Basel Pillar 3 Disclosures

As at December 31, 2022

Contents

1. **Background** 1
2. **Scope of Application** 1
    a. **Scope of Application of Pillar 3 Requirements** 1
    b. **Functional and Presentation Currency** 3
    c. **Frequency of Disclosures** 3
    d. **Location of Disclosures** 3
    e. **Limitation of Disclosures** 3
3. **Risk Management Framework** 3
4. **Capital Structure** 4
5. **Capital Adequacy** 5
6. **Credit Risk** 6
    a. **General** 6
    b. **Impairment** 8
    c. **Allowances** 9
7. **Credit Risk Mitigation** 10
8. **Counterparty Credit Risk** 10
9. **Market Risk** 10
10. **Operational Risk** 11
11. **Interest Rate Risk** 11
12. **Liquidity and Funding Risk** 13
13. **Climate Risk** 13
14. **Remuneration** 13
    a. **General** 13
    b. **Responsibilities of the Board of Directors** 14
    c. **Annual Performance Review and Base Salary Review** 14

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 us 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. 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 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.

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 would be providing the disclosures as per this revised guideline going forward.

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 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 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;
- 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, 2022 and as at December 31, 2021.

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. The capital structure as of December 31, 2022 and as at December 31, 2021.

(Unit: $000s)

Capital Structure	2022	2021
Common shares	80,000	80,000
Retained earnings (deficit)	12,651	8,824
Regulatory adjustments	(358)	(258)
Common Equity Tier 1 (CET1) Capital	**92,293**	**88,566**
Common Equity Tier 1 (CET1) Capital with transitional arrangements for ECL provisioning not applied	92,231	88,371
Tier 1 Capital	**92,293**	**88,566**
Tier 1 Capital with transitional arrangement for ECL provisioning not applied	92,231	88,371
Stage 1 and 2 allowances	3,457	3,517
Tier 2 Capital	**3,457**	**3,517**
Total Capital (Tier 1 + Tier 2)	**95,750**	**92,083**
Total Capital with transitional arrangement for ECL provisioning not applied	95,750	92,083

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.

The Bank's capital management framework includes a comprehensive Internal Capital Adequacy Assessment Process (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, identification and measurement of material risks and the relationship between risk and capital, for a three-year time horizon.

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 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, 2022, the Tier 1 capital ratio and total capital ratio of the Bank were 18.37% and 19.06% 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, 2022, the leverage ratio was 9.96%. 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 capital ratios as of December 31, 2022 and as at December 31, 2021.

(Unit: $000s)

Risk-Weighted Assets and Ratios	2022	2021
Credit risk	467,840	456,574
Market risk	288	62
Operational risk	34,326	31,862
Total RWA	**502,454**	**488,498**
CET1 Capital Ratio	**18.37%**	**18.13%**
Total Capital Ratio	**19.06%**	**18.85%**
Total exposures	926,506	883,913
Leverage Ratio	**9.96%**	**10.02%**

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 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 Policies and Guidelines (LPG) 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 LPG. 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.

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

Tables 3 and 4 provide the Bank's total gross credit exposures of Dec 31, 2022 and Dec 31, 2021, grouped by various categories: exposure type, geographic location, industry, and remaining contractual maturity. Because the Bank does not have corporate 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, 2022.

(Unit: $000s)

	2022			
	Loans	**Commitments**	**Other off-balance sheet exposures**	**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	**Commitments**	**Other off-balance sheet exposures**	**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.

Table 4. The gross credit exposure as of December 31, 2021.

(Unit: $000s)

	2021			
	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**

	2021			
	Loans	**Commitments**	**Other off-balance sheet exposures**	**Total**
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**

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, 2022, 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, 2022, 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. Allowances by geographic area and industry as of 2022 and 2021.

(Unit: $000s)

	2022			2021		
	Collective	**Individual**	**Total**	**Collective**	**Individual**	**Total**
By geographic location						
Canada						
Ontario	3,075	473	3,548	3,152	473	3,625
British Columbia	428	-	428	557	-	557
Others (Canada)	-	-	-	3	-	3
Others (International)	16	-	16	-	-	-
Total allowance	3,519	473	3,992	3,712	473	4,185

By industry						
Consumer loan						
RML	953	-	953	828	-	828
Other consumer loan	9	-	9	18	-	18
Commercial loan	-	-	-		-	-
Manufacturing	7	-	7	0	-	-
Service	2,289	-	2,289	2519	-	2,519
Retail	184	473	657	255	473	728
Other commercial	0	-	0	22	-	22
Other credit exposures	77	-	77	70	-	70
Total allowance	3,519	473	3,992	3712	473	4,185

Change in allowance						
Beginning Balance	3,712	473	4,185	3,766	584	4,350
IFRS 9 adoption	-	-	-	-	-	-
Write-offs	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-
Charge for impairment	(193)	0	(193)	(54)	(111)	(165)
Ending Balance	3,519	473	3,992	3,712	473	4,185

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, 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. The credit risk mitigation technique used for the Standardized Approach in 2022 and 2021.

