



Annual Report 2017

Redefine Finance Business through Innovation



We redefine financial business through innovation

Shinhan has been pioneering the future of finance in Cambodia as the "First Mover" leading the market, rather than being one of "Fast Followers" that struggle to catch up with new products and technologies.

We will never be satisfied with the current financial businesses in which FinTech is tearing down conventional boundaries. Instead, we will continue to realize innovations as we rise up to challenges to offer new and futuristic services.



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"Be the NEXT"

Shinhan will be the "Future of Finance," becoming the standard in the digital age through 24-hour connectivity with the lives of our customers and providing differentiated solutions beyond finance.

We are going forward as the dominant leader in the market as we shape the future of business.





History

• 2007.10

Shinhan Khmer Bank was established in Phnom Penh, Kingdom of Cambodia (Subsidiary of Shinhan Bank, Korea)

• 2011.11

Olympic branch opened as 1st branch in Phnom Penh

• 2012.12

Teukthlar branch opened as 2nd branch

• 2013.12

New Olympic branch was relocated for its business expansion

• 2015.03

Daun Penh branch opened as 3rd branch

• 2015.12

Steung Meanchey branch opened as 4th branch

• 2016.04

Debit Card service opened

Shareholders

- Major Shareholders
 - · Shinhan Bank (97.50%)
 - · Insung Co., Ltd. (2.50%)
 - *() Ownership %





Seo Byung Hyun _ President & Chief Executive Officer

Dear values customers

Shinhan Bank Cambodia has been established in 2007 as a subsidiary of Shinhan Bank; the leading bank in the South Korea.

As much as 99% of our loan customers are Cambodian customers, Shinhan Bank Cambodia has been estimated the best subsidiary of Shinhan Bank in terms of "Localization".

During the last 9 years, Shinhan Bank Cambodia has accomplished quantitative and qualitative growth in many aspects. Especially in 2016, we have improved our profitability based on the asset growth with soundness.

In March 2017, we have finished capital increase to meet National Bank of Cambodia's new regulation on bank's minimum capital requirement.

Based on the capital injection and accumulated financial experiences in Cambodia, we will accelerate our asset growth to be "top 10 Cambodia bank in the year 2020".

Last but not least, we will create healthy win -win cycle in which we grow customer and social value together based on our "Compassionate Finance, creating happier future" approach.

Compassionate finance is our mission and the core of our sustained growth. All our employees will be committed to discovering the creative ways to bank that will enable us to go together with our communities toward a better tomorrow with a sense of pride that what we do now will benefit the world.

On behalf of staffs In Shinhan Bank Cambodia, we promise that we will make our bank to be the most beloved and trustable bank in Cambodia.

Thank you.

Shinhan Bank Cambodia

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President & Chief Executive Officer

Mr. Seo Byung Hyun



	USD (Thousand)		KHR (Thou	isand)
Consolidated Financial Statement	2017	2016	2017	2016
Total Asset	188,820	134,521	762,265	543,061
Loans and Advances	134,792	86,061	544,157	347,432
Liabilities	121,306	97,784	489,714	394,753
Deposits	65,469	46,809	264,296	188,972
Share Capital	47,500	20,000	191,758	80,740
Total Equity	67,513	36,737	272,551	148,307
Net Interest Income	7,434	6,706	30,010	27,074
Operating Profit	3,649	3,982	14,731	16,076
Profit Before Income Tax	4,415	5,296	17,822	21,380
Net Profit After Tax	3,276	4,085	13,226	16,492

Total Asset	Net Profit	Loans and Advances
USD (Thousand)	USD (Thousand)	USD (Thousand)
188,820	3,276	86,061
2016 2017	2016 2017	2016 2017

Redefine Shinhan: We redefine the sales

By utilizing the digital platform named "SOL" and the offline platform community, Shinhan provides differentiated solutions and pursues a creative online-offline convergence based on big data analysis. Through these efforts, we are able to enhance work efficiency in all of our segments.





Vision

Shinhan Bank's vision is to become a premier financial institution that grows with its customers to create a better future.

Customers: Seeking to become a premier financial institution that grows with its customers to create a better future.

The Market: Leading future trends in the finance industry through change and innovation.

Employees: Developing a great workplace, in which our employees work with pride as members of the country's No. 1 bank.

Shinhan Way

"Shinhan Way" is the value system and guiding principle for all Shinhan employees' thoughts and actions. It consists of our mission, core value, and vision.



Mission

Compassionate Finance: Benefiting society through the finance business

What Compassionate Finance Means

- Benefiting society through the finance business

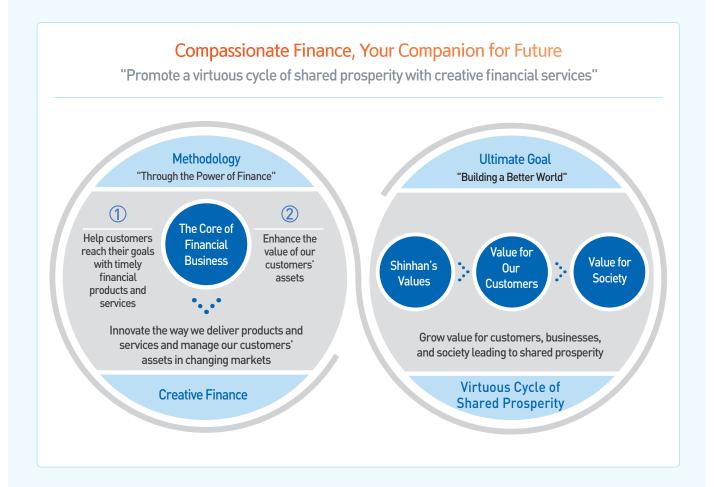
This means that Shinhan Financial Group views its business operations and its social contribution activities as contributing factors to its success and offers continuing benefits and values to our customers and society at large.

- Protecting and creating value for our customers

We analyze all our products and services to ensure that they benefit our customers and meet their needs. We also offer them guidance and advice on how to protect themselves financially and their assets. All of these practices demonstrate our commitment to customer value and protection. We only pursue profits when we are sure that we have the optimal risk management policies and processes in place.

- Fulfilling our social responsibilities to create a better and happier world

This means sharing the fruits of our success with all the members of society. We help the underprivileged to become fully contributing members of society.





Redefine Shinhan: We redefine the market environment

Shinhan has adopted a fresh approach regarding customers, market, and business strategies amid the fundamental changes in the paradigm of competitiveness. In our activities, we stay true to our slogan, "Compassionate Finance, Creating a Happier Future." We are creating a positive cycle for coexistence to create more value for our customers, Shinhan, and society.







Charity Activity

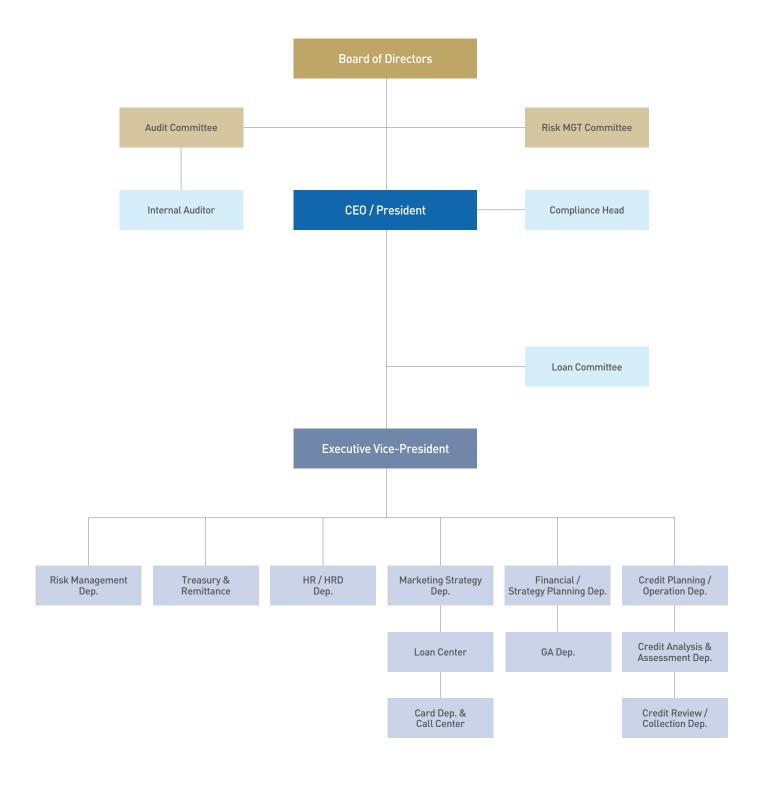
Shinhan Bank Cambodia staffs participated in a charity activity periodically



Charity Activity

Shinhan Bank Cambodia staffs participated in a charity activity periodically







REPORT OF THE BOARD OF DIRECTORS

The Board of Directors ("BOD" or "Directors") presents its report together with the audited financial statements of Shinhan Khmer Bank Plc. (the "Bank") for the year ended 31 December 2017.

PRINCIPAL ACTIVITY

The principal activities of the Bank comprise the operation of core banking business and the provision of related financial services.

RESULTS AND DIVIDENDS

The financial performance of the Bank for the year ended 31 December 2017 is set out in the income statement on page 9 of the financial statements.

No dividend was declared during the year.

SHARE CAPITAL

On 15 November 2017, the Bank received the approval from the National Bank of Cambodia ("NBC") to increase its share capital of \$27,500,000, thereby increasing the paid up capital to US\$47,500,000. The new authorised share capital of US\$47,500,000 with 47,500,000 shares and par value per share of US\$1 was approved by the Ministry of Commerce ("MOC") on 11 December 2017.

RESERVES AND PROVISIONS

There were no material movements in reserves and provisions during the year other than those disclosed in the financial statements.

BAD AND DOUBTFUL LOANS

Before the Bank's financial statements were drawn up, the Board of Directors took reasonable steps to ascertain that appropriate action had been taken in relation to the writing off of bad loans or making allowance for loan losses. The Board of Directors has satisfied itself that all known bad loans have been written off and that adequate allowance has been made for bad and doubtful loans.

At the date of this report and based on the best of knowledge, the Board of Directors is not aware of any circumstances which would render the amount of the allowance for loan losses in the financial statements of the Bank inadequate to any material extent.

ASSETS

Before the Bank's financial statements were drawn up, the Board of Directors took reasonable steps to ensure that any assets, which were unlikely to be realised in the ordinary course of business at their value as shown in the accounting records of the Bank, had been written down to an amount which they might be expected to realise.

At the date of this report, the Board of Directors is not aware of any circumstances which would render the values attributed to the assets in the Bank's financial statements misleading in any material respect.

VALUATION METHODS

At the date of this report and based on the best of knowledge, the Board of Directors is not aware of any circumstances that have arisen which would render adherence to the existing method of valuation of assets and liabilities in the Bank's financial statements misleading or inappropriate in any material respect.

