

## 1. Scope of Application

Reserve Bank of India (RBI) issued Basel III guidelines applicable with effect from April 1, 2013. The guidelines provide a transition schedule for Basel III implementation till March 31, 2020. Upon full implementation, Basel III guidelines target minimum capital to risk-weighted assets ratio (CRAR) would be 11.5%, minimum Common Equity Tier-1 (CET1) CRAR ratio would be 5.5% and minimum Tier-1 CRAR ratio would be 7%.

As per the transitional arrangement, at June 30, 2021, Shinhan Bank – India branches (the Bank) is required to maintain minimum capital requirement of 11.50% including capital conservation buffer (CCB).

### Qualitative Disclosures:

- (a) The capital Adequacy framework applies to Shinhan Bank – India branches. Shinhan Bank India (“hereinafter referred to as the ‘Bank’”) are the Indian Operations of Shinhan Bank (“hereinafter referred to as ‘H.O.’), a South Korean company incorporated in 1897 operating as commercial bank through network of branches in South Korea and various overseas branches including India. The Bank has a network of six branches in India as on 30<sup>th</sup> June 2021.
- (b) The Bank does not have any subsidiaries.

### Quantitative Disclosures:

- (c) The aggregate amount of capital deficiencies in all subsidiaries not included in the consolidation i.e. that are deducted and the name(s) of such subsidiaries : NIL
- (d) The aggregate amounts of the bank’s total interests in insurance entities : NIL
- (e) Restrictions or impediments on transfer of funds or regulatory capital within the banking group: NIL

## 2. Capital Structure:

### Qualitative Disclosures:

- (a) Summary information and main features of capital instruments are given below.
- Tier I capital: - consists of funds from H.O. for the purpose of meeting capital adequacy norms & statutory reserves minus deferred tax asset.
  - Tier II capital comprises of general loan loss provisions.
- (b) The Composition of capital structure:

	(Rs. lacs)
<b>Particulars</b>	<b>June 30, 2021</b>
Funds from H.O.	63,319.08
Statutory Reserve	80,958.14
Deferred Tax Assets	(4,577.78)
<b>Total- Tier I</b>	<b>139,699.44</b>
Provision for Standard Assets	2,902.92
Investment Fluctuation Reserve	791.63
Provision for Country Risk Exposure	114.23
<b>Total – Tier II</b>	<b>3,808.78</b>
<b>Total Eligible Capital</b>	<b>143,508.23</b>

### 3. Capital Adequacy:

#### Qualitative disclosures:-

Every year Bank fixes its corporate goals, commensurate with its risk appetite. Capital requirement is assessed taking into account: Business growth plans, Capital funds available with Bank after accounting for redeployment of projected internal accruals, minimum regulatory capital required, buffer above minimum capital required to take care of non-Pillar-I risks. For the purpose, bank has a well defined Internal Capital Adequacy Assessment Policy (ICAAP) to comprehensively evaluate and document all the risks like Interest Rate Risk in Banking Book, Liquidity Risk, Reputation Risk, Compliance Risk, Strategic Risk and Credit Concentration Risk etc. and substantiate appropriate capital allocation so as to evolve a fully integrated risk/capital model for both regulatory and economic capital.

The bank carefully assesses its growth opportunities relative to the capital available to support them, particularly in light of the economic environment and advent of Basel III. The Bank maintains a strong discipline over capital allocation and ensuring that returns on investment cover capital costs. The bank is fully committed in implementing the Basel III norms as adopted by the Reserve Bank of India. The bank has adopted the following approaches for its capital adequacy under BASEL III in line with the guidelines of the Reserve Bank of India.

- Credit Risk - Standardised approach.
- Market Risk - Standardised duration approach.
- Operational Risk - Basic Indicator approach.

#### Quantitative disclosures:

Under the BASEL III framework on an on-going basis, the bank has to maintain a minimum total capital of 11.50% including Capital Conservation Buffer (CCB) at 2.50% for credit risk, market risk and operation risk. The minimum total capital should include minimum common equity tier 1 (CET1) ratio of 5.50%, minimum tier 1 capital ratio of 7.00%. The minimum total capital requirement includes the Capital Conservation Buffer (CCB) of 2.50% (PY: 2.50%)

The summary of the bank's capital requirement for credit, market, operation risk and CRAR as at June 30, 2021 is presented below:

		(Rs in lacs)
	<b>PARTICULARS</b>	<b>Amount</b>
<b>A</b>	<b>Capital requirement for credit risk</b>	
	- Portfolios subject to standardised approach	54,931.89
	- Securitisation exposures	
<b>B</b>	<b>Capital requirement for market risk</b>	
	Standardised duration approach	
	-Interest rate risk	1,148.63
	-Foreign exchange risk	1,293.75
	-Equity risk	-
<b>C</b>	<b>Capital requirement for operational risk</b>	
	-Basic indicator approach	5,512.82
<b>D</b>	<b>Capital Adequacy ratio of the Bank (%)</b>	<b>26.28%</b>
<b>E</b>	<b>Tier I CRAR (%)</b>	<b>25.59%</b>

## **General Disclosures:**

### **Risk Exposure and Assessment**

Shinhan Bank's Risk Management policies and procedures are subject to a high degree of oversight and guidance to ensure that all types of risks is systematically identified, measured analysed and actively managed. Specific details relating to all major business functions are elaborated in the respective policies and manuals of the bank, which may be guided by for specific business activities.

Risk Management is the responsibility of every member of the management as well as part of the job of each staff members of the bank. Individual risk management efforts are coordinated and supervised by the CEO. The H.O. has the responsibility for coordination of overall risk management with respect to the business of the India branches of the bank.

### **Risk Management**

The bank has a Risk Management Department in place which oversees all types of risks in an integrated fashion. Shinhan bank has established a series of risk management system to prepare for the full- scale implementation of the revised Capital Accord. The H.O. assumes overall supervision of the global operations of the Bank. The Board of Directors assumes the ultimate responsibility of supervision, and exercises its supervisory authority through the President and CEO.

