

## **Shinhan Alpha REIT and Subsidiaries**

Consolidated Financial Statements

September 30, 2020 and March 31, 2020

### **<Disclaimer>**

The accompanying financial statements prepared in accordance with the Act on External Audit of Stock Companies and the related laws of the Republic of Korea and accounting policies are translated into English and provided solely for informational purposes. The Company does not guarantee the completeness of the translation. If there are any inconsistencies between the Korean audit report and the English audit report, the Korean audit report shall prevail.

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Consolidated Statements of Financial Position

**As of September 30, 2020 and March 31, 2020**

| <i>(In won)</i>                    | <i>Note</i> | <b>September 30</b>        | <b>March 31</b>        |
|------------------------------------|-------------|----------------------------|------------------------|
| <b>Assets</b>                      |             |                            |                        |
| Cash and cash equivalents          | 22,25       | ₩ 11,875,191,398           | 1,952,620,281          |
| Short-term financial instruments   | 4,12,22     | 11,344,757,800             | 14,700,000,000         |
| Other current financial assets     | 5,7,22      | 524,600,819                | 275,689,770            |
| Other current assets               | 8           | 16,667,685,107             | 2,870,370,172          |
| Current income tax assets          |             | 11,077,370                 | 20,145,760             |
| <b>Total current assets</b>        |             | <b>40,423,312,494</b>      | <b>19,818,825,983</b>  |
| Long-term financial instruments    | 4,12,22     | 7,327,249,350              | 1,571,536,800          |
| Investment properties, net         | 6           | 1,329,077,001,391          | 786,356,867,796        |
| Other non-current financial assets | 5,7,22      | 36,790,428                 | 24,726,000             |
| Other non-current assets           | 8           | 1,900,068,492              | 2,053,528,909          |
| <b>Total non-current assets</b>    |             | <b>1,338,341,109,661</b>   | <b>790,006,659,505</b> |
| <b>Total assets</b>                |             | <b>₩ 1,378,764,422,155</b> | <b>809,825,485,488</b> |

*See accompanying notes to the consolidated financial statements.*

Shinhan Alpha REIT and Subsidiaries  
Consolidated Statements of Financial Position, Continued

As of September 30, 2020 and March 31, 2020

| <i>(In won)</i>  | <i>Note</i> | <u>September 30</u>        | <u>March 31</u>        |
|--|-------------|----------------------------|------------------------|
| <b>Liabilities</b>   |             |                            |                        |
| Other accounts payables                                    | 9,22,23     | 6,269,621,559              | 5,333,495,346          |
| Other current financial liabilities                        | 7,22,23     | 31,433,980                 | -                      |
| Financial liabilities of non-controlling interests         | 22,23       | 18,094,931,506             | -                      |
| Short-term borrowings                                      | 11,22,23,25 | 119,200,000,000            | 24,666,000,000         |
| Short-term leasehold deposits received                     | 12,22,23    | 7,686,092,986              | 432,570,000            |
| Current portion of long-term leasehold deposits received   | 12,22,23    | 1,724,970,064              | 644,308,150            |
| Other current liabilities                                  | 10          | 2,041,387,179              | 2,305,215,418          |
| <b>Total current liabilities</b>                           |             | <u>₩ 155,048,437,274</u>   | <u>33,381,588,914</u>  |
| Financial liabilities at fair value through profit or loss | 22,23       | 327,900                    | -                      |
| Long-term borrowings                                       | 11,22,23,25 | 838,329,466,578            | 476,909,020,403        |
| Leasehold deposits received                                | 12,22,23    | 25,993,365,951             | 18,973,599,990         |
| Other non-current financial liabilities                    | 7,22,23     | 43,334,327                 | -                      |
| Long-term unearned revenues                                |             | 2,447,038,071              | 2,602,063,371          |
| <b>Total non-current liabilities</b>                       |             | <u>866,813,532,827</u>     | <u>498,484,683,764</u> |
| <b>Total liabilities</b>                                   |             | <u>1,021,861,970,101</u>   | <u>531,866,272,678</u> |
| <b>Equity attributable to owners of the Parent Company</b> |             |                            |                        |
| Share capital  | 13          | 56,330,123,000             | 51,630,123,000         |
| Other paid-in capital                                      | 13          | 248,629,700,599            | 226,181,597,841        |
| Retained earnings  | 14          | (7,892,054,945)            | (1,787,093,145)        |
| <b>Non-controlling interests</b>                           |             | <u>59,834,683,400</u>      | <u>1,934,585,114</u>   |
| <b>Total equity</b>  |             | <u>356,902,452,054</u>     | <u>277,959,212,810</u> |
| <b>Total liabilities and equity</b>                        |             | <u>₩ 1,378,764,422,155</u> | <u>809,825,485,488</u> |

See accompanying notes to the consolidated financial statements.

Shinhan Alpha REIT and Subsidiaries  
Consolidated Statements of Comprehensive Income

**For the six months ended September 30, 2020 and March 31, 2020**

| <i>(In won)</i>   | <i>Note</i> | <b>September 30</b>    | <b>March 31</b>       |
|---|-------------|------------------------|-----------------------|
| Operating revenue   | 15          | ₩ 26,357,171,091       | 23,086,429,117        |
| Operating expenses  | 16          | 13,006,808,122         | 9,118,428,834         |
| <b>Operating income</b>   |             | <b>13,350,362,969</b>  | <b>13,968,000,283</b> |
| Other income  | 17          | 144,287,832            | 22,571,059            |
| Other expenses  | 17          | 18,031,702             | 2,632,506             |
| Finance income  | 18,22       | 77,466,412             | 129,638,664           |
| Finance costs   | 18,22       | 11,027,845,461         | 8,395,309,817         |
| <b>Profit before income taxes</b>                                 |             | <b>2,526,240,050</b>   | <b>5,722,267,683</b>  |
| Income tax expenses   | 19          | -                      | -                     |
| <b>Profit for the period</b>                                      |             | <b>2,526,240,050</b>   | <b>5,722,267,683</b>  |
| <b>Profit for the period attributable to:</b>                     |             |                        |                       |
| Owners of the Group   |             | 2,691,556,650          | 5,786,244,396         |
| Non-controlling interests   |             | (165,316,600)          | (63,976,713)          |
| <b>Other comprehensive income</b>                                 |             | <b>-</b>               | <b>-</b>              |
| <b>Total comprehensive income for the period</b>                  |             | <b>₩ 2,526,240,050</b> | <b>5,722,267,683</b>  |
| <b>Total comprehensive income for the period attributable to:</b> |             |                        |                       |
| Owners of the Group   |             | 2,691,556,650          | 5,786,244,396         |
| Non-controlling interests   |             | (165,316,600)          | (63,976,713)          |
| <b>Earnings per share attributable to the owners of the Group</b> | 20          |                        |                       |
| Basic and diluted earnings per share                              |             | 21                     | 87                    |

*See accompanying notes to the consolidated financial statements.*

# Shinhan Alpha REIT and Subsidiaries

## Consolidated Statements of Changes in Equity

For the six months ended September 30, 2020 and March 31, 2020

| <i>(In won)</i>  |   | Share<br>capital | Other paid-<br>in capital | Retained<br>earnings | Non-<br>controlling<br>interests | Total           |
|--|---|------------------|---------------------------|----------------------|----------------------------------|-----------------|
| <b>Balance at October 1, 2019</b>                              | ₩ | 51,630,123,000   | 226,185,193,274           | 750,879,679          | -                                | 278,566,195,953 |
| <b>Total comprehensive income for the period</b>               |   |                  |                           |                      |                                  |                 |
| Profit for the period  |   | -                | -                         | 5,786,244,396        | (63,976,713)                     | 5,722,267,683   |
| <b>Transactions with owners, recognized directly in equity</b> |   |                  |                           |                      |                                  |                 |
| Dividends  |   | -                | -                         | (8,324,217,220)      | -                                | (8,324,217,220) |
| Acquisition of subsidiary                                      |   | -                | -                         | -                    | 2,000,000,000                    | 2,000,000,000   |
| Capital transactions in the Group                              |   | -                | (3,595,433)               | -                    | (1,438,173)                      | (5,033,606)     |
| <b>Balance at March 31, 2020</b>                               | ₩ | 51,630,123,000   | 226,181,597,841           | (1,787,093,145)      | 1,934,585,114                    | 277,959,212,810 |
| <b>Balance at April 1, 2020</b>                                | ₩ | 51,630,123,000   | 226,181,597,841           | (1,787,093,145)      | 1,934,585,114                    | 277,959,212,810 |
| <b>Total comprehensive income for the period</b>               |   |                  |                           |                      |                                  |                 |
| Profit for the period  |   | -                | -                         | 2,691,556,650        | (165,316,600)                    | 2,526,240,050   |
| <b>Transactions with owners, recognized directly in equity</b> |   |                  |                           |                      |                                  |                 |
| Dividends  |   | -                | -                         | (8,796,518,450)      | -                                | (8,796,518,450) |
| Issuance of common stock                                       |   | 4,700,000,000    | 22,539,965,731            | -                    | -                                | 27,239,965,731  |
| Rights offering of subsidiary                                  |   | -                | -                         | -                    | 60,000,000,000                   | 60,000,000,000  |
| Capital transactions in the Group                              |   | -                | (91,862,973)              | -                    | (1,934,585,114)                  | (2,026,448,087) |
| <b>Balance at September 30, 2020</b>                           | ₩ | 56,330,123,000   | 248,629,700,599           | (7,892,054,945)      | 59,834,683,400                   | 356,902,452,054 |

See accompanying notes to the consolidated financial statements.

Shinhan Alpha REIT and Subsidiaries  
Consolidated Statements of Cash Flows

**For the six months ended September 30, 2020 and March 31, 2020**

(In won)

|  | <u>September 30</u>    | <u>March 31</u>       |
|--|------------------------|-----------------------|
| <b>Cash flows from operating activities</b>      |                        |                       |
| Profit for the period                            | ₩ 2,526,240,050        | 5,722,267,683         |
| Adjustments for:                                 |                        |                       |
| Depreciation                                     | 3,902,636,975          | 3,170,973,156         |
| Bad debt expenses                                | (76,159,448)           | 265,116,747           |
| Interest expenses                                | 11,027,517,561         | 8,395,309,817         |
| Loss on impairment of right-of-use assets        | 15,554,264             | -                     |
| Loss on valuation of derivative instruments      | 327,900                | -                     |
| Interest revenues                                | (77,466,412)           | (129,638,664)         |
| Rental revenues                                  | (352,398,646)          | (328,477,606)         |
| Changes in assets and liabilities:               |                        |                       |
| Accounts receivable                              | (429,955,204)          | (395,459,871)         |
| Lease payment receivable                         | 16,100,000             | -                     |
| Prepaid expenses                                 | (189,474,532)          | 216,429,824           |
| Advance payments                                 | (138,542,578)          | (599,355,000)         |
| Prepaid value added tax                          | (14,051,967,260)       | (1,664,708,738)       |
| Current income tax assets                        | 9,068,390              | 11,607,080            |
| Long-term prepaid expenses                       | (21,327,000)           | (75,595,000)          |
| Non-trade payable                                | (227,963,198)          | (1,689,423,405)       |
| Accrued expenses                                 | 466,078,272            | 24,099,338            |
| Lease liabilities                                | (19,345,452)           | -                     |
| Deposits   | (70,165,795)           | 330,109,233           |
| Value added tax withheld                         | 77,478,823             | 12,507,417            |
| Advances received                                | 157,738,646            | 569,206,300           |
| Short-term leasehold deposits received           | 7,173,011,386          | 138,821,800           |
| Long-term leasehold deposits received            | 8,136,007,000          | 1,711,917,050         |
| <b>Cash generated from operations</b>            | <u>17,852,993,742</u>  | <u>15,685,707,161</u> |
| Interest received                                | 71,976,993             | 131,665,486           |
| Interest paid                                    | (9,164,374,744)        | (7,219,409,914)       |
| <b>Net cash provided by operating activities</b> | <u>₩ 8,760,595,991</u> | <u>8,597,962,733</u>  |

*See accompanying notes to the consolidated financial statements.*

Shinhan Alpha REIT and Subsidiaries  
Consolidated Statements of Cash Flows, Continued

