



3. Risk Factors

The risk factors discussed below are based on the assessment of the current situation. Apart of the risk factors below, there may be other risky issues that the Company is unable to predict at the present time or that the Company deems that the issues shall not have any impacts on the overall operation. It should be noted that the risk factors linked to the economic situation as well as the government's policies are based on the information disclosed by government agencies and reliable sources. Also note that the Company does not verify the accuracy of such information. Investors are, therefore, advised to make a cautious decision before investing in SAWAD.

The Company and its six subsidiaries, namely Fast Money Co., Ltd (FM), SWP Asset Management Co., Ltd.(SWPAM), Srisawad Power 2014 Co., Ltd. (S2014), Srisawad Finance Plc. (BFIT), P Lending Co., Ltd., Srisawad International Holding Co., Ltd.(SIH) and SIH's three subsidiaries, namely SWP Services Co., Ltd., Srisawad Vietnam LLC and Srisawad Leasing Laos Co., Ltd. (which are called SAWAD Group), offer secured retail loans. SAWAD Group provide secured loans collateralized by auto titles, homes and land deeds, non-secured loans, debt collection service and distressed asset management business for which the firm purchases NPLs from other financial institutions, comprehensive credit-provision management consultancy service and credit sales.

Risk factors in SAWAD Group's business operation that may have a significant impact on investment returns for investors as well as potential strategies to prevent the risks are discussed below.

3.1 Risks in regard to marketing and strategies

3.1.1 The risk of competition in the auto title loan and hire purchase loan segments

The auto title loan and hire purchase loan segments see intense competition, both from the existing players and new comers. Most new operators penetrating the business are financial institutions who enjoy competitive advantages from lower financial costs and larger capital base. These operators, including commercial banks or their subsidiaries and hire purchase or leasing firms engaging in auto title loans and hire purchase loans, see good potentials for attractive returns. In addition, the auto title loan and hire purchase loan segments do not require large investment in operating equipment, and neither do they need operating licenses from a particular government agency. Hence, new comers can easily penetrate the business, without any limitation, as they need only some funding sources for offering loans to customers. Given this favorable business condition, more and more new players begin to compete in the industry. In addition to the aforementioned competition from the new players, the existing ones also attempt to come up with marketing strategies to beat one another. For instance, they offer bigger credit limits, extend repayment duration, and offer low interest rates in order to attract potential customers.



It is worth highlighting that the success factors do not depend solely on sufficient funding. With its long experience of 40 years in the business, SAWAD Group understands its customer groups very well, so the Group is able to provide services that well suit customers' demand. The Company's service coverage is across the country, with service networks covering all regions nationwide. As of 31 December 2019, SAWAD Group's branch networks included 4,080 branches. The Company provides fast and effective services, with a large system for its customer-related data base. In addition, SAWAD also possesses expertise in loan approval procedure as well as loan collections. As a result, the Group enjoys competitive advantages over its peers and is able to examine loan applications efficiently. Moreover, most commercial banks or the firms under the umbrellas of commercial banks focus mainly on the new auto market while hire purchase or leasing companies emphasize on providing services for buyers of new cars or used cars in the upper and middle market segments. On the contrary, SAWAD group focuses on different customer groups by offering auto-backed loans and home-backed loans to potential customers who may be unable to access financial services offered by commercial banks or those under banks' umbrellas but they owns vehicles and property.

3.1.2 The risk in regard to competition in the personal loan segment

The personnel loan segment has seen fiercer competition. The fact that the interest rates and fees in this loan segment are higher than those from credit card loans attracts both financial institutions and non-financial institutions to enter the business. While SAWAD Group is well aware of the risk of higher competition, the firm believes the risk will not have any significant impact on its overall operation given that the Group focuses on Grade B customers including government officials, state enterprises' employees and village heads, unlike other financial institutions that focus on Grade A customers. SAWAD Group understands well about the nature and repayment behaviors of its target customers. Also, the Company's staff teams are available to provide services and launch marketing strategies to reach target customers nationwide. Hence, the Company is very confident in its competitiveness. However the Company freeze personal loans from the beginning of 2016. In the year 2017, the Company also took in Srisawad Finance Public Company Limited as part of the group, where personal loans are granted to employees of private companies. The credit approval process for these individuals also takes into consideration the financial health of the related companies as well. The logic is that as long as the company is doing well, the employee's income should be stable, and thus the ability to pay back the loan should be secure.

