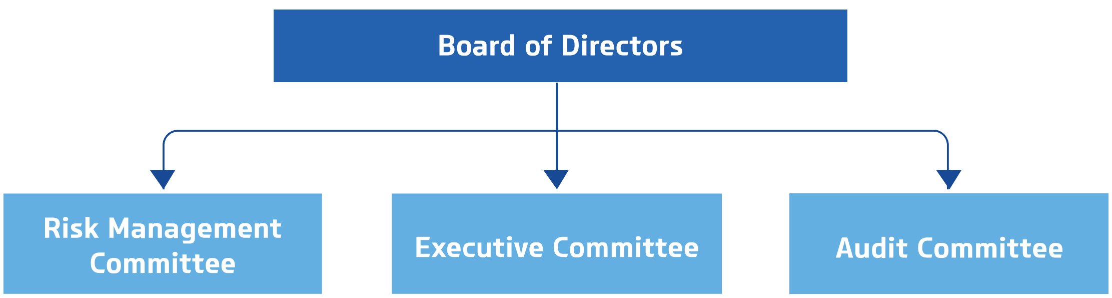
Risk Management

We strive to create a risk culture and risk management mechanisms to add value and generate sustainable returns for our stakeholders while balancing risk and return. We have established policies, processes, and frameworks for risk management that cover credit, operational, market, liquidity, technological, and strategic risks. Moreover, we have put risk control and monitoring systems in place and assessed risks regularly to ensure they remain within the risk appetite.

Risk Management Structure

The Board of Directors assigns the Risk Management, Audit, and Executive Committees, as well as related functions, to monitor and manage risks to ensure they remain within the risk appetite, aligning with rules and changing circumstances.



In addition to establishing risk management policies and processes, we have put risk control, monitoring, and reporting systems in place, clearly defined roles and responsibilities, and determined the risks associated with each function in alignment with the principles of good internal control. We have also taken steps to ensure that our risk management disclosure is accurate and complete. There are three main risks, as follows:

1. Credit Risk Management

As the majority of our loan customers are underbanked, we have higher risks of bad debt or default compared to loans provided to borrowers with good credit histories. Other risks include impacts from changes in economy, laws, policies, and/or regulations.

In 2023, there were various credit risk factors, including (1) the sluggish economic recovery both in Thailand and abroad, (2) the debt restructuring measures that caused household debt to remain high for some period, and (3) the decline in vehicle value, particularly combustion engine vehicles, as a result of extended debt restructuring periods and the rise of electric vehicles.

All these risk factors resulted in fluctuations in credit risk. To maintain the credit risk at an acceptable level, we has improved the credit approval process and policy, as well as debt collection practices to reflect changing circumstances and trends, while considering the interests of all parties involved.

1.1 Efficient Loan Approval

We regularly review our loan approval policies and processes to ensure they are up-to-date and reflect changing circumstances. Data used for underwriting is appropriately managed, and internal and external data verification processes are put in place. At present, we can access data of the National Credit Bureau to assess creditworthiness of certain customers. Moreover, we evaluate customer's credit histories and payment defaults based on information obtained from loan applicants and external sources. To improve loan approval efficiency, we employ various techniques and an internal credit scoring system to evaluate individual customers, both at branch and headquarters levels, according to our credit policy. The process depends on customer history, loan type, and the accuracy and completeness of information obtained from various sources.

1.2 Debt Collection or Disposal of Asset for Debt Repayment

Because loan overdue is part of our normal business operations, we strive to manage debt quality effectively and adopt debt collection strategies suitable for the level of risk and circumstances. We may start by reaching out to the customers via phone calls, text messages, or letters. To collect long overdue debts, we may have to arrange meetings with the customers (meetings can be done by our employees, third-party collectors, or through legal actions). In addition to these procedures, we track assets for debt recovery. These assets are disposed of through various means, including through third-party auctions and sales by us. Once the assets are sold, the proceeds are used to settle outstanding debts. If there is any money left after debt settlement, it will be returned to the customers. We place importance on fair debt collection under applicable laws and regulations. Furthermore, we have continuously improved our debt collection processes by using statistical methods to manage debt quality.

