



Annual Report 2003



VIETNAM NATIONAL REINSURANCE COMPANY



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/QĐ/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.



As of December 31, 2003



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Branch Director

Nguyen Huu Duc

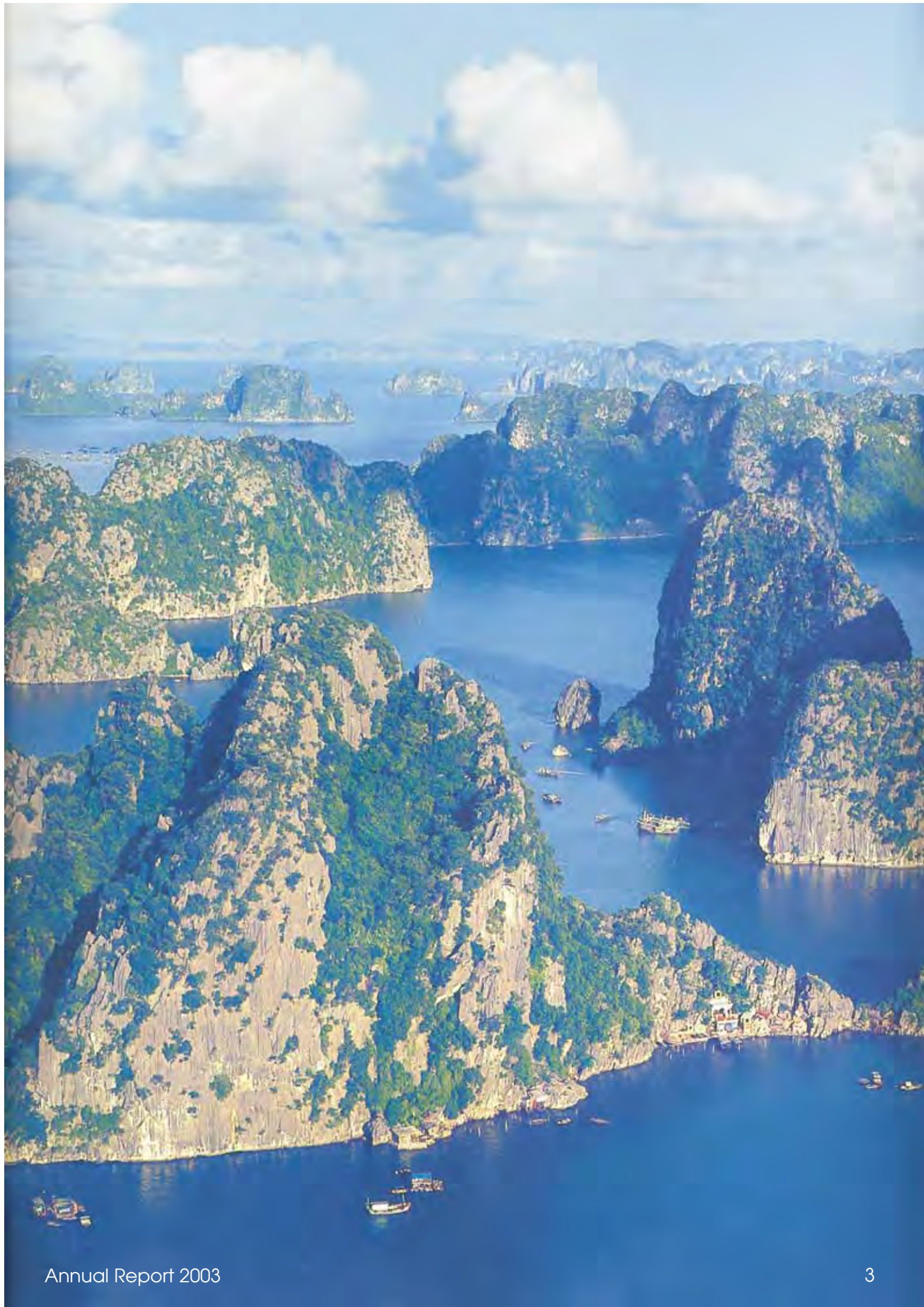
Board of Directors



Trinh Quang Tuyen
Managing Director



Pham Cong Tu
Deputy Managing Director



Vietnam's economy have weathered the recent storm of global uncertainties, natural disasters and even of SARS to finish the year with a 7.24 per cent growth. The rate represents the highest growth in the last three years, making Vietnam the second fastest growing economy in East Asia after China.

Against this economic background, the insurance industry posted a 35 per cent growth over the last year and made up 1.7 per cent of the country's GDP in comparison with 1.4 per cent of the previous year. The insurance market has been opened up further for the participation of the private sector following the latest master plan on the development of the insurance industry of the government.

Meanwhile, the international insurance and reinsurance market still had to deal with under-reserves for past liabilities as well as the meltdown of the stock market. Therefore, many of the world's leading insurance and reinsurance companies suffered from downgrades during the last year as rapidly improving underwriting conditions failed to compensate for far bigger problems.

Business performance

Riding on the uprising wave of the economy and the industry VINARE's reinsurance written premium volume grew 16 per cent in 2003 to reach VND617 billion. The growth rate was lower than the previous year's due to non-life market



slowdown (from 42 per cent in 2002 to 26 per cent in 2003). In addition to this, the international reinsurance market was still in a hard time as improved underwriting results were not enough to compensate for the loss in financial investment.

