

Annual Report 2005



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VIETNAM NATIONAL REINSURANCE CORPORATION

Annual Report 2005



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VIETNAM NATIONAL REINSURANCE CORPORATION

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01

Message from Chairman & CEO



Economic and industry background

Vietnam economy has been experiencing a period of steady growth for the last seven years, with GDP growth posting 8.4 per cent in 2005. Rising investment and production activities have fuelled demands for insurance in various sectors of the economy, thus boosting the development of non-life insurance, at 16.1 per cent. However, soaring consumption price index and interest rates also hampered the growth of life insurance in 2005, reducing it to just 10 per cent over the previous year.

Business operation

2005 was the first year that VINARE operated as a shareholding company whereby the founding shareholders are non-life insurers in the local market. This is considered one of the favourable conditions for our operation in a new corporate structure. Another advantage is that our registered capitalisation has been increased to VND500 billion which helps to increase our capacity as well as our retentions.

We have produced relatively good result for the business year 2005. Our premiums written grew 16 per cent to VND824.8 billion. The compulsory cession has been replaced by a reinsurance agreement between the founding shareholders of the

Corporation. The premiums written under this agreement were nearly VND400 billion. Whilst the rest VND424.8 billion were written on a commercial basis. We have strengthened our competitiveness by providing reinsurance cover for local clients with the best possible terms and conditions. VINARE has become a reliable leading reinsurers for several direct insurers in the local market, especially the newly-established ones like Samsung-Vina, IAI, VASS, AAA, etc. We regard this as the fruit of our consistent support for the local insurance market by way of providing in-time information and appropriate consultancy.

Our net written premiums rose 29 per cent to VND142 billion as a result of increased capitalisation and revised retention level for each line of business following the principle of efficiency and security.

Our pre-tax profit soared nearly 67 per cent in comparison with the last year to VND56 billion. The sharp increase was mainly attributed to investment returns which grew 88 per cent to VND48 billion. Underwriting profits for the year were hit by large claims which occurred in 2004 and were paid for in fiscal year 2005.

Dividend has been fixed at 9 per cent for the first year in operation. This may not sound as impressive as the other shareholding companies in their first year

of operation because VINARE was not entitled to any corporate tax preferences which are widely beneficial to others.

Floating on Hanoi Securities Trading Centre

At the 4th meeting of the Board of Management on 21st October 2005 we came to the agreement to float VINARE's shares on Hanoi Securities Trading Centre. The Board of Management have asked shareholders' opinion in writing as to the flotation of VINARE's share on Hanoi Securities Trading Centre. The proposal has received consensus from the majority of shareholders.

On this background, the Chairman of the Board of Management issued the Resolution of Shareholders' General Meeting on the flotation as well as the amendment of some related points in the Charter of Organisation and Operation of the Corporation.

On 26 January 2006 Hanoi Securities Trading Centre issued Decision No. 10/QD-TTGDHN allowing VINARE's share to be registered for trading on the exchange floor.

VINARE's share has officially started its flotation course on 13 March 2006.

Some forecast for 2006

With 2006 GDP growth rate predicted at 8 per cent and the development of the non-life sector expected at 15 - 17 per cent, we anticipate another favourable year in 2006. However, due to a sharp fall in the amount of aviation reinsurance premiums written in 2006 because of the change in the reinsurance policy of the direct insurers, the premiums written target in 2006 is expected at just 90 per cent of the 2005 figure. However, the other key financial indicators such as net written premiums and profit will still increase over 10 per cent over 2005.

On this occasion, I would like to express my sincere thanks to all the staff who have committed their skills and hardwork for the common success of the Corporation and hope that with their continued dedication we will achieve new successes in the bright future ahead.■



