Basel Pillar 3 Disclosures

As at December 31, 2023

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1. Background

Shinhan Bank Canada (the "Bank") established on August 22, 2008 is a chartered bank, incorporated and domiciled in Canada. It is a wholly owned subsidiary of Shinhan Bank (the "Parent Bank"), South Korea and is 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. 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.

OSFI requires all banks to maintain sufficient capital to meet or exceed its capital adequacy ratios. While, the current Capital Adequacy Requirements (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 that are applicable to the Bank are at 7%, 8.5% and 10.5% respectively.

Further, OSFI issued the Leverage Requirements ("LR") Guideline in October 2014, which is effective from January 2015. In accordance with the revised LR Guideline, OSFI expects all institutions to maintain Leverage ratio that meets or exceeds 3% at all times. Leverage ratio is defined as the capital measure divided by leverage exposure measure. Capital measure is defined as Tier I capital and the leverage exposure measure is the sum of on and off balance sheet exposures of the Bank.

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. The Bank complies 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 framework consists of the following three-mutually reinforcing pillars:

- Pillar 1: Prescribes minimum capital requirements for credit risk, market risk and operational risk;
- Pillar 2: Requires the establishment of internal assessment processes and supervisory review to evaluate risk profile and capital adequacy; and
- Pillar 3: Market discipline through meaningful disclosures.

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.

2. Segmentation and Scope of Application

a. Small and Medium-Sized Deposit-Taking Institutions (SMSBs) Segmentation Category

SMSBs are segmented into three categories as per OSFI's Small and Medium-Sized Deposit-Taking Institutions (SMSBs) Capital and Liquidity Requirements Guideline 2023, Section "Segmentation of SMSBs", for the purposes of capital and liquidity requirements based on general criteria like a) total assets b) total loans, and c) derivative exposure.

The Bank is currently categorized as Category II SMSB in accordance with OSFI's Guideline.

b. 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"). Based on BCBS' 2012 *Composition of Capital Disclosure Requirements*, OSFI issued an advisory on Public Capital Disclosure Requirements 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. Bank's Pillar 3 disclosures have been prepared in accordance with OSFI's disclosure requirements issued from time to time.

Based on BCBS' 2014 *Leverage Ratio Framework and Disclosure Requirements*, OSFI 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 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 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.

In January 2022, OSFI issued a revised disclosure Guideline for small and medium-sized deposit taking institutions (SMSBs) which serves as a comprehensive source for Pillar 3 disclosure requirements for SMSBs with April 2023 as implementation date. Bank has prepared Pillar 3 disclosures as per this revised guideline.

c. 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.

d. 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.

e. 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

Further, additional financial information of the Bank including, Monthly balance sheet details, BCAR capital components, Statement of comprehensive income and Allowances for expected credit losses is available from the OSFI's website: https://www.osfi-bsif.gc.ca/en/data-forms/financial-data

f. Limitation of Disclosures

The Pillar 3 disclosures are unaudited and have been prepared 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 in 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 oversight responsibility for the Bank's risk management framework, including:

- Approving and overseeing strategy, risk management and internal controls; and
- Providing challenge, advice and guidance to the Senior Management of the Bank on operational and business policies, 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 overall 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 Management Committee (the "ALCO") provides oversight to ensure the Bank's assets, liabilities, interest rate risk, and liquidity risks are well managed;
- The Crisis Management Committee (the "CMC") identifies risk factors and monitors the existing risk factors identified at the business-line level;
- The Executive Loan Committee ("the ELC") is responsible for approving the loan proposals that are outside the scope of the Branch and CEO powers 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, which 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, 2023.

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 levels that are appropriate for business requirements from time to time. The Bank also seeks to optimize return to the sole shareholder 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.

Table 1. Modified CC1 – Composition of capital for SMSBs as of December 31, 2023.

(Unit: $000s)

		Amounts
	Common Equity Tier 1 capital: instruments and reserves	
1	Directly issued qualifying common share capital (and equivalent for non-joint stock companies) plus related stock surplus	80,000
2	Retained earnings	17779
3	Accumulated other comprehensive income (and other reserves)	NA
4	*Directly issued capital subject to phase out from CET1 (only applicable to Federal Credit Unions)*	NA
5	Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)	NA
6	**Common Equity Tier 1 capital before regulatory adjustments**	97,779
	Common Equity Tier 1 capital: regulatory adjustments	
28	**Total regulatory adjustments to Common Equity Tier 1**	-742
29	**Common Equity Tier 1 capital (CET1)**	97,037
	Additional Tier 1 capital: instruments	
30	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	NA
31	of which: classified as equity under applicable accounting standards	NA
32	of which: classified as liabilities under applicable accounting standards	NA
33	*Directly issued capital instruments subject to phase out from Additional Tier 1 (applicable only to Federal Credit Unions)*	NA
34	Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT1)	NA
35	*of which: instruments issued by subsidiaries subject to phase out (applicable only to Federal Credit Unions)*	NA
36	**Additional Tier 1 capital before regulatory adjustments**	NA
	Additional Tier 1 capital: regulatory adjustments	
43	**Total regulatory adjustments to additional Tier 1 capital**	NA
44	**Additional Tier 1 capital (AT1)**	NA
45	**Tier 1 capital (T1 = CET1 + AT1)**	97,037
	Tier 2 capital: instruments and provisions	
46	Directly issued qualifying Tier 2 instruments plus related stock surplus	NA
47	*Directly issued capital instruments subject to phase out from Tier 2 (applicable only to Federal Credit Unions)*	NA
48	Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	NA
49	*of which: instruments issued by subsidiaries subject to phase out (applicable only to Federal Credit Unions)*	NA
50	Collective allowances	3,859
51	**Tier 2 capital before regulatory adjustments**	3,859
	Tier 2 capital: regulatory adjustments	
57	**Total regulatory adjustments to Tier 2 capital**	NA