Premiums written on voluntary cession basis made up approximately 50 per cent of the total. In order to attract reinsurance business on this basis, VINARE has provided full support to the local insurance companies in their preparation for reinsurance protection programme.

The net premiums written increased 15 per cent over the last year to reach VND99.2 billion. In the meantime, premiums retroceded to local insurers increased 38 per cent to VND97.6 billion.

Although our revenue growth was not as high as in previous year, we have made very good investment returns, up 70 per cent to VND19.9 billion. Thus, our bottom-line result posted 45 per cent increase over the previous year to VND21.5 billion.

We have experienced a distinctive improvement in our financial strength. As at the end of 2003, our total assets has amounted to VND463 billion, an increase of approximately 30 per cent over the beginning of the year.

Our role as the sole professional reinsurer in the local market

VINARE has reinforced its status as the first and foremost reinsurer in the local insurance market by sticking to the principle of integration and high efficiency. In this regard, we have provided efficient support to direct insurers in the form of renewal and underwriting information for high-valued business accounts. They also received advice from VINARE in arranging reinsurance protection for their portfolio in the international market. VINARE has closely worked and exchanged experience and information with

direct insurers to place large facultative accounts in the world market.

We have observed a prudential and steady operating philosophy and well coordinated the relationship between business development and risk control. Therefore we are highly trusted by all the direct insurers in the market. Especially, the new companies like Samsung - Vina, Incombank Asia or Far East all relied on VINARE for reinsurance protection in their early years.

Since August 2003 the Vietnam Insurance Reinsurance Market Information has been renamed the "Vietnam Insurance Reinsurance Market Review" following a licence issued by the Ministry of Culture and Information. This means the publication has been officially recognised by the media regulator as a valuable source of information not only for the insurance industry but also for the vast public.

Planning for 2004 and the future

2004 will mark an important change in the Company's development strategy. VINARE is preparing itself for another major development: to transform the state-ownership into joint-stock ownership in which the government may hold a major share. In this process we will still adhere to the targets of being a professional reinsurer, acting as a pool to share business with local insurers and providing information to the local and overseas market.

We would like to express our appreciation and most sincere thanks to our valued business partners for the support and confidence they show us in every business relationship.

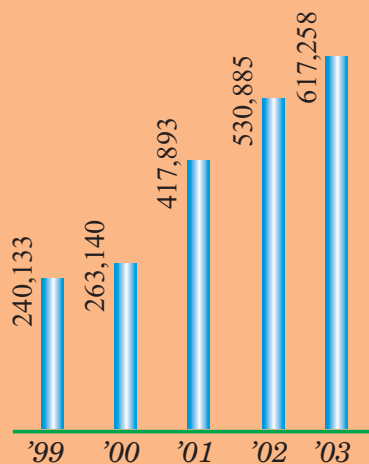
Believing that VINARE's success is not possible without the combined efforts of the management and the entire staff, we would also like to express our heartfelt thanks for their dedication and efforts in strengthening the company's position both in the local and the regional market.■

Financial Highlights

As of December 31, 1999 to 2003

Unit: VND million

Gross Written Premiums

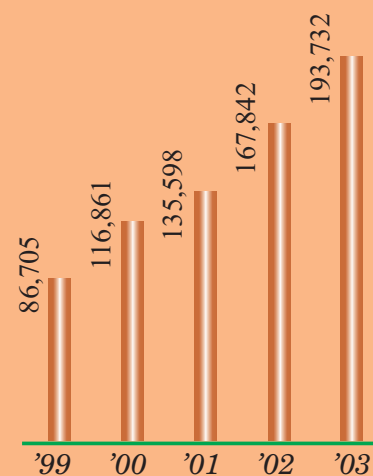


Financial Highlights

Net Written Premiums Retained



Technical Reserves



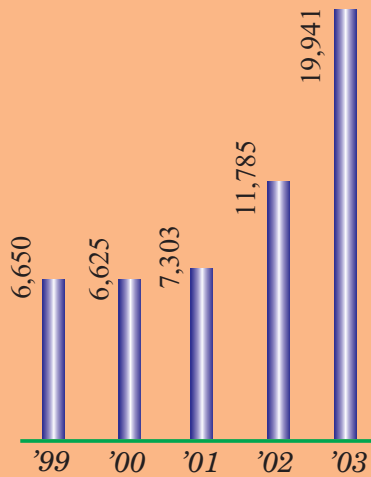
As of December 31, 1999 to 2003

Unit: VND million

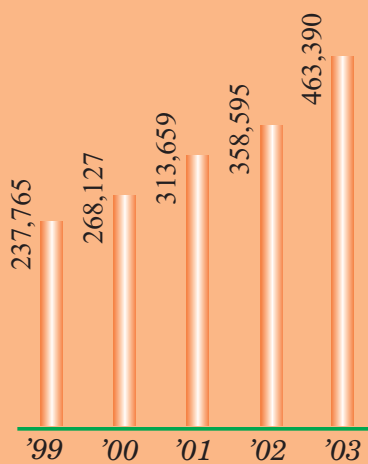
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Financial Highlights

