

PART 3

FINANCIAL POSITION AND OPERATING RESULT

13. Financial position and operating results

(A) Summary of the Report of the Independent Auditors for 2018 - 2020

For the year 2018, the Company appointed Mr. Chavala Tienpasertkij, Certified Public Accountant no. 4301 of Deloitte Touche Tohmatsu Jaiyos Audit Co. Ltd, "Deloitte" as its Auditor. For years 2019-2020, the Company appointed Mrs. Wilasinee Krishnamra, Certified Public Accountant no. 7098 of Deloitte Touche Tohmatsu Jaiyos Audit Co. Ltd, "Deloitte" as its Auditor.

The Auditor reported that the Company's consolidated and separate financial statements present fairly, in all material respects, the financial performance and cash flows for the year in accordance with Thai Financial Reporting Standards ("TFRSs").

(B) Summary of audited financial statements for the Company and its subsidiary companies for the years ended 31st December 2018 - 2020.

KGI SECURITIES (THAILAND) PUBLIC COMPANY LIMITED AND ITS SUBSIDIARIES

STATEMENT OF FINANCIAL POSITION

AS AT DECEMBER 31, 2020 and 2019 and 2018

UNIT : BAHT

	CONSOLIDATED FINANCIAL STATEMENTS					
	As at		As at		As at	
	December 31, 2020		December 31, 2019		December 31, 2018	
ASSETS						
ASSETS						
Cash and cash equivalents	613,328,925	2%	335,551,405	3%	347,149,673	2%
Securities purchased under resale agreements	540,000,000	2%	-	-	1,298,000,000	8%
Receivables from Clearing House and broker - dealers	410,713,248	2%	98,769,017	1%	1,538,196,993	10%
Securities business receivables and						
Derivatives business receivables	15,198,589,417	60%	5,472,333,803	44%	6,144,954,692	40%
Accrued fees and service income						
from asset management business	87,350,008	1%	64,164,170	-	57,866,879	-
Derivatives assets	74,419,805	-	113,333,450	1%	180,682,191	1%
Non-collateralised investments	6,499,796,400	26%	5,784,834,908	47%	5,485,030,939	35%
Collateralised investments						
Collateralised investments without granting right to						
transferee to sell or repledge	8,352,285	-	8,308,068	-	8,460,867	-
Collateralised investments with granting right to						
transferee to sell or repledge	1,080,752,588	4%	100,426,974	1%	-	-
Property, plant and equipment	79,751,348	1%	76,962,313	1%	79,455,137	1%
Right-of-use assets	265,125,205	1%	-	-	-	-
Intangible assets	60,111,421	-	72,850,500	-	70,687,170	-
Goodwill	26,713,599	-	26,713,599	-	26,713,599	-
Properties foreclosed	10,313,182	-	24,097,613	-	29,901,182	-
Deferred tax assets	10,694,848	-	8,838,659	-	6,972,460	-
Other assets	306,411,016	1%	251,354,481	2%	245,404,788	2%
TOTAL ASSETS	25,272,423,295	100%	12,438,538,960	100%	15,519,476,570	100%

KGI SECURITIES (THAILAND) PUBLIC COMPANY LIMITED AND ITS SUBSIDIARIES
STATEMENT OF FINANCIAL POSITION (CONTINUED)
AS AT DECEMBER 31, 2020 and 2019 and 2018