3.1.3 The risk in regard to competition in Nano finance loan segment

Nano finance loan business is stipulated by Bank of Thailand and Ministry of Finance for individuals seeking to borrow without collateral to use for business operation. There are many corporates interest and apply to



enter this business, that means the competitions will be more extreme. Also government policy which will grant PICO finance license for local operators in each province.

SAWAD Group is confident in its networks of branches and staff members across Bangkok, Bangkok's vicinity and other regions nationwide with the larger coverage. Moreover, the present number of firms permitted to operate this business is 40 firms, and the PICO finance will have been limited with areas and credit limit. The Company is confident that the Company's Nano finance license can cover more areas and lower cost of funding.

3.1.4 The risk in regard to the competition in the debt collection business

At present, there are a large number of players in the debt collection business, including local players. This leads to more intense price competition and the nature of debt collection practices of some operators may lead to some complaints.

SAWAD Group is confident in its potentials, which board networks of branches and staff members across Bangkok, Bangkok's vicinity and other regions nationwide. The Company assigns highly-experienced debt collection staff to base at extensive branches and this strategy enables the firm to save collection costs. The Company also ensures that its debt collection staff members are well trained, as required by the law, before they are assigned to perform their duties.

3.1.5 The risk in regard to the competition in Comprehensive Credit-Provision Management Consultancy Service

In this line of business, there is currently no other company engaging in providing comprehensive advisory services on credit provision management then the competition will not extreme. However in the future, the customer will have more experience to do business and terminate our service.

The Company has considered risk that customer no longer use our service, but the target market in Myanmar is expected to increase over time due to the rising consumer needs for credit. In the mean times the Company has considered to expanse this service to other neighborhood country.

3.2 Risks in regard to loan management and collateral

3.2.1 The risk of Conflicts of Interest



Subsequent to the acquisition of shares and the Tender Offer to purchase all securities of Srisawad Finance Public Company Limited (“BFIT”) by Srisawad Corporation Public Company Limited (“The Company” or “SAWAD”) in April 2017, the Company and BFIT, subsidiary, SAWAD held 45.34 percent of BFIT total paid-up shares, undertake the restructuring of businesses within the group in order to create opportunities for future business growth. Whereby, BFIT has extended its lending business from personal loan to corporate employees to collateralized loan to small SMEs and retail individuals that is not overlapped with the businesses currently operated by Srisawad Power 2014 Company Limited (“S2014”), a wholly-owned subsidiary of SAWAD, in order to clarify the Group business structure and eliminate conflicts of interest.

According the Tender Offer Statements concerning the Company’s future business plan after completion of the Tender Offer, in the event that the Company can hold between 36.35 and 60 percent interest in BFIT, the lending business to be operated by BFIT shall not overlap with S2014, which shall be separated by type of collateral. In this regards, BFIT will operate the lending collateralized by vacant land and house, and the 4-wheeled vehicles, whilst, S2014 will offer the lending secured by motorcycle, trucks, and agricultural vehicles.

The Group’s revised business plan shall affect the following lending products of BFIT: Car for Cash and Home for Cash services. After amending to re-separate the business between SAWAD and BFIT, the lending entity for Car for Cash product will be determined by type of contracts (Loan/Hire Purchase). Whilst, Home for Cash will be determined by transaction type (Mortgage and Sale with redemption right) and loan value (exceed/not exceed Baht 10 million). The amendment of the Group business plan will impact and change BFIT operation as previously stated in the Tender Offer documents.

However, the Group Companies is confident that the revised business plan will not create conflicts of interest as the Company has prepared to develop clear criterion to determine the lending entity and has promptly established reliable measures to prevent potential conflicts of interest, as follows:

1.1 Develop Clearly Written Work Instruction, Policy, and Business Separation Criterion

The Group Companies has developed clearly written work policy and instruction to provide effective guidance for the separation of business between BFIT and S2014, as follows:

Car for Cash – Use Rate Book to determine type of contract



- ▶ S2014 will offer the lending service through Hire Purchase contract, which is determined by loan amount that is equivalent or more than the Rate Book, where the client shall transfer ownership of the vehicles to S2014.
- ▶ BFIT will offer the lending service through Loan contract, which is determined by loan amount that is less than the Rate Book, and the client is not required to transfer ownership of the vehicles to BFIT.
- ▶ The clients will indicate their own financial needs and shall enter into the contract suitable to their choices, that is, if the desired loan amount is high, the clients will need to enter into Hire Purchase contract and shall transfer the ownership of vehicle to S2014. If the desired loan amount is low, the clients will need to enter into Loan Contract with BFIT which does not require to transfer the title of vehicle.

