VINARE

Annual Report 2002

Vinare

Profile

VIETNAM NATIONAL REINSURANCE COMPANY, commonly known as VINARE, is a state-owned company under the Ministry of Finance. It was established on September 27, 1994 under Decision No. 920 TC/QD/TCCB of the Ministry of Finance and officially started operation on January 1, 1995.

VINARE is the unique reinsurer in the Vietnamese insurance market who performs the following functions:

- Writing reinsurance and retrocession of life and non-life business from local and foreign markets;
- Assisting and advising local insurance companies in underwriting and arranging reinsurance protection;
- Providing international insurance and reinsurance information to local insurance companies and insurance clients; providing local insurance information to worldwide markets;
- Providing training opportunities in reinsurance techniques;
- Engaging in capital investment;
- Office for lease.

Corporate Data

As of December 31, 2002

Head Office

7th floor, 141 Le Duan Street,
Hoan Kiem, Hanoi, Vietnam.
Tel: (84.4) 9422354/365
Fax: (84.4) 9422361/730
E-mail: vinare@hn.vnn.vn

Branch office

11 Nguyen Cong Tru Street
District 1, Hochiminh City,
Vietnam.

Branch Director Nguyen Huu Duc

Board of Directors

Trinh Quang Tuyen
Managing Director

Pham Cong Tu
Deputy Managing Director

Organization

Managing Director

Deputy Managing Director

NON - MARINE DEPARTMENT
- Manager: Bui Minh Phuong
- Deputy Manager: Tran Son Vu

AVIATION DEPARTMENT
- Manager: Nguyen Thanh Binh

MARINE DEPARTMENT
- Manager: Tran Thai Phuong

ENGINEERING & ENERGY DEPT.
- Manager: Le Hoai Nam
- Deputy Manager: Tran Minh Tuan

LIFE DEPARTMENT
-Deputy Manager: Do Anh Duc

BRANCH
- Branch Director: Nguyen Huu Duc

GENERAL AFFAIR AND PERSONNEL DEPARTMENT
- Manager: Do Quoc Tuan
- Deputy Manager: Nguyen Minh Chau

ACCOUNTING DEPARTMENT
- Chief Accountant: Luu Thi Viet Hoa

ADMINISTRATION DEPARTMENT
- Manager: Le Thi Ha
- Deputy Manager: Trinh Dac Lan

Statement of Managing Director

Vietnam is one of a few number of countries in the world which registered high economic growth in 2002, at 7.04 per cent year-on-year. This is a significant achievement in view of the world economy still subsiding and natural catastrophes causing serious damages to many regions in the country.

Taking advantage of a stable and up-rising economic environment, the local insurance industry posted a high growth rate, at 55 per cent over 2001, which made premium income from insurance account for 1.4 per cent of GDP. Life insurance still took the lead of development, with premium income increasing by 66 per cent, while non-life insurance experienced a much higher growth than in previous year, at 42 per cent.

Vietnam National Reinsurance Company was established as Vietnam's sole reinsurance company in 1994 and for the last eight years of operation, we have always focused on cooperating with other players in the market and obtaining significant profitability. Thus, we have also recorded good results in step with the insurance industry in general.

Underwriting performance

Our gross premiums written grew 27 per cent over the previous year to VND531 billion in spite of mixed impacts from the international reinsurance market. The hardening trend, typified by reduced capacity, increased premiums, tightened terms and conditions has had a direct impact on the company's reinsurance programme. In the meantime, some of the business lines in the primary insurance market remained lagged behind the international market in terms of premium rates, causing many difficulties in arranging facultative reinsurance protection.

In the hard market condition, we were still able to ascertain financial security for ourselves and for our clients. Thus, premiums written on voluntary basis accounted for over 52 per cent of the total. In particular, premiums written from overseas markets increased 35 per cent.

The net premiums written increased 15 per cent to over VND86 billion. The volume of net premiums written was deeply affected by the hardening reinsurance market forcing us to pay higher protection reinsurance premiums than in previous years.

Our investment activities took a big surge during the last year to VND11.5 billion, an increase of 57 per cent. The increase was mainly thanks to the income from leasing part of the company's new office building which has been put into operation since the end of 2001.

Added with our underwriting results, we realized operating profit before tax of VND14.4 billion, which represents a growth rate of 16.5 per cent year-on-year.

Statement of Managing Director

Our strengthened role in the local market

In pursuing a win-win strategy with our valued business partners, we have continued to enhance our cooperation relationship with domestic insurers and encouraged them to assume retrocession to their full capacity. The volume of premiums retroceded to the local primary insurers increased 38 per cent to VND70.5 billion.

Being the sole professional reinsurer in the local market, we have made our best in supporting the local insurers by providing them with in-time renewal information as well as the best terms and conditions. We have also helped them to place their reinsurance programmes in the hard market conditions.

Our Vietnam Insurance Reinsurance Market Review published in Vietnamese and in English have provided update information to readers in the local and foreign market. The Review has acted as a bridge between the local market and international insurers and reinsurers, helping them to understand more about an emerging market like Vietnam.

In April 2002, we took the initiative in organizing the First Vietnam Reinsurance Conference with the participation of MoF officials, the Insurance Association, corporate leaders as well as reinsurance practitioners from all non-life companies in the market. The Conference was highly appreciated by all participants and is projected to be held regularly as a national forum for reinsurance practitioners to meet and discuss matters of mutual concern.

