



Citco Bank Canada  
Pillar 3 Disclosure 2023

CITCO

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# 1. Introduction

The Capital Adequacy and Risk Management Report ('Pillar 3 disclosure') of Citco Bank Canada ('CBCAN' or 'the Bank') contains information that enables an assessment of the risk profile and capital adequacy of the CBCAN. This publication fulfils the requirements of the Basel framework, as stipulated in 'Pillar 3 Disclosure Guideline for Small and Medium-Sized Deposit-Taking Institutions ('SMSBs') Capital and Liquidity Requirements' dated January 2022<sup>1</sup> (updated Pillar 3 Disclosure Guideline) and supplementary guidelines ('the Requirements') published by CBCAN's regulatory body Office of the Superintendent of Financial Institutions ('OSFI'). The Bank is classified as "Category II Bank" under OSFI's Small and Medium-Sized Deposit-Taking Institutions Capital and Liquidity Requirements<sup>2</sup>. In accordance with these requirements, this report contains information about Governance, Risk Measurement and Capital Adequacy. This report is updated annually.

OSFI reporting is based on three pillars:

- The first pillar, or Pillar 1, defines the regulatory minimum capital requirements by providing rules and regulations for measurement of Credit Risk, Market Risk and Operational Risk. The Bank calculates its minimum capital requirements for Credit Risks based on the Standardised Approach. For Operational Risk CBCAN uses the Simplified Standardised Approach ('SSA');
- The second pillar, or Pillar 2, deals with the risk profile and management of the Bank. In the Internal Capital Adequacy Assessment Process ('ICAAP'), CBCAN reviews its own funds together with its risk profile (evaluating its Capital Adequacy). Part of these reviews consist of stressing CBCAN's business model using severe, yet plausible stress scenarios. These firm-wide stress tests consider all material risks and business activities of CBCAN and cover a wide scope of scenarios. The results are discussed by Senior Management ('SM') and the outcome is approved by the Board of Directors ('BOD'). The ICAAP is also submitted to OSFI; and
- The third pillar, or Pillar 3, aims to promote greater market discipline by enhancing transparency of information disclosure. It means that information on risks, risk management practices and capital adequacy should be publicly available to all relevant stakeholders.

## 1.1. Stakeholders

This document is intended for all relevant stakeholders, but not limited to:

- Our clients;
- Our employees;
- Our shareholder; and
- Relevant regulatory authorities.

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1 <https://www.osfi-bsif.gc.ca/en/guidance/guidance-library/pillar-3-disclosure-guideline-small-medium-sized-deposit-taking-institutions-smsbs>

2 <https://www.osfi-bsif.gc.ca/en/guidance/guidance-library/small-medium-sized-deposit-taking-institutions-smsbs-capital-liquidity-requirements-guideline-2023>

## 1.2. Responsibility for Pillar 3 disclosure production

Table 1 provides an overview of the stakeholders that are responsible for the Pillar 3 disclosure production:

**ABLE 1. STAKEHOLDERS DISCLOSURE**

STAKEHOLDER	RESPONSIBILITY
Board of Directors	Final approval and sign-off (Annual)
Senior Management	Final Review and sign-off (Annual) and Final approval (Quarterly)
Capital Management	Editor and contributor
Risk Management	Contributor
Finance	Contributor
Compliance	Reviewer

## 1.3. Proprietary or confidential information

The Bank targets disclosure of all the required information. Paragraph 22 of the Requirements, provides exceptions that can be applied for information that is deemed proprietary or confidential.

CBCAN does not omit any disclosure requirements for Category II Banks, from the Pillar 3 disclosure, as being proprietary or confidential information.

## 1.4. Medium to be used

The Bank publishes its, Annual report, annual Pillar 3 disclosure and quarterly fixed format Pillar 3 templates on the following website: <https://www.citco.com/regulatory-disclosures>

The Bank's additional quantitative data is publicly available and updated on a quarterly basis on OSFI's Financial Data for Banks website: <https://www.osfi-bsif.gc.ca/en/data-forms/financial-data/financial-data-banks>

## 1.5. Changes to Pillar 3 Disclosure compared to Prior year

The Bank, made below updates to public disclosure starting December 2023, to meet the OSFI requirements of updated Pillar 3 Disclosure Guidelines:

- The new qualitative disclosure requirements for "Table CRA: General qualitative information about credit risk" and "ORA: General qualitative information on a bank's operational risk framework", are elaborated in the "Risk Governance at the Bank" section of 2023 Disclosure. To give this section a structure, sub-sections are included for Enterprise Risk Management ('ERM') framework and risks, which were formerly addressed in "Appendix E" and "Information to be disclosed" section of prior year's annual Disclosure;

- The new quarterly quantitative requirement for publishing “Template KM1: Key metrics” (‘KM1’), is included in Pillar 3 Disclosure Fixed Templates Q4 2023 of the Bank;
- Fixed quantitative quarterly templates (KM1, Modified CC1 – Composition of capital for SMSBs and LR2: Leverage ratio common disclosure template), are separated from qualitative annual disclosure and all three are published as Pillar 3 Disclosure Fixed Templates, per updated Pillar 3 Disclosure Guideline;
- “Environment Risk” section included in 2023, to provide insight on the Banks approach towards it;
- References to links within the Pillar 3 qualitative disclosure report and Annual report are replaced in the “Medium to be used” section of the Disclosure with one link to main Citco Disclosure page;
- “Changes to Pillar 3 Disclosure compared to Prior year” section included, to outline and explain comparative changes in 2023 Disclosure;
- “Responsibility for Pillar 3 disclosure production” section included in 2023 Disclosure, to reflect governance around disclosure process;
- “Proprietary or confidential information” section included in 2023 Disclosure, to specify Banks treatment of proprietary or confidential information under Pillar 3 Disclosure, as per updated Pillar 3 Disclosure Guideline;
- “Signatories” section included in 2023 Disclosure, to move authority and approval of the document from “Introduction” section; and
- The content of “Information to be disclosed” section of 2022 Disclosure, is absorbed in “Introduction” and “Risk governance at the Bank” section of 2023 Disclosure.

