Citco Bank Canada

Annual Report 2022

Table of Contents

1. Financial Statements....4
2. Notes to the Financial Statements for the years ended December 31, 2022 and 2021 10
  2.1. General 10
    2.1.1. Ownership 10
    2.1.2. Activities 10
    2.1.3. Currency 10
    2.1.4. Approval of the Board 10
  2.2. Principal accounting policies 11
    2.2.1. Basis of preparation....11
    2.2.2. New standards adopted 11
    2.2.3. New standards and interpretations not yet adopted 11
    2.2.4. IBOR reform 11
    2.2.5. Use of estimates in the preparation of financial statements 11
    2.2.6. Foreign currency translation 12
    2.2.7. Revenue recognition 12
    2.2.8. Operating expenses 12
    2.2.9. Interest income and expense....12
    2.2.10. Retirement benefit costs....12
    2.2.11. Taxation....13
    2.2.12. Property, plant and equipment 13
    2.2.13. Financial assets and financial liabilities 14
    2.2.14. Trade receivables....18
    2.2.15. Accrued income 18
    2.2.16. Cash and cash equivalents 18
    2.2.17. Trade payables....18
    2.2.18. Provisions 18
    2.2.19. Statement of cash flows 18
  2.3. Risk and capital management 19
  2.4. Revenue from contracts with customers....26
  2.5. Personnel expenses 27
  2.6. Depreciation 27
  2.7. Other operating expenses 27
  2.8. Net finance expense 27
  2.9. Income tax 28
  2.10. Equipment 29

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2.11. Financial assets at amortized cost 30
2.12. Financial assets at fair value through other comprehensive income 30
2.13. Deferred tax 31
2.13.1. Recognized deferred tax assets 32
2.13.2. Movement in temporary differences during 2022 and 2021 32
2.14. Other receivables and accrued income 33
2.15. Cash and cash equivalents 33
2.16. Share capital 33
2.17. Retirement benefit schemes 34
2.18. Receivables from affiliated companies 34
2.19. Payables to affiliated companies 34
2.20. Other payables and accrued expenses 34
2.21. Amounts owed to depositors 35
2.22. Commitments and contingencies 35
2.23. Derivative financial instruments 36
2.24. Fair value measurement 36
2.25. Categories of financial assets and financial liabilities 38
2.26. Financial assets and liabilities not carried at fair value 39
2.27. Assets under custody 39
2.28. Related party transactions 39
2.29. Directors' remuneration 40
2.30. Events after the reporting date 41
3. Other Information 42
4. Independent Auditor's Report 43

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1. Financial Statements

Income statement for the year ended December 31,

	Notes	2022	2021
		USD 000	USD 000
Revenue:			
Banking and custody services	2.4	30,748	18,020
Other income	2.4	1,324	1,282
		32,072	**19,302**
Operating expenses:			
Personnel expenses	2.5	7,210	6,939
Occupancy expenses		142	179
Office and administration expenses		671	424
Travel expenses		104	5
Depreciation and amortization expense	2.6	5	1
Professional services		282	291
Expected credit losses		(19)	19
Other operating expenses	2.7	5,533	5,468
		13,928	**13,326**
Net profit from operations		**18,144**	**5,976**
Net finance expense	2.8	27	2
Net profit before tax		**18,117**	**5,974**
Income tax expense	2.9	4,797	1,539
Net profit for the year		**13,320**	**4,435**
Attributable to:			
Shareholder of the Company		**13,320**	**4,435**

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Statement of comprehensive income for the year ended December 31,

	2022 USD 000	2021 USD 000
Net profit for the year	**13,320**	**4,435**
Other comprehensive income/(loss)		
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods (net of tax):		
Net loss on debt instruments designated at fair value through other comprehensive income	(2,056)	(12)
Net other comprehensive loss to be reclassified to profit or loss in subsequent periods	**(2,056)**	**(12)**
Total comprehensive income for the year, net of tax	**11,264**	**4,423**
Attributable to:		
Shareholder of the Company	**11,264**	**4,423**

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Statement of financial position as at December 31,

	Notes	2022	2021
		USD 000	USD 000
Assets			
Non-current assets			
Property, plant and equipment	2.10	2	4
Financial instruments held at amortized cost	2.11	101,842	85,141
Deferred tax assets	2.13	37	34
		101,881	85,179
Current assets			
Derivative financial assets		6,767	5,161
Other receivables and accrued income	2.14	16,545	4,606
Financial instruments held at amortized cost	2.11	55,615	–
Financial instruments at fair value through other comprehensive income	2.12	843,921	804,254
Receivables from affiliated companies	2.18	117	96
Cash and cash equivalents	2.15	964,910	989,694
		1,887,875	1,803,811
Total assets		**1,989,756**	**1,888,990**
Equity and liabilities			
Equity			
Share capital	2.16	85,000	85,000
Revaluation of financial assets at FVOCI		(2,068)	(12)
Retained earnings		73,826	69,809
Total equity attributable to shareholder of the Company		**156,758**	**154,797**
Non current liabilities			
Other non-current liabilities		76	48
Current liabilities			
Derivative financial liabilities		6,450	3,478
Payables to affiliated companies	2.19	178	72
Other payables and accrued expenses	2.20	5,470	601
Amounts owed to depositors	2.21	1,820,824	1,729,994
		1,832,922	1,734,145
Total equity and liabilities		**1,989,756**	**1,888,990**

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Statement of changes in equity for the year ended December 31, 2022

	Issued capital	Fair value reserve of financial assets at FVOCI	Retained earnings	Total equity
	USD 000	USD 000	USD 000	USD 000
As at January 1, 2022	**85,000**	**(12)**	**69,809**	**154,797**
Net profit for the year	–	–	13,320	13,320
Other comprehensive income	–	(2,056)	–	(2,056)
Total comprehensive income	**–**	**(2,056)**	**13,320**	**11,264**
Dividends paid	–	–	(9,303)	(9,303)
Total transactions with shareholder	**–**	**–**	**(9,303)**	**(9,303)**
Total equity attributable to shareholder of the Company as at December 31, 2022	**85,000**	**(2,068)**	**73,826**	**156,758**

On April 20, 2022 the Company paid a dividend of USD 9,303 thousand to the shareholder of the Company.

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Statement of changes in equity for the year ended December 31, 2021

	Issued capital	Fair value reserve of financial assets at FVOCI	Retained earnings	Total equity
	USD 000	USD 000	USD 000	USD 000
As at January 1, 2021	**85,000**	**(90)**	**65,374**	**150,284**
Net profit for the year	–	–	4,435	4,435
Other comprehensive income	–	78	–	78
Total comprehensive income	**–**	**78**	**4,435**	**4,513**
Total equity attributable to shareholder of the Company as at December 31, 2021	**85,000**	**(12)**	**69,809**	**154,797**

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Statement of cash flows for the year ended December 31,

	Notes	2022 USD 000	2021 USD 000
Cash flows from operating activities			
Net profit for the year		13,320	4,435
Adjustments for:			
• Income tax expense	2.9	4,797	1,539
• Depreciation	2.6	5	1
• Net finance expense	2.8	27	2
• Net interest income banking activities	2.4	(17,043)	(5,371)
		1,106	606
Working capital adjustments:			
• (Increase)/decrease in financial assets at amortized cost		(72,317)	565
• Increase in financial assets at fair value through other comprehensive income		(41,723)	(120,197)
• (Increase)/decrease in derivative financial assets		(1,606)	5,737
• Increase in other receivables and accrued income		(389)	(704)
• (Increase)/decrease in receivables from affiliated companies		(21)	71
• Increase/(decrease) in derivative financial liabilities		2,971	(9,255)
• Increase/(decrease) in other payables and accrued expenses		423	(9)
• Increase in payables to affiliated companies		106	44
• Increase in amounts owed to depositors		90,830	74,345
• Unrealized currency translation losses		(67)	(8)
• Realized currency translation gains		56	22
		(20,631)	(49,389)
Interest paid		(17)	(16)
Interest received		10,411	5,213
Income taxes paid		(5,241)	(1,209)
Net cash flows used in operating activities		**(15,478)**	**(44,795)**
Cash flows from investing activities			
Additions to property, plant and equipment	2.10	(3)	(5)
Net cash flows used in investing activities		**(3)**	**(5)**
Cash flows from financing activities			
Dividends paid		(9,303)	–
Net cash flows used in financing activities		**(9,303)**	**–**
Net decrease in cash and cash equivalents		**(24,784)**	**(44,800)**
Cash and cash equivalents at January 1,		989,694	1,034,494
Decrease in cash and cash equivalents		(24,784)	(44,800)
Cash and cash equivalents at December 31,	**2.15**	**964,910**	**989,694**

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2. Notes to the Financial Statements for the years ended December 31, 2022 and 2021

2.1. General

2.1.1. Ownership

Citco Bank Canada (hereafter referred to as the “Company”) is a privately held company incorporated on September 2, 2008, which is a wholly owned subsidiary of Citco Bank Nederland N.V. (hereafter referred to as the “Parent”). The ultimate parent company is Citco III Limited, a company incorporated in the Cayman Islands.