Another important event for us in 2002 is the establishment of a non-life joint-venture company between our company and Samsung Fire & Marine Insurance from Korea. The joint-venture company obtained the business licence from the Ministry of Finance in September and has entered into operation since November. The joint-venture will have a term of operation of 30 years and is capitalised at US$5 million.

Our prospects for 2003

With a view to providing for every need of our clients, we have made ourselves ready to take on the challenges of an international market with a lot of sharp fluctuations. We are committed to providing better and better services to our clients and therefore, we will continuously review and improve our reinsurance programmes with particular emphasis on cost effectiveness and the security of our reinsurers. We plan to increase gross premiums written by 15 per cent during 2003, having considered the continued difficulties of the international market.

Taking this opportunity, we would like to express our most sincere thanks to our valued business partners whom we are associated with for the support and confidence they show us in every business relationship.

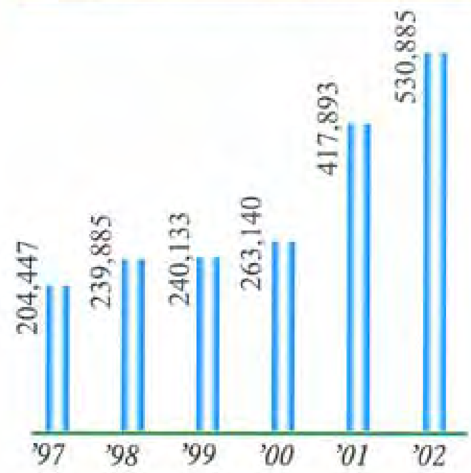
In closing, we would like to mention that we owe our success to our Management and Staff who have shown their dedication and continue to make their best efforts in pursuit of our future success.■

