

Basel Pillar 3 Public Disclosures of

SHINHAN BANK CANADA

As at December 31, 2017

1. Scope of Application

This document outlines Shinhan Bank Canada's (the 'Bank') Basel Pillar 3 public disclosures as required by the Office of the Superintendent of Financial Institutions Canada ('OSFI').

The Bank is a wholly-owned subsidiary of Shinhan Bank in South Korea (the 'Parent bank') and was established on August 22, 2008 and is licensed to operate in Canada as a foreign bank subsidiary with full banking powers under the Bank Act (Canada). The Bank operates in the Greater Toronto Area and Greater Vancouver Area, and its head office is located at 5140 Yonge Street, Suite 2300, Toronto, Ontario, Canada, M2N 6L7.

2. Capital Structure

The Bank's capital management framework is designed to maintain a level which meets and/or exceeds the regulatory capital ratios, internal long-term capital targets and strong credit ratings and build long-term shareholder value.

The regulatory capital of the Bank consists of Tier 1 and Tier 2 Capital less deductions prescribed by OSFI. Since the Bank does not carry subordinated debentures, the Bank's Tier 1 capital is equal to total regulatory capital. Tier 1 Capital consists of Common Equity Tier 1 Capital and Additional Tier 1 Capital. Common Equity Tier 1 Capital includes common shares, retained earnings, and accumulated other comprehensive income. The Bank does not carry Additional Tier 1 Capital.

The table below shows the Bank's capital structure as of December 31, 2017.

Capital Structure		
	(Unit: C\$1,000)	
	2017.12	2016.12
Common Equity Tier 1 Capital		
Share Capital (unlimited common shares authorized)	80,000	80,000
Retained Earnings	(1,396)	(3,647)
Common Equity Tier 1 Capital	78,604	76,353
Tier 2 Capital		
Subordinated Debt	-	-
Tier 2 Capital	-	-
Total Capital (Tier 1 + Tier 2 Capital)	78,604	76,353

3. Capital Adequacy

The Bank has a capital management process in place to measure and monitor its available capital and assess its adequacy. This capital management process aims to maintain a cost-effective capital structure that provides adequate returns to the shareholder. The Bank's senior management and the Board of Directors regularly monitor results of related businesses, the consequent returns to total shareholder equity and the level of dividends to the shareholder.

Capital levels for Canadian banks are regulated pursuant to guidelines issued by OSFI. Effective Q4 2014, banks must meet a Tier 1 Capital ratio requirement of 8.50% and a total capital target ratio of 10.50%. The Bank's Tier 1 Capital and Total Capital ratios as of December 31, 2017 were 19.96% and 19.96% respectively, exceeding requirements by 11.46% and 9.46% respectively.

Capital ratios are calculated by dividing Tier 1 capital and regulatory capital by risk-weighted assets. Risk-adjusted assets are calculated according to OSFI prescribed rules relating to the Bank's exposures.

The table below shows the Bank's risk-weighted assets as of December 31, 2017.

Risk-Weighted Assets

(Unit: C\$1,000)

Exposure Type	2017.12		2016.12	
	Net Exposure	RWA	Net Exposure	RWA
Corporate	207,202	203,626	157,083	155,471
Sovereign	-	-	-	-
Bank	170,597	35,664	104,677	34,901
Total Institutional Credit Exposures	377,799	239,290	261,760	190,372
Residential mortgages	288,694	101,043	274,231	95,981
Other retail (incl. SBEs as other retail)	39,560	25,351	32,728	21,114
Total Retail Credit Exposures	328,254	126,394	306,959	117,095
Other credit risk-weighted assets	7,409	7,739	5,704	4,156
Total Credit Risk	713,462	373,423	574,423	311,623
Operational Risk		20,238		17,588
Market Risk		138		300
Total Risk-Weighted Assets	713,462	393,798	574,423	329,511

4. Credit Risk

1) General

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's loans to customers and derivative instruments. The Bank applies the Standardized Approach laid out in Basel II to measure credit risk for computing the regulatory capital charge for credit risk.

