

CITIBANK, N.A., JAMAICA BRANCH
FINANCIAL STATEMENTS
DECEMBER 31, 2021



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INDEPENDENT AUDITORS' REPORT

To the Directors of
CITIBANK, N.A.
[Incorporated in the U.S.A. with limited liability]

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Citibank, N.A., Jamaica Branch ("the branch"), set out on pages 5 to 80, which comprise the statement of financial position as at December 31, 2021, the statements of profit or loss and other comprehensive income, changes in head office's equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the branch as at December 31, 2021, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and the Jamaican Companies Act.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). 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 branch in accordance with the International Ethics Standards Board for Accountants International Code of Ethics for Professional Accountants including International Independence Standards (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



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INDEPENDENT AUDITORS' REPORT

To the Directors of
CITIBANK, N.A.

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Report on the Audit of the Financial Statements (Continued)

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

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the Jamaican Companies Act, 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 branch'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 branch or to cease operations, or has no realistic alternative but to do so.

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

Auditors' 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 auditors' 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 ISAs will always detect a material misstatement when it 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 ISAs, we exercise professional judgement and maintain professional scepticism 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.



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INDEPENDENT AUDITORS' REPORT (CONTINUED)

To the Directors of

CITIBANK, N.A.

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Report on the Audit of the Financial Statements (Continued)

Auditors' Responsibilities for the Audit of the Financial Statements (continued)

- 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 branch'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 branch's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' 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 auditors' report. However, future events or conditions may cause the branch 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 gives a true and fair view.

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.



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INDEPENDENT AUDITORS' REPORT (CONTINUED)

To the Directors of

CITIBANK, N.A.

[Incorporated in the U.S.A. with limited liability]

Report on additional matters as required by the Jamaican Companies Act

We have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

In our opinion, proper accounting records have been maintained, so far as appears from our examination of those records, and the financial statements, which are in agreement therewith, give the information required by the Jamaican Companies Act in the manner required.

A handwritten signature of the KPMG firm in blue ink, appearing as 'KPMG' in a stylized, cursive script.

Chartered Accountants
Kingston, Jamaica

June 7, 2022

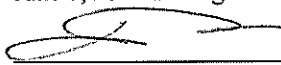
CITIBANK, N.A.
[Incorporated in the U.S.A. with limited liability]

JAMAICA BRANCH

Statement of Financial Position
December 31, 2021

		<u>2021</u>	<u>2020</u>
	<u>Notes</u>	<u>\$'000</u>	<u>\$'000</u>
ASSETS			
Cash and cash equivalents	4	12,425,736	17,733,167
Securities purchased under resale agreements	5	1,231,360	-
Loans, less allowance for impairment	6(a)	3,996,569	3,885,728
Investment securities	7	8,581,905	4,086,956
Property, plant and equipment	8	110,683	85,624
Right-of-use assets	9	240,509	42,368
Income tax recoverable		455,170	323,432
Other assets	10	353,332	129,565
Employee benefits asset	11	<u>1,564,495</u>	<u>1,351,334</u>
		<u>28,959,759</u>	<u>27,638,174</u>
LIABILITIES			
Deposits:			
Customers		22,497,966	19,787,409
Other branches and affiliates		164,328	215,530
Head office		99,465	22,349
Fellow subsidiaries		<u>165,899</u>	<u>973,131</u>
	12	22,927,658	20,998,419
Note payable	13	-	15,000
Other liabilities	14	825,795	373,544
Employee benefits obligation	11	265,630	194,787
Deferred tax liability	15	311,407	320,100
Lease liabilities	9	248,788	48,857
Securities sold under repurchase agreements	16	<u>-</u>	<u>1,600,000</u>
		<u>24,579,278</u>	<u>23,550,707</u>
HEAD OFFICE'S EQUITY			
Assigned capital	17(b)	207,609	207,609
Reserve fund	17(b)	207,609	207,609
Retained earnings reserve	17(c)	2,702,432	2,702,432
Fair value reserve	17(d)	(14,098)	73,150
Loan loss reserve	17(e)	42,091	42,413
Other reserve	17(f)	697,575	640,902
Unremitted profits		<u>537,263</u>	<u>213,352</u>
		<u>4,380,481</u>	<u>4,087,467</u>
		<u>28,959,759</u>	<u>27,638,174</u>

The financial statements on pages 5 to 80 were approved for issue by the Country Coordinating Committee on June 7, 2022 and signed on its behalf by:


 Citi Country Officer
 Eva Lewis


 Citi Financial Officer
 Denis L. Gray

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JAMAICA BRANCH

Statement of Profit or Loss and Other Comprehensive Income
December 31, 2021

		<u>2021</u>	<u>2020</u>
	<u>Notes</u>	<u>\$'000</u>	<u>\$'000</u>
Interest income calculated using the effective interest model:			
Interest on loans		173,956	121,768
Interest on deposits with banks		34,433	125,681
Interest on investment securities		244,276	176,600
		452,665	424,049
Interest expense		(35,691)	(49,378)
Net interest income	18	416,974	374,671
Fees and commissions	19(a)	137,163	126,261
Gains from securities trading		22,046	64,887
Fair value gain equity investment		-	12,072
Other operating revenue:			
Foreign exchange gains		588,847	466,816
Inter-company revenue earned in relation to geographic revenue attribution project	19(b)	926,162	708,868
Other		12,291	27,688
		2,103,483	1,781,263
Operating Expenses:			
Staff costs	20(a)	507,267	496,749
Depreciation (including depreciation on lease)	9	124,547	135,483
Other	20(b)	915,937	797,025
		1,547,751	1,429,257
Profit before income tax	21	555,732	352,006
Income tax expense	22	(232,143)	(165,858)
Profit for the year		323,589	186,148
Other comprehensive income:			
Item that will not be reclassified to profit or loss:			
Remeasurement of defined benefit asset, net of taxation		(40,383)	(262,894)
Item that is or may be reclassified subsequently profit or loss:			
Change in fair value of investment securities at fair value through other comprehensive income, net of taxation		43,334	(37,517)
Total other comprehensive income		2,951	(300,411)
Total comprehensive income/(loss)		326,540	(114,263)

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JAMAICA BRANCH

Statement of Changes in Equity
December 31, 2021

	Assigned capital	Reserve fund	Retained earnings	Fair value	Loan loss reserve	Other reserve	Unremitted profits	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
	[Note 17(a)]	[Note 17(b)]	[Note 17(c)]	[Note 17(d)]	[Note 17(e)]	[Note 17(f)]		
Balances as at December 31, 2019	207,609	207,609	1,528,592	110,667	21,690	903,796	1,221,767	4,201,730
Total comprehensive income:								
Profit for the year	—	—	—	—	—	—	186,148	186,148
Other comprehensive income:								
Remeasurement of defined benefit asset, net of taxation	—	—	—	—	—	(262,894)	—	(262,894)
Change in fair value of investments, net of taxation	—	—	—	(37,517)	—	—	—	(37,517)
Other comprehensive income for the year	—	—	—	(37,517)	—	(262,894)		(300,411)
Total comprehensive income for the year	—	—	—	(37,517)	—	(262,894)	186,148	(114,263)
Transfers	—	—	1,173,840	—	20,723	—	(1,194,563)	—
Balance as at December 31, 2020	207,609	207,609	2,702,432	73,150	42,413	640,902	213,352	4,087,467
Total comprehensive income:								
Profit for the year	—	—	—	—	—	—	323,589	323,589
Other comprehensive income:								
Remeasurement of defined benefit asset, net of taxation	—	—	—	—	-	56,673	—	56,673
Change in fair value of investments, net of taxation	—	—	—	(87,248)	—	—	—	-87,248
Other comprehensive income for the year	—	—	—	(87,248)	-	56,673	323,589	293,014
Total comprehensive income for the year	—	—	—	(87,248)	-	56,673	323,589	293,014
Transfers	-	-	-	-	(322)	-	322	-
Balances December 31, 2021	207,609	207,609	2,702,432	(14,098)	42,091	697,575	537,263	4,380,481

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Statement of Cash Flows

Year ended December 31, 2021

	Notes	<u>2021</u> \$'000	<u>2020</u> \$'000
Cash flows from operating activities			
Profit for the year		323,589	186,148
Adjustments for:			
Depreciation	8,9	124,547	135,483
Loss allowance on financial asset		(5,011)	(11,760)
Interest income	19	(452,665)	(424,049)
Interest expense	19	35,691	49,378
Income tax expense	22(a)	215,248	165,858
Unrealised foreign exchange gains		119,256	53,378
Employee benefits asset/obligation		(52,743)	(47,491)
		<u>307,912</u>	<u>106,945</u>
Changes in:			
Loans		(289,107)	(1,566,302)
Employee benefits asset/obligation		(85,645)	(4,075)
Other assets		148,929	719,660
Deposits		1,512,572	6,308,602
Other liabilities		<u>1,768,089</u>	<u>(27,177)</u>
		<u>3,362,750</u>	<u>5,537,653</u>
Interest received		310,026	424,917
Interest paid		(35,730)	(46,699)
Income tax paid		<u>(358,139)</u>	<u>(336,799)</u>
Net cash provided by operating activities		<u>3,278,907</u>	<u>5,579,072</u>
Cash flows from investing activities			
Investment securities		(5,128,301)	(693,736)
Resale agreements		(1,231,360)	918,216
Purchase of property, plant and equipment	8	(78,404)	(28,025)
Leases		—	—
Net cash used/(provided) by investing activities		<u>(6,438,065)</u>	<u>196,455</u>
Cash flows from financing activities			
Securities sold under resale agreements		(1,600,000)	200,000
Notes payable		(15,000)	(20,000)
Payment of lease liabilities	9	1,791	(117,557)
Net cash (used)/provided by financing activities		<u>(1,613,209)</u>	<u>62,443</u>
Net (decrease)/increase in cash and cash equivalents		<u>(4,772,367)</u>	<u>5,837,970</u>
Effect of exchange rate fluctuations on cash and cash equivalents		(535,064)	(725,986)
Cash and cash equivalents at beginning of year		<u>17,733,167</u>	<u>12,621,183</u>
Cash and cash equivalents at end of year	4	<u><u>12,425,736</u></u>	<u><u>17,733,167</u></u>

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JAMAICA BRANCH

Notes to the Financial Statements
Year ended December 31, 2020

1. Identification

Citibank, N.A., Jamaica Branch (“the branch”) is domiciled in Jamaica and is a branch of Citibank, N.A. (“Head office”). Its ultimate holding company is Citigroup Inc. Both Citibank, N.A. and its ultimate holding company are incorporated in the United States of America. The branch operates in Jamaica and is licenced under the Banking Services Act 2014 (Banking Services Act). The branch is regulated by Bank of Jamaica and its principal place of business is located at 19 Hillcrest Avenue, Kingston 6.

The principal activities of the branch are banking and related financial services.

2. Statement of compliance and basis of preparation

(a) Statement of compliance:

The financial statements are prepared in accordance with International Financial Reporting Standards (“IFRS”) and comply with the relevant provisions of the Jamaican Companies Act (“the Act”).

New and amended standards issued but not yet effective

At the date of authorisation of these financial statements, certain new and amended standards have been issued which were not effective at the reporting date and which the branch has not early-adopted. The branch has assessed them with respect to its operations and has determined that the following are relevant to its financial statements:

- i. Amendments to IAS 1 *Presentation of Financial Statements*, will apply retrospectively for annual reporting periods beginning on or after 1 January 2023. The amendments promote consistency in application and clarify the requirements on determining if a liability is current or non-current.

Under existing IAS 1 requirements, companies classify a liability as current when they do not have an unconditional right to defer settlement of the liability for at least twelve months after the end of the reporting period. As part of its amendments, the requirement for a right to be unconditional has been removed and instead, now requires that a right to defer settlement must have substance and exist at the end of the reporting period. A company classifies a liability as non-current if it has a right to defer settlement for at least twelve months after the reporting period. It has now been clarified that a right to defer exists only if the company complies with conditions specified in the loan agreement at the end of the reporting period, even if the lender does not test compliance until a later date.

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JAMAICA BRANCH

Notes to the Financial Statements
December 31, 2021

2. Statement of compliance and basis of preparation

(a) Statement of compliance:

New and amended standards issued but not yet effective (continued)

i. Amendments to IAS 1 *Presentation of Financial Statements (continued)*

With the amendments, convertible instruments may become current. In light of this, the amendments clarify how a company classifies a liability that includes a counterparty conversion option, which could be recognised as either equity or a liability separately from the liability component under IAS 32. Generally, if a liability has any conversion options that involve a transfer of the company's own equity instruments, these would affect its classification as current or non-current. It has now been clarified that a company can ignore only those conversion options that are recognised as equity when classifying liabilities as current or non-current.

ii. Amendments to IAS 1 *Presentation of Financial Statements* are effective for annual periods beginning on or after January 1, 2023 and may be applied earlier. The amendments help companies provide useful accounting policy disclosures.