CONTINGENT AND OTHER LIABILITIES

At the date of this report, there is:

- no charge on the assets of the Bank which has arisen since the end of the year i) which secures the liabilities of any other person; and
- no contingent liability in respect of the Bank that has arisen since the end of the ii) year other than in the ordinary course of its business operations.

No contingent or other liability of the Bank has become enforceable, or is likely to become enforceable after the end of the year which, in the opinion of the Board of Directors, will or may have a material effect on the ability of the Bank to meet its obligations as and when they become due.

CHANGE OF CIRCUMSTANCES

At the date of this report, the Board of Directors is not aware of any circumstances not otherwise dealt with in this report or the financial statements of the Bank which would render any amount stated in the financial statements misleading in any material respect.

ITEMS OF AN UNUSUAL NATURE

The Bank's financial performance for the year ended 31 December 2017 was not, in the opinion of the Board of Directors, materially affected by any items, transactions or events of a material and unusual nature.

There has not arisen in the interval between the end of the year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of Board of Directors, to substantially affect the financial performance of the Bank for the year in which this report is made.

EVENTS AFTER THE REPORTING DATE

No significant events occurred after the balance sheet date requiring disclosures or adjustments other than those disclosed in the financial statements.

THE BOARD OF DIRECTORS

The Board of Directors holding office during the year and as at the date of this report are:

Mr. Kim Byung Kyu Chairman (Resigned on 9 February 2018) Mr. Song Kyo Min Chairman (Appointed on 9 February 2018)

Mr. Seo Byung Hyun Director Mr. Park Tae Jong Director

Mr. Yang Hee Chang Independent director Mr. Kim Hae Soon Independent director

DIRECTORS' INTERESTS

None of the Directors held or dealt directly in the shares of the Bank during the year.

DIRECTORS' BENEFITS

During and at the end of the year, no arrangement existed to which the Bank is a party with the objective of enabling Directors of the Bank to acquire benefits by means of the share purchase option.

Since the end of the previous financial year, no Director of the Bank has received or become entitled to receive any benefit by reason of a contract made by the Bank other than as disclosed in the financial statements.

BOARD OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL **STATEMENTS**

The Board of Directors is responsible to ascertain that the financial statements are properly drawn up, so as to present fairly, in all material respects, the financial position of the Bank as at 31 December 2017, and its financial performance and its cash flows for the year then ended. In preparing these financial statements, the Board of Directors is required to:

- i) adopt appropriate accounting policies which are supported by reasonable and prudent judgements and estimates and then apply them consistently;
- comply with the disclosure requirements of Cambodian Accounting Standards and ii) relevant accounting regulations and guidelines issued by the National Bank of Cambodia ("NBC"); or if there have been any departures in the interests of fair presentation, these have been appropriately disclosed, explained and quantified in the financial statements;
- iii) maintain adequate accounting records and an effective system of internal controls;
- iv) prepare the financial statements on a going concern basis unless it is inappropriate to assume that the Bank will continue its operations in the foreseeable future; and
- effectively control and direct the Bank and is involved in all material decisions v) affecting the operations and performance and ascertain that such have been properly reflected in the financial statements.

The Board of Directors confirm that the Bank has complied with the above requirements in preparing the financial statements.

STATEMENT OF THE BOARD OF DIRECTORS

In the opinion of the Board of Directors, the accompanying financial statements set out on pages 8 to 48 present fairly, in all material respects, the financial position of the Bank as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with Cambodian Accounting Standards and relevant accounting regulations and guidelines issued by the National Bank of Cambodia, and at the date of this statement, there are reasonable grounds to believe that the Bank will be able to pay its debts as and when they fall due.

On behalf of the Board of Directors,

Mr. Seo Byung Hyun

CEO

Mr. Kang Heun Suk General Manager

Phnom Penh, Kingdom of Cambodia

Date: 30 March 2018

INDEPENDENT AUDITOR'S REPORT

To the shareholders of Shinhan Khmer Bank Plc.

Opinion

We have audited the financial statements of Shinhan Khmer Bank Plc. (the "Bank"), which comprise the balance sheet as at 31 December 2017, and the income statement, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies as set out on pages 8 to 48.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with Cambodian Accounting Standards and relevant accounting regulations and guidelines issued by the National Bank of Cambodia.

Basis for opinion

We conducted our audit in accordance with Cambodian International Standards on Auditing ("CISAs"). 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 Bank in accordance with the ethical requirements that are relevant to our audit of the financial statements in Cambodia, 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.

Other matters

The financial statements of the Bank as at and for the year ended 31 December 2016, were audited by another auditor who expressed an unmodified opinion on those statements on 5 April 2017.

Information Other than the Financial Statements and Auditor's Report Thereon

Management is responsible for the other information. The other information comprises the Report of the Board of Directors set out on pages 1 to 4 but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed,

we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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 Cambodian Accounting Standards and relevant accounting regulations and guidelines issued by the National Bank of Cambodia, 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

In preparing the financial statements, management is responsible for assessing the Bank'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 Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank'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 CISAs 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 CISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank'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 Bank'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 Bank 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.

For Deloitte (Cambodia) Co., Ltd.

Ung Kimsopheaktra Director

Phnom Penh, Kingdom of Cambodia

Date: 30 March 2018

BALANCE SHEET AS AT 31 DECEMBER 2017

		31 Decem	ber 2017	31 Decem	ber 2016
	Note	US\$	KHR'000	US\$	KHR'000
ASSETS	4	F	22.015.220	E 22E 242	21 004 206
Cash on hand Balances with the NBC	4 5	5,651,555 38,702,321	22,815,328 156,241,270	5,225,243 31,948,584	21,094,306 128,976,434
Balances with other banks	6	7,207,109	29,095,099	9,043,806	36,509,845
Loans to customers	7	134,792,301	544,156,519	86,061,936	347,432,036
Other assets	8	850,083	3,431,784	580,010	2,341,500
Property and equipment	9	1,479,063	5,970,977	1,539,900	6,216,576
Intangible assets	10	137,247	554,066	121,357	489,918
Thungible assets	10	137,217	331,000	121,337	103,310
TOTAL ASSETS		188,819,679	762,265,043	134,520,836	543,060,615
LIABILITIES					
Deposits from customers	11	44,163,817	178,289,329	24,454,364	98,722,268
Deposits from banks	12	21,304,691	86,007,038	22,355,682	90,249,888
Current income tax liabilities	24 (b)	1,036,183	4,183,071	1,130,380	4,563,344
Borrowings	13	54,000,000	217,998,000	49,000,000	197,813,000
Other liabilities	14	801,761	3,236,708	843,413	3,404,858
Total liabilities		121,306,452	489,714,146	97,783,839	394,753,358
FOUTTY					
EQUITY Share capital	15	47,500,000	191,757,500	20,000,000	80,740,000
Reserves	16	5,621,275	22,693,087	5,621,275	22,693,087
Retained earnings	10	14,391,952	58,100,310	11,115,722	44,874,170
Retained Carmings		14,331,332	30,100,310	11,113,722	++,07+,170
Total equity		67,513,227	272,550,897	36,736,997	148,307,257
TOTAL LIABILITIES AND					
TOTAL LIABILITIES AND		100 010 670	762 265 042	124 E20 926	E42 060 61E
EQUITY		100,019,0/9	762,265,043	134,520,836	543,060,615

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2017

		Year e	ended	Year e	ended
		31 Decem	ber 2017	31 Decem	ber 2016
	Note	US\$	KHR'000	US\$	KHR'000
•					
Interest income	17	8,877,332	35,837,789	7,971,523	32,181,038
Interest expense	18	(1,443,712)	(5,828,265)	(1,265,155)	(5,107,431)
•					
Net interest income		7,433,620	30,009,524	6,706,368	27,073,607
	4.0	4 476 505	F 060 770	006.105	4 004 057
Fee and commission income	19	1,476,535	5,960,772	996,125	4,021,357
Other operating income	20	9,900	39,966	9,725	39,260
Total operating income		8,920,055	36,010,262	7,712,218	31,134,224
Personnel expenses	21	(1,895,600)	(7,652,537)	(1,395,703)	(5,634,453)
Depreciation and amortisation	22	(226,129)	(912,883)	(225,390)	(909,899)
Other operating expenses	23	(1,617,950)	(6,531,664)	(2,109,003)	(8,514,045)
	23	(1,017,930)	(0,531,004)	(2,109,003)	(0,514,045)
Recovery from/(allowance for) loan losses	7	(765 656)	(2 000 0E1)	1 212 002	E 204 E4E
10411 105565	/	(765,656)	(3,090,951)	1,313,982	5,304,545
Profit before income tax		4,414,720	17,822,227	5,296,104	21,380,372
Profit before income tax		4,414,720	17,022,227	5,290,104	21,360,372
Income tax expense	24 (a)	(1,138,490)	(4,596,084)	(1,210,867)	(4,888,270)
Theome tax expense	∠¬ (u)	(1,130,730)	(4,330,004)	(1,210,007)	(4,000,270)
Profit for the year		3,276,230	13,226,143	4,085,237	16,492,102
i ione for the year		3,2,0,230	15,220,145	1,005,257	10/102/102

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2017

	Share capital US\$	Reserves US\$	Retained earnings US\$	Total US\$
As at 1 January 2016 Profit for the year	20,000,000	5,621,275 -	7,030,485 4,085,237	32,651,760 4,085,237
As at 31 December 2016	20,000,000	5,621,275	11,115,722	36,736,997
In KHR'000 equivalent	80,740,000	22,693,087	44,874,170	148,307,257
As at 1 January 2017 Issuance of share capital Profit for the year	20,000,000 27,500,000 -	5,621,275 - -	11,115,722 - 3,276,230	36,736,997 27,500,000 3,276,230
As at 31 December 2017	47,500,000	5,621,275	14,391,952	67,513,227
In KHR'000 equivalent	191,757,500	22,693,087	58,100,310	272,550,897