**For the six months ended September 30, 2020 and March 31, 2020**

(In won)

|  | <b>September 30</b>      | <b>March 31</b>         |
|--|--------------------------|-------------------------|
| <b>Cash flows from investing activities</b>                    |                          |                         |
| Decrease in short-term financial instruments                   | ₩ 20,700,000,000         | 13,000,000,000          |
| Decrease in long-term financial instruments                    | -                        | 141,108,200             |
| Decrease in deposits   | 24,000,000               | -                       |
| Increase in short-term financial instruments                   | (17,320,346,000)         | (13,298,860,000)        |
| Increase in long-term financial instruments                    | (5,780,124,350)          | (299,806,000)           |
| Acquisition of investment properties                           | (546,117,553,718)        | (72,745,503,571)        |
| <b>Net cash used in investing activities</b>                   | <b>(548,494,024,068)</b> | <b>(73,203,061,371)</b> |
| <b>Cash flows from financing activities</b>                    |                          |                         |
| Proceeds from short-term borrowings                            | 119,200,000,000          | 24,666,000,000          |
| Proceeds from long-term borrowings                             | 360,705,000,000          | 43,500,000,000          |
| Increase in financial liabilities of non-controlling interests | 18,000,000,000           | -                       |
| Issuance of common stock                                       | 27,239,965,731           | -                       |
| Increase in non-controlling interests                          | 60,000,000,000           | 2,300,000,000           |
| Repayment of short-term borrowings                             | (24,666,000,000)         | -                       |
| Dividends paid   | (8,796,518,450)          | (8,324,217,220)         |
| Decrease in non-controlling interests                          | (2,026,448,087)          | (305,033,606)           |
| <b>Net cash used in financing activities</b>                   | <b>549,655,999,194</b>   | <b>61,836,749,174</b>   |
| <b>Net increase (decrease) in cash and cash equivalents</b>    | <b>9,922,571,117</b>     | <b>(2,768,349,464)</b>  |
| Cash and cash equivalents at April 1, 2020                     | 1,952,620,281            | 4,720,969,745           |
| <b>Cash and cash equivalents at September 30, 2020</b>         | <b>₩ 11,875,191,398</b>  | <b>1,952,620,281</b>    |

*See accompanying notes to the consolidated financial statements.*



Shinhan Alpha REIT Co., Ltd.  
Notes to the Separate Financial Statements

September 30, 2020 and March 31, 2020

**1. General Description**

General information about Shinhan Alpha REIT Co., Ltd. (the "Parent Company" or the "Company") and its subsidiary, Shinhan Alpha Yongsan REIT, (together referred to as "the Group") in accordance with K-IRFS 1110 Consolidated Financial Statements is as follows:

**(1) Overview of the Parent Company**

The Parent Company was incorporated on December 18, 2017 under the Real Estate Investment Company Act of the Republic of Korea and was qualified as a real estate investment trust ("REIT"), as approved by the Ministry of Land, Infrastructure and Transport on March 21, 2018. The business purpose of the Parent Company is to distribute profits of the Parent Company to its stockholders, which are generated from the revenue earned from acquisition, development, management, refurbishment and disposition of real estates and other properties. The Parent Company is headquartered on 18th floor, 33 Jongno-gu, Seoul, and was listed on the Korea Stock Exchange as of August 8, 2018.

As of September 30, 2020, the Parent Company's shareholders are as follows:

*(In won, except number of shares)*

| Type                 | Shareholders  | Number of shares  | Percentage of ownership |
|----------------------|---|-------------------|-------------------------|
| Ordinary Shares      | Eugene Dream Square Investor Private Investment Trust #34 | 4,081,632         | 7.80                    |
|                      | Hanwha General Insurance Co., Ltd.                        | 3,273,096         | 6.25                    |
|                      | Shinhan REITs Management Co., Ltd.                        | 2,705,838         | 5.17                    |
|                      | HYUNDAI MOTOR SECURITIES CO., LTD.                        | 2,499,867         | 4.78                    |
|                      | Capstone Professional Investment Private Fund #10         | 2,040,816         | 3.90                    |
|                      | NongHyup  | 2,040,816         | 3.90                    |
|                      | KRAFTON, Inc.   | 1,000,000         | 1.91                    |
|                      | Others  | 34,688,058        | 66.29                   |
| Preferred Shares (*) | Korea Teachers' Credit Union                              | 2,000,000         | -                       |
|                      | NongHyup  | 1,333,000         | -                       |
|                      | Capstone Professional Investment Private Fund #10         | 666,000           | -                       |
|                      | Shinhan REITs Management Co., Ltd.                        | 1,000             | -                       |
| <b>Total shares</b>  |   | <b>56,330,123</b> | <b>100.00</b>           |

(\*) The above preferred shares are cumulative, non-participating, and non-voting shares.

Shinhan Alpha REIT Co., Ltd.  
Notes to the Separate Financial Statements

**September 30, 2020 and March 31, 2020**

**(2) Overview of the Subsidiaries**

1) Subsidiaries

Details of subsidiaries as of September 30, 2020 and March 31, 2020 are as follows:

|                                  | September 30             |                              | March 31                 |                              | Country | Date of settlement       | Business                           |
|----------------------------------|--------------------------|------------------------------|--------------------------|------------------------------|---------|--------------------------|------------------------------------|
|                                  | Controlling interest (%) | Non-controlling interest (%) | Controlling interest (%) | Non-controlling interest (%) |         |                          |                                    |
| Shinhan Alpha Yongsan REIT       | 100.00                   | -                            | 100.00                   | -                            |         |                          |                                    |
| Shinhan Alpha Gwanggyo REIT (*1) | 100.00                   | -                            | 71.43                    | 28.57                        | Korea   | March 31<br>September 30 | Real estate investment, management |
| Shinhan K-1 REIT (*2)            | 80.23                    | 19.77                        | -                        | -                            |         |                          |                                    |
| Shinhan Alpha Namsan REIT (*3)   | 71.43                    | 28.57                        | -                        | -                            |         |                          |                                    |

(\*1) Owns 100% (71.43% as of March 31, 2020) by additional investment for the period ended September 30, 2020

(\*2) Shinhan K-1 REIT was newly established during the current period, and its normal business year begins on April 1 and ends on September 30, and then begins on October 1 and closes on March 31 next year. However, the first business year is from the date of registration of incorporation (May 29, 2020) to the first December 31 from its start date.

(\*3) Shinhan Alpha Namsan REIT was newly established during the current period, and its normal business year begins on April 1 and ends on September 30, and then begins on October 1 and closes on March 31 next year. However, the first business year is from the date of registration of incorporation (June 18, 2020) to the first April 30 from its start date.

Shinhan Alpha REIT Co., Ltd.  
Notes to the Separate Financial Statements

**September 30, 2020 and March 31, 2020**

2) Investment properties the subsidiaries hold as of September 30, 2020 are as follows:

|                             | <u>Investment property</u> |
|-----------------------------|----------------------------|
| Shinhan Alpha Yongsan REIT  | The Prime                  |
| Shinhan Alpha Gwanggyo REIT | Daeil Building             |
| Shinhan K-1 REIT            | Shinhan L Tower            |
| Shinhan Alpha Namsan REIT   | Twin City Namsan           |

3) Condensed financial information of subsidiaries

Financial information as of and for the periods ended September 30, 2020 and March 31, 2020 is as follows:

① Condensed statement of financial position as of September 30, 2020 is as follows:

| <i>(In thousands of won)</i> |   | <u>Shinhan Alpha<br/>Yongsan REIT</u> | <u>Shinhan Alpha<br/>Gwanggyo REIT</u> | <u>Shinhan K-1<br/>REIT</u> | <u>Shinhan Alpha<br/>Namsan REIT</u> |
|------------------------------|---|---------------------------------------|--|-----------------------------|--------------------------------------|
| Current assets               | ₩ | 4,332,627                             | 2,162,325                              | 11,282,253                  | 14,209,590                           |
| Non-current assets           |   | 172,449,209                           | 72,416,255                             | 296,597,014                 | 254,781,072                          |
| <b>Total assets</b>          | ₩ | <u>176,781,836</u>                    | <u>74,578,580</u>                      | <u>307,879,267</u>          | <u>268,990,662</u>                   |
| Current liabilities          | ₩ | 2,748,490                             | 1,296,535                              | 13,280,810                  | 73,950,841                           |
| Non-current liabilities      |   | 152,125,473                           | 44,987,973                             | 147,431,249                 | 170,797,221                          |
| <b>Total liabilities</b>     | ₩ | <u>154,873,963</u>                    | <u>46,284,508</u>                      | <u>160,712,059</u>          | <u>244,748,062</u>                   |
| <b>Total equity</b>          | ₩ | <u>21,907,873</u>                     | <u>28,294,072</u>                      | <u>147,167,208</u>          | <u>24,242,600</u>                    |

② Condensed statement of financial position as of March 31, 2020 is as follows:

| <i>(In thousands of won)</i> |   | <u>Shinhan Alpha<br/>Yongsan REIT</u> | <u>Shinhan Alpha<br/>Gwanggyo REIT</u> |
|------------------------------|---|---------------------------------------|--|
| Current assets               | ₩ | 4,098,839                             | 5,833,262                              |
| Non-current assets           |   | 173,441,887                           | 72,354,856                             |
| <b>Total assets</b>          | ₩ | <u>177,540,726</u>                    | <u>78,188,118</u>                      |

Shinhan Alpha REIT Co., Ltd.  
Notes to the Separate Financial Statements

**September 30, 2020 and March 31, 2020**

| <i>(In thousands of won)</i> |   | <b>Shinhan Alpha<br/>Yongsan REIT</b> | <b>Shinhan Alpha<br/>Gwanggyo REIT</b> |
|------------------------------|---|---------------------------------------|--|
| Current liabilities          | ₩ | 2,288,110                             | 26,370,115                             |
| Non-current liabilities      |   | 102,147,893                           | 45,046,955                             |
| <b>Total liabilities</b>     | ₩ | <b>104,436,003</b>                    | <b>71,417,070</b>                      |
| <b>Total equity</b>          | ₩ | <b>73,104,723</b>                     | <b>6,771,048</b>                       |

③ Condensed statement of comprehensive income as of September 30, 2020 is as follows:

| <i>(In thousands of won)</i>        |   | <b>Shinhan Alpha<br/>Yongsan REIT</b> | <b>Shinhan Alpha<br/>Gwanggyo REIT</b> | <b>Shinhan K-1<br/>REIT</b> | <b>Shinhan Alpha<br/>Namsan REIT</b> |
|-------------------------------------|---|---------------------------------------|--|-----------------------------|--------------------------------------|
| Revenues                            | ₩ | 5,735,863                             | 1,791,120                              | 293,680                     | 1,179,060                            |
| Operating income                    |   | 2,987,746                             | 1,025,883                              | 23,490                      | (216,183)                            |
| Profit for the period               |   | 1,087,907                             | 189,192                                | (51,383)                    | (722,099)                            |
| Comprehensive income for the period |   | 1,087,907                             | 189,192                                | (51,383)                    | (722,099)                            |

④ Condensed statement of comprehensive income as of March 31, 2020 is as follows:

| <i>(In thousands of won)</i>        |   | <b>Shinhan Alpha<br/>Yongsan REIT</b> | <b>Shinhan Alpha<br/>Gwanggyo REIT</b> |
|-------------------------------------|---|---------------------------------------|--|
| Revenues                            | ₩ | 5,521,490                             | 194,806                                |
| Operating income                    |   | 3,452,481                             | (7,961)                                |
| Profit for the period               |   | 1,576,433                             | (190,792)                              |
| Comprehensive income for the period | ₩ | 1,576,433                             | (190,792)                              |

Shinhan Alpha REIT Co., Ltd.  
Notes to the Separate Financial Statements

**September 30, 2020 and March 31, 2020**

4) Condensed cash flow information

① Condensed cash flow information as of September 30, 2020 is as follows:

| <i>(In thousands of won)</i>                         | <b>Shinhan Alpha<br/>Yongsan REIT</b> | <b>Shinhan Alpha<br/>Gwanggyo REIT</b> | <b>Shinhan K-1<br/>REIT</b> | <b>Shinhan Alpha<br/>Namsan REIT</b> |
|--|---------------------------------------|--|-----------------------------|--------------------------------------|
| Cash flows from operating activities                 | ₩ 2,153,885                           | 1,849,639                              | 106,933                     | 161,828                              |
| Cash flows from investing activities                 | 200,000                               | 1,179,654                              | (296,746,074)               | (255,093,728)                        |
| Cash flows from financing activities                 | (2,284,756)                           | (3,332,168)                            | 300,218,591                 | 260,869,699                          |
| Net increase (decrease) in cash and cash equivalents | ₩ 69,129                              | (302,875)                              | 3,579,450                   | 5,937,799                            |