The Company commenced operations on June 10, 2009 when it received approval from the Office of the Superintendent of Financial Institutions of Canada (“OSFI”) and is licensed to operate in Canada as a subsidiary of a foreign bank with full banking powers under the Bank Act.

The address of its registered office is as follows:

2 Bloor Street East Suite 2700,
Toronto, Ontario,
M4W 1A8,
Canada

2.1.2. Activities

Banking and Custody Services (“CBS”)

Utilizing Citco Bank’s global real-time online platforms, institutional clients may access the following services:

- *Custody Services*
  Provides custody services for institutional fund investors. The Company provides the necessary infrastructure to investment managers to handle the administrative side of trading in underlying alternative investment funds. Company’s custody solutions allow clients to completely outsource, in an automated and controlled manner, their underlying investments in funds.
- *Banking Services*
  Provides a full range of banking services for institutional clients, like hedge funds, private equity funds, pension funds, fund of funds, to manage their banking needs. This includes, but is not limited to, performing deposit services, wire transfers, and foreign exchange transactions.

2.1.3. Currency

The Company uses the United States Dollar (“USD”) as functional currency and presentation currency, since that is the currency of the primary economic environment in which the Company is operating.

2.1.4. Approval of the Board

These financial statements have been approved for issuance by the Board of Directors on April 20, 2023.

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2.2. Principal accounting policies

2.2.1. Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The financial statements have been prepared on the historical cost basis, except for the revaluation of certain financial instruments. The historical cost is generally based on the fair value of the consideration given in exchange for assets. The principal accounting policies adopted are set out below. These have been applied consistently during the year.

2.2.2. New standards adopted

The following standards and amendments, effective from January 1, 2022, did not have any material impact on the Company's disclosures or the amounts recognized:

- Amendments to IFRS 3 - Reference to the Conceptual Framework
- Amendments to IAS 16 - Property , Plant and Equipment - Proceeds before Intended Use
- Amendments to IAS 37 - Onerous Contracts - Cost of Fulfilling a Contract
- Annual Improvements to IFRS Accounting Standards 2018-2020 Cycle

2.2.3. New standards and interpretations not yet adopted

The International Accounting Standards Board ("IASB") has issued a number of minor amendments to IFRS effective January 1, 2023. These amendments are not expected to have a significant impact on the Company.

2.2.4. IBOR reform

The Interbank Offered Rate ("IBOR") is being replaced. The impact of the transition from IBOR will be far-reaching for financial services firms, businesses and customers alike. European law, in the form of the Benchmark Regulation, sets out certain criteria and conditions for benchmark rates to ensure that they are reliable and robust. In order to meet these conditions and the concerns of regulators globally, benchmark rates are being reformed, where possible, to be based on robust methodologies supported by sufficient and reliable data. The Company is working with regulators to facilitate a smooth transition. The impact on the Company is not expected to be significant. Due to the extension of the USD IBOR transition date to 2023, the Company has no immediate operational impact. The Company has reviewed all accounts and products linked to IBOR or other benchmarks and have either transitioned them to an alternative benchmark rate, or have included fallback mechanism terms into existing contracts.

OSFI in Canada expects Federally Regulated Financial Institutions ("FRFIs") to stop entering into new transactions using London Interbank Offered Rate ("LIBOR"), which will be published until June 30th, 2023, as a reference rate and not enter into new transactions using LIBOR as a reference rate after December 31st, 2021. The Company has no Legacy lending referencing LIBOR. For USD variable lending agreements, rates are based on Secured Overnight Financing Rate ("SOFR") for a tenor of one month plus a spread adjustement. By June 28, 2024, OSFI expects that FRFIs will have transitioned all loan agreements referencing Canadian Dollar Offered Rate ("CDOR"). The Company does not use CDOR.

2.2.5. Use of estimates in the preparation of financial statements

In preparing the financial statements, management is required to make estimates and assumptions that affect reported income, expenses, assets, liabilities and disclosure of contingent assets and liabilities. Use of available information and application of judgment are inherent in the formation of estimates. Although these estimates are based on management's best knowledge of current events and actions, actual results in the future could differ from such estimates and the differences may be material to the financial statements.

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2.2.6. Foreign currency translation

Transactions in currencies other than USD (the functional currency) are initially recorded at the rates of exchange prevailing on the date of the transactions. Monetary assets and liabilities denominated in such currencies are retranslated at the rates prevailing at the end of the reporting period. Gains and losses arising on exchange are included in the income statement for the year.

2.2.7. Revenue recognition

Revenue comprises the value for the rendering of services in the ordinary course of the Company's activities. The Company recognizes revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and the stage of completion of the transaction at the balance sheet date can be measured reliably. The amount of revenue is not considered to be reliably measured until all significant contingencies relating to the sale have been resolved. The Company bases its estimates on historic results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenue is generated from contractual service agreements with the Company’s clients. Custody income is accrued on a time basis by reference to the Asset under Custody (“AuC”) and Assets under Administration (“AuA”) at the contractual basis points or at a minimum fee.

Interest income is accrued on a time basis by reference to the principal outstanding and at the interest rate applicable using the effective interest rate method. Interest income is recognized as earned.

Fees and commissions are generally recognized on an accrual basis when the service has been provided. Fees and commissions arising from negotiating of a transaction for a third party - such as the arrangement of the acquisition of shares or other securities or the purchase or sale of business that are recognized on completion of the underlying transaction. Portfolio and other management advisory and service fees are recognized based on the applicable service contracts, usually on a time-proportionate basis.

2.2.8. Operating expenses

Operating expenses are calculated at cost and are recognized in the period to which they relate. Depreciation charges on intangible and tangible assets are based on cost and are calculated by the straight-line method over the estimated lives of the assets concerned.

2.2.9. Interest income and expense

Interest income and expense are recognized in the income statement for all instruments measured at amortized cost, using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that is used to discount the estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

When calculating the effective interest rate, the Company estimates cash flows considering all contractual terms of the financial instrument (for example, pre-payment options) but does not consider future credit losses. The calculation includes all fees and basis points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

2.2.10. Retirement benefit costs

Payments to defined contribution retirement schemes are charged as an expense as they fall due. Payments made to state-managed retirement benefit schemes are dealt with as payments to defined contribution schemes where the Company’s obligations under the schemes are equivalent to those arising in a defined contribution retirement scheme.

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2.2.11. Taxation

Income tax expense represents the sum of the current tax payable and deferred tax.

The current tax payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax are recognized in income statement, except when they relate to items that are recognized in OCI or directly in equity, in which case, the current and deferred tax are also recognized in OCI or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

2.2.12. Property, plant and equipment

Machinery, equipment and leasehold improvements are stated at cost less accumulated depreciation and any accumulated impairment.

If an item of property and equipment is comprised of several major components with different useful lives, each component is accounted for separately.