## 1.6. Signatories

This Pillar 3 disclosure has been established and approved by the Board of Directors of Citco Bank Canada.

## 2. Group structure

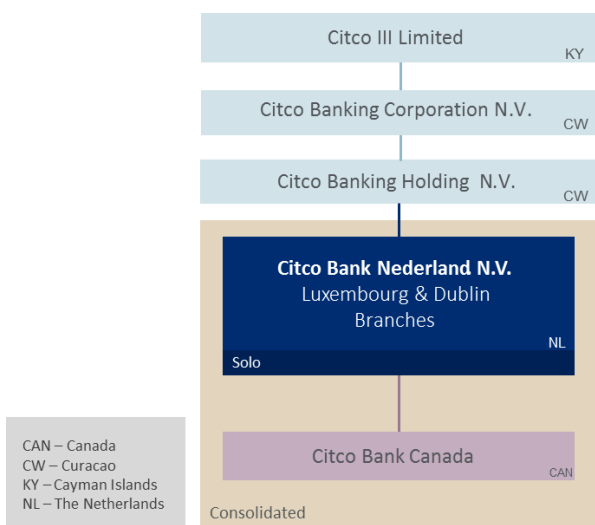
The Citco Group of Companies (‘Citco Group’) is a global group of independent financial service providers serving Collective Investment Scheme<sup>3</sup>, institutional banks, listed companies and high net worth individuals. Citco companies service these clients around the world by offering fund administration, banking, custody and order processing, financial products and governance services.

CBCAN is a wholly owned subsidiary of Citco Bank Nederland N.V., The Netherlands, which is a wholly owned subsidiary of Citco III Limited, The Cayman Islands (the ultimate parent company).

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<sup>3</sup> A Collective Investment Scheme, which is sometimes referred to as a ‘pooled investment’, is a fund that several investors contribute to. A fund manager will invest the pooled money in one or more types of asset, such as stocks, bonds or property. There are many types of collective investment scheme available to investors (<https://www.fca.org.uk/consumers/unregulated-collective-investment-schemes>)

Figure 1. CBCAN and parent structure:



Citco Bank Canada was incorporated September 2, 2008 and commenced operations on June 10, 2009 when it received approval from the OSFI. The Bank is licensed to operate in Canada as a foreign bank subsidiary under the Bank Act. The regulatory authority of Citco Bank Canada is OSFI.

Citco Bank Canada provides a full range of banking services for institutional (professional) clients, like hedge funds and funds of hedge funds, to manage their banking needs. This includes, but is not limited to, performing deposit services, wire transfers, foreign exchange services and collateralized lending.

Citco Bank Canada also specializes in custody activities for hedge fund investors by providing access to the best of breed processes and technology that have set industry standards. Citco Bank Canada provides the necessary infrastructure to investment managers to handle the administrative side of trading in underlying hedge funds. The custody solutions allow clients to completely outsource, in an automated and controlled manner, their underlying investments in hedge funds. Utilizing *CitcoFundsNet*, the electronic custody platform, clients can access the funds universe via online real-time global funds platform.

### 3. Governance arrangements

The BOD is responsible for the overall oversight of the Bank. It accomplishes this by supervising, monitoring, advising SM on a broad range of topics intrinsic to the overall functions of the institution, including strategy, operational performance, risk management and compliance with laws, and regulations.

The Bank’s SM comprises two Managing Directors. SM is responsible for defining the business strategy, setting policies and overseeing the overall operational activities of the Bank and ensures the business and strategic objectives are correctly executed. A general profile of the preferred scope and composition of SM is defined taking into account the nature of the business, its activities, size and complexity and the desired expertise, experience and independence of its members.

All SM members participates in lifelong learning programs, with the aim of maintaining the expertise of SM members at the required standard and improving their expertise where necessary. The areas covered under the learning program include finance, tax, legal, capital, cyber security, data privacy, regulatory and financial reporting, corporate governance and risk management. Detailed information on the SM members is provided in Table 2.

**TABLE 2. CBCAN SENIOR MANAGEMENT COMPOSITION, 31<sup>st</sup> December 2023**

NAME	POSITION	AREA OF RESPONSIBILITY
Mr. Scott Case	Managing Director and Chair	All aspects concerning General Management, Human Resources, Finance, Legal, Compliance, Regulatory & Governance and Internal Audit.
Mr. Carl Keogh	Managing Director	All aspects concerning Treasury Management, Credit, Capital Management, Operations, Information Technology and Risk.

CBCAN has set up various risk committees. Table 3 provides a list and a description of the committees.

