

Korea Investment Corporation

Financial Statements

December 31, 2013 and 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 statements of financial position of Korea Investment Corporation (the "Corporation") as of December 31, 2013 and 2012, and the related statements of income, changes in equity and cash flows for the years 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 audits.

We conducted our audits 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, 2013 and 2012 and results of its operations, changes in its equity and its cash flows for the years 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.

KPMG Samjong Accounting Corp.
Seoul, Korea
March 19, 2014

This report is effective as of March 19, 2014, 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, 2013 and 2012

(In thousands of Korean won)

	Note	2013	2012
Assets			
Cash and due from banks	4	₩ 117,607,993	149,739,439
Loans receivable, less allowance for doubtful accounts of ₩8,958 in 2013 and ₩5,050 in 2012		34,952,337	1,004,968
Property and equipment, less accumulated depreciation of ₩1,884,817 in 2013 and ₩1,606,619 in 2012	5	1,663,206	1,546,156
Accounts receivable, less allowance for doubtful accounts of ₩47 in 2013 and ₩954 in 2012		9,342	189,870
Accrued incomes, less allowance for doubtful accounts of ₩274,090 in 2013 and ₩166,508 in 2012		54,544,008	33,135,109
Investments		2,616,258	2,440,736
Intangible assets	7	1,140,193	1,166,892
Deferred tax assets	13	1,488,713	1,141,530
Other assets		79,247	62,050
Total assets		₩ 214,101,297	190,426,750
Liabilities			
Withholdings		₩ 340,098	411,074
Accounts payable		637,545	1,071,136
Accrued expenses		23,621,824	20,132,867
Income tax payable		6,810,667	3,955,118
Provision for retirement and severance benefits	8	3,927,513	2,749,270
Pension plan assets	8	(2,245,486)	(1,872,176)
Total liabilities		33,092,161	26,447,289
Equity			
Capital	11	100,000,000	100,000,000
Retained earnings	12	81,009,136	63,979,461
Total equity		181,009,136	163,979,461
Total liabilities and equity		₩ 214,101,297	190,426,750

See accompanying notes to the financial statements.

Korea Investment Corporation
 Statements of Income
 For the years ended December 31, 2013 and 2012

(In thousands of Korean won)

	Note	2013	2012
Operating revenue			
Investment management fees		₩ 133,787,721	101,542,190
Interest income		4,756,043	5,647,146
Gain on foreign exchange	9	2,592,952	2,453,270
		<u>141,136,716</u>	<u>109,642,606</u>
Operating expenses			
Fee expenses		(71,441,643)	(52,371,646)
Loss on foreign exchange	9	(2,705,830)	(3,231,843)
General and administrative expenses	15	(34,747,529)	(29,489,076)
		<u>(108,895,002)</u>	<u>(85,092,565)</u>
Operating income		<u>32,241,714</u>	<u>24,550,041</u>
Non-operating revenue			
Gain on disposition of property and equipment	5	-	665
Income from pension plan assets		60,039	74,162
Other income		8,323	2,720
		<u>68,362</u>	<u>77,547</u>
Non-operating expenses			
Donations		(30,576)	-
Other expenses		-	(891)
		<u>(30,576)</u>	<u>(891)</u>
Income before income tax		<u>32,279,500</u>	<u>24,626,697</u>
Income tax expense	13	(7,549,825)	(5,399,056)
Net income		<u>₩ 24,729,675</u>	<u>19,227,641</u>

See accompanying notes to the financial statements.

Korea Investment Corporation
 Statements of Changes in Equity
 For the years ended December 31, 2013 and 2012

<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, 2012	₩	100,000,000	-	51,440,585	151,440,585
Cumulative effect of change in accounting standards		-	-	(188,765)	(188,765)
Dividends		-	-	(6,500,000)	(6,500,000)
Net income for the year	12	-	-	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>
Balance at January 1, 2013	₩	100,000,000	-	63,979,461	163,979,461
Dividends		-	-	(7,700,000)	(7,700,000)
Net income for the year	12	-	-	24,729,675	24,729,675
Balance at December 31, 2013	₩	<u>100,000,000</u>	<u>-</u>	<u>81,009,136</u>	<u>181,009,136</u>

See accompanying notes to the financial statements.