Depreciation is charged so as to write off the cost over their estimated useful lives, using the straight-line method, on the following basis:

Plant and equipment	3-4 years

These assets are reviewed at each reporting period for indications of impairment. If an indication of impairment exists, the recoverable amount of the asset is estimated based on its fair value. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. In addition, the useful lives of these assets are also reviewed and adjusted, if appropriate, at each reporting period.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset. This is recognized in the income statement.

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2.2.13. Financial assets and financial liabilities

Recognition and derecognition of financial instruments

Recognition of financial assets

Financial assets are recognized in the statement of financial position when the Company becomes a party to the contractual provisions of the instruments. Debt securities and certain other financial assets measured at fair value through profit or loss that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recognized using trade date accounting. Trade date is the date on which the Company commits to purchase or sell the asset.

Derecognition of financial assets

Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or where the Company has transferred substantially all risks and rewards of ownership. If the Company neither transfers nor retains substantially all the risks and rewards of ownership of a financial asset, it derecognizes the financial asset if it no longer has control over the asset. The difference between the carrying amount of a financial asset that has been extinguished and the consideration received is recognized in the income statement. There was no significant changes to the financial assets outside of repayment of principal and interests.

Recognition of financial liabilities

Financial liabilities are recognized on the date that the entity becomes a party to the contractual provisions of the instrument.

Derecognition of financial liabilities

Financial liabilities are removed from the statement of financial position when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished and the consideration paid is recognized in the income statement.

Modification of financial assets and financial liabilities

Modification to financial assets and liabilities under IFRS 9 Financial Instruments ("IFRS 9") results in recognition of an immediate (gain)/loss in the income statement. The (gain)/loss is calculated as the difference between the carrying amount of the asset/liability and net present value of the modified asset/liability discounted at the effective interest rate. Certain reliefs apply for financial instruments that are modified as a consequence of a benchmark reform.

In the case of a financial asset, it also requires the derecognition of the financial asset and recognition of the new modified asset. In the case of a financial liability, derecognition is only required if the modification is deemed substantial.

i) Financial assets

General classification framework and initial measurement

The Company classifies its financial assets in the following measurement categories:

- Those to be measured subsequently at fair value (either through OCI, or through profit or loss); and
- Those to be measured at amortized cost.

At initial recognition, the Company measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss ("FVTPL"), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVTPL are expensed in the income statement.

Debt instruments

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows at initial recognition.

Business models

Business models are classified as either Hold to Collect, Hold to Collect and Sell or Other depending on how a portfolio of financial instruments as a whole are managed. The Company business models are based on the existing management

structure of the Company, and refined based on an analysis of how businesses are evaluated and reported, how their specific business risks are managed and on historic and expected future sales.

Sales are permissible in a held to collect business model when these are due to an expected increase in credit risk or liquidity risk, take place close to the maturity date, are insignificant in value (both individually and in aggregate) or are infrequent.

Assessing contractual cash flows

The contractual cash flows of a financial asset are assessed to determine whether they represent Solely Payments of Principal and Interest ("SPPI"). Interest includes consideration for the time value of money, credit risk and also consideration for liquidity risk and costs associated with holding the financial asset for a particular period of time. In addition, interest can include a profit margin that is consistent with a basic lending arrangement.

In assessing whether the contractual cash flows are SPPI, the Company considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition.

There are three measurement categories into which the Company classifies its debt instruments:

Amortized cost: Debt instruments that are held for collection of contractual cash flows under a Held to Collect business model where those cash flows represent SPPI are measured at amortized cost. Interest income from these financial assets is included in Interest income using the effective interest rate method. Any gain or loss arising on derecognition is recognized directly in the income statement. Impairment losses are presented as a separate line item in the income statement.

FVOCI: Debt instruments that are held for collection of contractual cash flows and for selling the financial assets under a Held to Collect and Sell business model, where the assets' cash flows represent SPPI, are measured at fair value through other comprehensive income (FVOCI). Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses which are recognized in the income statement. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to the income statement and recognized in Investment income or other income based on the specific characteristics of the business model. Interest income from these financial assets is included in Interest income using the effective interest rate method. Impairment losses are presented as a separate line item in the income statement.

FVTPL: Debt instruments that do not meet the criteria for amortized cost or FVOCI are measured at FVTPL. This includes debt instruments that are held for trading. The Company may in some cases, on initial recognition, irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise. The interest result on financial assets designated as at FVTPL is recognized in the income statement and presented within interest income or interest expense in the period in which it arises.

The Company reclassifies debt investments when, and only when, its business model for managing those assets changes.

ii) Financial liabilities

Financial liabilities are classified and subsequently measured at amortized cost.

iii) Derivatives

Derivatives are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently measured at fair value. Fair values are obtained from quoted market prices in active markets. All derivatives are recognized as liabilities when their fair value is negative and assets when their fair value is positive. Fair value movements on derivatives, are presented in the income statement.

iv) Impairment of financial assets

An Expected credit loss ("ECL") model is applied to financial assets accounted for at amortized cost and FVOCI. Under the ECL model the Company calculates the ECL by considering on a discounted basis the cash shortfalls it would incur in various default scenarios for prescribed future periods and multiplying the shortfalls by the probability of each scenario

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occurring. The ECL is the sum of these probability-weighted outcomes, are unbiased and include supportable information about past events, current conditions, and forecasts of future economic conditions.

Three stage approach

Financial assets are classified in any of the below three stages at the reporting date. A financial asset can move between stages during its lifetime. The stages are based on changes in credit quality since initial recognition and defined as follows:

- **Stage 1** includes financial instruments that have not had a significant increase in credit risk since initial recognition. An entity may assume that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date;
- **Stage 2** includes financial instruments that have experienced a significant increase in credit risk since its initial recognition but that does not have objective evidence of impairment. However, a worsening credit score does not automatically result in counterparty moving from Stage 1 to Stage 2, see below. In case of Stage 2, a lifetime ECL are recognized with interest revenue calculated on the gross carrying amount of the asset; or
- **Stage 3** includes financial assets that can be identified to be impaired at the reporting date. Lifetime ECL is recognized and interest income is calculated on the net carrying amount.

At December 31, 2022 all of the Company financial instruments are Stage 1. The Company has a low appetite for credit risk, supported by a conservative credit risk management framework and evidences by no realized credit losses historically, which has resulted in all credit risk exposure limited to those seen as low credit risk.

Significant change in credit risk

A financial asset moves from Stage 1 to Stage 2 when there is a significant increase in credit risk since initial recognition. Each financial asset is assessed at the reporting date on the triggers for significant deterioration. The Company assesses significant change in credit risk using:

- Internal rating and; and
- Arrears.

Counterparties are assessed as part of the daily counterparty risk monitoring, whereby a deterioration below the risk appetite for investment will lead to analysis of the appropriate credit stage if the exposure is maintained. Assets can move in both directions, meaning that they can move back to Stage 1 if the situation improves.

Measurement of ECL

The Company Loss Given Default ("LGD") models used for regulatory capital and collective provisions are sourced from the Annual Default Studies published by the rating agencies. Values for probability of default ("PD") are derived from Citco's Counterparty Risk Monitoring System ("CRMS") methodology. Values for EaD ("Exposure at Default") depend on the type of asset the entity is holding on or off its Statement of financial position. IFRS 9 defines credit loss as the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive discounted at the original effective interest rate. Because ECL consider the amount and timing of payments, a credit loss arises even if the entity expects to be paid in full but later than when contractually due. ECL will be calculated on assets individually, but their LGD and PD will be a function of the counterparty and the type of exposure, whereby cash at third party banks will be treated differently to term placements at banks or cash at central banks and other government exposures.

PD and LGD values are influenced and ultimately based on the prevailing economic environment, applying Point in Time (PiT) probabilities. In order to account for this in the ECL calculation three scenarios are established:

- Normal - the business environment is stable;
- Stressed - the business and/or wider economic environment is under stress/contraction;
- Expansion - the business environment is characterized by growth and a reduction in credit risk.

The scenario environment will be determined by management discretion and reviewed on a periodic basis.

