



**LH FINANCIAL GROUP PUBLIC COMPANY LIMITED**  
**MANAGEMENT DISCUSSION AND ANALYSIS**  
**FOR THE SECOND QUARTER ENDED 30 JUNE 2015**

**(THIS REPORT DISCUSSES PRINCIPAL CHANGES ON THE REVIEWED AND  
AUDITED CONSOLIDATED FINANCIAL STATEMENT)**

## **Overview of Business Operations**

LH Financial Group Public Company Limited is a non-operating holding company and the parent company of the financial business group, 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

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

The financial business group of LH Financial Group Public Company Limited, including LH Financial Group Public Company Limited, Land and Houses Bank Public Company Limited and Land and Houses Fund Management Company Limited, has joined with the Thailand's Private Sector Collective Action Coalition Against Corruption (CAC) Council in October 2014.

## **ESG100 Certificate**

LH Financial Group Public Company Limited is ranked among the top 100 companies for outstanding performance in terms of environmental, social and governance (ESG) aspect which out of 567 listed companies by THAIPAT Institute.

## **Overview of Economy and Competition in Commercial Banking**

The Thai Economy in the second quarter of 2015, the growth slowdown from the last quarter because of the additional of negative factors; that are the domestic purchasing power does not recovered from the high level of household debt, the private sector still slow to wait for a clear of the economic recovery and government's investment policy, the export sector decreases consecutively, and the global economy is still insubstantial and risk increased. From evaluating the mentioned situation, the overall of the export of this year will reduce at 1.5%. However, in this quarter the tourism sector has recovered in

good trend continuously and disbursement and investment of the government sector accelerated which are the driven factors to Thai economy in next phase.

Thailand's economic outlook in the second half, there are several risk factors that are hampering the economic recovery of Thailand. The growth of consumption is limited since household debt accumulated at a high level. Household purchasing power is wrecked by falling agricultural prices down and there is additional risk factor from drought. The reliability of consumer does not recover yet from the slow economic recovery that caused the consumer spends carefully.

The private sector's investment is at low level from the ratio of capacity utilization is currently still below 60%. The most of investment is just to improve the machinery. Nevertheless, the government's infrastructure investment will begin and issuing more the BOI certificate will stimulate the manufacturing sector in the second half year.

The tourism and hospitality sector has recovered more than the same period in last year and the number of tourists also increased by more than 23% compared with the same quarter of last year, and then the service and tourism sector was a significant key to economic recovery in this year. Although there are problems from Thailand's aviation standards and the spread out of MERs is limited, so there is less effect to tourism.

For the commercial banking sector in the second quarter of 2015, it also focuses on loan approval cautiously. Loan is slightly growth from the first quarter. The loan growth in the first half year is at 3-4% which slowed down from earlier session, but expected to recover in next session by the stimulus. Even though, in the current, the commercial banking businesses compete with fee income but the cost increases from reserving the NPL and overdue 1-3 months due to the credit quality is likely to deteriorate. It affects to profit of the commercial banking sector, and then expected the net profit of the second quarter will decrease from last quarter and same period of last year.

### **Credit Rating**

Land and Houses Bank Public Company Limited is assigned the company rating of "A-" (Single A Minus) as the second year 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.

### **Issuance of Subordinated Debt to Raise Tier 2 Capital**

Land and Houses Public Company Limited issued the subordinated debt to raise Tier 2 capital No.1/2015 worth Baht 4,000 million, the tenor was 10 years, the coupon rate was 5.125 percent per annum, and maturity will be in 2025. The subordinated debt was offered to institution investors and high net worth investors during May 18-20, 2015 with complete allocated amount. After issuing, the bank's capital was more strength and can support the business expansion over the next 3-5 years.

### **Branch Networking**

As of the second quarter of 2015, the total branches of Land and Houses Public Company Limited was 122 branches (including Lumpini Branch) that increased 5 branches from the end of 2014. Most of them have been opened in HomePro. The bank allied with Home Product Center Public Company Limited to expand branches in all provinces where HomePro located. The bank's branch expansion strategy is to have nationwide service points for expanding its customer base.

### **Products and Services**

Land and Houses Bank Public Company Limited has continuously developed for the financial products and services to meet the needs of the customer including to increase the fee revenue.