UNIT : BAHT

	CONSOLIDATED FINANCIAL STATEMENTS					
	As at December 31, 2020		As at December 31, 2019		As at December 31, 2018	
LIABILITIES AND OWNERS' EQUITY						
LIABILITIES						
Borrowings from financial institutions	2,697,989,125	11%	400,000,000	3%	-	-
Securities sold under repurchase agreements	1,655,000,000	7%	100,426,974	1%	1,060,000,000	7%
Payables to Clearing House and broker - dealers	1,078,398,501	4%	646,958,834	5%	-	-
Securities business payables and						
Derivatives business payables	11,825,282,160	47%	3,098,345,835	25%	4,342,768,367	28%
Accrued fees and service expenses						
from asset management business	56,763,323	-	10,859,179	-	15,739,776	-
Derivatives liabilities	631,466,047	2%	231,191,566	2%	245,412,822	2%
Accrued expenses	397,517,542	2%	450,649,094	4%	490,116,063	3%
Cuerrent tax liabilities	138,180,927	1%	42,432,236	1%	97,881,785	1%
Lease liabilities	267,290,673	1%	-	-	-	-
Debts issued and borrowings	109,713,632	-	964,007,706	8%	2,988,265,827	19%
Provisions for long-term employee benefits	189,342,875	1%	167,558,452	1%	127,553,400	1%
Provisions for liabilities	21,516,500	-	21,464,782	-	39,698,260	-
Deferred tax liabilities	13,713,874	-	24,500,306	-	28,240,820	-
Other liabilities	51,456,847	-	41,100,915	-	36,897,023	-
Total liabilities	19,133,632,026	76%	6,199,495,879	50%	9,472,574,143	61%
OWNERS' EQUITY						
Share capital						
Registered, issued and fully paid-up						
1,991,763,130 ordinary shares of Baht 1.00 each	1,991,763,130	8%	1,991,763,130	16%	1,991,763,130	13%
Share premium	982,166,480	4%	982,166,480	8%	982,166,480	6%
Surplus from unexercised warrants	101,922,580	-	101,922,580	-	101,922,580	1%
Retained earnings						
Appropriated - statutory reserve	199,176,313	-	199,176,313	2%	199,176,313	1%
Unappropriated	2,928,127,212	12%	3,016,210,695	24%	2,811,538,210	18%
Other component of owners' equity	(69,049,594)	-	(56,075,520)	-	(42,922,436)	-
Equity attributable to equity holders of the parent	6,134,106,121	24%	6,235,163,678	50%	6,043,644,277	39%
Non-controlling interests	4,685,148	-	3,879,403	-	3,258,150	-
Total owners' equity	6,138,791,269	24%	6,239,043,081	50%	6,046,902,427	39%
TOTAL LIABILITIES AND OWNERS' EQUITY	25,272,423,295	100%	12,438,538,960	100%	15,519,476,570	100%

KGI SECURITIES (THAILAND) PUBLIC COMPANY LIMITED AND ITS SUBSIDIARIES
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2020 and 2019 and 2018

UNIT : BAHT

	CONSOLIDATED FINANCIAL STATEMENTS					
	2020		2019		2018	
REVENUES						
Brokerage fees	913,823,570	32%	698,475,453	21%	909,769,019	26%
Fees and service income	922,876,532	33%	789,128,589	24%	686,985,989	20%
Interest income	186,567,931	7%	270,486,370	8%	301,169,460	9%
Gains and return on financial instruments	790,484,840	28%	1,572,168,565	47%	1,600,802,123	45%
Other income	14,785,855	-	19,997,414	-	9,830,702	-
Total revenues	2,828,538,728	100%	3,350,256,391	100%	3,508,557,293	100%
EXPENSES						
Employee benefits expenses	983,806,338	35%	1,088,967,992	33%	1,103,624,829	31%
Fees and service expenses	596,707,084	21%	453,731,548	14%	421,386,053	12%
Interest expenses	78,600,213	3%	140,635,677	4%	159,333,649	5%
Reversal of expected credit losses	(14,394,067)	(1%)	-	-	-	-
Bad debt and doubtful accounts (reversal)	-	-	6,168,399	-	(4,091,720)	-
Other expenses	457,368,797	16%	447,875,562	13%	466,028,443	13%
Total expenses	2,102,088,365	74%	2,137,379,178	64%	2,146,281,254	61%
Profits before income tax	726,450,363	26%	1,212,877,213	36%	1,362,276,039	39%
Income tax expenses	(157,510,964)	(6%)	(240,952,694)	(7%)	(277,926,453)	(8%)
Profits for the years	568,939,399	20%	971,924,519	29%	1,084,349,586	31%

KGI SECURITIES (THAILAND) PUBLIC COMPANY LIMITED AND ITS SUBSIDIARIES
STATEMENT OF COMPREHENSIVE INCOME (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2020 and 2019 and 2018

