Basel III Pillar 3 Public Disclosures of

SHINHAN BANK CANADA

As at December 31, 2018

Contents

1. Scope of Application

This document outlines the Pillar 3 public disclosures for Shinhan Bank Canada (the "Bank") as at December 31, 2018 in accordance with the Pillar 3 Disclosure Requirements of the Office of the Superintendent of Financial Institutions Canada ("OSFI").

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

This report is unaudited and is reported in thousands of Canadian dollars, unless otherwise specified.

2. Risk Management Framework

The Bank established Risk Management Policy to identify, assess, monitor, report known risks and emerging risks and define internal controls to achieve business objectives. The Bank also measures the amount of risk that management is willing to take in pursuit of strategic objectives via its Risk Appetite Framework.

The Board of Directors (the "Board") has overall oversight responsibility for the Bank's risk management framework, including:

- Approving and overseeing strategy, risk management and internal control; and
- Providing challenge, advice and guidance to the Senior Management of the Bank on operational and business policies and business performance and effectiveness of risk management.

The Risk Management Committee of the Board (the "RMC") is responsible for:

- Assisting the Board in its oversight function with respect to the effectiveness and adequacy of the Bank's total risk management; and
- Approving material changes to the Bank's strategy and corresponding risk appetite.

The Bank establishes the following management committees in order to identify and monitor risks, outline controls and risk limits, and establish process for monitoring the established risk limits:

- The Asset and Liability Committee (the "ALCO") provides oversight to ensure the Bank's assets, liabilities, interest rate risk, and liquidity risk;
- The Crisis Management Committee (the "CMC") identifies risk factors and monitors the existing risk factors identified at the business-line level; and
- The Loan Monitoring Committee (the "LMC") decides monitoring grades on borrowers with high exposures to the Bank.

3. Capital Structure

The Bank's capital management framework is designed to maintain a sound level that 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. Tier 1 capital includes common share and retained earnings less deductions prescribed by OSFI. Tier 2 capital consists of Stage 1 and Stage 2 allowances under IFRS 9 and capped at 1.25% of credit risk-weighted assets ("RWA") under the Standardized Approach. Table 1 shows the Bank's capital structure as of December 31, 2018.

Table 1 The capital structure as of December 31, 2018 and as at December 31, 2017.

(Unit: C$000s)

Capital Structure	2018	2017	YoY
Common shares	80,000	80,000	-
Retained earnings (deficit)	1,297	(1,396)	2,693
Regulatory adjustments	(61)	-	(61)
Common Equity Tier 1 (CET1) Capital	81,236	78,604	2,632
Tier 1 Capital	81,236	78,604	2,632
Stage 1 and 2 allowances	3,125	-	3,125
Tier 2 Capital	3,125	-	3,125
Total Capital (Tier 1 + Tier 2)	**84,361**	**78,604**	**5,757**

4. Capital Adequacy

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

Capital adequacy for banks domiciled in Canada is regulated pursuant to the OSFI's Capital Adequacy Requirements ("CAR") guidelines. Capital ratios are calculated by dividing regulatory capital by RWA which receive a specific risk weight determined by characteristics of assets. Effective 2014 Q4, banks must meet a CET1 ratio of 7.0%, Tier 1 capital ratio requirement of 8.5%, and total capital target ratio of 10.5%. As at December 31, 2018, the Tier 1 capital ratio and total capital ratio were 17.06% and 17.72% respectively, which complied with both the regulatory minimum and internal targets determined by the Bank's ICAAP.

Leverage ratio is computed by dividing Tier 1 capital by the total exposure. The OSFI-authorized requirement is 6.0% and the Bank sets a 0.75% buffer above the requirement so that it meets the minimum requirement of 6.75%. As at December 31, 2018, the leverage ratio was 10.64%. Table 2 shows the breakdown of RWA and capital ratios.

Table 2 The risk-weighted assets and ratios as of December 31, 2018 and as at December 31, 2017.