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Prevailing economic environment

Economic and financial stress indicators are used to provide management information on the prevailing economic environment for use in determining which weightings of the three available scenarios is appropriate for the forthcoming period. To avoid low-value complexity, a weighted average is determined from the three scenarios and the weightings will be applied in 25% increments. Citco Risk Management monitors economic and financial stress indicators against pre-defined trigger levels, which if exceeded will be followed by a risk review on a wider range of macroecomonic and market data.

Following the review of financial stress, there is a review of economic indicators to determine if there is sufficient evidence for an expansion scenario, characterized by significant levels of growth. Quarterly Gross Domestic Product (“GDP”) growth figures for the United States, Eurozone and Japan are reviewed against a trigger level and if this is exceeded, further analysis will be carried out. If no weightings for neither stressed scenario nor expansion scenario are indicated, then by default the proposal to management is an ECL model configuration using 100% weighting for the normal scenario. Alternative weightings may be proposed if other information indicates differently. The risk management team may consider weightings for the scenarios, the worst case being 100% stressed would result in ECL remaining less than 0.1% of capital.

ECL sensitivity

The ECL for financial assets is based on assumptions about risk of default and expected loss rates. The Company uses judgment in making these assumptions and selecting the inputs to the impairment calculation, based on market research, the Company’s past history, existing market conditions as well as forward-looking estimates at the end of each reporting period. Changes in such judgments and analyses may lead to changes in the ECL provisions over time. The key judgment areas are Assumptions used to measure expected credit losses, including the use of forward-looking and macro-economic information for individual and collective impairment assessment.

The use of different assumptions could produce significantly different estimates of ECL. The Risk Management team is responsible for estimating the Prevailing Economic Environment input and internal Credit Score used for IFRS 9 ECL purposes. The Risk Management team may consider weightings for the scenarios, the worst case being 100% Stressed would result in ECL increasing, but remaining below 0.1% of capital. The most material sensitivity to the estimate of ECL is the internal Credit Score provided to counterparties, whereby a deterioration in Credit Scores of financial counterparties by one level would increase ECL, but still remain below 0.1% of capital or at 0.1% of capital if alongside 100% stressed prevailing economic outlook.

Definition of default

Definition of Default is outlined in the Company’s Credit Risk Management Policy of applicable entities as part of the Enterprise Risk Management Framework. IFRS 9 requires that a rebuttable presumption is included that considers that default does not occur later than when a financial asset is 90 days past due unless there is reasonable and supportive information to demonstrate that a longer-dated default criterion is more appropriate.

Citco defines two relevant types of identified defaults that are taken into consideration:

- Counterparty Default: The risk that the counterparty defaults and cannot pay back the funds that the Bank placed or invested with it. This includes credit counterparty risk arising from derivatives.
- Client Default: The risk that a client who is in receipt of a loan or is required to post collateral for FX trades is unable to provide sufficient collateral when due.

Write-off and debt forgiveness

Assets and the related ECL are written off, either partially or in full, when there is no realistic prospect of recovery. Write-offs are made:

- In a bankruptcy liquidation scenario (not as a result of a reorganization);
- When there is a high probability of non-recovery of the remaining exposure or certainty that no recovery can be realized;
- After disinvestment or sale of an asset at a discount; or
- The Company releases a legal (monetary) claim it has on its customer.

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2.2.14. Trade receivables

In accordance with IFRS 9, trade receivables are measured at amortized cost using the effective interest method, less any ECL (impairment). In order to determine the amount of ECL to be recognized in the financial statements, the Company uses a provision matrix based on its historical observed default rates which is adjusted for any forward-looking estimates.

2.2.15. Accrued income

Accrued income is stated at its nominal value. Accrued income includes fees for services provided but that are not yet invoiced.

2.2.16. Cash and cash equivalents

Cash and cash equivalents comprise cash and short-term deposits. Cash and cash equivalents are measured at amortized cost using the effective interest method, less any impairment.

2.2.17. Trade payables

In accordance with IFRS 9, trade payables are measured at amortized cost using the effective interest method. The Company has financial risk management policies in place to ensure that all payables are paid within the credit time frame.

2.2.18. Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. If the effect is material, the provision is determined by discounting the expected future cash flows. Provisions are not recognized for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognized as finance expense. When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

2.2.19. Statement of cash flows

Cash and cash equivalents for the purpose of the statement of cash flows include cash on hand and net credit balances on current accounts with other banks.

The statement of cash flows, based on the indirect method of calculation, gives details of the source of cash and cash equivalents which became available during the year and the application of these cash and cash equivalents over the course of the year.

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2.3. Risk and capital management

Risk overview

In its operating environment and daily activities, the Company encounters various risks and constantly strives to mitigate related risks.

The main risks identified by the Company, related to its activities, are:

(a) Strategic risk: The risk to prospective earnings and capital arising from changes in the business environment and from adverse business decisions, improper implementation of decisions in lack of responsiveness to changes in the business environment.

(b) Market risk, which includes two types of risk:

  (i) Currency risk: the risk that the value of a financial instrument will fluctuate because of changes in foreign exchange rates;

  (ii) Interest rate risk: the risk that the value of a financial instrument will fluctuate because of changes in market interest rates; and

(c) Credit risk: the current or prospective risk arising from counterparty's failure to meet the terms of any contract with the Company or its failure to perform as agreed.

(d) Liquidity risk: the risk of an inability to meet payment obligations when they fall due and to replace funds when they are withdrawn.

(e) Operational risk: the risk of loss resulting from people, inadequate or failed internal processes and systems, or from external events.

Strategic risk

The Company operates in a niche market. The objective in relation to strategic risk is to remain flexible to changes in the business environment so that both growth and changes in market status can be adapted to in a swift manner.

The usage of an effective planning and control framework, as well as a robust business intelligence framework is the cornerstone of strategic risk management. Furthermore, the New Significant Initiative Policies and Project Risk Assessment Process are embedded in the organization to ensure the Company is effectively managing and monitoring the introduction of new products and large projects. The Company reduces exposure to strategic risk by focusing on its strategic business objectives.

Market risk

The Company's policy is to reduce market risk to an acceptable level. Market risk embodies not only the potential for loss but also the potential for gain. This policy serves to set a framework of limits and to ensure clearly defined limits within that framework. There has been no significant change to the Company's exposure to market risks and the Board and Company Chief Risk Officer continuously review the manner in which it manages and measures the risk.

Currency risk

Currency risk is the current or prospective risk to earnings and capital arising from adverse movements in foreign exchange rates. The Company has and manages currency risk in two key areas:

(a) Client treasury activities: Clients place forward exchange contracts with the Company, therefore the Company is exposed to fluctuations in foreign exchange rates on these contracts. In managing this risk the Company places offsetting forward exchange contracts with pre-approved counterparties with the same maturity. In addition clients are required to provide cash collateral in case of a margin call.

(b) Operations: The Company is exposed to foreign exchange risk in respect of funding day-to-day activities and capital expenditure. In managing this risk management utilizes forward exchange contracts for any imbalances or firm commitments for planned capital expenditure.

