



บริษัท ตรีนิษฐ์ วัฒนภา จำกัด (มหาชน)

Trinity Watthana Public Company Limited

Ref. Wor Thor. Tor. 007/2023

February 27, 2023

Subject : MD&A of financial performance for the year ended December 31, 2022

Attention : The President
The Stock Exchange of Thailand

The Board of Directors' meeting of Trinity Watthana Public Company Limited No. 2/2023, held on 27th February 2023, had approved the audited financial statements for the year ended December 31, 2022. Net profit for the year 2022 and earnings per share were Baht 178.40 million and Baht 0.83 respectively, which were lower than net profit and earnings per share for the year 2021 at Baht 250.14 million and Baht 1.18 respectively, equivalent to decline by 28.68%.

Auditor's opinion

In the Auditor's opinion, except for the possible effects on securities business receivables of Baht 479 million that had defaulted on payments of outstanding positions resulting from purchase orders made for shares of a listed company that the Stock Exchange of Thailand ("SET") identified as potentially abnormal purchase and sale transactions in November 2022. (details presented in part 3) Financial position : Securities and Derivatives Business Receivables)

The management of the Company and the subsidiary have determined that this event is an abnormal transaction, as it was carried out with fraudulent intent. Such conduct is prohibited by law and runs counter to public order and good morals. Therefore this event must be cancelled and the transaction must be treated as if it had never occurred. Setting up the allowance for expected credit losses may have an adverse affect on the case that the subsidiary has filed with the AMLO on 16 February 2023, seeking protection of its rights from the predicate offense. It may also adversely affect the case under which the Company has filed the complaint alleging fraudulent conduct with the ECD. Since the setting up the allowance for expected credit losses could be interpreted as the subsidiary's acceptance of the disputed transactions as being valid, along with the acceptance of the damage caused. In this regard, the subsidiary has not recorded any allowance for expected credit losses related to the overdue securities business receivables mentioned above. The management of the Company and the subsidiary believe that there is a high probability that this transaction will be cancelled and treated as if it had never occurred. The overdue amount is expected to be fully reimbursed from assets totaling Baht 4,470.87 million with interest thereon, which are seized in accordance with the court order, which is the result of the cooperation and coordination of all relevant regulators and presentation of evidence proving the wrongdoing of the offenders, leading to legal proceedings that result in the attachment of assets in accordance with the court order. The subsidiary has filed the petition with the AMLO, seeking protection of the rights, including compensation for the damage of assets related that have been attached as a result of the offense mentioned above.

As this event is considered an abnormal transaction, the management of the Company and the subsidiary are currently unable to find the past comparable cases or any supporting evidence to validate their belief. As a result, the auditor was unable to obtain sufficient appropriate audit evidence for the allowance for expected credit losses for such overdue receivable to conclude whether the allowance should be set up, and if so, what the appropriate balance of the allowance should be. Consequently, the auditor's opinion on the allowance for expected credit loss is qualified. Any adjustments necessary would result in a decrease in the total assets and retained earnings in the consolidated statement of financial position and the separate statement of financial position (which presented investments in subsidiaries under the equity method) as at 31 December 2022, and a decrease in the profit and total comprehensive income in the consolidated and separate statements of comprehensive income.

Except for the aforementioned effects, the financial statements present fairly, in all material respects, the financial position, their financial performance and cash flows for the year then ended in accordance with Thai Financial Reporting Standards.

Impacts on Liquidity and Net Capital Ratio

In case that the subsidiary is required to provide the allowance for expected credit losses in the future due to the changes in circumstances in any amount, this would not have impact to the subsidiary's liquidity and net capital ratio since the defaulted amount of securities business receivables of Baht 479 million has not been included as liquid assets in the calculation of net capital ratio as prescribed by the office of Securities and Exchange Committee. As of 31 December 2022, the subsidiary's net capital ratio was at 38.65% which was higher than requirement.