In practice, branch staffs, who seek for and get contact with the client, will refer to standard loan amount as stipulated in the Rate Book applicable at the time. Rate Book will provide standard loan amount for each type, brand, model, and year of vehicles. Nevertheless, the pre-approved credit limit shall never exceed the rates stipulated in the Rate Book.

Standard loan amount per the Rate Book will then be compared with the client's desired loan amount in order to determine contract type to be entered. If the desired loan amount is lower than the Rate Book, the client will need to execute Loan contract with BFIT, but if the desired loan amount is equivalent or higher than the Rate Book, the client will execute Hire Purchase contract with S2014. The credit limit of each borrower is determined by creditworthiness of the borrower and the guarantor as well as the quality of collateral and other factors.

Home for Cash – Use transaction type and loan value of Baht 10 million to determine the lending entity

The basis used in determining the lending entity for Home for Cash service or loan secured by house, land, and condominium is transaction type and loan value of Baht 10 million, which is referred from the Bank of Thailand's supervision on Housing Loan, which rule outs the lending criteria for the residences price up to and exceed Baht 10 million separately based on different inherent risks.

In the practical lending process, the branch staffs will consider the fair price of house and land as appraised by Group internal staffs, and the government's appraised price for land, in order to determine the fair price of collateral before adjusting according to Loan-to-Value policy of the Company in order to



derive pre-approved credit limit. If the loan value does not exceed Baht 10 million, the clients will enter into Loan contract with BFIT. If it exceeds Baht 10 million, the Loan contract shall be executed with S2014, where the loan amount shall be always within the pre-approved credit limit.

1.2 Regularly Review Business Separation Criterion and Ensure Audit Committees Approval Before Effective

Announcement of the Rate Book for Car for Cash and the Baht 10 million basis for Home for Cash service are under the responsibility of the Collateral Committee, which is a unit independent of the Credit Department. The Collateral Committee is responsible to review and ensure appropriateness of the Rate Book that is effective at any point in time. The Rate Book will be reviewed on a quarterly basis and adjusted in accordance with changing market of the used cars.

The Group Companies has established key policies to review the basis used in determining the lending entity, as follows:

- ▶ Rate Book shall be reviewed at least every quarter, and, when necessary, shall be revised in accordance with market changes.
- ▶ Once the Rate Book is mutually agreed by both parties, it shall be proposed to the Audit Committee of each entity for approval. For BFIT, the internal audit team will be responsible to reconfirm and justify the adjusted items on the Rate Book by comparing to the current market price of used cars, and report the audit results to the Audit Committee for their consideration and approval.
- ▶ Without approval from the Audit Committee by both parties, the Rate Book cannot become effective. In such event, both parties will need to reconsider and fine tune appropriate rates to be used in the Rate Book.

1.3 Use Conflict Checklist Form to Assist in Business Separation

Branch staffs are required to use Conflict Checklist Form to assist in determining appropriate type of contract to be entered by the client in accordance with the Group lending policies. The branch staffs are required to attach the Conflict Checklist Form with a copy of Rate Book prior to sending all relevant loan documents to the Credit Department for approval.

1.4 Review and Reassure the Appropriateness of Contract Type by the Credit Department

Credit Department will conduct the review of loan application to justify the appropriateness of loan offered by the branch staffs prior to signing approval, as follows:



- ▶ Branch staffs will verify completeness and accuracy of loan application and determine pre-approved credit limit for the borrower, by comparing the desired loan amount with the standard loan amount per the Rate Book, in order to identify appropriate type of contract to be entered by the borrower (Loan/Hire Purchase contract)
- ▶ If the borrowers are qualified for Loan contract with BFIT, loan application and relevant supporting evidences will be scanned into the system and sent to the Credit Department. The Credit Department will review and confirm appropriateness of the pre-approved credit limit against the Rate Book before signing approval.

1.5 Prepare Monthly Credit Approval Report for Management Consideration

The Company has established a procedure to monitor inappropriate actions which wrongly define the lending entity. At the month end, the Credit Officer shall prepare a credit report to compare credit limit and standard loan amount per the Rate Book for the top Management consideration.

1.6 Regularly Perform Internal Auditing at Branch Office

The Company's internal audit team will conduct proactive audit at each branch on a rotating basis to ensure appropriateness and effectiveness of business separation, and report any inappropriate actions to the Audit Committee. Such internal audit activities have been included as part of the Company's annual audit plan.

