

2019 Annual Report

SOVEREIGN WEALTH FUND OF KOREA

KIC

*Leaping Ahead,
for All Generations*

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Milestones



Korea Investment Corporation established

March 2005

Korea Investment Corporation Act
promulgated

July 2005

Korea Investment Corporation
established

November 2006

Started global fixed-income investments

April 2007

- Started global equity investments

August 2007

Exceeded USD 10 billion in AUM



Opened the New York office

February 2009

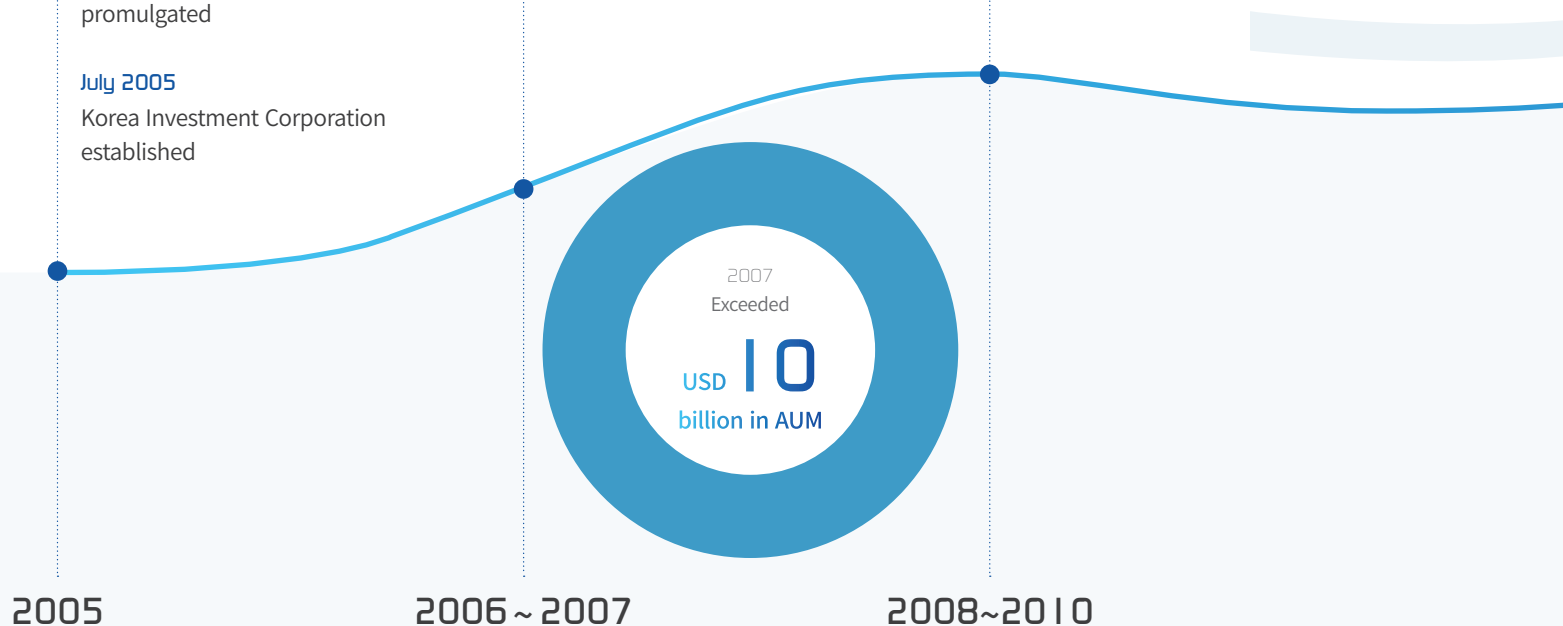
Established the Risk Management Division

August 2009

Began global alternative investments

July 2010

Opened the New York office



Investing in

69 countries, **39** currencies

3,295 equities

7,485 fixed-income instruments

360 funds

Milestones



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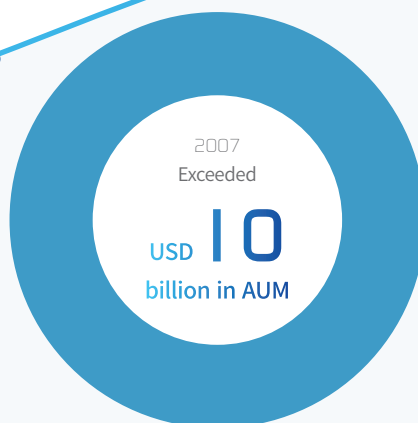
July 2010

Opened the New York office

2005

2006 ~ 2007

2008 ~ 2010





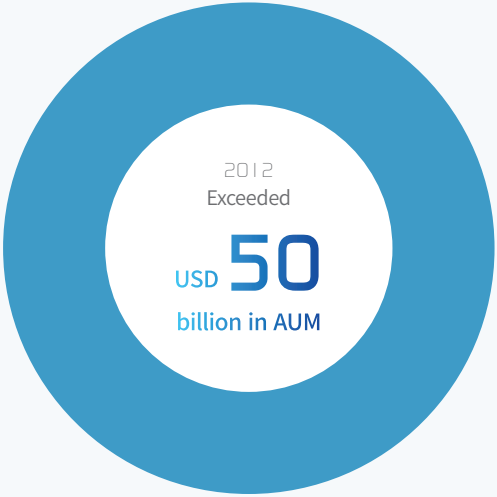
Opened the London Office



Declaration of Vision 2020

December 2011
Opened the London Office

September 2012
Exceeded USD 50 billion
in AUM



2011~2013

March 2014
Launched the Public Community for
Overseas Investment

September 2014
Launched the Co-investment
Roundtable Of Sovereign And
Pension Funds (CROSAPF)



10th anniversary of KIC

July 2015
10th anniversary of KIC

June 2016
Exceeded USD 100 billion in AUM



2015~2016



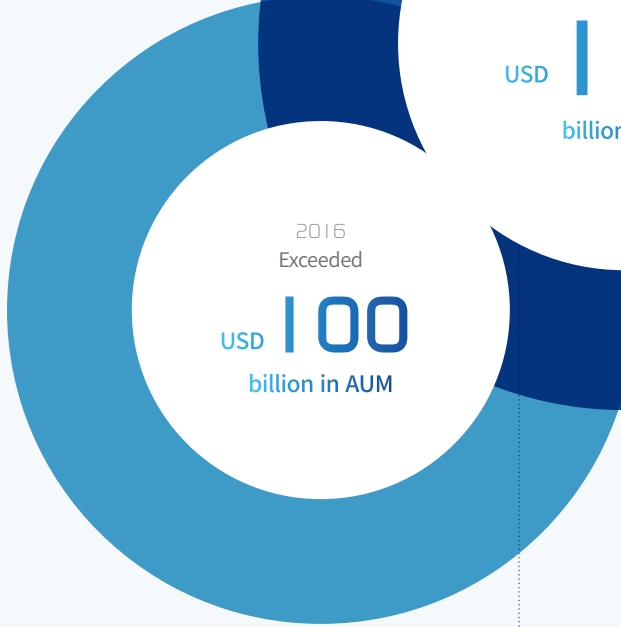
Adopted Stewardship Principles



Opened the Singapore
office

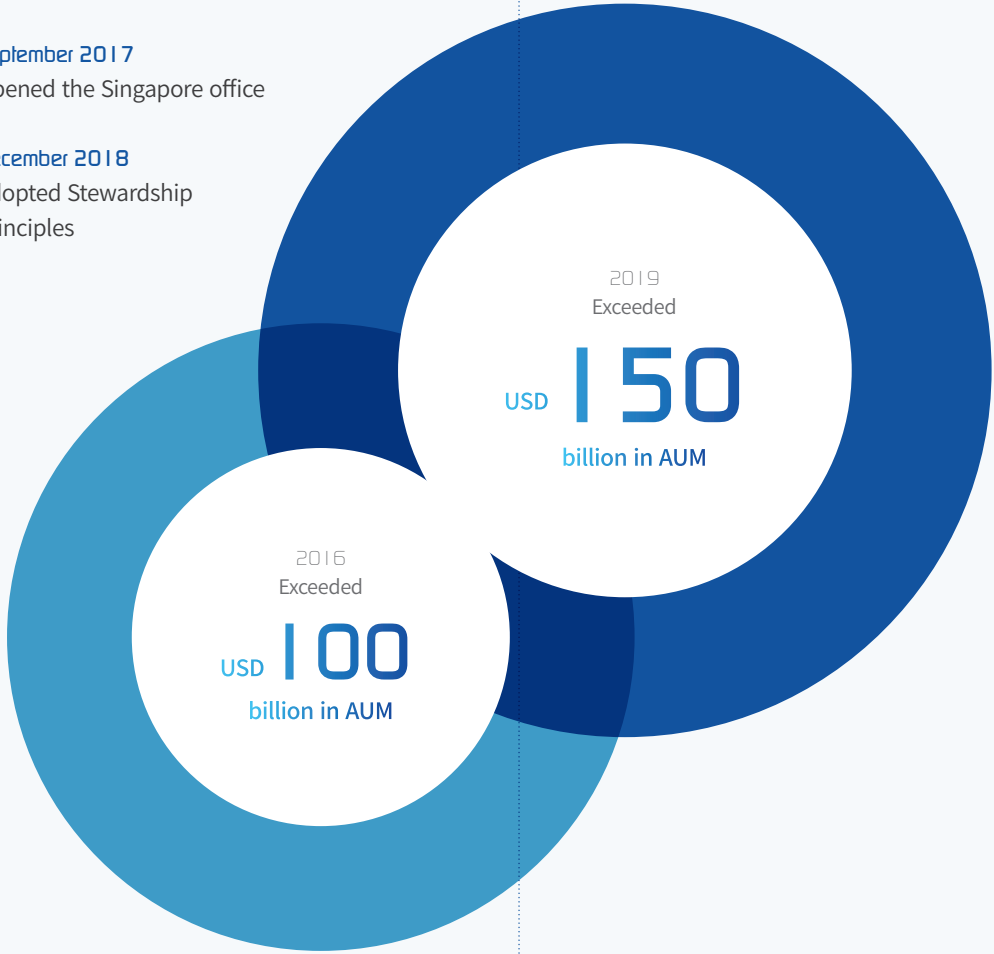
September 2017
Opened the Singapore office

December 2018
Adopted Stewardship
Principles



2017~2018

October 2019
Exceeded USD 150 billion
in AUM



2019

Investing in

69 countries, **39** currencies

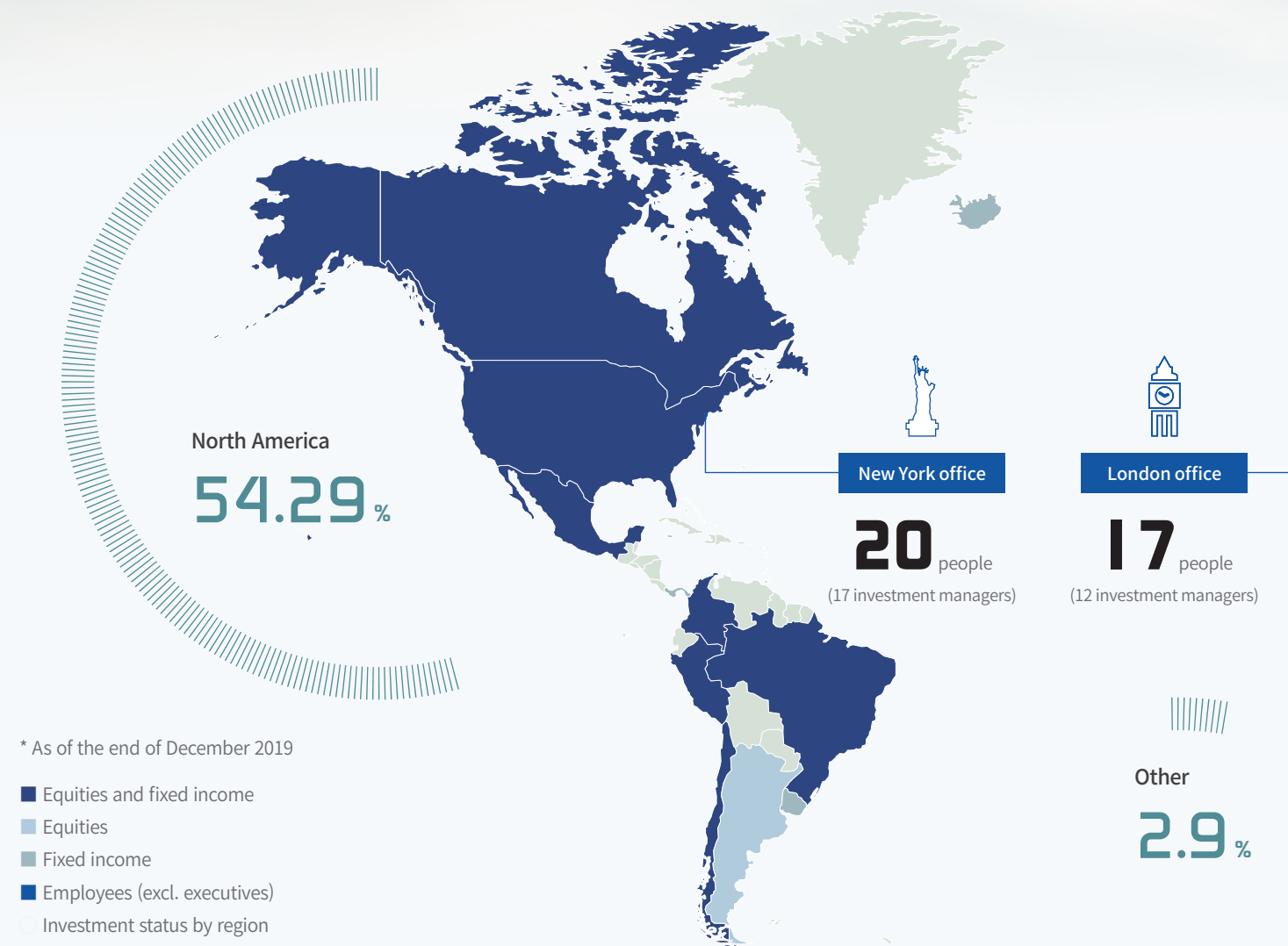
3,295 equities

7,485 fixed-income instruments

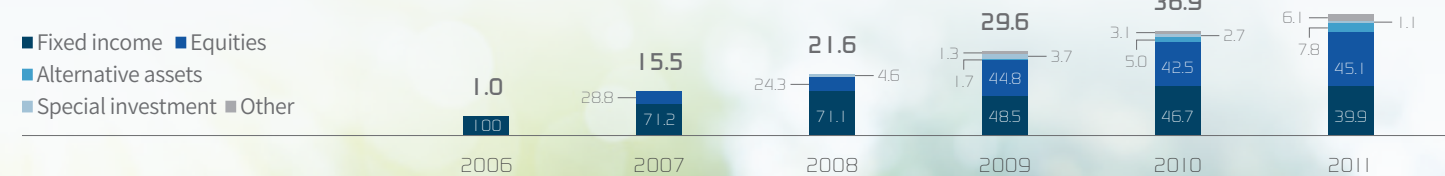
360 funds

OVERVIEW

Global Reach



Total Assets and Asset Allocation by Year
(USD billion, %)