Korea Investment Corporation
 Statements of Cash Flows
 For the years ended December 31, 2013 and 2012

(In thousands of Korean won)

	<u>Note</u>	<u>2013</u>	<u>2012</u>
Cash flows from operating activities			
Net income	₩	24,729,675	19,227,641
Adjustments for:			
Severance benefits		1,428,919	1,224,169
Depreciation expenses		505,308	360,764
Amortization expenses		371,312	277,662
Loss on foreign currency translation		175,149	458,388
Provision for allowance for doubtful accounts		110,583	45,837
Gain on foreign currency translation		(120,080)	(315,866)
Gain on disposal of property and equipment		-	(665)
Income from pension plan assets		(60,039)	(74,162)
		<u>2,411,152</u>	<u>1,976,127</u>
Changes in assets and liabilities:			
Decrease (increase) in accounts receivable		181,435	(163,485)
Increase in accrued income		(21,579,401)	(9,531,441)
Decrease (increase) in other assets		(16,844)	209,869
Increase in deferred tax assets		(347,183)	(496,632)
Increase (decrease) in accounts payable		(433,572)	398,534
Increase (decrease) in withholdings		(70,975)	81,106
Increase in accrued expenses		3,496,436	6,006,937
Increase in income tax payable		2,855,549	1,278,260
Payments to severance benefits		(250,676)	(318,098)
Increase in pension plan assets		(313,271)	(221,490)
		<u>(16,478,502)</u>	<u>(2,756,440)</u>
Net cash provided by operating activities		<u>10,662,325</u>	<u>18,447,328</u>
Cash flows from investing activities			
Decrease in time deposits		144,000,000	135,000,000
Decrease in repurchase agreements		34,811,500	-
Collection of loans receivable		220,345	485,826
Refund of leasehold deposits		27,048	1,153,532
Disposal of equipment		-	665
Increase in time deposits		(116,000,000)	(144,000,000)
Increase in repurchase agreements		(67,981,242)	-
Increase in loans receivable		(1,001,880)	(416,724)
Acquisition of equipment		(622,358)	(1,032,610)
Acquisition of intangible assets		(344,613)	(820,807)
Payment for leasehold deposits		(202,571)	(1,639,652)
Net cash used in investing activities		<u>(7,093,771)</u>	<u>(11,269,770)</u>
Cash flows from financing activities			
Dividends paid		(7,700,000)	(6,500,000)
Net cash used in financing activities		<u>(7,700,000)</u>	<u>(6,500,000)</u>
Net increase (decrease) in cash and cash equivalents		(4,131,446)	677,558
Cash and cash equivalents at beginning of year	4	<u>5,739,439</u>	<u>5,061,881</u>
Cash and cash equivalents at end of year		<u>₩ 1,607,993</u>	<u>5,739,439</u>

See accompanying notes to the financial statements.

Korea Investment Corporation
Notes to the Financial Statements
For the years ended December 31, 2013 and 2012

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, 2013, 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 assets entrusted by the trust institutions, and related survey and research activities. 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.

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:

	<u>Useful lives</u>	<u>Depreciation method</u>
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, 2013, the percentage of loss by risk classification applied in order to determine the allowance for bad debts are as follows:

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

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.

Korea Investment Corporation
Notes to the Financial Statements
For the years ended December 31, 2013 and 2012
(In thousands of Korean won)

4. Cash and Due from Banks

Cash and due from banks as of December 31, 2013 and 2012 were as follows:

	Annual interest rate (%)		2013	2012
Cash and cash equivalents				
Money market deposit accounts	0.10 ~ 1.80	₩	134,381	176,014
Money market fund	-		-	2,000,000
Ordinary deposits	0.10		10,725	10,976
Foreign currency deposits	0 ~ 0.03		1,462,887	2,852,449
Bonds purchased under reverse repurchase agreement	3.10		-	700,000
			<u>1,607,993</u>	<u>5,739,439</u>
Time deposits	2.70 ~ 2.87		116,000,000	144,000,000
		₩	<u>117,607,993</u>	<u>149,739,439</u>

5. Property and Equipment

Changes in property and equipment for the years ended December 31, 2013 and 2012 were as follows:

		Beginning balance	Acquisition	Disposal (*)	Depreciation	Ending balance
December 31, 2013						
Computer equipment	₩	1,100,693	516,703	-	(377,460)	1,239,936
Office equipment		445,463	105,655	-	(127,848)	423,270
	₩	<u>1,546,156</u>	<u>622,358</u>	<u>-</u>	<u>(505,308)</u>	<u>1,663,206</u>

(*) Fully-depreciated computer equipment was disposed for the year ended December 31, 2013. Its acquisition cost was ₩227,111 thousand, and no gain or loss on disposition of property and equipment was recognized for the year ended December 31, 2013.

Korea Investment Corporation
Notes to the Financial Statements
For the years ended December 31, 2013 and 2012
(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, 2012						
Computer equipment	₩	634,049	739,101	-	(272,457)	1,100,693
Office equipment		240,261	293,509	-	(88,307)	445,463
	₩	<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. The respective acquisition costs were ₩198,184 thousand, ₩203,403 thousand and ₩772,982 thousand at the disposition date. Total gain on disposition of property and equipment of ₩665 thousand was recognized for the year ended December 31, 2012.