(Unit: C$000s)

Risk-Weighted Assets and Ratios	2018	2017	YoY
Credit risk	450,678	373,423	77,255
Market risk	250	138	112
Operational risk	25,044	20,238	4,806
Total RWA	**475,972**	**393,798**	**82,174**
CET1 capital ratio	**17.06%**	**19.96%**	**–2.90%**
Total capital ratio	**17.72%**	**19.96%**	**–2.24%**
Total exposures	763,513	711,581	51,932
Leverage ratio	**10.64%**	**11.05%**	**–0.41%**

5. Credit Risk

a. General

Credit risk is the risk of loss associated with a borrower's inability to meet its contractual obligations. This risk is the most significant financial risk exposure faced by the Bank and arises predominantly from loans to customers.

The Bank has instituted formal credit procedures for performing credit reviews as documented in the Loan Policy that was approved by the Board. Credit policies ensure that an appropriate balance exists between achieving earnings objectives and maintaining a sound credit portfolio. These policies outline procedures for identifying and measuring credit risk, evaluating and approving credit, and monitoring and controlling credit risk. Procedures include a comprehensive credit risk assessment and assignment of an internal risk rating to a borrower. Approval process is delegated to various officials and committees in accordance with the Loan Policy. Quantitative analysis includes a credit review of the financial statements and may include trend and ratio analysis. Qualitative analysis includes 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.

The Bank applies the Standardized Approach laid out in Basel II and CAR to measure the regulatory capital charge for credit risk.

Tables 3 and 4 provide the Bank's total gross credit exposures of 2017 and 2018, grouped by various categories: exposure type, geographic location, industry, and remaining contractual maturity. Because the Bank does not have debt securities or OTC derivatives, its credit exposure consists of loans (drawn), commitments (undrawn), and other non-derivative off-balance sheet exposures.

Table 3 The gross credit exposure as of December 31, 2018.

(Unit: $000s)

	December 31, 2018			
	Loans	Commitments	Other off-balance sheet exposures	Total
By exposure type				
Corporate	272,216	11,556	-	**283,772**
Sovereign	7,967	-	-	**7,967**
Bank	101,556	20	5,649	**107,225**
Retail residential mortgages	320,945	-	-	**320,945**
Other retail	10,174	7,736	269	**18,179**
SBEs treated as other retail	23,592	13,082	913	**37,587**
Other assets	7,379	-	-	**7,379**
Total exposure	**743,829**	**32,394**	**6,831**	**783,054**
By geographic location				
Canada				
Ontario	633,836	26,463	1,152	**661,451**
British Columbia	95,690	5,931	5,679	**107,300**
Others (Canada)	328	-	-	**328**
Others (International)	13,975	-	-	**13,975**
Total exposure	**743,829**	**32,394**	**6,831**	**783,054**
By industry				
Consumer loan				
Residential mortgage (RML)	320,945	-	-	**320,945**
Other consumer loan	10,174	7,736	199	**18,109**
Commercial loan				
Manufacturing	16,677	2,854	-	**19,531**
Service	239,006	18,532	763	**258,301**
Retail	36,458	3,234	220	**39,912**
Other commercial	3,667	38	-	**3,705**
Other credit exposures	116,902	-	5,649	**122,551**
Total exposure	**743,829**	**32,394**	**6,831**	**783,054**
By residual contractual maturity				
Within 3 months	72,994	3,821	497	**77,312**
3 months to 1 year	139,389	8,066	1,255	**148,710**
1 to 5 years	531,438	20,507	5,079	**557,024**
Over 5 years	8	-	-	**8**
Total exposure	**743,829**	**32,394**	**6,831**	**783,054**

Table 4 The gross credit exposure as of December 31, 2017.

