

THE AYUDHYA INSURANCE PUBLIC COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

1. BASIS FOR PREPARATION OF THE FINANCIAL STATEMENTS AND OPERATION OF THE COMPANY

1.1 Basis for preparation of the financial statements

The financial statements have been prepared in accordance with the regulations of the Stock Exchange of Thailand dated January 22, 2001, regarding the basis, conditions and procedures for the preparation and submission of financial statements and reports for the financial position and results of operations of listed companies B.E. 2544, and the Registrar's Notification of the Department of Insurance No. 10/2545 regarding the presentation of the financial statements of insurance companies dated March 6, 2002 and in accordance with generally accepted accounting standards in Thailand.

The Company maintains its accounting records in Thai Baht and prepares its statutory financial statements in the Thai language in conformity with accounting standards and practices generally accepted in Thailand.

1.2 Operation of the Company

The Company was registered in Thailand on October 7, 1950. The main business is non-life insurance and the Company was awarded its license to operate all classes of non-life insurance on May 21, 1971. The head office is located at Ploenchit Tower, 7th floor, 898 Ploenchit Road, Lumpini, Pathumwan, Bangkok. As at December 31, 2005 and 2004, the Company has total staff of 339 and 326 persons, respectively.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Cash and cash equivalents

Cash and cash equivalents include cash on hand and all types of deposits with banks including investment in securities-notes with original maturity of 3 months or less.

In the statement of cash flows, deposits at banks used as collateral or having original terms to maturity over 3 months are not included in cash and cash equivalents but are presented in investing activities.

2.2 Recognition of revenues and expenses

Premium

Premium income is recognized on the date the insurance policy is issued after deducting premium ceded and premium cancelled and refunded.

Reinsurance premium

Reinsurance premium income is recognized when the Company receives the reinsurance application or statement of accounts from the ceding company. Reinsurance profit commissions are recognized when the Company receives the statement of accounts from the reinsurers.

Interest and dividends

Interest is recognized as income on an accrual basis. Dividends are recognized as income on the closing date of shareholders' register or on the date on which the right to receive the dividend arises.

Commissions and brokerages

Commissions and brokerages are recognized as expenses on an accrual basis.

Expenses

Expenses are recognized on an accrual basis.

2.3 Investment in securities

Securities classified as available for sale are stated at fair value. Gain or loss on the change in fair value is recognized as a component of shareholders' equity.

Securities classified as general investments are stated at cost.

Debt securities classified as held to maturity are stated at amortized cost.

In case an other than temporary impairment in value of an investment has occurred, the resultant loss for all classification of investments is recognized in the statement of income.

Premiums and discounts on debt securities are amortized and accreted to income as adjustments to interest income by using the effective interest rate method.

The costs of securities sold are determined by the weighted average method.

Fair value of investments is calculated on the following bases:

1. Private sector debt and equity securities which are listed securities are calculated by using the bid prices at The Stock Exchange of Thailand on the last business day of the year.
2. Government bonds are estimated by management using the Bank of Thailand (BOT) formula, based on the risk free yield curve of the Bank.
3. Private sector debt securities which are non-listed securities, are calculated by using the bid prices at The Thai Bond Dealing Center on the last business day of the year. In the absence of such prices, market values are estimated by applying the aforementioned risk adjusted yield curve.

2.4 Allowance for doubtful accounts and bad debt

The allowance for doubtful accounts is provided at the estimated collection losses on receivables at the end of the year. Such estimated losses are based on the Company's collection experience together with a review of the financial position of the debtors and the value of collateral for the loan.

2.5 Premises and equipment

Land is stated at cost. Premises and equipment are stated at cost, net of accumulated depreciation.

Depreciation is calculated by the straight-line method, based on the estimated useful lives of the assets as follows:

Building	20 years
Others	5 years

2.6 Intangible assets

Intangible assets consisting of computer software are stated at cost, net of accumulated amortization.

Amortization is calculated by the straight-line method, based on the estimated useful lives of the assets of 5 years.

2.7 Unearned premium reserve

Unearned premium reserve is set aside in compliance with the basis as specified in the Notification of the Ministry of Commerce as follows :

Fire, Marine (Hull), Motor and Miscellaneous	- Monthly average basis (the one-twenty fourth basis)
Marine (Cargo)	- Net premium written for the last ninety days
Travelling accident	- Net premium written for the last thirty days

2.8 Loss reserve and outstanding claims

Loss reserve and outstanding claims have been provided upon receipt of claim advices from the insured and recorded at the amount appraised by an independent appraiser or by the Company's appraiser. In addition, the Company records a provision for losses incurred but not yet reported (IBNR) equal to 2.5% of net premium written for the last 12 months.

2.9 Provident fund

The Company has a provident fund which is contributory and has been registered in accordance with the Provident Fund Act B.E. 2530 (1987). The Company's contribution to the Fund is recorded as expense for the year.

2.10 Income tax expenses

The Company has early adopted Thai Accounting Standard No. 56 "Accounting for Income Taxes". The policy is as follows:

Income tax expense is based on the taxable profit multiplied by the tax rate that has been enacted at the balance sheet date and adjusted by the effect of deferred income tax accounting.

Deferred tax assets and liabilities result from temporary differences between the carrying amounts of assets or liabilities in the balance sheet and their tax bases. Deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which deductible temporary differences can be utilized.

Deferred tax expenses are charged or credited in the statement of income, except when the temporary differences relate to items credited or charged directly to equity, in which case the deferred tax is also recorded in equity.

Deferred tax assets and liabilities are offset when they relate to income tax levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

2.11 Basic earnings per share

Basic earnings per share is calculated by dividing net income by the number of weighted average ordinary shares outstanding at the end of the year. In the case of a capital increase, the number of shares is equal to the weighted average according to the time of the subscription received for the increase in issued and paid-up share capital. As at December 31, 2005 and 2004, the Company does not have any common share equivalents outstanding which would have had a dilutive effect on earnings per share.