UNIT : BAHT

	CONSOLIDATED FINANCIAL STATEMENTS					
	2020		2019		2018	
Other comprehensive gain (loss):						
Items that will not be reclassified subsequently to profit or loss:						
Gains on remeasurements of defined benefit plans	4,647,446	-	842,105	-	-	-
Income tax relating to items that will not be reclassified subsequently to profit or loss	(929,489)	-	(168,421)	-	-	-
	<u>3,717,957</u>	-	<u>673,684</u>	-	<u>-</u>	-
Items that may be reclassified subsequently to profit or loss:						
Gains on remeasuring available-for-sale investments	-	-	2,865,002	-	5,608,683	-
Exchange differences on translating the financial statements	(1,346,995)	-	(16,032,569)	-	(1,668,985)	-
Income tax relating to items that may be reclassified subsequently to profit or loss	-	-	14,483	-	66,387	-
	<u>(1,346,995)</u>	-	<u>(13,153,084)</u>	-	<u>4,006,085</u>	-
Total other comprehensive gain (loss) after tax	<u>2,370,962</u>	-	<u>(12,479,400)</u>	-	<u>4,006,085</u>	-
Total comprehensive income for the years	<u>571,310,361</u>	20%	<u>959,445,119</u>	29%	<u>1,088,355,671</u>	31%
Profits for the years attributable to:						
Equity holders of the parent	567,597,984	20%	970,795,627	29%	1,083,374,216	31%
Non-controlling interests	<u>1,341,415</u>	-	<u>1,128,892</u>	-	<u>975,370</u>	-
	<u>568,939,399</u>	20%	<u>971,924,519</u>	29%	<u>1,084,349,586</u>	31%
Total comprehensive income for the years attributable to:						
Equity holders of the parent	569,991,271	20%	958,310,501	29%	1,087,380,301	31%
Non-controlling interests	<u>1,319,090</u>	-	<u>1,134,618</u>	-	<u>975,370</u>	-
	<u>571,310,361</u>	20%	<u>959,445,119</u>	29%	<u>1,088,355,671</u>	31%
Earnings per share attributable to equity holders of the parent						
Basic earning per share (Baht)	0.28		0.49		0.54	

KGI SECURITIES (THAILAND) PUBLIC COMPANY LIMITED AND ITS SUBSIDIARIES

STATEMENT OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2020 and 2019 and 2018

UNIT : BAHT

	CONSOLIDATED FINANCIAL STATEMENTS		
	2020	2019	2018
Cash flows from operating activities			
Profits before income tax expenses	726,450,363	1,212,877,213	1,362,276,039
Adjustments to reconcile profits before income tax expenses to net cash provided by (paid for) operating activities:			
Depreciation and amortisation	156,056,747	47,745,381	55,377,473
Reversal of expected credit losses	(14,235,742)	-	-
Bad debts and doubtful accounts	-	6,971,507	9,088,232
Reversal of provisions for lease liabilities	(3,122,836)	-	-
Reversal of provisions for liabilities	-	(18,002,250)	(169,468)
(Gains) losses on revaluation of investments measured at fair value through profit or loss and derivatives	114,033,819	(153,487,666)	(38,553,053)
Gains on disposal of investments	-	(4,028,713)	(10,365,453)
Premium on investments in debt securities of a subsidiary	155,783	152,800	174,705
Discount on debts issued and other borrowings	(13,500,029)	(16,251,830)	(44,510,992)
Amortisation of deferred interest of financial lease	-	23,778	65,879
(Gains) losses on disposals and written-off of equipment	373,415	297,425	(315,259)
Gains on disposals properties foreclosed	(11,403,569)	(4,667,431)	(830,827)
Interest income on deposits and investments	(104,002,660)	(133,747,673)	(137,462,377)
Dividend income	(84,965,568)	(139,952,431)	(151,873,520)
Interest expenses	78,600,213	140,635,677	159,333,649
Long-term employee benefits expenses	30,651,869	55,943,015	21,845,051
Reversal of decommissioning expenses	-	(128,402)	-
Profit from operating activities before changes in operating assets and liabilities	875,091,805	994,380,400	1,224,080,079
(Increase) decrease in operating assets			
Securities purchased under resale agreements	(540,000,000)	1,298,000,000	(938,000,000)
Receivables from Clearing House and brokers - dealers	(311,944,232)	1,439,427,976	(1,056,728,844)
Securities business receivables and Derivatives business receivables	(9,703,902,910)	665,649,382	435,971,968
Accrued fees and service income from asset management business	(23,185,838)	(6,297,291)	(5,048,974)
Derivatives assets	(10,653,437)	389,815	94,355,741
Investment measured at fair value through profit or loss	(1,742,718,585)	(152,264,361)	2,850,051,719
Other assets	(53,808,854)	(14,203,842)	(18,199,910)
Increase (decrease) in operating liabilities			
Securities sold under repurchase agreements	1,554,573,026	(959,573,026)	657,000,000
Payables to Clearing House and brokers - dealers	431,439,667	646,958,834	(109,312,910)
Securities business payables and Derivatives business payables	8,689,837,355	(1,241,756,740)	756,826,491
Accrued fees and service expenses from asset management business	45,904,144	(4,880,597)	2,749,862
Derivatives liabilities	445,890,416	(74,090,430)	(161,692,747)
Accrued expenses	(51,283,237)	(31,711,059)	52,378,994
Payments on long-term employee benefits during the years	(4,220,000)	(15,095,858)	(1,068,500)
Other liabilities	13,145,710	(3,326,215)	8,842,230
Cash received (paid) from operation	(385,834,970)	2,541,606,988	3,792,205,199

