



LH FINANCIAL GROUP PUBLIC COMPANY LIMITED
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FIRST QUARTER ENDED 31 MARCH 2016

(THIS REPORT DISCUSSES PRINCIPAL CHANGES ON THE UNREVIEWED CONSOLIDATED FINANCIAL STATEMENT)

Overview of Business Operation

LH Financial Group Public Company Limited is a non-operating holding company and a 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

On March 1, 2016, the company has revised the financial business group structure which LH Financial Group Public Company Limited has acquired all shares of Land and Houses Fund Management Company Limited from Land and Houses Bank Public Company Limited.

On March 29, 2016, the company to enter into a memorandum of understanding in relation to Share Subscription Agreement (the “**SSA MOU**”) with CTBC Bank Co., Ltd. (“**CTBC**”) in order to introduce a strategic investment partner to expand the business of Land and Houses Bank Public Company Limited. Under the SSA MOU, the company agrees in principle to issue 7,545 million new ordinary shares (“**Shares**”) through a private placement to CTBC, and CTBC agrees in principle to subscribe for the Shares at Baht 2.20 per share.

Upon the completion of the transaction, the shares held by CTBC in the company will be equal to that of the aggregate shareholding of Land and Houses Public Company Limited (“**LH**”) and Quality Houses Public Company Limited (“**QH**”) in the company, which is 35.6 percent of the total paid-up capital of the company, whereby the shareholding of LH and QH will be 21.9 percent and 13.7 percent, respectively. In this regard, the company expects that the transaction will be completed around the end of third quarter of 2016.

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, has certified as a member of the Thailand's Private Sector Collective Action Coalition Against Corruption (CAC) by the Private Sector Collective Action Coalition Against Corruption Council in October 2014. Land and Houses Securities Public Company Limited

has signed a declaration of intent in view of establishing the Thailand's Private Sector Collective Action Coalition Against Corruption (CAC) in 2014.

ESG100 Certificate of the year 2015

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

Performance Evaluation of Corporate Governance of the year 2015

Thai Institute of Directors Association (IOD) disclosed the result the 2015 Corporate Governance Report evaluation of Thai Listed Companies, LH Financial Group Public Company Limited was rated in the top level of "Excellence : 5 Stars".

Overview of Economy and Competition in Commercial Banking

The Thai economy in the first quarter of 2016 was slowdown from the previous quarter, partly as a result of the momentum of the temporary supportive factors has subsided. But, a strong growth in the tourism sector and continual expansion of government expenditures still played an important role in supporting the overall economy from the contraction in merchandise export and the deceleration in private spending. However, the economic growth in the remainder of the year still challenge with some limitations and risk factors including (i) a continuing negative export growth due partly to a slowdown in major trading partners' economic growth, especially in China and ASEAN economies; (ii) low commodity and agricultural prices will constrain consumer's purchasing power; (iii) increasing household debt; and (iv) the impact from drought tends to be severe and will affect agricultural and manufacturing output as well as the private investment. In accordance with the revised economic forecast of the Bank of Thailand (as of March 2016) the Thai economy in 2016 is expected to expand by 3.1% down from the previous forecast which expand by 3.5%.

For the banking sector in the first quarter of 2016, loan growth slowed down periodically. This reflected the gradual pace of economic recovery and commercial banks' caution in lending carefully. Moreover, the big corporates in financial sector, energy sector and telecommunication sector, increased fund raising through capital markets. Consumer loan expanded mainly from housing loan and expected to accelerate in next session supporting by the government stimulus package. In addition, the operating performance of the banking sector still able to compete in making a fee income to recover a low growth rate in the interest income and a deterioration of the loan quality, especially, SME loan which received an impact from the economic slowdown.

Credit Rating

Land and Houses Bank Public Company Limited is assigned the company rating of "A-" (Single A Minus) as the third year by TRIS Rating and the rating outlook of "Stable". The rating reflects the bank's continual improvements in its business and financial profiles and takes into consideration as the best asset quality and high capitalization.

Branch Networking

At the end of first quarter of 2016, the total branches of Land and Houses Bank Public Company Limited was 127 branches, increased 1 branch from the end of 2015. Most of provincial branches 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 income.

LH Bank Speedy is an internet banking service which accommodates the financial transactions that can perform transactions on anywhere and anytime with a double security system with easy-to-use menu and to make sure for financial transactions. It provides services of payment for commodities and services

transfer, cheque status checking, stop cheque, and account status checking. The Bank will send SMS to confirm results of all transactions with customers.