② Condensed cash flow information as of March 31, 2020 is as follows:

| <i>(In thousands of won)</i>                         | <b>Shinhan Alpha<br/>Yongsan REIT</b> | <b>Shinhan Alpha<br/>Gwanggyo REIT</b> |
|--|---------------------------------------|--|
| Cash flows from operating activities                 | ₩ 2,402,617                           | 1,183,087                              |
| Cash flows from investing activities                 | (1,159,116)                           | (75,400,891)                           |
| Cash flows from financing activities                 | (1,992,300)                           | 75,127,840                             |
| Net increase (decrease) in cash and cash equivalents | ₩ (748,799)                           | 910,036                                |

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5) Financial information and management performance attributable to non-controlling interests by subsidiary

As of September 30, 2020, amount attributable to non-controlling interests for the subsidiaries of the Group is as follows:

|                              |   | <b>Profit for the<br/>period distributed<br/>to non-controlling<br/>interests</b> | <b>Total comprehensive<br/>income distributed<br/>to non-controlling<br/>interests</b> | <b>Accumulated non-<br/>controlling<br/>interests</b> | <b>Dividends paid to<br/>non-controlling<br/>interests</b> |
|------------------------------|---|---|--|---|--|
| <i>(In thousands of won)</i> |   |   |  |   |  |
| Shinhan K-1 REIT             | ₩ | 40,997  | 40,997   | 58,040,997  | -  |
| Shinhan Alpha Namsan REIT    |   | (206,314)   | (206,314)  | 1,793,686   | -  |

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**2. Basis of Preparation**

**(1) Statement of compliance**

The consolidated financial statements have been prepared in accordance with Korean International Financial Reporting Standards ("K-IFRS") as prescribed in Article 5 (1) 1 of the Act on External Audit of Corporations in the Republic of Korea.

**(2) New and amended standards adopted by the Group**

The Group has applied the following standards and amendments for the first time commencing April 1, 2020.

- Amendments to K-IFRS 1103 *Business Combination*

The amended definition of a business requires an acquisition to include an input and a substantive process that together significantly contribute to the ability to create outputs and the definition of output excludes the returns in the form of lower costs and other economic benefits. If substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets, an entity may elect to apply an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business.

- Amendments to K-IFRS 1001 *Presentation of Financial Statements* and K-IFRS 1008 *Accounting policies*

The amendments clarify the definition of material. Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general-purpose financial statements make on the basis of those financial statements. The amendments do not have a significant impact on the Group's consolidated financial statements.

- Amendments to K-IFRS 1109 *Financial Instruments*, K-IFRS 1039 *Financial Instruments: Recognition and Measurement* and K-IFRS 1107 *Financial Instruments: Disclosure – Interest Rate Benchmark Reform*

The amendments allow to apply the exceptions in relation to the application of hedge accounting while uncertainties arising from interest rate benchmark reform exist. The exceptions require the Group assumes that the interest rate benchmark on which the hedged items and the hedging instruments are based on is not altered as a result of interest rate benchmark reform, when determining whether the expected cash

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flows are highly probable, whether an economic relationship between the hedged item and the hedging instrument exists, and when assessing the hedging relationship is highly effective.

These new and amended standards do not have significant impact on the Group's consolidated financial statements.

**(3) New standards that have been issued but are not yet effective as of September 30, 2020**

As of the approved issuance date of the Group's consolidated financial statements, the contents of the K-IFRS that has been enacted and published but has not yet come into effect are as follows:

- Amendments to K-IFRS 1116 *Leases*

As a practical expedient, a lessee may elect not to assess whether a rent concession occurring as a direct consequence of the COVID-19 pandemic is a lease modification, and the amounts recognized in profit or loss as a result of applying this exemption should be disclosed. The amendments should be applied for annual periods beginning on or after June 1, 2020, and earlier application is permitted. The amendments do not have a significant impact on the Group's consolidated financial statements.



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**(4) Critical accounting estimates and judgements**

The Group makes estimates and assumptions concerning the future. The estimates and assumptions are continuously evaluated with consideration to factors such as events reasonably predictable in the foreseeable future within the present circumstance according to historical experience. The resulting accounting estimates will, by definition, seldom equal the related 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 addressed below.

① Investment property

The Group uses an evaluation technique that includes input variables that are not based on observable market data to estimate the fair value of investment property. (See Note 6)

② Deferred taxes

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The carrying amount of deferred tax assets is recognized as the best estimate when it is highly probable that sufficient taxable profit is generated to use the benefits of some or all of the deferred tax assets. These estimates may differ from actual corporate taxes. (See Note 19)

③ Fair value of financial instruments

Financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income, derivative financial instruments and etc. are measured at fair value after initial recognition, and gains or losses on valuation from changes in fair value are recognized in profit or loss or other comprehensive income. If there are quoted market prices in an active market when measuring fair value, those quoted market prices are applied as fair value. If there is no such quoted market price, the fair value is estimated using the valuation method which requires management's judgement about estimated future cash flows and discount rate. (See Note 22)

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**3. Significant Accounting Policies**

The significant accounting policies applied by the Group in preparation of its consolidated financial statements are included below. The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements except for the changes in accounting policies and interpretations as described in Note 2.

**(1) Basis of consolidation**

**① Subsidiaries**

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

If a member of the Group uses accounting policies other than those adopted in the consolidated financial statements for like transactions and events in similar circumstances, appropriate adjustments are made to its financial statements in preparing the consolidated financial statements.

**② Intra-group transactions**

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated. Unrealized losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred.

**③ Non-controlling interests**

Non-controlling interests in a subsidiary are accounted for separately from the parent's company's ownership interests in a subsidiary. Each component of net profit or loss and other comprehensive income is attributed to the owners of the Group and non-controlling interest holders, even when the allocation reduces the non-controlling interest balance below zero.

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**④ Changes in the Parent Company's ownership interest in a subsidiary**

Changes in the Parent Company's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions with owners in their capacity as owners. Adjustments to non-controlling interests are based on a proportionate amount of the net assets of the subsidiary. The difference between the consideration and the adjustments made to non-controlling interest is recognized directly in equity attributable to the owners of the Parent Company.

**(2) Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand, demand deposits, and short-term investments in highly liquid securities that are readily convertible to known amounts of cash with maturities of three months or less from the acquisition date and which are subject to an insignificant risk of changes in value.

**(3) Functional and presentation currency**

The consolidated financial statements are presented in the currency of the primary economic environment in which the Group operates (its functional currency). The functional currency of the Group is Korean won, which is the presentation currency for the consolidated financial statements.

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**(4) Financial instruments**

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

**1) Financial assets**

**Initial recognition and measurement**

Financial assets are classified, at initial recognition, as subsequently measured at amortized cost, fair value through other comprehensive income (OCI), and fair value through profit or loss. The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under K-IFRS 1115.

In order for a financial asset to be classified and measured at amortized cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognized on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

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**Subsequent measurement**

For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortized cost (debt instruments)
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon (equity instruments)
- Financial assets at fair value through profit or loss

**Financial assets at amortized cost (debt instruments)**

The Group measures financial assets at amortized cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

Financial assets at amortized cost are subsequently measured using the effective interest rate (EIR) method and are subject to impairment. Gains and losses are recognized in profit or loss when the asset is derecognized, modified or impaired.

**Financial assets designated at fair value through other comprehensive income (debt instruments)**

The Group measures debt instruments at fair value through other comprehensive income that meet all of the following conditions.

- debt instruments that are held within a business model whose objective is to both to collect the contractual cash flows and to sell the debt instruments
- debt instruments that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding

Interest income, gains (losses) on foreign exchange translation, and impairment or reversal with debt instruments designated at fair value through other comprehensive income are calculated in the same way of financial assets designated at amortized cost. The remaining fair value changes are recognized

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in other comprehensive income. When a debt investment measured at fair value through other comprehensive income is derecognized, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment.

Debt instruments designated at fair value through other comprehensive income that the Group holds are included in debt instruments as non-current assets.

### **Financial assets designated at fair value through other comprehensive income (equity instruments)**

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity under K-IFRS 1032 *Financial Instruments: Presentation* and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognized as other income in the statement of profit or loss when the right of payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at fair value through OCI are not subject to impairment assessment.

The Group can choose to classify irrevocably its non-listed equity investments under this category.

### **Financial assets at fair value through profit or loss**

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortized cost or at fair value through OCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

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Financial assets at fair value through profit or loss are carried in the consolidated statement of financial position at fair value with net changes in fair value recognized in the consolidated statement of income.

This category includes listed equity instruments that does not make an irrevocable election to measure derivatives and changes in fair value to recognize in other comprehensive income. Dividends for listed equity instruments is recognized at fair value through profit or loss when the entity's right to receive payment is established.

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if: the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognized in profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at fair value through profit or loss.

### **Derecognition**

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- The rights to receive cash flows from the asset have expired.
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a

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pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognize the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

### **Impairment of financial assets**

The Group recognizes an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognized in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables and other financial assets, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For debt instruments measured at fair value through other comprehensive income, the Group uses low credit risk expedients. The Group assesses whether the debt instruments are considered to have low credit risk using historical experience and forward-looking information that is available without



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undue cost of effort at each reporting date. In making this assessment, the Group re-evaluates internal credit rating of the debt instruments.

If the Group's debt instruments measured at fair value through other comprehensive income are considered to be low credit rating investment if consisted only of listed debt securities with the highest investment grade. The Group's policy is to measure these instruments with 12-month expected credit losses. However, a loss allowance or provision at an amount equal to lifetime expected credit losses is recognized if there is a significant increase in credit risk after initial recognition. The Group uses information that credit-rating agency provides to determine whether there is a significant increase in the credit risk of its debt instruments and to measure the expected credit losses.

### **2) Financial liabilities**

#### **Initial recognition and measurement**

Financial liabilities within the scope of KIFRS 1039 are classified at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognized initially at fair value and in the case of loans and borrowings and payable, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables.

#### **Subsequent measurement**

The measurement of financial liabilities depends on their classification.

#### **Financial liabilities at fair value through profit or loss**

Financial liabilities at fair value through profit or loss includes financial liabilities held for trading and financial liabilities designated upon initial recognition as of fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Group that

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are not designated as hedging instruments in hedge relationships as defined by K-IFRS 1109. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognized in the statement of profit or loss.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in K-IFRS 1109 are satisfied.

### **Loans and borrowings**

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using the effective interest rate method. Gains and losses are recognized in the statement of income when the liabilities are derecognized as well as through the effective interest rate method (EIR) amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR.

### **Derecognition**

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the consolidated statement of income.

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

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**(5) Investment property**

Investment properties are properties held to earn rentals and/or for capital appreciation. Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are reported at cost, less accumulated depreciation and accumulated impairment losses.

Subsequent costs are recognized in the carrying amount of an asset or as a separate asset if it is probable that future economic benefits associated with the assets will flow into the Group and the cost of an asset can be measured reliably. The carrying amount of the replaced part by subsequent expenditure is derecognized. Routine maintenance and repairs are expensed as incurred.

While land is not depreciated, all other investment properties are depreciated based on the respective assets estimated useful lives of 30~50 years using the straight-line method.

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

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

The carrying amounts of the Group's non-financial assets, other than assets arising from deferred tax assets, are reviewed at the end of the reporting period to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill and Intangible assets that have indefinite useful lives or that are not yet available for use, irrespective of whether there is any indication of impairment, are tested for impairment annually by comparing their recoverable amount to their carrying amount.

