

Annul Report 2016

# NEW INITIATIVES TOWARD EXCELLENCE



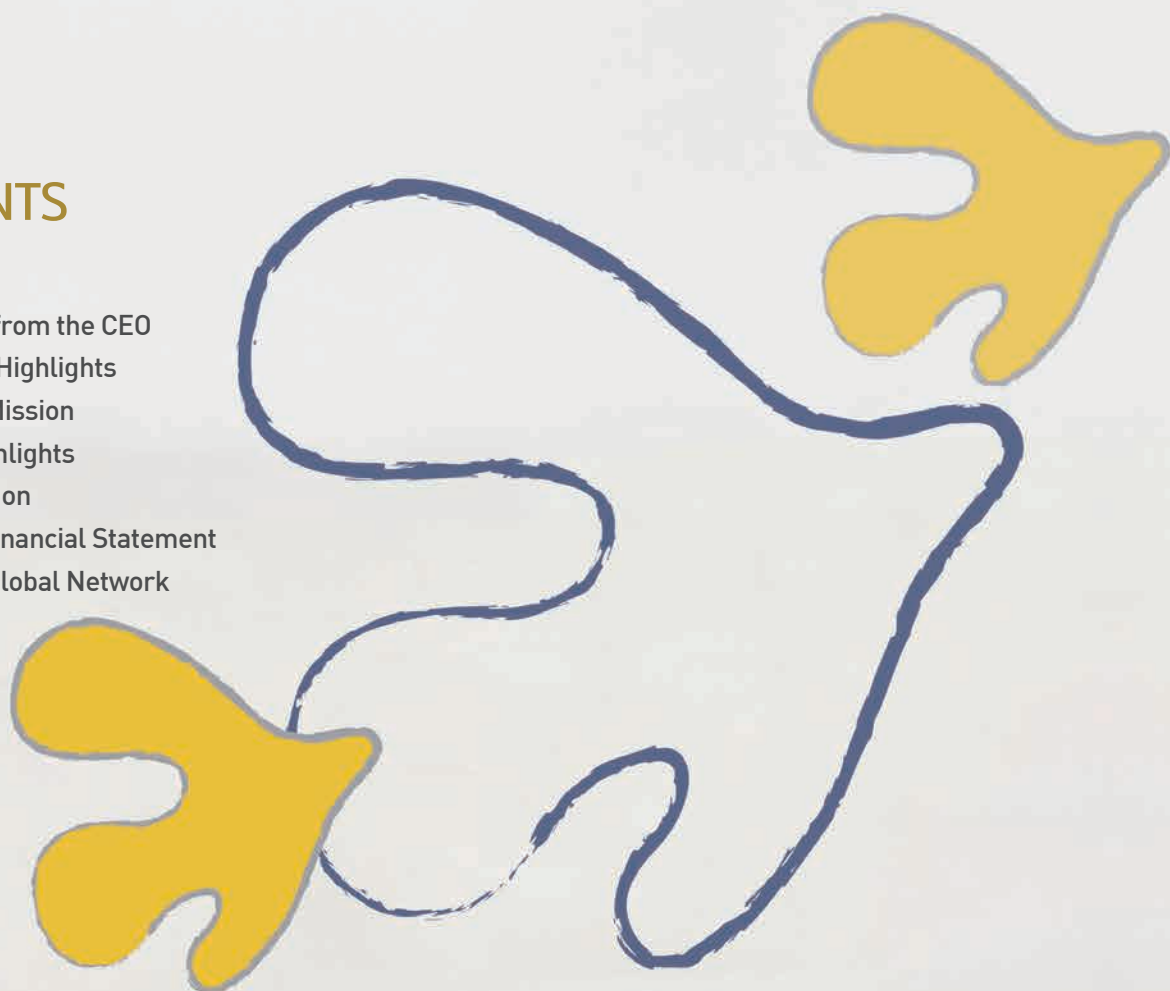
SHINHAN KHMER BANK

# New initiatives toward excellence

Shinhan Khmer Bank is committed to laying the solid foundation for becoming "Top 10 Cambodia Bank in 2020" through innovation, creating unprecedented new experiences and financial ecosystems for stakeholders, empathy for customers, companionship for a better future, and promoting the happiness of its employees.

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## History

- **2007.10**

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

- **2011.11**

Olympic branch opened as 1<sup>st</sup> branch in Phnom Penh

- **2012.12**

Teukthlar branch opened as 2<sup>nd</sup> branch

- **2013.12**

New Olympic branch was relocated for its business expansion

- **2015.03**

Daun Penh branch opened as 3<sup>rd</sup> branch

- **2015.12**

Steung Meanchey branch opened as 4<sup>th</sup> branch

- **2016.04**

Debit Card service opened

## Shareholders

- **Major Shareholders**

- Shinhan Bank (90%)
- Shinhan Savings Bank (3.25%)
- Korea Mutual Savings Bank (3.25%)
- Insung Co., Ltd. (2.5%)
- Consus Asset Management Co., Ltd.(1.0%)

\* ( ) Ownership %



## MESSAGE FROM THE CEO



Seo Byung Hyun \_ President & Chief Executive Officer

### Dear values customers

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

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

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

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

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

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

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

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

Thank you.



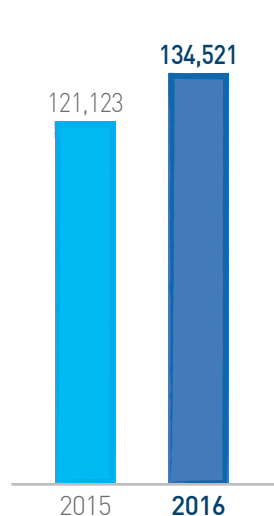
Shinhan Khmer Bank  
President & Chief Executive Officer  
**Mr. Seo Byung Hyun**



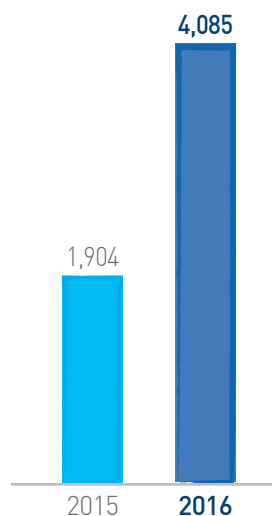
# FINANCIAL HIGHLIGHTS

Consolidated Financial Statement	USD (Thousand)		KHR (Million)	
	2016	2015	2016	2015
Total Assets	134,521	121,123	543,061	490,548
Loans and Advances	86,061	71,290	347,432	288,725
Liabilities	97,784	88,471	394,753	358,308
Deposits	46,809	53,537	188,972	216,825
Share Capital	20,000	20,000	80,740	81,000
Total Equity	36,737	32,652	148,307	132,240
Net Interest Income	6,706	5,657	27,074	22,910
Operating Profit	3,982	3,955	16,076	16,016
Profit Before Income Tax	5,296	2,420	21,380	9,804
Net Profit After Tax	4,085	1,904	16,492	7,710

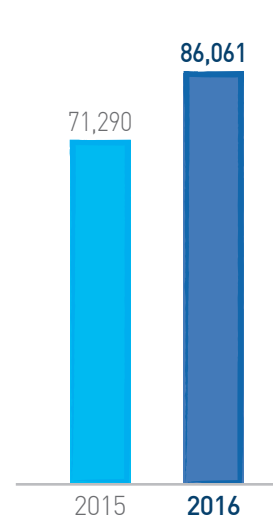
**Total Assets**  
USD (Thousand)



**Net Profit**  
USD (Thousand)



**Loans and Advances**  
USD (Thousand)



# The happiness of customers made by the happiness of employees

For the happiness of its employees, Shinhan Bank is dedicated to creating a venue where they can display their abilities and to fostering the development of global talents and financial experts. We also continue to pursue smart working initiatives which allow our employees and executives to concentrate on their duties without time and space limits and to achieve work-life balance.



# VISION & MISSION

## Vision

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

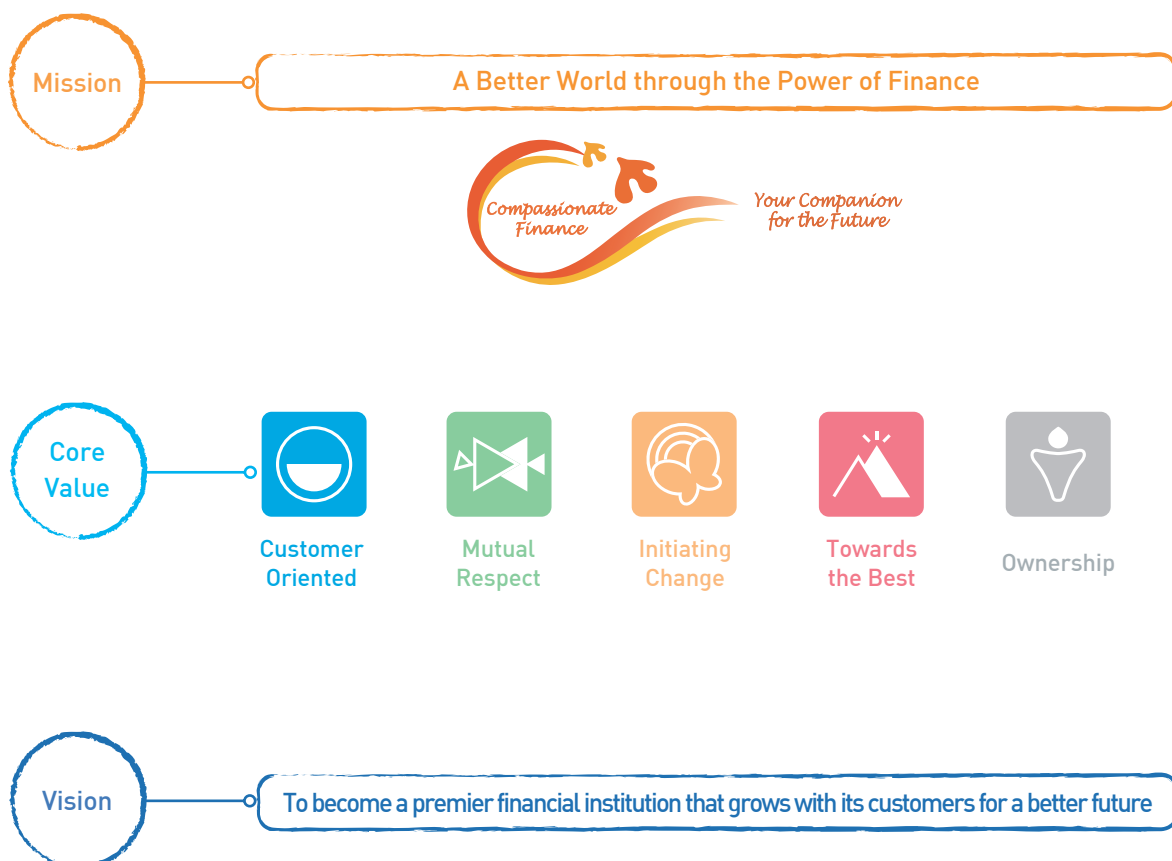
**Customers:** Seeking to become a premier financial institution that grows with its customers for a better future

