

KOREA NATIONAL INSURANCE CORPORATION

EXTRACT OF THE ANNUAL REPORT 2005

FINANCIAL STATEMENTS

FOR THE YEAR ENDED

31st DECEMBER 2005

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KOREA NATIONAL INSURANCE CORPORATION

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KOREA NATIONAL INSURANCE CORPORATION**CONSOLIDATED BALANCE SHEET**
as at 31st December 2005

Assets (KPW million)	2005	2004	Change	Change %
1. Intangible Assets	159	195	-35	-18.0
2. Tangible Assets	3,756	3,641	115	3.1
3. Investments -				
Real Estate	3,054	3,068	-14	-0.5
Investments in Affiliated Enterprises	4,368	4,484	-116	-2.6
Loans	2,521	2,801	-280	-10.0
Securities	28,479	13,539	14,940	110.3
4. Ceded share of underwriting provisions	7,237	198	7,039	3,555.1
5. Receivables	1,336	1,965	-629	-32.0
6. Cash with Bank and in Hand, Cheques	37,642	8,271	29,371	355.1
7. Other Assets	125	172	-47	-27.2
Total Assets	88,677	38,334	50,343	131.3

KOREA NATIONAL INSURANCE CORPORATION**CONSOLIDATED BALANCE SHEET**
as at 31st December 2005

Net worth and Liabilities (KPW million)	2005	2004	Change	Change %
1. Net worth				
Paid-up Capital	4,750	4,750	-	-
Revenue Reserves	13,340	5,289	8,051	152.2
Other Reserves	2,717	2,172	545	25.1
Consolidated Profits	6,746	5,534	1,212	21.9
2. Gross Underwriting Provisions				
Unearned Premiums	39,080	5,912	33,168	561.0
Provision for Future Benefits	1,430	130	1,299	1,000
Provision for Outstanding Claims	8,037	1,038	6,999	674.3
Other Underwriting Provisions	457	730	-273	-37.4
3. Gross Banking Provisions	8,366	8,289	78	0.9
4. Long-term Debt	1,250	1,389	-139	-10
5. Other Accrued Liabilities	744	574	170	29.6
6. Other Liabilities	1,539	2,321	-782	-33.7
7. Other Deferred Items	221	205	16	7.7
Total Net worth and Liabilities	88,677	38,334	50,343	131.3

KOREA NATIONAL INSURANCE CORPORATION**CONSOLIDATED CASH FLOW STATEMENT**
for AY 2005

Items (KPW million)	2005	2004	Change	Change %
1. Net earned premiums	32,995	16,687	16,309	97.7
2. Investment result	2,670	1,395	1,275	91.4
3. Other income	1,062	3,140	-2,078	-66.2
Total income (1+2+3)	36,727	21,221	15,506	73.1
4. Net expenses for claims and benefits	20,996	7,867	13,219	166.9
5. Net operating expenses	5,578	5,012	566	11.3
6. Other expenses	159	144	16	10.4
Total expenses (4+5+6)	26,734	13,023	13,710	105.3
7. Operating result before payment to the State	9,994	8,198	1,796	21.9
8. Payment to the State	3,248	2,664	584	21.9
9. Profit for the Year	6,746	5,534	1,212	21.9

KOREA NATIONAL INSURANCE CORPORATION**CONSOLIDATED CASH FLOW STATEMENT**
for AY 2005

Operating Activities (KPW million)	2005	2004
Cash from operating activities	48,976	14,966
Payment to the State	3,248	2,664
Net cash from operating activities	45,728	12,302
Investing activities		
Net cash from investing activities	-16,358	-10,008
Increase/decrease in cash	29,371	2,294
Movement in cash		
At beginning of year	8,271	5,977
Net cash inflow/outflow	29,371	2,294
At end of year	37,642	8,271

ACCOUNTING POLICIES

Our consolidated financial statements were prepared in Korean Won under historical cost convention and on an accrual basis in accordance with the generally accepted accounting principles in the DPR Korea.

A fiscal year for the Korea National Insurance Corporation and its subsidiary undertakings are from 1st January to 31st December each year. The consolidated financial statements show assets, liabilities and results of the Corporation and its subsidiaries for this period. The subsidiary undertakings are those companies which directly belong to the Corporation and are directed and controlled by it over their operations. The subsidiaries are consolidated from the date on which the effective control thereon is transferred to the Corporation and are no longer consolidated from the date of them being handed over to other institution. In case that a subsidiary enterprise is attached to the Corporation, all its assets and liabilities that exist at the date of its attachment are recorded at their net book values of the date. All intercompany transactions among the companies under the Corporation are not reflected in the consolidated financial statements. The profits earned by the subsidiaries are included in the Corporation's consolidated profits for the year. The annual financial statements of the consolidated subsidiaries are based on uniform accounting and valuation principles. The Corporation follows the principle that a method once chosen should be applied consistently in applying the methods of recognition, measurement and disclosure.

Income accounts in foreign currency are translated into the Corporation's reporting currency at the average exchange rate for the year and balance sheets are translated at the exchange rate ruling on 31st December. The Corporation settles the insurance transactions with foreign insurers and reinsurers by means of Euro currency for the most part, with the exchange rate of KPW to Euro being KPW 160 to Euro 1.

KOREA NATIONAL INSURANCE CORPORATION

INDEPENDENT AUDITOR'S REPORT

We have audited the consolidated financial statements consisting of balance sheet, income statement, and cash flow statement prepared by Korea National Insurance Corporation in Pyongyang for the accounting year from 1st January 2005 to 31st December 2005. The preparation and the content of the consolidated financial statements in accordance with the generally accepted accounting principles in DPR Korea is the responsibility of the KNIC Board of Management. Our responsibility as independent auditors is to express an opinion of the financial statements based on our audit.

We have audited the consolidated financial statements in accordance with the generally accepted auditing standards for financial statements sent down by the Ministry of Finance, DPR Korea. Those standards require that auditors plan and perform an audit in a way to be able to assess with reasonable assurance whether consolidated financial statements are free of material misstatements. The evidence supporting the amounts in the consolidated financial statements was examined on a test basis within framework of the audit. Our audit included assessing the used accounting principles and significant estimates made by the Board of Management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audit provided a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of net assets, financial position, results of operations and cash flows of the KNIC for the accounting year 2005 in accordance with the generally accepted accounting principles in DPR Korea.

Pyongynag, 9 March 2006

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