KGI SECURITIES (THAILAND) PUBLIC COMPANY LIMITED AND ITS SUBSIDIARIES
STATEMENT OF CASH FLOWS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2020 and 2019 and 2018

UNIT : BAHT

	CONSOLIDATED FINANCIAL STATEMENTS		
	2020	2019	2018
Cash received from dividend income	86,072,231	140,041,103	150,831,972
Cash received from interest income on deposits and investments	100,989,853	140,690,910	131,434,367
Cash paid for interest expenses	(62,376,285)	(131,279,467)	(102,678,747)
Cash paid for income taxes	(75,334,384)	(302,162,894)	(249,191,886)
Net cash provided by (used in) operating activities	(336,483,555)	2,388,896,640	3,722,600,905
Cash flows from investing activities			
Cash paid for non-collateralised investments measured at fair value through other comprehensive income	-	(1,940,880)	(256,800)
Cash received from non-collateralised investments measured at fair value through other comprehensive income	-	78,199,625	33,258,683
Cash paid for non-collateralised investments measured at amortised cost method	(18,200,000)	(334,300,000)	(8,584,575)
Cash paid for collateralised investments measured at amortised cost method	(200,000)	-	-
Cash received from non-collateralised investments measured at amortised cost method	-	282,500,000	36,600,000
Dividends received from investment in securities	658,446	1,222,219	1,256,145
Cash paid for purchases of equipment and intangible assets	(42,123,842)	(39,626,207)	(24,618,735)
Proceed from disposals of equipment	1,537,369	124,570	334,381
Cash paid for financial lease	-	(900,000)	(900,000)
Proceed from disposals of properties foreclosed	25,188,000	10,471,000	1,386,000
Net cash provided by (used in) investing activities	(33,140,027)	(4,249,673)	38,475,099
Cash flows from financing activities			
Proceed from borrowings from financial institutions	38,900,000,000	55,550,000,000	54,360,000,000
Cash paid for borrowings from financial institutions	(36,600,000,000)	(55,150,000,000)	(58,060,000,000)
Proceed from debts issued and borrowings	3,472,165,309	6,727,657,596	15,111,882,139
Cash paid for debts issued and borrowings	(4,327,465,632)	(8,752,684,180)	(14,508,934,367)
Cash paid for lease liabilities	(108,920,239)	-	-
Increase in non-controlling interests	20	-	-
Dividends paid	(679,165,790)	(766,791,100)	(637,338,616)
Dividends paid to non-controlling interests	(513,365)	(513,365)	(1,278,923)
Net cash provided by (used in) financing activities	656,100,303	(2,392,331,049)	(3,735,669,767)
Net increase (decrease) in cash and cash equivalents before changes in exchange differences on translating the financial statements	286,476,721	(7,684,082)	25,406,237
Exchange differences on translating the financial statements	(8,699,201)	(3,914,186)	(491,431)
Net increase (decrease) in cash and cash equivalents	277,777,520	(11,598,268)	24,914,806
Cash and cash equivalents as at January 1,	335,551,405	347,149,673	322,234,867
Cash and cash equivalents as at December 31,	613,328,925	335,551,405	347,149,673

