

Statement of compliance

We have prepared this unaudited Disclosure Statement of Shinhan Bank, Hong Kong Branch (“the Branch”) as of 31 December 2016. It is compiled according to the Banking (Disclosure) Rules under the Banking Ordinance (Chapter 155M) effective from 1 January 2007.

As the Chief Executive of the Branch, I confirm, to the best of my knowledge, that the information contained in the Disclosure Statement is correctly compiled in accordance with the Banking (Disclosure) Rules requirement and consistent with the books and records of the Branch.

Shinhan Bank, Hong Kong Branch



Chief Executive
Hong Kong
31 March 2017

Shinhan Bank, Hong Kong Branch
Financial Disclosure as of 31 December 2016

(Expressed in Thousand of Hong Kong dollars)

Branch Information (Hong Kong office only)

Profit and loss information

Income	<u>Dec 2016</u>	<u>Dec 2015</u>
Interest income	225,341	229,033
Interest expense	122,917	109,123
Net interest income	<u>102,424</u>	<u>119,910</u>
Other operating income		
- Gains less losses from trading in foreign currencies	-	-
- Gains less losses from non-trading activities in foreign currencies	2,037	938
- Gains less losses from trading in securities	-	-
- Gains less losses from non-trading activities in securities ^{Note}	19	(15,240)
- Gains less losses from other trading activities ^{Note}	-	-
	<u>2,056</u>	<u>(14,302)</u>
Net fee and commission income		
- Fee and commission income	29,125	20,166
- Fee and commission expense	(1,465)	(2,315)
	<u>27,660</u>	<u>17,851</u>
Other income	1,543	212
Total operating income	<u>133,683</u>	<u>123,671</u>
Expenses		
Operating expenses		
- Staff expenses	10,557	10,520
- Rental expenses	5,338	4,662
- Other operating expenses	3,483	4,213
Total Operating expenses	<u>19,378</u>	<u>19,395</u>
Operating profit before impairment losses	114,305	104,276
Impairment losses and charges for allowances on impaired loans and receivables		
- Collective impairment allowances	(21,686)	(56,834)
- Individual impairment allowances	-	97,186
	<u>(21,686)</u>	<u>40,352</u>
Gains less losses from the disposal of property, plant and equipment and investment properties	-	-
Profit before taxation	<u>92,619</u>	<u>63,924</u>
Tax expense	<u>17,616</u>	<u>13,567</u>
Profit after taxation	<u>75,003</u>	<u>50,357</u>

Note : including gains less losses from changes of fair value of derivative instruments

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Branch Information (Hong Kong office only)

Balance sheet information

Assets	At 31 Dec 2016	At 30 Jun 2016
Cash and balances with banks	821,985	1,054,445
Placements with banks which have a residual contractual maturity		
not more than 1 month	605,467	541,374
more than 1 month but not more than 1 year	216,518	499,645
more than 1 year	-	-
	<u>821,985</u>	<u>1,041,019</u>
Amount due from overseas offices of Shinhan Bank	616,063	1,217,716
Trade bills	4,285,311	2,725,414
Advances and other accounts		
- Advances to customers	4,279,117	4,507,477
- Advances to banks and other financial institutions	-	-
- Accrued interest and other accounts	37,141	33,685
- Collective allowances for impaired advances to customers	(25,730)	(29,721)
- Collective allowances for impaired advances to banks	(4,199)	(4,588)
- Individual allowances for impaired advances to customers	-	(98,197)
- Individual allowances for impaired advances to banks	-	-
	<u>4,286,329</u>	<u>4,408,656</u>
Investment Securities		
- Available-for-sale securities	2,287,740	1,908,577
	<u>2,287,740</u>	<u>1,908,577</u>
Property, plant and equipment and investment properties	187	182
Other assets	10,032	10,820
Total assets	<u>12,307,647</u>	<u>11,325,810</u>
Liabilities		
Deposits and balances from banks	2,797,469	2,795,117
Deposits from customers		
- Demand deposits and current accounts	122,699	51,445
- Savings deposits	499,468	474,876
- Time, call and notice deposits	943,098	976,145
	<u>1,565,265</u>	<u>1,502,466</u>
Amount due to overseas offices of Shinhan Bank	990,247	1,221,948
Certificates of deposit issued	3,094,245	3,116,299
Issued debt securities	5,312,075	4,119,711
Other liabilities	113,611	72,735
Provisions	-	-
Total liabilities	<u>12,307,647</u>	<u>11,325,810</u>

Shinhan Bank, Hong Kong Branch
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(Expressed in Thousand of Hong Kong dollars)

