

BOARD OF CONTROL

Hanoi, 18 March 2020

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REPORT OF THE BOARD OF CONTROL

(Submit to Annual General Meeting of Shareholders 2020)

ATTN: General Meeting of Shareholders of Vietnam National Reinsurance Corporation

Pursuant to:

- The Charter of Organisation and Operation of Vietnam National Reinsurance Corporation (VINARE);
- The Resolution of VINARE's 2019 Annual General Meeting of Shareholders, term 2015 - 2019;
- Regulation on Operation and working agenda of the Board of Control.

The Board of Control would like to report as follows:

A. REPORT ON BOC ACTIVITIES IN 2019

In 2019, the Board of Control has submitted to the General Meeting of Shareholders to approve the financial statements 2018, attended the Annual General Meeting of Shareholders 2019 and the BOD meetings in 2019.

In addition to the duties and functions of the BOC, all members regularly keep track of the business operation and management of VINARE according to their assigned responsibilities among the members of the Board of Control.

I. Inspection of 2019 financial statements

- ❖ Financial statements 2019 audited by Deloitte Vietnam consists of Separate Financial Statement and Consolidated Financial Statement. According to the evaluation, the Financial Statements reflect the important aspects of the financial situation of VINARE in a honestly and reasonably manner.
- ❖ VINARE has strictly implemented the regulations on financial management of the State and internal processes and regulations

1. Fulfillment of business plan approved by GSM

In 2019, VINARE has achieved remarkable business results as follows:

Fulfillment of the targets assigned by the GSM in Resolution No. 09/2019/NQ-DHĐCĐ dated 24/04/2019 is as follows:

Unit: VND million

Indicators	Performance 2019	Performance 2018	2019/2018	Plan 2019	Compared with plan 2019
Gross written premium	2,221,248	1,802,718	123,2%	1,967,000	112.9%
Net written premium	1,190,970	784,741	151,8%	944,600	126.1%
Profit before tax	332,127	315,680	105,2%	331,000	100.3%
- Foreign exchange difference	(249)	5,378		Unidentified	
- Profit excluding foreign exchange gain	332,376	310,302	107,1%	331,000	100.4%

2. Key financial indicators

Unit: VND million

No.	Criteria	31/12/2019	31/12/2018	% change
1	Total assets	6,772,562	6,456,010	104.9%
2	Owner's equity	2,921,058	2,812,198	103.9%
3	Technical reserves (under retention)	1,314,359	1,072,015	122.6%
3.1	Premium reserve	569,374	370,844	153.5%
3.2	Claim reserve	587,811	510,283	115.2%
3.3	Catastrophe reserve	157,173	190,888	82.3%
4	Revenue			
4.1	Gross written premium	2,221,248	1,802,718	123.2%
4.2	Net written premium	1,236,538	946,349	130.7%
4.3	Financial revenue	340,805	331,792	102.7%
4.4	Other revenues	15,836	23,469	67.5%
5	Expenses			
5.1	Gross claim payments	1,075,928	789,549	136.3%
	In which: Claims under retention	478,318	326,952	146.3%
5.2	Administration and expenses other than reinsurance business expense	727,636	563,616	129.1%
5.3	Financial activities expenses	52,311	92,900	56.3%
5.4	Other expenses	2,787	2,111	132%
6	Profit			
6.1	Gross profit from reinsurance business	96,649	135,089	71.5%
6.2	Gross profit from financial activities	288,494	238,892	120.8%
6.3	Profit from other activities	13,050	21,358	61.1%

6.4	Profit before tax	332,127	315,680	105.2%
6.5	Profit after tax	274,562	261,454	105%

(According to audited separate financial statements)

- Total assets as at 31/12/2019 increased by 4.9% compared with 31/12/2018 and owner's equity increased by 3.9%.

- Gross written premium increased by 23.2% against 2018, net written premium sharply increased by 30.7% and financial revenue increased by 2.7% in comparison with 2018.

- Administration expense sharply reduced by 16.7%.

- Financial activities expenses sharply decreased by 43.7%, equivalent to VND40.6 bn over 2018, due to:

+ Foreign exchange loss decreased by VND37.7 bn against 2018.

+ The release amount was recorded at VND6 bn (in 2018, the allocation amount at VND1.15 bn).

+ Other financial expenses increased by about VND4.3 bn.

- Gross profit from reinsurance business amounted to VND96.6 bn, reducing 28.5% compared with 2018;

- Profit from financial investment activities and Profit before tax increased in comparison with 2018.

