

Korea Investment Corporation

Financial Statements

December 31, 2012

(With Independent Auditors' Report Thereon)

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Independent Auditors' Report

Based on a report originally issued in Korean

The Board of Directors
Korea Investment Corporation:

We have audited the accompanying statement of financial position of Korea Investment Corporation (the "Corporation") as of December 31, 2012, and the related statements of income, changes in equity and cash flows for the year then ended. Management is responsible for the preparation and fair presentation of these financial statements. Our responsibility is to express an opinion on these financial statements based on our audit. The accompanying statement of financial position of the Corporation as of December 31, 2011, and the related statements of income, changes in equity and cash flows for the year then ended were audited by other auditors, whose report thereon dated March 23, 2012, expressed an unqualified opinion.

We conducted our audit in accordance with auditing standards generally accepted in the Republic of Korea. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Corporation as of December 31, 2012 and results of its operations, changes in its equity and its cash flows for the year then ended in accordance with Accounting Standards for Non-Public Entities in the Republic of Korea.

Without qualifying our opinion, we draw attention to the following:

Accounting principles and auditing standards and their application in practice vary among countries. The accompanying financial statements are not intended to present the financial position, results of operations, changes in equity and cash flows in accordance with accounting principles and practices generally accepted in countries other than the Republic of Korea. In addition, the procedures and practices utilized in the Republic of Korea to audit such financial statements may differ from those generally accepted and applied in other countries. Accordingly, this report and the accompanying financial statements are for use by those knowledgeable about Korean accounting principles and auditing standards and their application in practice.

KPMG Samjong Accounting Corp.
Seoul, Korea
March 19, 2013

This report is effective as of March 19, 2013, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying financial statements and notes thereto. Accordingly, the readers of the audit report should understand that the above audit report has not been updated to reflect the impact of such subsequent events or circumstances, if any.

Korea Investment Corporation
 Statements of Financial Position
 As of December 31, 2012 and 2011

(In thousands of Korean won)

	<i>Note</i>	2012	2011
Assets			
Cash and due from banks	4	₩ 149,739,439	140,061,881
Loans receivable, less allowance for doubtful accounts of ₩5,050 in 2012 and ₩5,396 in 2011		1,004,968	1,073,724
Property and equipment, less accumulated depreciation of ₩1,606,619 in 2012 and ₩2,420,424 in 2011	5	1,546,156	874,310
Accounts receivable, less allowance for doubtful accounts of ₩954 in 2012 and ₩159 in 2011		189,870	31,633
Accrued incomes, less allowance for doubtful accounts of ₩166,508 in 2012 and ₩121,120 in 2011		33,135,109	24,102,953
Investments		2,440,736	1,954,616
Intangible assets	7	1,166,892	623,747
Deferred tax assets	13	1,141,530	644,898
Other assets		62,050	271,956
Total assets		₩ 190,426,750	169,639,718
Liabilities			
Withholdings		₩ 411,074	329,968
Accounts payable		1,071,136	687,100
Accrued expenses		20,132,867	14,238,531
Income tax payable		3,955,118	2,676,858
Provision for retirement and severance benefits	8	2,749,270	1,843,199
Pension plan assets	8	(1,872,176)	(1,576,523)
Total liabilities		26,447,289	18,199,133
Equity			
Capital	11	100,000,000	100,000,000
Retained earnings	12	63,979,461	51,440,585
Total equity		163,979,461	151,440,585
Total liabilities and equity		₩ 190,426,750	169,639,718

See accompanying notes to the financial statements.

