

Korea Investment Corporation

Financial Statements

December 31, 2016 and 2015

(With an Independent Auditors' Report)

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Independent Auditors' Report

Based on a report originally issued in Korean

To the Board of Directors
Korea Investment Corporation:

We have audited the accompanying financial statements of the Korea Investment Corporation (the "Corporation"), which comprise the statements of financial position as of December 31, 2016 and 2015, the statements of income, changes in equity and cash flows for the years then ended, and notes, including a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the Accounting Standards for Non-Public Entities in the Republic of Korea, and for such internal control as management determines necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with the Korean Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including assessments of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the Corporation's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2016 and 2015 and its financial performance and cash flows for the years then ended in accordance with generally accepted accounting principles in the Republic of Korea.

Other Matters

Accounting principles, auditing standards and their application vary among countries. The accompanying financial statements are not intended to present the financial position, results of operations 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 used 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 procedures and auditing standards and their application.

Grant Thornton Daejeon

Seoul, Korea

March 14, 2017

This audit report is effective as of March 14, 2017, the report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time this report is read, could have a material impact on the accompanying financial statements and notes thereto. Accordingly, readers should understand that this audit report has not been updated to reflect the impact of such subsequent events or circumstances, if any.

Korea Investment Corporation
Statements of Financial Positions
As of December 31, 2016 and 2015

<i>(KRW thousand)</i>	<u>Notes</u>	<u>2016</u>	<u>2015</u>
Assets			
Cash and due from banks	4,11	₩ 146,946,991	134,139,017
Securities	5,6,19	43,393,508	43,793,459
Property and equipment	7,8	1,879,225	2,200,743
Accounts receivable, less allowance for doubtful accounts of ₩-- in 2016 and ₩ 1 in 2015		50	135
Accrued incomes, less allowance for doubtful accounts of ₩ 245,257 in 2016 and ₩ 571,559 in 2015	11,16	48,806,138	54,040,271
Investments		3,339,988	3,667,893
Intangible assets	9	1,605,771	1,566,974
Deferred tax assets	15	2,155,381	2,159,005
Other assets	11	61,269	64,358
Total assets		<u>₩ 248,188,321</u>	<u>241,631,855</u>
Liabilities			
Withholdings		₩ 753,364	623,087
Accounts payable	11	574,387	611,014
Accrued expenses	11	31,039,625	30,398,100
Income tax payable		5,440,133	5,692,837
Provision for retirement and severance benefits	10	8,006,113	6,453,983
Pension plan assets		(7,376,942)	(4,869,365)
Total liabilities		<u>38,436,680</u>	<u>38,909,656</u>
Equity			
Capital	1,13	100,000,000	100,000,000
Retained earnings	14	109,751,641	102,722,199
Total equity		<u>209,751,641</u>	<u>202,722,199</u>
Total liabilities and equity		<u>₩ 248,188,321</u>	<u>241,631,855</u>

See accompanying notes to the financial statements.

Korea Investment Corporation
Statements of Income
For the years ended December 31, 2016 and 2015

(KRW thousand)

	<i>Notes</i>	2016	2015
Operating revenue			
Investment management fees	16	₩ 165,012,964	155,716,981
Gain on foreign exchange	11	7,468,500	5,101,151
Interest income		2,347,738	3,000,228
Dividend income		1,029,477	485,470
Gain on financial assets at fair value through profit or loss		-	27,948
Reversal of allowance for bad debt		27,518	200,020
		<u>175,886,197</u>	<u>164,531,798</u>
Operating expenses			
Fee expenses		(84,554,436)	(83,916,409)
Loss on foreign exchange	11	(7,282,308)	(5,147,040)
Loss on financial assets at fair value through profit or loss		(341,952)	-
General and administrative expenses	17, 18	(55,306,718)	(52,180,062)
		<u>(147,485,414)</u>	<u>(141,243,511)</u>
Operating income		<u>28,400,783</u>	<u>23,288,287</u>
Non-operating revenue			
Gain on disposal of property and equipment		-	400
Income from pension plan assets		110,719	126,724
Equity income on investments	6	627,105	801,894
Other income		34	4,004
		<u>737,858</u>	<u>933,022</u>
Non-operating expenses			
Donations		(121,229)	(109,667)
		<u>(121,229)</u>	<u>(109,667)</u>
Income before income tax		<u>29,017,412</u>	<u>24,111,642</u>
Income tax expense	15	(7,006,088)	(5,384,288)
Net income	₩	<u><u>22,011,324</u></u>	<u><u>18,727,354</u></u>

See accompanying notes to the financial statements.

