

Shinhan

Annual Report 2019

Bring happiness and
help your dream come true



SHINHAN BANK WILL BRING HAPPINESS AND HELP YOUR DREAM COME TRUE

We will make customer value creation a top priority, delivering new values and transforming customer experiences in financial services.

As a good corporate citizen, we will take our responsibilities to the public seriously and remain committed to making our communities a better place under our Compassionate Finance initiative.

We look forward to your continued support in our endeavor to make changes and take challenges towards the future of finance.

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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.



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Message from the CEO



Lee Taekyung _ President & Chief Executive Officer

MESSAGE FROM THE CEO

Dear customer,

Since its establishment in 2007, Shinhan Bank Cambodia has grown to 9 branches and 233 employees as the end of Feb, 2020. It's all thanks to customers who cared about Shinhan Bank Cambodia and made transactions. I thank you from the bottom of my heart.

From now on, all of our bank employees will dedicate their hearts and souls to providing our customers with new and differentiated value with our 'customer-oriented' core values always in mind.

We will faithfully perform our social roles as a responsible corporate citizen. We will grow with our customers and contribute to the development of our society through a mission as "A better world through the power of finance."

I ask you for your continued trust and support of Shinhan Bank Cambodia, and I wish you and your family health and happiness always.

Thank you.

Shinhan Bank Cambodia
President & Chief Executive Officer
Mr. Lee Taekyung

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About Shinhan Bank Cambodia



WE CREATE THE FUTURE OF FINANCE THROUGH INNOVATION

Shinhan Bank 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 business in which FinTech is tearing down conventional boundaries. Instead, we will continue to realize innovations as we rise up to challenge to offer new and futuristic services.

PROFILE

(As the end of Feb, 2020)

2007.10	Shinhan Khmer Bank was established in Phnom Penh, Kingdom of Cambodia (Subsidiary of Shinhan Bank, Korea)
2011.11	Olympic branch opened as 1 st branch in Phnom Penh
2012.12	Teuk Thlar branch opened as 2 nd branch
2013.12	New Olympic branch was relocated for its business expansion
2015.03	Doun Penh branch was opened as 3 rd branch
2015.12	Stueng Mean Chey branch was opened as 4 th branches
2016.04	Debit Card service launched
2018.04	New Head Office was relocated for its business expansion
2018.05	Norodom Branch was opened as 5 th branch
2020.02	Tuol Kouk Branch was opened as 6 th branch
2020.02	Sen Sok Branch was opened as 7 th branch
2020.02	Chbar Ampov Branch was opened as 8 th branch

Shareholders

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

* () Ownership %

SHAREHOLDER: SHINHAN BANK IN KOREA

Shinhan Bank Cambodia is a subsidiary of Shinhan Bank in Korea



SHINHAN BANK

Credit Rating & Key Financials



Credit Rating

Moody's	S&P	Fitch
Aa3	A+	A

Source: Company Factbooks, Bloomberg as of December 2019

Key Financials (end of 2019)

	Net Income	NIM	BIS
	USD 1.9 bn	1.46%	16.00%
Total Assets	ROE	ROA	
USD 343 bn	9.40%	0.70%	

Source: KRX exchange rate as of January, 2nd 2020 (1157.80 KRW/USD) is applied to all USD figures

Awards & Recognition



The Banker

Top 500 Banking Brand
[#67 globally]
The Banker "Top 500 Banking Brand 2019"



World Economic Forum

"Global 100 Most Sustainable Corporations in the world"
[#9 globally]
Davos World Economic Forum "2019 Global 100"



Euromoney

Korea's Best Bank
Euromoney "Award for Excellence Asia 2019"



Global Finance

Best Bank - South Korea
Global Finance "World's Best Bank Award 2018"



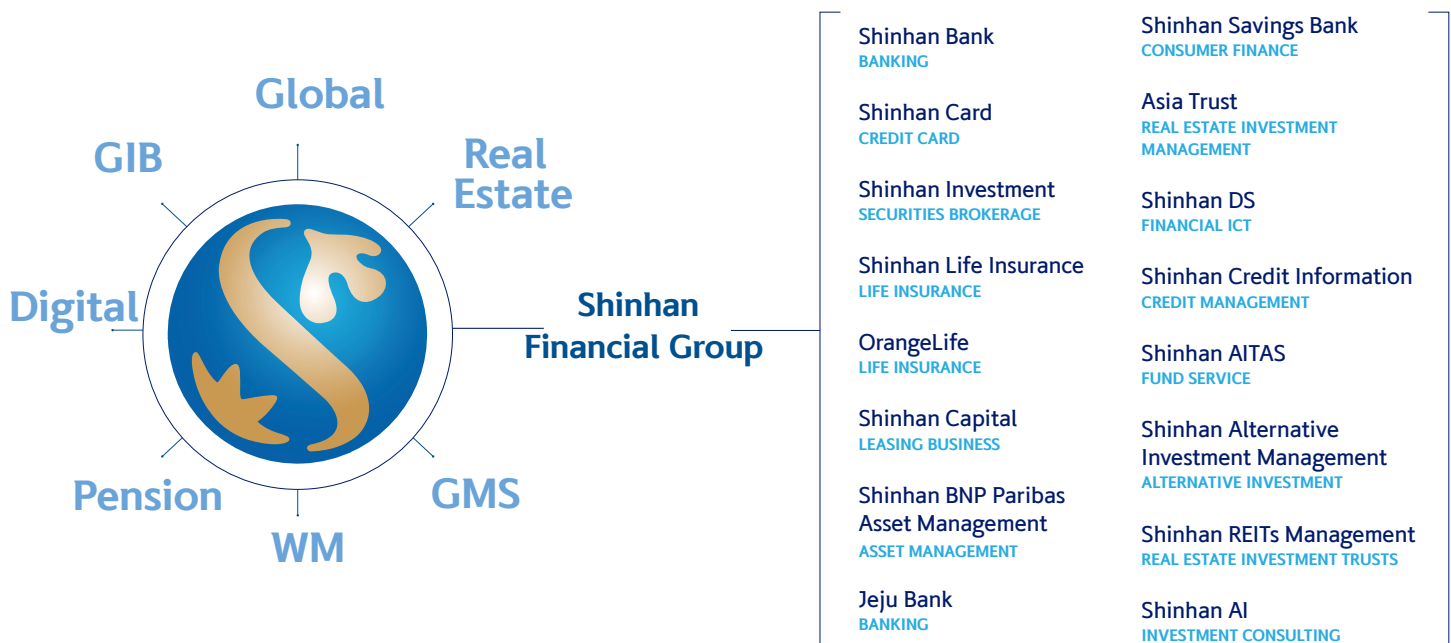
Asiamoney

Best Domestic Bank, Korea
Best Bank for CSR, Korea
Asiamoney "Best Bank Awards : 2018"
"Best Bank Awards : 2019"



SHINHAN FINANCIAL GROUP

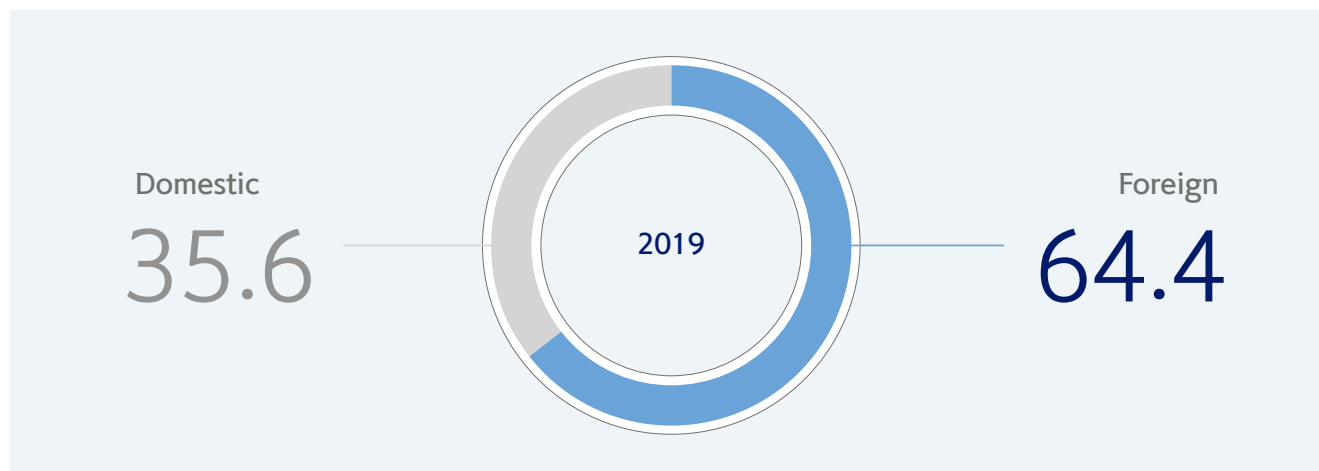
Shinhan Financial Group has 16 subsidiaries which provide their customers with first-class financial services, including banking, credit cards, securities, insurance, and asset management. The Group uses a matrix system in order to expand the business areas of each subsidiary, to ensure a coherent and efficient strategy within the Group, and to optimize the use of its resources, such as capital and personnel. At the end of 2019, the Group Real Estate Business Line was added to its matrix structure, in addition to the existing six business divisions – GIB, WM, Global, GMS, Pension, and Digital.



SHINHAN FINANCIAL GROUP'S STOCK INFORMATION I

Share Ownership

(Unit: %)



Shareholders Holding Ownership of More than 1%

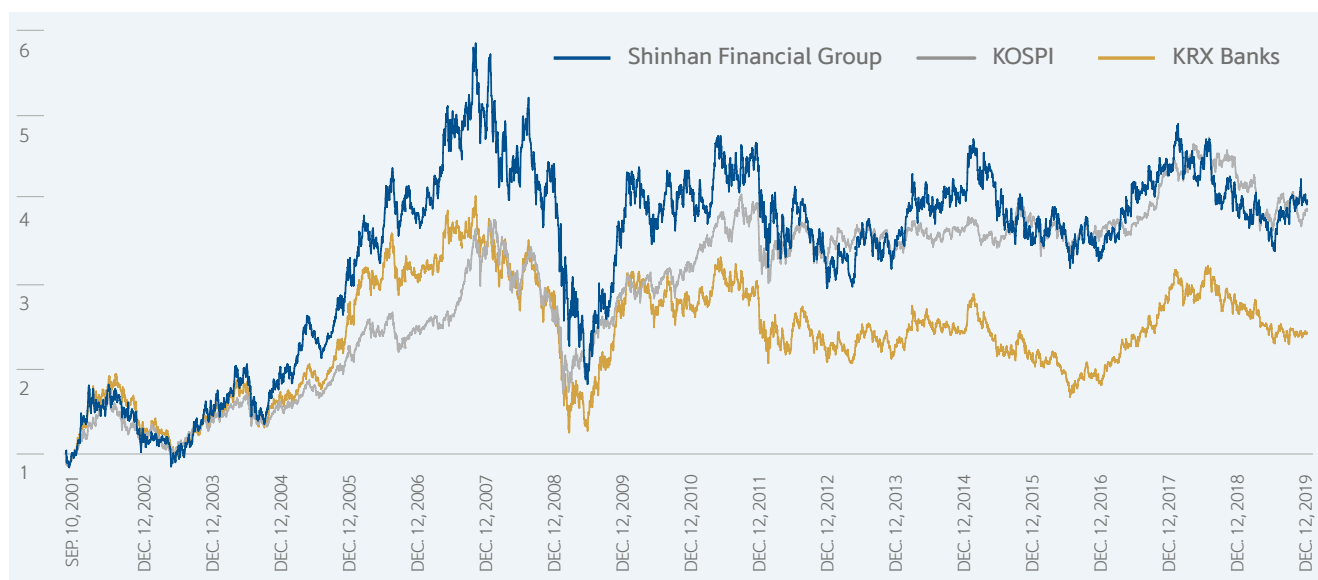
Name of Shareholder	Number of Shares Owned	Ownership
National Pension Service	47,063,799	9.92%
BlackRock Fund Advisors ¹⁾	29,063,012	6.13%
SFG Employee Stock Ownership Association	24,252,302	5.11%
BNP Paribas SA	16,826,276	3.55%
Citibank, N.A. (ADR Dept.)	13,260,291	2.80%
The Government of Singapore	12,030,695	2.54%
Norges Bank	8,739,929	1.84%
Samsung Asset Management	8,285,439	1.75%
Vanguard Total International Stock Index	6,799,594	1.43%
Peoples Bank of China	5,603,568	1.18%
Others	302,274,682	63.74%
Total	474,199,587	100.00%

* Based on the results of shareholder registry closing as of December 31, 2019

¹⁾ Based on the large equity ownership disclosure by BlackRock Fund Advisors with the Financial Supervisory Service on September 27, 2018

SHINHAN FINANCIAL GROUP'S STOCK INFORMATION II

Share Price Movement



* Sep. 10, 2001 = 1.00

Stock Performance

(Unit: KRW)

	2019	2018
Market Capitalization (Year End)	20.6 trillion	18.8 trillion
Share Price	-	-
Year End	43,350	39,600
High	48,000	53,400
Low	38,350	39,050
Weighting in the KOSPI (Year End)	1.4%	1.4%
Average Daily Trading Volume	1.0 million shares	1.0 million shares
Dividend Per Share	1,850	1,600
Total Dividend Paid	884 billion	753 billion
Foreign Share Ownership	64.4%	68.6%

Number of Shares Issued

Type of Stock	No. of Shares
Common Stock	474,199,587
Convertible Preferred Stock	17,482,000

* The number of treasury shares held by Shinhan Financial Group as of December 31, 2019 is 13,882,062 common shares

** All of the 17,482,000 convertible preferred shares other than the above common shares are held by Mercury 1st LLC

*** The total number of common shares increased to 482,432,493 shares as of January 28, 2020, due to the newly issued common shares in relation to a comprehensive stock exchange between Shinhan Financial Group and OrangeLife Insurance

MISSION

A Better World through the Power of Finance

The meaning of compassionate finance?

We strive to uphold a virtuous cycle of shared prosperity that will create greater value for our clients, Shinhan, and all of society. To this end, we seek new methods and new approaches so that we can deliver products and services and manage money in ways that keep pace with changes in the environment.



The Core of Financial Business

we help clients achieve their goals by providing financial products and services that meet the latest trends, and delivering high returns on the funds entrusted to us.

Creative Finance

Financial products, services and money management must evolve along with the changing times and business environment in order for our core business to succeed. Departing from past conventions, we seek innovative new solutions using a methodology we call creative finance.

Virtuous Cycle of Shared Prosperity

By offering greater value, creative finance will attract more clients, which in turn will increase Shinhan's corporate value. As Shinhan helps more clients succeed and fulfills the fundamental role of finance, that is, the efficient allocation of resources, value will increase for the whole of society. The interlinked values of the client, Shinhan and society will grow together and lead to progress in a virtuous cycle of shared prosperity.



CORE VALUE



Clients

We maintain high ethical standards to build trust with our clients, and see things from their perspective to provide products and services that clients' values.

Client value

Make every effort to increase client value as the clients' companion for the future.

Client-oriented thinking

Provide products and services based on in-depth understanding of clients' needs and their perspective.

Trust

Build trust with clients by adhering to strict ethical standards and principles.



Mutual Respect

We seek cooperation and openness in pursuit of shared prosperity for the Group and all members of society.

Coordination and integration

Pursue cooperation as a member of One Shinhan but with respect and consideration for the other's perspective

Shared prosperity

Make judgments and take action to raise the value of Shinhan and society at large.

Openness

Form a broad and diverse network of stakeholders beyond financial businesses with emphasis on open communication.



Change

We initiate meaningful changes based on our insight into shifting trends so that we can respond swiftly and boldly with creative solutions.

Insight

Predict the direction and implication of changes from a broad and comprehensive standpoint.

Innovation

Take bold and swift action to introduce meaningful changes without being afraid of failure.

Creativity

Think outside the box to discover new solutions and implement new approaches.



Excellence

We continue to challenge and educate ourselves to become the leading experts in our fields so that we can produce sustainable results.

Challenge and execution

Set challenging goals and follow through with specific plans and perseverance.

Self-development

Continue learning to gain the highest level of expertise and constantly explore new pursuits..

Sustainable performance

Strive to produce results that can sustained over the long-term horizon.



Ownership

We practice the Shinhan WAY with pride, passion and sincerity as members of the Group and take the lead in fulfilling our responsibilities.

Role model for the Shinhan WAY

Set an example through actions based on a deep and sincere understanding of the Shinhan WAY.

Self-motivation

Harness one's passion to inspire passion in others and take the initiative in fulfilling one's responsibilities.

Pride

Take pride and satisfaction in doing good work as a member of Shinhan.

VISION

To become a No.1 bank that
Creates a new future and is loved by all



For Customer

Strive to become Korea's beloved No.1 bank that shares vision of a better future with its customer.



For the market

Set new banking trends by challenging the limits of the present banking industry through change and innovation.



For employees

Create an environment in which employees can work in harmony and with pride knowing that they are members of Korea's leading bank.

Vision

To become a premier financial institution that grows with its customers to create a better future

DIGITAL SHINHAN

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.

Shinhan SOL

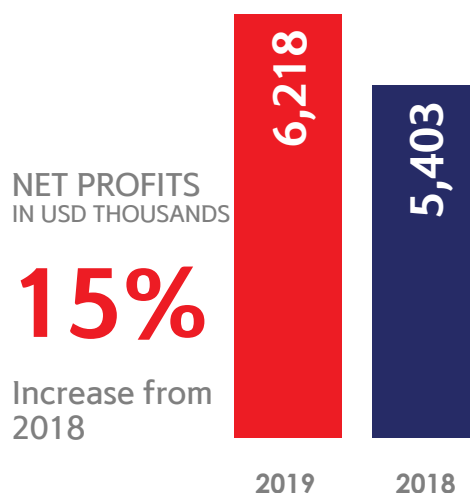
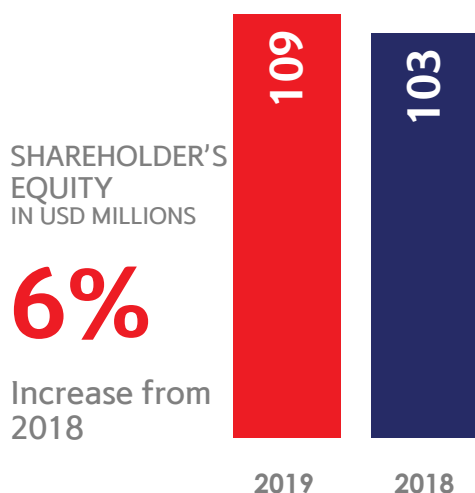
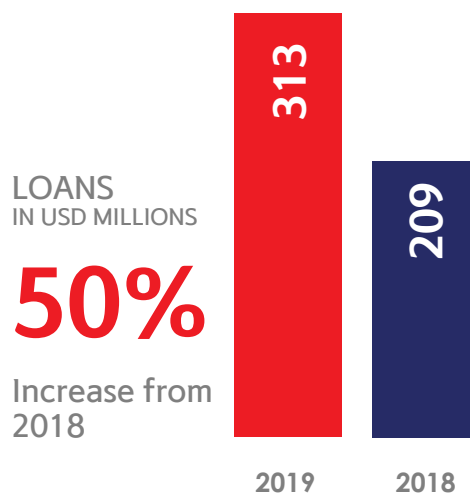
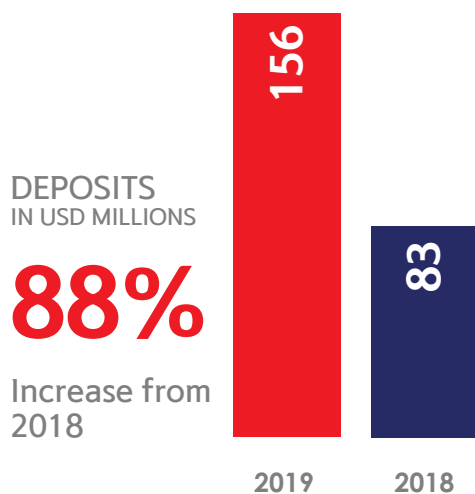
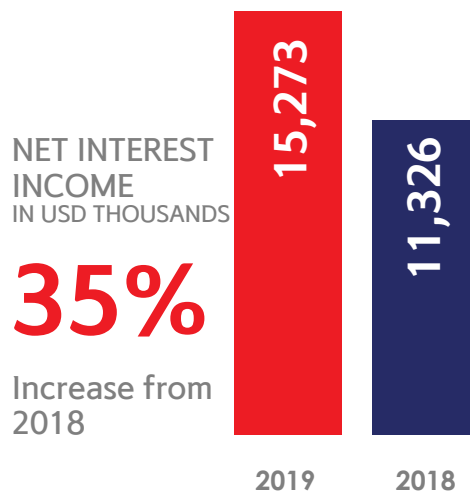
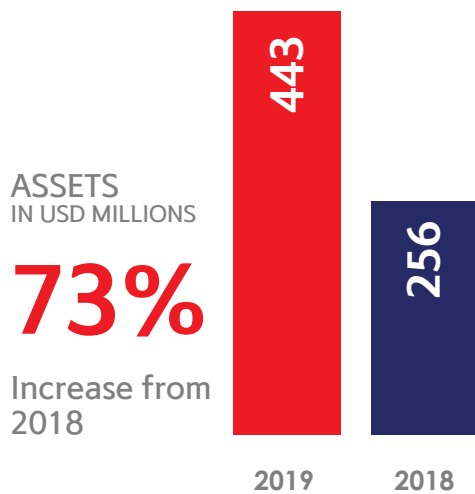


FINANCIAL HIGHLIGHTS

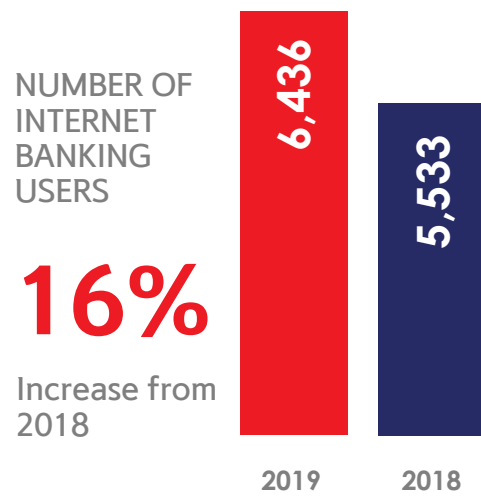
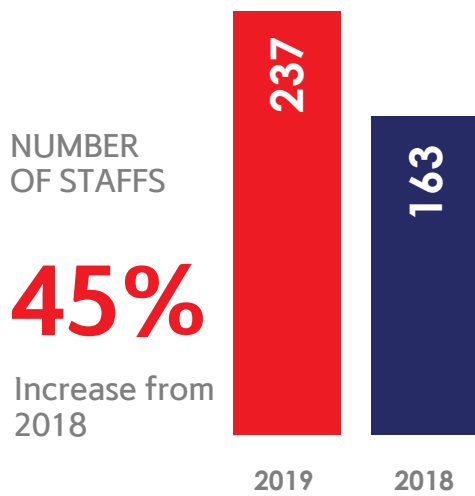
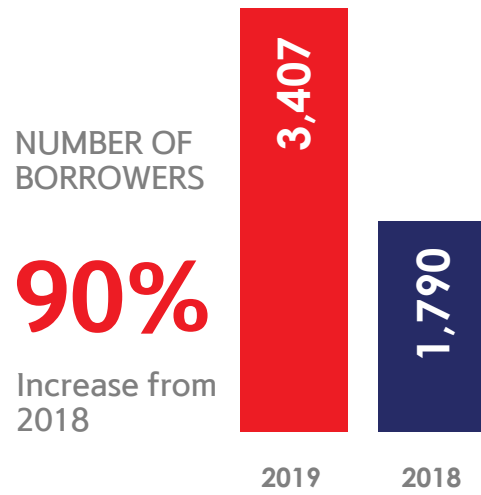
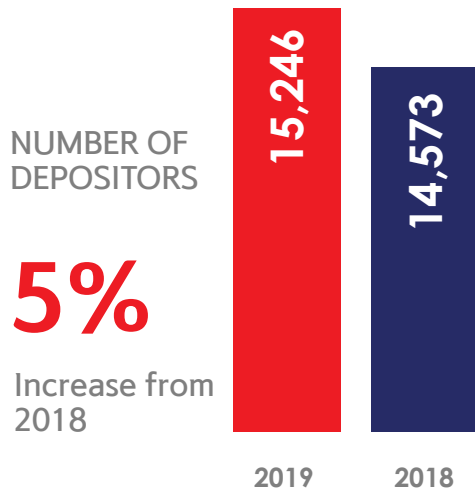
FINANCIAL YEAR ENDED 31 DECEMBER	2019 (audited)	2018 (restated)*
Balance Sheet (US\$ million)		
Total Deposit	156.37	83.01
Total Gross Loans	312.52	208.80
Equity	109.35	103.13
Total Assets	442.84	255.49
P&L Account (US\$ thousand)		
Net Interest Income	15,273.45	11,326.05
Net Fee, Commission and Other Income	1,267.34	1,084.07
Net Profit	6,217.81	5,403.12
Key Performance Indicators (%)		
ROAE	5.9	6.2
ROAA	1.8	2.4
Cost / Income	38.4	38.4
Liquidity Ratio	147.74	112.15
Credit Deposit Ratio	198.66	250.43
Solvency Ratio	31.82	51.21
General Information		
Operating Branches	6	6
Staffs	237	163
ATMs	13	13
Depositors	15,246	14,573
Borrowers	3,407	1,790
Internet Banking Users	6,436	5,533

* Figures updated in accordance with the Cambodian International Financial Reporting Standards

SIMPLIFIED FINANCIAL RESULTS



GENERAL INFORMATION



EVENT HIGHLIGHTS CSR (Corporate Social Responsibility)

Shinhan Bank Cambodia staffs participated in a CSR activity periodically

● Thmorda Galilee



(The education process is operated by the principal's dedicated education, we look forward to continuous interactions and development in the love of God.)