(C) Ratios for years 2018-2020

Consolidated financial statements	2020	2019	2018
Profitability Ratios			
Gross profit margin (%)	76.00%	82.15%	83.40%
Net profit margin (%)	20.07%	28.98%	30.88%
Return on equity (%)	9.18%	15.81%	18.62%
Return on investment (%)	11.73%	27.61%	22.68%
Efficiency Ratios			
Return on assets (%)	3.01%	6.94%	6.66%
Assets turnover (times)	0.15	0.24	0.22
Financial Ratios			
Liquid assets to debt (times)	1.43	3.82	1.28
Earning assets to debt (times)	5.11	7.76	2.87
Liquid assets to total assets (%)	25.20%	45.02%	33.31%
Earning assets to total assets (%)	90.17%	91.38%	74.99%
Total Liabilities to equity (times)	3.12	0.99	1.57
Dividend pay-out ratio (%)	87.72%	70.02%	70.77%
Other Ratios			
Securities investment to total assets (%)	30.03%	47.38%	35.40%
Net Capital Ratio (NCR) (%)	59.82%	107.52%	71.28%
Net Liquid Capital (Million Baht)	4,137	4,936	4,949
Per Share Information			
Par Value per share (Baht)	1.00	1.00	1.00
Book Value per share (Baht)	3.08	3.13	3.03
Basic Earnings per share (Baht)	0.28	0.49	0.54
Dividend per share (Baht)	0.250	0.341	0.385

14. Management Discussion & Analysis and Impact of the COVID-19 epidemic on the Company

(Consolidated financial statements as at 31st December 2020, “Company” refers to the “Company and its subsidiaries”)

14.1 The Company's performance and financial position

A) Overview

During 2020, despite volatile market conditions, the Company achieved consolidated profits (attributable to equity holders of the parent) of Baht 568 million and earnings per share of Baht 0.28, a decrease of 42 percent compared to the previous year, mainly due to a decrease in Gains and return on financial instruments. (See more information in no. 14.3 Impact of the COVID-19 epidemic on the Company)

The Company's gains and return on financial instruments were derived from a variety of products, including, derivative warrants (DWs), over-the-counter (OTC) derivatives, investments in debt and equity securities for the Company's own account, bond dealing, private repos and other investments.

The Company's proprietary trading activities were well managed, the Company's investment portfolios include equities, bonds, derivatives such as futures. In 2020 despite unexpected market volatility, our Proprietary Trading Businesses had another profitable year. The Company's investments followed the established policy and the Company's Risk Management Department closely monitors the investment risks.

The Company's revenue structure is well diversified. In 2020, the Company's revenue mix consisted of fee and service income (34 percent), brokerage fees (32 percent), gains and return on financial instruments (28 percent), and interest on margin loans (6 percent).

As for fee income, the Company continues to generate a healthy and stable level of fee income by offering products originated by its mutual fund management subsidiary, One Asset Management Ltd. (“ONEAM”). In 2020, ONEAM launched 10 new funds which received a great response from investors.

The Company's risk management remains adequate. The Company continues to receive support and guidance from the KGI Group in areas of product expertise, trading platform, and risk management, notably in its derivatives businesses. The Company develops and implements its own risk-management policies and procedures, and has clearly specified risk limits and real-time monitoring of market risk indicators. Its strong discipline in risk management has helped the Company manage risks in most cases, despite its moderately high risk appetite.

B) Revenue, Expenses and Profitability Ratios

1. Revenues

In 2020, the Company had total revenues, as shown in its consolidated financial statements, of Baht 2,829 million, a decrease of 16 percent compared to the previous year, mainly due to a decrease in Gains and return on financial instruments, the significant revenues are as follows:

1.1 Brokerage fees

The Company's brokerage fees in 2020 were Baht 914 million, an increase of 31 percent from the previous year. The brokerage fee income consisted of brokerage fees from securities business of Baht 705 million, brokerage fees from derivatives business of Baht 209 million. The increase in brokerage fee income was from both securities business and derivatives business, due to an increase in SET average daily trading volume and TFEX trading volume and the increase in Company's market share.

CONSOLIDATED FINANCIAL STATEMENTS

For the years ended

December 31,

	2020	2019	%Change
Brokerage fees			
Brokerage fees from securities business	705,194	531,513	33%
Brokerage fees from derivatives business	208,630	166,962	25%
Total brokerage fees	913,824	698,475	31%

1.2 Fee and Service income

The Company's fee and service income in 2020 was Baht 923 million, an increase of 17 percent from the previous year, mainly from an increase in Front-end fee income earned by the Company's mutual fund management subsidiary, ONE Asset Management Limited and the Company's Sales agent of investment units.

1.3 Interest income

The Company's interest income in 2020 was Baht 187 million, a decrease of 31 percent from the previous year. The decrease was due mainly to a decrease in the interest income from Margin loans and interest income from Deposit at financial institutions.