**The Board of Management of
Vietnam National
Reinsurance Corporation**



**The 5th meeting of
The Board of Management of
Vietnam National
Reinsurance Corporation**

**The 1st Annual General Meeting of
Vietnam National
Reinsurance Corporation**

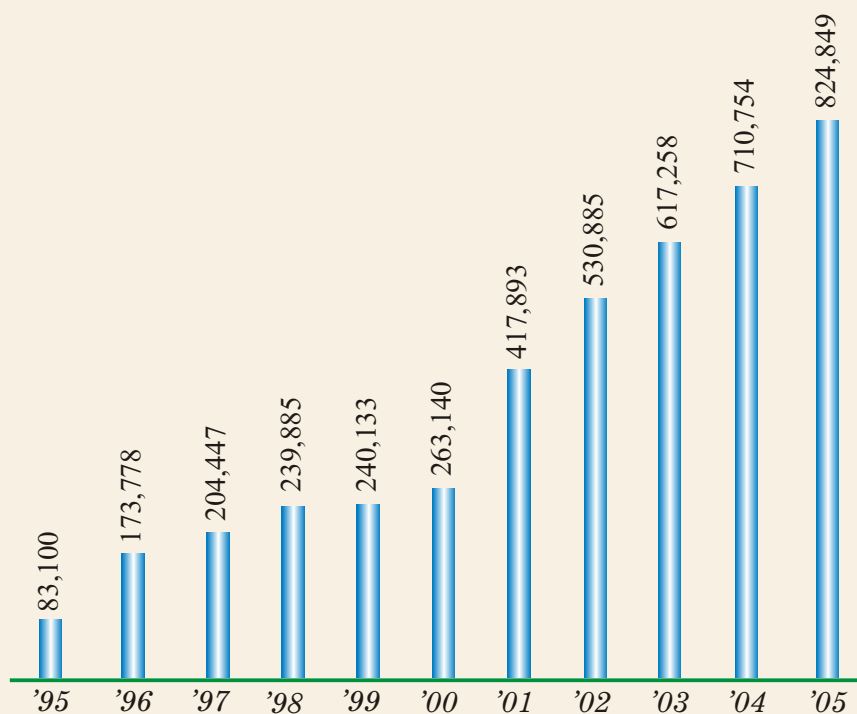


02 Financial Highlights

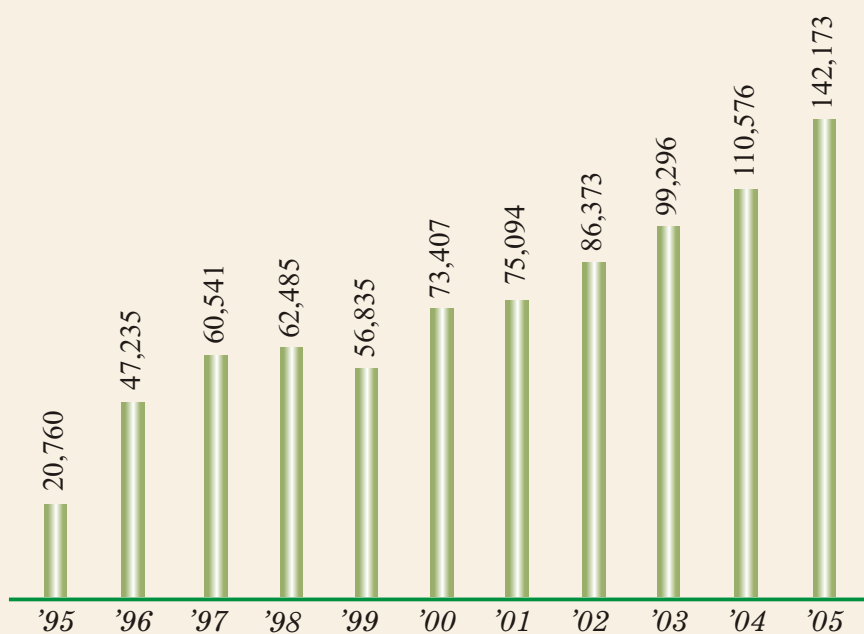
As of December 31, 1995 to 2005

Unit: VND million

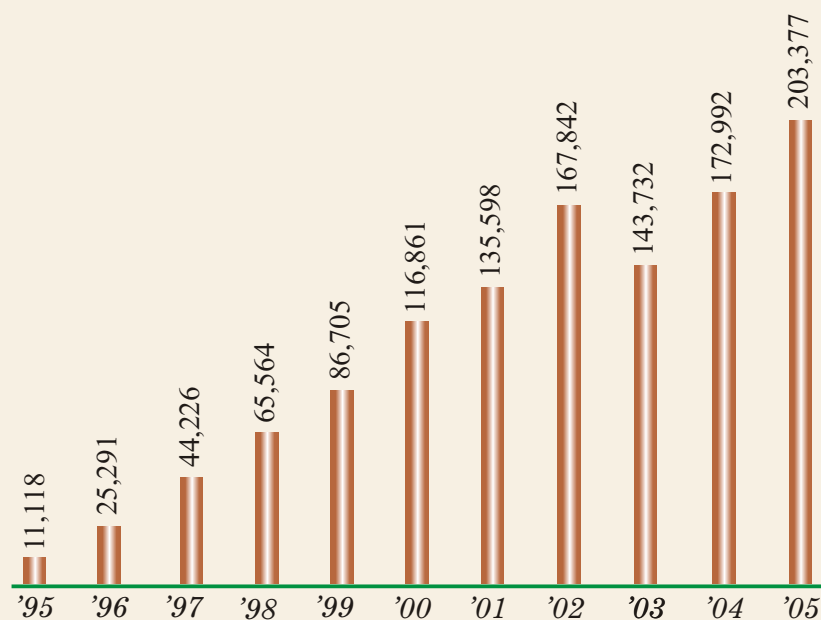
Gross Written Premiums



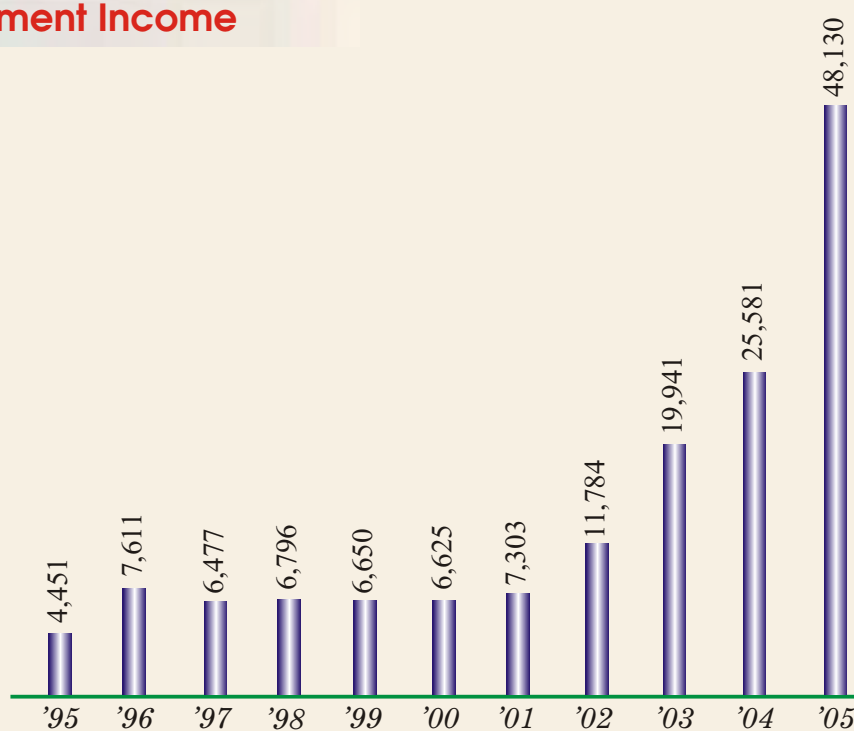
Net Written Premiums



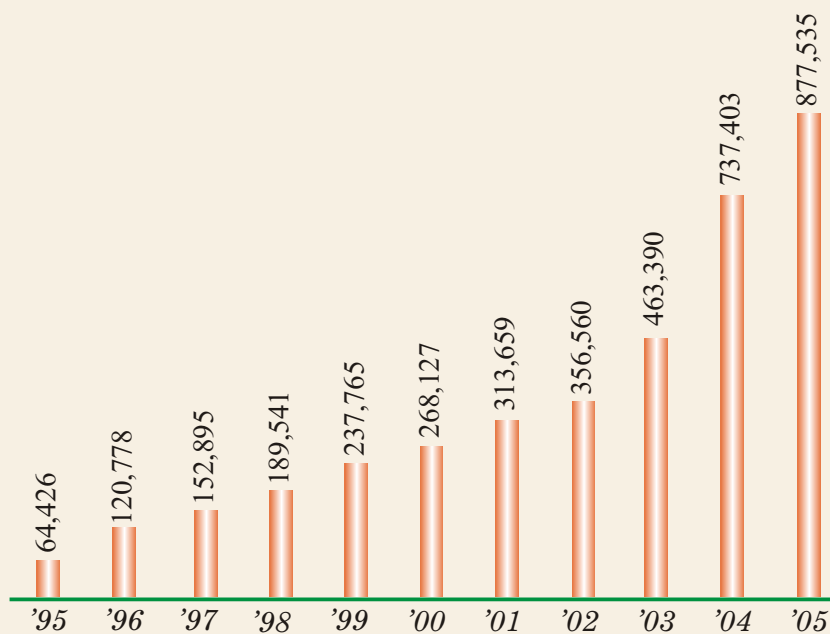
Technical Reserves



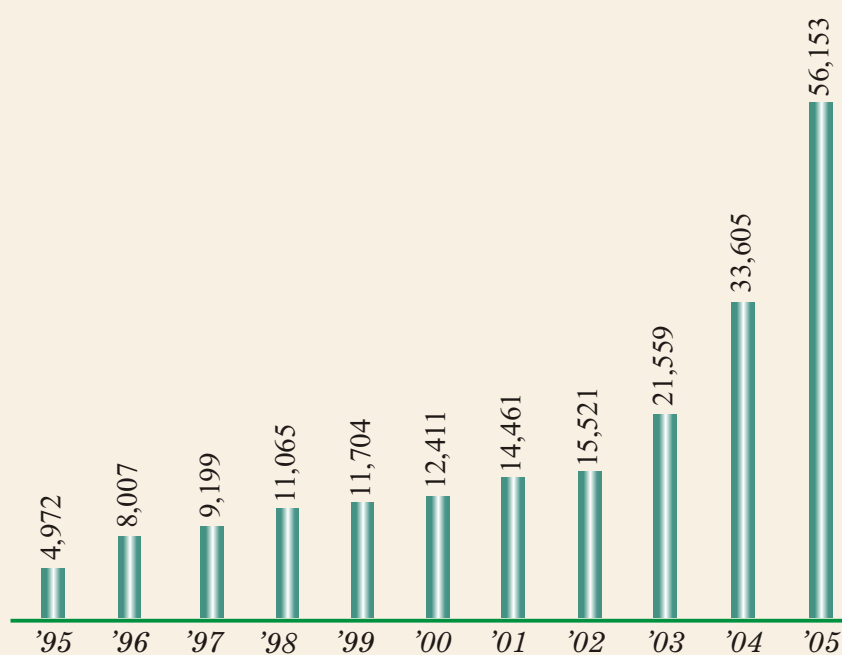
Investment Income



Total Assets



Pre - tax Profit



03 Balance Sheet & Profit and Loss Account



As at 31/12/2005

Currency: VND

ASSETS	2005	2004
A. Current assets & Short-term investments	393,630,410,761	277,256,519,818
Cash	55,900,225,791	143,083,190,064
Short-term investments	175,534,400,000	1,000,000,000
Receivables	162,151,410,421	133,133,133,312
- Trade receivables	95,546,566,419	117,469,356,797
- Other receivables	66,604,844,002	15,852,672,442
- Reserve for bad debts		-188,895,927
Other current assets	44,374,549	40,196,442
B. Fixed assets and long-term investments	483,905,028,955	460,147,135,473
Fixed assets	59,773,673,727	63,130,887,813
Long-term investments	421,849,623,043	396,989,064,384
Capital construction in progress	11,185,878	27,183,276
Long term deposit (Legal deposit)	2,270,546,307	0
- Legal deposit	2,270,546,307	0
TOTAL ASSETS	877,535,439,716	737,403,655,291
LIABILITIES AND SHAREHOLDER'S EQUITY	2005	2004
Liabilities	522,541,650,277	368,995,792,121
Current liabilities	319,164,583,635	196,003,241,061
- Trade payables	244,678,022,281	181,734,810,223
- Taxation and other payables to the State	35,643,421,169	4,606,485,436
- Other payables	38,859,140,185	9,661,945,402
Underwriting reserves	203,377,066,642	172,992,551,060
- Premium reserve	60,584,847,906	35,905,636,380