6. Insured Assets

Insurance contract maintained by the Corporation as of December 31, 2013 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	₩ 1,239,935	5,263,859	HeungKuk Fire & Marine Insurance
	Office equipment	423,271		

7. Intangible Assets

Changes in intangible assets for the years ended December 31, 2013 and 2012 were as follows:

		<u>Development costs</u>	<u>Other intangible assets</u>	<u>Total</u>
Net balance at the beginning of 2013	₩	461,547	705,345	1,166,892
Additions		-	344,613	344,613
Amortization (*)		(152,065)	(219,247)	(371,312)
Net balance at the end of 2013	₩	<u>309,482</u>	<u>830,711</u>	<u>1,140,193</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>

(*) 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, 2013 and 2012
(In thousands of Korean won)

8. Retirement and Severance Benefits

Changes in retirement and severance benefits for the years ended December 31, 2013 and 2012 were as follows:

	<u>2013</u>	<u>2012</u>
Provision for retirement and severance benefits at beginning of year	₩ 2,749,270	1,843,199
Payments	(250,676)	(318,098)
Accrual for retirement and severance benefits	<u>1,428,919</u>	<u>1,224,169</u>
Provision for retirement and severance benefits at end of year	<u>₩ 3,927,513</u>	<u>2,749,270</u>

Pension plan assets as of December 31, 2013 and 2012 were as follows:

	<u>2013</u>	<u>2012</u>
Time deposits	₩ 336,614	449,432
Available-for-sale securities	994,889	760,659
Others	<u>913,983</u>	<u>662,085</u>
	<u>₩ 2,245,486</u>	<u>1,872,176</u>

Changes in pension plan assets for the years ended December 31, 2013 and 2012 were as follows:

	<u>2013</u>	<u>2012</u>
Beginning balance	₩ 1,872,176	1,576,523
Increase	597,408	375,878
Decrease	<u>(224,098)</u>	<u>(80,225)</u>
Ending balance	<u>₩ 2,245,486</u>	<u>1,872,176</u>

The expenses related to defined contribution plan recognized for the years ended December 31, 2013 and 2012 were ₩91,208 thousand and ₩70,709 thousand, respectively.

Korea Investment Corporation
Notes to the Financial Statements

For the years ended December 31, 2013 and 2012

(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, 2013 were as follows:

		<u>Foreign currency</u>		<u>Exchange rate</u>		<u>Translation into won</u>
Assets						
Deposits	USD	1,215,647	₩	1,055.30	₩	1,282,872
	GBP	103,417		1,740.66		180,015
Accrued income	USD	50,257,983		1,055.30		53,037,249
					₩	<u>54,500,136</u>
Liabilities						
Accounts payable	USD	73,263		1,055.30	₩	77,315
	GBP	25,907		1,740.66		45,095
Accrued expenses	USD	17,593,757		1,055.30		18,566,691
	GBP	3,647		1,740.66		6,348
					₩	<u>18,695,449</u>

In relation to the foreign currency translations, the Corporation recognized operating revenue of ₩120,080 thousand and operating expenses of ₩509,280 thousand for the year ended December 31, 2013.

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>

Korea Investment Corporation
Notes to the Financial Statements

For the years ended December 31, 2013 and 2012

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

10. Commitments and Contingencies

As of December 31, 2013, 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 72,003,106,504 as of December 31, 2013.

There were no pending litigations as of December 31, 2013.

11. Capital

The capital and investor as of December 31, 2013 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, 2013 and 2012 were as follows:

	<u>2013</u>	<u>2012</u>
Earning reserve (*)	₩ 12,384,582	10,461,818
Voluntary reserve	43,894,879	34,478,767
Unappropriated retained earnings	<u>24,729,675</u>	<u>19,038,876</u>
Total retained earnings	₩ <u>81,009,136</u>	<u>63,979,461</u>

(*) According to 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 half of its capital.

Korea Investment Corporation
Notes to the Financial Statements
For the years ended December 31, 2013 and 2012
(In thousands of Korean won)

12. Retained Earnings, Continued

Statements of appropriation of retained earnings for the years ended December 31, 2013 and 2012 were as follows:

	<u>2013</u>	<u>2012</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>24,729,675</u>	<u>19,227,641</u>
Balance at the end of year before appropriation	<u>₩ 24,729,675</u>	<u>19,038,876</u>
Appropriation of retained earnings		
Earning reserve	₩ 2,472,967	1,922,764
Voluntary reserve	9,856,708	9,416,112
Dividends (*)	<u>12,400,000</u>	<u>7,700,000</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, 2013 and 2012 are 50.14% and 40.05%, respectively. Dates of appropriation of retained earnings for the years ended December 31, 2013 and 2012 are March 19, 2014 and March 22, 2013, respectively.