		Amounts
58	**Tier 2 capital (T2)**	3,859
59	**Total capital (TC = T1 + T2)**	100,896
60	**Total risk-weighted assets**	555,706
	Capital ratios	
61	Common Equity Tier 1 (as a percentage of risk-weighted assets)	17.46%
62	Tier 1 (as a percentage of risk-weighted assets)	17.46%
63	Total capital (as a percentage of risk-weighted assets)	18.16%
	OSFI target	
69	Common Equity Tier 1 target ratio	7.00%
70	Tier 1 capital target ratio	8.50%
71	Total capital target ratio	10.50%
	Capital instruments subject to phase-out arrangements (For Federal Credit Unions only)	
80	Current cap on CET1 instruments subject to phase-out arrangements	NA
81	Amount excluded from CET1 capital due to cap (excess over cap after redemptions and maturities)	NA
82	Current cap on AT1 instruments subject to phase-out arrangements	NA
83	Amount excluded from AT1 capital due to cap (excess over cap after redemptions and maturities)	NA
84	Current cap on Tier 2 instruments subject to phase-out arrangements	NA
85	Amount excluded from Tier 2 capital due to cap (excess over cap after redemptions and maturities)	NA

The Bank complies 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 if any to the shareholder.

Internal Capital Adequacy Assessment Process ("ICAAP")

Within the Bank’s risk management framework, Bank implements an Internal Capital Adequacy Assessment Process ("ICAAP") to determine the appropriate level of capital needed to meet regulatory standards, internal thresholds and current/future business requirements, even under stressful scenarios. This process covers capital planning over a three-year horizon, alongside the identification and measurement of material risks, including the correlation between risk and capital.

Stress testing, integral to both the ICAAP and our risk management framework, provides insights into the potential effects of extreme yet plausible scenarios on the Bank’s risk profile and capital adequacy. Following a stress-testing framework approved by the Board, we conduct stress tests across our portfolios to assess their impact on capital ratios and the adequacy of capital reserves for current and future periods.

The Bank regularly updates and refines these stress tests to ensure they effectively capture material risks and reflect potential significant market shifts caused by prevailing macroeconomic conditions.

Through the ICAAP, we determine the necessary capital level by considering various factors, including our strategic focus, business plan, growth objectives, regulatory capital requirements, and assessment of material risks under Pillar 1 (regulatory) risks and Pillar 2 (idiosyncratic – bank specific) risks, as well as the results of stress testing and scenario analysis. The ICAAP undergoes an annual review, deliberation, and approval by the Board.

This comprehensive approach allows us to implement appropriate management strategies in response to stressful events, thereby ensuring that our capital levels remain sufficient to support our operations at all times.

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") guideline. Capital ratios are calculated by dividing regulatory capital by RWAs, which receive a specific risk weight determined by characteristics of assets. Effective 2014 Q4, SMSBs 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, 2023, the Tier 1 capital ratio and total capital ratio of the Bank were 17.46% and 18.16% respectively, which are complied with the regulatory and internal targets.

Leverage ratio is computed by dividing Tier 1 capital by the total exposure. As at December 31, 2023, the leverage ratio was 9.00%. This maintains within the regulatory requirement by OSFI. Table 2 shows the breakdown of RWAs, capital and leverage ratios as of every quarter from December 2022 to December 2023.

Table 2. KM1 – Key prudential regulatory metrics.

(Unit: $000s)

