vicinity: Lumpini Branch, Terminal 21 Branch and Booth at Terminal 21, Banglamphu Branch, Bangrak Branch and Pratunam Branch

Provincial Areas: Big C Pattaya Klang Branch, Phuket Branch, Tesco Lotus Phuket Branch, Patong Branch, Krabi Branch, Megahome Mae Sot Branch, Megahome Nong Khai Branch, Phitsanulok Branch, Tarat Warorot Branch, and Tesco Lotus Phuket Branch.

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 (Japan Credit Bureau) and CUP (china Union Pay) cards to provide service for foreign businessmen and travelers.

As of 31 December 2014, the bank has provided 178 Automatic Teller Machines, increasing by 26 machines from the year 2013.

Branches Network

At the end of the year of 2014, Land and Houses Bank Public Company Limited has totalled 117 branches, increased 16 branches compared to 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 were located. This was the strategic on branch expansion to coverage service in all areas and to expand its customer base.

The bank has provided Agent service for Mutual fund management, Private fund management and Investment unit broker operated by Land and Housed Fund Management Company Limited.

The bank has provided securities services by Land and Houses Securities Public Company Limited.

Analysis of the operating results

The Management Discussion and Analysis of operating results of the company and its subsidiaries performance are comparative performance of the year of 2014 compared to the year of 2013 as follow;

(Unit: Million Baht)

Item	Quarter		Variance	Quarter	Variance	For years		Variance
	4/2014	3/2014	(%QoQ)	4/2013	(%YoY)	2014	2013	(%YoY)
Net interest income	946.96	882.75	7.27	754.20	25.56	3,381.93	2,797.92	20.87
Net non-interest income	242.05	239.40	1.11	107.32	125.54	864.76	516.60	67.39
Operating income	1,189.01	1,122.15	5.96	861.52	38.01	4,246.69	3,314.52	28.12
Operating expenses	553.71	516.21	7.26	450.14	23.01	2,045.05	1,688.15	21.14
Bad debts, doubtful accounts and impairment loss	260.00	150.00	73.33	150.00	73.33	710.00	526.00	34.98
Income taxes	73.30	89.25	(17.87)	37.34	96.30	290.26	206.97	40.24
Operating profit before bad debts and doubtful accounts, and tax	635.30	605.94	4.85	411.38	54.43	2,201.65	1,626.37	35.37
Profit from operation before income taxes	375.30	455.94	(17.69)	261.38	43.58	1,491.65	1,100.37	35.56
Profit	302.00	366.69	(17.64)	224.04	34.80	1,201.39	893.40	34.47
Basic earnings per share (Baht)	0.0229	0.0278	(17.63)	0.0173	32.37	0.0921	0.0702	31.20
Diluted earnings per share (Baht)	0.0228	0.0278	(17.99)	0.0173	31.79	0.0921	0.0700	31.57

LH Financial Group Public Company Limited and its subsidiaries had net profit on the fourth quarter of 2014 amounted of Baht 302.00 million, increased by Baht 77.96 million, or up 34.80% when compared to the fourth quarter of 2013. The increase was the result of net interest income up to 25.56% following the growth of loan and net fees and service income up to 37.01%.

As the operation for the year of 2014, the company and its subsidiaries had the net profit amounted of Baht 1,201.39 million, increased by Baht 307.99 million or up 34.47% when compared to the same period of last year amounted of Baht 893.40 million, mainly from net interest income up 20.87% following the growth of loan, especially big corporate loan and corporate loan increased 43.80% from the end of year 2013. In addition, net fees and service income down 13.15%.

Basic earnings per share for the fourth quarter and the year of 2014 were 0.0229 Baht per share and 0.0921 Baht per share, respectively, compared to the same period of last year were 0.0173 Baht per share and 0.0702 Baht per share, respectively. The return on equity (ROE) for the year of 2014 and 2013 were 7.67% and 6.12% per year, respectively.

Net Interest Income

In the fourth quarter of 2014, they had net interest income amounted of Baht 946.96 million, increased by Baht 192.76 million or up 25.56% when compared to the same period of last year, following the growth of loan. In the fourth quarter of 2014, they had interest expenses amounted of Baht 1,032.94 million increased slightly from the same period of last year amounting to Baht 2.54 million, or up 0.25%.

For the year of 2014, they had net interest income amounted of Baht 3,381.93 million, increased by Baht 584.01 million or up 20.87% when compared to the same period of last year, following the growth of loan. For the year of 2014, they had interest expenses amounted of Baht 4,073.15 million increased from the same period of last year amounting to Baht 353.69 million, or up 9.51% 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 (“the subsidiary”) 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, which has recorded allowances for bad debt and doubtful accounts including revaluation allowance for debt restructuring amounted of Baht 260.00 million in the fourth quarter of 2014 and Baht 710.00 million for the year of 2014. Loan loss reserves ratio should made up is at 157.35%.

In the fourth quarter of 2014, net interest income after deducted bad debt and doubtful accounts amounted of Baht 686.96 million, increased by Baht 82.76 million, or up 13.70% when compared to the fourth quarter of 2013.