Korea Investment Corporation
 Statements of Income
 For the years ended December 31, 2012 and 2011

(In thousands of Korean won)

	<i>Note</i>	2012	2011
Operating revenue			
Investment management fees	₩	101,542,190	82,304,949
Interest income		5,647,146	5,343,696
Gain on foreign exchange	9	2,453,270	3,143,641
Reversal of allowance for doubtful accounts		-	109,698
		<u>109,642,606</u>	<u>90,901,984</u>
Operating expenses			
Fee expenses		(52,371,646)	(42,726,210)
Loss on foreign exchange	9	(3,231,843)	(3,472,634)
General and administrative expenses	16	(29,489,076)	(23,439,746)
		<u>(85,092,565)</u>	<u>(69,638,590)</u>
Operating income		<u>24,550,041</u>	<u>21,263,394</u>
Non operating revenue			
Gain on disposition of property and equipment	5	665	-
Income from pension plan assets		74,162	-
Other income		2,720	4,000
		<u>77,547</u>	<u>4,000</u>
Non operating expenses			
Other expenses		(891)	-
		<u>(891)</u>	<u>-</u>
Income before income tax		<u>24,626,697</u>	<u>21,267,394</u>
Income tax expense	13	(5,399,056)	(5,175,553)
Net income	₩	<u>19,227,641</u>	<u>16,091,841</u>

See accompanying notes to the financial statements.

Korea Investment Corporation
 Statements of Changes in Equity
 For the years ended December 31, 2012 and 2011

<i>(In thousands of Korean won)</i>	<u>Note</u>	<u>Capital</u>	<u>Capital surplus</u>	<u>Retained earnings</u>	<u>Total equity</u>
Balance at January 1, 2011	₩	100,000,000	-	38,648,744	138,648,744
Dividends		-	-	(3,300,000)	(3,300,000)
Net income for the year		-	-	16,091,841	16,091,841
Balance at December 31, 2011	₩	<u>100,000,000</u>	<u>-</u>	<u>51,440,585</u>	<u>151,440,585</u>
Balance at January 1, 2012	₩	100,000,000	-	51,440,585	151,440,585
Cumulative effect of change in accounting standards	14	-	-	(188,765)	(188,765)
Dividends		-	-	(6,500,000)	(6,500,000)
Net income for the year		-	-	19,227,641	19,227,641
Balance at December 31, 2012	₩	<u>100,000,000</u>	<u>-</u>	<u>63,979,461</u>	<u>163,979,461</u>

See accompanying notes to the financial statements.

Korea Investment Corporation
Statements of Cash Flows
For the years ended December 31, 2012 and 2011

(In thousands of Korean won)

	<i>Note</i>	2012	2011
Cash flows from operating activities			
Net income	₩	19,227,641	16,091,841
Adjustments for:			
Severance benefits		1,224,169	854,654
Depreciation expenses		360,764	260,729
Amortization expenses		277,662	239,721
Loss on foreign currency translation		458,388	86,348
Provision (reversal) of allowance for doubtful accounts		45,837	(109,698)
Gain on foreign currency translation		(315,866)	(162,031)
Gain on disposal of property and equipment		(665)	-
Income from pension plan assets		(74,162)	-
		<u>1,976,127</u>	<u>1,169,723</u>
Changes in assets and liabilities:			
Increase in accounts receivable		(163,485)	(25,953)
Decrease (increase) in accrued income		(9,531,441)	21,962,408
Decrease (increase) in other assets		209,869	(104,760)
Decrease (increase) in deferred tax assets		(496,632)	440,679
Increase (decrease) in accounts payable		398,534	(1,877,054)
Increase in withholdings		81,106	28,073
Increase (decrease) in accrued expenses		6,006,937	(4,320,451)
Increase (decrease) in income tax payable		1,278,260	(1,433,150)
Payments to severance benefits		(318,098)	(1,174,730)
Increase in pension plan assets		(221,490)	(1,576,523)
		<u>(2,756,440)</u>	<u>11,918,539</u>
Net cash provided by operating activities		<u>18,447,328</u>	<u>29,180,103</u>
Cash flows from investing activities			
Decrease in time deposits	₩	135,000,000	107,500,000
Collection of certificate of deposits		-	5,000,000
Collection of loans receivable		485,826	258,981
Refund of leasehold deposits		1,153,532	15,882
Disposal of equipment		665	-
Increase in time deposits		(144,000,000)	(135,000,000)
Increase in loans receivable		(416,724)	(94,502)
Acquisition of equipment		(1,032,610)	(522,221)
Acquisition of intangible assets		(820,807)	(223,486)
Payment for leasehold deposits		(1,639,652)	(328,270)
Net cash used in investing activities		<u>(11,269,770)</u>	<u>(23,393,616)</u>
Cash flows from financing activities			
Dividends paid		(6,500,000)	(3,300,000)
Net cash used in financing activities		<u>(6,500,000)</u>	<u>(3,300,000)</u>
Net increase in cash and cash equivalents		677,558	2,486,487
Cash and cash equivalents at beginning of year	4	<u>5,061,881</u>	<u>2,575,394</u>
Cash and cash equivalents at end of year	₩	<u>5,739,439</u>	<u>5,061,881</u>