I Additional Balance Sheet Information

(a) Loans and receivables	At 31 Dec 2016	At 30 Jun 2016
Advances to customers	4,279,117	4,507,477
Advances to banks	-	-
Accrued interest and other accounts	37,141	33,685
Impairment allowances for impaired advances		
- Collective allowances for impaired advances to customers	(25,730)	(29,721)
- Collective allowances for impaired advances to banks	(4,199)	(4,588)
- Individual allowances for impaired advances to customers	-	(98,197)
- Individual allowances for impaired advances to banks	-	-
	<u>4,286,329</u>	<u>4,408,656</u>

As at 31 Dec 2016	Gross amount	Impairment allowances (individually)	Market Value of collateral held	% to total loans and advances to customers
Impaired loans and advances to customers (individually determined)	-	-	-	0.00%

As at 31 Dec 2016	Gross amount	Impairment allowances (individually)	Market Value of collateral held	% to total loans and advances to banks
Impaired loans and advances to banks (individually determined)	-	-	-	-

As at 30 Jun 2016	Gross amount	Impairment allowances (individually)	Market Value of collateral held	% to total loans and advances to customers
Impaired loans and advances to customers (individually determined)	124,134	98,197	-	2.75%

As at 30 Jun 2016	Gross amount	Impairment allowances (individually)	Market Value of collateral held	% to total loans and advances to banks
Impaired loans and advances to banks (individually determined)	-	-	-	-

Shinhan Bank, Hong Kong Branch
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I Additional Balance Sheet Information *(continued)*

(b) Overdue and rescheduled assets

	At 31 Dec 2016		At 30 Jun 2016	
Overdue advances				
Advances to customers overdue for	Gross amount	% to total advances to customers	Gross amount	% to total advances to customers
- not more than 3 months	-	-	-	-
- more than 3 months but not more than 6 months	-	-	-	-
- more than 6 months but not more than 1 year	-	-	-	-
- more than 1 year	-	-	-	-
Total overdue advances	-	-	-	-
Advances to banks overdue for	Gross amount	% to total advances to banks	Gross amount	% to total advances to banks
- not more than 3 months	-	-	-	-
- more than 3 months but not more than 6 months	-	-	-	-
- more than 6 months but not more than 1 year	-	-	-	-
- more than 1 year	-	-	-	-
Total overdue advances	-	-	-	-
Market value of collateral held against the secured overdue advances		-		-
Secured overdue advances		-		-
Unsecured overdue advances		-		-
Specific provision made on overdue advances		-		-
Rescheduled advances				
Rescheduled advances to customers	Gross amount	% to total advances to customers	Gross amount	% to total advances to customers
	-	-	-	-
Rescheduled advances to banks	Gross amount	% to total advances to banks	Gross amount	% to total advances to banks
	-	-	-	-

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I Additional Balance Sheet Information (continued)

(b) Overdue and rescheduled assets (continued)

	At 31 Dec 2016		At 30 Jun 2016	
	Gross amount	% to total other assets	Gross amount	% to total other assets
Other overdue assets				
Other assets overdue for				
- not more than 3 months	-	-	-	-
- more than 3 months but not more than 6 months	-	-	-	-
- more than 6 months but not more than 1 year	-	-	-	-
- more than 1 year	-	-	-	-
Total other overdue assets	-	-	-	-
Repossessed assets				
Repossessed assets held				
		Gross amount		Gross amount
		-		-

(c) The breakdown of the gross amount of loans and advances to customers by industry categories

As at 31 Dec 2016

	Gross advances	Extent advances are covered by collateral or other security
Loans and advances for use in Hong Kong		
Industrial, commercial and financial		
- Property development	-	-
- Property investment	-	-
- Civil engineering works	79,800	-
- Financial concerns	-	-
- Stockbrokers	-	-
- Wholesale and retail trade	279,479	264,283
- Manufacturing	79,869	50,407
- Transport and transport equipment	-	-
- Recreational activities	20,000	-
- Information technology	-	-
- Others	-	-
Sub-total	459,148	314,690
Individuals		
- Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme or their respective successor schemes	-	-
- Loans for the purchase of other residential properties	-	-
- Credit card advances	-	-
- Others	-	-
Sub-total	-	-
Total loans and advances for use in Hong Kong	459,148	314,690
Trade finance	-	-
Loans and advances for use outside Hong Kong	3,819,969	1,587,940
	4,279,117	1,902,630

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(Expressed in Thousand of Hong Kong dollars)