		T	T-1	T-2	T-3	T-4
		2023.12	**2023.09**	**2023.06**	**2023.03**	**2022.12**
	Available capital (amounts)					
1	Common Equity Tier 1 (CET1)	97,037	96,202	94,686	94,173	92,231
2	Tier 1	97,037	96,202	94,686	94,173	92,231
3	Total capital	100,896	99,735	98,353	97,703	95,750
	Risk-weighted assets (amounts)					
4	Total risk-weighted assets (RWA)	555,706	537,330	534,120	509,790	502,440
4a	Total risk-weighted assets (pre-floor)	555,706	537,330	534,120	509,790	502,440
	Risk-based capital ratios as a percentage of RWA					
5	CET1 ratio (%)	17.46%	17.90%	17.73%	18.47%	18.36%
5a	CET1 ratio (%) (pre-floor ratio)	17.46%	17.90%	17.73%	18.47%	18.36%
6	Tier 1 ratio (%)	17.46%	17.90%	17.73%	18.47%	18.36%
6a	Tier 1 ratio (%) (pre-floor ratio)	17.46%	17.90%	17.73%	18.47%	18.36%
7	Total capital ratio (%)	18.16%	18.56%	18.41%	19.17%	19.06%
7a	Total capital ratio (%) (pre-floor ratio)	18.16%	18.56%	18.41%	19.17%	19.06%
	Additional CET1 buffer requirements as a percentage of RWA					
8	Capital conservation buffer requirement (2.5% from 2019) (%)	2.50%	2.50%	2.50%	2.50%	2.50%
9	Countercyclical buffer requirement (%)	0%	0%	0%	0%	0%
10	Bank G-SIB and/or D-SIB additional requirements (%) **[Not applicable for SMSBs]**					
11	Total of bank CET1 specific buffer requirements (%) (row 8 + row 9 + row 10)	2.50%	2.50%	2.50%	2.50%	2.50%
12	CET1 available after meeting the bank's minimum capital requirements (%)*	10.46%	10.90%	10.73%	11.47%	11.36%
	Basel III Leverage ratio					
13	Total Basel III leverage ratio exposure measure	1,078,658	1,041,626	1,016,172	976,276	926,506
14	Basel III leverage ratio (row 2 / row 13)	9.00%	9.24%	9.32%	9.65%	9.95%

***Note:** (10.46% = 17.46% - 7%), where 7% = 4.5% (CET1 regulatory minimum capital requirement) + 2.5% (capital conservation buffer requirement)

6. Credit Risk

a. General

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

Business Model and Credit Risk Profile:

The Bank opened its door to Canadian market in 2009 and since then offering loans in form of Mortgages (Residential & Commercial) and, Loans (personal loans and lines of credit). The Bank's identified geographic markets are province of Ontario, British Columbia and Alberta. Loan applications received outside these geographies are considered on a case-by-case basis. Credit risk stemming from the Bank's lending operations can be categorized into Consumer and Commercial exposures.

The Bank has instituted formal credit procedures for performing credit assessments, including reviews, as documented in the Loan Policies and Guidelines ("LP&G") and Residential Mortgage Underwriting Policy ("RMUP") that were 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 & controlling credit risk. LP&G provides a comprehensive guidance for managing loan portfolio during entire loan life cycle starting from origination to subsequent administration. Further, Commercial exposure of the Bank is managed in accordance with the provisions of LP&G and Consumer exposure is governed by the RMUP of the Bank.

Consumer Credit Risk: The Bank at present focuses on conventional Residential mortgages (RM) portfolio, which comprises 63% of the total exposures (credit exposure including fund operations, off-balance sheet and undrawn commitments) as of December 31st 2023. To cater the market requirements, the Bank has various lending programs under residential mortgages. Apart from the mortgages, the Bank has a lending program in the form of personal loans and lines of credit for its clients.

Bank has a robust underwriting process to ensure prudent and sound credit assessment. The Bank's RESL customers undergo a series of checks right from background check to income verification and a stringent AML check. Further, the risk management department plays a pivotal role in mitigating credit risk by vetting RM approvals as a part of Quality Assurance Guideline.

The Bank deals with known and reputable mortgage brokers and relies on third party appraisal reports to ascertain the fair market value of the collateral at origination. The Bank actively monitors the underlying collateral value of outstanding loans on continuous basis.

Commercial Credit Risk: Commercial portfolio of the Bank comprises of commercial real estate and other commercial loans. Commercial mortgages contribute 86% of the commercial portfolio as of December 31st 2023.

As part of overall credit risk management, the Bank assigns an internal risk rating to a commercial borrower. Approval process is delegated to various officials and committees in accordance with the LP&G. Quantitative analysis includes a credit review of the financial statements and may include trend and ratio analysis. Qualitative analysis includes a review of non-financial parameters including management experience, comments about the quality of the services, competition and innovations as well as the reputation of the firm in the marketplace. Credit risk pertaining to the commercial borrowers is assessed on an ongoing basis through annual reviews and renewals upon maturity.

Credit Risk Management Policy and Credit Risk Limits:

The Bank uses a holistic approach to formulate credit risk management policy and set up credit risk limits. While defining credit risk limits, the Bank takes into consideration regulatory announcements, borrowers' profile, evolving industry trends, macro-economic situation, target market/segments as per the Bank's strategy and business plan etc. Based on stakeholders' feedback, portfolio limits are amended from time to time to address credit risk associated with the credit portfolio.

To ensure prudent credit risk management, the Bank focuses on various elements such as credit risk procedures, governance structure, risk identification; assessment; measurement; mitigation and monitoring. The Bank has robust stress testing mechanism in place to identify the vulnerabilities and to assess resiliency of its credit portfolio under adverse scenarios. Credit risk profile of the Bank is reported to the Board on a quarterly basis through Risk Management Committee (RMC). The Board is further apprised of emerging risks, credit policy changes and stress testing outcomes etc.

