CITIBANK, N.A., JAMAICA BRANCH

FINANCIAL STATEMENTS

DECEMBER 31, 2019

KPMG
Chartered Accountants
P.O. Box 76
6 Duke Street
Kingston
Jamaica, W.I.
+1 (876) 922 6640
firmmail@kpmg.com.jm

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 4 to 74, which comprise the statement of financial position as at December 31, 2019, 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 financial statements give a true and fair view of the financial position of the branch as at December 31, 2019, and of its financial performance and cash flows for the year then ended, in accordance with International Financial Reporting Standards 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 Code of Ethics for Professional Accountants (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.

INDEPENDENT AUDITORS' REPORT (CONTINUED)
To the Directors of
CITIBANK, N.A.
[Incorporated in the U.S.A. with limited liability]

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 skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the branch's internal control.

INDEPENDENT AUDITORS' REPORT (CONTINUED)
To the Directors of
CITIBANK, N.A.
[Incorporated in the U.S.A. with limited liability]

Report on the Audit of the Financial Statements (Continued)

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

- 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.

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 and the financial statements, which are in agreement therewith, give the information required by the Jamaican Companies Act in the manner required.

KPMG

Chartered Accountants
Kingston, Jamaica

March 31, 2020

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

JAMAICA BRANCH

Statement of Financial Position
December 31, 2019

	Notes	2019 $'000	2018 $'000
ASSETS			
Cash and cash equivalents	5	12,621,183	10,713,330
Securities purchased under resale agreements	6	918,216	1,268,003
Loans, less allowance for impairment	7	2,459,762	2,558,216
Investment securities	8	3,623,257	4,583,827
Property, plant and equipment	9	102,894	114,214
Right-of-use assets	10	153,690	-
Income tax recoverable		257,102	254,164
Other assets	11	397,722	228,377
Customers' liabilities under acceptances, guarantees and letters of credit, as per contra		36,334	225,951
Employee benefits asset	12	1,723,359	1,423,940
		22,293,519	21,370,022
LIABILITIES			
Deposits:			
Customers		14,238,140	14,056,913
Other branches and affiliates		121,819	192,525
Head office		22,465	21,891
Fellow subsidiaries		874,079	877,474
	13	15,256,503	15,148,803
Acceptances, guarantees and letters of credit, as per contra		38,460	227,313
Note payable	14	35,000	55,000
Other liabilities	15	408,748	372,843
Employee benefits obligation	12	224,056	249,437
Lease liability	10	154,130	-
Deferred tax liability	16	574,892	415,117
Securities sold under repurchase agreements	17	1,400,000	600,000
		18,091,789	17,068,513
HEAD OFFICE'S EQUITY			
Assigned capital	18(a)	207,609	207,609
Reserve fund	18(b)	207,609	207,609
Retained earnings reserve	18(c)	1,528,592	1,528,592
Fair value reserve	18(d)	110,667	75,417
Loan loss reserve	18(e)	21,690	26,535
Other reserve	18(f)	903,796	703,445
Unremitted profits	18(g)	1,221,767	1,552,302
		4,201,730	4,301,509
		22,293,519	21,370,022

The financial statements on pages 4 to 74 were approved for issue by the Country Coordinating Committee on March 27, 2020 and signed on its behalf by:

Eva Lewis — Citi Country Officer

Denis L. Gray — Citi Financial Officer

The accompanying notes form an integral part of the financial statements.

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

JAMAICA BRANCH

Statement of Profit or Loss and Other Comprehensive Income
Year ended December 31, 2019

	Notes	2019 $'000	2018 $'000
Interest income calculated using the effective interest method:			
Interest on loans		123,403	121,205
Interest on deposits with banks		297,215	251,358
Interest on investment securities		192,911	162,515
		613,529	535,078
Interest expense		(67,346)	(70,529)
Net interest income	19	546,183	464,549
Fees and commissions	20(a)	116,971	110,286
Other operating revenue:			
Foreign exchange gains		331,042	339,854
Inter-company revenue earned in relation to geographic revenue attribution project	20(b)	1,454,101	615,313
Other	10	25,613	23,014
		2,473,910	1,553,016
Operating expenses:			
Staff costs	21(a)	(516,004)	(451,406)
Depreciation	9,10	(153,034)	(31,804)
Losses from securities trading		-	(685)
Loss allowance on financial assets		(18,325)	6,730
Other	21(b)	(693,577)	(858,092)
		(1,380,940)	(1,335,257)
Profit before income tax	22	1,092,970	217,759
Income tax expense	23(a)	(368,110)	(93,261)
Profit for the year		724,860	124,498
Other comprehensive income:			
Item that will never be reclassified to profit or loss:			
Remeasurement of employee benefits asset and obligation, net of taxation	23(c)	200,351	92,091
Item that may be reclassified to profit or loss:			
Change in fair value of investment securities at fair value through other comprehensive income, net of taxation	23(c)	35,250	33,713
Total other comprehensive income		235,601	125,804
Total comprehensive income for the year		960,461	250,302

The accompanying notes form an integral part of the financial statements.

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

JAMAICA BRANCH

Statement of Changes in Head Office's Equity
Year ended December 31, 2019

	Assigned capital $'000 [Note 18(a)]	Reserve fund $'000 [Note 18(b)]	Retained earnings reserve $'000 [Note 18(c)]	Fair value reserve $'000 [Note 18(d)]	Loan loss reserve $'000 [Note 18(e)]	Other reserve $'000 [Note 18(f)]	Unremitted profits $'000	Total $'000
Balances at January 1, 2018	207,609	207,609	1,528,592	41,704	29,743	611,354	1,720,020	4,346,631
Comprehensive income:								
Profit for the year	-	-	-	-	-	-	124,498	124,498
Other comprehensive income								
Remeasurement of employee benefits asset/obligation, net of taxation	-	-	-	-	-	92,091	-	92,091
Appreciation in fair value of investments, net of taxation	-	-	-	33,713	-	-	-	33,713
Other comprehensive income for the year	-	-	-	33,713	-	92,091	-	125,804
Total comprehensive income for the year	-	-	-	33,713	-	92,091	124,498	250,302
Transactions with head office and transfers								
Transfers	-	-	-	-	(3,208)	-	3,208	-
Profit remitted [note 18(g)]	-	-	-	-	-	-	(295,424)	(295,424)
Balances at December 31, 2018	207,609	207,609	1,528,592	75,417	26,535	703,445	1,552,302	4,301,509
Comprehensive income:								
Profit for the year	-	-	-	-	-	-	724,860	724,860
Other comprehensive income:								
Remeasurement of employee benefit assets/obligation, net of taxation	-	-	-	-	-	200,351	-	200,351
Appreciation in fair value of investments, net of taxation	-	-	-	35,250	-	-	-	35,250
Other comprehensive income for year	-	-	-	35,250	-	200,351	-	235,601
Total comprehensive income for the year	-	-	-	35,250	-	200,351	724,860	960,461
Transactions with head office and transfers								
Transfers	-	-	-	-	(4,845)	-	4,845	-
Profit remitted [note 18(g)]	-	-	-	-	-	-	(1,060,240)	(1,060,240)
Balances at December 31, 2019	207,609	207,609	1,528,592	110,667	21,690	903,796	1,221,767	4,201,730