The key amendments to IAS 1 include:

- requiring companies to disclose their *material* accounting policies rather than their *significant* accounting policies;
- clarifying that accounting policies related to immaterial transactions, other events or conditions are themselves immaterial and as such need not be disclosed; and
- clarifying that not all accounting policies that relate to material transactions, other events or conditions are themselves material to a company's financial statements.

The amendments are consistent with the refined definition of material:

"Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements".

iii. Amendments to IFRS 16 *Leases* are effective for annual periods beginning on or after April 1, 2021, early adoption is permitted. The amendments extend the practical expedient by 12 months – i.e. allowing lessees to apply it to rent concessions for which any reduction in lease payments affects only payments originally due on or before June 30, 2022.

The 2021 amendments are applied retrospectively with the cumulative effect of initially applying it being recognised in opening retained earnings. The disclosure requirements of Paragraph 28(f) of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* do not apply on initial application.

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JAMAICA BRANCH

Notes to the Financial Statements
December 31, 2021

2. Statement of compliance and basis of preparation (continued)

(a) Statement of compliance (continued):

New and amended standards issued but not yet effective (continued)

iv. Annual Improvements to IFRS Standards 2018-2020 cycle contain amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards*, IFRS 9 *Financial Instruments*, IFRS 16 *Leases*, and are effective for annual reporting periods beginning on or after January 1, 2022.

(i) IFRS 9 *Financial Instruments* amendment clarifies that – for the purpose of performing the ‘10 per cent test’ for derecognition of financial liabilities – in determining those fees paid net of fees received, a borrower includes only fees paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other’s behalf.

(ii) IFRS 16 *Leases* amendment removes the illustration of payments from the lessor relating to leasehold improvements.

v. Amendments to IAS 37 *Provision, Contingent Liabilities and Contingent Assets* is effective for annual reporting periods beginning on or after January 1, 2022 and clarifies those costs that comprise the costs of fulfilling the contract.

The amendments clarify that the ‘costs of fulfilling a contract’ comprise both the incremental costs – e.g. direct labour and materials; and an allocation of other direct costs – e.g. an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract. This clarification will require entities that apply the ‘incremental cost’ approach to recognise bigger and potentially more provisions. At the date of initial application, the cumulative effect of applying the amendments is recognised as an opening balance adjustment to retained earnings or other component of equity, as appropriate. The comparatives are not restated.

vi. Amendments to IAS 1 *Presentation of Financial Statements*, will apply retrospectively for annual reporting periods beginning on or after January 1, 2023. The amendments promote consistency in application and clarify the requirements on determining if a liability is current or non-current.

Under existing IAS 1 requirements, companies classify a liability as current when they do not have an unconditional right to defer settlement of the liability for at least twelve months after the end of the reporting period. As part of its amendments, the requirement for a right to be unconditional has been removed and instead, now requires that a right to defer settlement must have substance and exist at the end of the reporting period. A company classifies a liability as non-current if it has a right to defer settlement for at least twelve months after the reporting period. It has now been clarified that a right to defer exists only if the company complies with conditions specified in the loan agreement at the end of the reporting period, even if the lender does not test compliance until a later date

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JAMAICA BRANCH

Notes to the Financial Statements
December 31, 2021

2. Statement of compliance and basis of preparation (continued)

(a) Statement of compliance (continued):

New and amended standards issued but not yet effective (continued)

vi. (Continued)

With the amendments, convertible instruments may become current. In light of this, the amendments clarify how a company classifies a liability that includes a counterparty conversion option, which could be recognised as either equity or a liability separately from the liability component under IAS 32. Generally, if a liability has any conversion options that involve a transfer of the company's own equity instruments, these would affect its classification as current or non-current. It has now been clarified that a company can ignore only those conversion options that are recognised as equity when classifying liabilities as current or non-current.

- vii. Amendments to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* are effective for annual reporting periods beginning on or after January 1, 2023, with early adoption permitted. The amendments introduce a new definition for accounting estimates: clarifying that they are monetary amounts in the financial statements that are subject to measurement uncertainty.

The amendments also clarify the relationship between accounting policies and accounting estimates by specifying that a company develops an accounting estimate to achieve the objective set out by an accounting policy.

Developing an accounting estimate includes both:

- selecting a measurement technique (estimation or valuation technique) – e.g. an estimation technique used to measure a loss allowance for expected credit losses when applying IFRS 9 *Financial Instruments*; and
- choosing the inputs to be used when applying the chosen measurement technique – e.g. the expected cash outflows for determining a provision for warranty obligations when applying IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

The effects of changes in such inputs or measurement techniques are changes in accounting estimates.

The branch is assessing the impact that these amendments will have on its financial statements but does not expect the impact to be significant.

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Notes to the Financial Statements
December 31, 2021

2. Statement of compliance and basis of preparation (continued)

(b) Basis of measurement:

The financial statements are prepared on the historical cost basis, modified for the inclusion of:

- (i) Investment securities classified as fair value through other comprehensive income (FVOCI) measured at fair value.
- (ii) Equity securities measured at fair value through other comprehensive income. This is based on an irrevocable election made by management in keeping with its parent company corporate policy.
- (iii) The employee medical benefit/obligation is measured at the present value of the obligation [see note 3(e)(iii)].
- (iv) The employee benefits asset is recognized as the fair value of plan assets, less the present value of the defined benefit obligation, adjusted for the effect of limiting the net defined benefit asset to the asset ceiling, [as explained in note 4(e)(ii)];
- (v) derivative financial instruments classified as fair value through profit or loss.

(c) Functional and presentation currency:

The financial statements are presented in Jamaica dollars, which is the functional currency of the branch, rounded to the nearest thousand.

(d) Accounting estimates and judgements:

The preparation of the financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect accounting policies and the reported amounts of, and disclosures relating to, assets, liabilities, contingent assets and contingent liabilities at the reporting date and the income and expenses for the year then ended. Actual amounts could differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

(i) Critical accounting judgements in applying the branch's accounting policies

Information about judgements made by management in the application of IFRS that have a significant effect on the financial statements and estimates with material uncertainty that have a significant effect on amounts in the financial statements or that have a significant risk of material adjustment in the next financial year are set out below:

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Notes to the Financial Statements
December 31, 2021

2. Statement of compliance and basis of preparation (continued)

(d) Accounting estimates and judgements (continued):

(i) Critical accounting judgements in applying the branch's accounting policies (continued)

- Classification of financial assets

The assessment of the business model within which assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and interest (SPPI) on the principal amount outstanding requires management to make certain judgements on its business operations.

- Impairment of financial assets

Establishing the criteria for determining whether credit risk on the financial asset has increased significantly since initial recognition, determining the methodology for incorporating forward-looking information into the measurement of expected credit loss (ECL) and selection and approval of models used to measure ECL requires significant judgement.

(ii) Key assumptions and other sources of estimation uncertainty

- Pension and other post-employment benefits:

The amounts recognized in the statement of financial position and the statement of profit or loss and other comprehensive income for pension and other post-employment benefits are determined actuarially using several assumptions. The primary assumptions used in determining the amounts recognized in the financial statements include the discount rate used to determine the present value of estimated future cash flows required to settle the pension and other post-employment obligations and the expected rate of increase in medical costs for post-retirement medical benefits.

The discount rate is determined based on the estimated yield on long-term government securities that have maturity dates approximating the terms of the branch's obligation; in the absence of such instruments in Jamaica, it has been necessary to estimate the rate by extrapolating from the longest-tenor security on the market. The estimate of expected rate of increase in medical costs is based on inflationary factors. Any changes in these assumptions will impact the amounts recorded in the financial statements for these obligations.

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JAMAICA BRANCH

Notes to the Financial Statements
December 31, 2021

2. Statement of compliance and basis of preparation (continued)

(d) Accounting estimates and judgements (continued):

(ii) Key assumptions and other sources of estimation uncertainty (continued)

- Allowance for impairment losses on financial assets:

The measurement of the expected credit loss allowance for financial assets measured at amortised cost and FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of obligors defaulting and the attendant losses). Explanation of the inputs, assumptions and estimation techniques used in measuring expected credit losses (ECL) is further detailed in notes 3 and 26(b).

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions (inclusive of macro-economic) for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL; and
- Establishing groups of similar financial assets for the purposes of measuring ECL.

Detailed information about the judgements and estimates made by the branch in the above areas is set out in note 26(b).

- Fair value of financial instruments

In the absence of quoted market prices, the fair value of a significant portion of the branch's financial instruments was determined by surveying market participants to obtain indicative prices.

Considerable judgement is required in interpreting market data to arrive at estimates of fair value or in interpreting market data to arrive at estimates of fair value or in selecting inputs for price estimation models, particularly since pricing inputs include data not observed in actual market transactions but indicative information. Consequently, the estimates arrived at may be significantly different from the actual price of the instrument in an arm's length transaction.

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3. Significant accounting policies

The branch has consistently applied the accounting policies as set out below to all periods presented in these financial statements.

(a) Financial instruments – Classification, recognition, derecognition and measurement

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. In these financial statements:

- Financial assets comprise cash and cash equivalents, resale agreements, investment securities, loans recoverable and other assets.
- Financial liabilities comprise deposits, notes payable, securities sold under repurchased agreements and other liabilities.

Financial instruments are classified, recognised and measured in accordance with the substance of the terms of the contracts as set out herein.

(i) Recognition and initial measurement

The branch initially recognises loans and advances and deposits on the date that they are originated. All other financial assets and financial liabilities (including assets and liabilities designated at fair value through profit or loss) are initially recognised on the trade date which is the date on which the branch becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

Immediately after initial recognition, an expected credit loss allowance (ECL) is recognised for financial assets measured at amortised cost and investments in debt instruments measured at FVOCI, which results in an accounting loss being recognised in profit or loss when an asset is newly originated.

(ii) Classification and subsequent remeasurement

Financial assets

a. Debt instruments

Classification and subsequent measurement of debt instruments depend on:

- the branch's business model for managing the asset; and
- the cash flow characteristics of the asset.

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3. Significant accounting policies (continued)

(a) Financial instruments – Classification, recognition, derecognition and measurement (continued)

(ii) Classification and subsequent remeasurement (continued)

Financial assets (continued)

Based on these factors, the branch classifies its debt instruments into one of the following three measurement categories:

a. Debt instruments (continued)

- *Amortised cost*: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest ('SPPI'), and that are not designated at FVTPL, are measured at amortised cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognised and measured as described at note 3(b). Interest income from these financial assets is included in interest income using the effective interest method.
- *Fair value through other comprehensive income (FVOCI)*: Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that are not designated at FVTPL are measured at fair value through other comprehensive income (FVOCI). Fair value gains and losses are recognised in other comprehensive income.
- *Fair value through profit or loss*: Assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognised in profit or loss.

Business model: the business model reflects how the branch manages the assets in order to generate cash flows. That is, whether the branch's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of 'other' business model and measured at FVTPL.

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3. Significant accounting policies (continued)

- (a) Financial instruments – Classification, recognition, derecognition and measurement (continued)
 - (ii) Classification and subsequent remeasurement (continued)

Financial assets (continued)

a. Debt instruments (continued)

Factors considered by the branch in determining the business model for a class of assets include:

- Past experience on how the cash flows for these assets were collected;
- How the asset's performance is evaluated and reported to key management personnel;
- How risks are assessed and managed; and
- How managers are compensated.

Solely payments of principal and interest (SPPI): Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the branch assesses whether the financial instruments' cash flows represent solely payments of principal and interest (the 'SPPI test'). In making this assessment, the branch considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss. Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

The branch reclassifies debt investments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and none occurred during the period.

b. Equity instruments

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets.

The branch subsequently measures all equity investments at fair value through profit or loss.

Gains and losses on equity investments at FVTPL are included in other operating revenue in the statement of profit or loss.

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3. Significant accounting policies (continued)

- (a) Financial instruments – Classification, recognition, derecognition and measurement (continued)

- (ii) Classification and subsequent remeasurement (continued)

Financial liabilities

Financial liabilities are classified as measured at amortised cost.

- (iii) Derecognition

The branch derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the branch neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in other comprehensive income (OCI) is recognised in profit or loss.

Any cumulative gains or losses recognised in OCI in respect of equity investment securities designated as at FVOCI is not recognised in profit or loss on derecognition of such securities. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the branch is recognised as a separate asset or liability.

The branch derecognises a financial liability when its contractual obligations are discharged, cancelled or expired.

- (iv) Offsetting:

Financial assets and liabilities are offset and the net amount presented in the statement of financial position only when the branch has a legally enforceable right to set off the recognized amounts and it intends to settle on a net basis or to realise the assets and settle the liability simultaneously.

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3. Significant accounting policies (continued)

- (a) Financial instruments – Classification, recognition, derecognition and measurement (continued)

- (v) Fair value measurement principles:

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Determination of fair values:

A financial asset or liability is measured initially at fair value. The best evidence of fair value at initial recognition is the transaction price, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets.

When a transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any difference between this price and the value initially obtained from a valuation model is subsequently recognised in profit or loss, or other comprehensive income for changes in the fair value.