Credit Risk Management Structure:

The Risk Management Department (RMD) provides independent oversight of the management of risks inherent to the Bank. RMD anticipates, identifies and measures risks in a dynamic operating environment and oversees management of those risks within the limits established by the Board.

Headed by the Chief Risk Officer, the department reports functionally to the Risk Management Committee and administratively to the CEO. CRO is a member of various committees such as Executive Loan Committee, Asset & Liability Management Committee, Stress Testing Forum, etc.

As an oversight function, RMD independently reviews the new loan proposals and performs asset quality reviews to ensure compliance with the Bank's policies and guidelines. The Bank has a robust challenge process in place, wherein RMD findings and observations pertaining to new loans, renewals and reviews are communicated to the first line of defence and to the approval authorities to facilitate informed decision making on credit applications.

Oversight functions: Risk, Compliance and Internal Audit are interconnected and work collaboratively to safeguard Bank's interest. Internal Audit function provides independent oversight to ensure risk control measures are effective in managing credit risk and are in compliance with regulatory requirements and internal policies.

Snapshot of Credit Exposures:

The Bank applies the Standardized Approach laid out in OSFI's CAR guideline to measure the regulatory capital charge for credit risk.

Tables 3 and 4 provide the Bank's total gross credit exposures of Dec 31, 2023 and Dec 31, 2022, grouped by various categories: exposure type, geographic location, industry, and remaining contractual maturity. The Bank's 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, 2023.

(Unit: $000s)

	2023 Before CRM				2023 After CRM			
	Loans (Drawn)	Off-Balance Sheet	Commitments (Undrawn)	Total	Loans (Drawn)	Off-Balance Sheet	Commitments (Undrawn)	Total
By exposure type*								
Sovereign	250	-	-	**250**	16,172	4,925	2,810	**23,907**
SME	27,049	10,889	4,222	**42,160**	3,472	7	2,748	**6,227**
Bank	138,638	-	20	**138,658**	148,950	6,000	182	**155,132**
RR(Revolvers)	553	-	270	**823**	505	-	166	**671**
RR(Others)	364	-	28	**392**	273	-	28	**301**
RR(SBE)	1,095	43	55	**1,193**	30	-	55	**85**
NRR	2,477	-	1,394	**3,871**	1,024	-	-	**1,024**
ADC	1,836	-	-	**1,836**	1,836	-	-	**1,836**
RRE(General)	488,846	-	-	**488,846**	488,846	-	-	**488,846**
RRE(General - HELOC)	2,068	-	7,407	**9,475**	2,068	-	7,407	**9,475**
RRE(Income Producing)	204,800	-	-	**204,800**	204,800	-	-	**204,800**
RRE(Income Producing - HELOC)	247	-	182	**429**	247	-	182	**429**
RRE(B20)	4,054	-	-	**4,054**	4,054	-	-	**4,054**
CRE	179,203	-	14,169	**193,372**	179,203	-	14,169	**193,372**
Other Asset	13,691	-	-	**13,691**	13,691	-	-	**13,691**
Total exposure	**1,065,171**	**10,932**	**27,747**	**1,103,850** **	**1,065,171**	**10,932**	**27,747**	**1,103,850** **

	2023			
	Loans (Drawn)	Off-Balance Sheet***	Commitments (Undrawn)***	Total
By geographic location				
Canada				
Ontario	857,568	4,929	23,798	**886,295**
British Columbia	204,871	6,003	3,949	**214,823**
Others (Canada)	139	-	-	**139**
Others (International)	2,593	-	-	**2,593**
Total exposure	**1,065,171**	**10,932**	**27,747**	**1,103,850****

By industry				
Consumer loan				
Residential mortgage	698,246	-	-	**698,246**
Other consumer loan	5,123	-	-	**5,123**
Commercial loan				
Manufacturing	5,369	-	-	**5,369**
Service	178,232	-	-	**178,232**
Retail	22,475	-	-	**22,475**
Other commercial	3,147	-	-	**3,147**
Other credit exposures	152,579	10,932	27,747	**191,258**
Total exposure	**1,065,171**	**10,932**	**27,747**	**1,103,850****

By residual contractual maturity				
Within 3 months	187,120	4,699	2,644	**194,463**
3 months to 1 year	138,099	6,233	13,710	**158,042**
1 to 5 years	735,749	-	11,393	**747,142**
Over 5 years	4,203	-	-	**4,203**
Total exposure	**1,065,171**	**10,932**	**27,747**	**1,103,850****

***Note**: OSFI has updated Capital Adequacy Guideline in 2023. The revised CAR guideline incorporate the latest and final round of the internationally agreed-upon Basel III reforms into OSFI's related disclosures, resulting in changes of exposure type, such as more risk-sensitive approaches and more granular treatment applies.

