

Management Discussion and Analysis (MD&A)

1. The Performance Overview

In the performance overview of the fiscal year 2017, the net profit of BAAC was 9,861 million baht, increasing from the previous year to 4.28 percent, which resulted from net interest income that increased from loan extensions to 7.22 percent. Meanwhile, non-performing loans per loan were 4.34 percent, which was higher than the fiscal year 2016 at 4.03 percent. However, BAAC has maintained the ratio of allowance for doubtful accounts per non-performing loans at a high level of 462.58 percent. Apart from this, the operational expenses have increased to only 1.34 percent during the fiscal year 2017. BAAC farmer-clients

have received impact from natural disasters and low product prices. BAAC has supported the farmers to have a chance to correct their prior debts through the scheme to suspend capital and reduce interest, rehabilitate with soft loan rates, and reinforce financial discipline by returning the interest to the customers who pay their debts on schedule at the rate of 30 percent. The capability of the farming sector has increased by supporting with loans with low interest rate to farmer entrepreneurs according to the loan scheme of 1 Tambon 1 Agriculture SME.

Unit: Million Baht

List	Fiscal Year 2017	Fiscal Year 2016	Change	
			Increase/ [Decrease]	%
Net Interest Income	59,254	57,118	2,136	3.74
Non-Interest Income	8,022	7,369	653	8.86
Operational Expenses	31,296	30,881	415	1.34
Bad Debts, Doubtful Debts, and Impairment Loss	26,119	24,150	1,969	8.15
Net Profit	9,861	9,456	405	4.28
Average on Return of Assets (ROA) (%)	0.59	0.61		
Average on Return of Equity (ROE) (%)	7.73	7.68		

1.1 Net Interest Income

Net interest income was 85,614 million baht, increasing from the previous year by 2,899 million baht or 3.50 percent, which was from the increase of interest income from debts payment, the loan extension for farmers and farmer organizations, and the interest income from interbank transactions and the money market.

Interest expenditures were 26,360 million baht, increasing from the previous year by 763 million baht or 2.98 percent from the growth in deposits and the increase in transactions of the money market. The average of controlled deposit cost was lower than the previous year.

Unit: Million Baht

List	Fiscal Year 2017	Fiscal Year 2016	Change	
			Increase/ [Decrease]	%
Interest Income	85,614	82,715	2,899	3.50
Interest Expenses	26,360	25,597	763	2.98
Net Interest Income	59,254	57,118	2,136	3.74
Net Interest Margin: NIM (%)	3.15	3.29		

1.2 Non-Interest Income

Non-interest income was 8,022 million baht, which can be categorized into the income from fees and services in the amount of 3,827 million baht, increasing from the previous year by 326 million baht or 9.31 percent from the electronic service (ATM) and

the payment service (PAYMENT). The income from other operations was 4,195 million baht, increasing by 327 million baht or 8.45 percent, which mostly came from the life savings products.

Unit: Million Baht

List	Fiscal Year 2017	Fiscal Year 2016	Change	
			Increase/ [Decrease]	%
Income from Fees and Services	3,827	3,501	326	9.31
Income from Other Operations	4,195	3,868	327	8.45
Total of Non-Interest Income	8,022	7,369	653	8.86

1.3 Operational Expenses

Operational expenses were 31,296 million baht, increasing from the previous year by 415 million baht or 1.34 percent from annual salary promotions

and early retirement compensation of the employees and the expenses from the life saving products.

Unit: Million Baht

List	Fiscal Year 2017	Fiscal Year 2016	Change	
			Increase/ [Decrease]	%
Employee Expenses	20,255	19,766	489	2.47
Committee Remuneration	10	10	-	-
Place and Equipment Expenses	3,873	3,893	(20)	(0.51)
Other Expenses	7,158	7,212	(54)	(0.75)
Operational Expenses	31,296	30,881	415	1.34
Bad Debts, Doubtful Debts, and Impairment Loss	26,119	24,150	1,969	8.15

1.4 Bad Debts, Doubtful Debts, and Impairment Loss

Bad debts, doubtful debts, and impairment loss were 26,119 million baht, increasing from the previous year by 1,969 million baht or 8.15 percent from the debt reserves that were transferred to become more outstanding debts from the beginning of the year, and the debt reserves for the scheme to suspend debts for low-income farmers according to the supportive measures for low-income farmers who have registered in the state welfare.

Hence, as of 31 March 2018, BAAC had Public Service Account (PSA) in 75 schemes, which were separated from normal transactions in consolidated financial statements according to the declaration of the Bank of Thailand No. SorKorSor 1/2016, dated 29 June 2016. In the fiscal year 2017, there was income from Public Service Account in the amount of 21,599 million baht, which consisted of interest income and interest compensation, the income from capital compensation and the income from service fee compensation of the Public Service Account from the government in the amount of 15,855, 5,514, and 230 million baht, respectively, which increased from the previous year by 6,078 million baht or 39.16 percent. Meanwhile, the expenses of Public Service Account were 18,536 million baht, which consisted of interest expenses in the amount of 11,127 million baht and operational expenses in the amount of 7,409 million baht, which increased from the previous year by 3,008 million baht or 19.37 percent. The expenses of doubtful debts were 1,619 million baht, which caused the Public Service Account to have a net profit of 1,444 million baht.

■ **Liquid Assets (Cash, Interbank Transactions and Net Money Market, and Net Investment)** amounted to 325,090 million baht, increasing from the previous year by 27,801 million baht or 9.35 percent from more deposits.

■ **Loans for Debtors and Net Accrued Interest:** Total loans amounted to 1,369,301 million baht, increasing from the previous year by 92,257 million baht or 7.22 percent, which can be categorized into BAAC normal transactions which were 1,044,128 million baht, increasing by 93,901 million baht or 9.88 percent. Meanwhile, the Public Service Account or PSA was 325,173 million baht, decreasing by 1,644 million baht or 0.50 percent, which mostly came from the end of the scheme duration according to the cabinet's resolution and then transferring back to BAAC normal transaction. For example: The 24-month drought scheme for farmers in 22 provinces; The scheme to reduce the interest for rice farmers in the production year 2016/2017; and the scheme to reduce the loan interest for tapioca farmers in the production year 2016/2017.

When combining the accrued interest and deducting the allowances for doubtful debts, the remaining is the loans for debtors and the net accrued interest, which can be categorized into normal transactions in the amount of 808,703 million baht and Public Service Account in the amount of 314,235 million baht.

The total loans grew from the previous year by 7.22 percent, which was growth from ordinary person customers, farmer organizations, non-agriculture organizations, and other loans. Meanwhile, there was a reduction in village fund customers, farmer credit cards, and the state policy loan scheme.