● Dail Community



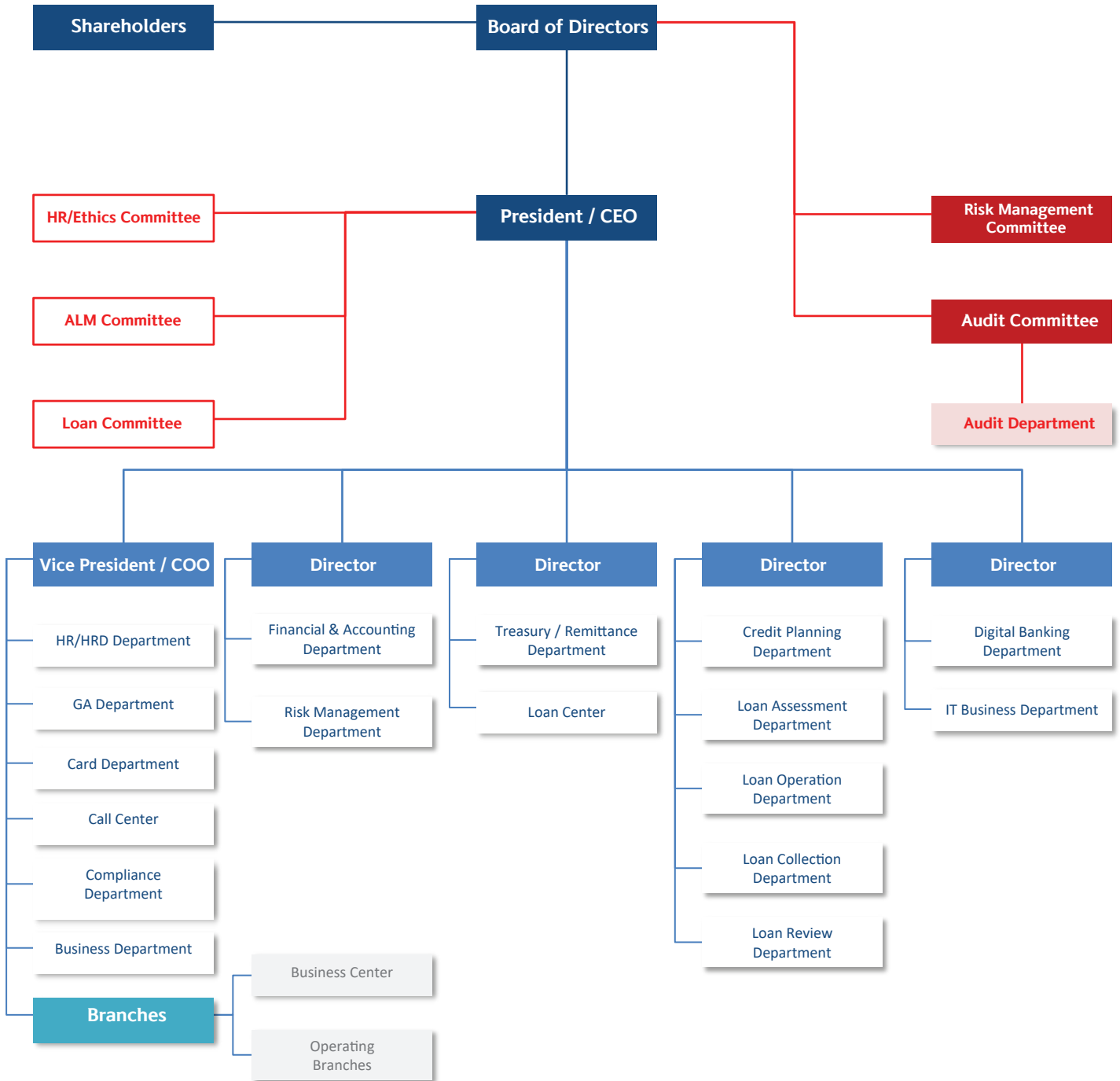
(We hope to change the lives of the people who seek us for the better and to spread love and compassion all throughout Asia.)

● CBS Scholarship



(The goal of the CBS is to prepare graduates with the latest knowledge, skills, and practices on banking and finance.)

ORGANIZATION (As of December 2019)



MAIN MANAGEMENT & BOARD OF DIRECTORS' PROFILE

(As the end of Feb, 2020)



Mr. Lee Taekyung

Current CEO
& Member of Board of Director

He serves as member of Board of Directors and CEO in January, 2019. Previously he was a General Manager, Global Business Division of Shinhan Bank. He had served many executive positions with Shinhan Bank for many years. He has strong experiences in banking and financial sectors



Mr. Song Kyo Min

Current Chairman
of Board of Director

He is appointed Chairman of Board of Directors in January 2018. He previously held a position of Senior Manager, Shinhan Bank Credit Planning Department at Head Office Korea. He has strong experiences in banking and financial sectors



Mr. Choi Du Yeon

Current Independent
Member of Board of Director

He is appointed independent member of Board of directors in August 2018. He has served many executive positions in Shinhan Bank for more than 20 years with vast strong experienced in banking and financial sectors



Mr. Kim Hae Soo

Current Independent
Member of Board of Director

He is appointed independent member of Board of directors in July, 2016. He has served many executive positions in Shinhan Bank for more than 30 Years with strong experiences especially in global banking and financial sectors



Mr. Kim Choon Ho

Current Vice President

He is appointed to be Director in 2018. He has served managerial position at Shinhan Bank for nearly 18 years



Mr. Lim Joon Hyung

Current Director

He is appointed to be Director in 2018. He has served managerial position at Shinhan Bank for nearly 17 years



Mr. Kim Min Su

Current Director

He is appointed to be Director in 2020. He has served managerial position at Shinhan Bank for nearly 15 years

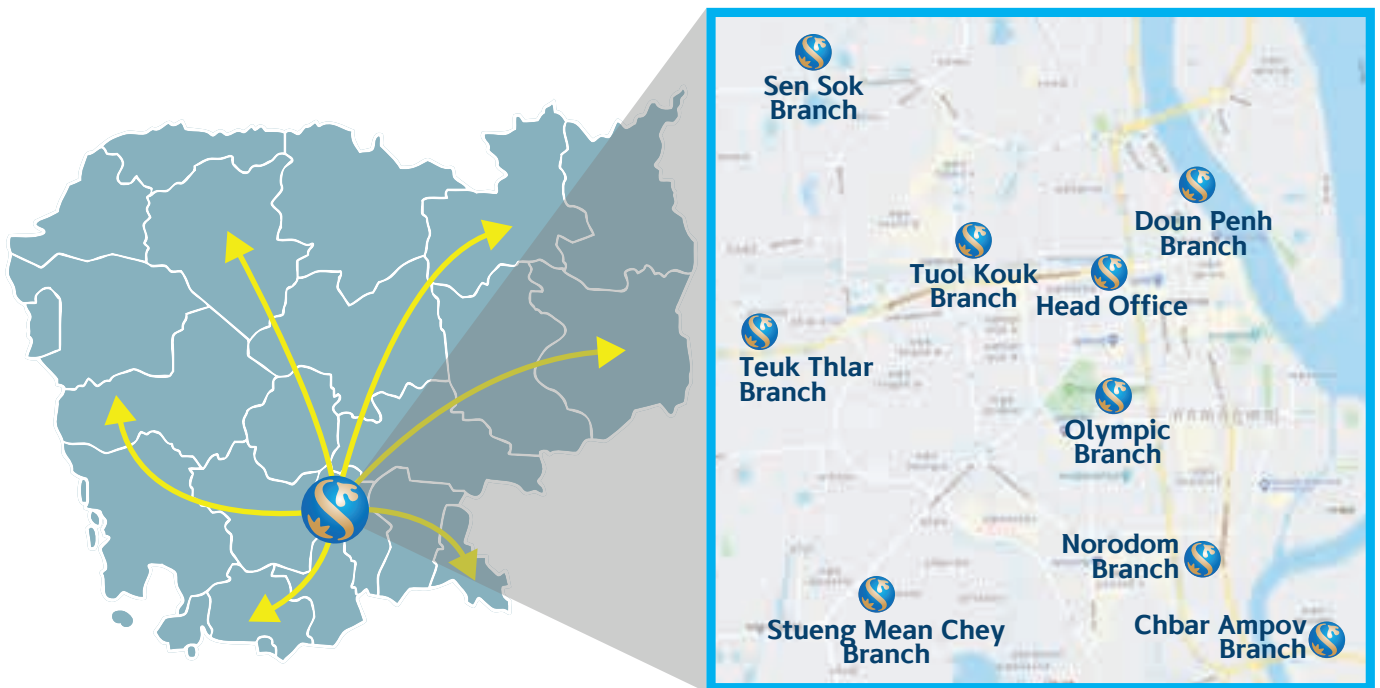


Mr. Lee Jung Hoon

Current Director

He is appointed to be Director in 2019. He has served managerial position at Shinhan Bank for nearly 15 years

BRANCH NETWORK (As the end of Feb, 2020)



Shinhan Bank (Cambodia) Plc.

No. 79 Kampuchea Krom, Sangkat Monorom.
Khan 7 Makara, Phnom Penh, Cambodia
Tel. 855-23 971 100
SWIFT: SHBKKHPP

Shinhan Bank Main Branch

No. 79 Kampuchea Krom, Sangkat Monorom.
Khan 7 Makara, Phnom Penh, Cambodia
Tel. 855-23 971 100
SWIFT: SHBKKHPP

Olympic Branch

No.11 St. 163, Sangkat Veal Vong, Khan 7
Makara, Phnom Penh, Cambodia
Tel. 855-23-988-381
Fax. 855-23-988-382
SWIFT: SHBKKHPP

Teuk Thlar Branch

No.A99 & A101, Russian Federation Blvd.,
Sangkat Teuk Thlar, Khan Sen Sok, Phnom Penh,
Cambodia
Tel: 855-23-988-363
SWIFT: SHBKKHPP

Doun Penh Branch

No.1 Eo, Street Preah Sisowath, Sangkat Srah
Chork, Khan Doun Penh, Phnom Penh,
Cambodia
Tel. 855-23-988-390
SWIFT: SHBKKHPP

Stueng Mean Chey Branch

No.660 Preah Monireth Blvd, Damnak Thom
Village, Sangkat Stueng Mean Chey, Phnom
Penh, Cambodia
Tel: 855-23-957-680
SWIFT: SHBKKHPP

Norodom Branch

No.277 Norodom Blvd, Sangkat Tonle Bassac,
Khan Chamkarmorn ,
Phnom Penh, Cambodia
Tel. 855-23-988-310
SWIFT: SHBKKHPP

Chbar Ampov Branch (Feb, 2020)

#44, National Road 1, Tangov, Niroth,
Chbar Ampov, Phnom Penh
Cambodia
Tel: 023-900-820
SWIFT: SHBKKHPP

Sen Sok Branch (Feb, 2020)

#127, St 1003, Bayab, Phnom Penh Thmey,
Sen Sok, Phnom Penh
Cambodia
Tel: 023-900-850
SWIFT: SHBKKHPP

Tuol Kouk Branch (Feb, 2020)

#57, St.289, Boeung Kak II,
Tuol Kouk, Phnom Penh
Cambodia
Tel: 023-900-830
SWIFT: SHBKKHPP

3

Business Analysis & Planning

BUSINESS ANALYSIS & PLANNING

I. Banking environment & SWOT analysis

❖ Strength

- Strong branding name & reliable banking service (among Korean community & corporate)
- Highly secured & trusted internet & ATMs service (using latest banking technology developed in Korea)
- Efficient management
- Lower labor cost
- Getting full support from Head office (Financial and technical support)

❖ Weakness

- Image is not much known to Local Cambodian
- Not aggressive participate in local market
- Focusing only on Korean community/corporate

❖ Opportunities

- Opportunities to grow and gain market shares
- Direct and easily penetrate to niche market
- Diversifies providing loan/new products to other sectors
- Potential to be the leading banks

❖ Threats

- There are many price leaders in the banking market industry
- Possible adverse effect of economic and social effect,
- Competitor adopts flexible, and innovative products
- Competitor gradually attracts our main clients
- Insufficient branch to get closer to its major corporate clients

II. Marketing plan

- Good quality asset growth
- Localization of manpower and system
- Strengthen of network and non-faced channel

III. Risk mitigation and planning

The bank defines what type of risk the bank might face.

- Credit Risk

Credit risk is arising from the failure of the counterparty / obligor to meet the terms of any contract with the bank or fail to perform as agreed

- Market Risk

Market risk is the risk arising from adverse movements in market rates or changes in the value of portfolios of financial instruments

- Interest Rates risk

Interest rate risk is the risk arising from the movements in interest rates

- Foreign Exchange Risk

Foreign Exchange risk is the risk arising from movements of foreign exchange rates

- Liquidity Risk

Liquidity risk is the risk arising from a bank's inability to meet its obligations when they become due, without incurring unacceptable losses.

- Legal Risk

Legal risk is risk arising out of violations of or non-conformity with laws, rules, regulations, prescribed and accepted practices or ethical standards.

- Operational Risk

Operational risk is the risk arising from problems with service or product delivery, the risk that deficiency in information systems or internal controls leads to unexpected losses. Operational risk is associated with human error, system failure and inadequate procedures and controls.

- Reputation Risk

Reputation risk is the risk that the bank suffers from deterioration of its recognition and negative public opinion.

- Other risks

Strategic Risk the risk arising from adverse business decisions or improper/inappropriate implementation of those decisions.

The bank well prepare itself by stated its risk control & management in its risk management policy. The policy includes risk assessment & control, reporting system process, risk control approaches which clearly divides level of authorities, detail document requirements, control measures, segregation of duties, internal audit review, established reporting system, proper management policy, and contingency policy and testing.

IV. Training & employee skill development

- Offer customized training program for each occupational group
 - Offer customized training program like Deposit, Loan, Foreign Exchange, Accounting etc
 - Pre-computing education, getting ready to the new system, 'AITHER'
- Fair personnel evaluation and compensation
 - Compensate after thoroughgoing evaluation depends on outcomes and use it for re-evaluation

4

Audited Financial Statement

Report of the Directors

The Directors have pleasure in submitting their report together with the audited financial statements of Shinhan Bank (Cambodia) Plc. ("the Bank") for the year ended 31 December 2019.

Principal activities

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

There were no significant changes to these principal activities during the financial year.

Financial results

The financial results of the Bank for the year ended 31 December 2019 were as follows:

	2019 US\$	2018 US\$	2019 KHR'000 (Note 5)	2018 KHR'000 (Note 5)
Profit before income tax	8,667,322	7,093,435	35,119,988	28,692,944
Income tax expense	<u>(2,449,515)</u>	<u>(1,690,311)</u>	<u>(9,925,435)</u>	<u>(6,837,308)</u>
Net profit for the year	<u>6,217,807</u>	<u>5,403,124</u>	<u>25,194,553</u>	<u>21,855,636</u>

Dividends

No dividend was declared or paid and the Directors does not recommend any dividend to be paid for the year under review.

Share capital

There is no share capital movement during the year.

Reserves and provisions

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

Shinhan Bank (Cambodia) Plc.

Loans and advances

Before the financial statements of the Bank were prepared, the Directors took reasonable steps to ascertain that actions had been taken in relation to the writing off of any bad loans and advances and the making of allowance for doubtful loans and advances, and satisfied themselves that all known bad loans and advances had been written off and adequate allowance had been made for losses loans and advances.

At the date of this report, the Directors are not aware of any circumstances, which would render the amount written off for bad loans and advances, or the amount of allowance for losses on loans and advances in the financial statements of the Bank, inadequate to any material extent.

Current assets

Before the financial statements of the Bank were prepared, the Directors took reasonable steps to ensure that any current assets, other than debts, 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 management is not aware of any circumstances, which would render the values attributed to the current assets in the financial statements of the Bank misleading.

Valuation methods

At the date of this report, the Directors is not aware of any circumstances which have arisen which render adherence to the existing method of valuation of assets and liabilities in the financial statements of the Bank misleading or inappropriate.

Contingent and other liabilities

At the date of this report, there does not exist:

- (a) any charge on the assets of the Bank which has arisen since the end of the financial year which secures the liabilities of any other person, or
- (b) any contingent liability in respect of the Bank that has arisen since the end of the financial year other than in the ordinary course of banking business.

No contingent or other liability of the Bank has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial year which, in the opinion of the Directors, will or may substantially affect the ability of the Bank to meet its obligations as and when they fall due.

Shinhan Bank (Cambodia) Plc.

Change of circumstances

At the date of this report, the Directors are 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.

Items of unusual nature

The results of the operations of the Bank for the financial year were not, in the opinion of the Management, substantially affected by any item, transaction or event of a material and unusual nature.

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

Events since the reporting date

The Expected Credit Loss ("ECL") at 31 December 2019 was estimated based on a range of forecast economic conditions as at that date. Subsequently, the COVID-19 outbreak has spread across mainland China, Cambodia and beyond, causing disruption to business and economic activity. The impact on GDP and other key indicators will be considered when determining the severity and likelihood of downside economic scenarios that will be used to estimate ECL under CIFRS 9 in 2020.

Board of Directors

The Directors who served during the year and at the date of this report are:

Mr. Song Kyo Min	Chairman
Mr. Lee Taekyung	Director
Mr. Park Tae Jong	Director
Mr. Choi Du Yeon	Independent director
Mr. Kim Hae Soon	Independent director
Mr. Seo Byung Hyun	Director (Resigned on 24 January 2019)

Management Team

Mr. Lee Taekyung	President - Chief Executive Officer
Mr. Park Tae Jong	Executive Vice President
Mr. Song Kyo Min	Director
Mr. Kim Choon Ho	General Manager
Mr. Lim Joon Hyung	General Manager
Mr. Lee Jung Hoon	General Manager

Directors' interests

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

Shinhan Bank (Cambodia) Plc.

Directors' benefits

During and at the end of the financial year, no arrangements existed to which the Bank is a party with the object of enabling Directors of the Bank to acquire benefits by means of the acquisition of shares in or debentures of the Bank or any other body corporate.

During the financial year, no Director of the Bank has received or become entitled to receive any benefit (other than a benefit included in the aggregate amount of emoluments received or due and receivable by the Directors as disclosed in the financial statements) by reason of a contract made by the Bank or a related corporation with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest other than as disclosed in the financial statements.

Directors' responsibility in respect of the financial statements

The Board of Directors is responsible for ascertaining that the financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2019, 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 judgments and estimates and then apply them consistently;
- (ii) comply with Cambodian International Financial Reporting Standards ("CIFRSs") or, if there have been any departures in the interest of true and fair presentation, ensure that these have been appropriately disclosed, explained and quantified in the financial statements;
- (iii) oversee the Bank's financial reporting process and maintain adequate accounting records and an effective system of internal controls;
- (iv) assess 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; and
- (v) effectively control and direct effectively the Bank in all material decisions affecting the operations and performance and ascertain that such have been properly reflected in the financial statements.

The Board of Directors confirms that they have complied with the above requirements in preparing the financial statements.

Shinhan Bank (Cambodia) Plc.

Approval of the financial statements

We hereby approve the accompanying financial statements together with the notes which, in our opinion, present fairly, in all material respects, the financial position of the Bank as at 31 December 2019, and its financial performance and its cash flows for the year then ended, in accordance with CIFRSs.

Signed on behalf of the Board of Directors,

		
<p>Mr. Lee Taekyung <i>President</i></p>		<p>Mr. Lee Jung Hoon <i>General Manager</i></p>

Phnom Penh, Kingdom of Cambodia

15 June 2020



KPMG Cambodia Ltd
4th Floor, Delano Center
No. 144, Street 169, Sangkat Veal Vong
Khan 7 Makara, Phnom Penh
Kingdom of Cambodia
+855 23 216 899 | kpmg.com.kh

Report of the Independent Auditors To the shareholders of Shinhan Bank (Cambodia) Plc.

Opinion

We have audited the financial statements of Shinhan Bank (Cambodia) Plc. ("the Bank"), which comprise the statement of financial position as at 31 December 2019, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information as set out on pages 9 to 109 (hereafter referred to as "the financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2019, and its financial performance and its cash flows for the year then ended in accordance with Cambodian International Financial Reporting Standards ("CIFRSs").

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 *Auditors' 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 2018 prepared in accordance with Cambodian Accounting Standards and the guidelines of the National Bank of Cambodia ("NBC") relating to the preparation and presentation of financial statements were audited by another auditor who expressed an unmodified opinion on those financial statements on 1 April 2019.



As stated in Note 35 to the financial statements, the Bank adopted CIFRSs on 1 January 2019 with a transition date of 1 January 2018. These standards were applied retrospectively to the comparative information in these financial statements, including the statement of financial position as at 31 December 2018 and 1 January 2018, and the statements of profit or loss and other comprehensive income, changes in equity and cash flows of the Bank for the year ended 31 December 2018 and related explanatory notes. We were not engaged to audit on the restated comparative information and it is unaudited. Our responsibilities in respect of this comparative information is to determine whether the financial statements include the comparative information required by CIFRSs and whether such information is appropriately classified.

Other Information

Management is responsible for the other information. The other information obtained at the date of this auditors' report is the report of the Management on pages 1 to 5, and the annual report, which is expected to be made available to us after that date. 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 on the other information obtained prior to the date of this auditors' report, 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 CIFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the 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.

Auditors' 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 auditors' 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 judgment and maintain professional skepticism throughout the audit. We also:

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



 Nge Huy
 Partner

Phnom Penh, Kingdom of Cambodia

15 June 2020

Shinhan Bank (Cambodia) Plc.

Statement of financial position as at 31 December 2019

Note	31 December 2019		31 December 2018		31 December 2019		31 December 2018		1 January 2018	
	US\$	US\$	US\$	US\$	KHR'000 (Note 5)	KHR'000 (Note 5)	KHR'000 (Note 5)	KHR'000 (Note 5)	US\$	KHR'000 (Note 5)
	ASSETS									
6	51,680,080	15,591,560	210,596,326	62,646,888	25,762,443	104,002,982			25,762,443	104,002,982
7	10,000,000	-	40,750,000	-	5,000,000	20,185,000			5,000,000	20,185,000
8	42,600,428	26,180,967	173,596,744	105,195,125	20,805,379	83,991,315			20,805,379	83,991,315
9	310,651,060	207,870,949	1,265,903,070	835,225,473	138,063,483	557,362,281			138,063,483	557,362,281
10	2,291,377	681,056	9,337,361	2,736,483	352,962	1,424,908			352,962	1,424,908
11	19,535,652	-	79,607,782	-	-	-			-	-
12	2,065,385	2,059,046	8,416,444	8,273,247	1,479,063	5,970,977			1,479,063	5,970,977
13	3,605,725	2,901,337	14,693,329	11,657,572	2,738,983	11,057,274			2,738,983	11,057,274
14	407,129	205,457	1,659,051	825,526	137,247	554,066			137,247	554,066
	442,836,836	255,490,372	1,804,560,107	1,026,560,314	194,339,560	784,548,803			194,339,560	784,548,803
	LIABILITIES AND SHAREHOLDER'S EQUITY									
	Liabilities									
15	54,922,995	51,983,597	223,811,205	208,870,093	44,317,587	178,910,099			44,317,587	178,910,099
16	101,451,619	31,021,479	413,415,347	124,644,303	21,569,498	87,076,063			21,569,498	87,076,063
17	170,405,358	64,000,000	694,401,834	257,152,000	54,000,000	217,998,000			54,000,000	217,998,000
18	3,860,672	3,093,164	15,732,238	12,428,333	2,809,766	11,343,025			2,809,766	11,343,025
19	673,060	584,858	2,742,719	2,349,958	378,582	1,528,339			378,582	1,528,339
20	104,634	125,214	426,384	503,110	-	-			-	-
21A	2,069,623	1,550,992	8,433,714	6,231,886	1,036,183	4,183,071			1,036,183	4,183,071
	333,487,961	152,359,304	1,358,963,441	612,179,683	124,111,616	501,038,597			124,111,616	501,038,597
	Total liabilities									

Shinhan Bank (Cambodia) Plc.

Statement of financial position (continued) as at 31 December 2019

Note	31 December 2019		31 December 2018		1 January 2018	
	US\$	KHR'000 (Note 5)	US\$	KHR'000 (Note 5)	US\$	KHR'000 (Note 5)
Shareholder's equity						
Share capital	75,000,000	302,995,000	75,000,000	302,995,000	47,500,000	191,757,500
Reserves	5,621,275	22,693,087	5,621,275	22,693,087	5,621,275	22,693,087
Regulatory reserves	3,740,615	15,104,069	3,469,636	14,006,062	3,576,966	14,440,212
Retained earnings	24,986,985	102,437,076	19,040,157	78,340,530	13,529,703	56,050,744
Currency translation difference	-	2,367,434	-	(3,654,048)	-	(1,431,337)
Total shareholder's equity	109,348,875	445,596,666	103,131,068	414,380,631	70,227,944	283,510,206
Total liabilities and shareholder's equity	442,836,836	1,804,560,107	255,490,372	1,026,560,314	194,339,560	784,548,803

Shinhan Bank (Cambodia) Plc.

Statement of profit or loss and other comprehensive income for the year ended 31 December 2019

	Note	2019 US\$	2018 US\$	2019 KHR'000 (Note 5)	2018 KHR'000 (Note 5)
Interest income	25	20,527,207	13,845,484	83,176,243	56,004,983
Interest expense	26	<u>(5,253,756)</u>	<u>(2,519,437)</u>	<u>(21,288,219)</u>	<u>(10,191,123)</u>
Net interest income		15,273,451	11,326,047	61,888,024	45,813,860
Net fee and commission income	27	1,251,509	1,080,143	5,071,114	4,369,178
Other operating income		<u>15,829</u>	<u>3,922</u>	<u>64,139</u>	<u>15,864</u>
Total operating income		16,540,789	12,410,112	67,023,277	50,198,902
Personnel expenses	28	(3,066,824)	(2,518,594)	(12,426,771)	(10,187,713)
Other operating expenses	29	(2,968,706)	(2,826,899)	(12,029,197)	(11,434,806)
Impairment losses on financial instruments	9	<u>(1,837,937)</u>	<u>28,816</u>	<u>(7,447,321)</u>	<u>116,561</u>
Profit before income tax		8,667,322	7,093,435	35,119,988	28,692,944
Income tax expense	21B	<u>(2,449,515)</u>	<u>(1,690,311)</u>	<u>(9,925,435)</u>	<u>(6,837,308)</u>
Net profit for the year		<u>6,217,807</u>	<u>5,403,124</u>	<u>25,194,553</u>	<u>21,855,636</u>
Other comprehensive income/(loss)					
Currency translation difference		<u>-</u>	<u>-</u>	<u>6,021,482</u>	<u>(2,222,711)</u>
Net comprehensive income		<u>6,217,807</u>	<u>5,403,124</u>	<u>31,216,035</u>	<u>19,632,925</u>

The accompanying notes form an integral part of these financial statements.

Shinhan Bank (Cambodia) Plc.

Statement of changes in equity for the year ended 31 December 2019

	Share capital		Reserves		Regulatory reserves		Retained earnings		Currency translation reserve		Total	
	US\$	KHR000 (Note 5)	US\$	KHR000 (Note 5)	US\$	KHR000 (Note 5)	US\$	KHR000 (Note 5)	US\$	KHR000 (Note 5)	US\$	KHR000 (Note 5)
At 1 January 2018	47,500,000	191,757,500	5,621,275	22,693,087	3,576,966	14,440,212	13,529,703	56,050,744	-	(1,431,337)	70,227,944	283,510,206
Transactions with shareholders												
Additional capital (Note 22)	27,500,000	111,237,500	-	-	-	-	-	-	-	-	27,500,000	111,237,500
Transfer	-	-	-	-	(107,330)	(434,150)	107,330	434,150	-	-	-	-
Comprehensive income												
Net profit for the year	-	-	-	-	-	-	5,403,124	21,855,636	-	-	5,403,124	21,855,636
Currency translation reserve	-	-	-	-	-	-	-	-	-	(2,222,711)	-	(2,222,711)
At 31 December 2018	75,000,000	302,995,000	5,621,275	22,693,087	3,469,636	14,006,062	19,040,157	78,340,530	-	(3,654,048)	103,131,068	414,380,631
At 1 January 2019	75,000,000	302,995,000	5,621,275	22,693,087	3,469,636	14,006,062	19,040,157	78,340,530	-	(3,654,048)	103,131,068	414,380,631
Transfer	-	-	-	-	270,979	1,098,007	(270,979)	(1,098,007)	-	-	-	-
Comprehensive income												
Net profit for the year	-	-	-	-	-	-	6,217,807	25,194,553	-	-	6,217,807	25,194,553
Currency translation reserves	-	-	-	-	-	-	-	-	-	6,021,482	-	6,021,482
At 31 December 2019	75,000,000	302,995,000	5,621,275	22,693,087	3,740,615	15,104,069	24,986,985	102,437,076	-	2,367,434	109,348,875	445,596,666

The accompanying notes form an integral part of these financial statements.

Shinhan Bank (Cambodia) Plc.