2.12 Foreign currency transactions

Transactions during the year denominated in foreign currencies are translated into Baht at the rates of exchange prevailing at the transaction dates. Monetary assets and liabilities at the balance sheet date denominated in foreign currencies are translated into Baht at the reference exchange rates established by the Bank of Thailand at that date. Gains and losses on exchange arising on settlements and translation are recognized as income or expense when incurred.

2.13 Use of accounting estimates

Preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities and disclosure of contingent assets and liabilities. The actual result may differ from such estimates.

3. CHANGE IN ACCOUNTING POLICY

In 2005, the Company has changed their accounting policy regarding accounting for income taxes from the accrual basis, based on the taxable profit for the year, to the policy noted in 2.10 above by early adopting Thai Accounting Standard No.56 "Accounting for Income Taxes". As a result, the Company has retrospectively adjusted their prior year's financial statements as if the new accounting policy for deferred income tax had always been in use.

The Company restated their 2004 financial statements for comparison and the cumulative effect of the change to financial statements are summarized as follows:

	For the years ended December 31,	
	2005	2004
	Baht	Baht
Net profit for the year increase	76,587,265	12,719,058
Basic earnings per share increase	0.31	0.05
	As at December 31,	
	2005	2004
	Baht	Baht
Brought forward retained earnings increase	50,253,381	37,534,323
Deferred tax assets increase	126,840,647	67,219,739
Deferred tax liabilities increase	108,256,605	6,173,780
Surplus (deficit) on revaluation of investments increase (decrease)	(108,256,605)	10,792,578
Carried forward retained earnings increase	126,840,647	50,253,381

4. RECLASSIFICATIONS

Certain reclassifications have been made to the financial statements for the year ended December 31, 2004 to conform to the presentation of the financial statements for the year ended December 31, 2005, such as intangible assets as at December 31, 2004 of Baht 1.94 million, which was previously included in premises and equipment - net, is now separately presented in other assets.

5. ADDITIONAL INFORMATION FOR CASH FLOWS

5.1 As at December 31, 2005 and 2004, the surplus (deficit) on revaluation of investments of Baht 324.77 million and Baht (32.38) million, respectively, in the shareholders' equity, were shown net of deferred tax of Baht 108.26 million and Baht (10.79) million, respectively. For the years ended December 31, 2005 and 2004, the Company has an increase (decrease) in the surplus (deficit) on revaluation of investments of Baht 357.15 million (net of deferred tax of Baht 119.05 million) and Baht (103.92) million (net of deferred tax of Baht 34.64 million), respectively.

5.2 Cash and cash equivalents consist of the following:

	2005	2004
	Baht	Baht
Cash and deposits at financial institutions	631,794,765	403,857,571
Investment in securities - Notes	368,318,330	462,358,448
	<u>1,000,113,095</u>	<u>866,216,019</u>
<u>Less</u> Deposits at bank with maturity over 3 months	(240,454,457)	(215,284,985)
Deposits at bank used as collateral	(44,000,000)	(44,000,000)
Notes with maturity over 3 months	<u>(362,536,638)</u>	<u>(462,358,448)</u>
Cash and cash equivalents	<u><u>353,122,000</u></u>	<u><u>144,572,586</u></u>

5.3 Cash flow provided by operating activities

Items to reconcile net profit to net cash flows provided by operating activities for the years ended December 31, 2005 and 2004 are as follows:

	2005	2004
	Baht	Baht
		“As restated”
CASH FLOWS FROM OPERATING ACTIVITIES		
Net profit	214,129,349	294,659,061
Items to reconcile net profit to net cash flows:		
Depreciation	17,240,422	16,062,177
Amortization of intangible assets	981,813	998,717
Gain on sale of assets	(1,292,879)	(381,086)
Unearned premium reserve increase from previous year	76,916,663	32,766,699
Amortization of bonds premium	217,407	177,440
Amortization of bonds discount	(233,799)	(13,714)
Amortization of notes discount	(11,962,384)	(12,203,330)
Gain on sale of investment in securities available for sale		
- ordinary shares	(23,094,961)	(2,745,410)
Gain on sale of investment in securities available for sale		
- other securities	(5,761,090)	(21,805,852)
Loss on sale of investment in securities available for sale - bonds	-	214,601
Loss on impairment of securities available for sale- ordinary shares	72,489,454	-
Loss on (reversal of allowance for revaluation of) debt restructuring	258,798	(1,372,099)
Bad debt and doubtful accounts (reversal)	(1,979,023)	-
Deferred tax	(76,587,265)	(12,719,058)
Profit from operations before changes in operating assets and liabilities	261,322,505	293,638,146
Operating assets (increase) decrease		
Amount deposit on reinsurance treaties	1,273,223	558,150
Due from reinsurers	(64,974,983)	25,328,518
Premium due and uncollected	(53,703,183)	(1,595,858)
Accrued income on investment	7,701,854	(3,114,395)
Intangible assets	2,390,230	218,810
Other assets	42,238,680	17,266,613
Operating liabilities increase (decrease)		
Loss reserves and outstanding claims	2,281,521	(53,915,051)
Amount withheld on reinsurance treaties	1,363,782	(1,449,708)
Due to reinsurers	20,503,251	(10,286,970)
Premium written received in advance	13,631,793	(1,931,419)
Accrued commissions	9,474,810	(240,801)
Other liabilities	9,003,424	1,523,321
Net cash provided by operating activities	<u>252,506,907</u>	<u>265,999,356</u>

6. INVESTMENT IN SECURITIES

Investment in securities as at December 31, 2005 consists of the following:

	Cost/Amortized Cost Baht	Unrealized Gains Baht	Unrealized Losses Baht	Fair Value Baht
Securities available for sale				
Equity securities				
Investment in listed securities				
Ordinary shares	1,475,548,216			
Less Allowance for impairment	<u>(72,489,454)</u>			
	1,403,058,762	913,419,508	(475,404,872)	1,841,073,398
Warrants	536,993	2,194,500	(207,664)	2,523,829
Other securities				
Unit trusts	2,197,053,576	11,064,328	(25,219,467)	2,182,898,437
Debt securities				
Bonds	116,144,551	-	(1,113,528)	115,031,023
Notes	368,938,140	-	(16,401,502)	352,536,638
Debenture	<u>7,500,100</u>	<u>-</u>	<u>-</u>	<u>7,500,100</u>
Total	<u>4,093,232,122</u>	<u>926,678,336</u>	<u>(518,347,033)</u>	<u>4,501,563,425</u>
				Cost/ Book Value Baht
Securities for general investment				
Equity securities				
Ordinary shares				897,250,269
Less Allowance for impairment				(25,297,507)
Add Unrealized gain on transfer of investment				<u>24,695,119</u>
				896,647,881
Other securities : Unit trusts				<u>39,482</u>
Total				<u>896,687,363</u>
		Maturity within		Amortized
		1 year	2-5 years	Cost
		Baht	Baht	Baht
Securities held to maturity				
Debt securities				
Notes		<u>15,781,692</u>	<u>-</u>	<u>15,781,692</u>
Total		<u>15,781,692</u>	<u>-</u>	<u>15,781,692</u>
Total value of investment in securities				<u>5,414,032,480</u>

Other information related to held to maturity securities are as follows:

	Amortized Cost Baht	Unrealized Gains Baht	Unrealized Losses Baht	Fair Value Baht
Securities held to maturity				
Debt securities				
Notes	<u>15,781,692</u>	<u>-</u>	<u>-</u>	<u>15,781,692</u>
Total	<u>15,781,692</u>	<u>-</u>	<u>-</u>	<u>15,781,692</u>

Investment in securities as at December 31, 2004 consists of the following:

	Cost/Amortized Cost Baht	Unrealized Gains Baht	Unrealized Losses Baht	Fair Value Baht
Securities available for sale				
Equity securities				
Investment in listed securities				
Ordinary shares	1,455,046,114	525,753,001	(600,746,463)	1,380,052,652
Warrants	-	15,113,820	-	15,113,820
Other securities				
Unit trusts	2,271,449,014	13,613,989	(24,141,644)	2,260,921,359
Debt securities				
Bonds	40,769,134	26,695	-	40,795,829
Notes	459,843,278	2,515,170	-	462,358,448
Total	<u>4,227,107,540</u>	<u>557,022,675</u>	<u>(624,888,107)</u>	<u>4,159,242,108</u>
				Cost/ Book Value Baht
Securities for general investment				
Equity securities				
Ordinary shares				894,083,609
<u>Less</u> Allowance for impairment				(25,297,507)
<u>Add</u> Unrealized gain on transfer of investment				24,695,119
				<u>893,481,221</u>
Other securities : Unit trusts				39,482
Total				<u>893,520,703</u>
Total value of investment in securities				<u>5,052,762,811</u>

As at December 31, 2005, government bonds amounting to Baht 76.02 million were pledged with the court under consideration of the appeal court (see Note 12.1).

In 2002, the Company transferred stock of a related company previously included in securities available for sale to general investment as such company delisted their shares from the Stock Exchange of Thailand. The fair value of the stock at the transfer date amounted to Baht 154,700,428. The unrealized gain on the transfer of investment amounting to Baht 24,695,119 was deducted from unrealized loss on the change in value of investment under shareholders' equity.

7. LOANS

7.1 Mortgage loan – net

The Company had a mortgage loan to a certain company. The original loan agreement was made in 1992 with a credit line of Baht 200 million, having a repayment term within one year starting from the date of the agreement. The Company had previously agreed to renew the loan every year after the first agreement expired.

On June 13, 2000, the Company entered into a debt restructuring agreement with the debtor. The debt restructuring resulted in the modification of the repayment terms to comply with those in the agreement. Accrued interest and principal was to be paid in installments over a period ending on April 30, 2010.

According to the new repayment terms, the discount rate used in the calculation of the present value of future expected cash inflows was MLR of a bank minus 2%.

As at December 31, 2005 and 2004, the balances of mortgage loan were as follows:

	December 31, 2005	December 31, 2004	
	Baht	Baht	
Principal brought forward	187,737,803	187,537,803	
<u>Less</u> Repayment of principal received during the year	<u>(185,737,803)</u>	<u>(1,800,000)</u>	
	<u>-</u>	<u>185,737,803</u>	
<u>Less</u> Allowance for debt restructuring :			
Balance brought forward	258,798	(1,113,301)	
Reconciliation of loss on (reversal of revaluation allowance for)			
debt restructuring :			
Interest income recognized at effective rate	7,526,848	7,746,196	
<u>Less</u> Interest income received as per debt			
restructuring agreement	(6,264,170)	(6,527,881)	
<u>Add</u> Adjustment of change in interest rate used in the			
calculation of the present value of future			
Expected cash inflow at MLR	(72,263)	153,784	
<u>Less</u> Loss on debt restructuring	<u>(1,449,213)</u>	<u>(258,798)</u>	<u>-</u>
Balance carried forward	<u>-</u>	<u>258,798</u>	
Mortgage loan – net	<u>-</u>	<u>185,996,601</u>	

The collateral value of such loan of Baht 523.18 million was appraised by independent appraiser on November 5, 2002.

On December 30, 2005, the Company received payment of such loan in full.

7.2 Other loans

Other loans are loans to employees in accordance with the welfare policy of the Company, with interest rates of 3.0% - 4.5% per annum for the years ended December 31, 2005 and 2004.