The fair value of cash and cash equivalents, resale agreements, cheques and other items in transit, other assets, repurchase agreements and other liabilities are considered to approximate their carrying value.

The fair value of FVOCI securities are the amounts at which these securities are measured (see note 7). These values are based on quoted prices in an active market, where available, or determined by a suitable alternative method.

A market is regarded as active if quoted prices are readily and regularly available from an exchange dealer, broker or other agency and represent actual and regularly occurring market transactions on an arm's length basis. In the absence of an active market, other valuation techniques are used. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the branch and is consistent with accepted economic methodologies for pricing financial instruments.

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3. Significant accounting policies (continued)

- (a) Financial instruments – Classification, recognition, derecognition and measurement (continued)

- (v) Fair value measurement principles (continued):

Determination of fair values (continued):

Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument. Any instrument that does not have a quoted market price in an active market and whose fair value cannot be reliably measured, is measured at cost, including transaction costs, less impairment losses. Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market related rate at the reporting date for an instrument with similar terms and conditions.

The estimated fair value of loans is assumed to be the principal received less any allowance for impairment losses, as these financial assets are generally repriced when market interest rates change.

The fair value of deposits and notes payable is considered to approximate their carrying value, as they bear rates which approximate market rates prevailing at the reporting date.

- (vi) Cash and cash equivalents:

Cash and cash equivalents comprise cash on hand, cash deposited with the central bank and other short-term deposits and are classified and measured at amortised cost. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of change in value. These are held for the purpose of meeting short-term cash commitments, rather than for investment or other purposes.

- (vii) Other assets:

Other assets are classified and measured at amortized cost less impairment losses.

- (viii) Other liabilities:

Other liabilities are classified and measured at amortized cost.

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3. Significant accounting policies (continued)

(a) Financial instruments – Classification, recognition, derecognition and measurement (continued)

(ix) Resale and repurchase agreements:

Transactions involving purchases of securities under resale agreements ('resale agreements' or 'reverse repos') or sales of securities under repurchase agreements ('repurchase agreements' or 'repos') are accounted for as short-term collateralized lending and borrowing, respectively and measured at amortised cost. Accordingly, securities sold under repurchase agreements remain on the statement of financial position and are measured in accordance with their original measurement principles. The proceeds of sale are reported as liabilities and are carried at amortized cost. Securities purchased under resale agreements are reported not as purchases of the securities, but as receivables and are carried at amortized cost. It is the policy of the branch to obtain possession of collateral with a fair value in excess of the principal amount loaned under resale agreements.

The difference between the amount borrowed or invested and the amount repaid or collected is recognized as interest expense or interest income, respectively, in profit or loss over the life of each agreement using the effective interest method.

(x) Derivatives:

Derivatives are financial instruments that derive their value from the price of the underlying items such as equities, bond interest rates, foreign exchange or other indices. Derivatives enable users to increase, reduce or alter exposure to credit or market risk. The branch makes use of derivatives to manage its own exposure to foreign exchange risk. Derivatives held for risk management purposes are measured at fair value in the statement of financial position. If the derivative is not held for trading, and is not designated in a qualifying hedge relationship, all changes in its fair value are recognized immediately in profit or loss.

(b) Impairment of financial assets:

The branch recognises loss allowances for expected credit losses (ECL) on the following financial instrument that are not measured at FVTPL:

- financial assets measured at amortised cost,
- debt instruments classified as at FVOCI and
- Off-balance sheet loan commitments issued.

The branch measures loss allowances at an amount equal to 12-month ECL, except for the following which they are measured as life-time ECL:

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3. Significant accounting policies (continued)

(b) Impairment of financial assets (continued):

- debt investment securities that are determined to have high credit risk at the reporting date; and
- other financial instruments (other than receivables) on which credit risk has increased significantly since their initial recognition.

The branch considers a debt investment security to have high credit risk when its credit risk rating is equivalent to the globally understood definition.

12-month ECL is the portion of ECL that results from default events on a financial instrument that is possible within the 12 months after the reporting date. Financial instruments for which 12-month ECL is recognized are referred to as ‘Stage 1 financial instruments’.

Lifetime ECL is the ECL that results from all possible default events over the expected life of the financial instrument. Financial instruments for which a lifetime ECL is recognized but which are not credit-impaired are referred to as ‘Stage 2 financial instruments’.

Measurement of ECL

ECL is a probability-weighted estimate of credit losses and is measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls;
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of the estimated future cash flows;
- undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the branch if the commitment is drawn down and the cash flows that the branch expects to receive; and
- financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the branch expects to recover.

Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognized and ECL is measured as follows:

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flows from the existing financial asset at the time of its derecognition.

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3. Significant accounting policies (continued)

(b) Impairment of financial assets (continued):

Credit-impaired financial assets

At each reporting date, the branch assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI are credit impaired (referred to as 'Stage 3 financial assets'). A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the branch on terms that the branch would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:

- financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- loan commitments and financial guarantee contracts: generally, as a provision;
- where a financial instrument includes both a drawn and an undrawn component and the branch cannot distinguish the ECL separately, the branch presents a combined loss allowance for both components; and
- debt instruments measured at FVOCI: no loss allowance is recognized in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognized in the fair value reserve.

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3. Significant accounting policies (continued)

(b) Impairment of financial assets (continued):

Write-off

Loans and debt securities are written off when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the branch determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level.

Recoveries of amounts previously written off are included in 'impairment losses on financial instruments' in the statement of profit or loss and OCI.

The allowance to cover specific losses on the credit portfolio is maintained at a level considered adequate to provide for such loan losses that are inherent in the portfolio, and is based on management's evaluation of individual loans in the credit portfolio. Amounts are written off from the allowance whenever management has concluded that such amounts will not be recovered.

The evaluation of individual loans takes all relevant matters into consideration, including prevailing and anticipated business and economic conditions, the collateral held, the debtor's ability to repay the loan and the requirements of the Banking Services Act.

Impairment allowance based on regulatory requirements

The Banking Services Act requires that appropriate specific provision be made for all loans on which interest payments and principal repayments are ninety or more days in arrears. Bank of Jamaica has established regulations for computing the specific provisions.

Bank of Jamaica has also established regulations requiring that general provisions be made on the credit portfolio at ½% on mortgage loans and 1% on other credits.

IFRS permits only specific impairment allowances and requires that the expected future cash flows of impaired loans be discounted and any subsequent increase in the present value be reported as interest income.

The loan loss provision required under the Banking Services Act that is in excess of the requirements of IFRS is treated as an appropriation of unremitted profits and included in a non-distributable loan loss reserve [note 17(e)].

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3. Significant accounting policies (continued)

(c) Property, plant and equipment:

i. Basis of measurement:

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses.

- Relevant costs

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of material and direct labour, and any other costs directly attributable to bringing the assets to a working condition for their intended use. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

- Costs subsequent to acquisition of construction

The cost of replacing part of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part flow to the branch and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognized in profit or loss.

ii. Depreciation:

Depreciation is recognized in profit or loss on the straight-line basis at rates estimated to write-down the relevant assets over their expected useful lives to their residual values. Depreciation rates are as follows:

Motor vehicles	20%
Computers	33⅓%
Installation, furniture and equipment	10% and 20%
Leasehold improvement	over the lease term

The depreciation methods, useful lives and residual values are reassessed at each reporting date and adjusted if appropriate.

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3. Significant accounting policies (continued)

(d) Leases

At inception of a contract, the branch assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the branch uses the definition of a lease in IFRS 16.

(i) As a lessee

At commencement or on modification of a contract that contains a lease component, the branch allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices. However, for the leases of property the branch has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

The branch recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the branch by the end of the lease term or the cost of the right-of-use asset reflects that the branch will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the branch's incremental borrowing rate. Generally, the branch uses its head office's incremental borrowing rate as the discount rate.

The head office determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

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3. Significant accounting policies (continued)

(d) Leases (continued)

(i) As a lessee (continued)

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the branch is reasonably certain to exercise, lease payments in an optional renewal period if the branch is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the branch is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the head office's estimate of the amount expected to be payable under a residual value guarantee, if the head office changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The branch presents right-of-use assets that do not meet the definition of investment property in 'property, plant and equipment' and lease liabilities in the statement of financial position.

Short-term leases and leases of low-value assets

The branch has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases, including IT equipment. The branch recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

(e) Employee benefits:

Employee benefits are all forms consideration given by the branch in exchange for service rendered by employees. These include current or short-term benefits such as salaries, bonuses, NIS contributions, annual vacation leave, and non-monetary benefits such as medical care; post-employment benefits such as pensions; and other long-term employee benefits such as termination benefits.

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3. Significant accounting policies (continued)

(e) Employee benefits (continued)

(i) General benefits:

Employee benefits that are earned as a result of past or current service are recognized in the following manner: Short-term employee benefits are recognized as a liability, net of payments made, and are expensed as the related service is provided. The expected cost of vacation leave that accumulates is recognized when the employee becomes entitled to the leave.

Post employment benefits which comprise pensions and health care, are accounted for as described in paragraphs (ii) and (iii) below. Other long-term benefits, including termination benefits, which arise when either: (1) the employer decides to terminate an employee's service before the normal retirement date, or (2) an employee decides to accept voluntary redundancy in exchange for termination benefits, are accrued as they are earned during service and charged as an expense, unless not considered material, in which case they are charged when they fall due for payment.

(ii) Defined benefit pension plan

The branch has established a defined-benefit pension plan to provide post-employment pensions (see note 11).

In respect of defined-benefit arrangements, employee benefits and obligations included in the financial statements are determined annually by a qualified independent actuary, appointed by management. The appointed actuary's report outlines the scope of the valuation and the actuary's opinion. The actuarial valuations are conducted in accordance with IAS 19, and the financial statements reflect the branch's post-employment benefit asset and obligation as computed by the actuary. In carrying out their audit, the auditors rely on the work of the actuary and the actuary's report.

The branch's net obligation under its defined-benefit pension plan is calculated by estimating the amount of future benefits that employees have earned in return for their service in the current and prior periods; that value is discounted to determine the present value, and the fair value of any plan assets is deducted. The discount rate is determined by reference to the yield at the reporting date on long-term government securities with maturities approximating the terms of the branch's obligation. The calculation is performed by a qualified actuary using the projected unit credit method.

When the benefits of the plan are changed or when the plan is contracted, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognized immediately in profit or loss. The branch recognizes gains and losses on the settlement of a defined benefit plan when the settlement occurs.

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Notes to the Financial Statements
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3. Significant accounting policies (continued)

(e) Employee benefits (continued):

(ii) Defined benefit pension plan (continued)

Where the calculation results in a net benefit to the branch, the recognized asset is limited to the net present value of economic benefits available in the form of reductions in future contributions to the plan.

Remeasurements of the net defined benefit asset, which comprise actuarial gains and losses, and the effect of the asset ceiling (if any, excluding interest), are recognized in other comprehensive income. The branch determines the net interest income on the net defined benefit asset for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit asset, taking into account any changes in the net defined benefit asset during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognized in profit or loss.

(iii) Health care

The branch's obligation in respect of unfunded long-term employee health care benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. The discount rate is determined in a similar manner to the defined benefit pension plan set out above. The calculation is performed using the projected unit credit method. Remeasurements of the defined obligation and net interest expense are recognized in the same manner as described above for defined benefit pension plan.

(iv) Employee equity compensation plans

The Head Office has certain equity compensation plans under which it administers stock options, stock awards and stock purchase programs and in which the branch participates.

Under the stock award program, a specified portion of a participant's incentive compensation is made in the form of a restricted or deferred stock award. Vesting periods for restricted and deferred stock awards generally range from 3 to 5 years. The cost of providing stock awards is charged in profit or loss as the awards become vested. The amounts involved are not considered material.

All stock options are granted on Citigroup's common stock with exercise prices equal to the fair market value at the time of the grant. Options have varying terms depending on the year they were granted. The cost of the employee's exercise of the options is borne by Citigroup.

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4. Significant accounting policies (continued)

(f) Interest income and expense:

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for:

- (a) Purchased or originated credit-impaired (POCI) financial assets, for which the original credit-adjusted effective interest rate is applied to the amortised cost of the financial asset.
- (b) Financial assets that are not 'POCI' but have subsequently become credit-impaired (or 'stage 3'), for which interest revenue is calculated by applying the effective interest rate to their amortised cost (i.e., net of the expected credit loss provision).

Where collection of interest income is considered doubtful or payment is outstanding for 90 days or more, the cash basis is used. Accrued interest on loans which are in arrears for 90 days and over is excluded from income in accordance with the Banking Services Act, 2014.

IFRS requires that when collection of loans becomes doubtful, such loans are to be written down to their recoverable amounts, after which interest income is to be recognized based on the rate of interest that was used to discount the future cash flows in arriving at the recoverable amount. Future interest receipts are taken into account in estimating future cash flows from the instrument; if no contractual interest payments will be collected, then the only interest income recognized is the unwinding of the discount on those cash flows expected to be received. The branch has elected to comply with the Banking Services Act, 2014. The difference between the interest recognized under the Banking Services Act and that recognized under IFRS has been assessed as immaterial.