The Group estimates the recoverable amount of an individual asset, if it is impossible to measure the individual recoverable amount of an asset, then the Group estimates the recoverable amount of cash-generating unit ("CGU"). The recoverable amount of an asset or a CGU is the greater of its value in use and its fair value less costs to sell. The value in use is estimated by applying a pre-tax discount rate that reflect current market assessments of the time value of money and the risks specific to the asset or CGU for which estimated future cash flows have not been adjusted, to the estimated future cash flows expected to be generated by the asset or a CGU. An impairment loss is recognized in profit or loss if the carrying amount of an asset or a CGU exceeds its recoverable amount.

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Goodwill acquired in a business combination is allocated to each CGU that is expected to benefit from the synergies arising from the goodwill acquired. Any impairment identified at the CGU level will first reduce the carrying value of goodwill and then be used to reduce the carrying amount of the other assets in the CGU on a pro rata basis. Except for impairment losses in respect of goodwill which are never reversed, 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 amortization, if no impairment loss had been recognized.

### **(7) Provisions**

Provisions are recognized when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The risks and uncertainties that inevitably surround many events and circumstances are taken into account in reaching the best estimate of a provision. Where the effect of the time value of money is material, provisions are determined at the present value of the expected future cash flows.

Where some or all of the expenditures required to settle a provision are expected to be reimbursed by another party, the reimbursement is recognized when, and only when, it is virtually certain that reimbursement will be received if the entity settles the obligation. The reimbursement is presented as a separate asset.

Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimates. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed. A provision shall be used only for expenditures for which the provision was originally recognized.

### **(8) Current and deferred tax**

The tax expense for the period consists of current and deferred tax. Tax is recognized on the profit for the period in the statement of income, except to the extent that it relates to items recognized in other comprehensive income or directly in equity.

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The tax expense is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period.

Management periodically evaluates tax policies that are applied in tax returns in which applicable tax regulation is subject to interpretation. The Group recognizes current income tax on the basis of the amount expected to be paid to the tax authorities.

Deferred tax is recognized for temporary differences arising between the tax bases of assets and liabilities and their carrying amounts as expected tax consequences at the recovery or settlement of the carrying amounts of the assets and liabilities. However, deferred tax assets and liabilities are not recognized if they arise from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilized.

Deferred tax liability is recognized for taxable temporary differences associated with investments in subsidiaries, associates, and interests in joint ventures, except to the extent that the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. In addition, deferred tax asset is recognized for deductible temporary differences arising from such investments to the extent that it is probable the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilized.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Meanwhile, if the Group distributes more than 90% of its net profits under CORPORATE TAX ACT Article 51-2 *Income Deductions for Special Purpose Companies, etc.*, the Group may receive an income deduction for calculation of the amount of income for the current business year. Therefore, the Group calculates corporate income taxes reflecting dividend income deduction in calculation of current year's income.

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**(9) Retained earnings**

The Group does not accumulate legal reserve for appropriation of earnings pursuant to REAL ESTATE INVESTMENT COMPANY ACT Article 28-1 because COMMERCIAL ACT Article 458 which sets out the policy of legal reserve does not apply. In addition, the Group can distribute dividends in excess of profits to the extent of depreciation of the current year because COMMERCIAL ACT Article 462 does not apply as per REAL ESTATE INVESTMENT COMPANY ACT Article 28-3.

**(10) Lease**

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

**Lessee accounting**

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognizes lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

**1) Right-of-use assets**

The Group recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets

If ownership of the leased asset transfers to the Group at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset. The right-of-use assets are also subject to impairment, refer Note 3.6 Impairment of non-financial assets.

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### 2) Lease liabilities

At the commencement date of the lease, the Group recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating the lease, if the lease term reflects the Group exercising the option to terminate.

Variable lease payments that do not depend on an index or a rate are recognized as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset. The Group classifies lease liabilities as interest bearing debt.

### **Lessor accounting**

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the consolidated statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income.

If the Group is an intermediate lessor, the Group account for a head lease and a sublease as two separate contracts. When classifying a sublease, an intermediate lessor should evaluate the lease by reference to the right-of-use asset arising from the head lease and not by reference to the underlying

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asset. If the head lease is structured to meet the short-term lease exemption, the sublease is classified as an operating lease. The Group classified its sublease as a finance lease as of September 30, 2020.

### (11) Revenue from contracts with customers

As the Group is a real estate investment trust established in accordance with REAL ESTATE INVESTMENT COMPANY ACT, the Group recognizes lease income on a straight-line basis over the lease term arising from operating leases of investment property. Thus, K-IFRS 1115 *Revenue from Contracts with Customers* is not applied.

### (12) Finance income and costs

Finance income includes interest income and dividends. Interest income is recognized at fair value through profit or loss applying effective interest method over the period. Dividend income is recognized when the right to receive dividends is confirmed.

Finance costs include interest expenses on borrowings and interest expenses are recognized at fair value through profit or loss applying effective interest method over the period.

### (13) Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares in the consolidated statement of comprehensive income. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Group by the weighted average number of ordinary shares outstanding during the year. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all potential dilutive ordinary shares.

### (14) Approval of the consolidated financial statements

The issuance of the September 30, 2020 consolidated financial statements of the Group was approved by the Board of Directors on November 5, 2020, which will be approved at the annual shareholder's meeting on December 21, 2020.



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#### 4. Restricted Financial Instruments

Financial instruments which are restricted in its usage as of September 30, 2020 and March 31, 2020 are summarized as follows:

| <i>(In thousands of won)</i>     | <b>Financial institution</b> |   | <b>September 30</b> | <b>March 31</b>  | <b>Description</b>                            |
|----------------------------------|------------------------------|---|---------------------|------------------|---|
| Short-term financial instruments | Woori Bank, etc.             | ₩ | 344,758             | -                | Provided as collateral for leasehold deposits |
| Long-term financial instruments  |                              |   | 7,207,249           | 1,571,537        |   |
|                                  |                              | ₩ | <u>7,552,007</u>    | <u>1,571,537</u> |   |

#### 5. Other Financial Assets

(1) Other financial assets as of September 30, 2020 and March 31, 2020 are summarized as follows:

| <i>(In thousands of won)</i>         |   | <b>September 30</b> | <b>March 31</b> |
|--------------------------------------|---|---------------------|-----------------|
| <b>Current assets:</b>               |   |                     |                 |
| Accounts receivable                  | ₩ | 471,945             | 518,638         |
| Loss allowance provision             |   | -                   | (265,117)       |
| Accrued income                       |   | 26,495              | 22,169          |
| Lease payment receivable             |   | 26,161              | -               |
|                                      | ₩ | <u>524,601</u>      | <u>275,690</u>  |
| <b>Non-current assets:</b>           |   |                     |                 |
| Deposits provided                    | ₩ | 726                 | 24,726          |
| Non-current lease payment receivable |   | 36,064              | -               |
|                                      | ₩ | <u>36,790</u>       | <u>24,726</u>   |

(2) Allowance for losses of other financial assets

The Group's period for granting of credit is a month and the Group applies the simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for accounts receivable. To measure the expected credit losses, accounts receivables have been grouped based on shared credit risk characteristics and the days past due.

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Other financial assets measured at amortized cost are considered to have low credit risk, loss allowance provision is not recognized as of September 30, 2020. Loss allowance provision for accounts receivable as of March 31, 2020 is as follows, and other financial assets measured at amortized cost other than accounts receivable are considered to have low credit risk, and thus loss allowance provision is not recognized.

| <i>(In thousands of won)</i> |   | <b>Current</b> | <b>Within<br/>3 months</b> | <b>Over<br/>3 months</b> | <b>Total</b>   |
|------------------------------|---|----------------|----------------------------|--------------------------|----------------|
| Accounts receivable          | ₩ | 104,500        | 158,120                    | 256,018                  | 518,638        |
| Expected loss rate           |   | -              | 59.29%                     | 66.93%                   | 51.12%         |
| Loss allowance provision     |   | -              | (93,756)                   | (171,361)                | (265,117)      |
|                              | ₩ | <u>104,500</u> | <u>64,364</u>              | <u>84,657</u>            | <u>253,521</u> |

(3) Changes in loss allowance provision for the period ended September 30, 2020 is as follows:

| <i>(In thousands of won)</i> |   | <b>Beginning<br/>balance</b> | <b>Derecognition</b> | <b>Provision<br/>(Reversal)</b> | <b>Ending balance</b> |
|------------------------------|---|------------------------------|----------------------|---------------------------------|-----------------------|
| Loss allowance provision     | ₩ | 265,117                      | (188,958)            | (76,159)                        | -                     |

(4) Changes in loss allowance provision for the period ended March 31, 2020 is as follows:

| <i>(In thousands of won)</i> |   | <b>Beginning balance</b> | <b>Provision</b> | <b>Ending balance</b> |
|------------------------------|---|--------------------------|------------------|-----------------------|
| Loss allowance provision     | ₩ | -                        | 265,117          | 265,117               |

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6. Investment Properties

(1) Investment properties as of September 30, 2020 and March 31, 2020 are summarized as follows:

|           |   | September 30         |  |                      | March 31           |  |                    |
|-----------|---|----------------------|--|----------------------|--------------------|--|--------------------|
|           |   | Acquisition cost     | Accumulated depreciation and impairment losses | Carrying amount      | Acquisition cost   | Accumulated depreciation and impairment losses | Carrying amount    |
| Land      | ₩ | 848,292,267          | -  | 848,292,267          | 467,084,183        | -  | 467,084,183        |
| Buildings |   | 496,485,345          | (15,700,611)                                   | 480,784,734          | 331,070,658        | (11,797,973)                                   | 319,272,685        |
|           | ₩ | <u>1,344,777,612</u> | <u>(15,700,611)</u>                            | <u>1,329,077,001</u> | <u>798,154,841</u> | <u>(11,797,973)</u>                            | <u>786,356,868</u> |

(2) Changes in carrying amount of investment properties for the periods ended September 30, 2020 and March 31, 2020 are as follows:

|                   |   | September 30       |                    |                      | March 31           |                    |                    |
|-------------------|---|--------------------|--------------------|----------------------|--------------------|--------------------|--------------------|
|                   |   | Land               | Building           | Total                | Land               | Building           | Total              |
| Beginning balance | ₩ | 467,084,183        | 319,272,685        | 786,356,868          | 412,480,171        | 302,809,533        | 715,289,704        |
| Acquisition       |   | 381,208,084        | 164,909,470        | 546,117,554          | 54,604,012         | 18,141,491         | 72,745,503         |
| Reclassification  |   | -                  | 505,216            | 505,216              | -                  | 1,492,634          | 1,492,634          |
| Depreciation      |   | -                  | (3,902,637)        | (3,902,637)          | -                  | (3,170,973)        | (3,170,973)        |
| Ending balance    | ₩ | <u>848,292,267</u> | <u>480,784,734</u> | <u>1,329,077,001</u> | <u>467,084,183</u> | <u>319,272,685</u> | <u>786,356,868</u> |

(3) Profit or loss generated from investment property for the periods ended September 30, 2020 and March 31, 2020 is as follows:

|                    |   | September 30 | March 31   |
|--------------------|---|--------------|------------|
| Operating income   | ₩ | 26,357,171   | 23,086,429 |
| Operating expenses |   | 9,943,059    | 6,590,231  |

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(4) The details of appraisal of fair value of each investment property as of September 30, 2020 is as follows. The fair value of investment property as of September 30, 2020 is classified as level 3 based on the inputs used in the valuation technique and assessed by an independent appraisal institution, which is an accredited real estate expert on the assessment date. Meanwhile, the Group did not re-perform fair value assessment as the Group deems the change in fair value is immaterial as of September 30, 2020 against the latest assessment date.

| <i>(In millions of won)</i> | <b>KRAFTON Tower</b>  | <b>The Prime</b>                         | <b>Gwanggyo Daeil Building</b>   | <b>Shinhan L Tower</b>  | <b>Twin City Namsan</b>     |
|-----------------------------|---|--|--|---|-----------------------------|
| Fair value                  | ₩ 535,970   | 165,100                                  | 71,300   | 288,500   | 268,400                     |
| Assessment date             | April 30, 2018  | August 16, 2018                          | January 7, 2020  | June 18, 2020   | June 18, 2020               |
| Appraisal expert            | Pacific Appraisal Co., Ltd.   | The First Appraisal & Consulting Company | Samchang Appriasal Co, Ltd.  | Kyungil Appraisal Co., Ltd.   | Kyungil Appraisal Co., Ltd. |
| Appraisal method            | Applying a 50% weight to the price based on comparative method that reflects the market price and the price that reflects the investment value as of the assessment date of investment property |  | Calculated market value using cost method, comparison method, and income approach, taking usefulness of each method and limit, characteristics of the item, and purpose of appraisal and etc. into consideration | Applying a 50% weight to the price based on comparative method that reflects the market price and the price that reflects the investment value as of the assessment date of investment property |                             |

(5) The Group takes out a package insurance (Insured amount: ₩619,957 million) in connection with its investment property.