The Company would like to explain and analyze the financial position and operating results for the year 2022 and 2023 as follows:

1) Overview of Business Operation and Significant Changes

The Thai stock market in 2022 was in a sideways pattern with rate of return at 0.7% even a decrease in MSCI World all countries index by 20%. As a result of the worries of inflation, that factor led to drastic decline in the stock markets around the globe. The cause of the worries of inflation arose from the conflict between Russia and Ukraine, which led to an increase in commodities price affected production costs. This factor also caused the central banks, especially the Fed, to turn into a strict money policy in order to restrain inflation. Thus, this approach has suppressed the demand and liquidity in capital markets inevitably. As a result, the average daily trading value was Baht 76,773 million, decreased from Baht 93,846 million in 2021 or decreased by 18.19%.

Derivatives trading volume has slightly increased from 135.12 million contracts in 2021 to 136.32 million contracts in 2022. The popular products were Single Stock Futures represented 41.86% of total trading volume and SET50 Index Futures was 40.16% of total trading volume.

In 2022, the foreign investors and local institutions investors were more active in SET than the previous year. That is, the foreign investors accounted for 45.6% of SET's total turnovers which increased from 37.5% in 2021 and local institutions investors were 7.5% of SET's turnovers which increased from 6.6% in 2021. On the other hand, proprietary trading and local retail investors decreased from last year, their turnovers in 2022 were 8.0% and 39.0% of SET's turnovers which dropped from 9.4% and 46.5% in 2021, respectively.

2) Operating Results

Income

The consolidated income of the Company and subsidiaries in 2022 was Baht 831.28 million decreased from Baht 1,008.03 million in 2021 or decreased by 17.53%. The changes in major income of the Company and subsidiaries were as follows:

- Securities business income of the subsidiary accounted for 66.66% of total income decreased from Baht 597.32 million in 2021 to Baht 554.21 million in 2022 comprised of
 - A decrease in a daily average turnover of SET from Baht 93,846 million to Baht 76,773 million, or decreased by 18.19%. Thus, brokerage fee decreased from Baht 342.87 million in 2021 to Baht 260.06 million in 2022 or decreased by 24.15% which was due to the decrease in SET trading volume and the subsidiary retail investors' trading volume;
 - The subsidiaries' fee income decreased from Baht 118.07 million in 2021 to Baht 100.08 million or decreased by 15.23% resulting from a decrease in underwriting fee and private fund management fee in 2022;
 - The subsidiaries' interest income from margin loans increased from Baht 129.43 million in 2021 to Baht 179.30 million or increased by 38.53% in relation to an increase in the margin loans during the year.

- The Company's net gain and return from financial instrument was Baht 67.59 million in 2022 dividing into gain on securities trading amounted to Baht 50.43 million, dividend income amounted to Baht 21.07 million and loss on derivatives trading amounted to Baht 3.91 million compared to net gain and return from investment was Baht 178.38 million in 2021 dividing into gain on securities trading amounted to Baht 172.98 million, dividend income amounted to Baht 29.44 million and loss on derivatives trading amounted to Baht 24.05 million.
- The Company's interest income decreased from Baht 118.76 million in 2021 to Baht 109.08 million due to a decrease in interest income from loans to others from Baht 111.34 million to Baht 106.66 million or decreased by 8.15% in relation to a decrease in loans to others during the year.
- The advisory fee income decreased from Baht 66.35 million in 2021 to Baht 49.38 million or decreased by 25.58% resulting from a decrease in advisory for financial restructuring in 2022.

Operating Expenses

In 2022, the Company and subsidiaries incurred total expenses in the amount of Baht 613.15 million which was decreased from Baht 702.07 million in 2021, or decreased by 12.66%. The expenses which had significant changes include:

- Employee benefit expenses in 2022 amounted to Baht 328.76 million which was decreased from Baht 457.83 million in 2021, or by 28.19%. This decrease was varied in relation to the overall operations.
- Other expenses increased from Baht 49 million in 2021 to Baht 64.12 million or increased by 30.86% in relation to the increase in specific business tax due to the increase in the Company and subsidiaries' interest income and the decrease in fluctuation of digital assets price.
- Financial expenses in 2022 was Baht 117.08 million increased from Baht 86.24 million in 2021 or increased by 35.75% due to the increase in borrowings for settlement, margin loans and loans to others during the year.

