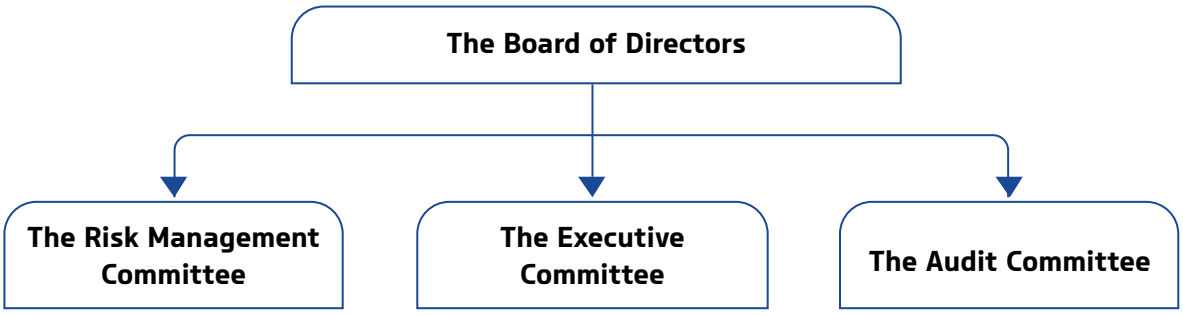
Risk Management

The Company has focused on creating mechanism and risk culture to add value and generate sustainable returns to stakeholders under a balance between risks and return. Thus, the Company has established policies, processes and set the acceptable risk level which cover credit risk, operational risk, market risk, liquidity risk, technology risk and strategic risk. The Company has also developed risk assessment, control efficiency and residual risk monitoring to regularly monitoring risks to ensure that they are at an acceptable level.

Risk Management Structure

The Board of Directors assigns the Risk Management Committee, the Audit Committee, and the Executive Committee, including related functions to monitor and manage business risk level to be at an appropriate level as well as align with rules and regulations.



The Company has established policies and processes, including control, monitoring and reporting systems on various levels of risks, as well as clearly separated duties and responsibilities and defined risks of each reporting line in alignment with principles of good internal control. The Company has also emphasize on accuracy of report and risk management disclosure. There are three key risks as follows.

1. Credit Risk Management

Most of the Company's loan clients are those who cannot access to commercial banks' loan services. Therefore, the Company may have higher risk of bad debt or default than loans given to clients who have good credit history, including impacts caused by changes in economic conditions, laws, policies and/or regulatory requirements.

An ongoing outbreak of COVID-19 since 2020 has resulted in a slowdown in economic activity while per capita income as well as the Company's loan clients have decreased significantly, causing an increase of default rate. To control the Company's credit risk under risk tolerance level, the Company has adjusted the processes and policies on credit approval and debt collection in accordance with the situation.

1.1 The Effective Loan Approval

To manage risks concisely, the Company regularly reviews policies and processes relevant to loan approval to keep up with changing situations, including having a suitable information management system on data used for loan approval as well as internal and external data review processes. Currently, the Company can access data of National Credit Information Co., Ltd. (Credit Bureau), which the Company has used as the information for assessing creditworthiness of some clients. Moreover, the Company has assessed clients' credit histories and tendencies to default based on the information obtained from loan applicants and external sources. To improve efficiency of loan approval, the Company has used various techniques and an internal credit scoring system for considering each client both at the branch level and at head office according to the Company's credit policy. Loan operations depend on clients' histories, types of loan, and the completeness of information obtained from various source for the accuracy in loan approval considerations.

1.2 The Debt Collection or Disposal of Asset for Debt Repayment

An outstanding loan is a part of the Company's normal business operations, thus, the Company has focused on effective debt quality management and arranging guidelines for debt collection to suit a level of risk and a situation occurred. Preliminarily, the Company shall contact a client by phone and send text messages via phone or letters to follow up on an overdue debt. The Company shall try to collect debt by meeting with a client (the Company's employee or third-party debt collector may be assigned to meet with a debtor or proceed through the legal system). In addition to the aforementioned processes, the Company shall track asset for debt repayment and proceed to dispose of such asset through various methods, including an auction by a third party and selling by the Company. When the asset is sold, money received from such sale will be used for paying off an outstanding debt. If there is an excess after debt repayment, such excess will be returned to a client. The Company has placed importance on fair debt collection under the laws and regulations. Additionally, the Company has focused on continuously improving debt collection efficiency by applying statistics methodology to improve debt quality in every segments.