Statement of cash flows for the year ended 31 December 2019

	2019 US\$	2018 US\$	2019 KHR'000 (Note 5)	2018 KHR'000 (Note 5)
Cash flows from operating activities				
Net profit for the year	6,217,807	5,403,124	25,194,553	21,855,636
<i>Adjustment for:</i>				
Depreciation and amortisation	772,879	704,064	3,131,705	2,847,940
Loss on property and equipment written off	-	543,665	-	2,199,125
Employee benefit obligations	(20,580)	125,214	(83,390)	506,491
Net interest income	(15,273,451)	(11,326,047)	(61,888,024)	(45,813,860)
Income tax expense	2,449,515	1,690,311	9,925,435	6,837,308
Net impairment loss on loan and advances	1,305,751	28,816	5,290,903	116,561
Net impairment loss on debt investments	532,186	-	2,156,418	-
	<u>(4,015,893)</u>	<u>(2,830,853)</u>	<u>(16,272,400)</u>	<u>(11,450,799)</u>
Changes in:				
Statutory deposits	(16,169,191)	(2,626,122)	(65,517,562)	(10,622,663)
Loans and advances to customers	(103,637,243)	(69,574,337)	(419,938,109)	(281,428,193)
Other assets	(1,610,321)	(328,094)	(6,525,021)	(1,327,140)
Deposits from customers	2,966,750	7,688,649	12,021,271	31,100,585
Deposits from banks	70,345,771	9,596,735	285,041,064	38,818,793
Other liabilities	18,097	206,276	73,329	834,386
	<u>(52,102,030)</u>	<u>(57,867,746)</u>	<u>(211,117,428)</u>	<u>(234,075,031)</u>
Cash used in operations				
Employee benefit paid	70,105	-	284,065	-
Interest received	19,392,382	13,584,073	78,577,932	54,947,575
Interest paid	(3,791,381)	(2,263,034)	(15,362,676)	(9,153,974)
Income tax paid	(1,930,884)	(1,175,502)	(7,823,942)	(4,754,906)
	<u>(38,361,808)</u>	<u>(47,722,209)</u>	<u>(155,442,049)</u>	<u>(193,036,336)</u>
Net cash used in operating activities				

Shinhan Bank (Cambodia) Plc.

Statement of cash flows (continued) for the year ended 31 December 2019

	2019 US\$	2018 US\$	2019 KHR'000 (Note 5)	2018 KHR'000 (Note 5)
Cash flows from investing activities				
Purchase of intangible assets	(225,052)	(85,214)	(911,911)	(344,691)
Purchase of property and equipment	(378,861)	(1,470,195)	(1,535,145)	(5,946,939)
Investment in debt investment	(19,631,902)	-	(79,548,467)	-
Term deposit with banks (term more than 3 months)	(10,000,000)	5,000,000	(40,520,000)	20,185,000
Capital guarantee deposit	-	(2,750,000)	-	(11,123,750)
Net cash (used in)/generated from investing activities	<u>(30,235,815)</u>	<u>694,591</u>	<u>(122,515,523)</u>	<u>2,769,620</u>
Cash flows from financing activities				
Proceeds from borrowings	169,000,000	10,000,000	684,788,000	40,450,000
Repayments of borrowings	(64,000,000)	-	(259,328,000)	-
Payment of lease liabilities	(313,857)	(643,265)	(1,271,750)	(2,602,006)
Additional share capital	-	27,500,000	-	111,237,500
Net cash generated from financing activities	<u>104,686,143</u>	<u>36,856,735</u>	<u>424,188,250</u>	<u>149,085,494</u>
Net increase/(decrease) in cash and cash equivalents	36,088,520	(10,170,883)	146,230,678	(41,181,222)
Cash and cash equivalents at beginning of the year	15,591,560	25,762,443	62,646,888	104,002,982
Currency translation difference	-	-	1,718,760	(174,872)
Cash and cash equivalents at end of the year (Note 6)	<u>51,680,080</u>	<u>15,591,560</u>	<u>210,596,326</u>	<u>62,646,888</u>

Shinhan Bank (Cambodia) Plc.

Notes to the financial statements for the year ended 31 December 2019

1. Reporting entity

Shinhan Khmer Bank Plc. (the “Bank”) was incorporated in the Kingdom of 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 (“NBC”).

On 20 August 2018, the Bank obtained an approval to change its name from “Shinhan Khmer Bank Plc.” to “Shinhan Bank (Cambodia) Plc.” and changed the registered address to Vanda Tower No. 79, Kampuchea Krom Blvd, Sangkat Monourom, Khan 7 Makara, Phnom Penh, the Kingdom 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.

As at 31 December 2019, the Bank had 237 employees (31 December 2018: 163 employees).

2. Basis of accounting

The financial statements of the Bank have been prepared in accordance with the Cambodian International Financial Reporting Standards (“CIFRSs”). These are the Bank’s first set of financial statements prepared in accordance with CIFRSs and CIFRS 1 *First-time Adoption of Cambodian International Financial Reporting Standards* has been applied.

In the previous financial years, the financial statements were prepared in accordance with Cambodian Accounting Standards and the guidelines of the National Bank of Cambodia (“NBC”) relating to the preparation and presentation of financial statements. An explanation of how the transition to CIFRS have affected the reported financial position, financial performance and cash flows is provided in Note 35.

The accounting policies and methods of computation have been applied consistently to all periods presented in these financial statements.

These financial statements of the Company were authorised for issue by the Board of Directors on 15 June 2020.

Details of the Bank’s accounting policies are included in Note 34.

Shinhan Bank (Cambodia) Plc.

Notes to the financial statements (continued) for the year ended 31 December 2019

3. Functional and presentation currency

The Bank transacts its business and maintains its accounting records in United States Dollars ("US\$"). Management has determined the US\$ to be the Bank's functional and presentation currency as it reflects the economic substance of the underlying events and circumstances of the Bank.

These financial statements are presented in US\$, which is the Bank's functional currency. All amounts have been rounded to the nearest dollar, except when otherwise indicated.

4. Use of judgments and estimates

In preparing these financial statements, management has made judgements, estimates and assumptions that affect the application of the Bank's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognised in the financial statements is included in the following notes.

- Note 34C(ii): classification of financial assets: assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are SPPI on the principal amount outstanding.
- Note 34C(vii): establishing the criteria for determining whether credit risk on the financial asset has increased significantly since initial recognition, determining methodology for incorporating forward-looking information into measurement of ECL and selection and approval of models used to measure ECL.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year are included in the following notes:

- Note 34C(vii): impairment of financial instruments: determining inputs into the ECL measurement model, including incorporation of forward-looking information.
- Note 34C(vii): impairment of financial instruments: key assumptions used in estimating recoverable cash flows.
- Note 34C(vi): determination of the fair value of financial instruments with significant unobservable inputs.

Shinhan Bank (Cambodia) Plc.

Notes to the financial statements (continued) for the year ended 31 December 2019

5. Translation of United States Dollars into Khmer Riel

The financial statements are expressed in United States Dollars. The translations of United States Dollars amounts into Khmer Riel are included solely for compliance with the guidelines of the National Bank of Cambodia relating to the preparation and presentation of financial statements.

Assets and liabilities are translated at the closing rate as at the reporting date. The statements of comprehensive income and cash flows are translated into KHR using the average rate for the year. Exchange differences arising from the translation are recognised as “Currency Translation Difference” in the other comprehensive income.

The Bank uses the following exchange rates:

			Closing rate	Average
31 December 2019	US\$1	=	KHR 4,075	KHR 4,052
31 December 2018	US\$1	=	KHR 4,018	KHR 4,045
1 January 2018	US\$1	=	KHR 4,037	N/A

These convenience translations should not be construed as representations that the United States Dollars amounts have been, could have been, or could in the future be, converted into Khmer Riels at this or any other rate of exchange.

Shinhan Bank (Cambodia) Plc.

Notes to the financial statements (continued) for the year ended 31 December 2019

6. Cash and cash equivalents

	31 December 2019		31 December 2018		1 January 2018	
	US\$	KHR'000 (Note 5)	US\$	KHR'000 (Note 5)	US\$	KHR'000 (Note 5)
Cash on hand	4,802,435	19,569,923	5,257,561	21,124,880	5,651,555	22,815,328
Cash equivalents with other banks	2,541,430	10,356,327	2,203,286	8,852,803	2,208,109	8,914,136
Other cash equivalents	44,336,215	180,670,076	8,130,713	32,669,205	17,902,779	72,273,518
Cash and cash equivalents – net	51,680,080	210,596,326	15,591,560	62,646,888	25,762,443	104,002,982

7. Placements with other bank

	31 December 2019		31 December 2018		1 January 2018	
	US\$	KHR'000 (Note 5)	US\$	KHR'000 (Note 5)	US\$	KHR'000 (Note 5)
Term deposit (non-cash equivalents)	10,000,000	40,750,000	-	-	5,000,000	20,185,000

Shinhan Bank (Cambodia) Plc.

Notes to the financial statements (continued) for the year ended 31 December 2019

8. Statutory deposits

	31 December 2019		31 December 2018		1 January 2018	
	US\$	KHR'000 (Note 5)	US\$	KHR'000 (Note 5)	US\$	KHR'000 (Note 5)
Capital guarantee deposit	7,510,244	30,604,244	7,506,303	30,160,325	4,755,837	19,199,314
Reserve requirements on customers' deposits	35,090,184	142,992,500	18,674,664	75,034,800	16,049,542	64,792,001
	<u>42,600,428</u>	<u>173,596,744</u>	<u>26,180,967</u>	<u>105,195,125</u>	<u>20,805,379</u>	<u>83,991,315</u>

A. Capital guarantee deposit

Under the NBC's Prakas No. B7-01-136 dated 15 October 2001, the Bank is required to maintain a statutory deposit 10% of its capital. This deposit is not available for use in the Bank's day-to-day operations and is refundable should the Bank voluntarily cease its operations in Cambodia. Capital guarantee deposit bear interest at a rate of 3%.

B. Reserve requirements on customers' deposits

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 KHR earns interest at 1/2 of one-month LIBOR while the rest of the reserve requirement earns no interest.

Shinhan Bank (Cambodia) Plc.

Notes to the financial statements (continued) for the year ended 31 December 2019

9. Loans and advances to customers – net

	31 December		31 December		1 January 2018	
	2019 US\$	2018 US\$	2019 KHR'000 (Note 5)	2018 KHR'000 (Note 5)	US\$	KHR'000 (Note 5)
Commercial loans:	218,539,312	142,257,034	890,547,696	571,588,763	104,610,727	422,313,505
Overdrafts	18,686,155	22,515,614	76,146,082	90,467,738	22,195,734	89,604,179
Short term loans	28,432,393	17,499,129	115,862,001	70,311,500	12,500,000	50,462,500
Long term loans	171,420,764	102,242,291	698,539,613	410,809,525	69,914,993	282,246,826
Consumer loans	93,980,876	66,544,605	382,972,070	267,376,223	33,829,680	136,570,418
Gross loans and advances	312,520,188	208,801,639	1,273,519,766	838,964,986	138,440,407	558,883,923
Interest receivables	1,172,032	723,413	4,776,030	2,906,673	490,284	1,979,277
Deferred income	(2,642,085)	(1,611,779)	(10,766,496)	(6,476,128)	(796,068)	(3,213,727)
	311,050,135	207,913,273	1,267,529,300	835,395,531	138,134,623	557,649,473
Impairment loss allowance	(399,075)	(42,324)	(1,626,230)	(170,058)	(71,140)	(287,192)
Loans and advances - net	310,651,060	207,870,949	1,265,903,070	835,225,473	138,063,483	557,362,281

Shinhan Bank (Cambodia) Plc.

Notes to the financial statements (continued) for the year ended 31 December 2019

9. Loans and advances to customers – net (continued)

The movement of allowance for impairment losses on loans and advances is as follows:

	2019 US\$	2018 US\$	2019 KHR'000 (Note 5)	2018 KHR'000 (Note 5)
At 1 January	42,324	71,140	170,058	287,192
Addition/(reversal) of allowance for the year	1,305,751	(28,816)	5,290,903	(116,561)
Written off	(949,000)	-	(3,845,348)	-
Currency translation difference	-	-	10,617	(573)
At 31 December	<u>399,075</u>	<u>42,324</u>	<u>1,626,230</u>	<u>170,058</u>

Shinhan Bank (Cambodia) Plc.

Notes to the financial statements (continued) for the year ended 31 December 2019

9. Loans and advances to customers – net (continued)

Gross amounts of loans and advances to customers by maturity are as follows:

	31 December		31 December		1 January 2018	
	2019	2018	2019	2018	US\$	KHR'000
	US\$	US\$	KHR'000	KHR'000		(Note 5)
Within 1 month	700,312	766,896	2,853,771	3,081,388	3,231,511	13,045,610
> 1 to 3 months	31,702	4,991,036	129,186	20,053,983	7,332,823	29,602,606
> 3 to 12 months	39,436,275	57,438,570	160,702,821	230,788,174	50,936,094	205,629,011
> 1 to 5 years	70,591,482	43,997,550	287,660,289	176,782,156	34,843,483	140,663,141
Over 5 years	201,760,417	101,607,587	822,173,699	408,259,285	42,096,496	169,943,555
	<u>312,520,188</u>	<u>208,801,639</u>	<u>1,273,519,766</u>	<u>838,964,986</u>	<u>138,440,407</u>	<u>558,883,923</u>

For additional analysis of gross amount of loans and advances to customers, refer to Note 32B.

Shinhan Bank (Cambodia) Plc.

Notes to the financial statements (continued) for the year ended 31 December 2019

10. Other assets

	31 December 2019		31 December 2018		31 December 2018		1 January 2018	
	US\$	KHR'000 (Note 5)	US\$	KHR'000 (Note 5)	US\$	KHR'000 (Note 5)	US\$	KHR'000 (Note 5)
Other receivables	1,889,472	7,699,598	314,306	1,262,881	67,232	271,416		
Prepayment and deposits	376,905	1,535,888	341,750	1,373,152	260,730	1,052,567		
Equity investment *	25,000	101,875	25,000	100,450	25,000	100,925		
	<u>2,291,377</u>	<u>9,337,361</u>	<u>681,056</u>	<u>2,736,483</u>	<u>352,962</u>	<u>1,424,908</u>		

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

Shinhan Bank (Cambodia) Plc.

Notes to the financial statements (continued) for the year ended 31 December 2019

11. Debt Investments

		31 December		31 December	
		2019 US\$	2018 US\$	2019 KHR'000 (Note 5)	2018 KHR'000 (Note 5)
LOLC (Cambodia) Plc.	(i)	10,033,919	-	40,888,220	-
Advanced Bank of Asia Limited	(ii)	10,033,919	-	40,888,220	-
		20,067,838	-	81,776,440	-
Allowance for impairment losses		(532,186)	-	(2,168,658)	-
		<u>19,535,652</u>	<u>-</u>	<u>79,607,782</u>	<u>-</u>

Corporate Bonds classified as at amortised cost are in Khmer Riel denomination and have a nominal value of KHR100,000 per bond.

- (i) On 26 April 2019, the Bank bought 400,000 bonds, equivalent to KHR40,000,000,000, issued by LOLC (Cambodia) Plc. The Bonds have interest rate of 8% p.a. for three years (2019 - 2022) effective from 26 April 2019 and are payable semi-annually in arrears on 26 October and 26 April each year, with the first payment to be made on 26 October 2019. Interest on the bonds is computed on the basis of a 365-day year.
- (ii) On 14 August 2019, the Bank bought 400,000 Bonds, equivalent to KHR40,000,000,000, issued by Advanced Bank of Asia Limited. The Bonds have interest rate of 7.75% p.a. for three years (2019 - 2022) effective from 14 August 2019 and are payable semi-annually in arrears on 14 February and 14 August each year, with the first payment to be made on 14 February 2020. Interest on the bonds is computed on the basis of a 365-day year.

The movement of allowance for impairment loss is as follows:

	2019 US\$	2018 US\$	2019 KHR'000 (Note 5)	2018 KHR'000 (Note 5)
At 1 January	-	-	-	-
Allowance for the year	532,186	-	2,156,418	-
Currency translation difference	-	-	12,240	-
At 31 December	<u>532,186</u>	<u>-</u>	<u>2,168,658</u>	<u>-</u>

Shinhan Bank (Cambodia) Plc.

Notes to the financial statements (continued) for the year ended 31 December 2019

12. Property and equipment

2019	Leasehold improvement US\$	Computer equipment US\$	Furniture and fixtures US\$	Motor vehicles US\$	Total	
					US\$	KHR'000 (Note 5)
Cost						
At 1 January 2019	1,505,883	719,596	518,841	244,130	2,988,450	12,007,592
Additions	10,910	251,632	60,019	56,300	378,861	1,535,145
Currency translation difference	-	-	-	-	-	179,055
At 31 December 2019	1,516,793	971,228	578,860	300,430	3,367,311	13,721,792
Less: Accumulated depreciation						
At 1 January 2019	188,090	433,119	160,968	147,227	929,404	3,734,345
Depreciation	75,498	166,810	93,008	37,206	372,522	1,509,459
Currency translation difference	-	-	-	-	-	61,544
At 31 December 2019	263,588	599,929	253,976	184,433	1,301,926	5,305,348
Carrying amounts						
At 31 December 2019	1,253,205	371,299	324,884	115,997	2,065,385	8,416,444

Shinhan Bank (Cambodia) Plc.

Notes to the financial statements (continued) for the year ended 31 December 2019

12. Property and equipment (continued)

2018	Leasehold improvement US\$	Computer equipment US\$	Furniture and fixtures US\$	Motor vehicles US\$	Total	
					US\$	KHR'000 (Note 5)
Cost						
At 1 January 2018	1,837,110	471,896	232,646	204,235	2,745,887	11,085,146
Additions	756,666	317,674	352,355	43,500	1,470,195	5,946,939
Written off	(1,087,893)	(69,974)	(66,160)	(3,605)	(1,227,632)	(4,965,771)
Currency translation difference	-	-	-	-	-	(58,722)
At 31 December 2018	1,505,883	719,596	518,841	244,130	2,988,450	12,007,592
Less: Accumulated depreciation						
At 1 January 2018	645,972	344,593	157,325	118,934	1,266,824	5,114,169
Depreciation	95,229	157,393	64,019	30,638	347,279	1,404,744
Written Off	(553,111)	(68,867)	(60,376)	(2,345)	(684,699)	(2,769,607)
Currency translation difference	-	-	-	-	-	(14,961)
At 31 December 2018	188,090	433,119	160,968	147,227	929,404	3,734,345
Carrying amounts						
At 31 December 2018	1,317,793	286,477	357,873	96,903	2,059,046	8,273,247
At 1 January 2018	1,191,138	127,303	75,321	85,301	1,479,063	5,970,977

Shinhan Bank (Cambodia) Plc.

Notes to the financial statements (continued) for the year ended 31 December 2019

13. Right-of-use assets

Information about the Bank's leases is disclosed within this note and Note 18.

	31 December 2019		31 December 2018		1 January 2018	
	US\$	US\$	US\$	US\$	US\$	KHR'000 (Note 5)
Right-of-use assets	3,605,725	2,901,337	14,693,329	11,657,572	2,738,983	11,057,274 (Note 5)

The Bank leases office buildings for their it's branches. Information about leases for which the Bank is a lessee is presented below.

	2019 US\$	2018 US\$	2019 KHR'000 (Note 5)	2018 KHR'000 (Note 5)
Right-of-use assets				
Costs				
At 1 January	3,241,850	2,738,983	13,025,753	11,057,274
Additions	1,081,365	502,867	4,381,690	2,034,097
Currency translation difference	-	-	209,658	(65,618)
At 31 December	4,323,215	3,241,850	17,617,101	13,025,753
Less: Accumulated depreciation				
At 1 January	340,513	-	1,368,181	-
Depreciation for the year	376,977	340,513	1,527,510	1,377,376
Currency translation difference	-	-	28,081	(9,195)
At 31 December	717,490	340,513	2,923,772	1,368,181
Carrying amounts				
At 31 December	3,605,725	2,901,337	14,693,329	11,657,572

Shinhan Bank (Cambodia) Plc.

Notes to the financial statements (continued) for the year ended 31 December 2019

14. Intangible assets

	2019 US\$	2018 US\$	2019 KHR'000 (Note 5)	2018 KHR'000 (Note 5)
Computer Software				
Cost				
At 1 January	250,898	311,219	1,008,108	1,256,391
Additions	225,052	85,214	911,911	344,691
Written Off	-	(145,535)	-	(588,689)
Currency translation difference	-	-	19,477	(4,285)
At 31 December	475,950	250,898	1,939,496	1,008,108
Less: Accumulated amortisation				
At 1 January	45,441	173,972	182,582	702,325
Amortisation	23,380	16,272	94,736	65,820
Written Off	-	(144,803)	-	(585,728)
Currency translation difference	-	-	3,127	165
At 31 December	68,821	45,441	280,445	182,582
Carrying amounts				
At 31 December	407,129	205,457	1,659,051	825,526

Shinhan Bank (Cambodia) Plc.

Notes to the financial statements (continued) for the year ended 31 December 2019

15. Deposits from customers

	31 December 2019		31 December 2018		31 December 2019		1 January 2018	
	US\$	US\$	US\$	US\$	KHR'000 (Note 5)	KHR'000 (Note 5)	US\$	KHR'000 (Note 5)
Saving accounts	23,879,817	27,207,552	97,310,254	109,319,944	20,492,059	82,726,442		
Fixed deposits	15,733,775	13,546,771	64,115,133	54,430,926	11,225,221	45,316,217		
Demand deposits	15,105,642	11,052,865	61,555,491	44,410,412	12,446,537	50,246,670		
	54,719,234	51,807,188	222,980,878	208,161,282	44,163,817	178,289,329		
Interest payable	203,761	176,409	830,327	708,811	153,770	620,770		
	54,922,995	51,983,597	223,811,205	208,870,093	44,317,587	178,910,099		

Deposits from customers are analysed as follows:

A. By maturity:	31 December 2019		31 December 2018		31 December 2019		1 January 2018	
	US\$	US\$	US\$	US\$	KHR'000 (Note 5)	KHR'000 (Note 5)	US\$	KHR'000 (Note 5)
Within 1 month	39,914,828	38,260,418	162,652,924	153,730,360	32,938,596	132,973,112		
> 1 to 3 months	2,573,126	7,274,443	10,485,488	29,228,712	1,125,087	4,541,976		
> 3 to 12 months	11,015,971	5,931,733	44,890,082	23,833,703	3,512,249	14,178,949		
> 1 years	1,215,309	340,594	4,952,384	1,368,507	6,587,885	26,595,292		
	54,719,234	51,807,188	222,980,878	208,161,282	44,163,817	178,289,329		

Shinhan Bank (Cambodia) Plc.

Notes to the financial statements (continued) for the year ended 31 December 2019

15. Deposits from customers (continued)

Deposits from customers are analysed as follows: (continued)

	31 December 2019		31 December 2018		31 December 2019		31 December 2018		1 January 2018	
	US\$	US\$	US\$	US\$	KHR'000 (Note 5)	KHR'000 (Note 5)	KHR'000 (Note 5)	KHR'000 (Note 5)	US\$	KHR'000 (Note 5)
B. By customer type:										
Individuals	29,573,844	28,569,003	120,513,414	114,790,254	26,250,474	105,973,164	17,913,343	72,316,165		
Business enterprises	4,722,346	3,845,262	222,980,878	208,161,282	44,163,817	178,289,329				
	<u>54,719,234</u>	<u>51,807,188</u>								
C. By residency status:										
Residents	49,996,888	47,961,926	203,737,318	192,711,019	40,343,598	162,867,105	3,820,219	15,422,224		
Non-residents	4,722,346	3,845,262	19,243,560	15,450,263	44,163,817	178,289,329				
	<u>54,719,234</u>	<u>51,807,188</u>								
D. By interest rate (per annum):										
Saving accounts		0.10% - 2.70%		0.10% - 2.70%		0.10% - 2.70%		0.10% - 2.70%		
Fixed deposits		1.25% - 5.55%		1.25% - 5.55%		1.25% - 5.55%		1.25% - 5.55%		

The margin deposits are interest free and are encumbered for trade line and guarantee granted to customers.

Shinhan Bank (Cambodia) Plc.

Notes to the financial statements (continued) for the year ended 31 December 2019

16. Deposits from other banks

	31 December 2019		31 December 2018		31 December 2019		31 December 2018		1 January 2018	
	US\$	KHR'000 (Note 5)	US\$	KHR'000 (Note 5)	US\$	KHR'000 (Note 5)	US\$	KHR'000 (Note 5)	US\$	KHR'000 (Note 5)
Fixed deposits	100,110,430	407,950,002	30,000,000	120,540,000	20,000,000	80,740,000				
Saving deposits	234,895	957,197	73,506	295,348	386,034	1,558,419				
Demand deposits	781,102	3,182,991	538,412	2,163,339	918,657	3,708,618				
	<u>101,126,427</u>	<u>412,090,190</u>	<u>30,611,918</u>	<u>122,998,687</u>	<u>21,304,691</u>	<u>86,007,037</u>				
Interest payables	325,192	1,325,157	409,561	1,645,616	264,807	1,069,026				
	<u>101,451,619</u>	<u>413,415,347</u>	<u>31,021,479</u>	<u>124,644,303</u>	<u>21,569,498</u>	<u>87,076,063</u>				

	31 December 2019		31 December 2018		31 December 2019		31 December 2018		1 January 2018	
	US\$	KHR'000 (Note 5)	US\$	KHR'000 (Note 5)	US\$	KHR'000 (Note 5)	US\$	KHR'000 (Note 5)	US\$	KHR'000 (Note 5)
Within 1 month	1,015,997	4,140,187	611,918	2,458,687	1,304,691	5,267,037				
> 1 to 3 months	22,987,730	93,675,000	-	-	20,000,000	80,740,000				
> 3 to 12 months	77,122,700	314,275,003	30,000,000	120,540,000	-	-				
	<u>101,126,427</u>	<u>412,090,190</u>	<u>30,611,918</u>	<u>122,998,687</u>	<u>21,304,691</u>	<u>86,007,037</u>				

Deposits from other banks are analysed as follows:

A. By maturity:

- Within 1 month
- > 1 to 3 months
- > 3 to 12 months

Shinhan Bank (Cambodia) Plc.

Notes to the financial statements (continued) for the year ended 31 December 2019

16. Deposits from other banks (continued)

	31 December 2019		31 December 2018		1 January 2018	
	US\$	US\$	KHR'000 (Note 5)	KHR'000 (Note 5)	US\$	KHR'000 (Note 5)
B. By relationship:						
Related parties	157,958	127,465	643,679	512,154	419,074	1,691,802
Non-related parties	100,968,469	30,484,453	411,446,511	122,486,533	20,885,617	84,315,236
	<u>101,126,427</u>	<u>30,611,918</u>	<u>412,090,190</u>	<u>122,998,687</u>	<u>21,304,691</u>	<u>86,007,037</u>
C. By residency status:						
Residents	100,968,468	30,484,453	411,446,507	122,486,532	20,885,617	84,315,236
Non-residents	157,959	127,465	643,683	512,155	419,074	1,691,801
	<u>101,126,427</u>	<u>30,611,918</u>	<u>412,090,190</u>	<u>122,998,687</u>	<u>21,304,691</u>	<u>86,007,037</u>
D. By interest rate (per annum):						
Saving accounts	0.10% - 0.25%		0.10% - 0.25%		0.25%	
Fixed deposits	<u>2.15% - 4.00%</u>		<u>1.60% - 2.30%</u>		<u>1.60%</u>	

Shinhan Bank (Cambodia) Plc.