**TABLE 3. CBCAN SENIOR MANAGEMENT RISK COMMITTEES, 31<sup>st</sup> December 2023**

COMMITTEE NAME	ROLE OF THE COMMITTEE	MINIMUM FREQUENCY
Senior Management Risk Committee ('SMRC')	Oversight of both financial and non-financial risks across the Bank in line with the Enterprise Risk Management framework	Quarterly
Asset and Liability Committee ('ALCO')	Monitoring and controlling Credit, Market and Liquidity Risks, as well as capital adequacy within the boundaries set by SMRC	Monthly
Operational Risk Committee ('ORC')	Managing Operational Risks within the boundaries set by SMRC	Monthly
IT Controls Committee	Managing Technology Risks within the boundaries set by SMRC	Quarterly
Third Party Risk Management/Outsourcing Committee	Monitoring compliance with the Outsourcing policy and procedures including the effectiveness of key controls, assessing outsourcing related risks including operational and concentration risk, associated with each of the CBCAN's outsourcing arrangements and review and approval of any future outsourcing arrangements	Quarterly

## 4. Risk governance at the Bank

As a financial services provider, the Bank is continuously managing its risks. In order to do this whilst remaining compliant with regulatory requirements, the Bank has established an ERM framework. The critical elements of this ERM framework are the effective identification, assessment, mitigation, monitoring and reporting of the Bank's key risks and the allocation of capital required to support these.

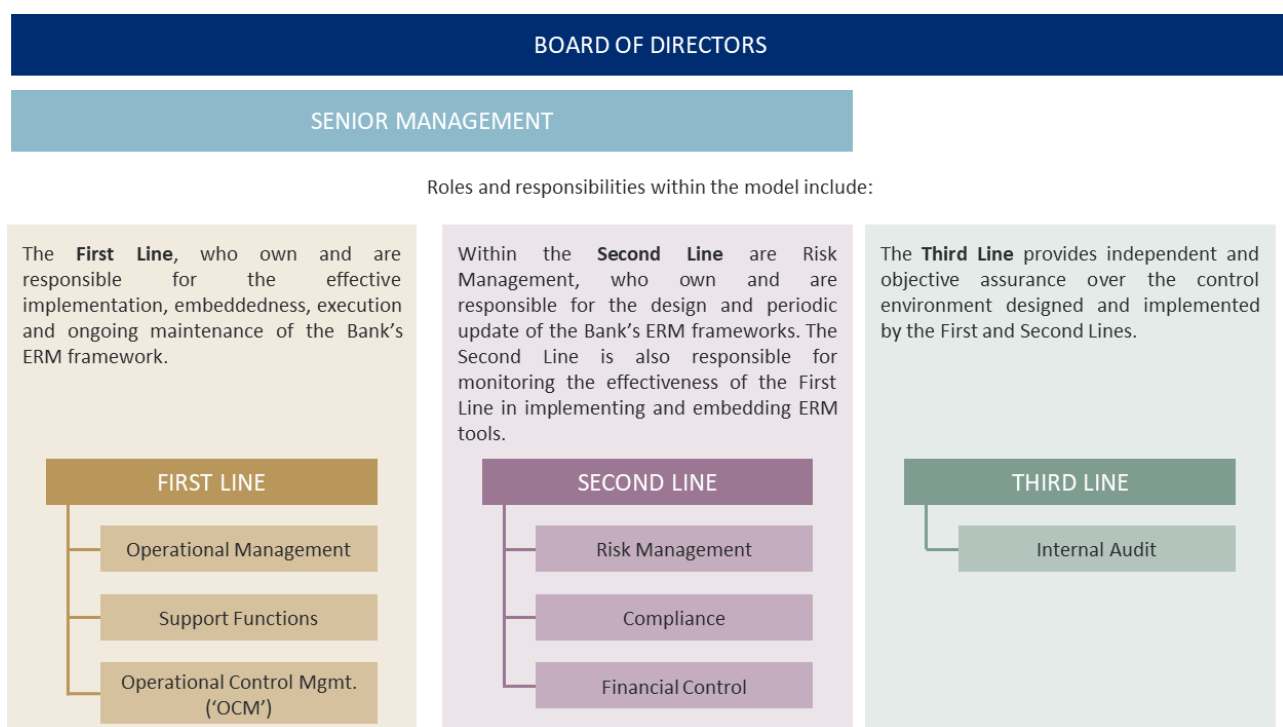


## 4.1. Risk Strategy

The Risk Management Strategy of the Bank is to support the business in achieving its strategic targets, whilst remaining within the conservative Risk Appetite set by SM and ratified by the BOD.

The Bank implemented the ‘Three Lines’ model as a benchmark for managing the Risk Strategy. The Bank applies the model to demonstrate how the different business and control functions interact with each other and to define roles that enforce stronger corporate governance. These roles are illustrated in Figure 2.

Figure 2. CBCAN Three Lines Model



## 4.2. First Line

As the first line, business management and operational staff are responsible for identifying and managing risks on a daily basis and for escalating identified risk issues to Risk Management. Business management, including Bank IT management, is accountable for the implementation and operation of appropriate policies and procedures and for ensuring compliance with policies set by SM, BOD and Risk Management.

Operational Control Management ('OCM') is part of the first line. OCM is responsible for operational risk activities including Risk and Control Self-Assessment ('RCSA'), process control testing, risk event root cause analysis and operational risk reporting to management. Details of the OCM role and responsibilities can be found in the Operational Risk Management Policy

## 4.3. Second Line

The 'second line' concerns those responsible for risk oversight and risk guidance in the Bank, e.g. Risk Management, Compliance and Financial Control. Second line is responsible for setting policies, ensuring compliance with requirements, the monitoring of the effectiveness of the controls and the execution of the Risk Management framework by the first line.

The Risk Management function is responsible for developing and maintaining the strategic approach of the ERM framework to ensure that appropriate risk identification, assessment and mitigation activities are executed by the business. This is achieved through a comprehensive framework of risk policies, monitoring and reporting. The Chief Risk Officer ('CRO') reports to the BOD Risk & Compliance Committee with a functional reporting line to Group Risk.