****Note**: The number contains credit exposure including fund operations, off-balance sheet and undrawn commitments.

*****Note**: Off-Balance Sheet and Undrawn commitments are shown as notional amount.

Table 4. The gross credit exposure as of December 31, 2022.

(Unit: $000s)

	2022			
	Loans (Drawn)	**Other off-balance sheet exposures**	**Commitments (Undrawn)**	**Total**
By exposure type				
Corporate	154,411	6,100	10,245	**170,756**
Sovereign	249	0	0	**249**
Bank	102,418	0	20	**102,438**
Retail residential mortgages	564,706	0	7,547	**572,253**
Other retail	2,835	0	365	**3,200**
SBEs treated as other retail	75,579	233	6,796	**82,608**
Other assets	12,523	0	0	**12,523**
Total exposure	**912,721**	**6,333**	**24,973**	**944,027**

By geographic location				
Canada				
Ontario	755,318	330	22,167	**777,815**
British Columbia	140,631	6,003	2,806	**149,440**
Others (Canada)	150	0	0	**150**
Others (International)	16,622	0	0	**16,622**
Total exposure	**912,721**	**6,333**	**24,973**	**944,027**

	2022			
	Loans (Drawn)	**Other off-balance sheet exposures**	**Commitments (Undrawn)**	**Total**
By industry				
Consumer loan				
Residential mortgage (RML)	561,468	0	7,547	**569,015**
Other consumer loan	2,801	0	365	**3,166**
Commercial loan				
Manufacturing	4,976	0	524	**5,500**
Service	197,584	233	12,900	**210,717**
Retail	30,460	100	2,685	**33,245**
Other commercial	243	6,000	952	**7,195**
Other credit exposures	115,189	0	0	**115,189**
Total exposure	**912,721**	**6,333**	**24,973**	**944,027**

By residual contractual maturity				
Within 3 months	132,664	100	1,723	**134,487**
3 months to 1 year	126,718	6,233	6,773	**139,724**
1 to 5 years	649,714	0	16,477	**666,191**
Over 5 years	3,625	0	0	**3,625**
Total exposure	**912,721**	**6,333**	**24,973**	**944,027**

Note: The Bank has off-balance sheet commitments to extend credit relating to CEBA loans as at December 31, 2022 of $5,680K. 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.

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 89 days is classified "past due", but not impaired. A loan is considered to be "impaired" when the loan is past due for 90 or more days. As of December 31, 2023, the Bank has

one impaired commercial mortgage loan in Ontario with the amount of $473K and one past due residential mortgage loan with the amount of $1,418K.

c. Allowances

The Bank employs a rigorous impairment assessment methodology that encompasses both individual and collective levels. Observable evidence, such as the financial difficulty of borrowers, breaches of contract, and market conditions, guides the identification of impairment. At the core of this methodology lies the three-stage expected credit loss (ECL) impairment model, which classifies assets based on their credit risk evolution. Assets progress through stages based on evidence of credit deterioration, with each stage dictating the level of loss allowance recognition.

Measurement of ECL

The measurement of ECL is primarily determined by an assessment of the financial asset's Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD). The ECL impairment model measures credit losses using the following three-stage approach based on the extent of credit deterioration on the financial assets since initial recognition.

- In Stage 1, where there has not been a significant increase in credit risk ("SICR") since initial recognition of the financial instrument, a loss allowance is recognized for expected credit losses over the next 12 months.
- For Stage 2 assets, when a financial instrument experience a SICR subsequent to initial recognition but is not considered to be in default, the full anticipated credit losses over the asset's remaining life are recognized.
- Stage 3 considers those financial instruments that have defaulted or expected to default, irrespective of adequacy of collateral. A specific allowance is assessed for such assets.

Forward-looking Information and Integration of Macroeconomic Factors

In evaluating collective allowance, the Bank employs statistical modeling based on historical trends of default probabilities and various macroeconomic factors. Qualitative adjustments or overlays are also finely calibrated to account for management's insights into whether prevailing economic and credit conditions might amplify or mitigate actual losses relative to historical projections.

For commercial portfolios, external data on defaults rates, unemployment rate, House Price Index (HPI) growth rate and household debt growth rate, are factored in the model. Similarly, for residential mortgage portfolios, external data on default rates, unemployment rates and HPI growth rates are incorporated in the model. For other retail portfolio, external data on default rates, HPI growth rate, CPI growth rate and credit liabilities growth rate are considered in the model.

Multiple Forward-looking Scenarios

The Bank uses forward-looking macroeconomic information available on the public websites. The Bank considers three economic scenarios: Normal, Benign and Adverse scenarios. Normal scenario is based on macroeconomic forecasts available with big Canadian banks. Benign and Adverse scenarios vary relative to our Normal scenario based on possible alternative macroeconomic conditions and senior management judgement. Each scenario is assigned a probability weighting and these probability-weighted scenarios are incorporated into the measurement of ECL.