- Claim reserve	77,039,695,754	75,599,617,856
- Catastrophe reserve	65,752,495,982	61,487,296,824
Shareholder's equity	354,993,789,439	368,407,863,169
Shareholder's fund	343,000,000,000	343,000,000,000
Legal reserve	6,250,177,304	3,829,868,652
Other capital and Funds	4,454,639,841	2,159,405,491
Retained earnings	1,288,972,294	19,418,589,026
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	877,535,439,716	737,403,655,290

Audited by Vietnam Auditing Company

For the year ended
31 December 2005

Currency : VND

Audited by Vietnam Auditing Company

	2005	2004
A. OPERATING REVENUES	165,633,658,425	134,340,495,621
1. Reinsurance premiums written	824,849,192,813	710,754,151,765
2. Reinsurance premiums ceded	(682,675,887,543)	(600,177,153,314)
3. Reinsurance premiums retained (1 - 2)	142,173,305,270	110,576,998,451
4. Adjustment of unearned premium reserve	(24,679,238,526)	(2,315,528,432)
5. Net premium income (3 - 4)	117,494,066,744	108,261,470,019
6. Investment income	48,129,945,533	25,581,846,336
7. Other income	9,646,148	497,179,266
B. OPERATING COSTS AND EXPENSES	109,480,454,185	100,735,140,402
1. Claims paid	217,722,465,720	141,002,178,537
2. Retrocession claims collected	(156,226,729,821)	(91,288,040,897)
3. Net claims paid	61,495,735,899	49,714,137,640
4. Adjustment of claim reserve	1,440,077,898	9,944,707,341
5. Adjustment of catastrophe reserve	4,265,199,158	17,000,000,000
6. Management expenses	17,111,908,590	13,997,339,008
7. R/I Commissions paid and other expenses	25,167,532,640	10,078,956,413
OPERATING PROFIT BEFORE TAX	56,153,204,240	33,605,355,219
TAX AND OTHER PAYMENT TO STATE BUDGET FROM PROFIT	13,480,111,574	8,181,867,998

Depreciation of fixed Assets

	2005	2004
1. At beginning of period:	9,865,991,030 VND	7,556,896,923 VND
2. New purchase:	2,386,547,086 VND	2,309,094,107 VND
3. Movement in provision:		
4. At end of period:	13,252,538,116 VND	9,865,991,030 VND