8. CASH AND DEPOSITS AT FINANCIAL INSTITUTIONS

	2005	2004
	Baht	Baht
Cash	205,000	205,000
Cash at banks-call deposits	245,143,989	83,965,254
Cash at banks-time deposits	<u>386,445,776</u>	<u>319,687,317</u>
Total cash and deposits at financial institutions	<u>631,794,765</u>	<u>403,857,571</u>

As at December 31, 2005 and 2004, fixed deposits amounting to Baht 44 million are pledged as collateral for bank overdrafts, loans in the form of promissory notes and deposited as collateral with the Registrar of Baht 20 million, Baht 10 million and Baht 14 million, respectively (see Notes 13 and 14).

9. PREMISES AND EQUIPMENT - NET

Premises and equipment - net as at December 31, 2005 and 2004 consist of the following:

	Balance as at December 31, 2004 Baht	Increase Baht	Disposal Baht	Balance as at December 31, 2005 Baht
Cost				
Land	1,610,500	-	-	1,610,500
Buildings	773,500	-	-	773,500
Office equipment	75,646,993	19,058,832	(1,192,045)	93,513,780
Furniture and fixtures	10,248,101	6,464,619	(181,184)	16,531,536
Vehicles	41,564,479	13,444,574	(5,833,976)	49,175,077
Total premises and equipment	<u>129,843,573</u>	<u>38,968,025</u>	<u>(7,207,205)</u>	<u>161,604,393</u>
Accumulated depreciation				
Buildings	(518,114)	(29,350)	-	(547,464)
Office equipment	(60,429,475)	(7,447,255)	1,160,871	(66,715,859)
Furniture and fixtures	(8,734,002)	(1,141,871)	173,373	(9,702,500)
Vehicles	(22,203,924)	(8,621,946)	4,479,480	(26,346,390)
Total accumulated depreciation	<u>(91,885,515)</u>	<u>(17,240,422)</u>	<u>5,813,724</u>	<u>(103,312,213)</u>
Premises and equipment - net	<u>37,958,058</u>			<u>58,292,180</u>
Depreciation for the years ended December 31,				
2005				<u>17,240,422</u>
2004				<u>16,062,177</u>

As at December 31, 2005 and 2004, certain fixed assets at cost of Baht 67.27 million and Baht 59.06 million, respectively, were fully depreciated but still in use.

10. PREMIUM DUE AND UNCOLLECTED - NET

Premium due and uncollected - net as at December 31, 2005 and 2004 consist of the following:

	2005 Baht	2004 Baht
Not over 60 days	189,747,575	143,719,651
Over 60 days up to 90 days	46,386,153	31,927,411
More than 90 days	41,060,357	47,843,840
Total premium due and uncollected	<u>277,194,085</u>	<u>223,490,902</u>
<u>Less</u> Allowance for doubtful accounts	<u>(6,918,973)</u>	<u>(9,081,013)</u>
Total premium due and uncollected - net	<u>270,275,112</u>	<u>214,409,889</u>

The balances as at December 31, 2005 and 2004 of premium due and uncollected are classified by aging as follows:

	2005 Baht	2004 Baht
Not over 3 months	236,133,728	175,647,062
Over 3 months up to 6 months	33,091,626	35,788,938
Over 6 months up to 12 months	7,257,832	7,204,430
More than 12 months	710,899	4,850,472
Total	<u>277,194,085</u>	<u>223,490,902</u>

11. INTANGIBLE ASSETS - NET

Intangible assets - net as at December 31, 2005 and 2004 consist of the following:

	2005	2004
	Baht	Baht
Computer software		
Cost	16,487,484	14,097,254
<u>Less Accumulated amortization</u>	<u>(13,143,315)</u>	<u>(12,161,502)</u>
Total intangible assets - net	<u>3,344,169</u>	<u>1,935,752</u>

12. LOSS RESERVES AND OUTSTANDING CLAIMS

12.1 As at December 31, 2005 and 2004, the loss reserves and outstanding claims account includes outstanding claims and accrued interest of Baht 66.90 million and Baht 63.81 million, respectively, caused by a loss claim incurred by an insured company on September 24, 1997. On September 30, 2003, the courts passed a verdict that the Company had to pay the claim of Baht 41.29 million including 7.5% per annum of interest from the date of litigation until such claim is paid. The Company recorded such claim and accrued interest since 2003. However, in 2004 the Company has submitted an appeal to the court. Currently, such case is still under consideration of the appeal court.

In addition during 2005, government bonds amounting to Baht 76.02 million were pledged with the court for such appeal (see Note 6).

12.2 As at December 31, 2004, the Company has estimated net loss reserves from reinsurance of Baht 11.09 million for losses relating to the Tsunami catastrophe in the six southern provinces of Thailand on December 26, 2004, and recognized the loss incurred in the income statement for the year ended December 31, 2004. Such amount of loss reserves was estimated from the surveyor report provided by independent survey companies according to the guidelines established by the Department of Insurance.

During 2005, the Company had paid such net loss from reinsurance.

13. BANK OVERDRAFTS

As at December 31, 2005 and 2004, the Company had credit lines for bank overdrafts and loans in the form of promissory notes of Baht 20 million and Baht 10 million, respectively, which were guaranteed by a fixed deposit of Baht 30 million. The interest rate was equal to the fixed deposit rate plus 2% (see Note 8).

14. DEPOSITS WITH THE REGISTRAR

As at December 31, 2005 and 2004, fixed deposits amounting to Baht 14 million were deposited with the Registrar in accordance with the Insurance Act (see Note 8).