(6) In relation to borrowings the Group provides the right of fixed collateral and the right to receive claim related to investment property to the lenders as collateral with maximum pledge amount: ₩1,106,640 million. Also, in relation to leasehold deposits of lessee of operating lease, relevant investment property is provided as collateral with maximum pledged amount: ₩28,943 million.

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(7) Operating lease provided

The Group has entered into a contract with KRFATON, Inc. and etc. to provide operating lease with some of its investment properties and the carrying amount of operating lease assets as of September 30, 2020 and March 31, 2020 is as follows:

| <i>(In thousands of won)</i> |   | <b>September 30</b>  | <b>March 31</b>    |
|------------------------------|---|----------------------|--------------------|
| Acquisition cost             | ₩ | 1,300,895,237        | 796,738,522        |
| Accumulated depreciation     |   | (15,625,117)         | (11,781,203)       |
| Carrying amount              | ₩ | <u>1,285,270,120</u> | <u>784,957,319</u> |

Depreciation incurred from operating lease asset for the periods ended September 30, 2020 and March 31, 2020 is ₩3,844 million and ₩3,165 million, respectively.

As of September 30, 2020 and March 31, 2020, the expected schedule of lease payments to receive from operating lease agreement with regard to the above investment property is as follows:

| <i>(In thousands of won)</i>                      |   | <b>September 30</b> | <b>March 31</b>    |
|---|---|---------------------|--------------------|
| Not later than one year                           | ₩ | 61,930,076          | 43,820,815         |
| Later than one year and not later than five years |   | 160,374,508         | 158,787,237        |
| Later than five years                             |   | 94,330,998          | 124,090,635        |
| Total   | ₩ | <u>316,635,582</u>  | <u>326,698,687</u> |

The information above is based on the remaining lease period as of September 30, 2020 and March 31, 2020, and the possibility of an extension of the lease period has not been considered. The above lease payments may differ from actual amount received due to changes in rental payments linked to sales of lessee.

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(8) Information of appraisal of fair value

Details of inputs used for fair value measurement in three-level fair value of hierarchy is same for the periods ended September 30, 2020 and March 31, 2020, which is as follows:

| <i>(In millions of won)</i> | <b>September 30</b> | <b>Level of<br/>hierarchy of<br/>fair value</b> | <b>Valuation<br/>techniques</b>   | <b>Unobservable<br/>inputs</b>   | <b>Description of<br/>relationship</b>   |
|-----------------------------|---------------------|---|---|--|--|
| Investment property ₩       | 1,392,970           | 3   | -Weighted average (5:5) of the income approach and market approach<br>-Appraised and analyzed value using cost method, income approach, comparison method and decided to choose comparison method to calculate fair value | -Rent / sq. meter<br>-Discount rate<br>-Utility fee by floor<br>-Unit price of comparison method | If rental payments increase (decrease) and discount rates decrease (increase) and utility fees by floor increase (decrease), the fair value of investment property will increase (decrease). |

**7. Lease**

(1) Lease payment receivable and lease liabilities as of September 30, 2020 are as follows, and there is no lease payment receivable and lease liabilities as of March 31, 2020.

| <i>(In thousands of won)</i>    |   | <b>September 30</b> |
|---------------------------------|---|---------------------|
| <b>Lease payment receivable</b> |   |                     |
| Current portion                 | ₩ | 26,161              |
| Non-current portion             |   | 36,064              |
|                                 | ₩ | 62,225              |
| <b>Lease liabilities</b>        |   |                     |
| Current portion                 | ₩ | 31,434              |
| Non-current portion             |   | 43,334              |
|                                 | ₩ | 74,768              |

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(2) Changes in lease payment receivable and lease liabilities for the period ended September 30, 2020 are as follows, and there is no change in lease payment receivable and lease liabilities for the period ended March 31, 2020.

| <i>(In thousands of won)</i> | <b>Beginning<br/>balance</b> | <b>Increase</b> | <b>Interest</b> | <b>Decrease</b> | <b>Ending<br/>balance</b> |
|------------------------------|------------------------------|-----------------|-----------------|-----------------|---------------------------|
| Lease payment receivable ₩   | -                            | 77,161          | 1,164           | (16,100)        | 62,225                    |
| Lease liabilities            | -                            | 92,716          | 1,397           | (19,345)        | 74,768                    |

(3) Amount recorded in the income statement in relation to lease for the period ended September 30, 2020 is as follows, and there is no gain or loss recorded in the income statement for the period ended March 31, 2020.

| <i>(In thousands of won)</i>               | <b>September 30</b> |
|--|---------------------|
| <b>Lessee</b>                              |                     |
| Loss on impairment of right-of-use asset ₩ | 15,554              |
| Lease interest expenses                    | 1,397               |
|  | <b>₩ 16,951</b>     |
| <b>Lessor</b>                              |                     |
| Lease interest revenue ₩                   | 1,164               |

(4) Details of total lease investment and net lease investment as of September 30, 2020 are as follows, and there is no lease investment as of March 31, 2020.

| <i>(In thousands of won)</i>                        | <b>September 30</b> |
|---|---------------------|
| Not later than one year ₩                           | 27,600              |
| Later than one year and not later than two years    | 27,600              |
| Later than two years and not later than three years | 9,200               |
| Total lease investment ₩                            | <b>64,400</b>       |
| Present value of minimum lease payments             | 62,225              |
| Unrealized interest revenue                         | 2,175               |

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## 8. Other Assets

Other assets as of September 30, 2020 and March 31, 2020 are summarized as follows:

| <i>(In thousands of won)</i> | <u>September 30</u> | <u>March 31</u>  |
|------------------------------|---------------------|------------------|
| <b>Current assets:</b>       |                     |                  |
| Advance payments             | ₩ 138,543           | 757,457          |
| Prepaid expenses             | 812,466             | 448,204          |
| Prepaid value added tax      | 15,716,676          | 1,664,709        |
|                              | <u>₩ 16,667,685</u> | <u>2,870,370</u> |
| <b>Non-current assets:</b>   |                     |                  |
| Prepaid expenses             | ₩ 1,900,068         | 2,053,529        |

## 9. Other Accounts Payable

Other accounts payable as of September 30, 2020 and March 31, 2020 are summarized as follows:

| <i>(In thousands of won)</i> | <u>September 30</u> | <u>March 31</u>  |
|------------------------------|---------------------|------------------|
| Non-trade payables           | ₩ 2,389,353         | 2,617,316        |
| Accrued expenses             | 3,880,269           | 2,716,179        |
|                              | <u>₩ 6,269,622</u>  | <u>5,333,495</u> |

## 10. Other Current Liabilities

Other current liabilities as of September 30, 2020 and March 31, 2020 are summarized as follows:

| <i>(In thousands of won)</i> | <u>September 30</u> | <u>March 31</u>  |
|------------------------------|---------------------|------------------|
| Deposits                     | ₩ 7,703             | 330,109          |
| Value added tax withheld     | 1,009,529           | 932,050          |
| Advances received            | 157,739             | 569,206          |
| Unearned revenues            | 866,416             | 473,850          |
|                              | <u>₩ 2,041,387</u>  | <u>2,305,215</u> |



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11. Borrowings

(1) Details of short-term borrowings as of September 30, 2020 and March 31, 2020 are summarized as follows:

| (In thousands of won)   |   | Maturity   | Interest rate | September 30         | March 31          |
|---|---|------------|---------------|----------------------|-------------------|
| Securities-based loans<br>(*)                                 | Korea Investment<br>& Securities Co.,<br>Ltd. | 2021.06.23 | 3.75          | 21,000,000           | -                 |
|   | Samsung Securities<br>Co., Ltd.               | 2021.06.23 | 3.50          | 20,000,000           | -                 |
| Shinhan L Tower<br>mortgage loans<br>(Value added tax loans)  | Shinhan Life<br>Insurance                     | 2021.03.23 | 4.00          | 6,500,000            | -                 |
| Twin City Namsan<br>mortgage loans<br>(Subordinate)           | Shinhan Investment<br>Corp.                   | 2021.08.26 | 4.00          | 33,600,000           | -                 |
|   | Shinhan Life<br>Insurance                     | 2021.08.26 | 4.00          | 20,000,000           | -                 |
|   | Shinhan Capital                               | 2021.08.26 | 4.00          | 10,000,000           | -                 |
| Twin City Namsan<br>mortgage loans (Value<br>added tax loans) | Shinhan Life<br>Insurance                     | 2021.02.25 | 4.00          | 8,100,000            | -                 |
| Daeil Building<br>mortgage loans<br>(Junior)                  | Shinhan Investment<br>Corp.                   | 2021.03.04 | 4.50          | -                    | 23,000,000        |
| Daeil Building<br>mortgage loans (Value<br>added tax loans)   | Shinhan Bank                                  | 2020.09.04 | 4.50          | -                    | 1,666,000         |
|   |   |            |               | <u>₩ 119,200,000</u> | <u>24,666,000</u> |

(\*) The Group provides 1,000,000 common shares (amount of issuance per share: ₩10,000) and 7,900,000 the second class shares (amount of issuance per share: ₩10,000) of Shinhan K-1 REIT from investments in subsidiaries the Group holds to lenders as collateral (amount collateralized ₩89,000 million) for its short-term borrowings as of September 30, 2020.

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(2) Details of Long-term borrowings as of September 30, 2020 and March 31, 2020 are summarized as follows:

| (In thousands of won)                   |   | Maturity   | Interest rate | September 30 | March 31   |
|---|---|------------|---------------|--------------|------------|
| KRAFTON Tower mortgage loans (Senior)   | Kyobo life insurance co., Ltd                             |            | ₩             | 35,000,000   | 35,000,000 |
|   | HANWHA LIFE INSURANCE CO., LTD.                           |            |               | 70,000,000   | 70,000,000 |
|   | KB Insurance Co., Ltd                                     |            |               | 70,000,000   | 70,000,000 |
|   | National Credit Union Federation of Korea                 |            |               | 25,000,000   | 25,000,000 |
|   | Jangan Credit Union                                       |            |               | 5,000,000    | 5,000,000  |
|   | Gwangju Credit Union                                      | 2023.04.27 | 3.3           | 3,500,000    | 3,500,000  |
|   | Daechang Credit Union                                     |            |               | 1,500,000    | 1,500,000  |
|   | NongHyup  |            |               | 70,000,000   | 70,000,000 |
|   | Eugene Dream Square Investor Private Investment Trust #34 |            |               | 35,000,000   | 35,000,000 |
|   | National Federation of Fisheries Cooperatives             |            |               | 15,000,000   | 15,000,000 |
| The Prime mortgage loans (Senior)       | Shinhan Life Insurance Co., Ltd                           |            |               | 10,000,000   | 10,000,000 |
|   | Mirae Asset Life Insurance Co., Ltd                       | 2025.10.31 | 3.1           | 74,500,000   | 49,500,000 |
|   | Shinhan Life Insurance Co., Ltd                           |            |               | 74,500,000   | 49,500,000 |
| Daeil Building mortgage loans (Senior)  | National Federation of Fisheries Cooperatives             | 2021.03.04 | 2.9           | 23,500,000   | 23,500,000 |
|   | NongHyup Life Insurance Co., Ltd.                         |            |               | 20,000,000   | 20,000,000 |
|   | Shinhan Life Insurance Co., Ltd                           |            |               | 56,500,000   | -          |
| Shinhan L Tower mortgage loans (Senior) | HANWHA LIFE INSURANCE CO., LTD.                           | 2023.09.24 | 2.5           | 50,000,000   | -          |
|   | NongHyup Life Insurance Co., Ltd.                         |            |               | 40,000,000   | -          |