Financial Highlights

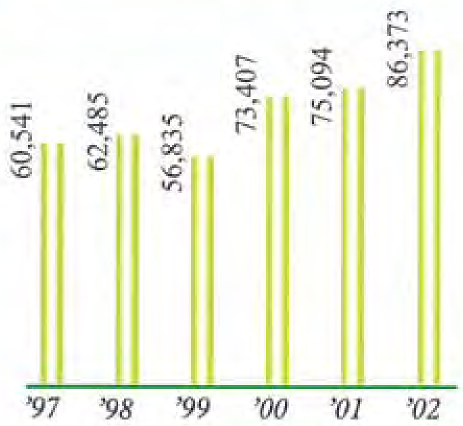
As of December 31,1997 to 2002

Unit: VND million

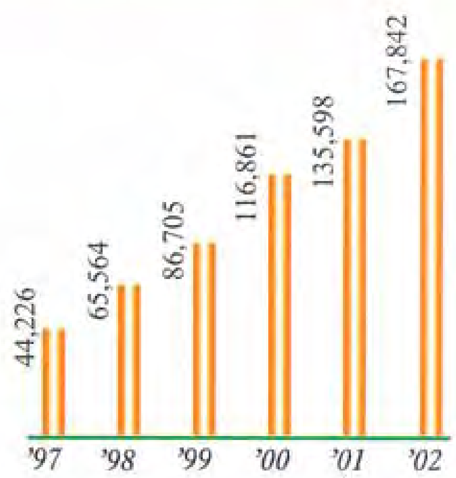
Gross Written Premiums



Net Written Premiums Retained



Technical Reserves

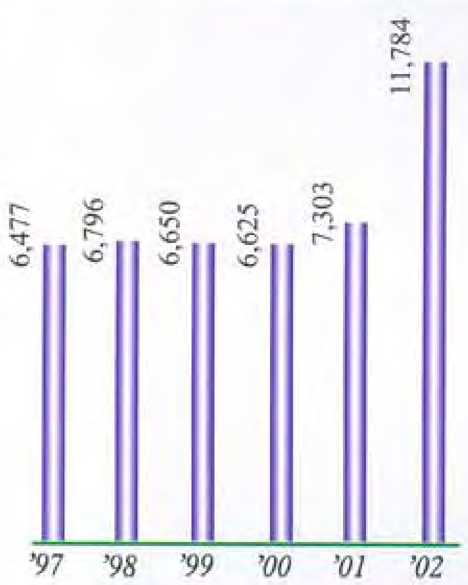


Financial Highlights

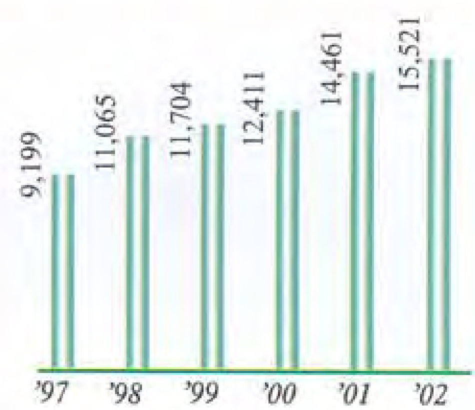
As of December 31,1997 to 2002

Unit: VND million

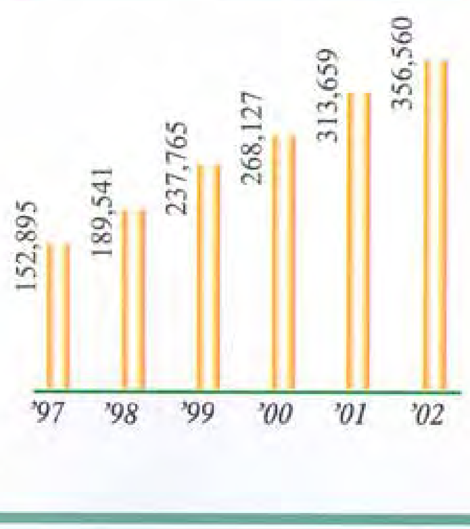
Investment Income



Pre - tax Profit



Total Assets



Balance Sheet

As at 31/12/2002
Currency: VND
1 USD = 15,368 VND

Audited by Vietnam Auditing Company

ASSETS	2002	2001	LIABILITIES	2002	2001
A. CURRENT ASSETS AND SHORT-TERM INVESTMENT	**227,285,853,602**	247,879,239,525	**A. PAYABLES AND TECHNICAL RESERVES**	**246,536,446,711**	214,528,929,554
I. Cash	**174,622,918,435**	166,893,899,906	**I. Payables**	**78,694,254,171**	78,930,435,168
1. Cash on hand	58,444,335	128,823,247	1. Payable to Cedants	19,467,817,589	7,767,452,536
2. Bank deposit	174,564,474,100	166,765,076,659	2. Payable to Retrocessionaires	44,854,384,005	62,699,504,529
			3. Taxation and other payables to the State	1,818,195,106	1,937,835,481
			4. Other payables	12,553,857,474	6,525,642,622
II. Short-term financial investment	**1,000,000,000**	4,742,255,183	**II. Technical reserves**	**167,842,192,537**	135,598,491,386
III. Receivables	**51,631,498,525**	76,050,470,560	1. Premium reserve	27,500,727,647	24,377,675,151
1. Receivables from Cedants	12,075,090,421	18,459,825,042	2. Claim reserve	57,976,042,148	36,128,235,713
2. Receivables from Retrocessionaires	17,317,094,379	48,210,398,579	3. Catastrophe reserve	85,365,422,742	75,092,583,522
3. Other receivables	22,239,313,725	9,380,242,939			
IV. Other current assets	**31,436,642**	192,613,876			
B. FIXED ASSETS AND LONG TERM INVESTMENT	**131,309,555,941**	65,780,228,431	**B. OWNER'S CAPITAL**	**112,058,962,832**	99,130,538,402
1. Fixed assets	47,704,377,859	469,959,713	1. Charter capital	40,779,040,522	40,000,000,000
2. Long term investment	83,605,178,082	24,335,178,082	2. Capital increase	3,226,484,527	3,065,461,666
3. Capital construction in progress		40,975,090,636	3. Legal reserve	6,891,370,997	4,785,825,569
			4. Other capital and funds	61,162,066,786	51,279,251,167
TOTAL ASSETS	**358,595,409,543**	313,659,467,956	**TOTAL LIABILITIES**	**358,595,409,543**	313,659,467,956