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

**Employees:** Developing a great workplace, in which our employees work with pride as members of the country's number one bank

## Shinhan Way

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



## Mission

### Compassionate Finance: Benefiting society through the finance business

#### What Compassionate Finance Means

##### 1. Benefiting society through the finance business

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

##### 2. Protecting and creating value for our customers

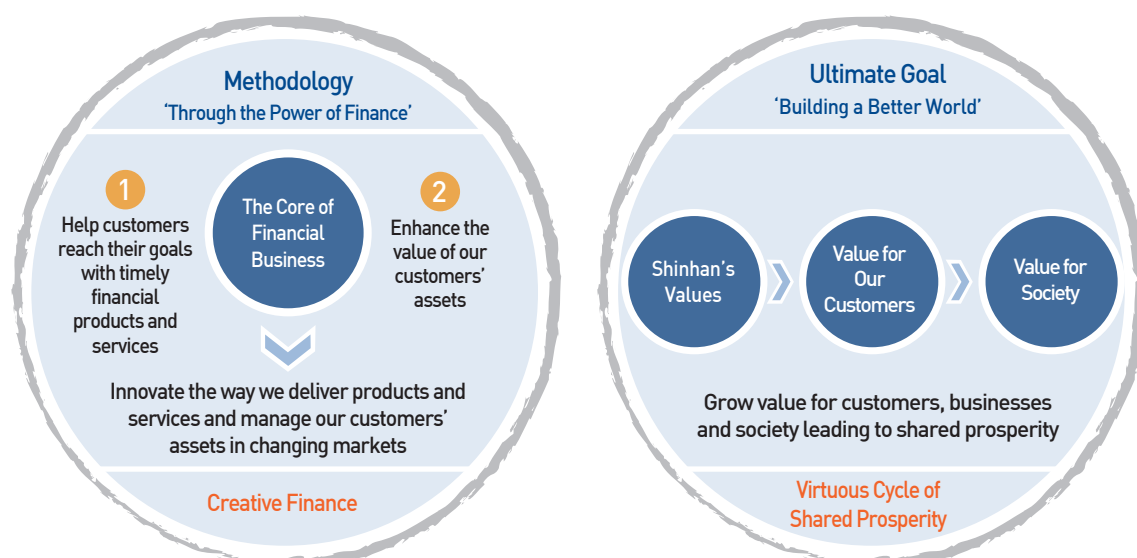
We analyze all our products and services to ensure that they benefit our customers and meet their needs. We also offer them guidance and advice on how to protect themselves financially and their assets. All of these practices demonstrate our commitment to customer value and protection. We only pursue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

##### 3. Fulfilling our social responsibilities to create a better and happier world

This means sharing the fruits of our success with all the members of society. It also includes helping the underprivileged to become fully contributing members of society.

#### Compassionate Finance, Your Companion for Future

"Promote a virtuous cycle of shared prosperity with creative financial services"





## Innovation: creating new experiences and financial ecosystems

Our attempts for innovation provide customers with new experiences and create financial ecosystems that have not previously existed. These initiatives include: securing market leadership and optimizing resources allocation (community collaboration); enhancing customer convenience and improving work efficiency from a digilog perspective (digital transformation); expanding to new territories based on strategic localization (glocalization); and managing risks to turn crises into opportunities through insight into changes (proactive risk management).





## EVENT HIGHLIGHTS



### Charity Activity

Shinhan Khmer Bank staffs participated in a charity activity periodically



### Community Contribution Activity

Shinhan Khmer Bank staffs participate in Community cleaning service





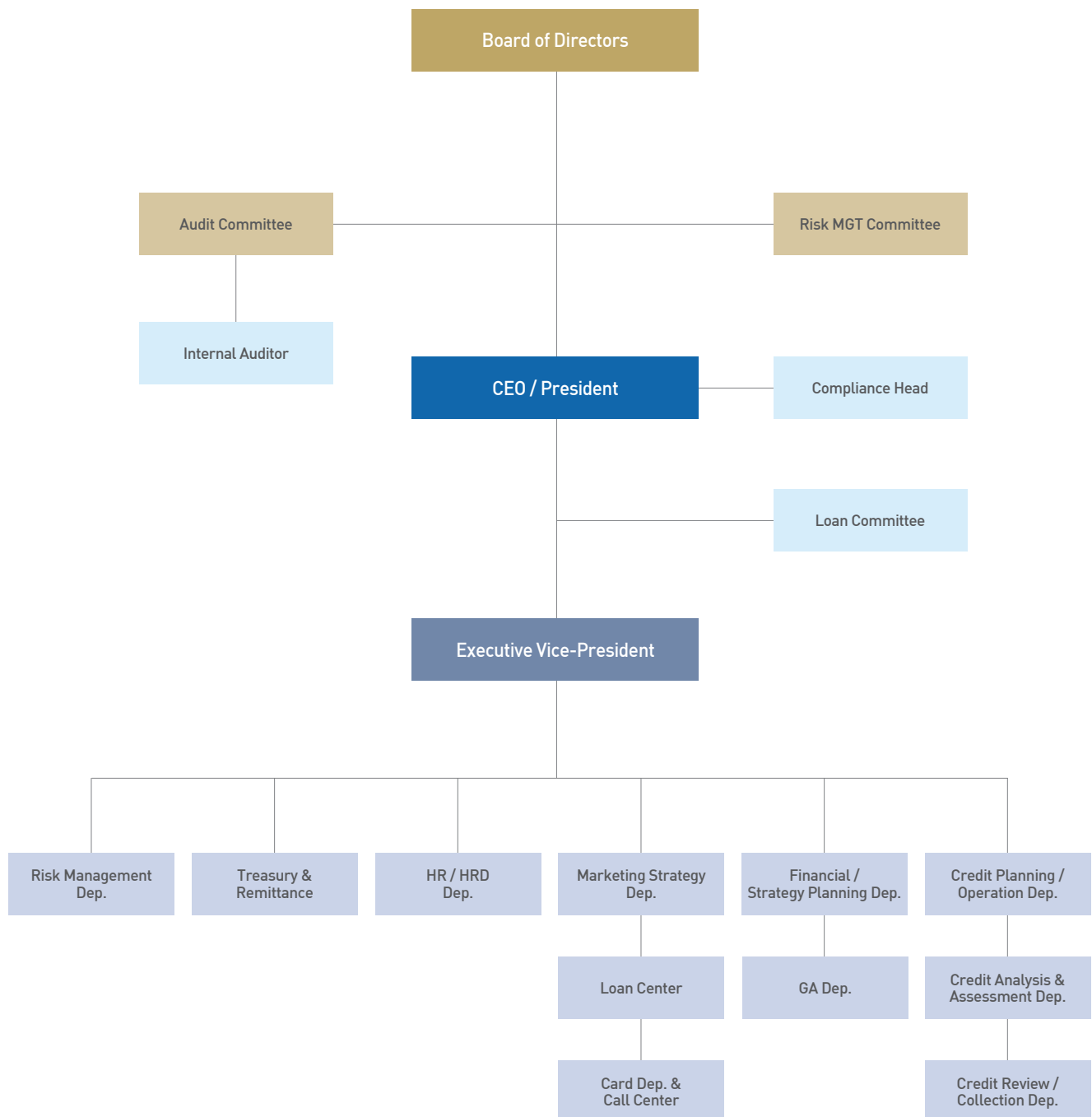
### Finance Class for Children

Shinhan Khmer Bank has kept opening finance class for children



### Compassionate Finance Training

For making win-win cycle with customer, Shinhan Khmer Bank had training on "Compassionate Finance"



## **REPORT OF THE BOARD OF DIRECTORS**

The directors (“the Board of Directors”) hereby submit their report along with the audited financial statements of Shinhan Khmer Bank Plc. (“the Bank”) for the year ended 31 December 2016.

## **PRINCIPAL ACTIVITIES**

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

## **RESULTS OF OPERATIONS AND DIVIDENDS**

The results of operations for the year ended 31 December 2016 are set out in the statement of income on page 8.

There were no dividends declared or paid during the financial year.

## **STATUTORY CAPITAL**

There have been no changes in the registered and paid-up capital of the Bank during the year.

## **RESERVES AND PROVISIONS**

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

## **BAD AND DOUBTFUL LOANS AND ADVANCES**

Before the financial statements of the Bank were drawn up, the directors took reasonable steps to ascertain that action had been taken in relation to the making of provisions for doubtful loans and advances, and satisfied themselves that adequate provisions had been made in the financial statements.

At the date of this report, the directors are not aware of any circumstances which would render the amount of the provisions for doubtful loans and advances in the financial statements of the Bank inadequate to any material amount.

## **ASSETS**

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

At the date of this report, the directors are not aware of any circumstances which would render the values attributed to the assets in the financial statements of the Bank misleading in any material respect.

## VALUATION METHODS

At the date of this report, the directors are not aware of any circumstances that have arisen which would render adherence to the existing method of valuation of assets and liabilities in the financial statements of the Bank misleading or inappropriate in any material respect.

## CONTINGENT AND OTHER LIABILITIES

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

- a. Any charge on the assets of the Bank that 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 after the end of the financial year which, in the opinion of the directors, will or may have a material effect on the ability of the Bank to meet its obligation as and when they fall due.

## CHANGES 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 in any material respect.

## ITEMS OF AN UNUSUAL NATURE

The results of the operations of the Bank for the year ended 31 December 2016 were not, in the opinion of the directors, materially 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 financial year in which this report is made.

## THE BOARD OF DIRECTORS

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

Mr. Kim Byung Kyu  
Mr. Seo Byung Hyun  
Mr. Yang Hee Chang  
Mr. Chung Jae Min  
Mr. Lee Jae Joon (resigned on 22 July 2016)  
Mr. Kim Hae Soo (appointed on 22 July 2016)



## **DIRECTORS' INTERESTS**

The directors who held office at the end of the financial year have no direct financial interest in the Bank.

## **DIRECTORS' BENEFITS**

During and at the end of the financial year, no arrangements subsisted to which the Bank is a party with the object of enabling the 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.