(g) Fees and commission:

Fee and commission income from contracts with customers is measured based on the consideration specified in a contract with a customer. The branch recognises revenue when it transfers control over a service to a customer.

Fee and commission income including account service fees are recognised as the related services are performed.

A contract with a customer that results in a recognised financial instrument in the branch's financial statements may be partially in the scope of IFRS 9 and partially in the scope of IFRS 15. If this is the case, then the branch first applies IFRS 9 to separate and measure the part of the contract that is in the scope of IFRS 9 and then applies IFRS 15 to the residual.

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3. Significant accounting policies (continued)

(g) Fees and commission (continued):

The nature and timing of the satisfaction of performance obligations in contracts with customers, including significant payment terms, and the related revenue recognition policies are as follows:

Type of service	Nature and timing of satisfaction of performance obligations, including significant payment terms.	Revenue recognition under IFRS 15.
Service fees	<p>The branch provides banking related services to customers including account management, foreign currency transactions and servicing fees.</p> <p>Transaction-based fees such as credit bureau fees are charged to the customers' account when the transaction takes place.</p> <p>Servicing fees are charged on a monthly basis and are based on fixed rates determined by the branch.</p>	<p>Revenue from account services and servicing fees is recognised over time as the services are provided.</p> <p>Revenue related to transactions is recognised at the point in time when the transaction takes place.</p>

(h) Foreign currency:

Transactions in foreign currencies are translated into the branch's functional currency at the spot exchange rate at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated into the functional currency at the spot exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the spot exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated into the functional currency at the spot exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognized in profit or loss. Non-monetary assets and liabilities are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

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3. Significant accounting policies (continued)

(i) Income tax expense:

Income tax on the profit or loss for the year comprises current and deferred income tax. Income tax is recognized in profit or loss, except to the extent that it relates to items recognized in other comprehensive income, in which case it is also recognized in other comprehensive income.

(i) Current income tax:

Current income tax is the expected tax payable on the taxable income for the year, using tax rates enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

(ii) Deferred income tax:

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on the reversal of relevant taxable temporary differences. If the amount of taxable temporary differences is insufficient to recognize a deferred tax asset in full, then future taxable profits, adjusted for reversals of existing temporary differences, are considered, based on the business plan for the branch. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised; such reductions are reversed when the probability of future taxable profits improves.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted at the reporting date.

(j) Impairment of non-financial assets:

The carrying amounts of the branch's non-financial assets are reviewed at each reporting date to determine whether there is objective evidence of impairment. If any such evidence exists, the asset's recoverable amount is estimated. An impairment loss is recognized whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognized in profit or loss.

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3. Significant accounting policies (continued)

(i) Impairment of non-financial assets (continued):

(i) Calculation of recoverable amount:

The recoverable amount of non-financial assets is the greater of their net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

(ii) Reversals of impairment:

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(k) Related parties:

A related party is a person or entity that is related to the branch.

(1) A person or a close member of that person's family is related to the branch if that person:

- (i) has control or joint control over the branch;
- (ii) has significant influence over the branch; or
- (iii) is a member of the key management personnel of the branch or of a parent of the branch.

(2) An entity is related to the branch if any of the following conditions applies:

- (i) The entity and the branch are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

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3. Significant accounting policies (continued)

(k) Related parties (continued):

(2) An entity is related to the branch if any of the following conditions applies (continued):

- (iii) Both entities are joint ventures of the same third party.
- (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- (v) The entity is a post-employment benefit plan for the benefit of employees of either the branch or an entity related to the branch.
- (vi) The entity is controlled or jointly controlled by a person identified in (1).
- (vii) A person identified in (1)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
- (vii) The entity, or any member of a group of which it is part, provides key management personnel services to the branch or to the parent of the branch.

A related party transaction is a transfer of resources, services or obligations between the branch and a related party, regardless of whether a price is charged.

4. Cash and cash equivalents

	<u>2021</u>	<u>2020</u>
	\$'000	\$'000
Accounts with other branches	40,340	18,927
Accounts with other financial institutions	1,200,064	73
Notes and coins, money at call, and deposits and cash reserves at Bank of Jamaica	4,409,283	9,285,513
Due from fellow subsidiary	2,152	2,464
Accounts with head office	6,685,433	8,421,115
Cheques and other items in transit	88,464	5,075
	<u>12,425,736</u>	<u>17,733,167</u>

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4. Cash and cash equivalents (continued)

Of the total deposits held with Bank of Jamaica, \$1,930,436,000 (2020: \$1,737,115,000) was held in compliance with Section 43 of the Banking Services Act, which requires that every licensee maintains a cash reserve, in the form of a deposit with Bank of Jamaica, of a specified percentage of its deposit liabilities. No portion of the cash reserves is available for investment or other use by the branch and is therefore treated as restricted cash. The specified percentage in force at the end of the year was 5% (2020: 5%) for Jamaican currency and 13% (2020: 13%) for foreign currency.

5. Securities purchased under resale agreements

At the reporting date, the fair value of the underlying securities held for resale agreements was approximately \$1,231,360,000 (2020: \$NIL).

6. Loans, less allowance for impairment

(a) Loans, net of allowance for impairment, are due from the reporting date as follows:

	<u>2021</u>	<u>2020</u>
	\$'000	\$'000
Within 3 months	2,255,847	3,474,622
3 - 12 months	1,740,722	411,106
	<u>3,996,569</u>	<u>3,885,728</u>

The branch's four most significant customers are in the manufacturing, distribution, agriculture and electricity and gas sectors (2020: distribution, agriculture and other services sectors) and account for \$3.5 billion (2020: \$2.9 billion) representing 88% (2020: 73%) of total loans.

(b) Impairment losses

The aging of loans, net of allowance for impairment losses, is as follows:

	<u>2021</u>		<u>2020</u>	
	<u>Gross</u>	<u>Allowance for</u>	<u>Gross</u>	<u>Allowance for</u>
	\$'000	<u>impairment</u>	\$'000	<u>impairment</u>
		\$'000		\$'000
Neither past due nor impaired	4,001,348	(4,779)	3,892,144	(6,416)
Allowance for impairment:				
			<u>2021</u>	<u>2020</u>
			\$'000	\$'000
Balance at beginning of year			(6,416)	(2,008)
Net remeasurement of loss allowance			<u>1,637</u>	<u>(4,408)</u>
At end of year			<u>(4,779)</u>	<u>(6,416)</u>

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6. Loans, less allowance for impairment (continued)

(b) Impairment losses (continued)

The portion of the provision for credit losses in excess of that required by IFRS 9 is determined under Bank of Jamaica regulatory requirements and reflected as a non-distributable loan loss reserve in equity [note 17(e)], as follows:

	<u>2021</u>	<u>2020</u>
	\$'000	\$'000
At beginning of year	42,413	21,690
Net remeasurement of loss allowance	(322)	<u>20,723</u>
At end of year	<u>42,091</u>	<u>42,413</u>

(c) The maximum exposure to credit risk for loans is the amount in the statement of financial position. Loans are concentrated by industry sector as follows:

	<u>Number of loans</u>			
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
			\$'000	\$'000
Financial Institutions	1	1	12	1
Professional and other services	40	48	3,601,814	2,226,888
Distribution	<u>1</u>	<u>12</u>	<u>399,522</u>	<u>1,665,255</u>
	<u>42</u>	<u>61</u>	<u>4,001,348</u>	<u>3,892,144</u>

(d) At the reporting date, there are no loans receivable on which interest is no longer being accrued.

7. Investment securities

	<u>2021</u>	<u>2020</u>
	\$'000	\$'000
Fair value through OCI :		
Securities issued or guaranteed by Government of Jamaica:		
Debentures	3,809,548	1,583,290
Bonds (denominated in United States dollars)	<u>4,755,204</u>	<u>2,486,574</u>
	8,564,752	4,069,864
Fair value through profit or loss:		
Unquoted equities:		
Interest in Automated Payments Limited [see below]	<u>17,153</u>	<u>17,092</u>
	<u>8,581,905</u>	<u>4,086,956</u>
Loss allowance	<u>12,005</u>	<u>14,822</u>

The interest in Automated Payments Limited represents a 12.50% (2020: 12.50%) holding by the branch. That investee is established and co-owned by commercial banks operating in Jamaica to provide automated clearing facilities to the commercial banking system.

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8. Property, plant and equipment

	Motor Vehicles \$'000	Leasehold improvements \$'000	Computers, furniture & equipment \$'000	Total \$'000
Cost:				
December 31, 2019	17,030	228,855	289,140	535,025
Additions	-	-	28,025	28,025
December 31, 2020	17,030	228,855	317,165	563,050
Additions	-	-	78,404	78,404
Reclassification	-	-	(3,003)	(3,003)
Disposals	-	-	(65,269)	(65,269)
December 31, 2021	17,030	228,855	327,297	573,182
Depreciation:				
December 31, 2019	7,664	179,054	245,413	432,131
Depreciation charge	3,406	24,005	17,884	45,295
December 31, 2020	11,070	203,059	263,297	477,426
Depreciation charge	3,406	19,158	27,850	50,414
Reclassification	-	-	(72)	(72)
Eliminated upon disposal	-	-	(65,269)	(65,269)
December 31, 2021	14,476	222,217	225,806	462,499
Net book value:				
December 31, 2021	2,554	6,638	101,491	110,683
December 31, 2020	5,960	25,796	53,868	85,624
December 31, 2019	9,366	49,801	43,727	102,894

9. Leases

The branch has entered into lease agreements for the provision of land and buildings for office space. For the property located at 19 Hillcrest Avenue, Kingston 5, the lease term is for ten (10) years commencing June 2011 and includes an option to renew for two (2) additional periods of five (5) years. The other property is located at 78a Hagley Park Road and has a one-year lease term which commenced on December 1, 2019 and includes a one-year renewal option. Management has assessed that it is not reasonably certain to exercise the option for purposes of recognition of lease liability.

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9. Leases (continued)

Right-of-use assets - Property

	<u>2021</u>	<u>2020</u>
	\$000's	\$000's
Balance at 1 January	42,368	153,690
Addition due to exercise of lease extensions	272,274	-
Foreign exchange rate adjustment	-	(21,134)
Depreciation charge for the year	(74,133)	(90,188)
Balance at 31 December	<u>240,509</u>	<u>42,368</u>

Lease liabilities

	<u>2021</u>	<u>2020</u>
	\$000's	\$000's
Maturity analysis – contractual undiscounted cash flows:		
Less than one year	57,221	51,658
One to five years	195,505	-
	<u>252,726</u>	<u>51,658</u>
less future interest payments	(3,938)	(2,801)
Lease liabilities included in the statement of the financial	<u>248,788</u>	<u>48,857</u>
Current	55,658	48,857
Non-current	193,130	—
	<u>248,788</u>	<u>48,857</u>

	<u>2021</u>	<u>2020</u>
	\$000's	\$000's
Amounts recognised in profit or loss		
Interest on lease liabilities	(1,491)	(3,470)
Income from sub-leasing right-of-use assets	-	27,687
Total cash outflow for leases	<u>77,879</u>	<u>117,557</u>

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10. Other assets

	<u>2021</u>	<u>2020</u>
	\$'000	\$'000
Amortised cost:		
Interest receivable	218,687	77,068
Prepayments and items in course of clearing	20,493	28,682
Other	11,609	311
	<u>250,789</u>	<u>106,061</u>
Fair value through profit or loss:		
Foreign currency forward contracts	102,543	23,504
	<u>353,332</u>	<u>129,565</u>

11. Employee benefits asset/obligation

The branch operates a defined benefit pension plan [see note 3(e)] which is open to all permanent employees and is managed by Scotia Investments Jamaica Limited. The pension plan is funded by employee contributions at rates varying from 5% to 10% of pensionable salary, and employer contributions at rates recommended by independent actuaries from time to time. Pension benefits are based on average salary for the final three years of pensionable service. The branch also operates an insured health plan covering employees and pensioners. The employer contributes 80% of the premium for both pensioners and employees.

The plans expose the branch to actuarial risks such as longevity, currency risk, interest rate risk and market (investment) risk.