Profit and Loss Account

For the year ended
31 December 2002

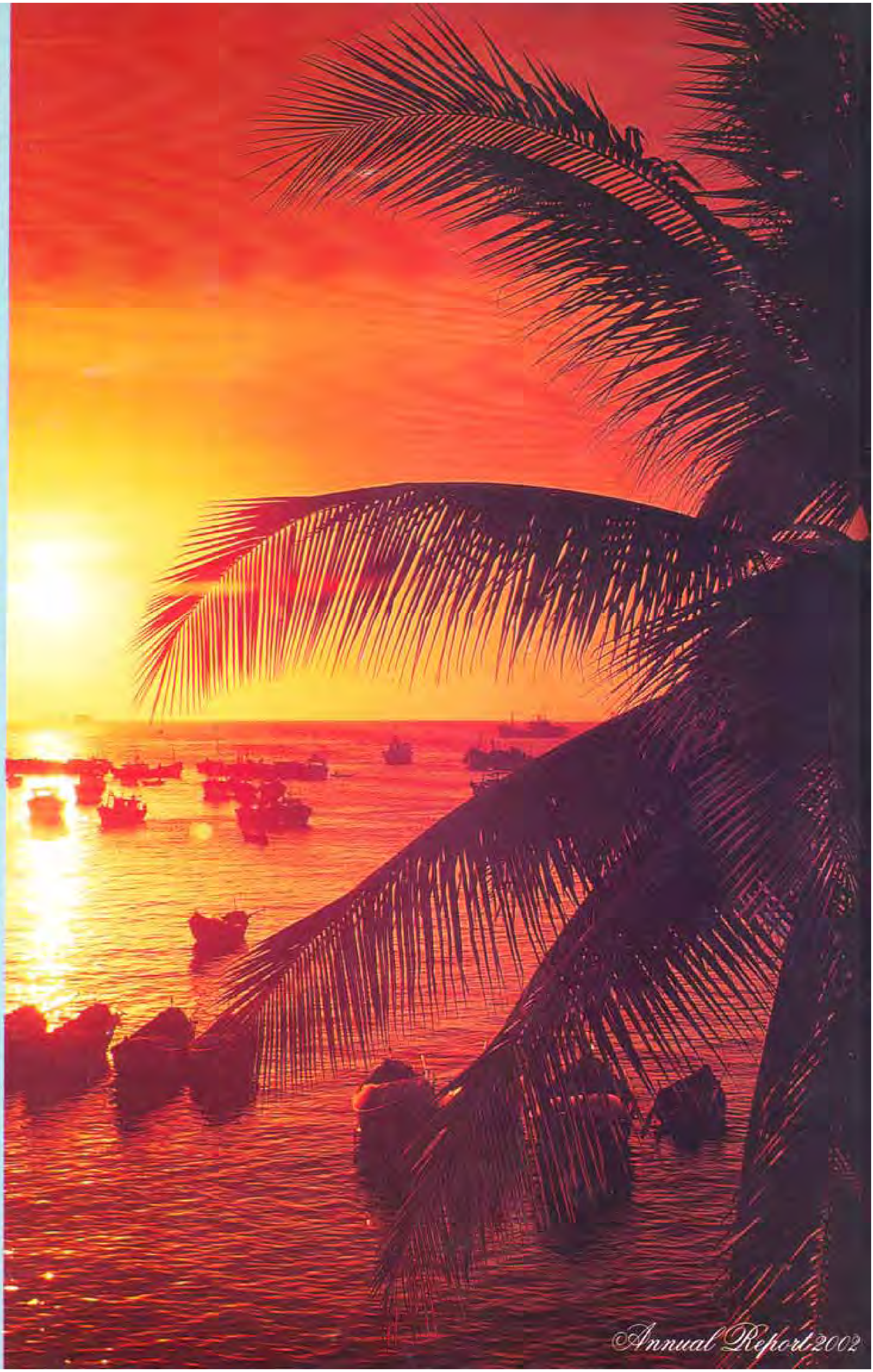
Currency : VND

	2002	2001
A. OPERATING REVENUES	**95,208,570,017**	**83,818,955,621**
1. Reinsurance premiums written	530,884,660,522	417,893,903,839
2. Reinsurance premiums ceded	(444,511,898,463)	(342,799,654,204)
3. Reinsurance premiums retained (1 - 2)	86,372,762,059	75,094,249,635
4. Adjustment of unearned premium reserve	(3,123,052,496)	(66,251,132)
5. Net premium income (3 - 4)	83,249,709,563	75,160,500,767
6. Investment income	11,784,941,545	7,303,415,472
7. Other income	173,920,909	1,355,039,382
B. OPERATING COSTS AND EXPENSES	**79,686,831,502**	**69,357,155,637**
1. Claims paid	113,985,103,509	149,908,112,439
2. Retrocession claims collected	(86,045,507,833)	(114,985,952,669)
3. Net claims paid	27,939,595,676	34,922,159,770
4. Adjustment of claim reserve	18,847,806,435	10,227,253,094
5. Adjustment of catastrophe reserve	10,272,839,220	8,575,681,663
6. Management expenses	9,814,846,916	7,423,485,518
7. R/I Commissions paid and other expenses	12,811,743,255	8,208,575,592
OPERATING PROFIT BEFORE TAX	**15,521,740,515**	**14,461,799,984**
TAX AND OTHER PAYMENT TO STATE BUDGET FROM PROFIT	4,369,299,716	4,907,285,381

Audited by Vietnam Auditing Company

Depreciation of fixed assets

	2002	2001
1. At beginning of period:	*2,893,141,649 VND*	*2,243,834,269 VND*
2. New purchase:	*17,143,000 VND*	*0 VND*
3. Movement in provision:	*2,326,604,715 VND*	*649,307,380 VND*
4. At end of period:	*5,202,603,364 VND*	*2,893,141,649 VND*


Annual Report 2002

Underwriting Review 2002

Underwriting review

The Fire sector of the primary insurance market experienced high growth, at 15 per cent, during FY2002 thanks to the development of the private economic sector. In line with this trend, VINARE's reinsurance premium income from this sector also increased 9.5 per cent to VND65.4 billion. The reason for the less lustrous growth of VINARE's income in comparison with that of the primary market was because of the good loss record of the Fire sector for the past several years, causing many direct insurers to raise their retention levels. Moreover, some facultative business could not be placed in the international market due to the general hard market condition.

Fire & Miscellaneous Accident

Fire premiums written from overseas market rose considerably to VND9.7 billion, representing an increase of nearly 50 per cent over the previous year.

The fierce competition in the Fire market mainly by undercutting premium has much reduced. Pressure from international reinsurers has forced local primary insurers to reconsider their underwriting policies and focus on business efficiency. Thus, most renewal accounts maintained expiry rates, in some other cases, premiums increased from 10 to 50 per cent.■

Aviation

Owing to the continued hardening condition in the international aviation market, premium revenue from Aviation reinsurance posted an increase of 30 per cent over the previous year, at VND259.5 billion.

The renewal of insurance programme for Vietnam Airlines fleet at the end of the year was finished on time with relatively good results. Vietnam Airlines has gradually gained the attention of international underwriters for its strong development in terms of aircraft number, passenger number and cargo quantity carried. During 2002 the Airline carried 18 per cent more of passengers and 20 per cent more of cargo than in 2001, earning a pre-tax profit of US$37 million, which is a 15 per cent jump.