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 at all branches.

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 commodities and services payment including ATM Booth service.

SMS Alert is the service which the bank developed for customer to aware of the movements of the various accounts by sending SMS alert when the customer's account has some movement (deposit-withdrawal) via mobile phone. Which allow customer know the status of account in order to increase the customer's confidence on financial transaction.

Cash Management is a financial service to support the financial management 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 an automatic transfer system (ATS).

Privilege Banking is the privileged financial service for high end 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 Service (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 all of Bank in Thailand and accepts to JCB (Japan Credit Bureau) and CUP (China Union Pay) cards to provide service for foreign businessman and traveler. As of the end of first quarter of 2016, there are 193 Automatic Teller Machines, increasing by 3 machines from the end of 2015.

Cash Transfer via Bank's Counter to Other Banks' Account (Counter-ORFT), the customer could transfer cash to the other bank account through the bank's counter.

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.

Revenue Tax Payment Service provides convenience and offer available various channels to customers and the general public in tax payment via any channels such as the bank's counters at all branches across the country, LH Bank ATM and internet banking service (LH Bank Speedy).

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.

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 first quarter of 2016 and the first quarter of 2015;

Table: Operating Results

(Unit: Million Baht)

Items	Quarter		Variance	Quarter	Variance
	1/2016	4/2015	(%QoQ)	1/2015	(%YoY)
Net interest income	1,191.5	1,190.8	0.1	969.6	22.9
Net non-interest income	525.3	291.1	80.5	284.3	84.8
Operating income	1,716.8	1,481.9	15.9	1,253.9	36.9
Other operating expenses	622.3	645.7	(3.6)	576.4	8.0
Bad debts, doubtful accounts and impairment loss	380.0	264.1	43.9	270.0	40.7
Income tax expenses	143.0	111.5	28.3	79.2	80.6
Profits before bad debts and doubtful accounts, and income tax expenses	1,094.5	836.2	30.9	677.4	61.6
Profits before income tax expenses	714.5	572.1	24.9	407.4	75.4
Net profits	571.5	460.6	24.1	328.2	74.1
Basic earnings per share (Baht)	0.0419	0.0338	24.0	0.0241	73.9

LH Financial Group Public Company Limited and its subsidiaries' the operation had net profits on the first quarter of 2016 amounted of Baht 571.5 million, increased by Baht 243.3 million, or up 74.1% when compared to the first quarter of 2015. The increase was the result of net interest income up to 22.9% following the growth of loans and net fees and service income up to 60.1%.

Basic earnings per share for the first quarter of 2016 were Baht 0.0419 per share, compared to the same period of last year were Baht 0.0241 per share. The return on equity (ROE) for the first quarter of 2016 and 2015 were 12.4% and 8.0% per year, respectively.

Net Interest Income

In the first quarter of 2016, they had net interest income amounted of Baht 1,191.5 million, increased by Baht 221.9 million or up 22.9% when compared to the same period of last year, following the growth of loans and they had interest expenses amounted of Baht 1,015.2 million, decreased by Baht 20.5 million from the same period of last year or down 2.0%.

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 380.0 million in the first quarter of 2016 increased by Baht 110.0 million, or up 40.7% when compared to the same period of last year and loan loss reserves ratio is at 181.26%.

In the first quarter of 2016, net interest income after deducted bad debt and doubtful accounts amounted of Baht 811.5 million, increased by Baht 111.9 million, or up 16.0% when compared to the first quarter of 2015.

Net Non-Interest Income

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

In the first quarter of 2016, net non-interest income at amounted of Baht 525.3 million, increased by Baht 241.0 million when compared to the first quarter of 2015 or up 84.8%. Almost of net non-interest income are net fees and service income and gains on investments.

Other Operating Expenses

In the first quarter of 2016, they had other operating expenses at amounted of Baht 622.3 million, increased by Baht 45.9 million when compared to the first quarter of 2015 or up 8.0%, almost of the increase of employees’ expenses that provide for business expansion. The ratio of operating expenses to total operating income is at 36.2%, which is reduced when compared to the same period of last year was at 45.9%.