Europe

24.41 %

Asia

18.4 %



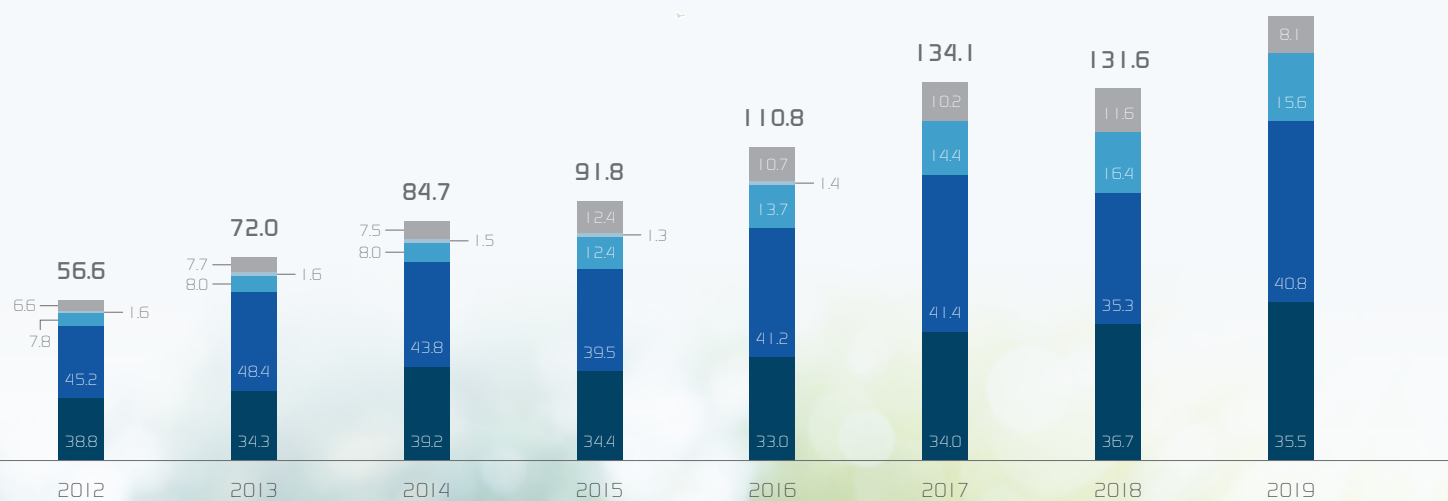
Seoul

254 people
(103 investment managers)



Singapore office

6 people
(4 investment managers)



Message from the CEO

2020 is a special year for KIC, as it marks our 15th anniversary.
I thank you for supporting us and our mission to increase national
wealth and contribute to Korea's finance industry.





Dear Readers,

As the Korea Investment Corporation (KIC) celebrates its 15th anniversary this year, I would like to begin by thanking you for your continued support of KIC and our mission to increase national wealth and contribute to Korea's finance industry.

Since starting with global fixed-income investments in 2006, we have diversified our asset classes to include equities, hedge funds, private equity, real estate and infrastructure. In both asset size and investment competency, we have grown as Korea's representative sovereign wealth fund.

In 2019, we achieved the milestone of exceeding USD 150 billion in assets under management. It was only in 2016 that we hit the USD 100 billion mark.

The last year brought a steep rise in major asset prices as central banks and governments pursued more relaxed monetary and fiscal policies, despite market uncertainties due to the U.S.-China trade war and global economic slowdown.

Against this backdrop, KIC achieved a return of 15.39%, backed by the strong performance of traditional assets including equities and fixed income and outstanding returns on alternative assets. This made for returns of USD 20.2 billion, or KRW 23.4 trillion added to Korea's national wealth.



This year is turning out to be an unexpected story with more uncertainties than ever. KIC is focusing on implementing an active asset allocation strategy and strengthening our asset management capability for each asset class to achieve stable investment returns. ”

2020, however, is turning out to be a different, and unexpected, story. The global economy faces more uncertainty than ever due to the COVID-19 pandemic, which has led to an economic and business slowdown, sudden collapse in oil prices and global debt stress.

But KIC has weathered many a storm. As we did through past financial crises, we remain committed to our principle of long-term diversified investing. We will, at the same time, focus on implementing an active asset allocation strategy and boosting competitiveness in each asset class while closely monitoring changing market conditions.

Our aim now is to respond preemptively to market volatility by strengthening our asset allocation capabilities and to develop proactive response strategies, including mid/long-term investment plans and farsighted investment themes.



We're also focused on creating social value and growing with Korea's finance industry, fulfilling our other duties as Korea's sovereign wealth fund. ”



This year, KIC also plans to open a new overseas office specializing in alternative investments, to further strengthen our local asset management capability and innovate as we must in these AI-and-big-data-driven times.

We also strive to create social value through growing with Korea's finance industry, fulfilling our other duties as Korea's sovereign wealth fund.

We continue to help globalize the industry by collaborating more with domestic asset managers and financial institutions, building future-oriented partnerships and supporting the overseas investments of public funds.

We are also strengthening our fiduciary duty and expanding our responsible investments as planned. We will upgrade our investment strategies to be suitable for our nature as an overseas investor and take the responsible investing lead by holding ESG Day events and facilitating communication in this regard.

As they say, crisis brings opportunity. That's why KIC will stay focused on the long-term and, as always, work hard to generate stable and sustainable national wealth.

Finally, I'd like to thank two colleagues who left KIC last year – our former Chief Investment Officer Shinwoo Kang and former Chief Risk Officer Seung Je Hong – for their service and dedication. I look forward to your continued encouragement as we start the next decade with Chief Investment Officer Daeyang Park, Chief Risk Officer Changho Yoo and everyone at KIC.

Thank you.

Heenam Choi

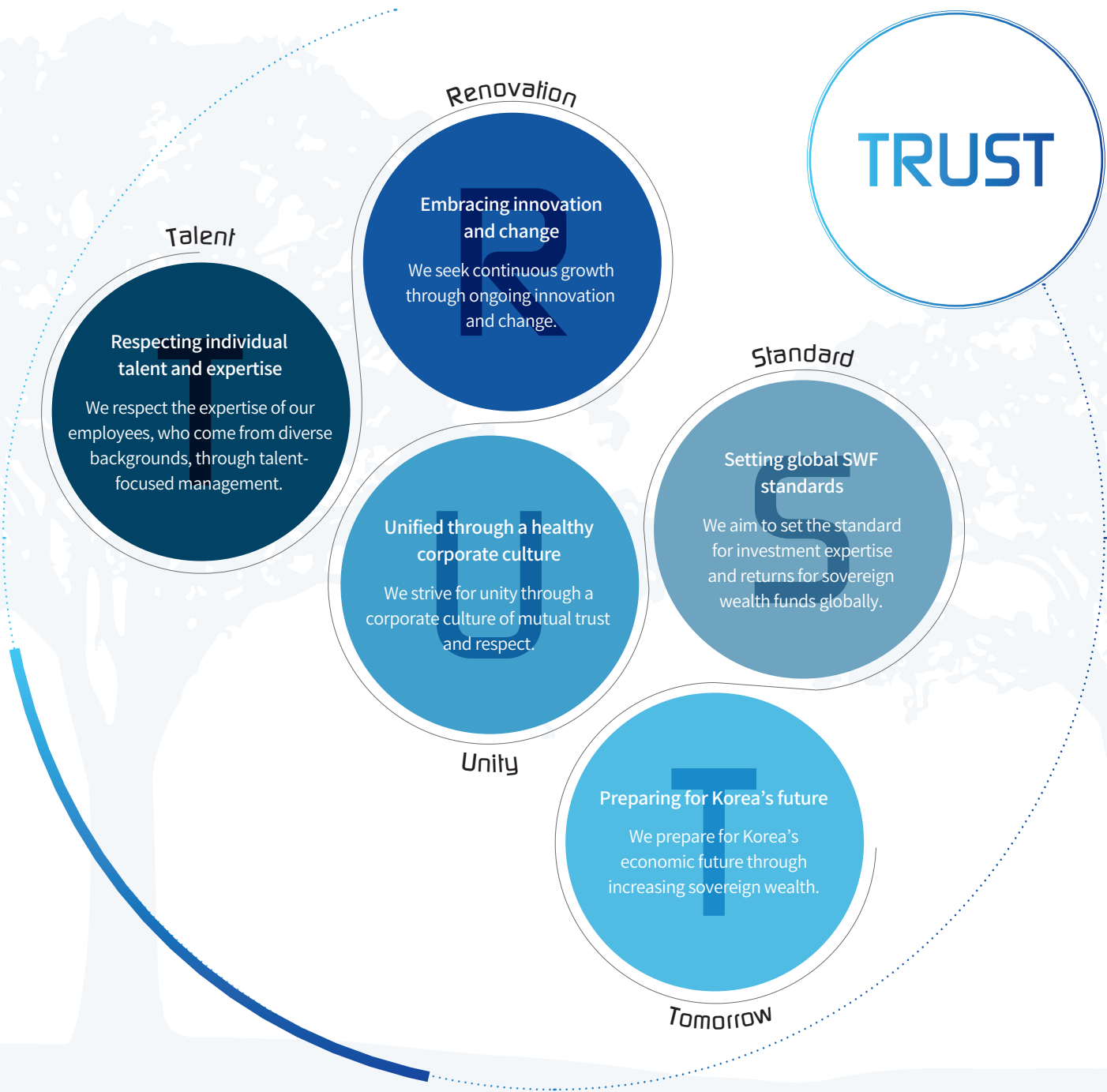
Chairman / CEO

May 2020

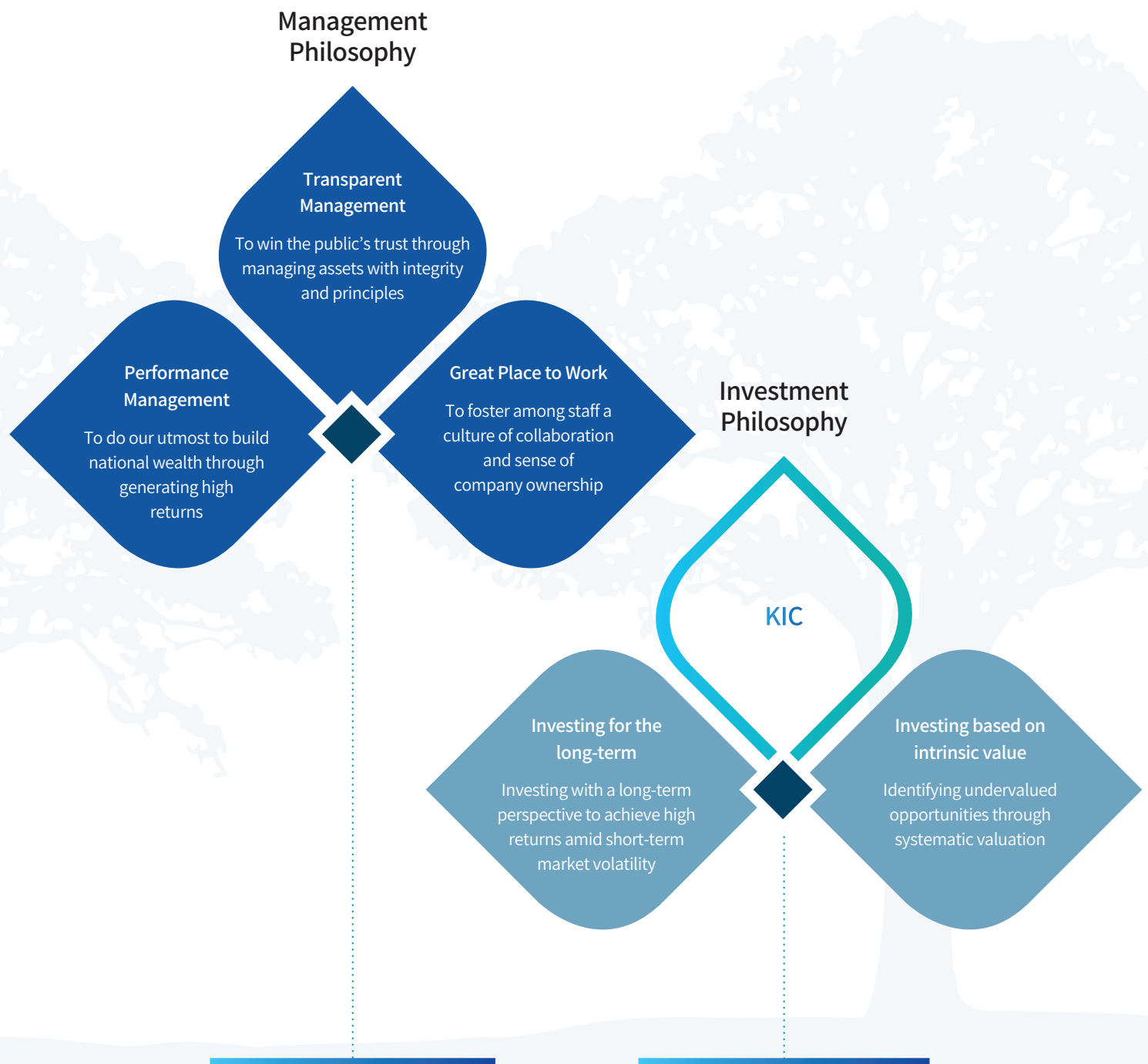
Vision & Mission



Our Future



Management Philosophy & Investment Philosophy





01

Investment & Risk Management

Investing in the future of Korea

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Investment Highlights

The Korea Investment Corporation (KIC) has been entrusted with a total of USD 108.1 billion, starting with an initial entrustment of USD 1 billion in 2006. With a cumulative return on investments of USD 49.2 billion, including annual investment returns of USD 20.2 billion in 2019, our assets under management at the end of 2019 totaled USD 157.3 billion (NAV).