### **Risk Management Framework**

The Risk Management Framework aims to integrate the sound principles of Risk Management system and practices into the overall functioning and set up of the Bank. Shinhan Bank has created in its organizational structure a Risk Management Committee to oversee and discharge efficiently the risk management functions. The Management Committee defines risk strategies and policies of the bank. The bank's risk profile is regularly examined by the Risk Management Committee. The Risk Management Committee is headed by the CEO and is represented by members from Credit, Risk, Treasury, Compliance and Finance departments.

## **4. Credit Risk:**

### **General Disclosure**

Credit risk covers the inability of a borrower/customer or counter-party to honour commitments under an agreement/contract and any such failure has an adverse impact on the financial performance of the Bank. The Bank is exposed to credit risk through lending, certain off balance-sheet items and some holdings in debt securities. Various credit exposure limits are fixed and approved by the appropriate authority. These limits are being monitored on a regular basis.

### **Strategy and Processes**

The Bank's credit risk management process integrates risk management into the business management processes, while preserving the independence and integrity of risk assessment. The Bank's, H.O. formulates risk management policies for the Bank worldwide. The Bank in India has formulated local credit guidelines consistent with the HO policy. The goal of credit risk management during the year has been to maintain a healthy credit portfolio by managing risk at the portfolio level. The Bank's risk management policies and procedures establish the parameters for risk appetite, which is defined quantitatively and qualitatively in accordance with the laid-down strategic business plan. The process is established through a combination of governance structures and control processes.

The other guiding principles and processes behind Credit Risk Management Framework are:

- The acceptability of credit exposure is primarily based on the sustainability and adequacy of borrower's normal business operations and not based solely on the availability of security.
- Sound credit approval process with well laid credit-granting criteria.
- Portfolio level risk analytics and reporting to ensure optimal spread of risk across various rating classes, prevent undue risk concentration across any particular industry segments and monitor credit risk quality migration.
- 'Know your Customer' is a leading principle for all activities.
- Appropriate covenants are stipulated for risk containment and monitoring.
- Industry-wise exposure ceilings are based on the industry performance, prospects and the competitiveness of the sector.
- Separate risk limits are set up for credit portfolios like advances to NBFC and unsecured loans that require special monitoring

### **Structure and Organization**

The Bank has committee approach in place for credit sanction and review. Credit approval authorities are delegated from the H.O. to the Chief Executive Officer, India. The Head of Risk Management in India maintains a functional reporting to the Global Business Division at the HO through the CEO of India Operations.

### **Scope and nature of risk reporting and measurement**

#### **Credit Rating System**

Credit rating tools are an integral part of risk-assessment of the corporate borrowers and the Bank has developed rating model that has distinct risk characteristics. The Bank periodically carries out a comprehensive portfolio level analysis of its asset portfolio with a risk-return perspective. The credit rating tool uses a combination of quantitative inputs and qualitative inputs to arrive at a 'point-in-time' view of the rating of counterparty. Each internal rating grade corresponds to a distinct probability of default. The output of the rating model is primarily to assess the chances of delinquency over a one year time horizon.

#### **Review and Monitoring**

- The Bank has developed monitoring tool that helps in objectively assessing the credit quality of the borrower taking into cognizance the actual behavior post-disbursement.
- All credit exposures, once approved, are monitored and reviewed periodically against the approved limits.
- Borrowers with lower credit rating are subject to more frequent reviews.
- Credit audit involves independent review of credit risk assessment, compliance with internal policies of the Bank and with the regulatory framework, compliance of sanction terms and conditions and effectiveness of loan administration.

#### **Concentration Risk**

Concentration Risk in the context of banking operations generally denotes the risk arising from an uneven distribution of counter- parties in credit or any other business relationship or from a concentration in business sectors or geographical regions which may generate losses large enough to jeopardize the Bank's position. The Bank controls and limits concentration risk by means of appropriate structural limits and borrower limits based on creditworthiness.

## Industry Concentration Risk

Industry analysis plays an important part in assessing the industry concentration risk within the loan portfolio. Particular attention is given to industry sectors where the Bank believes there is a high degree of risk or potential for volatility in the future. The Bank has fixed internal limits for aggregate commitments to different sectors so that the exposures are evenly spread over various sectors.

## Reporting

Regular internal reporting and oversight of assets and guidance to ensure that all types of risk are systematically dealt with is principally differentiated by the credit ratings applied which includes information on large credit exposures, credit concentration, industry exposures, levels of impairment, provisioning and country exposures are being reported to the Credit Committee on a monthly basis.

## Non performing advances

Advances are classified into performing and non-performing advances (NPAs) as per Reserve Bank of India (RBI) guidelines. NPAs are further classified into sub-standard, doubtful and loss assets based on the criteria stipulated by RBI. An asset, including a leased asset, becomes non-performing when it ceases to generate income for the Bank and an NPA is a loan or an advance where Interest and/or instalment of principal remains overdue for a period of more than 90 days in respect of term loan, the account remains "out-of-order" in respect of an Overdraft or Cash Credit (OD/CC), the bill remains overdue for a period of more than 90 days in case of bills purchased and discounted and the regular/ad hoc credit limits have not been reviewed /renewed within 180 days from the due date/ date of ad hoc sanction.