Table: Other Operating Expenses

(Unit: Million Baht)

Items	Quarter		Variance	Quarter	Variance
	1/2016	4/2015	(%QoQ)	1/2015	(%YoY)
Employees' expenses	320.2	324.1	(1.2)	283.0	13.1
Premises and equipment expenses	171.5	180.9	(5.2)	170.1	0.8
Other expenses	130.6	140.7	(7.2)	123.2	6.0
Total	622.3	645.7	(3.6)	576.4	8.0

Profit before Bad Debts and Doubtful Accounts and Income Tax Expenses

The company and its subsidiaries had profit before bad debts and doubtful accounts and income tax expenses grew constantly from Baht 677.4 million in the first quarter of 2015 to Baht 1,094.5 million in the first quarter of 2016 or up 61.6%, due to net interest income and net fees and service income increased from the expansion of loans and the variety of the financial products and services.

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 position as of 31 March 2016 and 31 December 2015.

Total Assets

As of 31 March 2016, the company and its subsidiaries had total assets amounted of Baht 205,514.2 million, increased by Baht 5,847.4 million when compared at the end of the year 2015 or up 2.9%. Core assets comprise of loans to customers and accrued interest receivables - net at 65.8% of total assets, followed by investments - net at 24.1% of total assets.

Table: Total Assets

(Unit: Million Baht)

Items	March	December	Variance
	2016	2015	(%)
Interbank and money market items - net	17,046.4	17,676.4	(3.6)
Investments - net	49,610.7	47,203.0	5.1
Loans to customers - net	135,138.4	130,757.8	3.4
Loans to customers net of deferred revenue	137,856.5	133,097.4	3.6
Other assets - net	3,718.7	4,029.6	(7.7)
Total assets	205,514.2	199,666.8	2.9

Total Liabilities

As of 31 March 2016, they had total liabilities amounted of Baht 186,718.5 million, increased by Baht 5,002.6 million when compared at the end of the year 2015, or up 2.8%. Almost of total liabilities were deposits, which were 72.4% of total liabilities.

Owners' Equity

As of 31 March 2016, owners' equity amounted of Baht 18,795.7 million, increased by Baht 844.8 million when compared at the end of the year 2015, or up 4.7%.

Table: Total Liabilities and Owners' Equity

(Unit: Million Baht)

Items	March	December	Variance
	2016	2015	(%)
Deposits	135,186.5	137,064.3	(1.4)
Interbank and money market items	27,766.6	20,638.5	34.5
Debts issued and borrowings - net	20,722.6	21,664.0	(4.3)
Other liabilities	3,042.8	2,349.1	29.5
Total liabilities	186,718.5	181,715.9	2.8
Total owners' equity	18,795.7	17,950.9	4.7

Number of Employees

As of 31 March 2016, the company and its subsidiaries had 1,761 employees, decreased by 12 employees when compared to 31 December 2015.

Performance of the Subsidiaries

1. BANKING BUSINESS

Land and Houses Bank Public Company Limited

Loans to Customers

Loans to customers classified by business sector of the bank consists of Big Corporate & Corporate, SMEs & SSME and Retail.

As of March 31, 2016, the bank had loans to customers (excluding interbank and money market items) amounted of Baht 137,840.9 million, increased by Baht 5,113.7 million when compared at the end of the year 2015, or up 3.9%. Almost of total loans to customers were Big Corporate & Corporate at 57.8%, the next sector was Retail at 23.0% and SMEs & SSME at 19.2% of total loans and when classified by type of

business loans, the most portion of them was public utilities and services at 26.2%, the next sector was housing loans sector at 21.6% and manufacturing and commerce sector at 21.3% of total loans, respectively.

Big Corporate & Corporate

As of March 31, 2016, the bank had total loans to customers of Big Corporate & Corporate amounted of Baht 79,611.2 million, increased by Baht 4,690.8 million when compared at the end of the year 2015, or up 6.3%.

SMEs & SSME

As of March 31, 2016, the bank had total loans to customers of SMEs & SSME amounted of Baht 26,451.1 million, increased by Baht 457.4 million when compared at the end of the year 2015, or up 1.8%.

Retail

As of March 31, 2016, the bank had total loans to customers of Retail amounted of Baht 31,778.6 million, decreased by Baht 34.5 million when compared at the end of the year 2015, or down 0.1%.