(a) Employee benefits asset/(obligation):

	<u>Pension asset</u>		<u>Health care obligation</u>	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
	\$'000	\$'000	\$'000	\$'000
Present value of obligations	(1,662,917)	(1,382,250)	(265,630)	(194,787)
Fair value of plan assets	3,227,412	3,026,420	-	-
Effect of asset ceiling	-	(292,836)	-	-
Net asset/(obligation)	<u>1,564,495</u>	<u>1,351,334</u>	<u>(265,630)</u>	<u>(194,787)</u>

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11. Employee benefits asset/obligation (continued)

(b) Movements in the net asset/(obligation) recognized in the statement of financial position:

	Pension asset		Health care obligation	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
	\$'000	\$'000	\$'000	\$'000
Net asset/obligation at January 1	1,351,334	1,723,359	(194,787)	(224,056)
Contributions	61	61	4,511	4,014
Credit/(expense) recognized in profit or loss	78,070	74,657	(25,328)	(27,166)
Remeasurement gain/(loss) recognized in OCI	135,030	(446,743)	(50,026)	52,421
Net asset/(obligation) at December 31	<u>1,564,495</u>	<u>1,351,334</u>	<u>(265,630)</u>	<u>(194,787)</u>

(c) (i) Movements in the present value of obligations:

	Pension asset		Health care obligation	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
	\$'000	\$'000	\$'000	\$'000
Balances at January 1	1,382,250	1,534,636	(194,787)	(224,056)
Benefits paid	(57,730)	(54,523)	4,511	4,014
Interest cost	121,995	113,158	(17,259)	(16,585)
Current service cost	30,799	39,559	(8,068)	(10,581)
Employees' contribution	36,602	29,962	-	-
Actuarial gain/(loss) arising from:				
Experience adjustment	58,561	(5,494)	1,149	4,002
Financial assumptions	90,440	(275,048)	(51,176)	48,419
Balance at December 31	<u>1,662,917</u>	<u>1,382,250</u>	<u>(265,630)</u>	<u>(194,787)</u>

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11. Employee benefits asset/obligation (cont'd)

(c) (ii) Movements in fair value of pension plan assets:

	<u>2021</u>	<u>2020</u>
	\$'000	\$'000
Balances at January 1	3,026,420	3,257,995
Employees' contributions	36,602	29,962
Benefits paid	(57,730)	(54,523)
Employer's contributions	61	61
Interest income	270,558	243,038
Administrative expenses	(13,339)	(15,664)
Remeasurement gain on plan assets included in other comprehensive income	<u>(35,160)</u>	<u>(434,449)</u>
Balance on December 31	<u><u>3,227,412</u></u>	<u><u>3,026,420</u></u>

(iii) Plan assets consist of the following:

	<u>2021</u>	<u>2020</u>
	\$'000	\$'000
Equities	960,606	891,015
Other securities	1,807,537	1,687,604
Cash and cash equivalents	101,807	147,251
US notes and bonds	<u>357,462</u>	<u>300,550</u>
	<u><u>3,227,412</u></u>	<u><u>3,026,420</u></u>

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11. Employee benefits asset/obligation (cont'd)

(d) (Credit)/expense recognized in profit or loss:

	Pension asset		Health care obligation	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
	\$'000	\$'000	\$'000	\$'000
Current service costs	30,799	39,559	8,068	10,581
Administrative expenses	13,339	15,664	-	-
Interest on obligation	121,995	113,158	17,259	16,585
Interest income on plan asset	(270,558)	(243,038)	-	-
Interest on effect of asset ceiling	26,355	-	-	-
	<u>(78,070)</u>	<u>(74,657)</u>	<u>25,327</u>	<u>27,166</u>

(e) Actuarial gains/(losses) recognized in other comprehensive income:

	Pension asset		Health care obligation	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
	\$'000	\$'000	\$'000	\$'000
Remeasurement (loss)/gain on obligation	149,001	(280,541)	(50,026)	52,421
Remeasurement gain on asset	35,159	434,448	-	-
Change in effect on asset ceiling	(319,192)	292,836	-	-
	<u>(135,032)</u>	<u>446,743</u>	<u>(50,026)</u>	<u>52,421</u>

(f) Principal actuarial assumptions at the reporting date (expressed as weighted averages):

	Pension asset		Health care obligation	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
	%	%	%	%
Discount rate	8.0	9.0	8.0	9.0
Future salary increases	6.0	7.0	-	-
Future pension increases	2.5	3.0	-	-
Future health cost increases	0.0	0.0	5.50	6.50

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11. Employee benefits asset/obligation (cont'd)

- (g) The estimated pension contribution expected to be paid into the plan for the next financial year is \$58,800,000.

- (h) Sensitivity analysis on projected benefit obligation:

The calculation of the projected benefit obligation is sensitive to the assumptions used. The table below summarizes how the projected benefit obligation measured at the reporting date would have increased/(decreased) as a result of a change in the respective assumptions by one percentage point. In preparing the analyses for each assumption, all others were held constant. The economic assumptions are somewhat linked as they are all related to inflation. Hence, for example, a 1% reduction in the long-term discount rate, would cause some reduction in the medical trend rate.

	Pension asset				Health care obligation			
	2021		2020		2021		2020	
	1%	1%	1%	1%	1%	1%	1%	1%
	<u>increase</u>	<u>decrease</u>	<u>increase</u>	<u>increase</u>	<u>increase</u>	<u>decrease</u>	<u>increase</u>	<u>decrease</u>
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Discount rate	(216,525)	274,964	(172,096)	218,628	(37,998)	48,576	(27,923)	35,743
Future salary	72,625	(63,699)	58,199	(51,011)	1,136	(997)	147	(191)
Future pension	174,895	(146,971)	140,200	(117,218)	47,527	(37,573)	35,288	(27,871)

- (i) As mortality continues to improve, estimates of life expectancy are expected to increase. The effect on the projected benefit and obligation of an increase of one year in the life expectancy is approximately \$38.9 million (2020: \$31.3 million).

- (j) Liability duration:

	Pension asset		Health care obligation	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Active members	18.7	18.7	22.6	22.7
Deferred pensioners	22.5	21.8	-	-
Retirees	8.1	8.1	9.3	9.5
All participants	15.8	15.2	17.4	17.6

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12. Deposits

	<u>2021</u>	<u>2020</u>
	\$'000	\$'000
Commercial and business enterprises	15,013,330	12,840,963
Financial institutions	7,628,940	7,901,082
Public authorities	<u>285,388</u>	<u>256,374</u>
	<u>22,927,658</u>	<u>20,998,419</u>

13. Note payable

This represented an amount payable to Development Bank of Jamaica Limited, which was granted for on-lending and was secured by promissory notes by the branch. This loan commenced on September 30, 2016 and is payable in 20 quarterly principal installments of \$5,000,000. It bore interest at 6.5% per annum. The note payable was fully settled during the year.

14. Other liabilities

	<u>2021</u>	<u>2020</u>
	\$'000	\$'000
Managers' cheques	186,169	88,027
Interest payable	232	272
Accruals	174,751	137,491
MTM FX contract	225,166	54,403
Other	<u>239,477</u>	<u>93,351</u>
	<u>825,795</u>	<u>373,544</u>

15. Deferred taxation

Deferred taxation is attributable to the following:

	<u>Assets</u>		<u>Liabilities</u>		<u>Net</u>	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Investments	2,741	-	-	(40,593)	2,741	(40,593)
Property, plant and	68,041	63,035	-	-	68,041	63,035
Employee benefits asset	-	-	(521,446)	(450,400)	(521,446)	(450,400)
Employee benefits	88,534	64,923	-	-	88,534	64,923
Unrealized foreign	39,747	30,825	-	-	39,747	30,825
Others	10,976	12,110	-	-	10,976	12,110
Net assets/(liabilities)	<u>210,039</u>	<u>170,893</u>	<u>(521,446)</u>	<u>(490,993)</u>	<u>(311,407)</u>	<u>(320,100)</u>

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15. Deferred taxation (continued)

Movements in temporary differences during the year were as follows:

	2021			
	Balance at January 1	Recognized in profit for year	Recognized in other comprehensive income	Balance at December 31
	\$'000	\$'000	\$'000	\$'000
		(note 22)		
Investments	(40,593)	-	43,334	2,741
Property, plant and equipment	63,035	5,006	-	68,041
Employee benefits asset	(450,400)	(7,052)	(63,994)	(521,446)
Employee benefits obligation	64,923	-	23,611	88,534
Unrealised foreign exchange gain	30,825	8,922	-	39,747
Other	12,110	(1,134)	-	10,976
	(320,100)	5,742	2,951	(311,407)
	2020			
	Balance at January 1	Recognized in profit for year	Recognized in other comprehensiv	Balance at December 31
	\$'000	\$'000	\$'000	\$'000
		(note 22)		
Investments	(52,101)	(7,247)	18,755	(40,593)
Property, plant and equipment	58,315	4,720	-	63,035
Employee benefits asset	(576,604)	(5,224)	131,428	(450,400)
Employee benefits obligation	73,661	(8,738)	-	64,923
Unrealised foreign exchange gain	(91,409)	122,234	-	30,825
Other	13,245	(1,135)	-	12,110
	(574,893)	104,610	150,183	(320,100)

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16. Securities sold under repurchase agreements

At December 31, 2021 certain securities were pledged as collateral for repurchase agreements. These financial instruments have a carrying value of \$NIL (2020: \$1,600,000,000) and a fair value of \$Nil (2020: \$2,101,000,000).

17. Assigned capital and reserves

(a) Assigned capital:

This represents the portion of the capital of Citibank, N.A., consisting of unencumbered assets, specifically assigned to the financing of its Jamaican operations.

(b) Reserve fund:

Under the Banking Services Act, the branch is required to transfer at least 15% of its profit after income tax to the reserve fund until the amount of the reserve fund is equal to 50% of the assigned capital; thereafter, it is required to transfer 10% of profit after tax until the amount of the reserve fund is equal to the assigned capital. No transfer was made to this fund during the year, as the reserve fund is equal to the assigned capital.

(c) Retained earnings reserve:

Under Section 42 of the Banking Services Act, the branch may transfer a portion of its net profit to a retained earnings reserve. This reserve constitutes a part of the capital base for the purpose of determining the maximum level of deposit liabilities and lending to customers. Transfers to retained earnings reserve are made at the discretion of the senior management of the branch; however, for it to be effective, the decision must be communicated to the Supervisor. There were no transfers to this reserve during the current and prior year.

(d) Fair value reserve:

This represents unrealised gains (losses), net of taxation, on the revaluation of FVOCI investments.

(e) Loan loss reserve

This is a non-distributable reserve representing allowance for impairment of credits as follows:

	<u>2021</u>	<u>2020</u>
	\$'000	\$'000
Loans	28,482	36,076
Acceptances, guarantees and letters of credit	13,609	6,337
	<u>42,091</u>	<u>42,413</u>

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17. Assigned capital and reserves (continued)

(f) Other reserves:

Other reserves represent accumulated actuarial gains and losses arising from the remeasurement of the employee benefits plan and the effect of the asset ceiling, net of deferred taxes.

18. Net interest income

	<u>2021</u>	<u>2020</u>
	\$'000	\$'000
Interest revenue:		
Loans and receivables	207,264	230,053
Reverse repurchase agreements	1,125	17,396
FVOCI securities	244,276	176,600
Total interest income	<u>452,665</u>	<u>424,049</u>
Interest expense:		
Deposits	26,116	26,761
Repurchase agreements	2,308	13,912
Short-term debt and other liabilities	5,776	5,235
Lease interest expense	1,491	3,470
Total interest expense	<u>35,691</u>	<u>49,378</u>
Net interest income	<u>416,974</u>	<u>374,671</u>

19. Fees and commissions

- (a) Fees and commissions include: charges to customers, processing fees and annual fees; advisory, equity and debt underwriting services; lending and deposit-related transactions, such as loan commitments, standby letters of credit, and other deposit and loan servicing activities; investment management-related fees, including brokerage services, and custody and trust services; insurance fees; and commissions.

	<u>2021</u>	<u>2020</u>
	\$'000	\$'000
Trade related	34,364	31,964
Cheque related	21,622	18,188
Cash management	81,177	76,109
Total fees and commissions	<u>137,163</u>	<u>126,261</u>

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19. Fees and commissions (continued)

- (b) In 2016, Head office implemented the Geographic Revenue Attribution (“GRA”) Project in order to simplify and standardize the intercompany pricing policies creating even more transparency for businesses and legal entities operating in countries across the world.