Korea Investment Corporation
 Statements of Changes in Equity
 For the years ended December 31, 2016 and 2015

<i>(KRW thousand)</i>	<u>Notes</u>	<u>Capital</u>	<u>Retained earnings</u>	<u>Total equity</u>
Balance on January 1, 2015	₩	100,000,000	119,994,845	219,994,845
Dividends		-	(36,000,000)	(36,000,000)
Net income for the year		-	18,727,354	18,727,354
Balance on December 31, 2015	₩	<u>100,000,000</u>	<u>102,722,199</u>	<u>202,722,199</u>
Balance on January 1, 2016	₩	100,000,000	102,722,199	202,722,199
Dividends		-	(14,981,882)	(14,981,882)
Net income for the year		-	22,011,324	22,011,324
Balance on December 31, 2016	₩	<u>100,000,000</u>	<u>109,751,641</u>	<u>209,751,641</u>

See accompanying notes to the financial statements.

Korea Investment Corporation
Statements of Cash Flows
For the years ended December 31, 2016 and 2015

<i>(KRW thousand)</i>	<u>Notes</u>	<u>2016</u>	<u>2015</u>
Cash flows from operating activities			
Net income	₩	22,011,324	18,727,354
Adjustments for:			
Severance benefits		2,228,712	1,809,873
Depreciation		839,604	787,178
Amortization		583,691	480,262
Loss on foreign currency translation		936,452	267,015
Provision for allowance for doubtful accounts		1,215	-
Loss on financial assets at fair value through profit or loss		341,952	-
Gain on foreign currency translation		(1,957,814)	(451,730)
Gain on financial assets at fair value through profit or loss		-	(27,948)
Reversal of allowance for bad debt		(27,518)	(200,020)
Gain on disposal of property and equipment		-	(400)
Income from pension plan assets		(110,719)	(126,724)
Equity income on investments		(627,105)	(801,894)
Changes in assets and liabilities:			
Decrease (increase) in accounts receivable		85	1,900
Decrease (increase) in accrued income		7,209,443	40,449,376
Decrease (increase) in other assets		3,475	30,259
Decrease (increase) in deferred tax assets		3,624	(314,778)
Increase (decrease) in accounts payable		(47,517)	(556,460)
Increase (decrease) in withholdings		130,278	138,600
Increase (decrease) in accrued expenses		(284,037)	3,053,509
Increase (decrease) in income tax payable		(252,704)	(10,233,166)
Payments to severance benefits		(676,583)	(618,240)
Increase (decrease) in pension plan assets		(2,396,858)	(1,079,309)
Net cash provided by operating activities		<u>27,909,000</u>	<u>51,334,657</u>
Cash flows from investing activities			
Decrease in time deposits included in cash and due from banks		136,937,604	120,000,000
Decrease in held-to-maturity securities		-	8,143,605
Decrease in investments in associates and subsidiaries		685,103	655,781
Disposal of property and equipment		-	400
Refund of leasehold deposits		587,902	60,357
Increase in time deposits		(103,437,604)	(122,500,000)
Increase in certificate of deposit		(49,000,000)	-
Increase in financial assets at fair value through profit or loss		-	(24,200,000)
Acquisition of property and equipment		(518,086)	(774,450)
Acquisition of intangible assets		(622,489)	(785,275)
Payment for leasehold deposits		(54,635)	(35,991)
Acquisition of other investment assets		(196,938)	-
Net cash used in investing activities		<u>(15,619,143)</u>	<u>(19,435,573)</u>
Cash flows from financing activities			
Dividends paid	₩	(14,981,883)	(36,000,000)
Net cash used in financing activities		<u>(14,981,883)</u>	<u>(36,000,000)</u>

Korea Investment Corporation
Statements of Cash Flows
For the years ended December 31, 2016 and 2015

(KRW thousand)

	<u>Notes</u>	<u>2016</u>	<u>2015</u>
Net increase (decrease) in cash and cash equivalents	₩	(2,692,026)	(4,100,916)
Cash and cash equivalents at beginning of year	4	<u>7,639,017</u>	<u>11,739,933</u>
Cash and cash equivalents at end of year	₩	<u><u>4,946,991</u></u>	<u><u>7,639,017</u></u>

See accompanying notes to the financial statements.