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

JAMAICA BRANCH

Statement of Cash Flows
Year ended December 31, 2019

	Notes	2019 $'000	2018 $'000
Cash flows from operating activities			
Profit for the year		724,860	124,498
Adjustments for:			
Depreciation	9	153,034	31,804
Loss allowance on financial asset		18,324	(6,730)
Interest income	19	(613,529)	(535,078)
Interest expense	19	67,346	70,529
Income tax expense	23(a)	368,110	93,261
Unrealised foreign exchange gains		(295,375)	(113,367)
Employee benefits asset/obligation		(20,178)	(34,072)
		402,592	(369,155)
Changes in:			
Loans		102,701	229,545
Employee benefits asset/obligation		(4,109)	(3,853)
Other assets		187,071	(106,979)
Deposits		(4,895)	(163,485)
Other liabilities		(154,544)	32,399
		528,816	(381,528)
Interest received		615,415	503,003
Interest paid		(61,165)	(82,499)
Income tax refunded		(334,183)	(294,632)
Net cash provided/(used) by operating activities		748,883	(255,656)
Cash flows from investing activities			
Investment securities		1,061,685	539,933
Resale agreements		349,811	(743,716)
Purchase of property, plant and equipment	9	(32,724)	(40,536)
Net cash provided/(used) by investing activities		1,378,772	(244,315)
Cash flows from financing activities			
Securities sold under resale agreements		800,000	250,000
Note payable		(20,000)	(25,000)
Payment of lease liabilities	10	(112,478)	-
Profits remitted	18(g)	(1,060,240)	(295,424)
Net cash used by financing activities		(392,718)	(70,424)
Net increase/(decrease) in cash and cash equivalents		1,734,937	(570,395)
Effect of exchange rate fluctuations on cash and cash equivalents		172,916	105,900
Cash and cash equivalents at beginning of year		10,713,330	11,177,825
Cash and cash equivalents at end of year	5	12,621,183	10,713,330

The accompanying notes form an integral part of the financial statements.

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") as issued by the International Accounting Standards Board, and comply with the relevant provisions of the Jamaican Companies Act ("the Act").

This is the first set of the branch's annual financial statements in which IFRS 16 *Leases* has been applied. Changes to significant accounting policies are described in note 3.

New and amended standards and interpretations issued but not yet effective

At the date of authorisation of these financial statements, certain new and amended standards and interpretations 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) Amendment to IAS 1 *Presentation of Financial Statements* and IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors* is effective for annual periods beginning on or after January 1, 2020, and provides a definition of 'material' to guide preparers of financial statements in making judgements about information to be included in financial statements.

"Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity."

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

(a) Statement of compliance (continued):

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

(ii) Amendments to *References to Conceptual Framework in IFRS Standards* is effective retrospectively for annual reporting periods beginning on or after January 1, 2020. The revised framework covers all aspects of standard setting including the objective of financial reporting.

The main change relates to how and when assets and liabilities are recognised and derecognised in the financial statements.

- New 'bundle of rights' approach to assets will mean that an entity may recognise a right to use an asset rather than the asset itself;
- A liability will be recognised if an entity has no practical ability to avoid it. This may bring liabilities on balance sheet earlier than at present.
- A new control-based approach to derecognition will allow an entity to derecognise an asset when it loses control over all or part of it; the focus will no longer be on the transfer of risks and rewards.

The branch does not expect the amendment to have a significant impact on its financial statements.

(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 employment medical benefit measured at the present value of the obligation. [see note 4(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.

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

(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:

- 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.

- Leases

  Management assesses at the commencement date, whether it is reasonable certain to exercise the lease extension option.

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

(d) Accounting estimates and judgements (continued):

(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.

- 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 4(b) 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).

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)

- 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.

3. Changes in significant accounting policies

Except for the changes below, the branch has consistently applied the accounting policies to all periods presented in these financial statements.

The branch applied IFRS 16 *Leases* with a date of initial application of January 1, 2019. A number of other standards and intrepretations are effective from January 1, 2019 but they do not have a a material effect on the branch's financial statements.

The branch applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised at January 1, 2019. Accordingly, the comparative information presented in 2018 was not restated. The details of the changes in accounting policies are disclosed below.

(a) Definition of a lease

Previously, the branch determined at contract inception whether an arrangement is or contains a lease under IFRIC 4. Under IFRS 16, the branch assesses whether a contract is or contains a lease based on the definition of a lease, as explained in note 4(d).

On transition to IFRS 16, the branch elected to apply the practical expedient to grandfather the assessment of which transactions are leases. It applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after January 1, 2019.

3. Changes in accounting significant policies (continued)

(b) As a lessee

As a lessee, the branch leases building for office space. The branch previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards of ownership of the underlying assets to the branch. Under IFRS 16, the branch recognises right-of-use assets and lease liabilities for leases.

Leases classified as operating leases under IAS 17

At transition, lease liabilities were measured at the present value of the remaining lease payments, discounted at the branch's incremental borrowing rate as at January 1, 2019. Right-of-use assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

The branch used the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17.

- Applied the exemption not to recognise right-of-use assets and liabilities for leases with less than 12 months of lease term.

- Excluded initial direct costs from measuring the right-of-use asset at the date of initial application.

The branch did not apply the practical expedient of using hindsight when determining the lease term which contains options to extend or terminate the lease. Instead, it determine the lease term based on its assessment at the commencement of the lease.

(c) As a lessor

The branch sub-leases its right-of-use asset and has classified this as an operating lease. The branch assessed the classification of the sub-lease contracts with reference to the right-of-use asset rather than the underlying asset, and concluded that they are operating leases under IFRS 16.

The branch has applied IFRS 15 *Revenue from Contracts with Customers* to allocate considerations in the contract to each lease and non-lease component.

The branch is not required to make any adjustements on transition to IFRS 16 for leases in which it acts as lessor.

(d) Impact on financial statements

On transition to IFRS 16, the branch recognised right-of-use assets and liabilities of $262,680,000.

3. Changes in accounting significant policies (continued)

(d) Impact on financial statements (continued)

When measuring lease liabilities, the branch discounted lease payments using its incremental borrowing rate at January 1, 2019. The weighted average rate applied is 3.195%.

	$'000
Operating lease commitment at December 31, 2018 as disclosed in the financial statements	263,366
Discounted using the incremental borrowing rate, being lease liabilities recognised at January 1, 2019	262,680

4. Significant accounting policies

(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, securities purchased under resale agreements, investment securities, loans receivables, other assets and guarantees.
- Financial liabilities comprise deposits, note payable, guarantees, lease liability 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 fair value through other comprehensive income (FVOCI), which results in an accounting loss being recognised in profit or loss when an asset is newly originated.

4. Significant accounting policies (continued)

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

(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.

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

- *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 fair value through profit or loss (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 4(i). Interest income from these financial assets is included in "Interest and similar 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 and presented in the profit or loss statement.

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.

4. 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 year.