Following a principle of diversification, we manage a portfolio that is 84.4% traditional assets and 15.6% alternative assets, including hedge funds, private equity, real estate and infrastructure.

Through gradually expanding our alternative assets, which have a low correlation with traditional assets and tend to pursue relatively higher returns, we increased the proportion of alternative investments in our portfolio by USD 3 billion compared to the previous year. As of the end of 2019, we manage USD 24.5 billion in alternative assets.

Asset allocation (2019)

(USD billion, %)

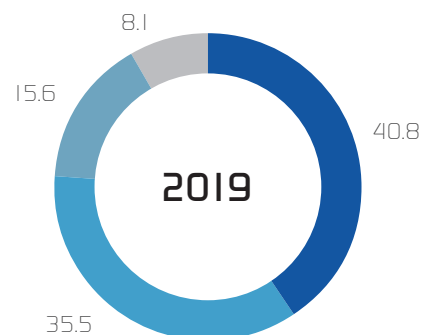
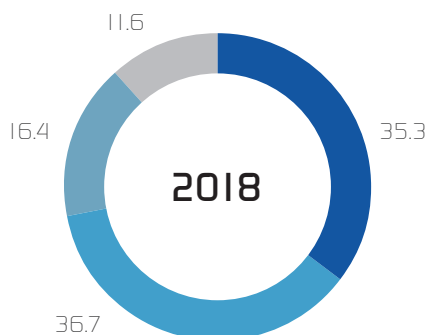
		NAV	Asset allocation**
Traditional assets	Equities	64.3	40.8
	Fixed income	55.9	35.5
	Other*	12.6	8.1
	Subtotal	132.8	84.4
Alternative assets	Private equity	9.3	5.9
	Real estate and infrastructure	9.7	6.2
	Hedge funds	5.1	3.3
	Cash equivalents	0.4	0.2
	Subtotal	24.5	15.6
Total		157.3	100.0

* "Other" refers to inflation-linked bonds, cash, etc.

** NAV basis

Asset allocation by year

(%)



KIC achieved a return of 15.39% for the financial year ended December 31, 2019. This was due to a favorable investment environment, such as accommodative global central bank policy, and our enhanced asset allocation capabilities. As a result, KIC generated an annualized return of 5.55% over the 5-year period that ended December 31, 2019 and an annualized return of 4.60% since inception.

Global equity markets experienced a sharp correction at the end of 2018 due to an over-tightening of financial conditions and concerns over recessionary pressures. But investor sentiment improved at the start of 2019 as the FED shifted its monetary policy stance from neutral to accommodative. Despite market difficulties caused by worsening U.S.-China trade tensions in the summer, abundant liquidity on the back of dovish monetary policies continued to drive shares higher, mainly in Q1 and Q4. As a result, the MSCI All Country World Index rose by 26.60% in 2019. The fixed-income market also had a positive year, thanks to the decline in interest rates driven by accommodative central bank policy and a lower-for-longer economy. As a result, the Bloomberg Barclays Global Aggregate Index rose by 6.84% in 2019.

Assets under management by year

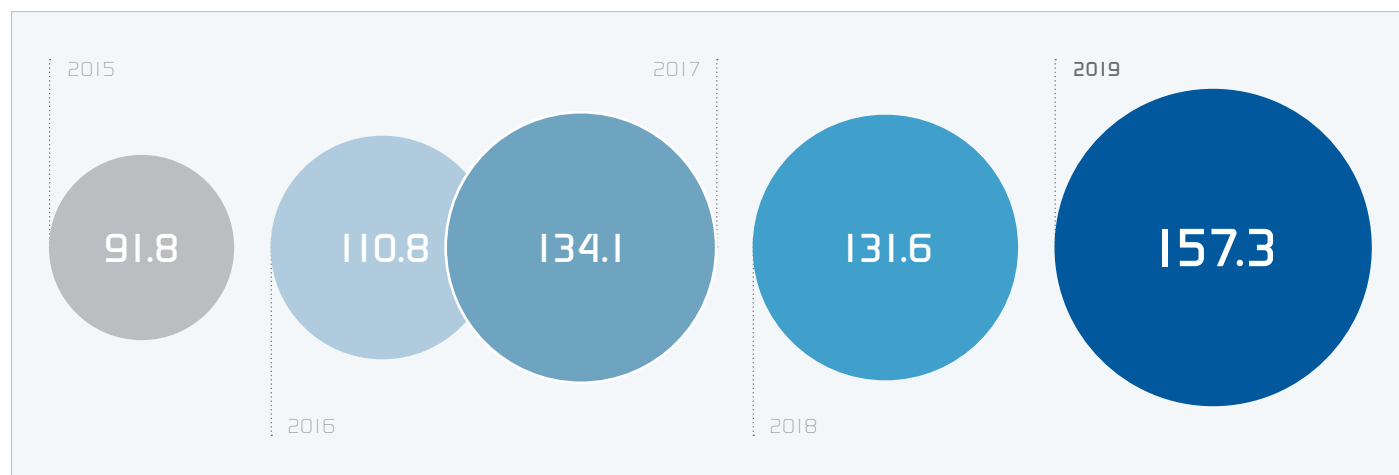
(USD billion)

	2015	2016	2017	2018	2019
Cumulative investment*	94.7	106.8	115.8	136.7	137.1
NAV	91.8	110.8	134.1	131.6	157.3
Accumulated gains	11.8	15.8	34.1	29.0	49.2

* Sum of NAV at the end of the previous year and annual investment amount

Net asset value

(USD billion)



Return on total assets

KIC's return on assets in 2019 stood at 15.39%, with a five-year annualized return of 5.55% and an annualized return since inception of 4.60%.
(%)

	2015	2016	2017	2018	2019
Return on total assets (before fees)	-3.00	4.35	16.42	-3.66	15.39
Return on total assets (after fees)	-3.15	4.21	16.26	-3.80	15.21
Annualized return since inception	3.23	3.34	4.45	3.76	4.60

Return on traditional assets

The return on traditional assets in 2019 was 16.62%, +33 bps compared to the benchmark.

(%, bp)

		2015	2016	2017	2018	2019	Annualized return for the past five years ('15~'19)	Annualized return since inception
Total	Return	-3.15	3.96	16.71	-5.64	16.62	5.27	4.94
	Excess return	68	-95	129	-81	33	7	18
Equities	Return	-1.82	5.85	25.50	-9.55	27.52	8.51	4.58
	Excess return	153	-232	122	-71	6	-8	-13
Fixed income	Return	-3.57	1.46	8.00	-1.32	7.53	2.32	3.97
	Excess return	5	29	72	-13	73	32	29

Return on alternative assets

Annualized return since inception: 7.56%

(%)

	Inception	Annualized return since inception
Private equity	2009.09.16	8.09
Real estate · infrastructure	2010.03.15	8.05
Hedge funds	2010.01.29	5.28
Alternative asset total*		7.56

* Total includes commodities (categorized as traditional assets since April 2011)

Benchmarks for each asset class

Type	Asset class	Benchmark
Traditional assets	Equities	Morgan Stanley Capital International All Country World Index ex Korea (unhedged)
	Fixed income	Bloomberg Barclays Global Aggregate Index ex KRW ex Korea (unhedged)
	Inflation-linked bonds	Bloomberg Barclays Global Inflation-linked Bond Index
	Cash	ICE BofA Merrill Lynch 3-Month US Treasury Bill
Alternative assets	Private equity	Morgan Stanley Capital International All Country World Index ex Korea (unhedged) + 2%, 3 months lagged
	Real estate · infrastructure	G7 inflation rate + 4%, 3 months lagged
	Hedge funds	BofA Merrill Lynch 3-Month U.S. Treasury Bill + 3.5%, 1 month lagged

Investment Policy and Process



Investment Objective

KIC's investment objective is to generate consistent and stable investment returns within appropriate risk limits to preserve and increase the value of Korea's sovereign wealth.

Investment Principles

Based on principles of prudent and responsible investing, KIC diversifies investments across asset classes and regions, ensuring that overall portfolio risk remains within appropriate levels to increase returns in a sustainable manner.

Asset Classes

We invest in traditional and alternative assets. Traditional assets include listed or highly liquid financial assets such as equities and fixed-income

investments. Alternative assets, which can capture risk premiums associated with illiquid investments, include private equity, real estate, infrastructure and hedge funds.

Investment Guidelines

The investment guidelines provided by our sponsors stipulate the objectives, benchmarks, risk tolerance limits and other key guidelines for mandated investments and serve as the basis for all investments, risk management and performance assessments at KIC. KIC has also established internal investment guidelines for all asset classes, including fixed income, equity and each fund type.

Asset Allocation

KIC uses asset allocation strategies based on financial market and asset class forecasts by investment horizon; these strategies are strategic asset allocation, strategic tilting and tactical asset allocation.

Strategic asset allocation defines the role and function of each asset class and sets the policy portfolio based on expected returns and risks and optimal asset allocation on a long-term horizon. Strategic tilting, which entails a mid-term investment horizon, aims to increase investment returns by adjusting the asset allocation against the policy portfolio based on macro research for each asset class and country. Tactical asset allocation seeks investment opportunities stemming from relatively short-term market volatility.

Direct and Indirect Management

KIC manages traditional assets directly by trading in financial markets and indirectly through external managers. For direct investments, we pursue stable returns with relatively low risk and marginal excess returns compared to the benchmark. For indirect investments, we hire external managers with a proven track record in a region, strategy or asset to generate greater excess returns within a relatively high level of risk.

Risk Management

KIC minimizes unnecessary risk and controls downside risk through preemptive and systematic risk management. We set risk limits in accordance with risk management policies approved by the Steering Committee. Relevant departments regularly monitor risk limit compliance.



Investment-Related Committees

The following investment-related committees at KIC ensure prudent and responsible investment decision-making.

Investment Committee

Chaired by the CEO and made up of the Chief Investment Officer, Chief Risk Officer, Chief Operating Officer, Head of the Investment Strategy Group and Head of the Alternative Investment Group, this committee is responsible for deliberation and decisions regarding investments.

Investment Working Committee

Chaired by the Chief Investment Officer and made up of the heads of the investment and risk management divisions, this committee is

responsible for the overall review of expected investment returns and risks.

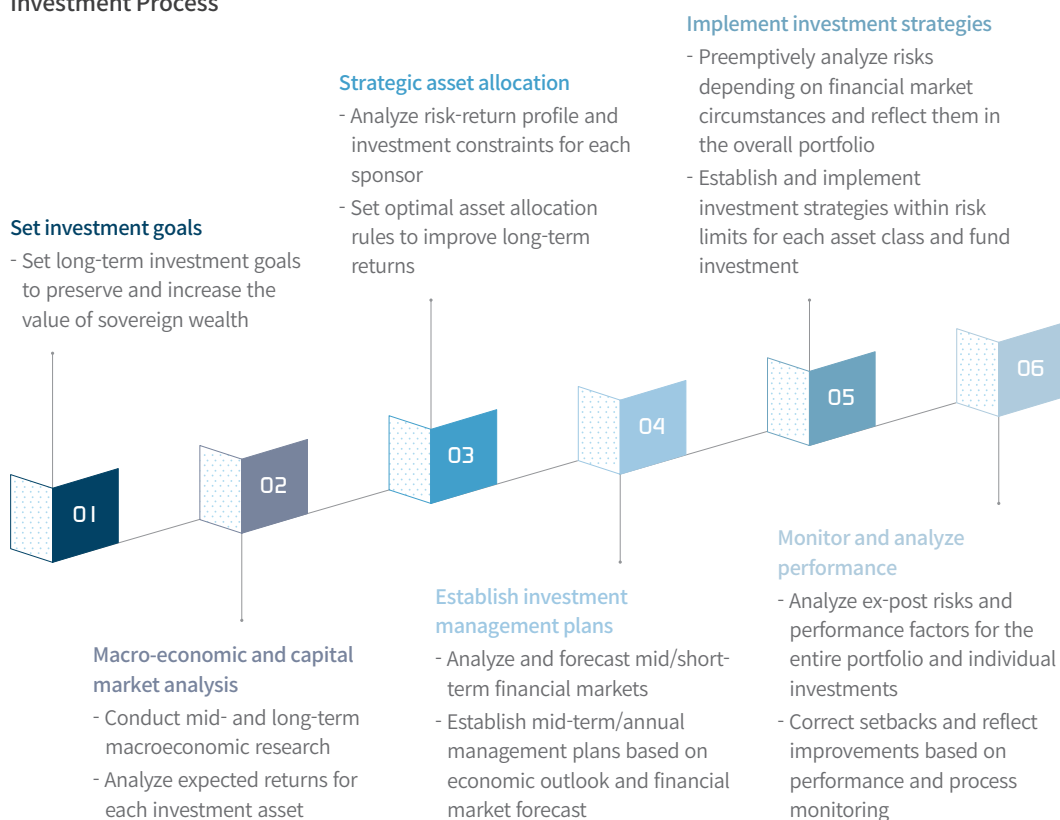
Risk Management Working Committee

Chaired by the Chief Risk Officer and made up of the heads of the investment and risk management departments, this committee reviews and assesses issues related to risk management.