The Compliance function translates the laws into compliance obligations and assists the business divisions to identify its Compliance Risks (incl. Integrity Risk) and activities to mitigate those risks based on CBCAN Risk Appetite. The Compliance function also monitors the business and local management's control of Compliance Risks. The Chief Compliance officer ('CCO') reports to the BOD Risk & Compliance Committee with a functional reporting line to Group Compliance.

The Financial Control function enables the control framework around statutory and regulatory reporting of the Bank. The Chief Financial officer ('CFO') reports to the BOD Audit Compliance Committee with a functional reporting line to Group Finance.

## 4.4. Third Line

The Citco Group Internal Audit function acts as the 'third line'. Internal Audit assesses the effectiveness and efficiency of the Bank's control framework and provide solicited and unsolicited advice designed to add value and improve the operations, processes, systems and control environment. It assists the Bank in accomplishing its objectives by bringing a systematic, disciplined approach to evaluating and reporting on the effectiveness of risk management, controls, and governance processes. The scope of the work of the Internal Audit function includes all processes, systems, businesses and functions of the Bank. The Chief Internal Auditor ('CIA') reports to the BOD Audit Committee with a functional reporting line to Group Internal Audit and provides regular reports to SM of the Bank. The Internal Audit function works closely with the external independent auditors to plan audit coverage of the Bank.

## 4.5. Risk Appetite and Risk Management

The ERM framework of CBCAN identifies main risk categories at the top of a comprehensive risk taxonomy, which enables consistent risk identification and reporting. All risks that the Bank is exposed to roll up to the main categories in the risk taxonomy. The Risk Appetite and Strategy as defined by SM is approved by the BOD on a yearly basis.

The Bank sets out its approach to managing risk within Risk Appetite through its ERM Framework as identifying, assessing, mitigating, monitoring and reporting risks. The Bank utilises a wide range of risk assessment tools in its approach and the ICAAP and internal Legal Entity Risk Assessments support the identification and assessment of key risks to the Bank

In each risk category (or subcategory), a Risk Appetite is quantified based on probability and impact to give a Risk Assessment Grade ('RAG') on the following scale:

- Low;
- Minor;
- Medium; or
- High.

In addition to this grading, risk objectives have been defined using a mix of quantitative and qualitative statements. Capital allocated to the Risk Appetite is defined as capital that the Bank is willing to put at risk to achieve its strategic objectives during the year and is taken from capital held over and above regulatory minimum requirements. CBCAN's Overall Risk Appetite is set to 'Minor'. The first and foremost priority of the Bank is the protection of depositors' money, a priority that is higher than the return on capital or return on assets.

#### 4.5.1. Credit Risk

Credit Risk is defined as the current or prospective risk arising from a client or counterparty's failure to meet the terms of any contract with CBCAN or its failure to perform as agreed. The Bank accepts a limited level of credit risk in its investments and in providing products and services to clients, but will prioritise conservation of capital over higher-risk investments. The Credit Risk Appetite is viewed through a lens of realized losses and IFRS 9 Expected Credit Losses.

CBCAN's key investments are predominantly:

- Overnight and very short term deposits or securities. The placements are done mostly with bank counterparties with the highest credit rating<sup>4</sup>; and
- Direct lending. CBCAN has limited exposure to direct lending counterparties. Direct lending is only performed for highly collateralized exposures.

The following Credit Risk subcategories have been identified by CBCAN based on its key investments:

- Counterparty Default: the risk that the counterparty defaults and cannot pay back the funds that the Bank placed or invested with it. This includes Counterparty Credit 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 foreign exchange ('FX') trades is unable to provide sufficient collateral or to repay the loan when due; and
- Concentration: the risk that the Bank has an aggregate exposure to an asset held as collateral or to a counterparty used for investment, cash placement or FX, that has the potential to produce losses large enough (relative to the Bank's capital, total assets, or overall risk level) to threaten the Bank's health or ability to maintain its core operations.

The objective for managing Credit Risk is to minimize exposure to Counterparty Credit Risk by maintaining a strict internal limit system, monitoring concentrations and credit deterioration. Credit Ratings, Credit Default Swap spreads and expert judgement are used to set maximum exposure and tenor limits by counterparty and are updated daily. CBCAN applies default definition that is in line with Basel. Exposures – including deteriorations and non-performance – are governed by the Credit Risk Management Policy and associated daily monitoring systems; to

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<sup>4</sup> Credit Rating not lower than A-1 (Short-term, S&P equivalent)

ensure the conservative credit Risk Appetite is maintained. The BOD has determined that the Risk Appetite for Credit Risk can be classified as ‘Minor’.

The Bank manages credit risk within appetite through following guidelines in the Credit Risk Management Policy (which also covers CCR) and limits set in the Risk Appetite Statement and Bank Authorities document. The first and foremost priority of the Bank is the protection of depositors’ money, a priority that is higher than the return on capital or return on assets. This drives a focus on prudent risk management.

Exposures are monitored by the business and independently by Risk Management

The Bank operates as a simple treasury bank and most credit exposures are overnight interbank exposures with approved counterparties, which are monitored daily through the Bank’s Counterparty Risk Monitoring System (‘CRMS’), which dynamically adjusts maximum exposures by size and tenor each day. The CRMS methodology utilises long-term credit ratings from Moody’s, Standard & Poor’s and Fitch alongside Credit Default Swap (‘CDS’) spreads to create an internal CRMS Credit Score, which is used to determine the maximum allowable exposure and tenor for each counterparty. This approach has been back tested and supports the Bank’s approach, which does not rely on netting, collateral or off-balance sheet exposures to mitigate its largest exposures to credit risk. The Bank does not work with Central counterparties (‘CCP’). CBCAN does not invest in products which would create high correlation between specific counterparty’s probability of default and underlying exposure, thus is not exposed to the wrong-way risk.