4. Significant accounting policies (continued)

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

(ii) Classification and subsequent remeasurement (continued)

Financial assets (continued)

(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 instruments are never reclassified to profit or loss and no impairment is recognised in profit or loss.

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

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.

4. Significant accounting policies (continued)

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

(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.

(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 recognized in profit or loss, or other comprehensive income for changes in the fair value of FVOCI securities.

The fair values of cash and cash equivalents, resale agreements, cheques and other items in transit, other assets, customers' liabilities under acceptances, due to other banks and financial institutions, repurchase agreements and other liabilities are considered to approximate their carrying values.

The fair values of FVOCI securities are the amounts at which these securities are measured (see note 8). These values are based on quoted prices in an active market, where available, or determined by a suitable alternative method.

4. Significant accounting policies (continued)

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

(v) Fair value measurement principles (continued):

Determination of fair values (continued):

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.

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 values of deposits and note payable are considered to approximate their carrying values, 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.

4. Significant accounting policies (continued)

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

(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.

(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) Financial guarantees:

Financial guarantees are contracts that require the branch to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Financial guarantee liabilities are recognized initially at their fair value, and the initial fair value is amortized over the life of the financial guarantee. Financial guarantees are included in other liabilities.

Substantially all the risks and rewards of ownership of the collateral are transferred to the branch during the life of the financial guarantee. Under guarantee transactions the branch obtains collateral to cover the total of the liability. These are recognized at fair value, as financial assets, equal to the amount of the financial guarantee liability. Financial guarantees are derecognized when they expire and the terms of contract are fulfilled.

4. Significant accounting policies (continued)

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

(xi) 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 that are debt instruments;
- financial guarantee contracts issued; and
- 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:

- 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 are the portion of ECL that result from default events on a financial instrument that are 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 are the ECL that result 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’.

4. Significant accounting policies (continued)

(a) Impairment of financial assets (continued):

Measurement of ECL

ECL are a probability-weighted estimate of credit losses. They are 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 are 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 flow from the existing financial asset at the time of its derecognition.

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;

4. Significant accounting policies (continued)

(b) Impairment of financial assets (continued):

Credit-impaired financial assets (continued)

- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the group 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.
- 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.

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.

4. Significant accounting policies (continued)

(b) Impairment of financial assets (continued):

Write-off (continued)

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 requires impairment allowances based on the expected credit loss model.

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 18(e)].

(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.

4. Significant accounting policies (continued)

(c) Property, plant and equipment (continued):

(i) Basis of measurement (continued):

- 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 & 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.

(d) Leases

The branch has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4. The details of accounting policies under IAS 17 and IFRIC 4 are disclosed separately.

(i) As a lessee

Policy applicable from January 1, 2019

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.

This policy is applied to contracts entered into, on or after January 1, 2019.

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. Therefore, for leases of property, the branch has elected to separate non-lease components and account for these separately.

4. Significant accounting policies (continued)

(d) Leases (continued)

(i) As a lessee (continued)

Policy applicable from January 1, 2019 (continued)

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 at 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 remeasurement of the lease liability.

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

The branch determines its incremental borrowing rate by using a proxy the rate adopted by its head office. This rate is set at the midpoint between the Federal Home Loan Bank (FHLB) rate (considered the "floor") and the Unsecured Bank Funding Rate (the "ceiling") and does not materially differ from the local branch rate.

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.

4. Significant accounting policies (continued)

(d) Leases (continued)

(i) As a lessee (continued)

Policy applicable from January 1, 2019 (continued)

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 branch's estimate of the amount expected to be payable under a residual value guarantee, if the branch 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 lease liabilities in the statement of financial position.

Policy applicable before January 1, 2019

Assets held under other leases were classified as operating leases and were not recognised in the statement of financial position. Payments made under operating leases were recognised in profit or loss on a straight-line basis over the term of the lease.

(ii) As a lessor

When the branch acts as a lessor, it determines at lease inception whether each lease is finance lease or an operating lease.

To classify the lease, the branch makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the branch considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

When the branch is an intermediate lessor, it accounts for its interest in the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset.

The branch recognises lease payments received under operating leases as income on a straight-line basis over the lease term as part of 'other income'.

The accounting policies applicable to the branch as a lessor in the comparative period were not different from IFRS 16. However, when the branch was an intermediate lessor the sub-leases were classified with reference to the underlying asset.

4. Significant accounting policies (continued)

(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.

(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 12).

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.

4. Significant accounting policies (continued)

(e) Employee benefits (continued):

(ii) Defined benefit pension plan (continued)

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.

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 recognised 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 and recognised in the same manner as described above for defined benefit pension plan.

4. Significant accounting policies (continued)

(e) Employee benefits (continued):

(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.

(f) Interest income and expenses

(i) Effective interest rate

Interest income and expenses are recognised in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the gross carrying amount of the financial assets; or the amortised cost of the financial liability.

When calculating the effective interest rate for financial instruments other than purchased or originated credit-impaired assets. The branch estimates future cash flows considering all contractual terms of the financial instrument, but not ECL. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimate future cash flows including ECL.

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

(ii) Amortised cost and gross carrying amount

The 'amortised cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance. The 'gross carrying amount of a financial asset' is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

4. Significant accounting policies (continued)

(f) Interest income and expenses (continued)

(iii) Calculation of interest income and expense

The effective interest rate of a financial asset or financial liability is calculated on initial recognition of a financial asset or a financial liability. In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability. The effective interest rate is revised as a result of periodic re-estimation of cash flows of floating-rate instruments to reflect movements in market rates of interest.

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 for financial assets that have become credit-impaired subsequent to initial recognition, interest income be calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

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.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

(iv) Presentation

Interest income calculated using the effective interest method presented in the income statement includes interest on financial assets measured at amortised cost and interest on debt instruments measured at FVOCI; interest expense presented in the income statement includes financial liabilities measured at amortised cost and interest expense on lease liabilities.

4. Significant accounting policies (continued)

(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.

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	The branch provides banking related services to members including investment management, foreign currency transactions, servicing fees and lending and deposits services [note 20(a)].	Revenue from account services and servicing fees is recognised over time as the services are provided.
	Transaction-based fees such as credit bureau fees are charged to the customers' account when the transaction takes place.	Revenue related to transactions is recognised at the point in time when the transaction takes place.
	Servicing fees are charged on a monthly basis and are based on fixed rates determined by the branch.	

4. Significant accounting policies (continued)

(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.

(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 amounts 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.

4. Significant accounting policies (continued)

(i) Income tax expense (continued):

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.

(i) Calculation of recoverable amount:

The recoverable amount of non-financial assets is the greater of their fair value less cost to sell 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.

4. Significant accounting policies (continued)

(k) Related parties (continued):

(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).

(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).

(viii) 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.

5. Cash and cash equivalents

	2019 $'000	2018 $'000
Accounts with other branches	14,284	5,480
Accounts with other financial institutions	1,246,939	4,846,771
Notes and coins, money at call, and deposits and cash reserves at Bank of Jamaica	8,332,511	1,677,318
Due from fellow subsidiary	2,559	2,644
Accounts with head office	3,021,114	3,219,306
Cheques and other items in transit	3,776	961,811
	12,621,183	10,713,330

5. Cash and cash equivalents (continued)

Of the total deposits held with Bank of Jamaica, $1,771,489,000 (2018: $2,068,764,000) is 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. The specified percentage in force at the end of the year was 7% (2018: 12%) for Jamaican currency and 15% (2018: 15%) for foreign currency.

