Basel III Pillar 3 Public Disclosures of

SHINHAN BANK CANADA

As at December 31, 2019

Contents

1. Scope of Application

This document outlines the Pillar 3 public disclosures for Shinhan Bank Canada (the "Bank") as at December 31, 2019, 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 not only to identify, assess, monitor, report known risks and emerging risks but to define internal controls in alignment with business objectives. The Bank measures the amount of risk that the Bank 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's oversight with respect to the effectiveness and adequacy of the Bank's enterprise risk management; and
- Performing the review on material changes to the Bank's strategy and corresponding risk appetite.

The Bank establishes the following management committees to identify and monitor risks, outline controls and risk limits, and establish a 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, 2019.

Table 1 The capital structure as at December 31, 2019, and as at December 31, 2018.

(Unit: $000s)

Capital Structure	2019	2018	YoY
Common shares	80,000	80,000	-
Retained earnings (deficit)	5,306	1,297	4,009
Regulatory adjustments	(138)	(61)	(77)
Common Equity Tier 1 (CET1) Capital	85,168	81,236	3,932
Tier 1 Capital	85,168	81,236	3,932
Stage 1 and 2 allowances	3,181	3,125	56
Tier 2 Capital	3,181	3,125	56
Total Capital (Tier 1 + Tier 2)	**88,349**	**84,361**	**3,988**

4. Capital Adequacy

The Bank has a capital management process in place to measure and monitor its available capital and assess the adequacy of the capital. 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 according to the OSFI's Capital Adequacy Requirements ("CAR") guidelines. Capital ratios are calculated by dividing regulatory capital by RWA, which receives a specific risk weight determined by characteristics of assets. Effective 2014 Q4, banks must meet a CET1 ratio of 7.0%, a Tier 1 capital ratio requirement of 8.5%, and a total capital target ratio of 10.5%. As at December 31, 2019, the Tier 1 capital ratio and total capital ratio were 16.76% and 17.39%, respectively, which complied with both the regulatory minimum and internal targets determined by the Bank's ICAAP.

The leverage ratio is computed by dividing Tier 1 capital by the total exposure. As at December 31, 2019, the leverage ratio was 10.00%. Table 2 shows the breakdown of RWA and capital ratios.

Table 2 The risk-weighted assets and ratios as of December 31, 2019, and as at December 31, 2018.

(Unit: $000s)

Risk-Weighted Assets and Ratios	2019	2018	YoY
Credit risk	478,020	450,678	27,342
Market risk	150	250	-100
Operational risk	30,000	25,044	4,956
Total RWA	**508,170**	**475,972**	**32,198**
CET1 Capital Ratio	**16.76%**	**17.06%**	**-0.30%**
Total Capital Ratio	**17.39%**	**17.72%**	**-0.33%**
Total exposures	851,776	763,513	88,263
Leverage Ratio	**10.00%**	**10.64%**	**-0.64%**

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. The 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. The 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 2018 and 2019, 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, 2019**.**

(Unit: $000s)

	December 31, 2019			
	Loans	**Commitments**	**Other off-balance sheet exposures**	**Total**
By exposure type				
Corporate	284,538	8,738	6,000	**299,276**
Sovereign	19,967			**19,967**
Bank	88,968	20	5,649	**94,637**
Retail residential mortgages	385,789			**385,789**
Other retail	10,466	8,305	209	**18,979**
SBEs treated as other retail	25,785	13,869	511	**40,166**
Other assets	12,785			**12,785**
Total exposure	**828,299**	**30,932**	**12,369**	**871,600**
By geographic location				
Canada				
Ontario	704,835	23,613	702	**729,150**
British Columbia	114,269	7,319	11,667	**133,255**
Others (Canada)	445	-	-	**3,797**
Others (International)	8,750	-	-	**8,750**
Total exposure	**828,299**	**30,932**	**12,369**	**871,600**
By industry				
Consumer loan				
Residential mortgage (RML)	385,789	-	-	**385,789**
Other consumer loan	10,466	8,305	139	**18,909**
Commercial loan				
Manufacturing	193	125	-	**318**
Service	265,956	18,771	6,278	**291,005**
Retail	40,446	3,629	304	**44,378**
Other commercial	3,625	103	-	**3,728**
Other credit exposures	121,824	-	5,649	**127,472**
Total exposure	**828,299**	**30,932**	**12,369**	**871,600**
By residual contractual maturity				
Within 3 months	115,512	3,332	6,699	**125,543**
3 months to 1 year	174,920	5,756	5,670	**186,346**
1 to 5 years	537,867	21,844	-	**559,711**
Over 5 years	-	-	-	
Total exposure	**828,299**	**30,932**	**12,369**	**871,600**

