

Basel III Pillar 3 Public Disclosures of

SHINHAN BANK CANADA

As at December 31, 2021

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1. Background

Shinhan Bank Canada (the "Bank") established in August 22, 2008 is a chartered bank, incorporated and domiciled in Canada. It is a federally regulated financial institution ("FRFI") which is a wholly owned subsidiary of Shinhan Bank (the "Parent Bank") domiciled in South Korea and regulated by the Office of the Superintendent of Financial Institutions ("OSFI"). The head office is located at 5140 Yonge Street, Suite 2300, Toronto, Ontario, Canada, M2N 6L7. The Bank primarily operates in the Greater Toronto Area and Greater Vancouver Area. Effective January 1, 2013, the Bank has adopted the Basel III framework ("Basel III"), as required by OSFI. OSFI has issued a revised Capital Adequacy Requirements ("CAR") Guideline encompassing Basel II and Basel III requirements. The most significant aspects of Basel III are measures to improve the quality of capital and increase capital requirements for the global financial system. Common equity is now required to be the predominant form of capital.

Further, OSFI issued the Leverage Requirements ("LR") Guideline in October 2014 which are effective from January 2015 and has also amended the CAR Guideline in November 2014 to remove references to the Assets to Capital Multiple ("ACM") effective January 1, 2015. In accordance with the amended CAR Guideline, OSFI expects all institutions to maintain a leverage ratio (which replaces the ACM) that meets or exceeds 3% at all times and has also prescribed authorized "Leverage Ratio" requirements for individual institutions.

The CAR and LR Guidelines establish two minimum standards, the risk-based capital ratio and the leverage ratio, to provide a framework for assessing the adequacy of capital for all institutions. The leverage ratio test provides an overall measure of the adequacy of an institution's capital while the risk-based capital ratio focuses on risk faced by the institution. These capital adequacy and leverage ratio requirements apply on a consolidated basis and apply to all regulated financial institutions as defined in the CAR Guideline.

OSFI requires all banks to maintain sufficient capital to meet or exceed its capital adequacy requirements. While, the current CAR Guideline has prescribed minimum risk-based capital targets, OSFI may also set higher target capital ratios for individual institutions. The current thresholds of "all in" Common Equity Tier 1 ("CET1"), Tier 1 and total capital adequacy ratios (including capital conservation buffer) as per the CAR Guideline are 7%, 8.5% and 10.5%, respectively. The Bank is in compliance with OSFI's capital adequacy requirements in respect of risk-based CET 1, Tier 1 and Total capital ratios as well as the Leverage Ratio requirements.

The Basel II framework consists of the following three-mutually reinforcing pillars:

- Pillar 1: Minimum capital requirements for credit risk, market risk and operational risk;
- Pillar 2: Supervisory review of capital adequacy; and
- Pillar 3: Market discipline.

Market discipline (Pillar 3) comprises disclosures on the capital adequacy and risk management framework of the Bank. There are no entities that are required to be consolidated with the Bank or that require deduction treatment.

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

2. Scope of Application

a. Scope of Application of Pillar 3 Requirements

The Pillar 3 disclosures of the Bank have been prepared in accordance with *International Convergence of Capital Measurement and Capital Standards: A Revised Framework - Comprehensive Version (the Basel II framework)* issued by the Basel Committee on Banking Supervision ("BCBS") in June 2006.

Subsequently BCBS issued *Enhancements to the Basel II Framework* in July 2009 and *Revisions to the Basel II Market Risk Framework* in February 2011 followed by *Pillar 3 Disclosure Requirements for Remuneration* in July 2011.

The third pillar of this framework describes the disclosure requirements for institutions subject to the Basel Accord, which in Canada includes banks, bank holding companies and federally regulated trust and loan companies (collectively, the "institutions"). Further, in June 2012, BCBS had issued *Composition of capital disclosure requirements – Rules text*. This publication sets out a framework to ensure that the components of banks' capital bases are publicly disclosed in standardized formats across and within jurisdictions for banks subject to Basel III. Accordingly, OSFI had issued an advisory on Public Capital Disclosure Requirements related to Basel III - Pillar 3 disclosures in July 2013 (with subsequent revisions) that provided expectations for Domestic Systemically Important Banks ("DSIBs") and non-DSIBs. The Bank has been providing quarterly disclosures on its website beginning in 2013 in line with these requirements. These Pillar 3 disclosures have been prepared in accordance with OSFI's disclosure requirements issued from time to time.