Notes to the financial statements (continued) for the year ended 31 December 2019

18. Lease liabilities

	31 December 2019		31 December 2018		1 January 2018	
	US\$	KHR'000 (Note 5)	US\$	KHR'000 (Note 5)	US\$	KHR'000 (Note 5)
Maturity analysis – contractual undiscouted cash flows						
One to five years	579,822	2,362,775	392,178	1,575,771	463,000	1,869,131
More than five years	4,503,385	18,351,294	3,748,592	15,061,843	3,500,302	14,130,719
Total undiscouted lease liabilities	5,083,207	20,714,069	4,140,770	16,637,614	3,963,302	15,999,850
Present value of lease liabilities						
Current	408,117	1,663,077	312,187	1,254,367	180,668	729,357
Non-current	3,452,555	14,069,161	2,780,977	11,173,966	2,629,098	10,613,668
	3,860,672	15,732,238	3,093,164	12,428,333	2,809,766	11,343,025

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Notes to the financial statements (continued) for the year ended 31 December 2019

18. Lease liabilities (continued)

Amounts recognised in profit and loss

	2019 US\$	2018 US\$	2019 KHR'000 (Note 5)	2018 KHR'000 (Note 5)
Interest on lease liabilities	213,894	211,898	866,698	857,126
Expense relating to short-term leases	<u>225,628</u>	<u>199,437</u>	<u>914,245</u>	<u>806,723</u>
	<u>439,522</u>	<u>411,335</u>	<u>1,780,943</u>	<u>1,663,849</u>

Amounts recognised in the statement of cash flows

	2019 US\$	2018 US\$	2019 KHR'000 (Note 5)	2018 KHR'000 (Note 5)
Cash flows from financing activities				
Cash payments for the principal portion of the lease liabilities	<u>(313,857)</u>	<u>(643,265)</u>	<u>(1,271,750)</u>	<u>(2,602,006)</u>
Cash flows from operation activities				
Cash payments for the interest portion of the lease liabilities	<u>(213,894)</u>	<u>(211,898)</u>	<u>(866,698)</u>	<u>(857,126)</u>

Shinhan Bank (Cambodia) Plc.

Notes to the financial statements (continued) for the year ended 31 December 2019

19. Other liabilities

	31 December		31 December		1 January 2018	
	2019 US\$	2018 US\$	2019 KHR'000 (Note 5)	2018 KHR'000 (Note 5)	US\$	KHR'000 (Note 5)
Other tax payables	586,671	435,611	2,390,684	1,750,285	353,750	1,428,089
Accruals and other payables	86,389	149,247	352,035	599,673	24,832	100,250
	<u>673,060</u>	<u>584,858</u>	<u>2,742,719</u>	<u>2,349,958</u>	<u>378,582</u>	<u>1,528,339</u>

20. Provision for employee benefits

	31 December		31 December		1 January 2018	
	2019 US\$	2018 US\$	2019 KHR'000 (Note 5)	2018 KHR'000 (Note 5)	US\$	KHR'000 (Note 5)
At 1 January	125,214	-	503,110	-	-	-
(Reversal)/additions during the year	(20,580)	125,214	(83,390)	506,491	506,491	506,491
Currency translation difference	-	-	6,664	(3,381)	-	(3,381)
At 31 December	<u>104,634</u>	<u>125,214</u>	<u>426,384</u>	<u>503,110</u>	<u>506,491</u>	<u>503,110</u>

Shinhan Bank (Cambodia) Plc.

Notes to the financial statements (continued) for the year ended 31 December 2019

20. Provision for employee benefits (continued)

This represents provision for seniority indemnity payments required by Prakas No. 443 issued by the Ministry of Labour and Vocational Training (“MoLVT”) on 21 September 2018, and subsequently amended by the Instruction No. 042/19 dated 22 March 2019. It requires all employers to settle the seniority indemnity to their employee as follows:

- Current pay: starting from 2019 onwards at the amounts equal to 15 days of wages and other benefits per year.
- Retrospective (back-pay): starting from 2021 onwards at the amounts equal to 6 days of net wages per year. The provision of back-pay seniority indemnity is calculated at a maximum amount of 6 months net wages (depends on the length of the service employee served) to the employee who has seniority before 2019.

Payments will be made twice a year, in June and December respectively. Employee does not entitle to the remaining back-pay seniority indemnity which is not yet due, if he/she resigns from the Bank.

Shinhan Bank (Cambodia) Plc.

Notes to the financial statements (continued) for the year ended 31 December 2019

21. Income tax

A. Current income tax liability

	2019 US\$	2018 US\$	2019 KHR'000 (Note 5)	2018 KHR'000 (Note 5)
At 1 January	1,550,992	1,036,183	6,231,886	4,183,071
Income tax expense	2,449,515	1,690,311	9,925,435	6,837,308
Income tax paid	(1,930,884)	(1,175,502)	(7,823,942)	(4,754,906)
Currency translation difference	-	-	100,335	(33,587)
At 31 December	<u>2,069,623</u>	<u>1,550,992</u>	<u>8,433,714</u>	<u>6,231,886</u>

In accordance with Cambodian Law on Taxation, the Company has an obligation to pay corporate income tax of either the profit tax at the rate of 20% of taxable profits or the minimum tax at 1% of gross revenues, whichever is higher.

B. Income tax expense

	2019 US\$	2018 US\$	2019 KHR'000 (Note 5)	2018 KHR'000 (Note 5)
Current income tax	<u>2,449,515</u>	<u>1,690,311</u>	<u>9,925,435</u>	<u>6,837,308</u>

Shinhan Bank (Cambodia) Plc.

Notes to the financial statements (continued) for the year ended 31 December 2019

22. Share capital

	31 December 2019		31 December 2018		1 January 2018	
	US\$	KHR'000 (Note 5)	US\$	KHR'000 (Note 5)	US\$	KHR'000 (Note 5)
Registered, issued and fully paid up share capital	75,000,000	302,995,000	75,000,000	302,995,000	47,500,000	191,757,500

As at 31 December 2019 and 2018, the Company's shareholders and their respective interests are as follows:

	Registered, issued and fully paid					
	As at 31 December 2019			As at 31 December 2018		
	Number of shares	Amount US\$	%	Number of shares	Amount US\$	%
Shinhan Bank Co., Ltd.	73,125,000	73,125,000	97.50%	73,125,000	73,125,000	97.50%
Insung Co., Ltd.	1,875,000	1,875,000	2.50%	1,875,000	1,875,000	2.50%
	<u>75,000,000</u>	<u>75,000,000</u>	<u>100%</u>	<u>75,000,000</u>	<u>75,000,000</u>	<u>100%</u>
				Number of shares	Amount US\$	%
				<u>46,312,500</u>	<u>46,312,500</u>	<u>97.50%</u>
				<u>1,187,500</u>	<u>1,187,500</u>	<u>2.50%</u>
				<u>47,500,000</u>	<u>47,500,000</u>	<u>100%</u>

The registered share capital of the Bank as at 31 December 2019 is US\$ 75 million at a par value of US\$ 1 per share.

Shinhan Bank (Cambodia) Plc.

Notes to the financial statements (continued) for the year ended 31 December 2019

23. 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.

24. Regulatory reserves

Regulatory reserves represented the variance of provision between loan impairment in accordance with CIFRSs and regulatory provision in accordance with the National Bank of Cambodia.

25. Interest income

	2019 US\$	2018 US\$	2019 KHR'000 (Note 5)	2018 KHR'000 (Note 5)
Loans and advances	19,332,558	13,644,631	78,335,525	55,192,532
Debt investments	834,543	-	3,381,568	-
Placement with other banks	287,872	138,622	1,166,457	560,726
Placements with the NBC	72,234	62,231	292,693	251,725
	<u>20,527,207</u>	<u>13,845,484</u>	<u>83,176,243</u>	<u>56,004,983</u>

26. Interest expense

	2019 US\$	2018 US\$	2019 KHR'000 (Note 5)	2018 KHR'000 (Note 5)
Fixed deposit from related party	1,045,952	-	4,238,198	-
Fixed deposit from third parties	1,939,640	2,266,753	7,859,421	9,169,016
Borrowings	1,994,948	-	8,083,529	-
Interest expense on lease liabilities	213,894	211,898	866,698	857,126
Saving accounts	59,322	40,786	240,373	164,981
	<u>5,253,756</u>	<u>2,519,437</u>	<u>21,288,219</u>	<u>10,191,123</u>

Shinhan Bank (Cambodia) Plc.

Notes to the financial statements (continued) for the year ended 31 December 2019

27. Net fee and commission income

	2019 US\$	2018 US\$	2019 KHR'000 (Note 5)	2018 KHR'000 (Note 5)
Penalty fees	666,854	551,318	2,702,092	2,230,081
Inward and outward remittance	553,739	512,166	2,243,750	2,071,711
Other fees	30,916	16,659	125,272	67,386
Total	<u>1,251,509</u>	<u>1,080,143</u>	<u>5,071,114</u>	<u>4,369,178</u>

28. Personnel expenses

	2019 US\$	2018 US\$	2019 KHR'000 (Note 5)	2018 KHR'000 (Note 5)
Salaries and wages	2,679,644	2,006,597	10,857,917	8,116,685
Other benefits	387,180	511,997	1,568,854	2,071,028
	<u>3,066,824</u>	<u>2,518,594</u>	<u>12,426,771</u>	<u>10,187,713</u>

29. Other operating expenses

	2019 US\$	2018 US\$	2019 KHR'000 (Note 5)	2018 KHR'000 (Note 5)
Depreciation and amortisation	772,879	704,064	3,131,705	2,847,940
Marketing expense	613,775	475,856	2,487,016	1,924,838
Communication	256,952	183,688	1,041,170	743,018
License fees	225,955	213,918	915,570	865,298
Staff accomodation	225,628	199,437	914,245	806,723
Utilities expenses	130,481	115,319	528,709	466,465
Office supplies	102,896	95,729	416,935	387,224
Foreign exchange gain/(loss)	95,590	(41,904)	387,331	(169,502)
Travelling and entertainment	91,260	67,469	369,786	272,912
Repairs and maintenance	34,231	5,842	138,704	23,631
Other tax expenses	33,767	48,367	136,824	195,645
Professional fees	17,816	112,272	72,190	454,140
Insurance expense	19,041	27,650	77,154	111,844
Other expenses	348,435	619,192	1,411,858	2,504,630
	<u>2,968,706</u>	<u>2,826,899</u>	<u>12,029,197</u>	<u>11,434,806</u>

Shinhan Bank (Cambodia) Plc.

Notes to the financial statements (continued) for the year ended 31 December 2019

30. Commitments and contingencies

A. Operations

In the normal course of business, the Bank makes various commitments and incurs certain contingencies with legal recourse to its customers. No material losses are anticipated from these transactions, which consist of:

	31 December		31 December	
	2019	2018	2019	2018
	US\$	US\$	KHR'000 (Note 5)	KHR'000 (Note 5)
Loan commitments	2,571,471	945,500	10,478,744	3,799,019
Unused portion of credit facilities	15,396,827	9,978,411	62,742,070	40,093,255
Bankers' guarantees	10,000	-	40,750	-
Foreign exchange commitments	9,815,950	-	39,999,996	-
	<u>27,794,248</u>	<u>10,923,911</u>	<u>113,261,560</u>	<u>43,892,274</u>

Shinhan Bank (Cambodia) Plc.

Notes to the financial statements (continued) for the year ended 31 December 2019

30. Commitments and contingencies (continued)

B. Tax contingencies

The General Department of Taxation (GDT) issued a notice of tax reassessment to the Bank to pay reassessed taxes for the fiscal years 2010, 2011, 2012, 2013 and 2015 as summarised below.

Fiscal year	Tax reassessment by GDT (KHR'000)	Balance accepted by the Bank (KHR'000)	Tax contingencies (KHR'000)
13 March 2017			
- For fiscal year 2015 (limited)	614,544	-	615,544
11 May 2017			
- For fiscal year 2013	440,702	194,776	245,926
4 July 2017			
- For fiscal year 2010	913,600	-	913,600
- For fiscal year 2011	589,390	-	589,390
- For fiscal year 2012	743,250	-	743,250
Total	<u>3,301,486</u>	<u>194,776</u>	<u>3,107,710</u>
In US\$ equivalent	<u>814,779</u>	<u>48,070</u>	<u>766,957</u>

Fiscal year 2010 - 2012

On 4 July 2017, the Bank received tax reassessment letter imposing underpayment of taxes amounting to KHR2,246,240 thousand (approximate to US\$867,403). The Bank filed the tax objection letters to the GDT protesting to the reassessed taxes on the ground that there are differences between the amounts of tax assessment computed by the Bank and the GDT.

The tax reassessment balance has not been recorded in the profit or loss as the Bank 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.

Fiscal year 2013

On 11 May 2017, the Company received tax reassessment letter imposing underpayment of taxes amounting to KHR440,702 thousand (approximate to US\$108,148). The Bank filed the tax objection letters to the GDT protesting to the reassessed taxes on the ground that there are differences between the amount of tax assessment computed by the Bank and the GDT. The reassessed taxes agreed by the Bank were KHR194,776 thousand (approximately US\$47,798) and was paid on 27 March 2018.

The differences of KHR245,926 thousand (approximately US\$60,350) have not been recorded in the profit or loss as the Bank believes that there are reasonable grounds to challenge the re-assessment as stated in the tax law and regulations as well as industry practices, as indicated in its objection letter.

Shinhan Bank (Cambodia) Plc.

Notes to the financial statements (continued) for the year ended 31 December 2019

30. Commitments and contingencies (continued)

B. Tax contingencies (continued)

Taxes are subject to review and investigation by a number of authorities, who are enabled by law to impose severe fines, penalties and interest charges. The application of tax laws and regulations to many types of transactions are susceptible to varying interpretations.

These facts may create tax risks in Cambodia substantially more significant than in other countries. Management believes that it has adequately provided for tax liabilities based on its interpretation of tax legislation. However, the relevant authorities may have different interpretations and the effects could be significant.

31. Related parties

A. Identity of related party

For the purposes of these financial statements, parties are considered to be related to the Bank if the Bank has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Bank and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

The Bank have related party relationships with its substantial shareholders and key management personnel.

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Bank either directly or indirectly. The key management personnel include all the Directors of the Bank, and certain senior management members of the Bank.

Key management have banking relationships with Bank entities which are entered into in the normal course of business and on substantially the same terms, including interest rates and security, as for comparable transactions with other persons of a similar standing or, where applicable, with other employees. These transactions did not involve more than the normal risk of repayment or present other unfavourable features.

Shinhan Bank (Cambodia) Plc.

Notes to the financial statements (continued) for the year ended 31 December 2019

31. Related party (continued)

B. Transactions with related parties

	2019 US\$	2018 US\$	2019 KHR'000 (Note 5)	2018 KHR'000 (Note 5)
Interest expense - Borrowing				
Shareholder	1,994,948	1,466,116	8,083,529	5,930,439
Interest expense - Fixed deposit				
Shareholder	1,045,952	-	4,238,198	-
Compensation of shareholders/directors				
Directors' fees and remuneration	1,216,860	664,832	4,930,717	2,671,295

Shinhan Bank (Cambodia) Plc.

Notes to the financial statements (continued) for the year ended 31 December 2019

31. Related party (continued)

C. Balances with related parties

	31 December 2019		31 December 2018		1 January 2018	
	US\$	KHR'000 (Note 5)	US\$	KHR'000 (Note 5)	US\$	KHR'000 (Note 5)
Deposits from related parties						
Shareholders	157,958	643,679	127,464	512,150	419,074	1,691,802
Loan from related parties						
Shareholders	169,000,000	688,675,000	64,000,000	257,152,000	54,000,000	217,998,000

Shinhan Bank (Cambodia) Plc.

Notes to the financial statements (continued) for the year ended 31 December 2019

32. Financial risk management

A. Introduction and overview

The Bank has exposure to the following risks from financial instruments:

- credit risk;
- market risk;
- liquidity risk; and
- operational risk

This note presents information about the Bank's exposure to each of the above risks, the Bank's objectives, policies and processes for measuring and managing risk, and the Bank's management of capital.

Risk management functional and governance structure

The Bank does not use derivative financial instruments such as foreign exchange contract and interest rate swaps to manage its risk exposures.

The Board of Directors have overall responsibility for the establishment and oversight of the Bank's risk management. The Board of Directors have established the Audit Committee and Risk Management Committee which are responsible for developing and monitoring Bank risk management policies in their specified areas. All Board committees have both executive and non-executive members and report regularly to the Board of Directors on their activities.

The Risk Management-Committee was established to assist the Board of Directors in its role and responsibilities over risk management and compliance of the Bank relating to risks in business operations and risk monitoring process. These include risk identification, risk management, risk monitoring and effective compliance with laws and regulations in accordance with the Bank's risk management policies approved by the Board of Directors. The Risk Management Committee also assist the Board of Directors to ensure that policies, charters and guidelines are in place in order to assess, evaluate and mitigate the risks pertaining to new products/new activities to be introduced. The Risk Management and Compliance Department plays an important role on a day-to-day basis in assisting the Risk Management and Compliance Committee to monitor the potential risks associated with the operations of the Bank and its branches and compliance controls of the Bank to meet the requirements of laws and regulations including laws and Prakas on Anti-Money Laundering and Combating the Financing of Terrorism set out by the NBC.

The Audit Committee is assisted in these functions by Internal Audit. Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee. In addition, the Audit Committee monitors and evaluates the efficiency of the management structure, policies and procedures, activities and operations of the Bank as well as compliance with laws and regulations.

Shinhan Bank (Cambodia) Plc.

Notes to the financial statements (continued) for the year ended 31 December 2019

32. Financial risk management (continued)

B. Credit risk

'Credit risk' is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's loans and advances to customers and other banks, and investment debt securities. For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure – e.g. individual obligor default risk, country and sector risk.

Credit risk is the potential loss of revenue and principal losses arising mainly from loans and advances and loan commitments as a result of default by the borrowers or counterparties through its lending activities.

(i). *Management of credit risk*

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, including the Bank's own internal credit risk rating system, and procedures implemented to ensure compliance with NBC Guidelines.

The Bank has established the Core Credit Risk Policy which is designed to govern the Bank's risk undertaking activities. Extension of credit is governed by credit programs that set out the plan for a particular product or portfolio, including the target market, terms and conditions, documentation and procedures under which a credit product will be offered and measured.

Credit risk ratings are reviewed and updated on an annual basis, and in events of (i) change of loan terms and conditions including extension; (ii) repayment irregularities or delinquencies and (iii) adverse information relating to the borrower or transaction.

(ii). *Risk limit control and mitigation policies*

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

Shinhan Bank (Cambodia) Plc.

Notes to the financial statements (continued) for the year ended 31 December 2019

32. Financial risk management (continued)

B. Credit risk (continued)

(ii). *Risk limit control and mitigation policies (continued)*

The Bank is required, unless prior approval from the NBC is obtained, under the conditions of Prakas No. B7-06-226 of the NBC to maintain at all times a maximum ratio of 20% between the Bank's overall 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.

To manage the exposure risk, the Bank has closely monitored on large credits, impaired credits and the overall level of provisioning on a regular basis and upon requested by the Risk Management Committee. To protect the Bank from the non-compliance on the large exposure, the Board of Directors adopted the alert limits of 15% for single borrower and 250% for the aggregation of the large credit exposure.

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, which is common practice. The Bank implements guidelines on the acceptability of specific classes of collateral. The principal collateral types to secure for loans to customers are:

- Hypothec/mortgages over residential and business properties (land, buildings and other properties); and
- Cash in the form of fixed and margin deposits.

(iii). *Concentration of risk*

The Board of Directors created the Bank Credit Committee for the oversight of credit risk. A separate Bank Credit department, reporting to the Bank Credit Committee, is responsible for managing the Bank's credit risk, including the following.

The following table presents the Bank's maximum exposure to credit risk of on-balance sheet and off-balance sheet financial instruments, without taking into account of any collateral held or other credit enhancements. For on-balance sheet assets, the exposure to credit risk equals their carrying amount. For contingent liabilities, the maximum exposure to credit risk is the maximum amount that the Bank would have to pay if the obligations of the instruments issued are called upon. For credit commitments, the maximum exposure to credit risk is the full amount of the undrawn credit facilities granted to customers.

Shinhan Bank (Cambodia) Plc.

Notes to the financial statements (continued) for the year ended 31 December 2019

32. Financial risk management (continued)

B. Credit risk (continued)

(iii). Concentration of risk (continued)

Type of credit exposure

	Maximum credit exposure US\$	Maximum credit exposure KHR'000 (Note 5)	Fully subject to collateral/credit enhancement %	Partially subject to collateral/ credit enhancement %	Unsecured and not subject to collateral/ credit enhancement %
31 December 2019					
On-balance sheet items					
Cash and cash equivalents	51,680,080	210,596,326	0%	0%	100%
Placement with other banks, net	10,000,000	40,750,000	0%	0%	100%
Loans and advances to customers, net	310,651,060	1,265,903,070	99%	0%	1%
Other assets	2,291,377	9,337,361	0%	0%	100%
Debt investments	19,535,652	79,607,782	0%	0%	100%
Total	394,158,169	1,606,194,539	99%	0%	1%
Off-balance sheet items					
Commitments	27,794,248	113,261,560	99%	0%	1%

Shinhan Bank (Cambodia) Plc.

Notes to the financial statements (continued) for the year ended 31 December 2019

32. Financial risk management (continued)

B. Credit risk (continued)

(iii). Concentration of risk (continued)

Type of credit exposure (continued)

	Maximum credit exposure US\$	Maximum credit exposure KHR'000 (Note 5)	Fully subject to collateral/credit enhancement %	Partially subject to collateral/ credit enhancement %	Unsecured and not subject to collateral/ credit enhancement %
31 December 2018					
On-balance sheet items					
Cash and cash equivalents	15,591,560	62,646,888	0%	0%	100%
Loans and advances to customers, net	207,870,949	835,225,473	97%	0%	3%
Other assets	681,056	2,736,483	0%	0%	100%
Total	224,143,565	900,608,844	97%	0%	3%
Off-balance sheet items					
Commitments	10,923,911	43,892,274	97%	0%	3%

Shinhan Bank (Cambodia) Plc.

Notes to the financial statements (continued) for the year ended 31 December 2019

32. Financial risk management (continued)

B. Credit risk (continued)

(iii). Concentration of risk (continued)

Concentration risk by industrial sectors

31 December 2019	Cash and cash equivalents US\$	Placement with other banks US\$	Loans and advances to customers US\$	Other assets US\$	Debt investments US\$	Total US\$
Wholesale and retails	-	-	2,667,314	-	-	2,667,314
Construction	-	-	1,913,035	-	-	1,913,035
Real estate	-	-	140,188,371	-	-	140,188,371
Financial institutions	51,680,080	10,000,000	28,432,393	-	19,535,652	109,648,125
Staff loans	-	-	1,589,584	-	-	1,589,584
Others	-	-	135,860,363	2,291,377	-	138,151,740
Total (US\$)	51,680,080	10,000,000	310,651,060	2,291,377	19,535,652	394,158,169
Total (KHR'000 – Note 5)	210,596,326	40,750,000	1,265,903,070	9,337,361	79,607,782	1,606,194,539

Shinhan Bank (Cambodia) Plc.

Notes to the financial statements (continued) for the year ended 31 December 2019

32. Financial risk management (continued)

B. Credit risk (continued)

(iii). Concentration of risk (continued)

Concentration risk by industrial sectors

31 December 2018	Cash and cash equivalents US\$	Placement with other banks US\$	Loans and advances to customers US\$	Other assets US\$	Debt investments US\$	Total US\$
Wholesale and retails	-	-	5,179,712	-	-	5,179,712
Construction	-	-	1,662,018	-	-	1,662,018
Real estate	-	-	77,652,957	-	-	77,652,957
Financial institutions	15,591,560	-	17,499,129	-	-	33,090,689
Staff loans	-	-	899,477	-	-	899,477
Others	-	-	104,977,656	681,056	-	105,658,712
Total (US\$)	15,591,560	-	207,870,949	681,056	-	224,143,565
Total (KHR'000 – Note 5)	62,646,888	-	835,225,473	2,736,483	-	900,608,844

Shinhan Bank (Cambodia) Plc.

Notes to the financial statements (continued) for the year ended 31 December 2019

32. Financial risk management (continued)

B. Credit risk (continued)

(iii). Concentration of risk (continued)

Concentration risk by residency and relationship, and large-exposures for gross loans and advances:

	31 December 2019		31 December 2019		31 December 2018		1 January 2018	
	US\$	US\$	KHR'000 (Note 5)	KHR'000 (Note 5)	US\$	KHR'000 (Note 5)	US\$	KHR'000 (Note 5)
By residency status:								
Residents	312,356,227	208,717,700	1,272,851,625	838,627,718	138,340,693	558,481,378		
Non-residents	163,961	83,939	668,141	337,268	99,714	402,545		
	<u>312,520,188</u>	<u>208,801,639</u>	<u>1,273,519,766</u>	<u>838,964,986</u>	<u>138,440,407</u>	<u>558,883,923</u>		
By relationship:								
External customers	310,930,604	207,902,162	1,267,042,211	835,350,887	138,440,407	558,883,923		
Staff loans	1,589,584	899,477	6,477,555	3,614,099	-	-		
	<u>312,520,188</u>	<u>208,801,639</u>	<u>1,273,519,766</u>	<u>838,964,986</u>	<u>138,440,407</u>	<u>558,883,923</u>		
By exposure:								
Large exposures (*)	28,432,393	17,499,129	115,862,001	70,311,500	12,500,000	50,462,500		
Non-large exposures	284,087,795	191,302,510	1,157,657,765	768,653,486	125,940,407	508,421,423		
	<u>312,520,188</u>	<u>208,801,639</u>	<u>1,273,519,766</u>	<u>838,964,986</u>	<u>138,440,407</u>	<u>558,883,923</u>		

Shinhan Bank (Cambodia) Plc.

Notes to the financial statements (continued) for the year ended 31 December 2019

32. Financial risk management (continued)

B. Credit risk (continued)

(iii). Concentration of risk (continued)

(*) A “large exposure” is defined under the NBC’s Prakas as the overall gross exposure of the aggregate balance of loans and advances with one single beneficiary, which exceeds 10% of the Bank’s net worth. The exposure is the higher of the outstanding loans or commitments and the authorised loans or commitments.

(iv). Collateral

Whilst the Bank’s maximum exposure to credit risk is the carrying amount of the assets or, in the case of off-balance sheet instruments, the amount guaranteed, committed, accepted or endorsed, the likely exposure may be lower due to offsetting collateral, credit guarantees and other actions taken to mitigate the Bank’s exposure.

The description of collateral for each class of financial asset is set out below.

Balances with NBC, placements with other banks, investments and other assets

Collateral is generally not sought for these assets.

Loans and advances to customers, contingent liabilities and commitments

Certain Loans and advances to customers, contingent liabilities and commitments are typically collateralised to a substantial extent. In particular, residential mortgage exposures are generally fully secured by residential properties.

Shinhan Bank (Cambodia) Plc.

Notes to the financial statements (continued) for the year ended 31 December 2019

32. Financial risk management (continued)

B. Credit risk (continued)

(iv). Collateral (continued)

The table below summarises the Bank's security coverage of its financial assets:

	Collateral/credit enhancement					Total US\$
	Properties US\$	Floating assets US\$	Fixed deposits US\$	Others US\$	Unsecured credit exposure US\$	
31 December 2019						
Loan and advances to customers, net	307,544,549	-	-	-	3,106,511	310,651,060
Cash and cash equivalents	-	-	-	-	51,680,080	51,680,080
Placement with other bank	-	-	-	-	10,000,000	10,000,000
Other assets	-	-	-	-	2,291,377	2,291,377
Other investment	-	-	-	-	19,535,652	19,535,652
	<u>307,544,549</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>86,613,620</u>	<u>394,158,169</u>
31 December 2018						
Loan and advances to customers, net	202,308,075	-	-	-	5,562,874	207,870,949
Cash and cash equivalent	-	-	-	-	15,591,560	15,591,560
Other assets	-	-	-	-	681,056	681,056
	<u>202,308,075</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>21,835,490</u>	<u>224,143,565</u>

Shinhan Bank (Cambodia) Plc.