Assessment of Expert Credit Judgment (ECJ)

To augment existing modeling frameworks, ECJ plays a pivotal role in determining the final ECL. In order to factor in the Bank's portfolio characteristic, assessment of ECJ at each reporting date is made to reflect the expected stressed economic scenarios and the adjustment amount is provided on top of ECL as overlay. These adjustments aim to optimize the reliability and supportability of available information, particularly considering the collective nature of the Bank's portfolios.

Conclusion

The Bank's methodology for determining expected credit loss allowances encompasses a meticulous assessment process, integration of forward-looking information, expert credit judgement and adherence to a structured ECL impairment model using three-stage approach. By leveraging these practices, the Bank ensures a comprehensive evaluation of credit risk and maintains prudent provisioning for potential losses.

Table 5. Allowances by geographic area and industry as of Dec 2023 and Dec 2022.

(Unit: $000s)

	2023			2022		
	Collective	**Individual**	**Total**	**Collective**	**Individual**	**Total**
By geographic location						
Canada						
Ontario	3,211	473	3,684	3,075	473	3,548
British Columbia	646	-	646	428	-	428
Others (Canada)	-	-	-	-	-	-
Others (International)	1	-	1	16	-	16
Total allowance	3,858	473	4,331	3,519	473	3,992

By industry						
Consumer loan						
RML	1,484	-	1,484	953	-	953
Other consumer loan	10	-	10	9	-	9
Commercial loan				-	-	-
Manufacturing	5	-	5	7	-	7
Service	2,007	-	2,007	2,289	-	2,289
Retail	217	473	690	184	473	657
Other commercial	28	-	28	0	-	0
Other credit exposures	107	-	107	77	-	77
Total allowance	3,858	473	4,331	3,519	473	3,992

Change in allowance						
Beginning Balance	3,518	473	3,991	3,712	473	4,185
IFRS 9 adoption	-	-	-	-	-	-
Write-offs	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-
Charge for impairment	340	0	340	(193)	0	(193)
Ending Balance	3,858	473	4,331	3,519	473	3,992

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 generally 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, mixed-use properties, 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. The credit risk mitigation technique used for the Standardized Approach in 2023 and 2022.

(Unit: $000s)

Exposure Type*	2023
SME	4,659
RR(Revolvers)	102
RR(Others)	91
RR(SBE)	59
NRR	914
CRE	2,286
Total eligible financial collateral	**8,111**

Exposure Type*	2022
Corporate	4,424
Other retail	1,168
SBEs treated as other retail	3,543
Total eligible financial collateral	**9,135**

***Note**: OSFI has updated Capital Adequacy Guideline in 2023. The revised CAR guideline incorporate the latest and final round of the internationally agreed-upon Basel III reforms into OSFI's related disclosures, resulting in changes of exposure type, such as more risk-sensitive approaches and more granular treatment applies.

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, 2023, 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 other asset prices). Market risk events may impact the valuation of investments and the net interest income 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 Bank's market risk arises from foreign exchange positions stemming from customer FX transactions. As at December 31, 2023, the Bank held $136K of foreign exchange positions. The Bank's carrying currencies are Canadian Dollar (CAD), U.S. dollar (USD), Euro (EUR), and Korean Won (KRW). The greater absolute

value between the sum of the Bank's long positions and sum of its short positions in its carrying currencies is used to determine the market risk position.

CAR guideline (Chapter 9, Eligibility Requirements #2) states that market risk eligibility requirements apply only to internationally active institutions. In addition, Category II SMSBs will be informed by OSFI if the market risk framework is applicable to their institution. Since the Bank is not considered as an internationally active institution and has not been informed by OSFI, the Bank had not considered capital charge for market risk.

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

(Unit: $000s)

Components	2023	2022
USD Position Amount	- 49	42
CAD/USD Exchange Rate	1.32	1.36
USD Position (CAD Equivalent)	**- 64**	**57**
EUR Position Amount	50	0
CAD/EUR Exchange Rate	1.464	1.45
EUR Position (CAD Equivalent)	**73**	**0**
KRW Position Amount	- 70,217	-268,989
KRW/CAD Exchange Rate	978.72	930.06
KRW Position (CAD Equivalent)	**- 72**	**-288**
Total Long Position	73	57
Total Short Position	136	288
Maximum Market Position Amount	136	288

10. Operational Risk

Operational risk is the risk of direct or indirect loss arising from people, inadequate or failed internal processes and systems or from external events. It includes legal risk but excludes strategic and reputation risk.

The Operational Risk Management Policy, established by the Bank defines the framework adopted for assessing and monitoring operational risks and the overall operating effectiveness of the enterprise-wide internal control environment. Additional policies on Third-party risk management, Information Technology, Cybersecurity and Fraud have also been established.

The Board approves and periodically reviews the operational risk management framework, and ensures that senior management implements the policies, processes and systems of the operational risk management framework effectively at all decision levels. It also approves and periodically reviews the risk appetite and tolerance statement for operational risk that articulates the nature, types and levels of operational risk the Bank is willing to assume.