*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.

*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 to intend their deposit-withdraw, the teller will perform transaction and take 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 applying for Credit Bureau checking service at the bank's counter in every branch.

**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.

**LH Bank SMS Alert** is the service which the bank developed 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** is a new and privileged financial service for our premium customers. This service provides private and professional secretary for consulting and effective management portfolio to achieve high returns. This service also provides various privileges and benefits.

**Currency Exchange Service** is the service of currency exchange, namely USD (US Dollar), EUR (Euro), GBP (British Pound), AUD (Australian Dollar), JPY (Yen), SGD (Singapore Dollar) and HKD (Hong Kong Dollar).

**Automatic Teller Machine (ATM)** provides withdrawal services, money transfer within the bank, money transfer to the account of other bank, 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 businessman and traveler. As of the second quarter of 2015, there are 183 Automatic Teller Machines, increasing by 5 machines from the end of 2014.

**Cash Deposit Machine (CDM) to Other Banks' Account** is provided for cash deposit without ATM.

**Cash Transfer via Bank's Counter to Other Banks' Account**, the customer could transfer cash to the other banks' account through the bank's counter more than 122 nationwide branches.

**Goods and Services Payment Service** includes utility charges, credit card, insurance premiums, other expenses and automatic transfer system. The bank is also an agent of Counter Service and True Money, accepting payments for more than 500 items of goods and services.

*Agent Service for Mutual Fund, Private Fund, and Investment Unit Broker* provided by Land and Houses Fund Management Company Limited.

*Agent Service for Securities Brokerage*, provided by Land and Houses Securities Public Company Limited.

*Financial Advisory Business Service*, provided by Land and Houses Advisory Company Limited.

### Analysis of the Operating Results

The Management Discussion and Analysis of operating results of LH Financial Group Public Company Limited and its subsidiaries performance are comparative performance of the second quarter of 2015 compared to the second quarter of 2014;

**Table: Operating Results**

(Unit: Million Baht)

Item	Quarter		Variance	Quarter	Variance	For six-month periods		Variance
	2/2015	1/2015	(%QoQ)	2/2014	(%YoY)	2015	2014	(%YoY)
Net interest income	1,064.9	969.7	9.8	805.2	32.3	2,034.6	1,551.6	31.1
Net non-interest income	334.6	284.3	17.7	221.1	51.3	618.9	383.4	61.4
Operating income	1,399.5	1,254.0	11.6	1,026.3	36.4	2,653.5	1,935.0	37.1
Operating expenses	576.0	576.5	(0.1)	499.6	15.3	1,152.5	974.6	18.3
Bad debts, doubtful accounts and impairment loss	297.0	270.0	10.0	150.0	98.0	567.0	300.0	89.0
Income taxes	106.4	79.3	34.2	70.2	51.6	185.7	127.7	45.4
Profit from operation before bad debts and doubtful accounts, and income taxes	823.5	677.5	21.5	526.7	56.4	1,501.0	960.4	56.3
Profit from operation before income taxes	526.5	407.5	29.2	376.7	39.8	934.0	660.4	41.4
Net profit	420.1	328.2	28.0	306.5	37.1	748.3	532.7	40.5
Basic earnings per share (Baht)	0.03080	0.02406	28.0	0.02290	34.5	0.05487	0.03995	37.3
Diluted earnings per share (Baht)		0.02406		0.02288			0.03992	

LH Financial Group Public Company Limited and its subsidiaries' the operation had net profit on the second quarter of 2015 amounted of Baht 420.1 million, increased by Baht 113.6 million, or up 37.1% when compared to the second quarter of 2014. The increase was the result of net interest income up to 32.3% following the growth of loans and net fees and service income up to 60.4%.

As the operation for the six-month period of 2015, the company and its subsidiaries had net profit amounted of Baht 748.3 million, increased by Baht 215.6 million, or up 40.5%. When compared to the same period of last year mainly from the increase of net interest income up 31.1% following the growth of loans, especially big corporate loan and corporate loan increased 17.2% from the same period of last year and net fees and service income up to 56.4%.