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The table below summarizes the Company's exposure to currency risk translated to USD:

	USD	EUR	CAD	GBP	Other	Total
	USD 000	USD 000	USD 000	USD 000	USD 000	USD 000
As at December 31, 2022						
Non-current assets						
Property, plant and equipment	–	–	2	–	–	2
Financial assets at amortized cost	101,842	–	–	–	–	101,842
Deferred tax assets	37	–	–	–	–	37
Current assets						
Other receivables and accrued income	15,696	2	847	–	–	16,545
Financial assets at amortized cost	55,615	–	–	–	–	55,615
Financial assets at FVOCI	843,921	–	–	–	–	843,921
Receivables from affiliated companies	117	–	–	–	–	117
Cash and cash equivalents	804,862	20,872	134,682	147	4,347	964,910
Total assets	**1,822,090**	**20,874**	**135,531**	**147**	**4,347**	**1,982,989**
Non-current liabilities						
Other liabilities	–	–	76	–	–	76
Current liabilities						
Other payables and accrued expenses	4,800	–	670	–	–	5,470
Payable to affiliated companies	178	–	–	–	–	178
Amounts owed to depositors	1,795,424	20,880	72	143	4,305	1,820,824
Total liabilities	**1,800,402**	**20,880**	**818**	**143**	**4,305**	**1,826,548**
Currency exposure	**21,688**	**(6)**	**134,713**	**4**	**42**	**156,441**
Off-balance sheet net currency exposure hedged position	134,220	(32)	(133,786)	–	61	(405)
Net currency exposure	**155,908**	**26**	**927**	**4**	**(19)**	**156,846**
Derivative financial assets	2,260	4,507	–	–	–	6,767
Derivative financial liabilities	64	4,507	1,879	–	–	6,450
Undrawn credit commitmens	28,300	–	–	–	–	28,300
As at December 31, 2021						
Total assets	**1,585,691**	**77,013**	**189,244**	**562**	**36,480**	**1,888,990**
Total liabilities	**1,687,249**	**9,096**	**423**	**560**	**36,865**	**1,734,193**
Net balance sheet position	**(101,558)**	**67,917**	**188,821**	**2**	**(385)**	**154,797**
Net currency exposure	**123,201**	**8,185**	**23,255**	**2**	**24**	**154,667**

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Interest rate risk

Interest rate risk is the current or prospective risk to earnings and capital arising from adverse movements in interest rates. This is considered a subset of Market Risk and managed under the Enterprise Risk Management Framework through the Market Risk Management Policy.

Interest rate risk is controlled through the monitoring of deposits and short-term investments with the use of the interest balance sheet and maturity profile. Funding is short term in nature and placements (exclusive of short-term investments) are also typically on an overnight basis. As at December 31, 2022 and 2021, the vast majority of the financial assets and liabilities exposed to interest risk mature in less than one year and the net interest sensitivity gap is limited.

The table below summarizes the Company's exposure to interest rate risk:

	Up to 1 month	1-3 months	3-12 months	1-5 years	Total
	USD 000	USD 000	USD 000	USD 000	USD 000
As at December 31, 2022					
Non-current assets					
Financial assets at amortized cost	–	–	–	101,842	101,842
Current assets					
Financial assets at amortized cost	14,677	–	40,938	–	55,615
Financial assets at fair value through other comprehensive income	133,011	197,250	513,660	–	843,921
Cash and cash equivalents	854,816	110,094		–	964,910
Total assets	**1,002,504**	**307,344**	**554,598**	**101,842**	**1,966,288**
Current liabilities					
Amounts owed to depositors	1,820,824	–	–	–	1,820,824
Total liabilities	**1,820,824**	**–**	**–**	**–**	**1,820,824**
Net balance sheet position	**(818,320)**	**307,344**	**554,598**	**101,842**	**145,464**
As at December 31, 2021					
Non current assets					
Financial assets at amortized cost	–	–	–	85,141	85,141
Current assets					
Financial assets at fair value through other comprehensive income	344,852	249,683	209,719	–	804,254
Cash and cash equivalents	821,109	143,585	25,000	–	989,694
Total assets	**1,165,961**	**393,268**	**234,719**	**85,141**	**1,879,089**
Current liabilities					
Amounts owed to depositors	1,729,994	–	–	–	1,729,994
Total liabilities	**1,729,994**	**–**	**–**	**–**	**1,729,994**
Net balance sheet position	**(564,033)**	**393,268**	**234,719**	**85,141**	**149,095**

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Interest sensitivity analysis

Interest sensitivity is applicable in one key area for the Company, the net interest margin. The net interest margin is subject to any changes in the spread the Company earns on placements in the markets versus the interest paid to clients. The Company calculates the impact of interest rate movements from both an earnings perspective and economic value perspective. The Company applies regulatory required 100 basis points ("bps") upward and downward rate shocks scenarios, as well as a number of internal scenarios. Interest rate management is based on the Earnings at Risk ("EaR") model, as being more relevant for its business model.

The EaR model considers the impact to interest earned and paid under a variety of interest rate shock scenarios. Under a gradual increase in the projected market rates of interest by 100 bps, it is calculated that the Company's net interest income would decrease by 29.2% (2021: 23.7% increase), while under a gradual decrease in projected market rates of interest is it calculated that net interest income would increase by 29.2% (2021: 10.0% reduction). The EaR sensitivities have changed year-on-year as the combination of higher interest rates and interest-rate pass-on assumptions mean that funding costs may bear more of the movement than before.

The Economic Value of Equity ("EVE") is modelled, but considered less applicable for the Company. The limited maturity transformation often results in largest negative impact scenarios being shock increases in rates, which are expected to be beneficial for profitability. A sudden increase of 100bps in the market rates is calculated to result in a 0.0% movement in equity (2021: 0.0%), while a sudden decrease of 100bps in the market rates was calculated to result in a 0.8% reduction in equity (2021: 1.0% reduction). The change in sensitivity year-on-year was largely due to minor changes in levels of maturity transformation.

Interest Rate Risk is also considered within stress testing for the Company, which includes both sustained reductions in market rates of interest and reduced rate thresholds for interest payments to clients. The combination of modelled reductions in deposit balances and compression of net interest margin significantly reduces projected net interest income and are assessed each year as part of the ICAAP process. The results of Stress Testing, EaR and EVE are monitored by the Company's Asset and Liability Committee ("ALCO") on a quarterly basis.

Liquidity risk management

The Company manages liquidity risk by maintaining a conservative framework of limits. This includes coverage of regulatory requirements, such as the Liquidity Coverage Ratio and also internal liquidity limits, including overnight liquidity, one-month liquidity, maturity transformation limits and monthly stress testing. Liquidity stress testing covers Company-specific, Market-wide and Combined scenarios which are slow-developing and fast-developing and are monitored by ALCO monthly. The Company also continuously monitors forecast to actual cash flows. In addition, the Company manages any counterparty risk in respect of liquidity through its utilization of the Counterparty Risk Monitoring System.

Liquidity risk table

The following table details the Company's remaining contractual maturity for its financial assets and liabilities. The table has been drawn up based on the cash flows of financial assets and liabilities based on the earliest date on which the Company can be required to receive and pay, respectively.

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The table below summarizes the Company exposure to liquidity risk translated to USD:

	Up to 1 month	1-3 months	3-12 months	1-5 years	Total
	USD 000	USD 000	USD 000	USD 000	USD 000
As at December 31, 2022					
Non-current assets					
Financial assets at amortized cost	–	–	–	101,842	101,842
Current assets					
Derivative financial assets	2,260	4,507	-	-	6,767
Other receivables and accrued income	7,463	2,091	6,601	390	16,545
Financial assets at amortized cost	14,677	-	40,938	-	55,615
Receivables from affiliated companies	20	-	97	-	117
Financial assets at FVOCI	133,011	197,250	513,660	-	843,921
Cash and cash equivalents	854,816	110,094		-	964,910
Total assets	**1,012,247**	**309,435**	**565,803**	**102,232**	**1,989,717**
Non-current liabilities					
Accrued expenses	–	–	–	76	76
Current liabilities					
Derivative financial liabilities	1,943	4,507	–	–	6,450
Payables to affiliated companies	178	–	–	–	178
Other payables and accrued expenses	4,904	467	99	–	5,470
Amounts owed to depositors	1,820,824	–	–	–	1,820,824
Total liabilities	**1,827,849**	**467**	**4,606**	**76**	**1,832,998**
Net balance sheet position	**(815,602)**	**308,968**	**561,197**	**102,156**	**156,719**
Undrawn credit commitments	**28,300**	–	–	–	**28,300**