2. Operational Risk Management

The Company aware of and gives importance to crisis management and business continuity management by established crisis management plan for every scenarios, such as identify workforce and backup person to execute critical tasks, diversify operational workplaces to reduce chance of infection among critical staffs who execute same critical tasks. Moreover, the Company also distributes required resources such as computers, phones and network connection devices to employee accommodations to support them on working from home. The aforementioned plans shall reduce business disruption especially critical business functions (CBFs). It also promotes the smoothly service to support customers during crisis situation.

2.1 Operational Risk Management

The Company has established the policy for operational risk management covering risk assessments both from external and internal events, risk prevention, as well as a contingency plan to mitigate risks, with details as follows:

1. Determine the "Business Continuity Management Policy" for being used as guidelines for ensuring that when disruption occurs, operations can be maintained or recovered within reasonable period. Its purpose is to minimize the operational, financial, legal, reputation and other material consequences arising from a disruption, especially for a major operational disruption.

2. The Company has implemented risk and control self-assessment (RCSA) which consists of risk identification, risk assessment, risk monitoring and control and risk reporting. All departments shall assess risks, risk control methods and its effectiveness, as well as determines expected damage from operational risk and risk tolerance levels report to departmental executives and high-level executives on a monthly basis.

3. The Company has managed risks from using external service providers by setting up a service provider selection process, risk assessment, an outsourcing risk controlling and monitoring process and also a business continuity plan for maintaining business continuity to customers, as well as customer complaints management and customer data securities.

4. The Company conducts business continuity plan testing at least once a year. Moreover, the Company has updated staff names and phone numbers of employees in each department on a quarterly basis or when there is a major change that affects organization structure/workforce of any department. In addition, the Company conducts call tree testing at least once a year to ensure that its communication would be able to operate smoothly even in the event of a crisis.

2.2 Crisis Management

The Company has given importance to crisis management and business continuity management by determining the "Business Continuity Management Policy" for being used as approach for ensuring that specified operations of critical business functions can be maintained or recovered in a timely fashion in the event of a disruption. Its purpose is to minimize the operational, financial, legal, reputation and other material consequences arising from a disruption, especially for a major operational disruption.

1. Prepare a "business continuity plan (BCP)" which determines plan of action and systems that are necessary for continuous operations or restoring the organization's operations in the event of a disruption. All departments that operate critical business tasks shall prepare and review their business continuity plans (BCP) to ensure up-to-date procedures at least once a year or when there is a significant change.

2. Prepare a "disaster recovery plan (DRP)" to cope with crisis events that may cause disruption of the Company's information technology and reduce potential impacts, including restoring the technology system to its normal condition in a timely manner. The plan consists of four main steps as: 1) preparation before the incident, 2) announcement of information technology contingency plan, 3) performing the system recovery, and 4) returning to normal and the announcement of IT contingency plan cancellation.

3. Conduct business continuity plan testing and IT contingency plan testing on yearly basis, as well as summaries of test results and problems occur during testing in order to find preventive action for such problems, and report to the management accordingly.

4. Prepare ready-to-use "alternate sites" in case of any disruption arise at the Head Office. So the departments executes critical business tasks shall performe activities to service customers. Existing company alternate sites can support 100% of employees performing critical business tasks.