6. Securities purchased under resale agreements

At the reporting date, the fair value of the underlying securities held for resale agreements was approximately $1,183,482,000 (2018: $1,536,842,000).

7. Loans, less allowance for impairment

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

	2019 $'000	2018 $'000
Within 3 months	2,123,438	1,895,355
3 months -12 months	301,385	607,925
1-5 years	34,939	54,936
	2,459,762	2,558,216

The branch's four most significant customers are in the distributions, agriculture and other service sector (2018: distribution and other services sectors) and account for $1.9 billion (2018: $1.9 billion) representing 76% (2018: 77.33%) of total loans.

(b) Impairment losses

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

	2019 $'000		2018 $'000	
	Gross	Allowance for impairment	Gross	Allowance for impairment
Neither past due nor impaired	2,461,770	(2,008)	2,559,372	(1,156)

7. Loans, less allowance for impairment (continued)

(b) Impairment losses (continued)

Allowance for impairment:

	2019 $'000	2018 $'000
Balance at beginning of year	(1,156)	-
Remeasurement on January 1, 2018 (IFRS 9)	-	(3,669)
Net remeasurement of loss allowance	(852)	2,513
At end of year	(2,008)	(1,156)

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 18(e)], as follows:

	2019 $'000	2018 $'000
At beginning of year	26,535	33,412
Less impairment allowance based on IFRS 9	-	(3,669)
Reversed during the year	(4,845)	(3,208)
At end of year	21,690	26,535

(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:

	Number of loans 2019	Number of loans 2018	2019 $'000	2018 $'000
Financial institutions	-	1	-	67,289
Professional and other services	8	8	1,176,550	1,416,461
Distribution	8	10	1,285,220	1,075,622
	16	19	2,461,770	2,559,372

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

8. Investment securities

	2019 $'000	2018 $'000
Fair value through OCI securities:		
Securities issued or guaranteed by Government of Jamaica:		
Debentures	1,514,248	1,567,934
Bonds (denominated in United States dollars)	2,094,020	3,000,872
Investment bond	9,969	10,001
Fair value through profit or loss:	3,618,237	4,578,807
Unquoted equities:		
Interest in Automated Payments Limited [see below]	5,020	5,020
	3,623,257	4,583,827
Loss allowance [note 26(b)(v)(iv)]	24,872	10,260

The interest in Automated Payments Limited represents a 14.29% (2018: 14.29%) 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.

9. Property, plant and equipment

	Motor vehicles $'000	Leasehold improvements $'000	Computers and furniture & equipment $'000	Total $'000
Cost:				
December 31, 2017	17,030	215,206	229,904	462,140
Additions	-	13,649	26,887	40,536
December 31, 2018	17,030	228,855	256,791	502,676
Additions	-	-	32,724	32,724
Disposal	-	-	(375)	(375)
December 31, 2019	17,030	228,855	289,140	535,025
Depreciation:				
December 31, 2017	852	135,642	220,164	356,658
Charge for the year	3,406	21,299	7,099	31,804
December 31, 2018	4,258	156,941	227,263	388,462
Charge for the year	3,406	22,113	18,525	44,044
Eliminated on disposals	-	-	(375)	(375)
December 31, 2019	7,664	179,054	245,413	432,131
Net book values:				
December 31, 2019	9,366	49,801	43,727	102,894
December 31, 2018	12,772	71,914	29,528	114,214
December 31, 2017	16,178	79,564	9,740	105,482

10. Leases

(i) As a lessee

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 options 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 lease for purposes of recognition of lease liability.

(a) Right-of-use assets:

	Land and building 2019 $'000
Balance at January 1 (on intial recognition of IFRS 16)	262,680
Depreciation charge for the year	(108,990)
Balance at December 31	153,690

There were no additions to the right-of-use assets during the year.

(b) Lease liabilities

	2019 $'000
Undiscounted cashflows of lease liabilities:	
Less than one year	112,941
One to five years	46,220
	159,161
Less future interest payment	(5,031)
Carrying amount of lease liabilities	154,130
Current	109,208
Non-current	44,922
	154,130

(c) Amounts recognised in profit or loss

	2019 $'000	2018 $'000
Amounts recognised under IFRS 16		
Interest on lease liabilities	(6,684)	-
Income from sub-leasing right-of-use assets	25,613	-
Operating leases under IAS 17 lease expense	-	104,492

10. Leases (continued)

(i) As a lessee (continued)

(d) Amounts recognised in statement of cashflow

	2019
	$'000
Total cash outflow for leases	112,478

(ii) As a lessor

The branch sub-leases office building and has classified the sub-lease as an operating lease, because they do not transfer substantially, all of the risk and rewards incidental to the right of use asset.

The following table shows the maturity analysis of lease payment, showing the undiscounted lease payments to be received often the reporting date.

	2019
	$'000
Less than one year	13,685

11. Other assets

	2019	2018
	$'000	$'000
Amortised cost:		
Interest receivable	76,272	78,328
Prepayments and items in course of clearing	23,354	22,987
Other	4,632	7,528
	104,258	108,843
Fair value through profit or loss:		
Foreign currency forward contracts	293,464	119,534
	397,722	228,377

12. Employee benefits asset/obligation

The branch operates a defined benefit pension plan [see note 4(e)(ii)] 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.

12. Employee benefits asset/obligation (continued)

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):

	Pension asset		Health care obligation	
	2019	2018	2019	2018
	$'000	$'000	$'000	$'000
Present value of obligations	(1,534,636)	(1,421,083)	(224,056)	(249,437)
Fair value of plan assets	3,257,995	2,845,023	-	-
Net asset/(obligation)	1,723,359	1,423,940	(224,056)	(249,437)

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

	Pension asset		Health care obligation	
	2019	2018	2019	2018
	$'000	$'000	$'000	$'000
Net asset/(obligation) at January 1	1,423,940	1,190,265	(249,437)	(191,817)
Contributions	64	65	4,046	3,787
Credit/(expense) recognised in profit or loss	50,916	59,288	(30,738)	(25,216)
Remeasurement gain/(loss) recognised in other comprehensive income	248,439	174,322	52,073	(36,191)
Net asset/(obligation) at December 31	1,723,359	1,423,940	(224,056)	(249,437)

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

	Pension asset		Health care obligation	
	2019	2018	2019	2018
	$'000	$'000	$'000	$'000
Balance at January 1	1,421,083	1,155,124	(249,437)	(191,817)
Benefits paid	(50,054)	(58,935)	4,046	3,787
Interest cost	97,694	90,510	(17,288)	(15,166)
Current service cost	39,899	26,816	(13,450)	(10,050)
Employees' contribution	25,562	20,644	-	-
Actuarial gain/(loss) arising from:				
Experience adjustment	23,857	(16,248)	18,451	3,795
Financial assumptions	(23,405)	203,172	33,622	(39,986)
Balance at December 31	1,534,636	1,421,083	(224,056)	(249,437)