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	Up to 1 month	1-3 months	3-12 months	1-5 years	Total
	USD 000	USD 000	USD 000	USD 000	USD 000
As at December 31, 2021					
Non-current assets					
Financial assets at amortized cost	–	–	–	85,141	85,141
Current assets					
Derivative financial assets	2,370	–	2,791	–	5,161
Other receivables and accrued income	3,387	315	175	729	4,606
Receivables from affiliated companies	96	–	–	–	96
Financial assets at FVOCI	344,852	249,683	209,719	–	804,254
Cash and cash equivalents	821,109	143,585	25,000	–	989,694
Total assets	**1,171,814**	**393,583**	**237,685**	**85,870**	**1,888,952**
Non-current liabilities					
Accrued expenses	48	–	–	–	48
Current liabilities					
Derivative financial liabilities	687	–	2,791	–	3,478
Payables to affiliated companies	72	–	–	–	72
Other payables and accrued expenses	601	–	–	–	601
Amounts owed to depositors	1,729,994	–	–	–	1,729,994
Total liabilities	**1,731,401**	**–**	**2,791**	**–**	**1,734,193**
Net balance sheet position	**(559,587)**	**393,583**	**234,894**	**85,870**	**154,759**

Credit risk

Credit risk is the current or prospective risk to earnings and capital arising from a debtor's failure to meet the terms of any contract with the Company or if a debtor otherwise fails to perform. Credit risk is monitored continuously by reviewing outstanding exposure, temporary overdrafts and trade receivables by the account managers and exposures of counterparties by the Risk Management division. New extensions of credit are subject to written credit memoranda that must be appropriate to the established criteria of the loan policy approved by the appropriate level of management. New counterparties are subject to due diligence by the Risk Management division and approval by the divisional Credit Committee and the Board of Directors. The Company mitigates credit risk by choosing only reputable banks as counterparty for liquid funds and derivative financial instruments and monitoring credit-worthiness on a daily basis, adjusting credit limits for maximum size and tenor where needed.

The Company has implemented a daily monitoring methodology, CRMS, which uses the fundamental view of the rating agencies on a counterparty's probability of default through long-term ratings, and the more reactive view of the capital markets using credit default swap spreads to ensure that the Company only deals with highly regarded counterparties.

Loans to clients typically have a maximum loan to value ratio of 35% of eligible collateral, which may be secured by a pledge agreement covering the clients underlying securities portfolio held by the Company's or Citco Group's separate custody subsidiaries or other forms of acceptable collateral. Valuations of the underlying collateral is made on a regular basis against industry norms and a legal entitlement to make margin calls on the client is in place.

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Operational risk

The Company has to process many complex transactions daily. To ensure the operational risk is adequately controlled, an extensive internal control framework has been set up. In addition, an extensive training program for staff has been introduced in view of the growth of the Company. Operational Risk Management frameworks have been established in the Company and an Enterprise Risk Management framework has been implemented across the Company.

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Capital adequacy risk

The Company's ALCO reviews the capital structure on a routine basis. Based on the recommendations of the committee, the Company will balance its overall capital structure. The Company's overall strategy remains unchanged.

Capital level of the Company is regulated pursuant to guidelines issued by OSFI. Regulatory or total capital is defined as the total of Tier 1 and Tier 2 capital. Tier 1 capital comprises shareholder's equity excluding accumulated other comprehensive income relating to available for-sale debt securities. Tier 2 capital consists of subordinated debt. Company's capital consists solely of Tier 1 components. The OSFI establishes risk-based capital target for Canadian banks. These targets are currently a Common Equity Tier 1 capital target ratio of 7%, Tier 1 capital target ratio of 8.5% and a Total Capital target ratio of 10.5%.

The total capital consists of the following elements:

	2022	2021
	USD 000	USD 000
Common shares	85,000	85,000
Retained earnings	73,826	69,809
Fair value reserve of financial assets at FVOCI	(2,068)	(12)
Tier 1 & 2 capital	**156,758**	**154,797**

To monitor the adequacy of its capital, the Company applies ratios established by OSFI. The ratios measure capital adequacy by comparing the entity's eligible capital with the sum of the total of risk weighted exposure amounts for Credit Risk, Operational Risk and Market Risk. In 2022, the Company complied with requirements imposed by OSFI. The Company does not hold any other capital instruments, so the Total Capital Ratio, Tier 1 Capital Ratio and Common Equity Tier 1 Ratio will all be the same.

For Credit Risk the Standardized Approach is used in which for each asset the relevant risk weighted assets are determined using the counterparty type and external rating. Off-balance sheet credit-related commitments and FX contracts and options-based derivative instruments are taken into account by applying different categories of credit conversion factors, designed to convert these items into balance sheet equivalents. The resulting equivalent amounts are then weighted for risk using the same percentages as for on-balance sheet assets.

For Operational Risk the Basic Indicator Approach is used. The Company needs to take into account 15% of average gross revenues as capital requirement for Operational Risk.

The Market Risk capital requirements cover the risk of FX open positions.

The following are the Total Capital Ratio and the Leverage Ratio of the Company as of December 31:

	2022	2021
	%	%
Total Capital Ratio	45.55	53.75
Leverage Ratio	7.79	8.77

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2.4. Revenue from contracts with customers

The Company derives revenue from the banking and custody services over time and at a point in time in the form of custody fees, transaction fees, interest margin, service charges and payment fees which are recognized in Canada.

	2022	2021
	USD 000	USD 000
Interest income and similar income	34,803	5,347
Interest expense and similar expense	(17,760)	24
Payment fees and other	1,402	1,373
Custody and trading related income	11,873	10,974
Net income from dealing in foreign currencies	288	302
Commitment fee income	142	–
Other income	1,324	1,282
Revenue	**32,072**	**19,302**

The Company has recognised the following contract assets and contract liabilities in respect to contracts with customers. These are included within other receivables and other payables in the statement of financial position.

	2022	2021
	USD 000	USD 000
Contract assets		
Accrued income	2,598	2,442
Trade receivables	497	583
Derivative financial assets	6,767	5,161
Bank interest receivable	12,789	1,489
As at December 31,	**22,651**	**9,675**
Contract liabilities		
Bank interest payable	4,679	–
Accrued expenses	696	443
Derivative financial liabilities	6,450	3,478
Other payables	57	14
As at December 31,	**11,882**	**3,935**

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2.5. Personnel expenses

	2022	2021
	USD 000	USD 000
Salaries and bonuses	2,874	2,575
Social charges and taxes	110	92
Pension expenses	90	88
Other personnel expenses	427	326
Related party personnel recharge	3,709	3,858
Personnel expenses	**7,210**	**6,939**

The average number of full-time employees for the year for Company was 26 (2021: 26).

Personnel expenses include the expenses associated with the Board of Directors. See Note 2.29 for Directors' remuneration.

2.6. Depreciation

	Notes	2022	2021
		USD 000	USD 000
Depreciation of machinery and equipment	2.10	5	1
Depreciation		**5**	**1**

2.7. Other operating expenses

	2022	2021
	USD 000	USD 000
Professional membership and subscriptions	3	2
Market data expense	70	61
Other related party expenses	4,873	4,875
Other expenses	587	530
Other operating expenses	**5,533**	**5,468**

2.8. Net finance expense

	2022	2021
	USD 000	USD 000
Foreign exchange loss/(gain)	10	(14)
Other related party interest expenses	17	16
Net finance expense	**27**	**2**

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2.9. Income tax

The major components of income tax expense for the years ended December 31, 2022 and 2021 are:

	2021	2020
	USD 000	**USD 000**
Current income tax:		
Currrent tax expense: current year	4,814	1,589
Current tax expense: prior year	(15)	(53)
	4,799	**1,536**
Deferred tax:		
Deferred tax expense: prior year	8	25
Deferred tax expense: current year	(10)	(22)
	(2)	**3**
Income tax expense reported in the statement of profit or loss	**4,797**	**1,539**

	2022		2021	
	%	USD 000	%	USD 000
Net profit before tax		18,117		5,974
		18,117		**5,974**
Income tax using the domestic corporation tax rate	26.50%	4,801	26.50%	1,583
Non-deductible expenses	(0.01)%	2	(0.30)%	(16)
Over provided in prior years	(0.04)%	(6)	(0.50)%	(28)
Income tax expense	26.45%	4,797	25.80%	1,539

The combined Canadian statutory rate is the aggregate of the federal income tax rate of 15.0% (2021: 15.0%) and the provincial rate of 11.5% (2021: 11.5%). In 2022, there were no changes in the statutory rates.