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| <i>(In thousands of won)</i>                   |                    | <u>Maturity</u> | <u>Interest rate</u> | <u>September 30</u>  | <u>March 31</u>    |
|--|--------------------|-----------------|----------------------|----------------------|--------------------|
| Twin City Namsan<br>mortgage loans<br>(Senior) | Tong Yang Life     | 2023.08.26      | 2.6                  | 100,000,000          | -                  |
|  | Insurance Co Lt    |                 |                      |                      |                    |
|  | Shinhan Life       |                 |                      | 65,000,000           | -                  |
|  | Insurance Co., Ltd |                 |                      |                      |                    |
| Sub-total                                      |                    |                 |                      | <u>₩ 844,000,000</u> | <u>482,500,000</u> |
| Less: Discounted present value                 |                    |                 |                      | <u>(5,670,533)</u>   | <u>(5,590,980)</u> |
| Total  |                    |                 |                      | <u>₩ 838,329,467</u> | <u>476,909,020</u> |

(2) The Group provides financial instrument, investment property, insurance claim under insurance contract and etc. to lenders as collateral with maximum pledge amount of ₩1,106,640 million for its short-term and long-term borrowings

## 12. Leasehold Deposits

(1) Details of leasehold deposits as of September 30, 2020 are summarized as follows:

| <i>(In thousands of won)</i> | <u>Current</u>     | <u>Non-current</u> |
|------------------------------|--------------------|--------------------|
| Nominal value                | ₩ 9,447,336        | 29,332,405         |
| (Discounted present value)   | <u>(36,273)</u>    | <u>(3,339,039)</u> |
| Carrying amount              | <u>₩ 9,411,063</u> | <u>25,993,366</u>  |

(2) Details of leasehold deposits as of March 31, 2020 are summarized as follows:

| <i>(In thousands of won)</i> | <u>Current</u>     | <u>Non-current</u> |
|------------------------------|--------------------|--------------------|
| Nominal value                | ₩ 1,085,101        | 22,104,105         |
| (Discounted present value)   | <u>(8,223)</u>     | <u>(3,130,505)</u> |
| Carrying amount              | <u>₩ 1,076,878</u> | <u>18,973,600</u>  |

Some of investment property is pledged as collateral for the above leasehold deposits with maximum pledge amount of ₩28,943 million, and short-term and long-term financial instruments are pledged and set ₩7,552 million.

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13. Share Capital and Other Paid-in Capital

(1) Share capitals as of September 30, 2020 are summarized as follows:

| <i>(In thousands of won<br/>except per share)</i> | <b>Number of Authorized<br/>shares</b> | <b>Number of<br/>shares issued</b> | <b>Par value per<br/>share in won</b> | <b>Capital</b>    |
|---|--|------------------------------------|---------------------------------------|-------------------|
| Common stock                                      | 750,000,000                            | 52,330,123                         | ₩ 1,000                               | 52,330,123        |
| Preferred stock                                   | 250,000,000                            | 4,000,000                          | 1,000                                 | 4,000,000         |
|   | <u>1,000,000,000</u>                   | <u>56,330,123</u>                  | <u>₩</u>                              | <u>56,330,123</u> |

(2) Share capitals as of March 31, 2020 are summarized as follows:

| <i>(In thousands of won<br/>except per share)</i> | <b>Number of Authorized<br/>shares</b> | <b>Number of<br/>shares issued</b> | <b>Par value per<br/>share in won</b> | <b>Capital</b>    |
|---|--|------------------------------------|---------------------------------------|-------------------|
| Common stock                                      | 750,000,000                            | 47,630,123                         | ₩ 1,000                               | 47,630,123        |
| Preferred stock                                   | 250,000,000                            | 4,000,000                          | 1,000                                 | 4,000,000         |
|   | <u>1,000,000,000</u>                   | <u>51,630,123</u>                  | <u>₩</u>                              | <u>51,630,123</u> |

(3) Changes in number of outstanding shares and capital for the period ended September 30, 2020 are as follows, and there is no change in number of outstanding shares and capital for the period ended March 31, 2020.

| <i>(In thousands of won<br/>except per share)</i> | <b>Common shares</b>               |                   | <b>Preferred shares</b>            |                  |
|---|------------------------------------|-------------------|------------------------------------|------------------|
|   | <b>Number of shares<br/>issued</b> | <b>Capital</b>    | <b>Number of shares<br/>issued</b> | <b>Capital</b>   |
| Beginning balance                                 | 47,630,123 ₩                       | 47,630,123        | 4,000,000 ₩                        | 4,000,000        |
| Issuance of common<br>stock                       | 4,700,000                          | 4,700,000         | -                                  | -                |
| Ending balance                                    | <u>52,330,123 ₩</u>                | <u>52,330,123</u> | <u>4,000,000 ₩</u>                 | <u>4,000,000</u> |

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(4) Other paid-in capital as of September 30, 2020 and March 31, 2020 are summarized as follows:

*(In thousands of won)*

|   | <b>September 30</b> | <b>March 31</b> |
|---|---------------------|-----------------|
| <b>Additional paid-in capital:</b>      |                     |                 |
| Common stock                            | ₩ 197,118,968       | 174,579,002     |
| Preferred stock                         | 51,813,315          | 51,813,315      |
|   | ₩ 248,932,283       | 226,392,317     |
| <b>Losses on capital reduction: (*)</b> | (302,582)           | (210,719)       |
| <b>Total</b>                            | ₩ 248,629,701       | 226,181,598     |

(\*) As some of common and preferred stocks (non-controlling shares) of the subsidiary were decreased by capital reduction, the proceeds from the reduction paid exceeded the amount of initial issuance, and thus will be amortized through the disposal of retained earnings in the future.

(5) Changes in other paid-in capital for the period ended September 30, 2020 are as follows:

*(In thousands of won)*

|                                  |   | <b>Additional paid-in capital</b> |                        | <b>Capital</b>       |              |
|----------------------------------|---|-----------------------------------|------------------------|----------------------|--------------|
|                                  |   | <b>Common stock</b>               | <b>Preferred stock</b> | <b>reduction (*)</b> | <b>Total</b> |
| Beginning balance                | ₩ | 174,579,002                       | 51,813,315             | (210,719)            | 226,181,598  |
| Issuance of common stock         |   | 22,539,966                        | -                      | -                    | 22,539,966   |
| Capital transaction in the Group |   | -                                 | -                      | (91,863)             | (91,863)     |
| Ending balance                   | ₩ | 197,118,968                       | 51,813,315             | (302,582)            | 248,629,701  |

(\*) As some of common and preferred stocks (non-controlling shares) of the subsidiary were decreased by capital reduction, the proceeds from the reduction paid exceeded the amount of initial issuance, and thus will be amortized through the disposal of retained earnings in the future.

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(6) Changes in other paid-in capital for the period ended March 30, 2020 are as follows:

*(In thousands of won)*

|                                  |   | <b>Additional paid-in capital</b> |                        | <b>Capital reduction</b> | <b>Total</b> |
|----------------------------------|---|-----------------------------------|------------------------|--------------------------|--------------|
|                                  |   | <b>Common stock</b>               | <b>Preferred stock</b> |                          |              |
| Beginning balance                | ₩ | 174,579,002                       | 51,813,315             | (207,124)                | 226,185,193  |
| Capital transaction in the Group |   | -                                 | -                      | (3,595)                  | (3,595)      |
| Ending balance                   | ₩ | 174,579,002                       | 51,813,315             | (210,719)                | 226,181,598  |

**14. Retained Earnings**

(1) Share capitals as of September 30, 2020 and March 31, 2020 are summarized as follows:

*(In thousands of won)*

|                                  |   | <b>September 30</b> | <b>March 31</b> |
|----------------------------------|---|---------------------|-----------------|
| Unappropriated retained earnings | ₩ | (7,892,055)         | (1,787,093)     |

(2) Changes in unappropriated retained earnings for the periods ended September 30, 2020 and March 31, 2020 are as follows:

*(In thousands of won)*

|   |   | <b>September 30</b> | <b>March 31</b> |
|---|---|---------------------|-----------------|
| <b>Unappropriated retained earnings</b> |   |                     |                 |
| Balance at beginning of year            | ₩ | (1,787,093)         | 750,880         |
| Profit for the period                   |   | 2,526,240           | 5,722,268       |
| Dividends                               |   | (8,796,519)         | (8,324,217)     |
| loss of non-controlling interests       |   | 165,317             | 63,976          |
| Balance at end of year                  | ₩ | (7,892,055)         | (1,787,093)     |

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(3) Details of dividends to be paid for the period ended September 30, 2020 are as follows:

| <i>(In share, won)</i>    | <b>Common stock</b> | <b>Preferred stock</b> |
|---------------------------|---------------------|------------------------|
| Number of dividend shares | 52,330,123          | 4,000,000              |
| Par value per share ₩     | 1,000               | 1,000                  |
| Dividend rate             | 15.30%              | 41.20%                 |
| Dividend per share        | 153                 | 412                    |
| Dividends ₩               | 8,006,508,819       | 1,648,000,000          |

(4) Details of dividends to be paid for the period ended March 31, 2020 are as follows:

| <i>(In share, won)</i>    | <b>Common stock</b> | <b>Preferred stock</b> |
|---------------------------|---------------------|------------------------|
| Number of dividend shares | 47,630,123          | 4,000,000              |
| Par value per share ₩     | 1,000               | 1,000                  |
| Dividend rate             | 15.00%              | 41.30%                 |
| Dividend per share        | 150                 | 413                    |
| Dividends ₩               | 7,144,518,450       | 1,652,000,000          |

**15. Operating Revenues**

Details of revenues for the periods ended September 30, 2020 and March 31, 2020 are as follows:

| <i>(In thousands of won)</i> | <b>September 30</b> | <b>March 31</b> |
|------------------------------|---------------------|-----------------|
| Rental revenues ₩            | 17,650,832          | 15,393,850      |
| Management revenues          | 8,038,878           | 7,071,332       |
| Other revenues               | 667,461             | 621,247         |
| ₩                            | 26,357,171          | 23,086,429      |

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**16. Operating Expenses**

Details of operating expenses for the periods ended September 30, 2020 and March 31, 2020 are as follows:

| <i>(In thousands of won)</i>               | <b>September 30</b> | <b>March 31</b>  |
|--|---------------------|------------------|
| Executive salaries                         | ₩ 16,677            | 13,800           |
| Commissions and fees                       | 1,340,188           | 547,434          |
| Real estate service fees                   | 2,371,175           | 2,086,140        |
| Maintenance costs                          | 596,741             | 373,672          |
| Utility Expenses                           | 1,008,839           | 851,054          |
| Taxes and dues                             | 2,025,119           | 74,983           |
| Insurance expenses                         | 38,548              | 33,409           |
| Depreciation expenses                      | 3,902,637           | 3,170,973        |
| Management fee expenses                    | 1,626,921           | 1,558,395        |
| Custodial fees                             | 32,678              | 28,224           |
| General, administrative and trust expenses | 123,444             | 115,228          |
| Bad debt expenses                          | (76,159)            | 265,117          |
|  | <u>₩ 13,006,808</u> | <u>9,118,429</u> |

**17. Other Income and Expenses**

Details of other income and expenses for the periods ended September 30, 2020 and March 31, 2020 are as follows:

| <i>(In thousands of won)</i>              | <b>September 30</b> | <b>March 31</b> |
|---|---------------------|-----------------|
| <b>Other income:</b>                      |                     |                 |
| Miscellaneous gains                       | ₩ 144,288           | 22,571          |
| <b>Other expenses:</b>                    |                     |                 |
| Loss on impairment of right-of-used asset | ₩ 15,554            | -               |
| Miscellaneous losses                      | 2,478               | 2,633           |
|   | <u>₩ 18,032</u>     | <u>2,633</u>    |



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**18. Finance Income and Costs**

Details of finance income and costs for the periods ended September 30, 2020 and March 31, 2020 are as follows:

| <i>(In thousands of won)</i>                |   | <b>September 30</b> | <b>March 31</b>  |
|---|---|---------------------|------------------|
| <b>Finance income:</b>                      |   |                     |                  |
| Interest income                             | ₩ | 77,466              | 129,639          |
| <b>Finance costs:</b>                       |   |                     |                  |
| Interest expense                            | ₩ | 11,027,517          | 8,395,310        |
| Loss on valuation of derivative instruments |   | 328                 | -                |
|   | ₩ | <u>11,027,845</u>   | <u>8,395,310</u> |

**19. Income Tax Expenses**

Income tax expense is computed by adjusting from income tax currently payable to adjustments recognized in the current period in relation to prior periods, changes in deferred taxes due to temporary differences, income tax expense in relation to items not recognized as profit or loss and others. However, if the Group distributes more than 90% of its net profits under CORPORATE TAX ACT Article 51-2 *Income Deductions for Special Purpose Companies, etc.*, the Group may receive an income deduction for calculation of the amount of income for the current business year. Current income tax expenses were not incurred as there is no corporate income tax to be borne by the Group. In addition, deferred tax assets and liabilities are not recognized for deductible temporary differences due to uncertainty over taxable income to be generated in the future as of the end of reporting date.