Basic earnings per share for the second quarter and the six-month period of 2015 were 0.0308 Baht per share and 0.0549 Baht per share, respectively. Compared to the same period of last year were 0.0229 Baht per share and 0.0400 Baht per share, respectively. The return on equity (ROE) for the six-month period of 2015 and 2014 were 9.0% and 6.9% per year, respectively.

#### **Net Interest Income**

In the second quarter of 2015, they had net interest income amounted of Baht 1,064.9 million, increased by Baht 259.7 million or up 32.3% when compared to the same period of last year, following the growth of loans. They had interest expenses amounted of Baht 1,008.9 million increased slightly from the same period of last year amounting to Baht 14.2 million, or up 1.4%. Interest income increased slightly due to a decreasing of market interest rates although it had expansion of deposits.

#### **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 297.0 million in the second quarter of 2015 increased amounting to Baht 147.0 million, or up 98.0% when compared to the same period of last year and loan loss reserves ratio is at 173.52%.

In the second quarter of 2015, net interest income after deducted bad debt and doubtful accounts amounted of Baht 767.9 million, increased by Baht 112.7 million, or up 17.2% when compared to the second quarter of 2014.

### Net Non-interest Incomes

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

In the second quarter of 2015, net non-interest incomes at amounted of Baht 334.6 million, or up Baht 113.5 million compared to the second quarter of 2014 or up 51.3%. Almost of net non-interest incomes are gains on investments.

### Operating Expenses

In the second quarter of 2015, they had operating expenses at amounted of Baht 576.0 million, increased by Baht 76.4 million, compared to the second quarter of 2014 or up 15.3%, as a result of the increase of employees' expenses that provide for business expansion of the financial business group, premises and equipment expenses and other expenses were variable according to the growth of the business. The ratio of operating expenses to total revenue from operation for this quarter is at 41.2%, which is reduced when compared to the same period of last year at 48.7%.

**Table: Operating Expenses**

(Unit: Million Baht)

Item	Quarter		Variance	Quarter	Variance	For six-month periods		Variance
	2/2015	1/2015	(%QoQ)	2/2014	(%YoY)	2015	2014	(%YoY)
Employees' expenses	272.1	283.1	(3.9)	234.5	16.0	555.2	458.3	21.1
Premises and equipment expenses	177.4	170.2	4.2	155.3	14.2	347.6	296.6	17.2
Other expenses	126.5	123.2	2.7	109.8	15.2	249.7	219.7	13.7
<b>Total</b>	<b>576.0</b>	<b>576.5</b>	<b>(0.1)</b>	<b>499.6</b>	<b>15.3</b>	<b>1,152.5</b>	<b>974.6</b>	<b>18.3</b>

### Profit from Operation before Bad Debts and Doubtful Accounts and Income Tax

The company and its subsidiaries had profit from operation before bad debts and doubtful accounts and income tax grew constantly from Baht 526.7 million in the second quarter of 2014 to Baht 823.5 million in the second quarter of 2015 or up 56.4%, 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 LH Financial Group Public Company Limited and its subsidiaries are a comparison of the financial positions as of 30 June 2015 and as of 31 December 2014.

### Total assets

As of 30 June 2015, the company and its subsidiaries had total assets amounted of Baht 186,502.2 million, increased by Baht 21,531.9 million compared to year 2014 or up 13.1%. Core assets comprise of loans to customers and accrued interest receivables - net at 67.4% of total assets, followed by investments- net at 21.9% of total assets.

**Table: Total assets**

(Unit: Million Baht)

Item	June	March	Variance	December	Variance
	2015	2015	(%)	2014	(%)
Interbank and money market items - net	16,502.2	14,888.4	10.8	13,117.2	25.8
Investments - net	40,763.3	33,405.2	22.0	33,728.1	20.9
Loans to customers - net	125,708.8	117,689.7	6.8	113,728.1	10.5
Loans to customers net of deferred revenue	127,820.0	119,799.0	6.7	115,633.7	10.5
Other assets - net	3,527.9	3,560.7	(0.9)	4,396.9	(19.8)
<b>Total assets</b>	<b>186,502.2</b>	<b>169,544.0</b>	<b>10.0</b>	<b>164,970.3</b>	<b>13.1</b>

### Total Liabilities

As of 30 June 2015, they had total liabilities amounted of Baht 169,440.2 million, increased by Baht 20,756.3 million compared to year 2014, or up 14.0%. Almost of total liabilities were deposits, which were 71.9% of total liabilities.

