

The Navakij Insurance Public Company Limited

Notes to interim financial statements

For the three-month periods ended 31 March 2010 and 2009

1. General information

1.1 Corporate information

The Navakij Insurance Public Company Limited (“the Company”) is a public company incorporated and domiciled in Thailand. The Company is principally engaged in the provision of non-life insurance and its registered address, which is the head office, is 100/48-55, 25th-27th Floor, Sathorn Nakorn Tower Building, and 90/3-6, 1st Floor, Sathorn Thani Building, Sathorn Thani Complex, North Sathorn Road, Silom, Bangrak, Bangkok.

1.2 Basis for the preparation of interim financial statements

These interim financial statements are prepared in accordance with accounting standards No. 34 (revised 2007) “Interim Financial Reporting”, with the Company choosing to present condensed interim financial statements. However, the Company has presented the balance sheet, and the statements of income, changes in shareholders’ equity and cash flows in the same format as that used for the annual financial statements.

The interim financial statements are intended to provide information additional to that included in the latest annual financial statements. Accordingly, they focus on new activities, events and circumstances so as not to duplicate information previously reported. These interim financial statements should therefore be read in conjunction with the latest annual financial statements.

The interim financial statements in Thai language are the official statutory financial statements of the Company. The interim financial statements in English language have been translated from the Thai language financial statements.

1.3 Significant accounting policies

The interim financial statements are prepared using the same accounting policies and methods of computation as were used for the financial statements for the year ended 31 December 2009.

2. Investments in securities

(Unit: Thousand Baht)

	Financial statements in which the equity method is applied / Separate financial statements in which the cost method is applied			
	31 March 2010		31 December 2009	
	Cost / Amortised cost	Fair value	Cost / Amortised cost	Fair value
Available-for-sale securities				
Equity securities				
Stocks	399,466	546,309	394,823	501,217
Unit trusts	421,632	413,658	439,071	419,244
Surplus on changes in values of investments	138,869	-	86,567	-
Total available-for-sale securities	959,967	959,967	920,461	920,461
Held-to-maturity debt securities				
Bonds	643,743		639,539	
Notes	149,364		99,965	
Debentures	729,500		725,015	
Total held-to-maturity debt securities	1,522,607		1,464,519	
Other investments				
Equity securities				
Stocks	34,179		34,179	
Allowance for loss on impairment	(2,567)		(2,567)	
Total other investments	31,612		31,612	
Total investments in securities - net	2,514,186		2,416,592	

(Unaudited but reviewed)

Surplus on changes in values of investments are detailed below.

(Unit: Thousand Baht)

	Financial statements in which the equity method is applied / Separate financial statements in which the cost method is applied	
	31 March 2010	31 December 2009
Equity securities		
Stocks	146,843	106,394
Unit trusts	(7,974)	(19,827)
Total	138,869	86,567
Deferred tax liabilities	(34,717)	(21,642)
Surplus on changes in values of investments - net of income tax	104,152	64,925

Investments in debt securities as at 31 March 2010 will be due as follows:

(Unit: Thousand Baht)

	Financial statement in which the equity method is applied / Separate financial statement in which the cost method is applied			
	Period to maturity			
	1 year	1 - 5 years	Over 5 years	Total
Held-to-maturity debt securities				
Bonds	351,345	251,489	40,909	643,743
Notes	149,364	-	-	149,364
Debentures	151,285	562,215	16,000	729,500
Total	651,994	813,704	56,909	1,522,607

As at 31 March 2010, the Company has pledged bonds totaling Baht 4.0 million (31 December 2009: Baht 5.5 million) as bail bond in cases where insured drivers have been charged with criminal offence.

As at 31 March 2010 and 31 December 2009, the Company has pledged bonds totaling Baht 20 million as a security with the Registrar of the Office of Insurance Commission under the Non-life Insurance Act.

As at 31 March 2010, the Company pledged bonds with fair value totaling Baht 146.7 million as non-life assurance policy reserve with the Registrar of the Office of Insurance Commission in accordance under the Non-life Insurance Act.

3. Related party transactions

The relationship between the Company and its related parties are summarised below.