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2.10. Equipment

	Notes	Machinery and equipment	Total
		USD 000	USD 000
Cost:			
As at January 1, 2022		5	5
Additions during the year		3	3
As at December 31, 2022		**8**	**8**
Accumulated depreciation:			
As at January 1, 2022		1	1
Depreciation charge for the year	2.6	5	5
As at December 31, 2022		**6**	**6**
Net carrying amount			
As at December 31, 2022		**2**	**2**

	Notes	Machinery and equipment	Total
		USD 000	USD 000
Cost:			
As at January 1, 2021		–	–
Additions during the year		5	5
As at December 31, 2021		**5**	**5**
Accumulated depreciation:			
As at January 1, 2021		–	–
Depreciation charge for the year	2.6	1	1
As at December 31, 2021		**1**	**1**
Net carrying amount			
As at December 31, 2021		**4**	**4**

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2.11. Financial assets at amortized cost

The Company classifies its financial assets as at amortized cost only if both of the following criteria are met:

- the asset is held within a business model whose objective is to collect the contractual cash flows, and
- the contractual terms give rise to cash flows that are solely payments of principal and interest.

Financial assets at amortized cost include the following investments:

	2022	2021
	USD 000	USD 000
Bonds	84,575	85,141
Deposits with other banks	25,000	
US Treasury notes	47,882	–
As at December 31,	**157,457**	**85,141**

Maturity analysis:

	2022	2021
	USD 000	USD 000
One month or less	14,677	–
More than three months up to a year	40,938	–
One to five years	101,842	85,141
As at December 31,	**157,457**	**85,141**
Current	55,615	–
Non current	101,842	85,141
As at December 31,	**157,457**	**85,141**

The interest income for the year on financial instruments held at amortized cost was USD 3,271 thousand (2021: USD 2,302).

ECL on these investments recognized in the consolidated income statement for the year was USD nil (2021: USD nil).

2.12. Financial assets at fair value through other comprehensive income

The Company classifies its financial assets at fair value through other comprehensive income only if both of the following criteria are met:

- Debt securities where the contractual cash flows are solely principal, interest, and
- the objective of the Company’s business model is achieved both by collecting contractual cash flows and selling financial assets.

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Financial assets at fair value through other comprehensive income include the following debt investments:

	2022	2021
	USD 000	USD 000
Commercial paper issued by financial institutions	834,520	804,254
Corporate fixed bonds	9,401	–
As at December 31,	**843,921**	**804,254**

Maturity analysis:

	2022	2021
	USD 000	USD 000
One month or less	133,011	344,852
Up to three months	197,250	249,683
More than three months up to a year	513,660	209,719
As at December 31,	**843,921**	**804,254**
Current	843,921	804,254
As at December 31,	**843,921**	**804,254**

The interest income for the year on financial instruments held at FVOCI was USD 13,903 thousand (2021: USD 1,297 thousand).

ECL on these investments recognized in the income statement for the year was USD nil (2021: USD nil).

Investments were designated as FVOCI financial assets if they did not have fixed maturities and fixed or determinable payments, and management intended to hold them for the medium to long-term. Financial assets that were not classified into any of the other categories (at FVTPL, loans and receivables or held-to-maturity investments) were also included in the FVOCI category.

The financial assets were presented as non-current assets unless they matured, or management intended to dispose of them within 12 months of the end of the reporting period. A security was considered to be impaired if there had been a significant or prolonged decline in the fair value below its cost.

Commercial paper issued by financial institutions (FVOCI) represents A+ to AAA rated paper. In order to avoid fluctuations in the income statement, these investments have been classified as FVOCI with revaluations recorded in other comprehensive income.

2.13. Deferred tax

Deferred tax assets have been recognized to the extent that it is considered more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted. Where this is not the case, deferred tax assets have not been recognized, as set out below:

	2022	2021
	USD 000	USD 000
Deferred tax assets	37	34

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The following are the major deferred tax assets and deferred tax liabilities recognized by the Company and the related movements during the year:

	Capitalised losses and deferred tax assets	Total
	USD 000	USD 000
As at January 1, 2022	34	34
Increase	3	3
As at December 31, 2022	37	37

	Capitalised losses and deferred tax assets	Total
	USD 000	USD 000
As at January 1, 2021	38	38
Utilization	(4)	(4)
As at December 31, 2021	34	34

2.13.1. Recognized deferred tax assets

The following are the major deferred tax assets recognized by the Company and the related movement during the year.

	Deferred Tax Assets	
	2022	2021
	USD 000	USD 000
Property and equipment, assets	10	11
Accrued expense, provisions and assets	27	23
Net deferred tax assets	37	34

2.13.2. Movement in temporary differences during 2022 and 2021

	Temporary differences	Total
	USD 000	USD 000
As at January 1, 2021	38	38
Additions during the year	(4)	(4)
As at January 1, 2022	34	34
Additions during the year	3	3
As at December 31, 2022	37	37

Deferred tax assets have been recognized to the extent that it is considered more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

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2.14. Other receivables and accrued income

	2022	2021
	USD 000	USD 000
Interest receivables	12,789	1,489
Accrued income and work in progress	2,598	2,442
Other receivables	588	28
Trade receivables	497	583
Prepaid expenses	73	64
As at December 31,	**16,545**	**4,606**

2.15. Cash and cash equivalents

	2022	2021
	USD 000	USD 000
Current accounts with other banks	512,234	397,841
Deposits with other banks	438,850	475,650
Bank balances with affiliated companies	13,826	116,203
As at December 31,	**964,910**	**989,694**

Bank balances earn interest at the respective short-term deposit market rates. The Company is not required to keep a minimum deposit balance with the central bank.

2.16. Share capital

Authorized shares

	2022	2021
	Number of Shares Thousands	Number of Shares Thousands
Ordinary shares at a par value of USD 1 each	85,000	85,000
	85,000	**85,000**

Ordinary shares issued and fully paid

	Number of Shares Thousands	USD 000
As at January 1, 2022	**85,000**	**85,000**
As at December 31, 2022	**85,000**	**85,000**

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2.17. Retirement benefit scheme

The Company contributes premiums to defined contribution retirement pension plan.

The total cost charged to the income statement of USD 90 thousand (2021: USD 89 thousand).

The contributions payable to the the pension scheme in 2023 are estimated at USD 94.5 thousand (2022: USD 93 thousand).

2.18. Receivables from affiliated companies

	2022	2021
	USD 000	USD 000
Citco Fund Administration (Cayman Islands) Limited	50	35
Citco Fund Services (Cayman Islands) Limited	47	30
The Citco Group Limited	–	18
B&C Technology Ltd.	17	12
Other	3	1
As at December 31,	**117**	**96**

2.19. Payables to affiliated companies

	2022	2021
	USD 000	USD 000
Citco Bank Nederland N.V.	105	59
The Citco Group Limited	25	–
Citco International Support Services Limited - Philippine ROHQ	23	2
Citco Global Securities Services (Canada) Limited	18	1
Citco Bank Nederland N.V. Dublin Branch	–	10
Other	7	–
As at December 31,	**178**	**72**

2.20. Other payables and accrued expenses

	2022	2021
	USD 000	USD 000
Accrued expenses	316	335
VAT payable	286	–
Taxes and social security contributions	16	13
Interest payable	4,680	–
Other payables	172	253
As at December 31,	**5,470**	**601**

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The Company has financial risk management policies in place to ensure that all payables are paid within the permitted credit terms.

2.21. Amounts owed to depositors

	2022	2021
	USD 000	USD 000
Demand deposits	1,820,126	1,729,022
Demand deposits with affiliated companies	698	972
As at December 31,	**1,820,824**	**1,729,994**

Maturity analysis:

	USD 000	USD 000
Demand deposits	1,820,824	1,729,994
As at December 31,	**1,820,824**	**1,729,994**

2.22. Commitments and contingencies

As at December 31, 2022, the Company had undrawn commitments on credit facilities of USD 28,300 thousand (2021: nil).