For the year of 2014, net interest income after deducted bad debt and doubtful accounts amounted of Baht 2,671.93 million, increased by Baht 400.01 million, or up 17.61% when compared to the year of 2013.

Net non-interest incomes

Net non-interest incomes are including net fees and service income, gain (loss) on trading and foreign exchange transactions, gains (loss) on investments, dividend income and other operating income.

In the fourth quarter of 2014, net non-interest incomes at amounted of Baht 242.05 million, or up Baht 134.73 million compared to the fourth quarter of 2013 or up 125.54%. Almost of net non-interest incomes are gains on investments 58.82% of net non-interest incomes.

For the year of 2014, net non-interest incomes at amounted of Baht 864.76 million, or up Baht 348.16 million compared to the year of 2013 or up 67.39%. Almost of net non-interest incomes are gains on investments 56.83% of net non-interest incomes.

Operating Expenses

In the fourth quarter of 2014, they had operating expenses at amounted of Baht 553.71 million, increased by Baht 103.57 million, compared to the fourth quarter of 2013 or up 23.01%, 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 operating expenses ratio to total revenue from operations for this quarter is at 46.57%, which is reduced when compared to the same period of last year at 52.25%.

For the year of 2014, they had operating expenses at amounted of Baht 2,045.05 million, increased by Baht 356.90 million, compared to the year of 2013 or up 21.14%. The ratio of operating expenses ratio to total revenue from operations for this year is at 48.16%, which is reduced when compared to the same period of last year at 50.93%.

(Unit: Million Baht)

Item	Quarter		Variance	Quarter	Variance	For the years		Variance
	4/2014	3/2014	(%QoQ)	4/2013	(%YoY)	2014	2013	(%YoY)
Employees' expenses	257.35	245.34	4.90	204.15	26.06	960.97	767.74	25.17
Premises and equipment expenses	170.90	161.82	5.61	135.55	26.08	629.29	512.91	22.69
Other expenses	125.46	109.05	15.05	110.44	13.60	454.79	407.50	11.60
Total	553.71	516.21	7.26	450.14	23.01	2,045.05	1,688.15	21.14

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 411.38 million in the forth quarter of 2013 to Baht 635.30 million in the forth quarter of 2014 or up 54.43%, due to net interest income increased by the expansion of loans and gains on investments. The operating profit before bad debts and doubtful accounts and tax increased from Baht 1,626.37 million for the year of 2013 to Baht 2,201.65 million for the year of 2014.

Analysis of the Financial Position

The Management Discussion and Analysis of operating results of the Company and its subsidiaries are a comparison of the financial positions as of 31 December 2014 and as of 31 December 2013.

Total assets

As of 31 December 2014, the company and its subsidiaries had total assets amounted of Baht 164,970.31 million, increased by Baht 15,871.60 million compared to year 2013 or up 10.65%. Core assets comprise of loans to customers and accrued interest receivables - net at 68.94% of total assets, followed by investments- net at 20.44% of total assets.

(Unit: Million Baht)

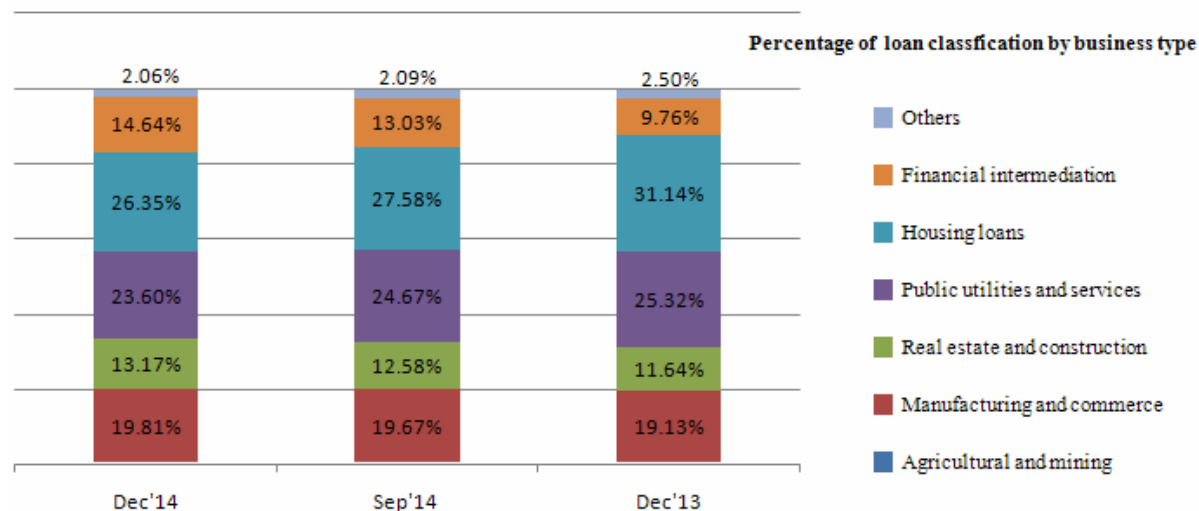
Item	December	September	Variance	December	Variance
	2014	2014	(%QoQ)	2013	(%YoY)
Interbank and money market items - net	13,117.18	12,210.64	7.42	7,010.08	87.12
Investments – net	33,728.13	36,453.97	(7.48)	36,466.10	(7.51)
Loans to customers – net	113,728.13	108,564.35	4.76	102,421.77	11.04
Loans to customers net deferred revenue	115,633.70	110,307.69	4.83	103,649.10	11.56
Other assets	4,396.87	3,352.15	31.17	3,200.76	37.37
Total assets	164,970.31	160,581.11	2.73	149,098.71	10.65