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2017

		Year ended 31 December 2017		Year ended 31 December 2016	
	Note	US\$	KHR'000	US\$	KHR'000
Cash flows from operating activities				•	
Profit before income tax Adjustments for:		4,414,720	17,822,227	5,296,104	21,380,372
Depreciation and amortisation Loss on disposal of property and	22	226,129	912,883	225,390	909,899
equipment Property and equipment written off		-	-	1,193 2,548	4,816 10,286
Income from equity investment Allowance for/(recovery from)loan	20	(9,900)	(39,966)	(4,950)	(19,983)
losses Net interest income	7	765,656 (7,433,620)	3,090,951 (30,009,524)	(1,313,982) (6,706,368)	(5,304,545) (27,073,608)
Changes in:		(2,037,015)	(8,223,429)		(10,092,763)
Capital guarantee with the NBC Reserve requirement with the NBC		(2,750,000) (2,900,000)	(11,101,750) (11,707,300)	605,026	2,442,490
Loans to customers Other assets Deposits from customers		(49,496,021) (106,143) 19,709,453	(199,815,437) (428,499) 79,567,062	(13,457,761) (7,320) (3,330,335)	(54,328,981) (29,551) (13,444,562)
Deposits from banks Other liabilities		(1,050,991) (135,557)	(4,242,851) (547,244)	(3,396,697)	(13,712,466) 1,450,175
Cash used in operations Interest received		(38,766,274) 8,713,402	(156,499,448) 35,176,004	(21,727,931)	(87,715,658) 32,277,894
Interest paid Income tax paid	24 (b)	(1,349,807)	(5,449,171) (4,976,357)		(5,159,367) (2,089,252)
Net cash used in operating					
activities		(32,635,366)	(131,748,972)	(15,527,962)	(62,686,383)
Cash flows from investing activities					
Purchases of intangible assets Purchases of property and equipment Proceeds from disposals of property	10 9	(30,979) (150,203)	(125,062) (606,370)	(112,023) (136,918)	(452,237) (552,738)
and equipment		-	-	2,500	10,093
Dividends received Term deposits with banks		9,900 2,500,000	39,966 10,092,500		19,983 30,277,500
Net cash generated from investing activities		2,328,718	9,401,034	7,258,509	29,302,601
Cash flows from financing activities					
Proceeds from borrowings Issuance of share capital		5,000,000 27,500,000	20,185,000 111,017,500		60,555,000
Net cash generated from financing activities		32,500,000	131,202,500		60,555,000

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2017

		Year e 31 Decem			ended iber 2016
	Note	US\$	KHR'000	US\$	KHR'000
Net increase in cash and cash equivalents		2,193,352	8,854,562	6,730,547	27,171,218
Cash and cash equivalents at the beginning of the year		28,568,091	115,329,384	21,837,544	88,442,053
Currency translation differences					(283,887)
Cash and cash equivalents at the end of the year	25	30,761,443	124,183,946	28,568,091	115,329,384

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

BACKGROUND INFORMATION 1.

Shinhan Khmer Bank Plc. (the "Bank") was incorporated in Cambodia on 27 June 2007 under Registration No. 00006043 issued by the Ministry of Commerce and officially commenced its operations on 15 October 2007. On 24 February 2009, the Bank was granted a permanent banking licence No.017 from the National Bank of Cambodia.

The Bank is a subsidiary of Shinhan Bank Co., Ltd., a bank incorporated in Korea.

The Bank is principally engaged in the operation of core banking business and the provision of related financial services.

The registered office of the Bank is located at No. 277, Preah Norodom Blvd, Sangkat Tonle Bassac, Khan Chamkar Morn, Phnom Penh, Cambodia.

The financial statements were authorised for issue by the Board of Directors on _30 March 2018.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES 2.

The significant accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The financial statements of the Bank, which are expressed in United States dollars ("US\$"), are prepared under the historical cost convention and drawn up in accordance with Cambodian Accounting Standards and relevant accounting regulations and guidelines issued by the National Bank of Cambodia.

The accounting principles applied may differ from generally accepted accounting principles adopted in other countries and jurisdictions. The accompanying financial statements are therefore not intended to present the financial position, financial performance and cash flows of the Bank in accordance with jurisdictions other than the Kingdom of Cambodia. Consequently, these financial statements are only addressed to those who are informed about Cambodian accounting principles, procedures and practices.

The preparation of financial statements in accordance with Cambodian Accounting Standards and relevant accounting regulations and guidelines issued by the National Bank of Cambodia requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of financial statements and the reported amounts of revenues and expenses during the reporting year. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

2.2 Financial reporting framework

On 28 August 2009, the National Accounting Council ("NAC") of the Ministry of Economy and Finance announced the adoption of Cambodian International Financial Reporting Standards ("CIFRS") which are based on all standards published by International Accounting Standard Board (IASB) including other interpretation and amendment. Public accountable entities shall prepare their financial statements in accordance with the CIFRS for accounting period beginning on or after 1 January 2012.

The NAC, through Circular No. 086 MoEF.NAC dated 30 July 2012, approves banks and financial institutions to delay adoption of the CIFRS until the periods beginning on or after 1 January 2016. On 24 March 2016, the NAC issued a Notification No. 058 MoEF.NAC to banks and financial institutions on the delay in adoption of the CIFRS until the periods beginning on or after 1 January 2019, following the request of the NBC dated 16 November 2015.

The current accounting standard used is different to the CIFRS in many areas. Hence, the adoption of the CIFRS may have a significant impact on the financial statements of the Bank. Management is assessing the full impact of the change to CIFRS framework but not completed at the date of this report.

2.3 Basis of aggregation

The financial statements include the financial statements of the head office and its branches after the elimination of all significant inter-branch balances and transactions.

2.4 Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of the Bank are measured using the currency of the primary economic environment in which the Bank operates (the functional currency). Management has determined the US\$ to be the Bank's functional currency owing to the significant influence of the US\$ on its operations. The financial statements are presented in US\$, which is the Bank's functional and presentation currency.

Transactions and balances

Transactions in currencies other than US\$ are translated into US\$ at the exchange rates prevailing at the dates of transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in currencies other than US\$ at the year-end exchange rates, are recognised in the income statement.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

2.4 Foreign currency translation (continued)

(iii) Presentation in Khmer Riel

In compliance with the Law on Accounting and Auditing dated 11 April 2016 and Prakas No. 643 MEF PRK dated 26 July 2007 of the Ministry of Economy and Finance, a translation of the financial statements from US\$ to Khmer Riel ("KHR") is required.

Translations of US\$ into KHR are included in the financial statements solely for compliance with the Prakas No. B7-07-164 dated 13 December 2007 of the National Bank of Cambodia relating to the preparation and presentation of financial statements and have been made using the prescribed official exchange rate of US\$ 1 to Riel 4,037 (2016: US\$ 1 to Riel 4,037) published by the National Bank of Cambodia.

The financial statements expressed in KHR are unaudited and should not be construed as representation that the US\$ amounts have been, could have been, or could in the future be, converted into KHR at this or any other exchange rate.

2.5 Cash and cash equivalents

Cash and cash equivalents include cash on hand, unrestricted balances with the NBC, balances with other banks, and other short-term highly liquid investments with original maturities of three months or less where the Bank has full ability to withdraw for general purpose whenever needed and is subject to insignificant change in value.

2.6 Loans to customers

All loans to customers are stated in the balance sheet at outstanding principal, less any amounts written off and allowance for loan losses.

Loans are written-off when there is no realistic prospect of recovery. Recoveries of loans previously written-off, or provided for, decrease the amount of the provision for loan losses in the income statement.

2.7 Allowance for loan losses

Allowance for loan losses is made with regard to specific risks and relate to those loans that have been individually reviewed and specifically identified as special mention, substandard, doubtful or loss. In addition, a general allowance is also maintained for loans classified as normal.

The Bank follows the mandatory credit classification and provisioning as required by Prakas B7-09-074, dated 25 February 2009, issued by the NBC. The Prakas requires commercial banks to classify their loans, advances and similar assets into five classes and the minimum mandatory level of specific provisioning is provided, depending on the classification concerned and regardless of the assets pledged as collateral.

Prior to 1 December 2017, loan classifications and the minimum allowance requirements are as follows:

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

2.7 Allowance for loan losses (continued)

Classification	Number of days past due	Allowance rate
General provision Normal	Less than 30 days	1%
Specific provision Special mention Sub-standard Doubtful Loss	30 - 89 days 90 - 179 days 180 - 359 days More than 359 days	3% 20% 50% 100%

During the year, the NBC issued a new Prakas No. B7-017-344, dated on 1 December 2017, on Credit Risk Grading and Impairment Provisioning, and clarified by a Circular No. B7-018-001 dated 16 February 2018, which requires banks and financial institutions to provide impairment provisioning for short-term and long-term facilities as follows.

Classification	Number of	Allowance	
	Short-term loans (one year or less)	Long-term loans (more than one year)	
Normal	14 days or less	29 days or less	1%
Special mention	15 days - 30 days	30 days - 89 days	3%
Substandard	31 days - 60 days	90 days - 179 days	20%
Doubtful	61 days - 90 days	180 days - 359 days	50%
Loss	91 days or more	360 days or more	100%

Based on the Circulation No. B7-018-001, the NBC provides an option to banks and financial institutions to continue to implement the old Prakas No. B7-09-074 on assets classification and provisioning for the financial year ended 31 December 2017 if they are not ready to implement the new Prakas. As at 31 December 2017, the Bank continued to implement the old Prakas on assets classification and provisioning.

Loans are written off when they are considered uncollectible. Loans written off are taken out of the outstanding loan portfolio and deducted from the allowance for loan losses.

In determining the above allowance, any collateral value other than cash deposits which has been pledged is disregarded except that, in the case of a loan classified as "loss", all collateral may be utilised.

An uncollectible loan or portion of a loan classified as bad is written off after taking into consideration the realisable value of the collateral, if any, when in the judgement of the management there is no prospect of recovery.

Recoveries of loans previously written off are disclosed as other operating income in the income statement.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

2.8 Interest in suspense

Interest in suspense represents interest on non-performing loans, that is recorded as Interest in suspense rather than interest income until it is realised on a cash basis.

Interest in suspense is disclosed as a deduction from interest receivables.

2.9 Property and equipment

Items of property and equipment are recorded at cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to bringing the assets to the location and condition necessary for it to be capable of operating in the manner intended by management.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial year in which they are incurred.

Land and work-in-progress are not depreciated. Depreciation of property and equipment is charged to the income statement using the following methods and rates:

	Method	Rate
Leasehold improvement	Straight-line	5%
Computer and office equipment	Declining	25%
Furniture and fixture	Declining	25% - 50%
Motor vehicle	Declining	25%

An asset's carrying amount is written down immediately to its recoverable amount if its carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the income statement.

2.10 Intangible assets

Intangible assets, which comprise of acquired computer software licenses and related costs, are stated at cost less accumulated amortisation and any accumulated impairment losses. Acquired computer software licenses are capitalised on the basis of the cost incurred to acquire the specific software and bring it to use. These costs are amortised at the rate of 50% using the declining balance method.

Costs associated with maintaining computer software are recognised as an expense when incurred.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued) 2.

2.11 Impairment

(i) Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. This does not apply to loans to customers which has a separate accounting policy stated in Note 2.7.

An impairment loss in respect of a financial asset is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in the income statement.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised.

Non-financial assets (ii)

The carrying amounts of the Bank's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less cost to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit").

An impairment loss is recognised if the carrying amount of an asset or its cashgenerating unit exceeds its estimated recoverable amount. Impairment losses are recognised in the income statement.

2.12 Borrowings

Borrowings are recognised initially at cost and subsequently stated at the outstanding principal amount.

2.13 Provisions

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

2.13 Provisions (continued)

When there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

2.14 Interest income and expense

Interest income earned on loans to customers is recognised on an accrual basis. When a loan becomes non-performing (past due 90 days or more), the recording of interest as income is suspended until it is realised on a cash basis.