1.7 Ensure Approval by the Audit Committee Before Rate Book Becomes Effective

The Audit Committee has the ultimate responsibility to review appropriateness of the revised Rate Book and approve it before effective. The Audit Committee will also consider other connected transactions or the transactions with potential conflicts of interest and ensure that the transactions are reasonable and in the best interest of the Company, and the disclosures of which have been made accurately, completely, and in compliance with the requirement of the SET and relevant regulations.

1.8 Develop Information Technology System to Assist in Defining the Lending Entity

The Group Companies has planned to implement a new IT system to support the separation of business between SAWAD and BFIT, particularly for loan approval process. The newly-implemented IT system is aimed to reduce roles of the branch staffs, which is the point at which the conflict of interest may arise. The new IT system will enable the Company to reduce most of the daily human errors and define clear



process for determining the lending entity. The plan to implement new IT system was included as part of the plan to establish a financial business group proposed to the Bank of Thailand.

At present, the Company is in process to develop the new IT system. Nevertheless, it may take at least 3-5 months ahead to ensure that the newly-developed system has worked reliably and functionally according to the purpose.

3.2.2 The risk of higher NPLs

At present, the auto title loan and hire purchase loan businesses are not under control by any particular state agencies or regulations. Hence, operators are able to expand their business at their full potentials. They are thus at high risk of seeing greater non-performing loans (“NPL”) if they lack of cautious loan approval process or effective internal control system.

However, the Company is very cautious about examining loan applications and emphasizing loan quality. The Company thoroughly examines the information of the customers and their guarantors. Reports on evaluation results for customers’ repayment ability are carried out regularly. As of 31 December 2019, the Company saw NPLs amounting to Baht 1,077.84 million, increasing from Baht 776.90 million as of 31 December 2018. The increase in NPLs was in line with the rise in total loans. Meanwhile, the NPL ratio increased from 2.64 percent as of 31 December 2018 to 2.97 percent as of 31 December 2019, in tendon with overall loan growth. Regarding the allowance for doubtful accounts, as of 31 December 2018 and 31 December 2019, the Company set aside the allowance for doubtful accounts amounting to Baht 623.67 million and Baht 432.89 million, respectively, implying coverage ratios of 2.12 percent and 1.19 percent, respectively. While the loan provisions are lower than NPLs, the Company views that the provision position is appropriate given that the Company offer secured loans and the loan to value ratio (LTV) is rather low at 30-70 percent.

During 2017-2019, the Company’s bad debt stood at only Baht 244.35, 323.46 and 599.85 million, equivalent to NPL ratios of only 0.71 – 1.65 percent, lower than the coverage ratios for the years at 1.19 – 2.43 percent.

In other words, the Company has set aside sufficient loan provisions to cover NPLs.

Unit: Million	31 Dec-17	31 Dec-18	31 Dec-19
NPL ¹	645.66	776.90	1,077.84
Total Loan ²	22,148.96	29,433.00	36,341.00
% of NPL to total loan	2.91	2.64	2.97
Loan loss provision	537.59	623.67	432.89



<i>% allowance of doubtful accounts to total loans</i>	2.43	2.12	1.19
Bad Debt	244.35	323.46	599.85
<i>% NPL to total loans</i>	1.10	1.10	1.65
<i>Allowance of doubtful accounts to total loans to NPLs (time)</i>	2.20	1.93	0.72

Note ¹ NPLs mean loans which the Company stops realizing revenue according to revenue realization policy

² Total loans mean the amount of loans stated in the loan agreements and hire purchase contracts deducted by interests not yet booked as income.

3.2.3 The risk in regard to loan agreements and collateral documents being lost or damaged by fires

Loan agreements and documents identifying the ownership of collaterals are major assets for the loan service business. In case customers fail to make repayment for the outstanding balance overdue, the Company needs to use such agreements or documents for further legal actions. Loss or damages of such loan evidences due to fires may have negative impact on the Company's operation.

Realizing the risk of loss and damage of loan evidence, the Company thus comes up with measures to reduce the risk by setting up a special document room for keeping loan agreements and collateral documents in order to speed up the operation process because the loans linked to motorcycles are short-term loans with low credit limits. Entry to the special document room is very strict, with fire insurance being put in place. Moreover, the Company also keeps all documents in an electronic form, with all data being backed up at a separate location on a daily basis in order to prevent damages from any causes.