I Additional Balance Sheet Information *(continued)*

(c) The breakdown of the gross amount of loans and advances to customers by industry categories
(continued)

As at 30 Jun 2016

	<u>Gross advances</u>	<u>Extent advances are covered by collateral or other security</u>
Loans and advances for use in Hong Kong		
Industrial, commercial and financial		
- Property development	-	-
- Property investment	-	-
- Civil engineering works	-	-
- Financial concerns	-	-
- Stockbrokers	-	-
- Wholesale and retail trade	441,379	276,803
- Manufacturing	162,763	74,481
- Transport and transport equipment	20,560	20,560
- Recreational activities	20,000	-
- Information technology	-	-
- Others	-	-
Sub-total	<u>644,702</u>	<u>371,844</u>
Individuals		
- Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme or their respective successor schemes	-	-
- Loans for the purchase of other residential properties	-	-
- Credit card advances	-	-
- Others	-	-
Sub-total	<u>-</u>	<u>-</u>
Total loans and advances for use in Hong Kong	<u>644,702</u>	<u>371,844</u>
Trade finance	656	-
Loans and advances for use outside Hong Kong	<u>3,862,119</u>	<u>1,928,084</u>
	<u>4,507,477</u>	<u>2,299,928</u>

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I Additional Balance Sheet Information (continued)

(d) Analysis of gross loans and advances to customer by geographical areas

As at 31 Dec 2016	Gross loans and advances	Overdue loans and advances to customers	Impaired loans (individually determined)	Collectively assessed impairment allowances
- Asia & Pacific of which	4,110,309	-	-	22,554
- China	2,569,077	-	-	14,614
- Hong Kong	459,148	-	-	6,480
- South Korea	169,059	-	-	224
- Vietnam	554,669	-	-	1,140
- Caribbean of which	21,754	-	-	621
- Panama	21,754	-	-	621
- North America of which	-	-	-	-
- United States	-	-	-	-
- Others	147,054	-	-	664
Total	4,279,117	-	-	23,175
As at 30 Jun 2016	Gross loans and advances	Overdue loans and advances to customers	Impaired loans (individually determined)	Collectively assessed impairment allowances
- Asia & Pacific of which	4,355,135	-	98,197	21,240
- China	2,795,209	-	-	6,905
- Hong Kong	645,358	-	98,197	13,457
- South Korea	169,133	-	-	22
- Vietnam	485,086	-	-	801
- Caribbean of which	27,259	-	-	778
- Panama	27,259	-	-	778
- Middle East of which	-	-	-	-
- Saudi Arabia	-	-	-	-
- Others	125,083	-	-	317
Total	4,507,477	-	98,197	22,335

Note: Classification of gross amount of loans and advances to customers by countries or geographical areas constitutes 10% or more of the relevant disclosure amount. The analysis is based on the location of the counterparty.

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(Expressed in Thousand of Hong Kong dollars)

I Additional Balance Sheet Information *(continued)*

(e) Non-bank Mainland China exposures

As at 31 Dec 2016	On-balance sheet exposure	Off-balance sheet exposure	Total
Types of counterparties			
1. Central government, central government-owned entities and their subsidiaries and joint ventures (JVs)	-	-	-
2. Local governments, local government-owned entities and their subsidiaries and JVs	-	-	-
3. PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	719,260	-	719,260
4. Other entities of central government not reported in item 1 above	-	-	-
5. Other entities of local governments not reported in item 2 above	-	-	-
6. PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	-	-	-
7. Other counterparties where the exposures are considered by the reporting institution to be non-bank Mainland China exposures	2,021,835	-	2,021,835
Total	<u>2,741,095</u>	<u>-</u>	<u>2,741,095</u>
Total assets after provision	<u>12,307,647</u>		
On-balance sheet exposures as percentage of total assets	<u>22.27%</u>		

Shinhan Bank, Hong Kong Branch
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(Expressed in Thousand of Hong Kong dollars)

1 Additional Balance Sheet Information (continued)

(e) Non-bank Mainland China exposures

As at 30 Jun 2016			
Types of counterparties	On-balance sheet exposure	Off-balance sheet exposure	Total
1. Central government, central government-owned entities and their subsidiaries and joint ventures (JVs)	-	-	-
2. Local governments, local government-owned entities and their subsidiaries and JVs	-	-	-
3. PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	940,143	-	940,143
4. Other entities of central government not reported in item 1 above	-	-	-
5. Other entities of local governments not reported in item 2 above	-	-	-
6. PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	-	-	-
7. Other counterparties where the exposures are considered by the reporting institution to be non-bank Mainland China exposures	2,133,685	-	2,133,685
Total	<u>3,073,828</u>	<u>-</u>	<u>3,073,828</u>
Total assets after provision	<u>11,325,810</u>		
On-balance sheet exposures as percentage of total assets	<u>27.14%</u>		

Shinhan Bank, Hong Kong Branch
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(Expressed in Thousand of Hong Kong dollars)

II Cross-border claims (excluding claims from Head Office, branches and subsidiaries) by geographical areas after taking into consideration of transfer of risks

Cross-border claims are on-balance sheet exposures to counterparties after taking into account the transfer of risk.