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2.23. Derivative financial instruments

Forward exchange contracts

The Company utilizes the forward exchange contracts and interest rate swaps for both hedging and non-hedging purposes.

	Contract/ notional amount	Fair value Assets	Fair value liabilities
	USD 000	USD 000	USD 000
As at December 31, 2022:	**660,899**	**6,767**	**6,450**
As at December 31, 2021:	868,946	5,161	3,478

Forward exchange contracts represent commitments to purchase foreign and domestic currency, including undelivered spot transactions. Since these contracts are collateralized by cash or marketable securities, the credit risk is negligible.

The fair value of forward exchange contracts is revalued daily based on the applicable spot rates.

Derivative financial assets and liabilities relate primarily to two types of transactions undertaken by the Company:

(a) Treasury activities – in earning additional interest margin over base rates, the Company undertakes forward foreign exchange contracts to arbitrage the difference between the margins earned on higher yielding currencies (i.e. Euro) versus the cost of undertaking the swap. These transactions are on a short-term basis and with a small number of highly rated counterparties.

(b) Foreign exchange contracts: the Company places foreign exchange contracts on behalf of clients. However, the Company does not take any positions on these transactions and immediately places a corresponding trade in the market for which it retains a spread. These services are only provided to clients with funds on deposit with the Company and funds retained in order to meet any margin calls. Other than the margin earned, the asset and liability positions offset (Notes 2.14 and 2.20).

The Company occasionally enters into forward exchange contracts to mitigate the exposure on material items of capital expenditure.

The fair value of the assets and liabilities is represented in the statement of financial position as derivative financial assets under other receivables and accrued income and as derivative financial liabilities under other payables and accrued expenses.

2.24. Fair value measurement

The following table provides at the end of the reporting period an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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Fair value measurement hierarchy for assets as at December 31, 2022:

	Fair value measurement using		
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Total
	USD 000	USD 000	USD 000
Financial assets held at amortized cost:			
Bonds	84,575		84,575
Deposits with other banks		25,000	25,000
US Treasury notes	47,882		47,882
Financial assets at fair value through profit or loss:			
Derivative financial assets		6,767	6,767
Financial assets at fair value through other comprehensive income:			
Commercial papers issued by financial institutions	834,520		834,520
Corporate Fixed Bonds	9,401		9,401
Financial liabilities at fair value through profit or loss:			
Derivative financial liabilities		(6,450)	(6,450)
As at December 31, 2022	**976,378**	**25,317**	**1,001,695**

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Fair value measurement hierarchy for assets as at December 31, 2021:

	Fair value measurement using	
	Significant observable inputs (Level 2	Total
	USD 000	USD 000
Financial assets held at amortized cost:		
Bonds	85,141	85,141
Financial assets at fair value through profit or loss:		
Derivative financial assets	5,161	5,161
Financial assets at fair value through other comprehensive income:		
Commercial papers issued by financial institutions	804,254	804,254
Financial liabilities at fair value through profit or loss:		
Derivative financial liabilities	(3,478)	(3,478)
As at December 31, 2021	**891,078**	**891,078**

There were no transfers between Level 1 and Level 2 during 2021.

2.25. Categories of financial assets and financial liabilities

Financial Assets

	2022	2021
	USD 000	USD 000
Cash and cash equivalents	964,910	989,694
Financial assets held at amortized cost	157,457	85,141
Financial assets held at fair value through other comprehensive income	843,921	804,254
Derivative financial assets	6,767	5,161
Other receivables	16,662	4,702
As at December 31,	**1,989,717**	**1,888,952**

Financial Liabilities

	2022	2021
	USD 000	USD 000
Amounts owed to the depositors	1,820,824	1,729,994
Derivative financial liabilities	6,450	3,478
Other liabilities	5,724	721
As at December 31,	**1,832,998**	**1,734,193**

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2.26. Financial assets and liabilities not carried at fair value

The following methods and significant assumptions have been applied in determining the fair values of financial instruments carried at cost:

(a) The fair value of assets and liabilities maturing within 12 months is assumed to approximate their carrying amount;

(b) The fair value of demand deposits and savings accounts (included in amounts owed to depositors) with no specific maturity is assumed to be the amount payable on demand at the end of the reporting period. Demand deposits and savings accounts bear floating interest rates, the fair value is assumed to approximate their carrying amount;

(c) The fair value of variable rate financial instruments is assumed to be approximated by their carrying amounts.

2.27. Assets under custody

The Company provides custody services to its clients, with respect to the security transactions. These services require the Company to maintain assets held under custody, which are not reported on the statement of financial position. As at December 31, 2022, the Company's assets held under custody totaled USD 78.8 billion (2021: USD 81.3 billion).

2.28. Related party transactions

Cash balances held with affiliates include funds with Citco Banking Services division and earn interest at the market rate of nil (Note 2.15).

The short-term intercompany accounts serve to capture transactions including cash loans and intercompany income. The amounts are unsecured, bear no interest and are repayable on demand. Due to the short-term nature of these balances, book value approximates fair value.

For the short-term and long term loans with related parties, refer to Note 2.21.

The Company has entered into an agreement with affiliates, whereby the Company provides certain accounting, administrative, clerical and other services to specific customer entities on behalf of the affiliates. Fees paid by the affiliates to the Company for these services are recorded in related party income.

In the ordinary course of business, the Company enters into a number of related party transactions, which management believes are at an arm's length basis.

The Company has intercompany current account balances with affiliated companies:

	Notes	2022	2021
		USD 000	USD 000
Receivables	2.15 & 2.18	13,943	116,299
Payables	2.19 & 2.21	(876)	(1,044)
Net balance receivable at December 31,		**13,067**	**115,255**

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The following services were provided by the Company to the Parent and/or affiliated companies:

	2022	2021
	USD 000	USD 000
Operational services	42	41
General and administrative services	458	426
Personnel	824	816
As at December 31,	**1,324**	**1,283**

The following services were provided by the Parent and/or affiliated companies to the Company:

	2022	2021
	USD 000	USD 000
Office and administrative services	614	349
Travel expenses	49	2
Finance expenses	(26)	–
Professional services	77	58
Occupancy expenses	142	179
Personnel	3,707	3,858
Sub-total	4,563	4,446
Other related party expenses:		
Group support services fee	3,569	3,530
Royalty expense	744	447
Information technology other service expenses	224	585
Other expenses	336	899
Sub-total	4,873	5,461
As at December 31,	**9,436**	**9,907**

2.29. Directors' remuneration

Remuneration paid to the executive and non-executive directors during the year were as follows

	2022	2021
	USD 000	USD 000
Salary and benefits	830	778
Directors' remuneration	**830**	**778**

The remuneration of the executive and non-executive is decided by the shareholder.

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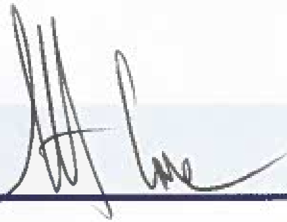
2.30. Events after the reporting date

The Company has evaluated subsequent events up to and including the date that these financial statements were available to be issued. The Company has determined there were no events or transactions during such period which would require recognition or disclosure in these financial statements.

Approval of the Financial Statements

The financial statements were approved by the Board of Directors and authorised for issuance on April 20, 2023:

Scott Case
Member



Charles Rund
Chairman

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3. Other Information

Statutory rules concerning appropriation of result

The Articles of Incorporation of the Company provide that the appropriation of the net result for the year is decided upon in the annual General Meeting of the shareholder.

Proposed appropriation of result for the financial year 2022

Awaiting the decision by the shareholder, the net result for the year has been included in retained earnings.

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Independent Auditor's Report

To the Shareholders of Citco Bank Canada

Opinion

We have audited the accompanying financial statements of the Citco Bank Canada (the "Company"), which comprise the statement of financial position as at December 31, 2022, and the statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2022, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian GAAS will always detect a material misstatement when it

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exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Deloitte LLP

Chartered Professional Accountants
Licensed Public Accountants
April 20, 2023

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