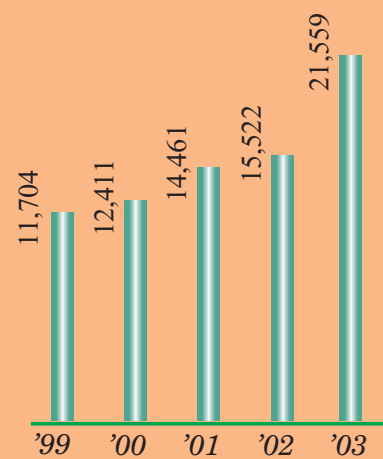
Investment Income



Total Assets



Pre - tax Profit



As at 31/12/2003

Currency: VND

1 USD = 15,608 VND

Audited by Vietnam Auditing Company

ASSETS	2003	2002	LIABILITIES	2003	2002
A. CURRENT ASSETS AND SHORT-TERM INVESTMENT			A. PAYABLES AND TECHNICAL RESERVES		
I. Cash	255,960,369,987	227,285,853,602	I. Payables	335,824,446,871	246,536,446,711
1. Cash on hand	170,532,789,594	174,622,918,435	1. Payable to Cedants	142,092,131,584	78,694,254,171
2. Bank deposit	138,214,574	58,444,335	2. Payable to Retrocessionaires	34,280,023,064	19,467,817,589
	170,394,575,020	174,564,474,100	3. Taxation and other payables to the State	94,431,275,423	44,854,384,005
			4. Other payables	2,149,902,712	1,818,195,106
II. Short-term financial investment	1,000,000,000	1,000,000,000	II. Technical reserves	11,230,930,385	12,553,857,474
III. Receivables	84,366,188,611	51,631,498,525	1. Premium reserve	193,732,315,287	167,842,192,537
1. Receivables from Cedants	31,747,163,004	12,075,090,421	2. Claim reserve	33,590,107,948	27,500,727,647
2. Receivables from Retrocessionaires	36,024,251,025	17,317,094,379	3. Catastrophe reserve	65,654,910,515	57,976,042,148
3. Other receivables	16,594,774,582	22,239,313,725		94,487,296,824	85,365,422,742
IV. Other current assets	61,391,782	31,436,642			
			B. OWNER'S CAPITAL	127,565,748,044	112,058,962,832
B. FIXED ASSETS AND LONG TERM INVESTMENT			1. Charter capital	40,000,000,000	40,779,040,522
1. Fixed assets	45,125,758,676	47,704,377,859	2. Capital increase	3,591,279,796	3,226,484,527
2. Long term investment	162,215,178,082	83,605,178,082	3. Legal reserve	8,774,611,105	6,891,370,997
3. Capital construction in progress	88,888,170		4. Other capital and funds	75,199,857,143	61,162,066,786
TOTAL ASSETS	463,390,194,915	358,595,409,543	TOTAL LIABILITIES	463,390,194,915	358,595,409,543

Profit and Loss Account

*For the year ended
31 December 2003*

Currency : VND

Audited by Vietnam Auditing Company

	2003	2002
A. OPERATING REVENUES	113,172,997,269	95,208,570,017
1. Reinsurance premiums written	617,258,414,202	530,884,660,522
2. Reinsurance premiums ceded	(517,962,438,505)	(444,511,898,463)
3. Reinsurance premiums retained (1 - 2)	99,295,975,697	86,372,762,059
4. Adjustment of unearned premium reserve	(6,089,380,301)	(3,123,052,496)
5. Net premium income (3 - 4)	93,206,595,396	83,249,709,563
6. Investment income	19,940,626,560	11,784,941,545
7. Other income	25,775,313	173,920,909
B. OPERATING COSTS AND EXPENSES	91,614,219,580	79,686,831,502
1. Claims paid	116,101,650,258	113,985,103,509
2. Retrocession claims collected	(71,774,482,466)	(86,045,507,833)
3. Net claims paid	44,327,167,792	27,939,595,676
4. Adjustment of claim reserve	10,678,868,367	18,847,806,435
5. Adjustment of catastrophe reserve	9,121,874,082	10,272,839,220
6. Management expenses	11,943,991,257	9,814,846,916
7. R/I Commissions paid and other expenses	15,542,318,082	12,811,743,255
OPERATING PROFIT BEFORE TAX	21,558,777,689	15,521,740,515
TAX AND OTHER PAYMENT TO STATE	6,247,160,860	4,369,299,716
BUDGET FROM PROFIT		

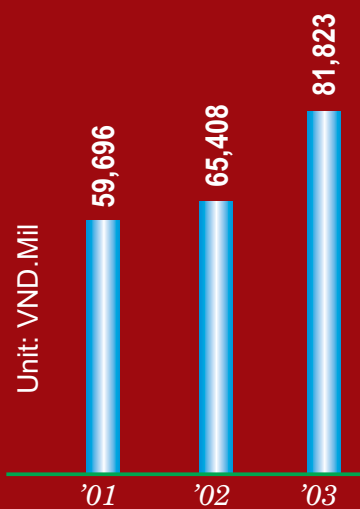
Depreciation of fixed Assets

	2003	2002
1. At beginning of period:	5,202,603,364 VND	2,893,141,649 VND
2. New purchase:	2,354,293,559 VND	17,143,000 VND
3. Movement in provision:		2,326,604,715 VND
4. At end of period:	7,556,896,923 VND	5,202,603,364 VND

Business
Review
2003



Fire & Miscellaneous Accident



Fire reinsurance premiums written totalled VND81.822 billion, posting an increase of 25 per cent over the last year. Besides the pushing impact from the fire insurance market which grew 17 per cent during 2003, VINARE was able to write more voluntarily ceded business as well as big facultative accounts. Another important reason was that most of the high-valued accounts were adequately priced because of the pressure from the international reinsurance market.