Interest expense on deposits from banks, customers and borrowings are recognised on an accrual basis.

2.15 Fee and commission income

Fee and commission income is recognised on an accrual basis when the service has been provided. Loan processing, commitment and other related fees are recognised in the income statement on the occurrence of such transactions.

2.16 Leases

Operating leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

2.17 Current and deferred income tax

The current income tax charge is calculated on the basis of the tax rates and laws that have been enacted or substantially enacted by the end of reporting period. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations are subject to interpretations. It establishes provisions, where appropriate, on the basis of the amounts expected to be paid to the General Department of Taxation.

Deferred income tax is recognised on temporary differences arising between the tax base of assets and liabilities and their carrying amount in the financial statements. Deferred income tax is determined using tax rates and laws that have been enacted or substantially enacted by the reporting date.

The carrying amount of deferred tax assets are reviewed at each reporting date and a valuation allowance is set up against deferred tax assets so that the net carrying amount equals the highest amount that is more likely than not to be recovered based on current or future taxable profit.

2.18 Rounding of amounts

Amounts in the financial statements have been rounded off to the nearest dollar and thousand Khmer Riel ("KHR'000") for US\$ and KHR amounts, respectively.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

3. **CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS**

3.1 Key sources of estimation uncertainty

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities. Estimates are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) Allowance for loan losses

In compliance with NBC Guidelines, all loans to customers are classified according to the repayment capacity of the counterparty. This repayment capacity is assessed through past payment experience, financial condition of the borrower, business prospective and cash flow projections, borrowers' ability and willingness to repay, financial environment, and quality of documentation.

In addition to the above qualitative information, number of days past due is taken into account. The minimum percentage of allowance for doubtful loans to customers are to be maintained according to the assigned classifications. Where reliable information suggests that losses are likely to be more than these minimum requirements, larger allowance is made.

(b) Income tax

The taxation system in Cambodia is characterised by numerous taxes and frequently changing legislation, which is complex and subject to interpretation. Often, different interpretations exist among the numerous taxation authorities and jurisdictions. Taxes are subject to review and investigation by a number of authorities, which are empowered by law to impose fines, penalties and interest charges.

These factors may create significant tax exposures for the Bank. Management believes that they have understood relevant tax regulations and adequately provided for tax liabilities based on their interpretation of the current tax legislation. However, the relevant authorities may have different interpretations and the effects could be significant.

3.2 Critical judgments in applying accounting policies

There are no critical judgements made by the Management in the process of applying the Bank's accounting policies that have the most significant effect on the amount recognised in these financial statements apart from those involving estimates, which are dealt with above.

CASH ON HAND 4.

	31 Decem	31 December 2017		ber 2016
	US\$	KHR'000	US\$	KHR'000
Head office Branches	3,319,540 2,332,015	13,400,983 9,414,345	2,758,083 2,467,160	11,134,381 9,959,925
	5,651,555	22,815,328	5,225,243	21,094,306

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

4. **CASH ON HAND** (continued)

Cash on hand is analysed by currency as follows:

	31 Decem	31 December 2017		ber 2016
	US\$	KHR'000	US\$	KHR'000
US Dollar Khmer Riel	5,555,077 96,478	22,425,846 389,482	5,202,923 22,320	21,004,200 90,106
	5,651,555	22,815,328	5,225,243	21,094,306

5. **BALANCES WITH THE NBC**

	31 December 2017		31 December 2016	
	US\$	KHR'000	US\$	KHR'000
Current accounts Term deposits Capital guarantee deposits (i) Reserve requirement (ii)	16,337,173 1,565,606 4,750,000 16,049,542	65,953,168 6,320,351 19,175,750 64,792,001	15,749,042 1,050,000 2,000,000 13,149,542	63,578,883 4,238,850 8,074,000 53,084,701
	38,702,321	156,241,270	31,948,584	128,976,434

(i) Capital guarantee deposits

Under the NBC's Prakas No. B7-01-136 dated 15 October 2001, the Bank is required to maintain a statutory deposit of 10% of its capital. This deposit is not available for use in the Bank's day-to-day operations and is only refundable should the Bank voluntarily cease its operations in Cambodia.

During the year, interest was earned at rates ranging from 0.32% to 0.36% per annum (2016: 0.20% to 0.22% per annum).

(ii) Reserve requirement

This is a reserve requirement which fluctuates depending on the level of the Bank's customers' deposits. It is maintained in compliance with the National Bank of Cambodia's Prakas No. B7-012-140 dated 27 September 2012 at the rates of 8.00% of daily average deposits from customers in KHR and 12.50% in currency other than KHR.

1/3 of the reserve requirement in currencies other than Riel earns interest at 1/2 of onemonth LIBOR while the rest of the reserve requirement earns no interest.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

6. **BALANCES WITH OTHER BANKS**

	_	31 December 2017		31 December 2016	
1000	l banks	US\$	KHR'000	US\$	KHR'000
Tern	n deposit LEDA Bank Plc.			2,500,000	10,092,500
Tern K	rseas banks n deposit EB HANA Bank, Hong Kong ranch	5,000,000	20,185,000	6,000,000	24,222,000
	•				
	ent accounts ells Fargo Bank	2,207,109	8,910,099	543,806	2,195,345
	<u>-</u>	7,207,109	29,095,099	9,043,806	36,509,845
Bala	nces with other banks are ar	nalysed as follo	ows:		
	_	31 Decemb		31 Decemb	
	-	US\$	KHR'000	US\$	KHR'000
(a)	By currency:				
• /	US Dollar	7,207,109	29,095,099	9,043,806	36,509,845
		31 Decemb	er 2017	31 December 2016	
		US\$	KHR'000	US\$	KHR'000
(b)	By maturity:				
(D)	Within 1 month > 1 to 3 months	7,207,109	29,095,099	6,543,806	26,417,345
	> 3 to 12 months			2,500,000	10,092,500
	=	7,207,109	29,095,099	9,043,806	36,509,845
		31 December 2017 31 December 2016			er 2016
(c)	By interest rate (per annum):				
	Current accounts Term deposits		0% 1.80%		0% 1.75%

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

7. LOANS TO CUSTOMERS

	31 December 2017		31 December 2016	
	US\$	KHR'000	US\$	KHR'000
Commercial loans Consumer loans	48,537,487 33,829,680	195,945,835 136,570,418	41,149,287 20,084,259	166,119,672 81,080,154
Overdrafts Mortgage loans Motor vehicle loans	22,195,734 33,637,716 239,789	89,604,178 135,795,459 968,028	17,007,422 10,468,969 234,448	68,658,963 42,263,228 946,467
Loans to customers - gross	138,440,406	558,883,918	88,944,385	359,068,484
Allowance for loan losses				
General Specific	(1,559,726) (2,088,379)	(6,296,613) (8,430,786)	(866,258) (2,016,191)	(3,497,085) (8,139,363)
	(3,648,105)	(14,727,399)	(2,882,449)	(11,636,448)
Loans to customers - net	134,792,301	544,156,519	86,061,936	347,432,036

The movements in allowance for loan losses were as follows:

	31 December 2017		31 December 2016	
	US\$	KHR'000	US\$	KHR'000
At the beginning of the year Allowance during the year	2,882,449 765,656	11,636,448 3,090,951	4,196,431 (1,313,982)	16,940,993 (5,304,545)
	3,648,105	14,727,399	2,882,449	11,636,448

Loans to customers are analysed as follows:

(a) By economic sector

	31 December 2017		31 Decem	ber 2016
	US\$	KHR'000	US\$	KHR'000
Housing loans	30,532,725	123,260,611	10,152,083	40,983,959
Construction	28,604,835	115,477,719	16,105,187	65,016,640
Wholesale and retail	26,172,809	105,659,630	21,394,766	86,370,670
Manufacturing	14,433,228	58,266,941	12,093,079	48,819,760
Financial institutions	12,500,000	50,462,500	4,000,000	16,148,000
Hotel and restaurants	8,812,688	35,576,821	12,207,674	49,282,380
Services	7,734,422	31,223,862	7,237,176	29,216,480
Real estate	2,015,000	8,134,555	-	-
Agriculture	1,654,669	6,679,899	2,436,391	9,835,710
Transport and storage	1,624,729	6,559,031	2,171,971	8,768,247
Utilities	573,052	2,313,411	399,568	1,613,056
Other services	3,782,249	15,268,938	746,490	3,013,582
	138,440,406	558,883,918	88,944,385	359,068,484

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

7. LOANS TO CUSTOMERS (continued)

(b) By performance

2016
IR'000
,733,877
,974,030
967,654
-
-
565,180
,827,743
<u>,068,484</u>

Secured loans are loans that are collateralised, by land, building and/or other immovable properties.

(c) By maturity

	31 December 2017		31 December 2016	
	US\$	KHR'000	US\$	KHR'000
Within 1 month	3,231,511	13,045,610	5,042,269	20,355,642
1 to 3 months 3 to 12 months	7,332,823	29,602,606 205,629,011	5,388,145 33,846,715	21,751,941 136,639,188
1 to 5 years	50,936,094 34,843,483	140,663,141	30,908,042	124,775,766
Over 5 years	42,096,495	169,943,550	13,759,214	55,545,947
	138,440,406	558,883,918	88,944,385	359,068,484

(d) By resident status

	31 Decem	31 December 2017		ber 2016
	US\$	KHR'000	US\$	KHR'000
Residents Non-residents	138,340,693 99,713	558,481,377 402,541	88,420,385 524,000	356,953,094 2,115,390
	138,440,406	558,883,918	88,944,385	359,068,484

(e) By relationship

	31 Decem	31 December 2017		31 December 2016	
	US\$	KHR'000	US\$	KHR'000	
Non-related parties	138,440,406	558,883,918	88,944,385	359,068,484	

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

7. LOANS TO CUSTOMERS (continued)

(f) By exposure

	31 December 2017		31 December 2016	
	US\$	KHR'000	US\$	KHR'000
Large exposure Non-large exposure	12,500,000 125,940,406	50,462,500 508,421,418	6,608,420 82,335,965	26,678,190 332,390,294
	138,440,406	558,883,918	88,944,385	359,068,484

As at 31 December 2017, the Bank has a large loan exposure with an individual beneficiary exceeding 10% of the Bank's net worth but less than the regulatory limit of 20% of the Bank's net worth. These large exposure loans did not exceed the 300% regulatory maximum limit of the Bank's net worth as aggregate of individual large exposure.

(g) By currency

	31 Decem	31 December 2017		31 December 2016	
	US\$	US\$ KHR'000		KHR'000	
	120 110 106	FF0 000 040	00 044 305	250 060 404	
US Dollar	138,440,406	558,883,918	88,944,385	359,068,484	

On 1 December 2016, the NBC issued a Prakas No. B7-016-334 on Provision of Credit in National Currency of Banking and Financial Institutions, which required all institutions to have loans in national currency (KHR) at least 10% of the total loan portfolio. The Company is required to fully implement this requirement by 31 December 2019.