15. LONG-TERM LEASES AND SERVICE AGREEMENTS

Long-term leases and service agreements consist of the following:

Type of lease	Remaining periods	Rental payments for the remaining periods Baht
December 31, 2005		
Building	January 1, 2006 - August 31, 2008	9,426,675
Service	January 1, 2006 - August 31, 2008	9,426,675
Equipment	January 1, 2006 - August 31, 2008	<u>12,568,900</u>
		<u>31,422,250</u>
December 31, 2004		
Building	January 1, 2005 - July 31, 2005	1,278,165
Service	January 1, 2005 - July 31, 2005	1,278,165
Equipment	January 1, 2005 - July 31, 2005	<u>1,704,220</u>
		<u>4,260,550</u>

16. STATUTORY RESERVE

Pursuant to the Public Limited Companies Act B.E. 2535, the Company must allocate to a reserve fund from the annual net profit, not less than five percent of the annual net profit deducted by the total accumulated loss brought forward (if any) until the reserve fund reaches an amount of not less than ten percent of the authorized capital. Such reserve fund is not available for distribution as dividend.

17. OTHER RESERVES

As at December 31, 2005 and 2004, other reserves amounting to Baht 900 million were set without having a specific objective.

18. GAIN ON INVESTMENT IN SECURITIES

Gain on investment in securities for the years ended December 31, 2005 and 2004 consist of the following:

	2005 Baht	2004 Baht
Gain on sale of securities available for sale - ordinary shares	23,094,961	2,745,410
Gain on sale of securities available for sale - other securities	5,761,090	21,805,852
Loss on sale of securities available for sale - bonds	-	<u>(214,601)</u>
Total gain on investment in securities	<u>28,856,051</u>	<u>24,336,661</u>

19. INCOME TAX EXPENSES

For the years ended December 31, 2005 and 2004, income tax expense consisted of the following:

	2005	2004
	Baht	Baht
Income tax expense - current tax	87,573,662	46,057,267
<u>Add (Less) Tax effect from deferred income tax</u>		
Unearned premium reserve	(8,586,977)	(8,871,631)
Loss reserve – net	(47,139,403)	-
Incurred but not reported claims	(564,294)	(58,346)
Allowance for impairment of securities available for sale	(18,122,364)	-
Other	<u>(2,174,227)</u>	<u>(3,789,081)</u>
Income tax expense	<u>10,986,397</u>	<u>33,338,209</u>

According to the Royal Decree No. 387 B.E. 2544 issued under the Revenue Code regarding the corporate income tax rate deduction dated August 28, 2001, the corporate income tax for listed companies of the Stock Exchange of Thailand has been reduced from 30% to 25% of net profit which does not exceed Baht 300 million. This will remain in effect for five consecutive accounting periods beginning on or after September 6, 2001.

As at December 31, 2005 and 2004, deferred tax assets and liabilities which resulted from the temporary differences between the carrying amount of an asset or liability in the balance sheet and its tax base are as follows:

	2005	2004
	Baht	Baht
Deferred tax assets resulted from :		
Allowance for doubtful accounts of premium due and uncollected	1,729,743	2,270,253
Unearned premium reserve	39,586,281	30,999,304
Loss reserve – net	47,139,403	-
Incurred but not reported claims	5,768,679	5,204,385
Others	7,406,598	4,691,860
Unrealized loss on the change in value of investment		
- securities available for sale	-	16,966,358
Allowance for impairment of securities available for sale	18,122,364	-
Allowance for impairment of securities - general investment	<u>7,087,579</u>	<u>7,087,579</u>
Total deferred tax assets	<u>126,840,647</u>	<u>67,219,739</u>

	As at December 31,	
	2005	2004
	Baht	Baht
Deferred tax liabilities resulted from :		
Unrealized gain on the change in value of investment		
- securities available for sale	102,082,825	-
Unrealized gain on transfer of investment	<u>6,173,780</u>	<u>6,173,780</u>
Total deferred tax liabilities	<u>108,256,605</u>	<u>6,173,780</u>

Deferred tax assets for net loss reserve as of December 31, 2005, amounting to Baht 47.14 million resulted from providing for loss reserves being a non-deductible expense in the calculation of corporate income tax, according to the letter from The General Insurance Association dated May 27, 2005, which is the result of a discussion with the Revenue Department by The General Insurance Association on such matter.

20. DIVIDENDS

- 20.1 On April 7, 2004, the Ordinary Shareholders Meeting passed a resolution to pay an annual dividend for the year 2003 at Baht 1.25 per share. The Company had already paid an interim dividend for the operating results from January 1, to June 30, 2003, at Baht 0.55 per share, which was paid on September 12, 2003. The remaining portion of the annual dividend of Baht 0.70 per share, which was paid for the second half of year 2003 operating results, for 250 million shares totalling Baht 175 million was paid on April 16, 2004.
- 20.2 On September 27, 2004, the Board of Directors Meeting passed a resolution to pay an interim dividend for the operating results from January 1, to June 30, 2004 for 250 million shares, at Baht 0.55 per share, totalling Baht 137.5 million. The Company paid such dividend on October 22, 2004.
- 20.3 On April 27, 2005, the Ordinary Shareholders Meeting passed a resolution to pay an annual dividend for the year 2004 at Baht 1.10 per share. The Company had already paid an interim dividend for the operating results from January 1, to June 30, 2004 of Baht 0.55 per share, which was paid on October 22, 2004. The remaining portion of the annual dividend of Baht 0.55 per shares, which was paid for the second half of year 2004 operating results, for 250 million shares totalling Baht 137.5 million was paid on May 6, 2005.
- 20.4 On August 31, 2005, the Board of Directors Meeting passed a resolution to pay an interim dividend for the operating results from January 1, to June 30, 2005 for 250 million shares, at Baht 0.45 per share, totalling Baht 112.5 million. The Company paid such dividend on September 30, 2005.