Korea Investment Corporation
Notes to the Financial Statements
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1. Reporting Entity

The Korea Investment Corporation (the “Corporation”) was incorporated on July 1, 2005 under the Korea Investment Corporation Act, and is engaged in the investing of assets entrusted by the Korean government (the “Government”) and the Bank of Korea. As of December 31, 2016, 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 the 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 based on the decisions of the Steering Committee. It is located at #100, Toegye-ro, Jung-gu, Seoul, Korea. The Capital and investor as of December 31, 2016 is summarized as follows.

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

2. Basis of Preparation

(1) Statement of Compliance

The financial statements of the Corporation are prepared in accordance with the Accounting Standards for Non-Public Entities in the Republic of Korea (“K-GAAP for Non-Public Entities”), which have been effective since the fiscal year beginning January 1, 2011.

(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

Preparation of the financial statements in conformity with K-GAAP for Non-Public Entities requires that management 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 subject to an insignificant risk of changes in value. The Corporation considers investments with maturities of three months or less on the acquisition date to be cash and cash equivalents.

(2) Financial instruments

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Upon acquisition, the Corporation classifies debt and equity securities (excluding investments in subsidiaries, associates, and joint ventures) into the following categories: held-to-maturity, available-for-sale, and trading securities. The Corporation reviews their classification at the end of each reporting period.

Investments in debt securities that the Corporation has the positive intent and ability to hold to maturity are classified as held-to-maturity. Securities acquired principally for the purpose of selling in the short term are classified as trading securities. Investments not classified as either held-to-maturity or trading securities are classified as available-for-sale securities.

Upon initial recognition, non-derivative financial instruments (other than financial instruments at fair value through profit or loss) are measured at their fair value; plus (less) transaction costs that are directly attributable to the acquisition of a financial asset or issuance of a financial instrument. Trading securities and available-for-sale securities are subsequently carried at fair value. Available-for-sale equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recognized at cost.

For equity securities that have a quoted market price, their market price is considered to be fair value and the market price is the closing price on the reporting date. For debt securities that do not have a quoted market price in an active market, fair value is measured at discounted estimated future cash flows. The discount rate used is the corresponding rate reflecting the debt securities' credit rating as quoted by a credit rating agency, if any. For investment funds that do not have a quoted market price in an active market, their fair value is the standard selling price as reported by the fund management agent.

Gains and losses arising from changes in the fair value of trading securities are included in the statement of income in the period in which they arise. Gains and losses arising from changes in the fair value of available-for-sale securities (net of tax) are recognized as other comprehensive income directly in equity. Accumulated other comprehensive income is recognized as profit or loss when the investments are impaired or sold. Subsequently, held-to-maturity investments are carried at amortized cost and interest income is recognized in profit or loss using the effective interest method.

At each reporting date, the Corporation reviews whether events or changes in circumstances indicate that the carrying amount of the investments may not be recoverable. Impairment losses are recognized when the reliably estimated recoverable amounts are less than the carrying amount and it is not obviously evidenced that impairment is unnecessary. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss is recorded and the reversal of an impairment loss does not exceed the carrying amount that would have been determined without having recognized an impairment loss in prior years. The reversal is recognized in profit or loss.

(3) Financial assets at fair value through profit or loss

The Corporation may designate equity securities as financial assets at fair value through profit or loss upon initial recognition. Upon initial recognition, financial assets at fair value through profit or loss are measured at their fair value; plus (less) transaction costs that are directly attributable to acquisition. For financial assets that have a quoted market price, their market price is considered to be fair value and the market price is the closing price on the reporting date. Gains and losses arising from changes in the fair value of financial assets at fair value through profit or loss are included in the statement of income in the period in which they arise.

(4) Investments in associates and subsidiaries

Investments in associates and subsidiaries in which the Corporation has the ability to significantly influence financial and operating policies are accounted for using the equity method and are initially recognized at cost. The Corporation's share of its post-acquisition profits or losses in investments in associates and subsidiaries is recognized in the statement of income, and its share of post-acquisition movements in equity is recognized in equity. The cumulative post-acquisition movements are adjusted against the carrying amount of each investment. When the Corporation's share of losses in an

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associate or subsidiary equals or exceeds its interest in the associate or subsidiary, including preferred stock or other long-term loans and receivables issued by the associate or subsidiary, the Corporation does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate or subsidiary.