In January 2014, BCBS published the *Basel III leverage ratio framework and disclosure requirements*. This framework introduces a simple, transparent, non-risk based leverage ratio to act as a credible

supplementary measure to the risk-based capital requirements and includes public disclosure requirements starting January 1, 2015. Accordingly, OSFI had issued the revised advisory on Public Disclosure Requirements related to Basel III Leverage Ratio in November 2014 incorporating the expectations from DSIBs and non-DSIBs. The Bank has commenced its Public Disclosure Requirements for Leverage Ratio from December 31, 2015.

OSFI has issued the revised advisory on Pillar 3 Disclosure Requirements in April 2014. This advisory has been revised to provide guidance on the disclosure modifications required as a result of OSFI's guidance on Credit Valuation Adjustment (CVA) grandfathering and to provide minor clarification edits to address queries received since the initial issuance of this Advisory.

OSFI has also issued the Liquidity Adequacy Requirements (LAR) Guideline in November 2014 to assess whether a bank, a bank holding company, a trust and loan company or cooperative credit association maintains adequate liquidity. The LAR Guideline builds on the BCBS Basel III liquidity framework, which encompasses Basel III: The Liquidity Coverage Ratio and the liquidity risk monitoring tools published in January 2013, Basel III: the Net Stable Funding Ratio - consultative document published for comment in January 2014, and the Monitoring tools for intraday liquidity management published in April 2013. The LAR Guideline is applicable for the Bank effective January 2015.

In November 2018, OSFI has released the final version of its Leverage Ratio Disclosure Requirements Guideline for implementation effective Q1, 2019. The revisions, which reflect the recent changes to the Leverage Requirements guideline and the Capital Adequacy Requirements (CAR) guideline, incorporate a new line to capture the treatment of securitized assets that meet the operational requirements for recognition of significant risk transfer. OSFI requires institutions to fully implement the revised disclosures as described in this guideline in the first quarter of 2019.

Further, Pillar 3 Disclosure Requirements guideline was released in April 2017 setting OSFI's expectations for D-SIBs on the domestic implementation of the Revised Pillar 3 Disclosure Requirements, issued by the Basel Committee in January 2015. Effective October 31, 2018, this guideline has replaced the existing disclosure requirements issued under Basel II (including Basel 2.5 enhancements and revisions) in the areas of credit risk, counterparty credit risk, market risk and securitization activities. The revised requirements mark the Phase I of the Basel Committee's work on the Pillar 3 disclosure framework, which seeks to promote market discipline through regulatory disclosure requirements. Additional disclosure requirements for Canadian D-SIBs are likely to be introduced at a later date, after the Phase II of the Basel Committee's Pillar 3 disclosure project comes into effect. Non-D-SIBs are expected to continue with their existing Pillar 3 disclosures. OSFI will determine the applicability of the

Basel Pillar 3 disclosure requirements to Non-D-SIBs when the Basel Committee completes all phases of the Basel Pillar 3 disclosure project.

b. Functional and Presentation Currency

The Pillar 3 disclosures are presented in Canadian currency, which is the Bank's functional currency. Except as otherwise indicated, financial information presented in Canadian dollars has been rounded to the nearest thousand.

c. Frequency of Disclosures

The Pillar 3 disclosures are made on an annual basis and published after the audit of the year-end financial statements. In addition, quantitative disclosures on regulatory capital and leverage ratios are published on a quarterly basis.

d. Location of Disclosures

The Basel - Pillar 3 disclosures are located under the "Regulatory Disclosures" link on the home page of the Bank's website <https://www.shinhan.ca/about-us/about-shinhan/financial-information/>. The Parent Bank's consolidated disclosures are http://www.shinhangroup.com/en/invest/filing/pillar3_disclosure.jsp

e. Limitation of Disclosures

The Pillar 3 disclosures are unaudited and have been prepared only for complying with OSFI's disclosure requirements explaining the basis on which the Bank has prepared and disclosed information about capital requirements and the management of certain risks and for no other purpose. They do not constitute any form of financial statements and may not be relied upon in making any judgment or investment on the Bank or the Parent Bank.

3. 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.

4. Capital Structure

The Bank's total regulatory capital currently comprises Tier 1 and Tier 2 capital components which are subject to the various limits, restrictions and regulatory adjustments as described in Chapter 2 of the CAR Guideline. Tier 1 capital consists of CET 1 capital. CET 1 capital includes common shares and retained earnings less deductions prescribed by OSFI. Tier 2 capital consists of certain eligible loan loss allowances termed as general allowances in CAR Guideline and defined as Stage 1 & Stage 2 allowances under IFRS 9. Table 1 shows the Bank’s capital structure as of December 31, 2021 and as at December 31, 2020.