No director of the Bank has received or become entitled to receive any benefit by reason of a contract made by the Bank with the directors or 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.

## **RESPONSIBILITIES OF THE DIRECTORS IN RESPECT OF THE FINANCIAL STATEMENTS**

The Board of Directors is responsible to ensure that the financial statements are properly drawn up so as to give a true and fair view of the financial position of the Bank as at 31 December 2016, and of its financial performance and cash flows for the year then ended. In preparing those financial statements, the Board of Directors is required to:

- i) adopt appropriate accounting policies which are supported by reasonable and prudent judgements and estimates and then apply them consistently;
- ii) comply with the disclosures requirements of the Cambodian Accounting Standards and guidelines issued by the National Bank of Cambodia, or if there have been any departures in the interests of true and fair presentation, these have been appropriately disclosed, explained and quantified in the financial statements;
- iii) maintain adequate accounting records and an effective system of internal controls;
- iv) prepare the financial statements on a going concern basis unless it is inappropriate to assume that the Bank will continue operations in the foreseeable future; and
- v) effectively control and direct 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 the Bank has complied with the above requirements in preparing the financial statements.



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SHINHAN KHMER BANK

#277, Norodom Blvd, Tonle Bassac, Chamkarmon, Phnom Penh  
Tel: (855)23 727 380 Fax: (855)23 727 383  
SWIFT : SHBK KHPP

## STATEMENT BY DIRECTORS

We, the undersigned, being two of the directors of Shinhan Khmer Bank Plc, do hereby state that in our opinion:

- i) the results of the operations of the Bank for the year ended 31 December 2016 have not been materially affected by any item, transaction and event of any material and unusual nature nor has any such item, transaction and event occurred in the interval between the end of the year and the date of this report other than as disclosed in the financial statements, and
- ii) the accompanying financial statements of the Bank have been drawn up so as to give a true and fair view of the financial position of the Bank as at 31 December 2016 and of its financial performance and cash flows for the year ended on that date, in compliance with Cambodian Accounting Standards and the National Bank of Cambodia's guidelines.

Signed on behalf of the Board of Directors:

Seo Byung Hyun  
President

Date: 05 April 2017



Kim Byung Kyu  
Vice-president

Date: 05 April 2017



**REPORT OF INDEPENDENT AUDITORS  
TO THE SHAREHOLDERS AND BOARD OF DIRECTORS OF SHINHAN KHMER  
BANK PLC.**

**Opinion**

We have audited the financial statements of Shinhan Khmer Bank Plc. (“the Bank”), which comprise the balance sheet as at 31 December 2016 and the related statements of income, changes in equity, and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 December 2016 and of its financial performance and cash flows for the year then ended, in accordance with Cambodian Accounting Standards and the National Bank of Cambodia’s guidelines.

**Basis for Opinion**

We conducted our audit in accordance with Cambodian International Standards on Auditing (“CISAs”). Our responsibilities under those standards are further described in the *Auditor’s Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with the ethical requirements that are relevant to our audit of the financial statements in Cambodia, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Responsibilities of Management for the Financial Statements**

Management is responsible for the preparation of the financial statements that give a true and fair view in accordance with Cambodian Accounting Standards and the National Bank of Cambodia’s guidelines, 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.

(Continued)

**REPORT OF INDEPENDENT AUDITORS  
 TO THE SHAREHOLDERS AND BOARD OF DIRECTORS OF SHINHAN KHMER  
 BANK PLC. (continued)**

**Auditors' Responsibilities for the Audit of Financial Statements**

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

**Other matter**

The financial statement of Shinhan Khmer Bank Plc. for the year ended 31 December 2015 were audited by another auditor who expressed an unmodified opinion on those financial statements on 31 March 2016.

On behalf of Morison Kak & Associés

**Morison Kak & Associés**  
 Certified Public Accountants  
 Independent Auditors



Saksom Meas  
 Managing Partner



Date: 05 April 2017

An independent member of

**Morison International**

**A Global Association of Independent Professional Firms**

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 Email: mka.audit@morisonkak.com - mka.management@morisonkak.com - Website: www.morisonkak.com



# SHINHAN KHMER BANK PLC

## BALANCE SHEET AS AT 31 DECEMBER 2016

	Notes	2016 USD	KHR'000	2015 USD
<b>ASSETS</b>				
Cash on hand	4	5,225,243	21,094,306	4,158,032
Deposits and placements with banks	5	9,043,806	36,509,845	16,747,910
Balances with NBC	6	16,799,042	67,817,733	10,931,602
Loans and advances to customers	7	86,061,936	347,432,036	71,290,193
Statutory deposits with NBC	8	15,149,542	61,158,701	15,754,568
Other assets	9	580,010	2,341,500	596,683
Intangible assets	10	121,357	489,918	20,645
Property and equipment	11	1,539,900	6,216,576	1,623,302
<b>TOTAL ASSETS</b>		<b>134,520,836</b>	<b>543,060,615</b>	<b>121,122,935</b>
<b>LIABILITIES</b>				
Deposits from non-bank customers	12	24,454,364	98,722,268	27,784,699
Deposits from banks	13	22,355,682	90,249,888	25,752,379
Short-term borrowing	14	49,000,000	197,813,000	34,000,000
Payables and other liabilities	15	843,413	3,404,858	497,058
Provision for income tax	23	1,130,380	4,563,344	437,039
<b>TOTAL LIABILITIES</b>		<b>97,783,839</b>	<b>394,753,358</b>	<b>88,471,175</b>
<b>CAPITAL AND RESERVES</b>				
Share capital	16	20,000,000	80,740,000	20,000,000
Reserve	17	5,621,275	22,693,087	5,621,275
Retained earnings		11,115,722	44,874,170	7,030,485
<b>TOTAL CAPITAL AND RESERVES</b>		<b>36,736,997</b>	<b>148,307,257</b>	<b>32,651,760</b>
<b>TOTAL LIABILITIES AND CAPITAL</b>		<b>134,520,836</b>	<b>543,060,615</b>	<b>121,122,935</b>
<b>Commitments and contingencies</b>	26.1	<b>9,369,975</b>	<b>37,826,588</b>	<b>7,984,978</b>

Signed and authorised for release on behalf of the Board



Seo Byung Hyun  
President

Date: 05 April 2017



Kim Byung Kyu  
Vice-president

Date: 05 April 2017

*The accompanying notes from page 11 to 41 form an integral part of these financial statements.*

# SHINHAN KHMER BANK PLC

## STATEMENT OF INCOME FOR THE YEAR ENDED 31 DECEMBER 2016

	Notes	2016		2015
		USD	KHR'000	USD
Interest income	18	7,971,523	32,181,038	7,096,521
Interest expense	19	(1,265,155)	(5,107,431)	(1,439,695)
<b>Net interest income</b>		<b>6,706,368</b>	<b>27,073,607</b>	<b>5,656,826</b>
Non-interest income	20	1,005,850	4,060,616	920,051
Personnel costs	21	(1,395,703)	(5,634,453)	(1,164,636)
Depreciation and amortisation	10/11	(225,390)	(909,899)	(165,162)
Other operating expenses	22	(2,109,003)	(8,514,045)	(1,292,264)
<b>Operating profit</b>		<b>3,982,122</b>	<b>16,075,826</b>	<b>3,954,815</b>
Recovery from /(provision for) loan losses	7	1,313,982	5,304,545	(1,534,043)
<b>Profit before income tax</b>		<b>5,296,104</b>	<b>21,380,371</b>	<b>2,420,772</b>
Income tax expense	23	(1,210,867)	(4,888,270)	(517,060)
<b>Net profit for the year</b>		<b>4,085,237</b>	<b>16,492,101</b>	<b>1,903,712</b>

Signed and authorised for release on behalf of the Board



Seo Byung Hyun  
President

Date: 05 April 2017



Kim Byung Kyu  
Vice-president

Date: 05 April 2017

*The accompanying notes from page 11 to 41 form an integral part of these financial statements.*

SHINHAN KHMER BANK PLC

STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2016

	Share capital USD	Reserve USD	Retained earnings USD	Total USD
Balance as at 1 January 2015	20,000,000	5,621,275	5,126,773	30,748,048
Net profit for the year	-	-	1,903,712	1,903,712
<b>Balance as at 31 December 2015</b>	<b>20,000,000</b>	<b>5,621,275</b>	<b>7,030,485</b>	<b>32,651,760</b>
Balance as at 1 January 2016	20,000,000	5,621,275	7,030,485	32,651,760
Net profit for the year	-	-	4,085,237	4,085,237
<b>Balance as at 31 December 2016</b>	<b>20,000,000</b>	<b>5,621,275</b>	<b>11,115,722</b>	<b>36,736,997</b>
<i>Balance as at 31 December 2016 (KHR'000 equivalents)</i>	<i>80,740,000</i>	<i>22,693,087</i>	<i>44,874,170</i>	<i>148,307,257</i>

*The accompanying notes from page 11 to 41 form an integral part of these financial statements.*



# SHINHAN KHMER BANK PLC

## STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2016

	Note	2016		2015
		USD	KHR'000	USD
<b>Cash flows from operating activities</b>				
Net cash used in operating activities	24	(8,027,962)	(32,408,882)	(2,035,424)
<b>Cash flows from investing activities</b>				
Purchase of intangible assets	10	(112,023)	(452,237)	(3,793)
Purchases of property and equipment	11	(136,918)	(552,738)	(711,473)
Proceeds from disposals of property and equipment		2,500	10,093	-
Dividends received		4,950	19,983	14,256
Net cash used in investing activities		(241,491)	(974,899)	(701,010)
<b>Cash flows from financing activities</b>				
Proceed from borrowings		15,000,000	60,555,000	-
Net cash generated from financing activities		15,000,000	60,555,000	-
Net changes in cash and cash equivalents		6,730,547	27,171,219	(2,736,434)
Cash and cash equivalents, beginning of year		21,837,544	88,158,165	24,573,978
Cash and cash equivalents, end of year		<u>28,568,091</u>	<u>115,329,384</u>	<u>21,837,544</u>
<b>Represented by:</b>				
Cash in hand	4	5,225,243	21,094,306	4,158,032
Deposits and placements with banks	5	6,543,806	26,417,345	6,747,910
Balances with central bank	6	16,799,042	67,817,733	10,931,602
		<u>28,568,091</u>	<u>115,329,384</u>	<u>21,837,544</u>

*The accompanying notes from page 11 to 41 form an integral part of these financial statements.*



SHINHAN KHMER BANK PLC

STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 31 DECEMBER 2016

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## **SHINHAN KHMER BANK PLC.**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016**

#### **1. GENERAL INFORMATION**

Shinhan Khmer Bank Plc. (“the Bank”) was incorporated in Cambodia on 27 June 2007 under Registration No. Co-3877/07E 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”).