Investment Process

KIC's investment process is focused on improving long-term investment returns based on stable asset management.

Investment Process



Investment Stewardship and Responsible Investment



ESG

Environmental

Social

Governance

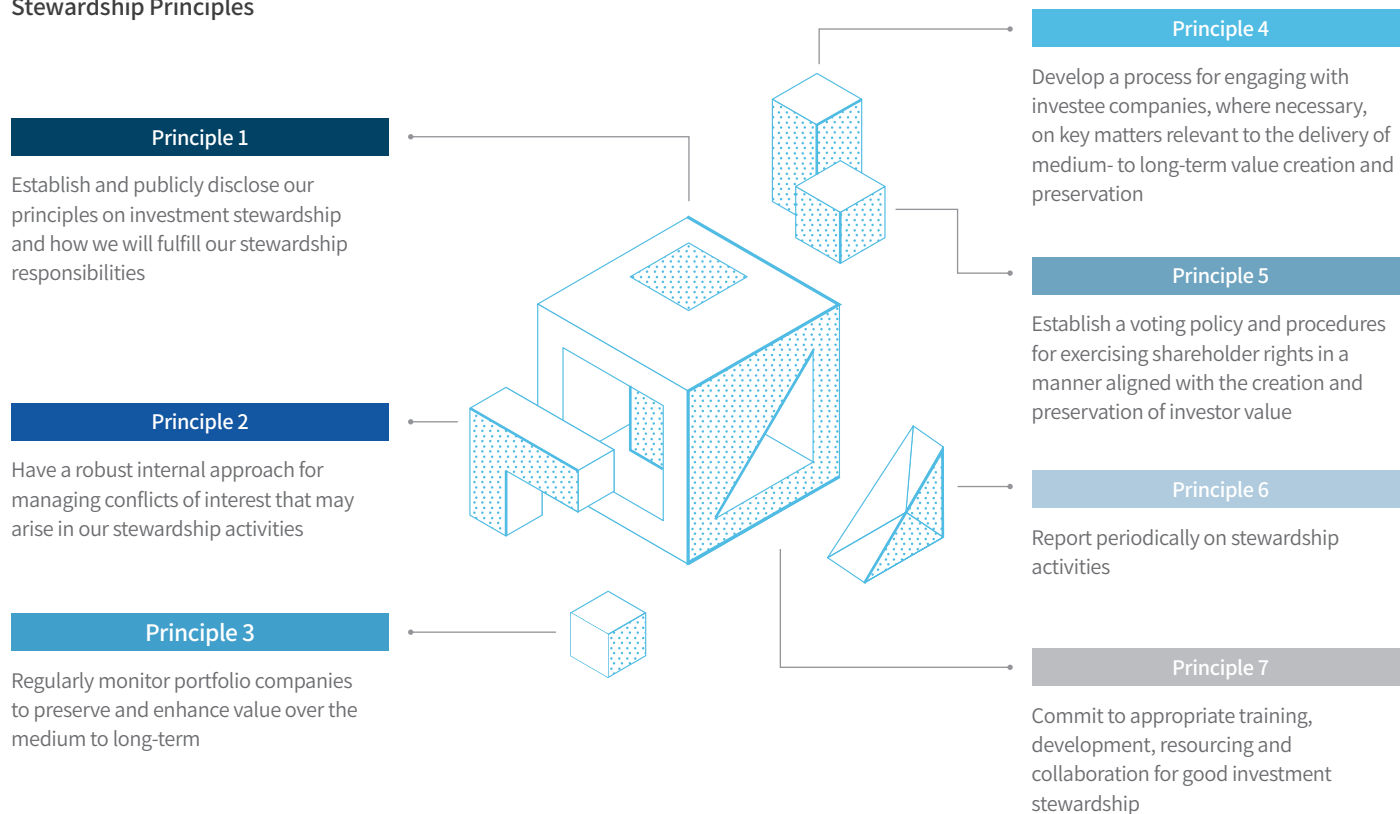
We established the KIC Stewardship Principles in 2018 to set goals for ourselves in our pursuit of active ownership and sustainability. With these principles, we started participating more in global capital market trends through responsible investments, which take into account non-financial factors, including environmental, social and governance (ESG).

In 2019, we committed to strengthening responsible investment policies by revising the KIC Investment Policy, establishing the “Korea Investment Corporation Responsible Investment Guidelines” and actively exercising shareholder rights, such as proxy voting and shareholder engagement through global stewardship managers.

At KIC, we incorporate responsible investing into our investment strategy as well as our policies. We invest in and manage ESG funds by selecting benchmarks comprising companies that meet ESG criteria and, on the back of good performance, we have expanded our scope of investment from developed markets to include the markets of all countries. KIC has also helped structure and establish the framework for a government-issued green and sustainability bond and been entrusted with the capital raised, with which we are investing in green and social projects related to alternative assets.

KIC also has a special ESG companies program in direct public equity and fixed-income investments. We use a platform to provide extra points for responsible investment when selecting external managers for traditional assets as well. In these

Stewardship Principles



ways, based on investment strategy and asset class characteristics, we are making strides with ESG integration in our investment process and portfolio management.

KIC engages with institutional investors at home and abroad with regard to responsible investment. We have joined the International Corporate Governance Network (ICGN), a global membership organization of leaders in corporate governance, and have been building a network with global

institutional investors for responsible investment. We have also been regularly holding ESG Day events for public institutional investors in Korea, to promote global investment trends and best practices.

We will continue to strengthen our ESG and responsible investing capabilities to apply them to our entire investment process and portfolio as we strive to increase returns, positively impact the environment and promote sustainability.

ESG Day events for public
institutional investors in Korea

Traditional Investments

Return on investment in 2019

16.62 %





Traditional investments, which include equities, fixed income and asset allocation, comprise 84.4% of KIC's total portfolio, playing a central role in our pursuit of investment targets.

Since starting with fixed-income investments in 2006, we have expanded our asset classes into equity, inflation-linked bonds and commodities, and continuously increased our assets under management through investment returns and additional funding from clients. We have maintained well-balanced investment portfolios to preserve the purchasing power of Korea's sovereign wealth, with an annualized return of 4.94% since inception.

In 2019, to strengthen the role of asset allocation at KIC, we created an asset allocation committee and started the Quarterly Asset Allocation Forum. The views and expertise gathered here are used to analyze financial markets, make decisions on asset allocation and enhance synergy among asset classes. For instance, our Asset Allocation Team analyzes future financial market trends and monitors the allocation weight of each asset class. The Equity, Quant and Fixed-Income teams concentrate on generating excess returns over benchmark indexes by implementing various strategies via fundamental and quantitative research.

KIC pursues a diversified and balanced portfolio across asset classes, regions and investment products to generate returns in a sustainable manner while ensuring that overall portfolio risk remains within appropriate levels.

Macroeconomic Research

KIC conducts global macroeconomic research covering major countries and regions, generating investment ideas to support effective tactical and strategic asset allocation. Through in-depth analyses of macroeconomic events and political/economic issues in key financial markets, we continue to strengthen our ability to respond to changes in the investment environment.

Through proactive discussions and organic collaboration among investment managers, we pursue an integrated approach to investment strategy and take a bird's-eye view based on horizontal and vertical analyses instead of restricting ourselves to a specific region or asset class.

We also continue to grow our research capabilities for market-oriented macroeconomic analysis, to further build our portfolio and enhance investment returns.

Equities

KIC pursues excess returns through public equity investments worldwide. We identify listed companies that are undervalued relative to their long-term intrinsic value. Our goal is to achieve consistent and sustainable excess returns in accordance with investment guidelines.

We started managing our equity portfolio internally in 2008 with a passive investment strategy. We now use two investment strategies – fundamental and quantitative.

Our fundamental strategy for global equities is to generate excess returns by extensively analyzing the intrinsic value of companies and industries. In 2019, we started a long-term-concentrated strategy and are gradually increasing our exposure to achieve stable returns. We also manage region-focused portfolios through our equity investment managers in New York and London and through consistently strengthening our local management.

For our externally managed equity portfolio, we use strategy diversification to enhance performance and respond to market dynamics. We work to strengthen portfolio management in a balanced manner and work closely with our New York and London offices to address new strategies. We have adopted an ESG investment strategy and plan to grow our role as a responsible investor by expanding our ESG strategy.

On the quantitative side, our Quant Team has built a global portfolio management and trading



system through benchmarking advanced systems overseas. The long-term goal is to develop KIC's direct investment capabilities. We began applying a passive strategy in 2008 and later adopted a quantitative alpha (excess return) model through which investment decisions are made via algorithms based on mathematical and statistical models. We strive to implement an enhanced strategy that maximizes cost efficiency and improves risk-adjusted returns.

The Quant Team also uses an independently developed management platform to respond to a global investment environment that is rapidly changing with the growth of market data, big data, diversification of alternative data sources, AI, machine learning and other technological advancements. We continue to strengthen this platform to integrate alternative data and AI, and to conduct research and development for new asset management strategies.

Fixed Income

KIC invests in bonds and currencies from various countries and sectors, including sovereign bonds,

bonds issued by state-run agencies, corporate bonds and securitized bonds. We manage risk factors inherent in the global fixed-income market, including credit and liquidity risk, and adhere to pre-determined investment guidelines in our pursuit of optimal portfolio management.

For the directly invested fixed-income portfolio, we use regional and sector-specific expertise derived through collaboration between headquarters and our overseas branches to systematically manage a broad global portfolio, diversify risk and pursue stable excess returns.

In 2019, for this directly invested portfolio, we enhanced our credit analysis and investment capabilities, diversified macro strategies based on mid/long-term macroeconomic research and policy outlooks and developed sector allocation strategies. For the external fixed-income portfolio last year, we pursued style diversification strategies to achieve effective asset allocation.

More generally, we also established and operated a monitoring system that integrates direct and indirect investments to strategically manage our fixed-income portfolio and generate higher returns for the long-term.

Tactical Asset Allocation

KIC's tactical asset allocation strategy is to flexibly adjust allocation levels among asset groups and the relative investment weight within each group based on global macroeconomic flows and short-term financial market trends to generate stable portfolio returns.

In 2019, KIC made strides toward more stable portfolio management. We developed quantitative indicators based on macroeconomic and financial market data. We strengthened an internal system for portfolio management and risk analysis. And we introduced a new strategy to reduce portfolio volatility.

Alternative Investments

Annualized return since inception
(As of the end of December 2019)

7.56%

Alternative investments play a critical role in diversifying overall portfolio risk and increasing investment efficiency due to their low correlation with traditional investments. They also allow for an illiquidity premium, helping KIC, as a long-term investor, achieve outstanding returns.

We started investing in alternative assets in 2009 with private equity and have since steadily broadened our investment spectrum to include real estate, infrastructure and hedge funds. The result is a balanced alternative portfolio that can support efficient overall portfolio management through investments diversified by vintage, region and strategy.

To achieve higher returns, we continue to expand our global network of sovereign wealth funds, pension funds and GPs and explore promising investment opportunities, including co-investments.

By the end of December 2019, KIC's annualized investment return since inception for alternative investments was 7.56%.

Private Equity

Private equity, categorized as an illiquid, growth-oriented long-term investment within the alternative asset portfolio, is an investment strategy that provides a higher return than other asset groups. KIC established the alternative investment division in 2009 and started investing in private equity funds immediately following the global financial crisis. We began making direct private equity investments in 2010 and co-investments with existing GPs in 2011, diversifying our portfolio by region and strategy.

In 2019, with all-time-high valuations in the public equity market and increased market uncertainty, we invested selectively in companies seeing steady growth and with a weak market correlation. We also increased the proportion of secondary and private credit funds to enhance the stability of the private equity portfolio.





In the second half of 2019, we offloaded some assets via the secondary market for portfolio optimization and centered the portfolio on quality assets.

Real Estate

Real estate is a major alternative asset class that can help diversify a portfolio and achieve stable investment returns. KIC has made a diverse range of direct, indirect and joint investments in real estate in North America, Europe and Asia since 2010.

Concerns remain about a real estate market correction following a post-financial-crisis boom and rising asset prices. In 2019, our Real Estate Team focused on cash flow-driven investment strategies that can reduce the risk of falling asset values in the event of a recession and investments that can be defensive in the business cycle, including rental housing. We also increased investments in sectors expected to benefit from the growth in e-commerce, including logistics

facilities, and advancements in information technology.