(Unit: $000s)

	December 31, 2017			
	Loans	Commitments	Other off-balance sheet exposures	Total
By exposure type				
Corporate	201,570	10,747	1,295	**213,612**
Sovereign	-	-	-	**-**
Bank	163,404	-	7,193	**170,597**
Retail residential mortgages	288,695	-	-	**288,695**
Other retail	7,667	6,455	334	**14,456**
SBEs treated as other retail	21,785	12,407	562	**34,754**
Other assets	7,410	-	-	**7,410**
Total exposure	**690,531**	**29,609**	**9,384**	**729,524**
By geographic location				
Canada				
Ontario	620,603	27,351	627	**648,581**
British Columbia	55,463	2,258	7,213	**64,934**
Others (Canada)	498	-	-	**498**
Others (International)	13,967	-	1,544	**15,511**
Total exposure	**690,531**	**29,609**	**9,384**	**729,524**
By industry				
Consumer loan				
Residential mortgage (RML)	288,695	-	-	**288,695**
Other consumer loan	7,667	6,455	334	**14,456**
Commercial loan				
Manufacturing	16,949	1,258	-	**18,207**
Service	168,244	18,480	1,587	**188,311**
Retail	34,461	3,336	270	**38,067**
Other commercial	3,702	80	-	**3,782**
Other credit exposures	170,813	-	7,193	**178,006**
Total exposure	**690,531**	**29,609**	**9,384**	**729,524**
By residual contractual maturity				
Within 3 months	76,847	700	1,624	**79,171**
3 months to 1 year	153,162	11,883	1,266	**166,311**
1 to 5 years	460,508	17,026	6,494	**484,028**
Over 5 years	14	-	-	**14**
Total exposure	**690,531**	**29,609**	**9,384**	**729,524**

b. 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 amount 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.

A loan that is past due between 1 to 90 days is classified “past due”, but not impaired. A loan is considered to be “impaired” when the loan is past due for more than 90 days. As of December 31, 2018, the Bank did not have loans that are impaired, but one commercial mortgage loan in Ontario that was past due, but not impaired, with the amount of $942K.

c. Allowances

Collective allowance (stages 1 and 2) absorbs expected credit losses arising from adverse trends or exposures to particular industries, geographic regions or other groupings, but where such losses cannot be determined specific to a loan.

Individual allowance (stage 3) is established on an individual basis to reflect the associated estimated credit loss. For impaired loans, this allowance is the amount required to reduce the carrying value of an impaired loan to its net realizable amount. As of December 31, 2018, none was recorded as Stage 3 allowance.

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

Table 5 summarizes collective allowance and individual allowance as of 2017 and 2018.

Table 5 Allowances by geographic area and industry as of 2017 and 2018.

(Unit: $000s)

	2018			2017		
	Collective	Individual	Total	Collective	Individual	Total
By geographic location						
Canada						
Ontario	2,440	-	**2,440**	1,782	-	**1,782**
British Columbia	682	-	**682**	223	-	**223**
Others (Canada)						
Others (International)	3	-	**3**	3	-	**3**
Total allowance	**3,125**	**-**	**3,125**	**2,008**	**-**	**2,008**
By industry						
Consumer loan						
RML	299	-	**299**	295	-	**295**
Other consumer loan	25	-	**25**	15	-	**15**
Commercial loan						
Manufacturing	46	-	**46**	50	-	**50**
Service	2,189	-	**2,189**	1,143	-	**1,143**
Retail	452	-	**452**	383	-	**383**
Other commercial	24	-	**24**	21	-	**21**
Other credit exposures	90	-	**90**	101	-	**101**
Total allowance	**3,125**	**-**	**3,125**	**2,008**	**-**	**2,008**
Change in allowance						
Beginning Balance	2,008	-	**2,008**	1,477	-	**1,477**
IFRS 9 adoption	334	-	**334**	-	-	**-**
Write-offs	-	-	**-**	-	-	**-**
Recoveries	-	-	**-**	-	-	**-**
Charge for impairment	783	-	**783**	531	-	**531**
Ending Balance	**3,125**	**-**	**3,125**	**2,008**	**-**	**2,008**

6. 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 Bank's small business improvement loans are guaranteed by Industry Canada in accordance with the Small Business Loan Act.