Name of related parties	Nature of relationship
The Falcon Insurance Pcl.	Associated company
Nipponkoa Insurance Broker (Thailand) Co., Ltd.	10% of shares held by the Company
Nipponkoa Insurance Co., Ltd.	10% of shares held in the Company
The United Indemnity Co., Ltd.	6.16% of shares held in the Company
Thai Reinsurance Pcl.	Common directors and through shareholding
Thai Metal Drum Manufacturing Pcl.	Common directors and through shareholding
Varopakorn Pcl.	Common directors and through shareholding
Thai-German Ceramic Industry Pcl.	Common directors and through shareholding
Thanakorn Vegetable Oil Products Co., Ltd.	Common directors and through shareholding
Rangsit Plaza Co., Ltd.	Common directors and through shareholding
Sathorn Thani Co., Ltd.	Common directors and through shareholding
Dusit Thani Pcl.	Common directors
Siam Motors Co., Ltd.	Common directors and through shareholding
Wanglee Co., Ltd.	Common directors and through shareholding
Sitthinan Co., Ltd.	Common directors
Chaitip Co., Ltd.	Common directors
Siam Modified Starch Co., Ltd.	Common directors
P Interior & Associates Co., Ltd.	Common directors

During the periods, the Company had significant business transactions with related parties, which have been concluded on commercial terms and bases agreed upon in the ordinary course of businesses between the Company and those companies. Below is a summary of those transactions.

(Unaudited but reviewed)

(Unit: Thousand Baht)

Financial statements in which
the equity method is applied /
Separate financial statements in
which the cost method is applied

For the three-month
periods ended

	2010	2009
Transactions with associated company - The Falcon Insurance Pcl.		
Reinsurance Premium written	665	-
Premium ceded	1,439	1,128
Commission paid	233	-
Commission received	374	335
Rental income	890	-
Transactions with related companies		
Direct premium written		
Nipponkoa Insurance Broker (Thailand) Co., Ltd.*	41,726	12,553
The United Indemnity Co., Ltd.*	88,892	215,837
Thanakorn Vegetable Oil Products Co., Ltd.	2,339	2,339
Rangsit Plaza Co., Ltd.	2,778	2,783
Sathorn Thani Co., Ltd.	444	444
Siam Motors Co., Ltd.	(40)	3
Wanglee Co., Ltd.	318	296
Sitthinan Co., Ltd.	109	67
Chaitip Co., Ltd.	528	428
Siam Modified Starch Co., Ltd.	2,533	339
Reinsurance premium written		
Thai Reinsurance Pcl.	8,343	9,675
Premium ceded		
Thai Reinsurance Pcl.	44,315	34,705
Claims		
Nipponkoa Insurance Broker (Thailand) Co., Ltd.	285	159
Thai Metal Drum Manufacturing Pcl.	4,521	-
Thanakorn Vegetable Oil Products Co., Ltd.	6,285	104
Rangsit Plaza Co., Ltd.	42	22
Sathorn Thani Co., Ltd.	80	-
Sitthinan Co., Ltd.	228	-
Chaitip Co., Ltd.	9	-
Commission paid from direct premium written		
Nipponkoa Insurance Broker (Thailand) Co., Ltd.	7,559	1,411
The United Indemnity Co., Ltd.	15,754	36,444

(Unaudited but reviewed)

(Unit: Thousand Baht)

	Financial statements in which the equity method is applied / Separate financial statements in which the cost method is applied	
	For the three-month periods ended	
	2010	2009
Commission paid from reinsurance premium written		
Thai Reinsurance Pcl.	3,233	3,796
Commission received		
Thai Reinsurance Pcl.	18,953	15,490
Dividend income		
Thai Reinsurance Pcl.	7,030	6,112
Rental and service of building space for branch office		
Rangsit Plaza Co., Ltd.	64	235

* Direct premium written from non-life insurance brokers

Transfer Pricing Policy

Transactions with associated company

Reinsurance premium written/ Premium ceded/ Commission paid from reinsurance premium written/Commission received	Ordinary course of business ceded rates, based on the type of reinsurance and the reinsurance contracts
Rental income	Contract price

Transactions with related parties

Direct premium written	Ordinary course of business premium rate
Reinsurance premium written/Premium ceded/ Commission paid from reinsurance premium written/Commission received	Ordinary course of business ceded rates, based on the type of reinsurance and the reinsurance contracts
Claims	Actual paid
Commission paid from direct premium written	In accordance with the announcement of the Office of Insurance Commission concerning commission rates for non-life insurance brokers
Dividend income	As declared
Rental and service of building space for branch office	Contract price

(Unaudited but reviewed)

The Company has the following significant balances of assets and liabilities with its related parties.