The loss ratio of the market in general and of VINARE in particular remained at relatively low level (30%), however, it could be realized that the number of big losses were on the rise. In 2003 there were three big fire incidents: Interfood (29

March) was the biggest fire claim ever up to now with estimated payment of US\$4.6 million; Yujin claim (1 April) was smaller with initial claim of US\$600,000, however, after survey the payment was pinpointed at US\$80,000 only; the fire at Tainnan Spinning Factory (26 November) was expected to claim at least US\$1.1 million.

The growth of the Fire insurance market in Vietnam was not up to expectation because of the hard competition by way of undercutting rates. Most insurers tried hard to gain big accounts and few attempted to write small- and medium-sized risks among the private sector and personal lines. ■

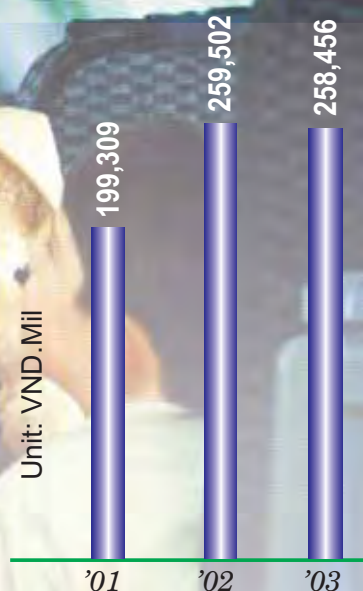
Aviation

Aviation reinsurance premiums written in 2003 were slightly declined in comparison with the last year, at VND258 billion. VINARE was still the reinsurance services provider for Vietnam Airlines the flag carrier, Pacific Airlines, Vietnam Aviation Service Company, Service Flight Corporation and several airport operators. The drop in premium volume was due to the softening trend in the international aviation insurance market in both airlines insurance and hull war insurance.

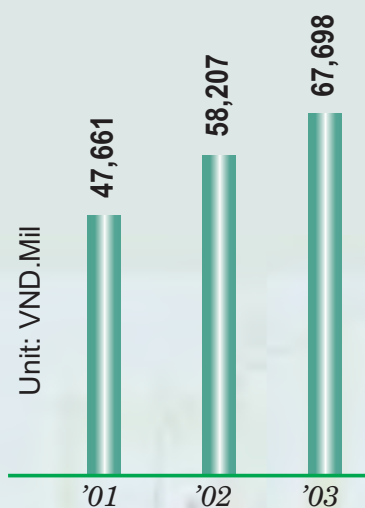
Loss situation was much improved

compared with the previous years. There were only a few minor incidents which were either under deductible level or beyond cover.

As the softening trend continued, in the 2004 renewal, Vietnam Airlines had hull rate reduced by 14 per cent, third party liability rate increased 13 per cent and passenger liability rate increased 4 per cent. These rates were considered to be very competitive in comparison with other airlines renewed in the same period. ■



Marine Hull & Cargo

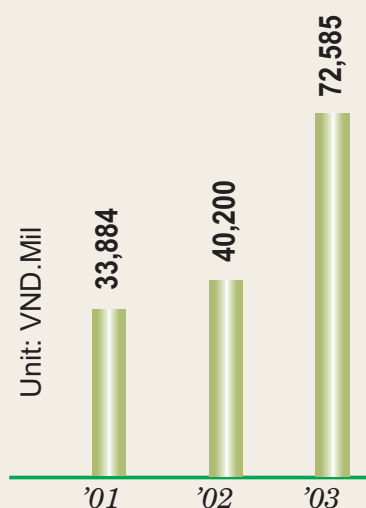


The premium income from Marine Hull & Cargo combined increased 16 per cent over the last year. Although there was a big increase in business volume both in terms of cargo and hull insurance, the amount of premium written did not experience the same development due to the fierce competition among the primary insurers. Rates quoted for cargo and hull were coming down extensively and, in some cases, not enough to cover reinsurance costs.

Marine cargo continued to enjoy a mild year with no real big losses. On the contrary, hull losses were at an alarming level and this has been the case for the last several years.■



Protection & Indemnity



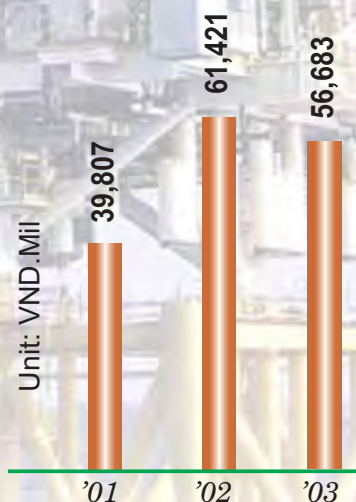
The gross premiums written of Protection and Indemnity took a big surge of 80 per cent to VND72.5 billion mainly due to the pressure from the international mutual P&I clubs. The range of increase was from 15 to 25 per cent depending on the loss record of each fleet. Another factor contributing to the increase is the growing number of tonnage entered which increased 9.5 per cent to 1.551 million GT.