3. Financial Risk Management

3.1 Liquidity Risk Management

The Company requires a large amount of capital to run the business and maintain its growth. Over the past years, the Company has been dependent on financial institutions and shall continue to depend on them in the future. This mainly includes the major shareholders, Bank of Ayudhya, and issuances of debentures and bills of exchange in the domestic bond market for funding operations to operate and expand the Company's business. Therefore, relationships between the Company and Bank of Ayudhya or other current lenders may change negatively due to various reasons, such as an inability to provide continuous loans or additional loans for the Company's business, and changes in risk levels in case Thai or foreign bond markets become tight by any reason, all of which may cause the Company to be unable to acquire necessary funds. Any of the above negative events or in case the company cannot raise funds under acceptable conditions, it may result in the Company's funding liquidity risk. In addition, in the event that the Company continually incur financial obligations, additional liabilities may affect the Company's access to additional funding sources in the future. Therefore, the Company shall have increasing risk if it fails to comply with financial obligations determined in the loan agreements which the Company have entered with the financial institutions, and cross-default risk, including limitation on planning flexibility or operational change or responding to changes in the business and industry, as well as negative impacts on business expansion plans and business growth.

In addition, as the Company is regarded as a foreign juristic person registered in Thailand under the Foreign Business Act, B.E. 2542 (1999) ("Foreign Business Act"), the Company is obliged to maintain debt-to-equity ratio. This may also limit the Company's ability to incur debt to acquire additional funds. However, on September 18, 2020, the Ministry of Commerce proclaimed temporary relaxation of requirement on maintaining the debt-to-capital ratio until June 30, 2023 for non-bank financial services providers who are not foreign financial institutions and receive loans from financial institutions (as defined in the Financial Institution Business Act, B.E. 2551 (2008) and the amendment) and business operators of certain types of financial services including personal loans, hire purchase and vehicle title loans. This temporary relaxation aims to improve non-bank financial services providers' liquidities and mitigate the impact of COVID-19 on small consumers. Nonetheless, as of December 31, 2020, the Company's debt- to-equity ratio was still in accordance with the requirements under the Foreign Business Act.

As the risks arising from insufficiency of working capital or inadequate financing and lack of liquidity may affect the Company significantly, therefore, the Company has established guidelines for obtaining short-term and long-term loans and adjusted proportion of each type of loan to be consistent with ages of the Company's debtors. The Company has focused on raising funds from the issuances of debentures and bills of exchange and sourcing a variety of funding sources both domestically and internationally without depending on any particular source of funds.

3.2 Interest Rate Risk Management

Market interest rate fluctuations may lower the Company's profitability since the Company's main sources of funds for its business operations are loans from banks and financial institutions, including the issuances of debentures and bills of exchange in the Thai bond market. Such sources of funds charge carried interest with the rates determined by various factors including prevailing wholesale interest rates and a reference rate set by the Bank of Thailand. If the prevailing wholesale interest rates increase, the sources of funds may increase the interest rates being charged to the Company. In case the prevailing wholesale interest rates decrease, banks and financial institutions may put their investments in other options instead of lending. In both cases, the Company may need to obtain financing from other sources which may not provide conditions that are commercially beneficial to the Company or the Company may not be able to obtain financing at all, which may cause significant negative impacts on the Company's business, financial position, performance and opportunities.

To reduce impacts on financial costs due to changes in market interest rates, the Company has obtained both short-term and long-term loans, whereas most of them are fixed-rate loans and a few are floating-rate loans. Moreover, the Company has adjusted the proportion of each type of loan to suit its asset status, as well as taken into account liquidity risk, to enable the Company on choosing loans with appropriate interest rates. The Company has also entered into an interest rate swap contract to reduce interest rate risk.

Business Operations Risk Factors

1. Risk from the COVID-19 situation

The emergence and transmission of COVID-19 since the end of 2019 up to the present has caused severe impacts on the global economy, including Thai economy, eventuating in disruption of economic activities in the entire system, for instance, travel and tourism as well as the retail and service sector. As a result, entrepreneurs continue to have reduced income or have to close their businesses. In 2021, the situation was eased by a distribution of vaccines to the people sector and an increased ability to cope with the COVID-19. However, due to the long-term impact, it takes time for economic and household income recoveries.

To alleviate clients' suffering, respond to government measures and control risks to appropriate level, the Company established debt restructuring measures for clients, such as debt moratorium, reduction of installments, and extension of time, including adjusting operating processes as well as leveraging technology capabilities to ease of usuage. Due to implementations of such measures, the Company is able to manage debt quality to be at acceptable level. However, since the economy is at the recovery stage, risks therefore remain at the level that must be closely monitored.