(Unit: Thousand Baht)

	Financial statements in which the equity method is applied / Separate financial statements in which the cost method is applied	
	31 March 2010	31 December 2009
Investments in securities - stocks		
Nipponkoa Insurance Broker (Thailand) Co., Ltd.	600	600
Thai Reinsurance Pcl.	180,538	166,159
Thai Metal Drum Manufacturing Pcl.	82,904	76,368
Thai-German Ceramic Industry Pcl.	7,848	6,480
Varopakorn Pcl.	1,403	1,283
Thanakorn Vegetable Oil Products Co., Ltd.	9,944	9,944
Rangsit Plaza Co., Ltd.	6,560	6,560
Sathorn Thani Co., Ltd.	12,780	12,780
Total	<u>302,577</u>	<u>280,174</u>
Due from (to) reinsurers		
The Falcon Insurance Pcl.	(350)	(2,692)
Thai Reinsurance Pcl.	(1,029)	2,062
Total	<u>(1,379)</u>	<u>(630)</u>
Premium due and uncollected		
Nipponkoa Insurance Broker (Thailand) Co., Ltd.	41,726	35,254
The United Indemnity Co. Ltd.	51,428	72,345
Total	<u>93,154</u>	<u>107,599</u>
Accrued investment income		
Thai Reinsurance Pcl.	7,030	-
Amounts withheld on reinsurance treaties		
Thai Reinsurance Pcl.	26,746	27,234
Accrued commissions		
Nipponkoa Insurance Broker (Thailand) Co., Ltd.	1,683	3,406
The United Indemnity Co. Ltd.	10,739	13,178
Total	<u>12,422</u>	<u>16,584</u>

(Unaudited but reviewed)

4. Investment in associate

4.1 Details of associate

(Unit: Thousand Baht)

Company's name	Nature of business	Country of incorporation	Financial statements in which the equity method is applied					
			Shareholding percentage		Cost		Carrying amounts based on equity method	
			31 March 2010	31 December 2009	31 March 2010	31 December 2009	31 March 2010	31 December 2009
The Falcon Insurance Pcl.	Provision of non-life insurance	Thailand	36.27	36.27	70,739	70,739	95,326	87,461

(Unit: Thousand Baht)

Company's name	Nature of business	Country of incorporation	Separate financial statements in which the cost method is applied					
			Shareholding percentage		Cost		Carrying amounts based on cost method	
			31 March 2010	31 December 2009	31 March 2010	31 December 2009	31 March 2010	31 December 2009
The Falcon Insurance Pcl.	Provision of non-life insurance	Thailand	36.27	36.27	70,739	70,739	34,176	34,176

4.2 Share of income

(Unit: Thousand Baht)

Financial statements in which the equity method is applied / Separate financial statements in which the cost method is applied

Company's name	Share of income from investment in associate for the three-month periods ended 31 March	
	2010	2009
The Falcon Insurance Pcl.	3,169	2,383

4.3 Summarised financial information of associate

(Unit: Thousand Baht)

Company's name	Total assets as at		Total liabilities as at		Total revenues for the three-month periods ended		Net income for the three-month periods ended	
	31	31	31	31	31	31	31	31
	March	December	March	December	March	March	March	March
	2010	2009	2010	2009	2010	2009	2010	2009
The Falcon Insurance Pcl.	642,018	577,305	369,644	326,617	154,654	110,023	8,737	6,572

5. Cash and deposits at financial institutions

(Unit: Thousand Baht)

	Financial statements in which the equity method is applied / Separate financial statements in which the cost method is applied	
	31 March 2010	31 December 2009
Cash	154	525
Deposits at banks with no fixed maturity date	37,162	43,926
Deposits at banks with fixed maturity date	150,160	140,160
Total	187,476	184,611

As at 31 March 2010, the Company has pledged deposits at banks totaling Baht 3.3 million (31 December 2009: Baht 3.3 million) as bail bond in cases where insured drivers have been charged with criminal offence and to secure against the issuance of bank guarantee by the bank on behalf of the Company.

(Unaudited but reviewed)

6. Premises and equipment

Movements of premises and equipment account during the three-month period ended 31 March 2010 are summarised below.

(Unit: Thousand Baht)

	Financial statements in which the equity method is applied / Separate financial statements in which the cost method is applied
Net book value as at 1 January 2010	209,541
Acquisitions during period - at cost	2,122
Disposals during period - net book value at disposal date	(1,251)
Depreciation for period	(8,032)
Net book value as at 31 March 2010	<u>202,380</u>

7. Premium due and uncollected

The balances of premium due and uncollected are classified by aging as below:

(Unit: Thousand Baht)

	Financial statements in which the equity method is applied / Separate financial statements in which the cost method is applied	
	31 March 2010	31 December 2009
Age of receivable		
Less than or equal to 6 months	276,754	337,916
Over 6 months to 12 months	2,549	2,143
Over 12 months	1,328	2,576
Total premium due and uncollected	280,631	342,635
Less: Allowance for doubtful accounts	(635)	(1,434)
Premium due and uncollected - net	<u>279,996</u>	<u>341,201</u>