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20. Earnings per Share

(1) Details of basic earnings per share for the periods ended September 30, 2020 and March 31, 2020 are as follows:

| <i>(In won except per share)</i>                       |   | September 30    | March 31        |
|--|---|-----------------|-----------------|
| Profit attributable to owners of the Parent            | ₩ | 2,691,556,650   | 5,786,244,396   |
| Less: dividends to preferred shares                    |   | (1,648,000,000) | (1,652,000,000) |
| Profit attributable to owners of the Parent, net       |   | 1,043,556,650   | 4,134,244,396   |
| Weighted average number of ordinary shares outstanding |   | 50,866,189      | 47,630,123      |
| Basic earnings per share                               | ₩ | 21              | 87              |

(2) Details of weighted average number of ordinary shares outstanding for the periods ended September 30, 2020 and March 31, 2020 are as follows:

| <i>(In day except per share)</i>                       |                         | Shares outstanding | Days | Accumulated number of days |
|--|-------------------------|--------------------|------|----------------------------|
| <b>September 30</b>                                    |                         |                    |      |                            |
|  | 2020.04.01 ~ 2020.05.27 | 47,630,123         | 57   | 2,714,917,011              |
| Ordinary shares  | 2020.05.28 ~ 2020.09.30 | 52,330,123         | 126  | 6,593,595,498              |
|  | Total                   |                    | 183  | 9,308,512,509              |
| Weighted average number of ordinary shares outstanding |                         |                    |      | 50,866,189                 |
| <b>March 31</b>  |                         |                    |      |                            |
| Ordinary shares  | 2019.10.01 ~ 2020.03.31 | 47,630,123         | 183  | 8,716,312,509              |
| Weighted average number of ordinary shares outstanding |                         |                    |      | 47,630,123                 |

(3) The Group does not disclose diluted earnings per share for the periods ended September 30, 2020 and March 31, 2020 because the Group has no potential dilutive shares outstanding.

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21. Commitments and Contingencies

(1) Commitments of project financing

| <i>(In millions of won)</i>   | <b>KRAFTON Tower<br/>mortgage loans<br/>(Senior, etc.)</b>         | <b>The Prime<br/>mortgage loans<br/>(Senior)</b>                   | <b>Daeil Building<br/>mortgage loans<br/>(Senior)</b>                  | <b>Shinhan L Tower<br/>mortgage loans<br/>(Senior, etc.)</b>       | <b>Twin City Namsan<br/>mortgage loans<br/>(Senior, etc.)</b>      |
|-------------------------------|--|--|--|--|--|
| Date of commitment            | 2018.4.24<br>2020.9.11   | 2020.9.11  | 2020.2.28  | 2020.9.11  | 2020.8.19  |
| Lenders                       | 13 financial<br>institutions<br>including Hanwha<br>Life Insurance | 2 financial<br>institutions<br>including Shinhan<br>Life Insurance | 2 financial<br>institutions<br>including<br>NongHyup Life<br>Insurance | 4 financial<br>institutions<br>including Shinhan<br>Life Insurance | 4 financial<br>institutions including<br>Shinhan Life<br>Insurance |
| Total amount of<br>commitment | <del>₩</del> 381,000   | 149,000  | 43,500   | 153,000  | 236,700  |

The Group borrowed ~~₩~~963,200 million of the above project financing commitment as of September 30, 2020. In relation to financial loan agreement the Group provides its financial instruments, investment property, insurance claim under insurance contract to lenders as collateral with maximum pledge amount of ~~₩~~1,195,640 million. (See Note 11)

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### (2) Asset Management Contract

The Group entered into an asset management contract with Shinhan REITs Management for the services of acquisition, management, improvement, and disposal of real estate, and development and lease of real estate and trading of securities on behalf of the Group.

|                            | KRAFTON Tower   | The Prime   | Daeil  | Shinhan L Tower   | Twin City  |
|----------------------------|---|---|--|---|--|
| Purchase fee               | 0.6% of purchase amount   | 0.6% of purchase amount   | 1% of purchase amount  | 1% of purchase amount,<br>0.3% of purchase amount (*3)  | 1% of purchase amount  |
| Basic management fee       | 0.4% per annum of the base amount(*1) as of the end of business year  | 0.4% per annum of the total assets as of the end of business year | 0.1% per annum of the total assets as of the end of business year (1st year), 0.3% (2nd year), 0.4% (after 3rd year) | 0.1% per annum of the total assets as of the end of business year (1st year), 0.15% (2nd~4th year), 0.3% (after 4th year) | 0.2% per annum of the total assets as of the end of business year (1st year), 0.3% (2nd~3rd year), 0.4% (after 4th year) |
| Management performance fee | 5% of share value increase within the limit(*2), and the excess amount is carried forward after the next period | -   | -  | -   | -  |
| Basic disposition fee      | 1% of disposed amount   | 1% of disposed amount   | 1% of disposed amount  | 0.5% of disposed amount   | 1% of disposed amount  |
| Incentive disposition fee  | 10% of gain on disposition – accumulated amount of management performance fee already paid                      | 10% of gain on disposition  | 15% of gain on disposition   | 10% of gain on disposition  | 15% of gain on disposition   |

(\*1) Amount after subtracting the carrying amount of equity securities of JA-REITs at the relevant time from the total asset carrying amount at the end of reporting period. However, it is not subtracted in case that JA-REITs decides not to pay management fee to entrusted manage of JA-REITs.

(\*2) Balance subtracted the expected amount of dividends from net profits available for dividends for the corresponding business year

(\*3) The Group is to pay 0.3% of purchase amount as purchase fees if operating profit (audited financial statements based) from at least one business year from the first business year until fifth business year of Shinhan K-1 REIT is over ₩2 billions with the execution of dividends on common stocks excluding capital reserves.

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Management fee incurred under the above asset management contract for the periods ended September 30, 2020 and March 31, 2020 is ₩1,627 million and ₩1,558 million, respectively.

(3) General Business Administration Contract

The Group entered into a contract with Shinhan Aitas for the services of office work related to the issuance of stock, operation management, tax affair, and notification and disclosure by law or articles of incorporation. According to the contract, the Group is obligated to pay general business administration contract fees as follows:

|                             | <u>KRAFTON Tower</u>                     | <u>The Prime</u>                                  | <u>Daeil</u>                                      | <u>Shinhan L</u>                                | <u>Twin City</u>                                |
|-----------------------------|--|---|---|---|---|
| Business administration fee | 0.033% per annum of real estate purchase | <del>₩</del> 17.5 million at each settlement date | <del>₩</del> 16.5 million at each settlement date | <del>₩</del> 15 million at each settlement date | <del>₩</del> 15 million at each settlement date |

(4) Asset Custodial Contract

The Group entered into a contract with Kookmin Bank and others for the services of custody of real estate, securities, cash, etc., and management on behalf of the Group. The Group is obliged to pay commission fees which is as follows:

|                     | <u>KRAFTON Tower</u>                     | <u>The Prime</u>                                 | <u>Daeil</u>                            | <u>Shinhan L</u>                               | <u>Twin City</u>                                 |
|---------------------|--|--|---|--|--|
| Asset custodial fee | 0.008% per annum of real estate purchase | <del>₩</del> 3.3 million at each settlement date | 0.02% per annum of real estate purchase | <del>₩</del> 9 million at each settlement date | <del>₩</del> 7.5 million at each settlement date |

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(5) Real estate mortgage trust

The Group entered into a real estate mortgage trust contract with Asia Trust Co., Ltd. to ensure the management of real estate ownership and the fulfillment of debts and responsibilities borne by the Group. The scope of the secured debt guaranteed by the real estate mortgage trust contract is as follows:

| <i>(In millions of won)</i>    | Shinhan L Tower   | Twin City Namsan  |
|--------------------------------|---|---|
| Priority beneficiary           | 3 financial institutions including Shinhan Life Insurance | 4 financial institutions including Tong Yang Life Insurance |
| Secured debts                  | Senior and subordinate loans                              | Senior and subordinate loans                                |
| Amount of loans                | ₩ 146,500   | 228,600   |
| Maximum amount for beneficiary | ₩ 175,800 (120% of loans)                                 | 274,320 (120% of loans)                                     |

(6) If the Group intends to sell its investment property, KRAFTON Tower, to a third party, KRAFTON (formerly known as Bluehole) has the right of first offer on the property.

(7) The Group enters into a contract of performance guarantee contract with Seoul Guarantee Insurance Co., Ltd. with insured amount of ₩48 million as of September 30, 2020.

(8) The Group entered into a mutual call-option agreement with financial investors of its subsidiary, Shinhan K-1 REIT, through shareholder's agreement for shares each party holds, and recognized derivative instruments assets and liabilities in relation to the call-option agreement.

|                 | The Company's call-option   | Financial investor's call-option   |
|-----------------|---|--|
| Exercise period | The period from the date 7 years have elapsed from the date of purchase of investment property to the date of 1 year elapse | In case that the Company's call-option is not exercised or transaction is not closed imputable to the buyer, the period from the date 8 years have elapsed from the date of purchase of investment property to the date of 1 year elapse |
| Option items    | All classes of securities of financial investor   | All classes of securities and common shares of the Company   |
| Exercise price  | Amount with an IRR of 8% for financial investors (calculated after deducting security transaction tax)                      | Amount with an IRR of 8% for the Company (calculated after deducting security transaction tax)   |

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**22. Fair Value of Financial Instruments by Category**

(1) Details of fair value and carrying amount of financial assets and liabilities by category as of September 30, 2020 and March 31, 2020 are summarized as follows:

(In thousands of won)

|  |   | September 30    |               | March 31        |             |
|--|---|-----------------|---------------|-----------------|-------------|
|  |   | Carrying amount | Fair value    | Carrying amount | Fair value  |
| Financial assets at amortized cost                 |   |                 |               |                 |             |
| Cash and cash equivalents                          | ₩ | 11,875,191      | 11,875,191    | 1,952,620       | 1,952,620   |
| Short-term financial assets                        |   | 11,344,758      | 11,344,758    | 14,700,000      | 14,700,000  |
| Long-term financial instruments                    |   | 7,327,249       | 7,327,249     | 1,571,537       | 1,571,537   |
| Other financial assets                             |   | 561,391         | 561,391       | 300,416         | 300,416     |
|  | ₩ | 31,108,589      | 31,108,589    | 18,524,573      | 18,524,573  |
| Financial liabilities at amortized cost            |   |                 |               |                 |             |
| Other accounts payables                            | ₩ | 6,269,622       | 6,269,622     | 5,333,495       | 5,333,495   |
| Short-term borrowings                              |   | 119,200,000     | 119,200,000   | 24,666,000      | 24,666,000  |
| Financial liabilities of non-controlling interests |   | 18,094,932      | 18,094,932    | -               | -           |
| Long-term borrowings                               |   | 838,329,467     | 838,329,467   | 476,909,020     | 476,909,020 |
| Leasehold deposits received                        |   | 35,404,429      | 35,404,429    | 20,050,478      | 20,050,478  |
| Other financial liabilities                        |   | 74,768          | 74,768        | -               | -           |
|  | ₩ | 1,017,373,218   | 1,017,373,218 | 526,958,993     | 526,958,993 |
| Financial liabilities at fair value                |   |                 |               |                 |             |
| Derivative instruments liabilities                 | ₩ | 328             | 328           | -               | -           |

The Group considers the carrying amount and fair value of its financial assets and liabilities measured at amortized cost are similar to each other.