#### 4.5.2. Market Risk

Market Risk is defined as CBCAN’s current or prospective risk to earnings and capital arising from adverse movements in market variables mainly interest rates and foreign exchange rates. This risk can arise from dealing and position taking in securities, currencies, or derivatives. CBCAN’s functional currency is USD.

The objective with respect to Market Risk is to minimise any exposure. Therefore SM has determined that the overall Risk Appetite towards Market Risk as ‘Low’. As CBCAN does not make any investments with intent to trade, no trading book has been established. The Bank does not seek to bear material FX risk as part of its business model. The Interest Rate Risk Appetite is set as risk-accepting volatility in earnings as long as the business model is sustainable. As the Bank does not operate a trading book, so market risk is limited to risks on the banking book, which are identified as FX risk and interest rate risk.

The Bank manages market risk within appetite through following guidelines in the Market Risk Management Policy and limits set in the Risk Appetite Statement and Bank Authorities document. Strict limits described in the Market Risk Management Policy are in place and daily monitoring and reporting on those limits to the ALCO and the SMRC are key to the ongoing objective to minimize Market Risk.

The Bank manages FX risk by matching investments and deposits in the same currency or through use of currency swaps to avoid creating a material FX Net Open Position (‘NOP’). The FX NOP is monitored daily and reported to ALCO Monthly and SMRC quarterly against internal limits and a significant NOP on an aggregate level would be escalated for resolution.

The Bank manages interest rate risk through limiting mismatch between assets and liabilities and through management setting the administered rate of funding, providing flexibility to pass on interest rate shocks. The Bank’s funding is through operational clients and the deposits are not placed to seek yield. As a result, all funding is

at or below the market rate of interest. The Bank reports Earnings at Risk and Economic Value of Equity to ALCO and SMRC quarterly and monitors against internal limits.

#### 4.5.3. Liquidity Risk

Liquidity Risk is the inability to meet payment obligations when they fall due and to replace funds when they are withdrawn.

The following main Liquidity Risks have been identified:

- Funding Liquidity Risk is the risk that the Bank will not be able to efficiently meet both expected and unexpected current and future flows and collateral needs without affecting either daily operations or the financial condition of the Bank; and
- Market Liquidity Risk is the risk that the Bank cannot easily offset or eliminate a position without significantly affecting the market price because of inadequate market depth or market disruption.

The Bank has a 'Minor' appetite for Liquidity Risk and seeks to protect clients' deposits above maximising profitability and seeks to have sufficient liquidity to survive severe stresses. The Bank wants to maintain the ability to repay clients on demand at all times. No capital is allocated against Liquidity Risk, which is managed through a framework of limits.

The Bank calculates and sets limits on at least an annual basis. The main source of liquidity risk is through outflows of client funds, which are forecast daily and assessed through a range of stress testing to calculate limits at least annually, which are reviewed by CBCAN ALCO and approved by SM.

The Bank does not seek funding, instead conservatively places deposits received by operational clients. The objective is to maintain a liquid balance sheet by applying appropriate maturity transformation limits and following an investment strategy aligned to the liquidity of the liabilities. Active monitoring of key regulatory and internal limits and ratios is in place alongside regular liquidity stress testing performed and reported to the ALCO to ensure liquidity is sufficient. Liquidity stress testing covers a range of idiosyncratic, market-wide and combined scenarios which are slow-developing and fast-developing and are monitored by ALCO monthly. The Bank has a Contingency Funding Plan as a series of actions that could be taken to maximise liquidity, however the balance sheet is typically nearly entirely overnight liquidity and little further increases would be needed. Management of Liquidity Risk ensures CBCAN remains fully flexible in the event of sudden changes in the liabilities side of the balance sheet.

The Bank manages liquidity risk within appetite through following guidelines in the Liquidity Risk Management Policy and limits set in the Risk Appetite Statement and Bank Authorities document.

The Bank has limits on minimum liquidity balances and maximum maturity transformation levels, which are monitored daily by Risk Management and reviewed by ALCO monthly and SMRC quarterly to ensure the Bank maintains sufficient liquidity. Given the conservative appetite, the appetite for maturity transformation is very limited and the Bank typically holds sufficient cash at banks to cover all client deposit balances. Alongside this, Risk Management performs regular stress testing to ensure the Bank has sufficient liquidity to survive a broad range of scenarios without breaching Risk Appetite.

The Bank centralizes its liquidity risk management practices, with standalone liquidity limit setting, monitoring, and management. The Bank does not take part in intra-group lending.

The Bank held CAD 1,030.54 million (CAD 1,130.48 million at 31<sup>st</sup> December 2022) of High Quality Liquid Assets eligible in line with the Liquidity Coverage Ratio at 31<sup>st</sup> December 2023.

**TABLE 4. HQLA Level, Pre and Post Haircut, 31<sup>st</sup> December 2023 (Amounts in Millions CAD)**

Level of HQLA Assets	Pre-haircut amount	Post-haircut amount
Level-1	918.80	918.80
Level-2	111.74	111.74

HQLA definition used as per OSFI guideline/ reporting and not any internal assumptions

#### 4.5.4. Operational Risk

Operational Risk is defined as the risk of loss resulting from people, inadequate or failed internal processes and systems or from external events.

Operational Risk is inherent in a transactional organization like CBCAN. The BOD manages the Bank's operational activities to minimise Operational Risk. The Risk Appetite for Operational Risk is 'Minor'. The core Operational Risk drivers for CBCAN are data quality and business control. The Operational Risk Appetite contains the appetite for direct losses and immediate cost for mitigation of risk events.