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

JAMAICA BRANCH

Notes to the Financial Statements (Continued)
December 31, 2019

12. Employee benefits asset/obligation (continued)

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

	2019 $'000	2018 $'000
Balance at January 1	2,845,023	2,495,498
Employees' contributions	25,562	20,645
Benefits paid	(50,054)	(58,935)
Employer's contribution	64	65
Interest income	197,743	198,132
Administrative expenses	(9,234)	(9,511)
Remeasurement gain on plan assets included in other comprehensive income	248,891	199,129
Balance on December 31	3,257,995	2,845,023

(iii) Plan assets consist of the following:

	2019 $'000	2018 $'000
Equities	1,357,198	1,175,812
Other securities	1,536,579	1,336,551
Cash and cash equivalents	73,691	86,975
US notes and bonds	290,527	245,685
	3,257,995	2,845,023

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

	Pension asset		Health care obligation	
	2019 $'000	2018 $'000	2019 $'000	2018 $'000
Current service costs	39,899	26,816	13,450	10,050
Administrative expenses	9,234	9,511	17,288	15,166
Interest on obligation	97,694	90,510	-	-
Interest income on plan asset	(197,743)	(198,132)	-	-
Interest on effect of asset ceiling	-	12,007	-	-
	(50,916)	(59,288)	30,738	25,216

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

	Pension plan		Health care obligation	
	2019 $'000	2018 $'000	2019 $'000	2018 $'000
Remeasurement (loss)/gain on obligation	(452)	(186,925)	52,073	(36,191)
Remeasurement gain on asset	248,891	199,129	-	-
Change in effect of asset ceiling	-	162,118	-	-
	248,439	174,322	52,073	(36,191)

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

JAMAICA BRANCH

Notes to the Financial Statements (Continued)
December 31, 2019

12. Employee benefits asset/obligation (continued)

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

	Pension plan		Health care obligation	
	2019	2018	2019	2018
	%	%	%	%
Discount rate	7.5	7.00	7.50	7.0
Future salary increases	6.0	6.00	-	-
Future pension increases	3.0	2.50	-	-
Future health cost increases	-	-	6.50	7.50

(g) The estimated pension contribution expected to be paid into the plan for the next financial year is $64,800 (2018: $63,600).

(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			
	2019		2018		2019		2018	
	1 % increase	1 % decrease	1 % increase	1 % decrease	1 % increase	1 % decrease	1 % increase	1 % decrease
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Discount rate	(216,070)	277,423	(203,173)	261,621	(35,630)	46,663	(42,184)	55,813
Future salary increases	79,867	(69,254)	71,331	(61,939)	45,640	(35,331)	53,797	(41,318)
Future pension increases	178,275	149,008	164,497	(137,434)	162	(213)	690	(696)

(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 $39.9 million (2018: $39 million).

12. Employee benefits asset/obligation (continued)

(j) Liability duration:

	Pension asset		Health care obligation	
	2019	2018	2019	2018
Active members	21.2	21.8	25.0	25.8
Deferred pensioners	23.7	24.8	-	-
Retirees	8.9	8.9	10.4	11.0
All participants	17.1	17.3	19.5	20.7

13. Deposits

	2019	2018
	$'000	$'000
Commercial and business enterprises	11,602,903	11,398,096
Financial institutions	3,213,622	3,020,684
Public authorities	439,978	730,023
	15,256,503	15,148,803

14. Note payable

This represents an amount payable to Development Bank of Jamaica, which was granted for on-lending and is secured by promissory notes by the branch. This loan commenced on September 30, 2016 and is payable in 20 quarterly principal instalments of $5,000,000. It bears interest at 6.5% per annum. At December 31, 2019, amount due within one year amounted to $20,000,000 (2018: $20,000,000).

15. Other liabilities

	2019	2018
	$'000	$'000
Managers' cheques	124,410	163,921
Interest payable	126	629
Accruals	87,384	71,266
Inter-company geographic revenue attribution payable	-	18,938
Other	196,828	118,089
	408,748	372,843

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

JAMAICA BRANCH

Notes to the Financial Statements (Continued)
December 31, 2019

16. Deferred taxation

Deferred taxation is attributable to the following:

	Assets		Liabilities		Net	
	2019	2018	2019	2018	2019	2018
	$'000	$'000	$'000	$'000	$'000	$'000
Investments	-	-	(52,101)	(29,350)	(52,101)	(29,350)
Property, plant and equipment	58,315	41,671	-	-	58,315	41,671
Employee benefits asset	-	-	(576,603)	(474,599)	(576,603)	(474,599)
Employee benefits obligation	73,661	83,137	-	-	73,661	83,137
Unrealised foreign exchange loss	-	-	(91,409)	(37,785)	(91,409)	(37,785)
Others	13,245	1,809	-	-	13,245	1,809
Net assets/(liabilities)	145,221	126,617	(720,113)	(541,734)	(574,892)	(415,117)

Movements in temporary differences during the year were as follows:

	2019			
	Balance at January 1	Recognized in profit for year	Recognised in other comprehensive income	Balance at December 31
	$'000	$'000 (note 23)	$'000	$'000
Investments	(29,350)	-	(22,751)	(52,101)
Property, plant and equipment	41,671	16,644	-	58,315
Employee benefits asset	(474,599)	(1,843)	(100,161)	(576,603)
Employee benefits obligation	83,137	(9,476)	-	73,661
Unrealised foreign exchange gain	(37,785)	(53,624)	-	(91,409)
Others	1,809	11,436	-	13,245
	(415,117)	(36,863)	(122,912)	(574,892)

	2018			
	Balance at January 1	Recognized in profit for year	Recognised in other comprehensive income	Balance at December 31
	$'000	$'000 (note 23)	$'000	$'000
Investments	(12,520)	3,224	(20,054)	(29,350)
Property, plant and equipment	43,761	(2,090)	-	41,671
Employee benefits asset	(396,715)	(19,782)	(58,102)	(474,599)
Employee benefits obligation	63,932	7,142	12,063	83,137
Unrealised foreign exchange gain	15,478	(53,263)	-	(37,785)
Others	1,849	(40)	-	1,809
	(284,215)	(64,809)	(66,093)	(415,117)

17. Securities sold under repurchase agreements

At December 31, 2020 certain securities was pledged as collateral for repurchase agreements. These financial instruments have a carrying value of $1,400,000,000 (2018: $600,000,000).

18. 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 years.

(d) Fair value reserve:

This represents unrealised gains/(losses), on the revaluation of FVOCI (2018: FVOCI) investments and expected credit losses thereon, net of taxation.

(e) Loan loss reserve:

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

	2019 $'000	2018 $'000
Loans [note 7(b)]	21,305	24,257
Customers' liabilities under acceptances, guarantees and letters of credit, per contra	385	2,278
	21,690	26,535

18. Assigned capital and reserves (continued)

(f) Other reserves:

Other reserves represents 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.

(g) Profit remitted:

On December 31, 2019, (2018: October 3, 2018) $1,060,240,000 (US$8,000,000) [2018: $295,424,000 (US$ 2,222,905)] was remitted to Citibank, N.A, New York.

