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**KOREA NATIONAL INSURANCE CORPORATION**

**EXTRACT OF THE ANNUAL REPORT 2008**

**FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED**

**31st DECEMBER 2008**

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## KOREA NATIONAL INSURANCE CORPORATION

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**KOREA NATIONAL INSURANCE CORPORATION****CONSOLIDATED BALANCE SHEET**  
as at 31st December 2008

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<b>Assets (KPW million)</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>
1. Intangible Assets	<b>593.7</b>	526.6	131.5
2. Tangible Assets	<b>4,806.2</b>	4,066.8	3,602.5
3. Investments -	<b>42,122.3</b>	37,420.3	34,466.2
Real Estate	<b>3,389.6</b>	3,297.1	3,031.2
Investments in Affiliated Enterprises	<b>4,602.0</b>	4,296.0	3,698.3
Loans	<b>4,986.7</b>	3,560.9	2,241.0
Securities	<b>29,143.9</b>	26,266.3	25,495.6
4. Ceded share of underwriting provisions	<b>3,771.1</b>	10,501.4	3,461.1
5. Receivables	<b>2,652.0</b>	7,362.4	9,454.9
6. Cash with Bank and in Hand, Cheques	<b>43,386.8</b>	37,069.0	34,949.0
7. Other Assets	<b>638.0</b>	142.7	113.9
<b>Total Assets</b>	<b>97,970.1</b>	97,089.2	86,179.1

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**KOREA NATIONAL INSURANCE CORPORATION****CONSOLIDATED BALANCE SHEET**as at 31st December 2008

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<b>Net worth and Liabilities</b> (KPW million)	<b>2008</b>	<b>2007</b>	<b>2006</b>
1. Net worth	<b>32,610.0</b>	23,649.4	25,294.2
Paid-up Capital	<b>4,750.0</b>	4,750.0	4,750.0
Retained earnings	<b>17,440.2</b>	16,179.2	20,085.3
Other Reserves	<b>2,379.0</b>	1,459.3	4,365.0
Consolidated Profits	<b>8,040.9</b>	1,260.9	(3,906.1)
2. Gross Underwriting Provisions	<b>51,320.9</b>	60,398.0	44,070.6
Unearned Premiums	<b>47,528.3</b>	42,243.7	40,179.2
Provision for Future Benefits	<b>1,643.1</b>	1,431.4	1,803.8
Provision for Outstanding Claims	<b>1,553.5</b>	16,477.2	1,468.6
Other Underwriting Provisions	<b>596.0</b>	245.7	619.0
3. Gross Banking Provisions	<b>10,322.1</b>	8,828.6	8,729.9
4. Long-term Debt	<b>959.3</b>	1,000.3	1,111.4
5. Other Accrued Liabilities	<b>1,324.7</b>	1,532.1	3,344.7
6. Other Liabilities	<b>1,039.4</b>	1,227.6	2,413.2
7. Other Deferred Items	<b>393.6</b>	453.3	1,215.1
<b>Total Net worth and Liabilities</b>	<b>97,970.1</b>	97,089.2	86,179.1

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**KOREA NATIONAL INSURANCE CORPORATION****CONSOLIDATED INCOME STATEMENT**  
for AY 2008

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<b>Items (KPW million)</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>
1. Net earned premiums	<b>36,027.9</b>	33,408.1	32,348.6
2. Investment result	<b>1,596.6</b>	4,481.7	5,111.7
3. Other income	<b>662.7</b>	710.5	1,902.2
Total income (1+2+3)	<b>38,287.2</b>	38,600.3	39,362.5
4. Net expenses for claims and benefits	<b>19,547.7</b>	30,850.4	37,799.6
5. Net operating expenses	<b>6,563.1</b>	5,656.4	5,326.2
6. Other expenses	<b>264.0</b>	225.5	142.8
Total expenses (4+5+6)	<b>26,374.8</b>	36,732.3	43,268.6
7. Operating result before payment to the State	<b>11,912.4</b>	1,868.0	(3,906.1)
8. Payment to the State	<b>3,871.5</b>	607.1	-
9. Profit for the Year	<b>8,040.9</b>	1,260.9	(3,906.1)

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**KOREA NATIONAL INSURANCE CORPORATION****CONSOLIDATED CASH FLOW STATEMENT**  
for AY 2008

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<b>Items</b> (KPW million)	<b>2008</b>	<b>2007</b>	<b>2006</b>
1. Operating Activities			
Cash from operating activities	<b>16,200.7</b>	8,267.0	(3,421.2)
Payment to the State	<b>3,871.5</b>	607.1	
Net cash from operating activities	<b>12,329.2</b>	7,659.9	(3,421.2)
2. Investing activities			
Net cash from investing activities	<b>(6,011.4)</b>	(5,539.9)	728.7
3. Increase/decrease in cash	<b>6,317.8</b>	2,120.0	(2,692.5)
4. Movement in cash			
At beginning of year	<b>37,069.0</b>	34,949.0	37,641.5
Net cash inflow/outflow	<b>6,317.8</b>	2,120.0	(2,692.5)
At end of year	<b>43,386.8</b>	37,069.0	34,949.0

**ACCOUNTING BASIS**

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Consolidated financial statements have been prepared in Korean Won under historical cost convention and on an accrual and a going-concern basis in accordance with the generally accepted accounting principles prevailing in the DPR Korea.

A fiscal year for Korea National Insurance Corporation and its subsidiary undertakings are from 1 January to 31 December each year. The consolidated financial statements show their assets, liabilities and results for this period. All intercompany transactions among companies under the Corporation are not reflected in the consolidated financial statements. The Corporation follows a principle that a method once chosen should be applied consistently in applying methods of recognition, measurement and disclosure.

The subsidiary undertakings are those which directly belong to and are directed and controlled by the Corporation 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. When 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. Profits earned by the subsidiaries are included in the Corporation's consolidated profits for the year. Annual financial statements of the consolidated subsidiaries are based on uniform accounting and valuation principles.

Income accounts in foreign currency are translated into the reporting currency of the Corporation at the average exchange rate for the year, whilst balance sheets are translated at the exchange rate ruling on 31st December. The Corporation settles business transactions with foreign companies including its insurance business mostly in Euro upon the exchange rate of KPW 160 to EUR 1.

**AUDITOR'S REPORT**

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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 1 January 2008 to 31 December 2008. 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 Executive Committee 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 the 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 Executive Committee 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 2008 in accordance with the generally accepted accounting principles prevailing in DPR Korea.

Pyongynag, 25 March 2009

Kim Myong Chol, Director, Auditing Office, DPR Korea

Ri Sun Hui, Manager, Auditing Office, DPR Korea