04 Business Review 2005



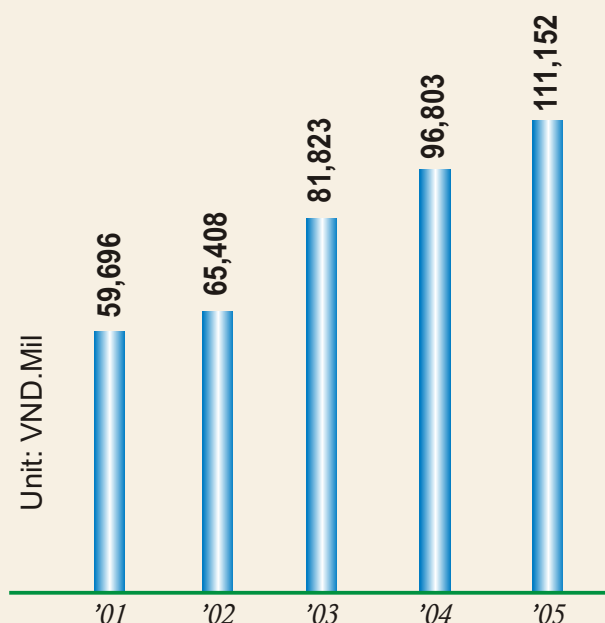
Fire & Miscellaneous Accidents

Revenue from fire reinsurance increased 14.7 per cent to VND111.1 billion in 2005, which was to a great extent thanks to the rise in inward business from the new players in the market like VASS, Samsung-Vina, IAI.

The fire market in Vietnam has experienced relatively stable growth in premium volume for the past years (20 per cent in 2005). However, the scarcity of business sources has led to severe competition among the local insurers which are growing in numbers. The number of new big accounts has not increased whilst most individual and public properties have not been insured against fire.

Another concern is the rising frequency of fire occurrences throughout the countries. However, the majority of these fire losses were uninsured. Besides harsh weather conditions, the main causes of most fire and explosions were downgrading material conditions and lack of fire prevention and fighting equipment.

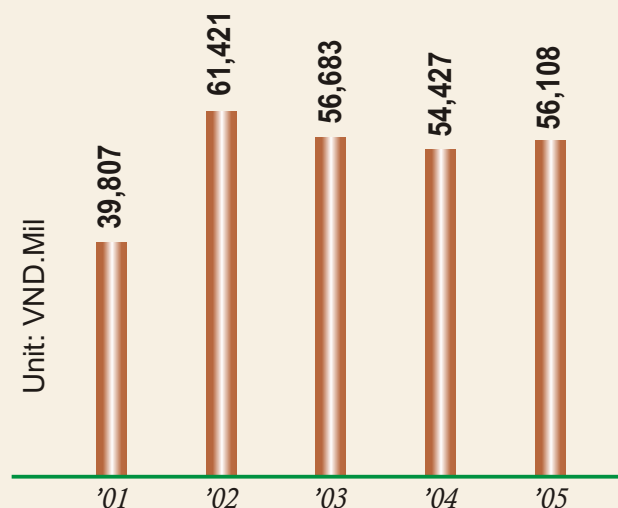
Fire losses in 2005 were estimated at around VND140 billion (approximately US\$9 million) for the whole market. It is also noteworthy that local insurers have begun to face with big claims due to natural catastrophes. During the last six months of 2005 the country had been hit by several large storms like Damrey, Longwang, etc. Strong wind and heavy rain had caused damages to some sites like Nghi Son Cement Factory (VND6.3 billion), Van Chai Resort (VND7.1 billion). ■



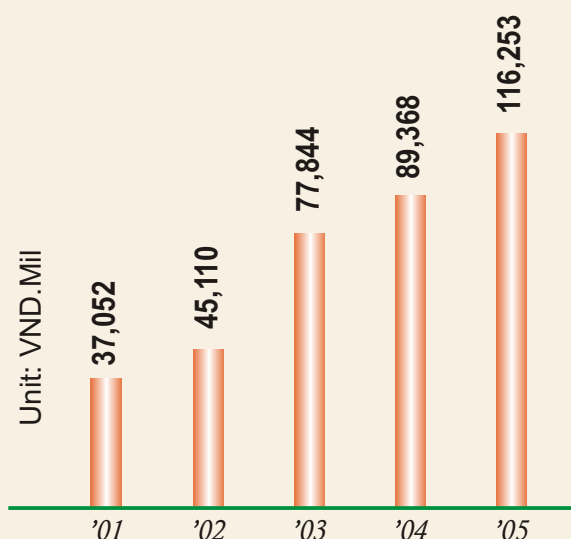
Energy

Premiums written from Energy business increased just 3.1 per cent in comparison with the previous year. This was in line with the performance of the local energy market which did not show any increase in premium volume for the whole year. The reason was that there were no increases in the number of policies in force whilst exploring and drilling activities mainly concentrated on developed fields like White Tiger, Dawn, Ruby and Black Lion. VINARE's premiums written accounted for about 14 per cent of the energy market.

There were five major losses in 2005 with total reserves amounting to over US\$8 million (that is not to include two losses from the onshore exploring drilling by Petroleum Investment and Development Company, a subsidiary of PetroVietnam Corporation, in Algiers). ■



Engineering



Thanks to a sharp increase in market premium volume in 2005, VINARE's engineering premiums written increased 30 per cent to VND116.2 billion. The increase could be attributed to a number of big projects during the course of the year, notably Hai Phong Thermal Power Station (US\$470 million), Ban Ve Hydro Power Station, Thanglong Cement Factory (US\$197 million), The National Conference Centre (US\$200 million), Vinh Tuy Bridge (US\$60 million), etc. In addition, there are several other big projects which are in the phase of negotiating terms and conditions like Dong Nai Hydro Power Project No. 3 and 4, Son La Hydro Power, Nam Chien Hydro Power, etc.



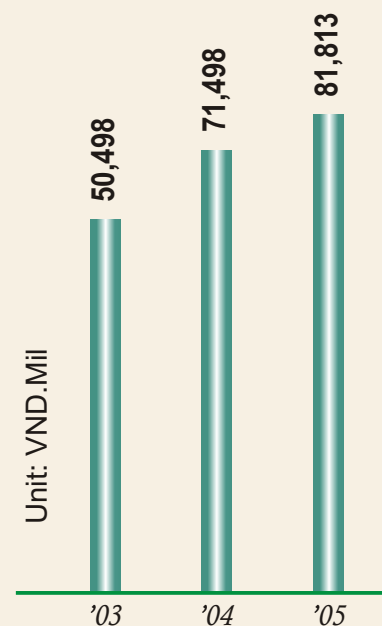
The CAR and EAR market has been dominated by the three big insurers, i.e Baoviet, Baominh and PJICO whilst PTI still dominates in the electronic equipment market. However, Petrovietnam Insurance Company (PVI) has also emerged as the insurer for several big engineering projects from the energy industry, especially the Dung Quat Refinery Projects with insured value of up to US\$2 billion. Together the biggest five engineering insurers account for 91.5 per cent of the whole market. ■

Marine Cargo

Marine cargo had premiums written increase 14.4 per cent in comparison with last year to VND81.8 billion.