The Bank’s Capital Management Policy, which is reviewed and approved annually by the Board of Directors, governs the quantity and quality of capital to be maintained by the Bank. The objective of this policy is to maintain strong and efficient capital at levels that are appropriate for business requirements from time to time. The Bank also seeks to optimize return to shareholders and implement systems for monitoring the capital position.

The Bank estimates the regulatory capital requirements in line with the CAR Guideline issued by OSFI. Capital is provided for the purpose of unforeseen and unexpected events based on the risk assessment for each of the underlying asset classes in the Bank’s portfolio. Further, in line with industry practice, the Bank acknowledges that capital is not the only mitigating factor for all unforeseen events and contingencies and, therefore, appropriate risk management and governance practices are in place to actively monitor the risks the Bank is exposed to in the course of carrying on its business.

Due to the recent economic disruption caused by the COVID-19 pandemic, OSFI announced a series of regulatory capital modifications. Announced changes included providing transitional expected credit loss (ECL) modifications and risk-weight exclusions for certain exposures. In addition, OSFI also allowed payment deferrals to be granted without past due treatment for up to six months. All payment deferrals granted by the Bank ended before February 2021.

Table 1. The capital structure as of December 31, 2021 and as at December 31, 2020.

(Unit: \$000s)

Capital Structure	2021	2020
Common shares	80,000	80,000
Retained earnings (deficit)	8,824	6,663
Regulatory adjustments	-258	-88
Common Equity Tier 1 (CET1) Capital	88,566	86,575
Common Equity Tier 1 (CET1) Capital with transitional arrangements for ECL provisioning not applied	88,371	86,274
Tier 1 Capital	88,566	86,575
Tier 1 Capital with transitional arrangement for ECL provisioning not applied	88,371	86,274
Stage 1 and 2 allowances	3,517	3,465
Tier 2 Capital	3,517	3,465
Total Capital (Tier 1 + Tier 2)	92,083	90,040
Total Capital with transitional arrangement for ECL provisioning not applied	92,083	90,040

The Bank is in compliance with OSFI's capital adequacy requirements. The Senior Management of the Bank reviews the capital adequacy ratios on a monthly basis. In addition, the capital adequacy position and the risk weighted assets are reported to the Board of Directors on a quarterly basis.

5. 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.

The Bank's capital management framework includes a comprehensive ICAAP conducted annually which determines the adequate level of capitalization for the Bank to meet regulatory norms as well as current and future business needs, including under stress scenarios. The ICAAP encompasses capital planning for a three-year time horizon, identification and measurement of material risks and the relationship between risk and capital.

The Board of Directors of the Bank maintains an active oversight of the Bank's capital adequacy levels. A summary of the capital adequacy position, the risk weighted assets and the leverage ratio are reported to the Board of Directors on a quarterly basis. Further, the ICAAP also serves as a mechanism for the Board to assess and monitor the Bank's capital adequacy position over a three year time horizon.

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, 2021, the Tier 1 capital ratio and total capital ratio were 18.13% and 18.85% 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. As at December 31, 2021, the leverage ratio was 10.02%. This maintains within the regulatory requirement by OSFI. Table 2 shows the breakdown of RWA and capital ratios.

Table 2. The risk-weighted assets and ratios as of December 31, 2021 and as at December 31, 2020.

(Unit: \$000s)

Risk-Weighted Assets and Ratios	2021	2020
Credit risk	456,574	500,255
Market risk	62	313
Operational risk	31,862	31,541
Total RWA	488,498	532,109
CET1 Capital Ratio	18.13%	16.27%
Total Capital Ratio	18.85%	16.92%
Total exposures	883,913	943,310
Leverage Ratio	10.02%	9.18%

6. 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 2021 and 2020, 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, 2021.

(Unit: \$000s)

31-Dec-21				
	Loans	Commitments	Other off-balance sheet exposures	Total
By exposure type				
Corporate	175,835	9,489	6,100	191,423
Sovereign	5,021			5,021
Bank	134,328	20		134,348
Retail residential mortgages	467,337	7,364		474,702
Other retail	2,067	517	94	2,678
SBEs treated as other retail	79,187	8,939	330	88,456
Other assets	10,505			10,505
Total exposure	874,279	26,330	6,524	907,133
By geographic location				
Canada				
Ontario	741,415	22,989	517	764,921
British Columbia	106,106	3,341	6,007	115,454
Others (Canada)	511			511
Others (International)	26,247			26,247
Total exposure	874,279	26,330	6,524	907,133
By industry				
Consumer loan				
Residential mortgage (RML)	467,337	7,364		474,702
Other consumer loan	2,067	517	94	2,678
Commercial loan				
Manufacturing		10		10
Service	220,717	14,200	230	235,148

