

Korea Investment Corporation

Financial Statements

December 31, 2018 and 2017

(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:

Opinion

We have audited the financial statements of Korea Investment Corporation(the Corporation), which comprise the statement of financial position as at December 31, 2018 and December 31, 2017, and the statement of income, statement of changes in equity and statement of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects the financial position of the Corporation as at December 31, 2018 and December 31, 2017, and its financial performance and its cash flows for the years then ended in accordance with generally accepted accounting principles in the Republic of Korea.

Basis for Opinion

We conducted our audit in accordance with Korean Standards on Auditing. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Corporation in accordance with the ethical requirements that are relevant to our audit of the financial statements in Korea, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with generally accepted accounting principles in the Republic of Korea, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Corporation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Corporation or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Corporation's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Korean Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Korean Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Corporation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Corporation to cease to continue as a going concern.
- Evaluate the overall presentation, structure, and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Grant Thornton Daejoo

2913, Nambusunhwan-ro, Gangnam-gu, Seoul, 06280, Korea

March 18, 2019

This audit report is effective as of the independent auditor's report date. Accordingly, certain material subsequent events or circumstances may have occurred during the period from the auditors' report date to the time this audit report is used. Such events and circumstances could significantly affect the accompanying financial statements and may result in modifications to this report.

Grant Thornton Daejoo, a Korean Accounting Firm, is a member of Grant Thornton International Ltd(GTIL), "Grant Thornton" refers to the brand under which the Grant Thornton member firms provide assurance, tax and advisory services to their clients and/or refers to one or more member firms, as the requires. GTIL and each member firm is a separate legal entity. Services are delivered by the member firms. GTIL does not provide services to clients. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.

Korea Investment Corporation
Statements of Financial Positions
As of December 31, 2018 and 2017

<i>(KRW thousand)</i>	<u>Notes</u>	<u>2018</u>	<u>2017</u>
Assets			
Cash and due from banks	4,11	₩ 169,976,992	156,733,615
Securities	5,6	46,321,471	48,214,068
Loans, less allowance for doubtful accounts of ₩ 80 in 2018 and ₩ 25 in 2017		16,000	4,975
Property and equipment	7,8	2,190,790	2,346,854
Accounts receivable		1,921	1,065
Accrued incomes, less allowance for doubtful accounts of ₩ 267,255 in 2018 and ₩ 284,244 in 2017	11,16	53,183,794	56,365,170
Investments		3,710,996	3,403,298
Intangible assets	9	861,093	1,360,602
Deferred tax assets	15	2,745,972	2,798,921
Income tax receivable	15	245,017	-
Other assets	11	66,455	79,738
Total assets		₩ 279,320,501	271,308,306
Liabilities			
Withholdings		₩ 825,940	861,762
Accounts payable	11	1,140,128	781,681
Accrued expenses	11	33,714,376	35,286,464
Income tax payable		6,796,805	7,584,704
Provision for retirement and severance benefits	10	10,144,741	10,009,904
Pension plan assets		(9,506,945)	(8,697,628)
Total liabilities		43,115,045	45,826,887
Equity			
Capital	1,13	100,000,000	100,000,000
Retained earnings	14	136,205,456	125,481,419
Total equity		236,205,456	225,481,419
Total liabilities and equity		₩ 279,320,501	271,308,306

See accompanying notes to the financial statements.

Korea Investment Corporation
Statements of Income
For the years ended December 31, 2018 and 2017

(KRW thousand)

	<u>Notes</u>	<u>2018</u>	<u>2017</u>
Operating revenue			
Investment management fees	16	₩ 209,821,208	200,610,399
Gain on foreign exchange	11	5,456,870	3,892,558
Interest income		3,118,200	2,440,030
Dividend income		740,177	846,552
Gain on financial assets at fair value through profit or loss	5	26,147	-
Reversal of allowance for bad debt		17,084	766
		<u>219,179,686</u>	<u>207,790,305</u>
Operating expenses			
Fee expenses		(106,303,353)	(97,120,618)
Loss on foreign exchange	11	(4,330,895)	(8,008,022)
Loss on financial assets at fair value through profit or loss	5	(1,922,384)	(286,208)
General and administrative expenses	17,18	(57,735,076)	(59,750,435)
		<u>(170,291,708)</u>	<u>(165,165,283)</u>
Operating income		<u>48,887,978</u>	<u>42,625,022</u>
Non-operating revenue			
Income from pension plan assets		137,879	121,952
Equity income on investments		730,501	819,696
Other income		9,306	15,380
		<u>877,686</u>	<u>957,028</u>
Non-operating expenses			
Donations		(206,341)	(134,958)
		<u>(206,341)</u>	<u>(134,958)</u>
Income before income tax		<u>49,559,323</u>	<u>43,447,092</u>
Income tax expense	15	(12,164,216)	(10,108,254)
Net income		<u>₩ 37,395,107</u>	<u>33,338,838</u>