3.2.4 The risk of possible failure to confiscate collaterals

Most collateral items are cars and motorcycles and these items are more difficult to confiscate, in case customers fail to repay debts, than other collateral items, e.g., deeds of housing units, land, and etc. If the Company is unable to confiscate and sell the collateral in compensation of unpaid debts, this will have a direct negative impact on the Company's business operation, financial position, and earnings performance.

To reduce the risk, the Company has a policy to extend loans to individuals and/or collateral and/or guarantors residing in the same areas where the Company's branches are located. Moreover, the Company's credit staff are also assigned to examine the information on site, i.e., the addresses identified by the customers, in order to double check the existence of the collateral. In case the customers fail to settle the monthly installment bills, the Company will assign its staff in charge to follow the customers and confiscate the collateral afterwards. The staff will promptly take action in order to prevent the customers from running away with collateral. It should be noted that the Company also benefit from its extensive branch network that included 2,900 branches nationwide, allowing the Company to locate the collateral more easily.



3.2.5 The risk in regard to inability to sell foreclosed assets

According to the nature of the auto title and hire purchase loan businesses, once a customer fails to settle the installment bills for three consecutive periods, the Company will send a letter notifying that the contract will be terminated should the customer does not repay the debts within 30 days from date (for the hire purchase contracts) or seven days (in case of the loan agreements). If no action is taken by the customer within the identified timeframe, the Company is entitled to confiscate the collateral. After that the Company will issue a letter notifying the customer to redeem the collateral within 30 days, both in cases hire purchase and loan agreements. If the customer is not present to redeem the collateral within the specific timeframe, the Company is entitled to sell the collateral. At present, the Company sells foreclosed assets through several sale channels including branches for selling motorcycles, and warehouses for keeping confiscated cars. In addition, the Company also hires a private auction organizer to organize auctions for people who may be interested in buying confiscated motorcycles. The proceeds from the sale of confiscated collateral will be used for covering the outstanding balance. If the Company is unable to sell the confiscated items, this will have a negative impact on its financial position and operational performance.

The Company decides to extend loans to customers, considering the popularity of the vehicles in the market or the locations of the land in order to reduce potential impact of the lack of liquidity from the sale of confiscated collateral. After confiscating the collateral, the Company's staff will keep the items and sell them to the Company's selected counterparty by tranches at net asset value price.

The pricing of confiscated collateral is based on the remaining value of the outstanding balance, which is normally lower than the market price. Hence, the selling prices of confiscated collateral items are normally lower than the market prices, increasing more liquidity to the sale transactions.

Foreclosed assets classified by types of collaterals	31 December 2017			31 December 2018			31 December 2019		
	Value (million)	Quantity (unit)	Average value (Baht/unit)	Value (million)	Quantity (unit)	Average value (Baht/unit)	Value (million)	Quantity (unit)	Average value (Baht/unit)
Old motorcycles	72.66	5,637	12,889	123.32	11,370	10,846	136.46	13,915	9,807
New motorcycles	3.38	95	35,578	2.38	66	36,086	2.23	62	35,929
4-wheel vehicles	137.79	1,195	115,305	199.79	1,784	111,992	267.74	2,471	108,352
Commercial cars	22.06	130	169,692	46.79	258	181,370	60.06	329	182,561
Vehicles for agricultural uses	1.84	8	230,000	1.64	6	272,963	1.68	6	279,560
Home and land	17.67	17	1,039,411	24.33	22	1,105,814	36.01	34	1,059,091
	255.40	7,082	36,063	398.25	13,506	29,487	504.17	16,817	29,980



It is found that most of the foreclosed assets are used motorcycles, with an average unit value of Baht 9,807.

3.2.6 The risk that the sales of foreclosed assets not covering the unpaid debt values

The Company confiscates the collateral when a customer fails to repay the instalments for the certain time specified in the contract. After that the Company proceeds to sell the confiscated item at its own branches, warehouses or auctions where general people who are interested in buying new motorcycles are invited to participate. Should the Company manage to sell the collaterals at the value exceeding the remaining value of the outstanding balance, only in the case of hire purchase contracts, the Company will return the remaining proceeds (net after deducting the remaining value of the outstanding balance and relevant expenses) to the customer. If the debt balance is higher than the value of the foreclosed asset sales (this may be because the average age of the collaterals ranges around 2-14 years) and if the Company is unable to obtain the variance from the customer or the guarantor, the Company will see some losses from the sale of the collaterals. This will in turn have a negative impact on the Group's operational performance.