See accompanying notes to the financial statements.

Korea Investment Corporation
Notes to the Financial Statements
For the years ended December 31, 2012 and 2011

1. Reporting Entity

Korea Investment Corporation (the “Corporation”) was incorporated on July 1, 2005 under the Korea Investment Corporation Act, and is engaged in the investment in assets entrusted by the Korean Government (the “Government”) and the Bank of Korea. As of December 31, 2012, the Corporation is wholly owned by the Government, and the paid-in capital of the Corporation amounted to ₩100 billion.

The primary business of the Corporation is management of asset entrusted by the trust institutions, and survey or research accordingly. In addition, the Corporation exchanges and cooperates with other domestic or overseas institutions carrying on similar business. The Corporation also conducts other incidental business at the decisions of the Steering Committee.

2. Basis of Preparation

(1) Statement of Compliance

The Corporation prepared the financial statements in accordance with Accounting Standards for Non-Public Entities in the Republic of Korea (“K-GAAP for Non-Public Entities”).

The accompanying financial statements are not intended to present the financial position, results of operations, changes in equity and cash flows in accordance with accounting principles and practices generally accepted in countries other than the Republic of Korea. Accordingly, the accompanying financial statements are for use by those knowledgeable about Korean accounting principles and their application in practice.

(2) Basis of Measurement

The financial statements have been prepared on the historical cost basis, except for the financial instruments measured at fair value.

(3) Use of Estimates and Judgments

The preparation of the financial statements in conformity with K-GAAP for Non-Public Entities requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

3. Significant Accounting Policies

The significant accounting policies applied by the Corporation in preparation of its financial statements are included below.

(1) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits, and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. The Corporation considers investments with maturities of three months or less on acquisition date to be cash and cash equivalents.

Korea Investment Corporation
Notes to the Financial Statements
For the years ended December 31, 2012 and 2011

Korea Investment Corporation
Notes to the Financial Statements
For the years ended December 31, 2012 and 2011
(In thousands of Korean won)

3. Significant Accounting Policies, continued

(2) Property and equipment

Property and equipment are initially measured at cost. The cost of property and equipment includes the expenditures arising directly from the construction or acquisition of the asset, any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located. Assets acquired through investment in kind or donations are recorded at their fair value upon acquisition. For assets acquired in exchange for a non-monetary asset, the fair value of the asset given up is used to measure the cost of the asset received unless the fair value of the asset received is more clearly evident.

Significant expenditures or improvements extending the useful life of assets are capitalized. Normal maintenance and repairs are charged to expense as incurred.

Subsequent to initial recognition, an item of property and equipment is carried at its cost less accumulated depreciation and accumulated impairment losses, if any. The estimated useful lives and depreciation method for the current and comparative years are as follows:

	Useful lives	Depreciation method
Computer equipment	4~5 years	Straight-line method
Office equipment	5 years	Straight-line method

(3) Intangible assets

Cost of intangible assets except for goodwill includes expenditures arising directly from the construction or acquisition of the asset and any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Subsequent to initial recognition, the intangible assets are measured at cost less any accumulated amortization. Intangible assets are amortized using the straight-line method over the estimated useful lives of five years (residual value is presumed to be zero).