19. Net interest income

	2019 $'000	2018 $'000
Interest revenue:		
Loans and receivables	368,156	349,000
Securities purchased under agreements to resell	52,462	23,563
FVOCI securities	192,911	162,515
Total interest income	613,529	535,078
Interest expense:		
Deposits	23,409	27,570
Securities sold under agreements to repurchase	31,657	574
Short-term debt and other liabilities	5,596	42,385
Lease interest expense	6,684	-
Total interest expense	67,346	70,529
Net interest income	546,183	464,549

20. 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.

	2019 $'000	2018 $'000
Trade related	17,548	15,920
Cheque related	38,213	28,940
Corporate finance	-	31
Cash management	61,210	65,395
Total fees and commissions	116,971	110,286

20. 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:

	2019	2018
	$'000	$'000
Treasury and trade solutions	382,896	343,081
Corporate portfolio management	19,186	97,687
Market revenue sharing arrangement	7,635	70,065
Debt capital markets	1,044,384	104,248
Issuer and investor service revenue	-	232
	1,454,101	615,313

21. Operating expenses

(a) Staff costs

	2019	2018
	$'000	$'000
Salaries and wages	360,524	322,632
Statutory payroll contributions	42,075	40,678
Contributions for pension and other plans	24,041	21,118
Pension benefits credit [note 12(d)]	(50,916)	(59,288)
Health benefits obligation expense [note 12(d)]	30,738	25,216
Other staff costs	109,542	101,050
	516,004	451,406

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

JAMAICA BRANCH

Notes to the Financial Statements (Continued)
December 31, 2019

21. Operating expenses (continued)

(b) Other operating expenses

	2019 $'000	2018 $'000
Advertising and public relations	4,693	1,905
Asset tax	48,132	48,029
Audit, legal and professional fees	16,127	13,683
Insurance	22,214	21,319
Irrecoverable GCT	56,320	87,091
License, fees and commissions	22,977	22,645
Operating lease rentals	-	104,492
Other operating costs	116,956	111,210
Processing and other support services - intercompany	299,675	344,316
Repairs and maintenance	30,508	34,268
Security and utilities	40,182	41,450
Stationery, postage and freight	8,237	260
Telecommunications	27,556	27,424
	693,577	858,092

22. Profit before income tax

Profit before income tax is stated after charging:

	2019 $'000	2018 $'000
Directors' emoluments	Nil	Nil
Auditors' remuneration	13,298	9,982

23. Income tax

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

	2019 $'000	2018 $'000
(i) Current income tax:		
Provision based on current year's profit	334,811	28,052
Prior year (over)/under provision	(3,564)	400
	331,247	28,452
(ii) Deferred taxation:		
Origination and reversal of other temporary differences (note 16)	36,863	64,809
	368,110	93,261

23. Income tax (continued)

(b) Reconciliation of effective tax charge:

The effective tax rate for 2019 was 33.68% (2018: 42.83%) of pre-tax profits compared to a statutory tax rate of 33.33% (2018: 33.33%). The actual expense differed from the "expected" tax expense as follows:

	2019		2018	
	%	$'000	%	$'000
Profit before income tax		1,092,970		217,759
Computed "expected" tax charge at 33⅓%	33.33	364,323	33.33	72,586
Effect on tax of treating the following items differently for tax purposes than for financial statement purposes:				
Employee benefits asset/obligation	(1.04)	(11,320)	(5.80)	(12,640)
Depreciation and capital allowances	0.30	3,221	(0.96)	(2,090)
Unrealized foreign exchange gain	-	-	(24.45)	(53,263)
Others	1.42	15,450	40.53	88,268
Under provision of prior year charge	(0.33)	(3,564)	0.18	400
Actual tax charge	33.68	368,110	42.83	93,261

(c) Income tax recognized in other comprehensive income (note 16):

	2019			2018		
	Gross	Tax	Net	Gross	Tax	Net
FVOCI						
Securities	58,000	(22,751)	35,250	53,767	(20,054)	33,713
Actuarial gains	300,512	(100,161)	200,351	138,130	(46,039)	92,091

24. 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".

24. Related party transactions (continued)

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

	2019 $'000	2018 $'000
Cash and cash equivalents:		
Other branches	3,037,957	3,227,430
Deposits:		
Head office	22,465	21,891
Other branches	121,819	192,525
Fellow subsidiaries	874,079	877,474
	1,018,363	1,091,890
Other liabilities:		
Inter-company – geographic revenue attribution payable	-	18,938

(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:

	2019 $'000	2018 $'000
Interest revenue:		
Other branches	177	39,634
Fellow subsidiary	-	4,595
Head Office	134,069	85,349
	134,246	129,578
Interest expense:		
Head Office	31	-
Other operating revenue:		
Fellow subsidiaries – geographic revenue attribution	1,454,101	615,313
Other operating expenses:		
Head office - administration expenses	4,879	4,124
Branches - service level agreement	4,314	835
Fellow subsidiary – processing and support services	287,060	333,729
	296,253	338,688
Key management personnel:		
Short-term employee benefits	136,301	136,681
Post-employment benefits	441,160	411,789
Other long-term benefits	40,900	44,201
	618,361	592,671

25. Fair value of financial instruments

The fair value of FVOCI securities is set out in note 8. 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 $5,020,000 (2018: $5,020,000) 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 investments.

(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).

(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.

		2019				
		Carrying amount			**Fair value**	
	Notes	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	8	3,618,237	5,020	3,623,257	3,618,237	5,020
Foreign currency forward contracts	11	-	293,464	293,464	293,464	-
		3,618,237	298,484	3,916,721	3,911,701	5,020

25. Fair value of financial instruments (continued)

(b) Accounting classifications and fair values (continued)

		2018				
		Carrying amount			Fair value	
	Notes	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	8	4,578,807	5,020	4,583,827	4,578,807	5,020
Foreign currency forward contracts	11	-	119,534	119,534	119,534	-
		4,578,807	124,554	4,703,361	4,698,341	5,020

(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.

Financial assets	**Method**
Government of Jamaica J$ securities and Bank of Jamaica securities	• 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.

26. 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.

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.

26. Financial risk management (continued)

(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).

Corporate credit risk

For corporate clients and investment banking activities across the organisation, 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, and 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.

26. Financial risk management (continued)

(b) Credit risk (continued):

Corporate credit risk (continued)

(i) Credits to customers (continued)

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.

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.

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.

(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.

26. Financial risk management (continued)

(b) Credit risk (continued):

(ii) Investment securities and resale agreements (continued)

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.