21. TRANSACTIONS WITH RELATED PARTIES

A portion of the Company's assets, liabilities, revenues and expenses arose from transactions with related parties. The relationship may be by shareholding or the companies may have the same group of shareholders or directors. The Company's management believes that the Company has no significant influence over the related parties. The accompanying financial statements reflect the effects of these transactions determined on the basis of commitments and conditions as in the normal course of business. Transactions with the related parties are mainly as follows:

21.1 Investments

As at December 31, 2005

Companies	Type of Business	Relationship	Paid-up share capital Baht	Share holding %	Investment Baht	Dividend Baht
Investment - ordinary shares						
Bank of Ayudhya Plc.	Finance	Some common shareholders and directors	28,708,515,860	0.64	273,906,134	7,353,185
Ayudhya Investment and Trust Plc.	Finance	Some common shareholders and directors	2,850,000,000	0.52	7,155,463	-
Ayudhya Securities Plc.	Finance	Some common shareholders and directors	600,000,000	0.43	3,166,660	-
Ayudhya Development Leasing Co., Ltd.	Service	Some common shareholders and directors	705,000,000	8.51	65,420,000	2,400,000
Praram 9 Square Co., Ltd.	Service	Some common shareholders and directors	750,000,000	10.00	49,702,493	-
Ayudhya JF Asset Management Limited	Fund Management	Some common shareholders and directors	150,000,000	6.67	10,000,000	4,900,000
Sunrise Equity Co., Ltd.	Consulting	Some common shareholders and directors	9,970,000,000	5.48	546,136,660	43,690,933
Ploenchit Advisory Co., Ltd.	Consulting	Some common shareholders	40,000,000	10.00	4,000,000	1,000,000
Siam City Cement Plc.	Manufacturing	Some common shareholders and directors	2,500,000,000	1.63	1,367,116,800	54,928,800
Thai Reinsurance Plc.	Reinsurance	Some common shareholders and directors	1,180,249,660	1.78	104,174,880	7,037,208
Ayudhya Allianz C.P. Life Plc.	Life Insurance	Some common shareholders and directors	2,950,000,000	5.82	217,144,558	-
					<u>2,647,923,648</u>	<u>121,310,126</u>
Companies	Type of Business	Relationship			Investment Baht	Dividend Baht
Investment - unit trusts						
Unit trusts managed by Ayudhya JF Asset Management Limited	Fund Management	Some common shareholders and directors				
- AJF Star Income Fund					504,616,022	5,003,580
- Ayudhya Taweemongkol Fund					148,818,583	3,566,332
- AJF Star Capital Fund					55,029,533	11,529,735
- Ayudhya Sathien Sap Fund					30,227,400	960,000
- AJF Star Plus Fund					61,352,409	-
- AJF Cash Management Fund					47,959,868	-
- AJF Star Multiple Fund					74,039,556	-
- AJF Sang Kamrai Fund					29,310,777	-
- AJF Star Dynamic Fund					23,967,693	-
					<u>975,321,841</u>	<u>21,059,647</u>
PrimaVest Assets Management Limited	Fund Management	Some common shareholders				
- PrimaVest Flexible Fund					120,130,234	14,851,428
- PrimaVest Flexible Fund 2					14,517,361	909,353
- AYS PrimaVest Flexible Fund					9,351,181	877,732
- PrimaVest Fixed Income Fund					40,257,976	-
- Krungsri - PrimaVest Income Fund					9,476,190	-
- Krungsri - PrimaVest Value Fund					9,682,253	-
- Krungsri - PrimaVest Equity Fund					19,295,800	1,700,000
- Krungsri - PrimaVest Quick Bonus Capital Protected Fund					4,002,200	-
					<u>226,713,195</u>	<u>18,338,513</u>

Companies	Type of Business	Relationship	Investment Baht
Investment - notes Ayudhya Development Leasing Co., Ltd.	Service	Some common shareholders and directors	268,938,140

As at December 31, 2004							
Companies	Type of Business	Relationship	Paid-up share capital Baht	Share holding %	Investment Baht	Dividend Baht	
Investment - ordinary shares							
Bank of Ayudhya Plc.	Finance	Some common shareholders and directors	28,510,769,960	0.64	220,595,544	-	
Ayudhya Investment and Trust Plc.	Finance	Some common shareholders and directors	2,850,000,000	0.52	7,216,620	-	
Ayudhya Development Leasing Co., Ltd.	Service	Some common shareholders and directors	705,000,000	8.51	65,420,000	-	
Praram 9 Square Co., Ltd.	Service	Some common shareholders and directors	750,000,000	10.00	49,702,493	-	
Ayudhya JF Asset Management Limited	Fund Management	Some common shareholders and directors	150,000,000	6.67	10,000,000	9,800,000	
Sunrise Equity Co., Ltd.	Consulting	Some common shareholders and directors	9,970,000,000	5.48	546,136,660	39,867,976	
Ploenchit Advisory Co., Ltd.	Consulting	Some common shareholders	40,000,000	10.00	4,000,000	-	
Siam City Cement Plc.	Manufacturing	Some common shareholders and directors	2,500,000,000	1.63	992,787,200	44,756,800	
Thai Reinsurance Plc.	Reinsurance	Some common shareholders and directors	1,166,925,710	1.48	70,794,700	5,396,292	
Ayudhya Allianz C.P. Life Plc.	Life Insurance	Some common shareholders and directors	2,950,000,000	5.82	217,144,558	-	
					<u>2,183,797,775</u>	<u>99,821,068</u>	
Companies	Type of Business	Relationship			Investment Baht	Dividend Baht	
Investment - unit trusts							
Unit trusts managed by Ayudhya JF Asset Management Limited	Fund Management	Some common shareholders and directors					
- AJF Star Income Fund					499,542,392	-	
- Ayudhya Taweemongkol Fund					150,842,477	1,589,990	
- AJF Star Capital Fund					62,356,938	5,001,966	
- Ayudhya Sathien Sap Fund					30,188,400	-	
- AJF Star Plus Fund					171,502,443	-	
- AJF Cash Management Fund					31,353,460	-	
- AJF Star Multiple Fund					171,655,141	-	
- AJF Sang Kamrai Fund					30,285,227	-	
- The Preferred Shares - Subordinated Debentures of Bank of Ayudhya Plc.					-	11,910,126	
					<u>1,147,726,478</u>	<u>18,502,082</u>	
PrimaVest Assets Management Limited	Fund Management	Some common shareholders					
- PrimaVest Flexible Fund					88,443,110	10,166,165	
- PrimaVest Flexible Fund 2					14,154,074	4,698,322	
- AYS PrimaVest Flexible Fund					9,536,031	-	
- Krungsri - PrimaVest Income Fund					10,030,343	-	
- Krungsri - PrimaVest Value Fund					9,960,000	-	
- Krungsri - PrimaVest Equity Fund					19,916,600	-	
					<u>152,040,158</u>	<u>14,864,487</u>	
Companies	Type of Business	Relationship			Investment Baht		
Investment - warrants							
Bank of Ayudhya Plc.	Finance	Some common shareholders and directors			4,133,118		
Thai Reinsurance Plc.	Reinsurance	Some common shareholders and directors			8,381,952		
					<u>12,515,070</u>		
Investment - notes							
Ayudhya Development Leasing Co., Ltd.	Service	Some common shareholders and directors			292,756,686		