To reduce the risk, before approving auto-backed loans and home-backed loans, the Company has to examine and appraise the values of the collateral very carefully. Also, the Company approves credit limits with 30-70% discount from the market prices of the collaterals; the discount depends on the models and the popularity of the collaterals. Hence, the remaining value of the outstanding balance is lower than the selling price of collaterals sold by auction. Meanwhile, the loss from the sale of collaterals at FM was attributable to the Group's policy to sell the confiscated new motorcycles as fast as possible in order to reduce the risk that the prices of new motorcycles drop rapidly. Note that the Company sets aside provision for the impairment loss of foreclosed assets for the hire purchase loans for new motorcycles at the rate of 25 percent of the total debt value as of the confiscation date. The rate is set by the management, based on historical data.

As of 31 December 2019, over 70% of foreclosed assets lasted not more than one year from the confiscation date. However, most of the foreclosed assets that last longer than one year (worth Baht 156.70 million) are new motorcycles for which the Company regularly sets aside provisions for impairment loss.

Cost of foreclosed assets classified by the duration after the confiscation date	31 December 2017		31 December 2018		31 December 2019	
	Million	%	million	%	million	%
Less than 1 months	39.03	15.28	34.42	8.64	120.06	23.81
1 - 3 months	66.14	25.90	68.74	17.26	70.17	13.92
4 - 6 months	84.99	33.28	85.83	21.55	24.79	4.92
7 - 12 months	43.45	17.01	106.34	26.70	132.45	26.27



Longer than 12 months	21.78	8.53	102.92	25.84	156.70	31.08
Total	255.40	100.00	398.25	100.00	504.17	100.00
deduct provision for foreclosed asset impairment	(2.76)	(1.06)	(11.29)	(2.83)	(21.82)	(4.33)
Foreclosed assets - net	252.64	98.94	386.96	97.17	482.35	95.67

Moreover, the Company also uses the actual values of foreclosed asset sold as criteria for considering new credit limits. As of 31 December 2019, the foreclosed assets at the cost price amounted to Baht 504.17 million, with provisions for impairment amounting to Baht 21.82 million, equivalent to 4.33 percent of the cost price.

3.3 Legal Risks

3.3.1 The risk of being sued by customers

As mentioned above, the auto title loan and hire purchase loan businesses are not controlled by any particular agencies. The most relevant laws for the business are Civil and Commercial Code and Consumer Protection Law stating that the business about hire purchase of cars and motorcycles is the business with controlled contracts. SAWAD Group emphasizes the importance of the law and seriously complies with the laws, ensuring that all hire purchase contracts and loan agreements are legal.

Regarding the hire purchase business, the Company always carries on the business, complying with laws and regulations set forth by relevant authorities, especially the Bank of Thailand that sets rules about principles, procedures and conditions for conducting personal loan business. Non-financial firms are allowed to collect the maximum interest rate of 15 percent per annum and the total of collection fee as well as other fees shall not exceed 28 percent per annum. For conducting Nano finance loan business, interest rate, fee and penalty fee totaled not exceed 36 percent per annum.

Even though the Company always follows the rules and regulation and there have never been any legal cases against the Company, the Company always keeps in mind of legal risks in case some customers may want to file lawsuits against the Company. Any court case against the Company will definitely have a direct impact on its business operation. In light of this, the Company regularly communicates with its customers and ensures the same understanding between the two parties. Moreover, the Company also emphasizes the customers and guarantors' ability to repay debts in order to reduce the possibility of loan defaults, which may eventually lead to collateral confiscation or lawsuits. In case of overdue outstanding balance, the Company has a clear and fair collection policy, in accordance with the legal procedure. Hence, the Company is confident that it is very unlikely to face any lawsuits filed by its customers.



3.3.2 Risks from the future controls on vehicle title loans and hire purchase loans by the state sector

As present, the auto backed loans, home-backed loans and hire purchase loans are not controlled by any state agencies, including the Bank of Thailand. Nonetheless, but Office of Consumer Protection Board” oversees the hire purchase contracts and The Act Prohibiting the Collection of Interest at an Excessive Rate B.E. 2560 in order to ensure that consumers are treated with fairness. In the future, a state agency may be appointed to directly oversee and control the auto title loan and hire purchase loan businesses; this may have some negative impacts on the Company's business operation.