2.1. Reinsurance business and cost management

In 2019, gross written premium reached VND2,221.2 bn, increasing by 23.2% against 2018, making up 112.9% of the year target. Reasons as follows:

- Vietnamese insurance market in 2019 saw no big differences compared to the previous year: personal insurance products still kept a high growth rate.
- High growth of Property (31%) and Personal Accident for loan holders (35.8%).
- Premium from Fishing dropped sharply by 67% due to slowdown in sales and increasing number of fraudulent cases. Net written premium reached VND1,190.9 billion, increasing 51.8% over that of 2018 thanks to Property with 66%-growth and Personal Accident for loan holders with nearly three-fold growth.

2.2. Underwriting profit by line of business and Claims

Gross underwriting profit reached VND96.6 billion, which fell short of 19% of the year target:

- The high growth in net written premium at 52% leading to significant increase in reserve allocation.
- Property, Hull and Fishing recorded heavy underwriting loss due to high loss ratio.

Net claim payment increased by nearly 50% (equivalent to VND160.8 bn) compared to 2018. Reasons:

- Property suffered from numerous large losses with loss ratio climbing to 87.6% compared to that of 2018 at 79.7%
- Hull maintained high claim payment with loss ratio of 154%
- Loss ratio of Fishing rose to 96%
- Loss ratio of Agriculture surged to 130%, however, net written premium only represented a small part in the total
- Other business lines saw no material movements compared to the previous year

Combined ratio increased to 96.9%, which was higher than that of 2018 (91.9%)

2.3. Reinsurance overdue balances situation

Reinsurance overdue balances situation as at 31/12/2019:

Unit: VND million

No	Criteria	31/12/2019	31/12/2018	+/-
1	Accounts Receivables	589,492	559,924	5.3%
2	Accounts Payables	612,366	497,522	23.1%
3	Net receivables	(22,874)	62,402	NA

Evaluation:

- Accounts receivables increased by 5.3% in comparison with the previous year, equivalent to VND29.5 bn. Accounts payables increased by 23.1%, equivalent to VND114.8 bn. In 2019, net receivables was negative, showing that the Corporation has actively collected overdue balances and achieved good results.

- Accounts receivables of over 3 years decreased significantly (about VND12 bn).

2.4. Financial investment

- **Investment portfolio:**

As at 31/12/2019, investment portfolio of VINARE reached VND3,927 billion, increasing by VND226.5 bn in comparison with the beginning of the year. Deposit portfolio increased from 66.5% to 68.5%, equity portfolio decreased from 17.5% to 15%.

Unit: VND million

No	Portfolio	1/1/2019	31/12/2019	+/-	Weighted
1	Deposits	2,463,000	2,690,000	227,000	68.50%
2	Bonds	220,000	270,000	50,000	6.90%
3	Equities	647,366	588,155	-59,211	15.00%
4	Securities, fund certificates, entrusted investment	285,000	255,000	-30,000	6.50%
5	Office leasing	10,664	9,409	-1,255	0.20%
6	Real estates	13,304	13,304	0	0.30%
7	Non-term deposits	44,971	100,815	+55,844	2.60%

	Total	3,684,305	3,926,683	226,504	100.00%
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• **Profit from financial investment activities:**

Profit from financial investment and other activities in 2019 was VND301.5 bn, increasing by VND41.3 bn (15.9%) in comparison with 2018, broken down as follows:

- + Income from deposits was VND185.6 bn, increasing by VND27 bn.
- + Dividends from private equity investment were VND86.6 bn, increasing by VND55 bn thanks to divestment from PJICO.
- + Bond yield was VND18.7 bn, decreasing by VND2.2 bn.
- + Profit from listed securities, fund certificates and entrusted investment was VND11.2 bn, decreasing by VND38.9 bn. In which profit from entrusted investment decreased by VND24.3 bn in comparison with the previous year.

• **Private equity portfolio:**

- Among all the private equity investments, VINARE only has dominant stake in VINARE Invest (63.88%). In general, most investee companies witnessed growth in scale and positive business results in 2019.
- In 2017-2019 period, VINARE reviewed the private equity portfolio and executed divestments as stated in Decision No. 06/2017/QD-HDQT dated April 25, 2017. VINARE successfully divested from 3 enterprises: Dai Nam Securities, Phu Hung Insurance, PJICO with average selling price of 1.6 times of cost price. The divestment from 3 enterprises reduced the allocation to private equities to 15% of the investment assets by the end of 2019 (fully compliant with the allocation threshold of less than 20% of total investment assets). The divestment from PJICO was legally required to untie the cross-shareholding which is no longer allowed among insurance enterprises.
- Based on VINARE's pricing model, the fair market value as at 31/12/2019 of equity portfolio reached VND1,388 bn, 2.36 times higher than the cost value. The rate of returns for private equities in 2019 reached 14%.
- With regards to the stake in VINARE Invest, in addition to holding shares of VINARE Invest, VINARE also signed a business cooperation contract with VINARE Invest and made deposits on project 360 Giai Phong (VND7,134 billion) and Project 142 Dinh Cong (VND6.17 billion)

The real estate projects which VINARE and VINARE Invest are engaging in have taken long time, in which:

- + Project Paragon Tower was completed and transferred to VINARE Invest.
- + Project 360 Giai Phong: it has been agreed with partners to pay debts by means of end-product apartments

II. Direction of the Board of Directors and Board of Management

1. Corporate management

VINARE has fully complied with the State regulations and internal governance regulations, ensured the stability in operations of the Corporation.