The Bank manages operational risk within appetite through following guidelines in the Operational Risk Management Policy and limits set in the Risk Appetite Statement. Its execution by the first line is monitored by first and second line staff, in order to actively control the level of Operational Risk and potential losses within the Bank. The objective for management of Operational Risk is to minimize both the financial and reputational impacts of operational activities.

The Bank performs regular assessments on risks in its key processes through regular RCSAs, where actions may be identified and tracked to ensure that the Bank remains within Risk Appetite. The outputs of the RCSAs are used for setting up regular control testing and identifying Key Risk Indicators ('KRI'), which are also reported at the ORC. The Bank has a Risk Event Management Procedure, which dictates the steps taken for risk events, including logging and tracking key data on the Risk Management Portal ('RMP'), immediate remedial actions, root-cause analysis and longer-term action plans. The risk events are reported to the ORC monthly and notable events are discussed by SMRC. The Bank has a 'minor' Appetite for operational risk losses and has limits of realised cumulative operational losses year-to-date and as a percentage of revenues, which are reported to SMRC.

Alongside its Operational Risk Management Policy, the Bank has a Technology Risk Management Policy which sets out how the Bank manages this risk – including oversight of outsourced IT / Cyber Risk activities – and is monitored quarterly in the IT Controls Committee. SM work with IT to set the Business Strategy for Technology each year alongside this. The Bank also has a Business Continuity Management Policy, which contains its framework to maintaining operational continuity in a structured manner.

The business is supported by OCM, which is responsible for execution of the Operational Risk Management Policy and processes. In order to reduce the financial impact of operational errors and omissions, fraud, criminal activities, professional negligence and claims against directors and officers for wrongful acts, the ultimate parent of the Bank, Citco III Ltd. (and subsidiaries) has purchased a number of insurance policies through its broker. These risks are placed with rated insurers and various syndicates on international markets and provide coverage to all subsidiaries

including the Bank. For Pillar I requirements of Operation Risk the Bank applies SSA which charges 15% of Bank's average gross income taken over the last three years. Risk event are recorded in Risk Management portal for the Bank. The Risk event impacts at the Bank have historically been very low. The Pillar I charge of 15% of average revenues is judged to be sufficient to cover operational risk and SM have determined that no additional Pillar II Operational Risk charges are needed.

#### 4.5.5. Environmental Risk

The Bank also considers the potential for Climate and Environment Risk drivers in its activities. The Bank seeks to maintain a low direct exposure to incremental risks from sustainability risk drivers, including climate risks (physical and transitional) as well as low direct exposure to the financing of high impact sectors. These are seen as risk drivers of primary risks rather than a primary risk and work is ongoing to enhance their identification, assessment, mitigation, monitoring and reporting, including the adoption of a Climate and Environment Risk Management Policy.

## 4.6. Monitoring and reporting

Risk monitoring is carried out on a periodic basis by both first and second line, to ensure compliance with regulatory requirements and the Risk Appetite of CBCAN. Key internal metrics on Credit Risk, Market Risk and Liquidity Risk are reported daily on the Risk Management website, accessible by all staff of CBCAN. The Operational Control Management function reports on execution of operational risk management tools including risk event management, risk and control self-assessment and control testing.

## 4.7. Capital

Subsection 485(1) of the Bank Act requires banks to maintain adequate capital. The Capital Adequacy Requirements Guideline is not made pursuant to subsection 485(1) of the Bank Act. However, the capital standards set out in this guideline together with the leverage requirements set out in the Leverage Requirements Guideline provide the framework within which the Superintendent (OSFI) assesses whether a bank maintains adequate capital pursuant to the Act.

For this purpose, the Superintendent has established two minimum standards: leverage ratio, described in the Leverage Requirements Guideline, and the risk-based capital ratio described in the Capital Adequacy Requirements Guideline. The first test provides an overall measure of the adequacy of an institution's capital. The second measure focuses on risk faced by the institution. Notwithstanding that a bank may meet these standards the Superintendent may direct a bank to increase its capital under subsection 485(3) of the Bank Act.

Citco Bank Canada uses capital adequacy ratios established by SM and approved by the BOD. These ratios measure capital adequacy by comparing the Bank's eligible capital with its balance sheet assets, off-balance sheet commitments and market and other risk positions at weighted amounts to reflect their relative risk.

During 2023, the implementation of the final Basel III reforms based on OSFI guidelines were implemented by the Bank. The Bank's capital adequacy had no material impact. The Bank's equity consists entirely of CET1 components and is fully available for capital adequacy calculations under Basel III. Therefore, the Bank did not need to set transitional targets to allow the phasing in of regulatory adjustments and phasing out of non-qualifying regulatory capital instruments as contemplated in Basel III.

## 5. Remuneration Policy

The remuneration policy of the Bank applies to the Bank and its employees.

The BOD has adopted this remuneration policy as per the proposal of the Chief Executive Officer ('CEO') and Senior Management (hereafter referred to jointly as the "SM"). The BOD has also approved that part of the remuneration policy which applies to SM.

The actual approval of the remuneration for the BOD is the responsibility of the shareholders at the General Meeting. The BOD is responsible for reviewing the performance and approving the compensation of the CEO and SM in line with the Bank's strategy and risk appetite, objectives and values, taking into account the long-term interests of the Bank, the relevant international context and wider societal acceptance and the Bank's Remuneration Policy.

In addition to following Citco's internal process, the Board must approve the performance review and compensation for all Oversight Function Employees.

The approval of remuneration of all employees, other than BOD, Oversight Functions and SM, is the responsibility of SM.