The governance structure to manage operational risk as follows:

- The 1st Line of Defense – includes the business lines/operational functions and support areas that acknowledge and manage the operational risk that incurs in conducting their activities
- The 2nd Line of Defense – includes the oversight functions, Risk Management and Compliance, who objectively identify, measure, monitor and report operational risk on an enterprise basis.
- The 3rd Line of Defense – includes the Internal Audit function that provide independent assessment and report on the effectiveness of the first and second line of defense functions.

The Risk Management department under the supervision of Chief Risk Officer provides oversight over operational risk within the Bank. Operational risk identification, assessment, measurement, monitoring and reporting to the Risk Management Committee (RMC) and the Board is done on quarterly basis.

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 risks. Operational risk events along with root cause analysis and corrective action plan implemented, RCSA, KRI & annual BCP results, Third-party SLA breaches and Cybersecurity incidents are reported to RMC and the Board.

For identification and assessment of operational risks in new products/processes, all proposals have to undergo risk review as defined in the Risk review policy. Business line prepares control plan for mitigating the risks identified by the oversight functions.

The Bank has developed and implemented a Business Continuity Plan ("BCP"). This plan is designed to facilitate continuity of mission critical activities in the event of a disaster or an emergency situation. Business Impact Analysis (BIA) is conducted to determine the Recovery Time Objectives (RTO) enabling a prudent approach for operational resilience.

The Bank follows a risk reduction approach of strengthening its internal controls to mitigate its inherent risk. Additionally, the Bank also transfers its risk through insurance coverage, when possible. The Bank accepts risks, which are within its risk appetite framework.

The Bank implemented the Simplified Standardized approach to measure the capital charge for operational risk. As at December 31, 2023, the average three-year adjusted gross income was $21.65 million as detailed below and as per Simplified Standardized approach followed by the Bank the capital requirement for operational risk was $3.25 million.

Table 8. Capital charge for operational risk as of December 31, 2023, using Simplified Standardized approach.

(Unit: $000s)

Components	Year 1	Year 2	Year 3
	2021.12	2022.12	2023.12
Interest-earning Assets	859,657	896,268	1,047,252
2.25% of Interest-earning Assets	19,342	20,166	23,563
NII excluding dividends	13,965	20,131	24,327
Min (2.25% of IEA, NII excluding dividends)	**13,965**	**20,131**	**23,563**
Dividend Income	-	-	-
Fee and Commission Income	2,782	2,404	2,099
Other Income	-	-	-
Net Profit/Loss (Trading Book)	-	-	-
Net Profit/Loss (Banking Book)	-	-	-
AGI, before M&A Adjustment	**16,747**	**22,535**	**25,662**
Adjustment for Mergers, Acquisitions and Divestitures	-	-	-
AGI, after M&A Adjustment	**16,747**	**22,535**	**25,662**

Year 1	Year 2	Year 3	Three-Year Average of AGI	Required Capital Fixed Rate	Capital Charge under SSA	RWA
16,747	22,535	25,662	21,648	15%	3,247	40,590

Table 9. Capital charge for operational risk as of December 31, 2022, using Basic Indicator Approach.

(Unit: $000s)

Year 1	Year 2	Year 3	Average of three-year gross income	Alpha	Capital Charge	RWA
15,279	16,912	22,729	18,307	15%	2,746	34,326

11. Interest Rate Risk

Interest rate risk ("IRR") is the risk to earnings or capital arising from movements in interest rates in the banking book. Earnings from interest-sensitive assets and the overall value of the loan and investment portfolios 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 risk is managed primarily through monitoring interest rate gaps and by having Board approved gap limits. The Bank established the interest rate gap limits that are sufficient to support the normal operations. ALCO is the monitoring body for compliance with these limits and is assisted by the Risk Management Department.

Interest rate gap position as of December 31st, 2023:

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 10. Interest rate risk and book value of each class of asset and liability as of December 31, 2023:

(Unit: $000s)

Time Band	Floating	Within 3 months	3 months to 1 year	Greater than 1 year	Non-rate Sensitive	Total
Assets						
Cash and cash equivalents	7,333	-	-	-	1,097	8,430
Deposits with regulated financial institutions	-	128,981	-	-	-	128,981
Securities	-	-	250	-	-	250
Loans	559,941	2,010	16,213	336,278	473	914,915
Other assets	-	-	-	-	6,890	6,890
	567,274	130,991	16,463	336,278	8,460	1,059,466
Liabilities	-	-	-	-	-	-
Payable on demand	114,431	-	-	-	3,221	117,652
Payable on fixed date	-	191,176	416,475	89,184	-	696,835
Lease liabilities	-	163	381	1,562	-	2,106
Other liabilities	-	30,000	95,000	-	20,183	145,183
	114,431	221,339	511,856	90,746	23,404	961,776
Total Gap	**452,843**	**(90,348)**	**(495,393)**	**245,532**	**(14,944)**	**97,690**

Further, the Bank supplements monitoring of gap limits by performing interest rate sensitivity analysis to assess the impact of hypothetical interest rate shocks (both parallel and non-parallel shifts) across the yield curve on rate sensitive assets and liabilities. Sensitivity limits are set to control the Bank's interest rate risk exposure from both earnings and economic value perspectives with results of analysis reported to ALCO and the Board on regular basis.