In February 2019, the Bank of Thailand becomes in charge of controlling interest rates for lending. However the Company is confident that the potential control by any state agency may not have significant impacts on the operation and small operators, whose operations are not systematized and standardized, may be pressured, and may prevent new players from entering the market given that penetrating to the business may not be as easy as in the past. And the secured loans under BFIT are in compliance with the regulations of Bank of Thailand.

3.3.3 Risks in regard to the possibility that a state agency may control the personal loan business

The personal loan segment is controlled by the Bank of Thailand. Thus, any new rules or regulations against business operation of the Company may have an impact on the Company given that the Group will have to adjust some of its business procedures to comply with the rules and regulations. This may have an impact on the Company's business and operational performance.

SAWAD Group is well aware of the risk, so it closely monitors updates and news about changes in regulations and project potential impacts of the changes. Updates and projections of possible impacts of regulation changes are then reported to the Company's directors so that they can accordingly decide strategies of measures in response to the changes in appropriate and prompt manners.

3.4 Financial Risks

3.4.1 The risk in regard to fluctuation in the interest rate

SAWAD Group's core revenue is from interests from the lending business. The interest rate is fixed throughout the life of the loan agreement. Meanwhile, the main expenses come from cost of funding from financial institutions who set floating interest rates. Any changes in the interest rate will have an impact on the net interest margin and interest expenses. In particular, when the interest rate is hiked, the Company's cost of funding will also increase, resulting in a narrower net interest margin. This in turn will have a direct impact on the Company's operational performance and profitability.



However, at present the variance between interest income and interest expenses is rather large. In case of an interest hike, the Company still believes that its revenue should be enough to cover costs and expenses. Moreover, the Company can also reduce risks from new loan contracts for which it is able to set interest rates and fee to reflect actual cost of funding. Also, in the short to medium term, the interest rate is likely to continue on a downtrend. Furthermore, the Company received more funding from debenture issuance, which should help to lower interest expenses to a certain degree.

3.4.2 The risk in regard to dependence of borrowing from financial institutions

Given the nature of lending business, lenders need sufficient funding for operation in order to have the business continue. As of 31 December 2019, SAWAD's funding sources were i) seven financial institutions; ii) bills of exchange, iii) shareholders' equity and iv) debenture. As of 31 December 2019, the amount of loans taken out from the seven financial institutions totaled Baht 5,296.05 million. The proportion of the lending from the seven financial institutions was 0.00-6.00 percent of the total funding sources. In case the Company is unable to get loans from the financial institutions, this will have a negative impact on its business, financial position as well as operational performance.

Borrowing mainly from the financial institutions, the Company has a very good repayment record and has never been requested by the lenders to repay debts before schedule. In order to reduce the dependency on the financial institutions, the Company seeks new sources of funding by issuing short-term bills of exchange and offering them to institutional investors or high net worth investors. As of 31 December 2019, the Company sold bills of exchanges amounting to Baht 980 million and including unsecured debenture 3 series, amounting Baht 3,550 million, in order to reduce the dependency on the financial institutions.

In addition, Srisawad Finance Plc. can raise fund through deposits which is the major sources of fund of BFIT for expand its lending business.

3.4.3 The risk in regard to the mismatching between the lending periods for customers and the lending periods from creditors

The motorcycle-backed loans (accounting for 10 percent of the total loan receivables as of 31 December 2019) allow repayment durations of not more than 18 installment periods while four-wheel vehicles –backed loans (accounting for 33 percent of the total loan receivables as of 31 December 2019) allow an average repayment duration of not more than 24 installment periods. Meanwhile, the Company's funding comes from short-term loans from the financial institutions. As of 31 December 2019, the Company saw short-term loans and bills of exchanges totaling Baht 3,840.93 million, long-term loans from financial institution totaling Baht



2,435.12 million, senior debentures amounting Baht 11,220.29 million and short-term and long-term deposits amounting Baht 6,354.33 million. Hence, it is rather risky if the financial institutions does not allow loan contract extension or if a payable requests the repayment immediately after the loans are due.

As of 31 December 2019	Amount (Baht Million)	% compared to total assets
Receivables due within 1 year – net	28,908.02	63.59
Receivables due more than 1 year – net	7,000.08	15.40
Total assets	45,461.61	100.00
Short-term loans due within 1 year	12,601.43	27.72

However, the Company is classified as a good customer and has never caused any financial problems or debt defaults. Moreover, to reduce the risk about repayment of short-term loans, the Company has prepared for seeking funding from other sources, including raising funds from the public offering in order to increase the liquidity and manage funding sources more effectively. The Company also completes a cash flow projection to cover the estimated loan growth in the future. The projection is aimed at analyzing the liquidity so that the Company can plan for supporting funding and it should thus be able to continue its business operation.