Notes to the financial statements (continued) for the year ended 31 December 2019

32. Financial risk management (continued)

B. Credit risk (continued)

(v). *Credit quality of gross Loans and advances to customers*

Pursuant to the NBC guideline Prakas B7-017-344, it has defined each credit grading according to its credit quality as follows:

Normal:

Outstanding facility is repaid on timely manner and is not in doubt for the future repayment. Repayment is steadily made according with the contractual terms and the facility does not exhibit any potential weakness in repayment capability, business, cash flow and financial position of the counterparty.

Special mention:

A facility in this class is currently protected and may not be past due but it exhibits potential weaknesses that may adversely affect repayment of the counterparty at the future date, if not corrected in a timely manner, and close attention by the Institution.

Weaknesses include but are not limited to a declining trend in the business operations of the counterparty or in its financial position, and adverse economic and market conditions that all might affect its profitability and its future repayment capacity, or deteriorating conditions on the collateral. This class has clearly its own rational and should not be used as a compromise between Normal and Substandard.

Substandard

A facility ranked in this class exhibits noticeable weakness and is not adequately protected by the current business or financial position and repayment capacity of the counterparty. In essence, the primary source of repayment is not sufficient to service the debt, not taking into account the income from secondary sources such as the realization of the collateral.

Factors leading to a substandard classification include:

- Inability of the counterparty to meet the contractual repayments' terms,
- Unfavourable economic and market conditions that would adversely affect the business and profitability of the counterparty in the future,
- Weakened financial condition and/or inability of the counterparty to generate enough cash flow to service the payments,
- Difficulties experienced by the counterparty in repaying other facilities granted by the Institution or by other institutions when the information is available, and
- Breach of financial covenants by the counterparty.

Shinhan Bank (Cambodia) Plc.

Notes to the financial statements (continued) for the year ended 31 December 2019

32. Financial risk management (continued)

B. Credit risk (continued)

(v). Credit quality of gross Loans and advances to customers (continued)

Doubtful

A facility classified in this category exhibits more severe weaknesses than one classified Substandard such that its full collection on the basis of existing facts, conditions or collateral value is highly questionable or improbable. The prospect of loss is high, even if the exact amount remains undetermined for now.

Loss

A facility is classified Loss when it is not collectable, and little or nothing can be done to recover the outstanding amount from the counterparty.

Recognition of ECL

The Bank apply a three-stage approach based on the change in credit quality since initial recognition:

3-Stage approach	Stage 1	Stage 2	Stage 3
	Performing	Underperforming	Nonperforming
Recognition of expected credit losses	12 months expected credit losses	Lifetime expected credit losses	Lifetime expected credit losses
Criterion	No significant increase in credit risk	Credit risk increased significantly	Credit impaired assets
Basic of calculation of profit revenue	On gross carrying amount	On gross carrying amount	On net carrying amount

The Bank will measure ECL by using the general approach. The general approach consists of segregating the customers into three different stages according to the staging criteria by assessing the credit risk. 12-month ECL will be computed for stage 1, while lifetime ECL will be computed for stage 2 and stage 3. At each reporting date, the Bank will assess credit risk of each account as compared to the risk level at origination date.

Shinhan Bank (Cambodia) Plc.

Notes to the financial statements (continued) for the year ended 31 December 2019

32. Financial risk management (continued)

B. Credit risk (continued)

(v). Credit quality of gross Loans and advances to customers (continued)

Recognition of ECL (continued)

Long-term facilities (more than one year)

Stages	Credit Risk Status	Grades	DPD	Default Indicator
1	No significant increase in credit risk	Normal	$0 \leq \text{DPD} < 30$	Performing
2	Credit risk increased significantly	Special Mention	$30 \leq \text{DPD} < 90$	Underperforming
3	Credit impaired assets	Substandard	$90 \leq \text{DPD} < 180$	Nonperforming
		Doubtful	$180 \leq \text{DPD} < 360$	
		Loss	$\text{DPD} \geq 360$	

Short-term facilities (one year or less)

Stages	Credit Risk Status	Grades	DPD	Default Indicator
1	No significant increase in credit risk	Normal	$0 \leq \text{DPD} \leq 14$	Performing
2	Credit risk increased significantly	Special Mention	$15 \leq \text{DPD} \leq 30$	Underperforming
3	Credit impaired assets	Substandard	$31 \leq \text{DPD} \leq 60$	Nonperforming
		Doubtful	$61 \leq \text{DPD} \leq 90$	
		Loss	$\text{DPD} \geq 91$	

The Bank will use the day past due (DPD) information and NBC's classification for staging criteria. Also, the Bank will incorporate credit scoring or more forward looking elements in the future when information is more readily available. Upon the implementation of credit scoring system, if the risk level drops by two or more notches as compared to the risk level at origination, the accounts have to be classified under stage 2.

As for financial assets that are short term in nature, simplified approach will be adopted where no staging criteria is required. In this case, it will be either performing (stage1) or non-performing.

Shinhan Bank (Cambodia) Plc.

Notes to the financial statements (continued) for the year ended 31 December 2019

32. Financial risk management (continued)

B. Credit risk (continued)

(v). Credit quality of gross Loans and advances to customers (continued)

Recognition of ECL (continued)

The table below summarises the credit quality of the Bank's gross financing according to the above classifications.

	31 December 2019			
	Stage 1 US\$	Stage 2 US\$	Stage 3 US\$	Total US\$
Loans and advances to customers at amortised cost				
Normal	308,986,177	-	-	308,986,177
Special mention	393,322	342,206	-	735,528
Substandard	-	-	417,792	417,792
Doubtful	-	255,444	439,944	695,388
Loss	-	-	215,250	215,250
	<u>309,379,499</u>	<u>597,650</u>	<u>1,072,986</u>	<u>311,050,135</u>
Loss allowance	<u>(311,617)</u>	<u>(48,753)</u>	<u>(38,705)</u>	<u>(399,075)</u>
Carrying amount (US\$)	<u>309,067,882</u>	<u>548,897</u>	<u>1,034,281</u>	<u>310,651,060</u>
Carrying amount (KHR'000- Note 5)	<u>1,259,451,619</u>	<u>2,236,755</u>	<u>4,214,696</u>	<u>1,265,903,070</u>

Shinhan Bank (Cambodia) Plc.

Notes to the financial statements (continued) for the year ended 31 December 2019

32. Financial risk management (continued)

B. Credit risk (continued)

(v). Credit quality of gross loans and advances to customers (continued)

Recognition of ECL (continued)

The table below summarises the credit quality of the Bank's gross financing according to the above classifications. (continued)

	31 December 2018			Total US\$
	Stage 1 US\$	Stage 2 US\$	Stage 3 US\$	
Loans and advances to customers at amortised cost				
Normal	205,930,875	-	-	205,930,875
Special mention	-	5,979	-	5,979
Substandard	-	-	199,788	199,788
Doubtful	435,496	-	352,300	787,796
Loss	-	-	988,835	988,835
	<u>206,366,371</u>	<u>5,979</u>	<u>1,540,923</u>	<u>207,913,273</u>
Loss allowance	<u>(42,135)</u>	<u>(169)</u>	<u>(20)</u>	<u>(42,324)</u>
Carrying amount (US\$)	<u>206,324,236</u>	<u>5,810</u>	<u>1,540,903</u>	<u>207,870,949</u>
Carrying amount (KHR'000-Note 5)	<u>829,010,780</u>	<u>23,345</u>	<u>6,191,348</u>	<u>835,225,473</u>

Shinhan Bank (Cambodia) Plc.

Notes to the financial statements (continued) for the year ended 31 December 2019

32. Financial risk management (continued)

B. Credit risk (continued)

(v). *Credit quality of gross Loans and advances to customers (continued)*

Incorporation of forward-looking information

The Bank incorporates forward-looking information into both the assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and the measurement of ECL.

External information considered includes economic data and forecasts published by governmental bodies and monetary authorities in the countries where the Bank operates, supranational organisations such as the World Bank, and selected private-sector and academic forecasters.

The Bank used the macroeconomic historical data is being taken from the World Bank published data. In order to forecast the probability of default for future years, the known quarterly Observed Default Rates (“ODRs”) are regressed against the quarterly macro-economic variables (“MEV”) values. The Bank has used a time weighted average methodology in order to forecast future MEVs. A forward-looking scalar is computed as the ratio of the ODR based on the most recently known MEV and the forecasted MEV.

The MEVs are shocked in order to generate base, best- and worst-case scenarios. This has been done by computing the standard deviation of the known historical values of the MEV and adjusting the base value by +/- 1 standard deviation to generate best- and worst-case scenarios.

The Bank has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments in accordance with each country and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses.

Shinhan Bank (Cambodia) Plc.

Notes to the financial statements (continued) for the year ended 31 December 2019

32. Financial risk management (continued)

B. Credit risk (continued)

(vi). Amounts arising from ECL

Loss allowance

The following tables show reconciliation from the opening to the closing balance of the loss allowance by class of financial instrument.

	31 December 2019			
	Stage 1	Stage 2	Stage 3	Total
	US\$	US\$	US\$	US\$
Loans and advances to customers at amortised cost				
Balance at 1 January	42,135	169	20	42,324
- Transfer to Stage 2	(271)	271	-	-
- Transfer to Stage 3	(775)	-	775	-
Net remeasurement of loss allowance	41,089	440	795	42,324
New financial assets originated	276,087	48,482	986,926	1,311,495
Financial assets that been derecognised	(5,559)	(169)	(949,016)	(954,744)
Balance at 31 December 2019	311,617	48,753	38,705	399,075
Balance at 31 December (KHR'000 – Note 5)	1,269,839	198,668	157,723	1,626,230

	31 December 2018			
	Stage 1	Stage 2	Stage 3	Total
	US\$	US\$	US\$	US\$
Loans and advances to customers at amortised cost				
Balance at 1 January	46,103	3,061	21,976	71,140
- Transfer to Stage 2	(8)	8	-	-
- Transfer to Stage 3	(1,979)	(9)	1,988	-
Net remeasurement of loss allowance	44,116	3,060	23,964	71,140
New financial assets originated	30,592	-	-	30,592
Financial assets that been derecognised	(32,573)	(2,891)	(23,944)	(59,408)
Balance at 31 December 2018	42,135	169	20	42,324
Balance at 31 December (KHR'000 – Note 5)	169,299	679	80	170,058

Shinhan Bank (Cambodia) Plc.

Notes to the financial statements (continued) for the year ended 31 December 2019

32. Financial risk management (continued)

B. Credit risk (continued)

(vi). Amounts arising from ECL (continued)

Loss allowance (continued)

Allowance for impairment losses recognised in statement of profit or loss and other comprehensive income are summarised as follows:

	2019 US\$	2018 US\$	2019 KHR'000 (Note 5)	2018 KHR'000 (Note 5)
Allowance for loan losses (Note 9)	(1,305,751)	28,816	(5,290,903)	116,561
Allowance for debt investment (Note 11)	<u>(532,186)</u>	<u>-</u>	<u>(2,156,418)</u>	<u>-</u>
	<u>(1,837,937)</u>	<u>28,816</u>	<u>(7,447,321)</u>	<u>116,561</u>

C. Market risk

Market risk is the risk that changes in market prices – e.g. interest rates, foreign exchange rates and equity prices – will affect the Bank's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

(i). Interest rate risk

Interest rate risk refers to the volatility in net interest income as a result of changes in the levels of interest rate and shifts in the composition of the assets and liabilities. Interest rate risk is managed through close monitoring of returns on investment, market pricing and cost of funds. The potential reduction in net interest income from an unfavourable interest rate movement is regularly monitored against the risk tolerance limits set.

Shinhan Bank (Cambodia) Plc.

Notes to the financial statements (continued) for the year ended 31 December 2019

32. Financial risk management (continued)

C. Market risk (continued)

(i). Interest rate risk (continued)

The table below summarises the Bank's exposure to interest rate risk. The table indicates the periods in which the financial instruments repriced or mature, whichever is earlier.

31 December 2019	Up to 1 month US\$	> 1-3 months US\$	> 3-6 months US\$	> 6-12 months US\$	> 1 to 5 years US\$	Over 5 years US\$	Non-interest bearing US\$	Total US\$
Financial assets								
Cash and cash equivalents	27,296,329	-	-	-	-	-	24,383,751	51,680,080
Placement with other banks	-	-	10,000,000	-	-	-	-	10,000,000
Loans and advances to customers – net	4,502,260	13,025,692	19,658,999	33,008,036	57,490,524	182,965,549	-	310,651,060
Other assets	-	-	-	-	-	-	2,291,377	2,291,377
Debt investments	-	-	-	-	-	-	19,535,652	19,535,652
	31,798,589	13,025,692	29,658,999	33,008,036	57,490,524	182,965,549	46,210,780	394,158,169
Financial liabilities								
Deposits from customers	26,455,000	5,581,891	1,825,315	5,115,095	671,787	-	15,273,907	54,922,995
Deposits from other banks	20,717,927	18,079,755	50,750,890	11,693,252	-	-	209,795	101,451,619
Borrowings	20,274,399	52,690,721	30,038,389	67,401,849	-	-	-	170,405,358
Lease liabilities	-	-	-	-	-	-	3,860,672	3,860,672
Other liabilities	-	-	-	-	-	-	673,060	673,060
	67,447,326	76,352,367	82,614,594	84,210,196	671,787	-	20,017,434	331,313,704
Interest sensitivity gap	(35,648,737)	(63,326,675)	(52,955,595)	(51,202,160)	56,818,737	182,965,549	26,193,346	62,844,465
(KHR'000 equivalents - Note 5)	(145,268,603)	(258,056,201)	(215,794,050)	(208,648,802)	231,536,353	745,584,612	106,737,885	256,091,195

Shinhan Bank (Cambodia) Plc.

Notes to the financial statements (continued) for the year ended 31 December 2019

32. Financial risk management (continued)

C. Market risk (continued)

(i). Interest rate risk (continued)

The table below summarises the Bank's exposure to interest rate risks which includes assets and liabilities at carrying amounts.

31 December 2018	Up to 1 month US\$	> 1-3 months US\$	> 3-6 months US\$	> 6-12 months US\$	> 1 to 5 years US\$	Over 5 years US\$	Non-interest bearing US\$	Total US\$
Financial assets								
Cash and cash equivalents	-	-	-	-	-	-	15,591,560	15,591,560
Loans and advances to customers – net	5,628,942	13,444,550	23,303,046	23,076,723	43,680,940	98,736,748	-	207,870,949
Other assets	-	-	-	-	-	-	681,056	681,056
	<u>5,628,942</u>	<u>13,444,550</u>	<u>23,303,046</u>	<u>23,076,723</u>	<u>43,680,940</u>	<u>98,736,748</u>	<u>16,272,616</u>	<u>224,143,565</u>
Financial liabilities								
Deposits from customers	29,604,974	5,091,478	2,092,831	3,760,783	344,500	-	11,089,031	51,983,597
Deposits from other banks	396,263	214,269	30,000,000	-	-	-	410,947	31,021,479
Borrowings	15,000,000	29,000,000	-	20,000,000	-	-	-	64,000,000
Lease liabilities	-	-	-	-	-	-	3,093,164	3,093,164
Other liabilities	-	-	-	-	-	-	584,858	584,858
	<u>45,001,237</u>	<u>34,305,747</u>	<u>32,092,831</u>	<u>23,760,783</u>	<u>344,500</u>	<u>-</u>	<u>15,178,000</u>	<u>150,683,098</u>
Interest sensitivity gap	<u>(39,372,295)</u>	<u>(20,861,197)</u>	<u>(8,789,785)</u>	<u>(684,060)</u>	<u>43,336,440</u>	<u>98,736,748</u>	<u>1,094,616</u>	<u>73,460,467</u>
(KHR'000 equivalents - Note 5)	<u>(158,197,881)</u>	<u>(83,820,290)</u>	<u>(35,317,356)</u>	<u>(2,748,553)</u>	<u>174,125,816</u>	<u>396,724,253</u>	<u>4,398,167</u>	<u>295,164,156</u>

Shinhan Bank (Cambodia) Plc.

Notes to the financial statements (continued) for the year ended 31 December 2019

32. Financial risk management (continued)

C. Market risk (continued)

(i). Interest rate risk (continued)

As of 31 December 2019, the Bank did not have financial instruments carried at fair value. The Bank does not use derivative financial instruments such as interest rate swaps to hold its risk exposures. Accordingly, no sensitivity analysis was prepared.

(ii). Foreign currency exchange risk

Foreign currency exchange risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates.

Concentration of currency risk

The amounts of financial assets and liabilities, by currency denomination, are as follows:

31 December 2019	Denomination US\$ equivalents			
	KHR	US\$	Others	Total
Financial assets				
Cash and cash equivalents	10,862,555	40,817,525	-	51,680,080
Placement with other bank	-	10,000,000	-	10,000,000
Loans and advances to customers	32,007,377	278,643,683	-	310,651,060
Other assets	2,290,157	1,220	-	2,291,377
Debt investments	19,535,652	-	-	19,535,652
	<u>64,695,741</u>	<u>329,462,428</u>	<u>-</u>	<u>394,158,169</u>
Financial liabilities				
Deposits from customers	710,935	54,212,060	-	54,922,995
Deposits from other banks	34,810,702	66,640,917	-	101,451,619
Borrowings	-	170,405,358	-	170,405,358
Lease liabilities	-	3,860,672	-	3,860,672
Other liabilities	-	673,060	-	673,060
	<u>35,521,637</u>	<u>295,792,067</u>	<u>-</u>	<u>331,313,704</u>
Net asset position	<u>29,174,104</u>	<u>33,670,361</u>	<u>-</u>	<u>62,844,465</u>
KHR'000 equivalents (Note 5)	<u>118,884,474</u>	<u>137,206,721</u>	<u>-</u>	<u>256,091,195</u>

Shinhan Bank (Cambodia) Plc.

Notes to the financial statements (continued) for the year ended 31 December 2019

32. Financial risk management (continued)

C. Market risk (continued)

(ii). Foreign currency exchange risk (continued)

Concentration of currency risk (continued)

The amounts of financial assets and liabilities, by currency denomination, are as follows:
(continued)

31 December 2018	Denomination US\$ equivalents			Total
	KHR	US\$	Others	
Financial assets				
Cash and cash equivalents	2,344,623	13,246,937	-	15,591,560
Loans and advances to customers	1,269,882	206,601,067	-	207,870,949
Other assets	680,410	646	-	681,056
	<u>4,294,915</u>	<u>219,848,650</u>	<u>-</u>	<u>224,143,565</u>
Financial liabilities				
Deposits from customers	77,050	51,906,547	-	51,983,597
Deposits from other banks	268,350	30,753,129	-	31,021,479
Borrowings	-	64,000,000	-	64,000,000
Lease liabilities	-	3,093,164	-	3,093,164
Other liabilities	-	584,858	-	584,858
	<u>345,400</u>	<u>150,337,698</u>	<u>-</u>	<u>150,683,098</u>
Net asset position	<u>3,949,515</u>	<u>69,510,952</u>	<u>-</u>	<u>73,460,467</u>
KHR equivalents (Note 5)	<u>15,869,151</u>	<u>279,295,005</u>	<u>-</u>	<u>295,164,156</u>

Shinhan Bank (Cambodia) Plc.

Notes to the financial statements (continued) for the year ended 31 December 2019

32. Financial risk management (continued)

C. Market risk (continued)

(ii). Foreign currency exchange risk (continued)

Sensitivity analysis

Considering that other risk variables remain constant, the foreign currency revaluation sensitivity for the Bank as at reporting date is summarised as follows (only exposures in currencies that accounts for more than 5 percent of the net open positions are shown in its specific currency in the table below. For other currencies, these exposures are grouped as 'Others'):

	31 December 2019		31 December 2018	
	- 1%	+ 1%	- 1%	+ 1%
	Depreciation US\$	Appreciation US\$	Depreciation US\$	Appreciation US\$
KHR	291,741	(291,741)	39,495	(39,495)
KHR'000 – Note 5	<u>1,182,135</u>	<u>(1,182,135)</u>	<u>159,757</u>	<u>(159,757)</u>

D. Liquidity risk

'Liquidity risk' is the risk that the Bank will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk arises from mismatches in the timing and amounts of cash flows, which is inherent to the Bank's operations and investments.

Management of liquidity risk

The Bank manages its liquidity through its Asset Liability Management Committee which is responsible for establishing the liquidity policy as well as monitoring liquidity on an ongoing basis. A Minimum Liquid Asset requirement has been established to ensure that the ratio of liquid assets to qualifying liabilities is subject to a minimum threshold at all times.

The table below summarises the Bank's assets and liabilities based on remaining contractual maturities. The expected cash flows of these assets and liabilities could vary significantly from what is shown in the table. For example, deposits from customers are not all expected to be withdrawn immediately.

Shinhan Bank (Cambodia) Plc.

Notes to the financial statements (continued) for the year ended 31 December 2019

32. Financial risk management (continued)

D. Liquidity risk (continued)

As at 31 December 2019	Up to 1 month US\$	> 1-3 months US\$	> 3-6 months US\$	> 6-12 months US\$	> 1 to 5 years US\$	Over 5 years US\$	Total US\$
Financial liabilities							
Deposits from customers	41,372,455	5,606,917	1,849,983	5,486,865	606,775	-	54,922,995
Deposits from other banks	20,871,288	18,189,449	51,021,614	11,369,268	-	-	101,451,619
Borrowings	-	-	-	48,209,461	122,195,897	-	170,405,358
Lease liabilities	36,582	65,796	100,140	205,599	1,816,824	1,635,731	3,860,672
Other liabilities	673,060	-	-	-	-	-	673,060
	<u>62,953,385</u>	<u>23,862,162</u>	<u>52,971,737</u>	<u>65,271,193</u>	<u>124,619,496</u>	<u>1,635,731</u>	<u>331,313,704</u>
(KHR'000 equivalents - Note 5)	<u>256,535,044</u>	<u>97,238,310</u>	<u>215,859,829</u>	<u>265,980,111</u>	<u>507,824,446</u>	<u>6,665,604</u>	<u>1,350,103,343</u>
As at 31 December 2018							
Financial liabilities							
Deposits from customers	40,521,449	5,124,285	2,131,931	3,895,579	310,353	-	51,983,597
Deposits from other banks	484,453	-	30,537,026	-	-	-	31,021,479
Borrowings	15,028,827	29,250,008	-	19,721,165	-	-	64,000,000
Lease liabilities	32,243	49,576	75,453	154,915	1,381,490	1,399,487	3,093,164
Other liabilities	584,858	-	-	-	-	-	584,858
	<u>56,651,830</u>	<u>34,423,869</u>	<u>32,744,410</u>	<u>23,771,659</u>	<u>1,691,843</u>	<u>1,399,487</u>	<u>150,683,098</u>
(KHR'000 equivalents - Note 5)	<u>227,627,053</u>	<u>138,315,106</u>	<u>131,567,039</u>	<u>95,514,526</u>	<u>6,797,825</u>	<u>5,623,139</u>	<u>605,444,687</u>

Shinhan Bank (Cambodia) Plc.

Notes to the financial statements (continued) for the year ended 31 December 2019

32. Financial risk management (continued)

E. Operational risk

The operational risk is the risk of losses arising from inadequate or failed internal processes, people or systems or from external factors. This risk is managed through established operational risk management processes, proper monitoring and reporting of the business activities by control and oversight provided by the senior Management. This includes legal, compliance, accounting and fraud risk.

The operational risk management entails the establishment of clear organizational structures, roles and control policies. Various internal control policies and measures have been implemented. These include the establishment of signing authorities, defining system parameters controls, streaming procedures and documentation ensuring compliance with regulatory and legal requirements. These are reviewed continually to address the operational risks of its banking business.

F. Capital management

(i). *Regulatory capital*

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

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

The Bank's policy is to maintain a strong capital base so as to maintain market confidence and to sustain further development of the business. The impact of the level of capital on shareholders' return is also recognised and the Bank recognised the need to maintain a balance between the higher returns that might be possible with greater gearing and advantages and security afforded by a sound capital position.

(ii). *Capital allocation*

The allocation of capital between specific operations and activities is, to a large extent, driven by optimisation of the return achieved on the capital allocated. The amount of capital allocated to each operation or activity is based primarily upon the regulatory capital.

Shinhan Bank (Cambodia) Plc.

Notes to the financial statements (continued) for the year ended 31 December 2019

33. Fair values of financial assets and liabilities

Financial instruments comprise financial assets, financial liabilities and off-balance sheet instruments. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Bank has access at that date. The information presented herein represents the estimates of fair values as at the financial position date.

Quoted and observable market prices, where available, are used as the measure of fair values of the financial instruments. Where such quoted and observable market prices are not available, fair values are estimated based on a range of methodologies and assumptions regarding risk characteristics of various financial instruments, discount rates, estimates of future cash flows and other factors.

Fair value information for non-financial assets and liabilities are excluded as they do not fall within the scope of CIFRS 7: Financial Instruments Disclosures which requires the fair value information to be disclosed. These include investment in subsidiaries and property and equipment.

The fair value of the Bank's financial instruments such as cash and short-term funds, balances with Prakash, deposits and placements with banks and other financial institutions, deposits from customers and banks, other assets, other liabilities and short-term borrowings are not materially sensitive to shifts in market profit rate because of the limited term to maturity of these instruments. As such, the carrying value of these financial assets and liabilities at financial position date approximate their fair values.

The fair values are based on the following methodologies and assumptions:

Investments

The estimated fair values are generally based on quoted and observable market prices. Where there is no ready market in certain securities, fair values have been estimated by reference to market indicative yields or net tangible asset backing of the investee.

Financing, advances and others

The fair value is estimated by discounting the estimated future cash flows using the prevailing market rates of financing with similar credit risks and maturities.

Shinhan Bank (Cambodia) Plc.

Notes to the financial statements (continued) for the year ended 31 December 2019

33. Fair values of financial assets and liabilities (continued)

Fair value hierarchy

CIFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources and unobservable inputs reflect the Bank's market assumptions. The fair value hierarchy is as follows:

- Level 1 – Quoted price (unadjusted) in active markets for the identical assets or liabilities. This level includes listed equity securities and debt instruments.
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).
- Level 3 – Inputs for asset or liability that are not based on observable market data (unobservable inputs). This level includes equity instruments and debt instruments with significant unobservable components.

The Bank's financial assets and liability are not measured at fair value. As verifiable market prices are not available, market prices are not available for a significant proportion of the Bank's financial assets and liabilities, the fair values, therefore, have been based on management assumptions according to the profile of the asset and liability base. In the opinion of the management, the carrying amounts of the financial assets and liabilities included in the balance sheet are a reasonable estimation of their fair values.

34. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements and in preparing the opening CIFRS statement of financial position at 1 January 2009 for the purposes of the transition to, unless otherwise indicated.

A. Basis of measurement

The financial statements have been prepared on a historical cost

Shinhan Bank (Cambodia) Plc.

Notes to the financial statements (continued) for the year ended 31 December 2019

34. Significant accounting policies (continued)

B. Foreign currency

Transactions in foreign currencies are translated into the functional currency of at the spot exchange rates at the date of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the spot exchange rate at the reporting date. The foreign currency gain or loss on monetary items is the difference between the amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortised cost in the foreign currency translated at the spot exchange rate at the end of the year.

Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the spot exchange rate at the date on which the fair value is determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated using the spot exchange rate at the date of the transaction.