(h) By interest rate (per annum)

	31 December 2017	31 December 2016
Commercial loans	6% - 15%	6% - 15%
Consumer loans	3.3% - 15%	6% - 15%
Mortgage loans	6% - 11%	6% - 10%
Motor vehicle loans	8% - 10%	10%
Overdrafts	5.3% - 13%	6% - 14%

OTHER ASSETS

31 December 2017		31 December 2016	
US\$	KHR'000	US\$	KHR'000
497,122	2,006,882	333,192	1,345,096
260,730	1,052,567	156,620	632,275
65,120	262,889	65,120	262,889
25,000	100,925	25,000	100,925
2,111	8,521	78	315
850,083	3,431,784	580,010	2,341,500
	497,122 260,730 65,120 25,000 2,111	497,122 2,006,882 260,730 1,052,567 65,120 262,889 25,000 100,925 2,111 8,521	US\$ KHR'000 US\$ 497,122 2,006,882 333,192 260,730 1,052,567 156,620 65,120 262,889 65,120 25,000 100,925 25,000 2,111 8,521 78

^{*} Equity investment represents the indirect investment in Credit Bureau Cambodia (credit information company) through the Association of Banks in Cambodia.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

PROPERTY AND EQUIPMENT <u>ი</u>

	Leasehold	Computer	Furniture and	Motor vehicle	
	improvement US\$	equipment US\$	fixtures US\$	NS\$	Total US\$
Costs		-	-		-
Balance at 1 January 2016	1,821,894	444,195	222,301	176,560	2,664,950
Additions	11,336	68,201	7,931	49,450	136,918
Disposal	ı			(48,000)	(48,000)
Write off		(128,147)	(30,037)		(158,184)
Balance at 31 December 2016	1,833,230	384,249	200,195	178,010	2,595,684
Balance at 1 January 2017	1,833,230	384,249	200,195	178,010	2,595,684
Additions	3,880	87,647	32,451	26,225	150,203
Balance at 31 December 2017	1,837,110	471,896	232,646	204,235	2,745,887
Accumulated depreciation				0000	
Balance at 1 January 2016	463,081	309,832	142,648	126,087	1,041,648
Depreciation for the year	91,821	/86,58	50, 705	15,566	214,079
Uisposai Write off		(407 607)	- (600 80)	(44,307)	(44,307)
	CDO 173	(,00,,21)	120,027	276 60	1 055 704
balance at 31 December 2016	554,902	717,897	135,324	97,340	1,055,784
Balance at 1 January 2017	554,902	268,212	135,324	97,346	1,055,784
Depreciation for the year	91,070	76,381	22,001	21,588	211,040
Balance at 31 December 2017	645,972	344,593	157,325	118,934	1,266,824
Net book value	000 000 1	750 311	170 73	799 00	100000000000000000000000000000000000000
At 31 December 2010	1,2/0,320	110,011	04,671	+00,00	U,539,900
In KHR'000 equivalent	5,160,610	468,441	261,884	325,641	6,216,576
At 31 December 2017	1,191,138	127,303	75,321	85,301	1,479,063
In KHR'000 equivalent	4,808,624	513,922	304,071	344,360	5,970,977

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

10. INTANGIBLE ASSETS

	Computer software US\$
Costs Balance at 1 January 2016 Additions Balance at 31 December 2016	168,217 112,023 280,240
Balance at 1 January 2017 Additions Balance at 31 December 2017	280,240 30,979 311,219
Accumulated amortisation Balance at 1 January 2016 Amortisation for the year Balance at 31 December 2016	147,572 11,311 158,883
Balance at 1 January 2017 Amortisation for the year Balance at 31 December 2017	158,883 15,089 173,972
Net book value At 31 December 2016 In KHR'000 equivalent	121,357 489,918
At 31 December 2017 In KHR'000 equivalent	137,247 554,066

11. DEPOSITS FROM CUSTOMERS

	31 December 2017		31 December 2016	
	US\$	KHR'000	US\$	KHR'000
Current accounts Savings deposits Term deposits	12,446,537 20,492,060 11,225,220	50,246,670 82,726,446 45,316,213	4,738,883 14,853,467 4,862,014	19,130,871 59,963,446 19,627,951
	44,163,817	178,289,329	24,454,364	98,722,268

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

11. DEPOSITS FROM CUSTOMERS (continued)

The deposits from customers are analysed as follows:

(a) By maturity

	31 December 2017		31 December 2016	
	US\$	KHR'000	US\$	KHR'000
Within 1 month > 1 to 3 months > 3 to 12 months More than 12 months	32,938,596 1,125,087 3,512,249 6,587,885	132,973,112 4,541,976 14,178,949 26,595,292	19,592,350 111,666 1,550,198 3,200,150	79,094,317 450,795 6,258,149 12,919,007
	44,163,817	178,289,329	24,454,364	98,722,268

(b) By resident status

	31 December 2017		31 December 2016	
	US\$	KHR'000	US\$	KHR'000
Residents Non-residents	40,343,598 3,820,219	162,867,105 15,422,224	17,899,881 6,554,483	72,261,820 26,460,448
	44,163,817	178,289,329	24,454,364	98,722,268

(c) By currency

	31 December 2017		31 December 2016	
	US\$	KHR'000	US\$	KHR'000
US Dollar Khmer Riels	43,893,810 270,007	177,199,311 1,090,018	24,184,911 269,453	97,634,486 1,087,782
	44,163,817	178,289,329	24,454,364	98,722,268

(d) By relationship

	31 Decem	31 December 2017		31 December 2016	
	US\$	KHR'000	US\$	KHR'000	
Non-related parties	44,163,817	178,289,329	24,454,364	98,722,268	

(e) By interest rate (per annum)

	31 December 2017	31 December 2016
Saving deposits	0.10% - 0.25%	0.25%
Term deposits	1.00% - 5.55%	1.25% - 5.55%

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

12. DEPOSITS FROM BANKS

	31 Decem	31 December 2017		ber 2016
	US\$	KHR'000	US\$	KHR'000
Current accounts Savings deposits Term deposits	918,658 386,033 20,000,000	3,708,622 1,558,416 80,740,000	770,932 276,520 21,308,230	3,112,252 1,116,311 86,021,325
	21,304,691	86,007,038	22,355,682	90,249,888

The deposits from banks are analysed as follows:

(a) By maturity

	31 Decem	31 December 2017		ber 2016
	US\$	KHR'000	US\$	KHR'000
Within 1 month	1,304,691	5,267,038	1,047,452	4,228,566
> 1 to 3 months	20,000,000	80,740,000	20,000,000	80,739,999
> 3 to 12 months	-	-	-	-
More than 12 months			1,308,230	5,281,323
	21,304,691	86,007,038	22,355,682	90,249,888

(b) By resident status

	31 Decem	31 December 2017		Der 2016
	US\$	KHR'000	US\$	KHR'000
Residents Non-residents	20,885,617 419,074	84,315,236 1,691,802	21,605,077 750,605	87,219,696 3,030,192
	21,304,691	86,007,038	22,355,682	90,249,888

(c) By currency

	31 Decem	31 December 2017		ber 2016
	US\$	KHR'000	US\$	KHR'000
US Dollar	21,304,691	86,007,038	22,355,682	90,249,888

(d) By relationship

	31 Decem	31 December 2017		ber 2016
	US\$	KHR'000	US\$	KHR'000
Related parties Non-related parties	419,074 20,885,617	1,691,802 84,315,236	750,605 21,605,077	3,030,192 87,219,696
	21,304,691	86,007,038	22,355,682	90,249,888

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

12. **DEPOSITS FROM BANKS** (continued)

(e) By interest rate (per annum)

	31 December 2017	31 December 2016	
Saving deposits	0.25%	0.25%	
Term deposits	1.60%	1.25% - 5.55%	

13. BORROWINGS

	31 December 2017		31 December 201	
	US\$	KHR'000	US\$	KHR'000
Korea Exchange Bank - Deutschland	-	_	14,000,000	56,518,000
Korea Exchange Bank - Hong Kong Shinhan Bank Co., Ltd.	- 54,000,000	- 217,998,000	10,000,000	40,370,000 100,925,000
30,7 2001	54,000,000	217,998,000	49,000,000	197,813,000

Borrowings are analysed as follows:

(a) By maturity

	31 Decem	nber 2017	31 Decem	ber 2016
	US\$	KHR'000	US\$	KHR'000
Within 1 month > 1 to 3 months	-	- -	-	- -
> 3 to 12 months	54,000,000	217,998,000	49,000,000	197,813,000
	54,000,000	217,998,000	49,000,000	197,813,000
(b) By currency				
	31 Decem	ber 2017	31 Decem	ber 2016
	US\$	KHR'000	US\$	KHR'000

	31 Decem	31 December 2017		ber 2016
	US\$	KHR'000	US\$	KHR'000
US Dollar	54,000,000	217,998,000	49,000,000	197,813,000

(c) By interest rate

	31 December 2017	31 December 2016
Borrowings	1.05% - 2.59%	0.88% - 1.50%

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

14. OTHER LIABILITIES

	31 December 2017		31 December 2016	
	US\$	KHR'000	US\$	KHR'000
Accrued interest payable Tax payable Others	418,581 353,750 29,430	1,689,811 1,428,089 118,808	324,676 327,202 191,535	1,310,717 1,320,914 773,227
	801,761	3,236,708	843,413	3,404,858

15. SHARE CAPITAL

	31 December 2017		31 December 2016	
	US\$	KHR'000	US\$	KHR'000
Registered, issued and fully paid up share capital	47,500,000	191,757,500	20,000,000	80,740,000

Ownership and number of shares are presented as below:

	31 December 2017		31 December 2016	
	Holding %	Number of Shares	Holding %	Number of Shares
Shinhan Bank Co., Ltd. Insung Co., Ltd. Korea Mutual Savings Bank Shinhan Savings Bank	97.50% 2.50% - -	46,312,500 1,187,500 - -	90.00% 2.50% 3.25% 3.25%	18,000,000 500,000 650,000 650,000
Consus Asset Management Co., Ltd.			1.00%	200,000
	100%	47,500,000	100%	20,000,000

The registered share capital of the Bank as at 31 December 2017 is US\$ 47.5 million at a par value of US\$ 1 per share.

On 22 March 2016, the National Bank of Cambodia issued a Prakas No. B7-016-117, requiring locally incorporated commercial banks and subsidiaries of foreign banks to increase the minimal registered capital to at least KHR 300 billion (approximately US\$75 million). Banks are required to fulfil this requirement within two years from the date of the Prakas.