Unrealized gains on transactions between the Corporation and its investees using the equity method (“associates”) that are not subsidiaries are eliminated to the extent of the Corporation’s interest in each associate.

If an associate or a subsidiary uses accounting policies or estimates other than those of the Corporation for like transactions and events in similar circumstances, the Corporation makes appropriate adjustments to conform the associate’s or subsidiary’s accounting policies to those of the Corporation when they are accounted for by the Corporation using the equity method. However, in the event that accounting policies and estimates differ due to the application of Article 31 of the Exceptions to Accounting for Small and Medium-Sized Entities or K-IFRS, no adjustments are made.

(5) Property and equipment

Property and equipment are initially measured at cost. The cost of property and equipment includes 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
Leasehold assets	5 years	Straight-line method

(6) 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).

(7) 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.

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(8) 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 Financial Investment Services. As of December 31, 2016, 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%

(9) 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 the 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.

(10) Income taxes

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.

(11) Foreign currency transactions

① Functional and presentation currency

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

② Foreign currency transactions

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.

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4. Cash and Due From Banks

Cash and due from banks as of December 31, 2016 and 2015 were as follows:

	Annual interest rate (%)		2016	2015
Cash and cash equivalents				
Money market deposit accounts	0.80	₩	69,854	72,842
Money market trust	1.27~1.30		681,805	3,869,992
Ordinary deposits	0.10		49,156	70,156
Foreign currency deposits	0.01~0.04		4,146,176	3,626,027
			<u>4,946,991</u>	<u>7,639,017</u>
Time deposits	1.65~3.02		93,000,000	126,500,000
Certificate of deposit	1.47~1.72		49,000,000	-
			<u>142,000,000</u>	<u>126,500,000</u>
		₩	<u>146,946,991</u>	<u>134,139,017</u>

5. Financial Assets at Fair Value Through Profit or Loss Included in Securities Account

Financial assets at fair value through profit or loss as of December 31, 2016 and 2015 are summarized as follows:

		2016		2015
		Acquisition cost	Fair value	Book value
IGIS No. 43	₩	27,400,000	27,085,996	27,427,948

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6. Investments in Associates and Subsidiaries Included in Securities Account

Investments in companies accounted for using the equity method as of December 31, 2016 and 2015 are summarized as follows:

		2016		
		Percentage of Ownership	Acquisition cost	Book value
K-REALTY VI	₩	40%	16,000,000	16,307,512

		2015		
		Percentage of ownership	Acquisition cost	Book value
K-REALTY VI	₩	40%	16,000,000	16,365,511

Changes in the balances of investments in companies accounted for using the equity method of accounting for the year ended December 31, 2016 and 2015 were as follows:

		Beginning balance	Equity gain	Collection	Book value
K-REALTY VI	₩	16,365,511	627,104	(685,103)	16,307,512

		2015				
		Beginning balance	Correction of error	Equity gain	Collection	Book value
K-REALTY VI	₩	16,219,397	-	801,894	(655,780)	16,365,511
IGIS No. 43(*)		3,200,000	(3,200,000)	-	-	-
	₩	<u>19,419,397</u>	<u>(3,200,000)</u>	<u>801,894</u>	<u>(655,780)</u>	<u>16,365,511</u>

(*) The beneficiary certificates acquired to operate surplus funds for the year ended December 31, 2014 were altered to financial assets at fair value through profit or loss from investments in associates and subsidiaries for the year ended December 31, 2015. (See Note 19)

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The financial information of equity-accounted investments, which represent 100% of the entities' balances as of and for the year ended December 31, 2016 and 2015, are summarized as follows:

		2016			
		<u>Total assets</u>	<u>Total liabilities</u>	<u>Operating revenue</u>	<u>Net income</u>
K-REALTY VI	₩	96,339,204	56,961,468	4,659,714	693,454

		2015			
		<u>Total assets</u>	<u>Total liabilities</u>	<u>Operating revenue</u>	<u>Net income</u>
K-REALTY VI	₩	98,192,266	58,180,595	4,891,390	1,033,445

7. Property and Equipment

Changes in property and equipment for the years ended December 31, 2016 and 2015 were as follows:

		2016				
		<u>Beginning balance</u>	<u>Acquisition</u>	<u>Disposal (*)</u>	<u>Depreciation</u>	<u>Ending balance</u>
Computer equipment	₩	1,453,140	463,127	-	(596,778)	1,319,489
Office equipment		590,735	54,959	-	(207,933)	437,761
Leasehold assets		156,868	-	-	(34,893)	121,975
	₩	<u>2,200,743</u>	<u>518,086</u>	<u>--</u>	<u>(839,604)</u>	<u>1,879,225</u>

(*) Fully-depreciated computer equipment and office equipment were disposed for the year ended December 31, 2016. Its acquisition costs were ₩35,669 thousand and ₩42,749 thousand.