Following is table of non-performing assets and provision as on 30<sup>th</sup> June 2021

(Rs. in lacs)

Sr. No.	Particulars	30-Jun-2021
(i)	Net NPAs to Net Advances (%)	0.70%
(ii)	Movement of NPAs (Gross)	
	(a) Opening Balance	12,824.51
	(b) Additions during the year.	2,044.94
	(c) Reductions during the year - Recovery - Write off	0.29
	(d) Closing balance	14,869.16
(iii)	Movement of Net NPAs	
	(a) Opening balance	2,395.56
	(b) Additions during the year.	1,739.31
	(c) Reductions during the year	(0.32)
	(d) Closing balance	4,135.20
(iv)	Movement of provisions for NPAs (excluding provision on standard assets)	
	(a) Opening balance	10,428.95
	(b) Provisions made during the year.	305.63
	(c) Write-off/write-back of excess provisions	0.62
	(d) Closing balance	10,733.96

### Credit quality/ Impairment of Loans:

All loans and advances of the Bank are classified according to asset quality, nature and passage of time and at each balance sheet date, the Bank ascertains if there is any impairment in its assets. If such an indication is detected, the Bank estimates the recoverable amount of the assets from the date of identification of credit weaknesses in accordance with RBI guidelines. The irrecoverable amount is treated as an impairment loss and is recognized in the profit and loss account. Standard accounts include all facilities which demonstrate good financial condition, minimum risk factors and capacity to repay in line with the original terms of sanction.

### Credit Risk Management

The Bank has standards, policies and procedures dedicated to the monitoring and management of credit risk, which include the following:

- The Credit policy delineates the bank's maximum exposures to individual customers, customer groups and other risk concentrations. Ensure compliance with lending guidelines to specified market sectors and industries in compliance with RBI guidelines and HO policies.
- Control cross-border exposures to manage country and cross-border risk through the imposition of country limits with sub-limits by maturity and type of business.
- Undertake independent review and objective assessment of credit risk. All commercial credit facilities are subject to review prior to the facilities being committed to customers.
- Maintain and develop the bank's risk rating framework and systems, in order to classify exposures meaningfully and facilitate focused management of the risks involved. Rating methodologies are based upon a wide range of financial analytics together with market database tools, which are core inputs to the assessment of customer risk. Risk grades are reviewed frequently and amendments, where necessary, are implemented promptly.

### Credit risk portfolio including Geographic Distribution

(Rs. lacs)

Particulars	June 30, 2021
Fund Based	611,969.28
Non Fund Based	106,421.21
<b>Total</b>	<b>710,073.32</b>

### Note:

- Fund base portfolio represents funded loans & advances
- Non fund portfolios are guarantees given on behalf of constituents, Letters of credit, acceptance and endorsements.
- The bank has no overseas operation and hence exposures are restricted to the domestic segment.

SHINHAN BANK, (Incorporated in Korea with Limited Liability)  
INDIAN OPERATIONS  
Quarter ended 30 June 2021 - Unaudited  
Disclosures under the new Capital Adequacy Framework (Basel III Guidelines) Pillar 3 Disclosures

**Distribution of credit risk portfolio by industry sector as on Jun 30, 2021:**

(Rs. in lacs)

<b>Industry Name</b>	<b>Funded</b>
A. Mining and Quarrying (A.1 + A.2)	<b>366.31</b>
A.1 Coal	366.31
A.2 Others	
B. Food Processing	<b>25,821.76</b>
B.1 Sugar	
B.2 Edible Oils and Vanaspati	10,537.88
B.3 Tea	
B.4 Coffee	
B.5 Others	15,283.88
C. Beverages (excluding Tea & Coffee) and Tobacco	597.02
Of which Tobacco and tobacco products	597.02
D. Textiles (a to f)	38,451.11
a. Cotton	23,564.72
b. Jute	448.10
c. Handicraft/Khadi (Non Priority)	2,436.00
d. Silk	-
e. Woolen	-
f. Others	12,002.29
Out of D (i.e. Total Textiles) to Spinning Mills	-
E. Leather and Leather products	364.09
F. Wood and Wood Products	1,004.95
G. Paper and Paper Products	4,373.46
H. Petroleum (non-infra), Coal Products (non-mining) and Nuclear Fuels	3,885.09
I. Chemicals and Chemical Products (Dyes, Paints, etc.)	52,113.23
I.1 Fertilizers	9,999.83
I.2 Drugs and Pharmaceuticals	13,464.53
I.3 Petro-chemicals (excluding under Infrastructure)	
I.4 Others	28,648.87
J. Rubber, Plastic and their Products	4,243.88
K. Glass & Glassware	5,000.00
L. Cement and Cement Products	8,895.89
M. Basic Metal and Metal Products (M.1 + M.2)	82,347.96
M.1 Iron and Steel	53,757.21
M.2 Other Metal and Metal Products	28,590.75
N. All Engineering (N.1 + N.2)	84,083.59
N.1 Electronics	80,183.92
N.2 Others	3,899.67
O. Vehicles, Vehicle Parts and Transport Equipment	37,675.90
P. Gems and Jewelry	

**SHINHAN BANK, (Incorporated in Korea with Limited Liability)**  
**INDIAN OPERATIONS**  
**Quarter ended 30 June 2021 - Unaudited**  
**Disclosures under the new Capital Adequacy Framework (Basel III Guidelines) Pillar 3 Disclosures**

Q. Construction	10,929.52
R. Aviation	-
<b>S. Infrastructure (a to d)</b>	<b>6,973.25</b>
a. Transport (a.1 to a.5)	
a.1 Railways	
a.2 Roadways	
a.3 Airport	
a.4 Waterways	
a.5 Others	
b. Energy (b1 to b6)	
b.1 Electricity (Generation)	
b.1.1 Central Govt PSUs	
b.1.2 State Govt PSUs (incl. SEBs)	
b.1.3 Private Sector	
b.2 Electricity (Transmission)	
b.2.1 Central Govt PSUs	
b.2.2 State Govt PSUs (incl. SEBs)	
b.2.3 Private Sector	
b.3 Electricity (Distribution)	
b.3.1 Central Govt PSUs	
b.3.2 State Govt PSUs (incl. SEBs)	
b.3.3 Private Sector	6,382.04
b.4 Oil (storage and pipeline)	
b.5 Gas/LNG (storage and pipeline)	591.21
b.6 Others	
c. Telecommunication	
d. Others	
Of which Water sanitation	
Of which Social & Commercial Infrastructure	
T. Other Industries	<b>695.13</b>
All Industries (A to T)	<b>367,877.14</b>
Residuary other advances (to tally with gross advances)	235,829.97
<b>Total Loans and Advances</b>	<b>603,652.11</b>