As at 31 Dec 2016	Banks and others financial institutions	Public sector entities	Others	Total
- Asia & Pacific excluding Hong Kong				
of which	5,592,582	-	3,711,355	9,303,937
- China	523,729	-	2,540,336	3,064,065
- South Korea	4,503,618	-	324,640	4,828,258
- Vietnam	157,461	-	554,669	712,130
- North America	465,883	-	-	465,883
- Middle East	-	-	38,775	38,775
- Caribbean	-	-	5,010	5,010
- Western Europe	477,333	-	-	477,333
	<u>6,535,798</u>	<u>-</u>	<u>3,755,140</u>	<u>10,290,938</u>

As at 30 Jun 2016	Banks and others financial institutions	Public sector entities	Others	Total
- Asia & Pacific excluding Hong Kong				
of which	1,824,245	-	1,835,664	3,659,909
- China	369,112	-	901,700	1,270,812
- South Korea	680,504	-	169,133	849,637
- Hong Kong	-	-	-	-
- Vietnam	-	-	485,086	485,086
- North America	459,415	-	-	459,415
- Middle East	-	-	38,792	38,792
- Caribbean	-	-	27,259	27,259
- Western Europe	464,773	-	-	464,773
	<u>2,748,433</u>	<u>-</u>	<u>1,901,715</u>	<u>4,650,148</u>

Note: Amounts represent cross-border claims based on countries or geographical classification and constitutes 10% or more of the total amount. Claims arising between branches and subsidiaries are excluded.

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(Expressed in Million Hong Kong dollars)

III Currency risk

As at 31 Dec 2016	HK\$ Million Equivalent			Total
	US Dollar	JPY & Others	CNY	
Spot assets	11,787	7	89	11,883
Spot liabilities	(11,789)	(7)	(89)	(11,885)
Forward purchases	-	-	-	-
Forward sales	-	-	-	-
Net option position	-	-	-	-
Net long / (net short) position	<u>(2)</u>	<u>-</u>	<u>-</u>	<u>(2)</u>
Structural position	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

As at 30 Jun 2016	HK\$ Million Equivalent			Total
	US Dollar	JPY & Others	CNY	
Spot assets	10,891	156	74	11,121
Spot liabilities	(10,812)	(19)	(56)	(10,887)
Forward purchases	225	1	-	226
Forward sales	(301)	(139)	(19)	(459)
Net option position	-	-	-	-
Net long / (net short) position	<u>3</u>	<u>(1)</u>	<u>(1)</u>	<u>1</u>
Structural position	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

Shinhan Bank, Hong Kong Branch
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IV Off-balance sheet exposures

(a) The contractual or notional amounts of each of the following class of off-balance sheet exposures outstanding are:

	<u>At 31 Dec 2016</u>	<u>At 30 Jun 2016</u>
Contingent liabilities and commitments		
- Direct credit substitutes	-	-
- Transaction-related contingencies	1,006,277	722,337
- Trade-related contingencies	164,684	55,876
- Note issuance and revolving underwriting facilities	-	-
- Other commitments	1,346,402	1,314,941

Contingent liabilities and commitments arises from credit-related instruments which include letters of credit, guarantees and commitments to extend credit. The risk involved in these credit-related instruments is essentially the same as the credit risk involved in extending loan facilities to customers. The contract amounts represent the amounts at risk should the contract be fully drawn upon and the customers default. As the facilities may expire without being drawn upon, the contracts amounts do not represent expected future cash flows.

	<u>At 31 Dec 2016</u>	<u>At 30 Jun 2016</u>
Derivative transactions		
- Exchange rate-related derivative contracts (exclude forward foreign exchange contracts arising from swap deposit arrangements)	-	1,047,699
- Interest rate derivative contracts	-	-
- Others	-	-

The above derivative contracts amounts are the notional amount of the contract, they do not represent amounts at risk. All the derivative contracts held by the Branch are to offset gains/losses on fixed rate bonds and loans.