2. Risk Arising from Changes in Operational Rules and regulations

To operate the businesses, the Company has to comply with the rules, laws and regulations of the relevant government agencies such as the Ministry of Finance, the Bank of Thailand, the Office of the Consumer Protection Board, the Anti-Money Laundering Office, the Office of Insurance Commission, the Committee for the Protection of Credit Information, the Securities and Exchange Commission, the Department of Business Development, the Ministry of Commerce, the Office of the Personal Data Protection Committee, and the Department of Provincial Administration. Non-compliance with regulations and laws may significantly affect the company's reputation or business.

The Company therefore established the Legal Department and the Compliance Department to supervise its business operations in accordance with the laws and regulations of the government sector. Both departments shall be responsible for studying, following up and disseminating knowledge regarding the laws and regulations related to the Company's business operations to the responsible departments to ensure the business compliance. Moreover, they also supervise and review compliance with laws and regulations, including reporting the supervision outcomes and related information to the Board of Directors, the sub-committees and related executives on regular basis.

In addition, considering the nature of the Company's business that has continuously changes and evolved, the applicable laws and regulations therefore have been frequently changed and evolved as well. Thus, the Company is put the process in place to assess legal and regulatory risks in terms of , for example, in case of any materially changes or interpretations of current applicable of laws and regulations, or changes in regulatory supervisory of relevant agencies, or new laws or regulations enacted, the Company can modify its operating guidelines to continuously operating, maintain the company reputation, the financial position and results, with efficiency and sustainably.

Legal dispute proceedings in the ordinary course of business may cause liability to the Company from time to time. Since the Company operated a financial services business in Thailand, there have been continual changes in governance and operations. The Company may be subject to complaints by customers or regulatory authorities, increasing the company's risk. Although the Company cannot guarantee whether a judgment in legal proceedings or other proceedings in which the Company is currently involved, will be made in favour of the Company or not, or whether the Company will be sued in the future or not, the Company has a legal unit responsible for managing legal proceedings and business disputes in order to reduce loss or damage to its reputation.

3. Information Technology Risk

Today's technology has developed and changed rapidly, and places its importance in all industry including the financial industry. Offline and online technologies are being used as risk mitigation strategies. Particularly, during the COVID-19 outbreak, technology adoption is the driving core for company growth and product development in to increase competitiveness in the market.

- The Company has developed internal information technology system by having their both own servers or rental servers to support infrastructure systems that are crucial for the Company's business and efficiency while using external internet infrastructure and telecommunication systems to ensure smooth online services and other business operations related to the information technology systems. However, in the event of server failure, the Company and the server provider may have restrictions on accessing other backup networks because system resources in this field are limited or costly.
- The Company' business operations are depended on its information technology system and continuous operations, specifically, the systesm related to providing loans,selling insurances, accounting management system, and debt collection process. Stable operation effectiveness of technology and reliable infrastructures are keys to support the Company's operations, client service, reputation as well as retention for existing cilents and acquiring new clients.If such system fails, it may cause interruption to the business and result in reputation dmage. The Company's information technology system may be affected by natural disasters, power or telecommunication system failure, environmental conditions computer virus, computer hacking, acts of crime and other security threats, all of which may cause business interruption and misuse of information, as well as lead to reputational damage, regulatory penalties or litigation. The Company has also transferred some parts of IT system to cloud-based platforms; however, the Company has limited experience in operating and maintaining IT system on Cloud. If the Company is unable to improve and develop the information technology system to support the increased volumes of loans and insurance sales, it could cause negative impact on the Company's operation capability.

4. Risks from Data Retention and Compliance

The Company is already to comply with the Anti-Money Laundering Act B.E. 2542 (1999) and its amendments which requires the Company to retain large amount of client data such as personal information, details of client transactions and results of client's risk assessment for a period of ten years from closing date of client account or date of client relationship termination. As the Company has information access, storage, and processing as appropriated, making the Company a target of cyber attackers, computer virus, physical and electronic hacks

or similar system interventions. In this regard, the system security measures may fail or be unable to prevent attacks. Moreover, there may be design flaws in the Company's technological infrastructure, which lead to information system-related risks and attacks, all of which may cause the Company to be subject to regulatory penalties or prosecution including proceedings under the Personal Data Protection Act B.E. 2562 (2019).