SHINHAN BANK, (Incorporated in Korea with Limited Liability)  
**INDIAN OPERATIONS**  
 Quarter ended 30 June 2021 - Unaudited  
 Disclosures under the new Capital Adequacy Framework (Basel III Guidelines) Pillar 3 Disclosures

Residual Contractual maturity breaks down of Assets

(Rs lacs)

<b>MATURITY BUCKETS</b>	<b>Cash, balances with RBI and other Banks</b>	<b>Investment Securities</b>	<b>Loans and Advances *</b>	<b>Other Assets including fixed assets</b>
Day 1	20,599.62	149,601.26	16,645.07	7,122.23
2-7 days	1,771.52	8,365.33	21,018.92	-
8-14 days	2,648.66	12,507.28	33,224.03	-
15-30 days	7,759.13	36,639.50	78,854.79	-
31 Day and up to 2 Month	6,720.32	31,734.12	122,005.21	-
2 Month and up to 3 Months	5,225.81	24,676.84	82,145.68	-
Over 3 Month and up to 6 Months	3,615.34	17,072.06	80,244.49	-
Over 6 Months and up to 1 Year	4,586.98	21,660.23	25,045.75	-
Over 1 year and up to 3 years	3,027.39	13,941.54	33,408.79	6,043.48
Over 3 years and up to 5 years	13.83	65.33	23,700.90	59.55
Over 5 years	1,569.34	7,410.50	72,489.48	28,641.51
<b>Total</b>	<b>57,537.94</b>	<b>323,673.99</b>	<b>588,783.11</b>	<b>41,866.77</b>

\* Gross NPA is not included under Loan & Advances

**Movement of NPA's and Provision for NPA's**

Gross NPAs in various categories (Sub-standard, doubtful, loss etc):

(Rs. lacs)

	<b>Particulars</b>	<b>June 30, 2021</b>
A	Amount of NPA's (Gross)	14,869.16
B	Net NPA's	4,135.20
C	NPA's ratios	
	Gross NPAs to gross advances	2.46%
	Net NPAs to net advances	0.70%
D	Movement of NPA's (Gross)	
	Opening Balance	12,824.51
	Additions including recoveries	2,044.94
	Reductions	0.29
	Closing Balance	14,869.16

**SHINHAN BANK, (Incorporated in Korea with Limited Liability)**  
**INDIAN OPERATIONS**  
**Quarter ended 30 June 2021 - Unaudited**  
**Disclosures under the new Capital Adequacy Framework (Basel III Guidelines) Pillar 3 Disclosures**

E	Movement of Provision for NPA's	
	Opening Balance	10,428.95
	Write offs/ Provision made during the year	305.63
	Write back of excess provision	0.62
	Closing balance	10,733.96
F	Amount of Non performing investments and Provisions	Nil
	Amount of provisions held for Non performing investments	Nil
G	Movement of provisions for depreciation on investment	
	Opening Balance	Nil
	Add: Provision made during the year	Nil
	Less: Write back of excess provisions	Nil
	Add: Amortisation of premium on HTM category	Nil
	Closing balance	Nil

**5. Disclosures of portfolios under the Standardised Approach:**

**Qualitative Disclosures:**

As per the RBI guidelines on the Basel II to calculate capital adequacy under the standardised approach for credit risk, require banks to use rating assigned by specific External Credit Assessment Agencies (ECAIs) namely CRISIL, ICRA, Fitch(India) & CARE for domestic counterparties and Standard & Poor's, Moody's and Fitch for foreign counterparties.

The Bank is using issuer ratings, short-term and long-term instrument/bank facilities ratings which are assigned by the accredited rating agencies (as specified by RBI) and published in the public domain to assign risk-weights in terms of RBI guidelines for its customers. In respect of claims on non-resident corporate and foreign banks ratings assigned by international rating agencies (as specified by RBI) is used. For exposures with contractual maturity of less than one year, a short-term rating is used. For cash credit facilities and exposures with contractual maturity of more than one year, long-term rating is used.

The process used by the Bank to transfer public issue ratings onto comparable assets in the banking book is in line with the provisions advised in Reserve Bank of India's Master circular on New Capital Adequacy Framework.

For non-funded advances secured by SBLC, the bank is using the rating assigned by S & P / Fitch / Moody's.

**Quantitative Disclosures:**

The amount under each credit risk category is as follows:

	(Rs. lacs)
<b>Risk Bucket</b>	<b>June 30, 2021</b>
Below 100% Risk Weight	149,450.30
100% risk weight	228,013.03
More than 100% risk weight	99,335.74
<b>Risk Weighted Assets</b>	<b>476,799.07</b>

Note: The Unhedged foreign currency exposures and QCCP are incorporated in above figure according to risk bucket and additional risk weight on Unhedged FCE, CVA & QCCP considered under below 100% risk weight.

#### **6. Credit Risk Mitigation:**

Credit Risk Mitigants (CRM) like financial collateral, non-financial collateral and guarantees are used to mitigate credit risk exposure. Availability of CRM either reduces effective exposure on the borrower (in case of collaterals) or transfers the risk to the more creditworthy party (in case of guarantees). A major part of the eligible financial collaterals is in the form of cash, the most liquid of assets and thus free from any market and liquidity risks

The bank has arrived at credit exposure for the credit risk capital before Credit Risk Mitigation.