(4) Revenue recognition

The Corporation's revenue primarily consists of investment management fees. The Corporation recognizes the revenue in the statement of income when all of the following conditions are met:

- the amount of revenue can be measured reliably, and
- it is probable that the economic benefits associated with the transaction will flow into the Corporation.

(5) Allowance for doubtful accounts

The Corporation provides an allowance for bad debts based on the estimated collectability of the receivable in accordance with the Regulation on the Financial Investment Services. As of December 31, 2012, the percentage of loss by risk classification applied in order to determine the allowance for bad debts are as follows:

Classification	Percentage of Loss
Normal	0.5%
Precautionary	2%
Substandard	20%
Doubtful	75%
Estimated loss	100%

Korea Investment Corporation
Notes to the Financial Statements
For the years ended December 31, 2012 and 2011
(In thousands of Korean won)

3. Significant Accounting Policies, continued

(6) Retirement and severance benefits

The Corporation selectively operates a defined benefit pension plan and a defined contribution pension plan for employees who have been with the Corporation for more than one year.

Based on the defined benefit pension plan, each eligible employee receives a fixed amount of pension after retirement. Until employees retire, the Corporation's estimated liability under the plan, which would be payable if all employees left at the end of the reporting period, is accrued in the accompanying statements of financial position. If an employee selected the pension plan upon retirement, the Corporation accrues estimated benefits based on actuarial assumptions measured at the end of the reporting period at the discounted present value. The asset managed by retirement pension plan is reflected in the accompanying statements of financial position as a reduction of the liability for retirement and severance benefits

Meanwhile, the Corporation recognizes the contribution payable to a defined contribution plan in exchange for that service as an expense.

(7) Income tax

Income tax on the income or loss for the year comprises current and deferred tax. Current tax is the expected tax payable on the taxable income for the year, using enacted tax rates. Deferred tax is provided using the asset and liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period.

Changes in deferred taxes due to a change in the tax rate, except for those related to items initially recognized outside profit or loss, are recognized as profit or loss in the current year.

(8) Foreign currency transactions

These financial statements are presented in Korean won, which is the functional currency and the currency of the primary economic environment in which the Corporation operates.

Transactions in foreign currencies are translated to the respective functional currencies of the Corporation at exchange rates at the dates of the transactions. Non-monetary assets and liabilities that are measured in terms of historical cost in foreign currency are retranslated to the exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the functional currency at the exchange rate at that date, and resulting translation gains or losses are recognized in profit and loss.

(9) Changes in accounting standards

As described in Note 14 to the financial statements, the Corporation adopted the amendment of K-GAAP for Non-Public Entities No.21, "Employee Benefits" which requires the Corporation to recognize expenses and liabilities related to accumulating compensated absences in the reporting period in which the employees render the related services that increase their entitlement to future compensated absences.

Korea Investment Corporation
Notes to the Financial Statements
For the years ended December 31, 2012 and 2011
(In thousands of Korean won)

4. Cash and Due from Banks

Cash and due from banks as of December 31, 2012 and 2011 were as follows:

	<u>Annual interest rate (%)</u>	<u>2012</u>	<u>2011</u>
Cash and cash equivalents			
Money market deposit accounts	-	₩ 176,014	392,539
Money market fund	-	2,000,000	-
Ordinary deposits	-	10,976	-
Foreign currency deposits	-	2,852,449	1,091,921
Foreign currency time deposits	-	-	577,421
Bonds purchased under reverse repurchase agreement	-	700,000	3,000,000
		<u>5,739,439</u>	<u>5,061,881</u>
Time deposits	3.05~4.08	<u>144,000,000</u>	<u>135,000,000</u>
Total cash and due from banks		<u>₩ 149,739,439</u>	<u>140,061,881</u>