C. Financial assets and financial liabilities

(i). *Recognition and initial measurement*

The Bank initially recognises loans and advances, borrowings and subordinated liabilities on the date on which they are originated. All other financial the date on which the Bank becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue.

(ii). *Classification*

Financial assets

On initial recognition, a financial asset is classified as measured at: amortised cost, FVOCI or FVTPL. A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

Shinhan Bank (Cambodia) Plc.

Notes to the financial statements (continued) for the year ended 31 December 2019

34. Significant accounting policies (continued)

C. Financial assets and financial liabilities (continued)

(ii). Classification (continued)

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

On initial recognition of an equity investment that is not held for trading, the Bank may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis.

All other financial assets are classified as measured at FVTPL

In addition, on initial recognition, the Bank may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Business model assessment

The Bank makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;

Shinhan Bank (Cambodia) Plc.

Notes to the financial statements (continued) for the year ended 31 December 2019

34. Significant accounting policies (continued)

C. Financial assets and financial liabilities (continued)

(ii). Classification (continued)

Business model assessment (continued)

- how the performance of the portfolio is evaluated and reported to the Bank's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and its strategy for how those risks are managed;
- how managers of the business are compensated (e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected); and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Bank's stated objective for managing the financial assets is achieved and how cash flows are realised.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Assessment of whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are SPPI, the Bank considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition.

Shinhan Bank (Cambodia) Plc.

Notes to the financial statements (continued) for the year ended 31 December 2019

34. Significant accounting policies (continued)

C. Financial assets and financial liabilities (continued)

(ii). Classification (continued)

Financial assets (continued)

Business model assessment (continued)

In making the assessment, the Bank considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Bank's claim to cash flows from specified assets (e.g. non-recourse loans); and
- features that modify consideration of the time value of money (e.g. periodical reset of interest rates).

Non-recourse loans

In some cases, loans made by the Bank that are secured by collateral of the borrower limit the Bank's claim to cash flows of the underlying collateral (non-recourse loans). The Bank applies judgment in assessing whether the non-recourse loans meet the SPPI criterion. The Bank typically considers the following information when making this judgement:

- whether the contractual arrangement specifically defines the amounts and dates of the cash payments of the loan;
- the fair value of the collateral relative to the amount of the secured financial asset;
- the ability and willingness of the borrower to make contractual payments, notwithstanding a decline in the value of collateral;
- whether the borrower is an individual or a substantive operating entity or is a special-purpose entity;
- the Bank's risk of loss on the asset relative to a full-recourse loan;
- the extent to which the collateral represents all or a substantial portion of the borrower's assets; and
- whether the Bank will benefit from any upside from the underlying assets.

Shinhan Bank (Cambodia) Plc.

Notes to the financial statements (continued) for the year ended 31 December 2019

34. Significant accounting policies (continued)

C. Financial assets and financial liabilities (continued)

(ii). Classification (continued)

Reclassifications

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Bank changes its business model for managing financial assets.

(iii). Derecognition

Financial assets

The Bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in OCI is recognised in profit and loss.

Financial liabilities

The Bank derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

(iv). Modifications of financial assets and financial liabilities

Financial assets

If the terms of a financial asset are modified, then the Bank evaluates whether the cash flows of the modified asset are substantially different.

If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised (see (iii)) and a new financial asset is recognised at fair value plus any eligible transaction costs. Any fees received as part of the modification are accounted for as follows:

- fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs are included in the initial measurement of the asset; and

Shinhan Bank (Cambodia) Plc.

Notes to the financial statements (continued) for the year ended 31 December 2019

34. Significant accounting policies (continued)

C. Financial assets and financial liabilities (continued)

(iv). *Modifications of financial assets and financial liabilities (continued)*

- other fees are included in profit and loss as part of the gain or loss on derecognition.
- If cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximise recovery of the original contractual terms rather than to originate a new asset with substantially different terms. If the Bank plans to modify a financial asset in a way that would result in forgiveness of cash flows, then it first considers whether a portion of the asset should be written off before the modification takes place (see below for write-off policy). This approach impacts the result of the quantitative evaluation and means that the derecognition criteria are not usually met in such cases.
- If the modification of a financial asset measured at amortised cost or FVOCI does not result in derecognition of the financial asset, then the Bank first recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognises the resulting adjustment as a modification gain or loss in profit and loss. For floating-rate financial assets, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs or fees incurred and fees received as part of the modification adjust the gross carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.
- If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income calculated using the effective interest rate method.

Financial liabilities

The Bank derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability derecognised and consideration paid is recognised in profit and loss. Consideration paid includes non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

If the modification of a financial liability is not accounted for as derecognition, then the amortised cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognised in profit and loss. For floating-rate financial liabilities, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs and fees incurred are recognised as an adjustment to the carrying amount of the liability and amortised over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

Shinhan Bank (Cambodia) Plc.

Notes to the financial statements (continued) for the year ended 31 December 2019

34. Significant accounting policies (continued)

C. Financial assets and financial liabilities (continued)

(v). *Offsetting*

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Bank has a legal right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

(vi). *Fair value measurement*

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

When one is available, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as 'active' if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Bank uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument on initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Bank determines that the fair value on initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique for which any unobservable inputs are judged to be insignificant in relation to the measurement, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value on initial recognition and the transaction price. Subsequently, that difference is recognised in profit and loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Bank measures assets and long positions at a bid price and liabilities and short positions at an ask price.

Shinhan Bank (Cambodia) Plc.

Notes to the financial statements (continued) for the year ended 31 December 2019

34. Significant accounting policies (continued)

C. Financial assets and financial liabilities (continued)

(vi). Fair value measurement (continued)

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Bank on the basis of the net exposure to either market or credit risk are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for the particular risk exposure. Portfolio-level adjustments – e.g. bid-ask adjustment or credit risk adjustments that reflect the measurement on the basis of the net exposure – are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

The Bank recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

(vii). Impairment

The Bank recognises loss allowances for ECL on the following financial instruments that are not measured at FVTPL:

- financial assets that are debt instruments; and
- loan commitments issued.

No impairment loss is recognised on equity investments.

The Bank measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments (other than lease receivables) on which credit risk has not increased significantly since their initial recognition.

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which a 12-month ECL is recognised are referred to as 'Stage 1 financial instruments'.

Life-time ECL are the ECL that result from all possible default events over the expected life of the financial instrument. Financial instruments for which a lifetime ECL is recognised but which are not credit-impaired are referred to as 'Stage 2 financial instruments'.

Shinhan Bank (Cambodia) Plc.

Notes to the financial statements (continued) for the year ended 31 December 2019

34. Significant accounting policies (continued)

C. Financial assets and financial liabilities (continued)

(vii). Impairment (continued)

At each reporting date, the Bank assesses whether the credit risk of a financial instrument has increased significantly since initial recognition. When credit risk has increased significantly since initial recognition, loss allowance is measured at an amount equal to lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Bank considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Bank's historical experience and informed credit assessment and includes forward-looking information.

If credit risk has not increased significantly since initial recognition or if the credit quality of the financial instruments improves such that there is no longer a significant increase in credit risk since initial recognition, loss allowance is measured at an amount equal to 12-month ECLs.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Bank is exposed to credit risk.

Determining whether credit risk has increased significantly

The Bank assesses whether credit risk has increased significantly since initial recognition at each reporting date. Determining whether an increase in credit risk is significant depends on the characteristics of the financial instrument and the borrower, and the geographical region.

The Bank considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower.

If there is evidence that there is no longer a significant increase in credit risk relative to initial recognition, then the loss allowance on an instrument returns to being measured as 12-month ECL.

Definition of default

The Bank considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as realising security (if any is held); or
- the borrower is more than or equal to 90 days past due for long-term facilities or more than or equal to 30 days past due for short-term facilities on any material obligation to the Bank; or
- it is becoming probable that the borrower will restructure the asset as a result of bankruptcy due to the borrower's inability to pay its credit obligations.

Shinhan Bank (Cambodia) Plc.

Notes to the financial statements (continued) for the year ended 31 December 2019

34. Significant accounting policies (continued)

C. Financial assets and financial liabilities (continued)

(vii). Impairment (continued)

Measurement of ECL

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Bank expects to receive);
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows; and
- undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Bank if the commitment is drawn down and the cash flows that the Bank expects to receive.

Inputs, assumptions and techniques used for estimating impairment

The key inputs into the measurement of ECL are the term structure of the following variables:

- Probability of default ("PD");
- Loss given default ("LGD"); and
- Exposure at default ("EAD").

ECL for exposures in Stage 1 is calculated by multiplying the 12-month PD by LGD and EAD. Lifetime ECL is calculated by multiplying the lifetime PD by LGD and EAD.

The statistical model has been employed to analyse data collected and generate estimate of remaining lifetime PD of exposure and how these are expected to change as result of passage of time.

LGD is the magnitude of the likely loss if there is a default. The Bank estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. For loans secured by retail property, LTV ratios are a key parameter in determining LGD. LGD estimates are recalibrated for different economic scenarios and, for real estate lending, to reflect possible changes in property prices. They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

Shinhan Bank (Cambodia) Plc.

Notes to the financial statements (continued) for the year ended 31 December 2019

34. Significant accounting policies (continued)

C. Financial assets and financial liabilities (continued)

(vii). Impairment (continued)

Inputs, assumptions and techniques used for estimating impairment (continued)

EAD represents the expected exposure in the event of a default. The Bank derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract and arising from amortisation. The EAD of a financial asset is its gross carrying amount at the time of default. For lending commitments, the EADs are potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts. For some financial assets, EAD is determined by modelling the range of possible exposure outcomes at various points in time using scenario and statistical techniques.

As described above, and subject to using a maximum of a 12-month PD for Stage 1 financial assets, the Bank measures ECL considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for credit risk management purposes, the Bank considers a longer period. The maximum contractual period extends to the date at which the Bank has the right to require repayment of an advance or terminate a loan commitment or guarantee.

Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised and ECL are measured as follows.

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Credit-impaired financial assets

At each reporting date, the Bank assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI are credit-impaired (referred to as 'Stage 3 financial assets'). A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Shinhan Bank (Cambodia) Plc.

Notes to the financial statements (continued) for the year ended 31 December 2019

34. Significant accounting policies (continued)

C. Financial assets and financial liabilities (continued)

(vii). Impairment (continued)

Credit-impaired financial assets (continued)

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position for financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets.

Provision for financial guarantee contracts are presented in a separate liability in the statement of financial position.

Write-off

Loans and advances are written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level.

Recoveries of amounts previously written off are included in 'impairment losses on financial instruments' in the statement of profit and loss and OCI.

Financial assets that are written off could still be subject to enforcement activities in order to comply with the Bank's procedures for recovery of amounts due.

D. Cash and cash equivalents

Cash and cash equivalents consist of cash and Bank balances, demand deposits and short-term highly liquid investments with original maturities of three months or less when purchased, and that are readily convertible to known amounts of cash and subject to an insignificant risk of changes in value.

E. Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of the ordinary share are recognised as a deduction from equity, net of any tax effects. Other shares are classified as equity and/or liability according to the economic substance of the particular instrument. Distributions to holders of a financial instrument classified as an equity instrument are charged directly to equity.

Shinhan Bank (Cambodia) Plc.

Notes to the financial statements (continued) for the year ended 31 December 2019

34. Significant accounting policies (continued)

F. General reserves and regulatory reserves

The general reserves are set up for any overall financial risk. The Board of Directors exercises its discretion for the use and maintenance of the general reserves. The transfer from retained earnings to general reserves is subject to the approval of Board of Directors of the Bank.

Regulatory reserves are set up for the variance of provision between loan impairment in accordance with CIFRS and regulatory provision in accordance with National Bank of Cambodia's Prakas No. B7-017-344 dated 1 December 2017 and Circular No. B7-018-001 Sor Ror Chor Nor dated 16 February 2018 on credit risk classification and provision on impairment for banks and financial institutions. In accordance with Article 73, the entity shall compare the provision calculated in accordance with Article 49 to 71 and the provision calculated in accordance with Article 72, and the record:

- (i) In case that the regulatory provision calculated in accordance with Article 72 is lower than provision calculated in accordance with Article 49 to 71, the entity records the provision calculated in accordance with CIFRS; and
- (ii) In case that the regulatory provision calculated in accordance with Article 72 is higher than provision calculated in accordance with Article 49 to 71, the entity records the provision calculated in accordance with CIFRS and transfer the difference from retained earnings or accumulated loss account into regulatory reserve in shareholders' equity of the statement of the financial position.

The regulatory reserves are not an item to be included in the calculated of the Institution net worth.

G. Deposits and placements with banks

Deposits and placements with banks are stated at amortised cost less impairment for any uncollectable amounts.

H. Statutory deposits

Statutory deposits included in balances with the NBC are maintained in compliance with the Cambodian Law on Banking and Financial Institutions and are determined by the defined percentage of the minimum share capital and the customers' deposits as required by NBC.

I. Loans and advances

'Loans and advances' captions in the statement of financial position include loans and advances measured at amortised cost; they are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method.

Shinhan Bank (Cambodia) Plc.

Notes to the financial statements (continued) for the year ended 31 December 2019

34. Significant accounting policies (continued)

J. Other assets

Other assets are carried at amortised cost less impairment if any.

K. Property and equipment

(i). *Recognition and measurement*

Items of property and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset and any other costs directly attributable to bringing the asset to working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. The cost of self-constructed assets also includes the cost of materials and direct labour. For qualifying assets, borrowing costs are capitalised in accordance with the accounting policy on borrowing costs. Cost also may include transfers from equity of any gain or loss on qualifying cash flow hedges of foreign currency purchases of property and equipment.

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When significant parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

(ii). *Subsequent costs*

The gain or loss on disposal of an item of property and equipment is determined by comparing the proceeds from disposal with the carrying amount of property and equipment and is recognised net within "other income" and "other expenses" respectively in profit or loss.

The cost of replacing a component of an item of property and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the Bank, and its cost can be measured reliably. The carrying amount of the replaced component is derecognised to profit or loss. The costs of the day-to-day servicing of property and equipment are recognised in profit or loss as incurred.

Shinhan Bank (Cambodia) Plc.

Notes to the financial statements (continued) for the year ended 31 December 2019

34. Significant accounting policies (continued)

K. Property and equipment (continued)

(iii). Depreciation

The cost of replacing a component of an item of property and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the Bank, and its cost can be measured reliably. The carrying amount of the replaced component is derecognised to profit or loss. The costs of the day-to-day servicing of property and equipment are recognised in profit or loss as incurred.

Depreciation is based on the cost of an asset less its residual value. Significant components of individual assets are assessed, and if a component has a useful life that is different from the remainder of that asset, then that component is depreciated separately.

Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Bank will obtain ownership by the end of the lease term. Freehold land is not depreciated.

Depreciation is recognised from the date that the property, plant and equipment are installed and are ready for use, or in respect of internally constructed assets, from the date that the asset is completed and ready for use.

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 fittings	Declining	25% - 50%
Motor vehicle	Declining	25%

Depreciation methods, useful lives and residual values are reassessed at end of the reporting period and adjusted if appropriate.

Shinhan Bank (Cambodia) Plc.

Notes to the financial statements (continued) for the year ended 31 December 2019

34. Significant accounting policies (continued)

L. Intangible assets

Intangible assets, which comprise acquired computer software licenses and related costs, are stated at cost less accumulated amortisation and impairment loss. Acquired computer software licenses are capitalised on the basis of the cost incurred to acquire the specific software and bring it to use.

Intangible assets are amortised at the rate of 50% using the declining balance method.

Costs associated with the development or maintenance of computer software are recognised as expenses when incurred.

M. Leases

At inception of a contract, the Bank assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for period of time in exchange for consideration.

To assess whether a contract conveys the right to control the use of an identified asset, the Bank assesses whether:

- the contract involves the use of an identified asset - this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right throughout the period of use, then the asset is not identified;
- the Bank has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- the Bank has the right to direct the use of the asset. The Bank has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In cases where all the decisions about how and for what purpose the asset is used are predetermined, the Bank has the right to direct the use of the asset if either:
 - the Bank has the right to operate the asset; or
 - the Bank designed the asset in a way that predetermines how and for what purpose It will be used.

Shinhan Bank (Cambodia) Plc.

Notes to the financial statements (continued) for the year ended 31 December 2019

34. Significant accounting policies (continued)

M. Leases (continued)

This policy is applied to contracts entered into, or changed, on or after 1 January 2018.

At inception or on reassessment of a contract that contains a lease and non-lease component, the Bank allocates the consideration in the contract to each lease component and aggregate of non-lease components on the basis of their relative stand-alone prices. However, for the leases of land and buildings in which it is a lessee, the Bank has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

Leases in which the Bank is a lessee

An arrangement conveyed the right to use the asset if one of the following was met:

- the purchaser had the ability or right to operate the asset while obtaining or controlling more than an insignificant amount of the output;
- the purchaser had the ability or right to control physical access to the asset while obtaining or controlling more than an insignificant amount of the output; or
- facts and circumstances indicated that it was remote that other parties would take more than an insignificant amount of the output, and the price per unit was neither fixed per unit of output nor equal to the current market price per unit of output.

The Bank recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

Shinhan Bank (Cambodia) Plc.

Notes to the financial statements (continued) for the year ended 31 December 2019

34. Significant accounting policies (continued)

M. Leases (continued)

The estimated useful lives for the current period are as follows:

- Building and office branches 10 years

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, to the lessee's incremental borrowing rate. Generally, the Bank uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Bank is reasonably certain to exercise, lease payments in an optional renewal period if the Bank is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Bank is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in the lease term, a change in the assessment of the option to purchase the underlying asset, a change in future lease payments arising from a change in an index or rate, or if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit and loss if the carrying amount of the right-of-use asset has been reduced to zero.

Short-term leases and leases of low-value assets

The Bank has elected not to recognise right-of-use assets and lease liabilities for short-term leases of machinery that have a lease term of 12 months or less and leases of low-value assets, including IT equipment. The Bank recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Shinhan Bank (Cambodia) Plc.

Notes to the financial statements (continued) for the year ended 31 December 2019

34. Significant accounting policies (continued)

N. Borrowings

Borrowings are initially measured at fair value minus incremental direct transaction costs, and subsequently measured at amortised cost using effective interest method.

O. Employee benefits

(i). *Short-term employee benefits*

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(ii). *Other long-term employee benefits*

The Bank's net obligation in respect of long-term employee benefits is the amount of the benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value. Remeasurements are recognised in profit and loss in the period in which they arise.

P. Provisions

Provisions are recognised in the statement of financial position when the Bank has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

Q. Interest

Effective interest rate

Interest income and expense are recognised in profit and loss using the effective interest method. The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortised cost of the financial liability.

Shinhan Bank (Cambodia) Plc.

Notes to the financial statements (continued) for the year ended 31 December 2019

34. Significant accounting policies (continued)

Q. Interest (continued)

Effective interest rate (continued)

When calculating the effective interest rate for financial instruments other than purchased or originated credit-impaired assets, the Bank/the Bank estimates future cash flows considering all contractual terms of the financial instrument, but not ECL. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including ECL.

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

Amortised cost and gross carrying amount

The 'amortised cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance (or impairment allowance before 1 January 2018).

The 'gross carrying amount of a financial asset' is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

Calculation of interest income and expense

The effective interest rate of a financial asset or financial liability is calculated on initial recognition of a financial asset or a financial liability. In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability. The effective interest rate is revised as a result of periodic re-estimation of cash flows of floating rate instruments to reflect movements in market rates of interest. The effective interest rate is also revised for fair value hedge adjustments at the date amortisation of the hedge adjustment begins.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

Shinhan Bank (Cambodia) Plc.

Notes to the financial statements (continued) for the year ended 31 December 2019

34. Significant accounting policies (continued)

Q. Interest (continued)

Calculation of interest income and expense (continued)

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

Presentation

Interest income calculated using the effective interest method presented in the statement of profit and loss and OCI includes interest on financial assets and financial liabilities measured at amortised cost.

Interest expense presented in the statement of profit and loss and OCI includes financial liabilities measured at amortised cost.

R. Fee and commission

Fee and commission income and expense that are integral to the effective interest rate on a financial asset or financial liability are included in the effective interest rate.

Other fee and commission income – including account servicing fees is recognised as the related services are performed.

A contract with a customer that results in a recognised financial instrument in the Bank's financial statements may be partially in the scope of CIFRS 9 and partially in the scope of CIFRS 15. If this is the case, then the Bank first applies CIFRS 9 to separate and measure the part of the contract that is in the scope of CIFRS 9 and then applies CIFRS 15 to the residual.

S. Impairment of non-financial assets

The carrying amounts of the Bank's non-financial assets, other than inventories, contract assets and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time. An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit (CGU) exceeds its estimated recoverable amount.

Shinhan Bank (Cambodia) Plc.

Notes to the financial statements (continued) for the year ended 31 December 2019

34. Significant accounting policies (continued)

S. Impairment of non-financial assets (continued)

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs 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 or CGU.

For the purpose of impairment testing, assets that cannot be tested individually 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 CGUs.

Impairment losses are recognised in profit and loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs), and then to reduce the carrying amounts of the other assets in the CGU (group of CGUs) on a pro rata basis.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

T. Income tax

Income tax expense comprises current and deferred tax. It is recognised in profit and loss except items recognised directly in equity or in other comprehensive income.

The Company has determined that interest and penalties related to income taxes, including uncertain tax treatments, do not meet the definition of income taxes, and therefore has accounted for them under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and has recognised the related expenses in 'other expenses'.

(i). Current tax

Current tax comprises the expected tax payable or receivable on the taxable income for the period using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous period.

Shinhan Bank (Cambodia) Plc.

Notes to the financial statements (continued) for the year ended 31 December 2019

34. Significant accounting policies (continued)

T. Income tax (continued)

(ii). *Deferred tax*

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

A deferred tax asset are recognised for unused tax losses and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be used. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised; such reductions are reversed when the probability of future taxable profits improves.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Bank expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Differed tax assets and liabilities are offset only if certain criteria are met.

U. Contingent liabilities

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is not recognised in the statements of financial position and is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

V. Contingent assets

Where it is not possible that there is an inflow of economic benefits, or the amount cannot be estimated reliably, the asset is not recognised in the statements of financial position and is disclosed as a contingent asset, unless the probability of inflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent assets unless the probability of inflow of economic benefits is remote.

Shinhan Bank (Cambodia) Plc.

Notes to the financial statements (continued) for the year ended 31 December 2019

35. Explanation of transition to CIFRSs

Adoption of CIFRS Framework

The Bank has adopted the Cambodia International Financial Reporting Standards (“CIFRSs”) which are consistent with IFRS as issued by the International Accounting Standards Board (“IASB”) as at 1 January 2019. These financial statements of the Bank for the year ended 31 December 2019 are the first set of financial statements prepared in accordance with CIFRSs including the application of CIFRS 1 *First-time Adoption of Cambodian International Financial Reporting Standards*.

Accordingly, the Bank have prepared financial statements which comply with CIFRS applicable for periods ending on or after 31 December 2019, together with the comparative period information as at and for the period ended 31 December 2018, as described in the significant accounting policies in Note 34.

In preparing these financial statements, the Bank’s opening statements of financial position were prepared as at 1 January 2018, being the Bank’s date of transition to CIFRS. Principal adjustments made by the Bank in restating its statements of financial position as at 1 January 2018 and its previously published financial statements for the year ended 31 December 2018, both of which was prepared in accordance with the Cambodian Accounting Standards are presented in below.

Optional exemptions applied

CIFRS 1 allows first-time adopters certain exemptions from the retrospective application of certain requirements under CIFRS. The Bank have applied the following exemptions:

Fair value or revaluation as deemed cost - property and equipment

The Bank has elected to measure individual items of property and equipment using previous GAAP that are broadly comparable to depreciated cost in accordance with CIFRS as at the date of transition to CIFRS.

Leases

CIFRS 16 introduces consequential amendments to CIFRS 1, which include an option for a first-time adopter to apply the new lease definition to contracts existing at the date of transition based on facts and circumstances at that date.

The Bank applied the abovementioned exemption and maintained the conclusions achieved arising from assessments previously made under Cambodia Accounting Standards for existing lease arrangements.

Other optional exemptions available under CIFRS 1, which are not discussed here, are not material to the Bank.

Shinhan Bank (Cambodia) Plc.

Notes to the financial statements (continued) for the year ended 31 December 2019

35. Explanation of transition to CIFRSs (continued)

Mandatory exemptions

Estimates

The estimates at 1 January 2018 and at 31 December 2018 are consistent with those made for the same dates in accordance with Cambodian Accounting Standards. The estimates used by the Bank to present these amounts in accordance with CIFRSs reflect conditions at 1 January 2018, the date of transition to CIFRSs, and as at 31 December 2018.

Derecognition of financial assets and financial liabilities

A first-time adopter shall apply the derecognition requirements of CIFRSs prospectively for transactions occurring on or after 1 January 2018, the date of transition to CIFRSs. However, an entity may apply the derecognition requirements of CIFRSs from a retrospective date of the entity's choosing provided that the information required to do this was obtained at the time of initially accounting for those transactions.

The Bank have applied the derecognition requirements of CIFRSs prospectively for transactions occurring on or after 1 January 2018.

The reconciliations contain two columns for each period as well as the Cambodia GAAP and CIFRS results. The "reclassification" column includes reclassification and reanalysis of amounts from their Cambodia GAAP statement of financial position lines to the appropriate CIFRSs statement of financial position lines. The "effect of transition to CIFRSs" column sets out the effects of the recognition and measurement changes required by the transition to CIFRSs. The "effect of transition to CIFRSs" columns are further analysed into the type of adjustment.

Shinhan Bank (Cambodia) Plc.

Notes to the financial statements (continued) for the year ended 31 December 2019

35. Explanation of transition to CIFRSs (continued)

35.1 Reconciliation of equity

The following reconciliations summaries the impacts on initial application of CIFRSs on the Bank's financial position as at 31 December 2017 and 1 January 2018 and the Bank's profit or loss and other comprehensive income for the year ended 31 December 2018.

	Note	31 December 2017			31 December 2018				
		Cambodia GAAP US\$	Effect of transition to CIFRSs Reclassification US\$	Remeasurement US\$	1 January 2018 CIFRSs US\$	Cambodia GAAP US\$	Effect of transition to CIFRSs Reclassification US\$	Remeasurement US\$	
ASSETS									
Cash and cash equivalents	A(i),C	25,762,443	-	-	25,762,443	15,569,527	-	22,033	15,591,560
Placement with other banks	A(i),C	5,000,000	-	-	5,000,000	-	-	-	-
Statutory deposits	C	20,805,379	-	-	20,805,379	26,180,967	-	-	26,180,967
Loans and advances to customers - net	A(i), A(ii), A(iii)	134,792,301	485,682	2,785,500	138,063,483	205,420,942	715,016	1,734,991	207,870,949
Other assets		843,246	(490,284)	-	352,962	1,404,470	(723,414)	-	681,056
Property and equipment		1,479,063	-	-	1,479,063	2,059,046	-	-	2,059,046
Right-of-use assets		-	-	2,738,983	2,738,983	205,457	-	2,901,337	2,901,337
Intangible assets		137,247	-	-	137,247	-	-	-	205,457
Total assets (US\$)		188,819,679	(4,602)	5,524,483	194,339,560	250,840,409	(8,398)	4,658,361	255,490,372
Total assets (KHR'000 – Note 5)		762,265,043	(18,578)	22,302,338	784,548,803	1,007,876,764	(33,744)	18,717,294	1,026,560,314

Shinhan Bank (Cambodia) Plc.