Vietnam Airlines, Pacific Airlines, Vietnam Aviation Service Company and Services Flight Corporation all enjoyed a slight reduction in premium rates as compared with the previous year. ■

Underwriting review

Cargo & Hull

The premium income from Marine Cargo & Hull combined grew 22 per cent to VND58.2 billion. The local Marine market remained highly competitive. For Cargo insurance, for example, although the business volume increased over 40 per cent, the corresponding premium volume rose only 20-22 per cent. Similarly for Hull insurance, the 12 per cent increase in premium written volume was not equivalent to the 16 per cent growth in hull value.

Whilst the local Marine market continued with the price competition, the hardened international market caused a lot of difficulties for VINARE in underwriting Marine reinsurance business. Nevertheless, the underwriting team made their best efforts to achieve a high growth of 22 per cent.■

Protection & Indemnity

P&I insurance recorded a 18.5 per cent growth in premium income to VND40.2 billion. The increase was in line with the policies of international P&I clubs due to heavy losses and reduced investment income.

However, although the rates increase imposed by mutual P&I clubs was around 20-35 per cent, the average increase in the local P&I market was just 18 per cent. At the same time, P&I losses were mounting up. The average claims ratio between 1996-2001 has climbed up to nearly 88 per cent.■

Underwriting review

Energy

Energy insurance continued to enjoy high growth owing to the hardening international market and increased volume of business in terms of number of exploration and development wells on the Vietnamese continental shelves. The premium volume written by VINARE thus increased over 54 per cent to VND61.4 billion, while the primary market posted a growth of 78 per cent.

Spreading energy risks was particularly difficult, either under treaty or facultative form, especially for offshore construction, or in case brokers or underwriters were selected through tenders, or where the cover provided was part of a global policy arranged by field operators. Another reason was that VINARE was not provided with full information related to the risks covered in time because the information was normally held in foreign brokers' hands.■

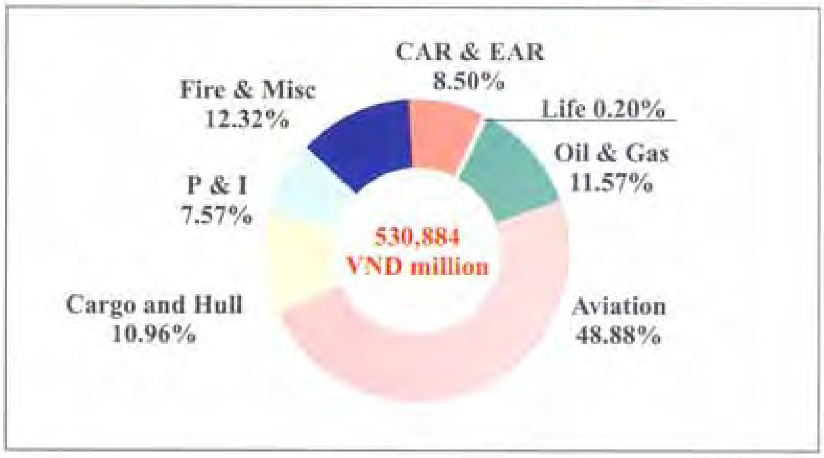
Engineering

Engineering reinsurance recorded an increase of 22 per cent to VND45 billion whilst the primary market growth was 64 per cent. The primary Engineering market has benefitted a lot from stable economic development and increased investment in facilities as well as foreign direct investment.

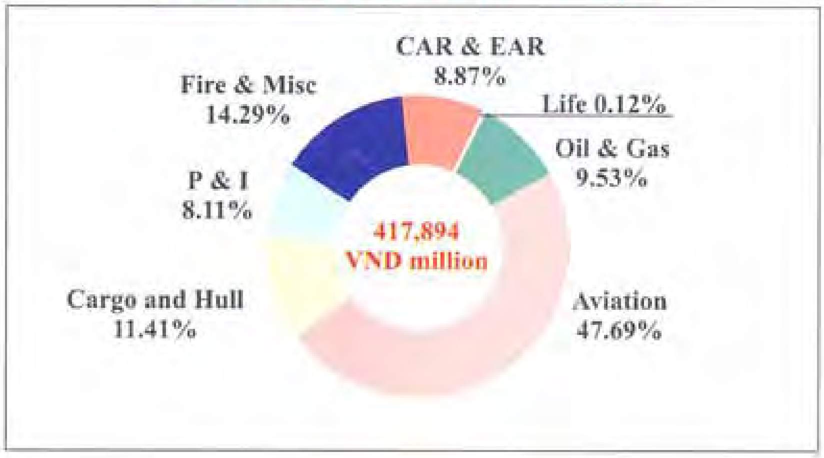
There are two reasons for the unequivalence between VINARE's engineering premium increase and the primary market growth. The first is that most direct insurers have increased their retention for this business line in view of its relatively good loss record in recent years. The second reason is that some big accounts were underwritten during the last quarter of the year, so the reinsurance premiums ceded to VINARE will be recorded in the Fy2003.■