The implementation also intends to align the transfer pricing policies and satisfy regulatory and tax requirements by having a centralized process and governance associated with intercompany transactions. The implementation of this project generated the following inter-company revenue for the branch:

	<u>2021</u>	<u>2020</u>
	\$'000	\$'000
Treasury and trade solutions	259,219	289,773
Corporate portfolio management	29,518	17,660
Market revenue sharing arrangement	56	2,126
Debt capital markets	637,369	399,309
	<u>926,162</u>	<u>708,868</u>

20. Operating expenses

- (a) Staff costs

	<u>2021</u>	<u>2020</u>
	\$'000	\$'000
Salaries and wages	381,026	369,550
Statutory payroll contributions	47,351	44,215
Contributions for pension and other plans	22,706	25,309
Pension benefits credit [note 11(d)]	(74,657)	(74,657)
Health benefits obligation expense [note 10(d)]	27,166	27,166
Other staff costs	103,675	105,166
	<u>507,267</u>	<u>496,749</u>

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20. Operating expenses

(b) Other operating expenses

	<u>2021</u>	<u>2020</u>
	\$'000	\$'000
Advertising and public relations	997	1,060
Asset tax	60,643	50,289
Audit, legal and professional fees	24,214	24,807
Insurance	30,094	22,682
Irrecoverable GCT	51,451	66,591
License, fees and commission	30,382	22,441
Other operating costs	124,443	112,621
Processing and other support services - intercompany	464,331	369,208
Repairs and maintenance	37,402	38,224
Security and utilities	46,854	47,748
Stationery, postage and freight	10,773	15,165
Telecommunications expense	34,353	26,189
	<u>915,937</u>	<u>797,025</u>

21. Profit before income tax

Profit before income tax is stated after charging:

	<u>2021</u>	<u>2020</u>
	\$'000	\$'000
Directors emoluments	Nil	Nil
Auditors' remuneration	<u>16,240</u>	<u>14,122</u>

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22. Income tax

- (a) The income tax charge is computed at 33⅓% of the results for the year as adjusted for taxation purposes and comprises:

	<u>2021</u>	<u>2020</u>
	\$'000	\$'000
(i) Current income tax:		
Provision based on current year's profit	228,780	272,873
Prior-year over provision	(2,379)	(2,405)
	<u>226,401</u>	<u>270,468</u>
(ii) Deferred taxation:		
Origination and reversal of other temporary differences (note 15)	5,742	(104,610)
	<u>232,143</u>	<u>165,858</u>

- (b) Reconciliation of effective tax charge:

The effective tax rate for 2021 was 41.77% (2020: 47.12%) of pre-tax profits compared to a statutory tax rate of 33.33% (2020: 33.33%). The actual expense differed from the "expected" tax expense as follows:

		<u>2021</u>		<u>2020</u>
	%	\$'000	%	\$'000
Profit before income tax		<u>555,732</u>		<u>352,006</u>
Computed "expected" tax charge	33.33	185,244	33.33	117,335
Effect on tax of treating the following items differently for tax purposes than for financial statement purposes:				
Employee benefits asset/obligation	(1.27)	(7,052)	(0.92)	(3,227)
Depreciation and capital allowances	0.90	5,006	0.71	2,513
Unrealized foreign exchange gain	1.61	8,922	0.92	3,223
Others	7.63	42,402	13.76	48,419
Under provision of prior year charge	(0.43)	(2,379)	(0.68)	(2,405)
Actual tax charge	<u>41.77</u>	<u>232,143</u>	<u>47.12</u>	<u>165,858</u>

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22. Income tax (continued)

(c) Income tax recognized in other comprehensive income (note 15):

	2021			2020		
	<u>Gross</u>	<u>Tax</u>	<u>Net</u>	<u>Gross</u>	<u>Tax</u>	<u>Net</u>
Investments at OCI	(130,015)	43,334	(86,681)	(56,272)	18,755	(37,517)
Actuarial gains	121,161	(40,383)	80,778	(394,322)	131,428	(262,894)

23. Related party transactions

(a) Identity of related parties:

The branch has related party relationships with its head office, parent, ultimate parent, fellow subsidiaries and other branches. Related parties include the directors and senior management of its head office, parent, ultimate parent, and fellow subsidiaries, and the executive members of the Country Coordinating Committee of the branch who are collectively referred to as “key management personnel”.

(b) The statement of financial position includes balances arising from transactions with related parties as follows:

	<u>2021</u>	<u>2020</u>
	<u>\$'000</u>	<u>\$'000</u>
Cash and cash equivalents:		
Other branches	6,727,924	8,442,506
Deposits:		
Head office	99,465	22,349
Other branches	164,328	215,530
Fellow subsidiaries	165,899	973,131
	429,692	1,211,010

(c) The statement of profit or loss and other comprehensive income includes income earned from, and expenses incurred in, transactions with related parties, as follows:

	<u>2021</u>	<u>2020</u>
	<u>\$'000</u>	<u>\$'000</u>
Interest revenue:		
Other branches	4	54
Head Office	9,716	17,231
	9,720	17,285
Interest expense:		
Head Office	11	3,127

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23. Related party transactions (cont'd)

- (c) The statement of profit or loss and other comprehensive income includes income earned from, and expenses incurred in, transactions with related parties, as follows (cont'd):

	<u>2021</u>	<u>2020</u>
	\$'000	\$'000
Other operating revenue:		
Fellow subsidiaries - geographic revenue attribution	<u>926,162</u>	<u>708,868</u>
Other operating expenses:		
Head office - administrative expenses	5,349	5,058
Branches - service level agreement	6,557	3,168
Fellow subsidiary - processing and support services	<u>479,619</u>	<u>360,982</u>
	<u>491,525</u>	<u>369,208</u>
Key management personnel:		
Short-term employee benefits	187,205	175,165
Post-employment benefits	578,275	428,894
Other long-term benefits	<u>55,995</u>	<u>39,185</u>
	<u>821,475</u>	<u>643,244</u>

24. Fair value of financial instruments

The fair value of FVOCI securities is set out in note 7. The fair values of other financial assets and financial liabilities shown in the statement of financial position approximate their carrying amounts and are therefore not included in the table.

The fair value of the unquoted equity investment of \$17,092,000 (2020: \$17,092,000) is not considered to be materially different from cost. The investee provides automated clearing facilities to the commercial banking sector on a pricing basis intended to recover operating costs. There is no market for this investee. The branch does not intend to dispose of these equities.

(a) Fair value hierarchy

Financial instruments that are measured at fair value are grouped into levels based on the degree to which the fair value is observable as follows:

- Level 1: includes quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: includes 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)
- Level 3: includes inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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24. Fair value of financial instruments (cont'd)

(b) Accounting classifications and fair values

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy.

It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

		2021				
		Carrying Amount			Fair Value	
		Fair value through OCI	Fair value through profit or loss	Total	Level 2	Level 3
		\$'000	\$'000	\$'000	\$'000	\$'000
Financial assets measured at fair value:						
Investment securities	7	8,564,752	17,153	8,581,905	8,564,752	17,153
Foreign currency forward contracts	10	-	102,543	102,543	102,543	-
		8,564,752	119,696	8,684,448	8,687,295	17,153
		2020				
		Carrying Amount			Fair Value	
		Available for-sale	Fair value through profit or loss	Total	Level 2	Level 3
		\$'000	\$'000	\$'000	\$'000	\$'000
Financial assets measured at fair value:						
Investment securities	7	4,069,864	17,092	4,086,956	4,069,864	17,092
Foreign currency forward contracts	10	—	23,504	23,504	23,504	—
		4,069,864	40,596	4,110,460	4,093,368	17,092

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24. Fair value of financial instruments (cont'd)

(c) Valuation technique and for investment securities classified as level 2.

The following table shows the valuation technique used in measuring fair value. There were no significant unobservable inputs used.

<u>Financial assets</u>	<u>Method</u>
Government of Jamaica J\$ securities and Bank of Jamaica securities	<ul style="list-style-type: none"> Obtain bid yield from yield curve provided by a recognized pricing source which uses market-supplied indicative bids Using this yield, determine price using accepted formula Apply price to estimate fair value.
Government of Jamaica US\$ Global bonds and foreign government securities	Prices of bonds at reporting date as quoted by broker/dealer.
Forward exchange contracts and interest rate swaps	Market comparison technique: The fair values are based on broker quotes. Similar contracts are traded in an active market and the quotes reflect the actual transactions in similar instruments.

25. Financial risk management

(a) Introduction and overview:

The branch has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk
- Operational risk

These risks are managed through an established risk management framework for the branch. The branch has a risk management framework which seeks to balance strong corporate oversight with well-defined independent risk management functions within the business. An effective risk management culture is embedded in the organization, supported by this framework as well as by appropriate documented strategies, policies and processes, and by authority delegated throughout the organization.

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25. Financial risk management (continued)

(a) Introduction and overview (continued):

The Country Coordinating Committee (CCC) has overall responsibility for the establishment and oversight of the branch's risk management framework. The CCC has established the Asset and Liability Committee (ALCO), Credit Committee and the Business Risk Compliance and Control Committee (BRCC), which are responsible for developing and monitoring branch risk management policies in specified areas, as follows:

- The ALCO has the responsibility for managing market and liquidity risks on an ongoing basis. It also has responsibility for capital management and to ensure prudential and regulatory compliance.
- The Credit Committee establishes and monitors credit limits, approves credit facilities and manages and reviews major risk exposures and concentrations across the organisation in accordance with best practices and regulatory requirements.
- The BRCC has primary responsibility for managing operational risk. This committee also has the broader mandate of monitoring compliance with the risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the branch.

The risk management policies and procedures are established to identify, evaluate and analyse the risks faced by the branch, to set appropriate controls, and to monitor adherence to standards set. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The branch, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

(b) Credit risk:

Credit risk is the risk of financial loss to the branch if a customer or counterparty to a financial instrument fails to meet its contractual obligations. It arises principally from the branch's loans and advances to customers and other banks and investment securities. For risk management reporting purposes, the branch considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk).

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25. Financial risk management (cont'd)

(b) Credit risk (cont'd):

Corporate credit risk

For corporate clients and investment banking activities across the organization, the credit process is grounded in a series of fundamental policies, including:

- joint business and independent risk management responsibility for managing credit risks;
- single center of control for each credit relationship that coordinates credit activities with that client;
- portfolio limits to ensure diversification and maintain risk/capital alignment;
- a minimum of two authorised credit officer signatures are required on extensions of credit (one from a sponsoring credit officer in the business and one from a credit officer in independent credit risk management);
- risk rating standards, applicable to every obligor and facility; and
- consistent standards for credit origination, documentation and remedial management.

(i) Credits to customers

Credits to customers include loans, letters of credit and guarantees. The management of credit risk in respect of credits to customers is executed by the management of the branch. The Credit Risk Unit has the responsibility for the oversight of the branch credit risk and the development of credit policies. There is a documented credit policy in place, which guides the branch's credit process.

Collateral

The branch holds collateral against credits to customers in the form of mortgage interests over property, liens over motor vehicles, other registered securities over assets and over savings held in the branch, and guarantees. Estimates of fair values are based on the value of collateral assessed at the time of borrowing and are generally not updated, except when credits to customers are individually assessed as impaired.

Impaired credits to customers

Impaired credits to customers are credits for which the branch determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the credit. As at year end, the branch had no impaired credits to customers.

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25. Financial risk management (continued)

(b) Credit risk (continued):

(i) Credits to customers (continued)

Past due but unimpaired credits to customers

These are credits where contractual interest or principal payments are past due but they are not considered impaired based on the quality and value of security available or the stage of collection of amounts owed to the branch. The branch had no such credits to customers.

Credits to customers with renegotiated terms

Credits to customers with renegotiated terms are credits that have been restructured due to deterioration in the borrower's financial position and where the branch has made concessions that it would not otherwise consider. Once the credit is restructured, it would be classified and monitored.

Allowances for impairment

The branch maintains an allowance for impairment losses that represents its estimate of incurred losses in its portfolio of credits to customers. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loan loss allowance established on a portfolio basis, based on requirements of the Banking Services Act and IFRS 9.

Write-off policy

The branch writes off credits to customers (and any related allowances for impairment losses) when it determines that the credits are uncollectible. This determination is usually made after considering information such as changes in the borrower's financial position, or that proceeds from collateral will not be sufficient to pay back the entire exposure, or the credit is more than twelve (12) months in arrears. Proposals to write off credits to customers must be submitted to the Credit Committee for approval.

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25 Financial risk management (continued)

(b) Credit risk (continued):

(ii) Investment securities and resale agreements

The branch limits its exposure to credit risk on investment securities and resale agreements by investing only with counterparties that have high credit ratings and in Government of Jamaica and Bank of Jamaica securities. Therefore, management does not expect any counterparty to fail to meet its principal obligations.

The branch has documented investment policies in place, which guide it in managing credit risk on investment securities and resale agreements. The branch's exposure and the credit ratings of its counterparties are continually monitored and the aggregate value of investment transactions is spread amongst approved counterparties.

(iii) Cash and cash equivalents

This risk is managed by placing amounts or contracting with financial institutions determined to be financially strong. Except for amounts which are held with other Citigroup entities and with the central bank, there is no significant concentration of cash and cash equivalents.

(iv) Exposure to credit risk

Credit risk exposure is the amount of loss that the branch would suffer if all counterparties to which the branch was exposed were to default at once. All of the branch's financial assets are carried on the statement of financial position, therefore, this exposure, without taking account of the value of any collateral held is represented substantially by the carrying amount of financial assets shown thereon.