#### **7. Securitisation:**

##### **Qualitative and Quantitative disclosures:**

Securitisation is mainly done in order to diversify the bank's source of funding. The bank has neither securitized any assets nor have any investments in securities issued by any Special Purpose Vehicle (SPV).

#### **8. Market Risks in the trading book/Banking book**

Market risk is the risk that movements in foreign exchange rates, interest rates, or equity prices will result in profits or losses to the Bank. The Bank assumes market risk in its lending and deposit taking businesses and in its investment activities, including position taking and trading. The objective of market risk management is to control market risk exposures to achieve an optimal return while maintaining risk at acceptable levels.

The bank monitors the net open position for foreign exchange and undertakes VaR technique as per FEDAI model on FX risk position to estimate the potential loss as a result of movements in market rates. Stress testing on foreign exchange position is carried out to quantify the impact on capital of defined market movements.

#### **9. Operational Risk:**

Operational risk is the risk of loss arising from fraud, unauthorized activities, error, omission, inefficiency, systems failure or external events. It is inherent in every business organization and covers a wide spectrum of issues. The Bank has put in place a management approved Operational Risk Management Policy which outlines overall framework for management of Operational Risk.

#### **Strategy and Process**

The Bank manages this risk within a control based environment in which processes are laid down and documented and transactions are reconciled and monitored. This is supported by an independent program of periodic reviews undertaken by internal audit, and by monitoring external operational risk events, which ensure that the Bank stays in line with industry best practice and takes account of learning from publicized operational failures within the financial services industry.

#### **Structure and Organization**

The operational risk management responsibility is assigned to senior officials within each business operation. The operational risk loss data is collected and reported to the senior management and to the Bank's Risk Management Committee.

#### **Scope/Nature of Risk reporting/measurement**

The Bank has documented its operational risk management policy. One of the major tools for

managing operational risk is the well-established internal control system, which includes segregation of duties, clear management reporting lines and adequate operating procedures.

The following measures, which have laid down clear relevant systems, procedures, policies, monitoring and control, are in place to control the operational risk:

- Manuals /Job Cards/Circular /Instructions to ensure adherence to proper systems and procedures
- Risk Based Internal Audit System
- Well laid down policy guidelines covering various activities
- System of monitoring operations and performance
- Delegation of financial powers at appropriate levels
- Appropriate reporting and review system
- System (IT) monitoring with Disaster Recovery System and Business Continuity Plans
- Legal Compliance certificate

For addressing risk of system failure, a Disaster Recovery System is in place. For mitigating risk due to disruption of business, a Business Continuity Plan has been put in place.

## **10. Interest Rate Risk in the Banking Books (IRRBB)**

Interest rate risk is the potential change in Net Interest Income or Economic Value of Equity caused by unexpected changes in market interest rates.

### **Qualitative Disclosures**

#### **Interest Rate Risk:**

The banking book is defined as:

- i) Investments held in the Available for Sale (AFS) portfolio.
- ii) Funding transactions to manage the liquidity of the bank.

Market risk in non trading portfolio (banking book) arises principally from mismatches between the future yield on assets and their funding cost, as a result of interest rate changes.

Analysis of this risk incorporates behavioural assumptions regarding the economic duration of liabilities which are contractually repayable on demand, for example, current accounts.

### **Strategy and Process**

When the behavioural characteristics of a product differ from its contractual characteristics, the behavioural characteristics are assessed to determine the true underlying interest rate risk. Asset and Liability Committee (ALCO) regularly monitor all such behavioural assumptions and interest rate risk positions, to ensure that they comply with interest rate risk limits.

### **Structure and Organization**

ALCO is responsible for measuring interest rate risk exposures in accordance with prescribed policies, monitoring and reporting these exposures against the approved limits on a daily basis.

### **Scope/Nature of Risk reporting/measurement system and mitigation techniques**

The Bank monitors the sensitivity of projected net interest income under varying interest rate scenarios. The Bank manages the market risk in banking book, to mitigate the impact of prospective interest rate movements which could reduce future net interest income, whilst balancing the cost of such hedging activities on the current net revenue stream.

### **Duration Gap Analysis**

**SHINHAN BANK, (Incorporated in Korea with Limited Liability)**  
**INDIAN OPERATIONS**  
**Quarter ended 30 June 2021 - Unaudited**  
**Disclosures under the new Capital Adequacy Framework (Basel III Guidelines) Pillar 3 Disclosures**

Bank carries out Duration Gap Analysis (on monthly basis) to estimate the impact of change in Interest Rates on Market Value of Equity (MVE), as per the RBI Guidelines.

**Disclosures on Remuneration**

The bank's compensation policies including that of CEO's, is in conformity with the FSB principles and standards. In accordance with the requirements of the RBI Circular No DBR.NO.BC.72/29.67.001/2011-12 dated 13 January 2012, the Head Office of the bank has submitted a declaration to the RBI confirming the above mentioned aspect.

**Leverage ratio disclosure**

As on June 30, 2021 the leverage ratio is 11.19%. The summary comparison of accounting assets vs leverage ratio exposure measure as per table DF-17 and leverage ratio common disclosure as per table DF-18 are provided as separate annexure to this disclosure.