2. Coordination between BOD, BOM, departments and BOC

The BOD, BOM and all departments of VINARE have lent a good helping hand in facilitating functions and duties of the BOC, providing figures and materials for the BOC timely and fully upon request.

3. Other activities

Agree with the report of the BoM

III. Evaluation

Based on the financial statements and report on business results in 2019, BOC has the following opinions:

- On business operation

The Corporation has fulfilled the business plan 2019 assigned by the GSM.

VINARE has strictly adhered to financial regulations and made proper and cautious provisions.

- On corporate governance

The BOD and BOM have clearly stated their views and closely monitored day-to-day operation.

All the decision-makings have been discussed with and informed to the BOM and the BOC.

The BOM have strictly followed resolutions and direction from the BOD.

C. RECOMMENDATIONS

- Focus resources on increasing premium revenue on the basis of tight risk management and underwriting discipline.

- Co-ordinate with international reinsurers to organize conference and seminars in order to improve staff capability so that domestic insurance enterprises could be fully aware of risks and thus, enhance Vina Re's position in the market.

- Strengthen training activities to enhance actuary capability.

- Focus on urging the collection of debt, speeding up the implementation of VINARE Invest's projects, promptly recording revenue from these projects when eligible for recording as regulated.

- At the end of the financial year, VINARE and VINARE Invest assess the possibility to recover debts and allocation to provisions (if any).

B. REPORT ON BOC ACTIVITIES IN 2015-2019

I. Members of BOC

The BOC of Vietnam National Reinsurance Corporation (VINARE) for the term 2015-2019 as elected by the GSM on 22/4/2015 comprise of the following members:

1. Mr. Tran Trung Tinh
2. Mr. Tran Phan Viet Hai
3. Mr. Do Quang Khanh
4. Ms. Le Thi Thanh Hien

5. Mr. Deepak Mohan

Mr. Tran Trung Tinh was elected to be Chief Controller by the BOC members.

On 03/4/2017, Mr. Do Quang Khanh submitted the letter to resign from BOC member.

On 26/4/2017, Mr. Vu Ngoc Vuong, Bao Viet Group was elected BOC member by the GSM.

On 30/6/2018, Mr. Deepak Mohan resigned from BOC member.

As of present, the BOC consists of 4 members.

II. Performance of the BOC in the term 2015-2019

To accomplish its duties as assigned by the GSM and pursuant to the Law on Enterprises, VINARE's Charter of Operation and Organization, the BOC of the term 2015 – 2019 has agreed and issued the working method and assignment among BOC members and the BOC has seriously implemented the following tasks:

- Attending meetings of the Board of Management (BOM).
- Holding periodical BOC meetings as regulated under the Law on Enterprises and Charter of the Corporation.
- Giving opinion on strategic orientation and business operation of the Corporation.
- Overseeing the operation of the BOM and BOD.
- Verifying the rationality, legitimacy, honesty and prudence in business management and direction as well as in the accounting, statistics and financial statement preparation.
- Verifying reports on business results, interim and annual financial statements.
- Submitting verification reports to GSM.
- Pondering over reports and Management Letters from external auditing companies (if any).
- Pondering over plans and reports on investment, business cooperation development proposals, management and organization, labour policy and salary and bonus scheme, regulations and policies related to employees and Corporation.
- Co-operating closely with BOD, BOM and departments and units.

III. Assessment on BOC duties in the term 2015-2019

- The BOC complied with legal regulations, the Charter of the Corporation, decisions and resolutions of the GSM and professional ethics in the exercise of its duties and rights.
- The BOC exercised its duties and rights in an honest and dedicated manner to ensure the maximum benefits of the shareholders.
- The oversight of the BOC in the term contributed to the enhancement of corporate governance and execution of business strategy of the BOD and BOM.

IV. Inspection of Financial Statements

1. Preparing the Financial Statements

- VINARE's financial statements are prepared in accordance with Vietnamese accounting standards. The financial statements during the term of 2015-2019 are all audited by Deloitte, one of the four major auditing companies (Big 4).

- The interim and annual financial statements are in consistent with VINARE's business results. The financial statements are wholly accepted, which present fairly, in all material respects, the financial position of the Corporation in the term 2015-2019.