The Bank is a subsidiary of Shinhan Bank, a bank licensed and incorporated in Korea.

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

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

The financial statements were approved for issue by the Board of Directors on 05 April 2017.

#### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The principal accounting policies applied in the preparation of these financial statements are set out below.

##### **2.1 Basis of preparation**

The financial statements of the Bank are prepared under the historical cost convention in accordance with Cambodian Accounting Standards (“CAS”) and the guidelines issued by the National Bank of Cambodia (“NBC”). Those principles require that financial instruments be carried at cost less allowances for impairment. This practice differs from the International Financial Reporting Standards which require that loans and receivables be carried at amortised cost using the effective interest method of any difference between the initial amount and the maturity amount, and minus any reduction for impairment or uncollectability.

The presentation of financial statements in conformity with CAS as modified by NBC guidelines requires Management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. The estimates have been made based on existing available information and the Management’s best knowledge of current event and actions; therefore, actual results may ultimately differ from those estimates.

The accompanying financial statements are prepared for jurisdiction of Cambodia and the guidelines issued by the National Bank of Cambodia. It is not intended to present the financial position and results of operations and cash flows in accordance with accounting principles and practices generally accepted in other countries and jurisdictions other than Cambodia.

##### **2.2 Basis of aggregation**

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



## SHINHAN KHMER BANK PLC.

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

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

##### 2.3 New accounting framework

On 28 August 2009, the National Accounting Council (“NAC”), as mandated by Prakas (Circular) No. 068-MEF-Pr dated 8 January 2009 issued by the Ministry of Economy and Finance of Cambodia, announced the adoption of the Cambodian International Financial Reporting Standards (“CIFRS”) which are based on full International Financial Reporting Standards. Public accountable entities shall prepare their financial statements in accordance with CIFRS for accounting period beginning on or after 1 January 2012.

The NAC announced on 30 July 2012 that the implementation of CIFRS is postponed until 1 January 2016 for banking and financial institutions to allow the dissemination of the standards amongst their personnel.

On 20 October 2015, the Association of Banks in Cambodia, citing a lack of preparedness of a significant number of banks for adoption of CIFRS, has submitted a request to the NBC to defer the implementation of the CIFRS until the fiscal year 2019. Pursuant to this request, the NBC has on 16 November 2015 made an official request to the NAC to postpone the implementation of the CIFRS to fiscal year 2019 with early application permitted. The NAC has agreed to postpone the implementation of the CIFRS to fiscal year 2019 in its communiqué dated 25 February 2016.

The current accounting standards used is different to the CIFRS in many areas. Hence, the adoption of CIFRS will have significant impact on the financial statements. The Bank will assess the full impact of the first adoption of CIFRS and the CIFRS implementation will be updated as necessary should they occur.

##### 2.4 Foreign currencies translation

###### (a) *Functional and presentation currency*

Items included in the financial statements of the Bank are measured using the currency of the primary economic environment in which the Bank operates (‘the functional currency’). The Bank transacts essentially in US Dollar (“USD”) and maintains its books of accounts primarily in USD, and the Management has determined the USD to be the Bank’s measurement and functional currency as it reflects the economic substance of the underlying events and circumstances of the Bank.

In compliance with the requirements of the NBC, the balance sheet, statements of income, changes in equity and cash flows, and notes to the financial statements in foreign currencies for the year are converted into thousand Khmer Riel (“KHR’000”) using the official exchange rate announced by the NBC at the balance sheet date, of 1 USD = 4,037 KHR (2015: 1 USD = 4,050 KHR). The purposes of such conversions are to comply with NBC’s financial statements presentation guidelines only and should not be construed as representations that the KHR amounts have been, could be, or could in the future be, converted into USD at this or any other rate of exchange.

###### (b) *Transactions and balances*

Assets and liabilities expressed in currencies other than USD are translated into USD at the rate of exchange at the date of the balance sheet. Income and expenses arising in foreign currencies are translated at the rate of exchange prevailing on the transaction dates. Exchange differences arising from such translation are reported on a net basis in the statement of income.

## SHINHAN KHMER BANK PLC.

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

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

##### 2.5 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, non-restricted balances with the National Bank of Cambodia and balances with other banks which are readily convertible to known amounts of cash within three months and subject to an insignificant risk of changes in value.

##### 2.6 Statutory deposits with central bank

Statutory deposits represent mandatory reserve deposits and cash maintained with the NBC in compliance with the Law on Banking and Financial Institutions ("LBFI") and are not available to finance the Bank day-to-day operations and hence are not considered as part of cash and cash equivalents for the purpose of the statement of cash flows.

##### 2.7 Loans and advances to customers

Loans originated by the Bank by providing money directly to the borrowers at draw down are categorised as loans and advances and are carried at outstanding balances and interest, less allowances for loan loss and any amount written off. Interest in suspense represents interest accrued on loan receivables that are classified as substandard, doubtful or loss.

Loans are written off when there is no realistic prospect of recovery. Recoveries on loans previously written off and reversals of previous provisions are disclosed separately together with the net movement in the provision for bad and doubtful loans and advances in the statement of income.

##### 2.8 Allowances for loan losses

Allowances for loan losses are based on the latest mandatory credit classification and provisioning guidelines required by Prakas B7-09-074 dated 25 February 2009 issued by the NBC. Allowances are made with regard to specific risks on loans individually reviewed and classified into five classes as normal, special mention, substandard, doubtful and loss.

NBC guidelines require the following loan classification and minimum level of allowances:

Classification	Overdue	Type of provision	Rate of allowances
Normal/Standard	Performing in accordance with contractual terms, less than 30 days	General provision	1%
Special mention	30 days or more, but less than 90 days	Specific provision	3%
Substandard	90 days or more, but less than 180 days	Specific provision	20%
Doubtful	180 days or more, but less than 360 days	Specific provision	50%
Loss	360 days or more	Specific provision	100%

In accordance with NBC guidelines, overdue loans are defined as the total outstanding principal where the principal or interest is past due.



NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016

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

**2.9 Other credit related commitments**

In the normal course of business, the Bank enters into other credit related commitments including loan commitments, letters of credit, and guarantees. The accounting policy and allowance methodology are similar to those for originated loans noted above. Specific allowances are raised against other credit related commitments when losses are considered probable.

**2.10 Other assets**

Other assets are carried at estimated realisable value.

**2.11 Intangible assets**

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

Acquired computer software is amortised on a straight line method at the useful life of seven years and on a declining balance method at the rate of 50% per annum.

**2.12 Property and equipment**

Property and equipment are stated at historical cost less accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of income during the financial year in which they are incurred.

Depreciation of property and equipment is calculated on a straight-line and declining balance method over the estimated useful lives of the assets at the following rates per annum:

Leasehold improvements (straight-line method)	5%
Office equipment (declining balance method)	50%
Furniture and fixtures (declining balance method)	25% to 50%
Motor vehicles (declining balance method)	25%

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Gains and losses on disposal are determined by comparing proceeds with carrying amount and are recognised in the statement of income.

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016

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

**2.13 Impairment of assets**

**(i) *Impairment of financial assets***

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimate future cash flows of that asset.

An impairment loss in respect of a financial asset is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in the statement of income. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised.

**(ii) *Impairment of non-financial assets***

Assets that are subject to amortisation or depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

Any impairment loss is charged to the statement of income in the period in which it arises. Reversal of impairment loss is recognised in the statement of income to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation and amortisation, had no impairment loss been recognised.

**2.14 Deposits from customers and banks**

Deposits from customers and banks are stated at placement value.

**2.15 Borrowings**

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

**2.16 Interest income and expense**

Interest earned on loans and advances to customers, deposits with the Central Bank and placements with other banks are recognised on the accrual basis.

Where an account is classified as non-performing, recognition of interest income is suspended until it is realised on a cash basis. Customer's loan accounts are classified as non-performing where repayments are in arrears for ninety days and more.

Interest expenses on the deposits and borrowings are recognised on an accrual basis.



NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016

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

**2.17 Fee and commission income**

Loan arrangement fee and commissions are recognised based on the occurrence when the service has been provided and consideration received.

Commitment fees and guarantee fees on services and facilities extended to customers are recognised as income based on time apportionment.

Service charges and processing fees are recognised as income when the service is provided.

**2.18 Income tax**

Income tax expense for the period comprises current and deferred tax. Income tax is recognised in the statement of income except to the extent that it relates to items recognised directly to equity, in which case, it is recognised in equity. Taxes other than on income are recorded within operating expenses.

Current tax is calculated on the basis of taxable profit using tax rates that have been enacted or substantially enacted at the balance sheet date in accordance with Cambodian Law on Taxation.

Deferred tax is provided on temporary differences between tax bases of assets and liabilities and their carrying amounts in the financial statements. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rate enacted or substantially enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is more likely than not that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

**2.19 Provisions**

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligations; and a reliable estimate of the amount of the obligation can be made.

**2.20 Operating leases**

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the statement of income on a straight-line basis over the period of the lease.

**2.21 Related parties**

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions.

Under the LBFI, the definition of related parties includes parties who hold, directly or indirectly, at least 10 percent of the capital or voting rights and includes any individual who participates in the administration, direction, management or internal control of the Bank.

## SHINHAN KHMER BANK PLC.

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

#### 3. USE OF ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and based on historical experience and other factors, including expectations with regard to future events that are believed to be reasonable under the circumstances. These estimates may differ from actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

##### *(a) Impairment losses on loans and advances*

The Bank follows the mandatory credit classification and provisioning as required by Prakas No. B7-09-074 dated 25 February 2009 on asset classification and provisioning in the banking and financial institutions issued by the NBC. The NBC requires commercial banks to classify their loans, advances and similar assets into five classes and the minimum mandatory level of provisioning is provided, depending on the classification concerned and regardless of the assets lodged as collateral. For the purpose of loan classification, the Bank takes into account all risks and relevant factors which may affect the counterparties' repayment abilities.

##### *(b) Income tax*

Taxes are calculated on the basis of current interpretation of the tax regulations. However, these regulations are subject to periodic variation and the ultimate determination of tax expenses will be made following inspection by the Tax Authorities.

Where the final tax outcome is different from the amounts that were initially recorded, such differences will have an impact on the tax provisions in the financial period in which such determination is made. These factors may create significant tax exposure for the Bank. The Directors believe that they have understood relevant tax regulations and adequately provided for tax liabilities based on their interpretation of current tax regulations.

