

Risk Factors

1. Risks in Securities Business

1) Risks from SET's Fluctuation and Economic Situation in Thailand

As of December 31, 2019, the Company and its subsidiaries have main income from interest income on loans, underwriting fee income, and income from brokerage and futures brokerage fees, accounting for approximately 23.44 percent, 30.66 percent and 27.95 percent of total revenue. From the income structure, it shows that the company is exposed to risk from fluctuations in the stock and derivatives markets, including the economic and domestic political conditions, both domestic and international levels. If such factors negatively affect confidence, trading volumes of securities and derivatives will have a decrease, and result in a decrease in securities and derivatives brokerage income.

To cope with the fluctuation, Trinity Watthana Plc. has a policy to invest more in securities, both listed and non-listed securities, lending that has securities as collateral, and to increase its income-generating source by offering a private fund management service, a fixed income trading service and agency service for unit trust in order to provide diversification and reduce risk from dependence on brokerage income. At the same time, the provision of the aforesaid services can be regarded as an offer of additional services to existing clients as well as a market expansion to attract new clients.

2) Risks from Competition in Securities Business and Derivative

It is expected to see an intense competition in the securities business due to a large number of securities broking companies, which are 39 at present and 40 companies of futures agent company and major of them have retails based customers. The other factor contributing to the intense competition was that from 1 January 2012, the securities brokerage fee which is calculated based on a sliding scale at present will be liberalized. In 2015, there are two companies that offer service mainly through internet trading and offer service fees that are lower from referred rate.

To compete in providing quality services, Trinity Securities Co., Ltd. has set an objective of actively building and expanding its client base whether individuals, corporate or institutions. This includes emphasizing the quality of research in order to provide clients with high quality and timely information for investment decision. The company is also set to raise the caliber of the marketing team through training. All the new financial products have been introduced and educated to our marketing staff, Sector Futures in order to offer clients more alternatives for investment that will be suited to their needs. The company also establishes a call center to provide clients with various marketing activities, training for all new financial products, and to assist problem handling. Communication channels will also be emphasized in expediting the flow of vital information to the clients.

other financial institutions were served as the Company's working capital and additional capital. In 2017, the Company issued and offered short-term bills of exchange and short-term debentures, including 1-year term debentures to institutional

3) Risks from Underwriting

There are 2 methods of underwriting securities: 1) Firm Underwriting, the underwriter must sell all of the securities under the guarantee. If the securities cannot be sold completely, the securities underwriter will have to buy the securities themselves. and 2) Best Effort, the underwriter will try to sell as much as possible, and if the securities cannot be sold, the underwriter is not responsible for them. Therefore, the company may face the risk of not being able to distribute or offer the full amount of securities as guaranteed in the case of Firm Underwriting. The company must keep those securities in the investment account, which causes the liquidity to decrease and may cause profits or losses from the sale of securities.

However, in order to reduce any possible risks in the future, the Company has set a policy in relation to its underwriting business; that is, details of the securities, including offering price and market conditions must be thoroughly considered and analyzed, a survey on needs of clients and investors must be conducted, and a securities underwriting proposal must be submitted to the (Firm Commitment) Underwriting Management Committee for consideration prior to giving acceptance to be an underwriter of any securities.

4) Risks from Default Payment

Factors giving rise to risks from clients' default payment in securities business include SET's condition and stock speculation, especially the net settlement trading during a bear market. The Company attempted to reduce the aforesaid risks by placing a strong emphasis on client acceptance consideration process in order to select creditworthy clients. Furthermore, a credit line is established which is commensurate with the client's financial position or collateral balance. Stringent rules for selecting securities for margin loan, requirement for call and forced sale value of collateral are also established and put in place when necessary. Additionally, a strict follow-up and action process will be taken in case where the clients are in default of payment.

As at 31 December 2019, Trinity Securities Co., Ltd.'s debts which exceeded the collateral value and for which doubtful-debt allowance must be set was Baht 62 million or equivalent to 4.68% of the company's capital fund. In this regard, the company had already set allowance for doubtful account for the above debt in full after deducting the collateral value thereof.