2. Operational Risk Management

We are aware of the importance of crisis management and have put emergency response plans in place to deal with crises across all fronts. We have allocated resources to support critical activities and distributed staff performing similar support tasks across different locations to reduce the spread of COVID-19.

2.1 Operational Risk Management Approach

We place great importance on crisis management and have put emergency response plans in place to deal with crises across all fronts. This includes allocating resources to support critical activities, and managing workplace locations, to ensure business continuity.

1. The Business Continuity Management Policy is established to serve as a guideline for minimizing the impacts of business disruptions, including operational, financial, legal, reputational, and other significant impacts, especially in the case of critical business disruptions.

2. We conduct a risk and control self-assessment (RCSA), which consists of risk identification, risk assessment, risk monitoring and control, and risk reporting. All departments are required to assesses risks, risk control measures, and the effectiveness of risk control instruments. They also review indicators against the established operational risk appetite or tolerance and reports results to departmental and senior management on a monthly basis.

3. We manage risks associated with the use of external service providers, including selecting, identifying, assessing, and controlling potential risks that may arise from utilizing external services. External service providers are also required to develop business continuity and customer service plans, as well as customer complaint and data security systems.

4. We conduct business continuity plan testing at least once a year. Staff names and phone numbers in each department are updated every quarter or when significant changes occur that impact the structure or workforce of the department. Furthermore, we conduct call tree testing at least once a year to ensure seamless communication even during crises.

   To ensure that the emergency notification plan and the business continuity plan are effectively ready for use and that communication is accurate and timely in the event of a crisis, the company conducted a test program of both the emergency notification plan and the business continuity plan in 2023.

   The company found that the crisis notification was accurate and timely, and employees working in the crisis department were able to immediately access critical transactions at the backup operations center. The company was also able to restore critical business transactions within the target time frame.

2.2 Crisis Management Approach

We are aware of the importance of crisis management planning and have developed a Business Continuity Management Policy to serve as a guideline for minimizing impacts of business disruptions, including operational, financial, legal, reputational, and other significant impacts, especially in the case of critical business disruptions.

1. We have developed a Business Continuity Plan (BCP), which outlines the actions and systems required to ensure continuous operation or operational recovery in the event of a disruption. Every department involved in critical business transactions develops and updates their own BCP at least once a year or whenever significant changes occur.

2. We have developed a Disaster Recovery Plan (DRP) to respond to potential crises that could disrupt our information technology systems and minimize impacts, as well as recover technology systems within an appropriate timeframe. This plan consists of four main stages: 1) precrisis preparedness, 2) announcing the disaster recovery plan, 3) system recovery, and

4) returning to normal and canceling the disaster recovery plan.

3. We conduct business continuity plan and disaster recovery plan testing annually. Issues encountered during the testing process are analyzed and corrected to prevent them from occurring during the actual crisis, before reporting the test results to management.

4. In case of a crisis at the headquarters, we have established alternate sites ready to operate, allowing functions involved in critical business transactions to continue providing customer services. These alternate sites can accommodate 100% of staff performing critical business transactions.

3. Financial Risk Management

3.1 Liquidity Risk

We require a significant amount of capital to operate and sustain our business growth. We have relied, and will continue to rely, on financial institutions, including our major shareholder - Bank of Ayudhya, as well as issuance of debentures and bills of exchange, for financing our operations and business expansion. However, our relationship with Bank of Ayudhya or other current lenders may change negatively for various reasons, such as unavailability of continuous or additional credit facilities, changes in the risk level, or if the Thai or foreign bond markets become tight, causing us to be unable to acquire necessary funds. Any of these negative events or our inability to raise capital under acceptable conditions may lead to liquidity risk. Moreover, if we continue to incur financial obligations, the increasing liabilities may affect our access to additional funding sources in the future. We could face serious consequences if we do not meet our financial commitments with financial institutions, which may lead to cross-defaults. This could also limit our flexibility in planning, making operational changes, or responding to changes in the business and industry. Furthermore, it may negatively impact our plans for business expansion and growth.