16. RESERVES

According to shareholders' resolution dated 30 December 2014, the Bank has converted part of its retained earnings amounting to US\$ 5,621,275 to a non-distributable reserve account.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

17. INTEREST INCOME

	Year ended 31 December 2017		Year ended 31 December 2016	
	US\$	KHR'000	US\$	KHR'000
Loans to customers Balances with other banks Balances with the NBC	8,671,328 167,400 38,604	35,006,151 675,794 155,844	7,755,746 207,841 7,936	31,309,947 839,054 32,037
	8,877,332	35,837,789	7,971,523	32,181,038

18. INTEREST EXPENSE

		Year ended 31 December 2017		Year ended 31 December 2016	
	US\$	KHR'000	US\$	KHR'000	
Borrowings Term deposits Savings deposits	860,530 550,456 32,726	3,473,960 2,222,191 132,114	635,695 576,741 52,719	2,566,301 2,328,303 212,827	
	1,443,712	5,828,265	1,265,155	5,107,431	

19. FEE AND COMMISSION INCOME

		Year ended 31 December 2017		Year ended 31 December 2016	
	US\$	KHR'000	US\$	KHR'000	
Loan processing fee Remittance charges Commission income Others	930,571 402,720 110,883 32,361	3,756,715 1,625,781 447,635 130,641	516,221 441,768 30,572 7,564	2,083,985 1,783,417 123,419 30,536	
	1,476,535	5,960,772	996,125	4,021,357	

20. OTHER OPERATING INCOME

_	Year ended 31 December 2017		Year ended 31 December 2016	
-	US\$	KHR'000	US\$	KHR'000
Income from equity investment Foreign exchange gain	9,900	39,966 <u>-</u>	4,950 4,775	19,983 19,277
_	9,900	39,966	9,725	39,260

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

21. PERSONNEL EXPENSES

	Year ended 31 December 2017		Year ended 31 December 2016	
	US\$	KHR'000	US\$	KHR'000
Salaries and wages Other related staff costs	1,031,490 864,110	4,164,125 3,488,412	815,280 580,423	3,291,285 2,343,168
	1,895,600	7,652,537	1,395,703	5,634,453

22. DEPRECIATION AND AMORTISATION

		Year ended 31 December 2017		Year ended 31 December 2016	
	US\$	KHR'000	US\$	KHR'000	
Depreciation (Note 9)	211,040	851,968	214,079	864,236	
Amortisation (Note 10)	15,089	60,915	11,311	45,663	
	226,129	912,883	225,390	909,899	

23. OTHER OPERATING EXPENSES

	Year ended		Year ended	
	31 Decem	ber 2017	31 December 2016	
	US\$	KHR'000	US\$	KHR'000
Drofossional foos	400 204	1 615 624	460.000	1 960 076
Professional fees	400,204	1,615,624	460,980	1,860,976
Other tax expenses	259,671	1,048,292	503,509	2,032,666
Rental	248,032	1,001,305	377,966	1,525,849
License fee	178,841	721,981	183,675	741,496
Swift expenses	148,071	597,763	207,455	837,496
Utilities	82,048	331,228	83,930	338,825
Advertising and promotion	81,212	327,853	79,158	319,561
Travel and vehicles	60,471	244,121	51,607	208,337
Stationary and supplies	59,694	240,985	65,698	265,223
Insurance	21,724	87,700	26,975	108,898
Brokerage fees	21,629	87,316	21,290	85,948
Exchange loss	7,092	28,630	-	-
Others	49,261	198,866	46,760	188,770
	1,617,950	6,531,664	2,109,003	8,514,045

24. TAXATION

(a) Income tax expenses

		Year ended 31 December 2017		Year ended 31 December 2016	
	US\$	KHR'000	US\$	KHR'000	
Current income tax	1,138,490	4,596,084	1,210,867	4,888,270	

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

24. TAXATION (continued)

(a) Income tax expenses (continued)

The reconciliation of income tax expense computed at the statutory tax rate of 20% to the income tax expense shown in the income statement is as follows:

	Year ended 31 December 2017		Year ended 31 December 2016	
_	US\$	KHR'000	US\$	KHR'000
Accounting profit before income				
tax _	4,414,720	17,822,227	5,296,104	21,380,371
Tax on profit calculated at 20% Expenses not deductible for tax	882,944	3,564,445	1,059,220	4,276,071
purposes _	255,546	1,031,639	151,647	612,199
<u>-</u>	1,138,490	4,596,084	1,210,867	4,888,270

(b) Current income tax liabilities

		Year ended 31 December 2017		Year ended 31 December 2016	
	US\$	KHR'000	US\$	KHR'000	
Balance at beginning of the year Income tax expense Income tax paid	1,130,380 1,138,490 (1,232,687)	4,563,344 4,596,084 (4,976,357)	437,039 1,210,867 (517,526)	1,764,326 4,888,270 (2,089,252)	
	1,036,183	4,183,071	1,130,380	4,563,344	

No deferred tax is recognised due to immaterial amount.

25. CASH AND CASH EQUIVALENTS

	31 December 2017		31 December 2016	
	US\$	KHR'000	US\$	KHR'000
Cash on hand Balances with the NBC Balances with other banks	5,651,555 17,902,779 7,207,109	22,815,328 72,273,519 29,095,099	5,225,243 16,799,042 6,543,806	21,094,306 67,817,733 26,417,345
	30,761,443	124,183,946	28,568,091	115,329,384

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

26. COMMITMENTS

(a) Loan commitments, guarantees and other financial commitments

Contractual amounts arising from off-balance sheet financial instruments that the Bank committed to extend credit to customers, guarantees and other facilities are as follows:

	31 Decem	ber 2017	31 Decem	ber 2016
	US\$	KHR'000	US\$	KHR'000
Unused portion of approved credit facilities Guarantees and standby letters	10,766,055	43,462,565	9,176,975	37,047,447
of credit	125,123	505,122	193,000	779,141
	10,891,178	43,967,687	9,369,975	37,826,588

(b) Operating lease commitments

The operating leases mainly relate to the office rental, which is renewable upon mutual agreement. Where the Bank is the lessee, the future minimum lease payments under non-cancellable operating lease agreement are as follows:

	31 Decem	ber 2017	31 Decem	ber 2016
	US\$	KHR'000	US\$	KHR'000
Not later than one year Later than one year and not	554,444	2,238,290	130,192	525,585
later than five years	1,579,155	6,375,049	202,508	817,525
	2,133,599	8,613,339	332,700	1,343,110

(c) Capital commitments

Capital commitments for the acquisition of leasehold improvements are summarised in the table below.

	31 Decem	ber 2017	31 December 20:	
	US\$	KHR'000	US\$	KHR'000
Not later than one year	751,781	3,034,940	_	

27. RELATED PARTY BALANCES AND TRANSACTIONS

(a) Related parties and relationship

Under the Law on Banking and Financial Institutions, related parties include individuals who hold directly or indirectly a minimum of 10% of the capital of the Bank or voting rights or who participates in the administration, direction, management or the design and implementation of the internal controls of the Bank. Related parties, and their relationship with the Bank are as follows:

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

27. RELATED PARTY BALANCES AND TRANSACTIONS (continued)

(a) Related parties and relationship (continued)

Relationship	Related party
Ultimate parent company	Shinhan Financial Group
Immediate parent company	Shinhan Bank Co., Ltd.
Key management personnel	All directors of the Bank who make decisions in relation to the strategic direction of the Bank
	(including their close family members)

(b) Related party transactions

_	31 Decem	ber 2017	31 Decem	ber 2016
	US\$	KHR'000	US\$	KHR'000
Fees and related expenses for board of directors	89,495	361,291	3,996	16,134
Interest expense on borrowings from immediate parent company	642,576	2,594,079	262,144	1,058,277

(c) Related party balances

	31 Decem	nber 2017	31 Decem	ber 2016
	US\$	KHR'000	US\$	KHR'000
Deposits from parent company	419,074	1,691,802	750,605	3,030,190
Borrowings from immediate parent company	54,000,000	217,998,000	25,000,000	100,925,000

(d) Key management compensation

	31 December 2017		31 Decem	ber 2016
	US\$	KHR'000	US\$	KHR'000
Salaries and other benefits	993,200	4,009,547	766,058	3,092,574

28. FINANCIAL RISK MANAGEMENT

The Bank's activities expose it to a variety of financial risks: credit risk, market risk (including currency risk, interest rate risk and price risk), and liquidity risk. Taking risks is the core of the financial business, and the operational risks are an inevitable consequence of being in business.

28.1 Credit risk

The Bank takes on exposure to credit risk, which is the risk that counterparty will cause a financial loss to the Bank by failing to discharge an obligation. Credit risk is the most important risk for the Bank's business. Credit exposures arise principally in lending activities that lead to loans to customers. Credit risk management is carried out by the Bank's credit committee.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

28. FINANCIAL RISK MANAGEMENT (continued)

28.1 Credit risk (continued)

The lending activities are guided by the Bank's credit policy to ensure that the overall objectives in the area of lending are achieved; i.e., that the loan portfolio is strong and healthy and credit risks are well diversified. The credit policy documents the lending policy, collateral policy, and credit approval processes and procedures implemented to ensure compliance with the NBC's guidelines.

(a) Credit risk measurement

The Bank assesses the probability of default of individual counterparties by focusing on borrowers' forecast profit and cash flows. The credit committee is responsible for approving loans to customers.

(b) Risk limit control and mitigation policies

The Bank operates and provides loans to individuals or enterprises in Cambodia. The Bank manages limits and controls the concentration of credit risk whenever it is identified. Large exposure is defined by the NBC as credit exposure to any individual beneficiary which exceeds 10% of the Bank's net worth.

The Bank is required, under the conditions of Prakas No. B7-06-226, to maintain at all times a maximum ratio of 20% between the Bank's overall large credit exposure to any individual beneficiary and the Bank's net worth. The aggregation of large credit exposure must not exceed 300% of the Bank's net worth.

The Bank employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security in the form of collateral for loans to customers. The Bank implements guidelines on the acceptability of specific classes of collateral. The principal collateral types as security for loans acceptable by the Bank are residential properties (land, building and other properties).

(c) Impairment and provisioning policies

The Bank is required to follow the mandatory credit classification and provisioning in accordance with the NBC's regulations, as stated in Note 2.7 to the financial statements.

Loan classification and loan loss provisioning are determined by taking into account the past due period of loans to customers and other relevant qualitative factors.

Maximum exposure to credit risk before collateral held or other credit enhancements

Management believes that the Bank's maximum exposure to credit risk is limited to the carrying amount of financial assets less allowance for loan losses.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

28. FINANCIAL RISK MANAGEMENT (continued)

28.1 Credit risk (continued)

(d) Maximum exposure to credit risk before collateral held or other credit **enhancements** (continued)

	31 Decem	nber 2017	31 Decem	ber 2016
	US\$	KHR'000	US\$	KHR'000
Credit exposure relating to on- balance sheet assets:				
Balances with other banks	7,207,109	29,095,099	9,043,806	36,509,845
Loans to customers - net	134,792,301	544,156,519	86,061,936	347,432,036
Other assets	587,242	2,370,696	423,390	1,709,225
	142,586,652	575,622,314	95,529,132	385,651,106
Credit exposure relating to off- balance sheet assets: Unused portion of approved				
credit facilities Guarantees and standby letters	10,766,055	43,462,565	9,176,975	37,047,447
of credit	125,123	505,122	193,000	779,141
	10,891,178	43,967,687	9,369,975	37,826,588
	153,477,830	619,590,001	104,899,107	423,477,694

The above table represents a worst case scenario of credit risk exposure to the Bank, without taking into account of any collateral held or other credit enhancement attached. For on-balance sheet assets, the exposures set out above are based on net carrying amounts. As at 31 December 2017, 88% (2016: 82%) of total maximum exposure is derived from loans to customers.