The Bank has instituted formal credit procedures for performing credit reviews as documented in the Loan Policy that was approved by the Bank's Board of Directors. Credit policies are important in ensuring that an appropriate balance exists between achieving earnings objectives and maintaining a sound credit portfolio. These policies set out the procedures for identifying and measuring credit risk, evaluating and approving credit, and monitoring and controlling such risk. Procedures include a comprehensive credit risk assessment and the assignment of an internal risk rating to the borrower. The approval process is delegated to various officials and committees as per the Loan Policy. Quantitative analysis includes a credit review of the financial statements and may include trend and ratio analysis. Qualitative analysis may include a review of management personnel, comments about the quality of the services and innovations as well as the reputation of the firm in the marketplace.

2) Impairment

Impairment is measured as the difference between the recorded value of the loan and its estimated realizable amount, determined by discounting the expected future cash flows at the effective interest rate inherent in the loan at the date of impairment. When the amounts and timing of future cash flows cannot be measured with reasonable reliability, either the fair value of any security underlying the loan, net of any expected realization costs, or the observable market price for the loan is used to measure the estimated realizable amount.

An account that is 90 plus days overdue has the propensity to get charged off and is generally considered to be impaired. An account that is overdue between 1 and 90 days is considered to be past due but not impaired.

3) Specific and Collective Allowances

Specific allowances are established on an item-by-item basis to reflect the associated estimated credit loss. In the case of loans, the specific provision is the amount required to reduce the carrying value of an impaired loan to its net realizable amount.

Collective allowances are established to absorb expected credit losses due to adverse trends or exposures to particular industries, geographic regions or other groupings, as assessed by the Bank, but where such losses cannot be determined on an item-by-item basis.

The amount of the provision for credit losses that is charged to the statement of comprehensive income and loss is the actual net credit loss experience for the period management considers adequate to absorb all credit-related losses in its portfolio of on and off-balance sheet items.

The table below shows the Bank's risk-weighted net exposures after risk mitigation as of December 31, 2017.

Standardized and Supervisory Risk-Weighted Net Exposures after Risk Mitigation by Risk Weighting Bands					
(Unit: C\$1,000)					
2017.12	0%	1 to 50%	51 to 100%	101 to 150%	151 to 200%
Standardized Approach	7,765	459,503	238,787	-	-
2016.12	0%	1 to 50%	51 to 100%	101 to 150%	151 to 200%
Standardized Approach	4,528	363,714	200,477	-	-

The table below shows the Bank's institutional and retail credit risk exposures as of December 31, 2017.

Gross Credit Risk Exposures*										
(Unit: C\$1,000)										
Exposure Type	2017.12					2016.12				
	Loans (Drawn)	Commitments (Undrawn)	Other Off-balance Sheet Items	Total	RWA	Loans (Drawn)	Commitments (Undrawn)	Other Off-balance Sheet Items	Total	RWA
Corporate	201,570	5,373	259	207,202	203,626	150,920	6,152	10	157,082	155,471
Sovereign	-	-	-	-	-	-	-	-	-	-
Bank	163,404	-	7,193	170,597	35,664	99,599	-	5,079	104,678	34,901
Total Institutional Credit Exposures	364,974	5,373	7,452	377,799	239,290	250,519	6,152	5,089	261,760	190,372
Residential mortgages	288,694	-	-	288,694	101,043	274,231	-	-	274,231	95,981
Other retail (excl. SMEs)	29,452	9,211	897	39,560	25,351	25,025	6,837	866	32,728	21,114
Total Retail Credit Exposures	318,146	9,211	897	328,254	126,394	299,256	6,837	866	306,959	117,095
Total Gross Credit Exposures	683,120	14,584	8,349	706,053	365,684	549,775	12,989	5,955	568,719	307,467

* Excluding other assets subject to credit risk

The table below shows the Bank's credit risk exposures by geographical area as of December 31, 2017.

