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|  | LH Financial Group Public Company Limited  and its subsidiaries  Report and financial statements  30 June 2018 |

**Independent Auditor's Report**

To the Shareholders of LH Financial Group Public Company Limited

**Report on Audit of Financial Statements**

**Opinion**

I have audited the accompanying consolidated financial statements of LH Financial Group Public Company Limited and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 30 June 2018, the related consolidated statements of comprehensive income, changes in owners’ equity and cash flows for the six-month period then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies, and have also audited the separate financial statements of LH Financial Group Public Company Limited for the same period.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of LH Financial Group Public Company Limited and its subsidiaries and of LH Financial Group Public Company Limited as at 30 June 2018, and their financial performance and cash flows for the six-month period then ended in accordance with Thai Financial Reporting Standards.

**Basis for Opinion**

I conducted my audit in accordance with Thai Standards on Auditing. My responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of my report. I am independent of the Group in accordance with the Code of Ethics for Professional Accountants as issued by the Federation of Accounting Professions as relevant to my audit of the financial statements, and I have fulfilled my other ethical responsibilities in accordance with the Code. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

**Key Audit Matters**

Key audit matters are those matters that, in my professional judgement, were of most significance in my audit of the financial statements of the current period. These matters were addressed in the context of my audit of the financial statements as a whole, and in forming my opinion thereon, and I do not provide a separate opinion on these matters.

I have fulfilled the responsibilities described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of my report, including in relation to these matters. Accordingly, my audit included the performance of procedures designed to respond to my assessment of the risks of material misstatement of the financial statements. The results of my audit procedures, including the procedures performed to address the matters below, provide the basis for my audit opinion on the accompanying financial statements as a whole.

Key audit matters and how audit procedures respond for each matter are described below.

***Allowance for doubtful accounts on loans to customers***

As described in Note 10 to the financial statements, as at 30 June 2018, the Group had total loans to customers of Baht 152,002 million (accounting for 66% of total assets) and allowance for doubtful accounts of Baht 3,804 million, which is a material amount. The Group has policies in setting up an allowance for doubtful accounts on loans to customers as described in Note 4.9 to the financial statements based on an estimation of the loan losses expected to be incurred when debtors are unable to repay their debts and the timing of collections expected to be received. Such loss estimation is made with reference to criteria laid down by the Bank of Thailand and the Office of the Securities and Exchange Commission, which involve certain assumptions. Management is therefore required to exercise a high considerable level of judgement in determining those assumptions. Hence, I focused on examining the adequacy of the allowance for doubtful accounts on loans to customers.

I performed audit procedures on the allowance for doubtful accounts as follows:

1. I gained an understanding of the Group’s process in recording allowance for doubtful accounts.
2. I assessed and tested the internal controls relevant to recording the allowance for doubtful accounts such as collection of loan repayments, classification of loans, valuation of collateral, establishment of assumptions and calculation of the allowance for doubtful accounts, by making enquiries and testing, on a sampling basis, the operation of controls relevant to recording the allowance for doubtful accounts designed by the Group.
3. I tested, on a sampling basis, the data used in calculation of the allowance for doubtful accounts to their sources or reports of such data.
4. I compared assumptions used by the Group with historical data, checked consistency of assumptions used and evaluated the methods the Group opted to use in estimating the allowance for doubtful accounts for each type of loans.
5. I reviewed the loan information and tested, on a sampling basis, classification of loans as at the end of the reporting period.
6. I assessed the allowance of doubtful accounts determined by the management as follows:
   1. In case where loan loss provision is set aside on a debtor-by-debtor basis, I tested, on a sampling basis, their repayment status, their loan classes and the value of the underlying collateral, and tested whether calculation of the allowance for doubtful accounts was in accordance with the Group’s criteria.
   2. In case where loan loss provision is set aside using a collective approach, I tested, on a sampling basis, the calculation the rates of probability of default (PD) and loss given default (LGD) and I also tested calculation of such allowance for doubtful accounts.
7. I performed an overall migration analysis of the allowance for doubtful accounts as a result of changes in loan classes, loan balances and value of collateral.

***Recognition of interest income on loans to customers***

The Group has policies to recognise interest income on loans to customers as described in Note 4.1 (a) to the financial statements whereby the Group’s interest income on loans to customers recognised during the six-month period ended 30 June 2018 amounted to Baht 3,154 million, accounted for 74% of total interest income. The Group has a large number of customers, categorised as retail, corporate and medium-sized customers. There are various types of loan agreements and their terms and conditions to recognise interest income differ. In addition, the Group’s recognition of interest income on loans to customers is primarily dependent on the process of information technology. I therefore focused my audit on whether interest income on loans to customers is recognised correctly.

I assessed and tested, on a sampling basis, the operation of controls around information technology system relevant to recording of loan origination, collection, recognition and cessation of interest income. I also tested, on a sampling basis, recognition of interest income on loans to customers that it was in accordance with the conditions stipulated in the loan agreements and in compliance with the Group’s interest income recognition policies. In addition, I performed analytical procedures on interest income and tested, on a sampling basis, significant adjustments made through journal vouchers.

**Responsibilities of Management and Those Charged with Governance for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Thai Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Group’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group’s financial reporting process.

**Auditor’s Responsibilities for the Audit of the Financial Statements**

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Thai Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Thai Standards on Auditing, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

* Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
* Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group’s internal control.
* Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
* Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group’s ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor’s report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor’s report. However, future events or conditions may cause the Group to cease to continue as a going concern.
* Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
* Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. I am responsible for the direction, supervision and performance of the Group audit. I remain solely responsible for my audit opinion.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

I also provide those charged with governance with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, I determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. I describe these matters in my auditor’s report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, I determine that a matter should not be communicated in my report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

I am responsible for the audit resulting in this independent auditor’s report.

**Review Report of Interim Financial Information**

I have reviewed the accompanying consolidated statement of comprehensive income and notes to the consolidated financial statements for the three-month period ended 30 June 2018 (“Interim financial information”) of the Group, and I also reviewed the interim financial information of LH Financial Group Public Company Limited for the same period. Management is responsible for the preparation and presentation of this interim financial information in accordance with Thai Accounting Standard 34 Interim Financial Reporting. My responsibility is to express a conclusion on this interim financial information based on my review.

**Scope of Review**

I conducted my review in accordance with Thai Standard on Review Engagements 2410, Review of Interim Financial Information Performed by the Independent Auditor of the Entity. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Thai Standards on Auditing and consequently does not enable me to obtain assurance that I would become aware of all significant matters that might be identified in an audit. Accordingly, I do not express an audit opinion.

**Conclusion**

Based on my review, nothing has come to my attention that causes me to believe that the accompanying interim financial information is not prepared, in all material respects, in accordance with Thai Accounting Standard 34 Interim Financial Reporting.

Rachada Yongsawadvanich

Certified Public Accountant (Thailand) No. 4951

EY Office Limited

Bangkok: 20 August 2018