Infrastructure

Infrastructure is an asset class that generates long-term predictable cash flows by providing services and facilities essential to society and offers protection against inflation through inflation-linked income streams. Since KIC's first infrastructure investment in 2010, we have built a portfolio diversified by geography, including North America, Europe and Asia, and invested across a variety of sectors ranging from energy infrastructure and power to communication and transportation.

In 2019, in light of global economic uncertainties, we made co-investments in assets that produce stable cash flows underpinned by consistent and resilient demand in the transportation and logistics space. We strive to capture attractive investment opportunities in strategic partnership with our managers to stay competitive in a market

where infrastructure deals ever increase in size. We continue to seek managers of high caliber who specialize in sectors with long-run growth trajectories to more proactively respond to such global secular trends as decarbonization and increasing data traffic.

Hedge Funds

As an asset class that pursues absolute returns, hedge funds offer a wide range of investment strategies and techniques. From a risk-return perspective, they have a relatively low correlation with economic cycles, traditional assets and other alternative assets, including private equity and real estate. As a result, hedge funds help improve the long-term stability of KIC's overall investment performance by creating results that complement other asset classes in our portfolio.

KIC started investing in hedge funds in 2010. We have gradually developed our portfolio by diversifying investments across multiple hedge fund strategies to achieve sustainable, long-term returns rather than invest heavily in a small number of funds.

In 2019, we selected external asset managers pursuing low beta equity long-short strategies to enhance absolute returns and prepare for potential market volatility. We continue to seek diverse investment opportunities in line with financial market changes by adding asset managers and strategies, including fixed-income arbitrage and event-driven strategies.

Securities Lending

KIC started its securities lending operations in May of 2007. We lend securities to institutions with high credit ratings through external agents. Cash collateral received through securities lending is managed independently, in compliance with KIC's investment guidelines, and invested in assets with high liquidity and stability.



Risk Management





KIC aims to control investment risk within certain limits and appropriately manage potential losses.

We have established a risk management system that provides comprehensive control solutions for managing risk at every step, for not only the front, middle and back offices, but also corporate management.

The Steering Committee reviews and deliberates on risk management policy, while the Board of Directors (BOD) allocates risk limits and risk management guidelines.

The Risk Management Subcommittee (under the Steering Committee) and the Risk Management Working Committee (under the BOD) arrange detailed risk management guidelines via in-depth discussions. The Risk Management Division is strictly separated from the Investment Management Division to ensure the independence and autonomy of the risk assessment and investment monitoring processes.

KIC manages market risk, credit risk, derivatives risk, operational risk and legal risk. Quantitative indicators and limits are adopted to measure each type of risk, and each risk indicator is assessed and monitored during the investment process. When key risks exceed limits, the Risk Management Working Committee examines the issue and discusses possible solutions. To supplement quantitative analyses, we also perform various qualitative analyses.

Market Risk

For traditional assets including equities and fixed income, KIC manages the risk levels of excess returns based on benchmarks designated by our sponsors. Public market risk is defined as the volatility of excess returns against the benchmark, and we measure, monitor and set limits using

ex-ante tracking error (T/E). During 2019, the ex-ante T/E (minimum - maximum) for KIC's total portfolio was 32-51 bps and managed within limits. The tracking error for equity was within 47-68 bps and for fixed income, 35-54 bps. The key source of alpha generation, these tracking errors are effectively allocated and managed in various investment strategies.

We also use a variety of tools and approaches to prepare for multiple investment risks. Value at Risk (VaR) estimates portfolio volatility in accordance with asset management goals for absolute returns in asset allocation. We also measure and monitor indicators such as conditional VaR (or expected shortfalls) and use stress tests that incorporate both historical and hypothetical scenarios to estimate investment losses from multiple perspectives.

To supplement the quantitative models, we backtest the effectiveness of various risk models, designate investment-eligible products in advance and manage weights for each asset class, country, currency and sector, the allocation limits for external managers and duration limits.

We also analyze the portfolio establishment scheme and risk management status of major global institutional investors and have meetings with them in an ongoing effort to improve our risk management system.

Lastly, we closely monitor financial market trends by reviewing key market risk factors and analyzing their implications from a risk management vantage point.

We also constantly monitor individual fund returns. In the event that a fund underperforms the benchmark by a certain degree, we review the underlying reasons and prepare solutions. For traditional investments, we restrict investments in countries and products with significant liquidity constraints and regularly monitor portfolio transaction liquidity.

Alternative Investment Risk

The Risk Management Team designates allocation limits for external managers relative to the total net value of our alternative assets and for each asset class. For diversification purposes, the team also monitors the degree of concentration by region, strategy, sector and vintage.

We review risk factors for each investment plan prior to making any investment-related decisions. For direct investments or projects with significant risk, the Risk Management Team participates in on-site due diligence with the front office and conducts a prior and independent assessment of risk factors.

Post-investment, the Risk Management Team operates an early-warning system that monitors potential issues related to investment projects. Our team has also adopted and integrated a Public Market Equivalent analysis, relative performance comparison by vintage year and quantitative model analysis for the alternative investment portfolio using private market risk factors.

Credit Risk

KIC classifies credit risks into securities-related credit risks and counterparty credit risks. To manage credit risks from securities, we designate the lowest grade eligible for investments based on credit ratings by Moody's, S&P and Fitch Ratings, and set investment ceilings by issuers of corporate credit.

We manage counterparty risks by setting a minimum credit rating, selecting and managing appropriate counterparties and designating exposure limits based on credit ratings. We have also established an internal counterparty assessment system that uses such factors as counterparty credit ratings and various types of credit risk information and have regularly monitored counterparty risks.

In 2019, we improved the management of special transactions such as FX and derivatives by analyzing the details of those transactions for each counterparty.

Derivatives Risk

Derivatives are invested on a limited basis to enhance returns and make portfolio adjustments. To prevent excessive leverage transactions, we manage relevant risks by designating investment-eligible derivative products and assigning position limits.

Operational Risk

Operational risk management aims to prevent KIC from incurring financial losses arising from risks associated with inappropriate internal processes, employees, systems and external factors. KIC has developed and conducts employee self-check surveys to better control operational risk. In terms of organizational structure, we have separated the front, middle and back offices to maintain an effective system of checks and balances. Operational processes for the settlement of accounts and accounting related to the management of entrusted assets, as well as our IT systems, are designed to ensure effective operational risk control. The Chief Compliance Officer oversees all matters related to operational risk management activities independently, to protect the interests of sponsors and prevent financial mishaps.





Legal Risk

To prevent and manage legal risks, we review investment agreements, investment structures and potential issues prior to all investments. We use a post-management system to ensure investment returns and our investor rights. We also analyze domestic and foreign laws as well as legal validity with regard to our investments. Recognizing the growing importance of effectively

preventing and properly responding to legal risks, we have expanded our pool of legal experts, provided staff with additional training programs and seminars and are sharing more information with related agencies. We are also working more often with domestic law firms in an effort to contribute to the development of Korea's finance industry.



02

Organization & Management

Building hope for the next generation

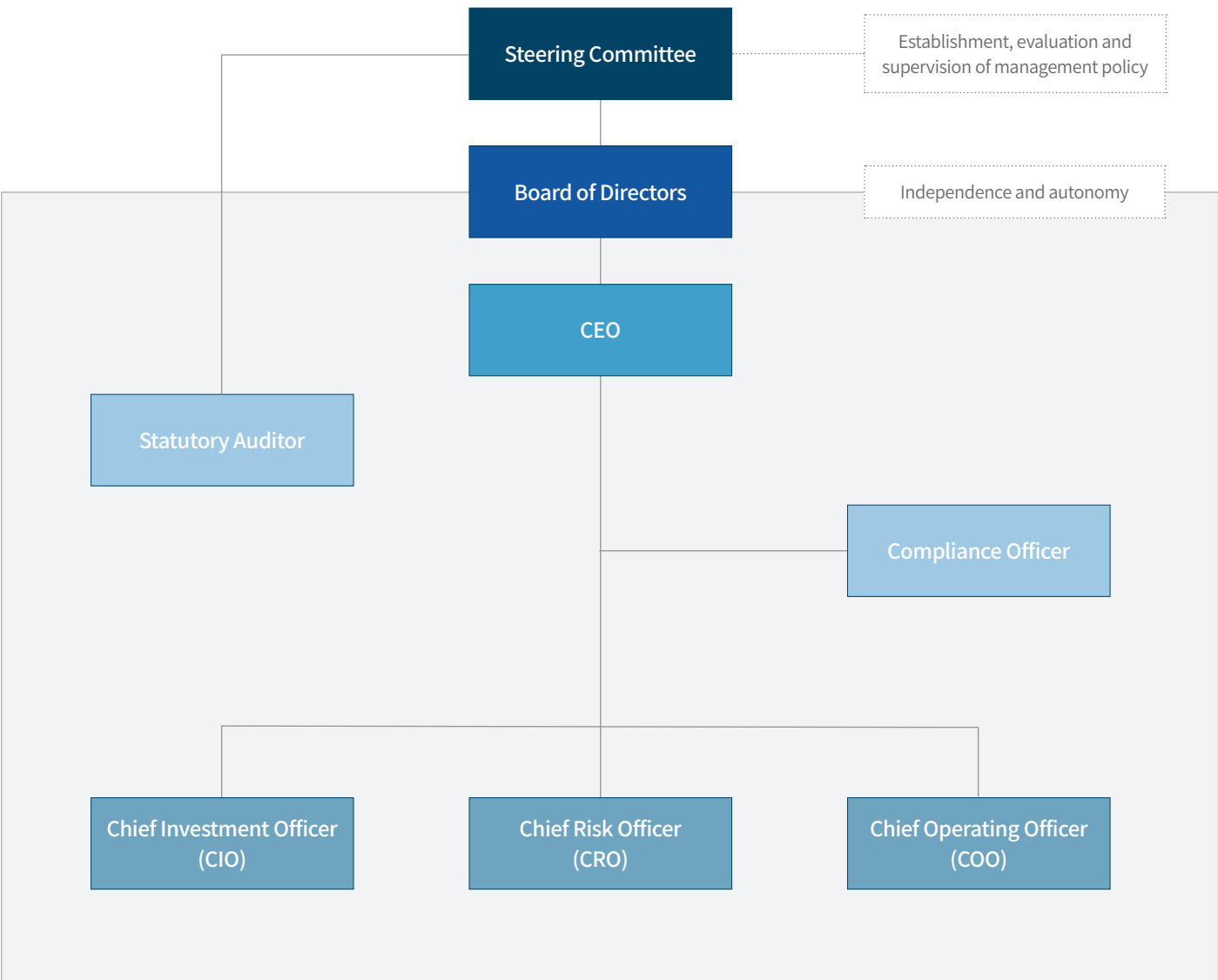
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Corporate Governance

Governance Assuring Autonomy & Investment Independence

The Korea Investment Corporation Act stipulates that KIC shall have a corporate governance structure that ensures investment independence and operational autonomy from the government and its sponsors (Articles 24, 35, Korea Investment Corporation Act).

KIC's Governance Structure





Steering Committee

The Steering Committee deliberates on and resolves the following matters: revision of regulations, mid- and long-term investment policies, management and operational policies, changes to financial status, entrustment of assets to KIC, appointment and dismissal of executives, approval of budgets and financial results, evaluation of management performance and inspections and audits of KIC's business (Article 9, Korea Investment Corporation Act).

Under the Steering Committee are various subcommittees in the form of standing subcommittees and ad-hoc subcommittees. The standing subcommittees consist of the Investment Subcommittee, which reviews issues related to investment policies, and the Risk Management and Audit Subcommittee, which reviews risk management policies and the adequacy of risk management, as well as periodically manages and monitors KIC's operations.

The ad-hoc subcommittees deliberate on matters delegated to them by the Steering Committee and conduct investigations and produce reports to assist the decision-making activities of the

Steering Committee. These include the Evaluation Remuneration Subcommittee, which reviews KIC's management performance evaluation, and the Budget Subcommittee, which reviews budgets and the settlement of accounts.

Board of Directors

The Board of Directors is composed of the CEO and directors. The Board resolves matters related to the following, in compliance with KIC's internal regulations: management of the company, management of entrusted assets, risk management, legal affairs and compliance, human resources and accounting.

Chief Executive Officer

Under Article 18 of the Korea Investment Corporation Act, KIC's CEO is appointed by the President of the Republic of Korea, upon recommendation by the Minister of Economy and Finance, through the President (CEO) Recommendation Committee and deliberation by the Steering Committee. The CEO represents KIC, presides over its business, convenes meetings of the Board of Directors and serves as Chairman of the Board.

Steering Committee

Steering Committee

The Steering Committee comprises six professionals from the private sector and three ex-officio members. The ex-officio members are the Minister of Economy and Finance and the Governor of the Bank of Korea as representatives of institutions that have entrusted KIC with assets exceeding a set amount, and the CEO of KIC. Private sector members are nominated by the Civil Member Candidate Nomination Committee, appointed by the President of the Republic of Korea and serve a two-year term. The chairman of the Steering Committee is elected from among the private sector members.