Although the Company has the contingency plan, there may be a case when the service is interrupted or delayed as a result of the third party's mistake, the Company's mistake, a natural disaster or a security attack. Whether it is occurred intentionally or not, such case may affect the Company's reputation, the customer relationships and the sources of funds, as well as cause the Company to involve in the law-enforcement process. The Company may not have sufficient capability to recover all data and services in the event of system downtime. These factors may cause the Company to be unable to process loan requests and other business operations while its employees have to spend time on solving problems, causing decrease in revenue and increasing the Company's liability as well as making clients become hesitant to use the Company's products or services, all of which may cause significant negative impacts on the Company' business, financial position, performance and business opportunities.

5. Risks from High Competition in Highly Competitive Industry

The Company has faced high competition in all aspects of business operations and expects that the competition will be increasing, especially due to in Thailand's lending business and insurance brokerage is high and lucrative. In terms of the lending business, the Company has competed with many financial services providers including financial institutions and non-financial institutions. As for the insurance brokerage business, the Company has to compete with a wide range of small and large insurance brokerages since Thailand's insurance brokerage market is highly fragmented. Large leading insurance brokerages may directly compete with the Company by

focusing on the Company's clients. Smaller insurance brokerages and technologically savvy companies may be able to offer new services to compete with the Company, which can be quickly accepted by the market. In addition, this industry also has tendency towards mergers and acquisitions, whereas financial services providers are always looking for acquisitions or joint ventures with other companies in the same industry, or develop their own lending businesses in order to utilize their existing operational capabitlies to compete with the companies in the vehicle title loan market.

The Company also competes with other service providers in the same business in many aspects such as brand awareness, reputation, credit limit, loan-to-value, the speed of loan approval, interest rates, pricing, insurance premiums, quality of client service, efficiency in debt collection, foreclosure, access to low cost funding and technological efficiency. However, other service providers in the same business today and in the future may have competitive advantage to operate businesses in one or more areas as aforementioned beyond the Company.

In addition, the Company's main income is derived from interest charged on client loans. Such loans carry interest which is determined by various factors including market interest rates at the time of loan approval and according to the borrower's risk and credit history. However, if the reference interest rate increases, the Company will have higher financial cost, so that the Company has to adjust its loan interest rates accordingly. Due to this reason, clients may decide not to apply for loans with the Company, especially in the event that other lenders do not adjust their loan interest rates according to the market rate. Moreover, the Company's ability of retaining current clients and seeking or attracting new clients, as well as the Company's competitiveness may be severely affected. On the other hand, in case the reference interest rate decreases, resulting in lower financial cost, the Company's clients may choose to apply for loans with other lenders providing lower interest rates since the Company does not reduce its loan interest rates within a reasonable time. In any case, if the Company does not appropriately adjust the interest rates for offering to its clients, or other service providers in the same business have reduced their interest rates to attract clients, the Company's clients may decide to borrow from them instead, which may reduce the Company's market share. The Company determines to build good relationships with business partners in the insurance industry, so that the partners would choose to do business with the Company than other service providers in the same business. Thus, the Company shall always set compensation at the rate that is competitive in the market. In the case of other service providers in the same business are able to set much lower compensation level, it may have significant negative impacts on the Company' business, financial position, performance and business opportunities.

6. Shareholders' Investment Risk

Investing in TIDLOR shares may cause investment risks to shareholders as return on investment may not meet shareholder expectation. It will fluctuate according to share price and investment climate. Regarding, the return of dividend depends on the Company's performance in the year, that shareholders may earn returns that are more or less than expected. The Company has already identified key risks and risk management; however, there may be other risks involved. Therefore, shareholders shall consider risks and use careful discretion when making investment decisions by accepting that the Company may not be able to prevent all potential risks. Furthermore, a wide variety of factors such as domestic and international economic conditions, political situations, and changes in government policies, as well as unpredictable events and emerging diseases, all of them may affect the Company's operating results and dividend payment.