##### *(c) Property and equipment*

Accounting for property and equipment involves the use of estimates for determining the expected useful lives of these assets. The determination of the useful lives of the assets is based on Management's judgement.

#### 4. CASH ON HAND

	2016		2015
	USD	KHR'000	USD
Cash on hand - KHR	22,320	90,106	72,168
Cash on hand - USD	5,202,923	21,004,200	4,085,864
	<u>5,225,243</u>	<u>21,094,306</u>	<u>4,158,032</u>

# SHINHAN KHMER BANK PLC.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

### 5. DEPOSITS AND PLACEMENTS WITH BANKS

	2016		2015
	USD	KHR'000	USD
Local banks:			
Aceda Bank Plc. - term deposit	2,500,000	10,092,500	10,000,000
Overseas banks:			
Current accounts			
Wells Fargo Bank	543,806	2,195,345	6,747,910
KEB HANA Bank, Hong Kong Branch	6,000,000	24,222,000	-
	<u>9,043,806</u>	<u>36,509,845</u>	<u>16,747,910</u>

Further analysis is as follows:

	2016		2015
	USD	KHR'000	USD
(a) By maturity:			
Within one month	6,543,806	26,417,345	6,747,910
Three to twelve months	2,500,000	10,092,500	10,000,000
	<u>9,043,806</u>	<u>36,509,845</u>	<u>16,747,910</u>
(b) By currency denomination:			
US Dollar	<u>9,043,806</u>	<u>36,509,845</u>	<u>16,747,910</u>
(c) By annual interest rates:			
	<u>2016</u>	<u>2015</u>	
	%	%	
Time deposits	<u>1.75</u>	<u>1.75</u>	

### 6. BALANCES WITH NBC

These balances represent placements with the National Bank of Cambodia bearing interest at rates ranging from 0.17% to 0.52% p.a. (2015: 0.18% to 0.52% p.a.). Further analysis is as follows:

	2016		2015
	USD	KHR'000	USD
(a) By maturity:			
Within one month - current account	15,749,042	63,578,882	8,671,602
Later than one to three months - term deposits	<u>1,050,000</u>	<u>4,238,851</u>	<u>2,260,000</u>
	<u>16,799,042</u>	<u>67,817,733</u>	<u>10,931,602</u>
(b) By currency denomination:			
Khmer Riel	712,464	2,876,217	622,726
US Dollar	<u>16,086,578</u>	<u>64,941,516</u>	<u>10,308,876</u>
	<u>16,799,042</u>	<u>67,817,733</u>	<u>10,931,602</u>



SHINHAN KHMER BANK PLC.

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016

7. LOANS AND ADVANCES TO CUSTOMERS

	2016		2015
	USD	KHR'000	USD
Commercial loans	41,149,287	166,119,672	43,111,361
Consumer loans	20,084,259	81,080,154	11,563,038
Mortgage loans	10,468,969	42,263,228	6,710,803
Motor vehicle loans	234,448	946,467	36,750
Overdrafts	17,007,422	68,658,963	14,064,672
	88,944,385	359,068,484	75,486,624
General provisions for loan losses	(866,258)	(3,497,085)	(711,143)
Specific provisions for loan losses	(2,016,191)	(8,139,363)	(3,485,288)
	(2,882,449)	(11,636,448)	(4,196,431)
Net loans and advances to customers	86,061,936	347,432,036	71,290,193

Movement in provision for loans losses were as follows:

	2016		2015
	USD	KHR'000	USD
At beginning of the year	4,196,431	16,940,993	2,662,388
Provision/recovery during the year	(1,313,982)	(5,304,545)	1,534,043
At the end of the year	2,882,449	11,636,448	4,196,431

Further analysis of the above loans and advances to customers are as follows:

	2016		2015
	USD	KHR'000	USD
(a) By economic sectors:			
Wholesale and retail	21,394,766	86,370,670	18,327,336
Construction	16,105,187	65,016,640	15,360,723
Manufacturing	12,093,079	48,819,760	11,920,711
Hotel and restaurant	12,207,674	49,282,380	11,157,283
Housing loans	10,152,083	40,983,959	6,710,803
Services	7,237,176	29,216,480	6,262,642
Financial institutions	4,000,000	16,148,000	-
Agriculture	2,436,391	9,835,710	2,531,183
Transport and storage	2,171,971	8,768,247	2,374,025
Utilities	399,568	1,613,056	621,429
Other services	746,490	3,013,582	220,489
	88,944,385	359,068,484	75,486,624



SHINHAN KHMER BANK PLC.

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016

7. LOANS AND ADVANCES TO CUSTOMERS (continued)

	2016		2015
	USD	KHR'000	USD
(b) By performance:			
Standard loans:			
- Secured	85,145,870	343,733,877	70,931,607
- Unsecured	1,479,819	5,974,030	219,427
Special mention:			
- Secured	239,696	967,654	599,000
- Unsecured	-	-	-
Sub-standard:			
- Secured	-	-	336,590
- Unsecured	-	-	-
Doubtful:			
- Secured	140,000	565,180	-
- Unsecured	-	-	-
Loss:			
- Secured	1,939,000	7,827,743	3,400,000
- Unsecured	-	-	-
	<u>88,944,385</u>	<u>359,068,484</u>	<u>75,486,624</u>

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

	2016		2015
	USD	KHR'000	USD
(c) By maturity period:			
Within one month	5,042,269	20,355,642	11,058,226
Later than one to three months	5,388,145	21,751,941	9,797,539
Later than three to twelve months	33,846,715	136,639,188	34,005,233
One to five years	30,908,042	124,775,766	14,704,187
Over five years	13,759,214	55,545,947	5,921,439
	<u>88,944,385</u>	<u>359,068,484</u>	<u>75,486,624</u>

(d) By currency denomination:

US Dollar	<u>88,944,385</u>	<u>359,068,484</u>	<u>75,486,624</u>
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(e) By status of residence:

Residents	88,420,385	356,953,094	75,486,624
Non-residents	524,000	2,115,390	-
	<u>88,944,385</u>	<u>359,068,484</u>	<u>75,486,624</u>

# SHINHAN KHMER BANK PLC.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

### 7. LOANS AND ADVANCES TO CUSTOMERS (continued)

	2016		2015
	USD	KHR'000	USD
(f) By relationship:			
Non related parties	88,944,385	359,068,484	75,486,624
(g) By exposures:			
Large exposures (*)	6,608,420	26,678,190	9,290,728
Non large exposures	82,335,965	332,390,294	66,195,896
	88,944,385	359,068,484	75,486,624

(\*) As of 31 December 2016, the Bank has two large exposures with a single beneficiary where such exposure exceeded 10% of the Bank's net worth but not exceeding the maximum ceiling limit of 20% of its net worth (31 December 2015: one large exposure). All of these loans do not exceed 300% as aggregate of individual large credit exposure of the net worth.

(h) By interest rates (per annum):	2016	2015
Commercial loans	6% - 15%	6% - 15%
Consumer loans	6% - 15%	6% - 15%
Mortgage loans	6% - 10%	6% - 10%
Motor vehicle loans	10%	10%
Overdrafts	6% - 14%	6% - 14%

### 8. STATUTORY DEPOSITS WITH CENTRAL BANK

	2016		2015
	USD	KHR'000	USD
Statutory capital deposit	2,000,000	8,074,000	2,000,000
Reserve requirements on customer deposits	13,149,542	53,084,701	13,754,568
	15,149,542	61,158,701	15,754,568

#### (a) Statutory capital deposit:

Under NBC's Prakas No. B 7-01-136 dated 15 October 2001; the Bank is required to maintain a statutory deposit of ten percent 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. The statutory capital deposit earns interest at ¼ LIBOR (six months).

#### (b) Reserve requirements on customer deposits:

The reserve deposit with the NBC is to comply with the NBC's Prakas No. B7-012-140 dated 27 September 2012. As per the Prakas, the Bank shall maintain reserve requirements against deposits and borrowings at a daily average balance equal to eight percent (8%) in Riels and twelve percent (12.5%) in foreign currencies with the NBC. The 8% of reserve requirement in foreign currencies do not earn interest while the remaining 4.5% earns interest at ½ LIBOR calculated on monthly basis.

SHINHAN KHMER BANK PLC.

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016

8. STATUTORY DEPOSITS WITH CENTRAL BANK (continued)

(c) The above deposits earn interest at the following rates per annum:

	2016	2015
Statutory capital deposits	0.2% - 0.22%	0.11% - 0.18%
8% of reserve requirements in foreign currencies	Nil	Nil
4.5% of reserve requirements in foreign currencies	0.21% - 0.38%	0.11% - 0.18%

9. OTHER ASSETS

	2016		2015
	USD	KHR'000	USD
Accrued interests receivables	333,192	1,345,096	357,184
Deposits and prepayments	156,620	632,275	149,379
Guarantee deposits	65,120	262,889	65,120
Equity investment (*)	25,000	100,925	25,000
Others	78	315	-
	<u>580,010</u>	<u>2,341,500</u>	<u>596,683</u>

(\*) Equity investment represents an investment of 1% of share capital in Credit Bureau (Cambodia) Co., Ltd. to establish the Private Credit Bureau in Cambodia. This equity investment carries no interest.

10. INTANGIBLE ASSETS

	2016		2015
System and software	USD	KHR'000	USD
<b>Cost</b>			
Balance brought forward	168,217	679,092	164,424
Addition	<u>112,023</u>	<u>452,237</u>	<u>3,793</u>
<b>Balance carried forward</b>	<b>280,240</b>	<b>1,131,329</b>	<b>168,217</b>
<b>Less: accumulated amortisation</b>			
Balance brought forward	147,572	595,748	144,971
Charge for the year	<u>11,311</u>	<u>45,663</u>	<u>2,601</u>
<b>Balance carried forward</b>	<b>158,883</b>	<b>641,411</b>	<b>147,572</b>
<b>Net book value</b>	<b><u>121,357</u></b>	<b><u>489,918</u></b>	<b><u>20,645</u></b>

SHINHAN KHMER BANK PLC.