In addition, as TIDLOR is a foreign company under the Foreign Business Act B.E. 2542, we are obligated to maintain a debt-to-equity ratio, which may limit our ability to incur debt to raise additional capital. However, on 18 September 2020, the Ministry of Commerce granted temporary relaxation of the debt-to-equity ratio requirement until 30 June 2023 for non-bank financial businesses that are not foreign financial institutions receiving loans from financial institutions (as defined in the Financial Institution Business Act B.E. 2551 and amendments) and providing certain types of financial services, including personal loans, hire purchase loans, and vehicle title loans. This temporary relaxation aims to improve the liquidity of the aforementioned non-bank financial businesses and alleviate the impact of the COVID-19 pandemic on retail consumers. Nonetheless, as of 31 December 2023, our debt-to-equity ratio remained compliant with the Foreign Business Act.

Because risks associated with insufficient working capital or financing and lack of liquidity could have a significant impact on the Company, we have obtained both short-term and long-term loans and adjusted the proportion of each type of loan to align with the age of our debtors. We have also focused on raising funds through issuing debentures and bills of exchange, as well as diversifying funding sources both domestically and internationally without relying solely on any one funding source.

3.2 Interest Rate Risk

Wholesale interest rate volatility may reduce our profitability since the main sources of funds for our operations come from loans from banks and financial institutions, as well as debentures and bills of exchange we have issued in the Thai bond market. The interest rates of these funding sources are influenced by various factors, including prevailing wholesale interest rates and reference interest rates set by the Bank of Thailand. If the wholesale interest rates increase, our funding sources may raise the interest rates. Conversely, if wholesale interest rates decrease, banks and financial institutions may look for alternative ways to invest their funds, instead of lending. In both cases, we may need to seek funding from other sources, which may not be as favorable or readily available. This could have significant negative impacts on our financial position, performance, and business opportunities.

To reduce the effect of fluctuations in wholesale interest rates on our financial costs, we have obtained both short-term and long-term loans, mostly at fixed rates, with only a minor part at variable rates. Moreover, we have adjusted the proportion of each type of loan to suit the status of our assets, with consideration given to liquidity risk as well. This ensures that we can borrow at appropriate interest rates. Additionally, we have entered into cross-currency interest rate swap contracts to further reduce the risks associated with exchange rate and interest rate fluctuations.

Business Risk Factors

1. Risk from Rising Household Debt

Household debt began to climb in 2020, triggered by the COVID-19 pandemic. It continued to rise in 2023 as consumer borrowing increased. The situation worsened when debt restructuring measures were implemented, keeping the debt level unchanged. The slow economic recovery, the lower-than-expected return of tourists in 2023, and the sluggish GDP growth in Q3 of 2023 clearly reflect an unstable economy, which will limit the pace of economic growth in 2024. This, coupled with unclear government stimulus measures, has impacted customers' ability to repay debts, potentially leading to considerable fluctuations in debt quality in 2024. In response to these challenges, we have developed a plan to manage debt quality within the acceptable level.

2. Risk from oversupply of seized vehicles

The debt restructuring measures, initiated to help debtors affected by the COVID-19 pandemic between 2020 and 2023, have prolonged the vehicle repossession period, which is not conducive to addressing the problem of non-performing loans. After the measures ended, there was a large volume of repossessed vehicles, creating an oversupply in the auction market. At the same time, the ongoing economic recovery has slowed down the demand for second-hand vehicles, while the interest rate ceiling for car and motorcycle hire-purchase have been lowered in early 2023, and the financial costs has risen as a result of interest rate adjustments by central banks across the world, including Thailand. These factors have pressured financial institutions to tighten lending conditions to align with reduced income and increased financial costs.

Another major challenge was the arrival of electric vehicles, which are poised to replace combustion engine vehicles at comparable prices. Coupled with government support measures for EVs, consumers had more options, resulting in further decline in demand for combustion engine vehicles in the auction market, especially in Q4 of 2023. It is anticipated that this trend will continue and become more pronounced in 2024. Facing these challenges, we need to adapt our strategies to respond to the risks that may arise.