Table 4 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**

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, 2019, the Bank has one impaired commercial mortgage loan in Ontario with the amount of $915K and no other past due status loan.

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, 2019, 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 the collective allowance and individual allowance as of 2018 and 2019.

Table 5 Allowances by geographic area and industry as at 2018 and 2019.

(Unit: $000s)

	2019			2018		
	Collective	**Individual**	**Total**	**Collective**	**Individual**	**Total**
By geographic location						
Canada						
Ontario	2,502	584	**3,086**	2,440	-	**2,440**
British Columbia	672	-	**672**	682	-	**682**
Others (Canada)						
Others (International)	7	-	**7**	3	-	**3**
Total allowance	3,181	584	**3,765**	3,125	-	**3,125**
By industry						
Consumer loan						
RML	312	-	**312**	299	-	**299**
Other consumer loan	20	-	**20**	25	-	**25**
Commercial loan						
Manufacturing	3	-	**3**	46	-	**46**
Service	2,431	-	**2,431**	2,189	-	**2,189**
Retail	248	584	**832**	452	-	**452**
Other commercial	59	-	**59**	24	-	**24**
Other credit exposures	108	-	**108**	90	-	**90**
Total allowance	3,181	584	**3,765**	3,125	-	**3,125**
Change in allowance						
Beginning Balance	3,125	-	**3,125**	2,008	-	**2,008**
IFRS 9 adoption		-		334	334	**334**
Write-offs	-	-	-	-	-	**-**
Recoveries	-	-	-	-	-	**-**
Charge for impairment	640	-	**640**	783	783	**783**
Ending Balance	3,765	-	**3,765**	3,125	-	**3,125**

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 the 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 was 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 2018 and 2019 by exposure type.

Table 6 The credit risk mitigation technique used for the Standardized Approach in 2018 and 2019.

(Unit: $000s)

Exposure Type	2019	2018
Corporate	6,673	1,618
Other retail	4,059	4,193
SBEs treated as other retail	2,080	2,394
Total eligible financial collateral	**12,812**	**8,205**

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, 2019, the Bank did not have any exposure at 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, 2019, the Bank held $12K of foreign exchange positions.

The Bank's carrying currencies are Canadian Dollar (CAD), U.S. dollar (USD), Euro (EUR), and Korean Won (KRW). The maximum of the absolute values of USD, EUR, and KRW net position amounts are used for the market risk position.

Table 7. The components of the Bank's foreign exchange positions

(Unit: $000s)

Components ('000)	2019
USD Position Amount	(14)
CAD/USD Exchange Rate	1.2985
USD Position (CAD Equivalent)	(18)
EUR Position Amount	-
CAD/EUR Exchange Rate	1.457
EUR Position (CAD Equivalent)	-
KRW Position Amount	129
KRW/CAD Exchange Rate	886.37
KRW Position (CAD Equivalent)	146
Total Long Position	146
Total Short Position	18
Maximum Market Position Amount	146
Market Risk	12

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, 2019, the average three-year gross income was $16.0 million, and the capital charge for the basic indicator approach was $2.4 million.

Table 8. The Basic indicator approach to measure the capital charge for operational risk

(Unit: $000s)

Year 1	Year 2	Year 3	Average of three-year gross income	Alpha	Capital Charge	RWA
12,810	16,398	18,790	15,999	15%	2,400	30,000

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.