8. Claims receivable from litigants

Claims receivable from litigants classified by the years the claims incurred are as follows:

(Unit: Thousand Baht)

	Financial statements in which the equity method is applied / Separate financial statements in which the cost method is applied	
	31 March 2010	31 December 2009
Claim years		
Year 2010	15,879	-
Year 2009	38,000	44,126
Year 2008	11,765	14,418
Year 2007	5,398	5,981
Year 2006	4,394	4,569
Prior to year 2006	23,114	24,100
Total claims receivable from litigants	98,550	93,194
Less: Allowance for doubtful accounts	(37,994)	(37,804)
Claims receivable from litigants - net	60,556	55,390

9. Corporate income tax/deferred income tax

Corporate income tax has been calculated at the rate of 25% of income before tax for the period after adding back certain provisions and expenses which are disallowable for tax computation purposes and deducting dividend income which is exempted from tax. The tax rate applied is in compliance with the provisions of Royal Decree (475) B.E. 2551 dated 29 July 2008, issued under the Revenue Code, regarding the reduction of income tax rates.

(Unaudited but reviewed)

(Unit: Thousand Baht)

	Financial statements in which the equity method is applied / Separate financial statements in which the cost method is applied	
	For the three-month periods ended 31 March	
	2010	2009
Income tax on taxable income	13,565	20,826
Increase in deferred income tax	(6,017)	(11,208)
Income tax as included in the income statements	7,548	9,618

The components of deferred tax assets and deferred tax liabilities are as follows:

(Unit: Thousand Baht)

	Financial statements in which the equity method is applied / Separate financial statements in which the cost method is applied	
	31 March 2010	31 December 2009
Deferred tax assets		
Allowance for loss on impairment of investments	642	642
Allowance for doubtful accounts	9,943	10,095
Unrealised gain on intra-group sale of assets	10,789	11,195
Unearned premium reserves	26,497	26,088
Loss reserves	62,375	57,935
Incurred but not reported (IBNR) loss reserves		
Reserve for employees' bonus	8,764	9,439
Others	9,138	8,475
Total	5,029	3,291
	133,177	127,160
Deferred tax liabilities		
Unrealised gains on changes in values of investments - available-for-sale securities	34,717	21,642

10. Intangible asset - computer software

Movements of intangible assets - computer software account during the three-month period ended 31 March 2010 are summarized below.

(Unit: Thousand Baht)

	Financial statements in which the equity method is applied / Separate financial statements in which the cost method is applied
	<hr/>
Net book value as at 1 January 2010	12,621
Amortisation	(946)
Net book value as at 31 March 2010	<hr/> <hr/> 11,675

11. Additional unearned premium reserves

As at 31 March 2010, the retained earnings of the Company excluded Baht 1.4 million on of additional unearned premium reserves (31 December 2009: Baht 0.2 million) which the Company should set aside for the premium ceded to a foreign reinsurer, in compliance with the regulations of the Office of Insurance Commission. Since the Company opined that its risk from insurance has been transferred to the reinsurers and no longer has a commitment in respect of debt settlement, therefore no unearned premium reserve is recorded as liability.

12. Loss reserves for claim which incurred but not reported – IBNR

According to the notification of Ministry of Commerce regarding “Allocation of Unearned Premium Reserve and Loss Reserve”, the Company is to allocate IBNR at 2.5% of the total net written premium written in the twelve months prior to the allocation date. However, from 1 January 2010, the Company is to allocate IBNR in accordance with the actuarial method, but it is not to be less than 2.5% of the total net written premium written on all types of risk in the twelve months prior to the allocation date. Subsequently, the Office of Insurance Commission (“OIC”) issued “Guidance for Calculating Monthly Loss Reserves for Non-life Insurance”, which allows the Company to record IBNR reserve at 2.5% of the total net written premium written on all types of risk in the previous twelve months for January to April 2009.

(Unaudited but reviewed)

The OIC's "Guidance for Calculating Monthly Loss Reserves for Non-life Insurance" allows the Company to record IBNR for each reporting month by using what is considered to be an appropriate actuarial method, or by estimation based on a calculation model included in the Guidance. During the first quarter of 2010, the Company chooses to calculate IBNR in accordance with the Guidance.