Vinare's Portfolio

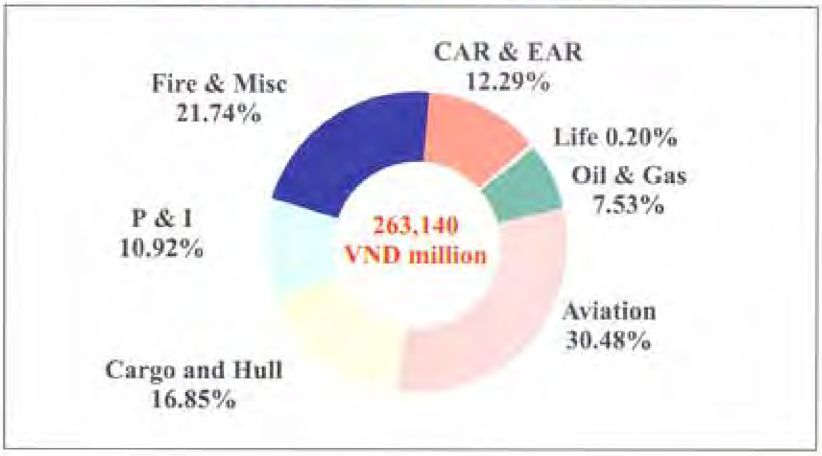
UNDERWRITING YEAR 2002



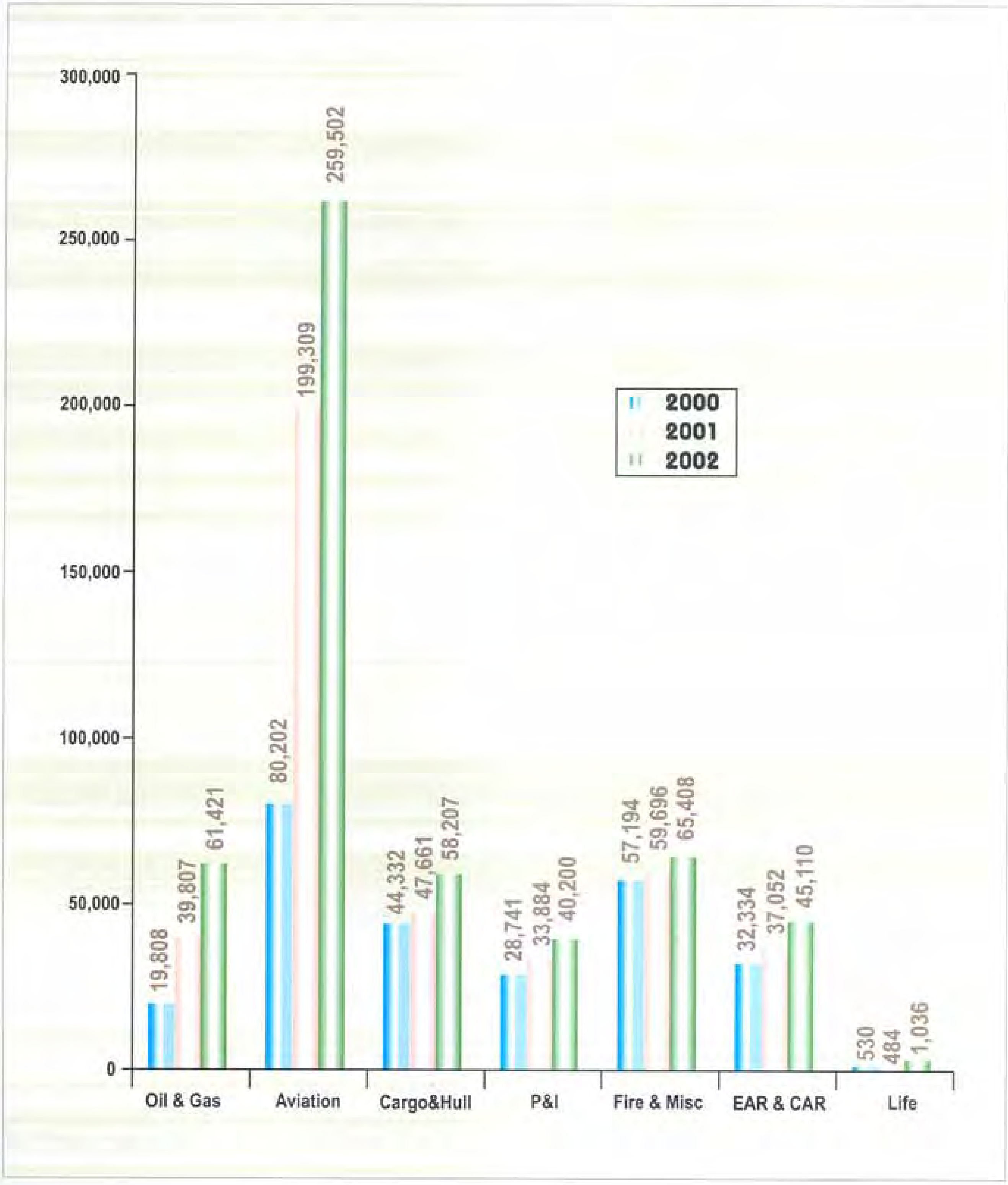
UNDERWRITING YEAR 2001



UNDERWRITING YEAR 2000



Written Premiums by Business Lines



Vietnamese insurance market

Insurance market high growth augured bright future

The insurance industry continued to maintain high growth in 2002 with the total premium written (life and non-life combined) increasing 55 per cent to VND7,685 billion, accounting for 1.4 per cent of the country's GDP. Non-life premium increased 42 per cent over the previous year to VND3,070 billion, and life premium increased 66 per cent to VND4,615 billion.