Fuelled by rising import and export turnover, the total value of cargo insured increased 27 per cent compared with 2004. However, the premium volume of the whole market just increased around 8 per cent to US\$20 million. These figures are evidence of the increasingly fierce competition in the market.

Cargo losses have been rather stable for several years and 2005 was no exception. The biggest loss was cargo damage on Chinese owned m/v Zhe Hai 308 which was estimated at US\$2.3 million. However, small losses related to shortages of sensitive cargo like iron and steel or rice tended to increase both in frequency and severity. ■

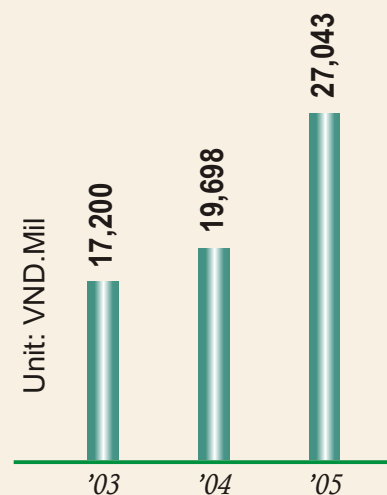


Marine Hull



Marine Hull premiums written rose 37 per cent to VND27 billion mainly thanks to new added tonnages and increased insured value of current ones. However, the result of this business was at the worst level so far with claims paid in fiscal year 2005 increasing over 50 per cent over the previous year.

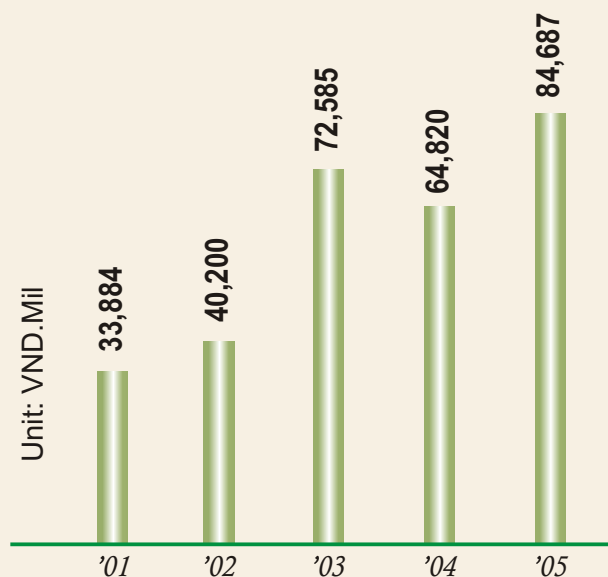
The local hull market is facing a difficult situation where rates continued to fall whilst losses continued to rise to a dangerous level. In 2005 just the sum of big losses reported has wiped out the premium volume of the market as a whole, not to mention several partial losses and acquisition costs. ■



Protection & Indemnity

Reinsurance premiums written from Protection and Indemnity jumped 30 per cent in 2005 after declining by about 10 per cent in the previous year. The improvement of Vietnam's ocean fleets both in terms of quantity and quality has boosted the growth of P&I entries and premium volume as well.

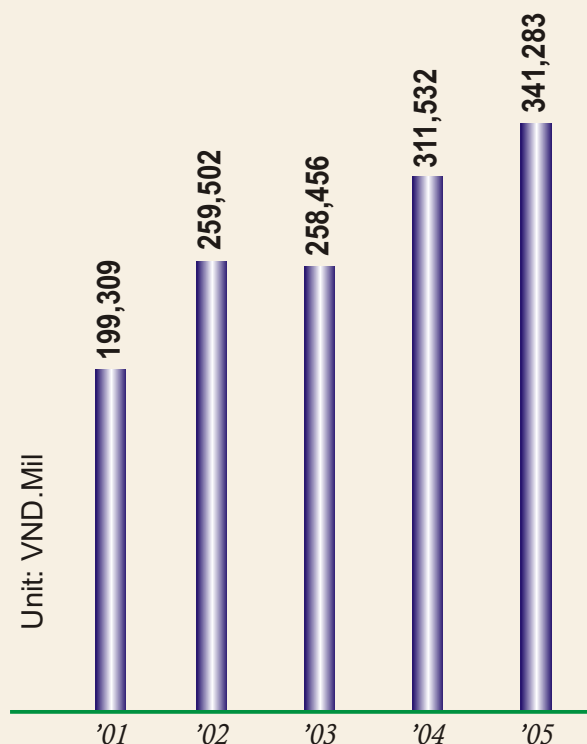
In 2005 there were 284 vessels entered for P&I cover, equivalent to 1.758 million GT, an increase of 7.2 per cent over the previous year. Facing the competition pressure from the international shipping market, tightened regulations of port authorities and the International Maritime Organisation as well as the thorough condition survey carried out by P&I clubs, the quality of tonnage entered has been greatly improved.■



Aviation

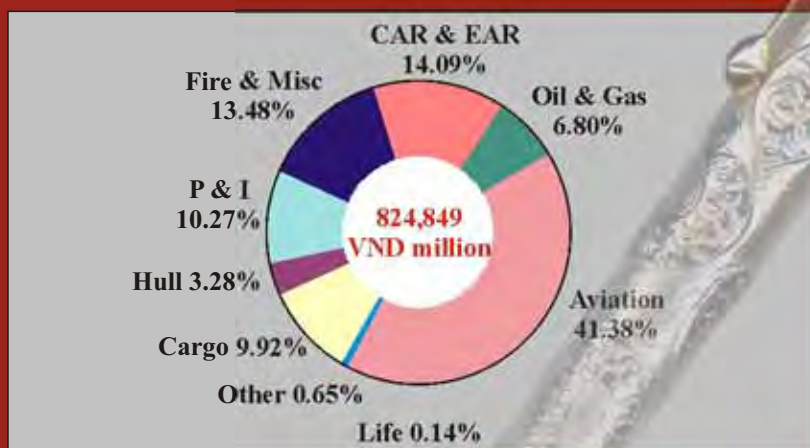
Aviation reinsurance premiums written increased 9.5 per cent to 341.2 billion in 2005 mainly thanks to the growth of Vietnam Airlines fleet which now comprises 38 aircraft. It will receive seven more aircraft in 2006. The number of passengers carried in 2005 exceeded 6 million and increased nearly 8 per cent over 2004. The flag carrier performed 50,000 flights during the year without any incidents. This is the ninth consecutive year that Vietnam Airlines maintained absolute flight safety for their passengers.