Notes to the financial statements (continued) for the year ended 31 December 2019

35. Explanation of transition to CIFRSs (continued)

35.1 Reconciliation of equity (continued)

	Note	31 December 2017				31 December 2018			
		Cambodia GAAP US\$	Effect of transition to CIFRSs		Cambodia GAAP US\$	Effect of transition to CIFRSs		CIFRSs US\$	
			Reclassification	Remeasurement		Reclassification	Remeasurement		
		US\$	US\$	US\$	US\$	US\$	US\$	US\$	US\$
LIABILITIES AND EQUITY									
Deposits from customers	A(i)	44,163,817	153,770	-	51,807,188	176,409	-	51,983,597	
Deposits from other banks	A(i)	21,304,691	264,807	-	30,611,917	409,562	-	31,021,479	
Short-term borrowings		54,000,000	-	-	64,000,000	-	-	64,000,000	
Lease liabilities	B	-	-	2,809,766	-	-	3,093,164	3,093,164	
Other liabilities	A(i)	801,761	(423,179)	-	1,179,227	(594,369)	-	584,858	
Provision for employee benefits		-	-	-	125,214	-	-	125,214	
Current income tax liability		1,036,183	-	-	1,550,992	-	-	1,550,992	
Total liabilities		121,306,452	(4,602)	2,809,766	149,274,538	(8,398)	3,093,164	152,359,304	
EQUITY									
Share capital		47,500,000	-	-	75,000,000	-	-	75,000,000	
Reserves		5,621,275	-	-	5,621,275	-	-	5,621,275	
Regulatory reserves		-	-	3,576,966	-	-	3,469,636	3,469,636	
Retained earnings	A(ii)	14,391,952	-	(862,249)	20,944,596	-	(1,904,499)	19,040,157	
Total equity		67,513,227	-	2,714,717	101,565,871	-	1,565,197	103,131,068	
Total liabilities and equity		188,819,679	(4,602)	5,524,483	250,840,409	(8,398)	4,658,361	255,490,372	
Total liabilities and equity		762,265,043	(18,578)	22,302,338	1,007,876,764	(33,744)	18,717,294	1,026,560,314	
(KHR'000 – Note 5)									

Shinhan Bank (Cambodia) Plc.

Notes to the financial statements (continued) for the year ended 31 December 2019

35. Explanation of transition to CIFRSs (continued)

35.2 Reconciliation of statements of profit or loss and other comprehensive income

Reconciliation of statement of profit or loss for the year ended 31 December 2018

	Note	Effect of transition to CIFRSs		CIFRSs US\$	
		Cambodia GAAP US\$	Reclassification US\$		Remeasurement US\$
Operating income					
Interest income	A(iii)	13,845,484	-	-	13,845,484
Interest expense	B	(2,307,541)	-	(211,896)	(2,519,437)
Net interest income		<u>11,537,943</u>	<u>-</u>	<u>(211,896)</u>	<u>11,326,047</u>
Net fee and commission income	A(iii)	1,892,058	-	(811,915)	1,080,143
Other operating income		3,922	-	-	3,922
Total operating profit		<u>13,433,923</u>	<u>-</u>	<u>(1,023,811)</u>	<u>12,410,112</u>
Personnel expenses		(2,518,594)	-	-	(2,518,594)
Other operating expenses	B	(2,917,751)	-	90,852	(2,826,899)
Impairment losses on financial instruments		245,377	-	(216,561)	28,816
Total operating expenses		<u>(5,190,968)</u>	<u>-</u>	<u>(125,709)</u>	<u>(5,316,677)</u>
Profit before income tax		<u>8,242,955</u>	<u>-</u>	<u>(1,149,520)</u>	<u>7,093,435</u>
Income tax expense		(1,690,311)	-	-	(1,690,311)
Net profit for the year		<u>6,552,644</u>	<u>-</u>	<u>(1,149,520)</u>	<u>5,403,124</u>
Other comprehensive income		<u>6,552,644</u>	<u>-</u>	<u>(1,149,520)</u>	<u>5,403,124</u>
Currency translation reserves		-	-	-	-
Total comprehensive income for the year		<u>6,552,644</u>	<u>-</u>	<u>(1,149,520)</u>	<u>5,403,124</u>

Shinhan Bank (Cambodia) Plc.

Notes to the financial statements (continued) for the year ended 31 December 2019

35. Explanation of transition to CIFRSs (continued)

Summary of balance sheet reclassifications and key adjustments as a result of transition from Cambodia GAAP to CIFRSs

Summary of profit or loss and other comprehensive income reclassifications and key adjustments as a result of transition from Cambodia GAAP to CIFRSs.

A. Financial assets and liabilities

CIFRS 9 Financial Instruments sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. It also introduces a new 'expected credit loss' (ECL) model and a new general hedge accounting model. The Bank adopted CIFRS 9 from 1 January 2018.

Changes in accounting policies resulting from the adoption of CIFRS 9 have been generally applied by the Bank retrospectively, except as described below.

- The following assessments were made on the basis of facts and circumstances that existed at 1 January 2018.
 - The determination of the business model within which a financial asset is held;
 - The determination of whether the contractual terms of a financial asset give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding;
 - The designation of an equity investment that is not held-for-trading as at FVOCI; and
- If a debt investment has low credit risk at 1 January 2018, the Company had assumed that the credit risk on the asset has not increased significantly since its initial recognition.

The impact upon adoption of CIFRS 9, including the corresponding tax effects, are described below.

(i) *Classification of financial assets and financial liabilities*

Under CIFRS 9, financial assets are classified in the following categories: measured at amortised cost, FVOCI – debt instrument, FVOCI – equity instrument; or FVTPL. The classification of financial assets under CIFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics.

For an explanation of how the Bank classifies and measures financial assets and related gains and losses under CIFRS 9, see Note 32C(ii).

The following table and the accompanying notes below explain the original measurement categories under Cambodia GAAP and the new measurement categories under CIFRS 9 for each class of the Bank's financial assets as at 1 January 2018.

Shinhan Bank (Cambodia) Plc.

Notes to the financial statements (continued) for the year ended 31 December 2019

35. Explanation of transition to CIFRSs (continued)

A. Financial assets and liabilities (continued)

(i) Classification of financial assets and financial liabilities (continued)

	Note	Original classification under Cambodia GAAP	New classification under CIFRS 9	1 January 2018		31 December 2018	
				Original carrying amount under Cambodia GAAP US\$	New carrying amount under CIFRS 9 US\$	Original carrying amount under Cambodia GAAP US\$	New carrying amount under CIFRS 9 US\$
Financial assets							
Cash and cash equivalents (reclassified)	(a)	Cost	Amortised cost	25,762,443	25,762,443	15,569,527	15,591,560
Placements with other banks (reclassified)	(a)	Cost	Amortised cost	5,000,000	5,000,000	-	-
Loans and advances to customers	(b)	Carrying amount	Amortised cost	134,792,301	138,063,483	205,420,941	207,870,949
Other assets		Cost	Amortised cost	843,246	352,962	1,404,470	681,056
Total financial assets (US\$)				166,397,990	169,178,888	222,394,938	224,143,565
Total financial assets (KHR'000)				671,748,686	682,975,171	893,582,861	900,608,844

– Note 5)

Shinhan Bank (Cambodia) Plc.

Notes to the financial statements (continued) for the year ended 31 December 2019

35. Explanation of transition to CIFRSs (continued)

A. Financial assets and liabilities (continued)

(i) Classification of financial assets and financial liabilities (continued)

	Note	Original classification under Cambodia GAAP	New classification under CIFRS 9	1 January 2018		31 December 2018	
				Original amount under Cambodia GAAP US\$	New carrying amount under CIFRS 9 US\$	Original amount under Cambodia GAAP US\$	New carrying amount under CIFRS 9 US\$
Financial liabilities							
Deposits from customers	(c)	Cost	Amortised cost	44,163,817	44,317,587	51,807,188	51,983,597
Deposits from other banks	(c)	Cost	Amortised cost	21,304,691	21,569,498	30,611,917	31,021,479
Other liabilities	(c)	Cost	Amortised cost	801,761	378,582	1,179,226	584,858
Total financial liabilities (US\$)				66,270,269	66,265,667	83,598,331	83,589,934
Total financial liabilities (KHR'000 – Note 5)				267,533,076	267,514,498	335,898,094	335,864,355

Shinhan Bank (Cambodia) Plc.

Notes to the financial statements (continued) for the year ended 31 December 2019

35. Explanation of transition to CIFRSs (continued)

A. Financial assets and liabilities (continued)

(i) Classification of financial assets and financial liabilities (continued)

- (a) Cash on hand, balances with the NBC and placements with other banks which are reclassified to cash and cash equivalents, and statutory deposits to conform to the current presentation, which were previously measured at cost are now measured at amortised cost.
- (b) Loans and advances to customers that were classified as loans and receivables under Cambodia GAAP are now classified at amortised cost. Refer to adjustments in A(ii) and A(iii) below.
- (c) Under Cambodia GAAP, these financial liabilities that were classified at cost are now classified at amortised cost. Refer to adjustments in A(iii) below.

(ii) Impairment of financial assets

CIFRS 9 replaces the 'incurred loss' model in Cambodia GAAP with an 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortised cost, contract assets, debt investments at FVOCI and intra-group financial guarantee contracts, but not to equity investments. The adoption of the new impairment model under CIFRS 1 does not affect the carrying amount of intra-group financial guarantee contracts at 1 January 2018, as the amount initially recognised less the cumulative amount of income recognised in accordance with CIFRS 15 is higher than the estimated ECL amount.

The application of CIFRS 9 impairment requirements at 1 January 2018 results in additional allowances for impairment as follows:

	1 January 2018 US\$	31 December 2018 US\$
Loss allowance under Cambodia GAAP	3,648,105	3,511,959
Reversal of impairment recognised on:		
Cash and cash equivalents	-	(22,033)
Loans and advances	(3,576,965)	(3,447,602)
Loss allowance under CIFRS - US\$	<u>71,140</u>	<u>42,324</u>
Loss allowance under CIFRS – KHR'000 – Note 5	<u>287,192</u>	<u>170,058</u>

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

Additional information about how the Bank measure the allowance for impairment is described in Note 32B and 34C(vii).

To comply with NBC regulations, the Bank transferred from retained earnings to regulatory reserves amounting to US\$3,576,966 at 1 January 2018 and transferred from regulatory reserves to retained earnings amounting to US\$107,330 at 31 December 2018. See Note 34(F).

Shinhan Bank (Cambodia) Plc.

Notes to the financial statements (continued) for the year ended 31 December 2019

35. Explanation of transition to CIFRSs (continued)

A. Financial assets and liabilities (continued)

(iii) Interest

Under Cambodia GAAP, fees integral to the financial assets and liabilities were not considered as effective interest and recognised on occurrence of transactions. In addition, recognition of interest income was suspended when loan become non-performing.

Under CIFRS, a financial asset or financial liability is measured initially at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. Interest is still recognised on the non-performing loan.

The impact arising from the change is summarised as follows:

	1 January 2018 US\$	31 December 2018 US\$
Statement of financial position		
Decrease in loans and advances	(791,466)	(1,603,380)
Adjustment to retained earnings	<u>(791,466)</u>	<u>(1,603,380)</u>
Adjustment to retained earnings (KHR'000 – Note 5)	<u>(3,195,148)</u>	<u>(6,442,382)</u>
Statement of comprehensive income		
Decrease in fees and commission income		<u>(811,915)</u>
Adjustment to profit before income tax – US\$		<u>(811,915)</u>
Adjustment to profit before income tax (KHR'000 – Note 5)		<u>(3,284,196)</u>

Shinhan Bank (Cambodia) Plc.

Notes to the financial statements (continued) for the year ended 31 December 2019

35. Explanation of transition to CIFRSs (continued)

A. Financial assets and liabilities (continued)

(iv) Transition impact on equity

The following table summarises the impact, net of tax, of transition to CIFRS 9 on reserves, retained earnings at 1 January 2018.

	Impact of adopting CIFRS 9 at 1 January 2018	
	US\$	KHR'000
Retained earnings		
Closing balance under Cambodia GAAP (31 December 2017)	14,391,952	58,100,310
Remeasurement of amortised costs under CIFRS 9	(791,466)	(3,195,148)
Recognition of expected credit losses under CIFRS 9	3,576,966	14,440,210
Opening balance under CIFRS 9 (1 January 2018)	<u>17,177,452</u>	<u>69,345,372</u>

B. Leases

The Bank previously classified leases as operating leases under CAS 17 based on its assessment of whether the lease transferred substantially all of the risks and rewards incidental to ownership of the underlying asset to the Bank. Under CIFRS 16, the Bank and the Bank recognises right-of-use assets and lease liabilities for leases of branch and office premises – i.e. these leases are on-balance sheet.

The impact arising from the change is summarised as follows:

	1 January 2018 US\$	31 December 2018 US\$
Statement of financial position		
Right-of-use assets	2,738,983	2,901,337
Lease liabilities	<u>(2,809,766)</u>	<u>(3,093,164)</u>
Adjustment to retained earnings	<u>(70,783)</u>	<u>(191,827)</u>
KHR'000 – Note 5	<u>(285,751)</u>	<u>(770,761)</u>

Shinhan Bank (Cambodia) Plc.

Notes to the financial statements (continued) for the year ended 31 December 2019

35. Explanation of transition to CIFRSs (continued)

B. Leases (continued)

The impact arising from the change is summarised as follows: (continued)

	31 December 2018
	US\$
Statement of comprehensive income	
Depreciation of right-of-use assets	340,513
Interest expense on lease liability	211,898
Rental expenses	(431,367)
Adjustment to profit before income tax - US\$	121,044
Adjustment to profit before income tax - (KHR'000 – Note 5)	489,622

C. Material adjustments to the Statement of Cash Flow for 2018

The statement of cash flows presented under CIFRS is similar in all material respects to the statement of cash flows presented under Cambodia GAAP.

36. Subsequent events

The ECL at 31 December 2019 was estimated based on a range of forecast economic conditions as at that date. Subsequently, the coronavirus outbreak has spread across mainland China and beyond, causing disruption to business and economic activity. The impact on GDP and other key indicators will be considered when determining the severity and likelihood of downside economic scenarios that will be used to estimate ECL under CIFRS 9 in 2020.

5



Global Network

GLOBAL NETWORK (As the end of Dec, 2019)

20 Countries, 160 Networks

Branch 14, Subsidiary 11(8 subsidiaries have 142 branches), Representative office 1



Korea (876)

Asia Cambodia (9), China (18), Hong Kong (2), India (6), Indonesia (51), Japan (10), Kazakhstan (1), Myanmar (1), Philippines(1), Singapore (1)Uzbekistan (1), Vietnam (36)
Americas Canada (4), USA (15), Mexico (4) Europe Germany (1), Poland (1), UK (1) Middle East UAE (1) Oceania Australia (1)

ASIA

SHINHAN BANK (CAMBODIA) PLC.

No. 79 Kampuchea Krom, Sangkat Monorom.
Khan 7 Makara, Phnom Penh, Cambodia
Tel. 855-23 971 100
SWIFT: SHBKKHPP

SHINHAN BANK MAIN BRANCH

No. 79 Kampuchea Krom, Sangkat Monorom.
Khan 7 Makara, Phnom Penh, Cambodia
Tel. 855-23 971 100
SWIFT: SHBKKHPP

OLYMPIC BRANCH

No.11 St. 163, Sangkat Veal Vong, Khan 7
Makara, Phnom Penh, Cambodia
Tel. 855-23-988-381
Fax. 855-23-988-382
SWIFT: SHBKKHPP

TEUK THLAR BRANCH

No.A99 & A101, Russian Federation Blvd.,
Sangkat Teuk Thlar, Khan Sen Sok,
Phnom Penh, Cambodia
Tel: 855-23-988-363
SWIFT: SHBKKHPP

DOUN PENH BRANCH

No.1 Eo, Street Preah Sisowath, Sangkat Srah
Chork, Khan Doun Penh, Phnom Penh,
Cambodia
Tel. 855-23-988-390
SWIFT: SHBKKHPP

STUENG MEAN CHEY BRANCH

No.660 Preah Monireth Blvd, Damnak Thom
Village, Sangkat Stueng Mean Chey, Phnom
Penh, Cambodia
Tel: 855-23-957-680
SWIFT: SHBKKHPP

NORODOM BRANCH

No.277 Norodom Blvd, Sangkat Tonle Bassac,
Khan Chamkarmorn,
Phnom Penh, Cambodia
Tel. 855-23-988-310
SWIFT: SHBKKHPP

CHBAR AMPOV BRANCH (Feb, 2020)

#44, National Road 1, Tangov, Niroth,
Chbar Ampov, Phnom Penh
Cambodia
Tel: 023-900-820
SWIFT: SHBKKHPP

SEN SOK BRANCH (Feb, 2020)

#127, St 1003, Bayab, Phnom Penh Thmey,
Sen Sok, Phnom Penh
Cambodia
Tel: 023-900-850
SWIFT: SHBKKHPP

TUOL KOUK BRANCH (Feb, 2020)

#57, St.289, Boeung Kak II,
Tuol Kouk, Phnom Penh
Cambodia
Tel: 023-900-830
SWIFT: SHBKKHPP

SHINHAN BANK CHINA LTD.

12th Fl. Zhongyu Plaza No.6, Workers'
Stadium Road N.,Chaoyang District, Beijing
100027, China
Tel. 86-10-8529-0088
Fax. 86-10-8529-0188
SWIFT: SHBKCNBJ

BEIJING BRANCH

1st Floor Zhongyu Plaza No.6, Workers'
Stadium Road N.,Chaoyang District, Beijing
100027, China
Tel. 86-10-8523-5555
Fax. 86-10-8523-5696
SWIFT: SHBKCNBJBJG

BEIJING SHUNYI SUB-BRANCH

1st Floor Shunxin International Business
Center No. 3, Zhanqian West Road, Shunyi
District, Beijing 101300, China
Tel. 86-10-6040-6008
Fax. 86-10-6040-6123
SWIFT: SHBKCNBJBJG

BEIJING WANGJING SUB-BRANCH

No 103 1st Floor Wangjingxiyuan Bldg., 429
Chaoyang District, Beijing, China
Tel. 86-10-6472-9866
Fax. 86-10-6475-6758
SWIFT: SHBKCNBJBJG

SHANGHAI BRANCH

1st Floor, Huaneng Unite Mansion, 958 Lujiazui
Ring Road, Pudong New Area, Shanghai, China
Tel. 86-21-6886-5566
Fax. 86-21-6886-5840
SWIFT: SHBKCNBJSHA

SHANGHAI PUXI SUB-BRANCH

1st Floor, Hyunyon International Building,
block 5, 1100 Wuzhong Road, Min Hang
District, Shanghai, China
Tel. 86-21-6465-2300
Fax. 86-21-6465-2313/2314
SWIFT: SHBKCNBJSHA

SHANGHAI HONGQIAO SUB-BRANCH

East Century Building, 1111 Gubei Road,
Changning Area, Shanghai, China
Tel. 86-21-6241-0066
Fax. 86-21-6273-2178
SWIFT: SHBKCNBJSHA

SHANGHAI HONGQUAN LU SUB-BRANCH

1F, West side-A, Jingting Building, 1000
Hongquan Road, Minhang District, Shanghai,
China [Postal Code 201103]
Tel. 86-21-6115-7799
Fax. 86-21-6091-2500
SWIFT: SHBKCNBJSHA

SHENYANG BRANCH

1st Fl. 193 YangGuang Caixian Building, No.193
ZhongShan Road, Heping District, Shenyang,
110000 P.R. China
Tel. 86-24-3161-6000
Fax. 86-24-3139-5199

CHONGQING BRANCH

Unit B, 1st Floor, #3 Financial Street, Jiangbei
District, Chongqing, China
Tel. 86-23-6110-8883
Fax. 86-23-6110-8886

YANCHENG BRANCH

Unit 103, 1st Floor, #5 Xiwang South Street,
Economy Technology Development District,
Yancheng, China
Tel. 86-515-6801-8888
Fax. 86-515-6908-1787

TIANJIN BRANCH

Room 108/911, Tianjin International Building,
75 Nanjing Road, Tianjin, 300050 P.R. China
Tel. 86-22-2339-4070
Fax. 86-22-2339-4043
SWIFT: SHBKCNBJTJN

TIANJIN BINHAI SUB-BRANCH

1F W3-A, Financial Building, No.51,3RD Street,
TEDA, Tianjin 300457, China
Tel. 86-22-6628-1234
Fax. 86-22-6628-1235
SWIFT: SHBKCNBJTJN

TIANJIN AOCHENG SUB-BRANCH

No. 1-03 Ao-cheng Commercial Plaza
Binshuixi Street, Nankai District, Tianjin
300381 P.R. CHINA
Tel. 86-22-5885-0088
Fax. 86-22-5885-0090
SWIFT: SHBKCNBJTJN

QINGDAO BRANCH

4th Fl., CITIC WT Securities Co.,Ltd,Bldg. No.28
Donghai West Road, Qingdao 266071, CHINA
Tel. 86-532-8502-5500
Fax. 86-532-8502-5566
SWIFT: SHBKCNBJQDD

QINGDAO CHENGYANG SUB-BRANCH

No.151, Zhengyang Road, Chengyang District,
Qingdao, 266109, P.R.China
Tel. 86-532-6696-0505
Fax. 86-532-6696-0215
SWIFT: SHBKCNBJQDD

WUXI BRANCH

2 Floor No.5 Changjiang North Road,
Changjiang Club, Wuxi, Jiangsu 214028, China
Tel. 86-510-8181-3000
Fax. 86-510-8181-3058
SWIFT: SHBKCNBJWXI

CHANGSHA BRANCH

New Times Square No.161, Furong Middle
Road, Kaifu District, Changsha City, Human
Province, China
Tel. 86-731-8833-9999
Fax. 86-731-8833-7999
SWIFT: SHBKCNBJCHS

SHENZHEN BRANCH

1st Fl. 131-132 YangGuang Golf Building,
Shennan Street, Futian District, Shenzhen City,
Guangdong Province, 518040 P.R. China
Tel. 86-755-8828-0050
Fax. 86-755-8282-8542
SWIFT: SHBKCNBJXXX

HONGKONG BRANCH

Unit 7703, International Commerce Centre,
1 Austin Road West, Kowloon, Hong Kong
Tel. 852-2867-0100
Fax. 852-2877-2460
SWIFT: SHBKHKHX

HONGKONG BRANCH

Unit 7704, International Commerce Centre,
1 Austin Road West, Kowloon, Hong Kong.
Tel: 852-3717-0700
Fax: 852-2810-1928
SWIFT: SHBKHKHX

SHINHAN INDIA BRANCH

5th Floor, Wockhardt Towers, C2, G Block,
Bandra Kurla Complex, Bandra, Mumbai, 400-
051, India
Tel. 91-22-6199-2000
Fax. 91-22-6199-2010
SWIFT: SHBKINBB

MUMBAI BRANCH

5th Floor, Wockhardt Towers, C2, G Block,
Bandra Kurla Complex, Bandra, Mumbai, 400-
051, India
Tel. 91-22-6199-2000
Fax. 91-22-6199-2010
SWIFT: SHBKINBB

NEW DELHI BRANCH

3rd Floor, D-6, Part II South Extension, New
Delhi, India
Tel. 91-11-4500-4800
Fax. 91-11-4500-4855
SWIFT: SHBKINBB

KANCHEEPURAM BRANCH

Survey No:69/4A1 B No.101A, Bangalore
Highway Road, Thandalam Village,
Kancheepuram, Tamilnadu, India 602105
Tel. 91-44-2714-3500
Fax. 91-44-2714-3510
SWIFT: SHBKINBB

PUNE BRANCH

Ground Floor, Red Building, Plot No.2, Galaxy
Society, Boat Club Road, Pune, Maharashtra,
India 411001
Tel. 91-20-3086-4800
Fax. 91-20-3086-4810
SWIFT: SHBKINBB

AHMEDABAD BRANCH

FF2 & FF3, 1st Floor, Shapath V Building, Opp.
Karnavati Club, S.G.Highway, Ahmedabad,
Gujarat, India 380015
Tel. 91-79-7117-0400
Fax. 91-79-7117-0444
SWIFT: SHBKINBB

RANGA REDDY BRANCH

SLN Terminus, 1st Floor, Survey No 133,
Gachibowli, Serilingampally, Mandal, Ranga
Reddy District, Telangana State, India 500032
Tel. 91-40-6635-2000
Fax. 91-40-6635-2020
SWIFT: SHBKINBB

PT BANK SHINHAN INDONESIA

International Financial Center Tower 2, Lt.
30-31, Jl. Jend. Sudirman Kav. 22-23, Jakarta
Selatan 12920
Tel. 62-21-2975-1500
Fax. 61-21-2988-0346
SWIFT: SHBKIDJA

HEAD OFFICE OPERATIONAL

International Financial Center Tower 2, Lt.
Dasar, Jl. Jend. Sudirman Kav. 22-23, Jakarta
Selatan 12920
Tel. 62-21-2975-1500
Fax. 61-21-2251-2479
SWIFT: SHBKIDJA

HAYAM WURUK SUB-BRANCH

Wisma AAL - Jl. Hayam Wuruk No. 19 - 20,
Jakarta Pusat 10210
Tel. 62-21-2311-888
Fax. 62-21-3504-001
SWIFT: SHBKIDJA

MANGGA DUA BRANCH

Komp. Pertokoan Mangga Dua Mall Kav. 39,
Jl. Arteri Mangga Dua Raya, Jakarta Pusat
10730
Tel. 62-21-6122-871
Fax. 62-21-6220-3740
SWIFT: SHBKIDJA

PANGLIMA SUDIRMAN SUB-BRANCH

Intiland Tower Surabaya Lt.1, Suite 11, Jl.
Panglima Sudirman 101-103, Surabaya 60271
Tel. 62-31-5240-3042/ 3342/ 3442
Fax. 62-31-5240-3064
SWIFT: SHBKIDJA

JEMBATAN LIMA SUB-BRANCH

Jl. KH. Moh. Mansyur No. 73A Tambora,
Jakarta Barat 11260
Tel. 62-21-6385-1947/ 49
Fax. 62-21-6314-087
SWIFT: SHBKIDJA

TANGERANG SUB-BRANCH

Jl. Ki Asnawi No. 64A, Pasar Anyar, Tangerang
15000
Tel. 62-21-5576-2305
Fax. 62-21-5583-583
SWIFT: SHBKIDJA

KELAPA GADING SUB-BRANCH

Jl. Boulevard Raya Blok FX 1 No. 13 - 14,
Jakarta Utara 14240
Tel. 62-21-4535-823
Fax. 62-21-4535-824
SWIFT: SHBKIDJA

SEZEN SUB-BRANCH

Komp. Ruko Atrium Blok H-23, Jl. Senen Raya
No. 135, Jakarta Pusat 10410
Tel. 62-21-3521-023
Fax. 62-21-3521-024
SWIFT: SHBKIDJA

TANJUNG PRIOK SUB-BRANCH

Jl. Kramat Jaya No. 31, Jakarta Utara 14270
Tel. 62-21-4303-673
Fax. 62-21-4303-426
SWIFT: SHBKIDJA

KEBON JERUK SUB-BRANCH

Jl. Pesanggrahan Raya No 2D, Kebon Jeruk,
Jakarta Barat 11620
Tel. 62-21-5866-365
Fax. 62-21-5868-981
SWIFT: SHBKIDJA

CIBUBUR SUB-BRANCH

Cibubur Times Square Blok B-1 No. 2, Jl.
Alternative Cibubur Jatikarya, Jatisampurna -
Bekasi 17435
Tel. 62-21-2867-2944/ 2911
Fax. 62-21-2867-2410
SWIFT: SHBKIDJA