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016

11. PROPERTY AND EQUIPMENT

	Leasehold improvements	Computer equipment	Office equipment and furniture	Motor vehicles	Total USD	Total KHR'000
Cost	USD	USD	USD	USD	USD	KHR'000
At 1 January 2016	1,821,894	444,195	222,301	176,560	2,664,950	10,758,403
Additions	11,336	68,201	7,931	49,450	136,918	552,738
Disposal	-	-	-	(48,000)	(48,000)	(193,776)
Write off	-	(128,147)	(30,037)	-	(158,184)	(638,589)
At 31 December 2016	1,833,230	384,249	200,195	178,010	2,595,684	10,478,776
Accumulated depreciation						
At 1 January 2016	463,081	309,832	142,648	126,087	1,041,648	4,205,133
Charge for the year	91,821	85,987	20,705	15,566	214,079	864,234
Disposal	-	-	-	(44,307)	(44,307)	(178,866)
Write off	-	(127,607)	(28,029)	-	(155,636)	(628,303)
At 31 December 2016	554,902	268,212	135,324	97,346	1,055,784	4,262,198
Net book value						
At 31 December 2016	1,278,328	116,037	64,871	80,664	1,539,900	6,216,576
At 31 December 2015	1,358,813	134,363	79,653	50,473	1,623,302	6,553,270
Depreciation charge for 2015	76,910	57,140	14,407	14,104	162,561	



SHINHAN KHMER BANK PLC.

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016

12. DEPOSITS FROM NON-BANK CUSTOMERS

	2016		2015
	USD	KHR'000	USD
Current accounts	4,738,882	19,130,871	5,837,856
Savings accounts	14,853,468	59,963,446	15,629,208
Time deposits	4,862,014	19,627,951	6,317,635
	<u>24,454,364</u>	<u>98,722,268</u>	<u>27,784,699</u>

Further analysis is as follows:

	2016		2015
	USD	KHR'000	USD
(a) By maturity period:			
Within one month	19,592,350	79,094,317	22,943,695
More than one month to three months	111,666	450,795	1,479,642
More than three months to twelve months	1,550,198	6,258,149	3,178,416
Over one year	3,200,150	12,919,007	182,946
	<u>24,454,364</u>	<u>98,722,268</u>	<u>27,784,699</u>

(b) By status of residence:

Residents	17,899,881	72,261,820	22,791,543
Non-residents	<u>6,554,483</u>	<u>26,460,448</u>	<u>4,993,156</u>
	<u>24,454,364</u>	<u>98,722,268</u>	<u>27,784,699</u>

(c) By currency denomination:

US Dollar	24,184,911	97,634,486	27,666,521
Khmer Riel	<u>269,453</u>	<u>1,087,782</u>	<u>118,178</u>
	<u>24,454,364</u>	<u>98,722,268</u>	<u>27,784,699</u>

(d) By relationship:

Non-related parties	<u>24,454,364</u>	<u>98,722,268</u>	<u>27,784,699</u>
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(e) By interest rates (per annum):

	2016 (% P.A.)	2015 (% P.A.)
Saving deposits	0.25%	0.25%
Fixed deposits	1.25 - 5.55%	1.25 - 5.55%
Margin deposits	-	-

SHINHAN KHMER BANK PLC.

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13. DEPOSITS FROM BANKS

	2016		2015
	USD	KHR'000	USD
Current accounts	770,932	3,112,252	243,344
Savings accounts	276,520	1,116,311	119,450
Time deposits	21,308,230	86,021,325	25,389,585
	<u>22,355,682</u>	<u>90,249,888</u>	<u>25,752,379</u>

Further analysis is as follows:

	2016		2015
	USD	KHR'000	USD
(a) By maturity period:			
Within one month	1,047,452	4,228,566	774,430
More than one month to three months	20,000,000	80,739,999	21,090,288
More than three months to six months	-	-	3,887,661
More than six months to twelve months	1,308,230	5,281,323	-
	<u>22,355,682</u>	<u>90,249,888</u>	<u>25,752,379</u>

(b) By relationship:			
Related parties	750,605	3,030,192	35,137
Non-related parties	21,605,077	87,219,696	25,717,242
	<u>22,355,682</u>	<u>90,249,888</u>	<u>25,752,379</u>

(c) By currency denomination:			
US Dollar	<u>22,355,682</u>	<u>90,249,888</u>	<u>25,752,379</u>

(d) By status of residence:			
Residents	21,605,077	87,219,696	25,717,242
Non-residents	750,605	3,030,192	35,137
	<u>22,355,682</u>	<u>90,249,888</u>	<u>25,752,379</u>

(e) By interest rates (per annum):			
	2016	2015	
	(% P.A.)	(% P.A.)	
Saving deposits	0.25%	0.25%	
Fixed deposits	1.25 - 5.55%	1.25 - 5.55%	

# SHINHAN KHMER BANK PLC.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

### 14. SHORT-TERM BORROWINGS

	2016		2015
	USD	KHR'000	USD
Korea Exchange Bank - Deutschland	14,000,000	56,518,000	14,000,000
Korea Exchange Bank - Hong Kong	10,000,000	40,370,000	10,000,000
Shinhan Bank - Korea	25,000,000	100,925,000	10,000,000
	<u>49,000,000</u>	<u>197,813,000</u>	<u>34,000,000</u>

Further analysis is as follows:

	2016		2015
	USD	KHR'000	USD
(a) By maturity period:			
More than one month to three months	-	-	10,000,000
More than three months to twelve months	49,000,000	197,813,000	24,000,000
	<u>49,000,000</u>	<u>197,813,000</u>	<u>34,000,000</u>

(b) By interest rates (per annum):

	2016	2015
	(%)	(%)
Short-term borrowings - unsecured	0.88% - 1.50%	0.84% - 1.50%

### 15. PAYABLES AND OTHER LIABILITIES

	2016		2015
	USD	KHR'000	USD
Accrued interests payable	324,676	1,310,717	337,541
Tax payables	327,202	1,320,914	5,944
Others	191,535	773,227	153,573
	<u>843,413</u>	<u>3,404,858</u>	<u>497,058</u>

### 16. SHARE CAPITAL

	2016		2015
	USD	KHR'000	USD
Issued and fully paid:			
At beginning of year	20,000,000	80,740,000	20,000,000
At end of year	<u>20,000,000</u>	<u>80,740,000</u>	<u>20,000,000</u>



## SHINHAN KHMER BANK PLC.

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

#### 16. SHARE CAPITAL (continued)

The registered statutory capital of the Bank as at 31 December 2016 is 20 million shares at a par value of USD 1 per share. All shares are fully paid up by the following shareholders and their respective interest in the Bank is as follows:

	2016		2015	
	Holding	Number of	Holding	Number of
	%	shares of USD1 each	%	shares of USD1 each
Shinhan Bank (Korea)	90.00%	18,000,000	90.00%	18,000,000
Korea Mutual Savings Bank	3.25%	650,000	3.25%	650,000
Shinhan Savings Bank	3.25%	650,000	3.25%	650,000
Insung Co., Ltd	2.50%	500,000	2.50%	500,000
Consus Asset Management Co.	1.00%	200,000	1.00%	200,000
	100%	20,000,000	100%	20,000,000

NBC's Prakas B7-016-117 dated 22 March 2016 on minimum capital of Banking and Financial Institutions requires banks that are a subsidiary of a foreign bank must have a registered minimum capital of 300,000,000,000 Riels (equivalent to USD 75 millions), and this minimum capital requirement will be effective in two years starting from 22 March 2016. As of the date of this report, the Bank has yet to comply with the requirements of the above Prakas. The Directors are confident that the Bank will meet the NBC's capital requirements before the deadline.

#### 17. RESERVE

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

#### 18. INTEREST INCOME

	2016		2015
	USD	KHR'000	USD
Loans and advances	7,755,746	31,309,947	6,928,104
Balances with other banks	207,841	839,054	163,693
Balances with the NBC	7,936	32,037	4,724
	7,971,523	32,181,038	7,096,521

#### 19. INTEREST EXPENSE

	2016		2015
	USD	KHR'000	USD
Interest expense is incurred on:			
Short-term borrowings	635,695	2,566,301	417,000
Time deposits	576,741	2,328,303	983,199
Savings accounts	52,719	212,827	39,496
	1,265,155	5,107,431	1,439,695

SHINHAN KHMER BANK PLC.

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016

20. NON-INTEREST INCOME

	2016		2015
	USD	KHR'000	USD
Loans processing fees	516,221	2,083,984	402,182
Remittance charges	441,768	1,783,417	442,914
Commission income	30,572	123,419	36,512
Income from equity investment	4,950	19,983	14,256
Exchange gain	4,775	19,277	17,661
Others	7,564	30,536	6,526
	<u>1,005,850</u>	<u>4,060,616</u>	<u>920,051</u>

21. PERSONNEL COSTS

	2016		2015
	USD	KHR'000	USD
Salaries and wages	815,280	3,291,285	674,669
Others related staff costs	580,423	2,343,168	489,967
	<u>1,395,703</u>	<u>5,634,453</u>	<u>1,164,636</u>

22. OTHER OPERATING EXPENSES

	2016		2015
	USD	KHR'000	USD
Other tax expenses	503,509	2,032,666	-
Professional fees	460,980	1,860,976	297,576
Rental	377,966	1,525,849	308,748
Swift expenses	207,455	837,496	173,096
License fee	183,675	741,496	149,900
Advertising and promotion	79,158	319,561	93,341
Utilities	83,930	338,825	67,669
Travel and vehicles	51,607	208,337	41,704
Stationary and supplies	65,698	265,223	47,509
Brokerage fees	21,290	85,948	31,564
Insurance	26,975	108,898	24,332
Others	46,760	188,770	56,825
	<u>2,109,003</u>	<u>8,514,045</u>	<u>1,292,264</u>

# SHINHAN KHMER BANK PLC.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

### 23. INCOME TAX

	2016		2015
	USD	KHR'000	USD
Current tax	<u>1,210,867</u>	<u>4,888,270</u>	<u>517,060</u>

#### (a) Reconciliation of current income tax

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

	2016		2015
	USD	KHR'000	USD
Net profit before tax	<u>5,296,104</u>	<u>21,380,371</u>	<u>2,420,772</u>
Statutory income tax @ 20%	1,059,220	4,276,071	484,154
Expenses not deductible for tax purposes	<u>151,647</u>	<u>612,199</u>	<u>32,906</u>
	<u>1,210,867</u>	<u>4,888,270</u>	<u>517,060</u>

The calculation of taxable income is subject to review and examination by the General Department of Taxation.

#### (b) Provision for income tax

	2016		2015
	USD	KHR'000	USD
Balance at beginning of year	437,039	1,764,326	568,582
Current tax charged during the year (b)	1,210,867	4,888,270	517,060
Prepayment made during the year	(80,487)	(324,926)	(648,603)
Payment made for last year income tax	<u>(437,039)</u>	<u>(1,764,326)</u>	<u>-</u>
	<u>1,130,380</u>	<u>4,563,344</u>	<u>437,039</u>

#### (c) Deferred tax

There is no material deferred tax balances.