		2015				
		<u>Beginning balance</u>	<u>Acquisition</u>	<u>Disposal (*)</u>	<u>Depreciation</u>	<u>Ending balance</u>
Computer equipment	₩	1,524,443	483,072	-	(554,375)	1,453,140
Office equipment		686,317	119,672	-	(215,254)	590,735
Leasehold assets		2,711	171,706	-	(17,549)	156,868
	₩	<u>2,213,471</u>	<u>774,450</u>	<u>-</u>	<u>(787,178)</u>	<u>2,200,743</u>

(*) Fully-depreciated computer equipment and office equipment were disposed for the year ended December 31, 2015. Its acquisition costs were ₩18,566 thousand and ₩35,291 thousand.

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8. Insured Assets

Insurance contracts maintained by the Corporation as of December 31, 2016 were as follows:

Category of insurance	Classification	Insured assets	Book value	Insured amount	Insurance company
Movables comprehensive insurance	Korea	Computer equipment	₩ 1,225,424	6,701,335	HeungKuk Fire & Marine Insurance
		Office equipment	237,916		
	New York	Computer equipment	71,267	USD 400,000	Samsung Fire and Marine Insurance
		Office equipment	172,140		
	London	Leasehold assets	121,975	GBP 106,000	Iprism
		Computer equipment	22,798		
		Office equipment	27,706		

9. Intangible Assets

Changes in intangible assets for the years ended December 31, 2016 and 2015 were as follows:

		Development costs	Other intangible assets	Total
Net balance at the beginning of 2016	₩	608,811	958,163	1,566,974
Additions		255,020	367,468	622,488
Amortization (*)		(211,871)	(371,820)	(583,691)
Net balance at the end of 2016	₩	651,960	953,811	1,605,771
Net balance at the beginning of 2015	₩	389,095	872,865	1,261,960
Additions		382,143	403,132	785,275
Amortization (*)		(162,427)	(317,834)	(480,261)
Net balance at the end of 2015	₩	608,811	958,163	1,566,974

(*) Amortization costs are reflected in the general and administrative expenses of the statements of income.

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10. Retirement and Severance Benefits

Changes in retirement and severance benefits for the years ended December 31, 2016 and 2015 were as follows:

	<u>2016</u>	<u>2015</u>
Provision for retirement and severance benefits at beginning of year	₩ 6,453,983	5,262,350
Payments	(676,583)	(618,240)
Accrual for retirement and severance benefits	<u>2,228,713</u>	<u>1,809,873</u>
Provision for retirement and severance benefits at end of year	<u>₩ 8,006,113</u>	<u>6,453,983</u>

Pension plan assets as of December 31, 2016 and 2015 were as follows:

	<u>2016</u>	<u>2015</u>
Available-for-sale securities	₩ 6,355,374	3,366,106
Other	<u>1,021,568</u>	<u>1,503,259</u>
	<u>₩ 7,376,942</u>	<u>4,869,365</u>

Changes in pension plan assets for the years ended December 31, 2016 and 2015 were as follows:

	<u>2016</u>	<u>2015</u>
Beginning balance	₩ 4,869,365	3,663,333
Increase	3,095,941	1,573,145
Decrease	<u>(588,364)</u>	<u>(367,113)</u>
Ending balance	<u>₩ 7,376,942</u>	<u>4,869,365</u>

Expenses related to defined contribution plans recognized for the years ended December 31, 2016 and 2015 were ₩172,208 thousand and ₩163,925 thousand, respectively.