See accompanying notes to the financial statements.

Korea Investment Corporation
 Statements of Changes in Equity
 For the years ended December 31, 2018 and 2017

<i>(KRW thousand)</i>	<u>Notes</u>	<u>Capital</u>	<u>Retained earnings</u>	<u>Total equity</u>
Balance on January 1, 2017	₩	100,000,000	109,751,641	209,751,641
Dividends		-	(17,609,060)	(17,609,060)
Net income for the year		-	33,338,838	33,338,838
Balance on December 31, 2017	₩	<u>100,000,000</u>	<u>125,481,419</u>	<u>225,481,419</u>
Balance on January 1, 2018	₩	100,000,000	125,481,419	225,481,419
Dividends		-	(26,671,070)	(26,671,070)
Net income for the year		-	37,395,107	37,395,107
Balance on December 31, 2018	₩	<u>100,000,000</u>	<u>136,205,456</u>	<u>236,205,456</u>

See accompanying notes to the financial statements.

Korea Investment Corporation
Statements of Cash Flows
For the years ended December 31, 2018 and 2017

(KRW thousand)

	<i>Notes</i>	2018	2017
Cash flows from operating activities			
Net income	₩	37,395,107	33,338,838
Adjustments for:			
Severance benefits		1,314,530	3,178,776
Depreciation		918,578	841,639
Amortization		513,809	589,471
Loss on foreign currency translation		466,126	1,631,998
Provision for allowance for doubtful accounts		150	39,777
Loss on financial assets at fair value through profit or loss		1,922,384	286,208
Gain on foreign currency translation		(222,483)	(793,246)
Reversal of allowance for bad debt		(17,084)	(766)
Gain on financial assets at fair value through profit or loss		(26,148)	-
Income from pension plan assets		(137,879)	(121,952)
Equity income on investments		(730,501)	(819,696)
Changes in assets and liabilities:			
Decrease (increase) in accounts receivable		(856)	(1,015)
Decrease (increase) in accrued income		2,760,085	(9,187,758)
Decrease (increase) in other assets		12,815	(19,011)
Decrease (increase) in deferred tax assets		52,949	(643,541)
Decrease (increase) in income tax receivable		(245,017)	-
Increase (decrease) in accounts payable		362,905	217,650
Increase (decrease) in withholdings		(35,823)	108,399
Increase (decrease) in accrued expenses		(1,365,394)	5,029,727
Increase (decrease) in income tax payable		(787,899)	2,144,571
Payments to severance benefits		(1,179,693)	(1,174,985)
Increase (decrease) in pension plan assets		(671,439)	(1,198,734)
Net cash provided by operating activities		40,299,222	33,446,350
Cash flows from investing activities			
Decrease in time deposits included in cash and due from banks		74,667,806	89,318,661
Decrease in certificate of deposits included in cash and due from banks		67,261,969	67,261,752
Decrease in investments in associates and subsidiaries		726,861	712,928
Refund of leasehold deposits		248,003	67,093
Increase in time deposits included in cash and due from banks		(96,667,806)	(70,318,661)
Increase in certificate of deposit included in cash and due from banks		(40,261,969)	(85,261,752)
Increase in financial assets at fair value through profit or loss		-	(5,000,000)
Increase in loans		(11,080)	(5,000)
Acquisition of property and equipment		(762,515)	(1,309,267)
Acquisition of intangible assets		(14,300)	(344,301)
Payment for leasehold deposits		(571,744)	(172,119)
Net cash used in investing activities		4,615,225	(5,050,666)
Cash flows from financing activities			
Dividends paid		(26,671,070)	(17,609,060)
Net cash used in financing activities		(26,671,070)	(17,609,060)
Net increase (decrease) in cash and cash equivalents		18,243,377	10,786,624
Cash and cash equivalents at beginning of year		15,733,615	4,946,991
Cash and cash equivalents at end of year	₩	33,976,992	15,733,615

Korea Investment Corporation
Notes to the Financial Statements
For the years ended December 31, 2018 and 2017
(KRW thousand)

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, 2018, 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, 2018 is summarized as follows.