**Quantitative Disclosures:**

**Earning at Risk (EaR) (For time bucket up to one year)**

(Rs Lacs)

Assets	Liabilities	Impact on NII
Risk Sensitive Assets <b>Increase by 200 bps</b>	Risk Sensitive Liabilities <b>Increase by 200 bps</b>	525

<b>Table DF-11 : Composition of Capital</b>				
Part II : Template to be used before June 30, 2021				
(i.e. during the transition period of Basel III regulatory adjustments)				
				Rs. In Lacs
<b>Basel III common disclosure template to be used during the transition of regulatory adjustments</b>			<b>Amounts Subject to Pre-Basel III Treatment</b>	Ref No.
<b>Common Equity Tier 1 capital: instruments and reserves</b>				
1	Directly issued qualifying common share capital plus related stock surplus (share premium) (Funds from Head Office)	63,319.08		
2	Retained earnings	80,958.14		
3	Accumulated other comprehensive income (and other reserves)			
4	Directly issued capital subject to phase out from CET1 (only applicable to non-joint stock companies)			
	Public sector capital injections grandfathered until January 1, 2018			
5	Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)			
6	Common Equity Tier 1 capital before regulatory adjustments	144,277.22		
<b>Common Equity Tier 1 capital : regulatory adjustments</b>				
7	Prudential valuation adjustments			

**SHINHAN BANK, (Incorporated in Korea with Limited Liability)**  
**INDIAN OPERATIONS**  
**Quarter ended 30 June 2021 - Unaudited**  
**Disclosures under the new Capital Adequacy Framework (Basel III Guidelines) Pillar 3 Disclosures**

8	Goodwill (net of related tax liability)			
9	Intangibles other than mortgage-servicing rights (net of related tax liability)	---		
10	Deferred tax assets	(4,577.78)		
11	Cash-flow hedge reserve			
12	Shortfall of provisions to expected losses			
13	Securitisation gain on sale			
14	Gains and losses due to changes in own credit risk on fair valued liabilities			
15	Defined-benefit pension fund net assets			
16	Investments in own shares (if not already netted off paid-up capital on reported balance sheet)			
17	Reciprocal cross-holdings in common equity			
18	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)			
19	Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold)			
20	Mortgage servicing rights (amount above 10% threshold)			
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)			
22	Amount exceeding the 15% threshold	N.A		
23	of which : significant investments in the common stock of financial entities			
24	of which : mortgage servicing rights			
25	of which : deferred tax assets arising from temporary differences			
26	National specific regulatory adjustments (26a+26b+26c+26d)			
26a	of which : Investments in the equity capital of unconsolidated insurance subsidiaries			
26b	of which : Investments in the equity capital of unconsolidated non-financial subsidiaries			
26c	of which : Shortfall in the equity capital of majority owned financial entities which have not been consolidated with the bank			
26d	of which : Unamortised pension funds expenditures			
	Regulatory Adjustments Applied to Common Equity Tier 1 in respect of Amounts Subject to Pre-Basel III Treatment			
	of which : [INSERT TYPE OF ADJUSTMENT] For example: filtering out of unrealised losses on AFS debt securities (not relevant in Indian context)			
	of which : [INSERT TYPE OF ADJUSTMENT]			
27	Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier			

SHINHAN BANK, (Incorporated in Korea with Limited Liability)  
INDIAN OPERATIONS  
Quarter ended 30 June 2021 - Unaudited  
Disclosures under the new Capital Adequacy Framework (Basel III Guidelines) Pillar 3 Disclosures

	2 to cover deductions			
28	<b>Total regulatory adjustments to Common equity Tier 1</b>	<b>(4,577.78)</b>		
29	<b>Common Equity Tier 1 capital (CET1)</b>	<b>139,699.44</b>		
<b>Additional Tier 1 capital : instruments</b>				
30	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus (share premium) (31+32)			
31	of which : classified as equity under applicable accounting standards (Perpetual Non-Cumulative Preference Shares)			
32	of which : classified as liabilities under applicable accounting standards (Perpetual debt Instruments)			
33	Directly issued capital instruments subject to phase out from Additional Tier 1			
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)			
35	of which : instruments issued by subsidiaries subject to phase out			
36	<b>Additional Tier 1 capital before regulatory adjustments</b>			
<b>Additional Tier 1 capital: regulatory adjustments</b>				
37	Investments in own Additional Tier 1 instruments			
38	Reciprocal cross-holdings in Additional Tier 1 instruments			
39	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)			
40	Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)			
41	National specific regulatory adjustments (41a+41b)			
41a	Investments in the Additional Tier 1 capital of unconsolidated insurance subsidiaries			
41b	Shortfall in the Additional Tier 1 capital of majority owned financial entities which have not been consolidated with the bank			
	Regulatory Adjustments Applied to Additional Tier 1 in respect of Amounts Subject to Pre-Basel III Treatment			
	of which : [INSERT TYPE OF ADJUSTMENT e.g. DTAs]			
	of which : [INSERT TYPE OF ADJUSTMENT e.g. existing adjustments which are deducted from Tier 1 at 50%]			
	of which : [INSERT TYPE OF ADJUSTMENT]			
42	Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions			
43	<b>Total regulatory adjustments to Additional</b>			

SHINHAN BANK, (Incorporated in Korea with Limited Liability)  
INDIAN OPERATIONS  
Quarter ended 30 June 2021 - Unaudited  
Disclosures under the new Capital Adequacy Framework (Basel III Guidelines) Pillar 3 Disclosures

	<b>Tier 1 capital</b>			
44	<b>Additional Tier 1 capital (AT1)</b>			
44a	Additional Tier 1 capital reckoned for capital adequacy			
45	<b>Tier 1 capital (T1 = CET1 + Admissible AT1) (29 + 44a)</b>	<b>139,699.44</b>		
	<b>Tier 2 capital : instruments and provisions</b>			
46	Directly issued qualifying Tier 2 instruments plus related stock surplus			
47	Directly issued capital instruments subject to phase out from Tier 2			
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)			
49	of which : instruments issued by subsidiaries subject to phase out			
50	Provisions (Please refer to Note to Template Point 50)	3,808.78		
51	<b>Tier 2 capital before regulatory adjustments</b>	<b>3,808.78</b>		
	<b>Tier 2 capital: regulatory adjustments</b>			
52	Investments in own Tier 2 instruments			
53	Reciprocal cross-holdings in Tier 2 instruments			
54	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above the 10% threshold)			
55	Significant investments <sup>13</sup> in the capital banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)			
56	National specific regulatory adjustments (56a+56b)			
56a	of which : Investments in the Tier 2 capital of unconsolidated insurance subsidiaries			
56b	of which : Shortfall in the Tier 2 capital of majority owned financial entities which have not been consolidated with the bank			
	Regulatory Adjustments Applied To Tier 2 in respect of Amounts Subject to Pre-Basel III Treatment			
	of which : [INSERT TYPE OF ADJUSTMENT e.g. existing adjustments which are deducted from Tier 2 at 50%]			
	of which : [INSERT TYPE OF ADJUSTMENT			
57	<b>Total regulatory adjustments to Tier 2 capital</b>			
58	<b>Tier 2 capital (T2)</b>	<b>3,808.78</b>		
58a	Tier 2 capital reckoned for capital adequacy	3,808.78		
58b	<b>Excess Additional Tier 1 capital reckoned as Tier 2 capital</b>			
58c	<b>Total Tier 2 capital admissible for capital adequacy (58a + 58b)</b>	<b>3,808.78</b>		
59	Total capital (TC = T1 + Admissible T2) (45 + 58c)	<b>143,508.22</b>		