1.4 Gains and return on financial instruments

The Company's gains and return on financial instruments in 2020 were Baht 790 million, a decrease of 50 percent compared to the previous year, due to the extreme volatility of the Thai stock market in March 2020, as a result the Company's Gains and return on financial instruments decreased.

2. Expenses

The Company's expenses in 2020 were Baht 2,102 million, a decrease of 2 percent compared to the previous year. The majority of the Company's expenses came from employee benefits expenses, fee and service expenses and interest expenses, as follows:

2.1 Employee benefits expenses

The Company's employee benefits expenses in the 2020 were Baht 984 million, a decrease of 10 percent compared to the previous year, mainly from a decrease in personnel expenses which are related to the decrease in the Company's performance.

2.2 Fee and service expenses

The Company's fee and service expenses in 2020 were Baht 597 million, an increase of 32 percent compared to the previous year, mainly from an increase in fees paid in respect of securities trading and derivatives trading.

2.3 Interest expenses

The Company's interest expenses in 2020 were Baht 79 million, a decrease of 44 percent compared to the previous year, mainly from a decrease in interest paid on bonds issued by the Company, and interest paid on private repo business.

3. Profitability Ratios

In 2020, the Company's profitability ratios; gross profit margin, net profit margin, return on equity and return on investments were 76 percent, 20 percent, 9 percent and 12 percent respectively.

Consolidated financial statements	Y2020	Y2019	Y2018
Gross profit margin (%)	76.00%	82.15%	83.40%
Net profit margin (%)	20.07%	28.98%	30.88%
Return on equity (%)	9.18%	15.81%	18.62%
Return on investments (%)	11.73%	27.61%	22.68%

C) Asset Structure and Management

1. Operating Asset Structure

As at 31st December 2020, the Company had total assets of Baht 25,272 million, compared with Baht 12,439 million in 2019, representing an increase of 103 percent from the previous year, mainly due to an increase in Securities business receivables and derivatives business receivables.

The total assets of Baht 25,272 million, mainly came from earning assets of Baht 22,787 million which were the securities and derivatives business receivables of Baht 15,198 million and investments of Baht 7,589 million. The Company had an asset turnover ratio of 0.15 and Return on Assets (ROA) was 3.01 percent.

2. The quality of securities and derivatives business receivables

The Company's securities and derivatives business receivables were of a good quality. As at 31st December 2020, the Company's securities and derivatives business receivables were Baht 15,198 million, representing an increase of 178 percent from the previous year, which mainly consisted of cash accounts of Baht 12,457 million and credit balance accounts of Baht 2,141 million.

The Company has recognized loss allowances for expected credit losses on securities business receivables and derivative business receivables by applied an expected credit loss model as the requirements of TFRS 9, which intended to adjust the value of receivables for probable credit losses. The Company also uses judgment to establish reserves for estimated losses allowances for expected credit loss by taking into account collection risk and the value of the security used as collateral. However, the use of different estimates and assumptions could affect the amounts of allowances for expected credit loss and adjustments to the allowances may therefore be required in the future (see Note 3.1 to financial statements).

For credit balance accounts of Baht 2,141 million, the amount was equivalent to approximately 35 percent of the value of the Company's equity attributable to equity holders of the parent. In 2020, the Company's credit lines complied with the Company's policies and were not concentrated in any industry or any client group.

3. Investments

The Company engaged in various investment activities during the year. As at 31st December 2020, the Company's net investments were valued at Baht 7,589 million, an increase of 29 percent from the previous year.

The Company's investments were diversified and were not concentrated in any one company or industry. The Company has classified investments and recognized loss allowance for impairment on investments as the requirement of TFRS 9 (see Note 3.1 to financial statements). The Company also uses judgment to establish allowance for impairment on investments when there has been a significant or prolonged decline in the fair value below their cost or where other objective evidence of impairment exists.

The Risk Management Committee manages the risk of the Company's proprietary trading activities. The Risk Management Committee approves and reviews a risk budget for each of the business units at least once a year. The Risk Management Department also monitors and takes action in accordance with the Company's Risk Management Policy when limits are reached.

D) Liquidity and capital adequacy

1. The Capital Structure

The Company has an appropriate capital structure. As at 31st December 2020, the Company's liabilities were Baht 19,134 million, and equity attributable to equity holders of the parent was Baht 6,134 million. The ratio of total liabilities to equity was 3.12 times.