<u>Investor</u>	<u>Capital</u>	<u>Percentage of shareholding</u>
Ministry of Economy 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.

The accompanying financial statements have been condensed, restructured and translated into English (with certain expanded descriptions) from the Korean language financial statements. In the event of any differences in interpreting the financial statements or the independent auditors’ report thereon, the Korean version, which is used for regulatory reporting purposes, shall prevail.

(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

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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

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

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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 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

Korea Investment Corporation
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(KRW thousand)

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.

(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, 2018, 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

Korea Investment Corporation
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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
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4. Cash and Due From Banks

Cash and due from banks as of December 31, 2018 and 2017 were as follows:

	<u>Annual interest rate (%)</u>		<u>2018</u>	<u>2017</u>
Cash and cash equivalents				
Money market deposit accounts	0.10~0.30	₩	118,931	59,532
Money market trust	1.49~1.90		31,232,472	7,108,594
Money market wrap	-		-	5,000,000
Ordinary deposits	0.10		56,887	48,209
Foreign currency deposits	0.00~0.04		2,568,702	3,517,280
			<u>33,976,992</u>	<u>15,733,615</u>
Time deposits	2.10~2.27		96,000,000	74,000,000
Certificate of deposit	1.99~2.20		40,000,000	67,000,000
			<u>136,000,000</u>	<u>141,000,000</u>
		₩	<u>169,976,992</u>	<u>156,733,615</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, 2018 and 2017 are summarized as follows:

		<u>2018</u>		<u>2017</u>
		Acquisition cost	Fair value	Book value
IGIS No. 43	₩	27,400,000	24,965,784	24,965,784
KB No. 2017-440		<u>5,000,000</u>	<u>4,937,768</u>	<u>4,937,768</u>
	₩	<u>32,400,000</u>	<u>29,903,552</u>	<u>29,903,552</u>
				<u>31,799,788</u>

Korea Investment Corporation
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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, 2018 and 2017 are summarized as follows:

		2018		
		Percentage of Ownership	Acquisition cost	Book value
K-REALTY VI	₩	40%	16,000,000	16,417,919
		2017		
		Percentage of ownership	Acquisition cost	Book value
K-REALTY VI	₩	40%	16,000,000	16,414,280

Changes in the balances of investments in companies accounted for using the equity method of accounting for the year ended December 31, 2018 and 2017 were as follows:

		2018			
		Beginning balance	Equity gain	Collection	Book value
K-REALTY VI	₩	16,414,280	730,500	(726,861)	16,417,919
		2017			
		Beginning balance	Equity gain	Collection	Book value
K-REALTY VI	₩	16,307,512	819,696	(712,928)	16,414,280

Korea Investment Corporation
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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, 2018 and 2017, are summarized as follows:

		2018			
		<u>Total assets</u>	<u>Total liabilities</u>	<u>Operating revenue</u>	<u>Net income</u>
K-REALTY VI	₩	95,821,199	57,279,667	4,677,584	888,476

		2017			
		<u>Total assets</u>	<u>Total liabilities</u>	<u>Operating revenue</u>	<u>Net income</u>
K-REALTY VI	₩	95,857,011	56,795,661	4,884,862	1,064,911

7. Property and Equipment

Changes in property and equipment for the years ended December 31, 2018 and 2017 were as follows:

		2018				
		<u>Beginning balance</u>	<u>Acquisition</u>	<u>Disposal (*)</u>	<u>Depreciation</u>	<u>Ending balance</u>
Computer equipment	₩	1,730,142	325,598	-	(622,985)	1,432,754
Office equipment		337,826	159,937	-	(171,884)	325,879
Leasehold assets		278,886	276,980	-	(123,709)	432,157
	₩	<u>2,346,854</u>	<u>762,515</u>	<u>-</u>	<u>(918,578)</u>	<u>2,190,790</u>

(*) Fully-depreciated computer equipment and office equipment were disposed for the year ended December 31, 2018. Those acquisition costs were ₩63,081 thousand and ₩57,070 thousand.