Credit Risk Exposures* by Geography

(Unit: C\$1,000)

Exposure Type	2017.12					2016.12				
	Ontario	British Columbia	Other Province s & Territories in Canada	The U.S. and Internati onal	Total	Ontario	British Columbi a	Other Province s & Territories in Canada	The U.S. and Internati onal	Total
Loans (Drawn)	613,192	55,463	498	13,967	683,120	500,470	15,159	479	33,667	549,775
Commitments (Undrawn)	13,585	1,000	-	-	14,585	12,977	12	-	-	12,989
Other Off-balance Sheet Items	1,135	1,564	-	5,649	8,348	876	-	-	5,079	5,955
Total	627,912	58,027	498	19,616	706,053	514,323	15,171	479	38,746	568,719

* Excluding other assets subject to credit risk

The table below shows the Bank's credit risk exposures by industry as of December 31, 2017.

Credit Risk Exposures* by Industry

(Unit: C\$1,000)

Exposure Type	2017.12				2016.12			
	Loans (Drawn)	Commitments (Undrawn)	Other Off-balance Sheet Items	Total	Loans (Drawn)	Commitments (Undrawn)	Other Off-balance Sheet Items	Total
Mortgage	288,694	-	-	288,694	274,231	-	-	274,231
Other Consumer	7,667	3,177	334	11,178	7,463	3,082	369	10,914
Consumer	296,361	3,177	334	299,872	281,694	3,082	369	285,145
Manufacturing	16,948	629	-	17,577	16,434	1,679	-	18,113
Service	168,244	9,071	551	177,866	112,401	6,957	258	119,616
Retail	34,461	1,668	270	36,399	38,335	1,263	250	39,848
Other Commercial	3,702	40	-	3,742	1,312	8	-	1,320
Commercial	223,355	11,408	821	235,584	168,482	9,907	508	178,897
Total	519,716	14,584	1,156	535,456	450,176	12,989	877	464,042

* Excluding bank exposures and other assets subject to credit risk

Residual Contractual Maturity Breakdown of the Credit Exposures

(Unit: C\$1,000)

Loans (Drawn)	2017.12					
	Floating	Within 3 Months	3 Months to 1 Year	1 to 5 Years	Non-rate Sensitive	Total
Bank Exposure	32,537	40,371	82,895	-	7,601	163,404
Residential Mortgages	274,181	-	339	14,174	-	288,694
Corporate and Retail Exposures	202,710	18,274	520	9,518	-	231,022
Total Gross Credit Exposures	509,428	58,645	83,754	23,692	7,601	683,120

Loans (Drawn)	2016.12					
	Floating	Within 3 Months	3 Months to 1 Year	1 to 5 Years	Non-rate Sensitive	Total
Bank Exposure	36,834	36,714	13,972	-	12,078	99,598
Residential Mortgages	273,337	-	-	894	-	274,231
Corporate and Retail Exposures	152,968	16,543	515	5,920	-	175,946
Total Gross Credit Exposures	463,139	53,257	14,487	6,814	12,078	549,775

Geographic Distribution of Allowances and Impaired Loans

(Unit: C\$1,000)

Allowances Type	2017.12					2016.12				
	Ontario	British Columbia	Other Provinces & Territories in Canada	The U.S. and International	Total	Ontario	British Columbia	Other Provinces & Territories in Canada	The U.S. and International	Total
Individual Allowances	-	-	-	-	-	-	-	-	-	-
Collective Allowances	1,782	223	-	3	2,008	1,434	36	-	7	1,477
Total Allowances	1,782	223	-	3	2,008	1,434	36	-	7	1,477
Impaired Loans	-	-	-	-	-	-	-	-	-	-

Allowances and Impaired Loans by Industry

(Unit: C\$1,000)

Industry Type	2017.12				2016.12			
	Individual Allowances	Collective Allowances	Total Allowances	Impaired Loans	Individual Allowances	Collective Allowances	Total Allowances	Impaired Loans
Mortgage	-	295	295	-	-	323	323	-
Other Consumer	-	15	15	-	-	17	17	-
Consumer	-	310	310	-	-	340	340	-
Manufacturing	-	50	50	-	-	48	48	-
Service	-	1,143	1,143	-	-	732	732	-
Retail	-	383	383	-	-	255	255	-
Other Commercial	-	21	21	-	-	8	8	-
Commercial	-	1,597	1,597	-	-	1,043	1,043	-
Others*	-	101	101	-	-	94	94	-
Total	-	2,008	2,008	-	-	1,477	1,477	-

*From bank credit exposures, undrawn commitments, and other off-balance sheet items

Change in Allowances

(Unit: C\$1,000)

	2017.12		
	Specific Allowances	Collective Allowances	Total Allowances
Beginning Balance	-	1,477	1,477
Write-Offs	-	-	-
Recoveries	-	-	-
Charge for Impairment	-	531	531
End Balance	-	2,008	2,008

5. Credit Risk Mitigation

As part of the Bank's credit risk mitigation approach, the Bank monitors, on a regular basis, the loan portfolio mix to prevent any concentration of loans to a particular borrower, industry, loan type, or geographic area.