The majority of total liabilities of Baht 19,134 million came from Securities business payables and Derivatives business payables of Baht 11,825 million and Borrowings from financial institutions of

Baht 2,698 million. A majority of the equity attributable to equity holders of the parent of Baht 6,134 million came from capital and retained earnings.

2. Capital Expenditure

In 2020, the Company had 2 capital expenditure projects which had a value of more than Baht 2 million, with a total budget of approximately Baht 23 million. The projects included investments in improving information technology systems, and improving computer equipment. The projects were funded from the Company's working capital.

3. Adequacy of Liquidity

In 2020 funding and liquidity of the Company remained strong. As of 31st December 2020, the Company had sufficient available credit facilities from financial institutions to support the current level of operations and expansion plans. The Company's NCR was 59.82 percent at the end of December 2020.

The Company has a policy to maintain its Net Liquid Capital and NCR at a level that is higher than that required by SEC regulations (the regulations specify that the Net Liquid Capital must be at least Baht 25 million and the NCR must be at least 7 percent). The Company's Net Liquid Capital and NCR in the past 3 years were as follows:

Capital Fund	31st Dec 2020	31st Dec 2019	31st Dec 2018
Net Capital Ratio ("NCR") (percent)	59.82%	107.52%	71.28%
Net Liquid Capital (Million Baht)	4,137	4,936	4,949

4. Ability to repay loans and to comply with loan conditions and obligations

As at 31st December 2020, the Company had borrowings from financial institutions of Baht 2,698 million. The Company is confident that it will be able to repay the loans as necessary. The Company has a policy to treat creditors with fairness, responsibility and transparency by strictly complying with the terms of contracts with creditors. The Company does not use dishonest means nor does it conceal relevant information or facts from creditors.

5. The ability to find additional sources of funds

If the Company requires additional funds, the Company's policy is to procure the most appropriate source of funds taking into account the cost of funds, and not to depend upon any one single source of funds. The Company analyses its cash flow needs on a daily basis and matches its short-term or long-term funding and investment needs.

The primary objectives of the Company's capital management process are to maintain the Company's ability to continue as a going concern and to maintain its net capital in accordance with the rules laid down by the Office of the Securities and Exchange Commission.

6. Factors that may affect the Company's credit rating

According to the Company's TRSI Ratings review, the company's credit upsides are limited. If, however, the Company's revenue contribution from gains on trading securities and derivatives continues to increase to the point that they believe the adverse impact on earnings could be significant on a sustained basis, it may result in a weaker assessment of the Company's business stability. This may put pressure on the Company's ratings despite its strong RAC. In addition, any change in the credit profile of the KGI Group or change in TRIS Rating's view on the status of the Company to the KGI Group may affect the ratings and/or outlook.

E) Contingent liabilities and Commitments

Information about the Contingent liabilities and Commitments that may be incurred is shown in Note 37 to the financial statements.

14.2 Factors which may affect the Company's operating results in future

Factors that may affect the company's operations are both external and internal as follows:

External factors include economic conditions, political situation, changes in market conditions, competition, changes in government policies, regulations and laws, changes in interest rates and foreign exchange rates.

Internal factors include financial liquidity, loss of key employees, failure of operational controls, risk management or information technology systems.

These factors may affect the business operations of the Company and may impact the Company's revenue. However, the Company has established a Risk Management Committee as well as other control systems to ensure that risk is appropriately managed. The Company's Risk Management Committee is comprised of representatives of all business units as well as senior, middle and back office executives and operational and administrative executives. The Committee acts as a forum where professional managers can join forces in coordinating risk-management initiatives. These initiatives include the installation of a mechanism for monitoring and managing market risk, credit risk and operational risks. The Risk Management Department is responsible for monitoring all trading positions by systematically calculating Value at Risk (VaR) and also monitoring all client positions using computerized systems. Thus, the Company has been able to systematically identify relevant risks. The Company also has a variety of standardized operational procedures that have been developed to reduce risk in routine operations.