13. Income Taxes

The components of income tax expense for the years ended December 31, 2013 and 2012 were as follows:

	<u>2013</u>	<u>2012</u>
Current tax expense	₩ 7,897,008	5,895,688
Changes in deferred tax from temporary differences	<u>(347,183)</u>	<u>(496,632)</u>
Income tax expense	<u>₩ 7,549,825</u>	<u>5,399,056</u>

Korea Investment Corporation
Notes to the Financial Statements
For the years ended December 31, 2013 and 2012
(In thousands of Korean won)

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, 2013 and 2012 for the following reasons:

		<u>2013</u>	<u>2012</u>
Income before income tax	₩	32,279,500	24,626,697
Income tax expense at normal tax rates		7,349,639	5,497,660
Tax effects of permanent differences		20,382	(32,207)
Investment tax credit		(4,753)	(2,082)
Supplementary payment of income taxes		184,155	-
Other adjustments		<u>402</u>	<u>(64,315)</u>
Income tax expense	₩	<u>7,549,825</u>	<u>5,399,056</u>
Effective tax rate		23.39%	21.92%

Changes in temporary differences for the year ended December 31, 2013 and deferred tax assets as of December 31, 2013 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	₩	360,090	798,901	48,768	1,110,223	268,674
Accrued expenses		4,174,086	4,812,303	4,174,026	4,812,363	1,164,592
Property and equipment		177,842	92,698	50,379	220,161	53,279
Allowance for bad debt		<u>5,050</u>	<u>8,958</u>	<u>5,050</u>	<u>8,958</u>	<u>2,168</u>
	₩	<u>4,717,068</u>	<u>5,712,860</u>	<u>4,278,223</u>	<u>6,151,705</u>	<u>1,488,713</u>

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>

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. Related Party Transactions

Details of related party as of December 31, 2013 were as follows:

Related party	Relationship
Ministry of Strategy and Finance	Investor

Account balances with a related party as of December 31, 2013 and 2012 were as follows:

	Account		2013	2012
Ministry of Strategy and Finance	Accrued income	₩	43,312,356	20,735,552

Significant transactions which occurred in the normal course of business with the related party for the years ended December 31, 2013 and 2012 are as follows:

	Account		2013	2012
Ministry of Strategy and Finance	Investment management fees	₩	93,766,322	59,943,391

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15. General and Administrative Expenses

Details of general and administrative expenses for the years ended December 31, 2013 and 2012 were as follows:

	<u>2013</u>	<u>2012</u>
Salaries and wages	₩ 16,282,379	13,601,921
Accrual for retirement and severance benefits	1,520,127	1,294,878
Other employee benefits	3,022,316	2,422,705
Advertising	109,910	67,823
Travel	1,243,667	1,078,176
Communications	129,980	129,040
Computer system operation expenses	679,858	620,925
Taxes and dues	194,654	209,220
Rental expenses	2,668,659	2,258,656
Other service fees	1,027,155	921,095
Depreciation	505,308	360,764
Amortization	371,312	277,662
Business development expenses	138,884	165,622
Business meetings	284,404	267,749
Printings	53,385	57,837
Vehicle maintenance expenses	220,143	213,473
Supplies	90,297	80,875
Repairs and maintenance	114,753	39,659
Utilities	928,674	917,455
Insurance	74,103	54,164
Legal expenses	328	837
Event expenses	98,074	79,021
Research expenses	4,500,066	4,059,088
Training	341,758	229,016
Books and periodicals	30,524	27,701
Prize	6,228	7,877
Bad debt expenses	110,583	45,837
	<u>₩ 34,747,529</u>	<u>29,489,076</u>

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16. Value Added Information

Details of accounts included in the computation of value added for the years ended December 31, 2013 and 2012 were as follows:

	<u>2013</u>	<u>2012</u>
Salaries and wages	₩ 16,282,379	13,601,921
Accrual for retirement and severance benefits	1,520,127	1,294,878
Other employee benefits	3,022,316	2,422,705
Taxes and dues	194,654	209,220
Rental expenses	2,668,659	2,258,656
Depreciation	505,308	360,764
Amortization	371,312	277,662

17. Date of Authorization for issue

The Corporation's financial statements were authorized for issue on March 14, 2014, at a Board of Directors meeting, which will be submitted for approval to the Steering Committee to be held on March 19, 2014.