This policy is to be read in conjunction with the remuneration clauses as embedded in the BOD Charter as well as the SM Charter and are an integral part of this policy. For ease of reference, the relevant excerpts of these two charters are quoted in this document.

### 5.1. Purpose

The policy reflects the Bank's objectives for good corporate governance as well as sustained and long-term interests for the Bank. In addition, it ensures that:

- the Bank is able to attract, develop and retain high-performing and motivated employees in a competitive, international market;
- employees are offered a competitive remuneration package ;
- employees act within the risk appetite of the Bank by making any variable remuneration risk neutral;
- employees feel encouraged to create sustainable results;
- the Bank's strategy is supported.

### 5.2. Remuneration Components

The various remuneration components are combined to ensure an appropriate and balanced remuneration package that reflects the business unit, the employee's rank in the Bank and professional activity as well as market practice. Employment contracts do not contain any variable components. The five remuneration components are:

- fixed remuneration (including fixed supplements)
- performance-based remuneration



- pension schemes
- other benefits
- severance payment

The fixed remuneration is determined on the basis of the role of the individual employee, including responsibility and job complexity, performance and local market conditions. This is part of the employment agreement including adjustments on salary as a result of annual reviews. This fixed component represents a sufficiently high proportion of the total remuneration in order to ensure that the total remuneration will not depend on performance-based remuneration to obtain the purposes as set out by this policy. It will also allow the operation of a fully flexible policy on performance-based remuneration, including the possibility to pay no variable remuneration component.

The performance-based remuneration motivates and rewards dedicated performers who contribute significantly to the realization of the Bank's strategic and business targets and long-term interests in their respective function. The performance-based remuneration is a discretionary management tool and is based on a combination of the assessment of the employee and of the overall result of the Bank. Only non-financial performance criteria are taken into account to prevent and discourage non authorized risk taking outside of the risk appetite of the Bank. This remuneration varies according to the type of position held and is never a "right" as it is not embedded in employment agreements.

The performance-based remuneration is awarded in a manner which promotes sound risk management and does not induce excessive risk-taking and respects the risk appetite of the Bank. Disbursed as well as non-disbursed components are subject to claw back without compensation if granted on the basis of data which has subsequently proven to be manifestly misstated. The Bank does not offer guaranteed bonuses and as a rule does not award sign-on bonuses.

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Pension schemes In general, the Bank pays 100% of the pension contributions for all employees to the pension fund, up to 5% of their annual fixed remuneration. The pension scheme is a defined contribution plan. The Bank does not award discretionary pensions.

Other benefits are awarded on the basis of individual employment contracts and local market practice.

Severance payments are payable in accordance with relevant employment laws and industry specific regulations, including but not limited to the Canada Labour Code and common law. Payments related to early termination of a contract reflect performance achieved over time and do not reward failure.

## 5.3. Awarding Remuneration Components

At the annual performance and appraisal interview, the individual employees and managers evaluate and document performance and set new documented goals. Decisions on adjustment of the employee's remuneration are made on the basis of this process.

The Bank will normally only pay performance-based remuneration in case:

- the Bank is profitable in the relevant year.
- the Bank's profitability prospect is such that awarding this remuneration is financially responsible.
- the Bank's risk, capital and liquidity limits are not exceeded by awarding this remuneration.

Performance-based remuneration pools must be based on an assessment of the Bank's budget performance and a number of KPIs reflecting the trend in the Bank's focus areas. The performance-based remuneration pool is determined taking into account the following KPI's:

- Profit before tax compared with budget
- Assessment of risk-adjusted return
- Cost development
- Change in customer satisfaction
- Compliance with internal business procedures

For awarding individual performance-based remuneration the following factors are taken into account:

- Realization of personal and departmental objectives
- Contributing to the Bank's objectives within the set risk appetite
- Performance beyond expectations
- Operating with integrity

Operational or compliance incidents are also taken into account when awarding individual performance-based remuneration, both at individual as well as departmental level. Breaches of the Bank's risk appetite are taken into consideration in order to align individual performance-based remuneration with the Bank's objectives.

SM Members are subject to a minimum percentage for deferred variable remuneration of 40% over a minimum of four years.

Awarded variable remuneration remain in place after termination of the contract and are subject to the normal claw back provisions.

## 5.4. Governance

Once a year the BOD monitors compliance with this policy. The BOD will pay attention to:

- costs incurred by the Bank in the financial year in relation to SM remuneration, distinguishing fixed salary, variable salary, if any, and the annual bonus (cash, shares or other), if any;
- performance-based remuneration, if any is (proposed to be) included in the remuneration policy, the criteria for awarding such remuneration, the methods that will be applied in order to determine whether the criteria for variable remuneration and bonus have been fulfilled, the possible outcomes of such remuneration and how they may affect the performance of the SM members;
- current pension schemes and the related financing costs;
- agreed arrangements for the (early) retirement of SM members; and
- elements above in as far as applicable to previous SM members and the members of the BOD in case the costs involved are incurred in the previous financial year

Following its charter the BOD will:

- oversee that the Bank implements a remuneration policy concerning the CEO and SM, the BOD and employees whose professional activities have a material impact on the risk profile of the Bank, that is in line with the Bank's strategy and risk appetite, objectives and values, taking into account the long-term interests of the Bank, the relevant international context and wider social acceptance and regulatory policy on controlled remuneration;
- recommend to the general meeting of shareholders of the Bank ("General Meeting") the remuneration of the CEO and individual members of SM in line with the Bank's remuneration policy; amend (to be or already awarded) variable remuneration of individual members of SM because the variable remuneration is unreasonable given extraordinary circumstances;
- claw back all (or a part of if applicable) a bonus awarded to an individual member of SM, if the granting of the bonus was done based on incorrect information regarding the bonus criteria or occurrence of circumstances that were a requirement for the granting of the bonus.