5. Property and Equipment

Changes in property and equipment for the years ended December 31, 2012 and 2011 were as follows:

	<u>Beginning balance</u>	<u>Acquisition</u>	<u>Disposal (*)</u>	<u>Depreciation</u>	<u>Ending balance</u>
December 31, 2012					
Computer equipment	₩ 634,049	739,101	-	(272,457)	1,100,693
Office equipment	240,261	293,509	-	(88,307)	445,463
Leasehold improvement	-	-	-	-	-
	<u>₩ 874,310</u>	<u>1,032,610</u>	<u>-</u>	<u>(360,764)</u>	<u>1,546,156</u>

(*) Fully-depreciated computer equipment, office equipment and leasehold improvement were disposed for the year ended December 31, 2012. Each acquisition cost of these was ₩198,184 thousand, ₩203,403 thousand and ₩772,982 thousand at the disposition date, respectively. Total gain on disposition of property and equipment of ₩665 thousand was recognized for the year ended December 31, 2012.

Korea Investment Corporation
Notes to the Financial Statements
For the years ended December 31, 2012 and 2011
(In thousands of Korean won)

5. Property and Equipment, continued

		<u>Beginning balance</u>	<u>Acquisition</u>	<u>Disposal (*)</u>	<u>Depreciation</u>	<u>Ending balance</u>
December 31, 2011						
Computer equipment	₩	429,948	400,413	-	(196,312)	634,049
Office equipment		182,870	121,808	-	(64,417)	240,261
Leasehold improvement		-	-	-	-	-
	₩	<u>612,818</u>	<u>522,221</u>	<u>-</u>	<u>(260,729)</u>	<u>874,310</u>

(*) Fully-depreciated office equipment was disposed for the year ended December 31, 2011. Its acquisition cost was ₩3,394 thousand, and no gain or loss on disposition of property and equipment was recognized for the year ended December 31, 2011.

6. Insured Assets

Insurance contract maintained by the Corporation as of December 31, 2012 was as follows:

<u>Category of insurance</u>	<u>Insured assets</u>	<u>Book value</u>	<u>Insured amount</u>	<u>Insurance company</u>
Movables comprehensive insurance	Computer equipment	₩ 1,100,693	4,479,784	HeungKuk Fire & Marine Insurance
	Office equipment	445,463		

7. Intangible Assets

Changes in intangible assets for the years ended December 31, 2012 and 2011 were as follows:

		<u>Development costs</u>	<u>Other intangible assets</u>	<u>Total</u>
Net balance at the beginning of 2012	₩	318,783	304,964	623,747
Additions		262,486	558,321	820,807
Amortization (*)		(119,722)	(157,940)	(277,662)
Net balance at the end of 2012	₩	<u>461,547</u>	<u>705,345</u>	<u>1,166,892</u>
Net balance at the beginning of 2011	₩	375,885	264,097	639,982
Additions		77,240	146,246	223,486
Amortization (*)		(134,342)	(105,379)	(239,721)
Net balance at the end of 2011	₩	<u>318,783</u>	<u>304,964</u>	<u>623,747</u>

(*) Amortization cost is reflected in the General and administrative expenses of the statements of income.

Korea Investment Corporation
Notes to the Financial Statements
For the years ended December 31, 2012 and 2011
(In thousands of Korean won)

8. Retirement and Severance Benefits

Changes in retirement and severance benefits for the years ended December 31, 2012 and 2011 were as follows:

	<u>2012</u>	<u>2011</u>
Provision for retirement and severance benefits at beginning of year	₩ 1,843,199	2,163,275
Payments	(318,098)	(1,174,730)
Accrual for retirement and severance benefits	<u>1,224,169</u>	<u>854,654</u>
Provision for retirement and severance benefits at end of year	<u>₩ 2,749,270</u>	<u>1,843,199</u>