21.2 Significant balances and transactions are as follows:

	Relationship	Balances as at	
		December 31, 2005 Baht	2004 Baht
Bank deposits			
Bank of Ayudhya Plc.	Some common shareholders and directors	66,098,433	95,238,486
Due from reinsurers			
Mitsui Sumitomo Insurance Co., Ltd.	Some common shareholders	2,033,432	448,720
Premium due and uncollected			
Ayudhya Development Leasing Co., Ltd.	Some common shareholders and directors	157,050	-
Ayudhya Investment and Trust Plc.	Some common shareholders and directors	238,954	361,758
Ayudhya Securities Plc.	Some common shareholders and directors	802,065	555,301
Bank of Ayudhya Plc.	Some common shareholders and directors	5,304,255	5,979,675
Ayudhya JF Asset Management Limited	Some common shareholders and directors	-	35,041
Bangkok Broadcasting & T.V. Co., Ltd.	Some common shareholders and directors	2,231,616	2,060,392
BBTV Equity Co., Ltd.	Some common shareholders and directors	549,661	549,661
Siam City Cement Plc.	Some common shareholders and directors	650,801	573,945
Ayudhya Allianz C.P. Life Plc.	Some common shareholders and directors	623,167	1,096,000
		<u>10,557,569</u>	<u>11,211,773</u>
Accrued interest income			
Bank of Ayudhya Plc.	Some common shareholders and directors	207,000	148,682
Rental and facilities deposits			
BBTV Equity Co., Ltd.	Some common shareholders and directors	3,943,943	2,757,743
Siam City Cement Plc.	Some common shareholders and directors	30,000	30,000
		<u>3,973,943</u>	<u>2,787,743</u>
Selling securities receivable			
Ayudhya Securities Plc.	Some common shareholders and directors	3,967,636	-
PrimaVest Assets Management Limited	Some common shareholders	310,169	48,126,132
		<u>4,277,805</u>	<u>48,126,132</u>
Due to reinsurers			
Thai Reinsurance Plc.	Some common shareholders and directors	4,854,209	7,554,951
Bank overdrafts			
Bank of Ayudhya Plc.	Some common shareholders and directors	403,744	393,472
Purchasing securities payable			
Ayudhya Securities Plc.	Some common shareholders and directors	-	742,325

		Relationship	For the years ended	
			December 31,	
			2005	2004
			Baht	Baht
Premium written				
Ayudhya Development Leasing Co., Ltd.	Some common shareholders and directors		176,049	157,366
Ayudhya Investment and Trust Plc.	Some common shareholders and directors		294,810	385,537
Ayudhya Securities Plc.	Some common shareholders and directors		1,158,088	650,937
Bank of Ayudhya Plc.	Some common shareholders and directors		32,391,978	36,393,954
Ayudhya JF Asset Management Limited	Some common shareholders and directors		2,705,802	401,410
Bangkok Broadcasting & T.V. Co., Ltd.	Some common shareholders and directors		8,190,068	6,608,515
Super Assets Co., Ltd.	Some common shareholders and directors		99,531	67,159
BBTV Equity Co., Ltd.	Some common shareholders and directors		1,064,268	1,051,973
Siam City Cement Plc.	Some common shareholders and directors		65,536,099	67,460,840
CKS Holding Co., Ltd.	Some common shareholders and directors		42,325	53,313
Great Luck Equity Co., Ltd.	Some common shareholders		61,819	82,159
Thai Reinsurance Plc.	Some common shareholders and directors		18,853,929	16,475,336
Mitsui Sumitomo Insurance Co., Ltd.	Some common shareholders		5,519,135	2,742,202
PrimaVest Assets Management Limited	Some common shareholders		348,269	400,082
Ayudhya Allianz C.P. Life Plc.	Some common shareholders and directors		1,024,948	1,506,589
			<u>137,467,118</u>	<u>134,437,372</u>
Premium ceded				
Thai Reinsurance Plc.	Some common shareholders and directors		102,452,631	94,658,116
Mitsui Sumitomo Insurance Co., Ltd.	Some common shareholders		7,717,238	7,283,482
			<u>110,169,869</u>	<u>101,941,598</u>

The Company uses the same pricing policy and conditions for the above premiums as it does for other customers and other insurance companies.