SHINHAN BANK, (Incorporated in Korea with Limited Liability)  
INDIAN OPERATIONS  
Quarter ended 30 June 2021 - Unaudited  
Disclosures under the new Capital Adequacy Framework (Basel III Guidelines) Pillar 3 Disclosures

	Risk Weighted Assets in respect of Amounts Subject to Pre-Basel III Treatment			
	of which : [INSERT TYPE OF ADJUSTMENT]			
	of which : ...			
60	<b>Total risk weighted assets (60a + 60b + 60c)</b>	<b>545,974.84</b>		
60a	of which : total credit risk weighted assets	476,799.14		
60b	of which : total market risk weighted assets	21,238.13		
60c	of which : total operational risk weighted assets	47,937.56		
<b>Capital ratios</b>				
61	Common Equity Tier 1 (as a percentage of risk weighted assets)	25.59%		
62	Tier 1 (as a percentage of risk weighted assets)	25.59%		
63	Total capital (as a percentage of risk weighted assets)	26.28%		
64	Institution specific buffer requirement (minimum CET1 requirement plus capital conservation and countercyclical buffer requirements, expressed as a percentage of risk weighted assets)	8.00%		
65	of which : capital conservation buffer requirement	2.50%		
66	of which : bank specific countercyclical buffer requirement			
67	of which : G-SIB buffer requirement			
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets)	14.09%		
<b>National minima (if different from Basel III)</b>				
69	National Common Equity Tier 1 minimum ratio (if different from Basel III minimum)			
70	National Tier 1 minimum ratio (if different from Basel III minimum)			
71	National total capital minimum ratio (if different from Basel III minimum)			
<b>Amounts below the thresholds for deduction (before risk weighting)</b>				
72	Non-significant investments in the capital of other financial entities			
73	Significant investments in the common stock of financial entities			
74	Mortgage servicing rights (net of related tax liability)			
75	Deferred tax assets arising from temporary differences (net of related tax liability)			
<b>Applicable caps on the inclusion of provisions in Tier 2</b>				
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)			
77	Cap on inclusion of provisions in Tier 2 under standardised approach			
78	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap)			
79	Cap for inclusion of provisions in Tier 2 under internal ratings-based approach			
<b>Capital instruments subject to phase-out arrangements (only applicable between March 31, 2017 and March 31, 2022)</b>				
80	Current cap on CET1 instruments subject to phase out arrangements			
81	Amount excluded from CET1 due to cap (excess			

SHINHAN BANK, (Incorporated in Korea with Limited Liability)  
INDIAN OPERATIONS  
Quarter ended 30 June 2021 - Unaudited  
Disclosures under the new Capital Adequacy Framework (Basel III Guidelines) Pillar 3 Disclosures

	over cap after redemptions and maturities)			
82	Current cap on AT1 instruments subject to phase out arrangements			
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)			
84	Current cap on T2 instruments subject to phase out arrangements			
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)			
86	Current cap on CET1 instruments subject to phase out arrangements			

Note to the template		
Row No. of the template	Particular	Rs. in Lacs
10	Deferred tax assets associated with accumulated losses	
	Deferred tax assets (excluding those associated with accumulated losses) net of Deferred tax liability	
	Total as indicated in row 10	
19	If investments in insurance subsidiaries are not deducted fully from capital and instead considered under 10% threshold for deduction, the resultant increase in the capital of bank	
	of which : Increase in Common Equity Tier 1 capital	
	of which : Increase in Additional Tier 1 capital	
	of which : Increase in Tier 2 capital	
26b	If investments in the equity capital of unconsolidated non-financial subsidiaries are not deducted and hence, risk weighted then :	
(i)	Increase in Common Equity Tier 1 capital	
(ii)	Increase in risk weighted assets	
44a	Excess Additional Tier 1 capital not reckoned for capital adequacy (difference between Additional Tier 1 capital as reported in row 44 and admissible Additional Tier 1 capital as reported in 44a)	
	of which : Excess Additional Tier 1 capital which is considered as Tier 2 capital under row 58b	
50	Eligible Provisions included in Tier 2 capital	<b>3,808.78</b>
	Eligible Revaluation Reserves included in Tier 2 capital	
	Total of row 50	<b>3,808.78</b>
58a	Excess Tier 2 capital not reckoned for capital adequacy (difference between Tier 2 capital as reported in row 58 and T2 as reported in 58a)	

**Table DF-12: Composition of Capital – Reconciliation requirements as of June 30, 2021**

**Step 1**

The Scope of regulatory consolidation and accounting consolidation is identical accordingly the step 1 of the reconciliation is not required.