Net Profit (Loss)

In 2022, the Company and subsidiaries' profits before corporate income tax was Baht 218.13 million which was decreased from Baht 305.96 million in 2021 or by 28.71%. Net profits were Baht 178.40 million and Baht 250.14 million in 2022 and 2021, respectively or decreased by 28.68%.

Considering the efficiency of the operation, the net profit margin to total revenue was 21.46%, which is lower than 2021 at 24.82%.

3) Financial Position

Total Assets

As of 31 December 2022, the total assets of the Company and subsidiaries amounted to Baht 7,238.25 million increased from Baht 6,412.18 million at the end of 2021, of which significant items include investments in securities in the amount of Baht 1,062.22 million which was increased from Baht 891.94 million in 2021, net securities and derivatives business receivables in the amount of Baht 4,523.39 million increased from 3,659.99 million and other short-term loans slightly increased from Baht 1,134.24 million in 2021 to Baht 1,125.56 million. These main items represent 14.68%, 62.49%, and 15.55% of the 2022 total assets, respectively.

Securities and Derivatives Business Receivables

As of 31 December 2022, the subsidiary's securities and derivatives business receivables in the amount of Baht 4,523.39 million included margin loan receivables in the amount of Baht 3,721.16

million increased from Baht 3,265.37 million at the end of 2021 and receivables in cash accounts increased from Baht 372.70 million to Baht 802.23 million.

Securities and derivative business receivables of Baht 4,523 million of Trinity Securities Company Limited, which is a subsidiary of the Company, as presented in the consolidated financial statements as at 31 December 2022, included securities business receivables of Baht 479 million that had defaulted on payments of outstanding positions resulting from purchase orders made for shares of a listed company that the Stock Exchange of Thailand (“SET”) identified as potentially abnormal purchase and sale transactions in November 2022. The Company filed a complaint alleging fraudulent conduct with the Economic Crime Suppression Division of the Central Investigation Bureau (“ECD”), requesting to proceed with a case against the receivable and any other individuals involved or previously involved with the receivable for the fraud under the Criminal Code with a nature of regular or business conduct, which is a predicate offense under the Anti-Money Laundering Act B.E.2542 (1999). Subsequently, the Anti-Money Laundering Office (“AMLO”) ordered that all securities brokerage companies involved to proceed with the temporary seizure of assets related to the aforementioned wrongdoing of both the sellers and the buyers. The committee of the AMLO agreed and approved that the case shall be submitted to the public prosecutor to file a petition with the court to issue an order to seize the assets as state property on 7 February 2023. On 16 February 2023, the special prosecutor under the Office of the Attorney General determined that the gathered evidence showed that the accused and its associates involved or previously involved with the offender of the fraudulent activities, and therefore filed a petition with the court. Moreover, on 16 February 2023, the Civil Court issued an emergency motion for the temporary seizure and attachment of assets related to the alleged wrongdoing until it is otherwise adjudicated. The subsidiary has filed a petition for protection of its rights from the predicate offense and submitted supporting evidence that details the damage incurred and the amount of damages suffered to the authorities at the AMLO. This action was taken to enable the AMLO and the public prosecutor to pursue legal action to obtain compensatory damages.

In addition, on 10 February 2023, the Securities and Exchange Commission (“SEC”) stated to the ECD that receivable and 18 co-offenders had caused the general public to misunderstand the price or volume of securities transactions, thereby violating the Securities and Exchange Act B.E.2535 (1992) and constitutes an unfair practice that constitutes a criminal offense under the Anti-Money Laundering Act B.E.2542 (1999). The SEC reported the case to the AMLO for further action. Currently, the subsidiary is awaiting the outcome of the case from the relevant authorities.