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

	2019						
	Cash and cash equivalents $'000	Resale agreements $'000	Loans $'000	Investment securities $'000	Guarantees and letters of credit $'000	Interest receivable $'000	Total $'000
Financial institutions	9,273,420	918,216	-	-	-	7,529	10,199,165
Agriculture	-	-	530,884	-	-	18	530,902
Manufacturing and distribution	-	-	1,388,876	-	-	87	1,388,963
Public sector/ Government	3,074,305	-	-	3,618,237	-	68,568	6,761,110
Other	273,458	-	540,002	5,020	36,334	70	854,884
Total	12,621,183	918,216	2,459,762	3,623,257	36,334	76,272	19,735,024

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

JAMAICA BRANCH

Notes to the Financial Statements (Continued)
December 31, 2019

26. Financial risk management (continued)

(b) Credit risk (continued):

(iv) Exposure to credit risk (continued)

	2018						
	Cash and cash equivalents	Resale agreements	Loans	Investment securities	Guarantees and letters of credit	Interest receivable	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Financial institutions	8,130,131	1,268,003	67,212	-	126,919	6,443	9,598,708
Agriculture	-	-	463,253	-	-	14	463,267
Manufacturing and distribution	-	-	1,176,240	-	-	372	1,176,612
Public sector/ Government	2,426,794	-	-	4,578,807	-	71,500	7,077,101
Other	156,405	-	851,511	5,020	99,032	-	1,111,968
Total	10,713,330	1,268,003	2,558,216	4,583,827	225,951	78,329	19,427,656

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) for cash and cash equivalents are as follows:

	2019	2018
	$'000	$'000
North America	3,023,540	3,216,415
Canada	1,864	2,478
Europe	12,420	3,002
Asia Pacific	2,398	2,489
Caribbean	161	154
Jamaica	9,580,800	7,488,792
	12,621,183	10,713,330

Credit quality:

The following table sets 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 amount in carrying amounts. All loans are graded as standard, which is the highest regulatory rating.

	2019	2018
	Stage 1	Stage 1
	$'000	$'000
Loans at amortised cost:		
Current	2,461,770	2,559,372
Loss allowance	(2,008)	(1,156)
	2,459,762	2,558,216

26. Financial risk management (continued)

(b) Credit risk (continued)

(iv) Exposure to credit risk (continued)

Credit quality (continued):

Other financial assets at amortised cost:

	2019 Stage 1	2018 Stage 1
	$'000	$'000
Credit grade		
Non-investment grade	13,659,520	12,290,288
Loss allowance	(7,535)	(4,675)
	13,651,985	12,285,613

Debt securities at FVOCI:

	2019 Stage 1	2018 Stage 1
	$'000	$'000
Credit grade		
Investment grade	3,618,237	4,578,807
Loss allowance	24,872	10,260

(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.

26. Financial risk management (continued)

(b) Credit risk (continued)

(v) Impairment continued

- 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.

- 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.

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 grading 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.

26. Financial risk management (continued)

(b) Credit risk (continued)

(v) Impairment (continued)

Significant increase in credit risk (continued)

Credit risk grades (continued):

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.

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.

26. Financial risk management (continued)

(b) Credit risk (continued)

(v) Impairment (continued)

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

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.

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 provision 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.

26. Financial risk management (continued)

(b) Credit risk (continued)

(v) Impairment (continued)

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

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.

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.

26. Financial risk management (continued)

(b) Credit risk (continued)

(v) Impairment (continued)

(iv) Loss allowance

For the purpose of the ECL model, the ultimate parent has applied a regional proxy based on country-specific matrics for the following key macroeconomic factors:

- Gross Domestic Product
- Unemployment

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

Loans receivable:

	2019	2018
	$'000	$'000
Balance at January 1	1,156	3,669
Net remeasurement of loss allowance	852	(2,513)
Balance at December 31, 2019	2,008	1,156

Debt securities at FVOCI:

	2019	2018
	$'000	$'000
Balance at January 1	10,260	16,660
Net remeasurement of loss allowance	14,612	(6,400)
Balance at December 31	24,872	10,260

Other financial assets at amortised cost:

	2019	2018
	$'000	$'000
Balance at January 1	4,675	2,492
Net remeasurement of loss allowance	2,860	2,183
Balance at December 31, 2019	7,535	4,675

26. Financial risk management (continued)

(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.

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.

	2019					
	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	15,246,496	10,126	-	-	15,256,622	15,256,503
Guarantees	-	4,460	-	34,000	38,460	38,460
Note payable	5,561	16,210	15,479	-	37,250	35,000
Securities sold under repurchase agreements	1,400,000	-	-	-	1,400,000	1,400,000
Lease liabilities	28,281	84,660	46,220	-	159,161	154,130
Other liabilities	212,560	124,410	-	71,778	408,748	408,748
Total liabilities	16,892,898	239,866	61,699	105,778	17,300,241	17,292,841

	2018					
	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	14,350,454	798,967	-	-	15,149,421	15,148,803
Guarantees	-	69,929	149,284	8,100	227,313	227,313
Note payable	5,882	17,177	37,250	-	60,309	55,000
Securities sold under repurchase agreements	600,000	-	-	-	600,000	600,000
Other liabilities	138,870	163,921	-	70,052	372,843	372,843
Total liabilities	15,095,206	1,049,994	186,534	78,152	16,409,886	16,403,959

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

JAMAICA BRANCH

Notes to the Financial Statements (Continued)
December 31, 2019

26. 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.

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

	2019						
	JMD '000	USD '000	GBP '000	CAD '000	JPY '000	EUR '000	TOTAL '000
Cash and equivalents	3,000,247	9,566,634	45,833	3,140	2,398	2,931	12,621,183
Resale agreements	-	918,216	-	-	-	-	918,216
Loans	1,565,820	893,942	-	-	-	-	2,459,762
Investments	1,529,237	2,094,020	-	-	-	-	3,623,257
Other assets	355,940	41,782	-	-	-	-	397,722
Guarantees	33,700	2,634	-	-	-	-	36,334
Total financial assets	6,484,944	13,517,228	45,833	3,140	2,398	2,931	20,056,474
Deposits	8,109,706	7,146,797	-	-	-	-	15,256,503
Guarantees	34,000	4,460	-	-	-	-	38,460
Note payable	35,000	-	-	-	-	-	35,000
Repurchase agreement	1,400,000	-	-	-	-	-	1,400,000
Lease liabilities	-	154,130	-	-	-	-	154,130
Other liabilities	382,668	26,080	-	-	-	-	408,748
Total financial liabilities	9,961,374	7,331,467	-	-	-	-	17,292,841
Net financial (liabilities)/ assets	(3,476,430)	6,185,761	45,833	3,140	2,398	2,931	2,763,633

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

JAMAICA BRANCH

Notes to the Financial Statements (Continued)
December 31, 2019

26. 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):

	2018						
	JMD '000	USD '000	GBP '000	CAD '000	JPY '000	EUR '000	TOTAL '000
Cash and equivalents	2,385,463	8,295,591	25,311	3,848	2,489	628	10,713,330
Resale agreements	-	1,268,003	-	-	-	-	1,268,003
Loans	1,823,505	734,711	-	-	-	-	2,558,216
Investments	1,582,955	3,000,872	-	-	-	-	4,583,827
Other assets	183,306	45,071	-	-	-	-	228,377
Guarantees	167,723	58,228	-	-	-	-	225,951
Total financial assets	6,142,952	13,402,476	25,311	3,848	2,489	628	19,577,704
Deposits	6,896,634	8,252,169	-	-	-	-	15,148,803
Note Payable	55,000	-	-	-	-	-	55,000
Repurchase agreement	600,000	-	-	-	-	-	600,000
Guarantees	169,085	58,228	-	-	-	-	227,313
Other liabilities	346,763	26,080	-	-	-	-	372,843
Total financial liabilities	8,067,482	8,336,477	-	-	-	-	16,403,959
Net financial (liabilities)/ assets	(1,924,530)	5,065,999	25,311	3,848	2,489	628	3,173,745

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

	2019	2018
USD	131.1769	126.8049
GBP	169.3732	160.0684
CAD	99.4813	90.1451
JPY	1.22	1.16
EUR	148.77	145.64

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 2018 and has been computed on the basis that all other variables remain constant.