Energy

The premium income from oil & gas reinsurance fell 7.7 per cent in 2003 to VND56.6 billion. The reduction was in line with the slowdown in the Vietnam energy market with premium volume dropping 41 per cent in underwriting year 2003.

The fluctuations in the international energy insurance market had caused some difficulties during the negotiation for the reinsurance protection programme of VINARE in late 2002. And this also affected the amount of business VINARE could write.

However, VINARE made considerable efforts in supporting the local primary insurers in their reinsurance arrangement, and thus, we have built up confidence in our competence.■

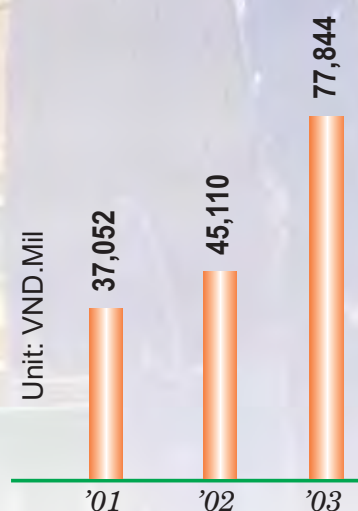


Engineering

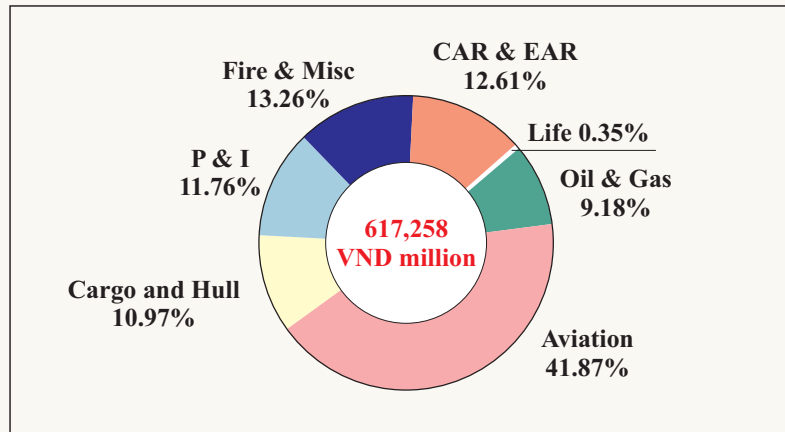
The engineering insurance market benefited a lot from the increase in social development investment and economic growth. The market premium volume in financial year 2003 increased nearly 45 per cent to reach US\$21 million.

Following the bullish primary market, VINARE's premium income from engineering business rose 72 per cent to VND77.8 billion. It should also be taken into account a large part of reinsurance premium deriving from several big accounts which had been written in the fourth quarter 2002 and were recorded in the first quarter 2003.

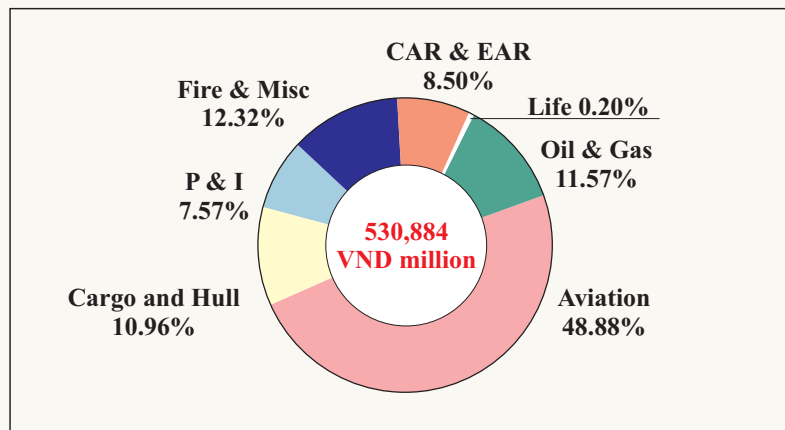
In achieving this high growth, VINARE closely worked with the primary insurers and provided proper advice as well as risk survey. VINARE also successfully arranged facultative placements for many large risks in the international market.■