Based on the Bank's interest rate positions as at December 31, 2023, the following Table 11 shows the change in the portfolio's economic value of equity (EVE) and net interest income (NII) for upward and

downward rate shocks according to management's method for measuring IRRBB as of December 31, 2023 and December 31, 2022.

Table 11. Changes in net interest income and economic value of equity as of Dec 31, 2023 and Dec 31, 2022.

(Unit: $000s)

NII Change Scenarios	2023.12	2022.12
Parallel Shocks		
ΔNII under 100 bps Parallel Up Shocks	2,313	4,122
ΔNII under 100 bps Parallel Down Shocks	(2,313)	(4,122)
ΔNII under 200 bps Parallel Up Shocks	4,332	7,188
ΔNII under 200 bps Parallel Down Shocks	(4,450)	(7,526)

EVE Change Scenarios	2023.12	% of CET 1 Capital	2022.12	% of CET1 Capital
Parallel Shocks				
ΔEVE under 100 bps Parallel Up Shocks	(3,338)	-3.44%	2,692	2.92%
ΔEVE under 100 bps Parallel Down Shocks	4,125	4.25%	(2,775)	-3.01%
ΔEVE under 200 bps Parallel Up Shocks	(8,208)	-8.46%	3,501	3.80%
ΔEVE under 200 bps Parallel Down Shocks	8,618	8.88%	(4,303)	-4.67%
Non-parallel Shocks				
ΔEVE under Steepener Scenario	(3,062)	-3.16%	(3,410)	-3.70%
ΔEVE under Flattener Scenario	1,080	1.11%	4,020	4.36%
ΔEVE under Short Rate Up Scenario	(2,196)	-2.26%	5,283	5.73%
ΔEVE under Short Rate Down Scenario	2,195	2.26%	(5,950)	-6.45%

12. Liquidity and Funding Risk

Liquidity and funding risk is the risk of 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. Maintaining diverse funding sources and liquidity is vital for the Bank's continued operations. These risks arise from various factors, including market disruptions and changes in key funding channels, many of which are beyond the Bank's control. The Bank's aim is to secure sufficient funding, both in quantity and duration, to fully back customer assets and uphold an appropriate level of cash and high-quality liquid assets, even in challenging times, to fulfill payment commitments promptly.

Organisational Framework and Policy

The Bank's organizational framework and policy concerning liquidity risk management entail oversight by the Board. The Framework includes Board-approved Liquidity Risk Management Policy, Fund Management Policy, and Liquidity Contingency Plan, delineating risk assessment, operations, and management methodologies to ensure alignment with regulatory and internal limits.

To further fortify its liquidity position, the Bank sets management and board limits exceeding regulatory mandates. These limits, established annually in accordance with the Risk Appetite Framework, are approved by the Board of Directors and integrated into the Liquidity Risk Management Framework, subject to monthly monitoring.

The ALCO oversees liquidity risk including Early Warning Indicators identified in Liquidity Contingency Plan and Liquidity & Funding Risk Parameters adherence to Board approved limits.

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 regular basis. The LCR of the Bank as of December 31, 2023 is 229.19%, maintaining over 100% as per regulatory requirement by OSFI.

Liquidity Stress Tests

Liquidity stress testing is conducted regularly to evaluate the Bank's resilience in extreme crisis scenarios. These tests encompass both bank-specific and market-wide stress scenarios to identify potential sources of strain, gauge the impact on funding requirements, and ensure alignment with the Bank’s established liquidity and funding risk parameters. The results of liquidity stress tests, along with liquidity limits, are submitted to and reviewed by RMC and Board.

The primary objective of liquidity risk management is to uphold the ability, even in adverse conditions, to meet all liability repayments and fund investment opportunities promptly and affordably. This involves raising adequate funds either by augmenting liabilities or converting assets into cash swiftly and at a reasonable cost.

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, 2023, there were 16 employees considered to be Senior Management of the Bank, and they are as follows:

- President & CEO: 1
- Vice Presidents (CXO level): 11
- Other VP's, Branch Managers: 4

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's employees. As of December 31, 2023, there were 8 members on the Board. Five of the Board members were independent non-executive directors, selected and appointed based on their qualifications and relevant experiences.

Concerning 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.

Compensation across the company including for senior management was reviewed and increases approved by the Board of Directors effective March 1, 2023 in order to move our compensation closer to the market and to retain good talent. Further, we continued to benchmark our compensation against the market during the year to stay competitive.

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 FY2023, 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 12. The total value of remuneration awarded to Senior Management for 2023 and 2022.

(Unit: $000s)

Remuneration	2023	2022
Fixed remuneration Salary, allowance, and defined contribution pension plan	2,724	2,618
Variable remuneration Performance-based incentives	127	25
Total	**2,951**	**2,643**