Category	Steering Committee	Investment Subcommittee	Risk Management and Audit Subcommittee	Budget Subcommittee	Evaluation Remuneration Subcommittee
Seokchin Kim	Chairman				
Dong-Hwan Kim	Member		Chairman	Member	
Seok Joong Kim	Member	Chairman			Member
Youngjae Ryu	Member	Member		Chairman	
Eunsook Seo	Member		Member		Chairman
Okee Chun	Member	Member	Member		
Ministry of Economy and Finance (Minister)	Member			Member	Member
Bank of Korea (Governor)	Member			Member	Member
CEO of KIC	Member	Member	Member		

* As of May 2020

Members From the Private Sector



Seokchin Kim / Chairman
Honorary Professor, Kyungpook National University



Dong-Hwan Kim / Member
Senior Research Fellow, Korea Institute of Finance



Seok Joong Kim / Member
Advisor, Hyundai Marine & Fire Insurance



Youngjae Ryu / Member
CEO, Sustinvest



Eunsook Seo / Member
Professor, School of Economics and
Finance, Sangmyung University



Okee Chun / Member
CIO, Hedge Fund Division, Kiwoom Asset
Management

Executive Management

Heenam Choi Chairman & CEO	<ul style="list-style-type: none"> • B.A., Economics, Hanyang University • MBA, Finance, Hanyang University • Ph.D., Economics, University of Pittsburgh 	<ul style="list-style-type: none"> • Executive Director, International Monetary Fund • Executive Director, World Bank Group • Ministry of Economy and Finance <ul style="list-style-type: none"> - Deputy Minister for International Affairs 	<ul style="list-style-type: none"> - Director General, International Financial Policy Bureau - Director, G20 Planning Group - Director, Foreign Fund Department and the International Finance Department
	<ul style="list-style-type: none"> • B.A., Economics, Yonsei University 	<ul style="list-style-type: none"> • Director of Finance, Hankyoreh Newspaper Company • Head of Audit Committee, Chungcheongnam-do • Permanent Auditor, Hankyoreh Newspaper Company 	<ul style="list-style-type: none"> • Logic Law Firm, Certified Public Accountant • Jong-hoon Yoon Accounting and Tax Office, Certified Public Accountant • KPMG San Tong and Samil PWC
	<ul style="list-style-type: none"> • B.A., Finance, Korea University • M.A., Finance, Iowa State University 	<ul style="list-style-type: none"> • Chief Investment Officer, Teachers' Pension • Chief Investment Officer, Allianz Life Insurance • Head of Investment Strategy, MG Korean Federation of Community Credit Cooperatives • Head of Equities, HDC Asset Management 	<ul style="list-style-type: none"> • Head of Asset Strategy and Planning, Samsung Asset Management • Samsung Life Insurance <ul style="list-style-type: none"> - Deputy General Manager, Fixed-Income Management - Fund Manager, London Office
	<ul style="list-style-type: none"> • B.A., Economics, Yonsei University • M.A., Economics, University of Washington 	<ul style="list-style-type: none"> • Bank of Korea <ul style="list-style-type: none"> - Head, Jeonbuk Branch Office - General Manager of Foreign Currency Asset Planning, Reserve Management Group - Manager, World Bank (seconded) 	
	<ul style="list-style-type: none"> • B.A., International Economics, Seoul National University 	<ul style="list-style-type: none"> • Korea Investment Corporation <ul style="list-style-type: none"> - Head of London Office - Head of Equity Investments Team - Head of Investment Strategy Team 	<ul style="list-style-type: none"> • Managing Director, Barclays Global Investors • Samsung Life Insurance <ul style="list-style-type: none"> - Head of Corporate Pension Investment Team - Deputy General Manager, Overseas Investment Team

* As of May 2020



Heenam Choi
Chairman & CEO



Jong-hoon Yoon
Statutory Auditor



Daeyang Park (David Park)
Chief Investment Officer

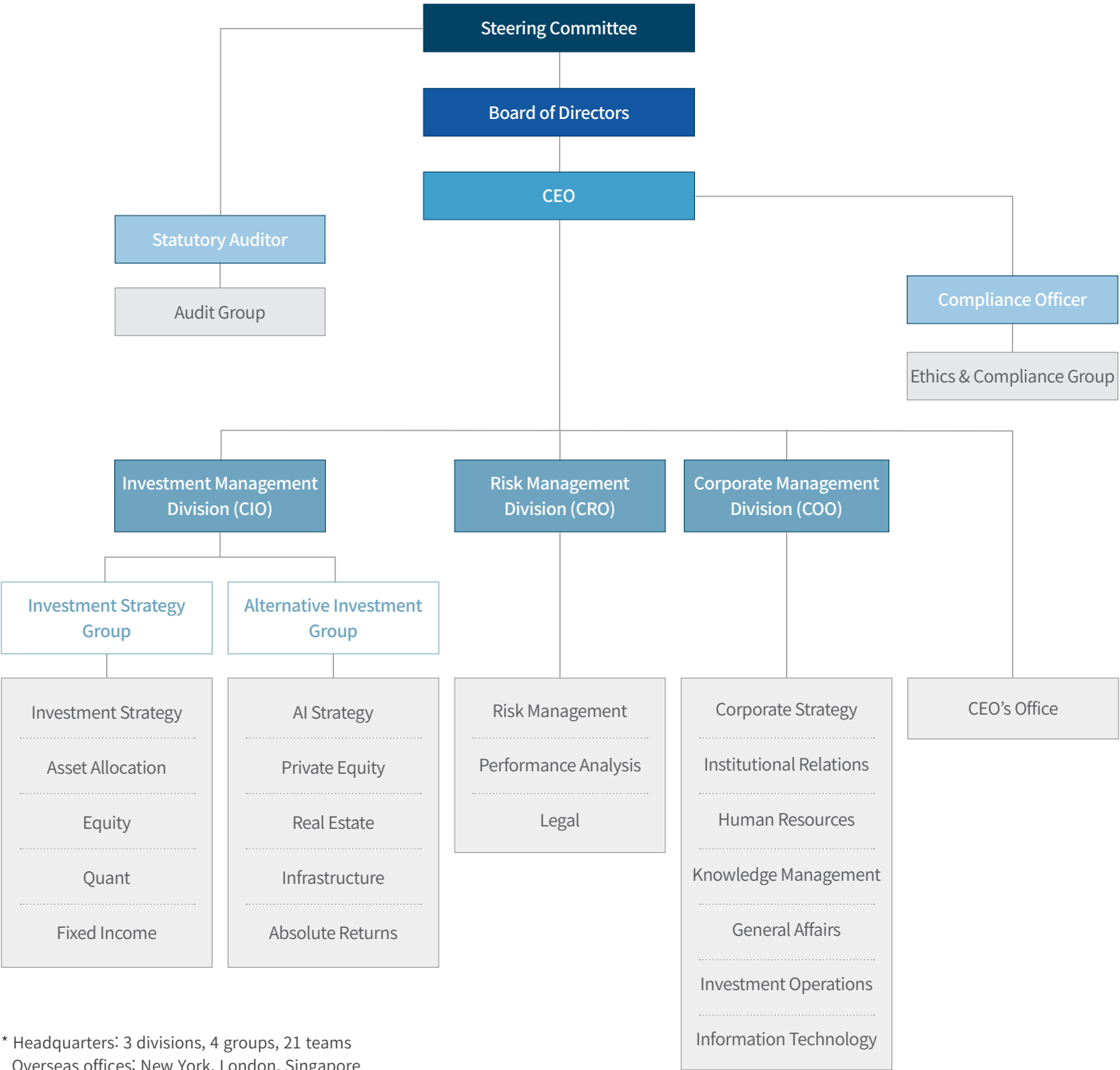


Changho Yoo
Chief Risk Officer



Sangjoon Kim
Chief Operating Officer

Organization Chart



* Headquarters: 3 divisions, 4 groups, 21 teams
Overseas offices: New York, London, Singapore
297 employees total (excluding executives, as of the end of December, 2019)

Ethical Management



Implementing and reviewing the code of ethics and conduct



Strengthening training for ethical management



Actively running a center for whistleblowers and the reporting of irregularities



A Transparent & Fair System Based on Ethical Awareness & National Pride

KIC was established to efficiently manage assets entrusted by the government, the Bank of Korea and other sponsors and contribute to the development of Korea's finance industry. We are proactively taking steps to ensure ethical and transparent management by adopting this as the basic principle for corporate management, raising ethical awareness among all employees and boosting transparent management.

Internal Control

KIC's internal control standards stipulate that employees should abide by the KIC Act, manage entrusted assets with integrity and comply with procedures and standards to protect the interests of sponsor institutions. KIC's Compliance Officer oversees the operation of our internal control system. The Compliance Officer is responsible for establishing internal control policies and monitors whether KIC's business activities comply with relevant laws and internal controls.

To verify whether internal control rules are being observed, KIC employees take a self-diagnosis test every quarter. Employees also submit relevant monthly reports when seeking to trade financial investment products that require reporting. The Ethics & Compliance Group is strengthening its compliance support through independent monitoring activities, including reviews of emails and trading transactions.

The Compliance Officer reviews whether investment guidelines for entrusted assets are adhered to, and monitors actual trading records based on counterparty evaluation. In this way, we verify the legal compliance of investment activities.

The Compliance Officer also runs an internal whistleblowing and reporting system accessible through various channels for seamless internal control. We offer training to promote higher ethical awareness and legal compliance among employees.



Transparent Governance

Public Disclosure

In accordance with the Korea Investment Corporation Act, KIC discloses corporate information, including the items below, to ensure transparency and accountability.

- Total assets under management
- Return on total assets
- Asset allocation and investment returns by asset class
- Mid- to long-term investment policy
- Financial statements and accounting standards
- Audit reports
- Changes in portfolio managers

External Audits

KIC's annual financial statements are audited by an external auditor and are compliant with international audit standards. The external auditor is selected by KIC's Statutory Auditor.

Audit by the National Assembly

Under the National Assembly Act and the Act on the Inspection and Investigation of State Administration, KIC submits reports on major activities to the National Assembly and is subject to the National Assembly's annual audit.

Disclosure of Management Information

In accordance with the Act on the Management of Public Institutions, KIC discloses management information on ALIO, the website for disclosures of the operation of public institutions, including the following details:

- New employment
- Compensation for executives / Average employee wages
- Results of the National Assembly audit
- Results of the Board of Audit and Inspection
- Minutes of Board of Directors meetings
- Internal audit results
- Employee benefits
- Tax payments

Global Network



KIC continues to build a broad and tightknit network with sovereign wealth funds, pension funds and other financial institutions around the world. This network is at the heart of our ability to garner valuable investment information, access promising investment opportunities and secure an advantage in investment negotiations.

Global Network with Sovereign Wealth Funds & Public Funds

KIC is expanding its international network to strengthen collaborations with global sovereign wealth funds. It has signed MOUs for cooperation with multiple funds since 2009 to share investment information and engage in other types of exchange.

International Forum of Sovereign Wealth Funds (IFSWF)

The International Forum of Sovereign Wealth Funds (IFSWF) is an organization of sovereign wealth funds that helps its more than 30 members implement the Santiago Principles, which are 24 Generally Accepted Principles and Practices for sovereign wealth funds. The organization also conducts research, represents its members' views to the broader community and brings members together to share insights and information. Events include the IFSWF Annual Meeting, which was held in Juneau, Alaska and hosted by the Alaska Permanent Fund Corporation.

KIC has been an active member of the IFSWF since the group's inception in 2009. We are committed to adhering to the Santiago Principles.

Support for the Domestic Finance Industry

Public Community for Overseas Investment

KIC started the Public Community for Overseas Investment (PCOI) in April of 2014 to support the development of the domestic finance industry, one of its founding missions. Through four meetings in 2019, we shared best practices and information about overseas investment with domestic pension funds. Participants also exchanged views and information on the global financial market outlook, ESG investment strategies, global quant equity investments, proptech, energy infrastructure and other issues of common interest. KIC will continue to cooperate with and support the PCOI's growing membership of 23 institutions to boost the overseas investment performance of Korea's public sector.

Highlights of the Public Community for Overseas Investment in 2019

Date	Meeting Agenda
February 22	2019 financial market outlook and asset allocation strategy
May 24	ESG strategies for investing in traditional/alternative assets
September 6	Investing in global quant equities and RMB bonds
December 13	Proptech and eco-friendly energy infrastructure



Public Community for Overseas Investment Member Institutions









Meetings with domestic financial institutions

KIC meets continually with domestic financial institutions to discuss the development of Korea's finance industry. In the first half of 2019, KIC held a meeting with Korean securities firms to discuss foreign equity transactions and the future of Korea's finance industry. In the second half of the year, we met with domestic asset management firms to share views on managing KIC's assets and global investment cooperation. By the end of the year, we selected two domestic securities firms to handle our foreign equity investments and plan to start working with them in 2020. We will also continue to engage more with Korean asset managers.

International Financial Cooperation Council (IFCC)

KIC runs meetings of the International Financial Cooperation Council (IFCC), which is made up of public and private Korean investment institutions, in New York, London and Singapore, where our overseas offices are located. The goal is to share investment information, build networks with leading global investment firms, gain a balanced perspective on financial issues and pursue mutual development.

IFCC New York was started in November 2017, London in February 2018 and Singapore in August 2019. IFCC New York meets monthly while the councils in London and Singapore meet quarterly.

For each meeting, KIC's overseas offices invite local experts from asset management firms and investment banks to present and share views on the global economy and local finance industry.

Through the IFCC, KIC aims to promote information sharing, seek co-investment opportunities and make inroads into local markets with leading investors.