Loans to customers

As of 31 December 2014, the company and its subsidiaries had loans to customers net from deferred revenue at amount of Baht 115,633.70 million, increased by Baht 11,984.60 million compared to year 2013 or up 11.56%.

(Unit: Million Baht)

Loan classification by business type (Consolidated financial statements)	December	September	Variance	December	Variance
	2014	2014	(%QoQ)	2013	(%YoY)
Agricultural and mining	420.88	419.18	0.41	517.03	(18.60)
Manufacturing and commerce	22,909.61	21,699.52	5.58	19,827.16	15.55
Real estate and construction	15,230.60	13,873.07	9.79	12,068.50	26.20
Public utilities and services	27,283.53	27,209.85	0.27	26,248.89	3.94
Housing loans	30,472.25	30,418.28	0.18	32,273.40	(5.58)
Financial intermediation	16,932.13	14,377.72	17.77	10,120.63	67.30
Others	2,384.70	2,310.07	3.23	2,593.49	(8.05)
Loans to customers net of deferred revenue	115,633.70	110,307.69	4.83	103,649.10	11.56



The company and its subsidiaries had the most portion of loan in the housing loans sector at 26.35%, the next sector was public utilities and services at 23.60% and the manufacturing and commerce sector at 19.81%.

Allowance for doubtful debts

As of 31 December 2014, they had allowance for doubtful debts amounted of Baht 2,137.83 million, increased by Baht 715.53 million compared to year 2013, or up 50.31%.

Non-performing Loans

As of 31 December 2014, they had non-performing loans (Gross) amounted of Baht 2,518.76 million, increased by Baht 538.62 million compared to year 2013 or up 27.20%. The ratio of NPLs to total loans at 1.98% of total loans (include interbank and money market items).

Non-performing loans (Net) amounted of Baht 1,603.56 million, increased by Baht 376.11 million compared to year 2013 or up to 30.64%. The ratio of NPLs (Net) at 1.27% of total loans after deducted allowance for doubtful debts of non-performing loans.

Investments in securities

As of 31 December 2014, they had net investments in securities which had book value at amounted of Baht 33,728.13 million, decreased by Baht 2,737.97 million compared to year 2013, or down 7.51%.

Total liabilities

As of 31 December 2014, they had total liabilities amounted of Baht 148,683.95 million, increased by Baht 14,606.44 million compared to year 2013, or up 10.89%. Almost of total liabilities were deposits and interbank and money market items, which were 82.48% and 15.58% of total liabilities, respectively.

Shareholders' Equity

As of 31 December 2014, shareholders' equity amounted of Baht 16,286.36 million, increased by Baht 1,265.16 million compared to year 2013, or up 8.42%.

(Unit: Million Baht)

Item	December	September	Variance	December	Variance
	2014	2014	(%QoQ)	2013	(%YoY)
Deposits	122,631.90	119,491.10	2.63	108,805.48	12.71
Interbank and money market items	23,171.16	23,047.35	0.54	23,513.46	(1.46)
Other liabilities	2,880.89	1,976.52	45.76	1,758.57	63.82
Total liabilities	148,683.95	144,514.97	2.88	134,077.51	10.89
Total equity	16,286.36	16,066.14	1.37	15,021.20	8.42

Employees

As of 31 December 2014, the company and its subsidiaries had 1,551 employees, representing an increase of 186 employees compared to 31 December 2013.

Capital Adequacy and the ratio of capital fund to risk assets

As at 31 December 2014, Land and Houses Bank Public Company Limited maintained the ratio of total capital fund to risk assets (BIS ratio) at 12.41%, 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 11.32%, higher than the 6.00% minimum rate required by the Bank of Thailand.

Table: The ratio of capital fund to risk assets

The ratio of capital fund to risk assets	31 December 2014		31 December 2013	
	Amount (million Baht)	Ratio (%)	Amount (million Baht)	Ratio (%)
Common Equity Tier-1 capital funds				
The Bank	13,895.82	11.32	13,206.94	12.69
Minimum rates required by law		4.50		4.50
The Difference		6.82		8.19
Tier 1 capital funds				
The Bank	13,895.82	11.32	13,206.94	12.69
Minimum rates required by law		6.00		6.00
The Difference		5.32		6.69
Total capital funds				
The Bank	15,231.93	12.41	13,921.53	13.38
Minimum rates required by law		8.50		8.50
The Difference		3.91		4.88