### Shareholders' Equity

As of 30 June 2015, shareholders' equity amounted of Baht 17,062.0 million, increased by Baht 775.6 million compared to year 2014, or up 4.8%.

**Table: Total liabilities and equity**

(Unit: Million Baht)

Item	June	March	Variance	December	Variance
	2015	2015	(%)	2014	(%)
Deposits	121,898.6	122,436.9	(0.4)	122,631.9	(0.6)
Interbank and money market items	24,045.5	18,529.3	29.8	23,171.2	3.8
Debts issued and borrowings	20,875.4	9,131.3	128.6	1,000.0	1,987.5
Other liabilities	2,620.7	2,781.1	(5.8)	1,880.8	39.3
<b>Total liabilities</b>	<b>169,440.2</b>	<b>152,878.6</b>	<b>10.8</b>	<b>148,683.9</b>	<b>14.0</b>
<b>Total equity</b>	<b>17,062.0</b>	<b>16,665.4</b>	<b>2.4</b>	<b>16,286.4</b>	<b>4.8</b>

### Employees

As of 30 June 2015, the company and its subsidiaries had 1,643 employees, representing an increase of 90 employees compared to 31 December 2014.

## Performance of the Subsidiaries

### 1. BANKING BUSINESS

#### Loans to customers

Loans to customers classified by business sector of Land and Houses Bank Public Company Limited had Big Corporate & Corporate, SMEs & SSME and Retail.

As of 30 June 2015, the bank had loans to customers net of deferred revenue (excluding interbank and money market items) amounted of Baht 127,432.5 million, increased by Baht 11,412.5 million compared to year 2014, or up 9.8%. Almost of total loans to customers were Big Corporate & Corporate at 55.7%, the next sector was Retail at 25.0% and SMEs & SSME at 19.3% of total loans. When loans to customers classified by type of business loans, the most portion of them was public utilities and services at 27.2%, the next sector was housing loans sector at 23.5% and manufacturing and commerce sector at 20.9% of total loans, respectively.

#### Big Corporate & Corporate

As of 30 June 2015, the bank had total loans to customers of Big Corporate & Corporate amounted of Baht 70,968.3 million, increased by Baht 10,408.1 million compared to year 2014, or up 17.2%.

### SMEs & SSME

As of 30 June 2015, the bank had total loans to customers of SMEs & SSME amounted of Baht 24,604.6 million, increased by Baht 1,501.8 million compared to year 2014, or up 6.5%.

### Retail

As of 30 June 2015, the bank had total loans to customers of Retail amounted of Baht 31,859.6 million, decreased by Baht 497.4 million compared to year 2014, or down 1.5%.

**Table: Loans to customers classified by business sector**

(Unit: Million Baht)

Loans to customers classified by business sector	June	March	Variance	December	Variance
	2015	2015	(%)	2014	(%)
Big Corporate & Corporate	70,968.3	64,264.8	10.4	60,560.2	17.2
SMEs & SSME	24,604.6	23,801.1	3.4	23,102.8	6.5
Retail	31,859.6	32,102.8	(0.8)	32,357.0	(1.5)
<b>Total loans to customers net of deferred revenue *</b>	<b>127,432.5</b>	<b>120,168.7</b>	<b>6.0</b>	<b>116,020.0</b>	<b>9.8</b>