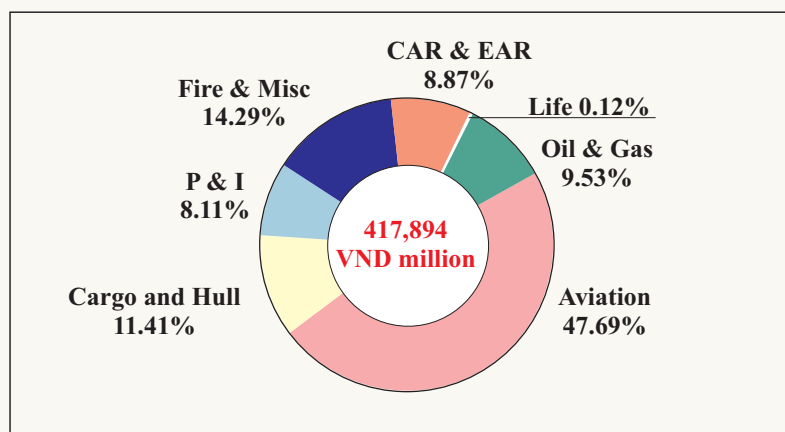
UNDERWRITING YEAR 2003



UNDERWRITING YEAR 2002

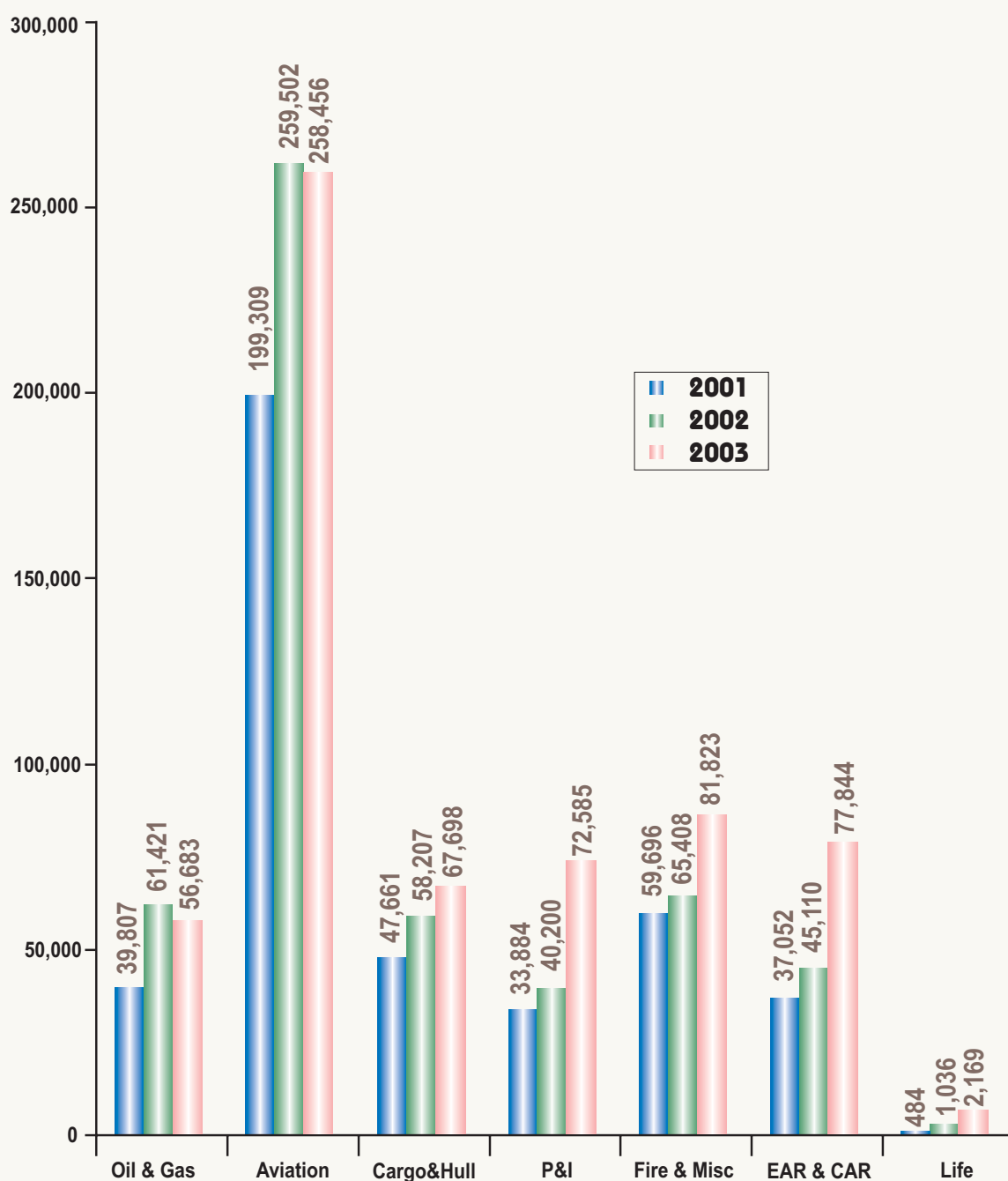


UNDERWRITING YEAR 2001





Currency : VND.Mil





Insurance market opened up further for private sector

Vietnam's insurance industry posted a year-to-year growth of 35 per cent with premium volume reaching approximately VND10,500 billion. The growth rate was relatively lower than last year's as both non-life and life sector failed to attain the same level of growth. Non-life premiums were affected by the drop in Energy Insurance in terms of business volume, while life premiums growth continued the declining trend with growth rate falling from 66 per cent to 41 per cent.

Non-life insurance

Non-life premium volume grew 26 per cent to VND3,946 billion in 2003, 16 per cent lower compared with the growth rate of 42 per cent in 2002. The main reason for the reduction in growth was the fluctuation of Energy Insurance which grew 78 per cent in 2002 but fell 41 per cent in 2003. Development of Energy Insurance depends a lot on exploration activities as well as the number of offshore construction projects.

Other non-life business lines maintained almost the same level of growth: Fire 17 per cent; Marine Cargo 14 per cent; Marine Hull 10 per cent.

Engineering Insurance posted the highest growth amongst non-life business of 45 per cent thanks to a large number of infrastructure construction projects like Dai Ninh Hydro Power, Thanh Tri Bridge, Bai Chay Bridge, Cao Ngan Thermal Power, etc.

Protection and Indemnity grew 35 per cent following the pressure from international P&I Clubs and increasing number of entries.

Motor insurance had been expected to boom during the first half of the year but slowly levelled down during the second half, thus year-on-year growth was just 40 per cent.