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25. Financial risk management (continued)

(b) Credit risk (continued):

(iv) Exposure to credit risk (continued)

The branch's significant concentrations of credit exposure by industry areas are as follows:

	2021						
	Cash and cash equivalents	Resale agreements	Loans	Investmen t securities	Guarantees and letters of credit	Interest receivable	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Financial	7,958,208	1,231,360	—	—	—	115	9,189,683
Agriculture	—	—	553,258	—	—	55	553,313
Manufacturing and distribution	—	—	2,727,044	—	1,209,000	246	3,936,290
Public sector/ Government	3,823,285	—	—	8,564,752	—	228,275	12,616,312
Others	644,243	—	716,267	17,153	22,360	—	1,400,023
Total	12,425,736	1,231,360	3,996,569	8,581,905	1,231,360	228,691	27,695,621

	2020						
	Cash and cash equivalents	Resale agreements	Loans	Investmen t securities	Guarantees and letters of credit	Interest receivable	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Financial	8,447,088	—	—	—	—	2,091	8,449,179
Agriculture	—	—	540,816	—	—	54	540,870
Manufacturing and distribution	—	—	2,539,658	—	1,109,000	526	3,649,184
Public sector/ Government	8,734,063	—	—	4,069,864	—	73,387	12,877,314
Other	552,166	—	805,255	17,092	158,448	—	1,532,961
Total	17,733,317	—	3,885,729	4,086,956	1,267,448	76,058	27,049,508

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25. Financial risk management (cont'd)

(b) Credit risk (cont'd)

(iv) Exposure to credit risk (cont'd)

All the branch's financial assets are held in Jamaica, except for cash and cash equivalents. The significant concentrations of credit exposure on cash and cash equivalent by geographical areas (based on the issuer's/borrower's region of ownership) are as follows:

	<u>2021</u>	<u>2020</u>
	\$'000	\$'000
North America	6,688,208	8,421,115
Canada	2,971	326
Europe	37,369	18,601
Asia Pacific	2,152	2,464
Jamaica	5,695,036	9,290,661
	<u>12,425,736</u>	<u>17,733,167</u>

Credit quality:

The following tables set out information about the credit quality of certain financial instrument measured at amortised cost and FVOCI debt securities. Unless otherwise indicated, for financial assets, the amounts are carrying amounts. All loans are graded as standard, which is the highest regulatory rating.

	2021	2020		
	<u>Stage 1</u>	<u>Stage 1</u>	<u>Stage 2</u>	<u>Total</u>
	\$'000	\$'000	\$'000	\$'000
Credit grade				
Standard rating	4,001,348	3,175,560	716,584	3,892,144
Loss allowance	(<u>4,779</u>)	(<u>5,235</u>)	(<u>1,181</u>)	(<u>6,416</u>)
	<u>3,996,569</u>	<u>3,170,325</u>	<u>715,403</u>	<u>3,885,728</u>

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25. Financial risk management (continued)

(b) Credit risk (continued)

(iv) Exposure to credit risk (continued)

Credit quality (continued):

Loans receivable (continued)

Other financial assets at amortised cost:

	<u>2021</u>	<u>2020</u>
	<u>Stage 1</u>	<u>Stage 1</u>
	<u>\$'000</u>	<u>\$'000</u>
Credit grade		
Non-investment grade	14,010,427	17,862,732
Loss allowance	(<u>861</u>)	(<u>1,418</u>)
	<u>14,009,566</u>	<u>17,861,314</u>

Debt securities at FVOCI:

	<u>2021</u>	<u>2020</u>
	<u>Stage 1</u>	<u>Stage 1</u>
	<u>\$'000</u>	<u>\$'000</u>
Credit grade		
Investment grade	<u>8,564,752</u>	<u>4,069,864</u>
Loss allowance	<u>12,005</u>	<u>14,822</u>

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25. Financial risk management (continued)

(b) Credit risk (continued)

(v) Impairment

IFRS 9 outlines a 'three-stage' model for impairment based on changes in credit quality since initial recognition as summarised below:

- A financial instrument that is not credit-impaired on initial recognition is classified in 'Stage 1' and has its credit risk continuously monitored by the branch.
- If a significant increase in credit risk ('SICR') since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit-impaired. Please refer to below for a description of how the branch determines when a significant increase in credit risk has occurred.
- Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months. Instruments in Stages 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis. Please refer to below for a description of inputs, assumptions and estimation techniques used in measuring the ECL.
- A pervasive concept in measuring ECL in accordance with IFRS 9 is that it should consider forward-looking information. Please see below which includes an explanation of how the branch has incorporated this in its ECL models.
- Purchased or originated credit-impaired financial assets (POCI) are those financial assets that are credit-impaired on initial recognition. Their ECL is always measured on a lifetime basis (Stage 3).

The key judgements and assumptions adopted by the branch in addressing the requirements of the standard are discussed below:

Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the branch considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the branch's historical experience and third party policies including forward-looking information.

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25. Financial risk management (continued)

(b) Credit risk (continued)

(v) Impairment (continued)

Significant increase in credit risk (continued)

The branch uses three criteria for determining whether there has been a significant increase in credit risk:

- quantitative test based on movement in Probabilities of Default (PD);
- qualitative indicators; and
- a backstop of 30 days past due.

Credit risk grades:

The Branch uses internal credit risk gradings that reflect its assessment of the probability of default of individual counterparties. The Branch uses internal rating models tailored to the various categories of counterparty.

Borrower and loan specific information collected at the time of application (such as disposable income, and level of collateral for retail exposures; and turnover and industry type for wholesale exposures) is fed into this rating model. This is supplemented with external data such as credit bureau scoring information on individual borrowers. In addition, the models enable expert judgement from the Credit Risk Officer to be fed into the final internal credit rating for each exposure. This allows for considerations which may not be captured as part of the other data inputs into the model.

The assessment of whether credit risk has increased (or decreased) significantly since initial recognition is performed for each reporting period by considering the change in the risk of default occurring over the remaining life of the financial instrument, rather than by considering an increase in ECL.

(i) *Definition of default and credit-impaired assets*

The branch defines a financial instrument as in default, which is fully aligned with the definition of credit-impaired, when it meets one or more of the following criteria:

The borrower is more than 90 days past due on its contractual payments.

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25. Financial risk management (continued)

(b) Credit risk (continued)

(v) Impairment (continued)

(i) *Definition of default and credit-impaired assets (cont'd)*

The borrower meets unlikeliness to pay criteria, which indicates the borrower is in significant financial difficulty. These are instances where:

- The borrower formally files for bankruptcy or there is a commencement of foreclosure proceedings.
- The obligation is classified doubtful or worse as per the branch's classification process.
- A modification to the terms and conditions of the original agreement that would not normally be considered is executed.

The criteria above has been applied to all financial instruments held by the branch and are consistent with the definition of default used for internal credit risk management purposes. The default definition has been applied consistently to model the Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD) throughout the branch's expected loss calculations.

A loan instrument is considered to no longer be in default when it no longer meets any of the default criteria for a consecutive period of six months.

(ii) *Measurement of the expected credit loss (ECL)*

The ECL is determined by projecting the PD, LGD and EAD for each future month and for each individual exposure. These three components are multiplied together and adjusted for the likelihood of survival (i.e. the exposure has not prepaid or defaulted in an earlier month). This effectively calculates an ECL for each future month, which is then discounted back to the reporting date and summed. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

The lifetime PD is developed by applying a maturity profile to the current 12-month PD. The maturity profile looks at how defaults develop on a portfolio from the point of initial recognition throughout the lifetime of the loans. The maturity profile is based on historical observed data and is assumed to be the same across all assets within a portfolio and credit grade band. This is supported by historical analysis.

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25. Financial risk management (continued)

(b) Credit risk (continued)

(v) Impairment (continued)

(ii) *Measurement of the expected credit loss (ECL) (continued)*

The 12-month and lifetime EADs are determined based on the expected payment profile, which varies by product type.

For amortising products and bullet repayment loans, this is based on the contractual repayments owed by the borrower over a 12 month or lifetime basis. This will also be adjusted for any expected overpayments made by a borrower. Early repayment/refinance assumptions are also incorporated into the calculation.

The assumptions underlying the ECL calculation - such as how the maturity profile of the PDs and how collateral values change, etc. - are monitored and reviewed on a quarterly basis.

No expected credit loss provisions were modelled on a collective basis. If required, a grouping of exposures is performed on the basis of shared risk characteristics, such that risk exposures within a group are homogeneous. As necessary, the appropriateness of groupings is monitored and reviewed on a periodic basis by the Credit Risk management team.

Corporate and commercial loans and investments exposures are assessed individually.

(iii) *Incorporation of forward-looking information*

The assessment of SICR and the calculation of ECL both incorporate forward-looking information. The branch has performed historical analysis and identified the key economic variables impacting credit risk and expected credit losses for each portfolio.

These economic variables and their associated impact on the PD, EAD and LGD vary by financial instrument. Expert judgment has also been applied in this process. Forecasts of these economic variables (the “base economic scenario”) are provided by the branch’s Finance team on an annual basis and provide the best and worst estimate view of the economy.

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25. Financial risk management (continued)

(b) Credit risk (continued)

(v) Impairment (continued)

(iii) *Incorporation of forward-looking information (continued)*

The impact of these economic variables on the PD, EAD and LGD has been determined by performing a trend analysis and compared historical information with forecast macro-economic data to determine whether the indicator describes a positive, negative or stable trend and to understand the impact changes in these variables have had historically on default rates and on the components of LGD and EAD.

In addition to the base economic scenario, the branch considers other possible scenarios and scenario weightings. At the reporting date, the branch concluded that three scenarios appropriately captured non-linearities. The scenario weightings are determined by a combination of statistical analysis and expert credit judgement, taking account of the range of possible outcomes each chosen scenario is representative of.

As with any economic forecasts, the projections and likelihoods of occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected. The branch considers these forecasts to represent its best estimate of the possible outcomes and has analysed the non-linearities and asymmetries within the branch's different portfolios to establish that the chosen scenarios are appropriately representative of the range of possible scenarios.

(iv) *Loss allowance*

For the purpose of the ECL, the branch applies country-specific metrics for the key macro-economic factors:

- Gross Domestic Product
- Unemployment

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25. Financial risk management (continued)

(b) Credit risk (continued)

(v) Impairment (continued)

(iv) *Loss allowance (continued)*

The following tables show reconciliations from the opening to the closing balance of the loss allowance by class of financial instrument.

	<u>2021</u> \$'000	<u>2020</u> \$'000
Loans receivable at amortised cost:		
Balance at January 1	6,416	2,008
Net re-measurement of loss allowance	(1,637)	<u>4,408</u>
Balance at December 31	<u>4,779</u>	<u>6,416</u>
Debt securities at FVOCI:		
Balance at January 1	14,822	24,872
Net remeasurement of loss allowance	(2,817)	<u>(10,050)</u>
Balance at December 31	<u>12,005</u>	<u>14,822</u>
	<u>2021</u> \$'000	<u>2020</u> \$'000
Other financial assets at amortised cost:		
Balance at January 1	1,418	7,535
Net remeasurement of loss allowance	(557)	<u>(6,117)</u>
Balance at December 31	<u>861</u>	<u>1,418</u>

(c) Liquidity risk:

Liquidity risk, also referred to as funding risk, is the risk that the branch will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at, or close to, its fair value. Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, and ensuring the availability of funding through an adequate amount of committed facilities. Due to the nature of the business, the management of the branch aims at maintaining flexibility in funding by having adequate credit facilities and marketable financial instruments. The branch also has in place the appropriate limits with regard to liquid instruments and total assets and continues to apply the appropriate gapping strategy.

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25. Financial risk management (continued)

(c) Liquidity risk (continued):

The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. All liquidity policies and procedures are subject to review and approval by ALCO. Daily reports cover the liquidity position of the branch. A summary report, including any exceptions and remedial action taken, is submitted regularly to ALCO.

There has been no significant change to the branch's exposure to liquidity risk or the manner in which it measures and manages the risk.

The tables below present the undiscounted cash flows (both interest and principal cash flows) to settle financial liabilities, based on contractual repayment obligations.

2021						
	Within 3 months	Three to 12 Mont	1 to 5 Years	Over 5 years	Total contractual outflows	Carrying amount
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Deposits	22,727,812	200,095	-	-	22,927,907	22,927,658
Lease liabilities	14,305	42,916	195,505	-	252,726	248,788
Other liabilities	577,049	186,169	-	62,577	825,795	825,795
Total liabilities	23,319,166	429,180	195,505	62,577	24,006,428	24,002,241

	2020					
	Within 3 months	Three to 12 Months	1 to 5 Years	Over 5 years	Total contractual outflows	Carrying amount
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Deposits	20,988,507	10,182	-	-	20,998,689	20,998,419
Note payable	5,238	10,241	-	-	15,479	15,000
Repurchase agreements	1,600,767	-	-	-	1,600,767	1,600,000
Lease liabilities	31,959	19,699	-	-	51,658	48,857
Other liabilities	221,723	88,027	-	63,794	373,544	373,544
Total liabilities	22,848,194	128,149	-	63,794	23,040,137	23,035,820

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25. Financial risk management (continued)

(d) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange and interest rates, will affect the branch's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters while optimising returns. Market risk exposures are measured using sensitivity analysis.

There has been no significant change to the branch's exposure to market risk or the manner in which it manages and measures the risk.

(i) Foreign currency risk

Foreign currency risk is the risk that the fair value or the cash flows from financial instruments will fluctuate because of changes in foreign exchange rates.

The branch is exposed to foreign currency risk on transactions that are denominated in currencies other than the Jamaica dollar. The main currencies giving rise to this risk are the United States Dollar, Euro and Pound Sterling. The branch ensures that the net exposure is kept to an acceptable level by monitoring its value at risk exposure (daily) against approved limits.