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

JAMAICA BRANCH

Notes to the Financial Statements (Continued)
December 31, 2019

26. Financial risk management (continued)

(d) Market risk (continued)

(i) Foreign currency risk (continued)

Sensitivity to exchange rate movements (continued):

	2019		2018	
Currency	Strengthening/ (weakening) %	Effect on profit and equity $'000	Strengthening/ (weakening) %	Effect on profit and equity $'000
USD	4	(247,123)	2	(101,320)
	-6	(370,684)	-4	(202,640)
GBP	4	(1,833)	2	(506)
	-6	(2,750)	-4	(1,012)
CAD	4	(126)	2	(77)
	-6	(188)	-4	(154)
JPY	4	(96)	2	(50)
	-6	(144)	-4	(100)
EUR	4	(117)	2	(13)
	-6	(176)	-4	(25)

(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).

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

JAMAICA BRANCH

Notes to the Financial Statements (Continued)
December 31, 2019

26. 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.

	2019					
	Immediately rate sensitive $'000	1 to 3 months $'000	3 to 12 months $'000	Greater than 12 months $'000	Non-rate sensitive $'000	Total $'000
ASSETS						
Cash and cash equivalents	10,571,006	-	-	-	2,050,177	12,621,183
Resale agreements	443,817	474,399	-	-	-	918,216
Loans, less allowance for impairment losses	1,061,666	996,225	366,932	34,939	-	2,459,762
Investment securities	-	9,969	-	3,608,268	5,020	3,623,257
Other assets	-	-	-	-	397,722	397,722
Customers' liabilities under acceptances, guarantees and letters of credit, per contra	-	-	-	-	36,334	36,334
Total financial assets	12,076,489	1,480,593	366,932	3,643,207	2,489,253	20,056,474
LIABILITIES						
Deposits	6,415,346	1,120,207	10,085	-	7,710,865	15,256,503
Acceptances, guarantees and letters of credit, per contra	-	-	-	-	38,460	38,460
Note payable	-	5,000	15,000	15,000	-	35,000
Repurchase agreements	1,400,000	-	-	-	-	1,400,000
Lease liabilities	-	27,271	81,937	44,922	-	154,130
Other liabilities	-	-	-	-	408,748	408,748
Total financial liabilities	7,815,346	1,152,478	107,022	59,922	8,158,073	17,292,841
Total interest rate sensitivity gap	4,261,143	355,386	341,847	3,628,207	(5,668,820)	2,917,763
Cumulative gap	4,261,143	4,616,529	4,958,376	8,586,583	2,917,763	-

	2018					
	Immediately rate sensitive $'000	1 to 3 months $'000	Three to 12 months $'000	Greater than 12 months $'000	Non-rate sensitive $'000	Total $'000
Total assets	10,093,571	1,500,991	1,645,004	3,586,309	2,751,829	19,577,704
Total liabilities	5,794,235	165,496	575,450	35,000	9,833,778	16,403,959
Total interest rate sensitivity gap	4,299,336	1,335,495	1,069,554	3,551,309	(7,081,949)	3,173,745
Cumulative gap	4,299,336	5,634,831	6,704,385	10,255,694	3,173,745	-

26. 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:

	2019 $'000	2018 $'000
Fixed rate instruments:		
Financial assets		
Cash and cash equivalents	10,571,006	8,420,849
Resale agreements	918,216	1,268,003
Loans	2,058,974	2,158,216
Investment securities	3,608,268	4,563,604
Financial liabilities		
Deposits	7,545,638	5,915,181
Repurchase agreements	1,400,000	600,000
Note payable	35,000	55,000
Variable rate instruments:		
Financial assets		
Loans	399,788	400,000
Investment securities	9,969	9,963

Fair value sensitivity to interest rate movements:

A change of +100 and -100 (2018: +100 and -100) in basis points in interest rates for Jamaica and +100 and -100 (2018: +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 2018.

	2019		2018	
Change in basis points	Effect on equity $'000	Effect on profit $'000	Effect on equity	Effect on profit
USD Interest rates +100bps/50bps	151	-	272	-
-100bps/50bps	(172)	-	(138)	-
JMD Interest rates +100bps/100bps	2,311	-	8,998	-
-100bps/100bps	(2,702)	-	(9,467)	-

26. Financial risk management (continued)

(d) Market risk (cont'd)

(ii) Interest rate risk (continued)

Cash flow sensitivity of variable rate financial instruments:

A change of +100 and -100(2018: +100 and -100) basis points in interest rates for Jamaica and a change of +100 and -100 (2018: +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 2018.

	2019	2018
Change in basis points	Effect on profit or loss and equity $'000	Effect on profit or loss and equity $'000
JMD Interest rates +100bps/100bps	4,098	4,100
-100bps/100bps	(4,098)	(4,100)

(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;

26. Financial risk management (continued)

(e) Operational risk (continued):

- 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.

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.

26. Financial risk management (continued)

(f) Capital management (continued):

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

	2019 $'000	2018 $'000
Tier 1 Capital before deductions		
Assigned capital	207,609	207,609
Reserve fund	207,609	207,609
Retained earnings reserve	1,528,592	1,528,592
Total Tier 1 Capital	1,943,810	1,943,810
Adjustments to tier 1 capital		
Fair value reserve	110,667	75,417
Total tier 1 Capital **after** adjustments	2,077,020	2,019,227
Tier 2 Capital		
General provision for losses on assets, being total Tier 2 capital	22,543	27,691
Total regulatory capital	2,077,013	2,046,918
Total risk-weighted assets	11,505,787	10,145,558
Capital ratios		
Total regulatory capital expressed as a percentage of total risk-weighted assets – Actual	18.12%	20.02%
– Required	10.00%	10.00%
Total tier 1 capital expressed as a percentage of risk-weighted assets – Actual	17.93%	19.16%
– Required	10.00%	10.00%

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.

27. Contingent liabilities

At the reporting date, the branch has foreign exchange forward contract of $9,529,780,000 (2018: $7,290,926,000), which are perfectly hedged, with varying maturity dates. The contracts are reflected at fair value using a forward rate as at year end. Gains or losses on the contracts are reflected in profit or loss.

28. Subsequent event

A novel strain of coronavirus (COVID-19) that first surfaced in China was classified as a pandemic by the World Health Organization on March 11, 2020, impacting countries globally. The potential impacts from COVID-19 remain uncertain, including, among other things, on economic conditions, businesses and consumers. The extent of these impacts on the branch are unclear, although they will likely adversely affect its businesses, results of operations and financial condition.

This is a non-adjusting event and an estimate of the financial effect cannot be made at the point in time as the situation remains a rapidly evolving one.