Retail	31,534	3,109	200	34,843
Other commercial	2,769	1,109	6,000	9,878
Other credit exposures	149,854	20	-	149,874
Total exposure	874,279	26,330	6,524	907,133

By residual contractual maturity				
Within 3 months	121,677	1,289	6,126	129,092
3 months to 1 year	151,832	6,076	398	158,306
1 to 5 years	597,119	18,965	-	616,084
Over 5 years	3,650	-	-	3,650
Total exposure	874,279	26,330	6,524	907,133

Note : The bank has off-balance sheet commitments to extend credit relating to CEBA loans as at December 31, 2021 of \$5,800K. The Canada Emergency Business Account (“CEBA”) loans are funded entirely by the Government of Canada, with the Bank retaining no credit risk. Accordingly, these loans are not recognized on the Bank’s balance sheet.

Table 4. The gross credit exposure as of December 31, 2020.

(Unit: \$000s)

	December 31, 2020			
	Loans	Commitments	Other off-balance sheet exposures	Total
By exposure type				
Corporate	266,856	7,718	6,000	280,574
Sovereign	30,283	-	-	30,283
Bank	163,924	20	-	163,944
Retail residential mortgages	452,127	-	-	452,127
Other retail	8,136	8,304	88	16,527
SBEs treated as other retail	22,858	13,712	430	37,000
Other assets	12,880	-	-	12,880
Total exposure	957,064	29,754	6,518	993,336
By geographic location				
Canada				
Ontario	830,112	22,927	513	853,551
British Columbia	119,599	6,827	6,005	132,431
Others (Canada)	506	-	-	506
Others (International)	6,847	-	-	6,847
Total exposure	957,064	29,754	6,518	993,336

By industry				
Consumer loan				
Residential mortgage (RML)	452,127	-	-	452,127
Other consumer loan	8,136	8,304	88	16,527
Commercial loan				
Manufacturing	185	125	-	310
Service	250,549	17,044	230	267,823
Retail	35,383	4,163	200	39,746
Other commercial	3,598	118	6,000	9,716
Other credit exposures	207,087	-	-	207,087
Total exposure	957,064	29,754	6,518	993,336
By residual contractual maturity				
Within 3 months	213,233	4,456	6,124	223,813
3 months to 1 year	169,597	10,277	394	180,268
1 to 5 years	574,234	15,021	-	589,255
Over 5 years	-	-	-	-
Total exposure	957,064	29,754	6,518	993,336

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, 2021, the Bank has one impaired commercial mortgage loan in Ontario with the amount of \$473K 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, 2021, 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 2020 and 2021.

Table 5. Allowances by geographic area and industry as of 2020 and 2021.

(Unit: \$000s)

	2021			2020		
	Collective	Individual	Total	Collective	Individual	Total
By geographic location						
Canada						
Ontario	3,152	473	3,625	3,158	584	3,742
British Columbia	557	-	557	605		605
Others (Canada)	3	-	3			-
Others (International)	-	-	-	3		3
Total allowance	3,712	473	4,185	3,766	584	4,350
By industry						
Consumer loan						
RML	828		828	382		382
Other consumer loan	18		18	21		21
Commercial loan						
Manufacturing	-		-	3		3
Service	2,519		2,519	2,929		2,929

Retail	255	473	728	233	584	817
Other commercial	22		22	92		92
Other credit exposures	70		70	106		106
Total allowance	3,712	473	4,185	3,766	584	4,350
Change in allowance						
Beginning Balance	3,766	584	4,350	3,181	584	3,765
IFRS 9 adoption	-	-	-	-	-	-
Write-offs	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-
Charge for impairment	(54)	(111)	(165)	585	-	585
Ending Balance	3,712	473	4,185	3,766	584	4,350

7. 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 Canada Small Business Financing Loans are partially guaranteed by Innovation, Science and Economic Development Canada in accordance with Canada Small Business Financing Act.

Table 6 compares eligible financial collaterals the Bank held in 2020 and 2021 by exposure type.

Table 6. The credit risk mitigation technique used for the Standardized Approach in 2020 and 2021.

(Unit: \$000s)

Exposure Type	2021	2020
Corporate	1,661	1,533
Other retail	677	2,677
SBEs treated as other retail	2,059	1,931
Total eligible financial collateral	4,397	6,141

8. Counterparty Credit Risk

Counterparty credit risk (“CCR”) in the context of Pillar 3 disclosure 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, 2021, the Bank did not have any exposure at default related to CCR.