3.4.4 The risk in liquidity

Liquidity risk is the risk resulting from the Company's failure to pay its debts and obligations when due because of the inability to convert assets to cash or to mobilize adequate funds by schedule or at acceptable costs which could cause damage to the Company.

The Company has closely monitored, reviewed and evaluated liquidity status by using risk control system and daily financial status report and presented them to Managing Director every day. The Asset and Liability Management Committee will have a monthly meeting to consider the liquidity status. In case of an emergency situation, the Company will able to handle such situation because the Company has also prepared the Liquidity Contingency Plan and Guideline including the scenario study in case of bank run situation.

3.4.5 The risk in regard to the foreign exchange rate

According to the Company has service and credit sales in neighborhood countries, that will make the Company face the loss from foreign exchange rate and the depreciation of those currencies.

The Company provide advisory service to Myanmar customer which will settle the service fee in term of Thai Baht so the Company will not suffer from exchange rate. The credit sales business in Vietnam settle in



Vietnam currency which considered from the fluctuation of the conversion rate between Baht and Dong is in the low level.

3.5 Operational Risks

3.5.1 The risks in regard to corruptions by employees

Being engaged in the auto tile loan, hire purchase and non-secured personal loan businesses, SAWAD Group authorizes the branch managers to approve credit limits and extend loans to customers immediately, provided that the loans are under the credit limits within their approval authority. Customers can settle the installation bills at the Company's branches by cash with the branch staff. This practice can be risky from the possibility that operation staff may involve in corruption.

The Group is well aware of the risk, so it puts an internal control system in place in order to examine the performance of branches. The internal control system is equipped with supporting informational technology. Officers from the central offices also cross check and ensure that customers receive loans as specified in the contracts. Moreover, for every repayment transaction at any branched, customers will receive receipts from the central data system. The headquarter office has a monitor system, which can detach when a branch office receives more over-limited repayment amounts. A branch receiving over-limited repayment amounts will be requested by the headquarter to deposit the sum to the bank. Moreover, the Group also has a particular division examining the lending procedures and repayment transactions of branches at random. Various measures as well as systems should help to keep any possible damages at insignificant levels. In addition, the Company has a policy that any staff dealing with payment and repayment transactions done by customers have to put guarantees or guarantors before the employment contract is signed.

3.6 Operational Risks

3.6.1 The risk in regard to the fact that the major shareholder group holds stake of more than 45 percent

As of 23 May 2019, the Kaewbootta Group consisting of Ms. Thida Kaewbootta, Ms Duangchai Kaewbootta, Mr Chatchai Kaewbootta and Mrs Jariya Kaewbootta was the major shareholder group holding combined stake of 46.70 percent of the paid-up capital. With such a large portion of stake holding, the Kaewbootta Group has a controlling power as well as influence on decision making. The Group can also control the majority votes in the shareholder meeting. Hence, there is a risk that some other shareholders may want to join hands and gather votes in order to balance power and question some matters raised by the major shareholder group in the shareholder meetings.



Based on the Company's organizational structure, however, the Company has clearly identified scopes of authority, rules and responsibilities of directors with transparency. Also, measures in regard to connected transactions linked to directors, major shareholders, management, as well as individuals with conflicts on interests are clearly identified. The aforementioned people are not allowed to vote on related issues that may cause conflicts of interests. Also, independent directors are appointed to consider and make decisions on the issues to ensure that the practice on such issue is transparent enough to convince the shareholders that the Company's management structure highlights balance of power and effective management.

3.6.2 The risk of high dependence on major shareholders

At present, SAWAD Group is financially supported and guaranteed by its major shareholders. As of 23 May 2019, The Kaewbootta family, the major shareholder group with 46.70 percent of the paid-up capital guaranteed the loans amounting to Baht 500 million for business operational purposes (Further details can be obtained from Part 2, 12 Connected Transactions). This can be inferred that SAWAD Group sees considerable risk in regard to its high dependence on Kaewbootta Group. An absence of financial assistance from the Kaewbootta Group may put the Company's business operation in trouble.

Note that the aforementioned guarantee was carried out in accordance to regulations set forth by the financial institutions. At present, the financial institutions is processing to withdraw the guarantee.