Table: Loans to Customers Classified by Business Sector

(Unit: Million Baht)

Loans to customers classified by business sector	March	December	Variance
	2016	2015	(%)
Big Corporate & Corporate	79,611.2	74,920.4	6.3
SMEs & SSME	26,451.1	25,993.7	1.8
Retail	31,778.6	31,813.1	(0.1)
Total loans to customers net of deferred revenue *	137,840.9	132,727.2	3.9

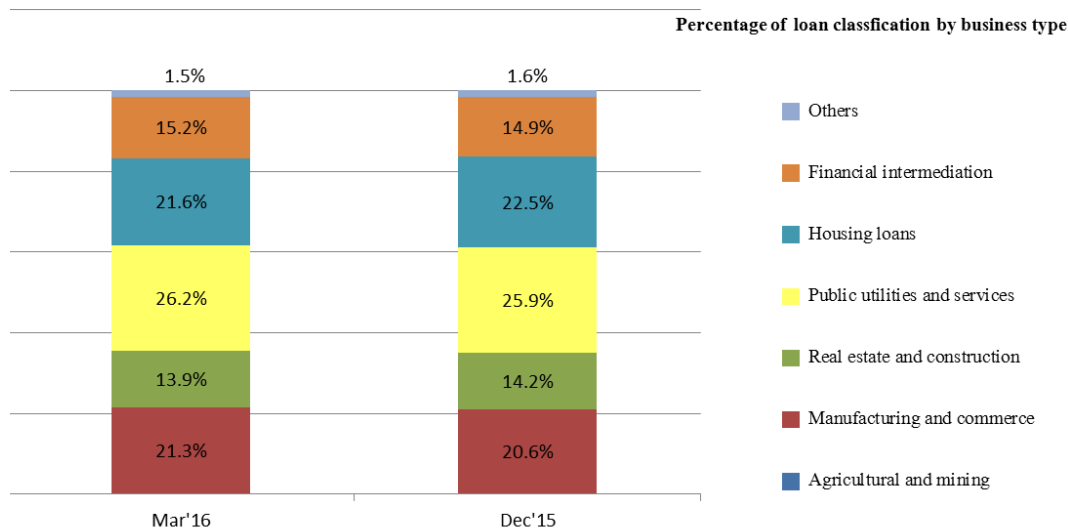
Note: * Total loans to customers net of deferred revenue excluding interbank and money market items

Table: Loans to Customers Classified by Type of Business

(Unit: Million Baht)

Loans to customers classified by type of business loans	March	December	Variance
	2016	2015	(%)
Agricultural and mining	372.5	386.1	(3.5)
Manufacturing and commerce	29,346.0	27,390.8	7.1
Real estate and construction	19,220.2	18,847.7	2.0
Public utilities and services	36,070.5	34,424.6	4.8
Housing loans	29,757.8	29,812.7	(0.2)
Financial intermediation	20,939.9	19,749.2	6.0
Others	2,134.0	2,116.1	0.8
Total loans to customers net of deferred revenue *	137,840.9	132,727.2	3.9

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



Non-Performing Loans

As of March 31, 2016, the bank had non-performing loans (Gross) amounted of Baht 2,833.9 million, increased by Baht 19.2 million when compared at the end of the year 2015 or up 0.7%. The ratio of NPLs to total loans at 1.84% of total loans (including interbank and money market items).

Non-performing loans (Net) amounted of Baht 1,613.0 million, decreased by Baht 219.2 million when compared at the end of the year 2015 or down 12.0%. The ratio of NPLs (Net) at 1.05% of total loans after deducted allowance for doubtful debts of non-performing loans.

Allowance for Doubtful Debts

As of March 31, 2016, the bank had allowance for doubtful debts amounted of Baht 2,893.6 million, increased by Baht 338.3 million when compared at the end of the year 2015, or up 13.2%.

Deposits

As of March 31, 2016, the bank had total deposits amounted of Baht 135,298.6 million, decreased by Baht 2,001.5 million when compared at the end of the year 2015, or down 1.5%.

Table: Deposits Classified by Type of Deposits

(Unit: Million Baht)

Classified by type of deposits	March	December	Variance
	2016	2015	(%)
Demand deposits	5,957.5	5,678.0	4.9
Savings deposits	53,801.3	51,887.3	3.7
Time deposits	43,947.4	41,212.8	6.6
Fixed deposits receipt	31,592.4	38,522.0	(18.0)
Total deposits	135,298.6	137,300.1	(1.5)

Investments in Securities

As of March 31, 2016, the bank had net investments in securities which had book value amounted of Baht 47,096.1 million, increased by Baht 1,131.1 million when compared at the end of the year 2015, or up 2.5%.

Capital Adequacy and the Ratio of Capital Fund to Risk Assets

As at March 31, 2016, the ratio of total capital fund to risk assets (BIS ratio) at 13.972%, higher than the 9.125% minimum rate required by the Bank of Thailand and decreasing from December 31, 2015 at 14.01%.