3. Risk from Changes in Regulations and Laws Relating to Business Conduct

In conducting business, TIDLOR is required to comply with laws and regulations of regulatory bodies, such as the Ministry of Finance, Bank of Thailand, Office of the Consumer Protection Board, Anti-Money Laundering Office, Office of Insurance Commission, Credit Information Protection Committee, Securities and Exchange Commission, Department of Business Development, Ministry of Commerce, Office of the Personal Data Protection Committee, and Department of Provincial Administration, as well as other laws related to business conduct. Therefore, non-compliance may significantly affect our reputation or business operations.

The Legal and Compliance Departments provide advice and opinions on compliance to internal functions to ensure that the Company's business conduct and operations comply with government regulations and applicable laws. Compliance implementations and significant risks are reported to the Board of Directors, Committees, and concerned executives regularly to ensure effective regulatory risk management.

Furthermore, we have established the principles of corporate governance, which include integrity and honesty, risk management, accountability to and fair treatment of all stakeholders, and economic, social, and environmental development. These principles will guide the Company to achieve sustainable and stable growth and create long-term value while ensuring proper, transparent, and verifiable operations.

Last year, we took steps to comply with changes in applicable regulations and laws, including the Notification of the Committee on Contracts Prescribing Consumer Loan Business as a Contract-Controlled Business B.E. 2565 and the Notification of the Committee on Contracts Prescribing Car and Motorcycle Hire-Purchase Business as a Contract-Controlled Business B.E. 2565, which came into effect in 2023. Additionally, we consistently monitored changes in regulations and laws that were applicable to the Company to ensure compliance. This included preparing to revise processes to comply with Responsible Lending Practices set by the Bank of Thailand, which will be enforced in 2024.

Legal dispute resolution process in the normal course of business may incur liabilities to the Company from time to time. Because we operate a financial service business in Thailand, which is subject to constant regulatory and operational changes, we may be complained against by customers or investigated by regulators, putting the Company at higher risk. Although we cannot guarantee that we will gain favorable judgments in legal or other proceedings that we are currently involved in or that no lawsuits will be filed against the Company in the future, our Legal Department will try its utmost to manage legal proceedings and disputes in business operations to reduce the loss or damage to the reputation of the Company.

4. Technology Risk

As digital solutions play a larger role in financial services and the economy, the risk of cyberattacks and other technology risks that cause business disruption continue to increase. Therefore, as we drive innovations, cybersecurity is a top priority for the Company. We invest significant resources and efforts to prevent malicious actors from accessing our computer systems and destroying data, obtaining confidential information, or disrupting services, and to maintain robust, reliable, and resilient systems, networks, and infrastructure to ensure business continuity.

The Company has an Enterprise Information Security Policy (Cyber security policy) in place to safeguard the confidentiality, integrity, and availability of its information, resources, and infrastructure. This policy is intended to prevent, detect, and respond to cyberattacks. In addition, we continue to make significant investments in enhancing our cyberdefense capabilities and strengthen partnerships with relevant agencies and other businesses to understand the full range of cybersecurity risks, strengthen defenses, and increase cybersecurity resilience against threats.

The Enterprise Information Security Policy of the Company is governed and overseen by the Information Security Section, which is also in charge of identifying information security risks and overseeing the technical protection plan for the Company's information resources, including applications, infrastructure, and confidential and personal information related to the Company's customers and employees. The Company also manages and monitors a set of IT security controls and metrics to ensure proper ongoing monitoring and awareness of cybersecurity-related risks.

In addition, third parties with which the Company does business or facilitate business activities (such as suppliers, insurance companies, etc.) are also sources of cybersecurity risk. Incidents involving third parties' cybersecurity, such as system failures or malfunctions, employee misbehavior, or cyberattacks, may impair their capacity to provide services to the Company, or lead to the loss of compromised data of the Company or its customers. As a result, the Company regularly discusses cybersecurity threats and opportunities to enhance security with specific suppliers and partners.

We have a Cyber Security Incident Response plan that enables it to respond to attempted cybersecurity incidents, coordinate such responses with agencies, and notify customers and partners, as applicable.

Due to the impact of COVID-19, we have increased the use of remote access and video conferencing solutions provided by third parties to facilitate remote work. To reduce cybersecurity risks, we have implemented additional safeguards and controls, which are still in place.