Pension plan assets as of December 31, 2012 and 2011 were as follows:

	<u>2012</u>	<u>2011</u>
Time deposits	₩ 449,432	146,149
Available-for-sale securities	760,659	746,244
Others	<u>662,085</u>	<u>684,130</u>
	<u>₩ 1,872,176</u>	<u>1,576,523</u>

Changes in pension plan assets for the years ended December 31, 2012 and 2011 were as follows:

	<u>2012</u>	<u>2011</u>
Beginning balance	₩ 1,576,523	-
Increase	375,878	1,576,523
Decrease	<u>(80,225)</u>	<u>-</u>
Ending balance	<u>₩ 1,872,176</u>	<u>1,576,523</u>

The expenses related to defined contribution plan recognized for the years ended December 31, 2012 and 2011 was ₩70,709 thousand and ₩0, respectively.

Korea Investment Corporation
Notes to the Financial Statements

For the years ended December 31, 2012 and 2011

(In thousands of Korean won, except foreign currency and exchange rate)

9. Assets and Liabilities Denominated in Foreign Currencies

Assets and liabilities denominated in foreign currencies as of December 31, 2012 were as follows:

		<u>Foreign currency</u>		<u>Exchange rate</u>		<u>Translation into won</u>
Assets						
Deposits	USD	2,573,126	₩	1,071.10	₩	2,756,076
	GBP	55,676		1,730.95		96,373
Accounts receivable	USD	175,598		1,071.10		188,083
Accrued income	USD	28,897,137		1,071.10		30,951,724
					₩	<u>33,992,256</u>
Liabilities						
Accounts payable	USD	421,348		1,071.10	₩	451,307
	GBP	20,461		1,730.95		35,417
Accrued expenses	USD	14,741,354		1,071.10		15,789,464
	GBP	4,080		1,730.95		7,063
					₩	<u>16,283,251</u>

In relation to the foreign currency translations, the Corporation recognized the operating revenue of ₩315,958 thousand and operating expenses of ₩506,262 thousand for the year ended December 31, 2012.

Assets and liabilities denominated in foreign currencies as of December 31, 2011 were as follows:

		<u>Foreign currency</u>		<u>Exchange rate</u>		<u>Translation into won</u>
Assets						
Deposits	USD	759,644	₩	1,153.30	₩	876,097
	GBP	121,438		1,777.20		215,824
Time deposits	USD	500,669		1,153.30		577,421
Accounts receivable	USD	14,324		1,153.30		16,519
Accrued income	USD	18,870,401		1,153.30		21,763,234
					₩	<u>23,449,095</u>
Liabilities						
Accounts payable	USD	257,811		1,153.30	₩	297,333
	GBP	36,349		1,777.20		64,600
Accrued expenses	USD	9,906,408		1,153.30		11,425,061
	GBP	4,409		1,777.20		7,836
					₩	<u>11,794,830</u>

Korea Investment Corporation
Notes to the Financial Statements

For the years ended December 31, 2012 and 2011

(In thousands of Korean won, except the entrusted assets in USD)

10. Commitments and Contingencies

As of December 31, 2012, the Corporation maintains investment management agreements with the Bank of Korea and Ministry of Strategy and Finance, and sub-investment management agreements with BlackRock International Limited and others. Total entrusted assets related to these agreements amounted to USD 56,615,641,293 as of December 31, 2012.

There were no pending litigations as of December 31, 2012.

11. Capital

The capital and the investor as of December 31, 2012 were as follows:

<u>Investor</u>	₩	<u>Capital</u>
Ministry of Strategy and Finance		100,000,000

According to the Korea Investment Corporation Act, the authorized capital of the Corporation is ₩1 trillion and the Government is to invest the full amount. The time and investment method of the capital contribution will be decided by the Minister of Strategy and Finance.