Management is confident in its ability to continue to control and sustain minimal exposure of credit risk to the Bank resulting from its loans to customers on the following basis:

- 99.67% (2016: 98.65%) of the net loans to customers are considered to be neither past due nor impaired; and
- The Bank has introduced a strict selection and collection process for granting loans to customers.

(e) Credit quality of loans to customers

	31 Decem	•		ber 2016
	US\$	KHR'000	US\$	KHR'000
Loans neither past due nor	105 051 007	F40 404 606	06 605 600	242 727 226
impaired Loans past due but not	135,851,297	548,431,686	86,625,689	349,707,906
impaired	417,959	1,687,300	239,696	967,653
Loans individually impaired	2,171,151	8,764,937	2,079,000	8,392,923
Less:	138,440,407	558,883,923	88,944,385	359,068,482
Allowance for losses on loans	(3,648,106)	(14,727,404)	(2,882,449)	(11,636,447)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

134,792,301 544,156,519 86,061,936 347,432,035

28. FINANCIAL RISK MANAGEMENT (continued)

28.1 Credit risk (continued)

(e) Credit quality of loans to customers (continued)

For loan provisioning purposes, expected recovery from collateral (except cash) is not taken into consideration in accordance with the NBC's regulations.

Loans neither past due nor impaired (i)

Loans not past due are not considered impaired, unless other information is available to indicate the contrary.

Loans to customers past due but not impaired

Loans less than 90 days past due are not considered impaired, unless other information is available to indicate the contrary. Gross amount of loans that were past due but not impaired were as follows:

	31 Decem	ber 2017	31 December 2016	
	US\$	KHR'000	US\$	KHR'000
Past due less than 90 days	417,959	1,687,300	239,696	967,653

(iii) Loans individually impaired

Loans past due 90 days or more are considered impaired and the minimum level of provision for impairment is made depending on the classification concerned, unless other information is available to indicate the contrary.

	31 Decem	ber 2017	31 Decem	ber 2016
	US\$	KHR'000	US\$	KHR'000
Past due 90 to 179 days	108,052	436,206	-	-
Past due 180 to 359 days Past due more than 359 days	14,100 2,048,999	56,922 8,271,809	140,000 1,939,000	565,180 7,827,743
	2,171,151	8,764,937	2,079,000	8,392,923

(iv) Loans negotiated/restructured

Loans with renegotiated terms are loans that have been rescheduled or refinanced in accordance with an agreement setting forth a new repayment schedule on a periodic basis occasioned by weaknesses in the borrower's financial condition and/or inability to repay the loan as originally agreed. Loans to be restructured are analysed on the basis of the business prospects and repayment capacity of the borrower according to new cash flow projections supported by updated business perspectives and overall market conditions being based on realistic and prudent assumptions.

Once the loan is restructured it remains in the same category independent of satisfactory performance after restructuring. The classification is not improved unless there are no arrears in repayment of principal and interest within three instalment periods and within a period of not less than three months.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

28. FINANCIAL RISK MANAGEMENT (continued)

28.1 Credit risk (continued)

(f) Concentration of financial assets with credit risk exposure

Geographical sector

Except the balances with other banks maintained in the United States and Hong Kong (Note 7), management considers no different level of risks with regard to the geographical sector as all loans provided and all other assets are located in Cambodia only.

28.2 Market risk

The Bank takes on exposure to market risk, which is the risk that the fair value or future cash flow of a financial instrument, will fluctuate because of changes in market prices. Market risk arises from open positions in interest rates, currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, credit spreads, foreign exchange rates and equity prices.

The Bank does not use derivative financial instruments such as foreign exchange contract and interest rate swaps to hedge its risk exposure as management believes that exposure is insignificant.

(a) Foreign exchange risk

Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities denominated in a currency that is not the Bank's functional currency.

The Bank operates in Cambodia and transacts in US\$ and Khmer Riel and is exposed to currency risks, primarily with respect to Khmer Riel, as US\$ is its functional currency.

Management monitors its foreign exchange risk against functional currency. However, the Bank does not hedge its foreign exchange risk exposure arising from future commercial transactions and recognised assets and liabilities by using forward contracts.

The table below summarises the Bank's exposure to foreign currency exchange rate risk. Included in the table are the Bank's financial instruments at carrying amount by currency in US\$ equivalent.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

28. FINANCIAL RISK MANAGEMENT (continued)

28.2 Market risk (continued)

(a) Foreign exchange risk (continued)

	US\$ equ	ivaient	rotai
	US\$	Riel	US\$
As at 31 December 2017			
Financial assets			
Cash on hand	5,555,077	96,478	5,651,555
Balances with the NBC	37,412,106	1,290,215	38,702,321
Balances with other banks	7,207,109	-	7,207,109
Loans to customers	134,792,301	-	134,792,301
Other assets	582,268	4,974	587,242
	185,548,861	1,391,667	186,940,528
Financial liabilities			
Deposits from customers	43,893,810	270,007	44,163,817
Deposits from banks	21,304,691	,	21,304,691
Borrowings	54,000,000	-	54,000,000
Other liabilities	772,331	-	772,331
	119,970,832	270,007	120,240,839
		•	
Net asset position	65,578,029	1,121,660	66,699,689
•			
In KHR'000 equivalent	264,738,503	4.528.141	269,266,644
		1/5=5/= 1=	
	US\$ equ	ivalent	Total
	US\$ equ US\$	ivalent Riel	Total US\$
As at 31 December 2016			
As at 31 December 2016 Financial assets			
Financial assets	US\$	Riel	US\$
Financial assets Cash on hand	US\$ 5,202,923	Riel 22,320	US \$ 5,225,243
Financial assets Cash on hand Balances with the NBC	5,202,923 31,186,578	Riel 22,320	5,225,243 31,948,584
Financial assets Cash on hand Balances with the NBC Balances with other banks	5,202,923 31,186,578 9,043,806	Riel 22,320	5,225,243 31,948,584 9,043,806
Financial assets Cash on hand Balances with the NBC Balances with other banks Loans to customers	5,202,923 31,186,578 9,043,806 86,061,936	Riel 22,320	5,225,243 31,948,584 9,043,806 86,061,936
Financial assets Cash on hand Balances with the NBC Balances with other banks Loans to customers	5,202,923 31,186,578 9,043,806 86,061,936 423,390	22,320 762,006 - -	5,225,243 31,948,584 9,043,806 86,061,936 423,390
Financial assets Cash on hand Balances with the NBC Balances with other banks Loans to customers Other assets Financial liabilities	5,202,923 31,186,578 9,043,806 86,061,936 423,390	22,320 762,006 - -	5,225,243 31,948,584 9,043,806 86,061,936 423,390 132,702,959
Financial assets Cash on hand Balances with the NBC Balances with other banks Loans to customers Other assets Financial liabilities Deposits from banks	5,202,923 31,186,578 9,043,806 86,061,936 423,390 131,918,633	22,320 762,006 - -	5,225,243 31,948,584 9,043,806 86,061,936 423,390 132,702,959 22,355,682
Financial assets Cash on hand Balances with the NBC Balances with other banks Loans to customers Other assets Financial liabilities	5,202,923 31,186,578 9,043,806 86,061,936 423,390 131,918,633	22,320 762,006 - - - 784,326	5,225,243 31,948,584 9,043,806 86,061,936 423,390 132,702,959 22,355,682 24,454,364
Financial assets Cash on hand Balances with the NBC Balances with other banks Loans to customers Other assets Financial liabilities Deposits from banks Deposits from customers	5,202,923 31,186,578 9,043,806 86,061,936 423,390 131,918,633 22,355,682 24,184,911 49,000,000	22,320 762,006 - - - 784,326	5,225,243 31,948,584 9,043,806 86,061,936 423,390 132,702,959 22,355,682 24,454,364 49,000,000
Financial assets Cash on hand Balances with the NBC Balances with other banks Loans to customers Other assets Financial liabilities Deposits from banks Deposits from customers Borrowings	5,202,923 31,186,578 9,043,806 86,061,936 423,390 131,918,633 22,355,682 24,184,911 49,000,000 651,878	22,320 762,006 - - - 784,326 - 269,453	5,225,243 31,948,584 9,043,806 86,061,936 423,390 132,702,959 22,355,682 24,454,364 49,000,000 651,878
Financial assets Cash on hand Balances with the NBC Balances with other banks Loans to customers Other assets Financial liabilities Deposits from banks Deposits from customers Borrowings	5,202,923 31,186,578 9,043,806 86,061,936 423,390 131,918,633 22,355,682 24,184,911 49,000,000	22,320 762,006 - - - 784,326	5,225,243 31,948,584 9,043,806 86,061,936 423,390 132,702,959 22,355,682 24,454,364 49,000,000
Financial assets Cash on hand Balances with the NBC Balances with other banks Loans to customers Other assets Financial liabilities Deposits from banks Deposits from customers Borrowings Other liabilities	5,202,923 31,186,578 9,043,806 86,061,936 423,390 131,918,633 22,355,682 24,184,911 49,000,000 651,878 96,192,471	22,320 762,006 - - - 784,326 - 269,453	5,225,243 31,948,584 9,043,806 86,061,936 423,390 132,702,959 22,355,682 24,454,364 49,000,000 651,878 96,461,924
Financial assets Cash on hand Balances with the NBC Balances with other banks Loans to customers Other assets Financial liabilities Deposits from banks Deposits from customers Borrowings	5,202,923 31,186,578 9,043,806 86,061,936 423,390 131,918,633 22,355,682 24,184,911 49,000,000 651,878	22,320 762,006 - - - 784,326 - 269,453	5,225,243 31,948,584 9,043,806 86,061,936 423,390 132,702,959 22,355,682 24,454,364 49,000,000 651,878
Financial assets Cash on hand Balances with the NBC Balances with other banks Loans to customers Other assets Financial liabilities Deposits from banks Deposits from customers Borrowings Other liabilities	5,202,923 31,186,578 9,043,806 86,061,936 423,390 131,918,633 22,355,682 24,184,911 49,000,000 651,878 96,192,471	22,320 762,006 - - - 784,326 - 269,453 - - 269,453 514,873	5,225,243 31,948,584 9,043,806 86,061,936 423,390 132,702,959 22,355,682 24,454,364 49,000,000 651,878 96,461,924

US\$ equivalent

Total

(b) Equity price risk

Equity price risk is the risk that the fair values of equity instruments will fluctuate as a result of changes in the levels of equity indices and the value of individual stocks. The Bank is not exposed to securities price risk because it does not hold any investments classified on the balance sheet either as available for sale or at fair value through profit or loss.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

28. FINANCIAL RISK MANAGEMENT (continued)

28.2 Market risk (continued)

(c) Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. Interest margins may increase as a result of changes but may increase losses in the event that unexpected movements arise. Management of the Bank at this stage does not have a policy to set limits on the level of mismatch of interest rate reprising that may be undertaken.