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(2) Details of gains or losses on financial instruments by category for the periods ended September 30, 2020 and March 31, 2020 are as follows:

| <i>(In thousands of won)</i>            |   | <b>September 30</b> | <b>March 31</b> |
|---|---|---------------------|-----------------|
| Financial assets at amortized cost      | Interest income                             | ₩ 77,466            | 129,639         |
| Financial liabilities at amortized cost | Interest expenses                           | 11,027,517          | 8,395,310       |
| Financial liabilities at fair value     | Loss on valuation of derivative instruments | 328                 | -               |

(3) Fair value hierarchy

- 1) Financial assets and liabilities carried at fair value by each valuation techniques are defined as follows:
  - Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
  - Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or in indirectly
  - Level 3: input for the asset or liability that are not based on observable market data
- 2) The level of fair value hierarchy of financial assets and liabilities measured at fair value as of September 30, 2020 is as follows, and there is no financial instrument measured at fair value the Group holds as of March 31, 2020.

| <i>(In thousands of won)</i>               |   | <b>Level 1</b> | <b>Level 2</b> | <b>Level 3</b> | <b>Total</b> |
|--|---|----------------|----------------|----------------|--------------|
| <b>Financial liabilities at fair value</b> |   |                |                |                |              |
| Derivative instruments liabilities         | ₩ | -              | -              | 328            | 328          |



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- 3) Changes in financial instruments corresponding to level 3 for the period ended September 30, 2020 are as follows, and there is no change in financial instruments corresponding to level 3 for the period ended March 31, 2020.

|                                     |   | <b>Beginning<br/>balance</b> | <b>Valuation</b> | <b>Ending<br/>balance</b> |
|-------------------------------------|---|------------------------------|------------------|---------------------------|
| <i>(In thousands of won)</i>        |   |                              |                  |                           |
| Financial liabilities at fair value | ₩ | -                            | 328              | 328                       |

- 4) Inputs used in measurement of fair value corresponding to level 3 of the hierarchy as of September 30, 2020 are as follows:

|                                    |   | <b>Valuation</b> | <b>Level</b> | <b>Valuation<br/>Method</b>  | <b>Significant<br/>unobservable inputs<br/>and range</b> | <b>Correlation<br/>between<br/>unobservable<br/>variable inputs and<br/>fair value</b> |
|------------------------------------|---|------------------|--------------|--|--|--|
| <i>(In thousands of won)</i>       |   |                  |              |  |  |  |
| Derivative instruments liabilities | ₩ | 328              | 3            | Least-Squares MonteCarlo Simulation and discounted cash flow used for calculation of beginning stock price | Expected volatility of land value 2.37%                  | If volatility of land value increases, volatility of option increases                  |

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## 23. Financial Risk Management

### (1) Management of capital risk

The fundamental goal of capital management is to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and maintain an optimal capital structure. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

As for this to be maintained, the Group uses debt ratio as indicator of capital management. The debt ratio is calculated as net liability divided by total equity.

The debt ratio as of September 30, 2020 and March 31, 2020 is as follows:

| <i>(In thousands of won)</i> |   | <b>September 30</b> | <b>March 31</b> |
|------------------------------|---|---------------------|-----------------|
| Total liabilities (A)        | ₩ | 1,021,861,970       | 531,866,273     |
| Total equity (B)             |   | 356,902,452         | 277,959,213     |
| Debt ratio (A/B)             |   | 286.31%             | 191.35%         |

### (2) Financial risk management

The Group's activities are exposed to a variety of financial risks: credit risk, liquidity risk and market risk (interest rate risk). The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize any adverse effects on the financial performance of the Group.

#### 1) Market risk

##### ① Interest rate risk

The carrying amount of assets and liabilities with a floating interest rate term exposed to interest rate risk as of September 30, 2020 and March 31, 2020 is as follows:

| <i>(In thousands of won)</i>   |   | <b>September 30</b> | <b>March 31</b> |
|--|---|---------------------|-----------------|
| Cash and cash equivalents and Long-term and short-term financial instruments | ₩ | 30,547,199          | 18,224,157      |

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## Notes to the Consolidated Financial Statements

### September 30, 2020 and March 31, 2020

The impact of 1% high/low interest rate regarding each asset and liability, with all other variables held constant, on the Group's profit before income tax for the period ended September 30, 2020 is as follows:

| <i>(In thousands of won)</i>   |   | <b>1% high</b> | <b>1% low</b> |
|--|---|----------------|---------------|
| Cash and cash equivalents and Long-term and short-term financial instruments | ₩ | 305,472        | (305,472)     |

#### ② Price risk

Price risk is the risk of fluctuations in the fair value or cash flow of financial instruments due to fluctuations in market prices. As of September 30, 2020, the Group's financial instruments exposed to price risk are derivatives instruments liabilities.

#### 2) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Credit risk arises from cash and cash equivalents, deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables and committed transactions. For banks and financial institutions, credit risk is limited because the Group has transactions only with highly rated parties. If there is no independent rating, the credit quality of the customer is evaluated taking into account its financial position, past experience and other factors. As of September 30, 2020, the maximum exposures to credit risk is the same as the carrying amount, which correspond with financial assets in the category measured at amortized cost amounting to ₩31,109 million.

#### 3) Liquidity risk

In order to manage the liquidity risk the Group establishes short-term and mid-term fund management plans and continuously analyze and review the projected cash outflows with actual cash outflows, and compares the maturity schedule of its financial assets and liabilities. Management believes financial liabilities can be repaid with the cash inflows from its operating activities and financial assets.

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- ① The contractual maturities of non-derivative financial liabilities as of September 30, 2020 are as follows:

| <i>(In thousands of won)</i>                             |   | <b>1 year<br/>or less</b> | <b>1 year<br/>or less</b> | <b>More than<br/>5 years</b> | <b>Total</b>         |
|--|---|---------------------------|---------------------------|------------------------------|----------------------|
| Non-trade payables                                       | ₩ | 2,389,353                 | -                         | -                            | 2,389,353            |
| Accrued expenses   |   | 3,880,269                 | -                         | -                            | 3,880,269            |
| Lease liabilities  |   | 33,164                    | 44,218                    | -                            | 77,382               |
| Financial liabilities of<br>non-controlling<br>interests |   | 18,094,932                | -                         | -                            | 18,094,932           |
| Leasehold deposits                                       |   | 9,447,336                 | 21,456,153                | 7,876,252                    | 38,779,741           |
| Short-term borrowings                                    |   | 119,441,425               | -                         | -                            | 119,441,425          |
| Long-term borrowings                                     |   | 25,096,802                | 748,326,077               | 149,391,586                  | 922,814,465          |
|  | ₩ | <u>178,383,281</u>        | <u>769,826,448</u>        | <u>157,267,838</u>           | <u>1,105,477,567</u> |

- ② The contractual maturities of non-derivative financial liabilities as of March 31, 2020 are as follows:

| <i>(In thousands of won)</i> |   | <b>1 year<br/>or less</b> | <b>1 year<br/>or less</b> | <b>More than<br/>5 years</b> | <b>Total</b>       |
|------------------------------|---|---------------------------|---------------------------|------------------------------|--------------------|
| Non-trade payables           | ₩ | 2,617,316                 | -                         | -                            | 2,617,316          |
| Accrued expenses             |   | 2,716,179                 | -                         | -                            | 2,716,179          |
| Leasehold deposits           |   | 1,085,101                 | 13,992,114                | 8,111,991                    | 23,189,206         |
| Short-term borrowings        |   | 24,666,000                | -                         | -                            | 24,666,000         |
| Long-term borrowings         |   | 14,359,828                | 419,441,973               | 144,357,403                  | 578,159,204        |
|                              | ₩ | <u>45,444,424</u>         | <u>433,434,087</u>        | <u>152,469,394</u>           | <u>631,347,905</u> |

The above maturity analysis is prepared based on the earliest maturity date the Group has to pay, based on cash flows from undiscounted principal and interest.

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**24. Transactions and Balances with Related Parties**

(1) Details of related parties are as follows:

|                     | <u>Name</u>                        |
|---------------------|------------------------------------|
| Other related party | Shinhan REITs Management Co., Ltd. |

(2) Significant transactions with related parties for the periods ended September 30, 2020 and March 31, 2020 are as follows:

| <i>(In thousands of won)</i> | <u>Transaction</u> |   | <u>September 30</u> | <u>March 31</u>  |
|------------------------------|--------------------|---|---------------------|------------------|
| Shinhan REITs                | Expenses           | ₩ | 1,626,921           | 1,474,296        |
| Management Co., Ltd.         | Equity investment  |   | 2,000,000           | -                |
|                              |                    | ₩ | <u>3,626,921</u>    | <u>1,474,296</u> |

(3) Account balances with related parties as of September 30, 2020 and March 31, 2020 are as follows:

| <i>(In thousands of won)</i>       | <u>Type</u> |   | <u>March 31</u> | <u>September 30</u> |
|------------------------------------|-------------|---|-----------------|---------------------|
| Shinhan REITs Management Co., Ltd. | Liabilities | ₩ | 1,613,560       | 1,473,493           |

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25. Cash Flow Information

(1) Cash and cash equivalents as of September 30, 2020 and March 31, 2020 is as follows:

| <i>(In thousands of won)</i> |   | <u>September 30</u> | <u>March 31</u> |
|------------------------------|---|---------------------|-----------------|
| Deposits on demand           | ₩ | 11,875,191          | 1,952,620       |

(2) Changes in liabilities (borrowings) from financing activities for the period ended September 30, 2020 are as follows:

| <i>(In thousands of won)</i>                             |   | <u>Beginning<br/>balance</u> | <u>Increase</u>    | <u>Decrease</u>     | <u>Amortization</u> | <u>Ending<br/>balance</u> |
|--|---|------------------------------|--------------------|---------------------|---------------------|---------------------------|
| Borrowings   | ₩ | 501,575,020                  | 479,905,000        | (24,666,000)        | 715,447             | 957,529,467               |
| Financial liabilities<br>of non-controlling<br>interests |   | -                            | 18,000,000         | -                   | 94,932              | 18,094,932                |
| Lease liabilities  |   | -                            | 92,716             | (19,345)            | 1,397               | 74,768                    |
|  | ₩ | <u>501,575,020</u>           | <u>497,997,716</u> | <u>(24,685,345)</u> | <u>811,776</u>      | <u>975,699,167</u>        |

(3) Changes in liabilities (borrowings) from financing activities for the period ended March 31, 2020 are as follows:

| <i>(In thousands of won)</i> |   | <u>Beginning<br/>balance</u> | <u>Borrowings</u> | <u>Amortization</u> | <u>Ending<br/>balance</u> |
|------------------------------|---|------------------------------|-------------------|---------------------|---------------------------|
| Borrowings                   | ₩ | 432,731,646                  | 68,166,000        | 677,374             | 501,575,020               |

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(4) Details of significant transactions not involving cash inflows and outflows for the periods ended September 30, 2020 and March 31, 2020 are as follows:

| <i>(In thousands of won)</i>  | <b>September 30</b> | <b>March 31</b> |
|---|---------------------|-----------------|
| Reclassification of long-term prepaid expenses to current portion   | ₩ 223,696           | 422,720         |
| Derecognition of accounts receivable                                | 476,347             | -               |
| Offset between long-term leasehold deposits and accounts receivable | 287,690             | -               |
| Reclassification of advance payments to investment properties       | 505,216             | 1,492,634       |
| Reclassification of long-term leasehold deposits to current portion | 1,675,097           | -               |
| Reclassification of advances to long-term leasehold deposits        | 569,206             | 268,479         |
| Amortization of present value discount of long-term borrowings      | 715,447             | 677,374         |

**26. Operating Segments**

Considering the nature of the service that generates operating income, the Group decided the entire Group as a single reporting unit. Therefore, the disclosure on operating income, profit and loss before provisions for income taxes, total amount of assets and liabilities by reporting unit is omitted. The Group's operating profit was entirely generated domestically, and information related to external customers exceeding 10% of the Group's operating profit is as follows:

| <i>(In thousands of won)</i> | <b>Operating profit</b> |
|------------------------------|-------------------------|
| Customer 1                   | ₩ 8,505,713             |