Non-life insurance

The non-life market posted the highest growth for the last several years. The impetus behind this growth was the strong development in all economic sectors: industry, export, oil & gas exploration and foreign investment, which created a favourable environment for Engineering, Energy, Fire and Cargo Insurance.

These business lines were able to benefit from increased business volume which was the main reason for their high growth in terms of premium written: Engineering Insurance increased 64 per cent, Energy 78 per cent, Marine Cargo 22 per cent, and Fire 15 per cent.

Another reason for this high growth was the hardening in the world insurance market which directly affected such business lines as Aviation, Energy, and Protection & Indemnity (P&I). Other lines such Fire and Engineering also felt the pressure from international underwriters.

Other personal lines also posted high growth: Motor Insurance increased 30 per cent, Personal Accident 15 per cent.

The hard competition between local insurers had been alleviated to some extent. Towards the beginning of the year, they have realized that they need to cooperate more to push rate levels in the local market to that of the international market. The Vietnam Insurance Association has played an important role in coordinating the cooperation between member companies.

Nevertheless, the premium rates of some business lines were still lagging behind the world's development, particularly in Marine Cargo, Fire, P&I and Engineering.

Losses in Marine Hull, P&I and Energy continued to worsen. Aviation, however, experienced a rather peaceful year. The property lines including Fire and Engineering, and Marine Cargo enjoyed a mild loss situation as in previous years.

The non-life market has had two new players, both are joint ventures between a Vietnamese partner and a foreign partner: Samsung Vina, joint-venture between Vietnam National Reinsurance Company and Samsung Fire & Marine of South Korea; and Incombank-Asia, between the Industrial & Commercial Bank of Vietnam and Asia Insurance of Singapore.

Life insurance

Life insurance premium grew 66 per cent to vND4,615 billion. Although the growth has been slowed down compared with previous years, this is also an evidence that the life market has begun to enter a mature stage. Still, with the spectacular growth during the 4th quarter, the premium of which represented 30 per cent of the entire year, 2003 can be expected to be another successful year for life insurance.

The number of new policies written during the year reached a record high of 1.3 million, an increase of 58 per cent compared with 2001.

Endowment products account for the majority of premium income in all life insurance companies. This reflects the interest in saving for the future of local people. However, several companies have begun to launch annuity products. This is regarded as a very potential market because only 7 per cent of the population are now entitled to state pension salary when retiring.

2003 forecast

The insurance industry will enjoy many favourable conditions in 2003 as the Government gives priority to economic development and international economic integration. This will bring about new opportunities for Vietnamese insurance companies.

The international market will continue with the hardening trend, and with many insurers and reinsurers suffering from bad results in 2002, the local insurers should pay more attention to reinsurance and financial security.

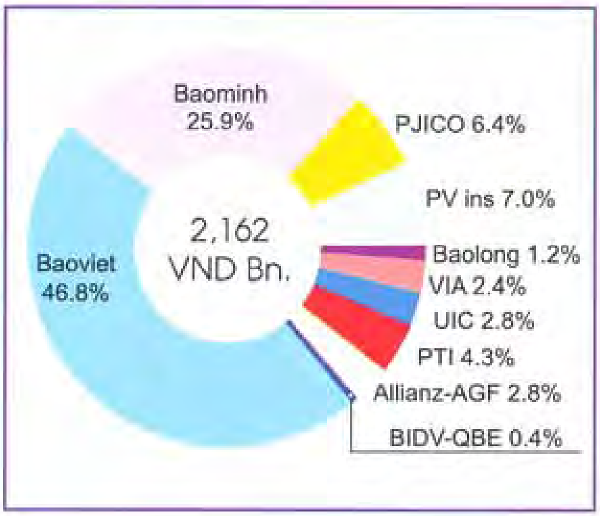
The non-life market is thus anticipated to grow 25-30 per cent, and the life market around 40 per cent. ■

Vietnamese insurance market

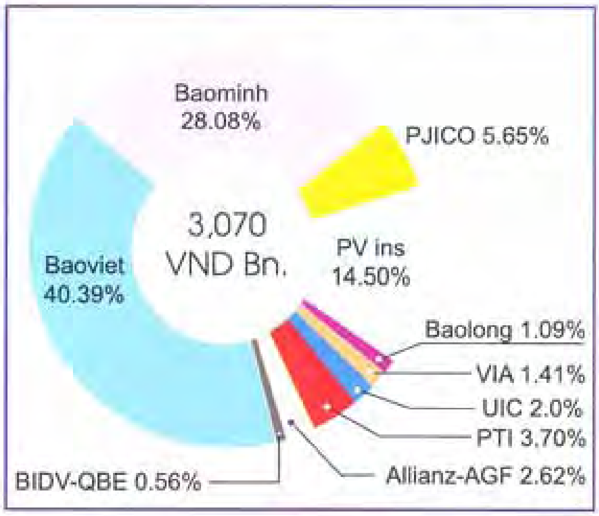
Vietnamese Insurance Market share

(Non-life)