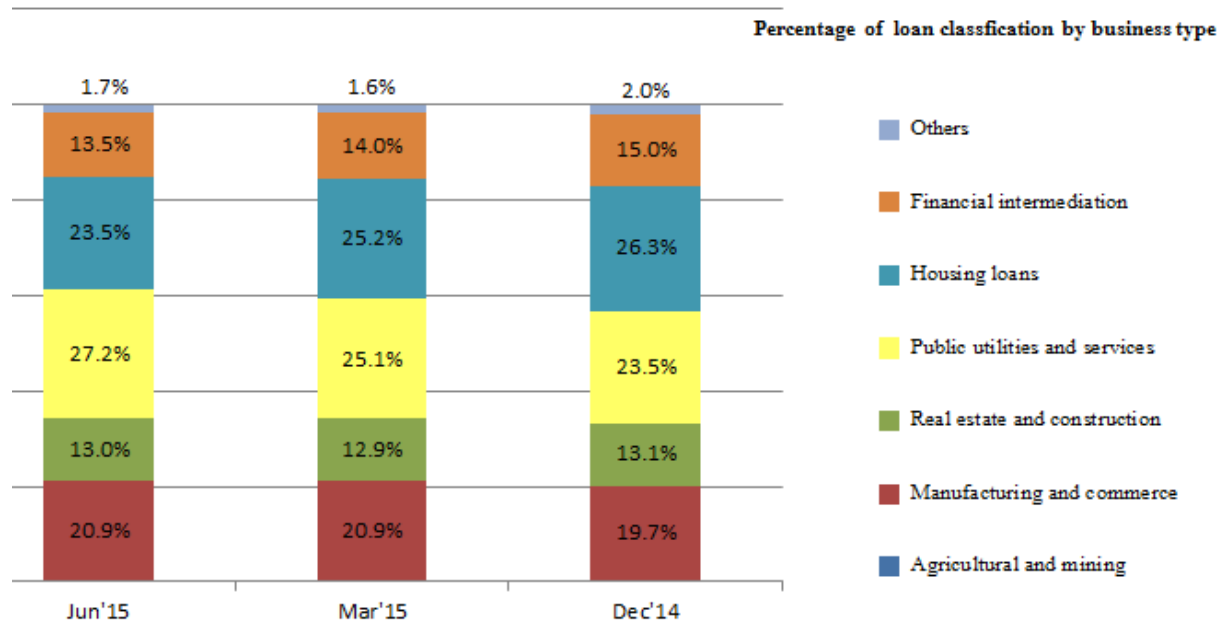
\* Total loans to customers net of deferred revenue excluding interbank and money market items

**Table: Loans to customers classified by type of business**

(Unit: Million Baht)

Loans to customers classified by type of business loans	June	March	Variance	December	Variance
	2015	2015	(%)	2014	(%)
Agricultural and mining	412.7	416.4	(0.9)	420.9	(1.9)
Manufacturing and commerce	26,606.3	25,090.1	6.0	22,909.6	16.1
Real estate and construction	16,586.2	15,505.6	7.0	15,230.6	8.9
Public utilities and services	34,673.5	30,165.1	14.9	27,283.5	27.1
Housing loans	29,961.0	30,274.0	(1.0)	30,472.3	(1.7)
Financial intermediation	17,166.5	16,801.6	2.2	17,432.1	(1.5)
Others	2,026.3	1,915.9	5.8	2,271.0	(10.8)
<b>Total loans to customers net of deferred revenue *</b>	<b>127,432.5</b>	<b>120,168.7</b>	<b>6.0</b>	<b>116,020.0</b>	<b>9.8</b>

\* Total loans to customers net of deferred revenue excluding interbank and money market items



### Deposits

As of 30 June 2015, the bank had total deposits amounted of Baht 122,179.5 million, decreased by Baht 1,482.5 million compared to year 2014, or down 1.2%.

**Table: Deposits classified by type of deposits**

(Unit: Million Baht)

Classified by type of deposits	June	March	Variance	December	Variance
	2015	2015	(%)	2014	(%)
Demand deposits	7,427.5	5,407.1	37.4	5,034.1	47.5
Savings deposits	45,265.2	49,365.5	(8.3)	50,659.0	(10.6)
Time deposits	32,112.7	30,321.2	5.9	30,684.7	4.7
Fixed deposits receipt	37,374.1	38,352.8	(2.6)	37,284.2	0.2
<b>Total deposits</b>	<b>122,179.5</b>	<b>123,446.6</b>	<b>(1.0)</b>	<b>123,662.0</b>	<b>(1.2)</b>

### Non-performing Loans

As of 30 June 2015, the bank had non-performing loans (Gross) amounted of Baht 2,795.5 million, increased by Baht 346.4 million compared to year 2014 or up 14.1%. The ratio of NPLs to total loans at 2.0% of total loans (including interbank and money market items).