SHINHAN KHMER BANK PLC.

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016

24. CASH FLOWS FROM OPERATING ACTIVITIES

	2016		2015
	USD	KHR'000	USD
<b>Cash flows from operating activities</b>			
Profit before income tax	5,296,104	21,380,371	2,420,772
<i>Adjustments for:</i>			
Loss on disposal of property and equipment	1,193	4,816	-
Property and equipment written off	2,548	10,287	-
(Recovery from)/allowances for loan losses	(1,313,982)	(5,304,545)	1,534,043
Depreciation and amortisation (Note 10/11)	225,390	909,900	165,162
Net interest income	(6,706,368)	(27,073,608)	(5,656,826)
Income from equity investment	(4,950)	(19,983)	(14,256)
Operating profit before changes in operating assets and liabilities	(2,500,065)	(10,092,762)	(1,551,105)
<i>Increase/(decrease) in cash attributable to changes in operating assets and liabilities:</i>			
Reserve requirement with the NBC	605,026	2,442,490	(212)
Term deposits with banks (term more than 3 months)	7,500,000	30,277,500	(5,000,000)
Loans and advances to customers	(13,457,761)	(54,328,981)	10,221,148
Other assets	(7,320)	(29,551)	(51,470)
Deposits from non-bank customers	(3,330,335)	(13,444,562)	(9,251,296)
Deposits from local banks	(3,396,697)	(13,712,466)	(1,444,933)
Payables and other liabilities	359,221	1,450,175	117,706
<b>Cash used in operations</b>	<b>(14,227,931)</b>	<b>(57,438,157)</b>	<b>(6,960,162)</b>
Interest received	7,995,515	32,277,894	7,123,106
Interest paid	(1,278,020)	(5,159,367)	(1,549,765)
Income tax paid (Note 23)	(517,526)	(2,089,252)	(648,603)
<b>Net cash used in operating activities</b>	<b>(8,027,962)</b>	<b>(32,408,882)</b>	<b>(2,035,424)</b>

# SHINHAN KHMER BANK PLC.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

### 25. RELATED PARTY BALANCE AND TRANSACTIONS

#### (a) Related party balances

	<b>2016</b>		<b>2015</b>
	<b>USD</b>	<b>KHR'000</b>	<b>USD</b>
Due to parent bank:			
Borrowings from Shinhan Bank, Korea	25,000,000	100,925,000	10,000,000
Deposit from Shinhan Bank, Korea	750,605	3,030,190	35,137

#### (b) Related party transactions

	<b>2016</b>		<b>2015</b>
	<b>USD</b>	<b>KHR'000</b>	<b>USD</b>
Fees and related expenses for Board of directors	3,996	16,134	1,986
Interest expense on borrowings from Shinhan Bank, Korea	262,144	1,058,277	126,856

#### (c) Key management remuneration

	<b>2016</b>		<b>2015</b>
	<b>USD</b>	<b>KHR'000</b>	<b>USD</b>
Directors' remuneration	766,058	3,092,574	784,458

### 26. COMMITMENTS AND CONTINGENCIES

#### 26.1 Credit related commitments

In the normal course of business, the Bank makes various commitments with legal recourse to its customers. No material losses are anticipated as a result of these transactions. At the year-end, the contractual commitments arising from off-balance sheet financial instruments of the Bank are as follows:

	<b>2016</b>		<b>2015</b>
	<b>USD</b>	<b>KHR'000</b>	<b>USD</b>
Unused portion of overdrafts	9,176,975	37,047,447	7,720,328
Guarantee deposits	193,000	779,141	264,650
	<u>9,369,975</u>	<u>37,826,588</u>	<u>7,984,978</u>

## SHINHAN KHMER BANK PLC.

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

#### 26. COMMITMENTS AND CONTINGENCIES (continued)

##### 26.2 Lease commitments

The Bank has operating lease commitments in respect of office rentals as follows:

	2016		2015
	USD	KHR'000	USD
Within one year	130,192	525,585	220,124
Later than one year and not later than five years	202,508	817,525	332,683
	<u>332,700</u>	<u>1,343,110</u>	<u>552,807</u>

##### 26.3 Tax contingencies

Taxes are calculated on the basis of current interpretation of the tax regulations. However, the application of tax laws and regulations on many types of transactions is susceptible to varying interpretations when reviewed by the tax authorities. The Bank's judgement of its business activities may not coincide with the interpretation of the same activities by the tax authorities.

If a particular treatment was to be challenged by those tax authorities, the Bank may be assessed additional taxes, penalties and interest, which can be significant. Tax years remain open to review by the General Department of Taxation for three years with a possible extension of up to ten years.

#### 27. FINANCIAL RISK MANAGEMENT

The Bank's risk management is to identify all key risks, measure these risks, manage the risk positions and determine capital allocations. The risks arising from financial business to which the Bank's activities are exposed are operational risk, financial risks: market risk (including foreign exchange risk and interest rate risk), liquidity risk and credit risk. The following are policies and guidelines adopted by the Bank to manage risks related to its business activities.

##### 27.1 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 support units which are independent of the business units and oversight provided by the senior management. This includes legal, compliance, accounting and fraud risk.

The operational risk management entails the establishment of policies and procedures to provide guidance to the key operating units on the risk governance structure and baseline internal controls necessary to identify, assess, monitor and control their operational risks. Internal control policies and measures that have been implemented including the establishment of signing authorities, defining system parameters controls, streamlining procedures and documentation ensuring compliance with regulatory and legal requirements. These are reviewed continually, taking into account the business objectives and strategies of the Bank as well as regulatory requirements.



NOTES TO THE FINANCIAL STATEMENTS  
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**27. FINANCIAL RISK MANAGEMENT (continued)**

**27.2 Market risk**

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

**(a) Foreign currency exchange risk**

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

The Bank has no material exposures to currency risk as it transacts essentially in US Dollar. Therefore, no sensitivity analysis for foreign currency exchange risk was presented.

**(b) 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, cost of funds and through interest rate sensitivity gap analysis. The potential reduction in net interest income from an unfavourable interest rate movement is monitored against the risk tolerance limits set.

The table below summarises the Bank's exposure to interest rate risks which includes assets and liabilities at carrying amounts, categorized by the earlier of contractual repricing or maturity dates.

SHINHAN KHMER BANK PLC.

NOTES TO THE FINANCIAL STATEMENTS  
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27. FINANCIAL RISK MANAGEMENT (continued)

(b) Interest rate risk (continued)

As at 31 December 2016

ASSETS	Up to 1 month USD	1-3 months USD	3-12 months USD	1 to 5 years USD	Over 5 years USD	Non-interest bearing USD	Total USD
Cash in hand	-	-	-	-	-	5,225,243	5,225,243
Deposits and placements with banks	-	-	2,500,000	-	-	6,543,806	9,043,806
Balances with NBC	9,876,993	1,050,000	-	-	-	5,872,049	16,799,042
Loans and advances to customers:	5,042,269	5,388,145	33,846,715	30,908,042	13,759,214	-	88,944,385
Statutory deposits with NBC	4,912,500	-	-	-	2,000,000	8,237,042	15,149,542
Other assets	-	-	-	-	-	580,008	580,008
<b>TOTAL ASSETS</b>	<b>19,831,762</b>	<b>6,438,145</b>	<b>36,346,715</b>	<b>30,908,042</b>	<b>15,759,214</b>	<b>26,458,150</b>	<b>135,742,028</b>
<b>LIABILITIES</b>							
Deposits from non-bank customers	14,853,467	111,666	1,550,198	3,200,150	-	4,738,883	24,454,364
Deposits from banks	276,520	20,000,000	-	1,308,230	-	770,932	22,355,682
Short-term borrowings	-	-	49,000,000	-	-	-	49,000,000
Payables and other liabilities	-	-	-	-	-	843,413	843,414
<b>TOTAL LIABILITIES</b>	<b>15,129,987</b>	<b>20,111,666</b>	<b>50,550,198</b>	<b>4,508,380</b>	<b>-</b>	<b>6,353,228</b>	<b>96,653,460</b>
<b>Interest sensitivity gap 2016 (USD)</b>	<b>4,701,775</b>	<b>(13,673,521)</b>	<b>(14,203,483)</b>	<b>26,399,662</b>	<b>15,759,214</b>	<b>20,104,922</b>	<b>39,088,569</b>
<b>Interest sensitivity gap 2016 (KHR'000 equivalents)</b>	<b>18,981,064</b>	<b>(55,200,004)</b>	<b>(57,339,461)</b>	<b>106,575,435</b>	<b>63,619,947</b>	<b>81,163,570</b>	<b>157,800,551</b>

SHINHAN KHMER BANK PLC.

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016

27. FINANCIAL RISK MANAGEMENT (continued)

(b) Interest rate risk (continued)

As at 31 December 2015

ASSETS	Up to 1 month USD	1-3 months USD	3-12 months USD	1 to 5 years USD	Over 5 years USD	Non-interest bearing USD	Total USD
Cash in hand	-	-	-	-	-	4,158,032	4,158,032
Deposits and placements with banks	-	-	10,000,000	-	-	6,747,910	16,747,910
Balances with NBC	8,671,602	2,260,000	-	-	-	-	10,931,602
Loans and advances to customers - gross	11,058,226	9,797,539	34,005,233	14,704,187	5,921,439	-	75,486,624
Statutory deposits with NBC	4,584,856	-	2,000,000	-	-	9,169,712	15,754,568
Other assets	-	-	-	-	-	447,304	447,304
<b>TOTAL ASSETS</b>	<b>24,314,684</b>	<b>12,057,539</b>	<b>46,005,233</b>	<b>14,704,187</b>	<b>5,921,439</b>	<b>20,522,958</b>	<b>123,526,040</b>
<b>LIABILITIES</b>							
Deposits from non-bank customers	17,105,839	1,479,642	3,178,416	182,946	-	5,837,856	27,784,699
Deposits from banks	531,086	21,090,288	3,887,661	-	-	243,344	25,752,379
Short-term borrowings	-	10,000,000	24,000,000	-	-	-	34,000,000
Payables and other liabilities	-	-	-	-	-	497,058	497,058
<b>TOTAL LIABILITIES</b>	<b>17,636,925</b>	<b>32,569,930</b>	<b>31,066,077</b>	<b>182,946</b>	<b>-</b>	<b>6,578,258</b>	<b>88,034,136</b>
<b>Interest sensitivity gap 2015 (USD)</b>	<b>6,677,759</b>	<b>(20,512,391)</b>	<b>14,939,156</b>	<b>14,521,241</b>	<b>5,921,439</b>	<b>13,944,700</b>	<b>35,491,904</b>
<b>Interest sensitivity gap 2015 (KHR'000 equivalents)</b>	<b>27,044,924</b>	<b>(83,075,184)</b>	<b>60,503,582</b>	<b>58,811,026</b>	<b>23,981,828</b>	<b>56,476,035</b>	<b>143,742,211</b>



NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016

**27. FINANCIAL RISK MANAGEMENT (continued)**

**27.3 Liquidity risk**

Liquidity risk relates to the ability to maintain sufficient liquid assets to meet its financial commitments and obligations when they fall due at a reasonable cost.