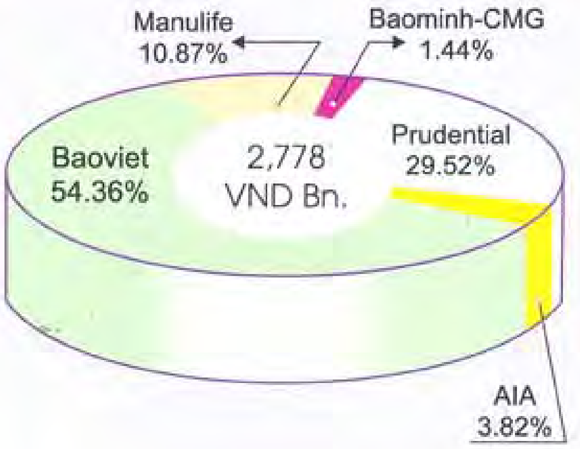
2001

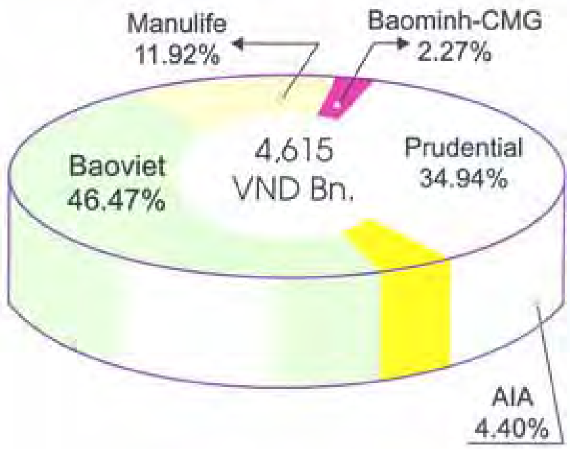


2002



(Life)





Economy posted optimistic growth

In spite of many difficulties occurring to export activities during the first half year, efforts made by local exporters during the last months resulted in 2002 GDP growth rate of 7.04%, and Vietnam, according to a World Bank report, is considered as one of the economies of high growth rate amongst the developing countries.

With a stable political and economic situation, the country is increasingly being known as a safe and friendly destination for foreign visitors whilst many other countries in South East Asia and in the world as well are clouded by terrorism threats.

Agricultural production rose 6.1 per cent in quantity although the area for rice crops have been much reduced. Farmers are turning to raising fisheries for export as the business turns out more profit than growing rice. However, during the last year, local fisheries exporters have been involved in a trade dispute with members of the Catfish Farmers of America, being charged of dumping frozen fish fillets on the US market. The preliminary US decision to impose anti-dumping tax on Vietnamese tra and basa catfish was considered by many as an "unfair blow" to Vietnamese farmers. The dispute is still going on, but if a final determination is arrived on this matter, this will be a major obstacle for the country's fisheries farmers and exporters in 2003.

Industrial production continued to maintain stable growth in comparison with previous years; the private sector was still ahead with 19.2 per cent growth and the foreign investment sector followed with 14.5 per cent growth. Oil production recovered during the end months of the year after several months of production at low level. However, on a year-on-year basis, crude oil production fell slightly against last year. Some products registered high growth rate during the year are: processed fisheries, automobile, cement, coal, etc.

Export activities met with several difficulties during the first five months of 2002 due to sharp fluctuations in the world commodities market. Nevertheless, towards the end of the year, the situation had been improved, with the total value of exports reaching US$16.53 billion,

Vietnam economy 2002

representing an increase of 10 per cent over the previous year. After the Vietnam-US Bilateral Trade Agreement (BTA) has come into effect, a huge market has been opened for Vietnamese exporters, and exports to the US market soared to over US$2 billion, which doubled last year's figure.

Foreign investment into Vietnam rose 32 per cent in terms of the number of projects but reduced 41 per cent in terms of registered capital. This was certainly ascribed to the uncertainties in the world's political and economic situation. The average amount of capital per project declined from US$4.5 million in 2001 to just US$2 million in 2002.

The foreign investment sector is reportedly in a healthy state displaying strong growth and profitability. This was the prognosis from some of the biggest foreign investors, with the business associations of Japan, Taiwan, Singapore, the US and Britain saying their projects were operating well.

Japan is currently Vietnam's biggest foreign investor with nearly US$3.3 billion out of its committed US$4.3 billion disbursed to date, followed by Singapore with US$2.6 billion and Taiwan with US$2.3 billion.

Although the Vietnam-US BTA in its first year of implementation has yet to bring any tangible increase in US investment flows to Vietnam, improvements have been detected at American-invested projects. However, many potential foreign investors are still taking a "wait-and-see" approach towards Vietnam, closely watching how the country is proceeding with its BTA implementation.

Ministry of Planning and Investment officials say foreign investor confidence is up, reflected in the dramatic increase in capital of operational foreign-invested projects last year, reaching their highest level in the five years since the regional financial crisis.

The year 2003 is considered as the most important one in the government's five-year plan 2001-2005. Therefore, the GDP target set for this year is around 7.2-7.5 per cent, which is rather high in consideration of the world's political situation getting more and more complicated.■

Vinare

VIETNAM NATIONAL REINSURANCE COMPANY

HANOI: 141 Le Duan Str., Hoan Kiem Dist., Tel: 84.4. 9422354/65 - 69 - Fax: 84.4.9422351/730
Branch Office: 11 Nguyen Cong Tru Str., Dist 1., Hochiminh City - Tel: 84.8.8211615 - Fax: 84.8.8211616