SHINHAN BANK, (Incorporated in Korea with Limited Liability)  
INDIAN OPERATIONS  
Quarter ended 30 June 2021 - Unaudited  
Disclosures under the new Capital Adequacy Framework (Basel III Guidelines) Pillar 3 Disclosures

Step 2

Rs. In Lacs

		Balance sheet as in published financial statements	Under regulatory scope of consolidation	
		As at 30.06.2021	As at 30.06.2021	
A		<b>Capital &amp; Liabilities</b>		
	i	Paid-up Capital (funds from HO)	63,319.08	63,319.08
		Reserves & Surplus	85,382.37	85,382.37
		Minority Interest		
		Total Capital	148,701.45	148,701.45
	ii	Deposits	895,319.88	895,319.88
		of which : Deposits from banks	9,324.17	9,324.17
		of which : Customer deposits	885,977.71	885,977.71
		of which : Other deposits (pl. specify)		
	iii	Borrowings	51,100.00	51,100.00
		of which : From RBI	51,100.00	51,100.00
		of which : From banks	-	-
		of which : From other institutions & agencies		
		of which : Others (Banks outside India)		
	iv	Other liabilities & provisions	33,629.87	22,895.91
		<b>Total Capital &amp; Liabilities</b>	<b>1,128,751.21</b>	<b>1,128,751.21</b>
B		<b>Assets</b>		
	i	Cash and balances with Reserve Bank of India	159,744.20	159,744.20
		Balance with banks and money at call and short notice	19,793.74	19,793.74
	ii	Investments :	323,673.99	323,673.99
		of which : Government securities	323,673.99	323,673.99
		of which : Other approved securities		
		of which : Shares		
		of which : Debentures & Bonds		
		of which : Subsidiaries / Joint Ventures / Associates		
	iii	Loans and advances	603,652.11	603,652.11
		of which : Loans and advances to banks		
		of which : Loans and advances to customers	603,652.11	603,652.11
	iv	Fixed assets	515.93	515.93
	v	Other assets	21,371.25	21,371.25
of which : Goodwill and intangible assets				
of which : Deferred tax assets		4,577.78	4,577.78	
Goodwill on consolidation				
	Debit balance in Profit & Loss account			
	<b>Total Assets</b>	<b>1,128,751.21</b>	<b>1,128,751.21</b>	

**Step 3**

Rs. In Lacs

<b>Common Equity Tier 1 capital: instruments and reserves</b>			
		<b>Component of regulatory capital reported by bank</b>	<b>Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation from</b>
1	Directly issued qualifying common share (and equivalent for non- joint stock companies) capital plus related stock surplus	63,319.08	
2	Retained earnings	80,958.14	
3	Accumulated other comprehensive income (and other reserves)		
4	Directly issued capital subject to phase out from CET1 (only applicable to non-joint stock companies)		
5	Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)		
6	<b>Common Equity Tier 1 capital before regulatory adjustments</b>	<b>144,277.22</b>	
7	Prudential valuation adjustments		
8	Goodwill (net of related tax liability)		
9	Other intangibles other than mortgage-servicing rights (net of related tax liability)		
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	(4,577.78)	
11	Regulatory adjustments applied to Common Equity Tier 1 and Tier 2 to cover deductions		
12	<b>Common Equity Tier 1 capital (CET1)</b>	<b>139,699.44</b>	

**Table DF 17 – Summary comparison of accounting assets vs. leverage ratio exposure measure as of June 30, 2021**

<b>Sl. No</b>	<b>Particulars</b>	<b>Rs. In Lacs</b>
1	Total consolidated assets as per published financial statements	1,128,751.21
2	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	-
3	Adjustment for fiduciary assets recognised on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure	-4,577.78
4	Adjustments for derivative financial instruments	13,338.58
5	Adjustment for securities financing transactions (i.e. repos and similar secured lending)	-
6	Adjustment for off-balance sheet items (i.e. conversion to credit	111,175.50

SHINHAN BANK, (Incorporated in Korea with Limited Liability)  
INDIAN OPERATIONS  
Quarter ended 30 June 2021 - Unaudited  
Disclosures under the new Capital Adequacy Framework (Basel III Guidelines) Pillar 3 Disclosures

	equivalent amounts of off- balance sheet exposures)	
7	Other adjustments	-
8	Leverage ratio exposure	1,248,687.51

<b>Table DF 18: Leverage ratio common disclosure template as of June 30, 2021</b>		
<b>Sl. No</b>	<b>Particulars</b>	<b>Rs. In Lacs</b>
<b>On-balance sheet exposures</b>		
1	On-balance sheet items (excluding derivatives and SFTs, but including collateral)	1,128,751.21
2	(Asset amounts deducted in determining Basel III Tier 1 capital)	(4,577.78)
3	<b>Total on-balance sheet exposures</b> (excluding derivatives and SFTs) (sum of lines 1 and 2)	1,124,173.43
<b>Derivative exposures</b>		
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	1,978.95
5	Add-on amounts for PFE associated with all derivatives transactions	11,359.63
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the operative accounting framework	-
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	-
8	(Exempted CCP leg of client-cleared trade exposures)	-
9	Adjusted effective notional amount of written credit derivatives	-
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	-
11	<b>Total derivative exposures (sum of lines 4 to 10)</b>	13,338.58
<b>Securities financing transaction exposures</b>		
12	Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	-
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	-
14	CCR exposure for SFT assets	-
15	Agent transaction exposures	-
16	<b>Total securities financing transaction exposures (sum of lines 12 to 15)</b>	-
<b>Other off-balance sheet exposures</b>		
17	Off-balance sheet exposure at gross notional amount	246,544.61
18	(Adjustments for conversion to credit equivalent amounts)	(135,369.11)
19	<b>Off-balance sheet items (sum of lines 17 and 18)</b>	111,175.50
<b>Capital and total exposures</b>		
20	Tier 1 capital	139,699.44
21	Total exposures (sum of lines 3, 11, 16 and 19)	1,248,687.51
<b>Leverage ratio</b>		
22	Basel III leverage ratio	11.19%