In addition to full compliance of all liquidity requirements, the management of the Bank closely monitors all inflows and outflows and the maturity gaps through periodical reporting. Movements in loans and customers' deposits are monitored and liquidity requirements adjusted to ensure sufficient liquid assets to meet its financial commitments and obligations as and when they fall due.

The following table provides an analysis of the financial assets and liabilities of the Bank into relevant maturity groupings based on the remaining periods to repayment. The amounts disclosed in the table are the contractual undiscounted cash flows.

SHINHAN KHMER BANK PLC.

NOTES TO THE FINANCIAL STATEMENTS  
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27. FINANCIAL RISK MANAGEMENT (continued)

27.3 Liquidity risk (continued)

As at 31 December 2016	Up to 1 month USD	1-3 months USD	3-12 months USD	1 to 5 years USD	Over 5 years USD	No maturity date USD	Total USD	Total KHR'000
<b>ASSETS</b>								
Cash in hand	5,225,243	-	-	-	-	-	5,225,243	21,094,306
Deposits and placements with banks	6,543,806	-	2,500,000	-	-	-	9,043,806	36,509,845
Balances with NBC	15,749,042	1,050,000	-	-	-	-	16,799,042	67,817,733
Loans and advances to customers	5,042,269	5,388,145	33,846,715	30,908,042	13,759,214	-	88,944,385	359,068,482
Statutory deposits with NBC	-	-	-	-	13,149,542	2,000,000	15,149,542	61,158,701
Other assets	333,192	-	221,740	-	-	25,078	580,010	2,341,500
<b>TOTAL ASSETS</b>	<b>32,893,552</b>	<b>6,438,145</b>	<b>36,568,455</b>	<b>30,908,042</b>	<b>26,908,756</b>	<b>2,025,078</b>	<b>135,742,028</b>	<b>547,990,567</b>
<b>LIABILITIES</b>								
Deposits from customers and banks	20,639,803	20,111,666	1,550,198	4,508,380	-	-	46,810,047	188,972,158
Short-term borrowings	-	-	49,000,000	-	-	-	49,000,000	197,813,000
Payables and other liabilities	324,676	191,535	327,202	-	-	-	843,413	3,404,858
Provision for income tax	-	1,130,380	-	-	-	-	1,130,380	4,563,344
<b>TOTAL LIABILITIES</b>	<b>20,964,478</b>	<b>21,433,581</b>	<b>50,877,400</b>	<b>4,508,380</b>	<b>-</b>	<b>-</b>	<b>97,783,839</b>	<b>394,753,360</b>
<b>Net position as at 31 December 2016</b>	<b>11,929,074</b>	<b>(14,995,436)</b>	<b>(14,308,945)</b>	<b>26,399,662</b>	<b>26,908,756</b>	<b>2,025,078</b>	<b>37,958,189</b>	<b>153,237,207</b>
<b>As at 31 December 2015</b>								
Total assets	30,992,954	12,057,539	44,070,353	14,704,187	19,676,007	2,025,000	123,526,040	500,280,462
Total liabilities	24,216,587	32,661,323	31,421,164	203,632	-	-	88,502,706	358,435,959
<b>Net position as at 31 December 2015</b>	<b>6,776,367</b>	<b>(20,603,784)</b>	<b>12,649,189</b>	<b>14,500,555</b>	<b>19,676,007</b>	<b>2,025,000</b>	<b>35,023,334</b>	<b>141,844,503</b>

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016

**27. FINANCIAL RISK MANAGEMENT (continued)**

**27.4 Credit 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.

The primary exposure to credit risk arises through its loans and advances. The amount of credit exposure in this regard is represented by the carrying amounts of the assets on the balance sheet. 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 grading system, and procedures implemented to ensure compliance with NBC's guidelines.

**(a) Credit risk measurement**

The Bank has set up the Credit Risk Policy which is designed to govern the Bank's risk undertaking activities. Procedures of risk limit setting, monitoring, usage, and control are governed by credit programs which 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.

The Bank assesses the probability of default of individual counterparties by focusing on borrowers' forecast profit and cash flows.

**(b) Risk limit control and mitigation policies**

The Bank manages, limits and controls concentration of credit risk whenever they are identified - in particular, to individual counterparties and groups, and to industries.

Exposure to credit risk is managed through regular analysis of the ability of the borrowers and potential borrowers to meet interest and capital repayment obligations and reviewing these lending limits where appropriate. Exposure to credit risk is also managed by obtaining collateral and corporate or personal guarantees as well as by providing for loan losses. Limits on level of credit risk by product and industry sector are approved by the Credit department.

In general, all of the Bank's loans and advances to customers, guarantees and letters of credit are collateralised with cash in the form of margin deposits or collateral pledged to the Bank, and accordingly the Bank normally assumes minimal risks.

**(c) Impairment and provisioning policies**

The Bank is required to follow the mandatory credit classification and provisioning in accordance with the relevant Prakas issued by NBC, as stated in note 2.8 to the financial statements.

Loans and advances less than 30 days past due are not considered impaired, unless other information available indicates otherwise. A minimum level of specific provision for impairment is made depending on the classification concerned.



SHINHAN KHMER BANK PLC.

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016

27. FINANCIAL RISK MANAGEMENT (continued)

27.4 Credit risk (continued)

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

The credit exposure arising from on and off balance sheet activities are as follows:

	2016		2015
	USD	KHR'000	USD
<b>Credit risks exposures relating to on-balance sheet assets:</b>			
Balances with banks other than NBC	9,043,806	36,509,845	16,747,910
Loans and advances to customers - gross	86,061,936	347,432,036	71,290,193
Other assets	423,390	1,709,225	447,304
	<u>95,529,132</u>	<u>385,651,106</u>	<u>88,485,407</u>
<b>Credit risk exposures relating to off-balance sheet items:</b>			
Unused portion of approved credit facilities	9,176,975	37,047,447	7,720,328
Guarantee deposits	193,000	779,141	264,650
	<u>9,369,975</u>	<u>37,826,588</u>	<u>7,984,978</u>
	<u>104,899,107</u>	<u>423,477,694</u>	<u>96,470,385</u>

The table above represents the maximum credit risk exposure to the Bank as at 31 December 2016, without taking into account any collateral held or other credit enhancements. For on-balance sheet assets, the exposures set out above are based on gross carrying amounts. 90% (2015: 74%) of the total maximum credit exposure is derived from loans and advances to customers.

(e) Loans and advances

	2016		2015
	USD	KHR'000	USD
Loans and advances neither past due nor impaired	86,625,689	349,707,905	70,551,034
Loans and advances past due but not impaired	239,696	967,653	1,199,000
Loans and advances individually impaired	2,079,000	8,392,923	3,736,590
Gross	88,944,385	359,068,481	75,486,624
Less:			
Allowance for loan losses	(2,882,449)	(11,636,447)	(4,196,431)
Net	<u>86,061,936</u>	<u>347,432,036</u>	<u>71,290,193</u>

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

## SHINHAN KHMER BANK PLC.

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

#### 27. FINANCIAL RISK MANAGEMENT (continued)

##### 27.4 Credit risk (continued)

###### (e) Loans and advances (continued)

###### (i) Loans and advances neither past due or impaired

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

###### (ii) Loans and advances past due but not impaired

Loans and advances less than 90 days past due are not considered impaired, unless other information is available to indicate the contrary. In compliance with NBC guidelines, such loans are classified as special mention with a specific provision of 3%.

###### (iii) Loans and advances individually impaired

Loans and advances individually impaired are loans and advances for which the Bank determines that there is objective evidence of impairment and it does not expect to collect all principal and interest due according to the contractual terms of the loans and advances. Loans and advances past due 90 days or more are considered impaired and minimum level of specific provision for impairment is made depending on the classification concerned, unless other information is available to indicate the contrary.

###### (f) Concentration of financial assets with credit risk exposure

The analysis of concentrations of credit risk from loans and advances at the balance sheet date is shown in Note 7 to the financial statements.

##### 27.5 Capital management

The Bank considers the need to balance efficiency, flexibility and adequacy when determining sufficiency of capital and when developing capital management plans. The Bank details these considerations through an internal capital adequacy assessment process and the key features of which include (a) consideration of both economic and regulatory of minimum capital requirements set by the National Bank of Cambodia, (b) safeguarding 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, (c) maintaining a strong capital base to support the development of business.

As at 31 December 2016, the Bank has a paid-up statutory capital of USD 20 million, equivalent to approximately KHR 80.74 billion. The paid-up capital is disclosed in note 16 to the financial statements.

NBC's Prakas B7-016-117 dated 22 March 2016 on minimum capital for Banking and Financial Institutions requires that banks that are a subsidiary of a foreign bank must have a registered minimum capital of 300,000,000,000 Riels (equivalent to USD 75 millions), and this minimum capital requirement will be effective in two years starting from 22 March 2016. The Bank has yet to comply with the requirements of the above Prakas. The Directors are confident that the Bank will meet the NBC's capital requirements before the deadline.

## **SHINHAN KHMER BANK PLC.**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016**

#### **27. FINANCIAL RISK MANAGEMENT (continued)**

##### **27.6 Fair value of financial assets and liabilities**

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation.

Since market prices for the major part of Bank's financial assets and liabilities are not available, the fair value of these items is based on the estimates of the Management according to the type of assets and liabilities. According to the estimation of the Management, the fair value of financial instruments of the Bank is not materially different from the carrying amount of all categories of assets and liabilities.

#### **28. COMPARATIVE FIGURES**

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

#### **29. EVENT AFTER THE REPORTING PERIOD**

The Bank is in the process of being audited by the General Department of Taxation ("GDT") for the tax years 2010, 2011, 2012, 2014 and 2016 and the outcome of which has yet to be known. Should the final tax outcome is different from the amounts that were initially determined by the Bank, such differences will have an impact on the tax provisions in the financial period in which such determination is made.



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