9. Market Risk

Market risk is the uncertainty of earnings faced by the Bank as a result of volatility in market factors (i.e., interest rates, currency exchange rates, market liquidity and asset prices). Market risk events may impact the valuation of investments and the net interest income and net interest margin resulting in an impact on the profit and loss account. The policies approved by the Board for addressing market and liquidity risks are the Liquidity Risk Management Policy, Interest rate Risk Management Policy and Liquidity Contingency Plan. The risk arises from foreign exchange positions that are subject to cash management purposes. As at December 31, 2021, the Bank held \$61K 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	2021
USD Position Amount	-3
CAD/USD Exchange Rate	1.26
USD Position (CAD Equivalent)	-4
EUR Position Amount	0
CAD/EUR Exchange Rate	1.44
EUR Position (CAD Equivalent)	0
KRW Position Amount	56,602
KRW/CAD Exchange Rate	935.29
KRW Position (CAD Equivalent)	61
Total Long Position	61
Total Short Position	4
Maximum Market Position Amount	61
Market Risk	5

10. 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, 2021, the average three-year gross income was \$16.99 million and the capital charge for basic indicator approach was \$2.5 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
18,789	15,279	16,912	16,993	15%	2,549	31,862

11. Interest Rate Risk

Interest rate risk (“IRR”) is the risk to earnings or capital arising from movements in interest rates on the banking book. Earnings from interest-sensitive investments and the overall value of the investment portfolio will be impacted by changes in interest rates. 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 31st, 2021:

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)

2021	Floating	Within 3 months	3 months to 1 year	1 to 5 years	Non-rate Sensitive	Total
Assets						
Cash and equivalents	53,730	0	0	0	1,038	54,768

Deposits with regulated financial institutions	0	20,011	55,124	0	0	75,135
Securities	0	0	5,021	0	0	5,021
Loans	654,968	9,355	12,993	52,100	473	729,889
Other assets	0	0	0	0	2,811	2,811
	708,698	29,366	73,138	52,100	4,322	867,624
Liabilities						
Payable on demand	79,092	0	0	0	74,418	153,510
Payable on fixed date	0	125,573	376,129	48,180	0	549,882
Lease liabilities	0	143	442	2,728	0	3,313
Other liabilities	65,000	0	5,000	-	3,957	73,957
	144,092	125,716	381,571	50,908	78,375	780,662
Total Gap	564,606	(96,350)	(308,433)	1,192	(74,053)	86,962

Based on the Bank's interest rate positions as at December 31, 2021, 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, 2021.

Table 10. Changes in net present value and net interest income as of December 31, 2021.

(Unit: \$000s)

Change in Interest Rates	Net Present Value	Change in Net interest income	
		Year 1	Year 2

+100b	1,860	3,221	1,148
-100bp	-1,880	-3,221	-1,148

12. 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.

Internal limits are annually set in accordance with Liquidity Risk Management Policy, and they are approved by the RMC and the Board of directors. Also, they are included in the risk appetite framework and is managed through monthly monitoring.

The goal of liquidity risk management is to be able, even under adverse conditions, to meet all liability repayments on time and to fund all investment opportunities by raising sufficient funds either by increasing liabilities or by converting assets into cash expeditiously and at reasonable cost. The Bank monitors its liquidity risk appetite through liquidity gaps covering the entire spectrum of the balance sheet. The Bank also monitors liquidity risk through liquidity ratios and regulatory reports such as Net Cumulative Cash Flows (NCCF) and Liquidity Coverage Ratio (LCR) on a periodic basis.

The LCR of the Bank as of December 31, 2021 maintains over 100%, regulatory requirement by OSFI.

13. 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, 2021, there were a total of 16 employees considered to be Senior Management of the Bank, and they are as follows:

- President & CEO : 1
- Senior Vice Presidents (CCO) : 1
- Vice Presidents (CXO level) : 9
- Other VP's, Branch Managers : 5

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, 2021, there were 7 members in the Board. Five of the Board members were independent non-executive directors, selected and appointed based on their qualifications and relevant experiences.

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 & Organizational Development 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.

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 FY2021, 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 to Senior Management for 2020 and 2021.

(Unit: \$000s)

Remuneration	2021.01.01 – 2021.12.31	2020.01.01 – 2020.12.31
Fixed remuneration		
Salary, allowance, and defined contribution pension plan	2,344	1,710

Variable remuneration

Performance-based incentives	15	83
Total	2,359	1,793