The rates of premium quoted for the various local airlines has been falling from year to year thanks to their safe operations. However, because of the increase in fleet value and passenger number, the premium volume of the market has remained at around the same level for the past few years. The figure for 2005 was US\$19.6 million.■

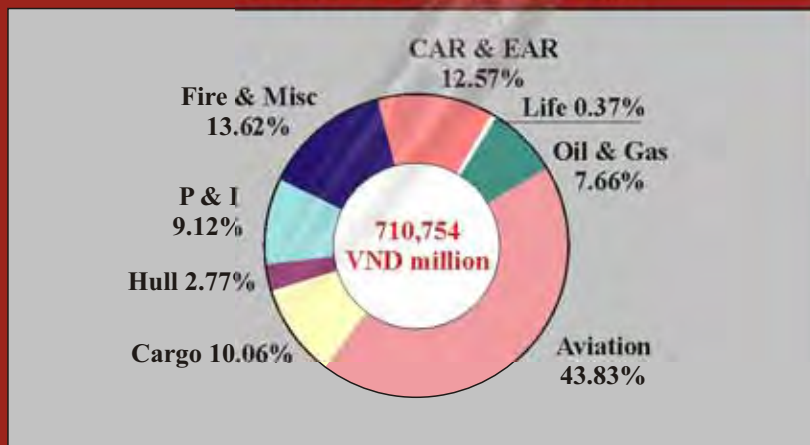


05 Vinare's Portfolio

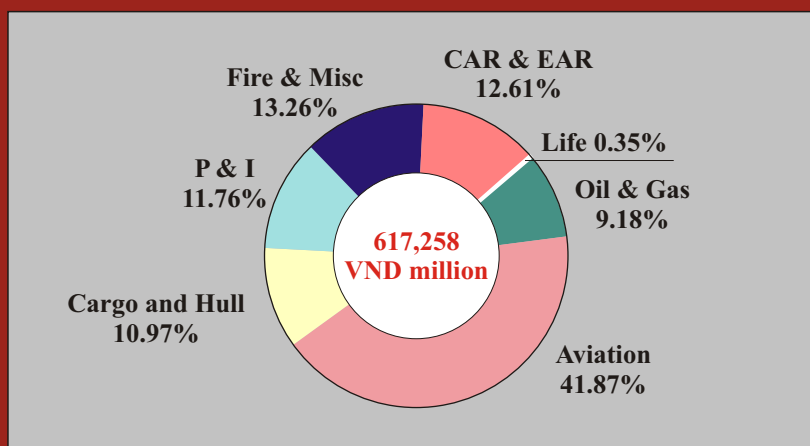
UNDERWRITING YEAR 2005



UNDERWRITING YEAR 2004



UNDERWRITING YEAR 2003

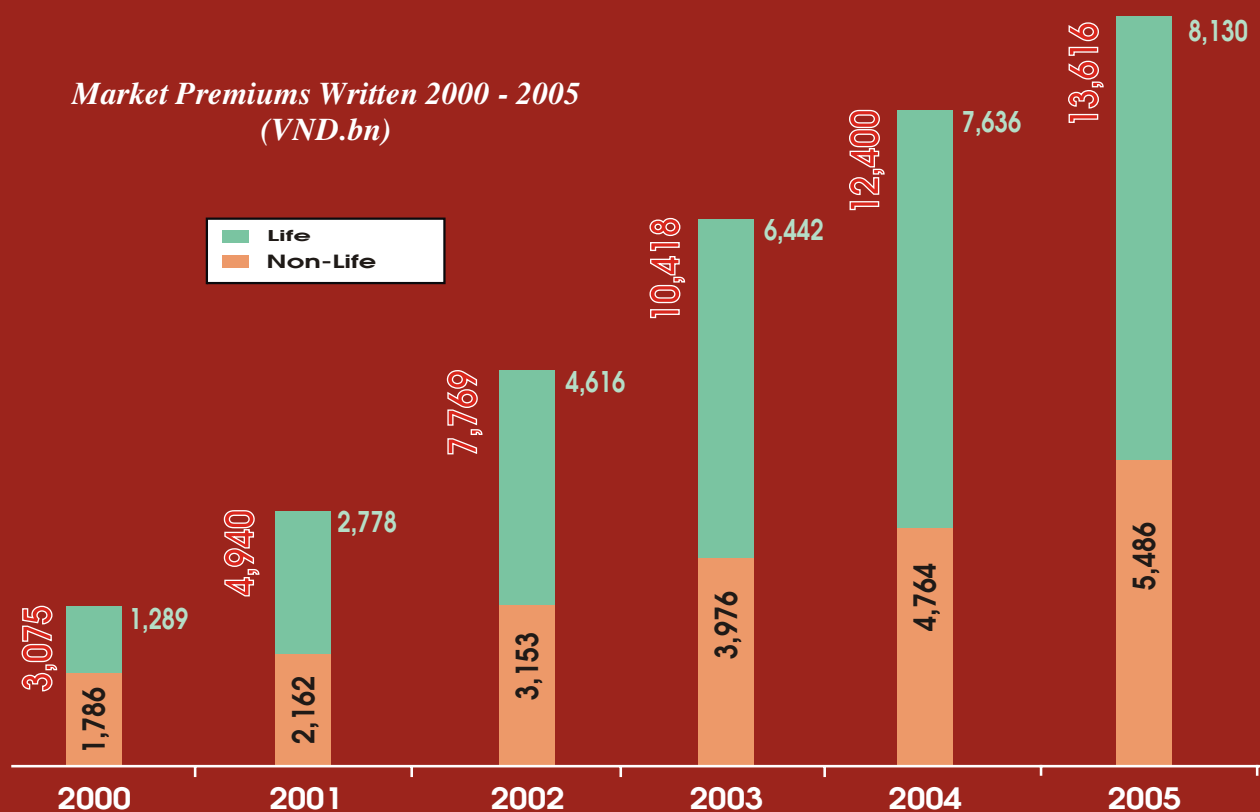


06

Vietnam Insurance Market 2005

Non-life sector sustained whilst life slowed down

Vietnam insurance market's premium volume increased just 9.81 per cent over 2004, valued at VND13,616 billion. The growth of the industry was negatively impacted by the slump in the life sector which was hit by high inflation and interest rates.