Losses related to vessels including hull losses and shipowners' liabilities seemed to increase both in frequency and severity.



The average hull loss ratio has been around the level of 100 per cent for last several years.

On the contrary, cargo losses have been improved to a major extent with just a few big losses during the last two or three years. This is the result of the cooperation between insurers and clients in doing good survey and loss prevention work.

As for property, the number of fire incidents reported by the media jumped up significantly during the last year. However, the majority of these occurred to people's housing and had no insurance cover. Still, the situation is alarming because the awareness of fire prevention is relatively low among the people.

For commercial property, although there were some big fire losses during the year, the average loss ratio remains at low level.

Life insurance

Life premium volume rose 41 per cent to VND6,500 billion in 2003. However, the growth was not equal among the market players. Whilst the 100% foreign-owned insurers were able to maintain growth at 50 per cent, domestic companies and joint-ventures were growing at 25 per cent only.

The number of new policies increased to 2 million, 15 per cent higher than in 2002, which was equivalent to new premium volume of VND2,300 billion. The total number of life policies in force was 5.7 million.

Life insurers are trying new channels of distribution besides bancassurance. Some insurers have begun to use "Life Insurance Agent Company" as a new channel through which they can increase their sales of products. These agent companies are responsible for recruiting agents, approaching clients, selling products, collecting premium and servicing

customers. However, the liability to pay claims and insurance amount rests with the life insurance company itself.

The number of agents in the whole market is over 95,000, 36 per cent higher than the previous year. However, the average number of policies sold has dropped from 2.12 policies per agent per month in 2002 to 1.75 policies in 2003. This shows that selling life products is not as easy as in previous years.

Market development

The non-life insurance market has seen the appearance of a new insurance company named the Far East Jointstock Insurance Company and three new brokers which have been licensed during the last year. Out of these new players, Gras Savoye is the first 100% foreign-owned broker to be licensed in the local market. The others belong to the private economic sector, following the greenlight given by the Government to extend the insurance market for private sector participation.

According to the Strategy of Development of Vietnam's Insurance Market up to 2010 produced by the Ministry of Finance and approved by the Government, the insurance market will be further boosted with several important measures, including restructuring the existing insurance companies, allowing the private sector to do insurance business and allowing foreign-invested

insurers to extend their scope of operation.

Thus the market will experience significant changes in the year to come. In January 2004 US insurance broker Aon Inchinbros announced its decision to go it alone, dissolving its decade-long joint-venture with state insurer Baoviet and becoming a wholly foreign-owned enterprise. The reason is that working in the current joint venture framework is a major disadvantage now that the market has moved on. Aon said that several big clients such as Baominh often did not want to take out insurance contracts with Aon because their main competitor in the local insurance market is Baoviet, a partner in the joint-venture.

ACE INA is also waiting for the licence to be issued by the Ministry of Finance to set up a life insurance company soon. ACE initially applied for a composite licence in 1998, but the recent insurance law does not allow a company to operate in both life and non-life business, so it re-filed application for a life licence.

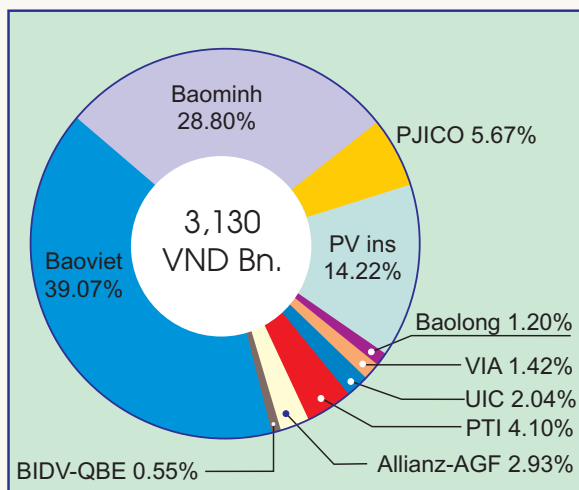
Forecast for 2004

In order to achieve the target of GDP penetration of 2.5 per cent in 2005 as set out in the Strategy of Development, the insurance industry needs to maintain the growth rate of 2003 for the next two years. With GDP growth rate expected at 7.5 - 8 per cent in 2004, the insurance industry may continue with the same growth rate of 35 per cent like in 2003. ■

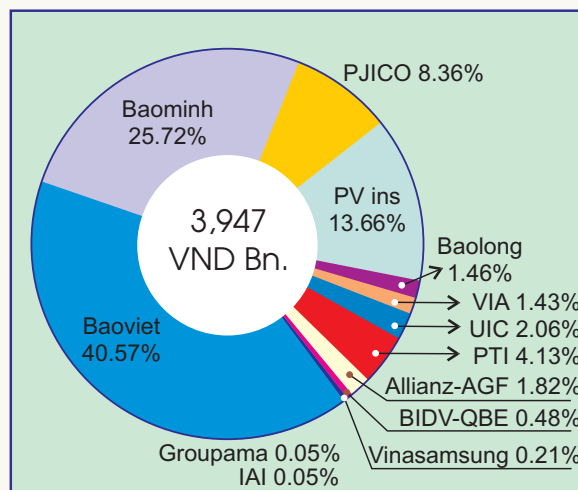
Vietnamese Insurance Market share

(Non-life)