(Unit: $000s)

Exposure Type	2022	2021
	Eligible Financial Collateral	Eligible Financial Collateral
Corporate	4,424	1,661
Other retail	1,168	677
SBEs treated as other retail	3,543	2,059
Total eligible financial collateral	**9,135**	**4,397**

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, 2022, 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 risk arises from foreign exchange positions that are subject to cash management purposes. As at December 31, 2022, the Bank held $289K 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	2022	2021
USD Position Amount	42	-3
CAD/USD Exchange Rate	1.36	1.26
USD Position (CAD Equivalent)	**57**	**-4**
EUR Position Amount	0	0
CAD/EUR Exchange Rate	1.45	1.44
EUR Position (CAD Equivalent)	**0**	**0**
KRW Position Amount	-268,989	56,602
KRW/CAD Exchange Rate	930.06	935.29
KRW Position (CAD Equivalent)	**-288**	**61**
Total Long Position	57	61
Total Short Position	288	4
Maximum Market Position Amount	288	61
Market Risk Capital Charge	**23**	**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 risks.

The Bank uses the basic indicator approach to measure the capital charge for operational risk. As at December 31, 2022, the average three-year gross income was $18.31 million and as per basic indicator approach followed by the Bank the capital requirement for operational risk was $2.75 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
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 gap position as of December 31st, 2022:

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 asset and liability as of 2022:

(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	4,691	-	-	-	1,228	5,919
Deposits with regulated financial institutions	-	81,508	-	-	-	81,508
Securities	-	-	-	249	-	249
Loans	701,673	10,326	28,788	72,491	473	813,751
Other assets	-	-	-	-	5,081	5,081
	706,364	91,834	28,788	72,740	6,782	906,508
Liabilities	-	-	-	-	-	-
Payable on demand	112,086	-	-	-	7,117	119,203
Payable on fixed date	-	139,029	362,243	82,672	-	583,944
Lease liabilities	-	151	471	2,106	-	2,728
Other liabilities	-	80,000	20,000	-	9,004	109,004
	112,086	219,180	382,714	84,778	16,121	814,879
Total Gap	**594,278**	**(127,346)**	**(353,926)**	**(12,038)**	**(9,339)**	**91,629**

Based on the Bank's interest rate positions as at December 31, 2022, the following table 10 shows the change in the portfolio's net present value (NPV) and net interest income (NII) in Year 1 and Year 2 by 100 basis points upward and downward change in interest rates across the yield curve for all currencies as of December 31, 2022.

Table 10. Changes in net present value and net interest income as of December 31, 2022.

(Unit: $000s)

Change in Interest Rates	Net Present Value	Change in Net interest income	
		Year 1	Year 2
+100b	2,692	4,122	1,528
–100bp	-2,775	-4,122	-1,528

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. 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 including contingency funding 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 regular basis.

The LCR of the Bank as of December 31, 2022 is 186.04%, maintaining over 100% as per regulatory requirement by OSFI.

13. Climate Risk

Climate risk is the risk of damage or financial loss arising from materialised credit, market, operational or other risks resulting from the physical and transition risks of climate change to the Bank, its customers or geographies the Bank operates in. Physical risks are related to the chronic and acute physical impacts of climate change and transition risks are associated with Canada transitioning to a low-carbon economy.

Climate-related risks may manifest over varying time horizons, and are likely to intensify over time, especially if the global economy undergoes a disorderly transition. They can drive financial risks, such as credit, market and liquidity risks. They can also lead to strategic, operational, and reputational risks.

Climate risk cuts across many different industry sectors that make up the Canadian economy. Canada's planned move towards green energy will present transition challenges, which may affect overall GDP growth and specifically the businesses that the Bank has financed.

The Bank would be implementing the B15 Guideline of OSFI going forward, in meeting climate-related risk requirements including disclosures.

14. 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, 2022, there were 14 employees considered to be Senior Management of the Bank, and they are as follows:

- President & CEO : 1
- Vice Presidents (CXO level) : 9
- 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, 2022, 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.

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.

Compensation across the company including for senior management was reviewed and increases approved by the Board of Directors effective March 1, 2022 in order to move our compensation closer to the market and to retain good talent. Further, it was also decided to commission a detailed Compensation benchmarking study 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 FY2022, 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 2022 and 2021.

(Unit: $000s)

Remuneration	2022	2021
Fixed remuneration Salary, allowance, and defined contribution pension plan	2,618	2,344
Variable remuneration Performance-based incentives	25	15
Total	**2,643**	**2,359**