International Financial Cooperation Council (IFCC) Participants

Overseas offices	No. of institutions	Participating companies
New York	34	Consulate General of the Republic of Korea in New York, National Pension Service, Korea Center for International Finance, Financial Supervisory Service, The Export-Import Bank of Korea, Bank of Korea, Korea Development Bank, Korea Post, Korea Electric Power Corporation, KOTRA, Kookmin Bank, Industrial Bank of Korea, Nonghyup Bank, Shinhan Bank, Woori Bank, KEB Hana Bank, Mirae Asset Daewoo Securities, Samsung Securities, Shinhan Investment, Korea Investment & Securities, NH Investment & Securities, etc.
London	24	Embassy of the Republic of Korea in the United Kingdom of Great Britain and Northern Ireland, National Pension Service, Financial Supervisory Service, The Export-Import Bank of Korea, Bank of Korea, Korea Development Bank, Kookmin Bank, Industrial Bank of Korea, Shinhan Bank, Woori Bank, KEB Hana Bank, Mirae Asset Daewoo Securities, Samsung Securities, Korea Investment & Securities, NH Investment & Securities, Kyobo Life Insurance, Samsung life Insurance, Samsung Fire Insurance, Shinhan Life Insurance, Korean Re, Hyundai Marine & Fire Insurance, DB Insurance, Samsung Asset Management, etc.
Singapore	16	Embassy of the Republic of Korea to the Republic of Singapore, National Pension Service, Stock Exchange, Korea Development Bank, Shinhan Bank, Woori Bank, KEB Hana Bank, Mirae Asset Daewoo Securities, Korea Investment & Securities, Korean Re, Midas Asset Management, Korea Investment Management, Hanwha Asset Management, KB Asset Management, NH Asset Management, etc.

Talent Development

Key Attributes of KIC Employees

KIC seeks to nurture global financial experts who can contribute to growing the nation’s sovereign wealth and finance industry.

Our goal is to ensure that all employees embody KIC’s five main attributes: professionalism, integrity, loyalty, accountability and respect.

Training Programs

KIC offers various training programs to equip employees with the skills they need to manage Korea’s sovereign wealth and support the nation’s finance industry.

Our domestic and overseas training programs cover subjects related to asset management, including asset allocation, investment management and risk management, and aim to nurture experts in these

Key Attributes of KIC Employees





fields. We also offer courses customized by job, study groups and language courses. We encourage employees to obtain relevant certificates by subsidizing the process.

New entry-level employees learn about the work of each team and the basics of traditional and alternative investments. Through mentoring programs, they can discover what roles best fit their interests and disposition.

KIC also selects interns who, under a mentor's guidance, are taught the skills needed for their job and encouraged to gain the skills needed to become global financial experts.

To nurture both theoretical and practical financial knowledge, KIC will continue expanding training programs, including an extended academic program at home and abroad, as well as an overseas job training program.

Recruitment

We recruit both entry-level and experienced employees who can embrace a challenge, be innovative in shaping KIC's future, are responsible and have integrity.

We use an equal opportunity "blind recruitment" process that evaluates a candidate's job competency in areas including equity, fixed income, alternative investment and risk management while eliminating criteria that may create prejudice, such as birthplace, family status, academic background, physical traits, etc.

Through strengthening local investment management at our overseas offices, we also continue to bolster local investment expertise.

Social Contributions

KIC carries out various social contribution programs to give back to the public, fulfill its responsibilities as a public institution and help create a better world for the next generation. Since 2018, we have engaged in systematic and effective volunteer work in four categories: Emergency Relief Support, Human Resource Development, Future Building and Talent Sharing.

KIC's Social Contribution Committee meets quarterly to approve plans that conform to KIC's mission. We then carry out volunteer activities on an ongoing basis.





Emergency Relief Support

Since 2012, KIC has partnered with the Korean Open Doctors Society to provide free medical care and relief supplies to foreign workers. We recently expanded the scope of care recipients to include those living in boarding houses and low-income seniors. Last year, as part of our first overseas volunteer initiative, we also visited Siem Reap, Cambodia to provide local children and other residents with free medical checkups, health education, relief supplies and even some entertainment.

KIC has worked with the Seongbuk Welfare Center since 2014 as well. Every quarter, we volunteer with the Center to serve seniors living alone and those with severe disabilities, as well as to upgrade their homes. In 2019, we donated food, including ginseng chicken soup and kimchi, for those with disabilities and helped them with certain activities, including playing the Korean game yut, engaging in the sport of curling indoors, baking pound cakes, enjoying drip coffee and bathing. We also provide financial support every year for patients suffering from rare or incurable diseases and children with cancer. In 2019, we offered financial support for children from low-income families and shelters, youth at orphanages who are supporting themselves or looking for jobs and single-parent households. We installed safe steps in boarding houses and delivered winter supplies to vulnerable groups as well.

More specifically, during the Korean Chuseok holiday, about 70 KIC executives and employees served 1,500 seniors a healthy lunch at the Seoul Elderly Welfare Center. We provided emergency relief support after the massive wildfires in Gangwon Province through the Hope Bridge Korea Disaster Relief Association and relief funds to residents of typhoon-affected areas. We also launched the global Hope T campaign to provide meals for children fleeing areas impacted by climate change and T-shirts designed by KIC staff.

Human Resource Development

KIC has supported a college scholarship program for students from foster care and those suffering from financial difficulties through the Korea Student Aid Foundation (KOSAF). We continue to sponsor educational expenses for children from multicultural or single-parent households in the Seoul metropolitan area and support a program that supplies books to island and mountain regions in Korea as well. Our aim is to encourage talent and foster future leaders so they can stay committed to their studies and pursue their dreams.

Future Building

As an overseas investor, KIC has expanded the scope of our global cooperation by partnering with Good Neighbors to sponsor underprivileged children in Asia, Africa and South America. We have also supported projects aimed at providing relief abroad, and our overseas offices have participated in local volunteer programs. KIC sponsors environmental and public welfare organizations as well. Our goal is to leave a better world for the next generation.

Talent Sharing

In 2019, we continued to hold campus seminars for undergraduates, financial education sessions for youth and opportunities for free career counseling to cultivate interest in the finance industry among potential future financial experts. The KIC staff also shared their investment know-how through participating in external review & assessment committees, conference panels, seminars and lectures to contribute to the development of Korea's finance industry.

Through expert and systematic volunteering, we will continue to fulfill our social responsibilities as a public institution.

Emergency Relief Support



Volunteering and donating to promote self-sufficiency and stability among low-income families, those with disabilities, senior citizens living alone, patients with rare conditions, foreign workers, multicultural families, victims of natural and social disasters and others



Human Resource Development



Sponsoring college students from low-income families, supporting education expenses for children from multicultural or single-parent households and supplying books to island and mountain regions



Future Building



Sponsoring projects for underprivileged children overseas and global development projects in impoverished areas, participating in local volunteer programs run by our overseas offices and sponsoring public organizations or programs



Talent Sharing



Sharing talent and knowhow to help those who will contribute to developing the finance industry, through activities including campus seminars, participating in review and assessment committees and finance-training for young adults



03

Financial Statements

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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, 2019 and December 31, 2018, 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, 2019 and December 31, 2018, 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 misstatements 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 23, 2020



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.

Statement of Financial Position

As of December 31, 2019 and 2018

Korea Investment Corporation

(KRW thousand)

	Notes	2019	2018
Assets			
Cash and due from banks	4,11	₩ 80,116,193	169,976,992
Securities	5,6	147,900,852	46,321,471
Loans, less allowance for doubtful accounts of ₩ 174 in 2019 and ₩ 80 in 2018		34,546	16,000
Property and equipment	7,8	2,691,120	2,190,790
Accounts receivable	11	294,675	1,921
Accrued incomes, less allowance for doubtful accounts of ₩ 436,936 in 2019 and ₩ 267,255 in 2018	11,16	86,950,362	53,183,794
Investments		3,719,558	3,710,996
Intangible assets	9	4,772,104	861,093
Deferred tax assets	15	4,208,778	2,745,972
Income tax receivable	11,15	192,220	245,017
Other assets	11	120,024	66,455
Total assets		₩ 331,000,432	279,320,501
Liabilities			
Withholdings		₩ 835,192	825,940
Accounts payable	11	870,245	1,140,128
Accrued expenses	11	42,250,987	33,714,376
Income tax payable	15	15,421,281	6,796,805
Provision for retirement and severance benefits	10	11,513,286	10,144,741
Pension plan assets		(11,008,868)	(9,506,945)
Total liabilities		59,882,123	43,115,045
Equity			
Capital	1,13	100,000,000	100,000,000
Retained earnings	14	171,118,309	136,205,456
Total equity		271,118,309	236,205,456
Total liabilities and equity		₩ 331,000,432	279,320,501

See accompanying notes to the financial statements.

Statement of Income

For the years ended December 31, 2019 and 2018

Korea Investment Corporation

(KRW thousand)

	Notes	2019	2018
Operating revenue			
Investment management fees	16	₩ 263,956,585	209,821,208
Gain on foreign exchange	11	6,027,122	5,456,870
Interest income		1,601,672	3,118,200
Dividend income		695,746	740,177
Gain on financial assets at fair value through profit or loss	5	365,277	26,147
Reversal of allowance for bad debt		5,650	17,084
		272,652,052	219,179,686
Operating expenses			
Fee expenses		(117,868,572)	(106,303,353)
Loss on foreign exchange	11	(4,582,550)	(4,330,895)
Loss on financial assets at fair value through profit or loss	5	(3,821,400)	(1,922,384)
General and administrative expenses	17,18	(67,043,702)	(57,735,076)
		(193,316,224)	(170,291,708)
Operating income		79,335,828	48,887,978
Non-operating revenue			
Income from pension plan assets		147,666	137,879
Equity income on investments		850,182	730,501
Other income		6,240	9,306
		1,004,088	877,686
Non-operating expenses			
Loss on disposal of property and equipment		(4,931)	-
Donations		(242,344)	(206,341)
Other expense		(39,747)	-
		(287,022)	(206,341)
Income before income tax		80,052,894	49,559,323
Income tax expense	15	(18,963,466)	(12,164,216)
Net income		₩ 61,089,428	37,395,107

See accompanying notes to the financial statements.

Statement of Changes in Equity

For the years ended December 31, 2019 and 2018

Korea Investment Corporation

(KRW thousand)

	Notes	Capital	Retained earnings	Total equity
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		₩ 100,000,000	136,205,456	236,205,456
Balance on January 1, 2019		₩ 100,000,000	136,205,456	236,205,456
Dividends		-	(26,176,575)	(26,176,575)
Net income for the year		-	61,089,428	61,089,428
Balance on December 31, 2019		₩ 100,000,000	171,118,309	271,118,309

See accompanying notes to the financial statements.

Statement of Cash Flows

For the years ended December 31, 2019 and 2018

Korea Investment Corporation

(KRW thousand)

	Notes	2019	2018
Cash flows from operating activities			
Net income		₩ 61,089,428	37,395,107
Adjustments for:			
Severance benefits		3,004,675	1,314,530
Depreciation		890,832	918,578
Amortization		404,691	513,809
Loss on foreign currency translation		993,031	466,126
Provision for allowance for doubtful accounts		175,789	150
Loss on financial assets at fair value through profit or loss		3,821,400	1,922,384
Loss on disposal of property and equipment		4,931	
Gain on foreign currency translation		(507,856)	(222,483)
Reversal of allowance for bad debt		(5,650)	(17,084)
Gain on financial assets at fair value through profit or loss		(365,277)	(26,148)
Income from pension plan assets		(147,666)	(137,879)
Equity income on investments		(850,182)	(730,501)
Changes in assets and liabilities:			
Decrease (increase) in accounts receivable		(293,062)	(856)
Decrease (increase) in accrued income		(34,912,354)	2,760,085
Decrease (increase) in other assets		(54,003)	12,815
Decrease (increase) in deferred tax assets		(1,462,806)	52,949
Decrease (increase) in income tax receivable		70,258	(245,017)
Increase (decrease) in accounts payable		(265,187)	362,905
Increase (decrease) in withholdings		9,252	(35,823)
Increase (decrease) in accrued expenses		8,999,509	(1,365,394)
Increase (decrease) in income tax payable		8,624,477	(787,899)
Payments to severance benefits		(1,636,129)	(1,179,693)
Increase (decrease) in pension plan assets		(1,354,257)	(671,439)
Net cash provided by operating activities		46,233,844	40,299,222
Cash flows from investing activities			

	Notes	2019	2018
Decrease in time deposits included in cash and due from banks		96,881,605	74,667,806
Decrease in certificate of deposits included in cash and due from banks		40,550,881	67,261,969
Decrease in financial assets at fair value through profit or loss		5,000,000	-
Decrease in investments in associates and subsidiaries		814,677	726,861
Refund of leasehold deposits		95,496	248,003
Increase in time deposits included in cash and due from banks		(60,881,605)	(96,667,806)
Increase in certificate of deposit included in cash and due from banks		(550,881)	(40,261,969)
Increase in financial assets at fair value through profit or loss		(110,000,000)	-
Increase in loans		(18,640)	(11,080)
Acquisition of property and equipment		(1,396,093)	(762,515)
Acquisition of intangible assets		(4,315,702)	(14,300)
Payment for leasehold deposits		(97,806)	(571,744)
Net cash used in investing activities		(33,918,068)	4,615,225
Cash flows from financing activities			
Dividends paid		(26,176,575)	(26,671,070)
Net cash used in financing activities		(26,176,575)	(26,671,070)
Net increase (decrease) in cash and cash equivalents		(13,860,799)	18,243,377
Cash and cash equivalents at beginning of year		33,976,992	15,733,615
Cash and cash equivalents at end of year		₩ 20,116,193	33,976,992

See accompanying notes to the financial statements.

Notes to the Financial Statements

For the years ended December 31, 2019 and 2018

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 Bank of Korea. As of December 31, 2019, 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, 2019 is summarized as follows.