GLODOK SUB-BRANCH

Pertokoan Glodok Plaza Blok D No. 5, Jl.
Pinangsia Raya, Jakarta 11110
Tel. 62-21-2601-838
Fax. 62-21-2601-839
SWIFT: SHBKIDJA

ROXY MAS SUB-BRANCH

ITC Roxy Mas Blok D2 No. 1, Jl. KH. Hasyim
Ashari, Jakarta Pusat 10150
Tel. 62-21-6385-9343
Fax. 62-21-6385-9344
SWIFT: SHBKIDJA

GADING SERPONG SUB-BRANCH

Jl. Boulevard Raya Blok BA 3 No.56,
Tangerang 15810
Tel. 62-21-5461-322/ 442
Fax. 62-21-5461-595
SWIFT: SHBKIDJA

MELAWAI BRANCH

Jl. Melawai VI No.25, Kebayoran Baru, Jakarta
Selatan 12160
Tel. 62-21-2700-426
Fax. 62-21-2700-425
SWIFT: SHBKIDJA

FATMAWATI SUB-BRANCH

Jl. RS Fatmawati, Komp. ITC Fatmawati Ruko
No. 18, Jakarta Selatan 12150
Tel. 62-21-7279-7330
Fax. 62-21-7279-7418
SWIFT: SHBKIDJA

BIBIS BRANCH

Jl. Bibis No. 21 - 23, Surabaya 60161
Tel. 62-31-3550-894/ 895
Fax. 62-31-9909-2723
SWIFT: SHBKIDJA

MERR SUB-BRANCH

Jl. IR. DR. H. Sukarno, Ruko Icon 21 Blok R/26,
MERR, Surabaya 60117
Tel. 62-31-9900-5050/ 5051
Fax. 62-31-9900-5004
SWIFT: SHBKIDJA

MENGANTI, SURABAYA SUB-BRANCH

Jl. Raya Menganti No. 193, Ruko Taman
Pondok Indah Blok A No. 28, Surabaya 60228
Tel. 62-31-7669-163
Fax. 62-31-7661-995
SWIFT: SHBKIDJA

KEDUNGORO BRANCH

Jl. Kedungoro No. 32, Surabaya 60261
Tel. 62-31-5319-001/ 5458-522
Fax. 62-31-5322-076/ 5320-360
SWIFT: SHBKIDJA

TANAHABANG SUB-BRANCH

Jl. KH. Fachrudin 36 Blok AA-31, Tanah
Abang, Jakarta Pusat 13790
Tel. 62-21-3924-580
Fax. 62-21-3806-413/ 414
SWIFT: SHBKIDJA

PINANGSIA SUB-BRANCH

Ruko Pinangsia Blok A-32 Karawaci Office
Park 15811
Tel. 62-21-3049-7210/ 7211/ 7212
Fax. 62-21-3049-7213
SWIFT: SHBKIDJA

KAPAS KRAMPUNG SUB-BRANCH

Jl. Kapas Krampung No. 138 i, Surabaya 60133
Tel. 62-31-5027-255/ 211
Fax. 62-31-5027-231
SWIFT: SHBKIDJA

KAPASAN SUB-BRANCH

Jl. Kapasan No. 51-C, Surabaya 60141
Tel. 62-31-3717-178/3767-845
Fax. 62-31-3716-276
SWIFT: SHBKIDJA

BUKIT DARMO BRANCH

Jl. Bukit Darma Boulevard Blok B2-31 CBD
Office Park 2, Surabaya 60226
Tel. 62-31-9914-2444/ 6142/ 7636
Fax. 62-31-9914-2578
SWIFT: SHBKIDJA

PUCANG ANOM BRANCH

Jl. Pucang Anom 60, Surabaya 60282
Tel. 62-31-5024-390/ 391
Fax. 62-31-5024-393
SWIFT: SHBKIDJA

RUNGKUT BRANCH

Komp. Ruko Wadungasri Permai Kav. A-5,
Sidoarjo 61256
Tel. 62-31-8668-948/ 8669-118
Fax. 62-31-8668-942
SWIFT: SHBKIDJA

SEMARANG BRANCH

Komp. Pertokoan Bangkong Plaza Blok C-1,
Jl. MT. Haryono, Semarang 50242
Tel. 62-24-8442-777
Fax. 62-24-8311-677
SWIFT: SHBKIDJA

WARU SUB-BRANCH

Jl. Jendral S. Parman 22-A, Waru, Sidoarjo
61256
Tel. 62-31-8554-507
Fax. 62-31-8538-714
SWIFT: SHBKIDJA

MENGANTI, GRESIK SUB-BRANCH

Jl. Raya Menganti Sidomulyo No. 90 C,
Menganti, Gresik 61174
Tel. 62-31-7911-679/345
Fax. 62-31-7911-698
SWIFT: SHBKIDJA

SIDOARJO SUB-BRANCH

Jl. Soenandar Priyosudarmo RK B-22, Sidoarjo
61200
Tel. 62-31-8053-069/070
Fax. 62-31-8053-066
SWIFT: SHBKIDJA

KRIAN SUB-BRANCH

Jl. Gubernur Sunandar Priyo Sudarmo 5,
Krian, Sidoarjo 61262
Tel. 62-31-8983-282/285
Fax. 62-31-8983-281
SWIFT: SHBKIDJA

MOJOKERTO SUB-BRANCH

Jl. Gajah Mada No. 140 B, Mojokerto 61313
Tel. 62-321-381-915/392-429/443
Fax. 62-321-392-368
SWIFT: SHBKIDJA

MALANG BRANCH

Jl. KH. Zainul Arifin No. 100, Malang 65118
Tel. 62-341-352-020
Fax. 62-341-362-804
SWIFT: SHBKIDJA

SINGOSARI SUB-BRANCH

Jl. Raya Singosari No. 111, Malang 65153
Tel. 62-341-456-891/890
Fax. 62-341-456-892
SWIFT: SHBKIDJA

JOMBANG BRANCH

Komp. Pertokoan Cempaka Mas, Jl. Soekarno
Hatta Blok A6, Jombang 61412
Tel. 62-321-853-448/449
Fax. 62-321-850-009
SWIFT: SHBKIDJA

TULUNGAGUNG BRANCH

Jl. Jend. Sudirman No. 118, Tulungagung
66212
Tel. 62-355-336-324/325
Fax. 62-355-322-307
SWIFT: SHBKIDJA

JEMBER BRANCH

Jl. Trunojoyo No. 58, Jember 68137
Tel. 62-331-429-590/592
Fax. 62-331-482-865
SWIFT: SHBKIDJA

MAKASSAR BRANCH

Jl. Wahidin Sudirohusodo No. 52, Makassar,
Sulawesi Selatan 90174
Tel. 62-411-3624-209/3621-048
Fax. 62-411-3624-562
SWIFT: SHBKIDJA

NGANJUK BRANCH

Jl. Ahmad Yani No. 239, Nganjuk 64418
Tel. 62-358-330-300
Fax. 62-358-330-301
SWIFT: SHBKIDJA

MADIUN BRANCH

Jl. Dr. Sutomo No. 79, Madiun 63116
Tel. 62-351-481-668/669
Fax. 62-351-481-670
SWIFT: SHBKIDJA

MAGELANG BRANCH

Jl. Ikhlash B 3-4, Magersari, Magelang 56126
Tel. 62-293-314-725/133
Fax. 62-293-314-726
SWIFT: SHBKIDJA

SOLO BRANCH

Jl. Honggowongso No. 12A Kratonan -
Serengan, Solo 57153
Tel. 62-271-630-981/982
Fax. 62-271-634-167
SWIFT: SHBKIDJA

KUDUS BRANCH

Ruko Ahmad Yani No. 11, Jl. Ahmad Yani,
Kudus 59317
Tel. 62-291-446-454/455
Fax. 62-291-446-457
SWIFT: SHBKIDJA

KOPO SUB-BRANCH

Komp. Ruko Lucky Business Centre A-9,
Taman Kopo Indah, Bandung 40226
Tel. 62-22-5421-955
Fax. 62-22-5417-895
SWIFT: SHBKIDJA

MATARAM BRANCH

Jl. Pejanggik No. 67, Cakranegara, Mataram
83231
Tel. 62-370-631-767/634-514
Fax. 62-370-629-992
SWIFT: SHBKIDJA

BALI BRANCH

Jl. Boulevard Sunset Road no.18, Simpang
Dewa Ruci, Kuta,Bali 80361
Tel. 62-361-4754-684/927/4752-176
SWIFT: SHBKIDJA

YOGYAKARTA BRANCH

Jl. HOS Cokroaminoto No. 104, Yogyakarta
55244
Tel. 62-274-619-808
Fax. 62-274-619-708
SWIFT: SHBKIDJA

PURWOKERTO BRANCH

Jl. Perintis Kemerdekaan Ruko No. 25,
Purwokerto 53141
Tel. 62-281-642-966/969
Fax. 62-281-642-965
SWIFT: SHBKIDJA

KARAWANG BRANCH

Jl. Tuparev No. 149, Karawang 41312
Tel. 62-267-410-555/666
Fax. 62-267-402-575
SWIFT: SHBKIDJA

BANDUNG BRANCH

Jl. Cihampelas No. 29, Bandung 40116
Tel. 62-22-4209-992
Fax. 62-22-4233-617
SWIFT: SHBKIDJA

SHINHAN BANK JAPAN

The Mita Bellju Building 5F, 108-0014 5-36-7
Shiba, Minato-ku, Tokyo, Japan
Tel. 81-3-6403-0505
Fax. 81-3-6403-0510
SWIFT: SHBKJPJXXXX

TOKYO BUSINESS DEPARTMENT

The Mita Bellju Building 4F, 108-0014 5-36-7
Shiba, Minato-ku, Tokyo, Japan
Tel. 81-3-4530-0657
Fax. 81-3-5439-5923
SWIFT: SHBKJPJXXXX

TOKYO BRANCH

Marunouchi Center Bldg. 1F 6-1 Marunouchi
1-Chome, Chiyoda-ku Tokyo 100-0005 Japan
Tel. 81-3-4530-9321
Fax. 81-3-3578-9355
SWIFT: SHBKJPJXXXX

UENO BRANCH

8F Nomura Bldg. 1-14-4, Higashiueno Taito-
ku, Tokyo, Japan
Tel. 81-3-5812-0505
Fax. 81-3-5812-0510
SWIFT: SHBKJPJXXXX

OSAKA BRANCH

3rd Fl., Resona Semba Bldg. 4-21, Minami-
Semba, 4-Chome, Chuo-ku, Osaka, Japan
Tel. 81-6-6243-2341
Fax. 81-6-6243-2346
SWIFT: SHBKJPJXXXX

OSAKCHUO BRANCH

3rd Fl., Resona Semba Bldg. 4-21, Minami-Semba, 4-Chome, Chuo-ku, Osaka, Japan
Tel. 81-6-6767-0526
Fax. 81-6-6767-0525
SWIFT: SHBKJPJXXXX

YOKOHAMA BRANCH

JN Bldg. 12F, 3-56-1 Aioi-cho, Naka-ku, Yokohama, Kanagawa, Japan
Tel. 81-45-680-5560
Fax. 81-45-680-5561
SWIFT: SHBKJPJXXXX

FUKUOKA BRANCH

8th Fl., Tenjin Mitsui Bldg. 14-13, Tenjin 2-chome, Chuo-ku, Fukuoka, Japan
Tel. 81-92-724-7004
Fax. 81-92-724-7003
SWIFT: SHBKJPJXXXX

KOBE BRANCH

Imon Kobe Bldg. 8F, 95, Edo-Machi, Chuo-ku, Kobe, Japan
Tel. 81-78-325-5605
Fax. 81-78-325-5610
SWIFT: SHBKJPJXXXX

NAGOYA BRANCH

5th Fl., Tatsuko Bldg. 6-20, Sakae 3-Chome, Naka-ku, Nagoya, Japan
Tel. 81-52-243-0506
Fax. 81-52-243-0501
SWIFT: SHBKJPJXXXX

SHINJUKU BRANCH

Daini-Monami Bldg. 2F, 31-11, Kabuki-Cho, 2-Chome, Shinjuku-Ku, Tokyo, Japan
Tel. 81-3-5287-1313
Fax. 81-3-5287-1320
SWIFT: SHBKJPJXXXX

SHINHAN BANK KAZAKHSTAN

38 Dostyk ave. Almaty, 050010, Republic of Kazakhstan
Tel. 7-727-356-9620
Fax. 7-727-264-0999
SWIFT: SHBKKZKA

YANGON BRANCH

No.192, 10th Floor, Myanmar Centre Tower 1, Kabaraye Pagoda Road, Bahan Township, Yangon, Myanmar
Tel. 95-1-9345-170
Fax. 95-1-9345-177
SWIFT: SHBKMMMY

MANILA BRANCH

21st Floor, RCBC Savings Bank Corporate Center(RSBCC), 26th & 25th Street, Bonifacio South, Bonifacio Global City, Taguig City, Manila, Philippines
Tel. 63-2-405-6300
Fax. 63-2-886-5054
SWIFT: SHBKPHMM

SINGAPORE BRANCH

1 George St. #15-03, Singapore 049145
Tel. 65-6536-1144
Fax. 65-6533-1244
SWIFT: SHBKSGSG

SHINHAN BANK UZBEKISTAN REPRESENTATIVE OFFICE

New World bldg. 3rd fl., Oybek st. 22 Tashkent, Uzbekistan 100015
Tel. 998-71-150-1184
Fax. 998-71-252-3605

SHINHAN BANK VIETNAM LTD.

Ground Floor, Mezzanine, 2nd & 3rd floor, Empress Tower, 138 – 142 Hai Ba Trung, Dakao Ward, District 1, Ho Chi Minh City, Vietnam
Tel. 84-8-3829-1581
Fax. 84-8-3829-1583
SWIFT: SHBKVNXX

BUSINESS CENTER

Ground Floor, Mezzanine, 2nd & 3rd floor, Empress Tower, 138 – 142 Hai Ba Trung, Dakao Ward, District 1, Ho Chi Minh City, Vietnam
Tel. 84-8-3829-1581
Fax. 84-8-3829-1583
SWIFT: SHBKVNXX

HOCHIMINH BRANCH

11th Fl., Centec Tower, 72-74 Nguyen Thi Minh Khai St., District 3, HCMC, Vietnam
Tel. 84-8-3823-0012
Fax. 84-8-3823-0009
SWIFT: SHBKVNXX

PHU MY HUNG BRANCH

334-336 Dang Duc Thuat St., Tan Phong Ward, District 7, HCMC, Vietnam
Tel. 84-8-5413-8700
Fax. 84-8-5417-1171
SWIFT: SHBKVNXX

SONG THAN BRANCH

No.1, Truong Son Highway, An Binh Commune, Di An District, Binh Duong Province, Vietnam
Tel. 84-8-3724-2791
Fax. 84-8-3724-2795
SWIFT: SHBKVNXX

BINH DUONG BRANCH

1F, Minh Sang Plaza, 888 Binh Duong Blvd., Thuan Giao, Thuan An, Binh Duong Province, Vietnam
Tel. 84-650-3721-100
Fax. 84-650-3721-144
SWIFT: SHBKVNXX

DONG NAI BRANCH

Donacoop Building, Phuoc Hai Area, National Road 51a, Long Thanh District, Dong Nai Province, Vietnam
Tel. 84-61-626-2762
Fax. 84-61-354-6987
SWIFT: SHBKVNXX

HANOI BRANCH

B1,4,9 Fl., Lotte Center Hanoi Building, 54 Lieu Giai, Ba Dinh, Vietnam
Tel. 84-4-3831-5130
Fax. 84-4-3831-5134
SWIFT: SHBKVNXX

TRAN DUY HUNG BRANCH

1st Floor Charmvit Grand Plaza 117 Tran Duy Hung Street, Cau Giay District, Hanoi, Vietnam
Tel. 84-4-3553-8400
Fax. 84-4-3555-0505
SWIFT: SHBKVNXX

BIEN HOA BRANCH

9th Floor Sonadezi Building, No 1, Roan 1, Bien Hoa Industrial Zone 1, Bien Hoa, Dong Nai, Vietnam
Tel. 84-61-626-2700
Fax. 84-61-625-1594
SWIFT: SHBKVNXX

BAC NINH BRANCH

1F & 2F, 76 Ly Thai To Street, Vo Cuong Ward, Bac Nanh City, Bac Ninh Province, Vietnam
Tel. 84-241-6255-880
Fax. 84-241-6255-887
SWIFT: SHBKVNXX

AN DONG BRANCH

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Tel. 84-837-593-786
Fax. 84-8-3833-1980
SWIFT: SHBKVNXX

HAI PHONG BRANCH

No.19 Lob B7 Area B1, New Urban Zone at 5 Corner-Cat Bi Airport, Le Hong Phong Street, Dong Khe Ward, Ngo Quyen District, Haiphong City, Vietnam
Tel. 84-313-266-300
Fax. 84-313-246-391
SWIFT: SHBKVNXX

THAI NGUYEN BRANCH

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Tel. 84-280-356-5333
Fax. 84-280-366-3010
SWIFT: SHBKVNXX

PHAM HUNG T/O

1st Fl, 2nd Fl, Keangnam Hanoi Landmark, Metri Ward, Nam Tu Liem Dist., Hanoi, Vietnam
Tel. 84-43-226-3226
Fax. 84-43-212-3919
SWIFT: SHBKVNXX

GO VAP BRANCH

TTTT Emart, 366 Phan Van Tri St., Ward 5, Go Vap, HCM City, Vietnam
Tel. 84-8-3588-4179
Fax. 84-8-3588-1223
SWIFT: SHBKVNXX

HOAN KIEM BRANCH

A2 1st Floor, Sentinel Place Building, 41A Ly Thai To, Ly Thai To Ward, Hoan Kiem, Hanoi City, Vietnam
Tel. 84-4-3266-3355
Fax. 84-4-3266-3395/96
SWIFT: SHBKVNXX

VINH PHUC BRANCH

1-2F, Viet Duc Financial Tower, 8 Ton Duc Thang Street, Vinh Yen City, Vinh Phuc Province, Vietnam
Tel. 84-211-3882-121
Fax. 84-211-3882-151/52
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Tel. 84-8-3741-1199
Fax. 84-8-3519-3100
SWIFT: SHBKVNXX

SAIGON BRANCH

Ground Floor, Mplaza Saigon, 39 Le Duan St., Ben Nghe Ward, District 1, Ho Chi Minh City
SWIFT: SHBKVNXX

LE THAI TO BRANCH

1st Floor, 14 Le Thai To St., Hang Trong Ward, Hoan Kiem District, Ha Noi
SWIFT: SHBKVNXX

CAU GIAY T/O

No. 102, Lot C, D5, Nguyen Phong Sac St., Dich Vong Ward, Cau Giay District, Ha Noi
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SOUTH SAIGON T/O

E-02, Lot H7, Phu My Hung Urban Area, Nguyen Van Linh St., Tan Phong Ward, District 7, HCMC.
SWIFT: SHBKVNXX

TAN BINH T/O

No. 113-115 Cong Hoa St., Ward 12, Tan Binh District, Ho Chi Minh City
SWIFT: SHBKVNXX

BAC SAIGON BRANCH

116 PhanVan Hon Street, Quarter 3, Tan Thoi Nhat Ward, District 12, HCMC.
Tel.84-28-7309-8810
SWIFT: SHBKVNXX

DISTRICT 11 T/O

43 Ong Ich Khiem Street, Ward 10, District 11, HCMC.
Tel. 84-28-7309-8750
SWIFT: SHBKVNXX

PHU NHUAN T/O

Ground Floor, Eastin Grand Hotel Saigon, 253 Nguyen Van Troi Street, Ward 10, Phu Nhuan District, HCMC
Tel. 84-28-7309-8730
SWIFT: SHBKVNXX

HA DONG T/O

B1 floor, Ho Guom Plaza, 102 Tran Phu Street, Mo Lao Ward, Ha Dong District, Hanoi City
Tel. 84-24-7309-8800
SWIFT: SHBKVNXX

ROYAL CITY T/O

1st & 2nd Floor, R4 Building, Vinhomes Royal City, 72A Nguyen Trai St. Thuong Dinh Ward, Thanh Xuan District, Ha Noi
Tel. 024-7309-9400
SWIFT: SHBKVNXX

CENTRAL PARK T/O

L4-SH-06, 208 Nguyen Huu Canh, Ward 22, Binh Thanh District, HCMC
Tel. 028-7309-9400
SWIFT: SHBKVNXX

HA NAM

Le Hoan, Hai Ba Trung, Phyl Ly City, Ha Nam
Tel. 022-6730-0300
SWIFT: SHBKVNXX

TRANG DUE T/O

No. CC3-1 Trang Due Industrial Zone, An Duong District, Hai Phong City
Tel. 022-5730-2100
Fax. 022-5730-2101
SWIFT: SHBKVNXX

DISTRICT 10 T/O

500 Duong, 3 thang 2, Ward 14, District 10, HCMC
Tel. 028-7300-4200
SWIFT: SHBKVNXX

DA NANG

No,01 Nguyen Van Linh Str, Binh Hien Str, Hai Chau ward, Da Nang City
Tel. 023-6730-0189
Fax. 023-6730-0154
SWIFT: SHBKVNXX

BINH DUONG NEW CITY

Lot A17B, NT8, Ward Hoa Phu, Thu Dau 1, Binh Duong Province
Tel. 027-4730-5010
Fax. 027-422-0785
SWIFT: SHBKVNXX

PHU MY HUNG PWM

Lot SB-02, 1F&2F Floor, 339 Ha Huy Tap Street, Tan Phong Ward, District 7, Ho Chi Minh City
Tel. 028-5429-8200
SWIFT: SHBKVNXX

MY DINH T/O

Lot 136- Kieu Nha 1N, My Dinh, My Tri, Tu Liem, Ha Noi
Tel. 024-7307-0300
Fax. 024-7307-0355
SWIFT: SHBKVNXX

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5140 Yonge Street Suite 2300 Toronto, Ontario, M2N6L7, Canada
Tel. 1-416-250-3500
Fax. 1-416-250-3507
SWIFT: SHBKCAT

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5095 Yonge Street, Unit B2, Toronto, Ontario M2N6Z4, Canada
Tel. 1-416-250-3550
Fax. 1-416-250-3460
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Fax. 1-905-272-7441
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Tel. 1-905-370-8400
Fax. 1-905-370-8414
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COQUITLAM BRANCH

Coquitlam Centre, 2929 Barnet Highway, Unit 2842, Coquitlam, BC V3B 5R5, Canada
Tel. 1-778-284-2640
Fax. 1-778-284-2641
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Tel. 1-212-371-8000
Fax. 1-212-371-8875
SWIFT: SHBKUS33

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Tel. 1-646-843-7300
Fax. 1-212-447-7477
SWIFT: SHBKUS6LNYX

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313 5th Ave., New York, NY 10016, U.S.A.
Tel. 1-646-843-7333
Fax. 1-212-447-9169
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Tel. 1-718-799-7001
Fax. 1-718-886-9157
SWIFT: SHBKUS6LNYX

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Fax. 1-718-888-9696
SWIFT: SHBKUS6LNYX

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211-11 Northern Blvd., Bayside, NY 11361, U.S.A.
Tel. 1-718-799-7090
Fax. 1-718-224-5764
SWIFT: SHBKUS6LNYX

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222 Main St., Fort Lee, NJ 07024, U.S.A.
Tel. 1-202-363-9009
Fax. 1-201-363-9049
SWIFT: SHBKUS6LNYX

PALISADEPARK BRANCH

101 Broad Avenue, Palisades Park, NJ, 07650, U.S.A.
Tel. 1-201-303-1009
Fax. 1-201-313-9688
SWIFT: SHBKUS6LNYX

LITTLENECK BRANCH

252-20 Northern Blvd. Littleneck, NY 11362, U.S.A.
Tel. 1-718-281-7888
Fax. 1-718-819-2333
SWIFT: SHBKUS6LNYX

NORTH ATLANTA BANK

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Tel. 1-678-277-8400
Fax. 1-678-277-8440
SWIFT: SHBKUS6LNYX

DULUTH BRANCH

2170 Pleasant Hill Road, Duluth, GA 30096, U.S.A.
Tel. 1-678-512-8200
Fax. 1-678-957-9974
SWIFT: SHBKUS6LNYX

DALLAS BRANCH

2174 Royal Lane Dallas, Texas, 75229, U.S.A.
Tel. 1-972-406-3540
Fax. 1-972-406-3546
SWIFT: SHBKUS6LNYX

SHINHAN BANK AMERICA

3000 West Olympic Blvd., Los Angeles, CA 90006, U.S.A.
Tel. 1-213-251-3000
Fax. 1-213-386-7208
SWIFT: SHBKUS6LCAX

OLYMPIC BRANCH

3000 West Olympic Blvd., Los Angeles, CA 90006, U.S.A.
Tel. 1-213-251-3000
Fax. 1-213-386-2170
SWIFT: SHBKUS6LCAX

BUENA PARK BRANCH

5450 Beach Blvd., Unit 101 Buena Park, CA 90621, U.S.A.
Tel. 1-714-443-6400
Fax. 1-714-443-5960/ 5961
SWIFT: SHBKUS6LCAX

TORRANCE BRANCH

22501 Crenshaw Blvd., Suites 400 & 500, Torrance, CA 90501, U.S.A.
SWIFT: SHBKUS6LCAX

IRVINE BRANCH

2730 Alton Parkway, Irvine, CA 92606, U.S.A.
Tel. 1-949-660-0505
Fax. 1-949-660-0503
SWIFT: SHBKUS6LCAX

SAN DIEGO BRANCH

3904 Convoy Street, San Diego, CA 92111, U.S.A.
Tel. 1-858-427-6830
Fax. 1-858-268-8840
SWIFT: SHBKUS6LCAX

SHINHAN BANK MEXICO

Av. Paseo de la Reforma 250, Reforma Capital Torre B, Piso17 , Cuauhtemoc, Juarez, 06600, Mexico City
Tel. 52-55-6722-8000
SWIFT: SHBKMXMMXXX

SHINHAN BANK MEXICO REPRESENTATIVE OFFICE

Av. Paseo de la Reforma 250, Reforma Capital Torre B, Piso17 , Cuauhtemoc, Juarez, 06600, Mexico City
Tel. 52-55-5525-7787/ 88

EUROPE**SHINHAN BANK EUROPE GmbH**

Neue Mainzer Strasse 75, 60311 Frankfurt am Main, Germany
Tel. 49-69-975-7130
Fax. 49-69-741-0506
SWIFT: SHBKDEFF

POLAND REPRESENTATIVE OFFICE

Wroclaw[53-025], ul. Skarbowcow 23a, Poland
Tel. 48-71-368-6851
Fax. 48-71-311-9618
SWIFT: SHBKDEFF

LONDON BRANCH

6th Floor, 77 Gracechurch Street, London, EC3V 0AS.
Tel. 44-207-600-0606
Fax. 44-207-600-1826
SWIFT: SHBKGB2L

MIDDLE EAST**DUBAI BRANCH**

S1204, Emirates Financial Tower, DIFC, P.O. Box 507001, Dubai, U.A.E.
Tel. 971-4-551-2820
Fax. 971-4-551-2893
SWIFT: SHBKAEAD

OCEANIA**SYDNEY BRANCH**

Level 25, 52 Martin Place, Sydney, NSW 2000, Australia
Tel. 61-2-9224-7901
Fax. 61-2-9221-3485
SWIFT: SHBKAU2S



No.79, Kampuchea Krom,
Sangkat Monorom, Khan 7 Makara, Phnom Penh
Tel: 023 955 001 / 002 / 095 777 665 / 098 222 595
<http://www.shinhan.com.kh/>