14.3 Impact of the COVID-19 epidemic on the Company

Operational impact

Following the outbreak of COVID-19 in 2020, the Company has been closely monitoring and assessing the situation. The employees of the Company remain healthy, and no employees have been found to be infected with Covid-19. In order to ensure that the Company can continue to operate its businesses continuously, the Business Continuity Plan ("BCP") was put into operation. As a result of the effective implementation of the BCP, the Company was able to maintain normal business operations throughout 2020. The BCP framework is as follows:

1. Separate employee groups were created to prevent a shortage of key personnel. The Company has divided employees in each department into at least 2 groups. These two groups were kept physically separate to ensure that any possible COVID-19 infection could not spread from one group to the other. Each group of employees is sufficient to operate the business continuously and efficiently. The Company also used various forms of technology so that employees can coordinate their work from separate locations, these include video conference, collaboration tools, remote access, and still operate in accordance with the rules and regulations of the Company and regulators.
2. The Company has introduced several measures to reduce the risk of infection or spread of the COVID-19 virus. These included minimizing visitor or client contact with employees and interaction between employees. Where in person meetings could not be avoided the Company strictly recorded the details of any meeting; date, time, and duration of meeting, and details of those present. All meeting rooms are cleaned and disinfected immediately following the meeting. The temperature of employees and visitors is monitored, and protective equipment such as face-masks and alcohol hand gel is provided.
3. The Company has communicated with all employees to explain the risks of COVID-19 and the necessary preventative measures. The Company has explained to employees how to avoid the risk of exposure to COVID-19 and the Company's measures taken to protect employees' health, and has requested all employees to strictly follow the measures. The Company uses a range of easily accessible channels such as Group Line to communicate with employees.

Impact on the results of operations

In the year 2020, the SET index was volatile. For the full year, SET Index closed down by a moderate 8.26 percent compared with end of 2019. The global COVID-19 pandemic led the world and Thailand into economic recession, and caused a sharp stock market crash in late 1Q 2020.

The Company's DW business was significantly impacted by the extreme volatility of the Thai stock market during the period, especially during March 2020. The Company is a market leader in the issuing of DWs in Thailand with a market share of 35 percent to 40 percent and as a result the Company's losses and return on financial instruments in first quarter of 2020 were Baht (619) million, compared to gains and return on financial instruments of Baht 480 million for the first quarter of the previous year. As a result the Company's overall profitability in first quarter of 2020 was also significantly impacted.

The Company hedges its DW exposure as part of its normal risk management using a delta-neutral hedging strategy. The Delta hedging strategy requires that the Company continuously adjusts its hedging position as the market moves up or down. If the market moves up, a DW issuer will buy SET50 futures or stocks, and if the market moves down, the DW issuer will sell SET50 Futures or stocks. The objective of this rebalancing is to hedge the DW exposure, and not to speculate on the direction of the market. However, in March 2020 the Thai stock market experienced extremely high volatility which included triggering the SET circuit-breaker 3 times. Each large movement also triggered a massive change in the Delta hedge position within a very short period of time. These extreme rebalancing actions resulted in losses.

In the second quarter of 2020, the Thai stock market was still volatile in April but the volatility was less than the most severe levels seen in March and the market volatility moved back towards more normal levels and the market started to be more positive from May 2020. The Company's DW business has improved and the Company has adjusted its product strategy to incorporate increased market volatility. As a result, the Company's gain (loss) and return on financial instruments improved from a loss of Baht (619) million in the first quarter of 2020 to a gain of Baht 242 million in the second quarter of 2020, and to a gain of Baht 601 million in the third quarter of 2020 and to a gain of Baht 566 million in the fourth quarter of 2020. As a result, the Company's overall profitability also improved.

Unit : Baht million

Consolidated Financial Statement	1Q2020	2Q2020	3Q2020	4Q2020	Y2020
Gains (losses) and return on financial instruments	(619)	242	601	566	790
Profits (losses) for the periods/year (attributable to equity holders of the parent)	(508)	195	474	407	568

DW issuing has been a consistently profitable business for the Company every year since they were first launched in Thailand in 2009, and has provided Thai investors with a valuable investment alternative. Despite the hedging losses in Q1 2020, due to the extreme market volatility described above, the Company remains confident in the long-term potential of the Company's DW business.

Other businesses of the Company, which are Securities brokerage, Derivatives brokerage, Financial advisory and Securities underwriting, Fixed Income, Private Repo Business, mutual fund management and other businesses are not affected by the performance essentially.

Under the Covid-19 epidemic situation, it does not significantly affect to the Company's liquidity, change in financial costs and the provision of the Company's bad debt reserve. The Company continues to provide services in all products and in accordance with the rules and regulations of the regulatory.