The table below summarises the Bank's exposure to interest rate risks. It includes the Bank's financial instruments at carrying amounts, categorised by the earlier of contractual re-pricing or maturity dates.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

28. FINANCIAL RISK MANAGEMENT (continued)

28.2 Market risk (continued)

(c) Interest rate risk (continued)

The interest rate risk exposure of financial assets and financial liabilities are as follows:

	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non interest bearing	Total
As at 31 December 2017 Financial assets	2	A	600	n	6	\$	n no
Cash on hand Balances with the NBC	5,333,333	1,565,606	4,750,000	1 1	1 1	5,651,555	5,651,555
Balances with other banks Loans to customers	5,000,000	1	ı	1	ı	2,207,109	/,207,109
Performing	3,231,511	7,332,823	50,936,094	34,843,483	39,925,344	ı	136,269,255
Non-performing	ı	ı	1	1	1	2,171,151	2,171,151
Allowance for loan losses	1	ı	1	1	ı	(3,648,105)	(3,648,105)
Other assets	'	1	'	'	'	587,242	587,242
	13,564,844	8,898,429	55,686,094	34,843,483	39,925,344	34,022,334	186,940,528
Financial liabilities							
Deposits from customers	20,492,060	1,125,087	3,512,249	6,587,885	1	12,446,536	44,163,817
Deposits from banks	386,033	20,000,000	ı	1	1	918,658	21,304,691
Borrowings	ı	ı	54,000,000	ı	ı	ı	54,000,000
Other liabilities	'	1	'	1	-	772,331	772,331
	20,878,093	21,125,087	57,512,249	6,587,885		14,137,525	120,240,839
Interest repricing gap	(7.313.249) (12.226.658)	(12,226,658)	(1.826.155)	28.255.598	39,925,344	19.884.809	689.669.99
	(//-)	///	= ///-	222/222/22		//	//
In KHR'000 equivalent	(29,523,586) (49,359,018)		(7,372,188)	114,067,849	161,178,614	80,274,974	269,266,644

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

28. FINANCIAL RISK MANAGEMENT (continued)

28.2 Market risk (continued)

(c) Interest rate risk (continued)

	Up to 1 month US\$	1 to 3 months US\$	3 to 12 months US\$	1 to 5 years US\$	Over 5 years US\$	Non interest bearing US\$	Total US\$
As at 31 December 2016 Financial assets Cash on hand	1	I	ı	I	ı	5.225.243	5.225.243
Balances with other banks Balances with the NBC	4,366,667 6,000,000	1,050,000	2,000,000 2,500,000	1 1	1 1	24,531,917 543,806	31,948,584 9,043,806
Loans to customers - gross Performing	5,042,269	5,388,145	33,846,715	30,908,042	11,680,214	- 000 020 0	86,865,385
Allowance	1 1 1		1 1 1		1 1 1	(2,882,449)	(2,882,449)
Crief assets	15,408,936	6,438,145	38,346,715	30,908,042	11,680,214	29,920,907	132,702,959
Financial liabilities Deposits from customers Deposits from banks	14,853,467	111,666	1,550,198	3,200,150	1 1	4,738,883	24,454,364
Borrowings Other liabilities	- 15,129,987	20,111,666	49,000,000	4,508,380	1 1 1	651,878 6,161,693	49,000,000 651,878 96,461,924
Interest repricing gap	278,949 (<u>278,949 (13,673,521) (12,203,483)</u>	(12,203,483)	26,399,662	11,680,214	23,759,214	36,241,035
In KHR′000 equivalent	1,126,117	55,200,004)	1,126,117 (55,200,004) (49,265,461) 106,575,435	106,575,435	47,153,024	95,915,947	146,305,058

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

28. FINANCIAL RISK MANAGEMENT (continued)

28.3 Liquidity risk

Liquidity risk is the risk that the Bank is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to repay depositors and fulfil commitments to lend.

(a) Liquidity risk management process

The management monitors balance sheet liquidity and manages the concentration and profile of debt maturities. Monitoring and reporting takes the form of the reviewing of the daily cash position and projections for the next day, week and month, as these are key periods for liquidity management. The management monitors the amount of cash collected and the projection of its disbursement.

(b) Funding approach

The Bank's main sources of liquidity arise from the shareholders' paid-up capital, customers' deposits and borrowings. The sources of liquidity are reviewed regularly through management's review of the maturity of term deposits and borrowings.

(c) Non-derivative cash flows

The table below presents the cash flows of the financial instruments by the Bank by remaining contractual maturities at the balance sheet date. The amounts disclosed in the table are the contractual undiscounted cash flows, whereas the Bank manage the inherent liquidity risk based on expected undiscounted cash flows. The table does not include imputed interests on financial liabilities as the efforts to compute the imputed interest outweigh disclosure benefits.

Although the table shows a negative liquidity gap, the management believes that customers will not withdraw their deposits according to the maturity. The deposits keep rolling from one cycle to another. Therefore, management believes that underlying liquidity risk is manageable.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

28. FINANCIAL RISK MANAGEMENT (continued)

28.3 Liquidity risk (continued)

(c) Non-derivative cash flows (continued)

	Up to 1 month US\$	1 to 3 months US\$	3 to 12 months US\$	1 to 5 years US\$	Over 5 years US\$	No fixed terms US\$	Total US\$
As at 31 December 2017 Financial liabilities Deposits from customers Deposits from banks Borrowings Other liabilities	32,938,596 1,304,691 353,750	1,125,087 20,000,000	3,512,249	6,587,885	1 1 1 1	1 1 1 1	44,163,817 21,304,691 54,000,000 353,750
Total financial liabilities	34,597,037	21,125,087	57,512,249	6,587,885			119,822,258
In KHR'000 equivalent	139,668,238	85,281,976	232,176,949	26,595,292			483,722,456
As at 31 December 2016 Financial liabilities Deposits from customers Deposits from banks Borrowings Other liabilities	19,592,350 1,047,452 327,202	111,666 20,000,000	1,550,198	3,200,150 1,308,230	1 1 1 1		24,454,364 22,355,682 49,000,000 327,20 <u>2</u>
Total financial liabilities	20,967,004	20,111,666	50,550,198	4,508,380			96,137,248
In KHR'000 equivalent	84,643,795	81,190,796	204,071,149	18,200,330	'	'	388,106,070

The Bank performs maturity analysis for financial liabilities that shows the remaining contractual maturities. However, the Bank monitors the assets held to manage liquidity risk only one month ahead as it has short-term borrowings (money market) from head office anytime it encounters liquidity problem.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

28. FINANCIAL RISK MANAGEMENT (continued)

28.4 Fair value of financial assets and liabilities

The Bank did not have financial instruments measured at fair value.

Fair value represents the amount at which an asset could be exchanged or a liability settled on an arms-length basis. As verifiable market prices are not available, market prices are not available for a significant proportion of the Bank's financial assets and liabilities. Fair values, therefore, are not presented in the financial statements.

28.5 Capital risk management

The Bank's objectives when managing capital, which is a broader concept than the "equity" on the face of the balance sheet, are:

- To comply with the capital requirement set by the NBC;
- To safeguard the Bank's ability to continue as a going concern so that it can continue to provide a return for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of the business.

The NBC requires all banks to i) meet minimum capital requirement, ii) maintain the Bank's net worth at least equal to minimum capital and iii) comply with solvency and liquidity coverage ratios.

29. COMPARATIVE INFORMATION

Certain comparative figures have been reclassified to conform to current year presentation of the financial statements.

30. CONTINGENT TAX LIABILITIES

On 4 July 2017, the General Department of Taxation ("GDT") issued a notice of tax reassessment to the Company to pay reassessed taxes of KHR 2,246,240,019 (approximately US\$556,413) for the fiscal years 2010, 2011 and 2012.

On 14 August 2017, the Company filed a tax objection letter to the GDT protesting to the reassessed taxes on the ground that there are differences between the amount of tax assessment computed by the Company and the GDT. The reassessed taxes agreed by the Company is KHR 62,901,889 (approximately US\$15,581), this charge has not been reflected in the income statement for the year ended 31 December 2017 as the amount is immaterial. The difference of KHR 2,183,338,130 (approximately US\$540,832) has not been recorded in the income statement as the Company believes that there are reasonable grounds to challenge the assessment as stated in the tax law and regulations as well as industry practices, as indicated in its objection letter. Hence, the Company made no additional provision for the differences at this stage.

At the date of this report, the GDT has not responded to the Company's tax objection letter. The outcome of the ultimate tax liabilities for these assessment years is unknown.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

31. CURRENT AND NON-CURRENT

Management presents the financial statements based on liquidity. Information about short-term and long-term of assets and liabilities are disclosed in the financial risk management section. Property and equipment and intangible assets are non-current assets. Current income tax liabilities are current liability.

32. EVENTS AFTER THE REPORTING PERIOD

New Circular issued by the NBC (i)

On 16 February 2018, the NBC issued a Circular No. B7-018-001 on Implementation of Prakas on Credit Risk Grading and Impairment Provisioning, which clarifies the classification and impairment provisioning for short-term credit facilities as follows, among other clarifications:

Classification	Number of past due days	Allowance
Normal	14 days or less	1%
Special mention	15 days - 30 days	3%
Substandard	31 days - 60 days	20%
Doubtful	61 days - 90 days	50%
Loss	91 days or more	100%

In addition, banks and financial institutions shall provide allowance on off-balance sheet items per detailed instructions in the Circular.

ii) Increase of share capital

On 2 March 2018, the Bank submitted the 2nd phase of the request for the increase of share capital following the board resolution approved on 14 December 2016, on the increase of share capital by US\$ 27,500,000 from US\$ 47,500,000 to US\$ 75,000,000 to fulfil the Bank's minimum register capital requirement. Until the date of this report, the NBC has not yet responded to the Bank's request.

iii) Change of the entity name

On 20 March 2018, the Bank submitted a letter to the NBC to request for the change of the Bank name from "Shinhan Khmer Bank Plc" to "Shinhan Bank (Cambodia) Plc.". The registered address is also changed to Vanda Tower No. 79, Kampuchea Krom Blvd, Sangkat Monourom, Khan Prampir Meakkakra, Phnom Penh, Cambodia.

SHINHAN BANK (CAMBODIA) PLC.

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TEUK THLA BRANCH

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LE THAI TO BRANCH

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CAU GIAY T/O

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TRUNG HOA T/O

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PHAM NGOC THACH T/O

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SOUTH SAIGON T/O

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