The ratio of Tier I capital fund to risk assets was 10.207%, higher than the 6.625% 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 March 2016		31 December 2015	
	Million Baht	%	Million Baht	%
Common Equity Tier-1 capital funds				
The Bank	15,817.9	10.207	15,202.8	10.18
Minimum rates required by law *		5.125		4.50
The Difference		5.082		5.68
Tier 1 capital funds				
The Bank	15,817.9	10.207	15,202.8	10.18
Minimum rates required by law *		6.625		6.00
The Difference		3.582		4.18
Total capital funds				
The Bank	21,651.0	13.972	20,936.1	14.01
Minimum rates required by law *		9.125		8.50
The Difference		4.847		5.51

Note: * The commercial bank add-ons the ratio of capital buffer 0.625%, which has started from 1 January 2016.

2. SECURITIES BUSINESS

Land and Houses Securities Public Company Limited

Land and Houses Securities Public Company Limited was a “broker No.5” of the Stock Exchange of Thailand. The company provides financial services as follows;

- Securities brokerage service
- Derivatives brokerage service
- Securities underwriting service
- Representation derivatives business
- Securities borrowing and lending service

Overview of Economy and Competition in Securities

The overview of the Thai stock market in the first quarter of 2016 demonstrated that increased by 119.68 points or 9.29% from the end of 2015 which closed at 1,407.70 points as a result of the capital flow of foreign investors that pulling money back to their own country and the Thai market has received positive factor from the oil price in global market jumped to \$40 a barrel including the European Central Bank announced additional monetary stimulus and additional QE Euros 200 trillion per month. For the US central bank to keep interest rates at 0.25 - 0.50% and there are also domestic factors from accelerated infusion of budget and signed large projects of the government value at Baht 900 billion including the results for the fourth quarter of 2015 and dividend of listed companies better than market expectations. In addition, the Thai stock market has received a positive factor from the stimulus package of the Songkran festival project.

Analysis of the operating results

The net profit of the company for the first quarter of 2016 was Baht 18.81 million, increased by Baht 20.25 million or up 1,406.25% compared to the first quarter of 2015 as follows;

Total Income

Total income of the company for the first quarter of 2016 was Baht 59.95 million. The income included income from brokerage fees from securities business, brokerage fees from derivatives business, fees and services income, gain (loss) on securities trading, interest and dividend, interest on margin loan, and other incomes i.e. share transfer fees.

Income from Brokerage Fees

Income from brokerage fees from securities business and derivatives business was Baht 23.15 million, increased by Baht 12.78 million or up 123.24% compared to the first quarter of 2015

Other Income apart from Brokerage Fees

Other incomes apart from brokerage fees included gain (loss) on securities trading, interest and dividend, and interest on margin loan valued Baht 9.03, 21.62, and 4.84 million respectively.

3. FUND MANAGEMENT BUSINESS

Land and Houses Fund Management Company Limited

Land and Houses Fund Management Company Limited run a business to manage mutual fund, property fund, real estate investment trust, provident fund and private fund.

Analysis of the Operating Results

The operating results of the company is the comparative performance of the first quarter of 2016 compared to the first quarter of 2015 as follows;

The net profit of the company for the first quarter of 2016 was Baht 19.79 million, increased by Baht 13.25 million or up 202.60% compared to the first quarter of 2015 which was a result of the fee income of the fund and net asset value of funds under management increased.

Fees and service income

In the first quarter of 2016, Land and Houses Fund Management Company Limited had fee income and service valued of Baht 52.52 million, increased Baht 24.60 million or increased 88.10% compared to the first quarter of 2015. The fees mainly derived from the asset management and fund registration valued of 40.91% and 10.79% of total fee income and service respectively, due to the amount of funds and net asset value increased from the previous year.

Net Asset Value under Management

As of March 31, 2016, there were 51 funds under management which was equal to the end of 2015 and the company has net assets value of Baht 55,875.81 million, increased by Baht 6,017.75 million or up 12.07% compared to the end of 2015. The mutual funds under management consist of:

- Property fund and Real estate investment trust with a value of Baht 26,937.37 million
- General fixed income fund with a value of Baht 22,896.47 million
- Equity fund with a value of Baht 622.34 million
- Mixed fund with a value of Baht 107.64 million
- Fund of fund with a value of Baht 5,311.99 million

Therefore, the company had a market share of 1.32%, and has ranked of 11 from 20 companies.