Interest rate gap position as of December 31, 2019:

The gap for any given tenor bucket represents the potential borrowings from, or placements to the markets (internal or external) required due to the earlier of the re-pricing and maturity dates of liabilities or assets. The following table sets out an interest rate gap analysis across various periods:

Table 9. Interest rate risk and book value of each class of investment:

(Unit: $000s)

2019	Floating	Within 3 months	3 months to 1 year	1 to 5 years	Non-rate Sensitive	Total
Assets						
Cash and equivalents	$ 35,636	$ -	$ -	$ -	$ 1,211	$ 36,847
Deposits with regulated financial institutions	45,000	-	-	-	-	45,000
Securities	-	-	14,949	5,018	-	19,967
Loans	618,560	18,746	26,067	51,434	-	714,807

Allowance for credit losses	-	-	-	-	(3,657)	(3,657)
Other assets	-	-	-	-	10,223	10,223
	699,196	18,746	41,016	56,452	7,777	823,187
Liabilities and Shareholder's Equity						
Payable on demand	71,572	-	-	-	47,134	118,706
Payable on fixed date	-	174,365	282,047	25,978	-	482,390
Lease liabilities	-	129	376	3,663	-	4,168
Other liabilities	-	30,000	95,000	-	7,617	132,617
Shareholder's equity	-	-	-	-	85,306	85,306
	71,572	204,494	377,423	29,641	140,057	823,187
Total Gap	**$ 627,624**	**$ (185,748)**	**$ (336,407)**	**$ 26,811**	**$ (132,280)**	**$ -**

Based on the Bank's interest rate positions as at December 31, 2019, the following table 10 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, 2019.

Table 10. Changes in net present value and net interest income as of December 31, 2019.

(Unit: $000s)

Change in Interest Rates	Net Present Value	Change in Net Interest Income	
		Year 1	Year 2
+100bp	1,249	2,870	797
–100bp	(1,197)	(2,870)	(797)

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 LCR of the Bank as of December 31, 2019, maintains over 100%, the regulatory requirement by OSFI.

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 workforces. The Bank's remuneration practices are to actively reflect its management strategies and objectives and to promote a performance-oriented environment through an effective motivation and reward platform for the employees.

While the remuneration practices must consider the performance goals, they must also consider the risk appetite that is determined by senior management. Senior Management refers to the executive level employees who are 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, 2019, there were a total of 16 employees considered to be Senior Management of the Bank, and they are as follows:

- President & CEO;
- Senior Vice President, CRO
- C-Level Officers; Vice Presidents
- Department Heads at HQ

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 the remuneration of the Bank. As of December 31, 2019, 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 2019 and consisted of 4 quarterly meetings and 5 special meetings.

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

- Establish a remuneration structure under the guidance of the remuneration policy of Shinhan Bank Korea, the Parent Bank for the expatriates and Canadian practices for all other employees;
- 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

A key goal for the Bank's annual Performance Management Program is to maintain a competitive position within the market by providing Senior Management with the opportunity to adjust their base salary and receive a performance bonus. The base salary of each position is based on the requirements of the position, determined through job evaluation. The job evaluation of the position defines the job grade/level, and then the process of assessing the individual's skills, knowledge, experience, education etc, relative to the role competencies, determines his/her placement on the salary range. A comprehensive mapping is planned for FY2020.

Merit increases are tied to the employee's performance of their role and are evaluated annually based on pre-established standards. The performance evaluation is based on key metrics set by the Board of Directors through mandates (where appropriate), the Bank's Strategic Plan, Department goals, 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. In FY2020, the Board of Directors has approved a goal-based performance management system that aligns with the goals of Shinhan Bank Canada and also evaluates competencies such as a risk mindset, driving a compliance culture and ensuring an audit-ready environment.

Table 11. The total value of remuneration awarded for 2018 and 2019.

(Unit: $000s)

Remuneration		2019.01,01 – 2019.12.31	2018.01.01 – 2018.12.31
Fixed remuneration			
	Salary, allowance, and defined contribution pension plan	1,700	1,546
Variable remuneration			
	Performance-based incentives	85	80
Total		**1,785**	**1,626**