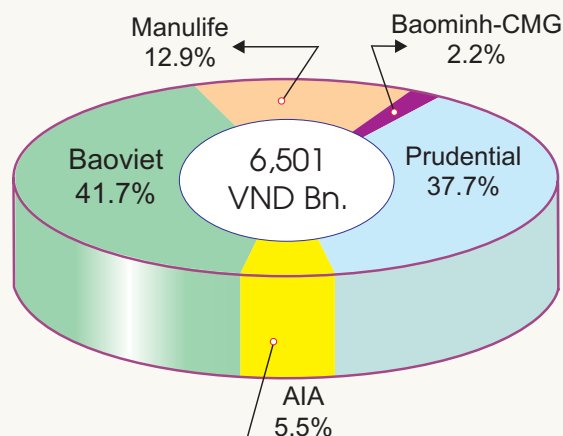
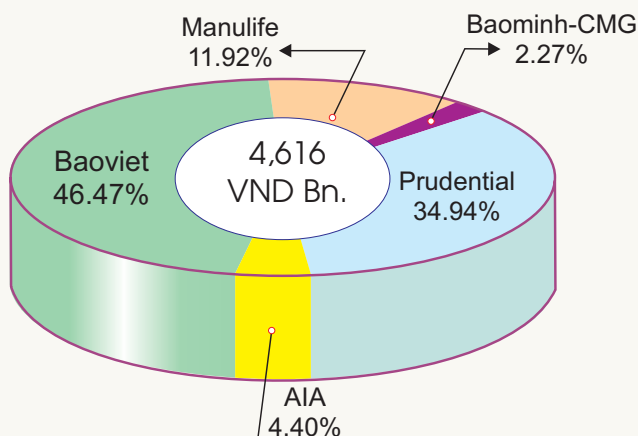
2002



2003



(Life)





Economy posted remarkable growth

Vietnam's economic growth continued to be remarkable with GDP rising 7.24 per cent over the previous year. This is the highest growth rate in South East Asia and the second highest in Asia, just after China.

World Bank chief economist for East Asia and Pacific, Homi Kharas, said Vietnam has benefitted from global price increases and the overall resurgence of the global economy. However, key growth in Vietnam is clearly associated with reforms. Much of this growth has come from the private sector and exports, particularly those to the US, which have increased substantially following the signing of the bilateral trade agreement.

Vietnam had overcome the impacts of the Iraq war, SARS epidemic and natural disasters to achieve the highest growth in the last three years. Total agricultural production recorded 1.1 million tonnes

(rice equivalent) increase to 37.5 million tonnes. Industrial production posted steady growth at 16 per cent with the private sector still at the leading position.

Export turnover reached US\$19.9 billion, an increase of 19 per cent over 2002 and the highest for the past several years. 2003 was a successful year for rice exporters with 4.2 million tonnes of rice exported. The quality of rice has been recognised to be higher, which helped to push price up in the world market. Other key export items include crude oil, garments, footwears and seafood, making up 60 per cent of the total turnover.

Foreign direct investment still bumpered on with brighter prospect. The amount of new capital registered was US\$1.7 billion, whilst additional capital was US\$1.265 billion.



According to a World Bank report on the economic situation in Vietnam, similar growth rates appear to be sustainable in the medium term. The economy is increasingly integrated with the rest of the world, with foreign trade now surpassing GDP, and net inflows of foreign direct investment representing a larger share of GDP than in China.

What is at stake is not the pace of Vietnam's growth, but its quality. Slow progress on state-owned enterprise (SOE) reform and continued weakness in the lending decisions by state-owned commercial banks may lead to a misallocation of capital and impair long-term growth.

Progress in the twin areas of SOE reform and financial sector reform is slow. Vietnam has chosen a development strategy that relies on the introduction of market forces across all sectors rather than on a massive divestiture of state assets.

But failure to harden the budget constraints faced by SOEs, at a time of growing competitive pressures, could seriously deteriorate the quality of bank assets. The problem remains manageable in state-owned commercial banks for now, but the quality of the fast expanding portfolio of the development assistance fund is a matter of concern.

Over time, resolving unrecoverable loans could cost Vietnam part of its current economic growth. State-owned commercial banks should play a key role

in the process of SOE restructuring as they have access to critical information and they have already begun to develop relevant expertise in their respective loan workout units.

The World Bank's report acknowledges various impediments to private sector development have been removed over the past few years and the investment climate has generally improved. This observation appears to agree with a recent survey conducted by the business forum secretariat that found 77 per cent of the surveyed companies planned to expand operation in the next three years.

However, important challenges remain as roughly 23 per cent of the businesses surveyed said they would not expand operations due to bureaucracy and corruption, as well as high operational costs and unfair laws and regulations.

As for economic prospects for 2004, Prime Minister Phan Van Khai has called for an economic growth rate of more than 8 per cent at a recent conference, and said the country should focus on small- and medium-sized enterprises as state-owned firms were not efficient enough.

He also suggested that investment capital be mobilised, and the reform of administrative and legal systems be boosted to clean up the investment environment. External economic activities will be expanded while boosting imports and international economic integration.

Major national trade promotion programmes will be urgently implemented together with a new information system for goods-producing industries, organising more trade fairs, developing market networks, especially agri-product wholesale markets, and enhancing the quality of the market forecast system. ■

VinaRe

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