It is SM's responsibility in adopting, after having obtained approval of the BOD, and furthermore implementing and monitoring the Bank's remuneration policy and determining the principles for the Bank's overall employee remuneration policy, except for the remuneration policy concerning the SM which is implemented and evaluated by the BOD.

Annually the BOD approves the proposal of the SM for the performance-based remuneration that exceeds the PFP threshold for all individual staff members.

## 5.5. Remuneration of the BOD

Members of the BOD receive a fixed compensation only. The basic fee of a BOD member is set at a level that is on par with the market and reflects the qualifications and contribution required in view of the Bank's complexity, the extent of the responsibilities and the number of BOD meetings. No pension contributions are payable on BOD members' fees. Members of the BOD receive no performance-based remuneration.

The General Meeting of the shareholders shall determine the remuneration of each member of the BOD in line with the Bank's remuneration policy.

## 5.6. Remuneration of Senior Management

The remuneration of SM is to ensure the Bank's continued ability to attract and retain the most qualified SM members and a good basis for succession planning. In connection with the annual assessment of the remuneration of SM, developments in market practice are assessed systematically. The remuneration of SM consists of fixed remuneration, performance-based remuneration and pension schemes. Members of SM are also entitled to a car allowance, free phone and other fixed benefits.

In fixing the remuneration of SM, the following requirements must be observed:

- the total income of a member of the SM shall be in reasonable proportion to the Bank's Remuneration Policy;
- when performance-based remuneration is awarded to SM, the long-term component shall be taken into account as well as profitability and/or continuity of the Bank.

The performance-based remuneration for members of SM has a maximum of 40% of the fixed annual income. In the event of a member's involuntary dismissal, the standard remuneration is up to one year's salary (the 'fixed' remuneration component). It may be increased to two years at the discretion of the BOD. For severance payments see above.

The BOD is responsible for reviewing the performance and approving the compensation of the CEO and SM in line with the Bank's strategy and risk appetite, objectives and values, taking into account the long-term interests of the bank, the relevant international context and wider societal acceptance and the Bank's Remuneration Policy.

## 5.7. Remuneration of the Control Functions

The remuneration of employees working in control (oversight) functions is predominantly fixed. Any performance-based remuneration is subject to (mainly) function specific performance criteria. Performance assessment is done by their hierarchical superiors. Control (oversight) functions can vary per legal entity, but include as a minimum: risk management, compliance, finance and audit. The BOD is responsible for reviewing their performance and approving the compensation of the heads of the Control (oversight) functions.

## 5.8. Remuneration of Risk Takers

The remuneration of risk takers is predominantly fixed. Any performance-based remuneration is subject to (mainly) function specific performance criteria. Performance assessment is done by their hierarchical superiors. Risk takers are identified to be the CEO and SM.

## 6. Frequency of updates

The Bank provides quantitative disclosure information on a quarterly basis and the qualitative disclosure information on an annual basis to its stakeholders. When information on risk exposure, monitoring or capital levels is significantly changed after publication of the Annual report and the BOD is of the opinion that the changes need to be communicated to its stakeholders, appropriate disclosures will be made on an ad hoc basis. It is up to the BOD discretion to determine how the various stakeholders will be informed accordingly.

## 7. Validation of Information

Validation of the information disclosed will be done by Group Internal Audit (GIA).

## 8. Annual review

This disclosure will be reviewed at least on an annual basis, or in the event deemed necessary more frequently.

## Appendix I – Remuneration Quantitative Disclosures 2023

Description		Number of Individuals		Amount (in CAD)	
		2023	2022	2023	2022
1	Number of employees having received a variable remuneration award during the financial year.	None	None	None	None
2	Number and total amount of bonuses awarded during the financial year.	23	21	\$283,685	\$284,146
3	Number and total amount of sign-on awards made during the financial year.	None	None	\$0	\$0
4	Number and total amount of severance payments made during the financial year.	None	None	\$0	\$0
5	Total amount of outstanding deferred remuneration, split into cash, shares and share-linked instruments and other forms.	Cash=23 Shares = None Share linked = None	Cash = 21 Shares = None Share linked = None	Cash = \$283,685 Shares = 0 Shares linked = 0	Cash = \$284,146 Shares = 0 Share linked = 0
6	Total amount of deferred remuneration paid out in the financial year	21	18	\$248,146	\$167,767

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7	Breakdown of amount of remuneration awards for the financial year to show:				
	a. Fixed and variable	32	34	\$0 variable, \$283,685 performance-based, \$3,964,917 fixed	\$0 variable, \$284,146 performance-based, \$3,927,921 fixed
	b. Deferred and non-deferred	32	34	\$283,685 deferred, \$3,964,917 non deferred	\$284,146 deferred, \$3,927,921 non-deferred
	c. Different forms used (cash, shares and share-linked instruments, other forms)			Cash only	Cash only
8	Quantitative information about employees' exposure to implicit (e.g. fluctuations in the value of shares or performance units) and explicit adjustments (e.g. malus, clawbacks or similar reversals or downward revaluations of awards) of deferred remuneration and retained remuneration:				
	a. Total amount of outstanding deferred remuneration and retained remuneration exposed to ex post explicit and/or implicit adjustments.	None	None	-	-
	b. Total amount of reductions during the financial year due to ex post explicit adjustments.	None	None	-	-
	c. Total amount of reductions during the financial year due to ex post implicit adjustments.	None	None	-	-

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