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11. Assets and Liabilities Denominated in Foreign Currencies

Assets and liabilities denominated in foreign currencies as of December 31, 2016 were as follows:

		<u>Foreign currency</u>		<u>Exchange rate</u>		<u>Translated into won</u>
Assets						
Deposits	USD	3,259,046.33	₩	1,208.50	₩	3,938,557
	GBP	140,266.78		1,480.17		207,619
Accrued income	USD	39,294,542.01		1,208.50		47,487,454
Other assets	USD	304,800.82		1,208.50		368,352
	GBP	209,205.98		1,480.17		309,660
					₩	<u>52,311,642</u>
Liabilities						
Accounts payable	USD	257,366.36		1,208.50	₩	311,027
	GBP	104,431.68		1,480.17		154,577
Accrued expenses	USD	18,348,227.29		1,208.50		22,173,833
	GBP	6,058.28		1,480.17		8,967
					₩	<u>22,648,404</u>

Regarding foreign currency translations, the Corporation recognized operating revenue of ₩2,326,039 thousand and operating expenses of ₩936,452 thousand for the year ended December 31, 2016.

Assets and liabilities denominated in foreign currencies as of December 31, 2015 were as follows:

		<u>Foreign currency</u>		<u>Exchange rate</u>		<u>Translated into won</u>
Assets						
Deposits	USD	3,008,737.30	₩	1,172.00	₩	3,526,240
	GBP	57,483.95		1,735.91		99,787
Accrued income	USD	45,214,010.05		1,172.00		52,990,820
					₩	<u>56,616,847</u>
Liabilities						
Accounts payable	USD	264,604.43		1,172.00	₩	310,116
	GBP	38,346.04		1,735.91		66,565
Accrued expenses	USD	18,862,228.39		1,172.00		22,106,532
	GBP	3,234.54		1,735.91		5,615
					₩	<u>22,488,828</u>

12. Commitments and Contingencies

As of December 31, 2016, 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 110,788,469,117 as of December 31, 2016.

There were no pending litigations as of December 31, 2016.

Seoul Guarantee Insurance has provided the Company with 18 million won for contract guarantee.

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13. Capital

Capital as of December 31, 2016 and 2015 were as follows:

		<u>2016</u>	<u>2015</u>
Authorized capital	₩	1,000,000,000	1,000,000,000
Capital issued		100,000,000	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.

14. Retained Earnings

Retained earnings as of December 31, 2016 and 2015 were as follows:

		<u>2016</u>	<u>2015</u>
Earning reserve (*)	₩	21,868,856	19,996,120
Voluntary reserve		65,871,461	63,998,725
Unappropriated retained earnings		<u>22,011,324</u>	<u>18,727,354</u>
Total retained earnings	₩	<u>109,751,641</u>	<u>102,722,199</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.

Statements of appropriation of retained earnings for the years ended December 31, 2016 and 2015 were as follows:

		<u>2016</u>	<u>2015</u>
Unappropriated retained earnings			
Balance at beginning of year	₩	-	-
Cumulative effect of change in accounting standards		-	-
Net income for the year		<u>22,011,324</u>	<u>18,727,354</u>
Balance at end of year before appropriation	₩	<u>22,011,324</u>	<u>18,727,354</u>
Appropriation of retained earnings			
Earning reserve	₩	2,201,132	1,872,736
Voluntary reserve		2,201,133	1,872,735
Dividends (*)		<u>17,609,059</u>	<u>14,981,883</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, 2016 and 2015 are 80.00% and 80.00%, respectively.

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15. Income Taxes

The components of income tax expense for the years ended December 31, 2016 and 2015 were as follows:

	<u>2016</u>	<u>2015</u>
Current tax expense	₩ 6,558,416	5,699,066
Changes in deferred tax from temporary differences	3,624	(314,778)
Supplementary payment of income taxes	444,048	-
Income tax expense	₩ <u>7,006,088</u>	<u>5,384,288</u>

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, 2016 and 2015 for the following reasons:

	<u>2016</u>	<u>2015</u>
Income before income tax	₩ 29,017,412	24,111,642
Income tax expense at statutory tax rates	6,560,214	5,373,017
Tax effects of permanent differences	1,499	15,604
Investment tax credit	(1,348)	(4,333)
Other adjustments	445,723	-
Income tax expense	₩ <u>7,006,088</u>	<u>5,384,288</u>
Effective tax rate	24.14%	22.33%