5. Risks from Data Retention and Compliance

TIDLOR has complied with the Anti-Money Laundering Act B.E. 2542 and amendments, which requires us to retain large amount of customer data such as personal information, details of transactions, and results of customer risk assessment for a period of ten years from closing date of the customer account or date of customer relationship termination. In addition to accessing, storing, and processing customer data, we may report personal information of borrowers or insurance customers to the Anti-Money Laundering Office at customer's consent.

In recent years, Thailand has faced personal data leakage problems, leading to widespread damages. As the people sector and society have shifted their attention towards data security, regulatory bodies have required businesses to assess their readiness and manage risks related to this issue, as well as put a more stringent measures in place to safeguard personal data. The Personal Data Protection Committee has been established to set rules and regulations regarding personal data, ensure collaboration across all sectors, and coordinate with other regulators, such as the Bank of Thailand and the Office of Insurance Commission, to set guidelines and measures for data protection management. We have continuously monitored changes and assessed risks related to this matter. Data protection management and control measures have been implemented to comply with legal requirements and industry best practices. This ensures stakeholders that data protection risks are closely monitored and appropriate security measures are in place.

6. Competitive Risk in Highly Competitive Industry

We face intense competition across all aspects of our business and anticipate that this competition will only intensify, especially within Thailand's lending and insurance brokerage sectors, which are known for their high competitiveness. In the lending sector, we compete with numerous providers, including financial and non-financial institutions. In the insurance brokerage sector, we contends with a large number of small and large brokerages since Thailand's insurance brokerage market is highly fragmented. Major insurance brokerages may target our customer base directly, while smaller firms and tech-savvy companies might introduce new, competitive services that quickly gain market acceptance. Furthermore, there is a trend in this industry toward business mergers, with companies seeking acquisitions or partnerships with others in the same industry or developing their own consumer lending businesses to leverage their existing capacity to compete with the Company in the vehicle title loan market.

We also compete with other providers in areas of brand awareness and reputation, credit limit, loan-to-value ratios, ease and speed of loan approval, interest rates, pricing, insurance premiums, quality of customer service, debt collection efficiency and foreclosure, access to low-cost funding sources, and technological efficiency. Existing and future service providers in the same business may have competitive advantages over us in one or more of these areas.

Our main income is from interest charged on loans provided to customers. These loans carry interest rates determined by various factors, including market rates at the time of loan approval and the credit history and risk profile of the borrower. If the reference interest rate increases, resulting in higher financial costs, we may need to raise our loan interest rates accordingly. In such cases, customers might opt not to borrow from us. This is especially so if other lenders do not adjust their loan interest rates according to the market rate. Moreover, our ability to retain existing customers and seek or attract new ones, as well as our competitiveness, may be severely affected. Conversely, a decrease in the reference interest rate, resulting in lower financial costs, might prompt customers to seek loans from other lenders offering lower rates if the Company does not decrease its loan interest rates in a timely manner. Regardless of the scenario, failure to offer competitive interest rates or if other service providers in the same industry reduce their rates to attract customers, may result in customers turning to other providers instead of the Company, potentially reducing our market share. We need to maintain good relationships with suppliers to ensure that they choose to do business with us over other providers in the insurance industry. Therefore, we must set competitive compensation rates. If other service providers in the same industry set significantly lower compensation rates, it may negatively affect the Company's business, financial position, performance, and opportunities.

7. Shareholders' Investment Risk

Investing in TIDLOR stocks may pose risks to shareholders as returns on investment may not meet expectations. Returns may fluctuate according to stock prices and investment climate. Additionally, dividend returns depend on the Company's performance in a fiscal year. Therefore, shareholders may receive higher or lower returns than expected. Although we have already identified and managed key risks, there may be other unforeseen risks. Shareholders should carefully assess risks and exercise prudence in investment decisions, acknowledging that the Company cannot mitigate all risks. External factors such as domestic and international economic conditions, political situations, changes in government policy, unforeseeable events, and emerging diseases, may impact the Company's performance and dividend payments.