13. Cash flow statements

Cash and cash equivalents as reflected in the cash flow statements for the three-month periods ended 31 March 2010 and 2009 consist of:

(Unit: Thousand Baht)

	Financial statements in which the equity method is applied / Separate financial statements in which the cost method is applied	
	31 March 2010	31 March 2009
Cash and deposits at financial institutions	187,476	302,339
Less: Amounts with maturity of more than 3 months and subject to restrictions	(150,160)	(270,506)
Cash and cash equivalents	<u>37,316</u>	<u>31,833</u>

14. Financial information by segment

The Company's business operations involve a single segment, the provision of non-life insurance, and are carried on in the single geographic area of Thailand. As a result, all of the revenues, profits and assets as reflected in these financial statements pertain to the aforementioned business segment and geographic area.

15. Letter of guarantees

As at 31 March 2010, there were outstanding bank guarantees of Baht 3.1 million (31 December 2009: Baht 3.1 million) issued by a bank on behalf of the Company in respect of certain performance bonds required in the normal course of the Company's business.

16. Commitments

As at 31 March 2010, the Company has outstanding significant commitments as follows:

(Unit: Thousand Baht)

Agreements	Pay within		
	1 year	More than 1 year	Total
Rental and service of building space for branch offices	4,772	12,436	17,208

17. Contingent liabilities

As at 31 March 2010, lawsuits have been brought against the Company, as the insurer, in relation to claims totaling approximately Baht 154.8 million (31 December 2009: Baht 153.7 million). The ultimate outcome of these cases is not determinable. However, the Company's management expects the verdicts to be mostly favorable. The Company therefore has recorded a certain amount of provision for potential losses in the financial statements. The Company's management believes that such provision is adequate.

The Company has been sued for Baht 122 million by an insured party with respect to fire damage to assets of the insured that were not covered by its policy because the majority of the damage was not stipulated in the conditions of the policy. The Company has recorded allowance for the claim under this policy of Baht 1.5 million, in proportion to its exposure (the policy was jointly insured with other insurance companies and the Company accepted 15% of the insured amount of Baht 10 million).

18. Financial instruments**Credit risk**

Concentrations of the credit risk with respect to premiums due and uncollected are insignificant due to the large number of customers comprising the customer base and their dispersion across different industries and geographic regions in Thailand. The maximum exposure to credit risk is the book value of assets after deduction of allowance for doubtful debts as presented in balance sheets.

Interest rate risk

The Company's exposure to interest rate risk relates primarily to its investments in debt securities and deposits at financial institutions. However, since most of the Company's financial assets bear floating interest rates or fixed interest rates which are close to the market rate, the Company does not use derivatives to manage its interest rate risk.

Significant financial assets as at 31 March 2010 classified by type of interest rates are summarized in the table below, with those financial assets that carry fixed interest rates further classified based on the maturity date, or the repricing date if this occurs before the maturity date.

(Unit: Thousand Baht)

	Financial statement in which the equity method is applied / Separate financial statement in which the cost method is applied					
	Fixed interest rates					
	Within 1 year	1-5 years	Over than 5 years	Floating interest rate	Total	Interest rates (% p.a.)
Investments in securities						
Bonds	351,345	251,489	40,909	-	643,743	1.09 - 8.50
Notes	149,364	-	-	-	149,364	1.00 - 1.70
Debentures	151,285	562,215	16,000	-	729,500	3.00 - 11.56
Deposits at financial institutions	150,160	-	-	37,162	187,322	0.50 - 3.50
Total	802,154	813,704	56,909	37,162	1,709,929	

Fair value

A fair value is the amount for which an asset can be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction. The fair value is determined by reference to the market price of the financial instrument or by using an appropriate valuation technique, depending on the nature of the instrument.

Methodology of fair value measurement depends upon characteristics of the financial instruments. For the financial instruments which are regarded as traded in an active market, fair value has been determined by the latest quoted market price. If however the appropriate quoted market price cannot be determined, the fair value is determined using an appropriate valuation technique such as discounted cash flow.

The following methods and assumptions are used by the Company in estimating the fair values of financial instruments:

Investments in securities/deposits at financial institutions

The fair value of listed securities is based on their quoted market prices.

The fair value of other securities cannot be properly calculated, and therefore no disclosure is made.

The fair value of bonds, notes, debentures and deposits at financial institutions with periods to maturity of less than 90 days is based on their carrying value. For those with periods to maturity of longer than 90 days, fair value is estimated using a discounted cash flow method based on the current interest rate and the remaining period to maturity.

19. Subsequent event

On 29 April 2010, the Annual General Meeting No. 78 of the Company's shareholders approved the payment of a dividend of Baht 3.50 per share to the shareholders, a total of Baht 105 million. The Company will pay dividend on 17 May 2010.

20. Approval of interim financial statements

These interim financial statements were authorised for issue by the Company's Board of Directors on 14 May 2010.