5) Risks from Investment Due to Change in Securities and Derivatives Prices, Interest Rate and Foreign Exchange Rate

The Company and its subsidiaries have short-term and long-term investments in securities for trading and available-for-sale, including derivatives in TFEX. These investments are priced at their fair values. The Company calculates the fair value of their investments in securities for trading and available for sales from the last bidding prices of those securities on SET at the end of the last business day of the year, and the fair value of unit trust is calculated from net asset value of the fund at the end of the year. Based on the above calculation method, the value of securities may change in accordance with changes in prices or interest rates on the last business day of the year. In addition to the investments in securities and derivatives, the Company also invests in foreign currency. In order to calculate the value of its investment in foreign currency, the Company bases its calculation on the foreign exchange rate announced on the last business day of the year by the Bank of Thailand or on the forward contract in case that the Company has executed the contract in order to reduce the risk posed by foreign exchange rate.

For the financial statements as of December 31, 2019, the Company and its subsidiaries have investments in securities totaling 1,008.22 million baht or 22.9 percent of the total assets value increased from 2018, which had investments in securities in the amount of 722.86 million baht or 18.43 percent of the total asset value. An increase in short-term investment in listed securities in the Stock Exchange of Thailand is increased from 187.75 million baht to 299.73 million baht. Other long-term investments is decrease from 320.06 million baht to 289.89 million baht, while investment in debt instruments (fixed income) increase from 211.77 million baht in 2017 to 390.98 million baht, which was invested in promissory notes, bank guarantee or avals, and government and private debt instruments. For the remaining part of the investment in the associated company in the amount of 3.28 million baht and investment in joint ventures of 24.35 million Baht. In addition, as at 31 December 2019, the fair value of the remaining balance of the off-balance sheet derivative of buy status is Baht 14 million, and the sales status is 156 million baht.

In 2019, the Company and its subsidiaries had a return on investment of 52.54 million baht, which is loss from sales of securities of 3.33 million Baht, profit from futures trading 42.26 million baht, interest and dividend for both trading and available-for-sale securities 35.15 million baht, unrealized losses increased in the shareholders' equity 49.22 million baht, as well as gains from investments in associated companies and joint ventures using equity method of 3.35 million baht.

The short-term and long-term investments in securities and derivatives for which the Company is required to present at their fair values may pose risks from change in prices, foreign exchange rate and interest rates of the securities and derivatives. In this regard, the Company has a policy to control risk and limit loss of each security and each account. Also, the Company requires that its proprietary account manager regularly report the investment strategies and associated risks to the Company's Proprietary Committee so as to ensure that the risks from the Company's investments are at acceptable level.

6) Risks from Staff Turnover

The Company's main income derives from securities and derivatives business. In 2018 and 2019 the income from securities and derivatives business represented 77.25 percent and 75.42 percent of the combined income of the Company and its subsidiaries, respectively. Personnel are regarded as a vital factor for the operation and expansion of the securities and derivatives business which is a service business. It is expected that personnel poaching would become more intense after the liberalization of this industry.

Nevertheless, to reduce this risk, the Company has a policy to enhance knowledge of its personnel at all levels on a continual basis to increase and develop the personnel's competency as well as to cultivate a sense of loyalty in them. Additionally, the Company provides remuneration packages and other standard benefits which are suitable and competitive in the market.

7) Risks from Failure or Disruption of Securities and Derivatives Trading System

Securities and derivatives trading system is a computer system essential for operating the Company's businesses. Any disruption or failure of the system certainly has direct impacts on clients as well as the Company's operation and credibility. Presently, the Company has provided a sound and sufficient computer system management and IT staff to support the Company's businesses. In doing so, the Company has set policies and compliances regarding IT security which have been approved by the Company's Board of Directors. Such policies and compliances include an establishment of back-up office (Disaster Recovering Center: DRC) at Rama II branch to provide support in case of the head office's system failure or disruption, a measure to prevent any unauthorized access to significant information, a provision and restoration of back-up information and an installation of security system for the computer center at the head office and back-up office.

8) Risks from Business Operating under Strict Rules, Regulations, Notifications and Supervision from the Regulatory Authorities

Trinity Securities Co., Ltd., and Trinity Advisory 2001 Co., Ltd. are the Company's subsidiaries which operate securities business, financial advisory business and derivatives brokerage business, respectively. These three types of business are under the supervisions of the Office of the Securities and Exchange Commission (SEC), the Stock Exchange of Thailand (SET) and Thailand Futures Exchange Plc. (TFEX). As such, these subsidiaries are required to strictly comply with rules, regulations and notifications, both currently existing and those to be issued in the future, of these three regulatory authorities. The business operations of the three subsidiaries under stringent rules and regulations may pose significant risks and limitations on their business policies, business natures, business strategies, and future operation results.