(b) The total fair value of the above derivative transactions	<u>At 31 Dec 2016</u>	<u>At 30 Jun 2016</u>
- Exchange rate-related derivative contracts	-	2,456
- Interest rate derivative contracts	-	-

No bilateral netting arrangements for above derivative transactions.

V Liquidity

	<u>Year ended 31 Dec 2016</u>	<u>Year ended 31 Dec 2015</u>
The average liquidity maintenance ratio for the period	179.54%	320.33%

The liquidity maintenance ratio (LMR) is calculated in accordance with the Banking (Liquidity) Rules effective from 01 January 2015.

The average liquidity maintenance ratio is the arithmetic mean of each calendar month's average LMR as reported in the "Return of Liquidity Position of an Authorized Institution".

Liquidity Risk Management

The Branch has established a Liquidity Risk Management Policy which is reviewed and approved by the senior management. This policy requires the Branch to maintain a conservative level of liquid funds on a daily basis to meet all financial obligations, and setup the action plan on liquidity contingency.

The liquidity position is monitored through statutory liquidity ratios, cash flow analysis, and inter-bank transactions undertaken by our Branch. The Branch also perform the testing on various type of stress scenarios on monthly basis according to our Liquidity Stress Testing Policy.

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VI Bank information (Consolidated basis)

The following table shows the consolidated capital adequacy ratio and the amount of shareholders' funds of Shinhan Financial Group. The basis of preparation is in accordance with the Korean-International Financial Reporting Standards.

	<u>31 Dec 2016</u>	<u>30 Jun 2016</u>
(a) Capital and Capital Adequacy		
(i) Capital adequacy ratio	15.10%	13.77%
(ii) Total share capital	17,039,876	17,795,344
(iii) Total amount of shareholder funds	204,473,362	193,730,490
(b) Other Financial Information		
(i) Total assets	2,548,955,099	3,217,376,211
(ii) Total liabilities	2,344,481,737	2,625,708,423
(iii) Total loans and advances	1,668,560,201	1,681,313,240
(iv) Total deposits	1,514,771,629	1,527,561,895
	<u>31 Dec 2016</u>	<u>30 Jun 2016</u>
(v) Pre-tax profit	20,424,531	10,687,567

- 1 Shareholders' fund is the sum total of capital and reserves.
- 2 Total liabilities are equal to total assets minus shareholders' fund.
- 3 The conversion rate of HKD/KRW as at 31 December 2016 is 155.23.
- 4 The consolidated capital adequacy ratio was calculated in accordance with the Korean-International Financial Reporting Standards adopting Basel III approach.

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VII Disclosure on Remuneration for CG-5 Guideline on a Sound Remuneration System issued by the HKMA

Pursuant to section 3 of CG-5 Guideline on a Sound Remuneration System issued by the HKMA, the following disclosures are made:

a) The design and implementation of the remuneration systems:

The Bank adopts the remuneration policy and systems which are established by the Remuneration Committee of our Head Office for overseas branch. The objective of the remuneration policy is to attract, motivate reward and retain quality staff. The Board ensures that the remuneration policies are in line with the strategic objectives and corporate values of the Bank, and do not give rise to conflicts between the objectives of the Bank and the interests of individual Directors and key executives.

The Remuneration Committee reviews the performance of management and directors over the past fiscal year and settles on remuneration that is proportionate to the individual's responsibilities. It also make sure that the remuneration is on a proper level that improves the long-term interests of the Group and its shareholders.

b) Aggregate quantitative information on remuneration for senior management and key personnel (Note 1) are as follows:

As at 31 Dec 2016

	<u>Amount</u>	<u>Number of Beneficiaries</u>
- Fixed Remuneration	5,786	6
- Variable Remuneration	181	-
- Deferred Remuneration	-	-
Total	<u><u>5,967</u></u>	<u><u>6</u></u>

As at 31 Dec 2015

	<u>Amount</u>	<u>Number of Beneficiaries</u>
- Fixed Remuneration	5,558	6
- Variable Remuneration	303	-
- Deferred Remuneration	-	-
Total	<u><u>5,861</u></u>	<u><u>6</u></u>

No senior management or key personnel has been awarded with new sign-on or severance payments.

Note 1: As defined in CG5 Guideline on a Sound Remuneration System issued by the HKMA, senior management are those who are responsible for oversight of either the Bank's company-wide strategy or activities or those of the Bank's main business lines. Key Personnel are individual employees whose duties or activities in the course of their employment involve the assumption of material risk or the taking on of material exposures on behalf of the Bank.