2021

	<u>JMD</u>	<u>USD</u>	<u>GBP</u>	<u>CAD</u>	<u>JPY</u>	<u>EUR</u>	<u>TOTAL</u>
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Cash and equivalents	4,155,531	8,162,206	89,060	4,632	2,152	12,155	12,425,736
Resale agreements	-	1,231,360	-	-	-	-	1,231,360
Loans	1,752,008	2,244,561	-	-	-	-	3,996,569
Investments	3,826,701	4,755,204	-	-	-	-	8,581,905
Other assets	268,153	85,178	-	-	-	-	353,331
Total financial assets	10,002,393	16,478,509	89,060	4,632	2,152	12,155	26,588,901
Deposits	11,268,551	11,659,107	-	-	-	-	22,927,658
Lease liabilities	-	248,788	-	-	-	-	248,788
Other liabilities	805,948	19,847	-	-	-	-	825,795
Total financial liabilities	12,074,499	11,927,742	-	-	-	-	24,002,241
Net exposure	(2,072,106)	4,550,767	89,060	4,632	2,152	12,155	2,586,660

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25. Financial risk management (continued)

(d) Market risk (continued)

(i) Foreign currency risk (continued)

The table below summarises exposure to foreign currency risk at their equivalent JMD values (continued):

	2020						
	<u>JMD</u>	<u>USD</u>	<u>GBP</u>	<u>CAD</u>	<u>JPY</u>	<u>EUR</u>	<u>TOTAL</u>
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Cash and equivalents	7,993,462	9,666,927	65,370	1,702	2,464	3,242	17,733,167
Loans	2,018,253	1,867,475	-	-	-	-	3,885,728
Investments	1,600,382	2,486,574	-	-	-	-	4,086,956
Other assets	87,061	42,504	-	-	-	-	129,565
Total financial assets	11,699,158	14,063,480	65,370	1,702	2,464	3,242	25,835,416
Deposits	13,371,469	7,626,950	-	-	-	-	20,998,419
Note Payable	15,000	-	-	-	-	-	15,000
Repurchase agreement	1,600,000	-	-	-	-	-	1,600,000
Lease liabilities	-	48,857	-	-	-	-	48,857
Other liabilities	19,430	354,114	-	-	-	-	373,544
Total liabilities	15,005,899	8,029,921	-	-	-	-	23,035,820
Net exposure	(3,306,741)	6,033,559	65,370	1,702	2,464	3,242	2,799,596

Spot rates for the Jamaica dollar at the reporting date were as follows:

	<u>2021</u>	<u>2020</u>
USD	153.9200	141.7090
GBP	209.1238	190.3159
CAD	122.2891	108.7675
JPY	1.3400	1.38000
EUR	<u>175.1600</u>	<u>173.7400</u>

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25. Financial risk management (continued)

(d) Market risk (continued)

(i) Foreign currency risk (continued)

Sensitivity to exchange rate movements:

A (weakening)/strengthening of the JMD against the currencies indicated, at the reporting date, would have increased/(decreased) profit and equity by the amounts shown below. This analysis is performed on the same bases as for 2020 and has been computed on the basis that all other variables remain constant.

Currency	2021		2020	
	strengthening/ (weakening)	Effect on profit and equity	strengthening/ (weakening)	Effect on profit and equity
	%	\$'000	%	\$'000
USD	8	(686,986)	2	(120,706)
	-2	171,746	-6	362,118
GBP	8	(7,125)	2	(1,307)
	-2	1,781	-6	3,922
CAD	8	(371)	2	(34)
	-2	93	-6	102
JPY	8	(172)	2	(49)
	-2	43	-6	148
EUR	8	(972)	2	(49)
	-2	243	-6	148

(ii) Interest rate risk

Interest rate risk is the risk of loss from fluctuations in future cash flows or fair values of financial instruments due to changes in market interest rates.

Various quantitative models are used to manage interest rate risks, including stress testing and dollar value change as a result of one basis point movement (DV01).

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25. Financial risk management (continued)

(d) Market risk (continued)

(ii) Interest rate risk (continued)

The following table summarizes the carrying amounts of assets, liabilities and equity to arrive at the branch's interest rate gap based on the earlier of contractual repricing and maturity dates.

	2021					
	Immediately rate sensitive	1 to 3 months	3 to 12 months	Greater than 12 months	Non-rate sensitive	<u>Total</u>
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<u>ASSETS</u>						
Cash and cash equivalents	9,778,282	-	-	-	2,647,454	12,425,736
Resale agreements	-	1,231,360	-	-	-	1,231,360
Loans, less allowance for impairment losses	13	1,740,723	2,255,833	-	-	3,996,569
Investment securities		—	736,720	3,333,144	4,512,041	8,581,905
Other asset					353,331	353,331
Total financial assets	<u>9,778,295</u>	<u>2,972,083</u>	<u>2,992,553</u>	<u>3,333,144</u>	<u>7,512,826</u>	<u>26,588,901</u>
<u>LIABILITIES</u>						
Deposits	10,298,441	200,087	3,170,565	-	9,258,565	22,927,658
Lease Liabilities	13,878	41,780	193,130	-	-	248,788
Other liabilities	-	-	-	-	825,795	825,795
Total financial liabilities	<u>10,312,319</u>	<u>241,867</u>	<u>3,363,695</u>	<u>0</u>	<u>10,084,360</u>	<u>24,002,241</u>
Total interest rate sensitivity gap	<u>(534,024)</u>	<u>2,730,216</u>	<u>(371,142)</u>	<u>3,333,144</u>	<u>(2,571,534)</u>	<u>2,586,660</u>
Cumulative gap	<u>(534,024)</u>	<u>2,196,192</u>	<u>1,825,050</u>	<u>5,158,194</u>	<u>2,586,660</u>	<u>—</u>

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25. Financial risk management (continued)

(d) Market risk (continued)

(ii) Interest rate risk (continued)

	2020					
	Immediately rate sensitive \$'000	1 to 3 months \$'000	3 to 12 months \$'000	Greater than 12 \$'000	Non-rate sensitive \$'000	Total \$'000
Cash and cash equivalents	15,418,063	-	-	-	2,315,104	17,733,167
Loans, less allowance for impairment losses	-	3,474,621	411,107	-	-	3,885,728
Investment securities	-	-	736,720	3,333,144	17,092	4,086,956
Other assets	-	-	-	-	129,565	129,565
Total financial assets	15,418,063	3,474,621	1,147,827	3,333,144	2,461,761	25,835,416
<u>LIABILITIES</u>						
Deposits	8,840,926	950,531	10,171	-	11,196,791	20,998,419
Note payable	-	5,000	10,000	-	-	15,000
Repurchase agreement	1,600,000	-	-	-	-	1,600,000
Lease Liabilities	-	29,236	19,621	-	-	48,857
Other liabilities	-	-	-	-	373,544	373,544
Total financial liabilities	10,440,926	984,767	39,792	-	11,570,335	23,035,820
Total interest rate	4,977,137	2,489,854	1,108,035	3,333,144	(9,108,574)	2,799,596
Cumulative gap	4,977,137	7,466,991	8,575,026	11,908,170	2,799,596	—

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25. Financial risk management (continued)

(d) Market risk (continued)

(ii) Interest rate risk (continued)

At the reporting date the interest rate profile of the branch's interest-bearing financial instruments was:

	<u>2021</u>	<u>2020</u>
	\$'000	\$'000
Fixed rate instruments:		
<u>Financial assets</u>		
Cash and cash equivalents	9,778,282	15,418,063
Resale agreements	1,231,360	-
Loans	3,597,047	3,486,387
Investment securities	8,581,905	4,069,864
	<hr/>	<hr/>
<u>Financial liabilities</u>		
Deposits	13,669,093	9,801,628
Securities sold under repurchase agreements	-	1,600,000
Notes payable	-	15,000
	<hr/>	<hr/>
Variable rate instruments:		
<u>Financial assets</u>		
Loans	399,522	399,341
	<hr/>	<hr/>

Fair value sensitivity to interest rate movements:

A change of +300 and -50 (2020: +100 and -100) in basis points in interest rates for Jamaica and +100 and -100 (2020: +100 and -100) in United States dollar financial instruments at the reporting date would have increased or (decreased) equity and profit by the amounts shown below.

The analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2020.

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25. Financial risk management (continued)

(d) Market risk (cont'd)

(iii) Interest rate risk (continued)

	2021	2020
Change in basis points	Effect on equity \$'000	Effect on equity \$'000
USD interest rates		
+300bps/100bps	749	1,095
-100bps/100bps	(792)	(1,135)
JMD Interest rates		
+300bps/100bps	233,701	13,751
-50bps/100bps	<u>(44,985)</u>	<u>(15,116)</u>

Cash flow sensitivity of variable rate financial instruments:

A change of +300 and -50 (2020: +100 and -100) basis points in interest rates for Jamaica and a change of +100 and -100 (2020: +100 and -100) basis points in interest rates for United States dollar financial instruments at the reporting date would have increased or (decreased) profit and equity by the amounts shown below. The company does not have any variable rate financial instruments denominated in United States dollars.

The analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis as for 2020.

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25. Financial risk management (continued)

(d) Market risk (cont'd)

(iii) Interest rate risk (continued)

Change in basis points		<u>2021</u> Effect on profit or loss and <u>equity</u> \$'000	<u>2020</u> Effect on profit or loss and <u>equity</u> \$'000
JMD Interest rates	+300bps/100bps	11,991	3,993
	-50bps/100bps	<u>(1,999)</u>	<u>(3,993)</u>

(e) Operational risk:

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the branch's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks, such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the branch's operations.

The branch's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the branch's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit. This responsibility is supported by the development of overall branch standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorisation of transactions;
- requirements for the reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements;
- documentation of procedures including controls;
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- requirements for the reporting of operational losses and proposed remedial action;
- development of contingency plans;
- training and professional development;
- ethical and business standards;
- risk mitigation, including insurance where this is effective.

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25. Financial risk management (continued)

(e) Operational risk: (continued):

Compliance with the branch's standards is supported by a programme of periodic reviews undertaken by the internal audit unit. The results of internal audit reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the BRCC Committee and senior management of the branch.

(f) Capital management:

Regulatory capital

The branch's regulator, Bank of Jamaica, sets and monitors capital requirements for the branch as a whole.

In implementing current capital requirements, Bank of Jamaica requires the branch to maintain a prescribed ratio of capital to total risk-weighted assets.

The branch's regulatory capital is analysed into two tiers:

- Tier 1 capital, which includes assigned share capital, retained earnings reserve, statutory reserve fund less any net loss position on revaluation reserves arising from fair value accounting and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes. Core capital must be at least 50% of capital base.
- Tier 2 capital, which includes general provisions for losses up to a maximum of 1.25% of the branch's risk-weighted assets.

Risk-weighted assets for the branch are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and to exposures not carried on the statement of financial position.

The branch's policy is to maintain a strong capital base so as to maintain the confidence of investors, creditors and the market, and to sustain future development of the business.

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25. Financial risk management (continued)

(f) Capital management (continued):

The branch's regulatory capital position at December 31, was as follows:

	<u>2021</u>	<u>2020</u>	
	\$'000	\$'000	
Tier 1 Capital before deductions			
Assigned capital	207,609	207,609	
Reserve fund	207,609	207,609	
Retained earnings reserve	<u>2,702,432</u>	<u>2,702,432</u>	
Total Tier 1 Capital	<u>3,117,650</u>	<u>3,117,650</u>	
Adjustments to tier 1 capital			
Fair value reserve	(14,098)	<u>73,150</u>	
Total tier 1 Capital after adjustments	<u>3,103,552</u>	<u>3,190,800</u>	
Tier 2 Capital			
General provision for losses on assets, being total Tier 2 capital	<u>42,091</u>	<u>42,413</u>	
Total regulatory capital	<u>3,145,643</u>	<u>3,233,213</u>	
Total risk-weighted assets	<u>16,785,832</u>	<u>12,397,403</u>	
Capital ratios			
Total regulatory capital expressed as a percentage of total risk-weighted assets	-Actual	18.74%	27.30%
	-Required	10.00%	10.00%
Total tier 1 capital expressed as a percentage of total risk-weighted assets	-Actual		
	-Required	18.57%	25.15%
		<u>10.00%</u>	<u>10.00%</u>

The branch complied with all externally imposed capital requirements throughout and at the end of the year. There were no material changes in the branch's management of capital during the year.

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26. Contingent liabilities

At the reporting date, the branch had foreign exchange forward contracts of \$9,163,193,916 (2020: \$6,186,669,588), which were perfectly hedged, with varying maturity dates. The contracts were reflected at fair value using a forward rate as at year end. Gains or losses on the contracts were reflected in profit or loss.

27. Subsequent event

Management continues to monitor the ongoing situation in relation to the Ukraine conflict which has escalated subsequent to period end on 24 February 2022. Eastern Europe is not a key market for Jamaica's banking sector. Nonetheless, related impact on energy and food prices may impact people's disposable income. Whilst there is still uncertainty of the implications of these events and conditions over the global economy's recover from COVID-19, given the good financial position of the branch and the financial strength of the group, management believes that the branch is in a strong position to withstand such economic shocks.