Changes in temporary differences for the year ended December 31, 2016 and deferred tax assets as of December 31, 2016 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	₩ 1,132,449	(867,229)	(118,784)	146,436	35,438
Accrued expenses	7,930,845	8,525,853	(7,930,845)	8,525,853	2,063,257
Securities under equity method	(365,511)	(307,512)	365,511	(307,512)	(74,418)
Financial assets at fair value through profit or loss	(27,948)	314,004	27,948	314,004	75,989
Property and equipment	251,672	66,849	(90,771)	227,750	55,115
	₩ <u>8,921,507</u>	<u>7,731,965</u>	<u>(7,746,941)</u>	<u>8,906,531</u>	<u>2,155,381</u>

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Changes in temporary differences for the year ended December 31, 2015 and deferred tax assets as of December 31, 2015 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	₩ 1,092,455	51,959	(11,965)	1,132,449	274,053
Accrued expenses	6,645,402	7,930,845	(6,645,403)	7,930,844	1,919,264
Held-to-maturity	(143,605)	-	143,605	-	-
Securities under equity method	(219,397)	(365,511)	219,397	(365,511)	(88,454)
Financial assets at fair value through profit or loss	-	(27,948)	-	(27,948)	(6,763)
Property and equipment	245,915	97,682	(91,925)	251,672	60,905
	<u>₩ 7,620,770</u>	<u>7,687,027</u>	<u>(6,386,291)</u>	<u>8,921,506</u>	<u>2,159,005</u>

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

16. Related Party Transactions

Details of related party as of December 31, 2016 were as follows:

<u>Related party</u>	<u>Relationship</u>
Ministry of Strategy and Finance	Investor

Account balances with a related party as of December 31, 2016 and 2015 were as follows:

	<u>Account</u>		<u>2016</u>	<u>2015</u>
Ministry of Strategy and Finance	Accrued income	₩	33,918,378	36,019,211

Significant transactions that occurred in the normal course of business with the related party for the years ended December 31, 2016 and 2015 were as follows:

	<u>Account</u>		<u>2016</u>	<u>2015</u>
Ministry of Strategy and Finance	Investment management fees	₩	120,156,992	108,471,008

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17. General and Administrative Expenses

Details of general and administrative expenses for the years ended December 31, 2016 and 2015 were as follows:

	<u>2016</u>	<u>2015</u>
Salaries and wages	₩ 27,493,789	24,689,859
Accrual for retirement and severance benefits	2,400,920	1,973,797
Other employee benefits	5,794,534	6,528,998
Advertising	81,760	64,813
Travel	1,784,901	1,822,038
Communications	195,817	212,988
Computer system operation expenses	1,176,253	980,623
Taxes and dues	248,068	289,565
Rental expenses	3,784,112	3,464,837
Other service fees	1,001,825	1,309,424
Depreciation	839,604	787,178
Amortization	583,691	480,262
Business development expenses	132,270	132,666
Business meetings	300,239	326,791
Printing	63,696	60,358
Vehicle maintenance expenses	154,585	168,607
Supplies	137,461	130,769
Repairs and maintenance	96,619	154,082
Utilities	1,277,688	1,247,137
Insurance	61,618	36,703
Legal expenses	3,163	431
Event expenses	95,098	729,040
Research expenses	7,078,092	6,060,327
Training	481,534	487,619
Books and periodicals	34,377	37,233
Prize	3,789	3,917
Bad debt expenses	1,215	-
	<u>₩ 55,306,718</u>	<u>52,180,062</u>

18. Value Added Information

Details of accounts included in the computation of value added for the years ended December 31, 2016 and 2015 were as follows:

	<u>2016</u>	<u>2015</u>
Salaries and wages	₩ 27,493,789	24,689,859
Accrual for retirement and severance benefits	2,400,920	1,973,797
Other employee benefits	5,794,534	6,528,998
Taxes and dues	248,068	289,565
Rental expenses	3,784,112	3,464,837
Depreciation	839,604	787,178
Amortization	583,691	480,262

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19. Correction of error

During the prior year, the Corporation found the error that beneficiary certificates related with IGIS NO. 43 were stated as the account of Investments in Associates and Subsidiaries. As the Corporation acquired these beneficiary certificates to operate with surplus funds, the Corporation recognized the beneficiary certificates as financial assets at fair value through profit or loss included in Securities Accounts for the year ended December 31, 2015.

20. Date of Authorization for Issue

The Corporation's financial statements were authorized for issue on March 16, 2017, at the Board of Directors meeting. These financial statements are scheduled to be submitted for approval to the Steering Committee on March 28, 2017.