Non-life sector maintained momentum of growth

The economic conditions in 2005 were seen by many as favourable for the growth of the non-life sector: capital for investment and development grew 18.5 per cent and accounted for 38.9 per cent of GDP; export turnover increased 21.6 per cent; foreign direct investment grew 25 per cent. Thus, non-life premium volume grew 15.16 per cent to reach VND5,486 billion.

The business line which posted the highest growth in 2005 is Engineering insurance with growth rate reaching as high as 40 per cent. The boom was fuelled by several big engineering projects like Haiphong Thermal Power Station (US\$470 million), Thanglong Cement Factory (US\$197 million), National Conference Centre (US\$200 million), Package 1 and 4 of Dung Quat Refinery Project (US\$1.5 billion).

Fire insurance maintained relatively high growth of 20 per cent. However, a large portion of the potential fire market still remained untapped. The fire market is still waiting for the Decree on Compulsory Fire and Explosion Insurance which will soon be approved and will trigger a much awaited boom.

Marine Hull Insurance experienced high growth in 2005 thanks to heavy investment in building new ships and purchasing foreign-built ones. Marine Cargo Insurance also increased over 8 per cent.

However, competition in the non-life market remained as severe as ever, as can be seen through falling average insurance rate for hull and cargo. Some insurers did



not properly follow the underwriting guidelines and continued to offer cover at low insurance and deductible rate.

In the meantime, hull losses was still in the worst condition ever for the past few years. Counting the big losses only, hull claims amounted to approximately US\$6 million which was almost the premium volume of the line during the year.

Other business lines like Fire, Engineering, Marine Cargo and Energy experienced rather stable loss condition. However, there were some relatively big losses due to storms and heavy rain by year end which made local insurers more concerned about the accumulation of catastrophe risks, especially when there seems to be increasingly more and more sudden changes in the climatic condition.

Following are some of the big losses in 2005:

- Fire in Famiro Shoe Factory, estimated claim VND27 billion;
- Damage to CALM buoy at Big Bear Oil Field, estimated claim US\$1.1 million;
- Inter- platform pipe leakage at Ruly Oil Field, estimated claim US\$4.6 million;
- The collision between m/v Mimosa and m/v Trinity which caused Mimosa to sink, hull claim estimated at US\$2 million;
- The sinking of m/v SEA BEE, estimated claim US\$2 million;
- Cargo damage due to the sinking of m/v Zhe Hai 308, estimated claim US\$2.3 million

Life sector experienced lowest growth in recent years

Life insurance experienced a hard year due to high consumption price index and the race to increase interest rates among local banks. The growth in premium volume fell to the lowest level since 2001, estimated at VND8,130 billion, an increase of just 6.47 per cent compared with 2004. The number of expired policies increased sharply while the number of new policies decreased compared with previous years. The number of agents was also falling due to difficult conditions.

The condition continued to get worse towards the end of the year with banks rushing to increase interest rates and higher increase in consumption prices.

In the meantime, the market witnessed the entry of three new players in 2005, i.e ACE, New York Life and Prevoir. It is



hoped that these new players will add new momentum to the market performance in 2006 when they have started operation.

Market development

There were several major developments in the insurance market structure during 2005. In the first six months of the year, four new insurers were granted licence, including the three life insurers mentioned above plus AAA, a private non-life insurer. Towards the end of the year, AIG also announced it had just received a licence to launch non-life products in Vietnam.

In another movement, the Australian-based QBE Insurance Company has sold its shares in its joint venture with the Vietnam Bank for Development and

Investment to its partner and set to go alone in the Vietnamese insurance market by acquiring the Allianz General Insurance Company. The acquisition of Allianz was approved by the Ministry of Finance, allowing QBE to expand its insurance solution services offered to Allianz's existing customers.

For its part, The Vietnam Bank for Development and Investment purchased QBE's share in the joint venture and set up the Vietnam Bank for Development and Investment Insurance Company (BIC).

At the same time, Allianz officially decided to withdraw operations from the local market because of the strategic changes in its development policy in Asia.

Another important development is that the Government has signed Decision No. 310/QĐ/2005/TTG to establish Baoviet Finance and Insurance Group with several subsidiaries such as a non-life insurance company, a life insurance company, an investment and fund management

company, a security company, a bank and a property development company.

In 2006, one of the largest US property and casualty insurers, Liberty, expects to begin operations in Vietnam in the non-life sector. Baominh, the second largest non-life insurer, is also set to list on the country's stock exchange. Baominh's listing plan was in line with the government's policy to list big equitised enterprises to scale up Vietnam's fledgling stock market.

Some forecasts for 2006

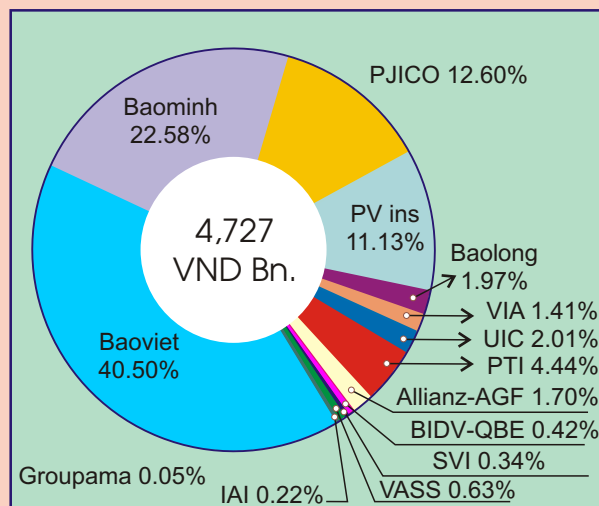
With GDP growth rate in 2006 expected at 8 per cent and several key projects funded by the State budget worth hundreds of millions of US dollars, the non-life sector is set to have another favourable year with growth rate at around 15 - 17 per cent. The life sector is expected to grow by 10 per cent because of continued difficulties in interest rate and price index condition. ■