The management of the Company and the subsidiary have determined that this event is an abnormal transaction, as it was carried out with fraudulent intent. Such conduct is prohibited by law and runs counter to public order and good morals. Therefore this event must be cancelled and the transaction must be treated as if it had never occurred. Setting up the allowance for expected credit losses may have an adverse affect on the case that the subsidiary has filed with the AMLO on 16 February 2023, seeking protection of its rights from the predicate offense. It may also adversely affect the case under which the Company has filed the complaint alleging fraudulent conduct with the ECD. Since the setting up the allowance for expected credit losses could be interpreted as the subsidiary’s acceptance of the disputed transactions as being valid, along with the acceptance of the damage caused. In this regard, the subsidiary has not recorded any allowance for expected credit losses related to the overdue securities business receivables mentioned above. The management of the Company and the subsidiary believe that there is a high probability that this transaction will be cancelled and treated as if it had never occurred. The overdue amount is expected to be fully reimbursed from assets totaling Baht 4,470.87 million with interest thereon, which are seized in accordance with the court order, which is the result of the cooperation and coordination of all relevant regulators and presentation of evidence proving the wrongdoing of the offenders, leading to legal proceedings that result in the attachment of assets in accordance with the court order. The subsidiary has filed the petition with the AMLO, seeking protection of the rights, including compensation for the damage of assets related that have been attached as a result of the offense mentioned above.

The subsidiary categorized its securities and derivatives business receivables in accordance with the Thai Financial Reporting Standard as performing debts in the amount of Baht 3,505.99 million, under-

performing debts in the amount of Baht 1,017.41 million and Non-performing debts in the amount of Baht 61.97 million. In this regard, The Company has provided allowance for expected credit losses in the amount of Baht 61.97 million, in accordance with the financial reporting standard.

Investments in Securities and Derivatives

The Company and subsidiaries' net investments in securities as of 31 December 2022 were Baht 1,062.22 million which was decreased from Baht 891.94 million in 2021. Out of this amount, short-term investment measured at fair value through profit or loss was Baht 698.85 million, short-term investment measured at amortised cost amounted to Baht 82.35 million and long-term investment measured at fair value through other comprehensive income amounted to Baht 219.55 million and the remaining investment Baht 61.47 million was the investment in joint venture and affiliates which were accounted for under an equity method.

In 2022, the Company and subsidiaries gained a total return on investment in the amount of Baht 93.94 million decreased from Baht 209.47 million in 2021 or equal to rate of return on investment 9.57% lower than 23.21% in 2021. The total return comprised of gain from investment in securities trading at Baht 50.42 million, loss from investment in derivatives trading at Baht 3.90 million, interest and dividend at Baht 28.95 million, sharing of profit from joint venture and affiliates at Baht 14.67 million, loss from sale of investment measured at fair value through other comprehensive income amounted to Baht 1.43 million and the decrease in unrealized loss from investments presented in shareholders' equity amounted to Baht 5.23 million.

Liabilities

As of 31 December 2022, the Company and subsidiaries' total liabilities stood at Baht 5,498.57 million which was increased by 18.09% when compared to the total liabilities of Baht 4,656.34 million at the end of 2021. The Company's debts to equity ratio 3.16 times increased from 2.65 times at the end of 2021. The increase in the total liabilities was arisen from the borrowings increased from Baht 3,814.64 million to Baht 4,780.59 million which was borrowed for settlement payment, margin loan receivables and other loans during the year. The borrowings included borrowings from financial institutions amounted to Baht 2,105 million, other borrowings amounted to Baht 188.09 million, short-term debentures amounted to Baht 1,751 million and long-term debentures amounted to Baht 736.50 million.

Shareholders' Equity

As of 31 December 2022, the Company and subsidiaries' shareholders' equity stood at Baht 1,739.69 million which was decreased from Baht 1,755.85 million of 2021. The decrease was derived from the Company and subsidiaries' earnings in 2022 amounted to Baht 178.40 million and the decrease in unrealized loss from investments presented in shareholders' equity was Baht 5.23 million. Whereas the Company paid 2021 final dividend in the amount of Baht 160.80 million and interim dividend for the year 2022 amounted to Baht 37.52 million. The return on equity for the year 2022 was 10.26% per annum comparing to 14.92% per annum for the year 2021.

Please be informed accordingly.

Yours faithfully,



Visit Ongpipatanakul
Director