		2017				
		<u>Beginning balance</u>	<u>Acquisition</u>	<u>Disposal (*)</u>	<u>Depreciation</u>	<u>Ending balance</u>
Computer equipment	₩	1,319,489	1,015,191	-	(604,538)	1,730,142
Office equipment		437,761	84,836	-	(184,771)	337,826
Leasehold assets		121,975	209,240	-	(52,329)	278,886
	₩	<u>1,879,225</u>	<u>1,309,267</u>	<u>-</u>	<u>(841,638)</u>	<u>2,346,854</u>

(*) Fully-depreciated office equipment was disposed for the year ended December 31, 2017. Its acquisition costs was ₩32,116 thousand.

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8. Insured Assets

Insurance contracts maintained by the Corporation as of December 31, 2018 were as follows:

Category of insurance	Classification	Insured assets	Insured amount	Insurance company
Movables comprehensive insurance	Korea	Computer equipment	₩ 5,795,568	HeungKuk Fire
		Office equipment		
		Leasehold assets		
	New York	Computer equipment	690,986	The Hartford
		Office equipment		
		Leasehold assets		
	London	Computer equipment	305,852	AXA Insurance
		Office equipment		
		Leasehold assets		
	Singapore	Computer equipment	245,484	AXA Insurance
		Office equipment		
		Leasehold assets		

9. Intangible Assets

Changes in intangible assets for the years ended December 31, 2018 and 2017 were as follows:

		Development costs	Other intangible assets	Total
Net balance at the beginning of 2018	₩	568,015	792,587	1,360,602
Additions		14,300	-	14,300
Amortization (*)		(212,983)	(300,826)	(513,809)
Net balance at the end of 2018	₩	369,332	491,761	861,093
Net balance at the beginning of 2017	₩	651,960	953,812	1,605,771
Additions		153,868	190,433	344,301
Amortization (*)		(237,813)	(351,658)	(589,471)
Net balance at the end of 2017	₩	568,015	792,587	1,360,602

(*) 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, 2018 and 2017 were as follows:

	<u>2018</u>	<u>2017</u>
Provision for retirement and severance benefits at beginning of year	₩ 10,009,904	8,006,113
Payments	(1,179,693)	(1,174,985)
Accrual for retirement and severance benefits	1,314,530	3,178,776
Provision for retirement and severance benefits at end of year	<u>₩ 10,144,741</u>	<u>10,009,904</u>

Pension plan assets as of December 31, 2018 and 2017 were as follows:

	<u>2018</u>	<u>2017</u>
Principal guarantee financial instruments	₩ 5,700,618	7,583,083
Other	3,806,327	1,114,545
	<u>₩ 9,506,945</u>	<u>8,697,628</u>

Changes in pension plan assets for the years ended December 31, 2018 and 2017 were as follows:

	<u>2018</u>	<u>2017</u>
Beginning balance	₩ 8,697,628	7,376,942
Increase	1,837,879	2,461,682
Decrease	(1,028,561)	(1,140,996)
Ending balance	<u>₩ 9,506,945</u>	<u>8,697,628</u>

Expenses related to defined contribution plans recognized for the years ended December 31, 2018 and 2017 were ₩337,209 thousand and ₩152,748 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, 2018 were as follows:

		<u>Foreign currency</u>		<u>Exchange rate</u>		<u>Translated into won</u>
Assets						
Deposits	USD	1,867,197.57	₩	1,118.10	₩	2,087,714
	GBP	290,647.84		1,420.32		412,813
	SGD	83,315.27		818.28		68,175
Accrued income	USD	46,526,422.36		1,118.10		52,021,193
Other assets	USD	234,907.96		1,118.10		262,651
	GBP	136,036.82		1,420.32		193,215
	SGD	117,397.46		818.28		96,064
					₩	<u>55,141,825</u>
Liabilities						
Accounts payable	USD	629,298.55		1,118.10	₩	703,619
	GBP	116,403.29		1,420.32		165,330
	SGD	24,185.63		818.28		19,790
Accrued expenses	USD	22,190,544.41		1,118.10		24,811,248
	GBP	5,403.51		1,420.32		7,674
	SGD	6,064.56		818.28		4,963
					₩	<u>25,712,624</u>

Regarding foreign currency translations, the Corporation recognized operating revenue of ₩280,368 thousand and operating expenses of ₩469,973 thousand for the year ended December 31, 2018.