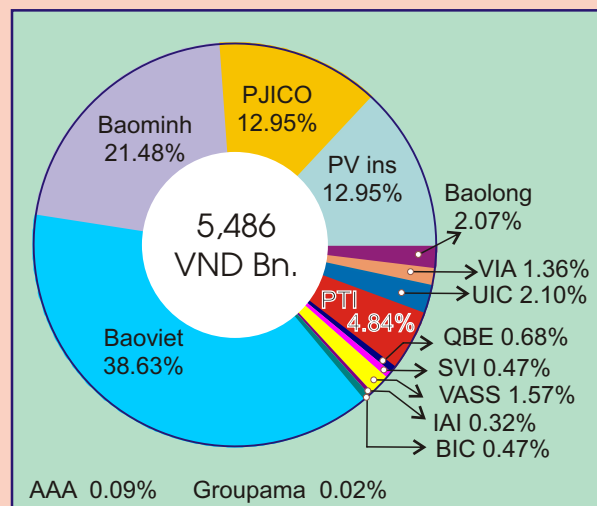
Vietnamese Insurance Market Share

(Non-life)

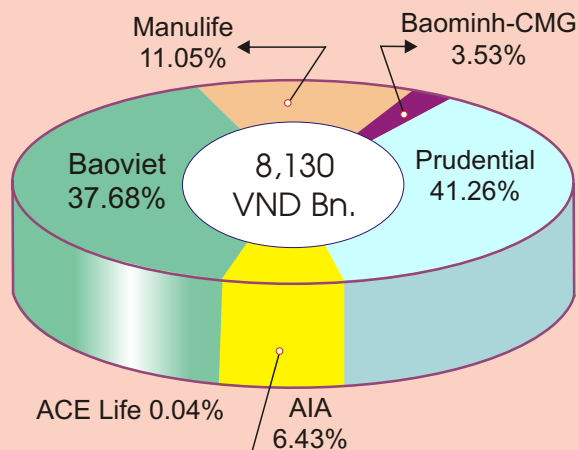
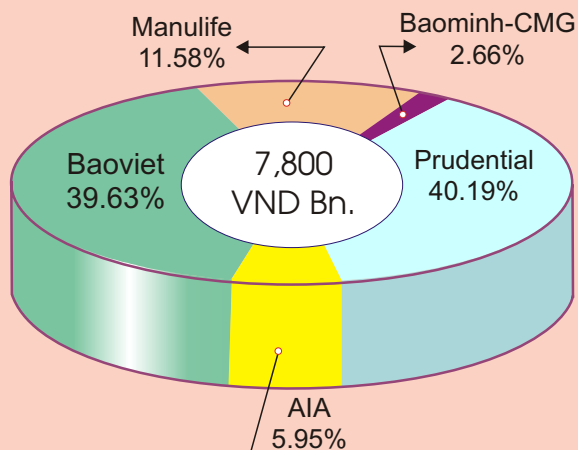
2004



2005



(Life)



07

Vietnam Economy 2005

impressive growth of export and FDI



Though 0.1 per cent lower than the target set out at the beginning of the year, Vietnam has achieved a GDP growth of 8.4 per cent in 2005, successfully helping to realise an annual average growth of 7.5 per cent over the last five years.

Of the 8.43 per cent GDP growth, the industry and construction sector contributed 4.2 percentage point, the service sector and the agriculture-forestry-fishery sector contributed respectively 3.4 and 0.8 percentage point. The above statistics reflect the current structure of Vietnam's economy with the portions of the three sectors to GDP comprising 41 per cent, 38 per cent and 20.89 per cent, respectively.

Exports hit dizzying heights

Vietnam's export in 2005 performed better than expected thanks to the efforts of foreign-invested and domestic private enterprises.

Export revenue in 2005 posted a year-on-year growth of 21.6 per cent to reach US\$32.2 billion, higher than the initially expected figure of 16 per cent. Foreign invested and private enterprises contributed significantly to the export revenue due to their initiative in seeking new markets.

Non-oil exports of foreign-invested enterprises recorded a 26.2 per cent growth rate in 2005, achieving US\$11.1 billion in revenue. High oil prices around the world and throughout the year contributed significantly to the export value of the commodity, with the domestic sector earning more than US\$7 billion, and bringing the total export value in the foreign-invested sector to US\$18.5

billion, a yearly increase of 27.8 per cent. Other sectors also achieved strong growth in export revenue, including wooden products which recorded a 33 per cent increase, electronics and computer products 34 per cent and rice 27.3 per cent.

Higher exports helped reduce the import surplus to 14.4 per cent of the total import-export value.

FDI rode high on economy

Improved economic performance and investment climate resulted in an impressive 25 per cent increase on last year's foreign direct investment (FDI) figure. The Ministry of Planning and



Investment (MPI) put the total committed FDI this year at US\$5.8 billion, a 29 per cent rise on the annual set targets.

The figure comprises of US\$4 billion of newly licensed projects and US\$1.8 billion in increased investments.

Approximately 120 new FDI projects began operating in 2005, making total annual revenues of the foreign-invested sector, excluding crude oil enterprises, amount to US\$21 billion.

Alongside the introduction of new enterprise and investment laws and with deeper integration into the global economy, Vietnam is well positioned to welcome a new drive of FDI inflows to support the national economic growth..

Progress in US WTO talks

The crucial 10th round of bilateral talks between Vietnam and the US regarding Vietnam's accession to the World Trade Organisation (WTO) witnessed remarkable progress in narrowing the two countries' differences.

At the press conference held on the final day of the US delegation's working trip to Vietnam, Dorothy Dwoskin, the assistant to the US trade representative, said the distance between the two countries, if it had been 20 centimetres before, had dropped to 2 centimetres.

At the conclusion of the last round of talk, the two sides decided on several compromises, in particular on service issues including market access and sensitive areas such as banking, insurance and telecommunications. Vietnamese and US representative both expressed determination to accelerate talk

proceedings in the future as constructively as possible.

Main targets for 2006

- GDP to increase 8 per cent
- Added value in agriculture, forestry and aqua-culture to rise by 3.8 per cent, industry and construction 10.2 per cent, and services 8 per cent
- Total export turnover to increase by 16.4 per cent
- Total investment for the development of society to account for 38.6 per cent of GDP. ■





**TỔNG CÔNG TY CỔ PHẦN
TÁI BẢO HIỂM QUỐC GIA VIỆT NAM**
**VIETNAM NATIONAL REINSURANCE CORPORATION
(VINARE)**



Having high-skilled and experienced reinsurance professionals and close association with high-profile domestic and international insurance, reinsurance and broking companies

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- * To underwrite reinsurance businesses and place retrocession domestically and internationally;
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- * To provide information on local and international insurance and reinsurance markets;
- * To offer training service for insurance and reinsurance staffs;
- * To engage in capital investment;
- * To provide office for lease.



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