Table 6 compares eligible financial collaterals the Bank held in 2017 and 2018 by exposure type.

Table 6 The credit risk mitigation technique used for the Standardized Approach in 2017 and 2018.

(Unit: $000s)

Exposure Type	2018	2017
Corporate	1,618	3,576
Other retail	4,193	3,271
SBEs treated as other retail	2,394	3,059
Total eligible financial collateral	**8,205**	**9,906**

7. 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.

CCR principally arises from foreign exchange swap transactions. As of December 31, 2018, the Bank did not have any exposure ate default related to CCR.

8. 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 risk arises from foreign exchange positions that are subject to cash management purposes. As at December 31, 2018, the Bank held $20K of foreign exchange positions.

9. 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.

The Bank established Operational Risk Management Guideline to oversee the operational risk management program of the Bank. The Bank utilizes various tools such as Risk & Control Self-Assessment ("RCSA"), Operational Risk Event and Loss Data Collection, and Key Risk Indicator ("KRI") to identify and assess inherent risk.

The Bank uses the basic indicator approach to measure the capital charge for operational risk. As at December 31, 2018, the average three-year gross income was $13.3 million and the capital charge for basic indicator approach was $2 million.

10. Interest Rate Risk

Interest rate risk ("IRR") is the risk to earnings or capital arising from movements in interest rates on the banking book. IRR arises from differences between the timing of rate changes and the timing of cash flows (re-pricing risk) as well as changing rate relationships across the spectrum of maturities (yield curve risk). The Bank is exposed to on-balance and off-balance sheet assets and liabilities that are sensitive to interest rate fluctuations via maturity mismatch.

Table 7 shows the change in the portfolio's net present value ("NPV") by 100 basis points upward and downward in interest rates across the yield curve for all currencies as of December 31, 2018.

Table 7 Changes in net present value and net interest income as of December 31, 2018.

(Unit: C$000s)

Change in Interest Rates	Net Present Value	Change in Net Interest Income	
		Year 1	Year 2
+100bp	786	2,458	850
–100bp	(725)	(2,458)	(850)

11. Liquidity and Funding Risk

Liquidity and funding risk is the risk for loss when the Bank is unable to obtain sufficient cash or cash equivalents in a timely manner at a reasonable cost to meet its commitments. The Bank's Liquidity Risk Management Policy outlines risk assessment, operations, and management methods for liquidity risk so that the Bank's activities are aligned with both regulatory and internal requirements. The ALCO oversees liquidity risk management and liquidity and funding management plans. Stress tests that are aligned with the OSFI's B-6 Liquidity Principles are conducted on a regular basis for a variety of bank-specific and market-wide stress scenarios to identify sources of potential strain, to measure the impact on funding requirements and to ensure that current exposures remain in accordance with the Bank's established liquidity and funding risk tolerance.

The Bank manages the liquidity coverage ratio ("LCR") by capping the maximum net cash outflow at $20 million to via Risk Appetite Framework to ensure that the LCR meets the regulatory minimum requirement of 100%. The LCR of the Bank as of December 31, 2018 satisfies with the minimum regulatory requirement of 100%.

12. Remuneration

a. 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, 2018, there were total of 16 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.

b. 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, 2018, there were 8 members in the Board. Five of the Board members were independent non-executive directors, selected and appointed based on their qualifications and relevant experiences. There were 8 Board meetings in 2018, consisted of 4 quarterly meetings and 4 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.

c. Annual Performance Review and 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. The Bank's incentive program is offered to full-time regular employees with an overall satisfactory level of performance. The 2018 incentive payout will occur in April, 2019.

Table 8 The total value of remuneration awarded for 2017 and 2018.

(Unit: $000s)

Remuneration	2018.01.01 – 2018.12.31	2017.01.01 – 2017.12.31
Fixed remuneration		
Salary, allowance, and defined contribution pension plan	1,546	1,512
Variable remuneration		
Performance-based incentives	80	19
Total	**1,626**	**1,531**