(KRW thousand)

Investor	Capital	Percentage of shareholding
Ministry of Economy and Finance	₩ 100,000,000	100.00%

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

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.

Notes to the Financial Statements

For the years ended December 31, 2019 and 2018

(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 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.

(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, 2019, 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 statement 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 statement 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.

Notes to the Financial Statements

For the years ended December 31, 2019 and 2018

(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 dates of the transactions. 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.

4. Cash and Due From Banks

Cash and due from banks as of December 31, 2019 and 2018 are as follows:

(KRW thousand)

	Annual interest rate (%)	2019	2018
Cash and cash equivalents			
Money market deposit accounts	0.10~0.30	₩ 95,369	118,931
Money market trust	1.25~1.75	15,915,986	31,232,472
Ordinary deposits	0.10	35,953	56,887
Foreign currency deposits	0.00~1.69	4,068,885	2,568,702
		20,116,193	33,976,992
Time deposits	1.63~1.80	60,000,000	96,000,000
Certificate of deposit	-	-	40,000,000
		60,000,000	136,000,000
		₩ 80,116,193	169,976,992

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, 2019 and 2018 are summarized as follows:

(KRW thousand)

	2019			2018
	Acquisition cost	Fair value	Book value	Book value
IGIS No. 43	₩ 27,400,000	25,268,828	25,268,828	24,965,784
Mirae Asset Trust No. 2-3	110,000,000	106,178,600	106,178,600	-
KB No. 2017-440	-	-	-	4,937,768
	₩ 137,400,000	131,447,428	131,447,428	29,903,552

6. Investments in Associates and Subsidiaries Included in Securities Account

Investments in companies accounted for using the equity method as of December 31, 2019 and 2018 are summarized as follows:

(KRW thousand)

	2019		
	Percentage of Ownership	Acquisition cost	Book value
K-REALTY VI	₩ 40%	16,000,000	16,453,424

(KRW thousand)

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

Changes in the balances of investments in companies accounted for using the equity method of accounting for the years ended December 31, 2019 and 2018 are as follows:

(KRW thousand)

	2019			
	Beginning balance	Equity gain	Collection	Book value
K-REALTY VI	₩ 16,417,919	850,182	(814,677)	16,453,424

(KRW thousand)

	2018			
	Beginning balance	Equity gain	Collection	Book value
K-REALTY VI	₩ 16,414,280	730,500	(726,861)	16,417,919

Notes to the Financial Statements

For the years ended December 31, 2019 and 2018

The financial information of equity-accounted investments, which represent 100% of the entities' balances as of and for the years ended December 31, 2019 and 2018, are summarized as follows:

(KRW thousand)

	2019			
	Total assets	Total liabilities	Operating revenue	Net income
K-REALTY VI	₩ 95,229,918	57,146,500	4,970,269	1,120,324

(KRW thousand)

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

7. Property and Equipment

Changes in property and equipment for the years ended December 31, 2019 and 2018 are as follows:

(KRW thousand)

	2019				
	Beginning balance	Acquisition	Disposal (*)	Depreciation	Ending balance
Computer equipment	₩ 1,432,754	1,367,339	-	(617,005)	2,183,088
Office equipment	325,879	28,754	(4,931)	(141,736)	207,966
Leasehold assets	432,157	-	-	(132,091)	300,066
	₩ 2,190,790	1,396,093	(4,931)	(890,832)	2,691,120

(*) Fully-depreciated office equipment is disposed for the year ended December 31, 2019. Its acquisition costs is ₩8,867 thousand.

(KRW thousand)

	2018				
	Beginning balance	Acquisition	Disposal (*)	Depreciation	Ending balance
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
	₩ 2,346,854	762,515	-	(918,578)	2,190,790

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

8. Insured Assets

Insurance contracts maintained by the Corporation as of December 31, 2019 are as follows:

(KRW thousand)

Category of insurance	Classification	Insured assets	Insured amount	Insurance company
Movables comprehensive insurance	Korea	Computer equipment		
		Office equipment	₩ 7,385,817	Lotte Insurance
		Leasehold assets		
	New York	Computer equipment		
		Office equipment	737,287	The Hartford
		Leasehold assets		
	London	Computer equipment		
		Office equipment	338,912	AXA Insurance
		Leasehold assets		
	Singapore	Computer equipment		
		Office equipment	270,443	AXA Insurance
		Leasehold assets		

9. Intangible Assets

Changes in intangible assets for the years ended December 31, 2019 and 2018 are as follows:

(KRW thousand)

	Development costs	Computer Software	Total
Net balance at the beginning of 2019	₩ 369,332	491,761	861,093
Additions	3,638,204	677,499	4,315,702
Amortization (*)	(171,032)	(233,660)	(404,691)
Net balance at the end of 2019	₩ 3,836,504	935,601	4,772,104
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

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

Notes to the Financial Statements

For the years ended December 31, 2019 and 2018

10. Retirement and Severance Benefits

Changes in retirement and severance benefits for the years ended December 31, 2019 and 2018 are as follows:

(KRW thousand)

	2019	2018
Provision for retirement and severance benefits at beginning of year	₩ 10,144,741	10,009,904
Payments	(1,636,129)	(1,179,693)
Accrual for retirement and severance benefits	3,004,674	1,314,530
Provision for retirement and severance benefits at end of year	₩ 11,513,286	10,144,741

Pension plan assets as of December 31, 2019 and 2018 are as follows:

(KRW thousand)

	2019	2018
Principal guarantee financial instruments	₩ 5,903,769	5,700,618
Other	5,105,099	3,806,327
	₩ 11,008,868	9,506,945

Changes in pension plan assets for the years ended December 31, 2019 and 2018 are as follows:

(KRW thousand)

	2019	2018
Beginning balance	₩ 9,506,945	8,697,628
Increase	4,523,486	1,837,879
Decrease	(3,021,563)	(1,028,561)
Ending balance	₩ 11,008,868	9,506,945

Expenses related to defined contribution plans recognized for the years ended December 31, 2019 and 2018 are ₩442,969 thousand and ₩337,209 thousand, respectively.

11. Assets and Liabilities Denominated in Foreign Currencies

Assets and liabilities denominated in foreign currencies as of December 31, 2019 are as follows:

(KRW thousand)

		Foreign currency	Exchange rate	Translated into won
Assets				
Deposits	USD	3,128,295.15	₩ 1,157.80	₩ 3,621,940
	GBP	248,587.92	1,518.69	377,528
	SGD	80,853.79	858.55	69,417
Accrued income	USD	75,217,988.64	1,157.80	87,087,387
Other assets	USD	393,836.84	1,157.80	455,984
	GBP	132,765.36	1,518.69	201,629
	SGD	117,652.20	858.55	101,010
				₩ 91,914,895
Liabilities				
Accounts payable	USD	166,990.87	₩ 1,157.80	₩ 193,342
	GBP	98,511.07	1,518.69	149,608
	SGD	14,773.79	858.55	12,684
Accrued expenses	USD	25,698,900.85	1,157.80	29,754,187
	GBP	3,136.61	1,518.69	4,764
	SGD	12,434.38	858.55	10,675
				₩ 30,125,260

Regarding foreign currency translations, the Corporation recognized operating revenue of ₩540,958 thousand and operating expenses of ₩1,014,073 thousand for the year ended December 31, 2019.

Notes to the Financial Statements

For the years ended December 31, 2019 and 2018

Assets and liabilities denominated in foreign currencies as of December 31, 2018 are as follows:

(KRW thousand)

		Foreign currency	Exchange rate	Translated into won
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
				₩ 55,141,825
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
				₩ 25,712,624

12. Commitments and Contingencies

As of December 31, 2019, the Corporation maintains investment management agreements with 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 157,302,726,124.16 as of December 31, 2019.

There are no pending litigations as of December 31, 2019.

13. Capital

Capital as of December 31, 2019 and 2018 are as follows:

(KRW thousand)

	2019	2018
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.

14. Retained Earnings

Retained earnings as of December 31, 2019 and 2018 are as follows:

(KRW thousand)

	2019	2018
Earning reserve (*)	₩ 31,143,383	27,403,872
Voluntary reserve	78,885,498	71,406,477
Unappropriated retained earnings	61,089,428	37,395,107
Total retained earnings	₩ 171,118,309	136,205,456

(*) 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.

Statement of appropriation of retained earnings for the years ended December 31, 2019 and 2018 are as follows:

(KRW thousand)

	2019	2018
Unappropriated retained earnings		
Balance at beginning of year	₩ -	-
Net income for the year	61,089,428	37,395,107
Balance at end of year before appropriation	₩ 61,089,428	37,395,107
Appropriation of retained earnings		
Earning reserve	₩ 6,108,943	3,739,511
Voluntary reserve	18,326,828	7,479,021
Dividends (*)	36,653,657	26,176,575
Unappropriated retained earnings to be carried over to subsequent year	₩ -	-

(*) The Corporation's dividend ratio for the years ended December 31, 2019 and 2018 are 60.00% and 70.00%, respectively.

Notes to the Financial Statements

For the years ended December 31, 2019 and 2018

15. Income Taxes

The components of income tax expense for the years ended December 31, 2019 and 2018 are as follows:

(KRW thousand)

	2019	2018
Current tax expense	₩ 20,746,296	11,807,931
Changes in deferred tax from temporary differences	(1,462,806)	52,949
Supplementary payment of income taxes	(320,024)	303,336
Income tax expense	₩ 18,963,466	12,164,216

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 statement of income for the years ended December 31, 2019 and 2018 for the following reasons:

(KRW thousand)

	2019	2018
Income before income tax	₩ 80,052,895	49,559,323
Income tax expense at statutory tax rates	18,910,801	11,531,356
Tax effects of permanent differences	11,853	9,520
Tax credit	(20)	-
Other adjustments	40,832	623,340
Income tax expense	₩ 18,963,466	12,164,216
Effective tax rate	23.69%	24.54%

Changes in temporary differences for the year ended December 31, 2019 and deferred tax assets as of December 31, 2019 are as follows:

(KRW thousand)

	Beginning balance	Increase	Decrease	Ending balance	Deferred tax assets
Appropriation for retirement	₩ 467,572	57,012	(37,599)	486,985	117,851
Accrued expenses	8,597,515	11,251,748	(8,597,516)	11,251,748	2,722,923
Securities under equity method	(417,919)	(453,424)	417,919	(453,424)	(109,729)
Financial assets at fair value through profit or loss	2,496,449	5,952,572	(2,496,449)	5,952,572	1,440,522
Property and equipment	203,375	26,808	(76,420)	153,763	37,211
	₩ 11,346,992	16,834,716	(10,790,065)	17,391,644	4,208,778

Changes in temporary differences for the year ended December 31, 2018 and deferred tax assets as of December 31, 2018 are as follows:

(KRW thousand)

	Beginning balance	Increase	Decrease	Ending balance	Deferred tax assets
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	71,836	(84,670)	203,375	49,217
	₩ 11,565,790	10,747,882	(10,966,680)	11,346,992	2,745,972

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 are not offset against each other.

16. Related Party Transactions

Details of related party as of December 31, 2019 are as follows:

Related party	Relationship
Ministry of Economy and Finance	Investor

Account balances with a related party as of December 31, 2019 and 2018 are as follows:

(KRW thousand)

	Account	2019	2018
Ministry of Economy and Finance	Accrued income	₩ 69,419,651	38,660,846

Significant transactions that occurred in the normal course of business with the related party for the years ended December 31, 2019 and 2018 are as follows:

(KRW thousand)

	Account	2019	2018
Ministry of Economy and Finance	Investment management fees	₩ 201,417,095	155,353,630

Notes to the Financial Statements

For the years ended December 31, 2019 and 2018

17. General and Administrative Expenses

Details of general and administrative expenses for the years ended December 31, 2019 and 2018 are as follows:

(KRW thousand)

	2019	2018
Salaries and wages	₩ 32,668,705	27,228,511
Accrual for retirement and severance benefits	3,447,644	1,651,740
Other employee benefits	7,773,882	6,172,739
Advertising	74,451	77,594
Travel	1,787,050	1,723,521
Communications	385,340	386,477
Computer system operation expenses	1,368,627	1,228,541
Taxes and dues	335,026	298,916
Rental expenses	4,890,584	4,756,574
Other service fees	1,136,289	1,993,158
Depreciation	890,832	918,578
Amortization	404,691	513,809
Business development expenses	121,227	116,804
Business meetings	358,329	329,747
Printing	74,447	77,804
Vehicle maintenance expenses	143,127	148,357
Supplies	106,321	99,020
Repairs and maintenance	21,411	69,465
Utilities	1,836,965	1,730,734
Insurance	61,400	56,349
Legal expenses	2,436	1,418
Event expenses	141,254	103,436
Information expenses	8,053,375	7,429,412
Training	745,139	581,548
Books and periodicals	32,614	32,674
Prize	6,747	8,000
Bad debt expenses	175,789	150
	₩ 67,043,702	57,735,076

18. Value Added Information

Details of accounts included in the computation of value added for the years ended December 31, 2019 and 2018 are as follows:

(KRW thousand)

	2019	2018
Salaries and wages	₩ 32,668,705	27,228,511
Accrual for retirement and severance benefits	3,447,644	1,651,740
Other employee benefits	7,773,882	6,172,739
Taxes and dues	335,026	298,916
Rental expenses	4,890,584	4,756,574
Depreciation	890,832	918,578
Amortization	404,691	513,809

19. Date of Authorization for Issue

The Corporation's financial statements are authorized for issue on March 25, 2020, at the Board of Directors meeting. These financial statements are scheduled to be submitted for approval to the Steering Committee on March 30, 2020.

Contact Information

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