12. Retained Earnings

Retained earnings as of December 31, 2012 and 2011 were as follows:

		<u>2012</u>	<u>2011</u>
Earning reserve (*)	₩	10,461,818	8,852,634
Voluntary reserve		34,478,767	26,496,110
Unappropriated retained earnings		<u>19,038,876</u>	<u>16,091,841</u>
Total retained earnings	₩	<u>63,979,461</u>	<u>51,440,585</u>

(*) According to the Article 41 of the articles of incorporation, the Corporation is required to reserve at least 10% of net income for each period until the reserve equals the half of its capital.

Korea Investment Corporation
Notes to the Financial Statements
For the years ended December 31, 2012 and 2011
(In thousands of Korean won)

12. Retained Earnings, continued

Statements of appropriation of retained earnings for the years ended December 31, 2012 and 2011 were as follows:

	<u>2012</u>	<u>2011</u>
Unappropriated retained earnings		
Balance at the beginning of year	₩ -	-
Cumulative effect of change in accounting standards	(188,765)	-
Net income for the year	<u>19,227,641</u>	<u>16,091,841</u>
Balance at the end of year before appropriation	<u>19,038,876</u>	<u>16,091,841</u>
Appropriation of retained earnings		
Earning reserve	1,922,764	1,609,184
Voluntary reserve	9,416,112	7,982,657
Dividends (*)	<u>7,700,000</u>	<u>6,500,000</u>
Unappropriated retained earnings to be carried over to subsequent year	₩ <u>-</u>	<u>-</u>

The Corporation's dividend ratio for the years ended December 31, 2012 and 2011 are 40.05% and 40.39%, respectively. Dates of appropriation of retained earnings for the years ended December 31, 2012 and 2011 are March 22, 2013 and March 27, 2012, respectively.

13. Income Taxes

The components of income tax expense for the years ended December 31, 2012 and 2011 were as follows:

	<u>2012</u>	<u>2011</u>
Current tax expense	₩ 5,895,688	4,734,874
Changes in deferred tax from temporary differences	<u>(496,632)</u>	<u>440,679</u>
Income tax expense	₩ <u>5,399,056</u>	<u>5,175,553</u>

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13. Income Taxes, continued

The income tax expense calculated by applying statutory tax rates to the Corporation's income before income taxes for the year differs from the actual tax expense in the statements of income for the years ended December 31, 2012 and 2011 for the following reasons:

		<u>2012</u>	<u>2011</u>
Income before income tax	₩	24,626,697	21,267,394
Income tax expense at normal tax rates		5,497,660	5,120,309
Tax effects of permanent differences		(32,207)	22,407
Investment tax credit		(2,082)	(3,745)
Other adjustments		<u>(64,315)</u>	<u>36,582</u>
Income tax expense	₩	<u>5,399,056</u>	<u>5,175,553</u>
Effective tax rate		21.92%	24.34%

Changes in temporary differences for the year ended December 31, 2012 and deferred tax assets as of December 31, 2012 were as follows:

		<u>Beginning balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending balance</u>	<u>Deferred tax assets</u>
Appropriation for retirement	₩	50,962	309,128	-	360,090	87,142
Accrued expenses		2,671,358	4,174,086	2,671,358	4,174,086	1,010,128
Property and equipment		203,639	22,808	48,605	177,842	43,038
Allowance for bad debt		<u>5,396</u>	<u>5,050</u>	<u>5,396</u>	<u>5,050</u>	<u>1,222</u>
	₩	<u>2,931,355</u>	<u>4,511,072</u>	<u>2,725,359</u>	<u>4,717,068</u>	<u>1,141,530</u>

Changes in temporary differences for the year ended December 31, 2011 and deferred tax assets as of December 31, 2011 were as follows:

		<u>Beginning balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending balance</u>	<u>Deferred tax assets</u>
Accrued income	₩	(32,945)	-	(32,945)	-	-
Appropriation for retirement		1,447,316	(892,865)	503,489	50,962	11,212
Accrued expenses		2,678,159	2,671,358	2,678,159	2,671,358	587,699
Gain on foreign currency translation		518,681	-	518,681	-	-
Property and equipment		-	203,639	-	203,639	44,800
Allowance for bad debt		<u>6,218</u>	<u>5,396</u>	<u>6,218</u>	<u>5,396</u>	<u>1,187</u>
	₩	<u>4,617,429</u>	<u>1,987,528</u>	<u>3,673,602</u>	<u>2,931,355</u>	<u>644,898</u>

Deferred tax assets have been recognized as the Corporation has determined it is probable that future profits will be available against which the Corporation can utilize the related benefit.

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14. Changes in Accounting Standards

Prior to 2012, the Company had recognized expenses related to compensated absences as profit or loss when the payments of the compensated absences occurred. From 2012, the Corporation adopted the amendment of K-GAAP for Non-Public Entities No.21, "Employee Benefits" ("the Amendment"), which requires the Corporation to recognize expenses and liabilities related to accumulating compensated absences in the reporting period in which the employees render the related services that increase their entitlement to future compensated absences.

Pursuant to the transition rules of the Amendment, the Corporation did not restate comparative financial statements. The accumulated expenses related to accumulating compensated absences prior to 2012 were adjusted against the beginning retained earnings for year ended December 31, 2012. As a result of the amendment, the Corporation's retained earnings and liabilities as of January 1, 2012 decreased and increased by ₩188,765 thousand, respectively.

15. Related Party Transactions

Details of related party as of December 31, 2012 were as follows:

Related party	Relationship
Ministry of Strategy and Finance	Investor

Account balances with a related party as of December 31, 2012 and 2011 were as follows:

	Account		2012	2011
Ministry of Strategy and Finance	Accrued income	₩	20,735,552	11,872,515

Significant transactions which occurred in the normal course of business with related party for the years ended December 31, 2012 and 2011 are as follows:

	Account		2012	2011
Ministry of Strategy and Finance	Investment management fees	₩	59,943,391	45,467,650

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16. General and Administrative Expenses

Details of general and administrative expenses for the years ended December 31, 2012 and 2011 were as follows:

	<u>2012</u>	<u>2011</u>
Salaries and wages	₩ 13,601,921	10,476,410
Accrual for retirement and severance benefits	1,294,878	854,654
Other employee benefits	2,422,705	1,685,959
Advertising	67,823	40,922
Travel	1,078,176	1,068,946
Communications	129,040	120,045
Computer system operation expenses	620,925	452,179
Taxes and dues	209,220	100,780
Rental expenses	2,258,656	1,839,562
Other service fees	921,095	683,652
Depreciation	360,764	260,729
Amortization	277,662	239,721
Business development expenses	165,622	162,138
Business meetings	267,749	252,714
Printings	57,837	49,432
Vehicle maintenance expenses	213,473	196,328
Supplies	80,875	69,371
Repairs and maintenance	39,659	256,264
Utilities	917,455	639,171
Insurance	54,164	48,791
Legal expenses	837	831
Event expenses	79,021	78,582
Research expenses	4,059,088	3,639,323
Training	229,016	194,637
Books and periodicals	27,701	26,237
Prize	7,877	2,368
Bad debt expenses	45,837	-
	<u>₩ 29,489,076</u>	<u>23,439,746</u>

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17. Value Added Information

Details of accounts included in the computation of value added for the years ended December 31, 2012 and 2011 were as follows:

	<u>2012</u>	<u>2011</u>
Salaries and wages	₩ 13,601,921	10,476,410
Accrual for retirement and severance benefits	1,294,878	854,654
Other employee benefits	2,422,705	1,685,959
Taxes and dues	209,220	100,780
Rental expenses	2,258,656	1,839,562
Depreciation	360,764	260,729
Amortization	277,662	239,721

18. Approval of Financial Statements

The Corporation's financial statements were approved by the Board of Directors on March 19, 2013.