Non-performing loans (Net) amounted of Baht 2,040.1 million, increased by Baht 436.5 million compared to year 2014 or up to 27.2%. The ratio of NPLs (Net) at 1.5% of total loans after deducted allowance for doubtful debts of non-performing loans.

### **Allowance for Doubtful Debts**

As of 30 June 2015, the bank had allowance for doubtful debts amounted of Baht 2,252.8 million, increased by Baht 184.7 million compared to year 2014, or up 8.9%.

### **Investments in Securities (excluding investments in subsidiaries)**

As of 30 June 2015, the bank had net investments in securities which had book value at amounted of Baht 39,857.4 million, increased by Baht 6,677.0 million compared to year 2014, or up 20.1%.

### **Capital Adequacy and the Ratio of Capital Fund to Risk Assets**

As at 30 June 2015, Land and Houses Bank Public Company Limited maintained the ratio of total capital fund to risk assets (BIS ratio) at 14.04%, higher than the 8.50% minimum rate required by the Bank of Thailand and increasing when compared with 31 December 2014 at 12.41%.

The capital that increased was from the issuance of subordinated debt to raise Tier 2 capital No.1/2015 worth Baht 4,000 million.

The ratio of Tier I capital fund to risk assets was 10.04%, 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	30 June 2015		31 December 2014	
	Million Baht	%	Million Baht	%
<b>Common Equity Tier-1 capital funds</b>				
The Bank	14,171.1	10.04	13,895.8	11.32
Minimum rates required by law		4.50		4.50
The Difference		5.54		6.82
<b>Tier 1 capital funds</b>				
The Bank	14,171.1	10.04	13,895.8	11.32
Minimum rates required by law		6.00		6.00
The Difference		4.04		5.32
<b>Total capital funds</b>				
The Bank	19,812.9	14.04	15,231.9	12.41
Minimum rates required by law		8.50		8.50
The Difference		5.54		3.91

## 2. SECURITIES BUSINESS

The securities business is relatively slow down due to the investor's reliability to the global economy growth along with the most of domestic businesses remain decelerating the investment because of waiting for the economic recovery and government's investment in infrastructure. These effects to the private's investment reduced. Additionally, the export sector slows recovery that causes the investment situation is decreasingly. As of the second quarter of 2015, the average daily turnover in SET was Baht 43,359.54 million, decreased from the second quarter of 2014 was Baht 49,411.45 million or around 12.25%. Moreover, the high competition from the 3 new securities companies also effected to the competition of commission fee and income.

Although the overall of securities business has been affected from various factors, Land and Houses Securities Public Company Limited which officially operated in the late past year could increase the market share from 0.28% as of the first quarter of 2015 to 0.32% as of the second quarter of 2015 or increased 0.04%. The securities business's income has increased from Baht 4.46 million in the first quarter of 2015 to Baht 4.94 million in the second quarter of 2015 or increased 10.78%. In order that the business plan has to adapt to keep in line with market conditions both domestic and international investments. Thus, the company emphasizes on developing the financial product and service consecutively to expand customer base and accommodate with the customer's need in all target group through the complete services. As well as generating revenue to offset the commission fee that slowed. The company will operate the borrowing and lending securities service (SBL) and derivative business with full functions. Furthermore, the company has expanded the customer base to Land and Houses Bank Public Company Limited's client and also issued new product "Shares Saving Plan" for customer who interested in investing in stocks with discipline and consistency.

### 3. FUND MANAGEMENT BUSINESS

As of June 30, 2015, Land and Houses Fund Management Company Limited has managed the mutual funds totally Baht 43,353 million of net asset value, increased Baht 2,375 million or 6% from the end of 2014. The mutual funds under management consist of property fund valued Baht 22,832 million, general fixed income fund valued Baht 18,920 million, and equity fund valued Baht 1,601 million. The company holds the market share at 1.07% which ranked number 12 out of 22 companies. These excludes provident fund valued Baht 1,699 million and private fund valued Baht 156 million.

The income from fee of first half of 2015 amounted Baht 57.0 million, increased Baht 13.5 million compared with the first half of 2014. As a result of the increase in the total funds under management in all types, general fixed income fund, equity fund, real estate investment trust, provident fund, and private fund.