The Bank holds collateral against loans to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing which were conducted by a qualified external appraiser.

The main types of collateral taken by the Bank are residential properties (single family houses, condominiums, and townhouses), commercial properties (strip plazas, commercial buildings, office buildings, etc.) business chattels, and term deposits held by borrowers.

The main types of guarantors include major banks in Korea which provide a Standby Letter of Credit to the Bank. In addition, the Bank's small business improvement loans are guaranteed by Industry Canada in accordance with the Small Business Loan Act.

Credit Risk Mitigation Used for Standardized Approaches

(Unit: C\$1,000)

Exposure Type	2017.12		2016.12	
	Eligible Financial Collateral	Eligible Guarantees/ Credit Derivatives	Eligible Financial Collateral	Eligible Guarantees/ Credit Derivatives
Corporate	3,317	259	1,601	10
Sovereign	-	-	-	-
Bank	-	7,193	-	5,079
Total Institutional Credit Exposures	3,317	7,452	1,601	5,089
Residential mortgages	-	-	-	-
Other retail (incl. SBEs as other retail)	3,741	896	2,512	866
Total Retail Credit Exposures	3,741	896	2,512	866
Total Credit Risk	7,058	8,348	4,113	5,955

6. Counterparty Credit Risk

Counterparty Credit Risk (CCR) is the risk that the counterparty to a transaction could default before the final settlement of the transaction's cash flows. An economic loss would occur if the transactions or portfolio of transactions with the counterparty has a positive economic value at the time of default.

When a business unit does a transaction related to CCR, it confirms that the risk could be managed within the limit approved by the related committee or the parent bank before the transaction.

The Bank uses the standardized approach outlined in OSFI CAR guideline when it calculates the regulatory capital for CCR.

The Bank's CCR mainly comes from foreign exchange swap transactions. As of December 31, 2017, the Bank had no exposure at default related to CCR.

7. Market Risk

Market risk is the risk to earnings or capital arising from changes in the values of portfolios of financial instruments on trading book. The drivers of market risk are interest rate, foreign exchange, equity, and commodities markets.

The Bank is exposed to market risk in the following ways:

- FX positions: Positions subject to measurement of market risk refer to FX positions that are taken for cash management purposes

Market Risk is measured based on the Basel II Standardized Approach for BIS ratio. As of December 31, 2017, Market Risk RWA from FX positions was C\$138 thousand and the market risk capital was C\$11 thousand.

8. Operational Risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Bank's operations.

The Bank measures operational risk using the Basic Indicator Approach. The Basic Indicator Approach requires banks to calculate operational risk capital requirements by applying a factor of 15% to a three-year average of positive annual gross income, where gross income is equal to net interest income plus non-interest income.

The table below shows the Bank's operational capital requirements as of December 31, 2017.

Operational Risk						
(Unit: C\$1,000)						
	Gross Income					
Year 1	Year 2	Year 3	Average	Alpha	Capital Charge	RWA
8,698	10,863	12,810	10,790	15%	1,619	20,238

9. Interest Rate Risk

Interest rate risk is the risk to earnings or capital arising from movements in interest rates on the banking book. Interest rate risk arises from differences between the timing of rate changes and the timing of cash flows (re-pricing risk). It also arises from changing rate relationships among different yield curves affecting bank activities (basis risk), changing rate relationships across the spectrum of maturities (yield curve risk), and interest related options embedded in bank products (options risk).