Assets and liabilities denominated in foreign currencies as of December 31, 2017 were as follows:

		<u>Foreign currency</u>		<u>Exchange rate</u>		<u>Translated into won</u>
Assets						
Deposits	USD	2,845,717.57	₩	1,071.40	₩	3,048,902
	GBP	278,181.09		1,439.53		400,450
	SGD	84,844.05		800.63		67,929
Accrued income	USD	51,557,378.16		1,071.40		55,238,575
Other assets	USD	303,143.00		1,071.40		324,787
	GBP	233,386.30		1,439.53		335,967
	SGD	117,362.20		800.63		93,963
					₩	<u>59,510,573</u>
Liabilities						
Accounts payable	USD	387,958.17		1,071.40	₩	415,658
	GBP	104,544.23		1,439.53		150,495
	EUR	2,566.81		1,279.25		3,284
	SGD	13,289.16		800.63		10,640
Accrued expenses	USD	23,111,385.08		1,071.40		24,761,538
	GBP	5,459.11		1,439.53		7,858
	SGD	6,955.23		800.63		5,568
					₩	<u>25,355,041</u>

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12. Commitments and Contingencies

As of December 31, 2018, the Corporation maintains investment management agreements with the Bank of Korea and Ministry of Economy and Finance, and sub-investment management agreements with BlackRock International Limited and others. Total entrusted assets related to these agreements amounted to USD 131,583,970,401.62 as of December 31, 2018.

There were no pending litigations as of December 31, 2018.

Seoul Guarantee Insurance has provided the Company with ₩2 million for contract guarantee.

13. Capital

Capital as of December 31, 2018 and 2017 were as follows:

		<u>2018</u>	<u>2017</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 Economy and Finance.

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14. Retained Earnings

Retained earnings as of December 31, 2018 and 2017 were as follows:

	<u>2018</u>	<u>2017</u>
Earning reserve (*)	₩ 27,403,872	24,069,988
Voluntary reserve	71,406,477	68,072,593
Unappropriated retained earnings	<u>37,395,107</u>	<u>33,338,838</u>
Total retained earnings	₩ <u>136,205,456</u>	<u>125,481,419</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, 2018 and 2017 were as follows:

	<u>2018</u>	<u>2017</u>
Unappropriated retained earnings		
Balance at beginning of year	₩ -	-
Net income for the year	<u>37,395,107</u>	<u>33,338,838</u>
Balance at end of year before appropriation	₩ <u>37,395,107</u>	<u>33,338,838</u>
Appropriation of retained earnings		
Earning reserve	₩ 3,739,511	3,333,884
Voluntary reserve	7,479,021	3,333,884
Dividends (*)	<u>26,176,575</u>	<u>26,671,070</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, 2018 and 2017 were 70.00% and 80.00%, respectively.

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15. Income Taxes

The components of income tax expense for the years ended December 31, 2018 and 2017 were as follows:

	<u>2018</u>	<u>2017</u>
Current tax expense	₩ 11,807,931	10,697,502
Changes in deferred tax from temporary differences	52,949	(643,541)
Supplementary payment of income taxes	303,336	54,293
Income tax expense	₩ <u>12,164,216</u>	<u>10,108,254</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, 2018 and 2017 for the following reasons:

	<u>2018</u>	<u>2017</u>
Income before income tax	₩ 49,559,323	43,447,091
Income tax expense at statutory tax rates	11,531,356	10,052,196
Tax effects of permanent differences	9,520	1,716
Tax credit	-	(20)
Other adjustments	623,340	54,362
Income tax expense	₩ <u>12,164,216</u>	<u>10,108,254</u>
Effective tax rate	24.54%	23.27%