		Relationship	For the years ended	
			December 31,	
			2005	2004
			Baht	Baht
Interest received				
Ayudhya Development Leasing Co., Ltd.	Some common shareholders and directors		11,892,981	11,925,565
Ayudhya Investment and Trust Plc.	Some common shareholders and directors		674,672	462,329
Bank of Ayudhya Plc.	Some common shareholders and directors		851,533	348,413
			<u>13,419,186</u>	<u>12,736,307</u>
Interest expense				
Bank of Ayudhya Plc.	Some common shareholders and directors		14,022	15,376

Interest is charged at the same interest rates as the bank offers to other insurance companies. For the interest rates charged by other related parties, the rates are the same as they charge other customers.

		Relationship	For the years ended	
			December 31,	
			2005	2004
			Baht	Baht
Commission paid				
Ayudhya Securities Plc.	Some common shareholders and directors		66,783	80,884
Ayudhya JF Asset Management Limited	Some common shareholders and directors		111,531	353,203
			<u>178,314</u>	<u>434,087</u>

Commission is paid at the same rates and conditions as the related party charge the other customers.

	Relationship	Rate of rental and service expenses per month		For the years ended December 31,	
		2005	2004	2005	2004
		Baht	Baht	Baht	Baht
Rental and service expenses					
BBTV Equity Co., Ltd.	Some common shareholders and directors	748,675	608,650	8,984,100	7,303,800
Siam City Cement Plc.	Some common shareholders and directors	10,000	10,000	120,000	120,000

The Company has office rental, equipment rental and service agreements with related companies for a term of 3 years. The rental rates and conditions are the same as the related parties offer to other companies.

22. DISCLOSURE OF FINANCIAL INSTRUMENTS

The Company does not speculate or engage in the trading of any derivative financial instruments.

22.1 Accounting policies

Details of significant accounting policies and methods adopted, including criteria for recognition of revenues and expenses relating to financial assets and financial liabilities are disclosed in Note 2.

22.2 Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company. The Company has adopted the policy to protect against credit risk by having securities valuations strictly appraised by specialists and limiting lines of loans so as not to exceed the securities value which is in accordance with the Department of Insurance regulation related to investment for other business of non-life companies.

In the case of recognized financial assets in the balance sheet, the carrying amount of the assets recorded in the balance sheet represents the Company maximum exposure to credit risk.

22.3 Interest rate risk

Interest rate risk refers to the risk changes in interest rates will affect the interest income from investments. The Company's investments include both short-term and long-term investments that have floating rate and fixed rates. The Company manages the risk by considering the risk of investments together with the return on such investments.

As at December 31, 2005 and 2004, significant financial assets classified by type of interest rate are as follows:

	Balance as at December 31,			
	2005		2004	
	Variable interest rate Baht	Fixed interest rate Baht	Variable interest rate Baht	Fixed interest rate Baht
Investment in securities - net				
Bonds	-	115,031,023	-	40,795,829
Notes	96,759,767	271,558,563	100,000,000	362,358,448
Debentures	-	7,500,100	-	-
Mortgage loan - net	-	-	185,996,601	-

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Cash and deposits at financial institutions	<u>352,785,593</u>	<u>278,260,424</u>	<u>172,189,354</u>	<u>230,135,785</u>
Total	<u>449,545,360</u>	<u>672,350,110</u>	<u>458,185,955</u>	<u>633,290,062</u>

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The financial instruments carrying interest at fixed rates are classified below on the basis of the length of time from the balance sheet date to the date specified for the fixing of a new rate, or to the maturity date (whichever is sooner) as follows:

As at December 31, 2005

	Period specified for fixing new interest rate			Average interest rate %
	Within 1 year Baht	Over 1 year Baht	Total Baht	
Investment in securities - net				
Bonds	-	115,031,023	115,031,023	4.88
Notes	15,781,692	255,776,871	271,558,563	4.41
Debenture	-	7,500,100	7,500,100	5.00
Cash and deposits at financial institutions	278,260,424	-	278,260,424	2.06
Total	294,042,116	378,307,994	672,350,110	

As at December 31, 2004

	Period specified for fixing new interest rate			Average interest rate %
	Within 1 year Baht	Over 1 year Baht	Total Baht	
Investment in securities - net				
Bonds	-	40,795,829	40,795,829	4.75
Notes	362,358,448	-	362,358,448	3.99
Cash and deposits at financial institutions	230,135,785	-	230,135,785	1.27
Total	592,494,233	40,795,829	633,290,062	

22.4 Estimated fair value of financial instruments

The fair values have been estimated by the Company using available market information and appropriate valuation methodologies.

As at December 31, 2005 and 2004, the carrying amounts of financial assets and financial liabilities which were different from the estimated fair value were as follows:

	2005		2004	
	Carrying Value Baht	Fair Value Baht	Carrying Value Baht	Fair Value Baht
Financial assets				
Cash and deposits at financial institutions	631,794,765	631,567,943	403,857,571	403,857,913
Stocks	2,737,721,279	3,457,985,411	2,273,533,873	2,758,473,758
Other securities - unit trusts	2,182,937,919	2,183,254,307	2,260,960,841	2,260,984,780

The following methods and assumptions were used by the Company in estimating fair value of financial instruments as disclosed herein:

Financial assets - The fair values of financial assets for which their remaining terms to maturity are within 90 days are based on carrying value. For those with remaining terms to maturity greater than 90 days are estimated by using a discounted cash flow analysis based on current interest rates for the remaining years to maturity, except for the fair values of stocks and other securities classified as available for sales securities which are based on the bidding prices at the Stock Exchange of Thailand on the last business day of the year. For non-listed securities, the fair values are estimated based on either net asset value or carrying value.

Financial liabilities - The fair values of financial liabilities for which their remaining terms to maturity are within 90 days are based on carrying value. For those with remaining terms to maturity greater than 90 days are estimated by using a discounted cash flow analysis based on current interest rates for the remaining years to maturity.

23. AUTHORIZATION OF FINANCIAL STATEMENTS

These financial statements were approved by the Company's authorized executive directors on February 16, 2006.