The Bank is exposed to interest rate risk in the following ways:

- Banking book: on-balance and off-balance sheet assets and liabilities that are sensitive to interest rate fluctuations expose us to interest rate risk via mismatched maturity dates

Based on the Bank's interest rate positions as at December 31, 2017, the following table shows the change in the portfolio's Net Present Value ("NPV") for a 100 basis points increase and decrease in interest rates across the yield curve for all currencies:

The table below shows the impact of a change in interest rates on net income and equity.

Interest Rate Risk: Changes in Net Present Value and Net Interest Income			
(Unit: C\$1,000)			
Interest Rates	NPV	Increase (Decrease) in Net Income	
		Year 1	Year 2
100-basis-point increase	476	1,781	1,199
100-basis-point decrease	(475)	(1,781)	(1,199)

10. Remuneration

1) General

Shinhan Bank Canada's remuneration program is to compensate its employees at an adequate level that is internally fair and externally competitive in order to attract and retain skilled workforce. The Bank's remuneration practices are to actively reflect its management strategies and objectives, to promote performance oriented environment by creating motivation for the employees.

However, the remuneration practices are to consider both the performance goals as well as the risk appetite determined by management. Senior Management refers to the employees responsible for making decisions on major risk-related or management-related issues. They are the material risk takers of the Bank.

As of December 31, 2017, there are total of 14 employees considered to be Senior Management of the Bank, and they are as follows:

- President & CEO;
- Senior Vice President and Vice Presidents;
- Department Heads;
- Branch Managers; and
- C-Level Officers.

The amount of inherent risk may differ due to the nature of work each of them is responsible for, but the Bank has its Risk Appetite Framework in place to limit the amount of risk they can take.

2) Responsibilities of the Board of Directors

The Board of Directors of the Bank oversees and is ultimately responsible for remuneration of the Bank. As of December 31, 2017, there are 7 members in the Board. Four of the Board members are independent non-executive directors, selected and appointed based on their qualifications and relevant experiences. There were 11 Board meetings in 2017, consisted of 4 quarterly meetings and 7 special meetings.

With regards to remunerations for Senior Management, the Directors of the Bank:

- Establish remuneration structure under the guidance of the remuneration policy of Shinhan Bank Korea, the Parent Bank;
- Ensure the remuneration practices are arranged in line with the Bank's management objectives and risk appetite; and
- Monitor and review the remuneration system annually to ensure it operates as intended.

The Bank has the Human Resources Policies and Procedures which address remuneration policies for all employees, and the Human Resources department regularly reviews the compensation structure so that it operates as intended, as indicated above.

A Compensation and Job Ranking Analysis was completed in April, 2017 and approved by the Board of Directors on July 14, 2017. The major changes were to a) replace the existing 6 salary grades, and b) implement new salary grades and job levels – 11 in total based on the nature and complexity of positions. The effective date for salary adjustments was August 14, 2017.

3) Annual Performance Review & Base Salary Review

The Bank's Base Salary Review is to maintain a competitive position within the market by providing the Senior Management an opportunity to adjust their base salary based on their performance. Their performance shall be evaluated annually based on pre-established standards, and their annual base salary shall be increased or adjusted based on the results.

An employee's salary shall be determined in accordance with the position of the employee and shall be adjusted based on the results of their annual performance evaluation. The performance evaluation is based on key metrics set by the Human Resources department of the Bank as well as from global targets by the Parent bank. These targets are directly linked to the performance of the Bank and are specific and relevant to each business unit and are individually measurable toward the employee's performance evaluation. These metrics are set at the beginning of each year.

Beginning 2016, the Bank implemented a variable compensation system that actively reflects the financial performance of the Shinhan Bank Canada in terms of profitability and return on equity. The actual payout amount for each employee is varied by an employee's individual performance and the business unit's performance result. Shinhan Bank Canada's incentive program is offered to full-time regular employees with an overall satisfactory level of performance. The 2017 incentive payout will occur in Apr 2017.

Annual Remuneration for Senior Management

(Unit: C\$1,000)

Total Value of Remuneration Awarded for the Year	2017.01.01 – 2017.12.31	2016.01.01 – 2016.12.31
Fixed remuneration		
Salary, Allowance, & Defined Contribution Pension Plan	1,765	1,512
Variable remuneration		
Performance-based Incentives	150	19