2. Business results

VINARE has closely followed the annual business plan assigned by the General Meeting of Shareholders. The Board of Directors and Board of Management has focused on implementing measures to improve efficiency and maintain stable business growth year-on-year.

No.	Criteria	2015	2016	2017	2018	2019
1	Total assets	6,372,268	6,239,283	6,313,778	6,456,010	6,772,562
2	Owner's equity	2,561,432	2,647,099	2,585,248	2,812,198	2,921,058
3	Technical reserves (under retention)	818,426	839,746	909,839	1,072,015	1,314,359
3.1	Premium reserve	259,513	251,436	268,805	370,844	569,374
3.2	Claim reserve	384,160	396,712	447,189	510,283	587,811
3.3	Catastrophe reserve	174,753	191,598	193,845	190,888	157,173
4	Revenue					
4.1	Gross written premium	1,617,142	1,655,558	1,651,472	1,802,718	2,221,248
4.2	Net written premium	991,766	964,477	981,229	946,349	1,236,538
4.3	Financial revenue	227,667	224,139	289,477	331,792	340,805
4.4	Other revenues	15,826	15,072	14,231	23,469	15,836
5	Expenses					
5.1	Gross claim payments	1,074,032	960,921	915,028	789,549	1,075,928
	In which: Claims under retention	329,338	273,019	298,458	326,952	478,318
5.2	Administration and other expenses	610,915	277,037	263,687	563,616	727,636
5.3	Financial activities expenses	-5,168	23,002	68,102	92,900	52,311
5.4	Other expenses	7,031	2,744	2,563	2,111	2,787
6	Profit					
6.1	Gross profit from reinsurance business	98,515	146,120	121,608	135,089	96,649
6.2	Gross profit from financial activities	232,836	201,136	221,374	238,892	288,494
6.3	Profit from other activities	8,794	12,328	11,668	21,358	13,050
6.4	Profit before tax	274,741	270,726	285,290	315,680	332,127
6.5	Profit after tax	225,033	223,540	233,853	261,454	274,562

3.2 Claim reserve in 2015: 384,160

	2015	2016	2017
5.2 Administration and other expenses:	629,318	634,149	626,935

- VINARE maintained stable business operations and good profitability during 2015 – 2019 period, average after-tax profit growth at 5.2% /year

- Equity increased 1.04 times from VND2,812 billion in 2015 to VND2,921 billion in 2019

- The dividend payment from 12% - 15% as per the Resolution of the General Meeting of Shareholders.

V. Evaluation on the cooperation between BOC with BOD and BOM

- During the term, the BOC was notified of all decisions of the BOD and BOM and facilitated to perform its tasks.

- The BOD, BOM and BOC had frequent exchanges relating to VINARE's orientations and actions with the purpose of fulfilling all the tasks and enhancing efficiency.

- Periodically, the BOC presented its reports and recommendations to the BOD and BOM, which were acknowledged and executed.

VI. Supervision of the BOD and BOM

- The BOD and BOM have fulfilled their management responsibilities in business activities in a rational, legal, honest and prudent manner, and fully complied with legal regulations, the Charter of Organization and Operation and Resolutions of the General Meeting of Shareholders.

- The BOD had quarterly meetings as required and the Board members have broad consensus. Resolutions of the BOD were issued in a timely manner to facilitate the making of decisions of the BOM. During the 2015-2019 term, the BOC has not received any complaints from shareholders on the direction and management of the BOD and BOM.

- VINARE ensures stable income for the employees, fulfils tax obligations and other payables to the state budget

- In conclusion, during the term 2015 – 2020, the BOD and BOM fulfilled their assignments in a positive and efficient manner. Under the direction of the BOD, especially in the context of changing economic environment, the BOM managed to ensure business efficiency and capital security for shareholders and fulfil the targets approved in the Resolutions of the General Meeting of Shareholders term 2015-2019.

- The BOD fully supported the co-operation with strategic shareholder Swiss Re, which helped strengthen VINARE's finance position and competitiveness, as well as its position in the local and international insurance market.

VI. Proposals

- The BOD and BOM should establish the five-year business strategy in line with the BOD's term plan.

- Co-ordinate with reputable reinsurers to organize conferences and seminars to improve underwriting expertise and risk management skills for the local market.

- Concentrate on providing intensive training to improve the staff's skills and expertise.

- Enhance investment risk management to improve investment efficiency as well as capital security.

Dear Shareholders,

We, the BOC, would like to express our sincere thanks for your trust and confidence on us, your election and support.

We also would like to express our thanks to the BOD, BOM, all the employees, especially the Finance & Accounting Department, Investment Department and other departments who have facilitated us so that we could accomplish our duties.

**On behalf of THE BOARD OF CONTROL
Chief Controller**

Tran Trung Tinh