In addition to the aforementioned risks and limitations, a business operation under stringent rules and regulations may expose these subsidiaries to superfluous responsibility resulting from the mistakes made by their staff, for instance, mistakes from securities trading operation, securities trading, securities underwriting and financial advisory activities. In these cases, each company may be required to be in charge of the fines or penalties or punishment such as warning, deducting score, suspending or canceling license; all of these may adversely affect the Company's operation. However, each of these three companies has established procedures to actively monitor its operation and oversee the conduct of its staff. In this regard, a staff manual and the audit and internal controls have been provided. An effective risk management has been always in place. With these things and activities, the Company is, therefore, confident that any material effects on the Company's operation are kept to the minimum extent. Up until the present, the Company has never faced any problems or accusations which result in a suspension or cancellation of its license.

2. Risks from Financial Advisory Business

In addition to the income from securities business, the Company enjoys incomes from financial advisory service from both Trinity Securities Co., Ltd. and Trinity Advisory 2001 Co., Ltd. and system consulting fee Trinity Intelligence Plus Company Limited. The income from this business comprised 6.50 percent of the combined income of the Company and its subsidiaries. The main risk in financial advisory business is that the company is required to be jointly responsible with its clients for disclosure of true, sufficient and comprehensive information to the public. The company has minimized this risk by focusing on the quality of its service; that is, the staff must be knowledgeable and capable as well as have profound experience so as to provide service to clients correctly and efficiently. The company also places emphasis on a study of the client's background prior to acceptance of any work.

3. Risk to shareholders

1) Risk from share's liquidity

As of March 13, 2019, the Strategic Partners and retail investors have held 94,464,069 shares or 47.43 percent and 104,718,170 shares or 52.67 percent of total shares, respectively. Given of less liquidity in Securities Sector due to less interest from investors to other sectors, the risk may arise when the shareholders cannot sell the shares at once with the expecting price.

2) Risk from payment of debts under bills of exchange and debentures

Risk from payment of debts under bills of exchange and debentures refers to the circumstance when the issuer of bill of exchange and debenture does not have sufficient liquidity to repay the amounts under the bills of exchange and debenture to the holders thereof. This risk occurs when the issuer of bill of exchange and debenture fails to issue and offer new bills of exchange and debentures to raise fund for repayment of the previously-issued bills of exchange and debentures.

However, the company, the issuer of bills of exchange and debentures, has sufficient liquidity to pay off debt due in 2019. As at December 31, 2019, the Company and subsidiaries have outstanding creditors on bills of exchange and short-term debentures of 941 million baht, financial institution outstanding of 1,005 million baht, and long-term debentures of 467 million baht, representing a total debt of 2,414 million baht. The company still has liquidity from other sources of funds, such as loans from financial institutions that have not yet been withdrawn in the amount of 1,235 million baht, sales of investments in listed securities or debt securities of 868 million baht, totaling of 2,103 million baht, which is enough for loans due within 1 year.

4. New Emerging Risks

1) Risk of Digital Transformation

Digital technology has played a huge role in the business. In the long run, digital technology change is a risk that can affect the ability to compete. It can also be an opportunity to create new businesses. The company has followed and analyzed trends in digital technology to improve performance and create new business to enhance the competitiveness, such as Big Data Analytic, to analyze the needs and behavior of customers, information on trading and securities to meet the needs of more customers.

2) Cyber Security Risks

The use of digital technology increasingly through the Internet causes the business operation to be more vulnerable to cyber threats such as hacking and ransom. The company has set up an IT Security Policy such as information technology classification, confidentiality and data management, guidelines for using social media and email for communications, as well as improved tools to prevent attacks by educating and raising awareness of the various types of threats.

3) Risk from changes in new or revised financial reporting standards

The company's financial statements are prepared in accordance with Thai Financial Reporting Standards (TFRS), which the Federation of Accounting Professions has gradually revised to be in line with the International Financial Reporting Standards. For 2020, Standard 9 on Financial Instruments will be effective. This newly issued standard affects financial institutions, especially in the provision of credit transactions and risk management. The company is preparing to comply with the new financial reporting standards, which includes policy updates, work processes and related information technology systems.