Changes in temporary differences for the year ended December 31, 2018 and deferred tax assets as of December 31, 2018 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	₩ 1,033,242	-	(565,670)	467,572	113,152
Accrued expenses	10,130,407	8,597,516	(10,130,408)	8,597,515	2,080,599
Securities under equity method	(414,280)	(417,919)	414,280	(417,919)	(101,136)
Financial assets at fair value through profit or loss	600,212	2,496,449	(600,212)	2,496,449	604,140
Property and equipment	216,209	71,837	(84,671)	203,375	49,217
	₩ <u>11,565,790</u>	<u>10,747,883</u>	<u>(10,966,681)</u>	<u>11,346,992</u>	<u>2,745,972</u>

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Changes in temporary differences for the year ended December 31, 2017 and deferred tax assets as of December 31, 2017 were as follows:

	Beginning balance	Increase	Decrease	Ending balance	Deferred tax assets
Appropriation for retirement	₩ 146,436	886,806	-	1,033,242	250,045
Accrued expenses	8,525,853	10,130,407	(8,525,853)	10,130,407	2,451,559
Securities under equity method	(307,512)	(414,280)	307,512	(414,280)	(100,256)
Financial assets at fair value through profit or loss	314,004	600,212	(314,004)	600,212	145,251
Property and equipment	227,750	68,817	(80,358)	216,209	52,322
	₩ <u>8,906,531</u>	<u>11,271,962</u>	<u>(8,612,703)</u>	<u>11,565,790</u>	<u>2,798,921</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.

Income tax receivable and income tax payable imposed by the different taxation authority were not offset against each other.

16. Related Party Transactions

Details of related party as of December 31, 2018 were as follows:

Related party	Relationship
Ministry of Economy and Finance	Investor

Account balances with a related party as of December 31, 2018 and 2017 were as follows:

	Account		2018	2017
Ministry of Economy and Finance	Accrued income	₩	38,660,846	40,817,058

Significant transactions that occurred in the normal course of business with the related party for the years ended December 31, 2018 and 2017 were as follows:

	Account		2018	2017
Ministry of Economy and Finance	Investment management fees	₩	155,353,630	145,498,662

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17. General and Administrative Expenses

Details of general and administrative expenses for the years ended December 31, 2018 and 2017 were as follows:

	<u>2018</u>	<u>2017</u>
Salaries and wages	₩ 27,228,511	28,977,524
Accrual for retirement and severance benefits	1,651,740	3,407,380
Other employee benefits	6,172,739	6,952,647
Advertising	77,594	49,521
Travel	1,723,521	1,578,656
Communications	386,477	219,569
Computer system operation expenses	1,228,541	1,308,385
Taxes and dues	298,916	261,677
Rental expenses	4,756,574	4,043,532
Other service fees	1,993,158	857,079
Depreciation	918,578	841,639
Amortization	513,809	589,471
Business development expenses	116,804	125,958
Business meetings	329,747	326,058
Printing	77,804	66,202
Vehicle maintenance expenses	148,357	148,816
Supplies	99,020	111,897
Repairs and maintenance	69,465	90,425
Utilities	1,730,734	1,321,949
Insurance	56,349	59,897
Legal expenses	1,418	76
Event expenses	103,436	114,036
Research expenses	7,429,412	7,726,066
Training	581,548	493,995
Books and periodicals	32,674	33,453
Prize	8,000	4,750
Bad debt expenses	150	39,777
	<u>₩ 57,735,076</u>	<u>59,750,435</u>

18. Value Added Information

Details of accounts included in the computation of value added for the years ended December 31, 2018 and 2017 were as follows:

	<u>2018</u>	<u>2017</u>
Salaries and wages	₩ 27,228,511	28,977,524
Accrual for retirement and severance benefits	1,651,740	3,407,380
Other employee benefits	6,172,739	6,952,647
Taxes and dues	298,916	261,677
Rental expenses	4,756,574	4,043,532
Depreciation	918,578	841,639
Amortization	513,809	589,471

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19. Date of Authorization for Issue

The Corporation's financial statements were authorized for issue on March 20, 2019, at the Board of Directors meeting. These financial statements are scheduled to be submitted for approval to the Steering Committee on March 22, 2019.