



# **Citibank Nigeria Limited**

**December 2014**

**Pillar III Disclosures**

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# 1 Overview

The Central Bank of Nigeria (CBN) released guidelines in December 2013 on the implementation of Basel II, establishing a framework of capital adequacy regulation for banks incorporating three distinct pillars. Pillar 1 prescribes the minimum capital requirements, Pillar 2 addresses the associated supervisory review process and Pillar 3 specifies market disclosure requirements in respect of the capital and risk profile of the institution.

Citibank Nigeria Limited (“CNL” or “the bank”) was incorporated in Nigeria under the Companies Act as a private limited liability company on 2 May 1984. It was granted a license by the Central Bank of Nigeria on 14 September 1984 to carry on the business of commercial banking and commenced business on 14 September 1984.

The audited financial statements consolidate the financial statements of the bank and its wholly owned subsidiary company, NIB Nominees Limited. The computation of the minimum capital adequacy under Basel II for the bank has however been calculated on the basis of non-consolidation and deduction made from capital for the unconsolidated subsidiary and associate in compliance with the capital adequacy requirements limits set out in the guidelines.

The disclosures in this document have been made in accordance with the Pillar 3 requirements based on CBN guidelines and CNL updates these disclosures annually as at its accounting year end of 31 December, and will assess the need for more frequent disclosures should market and business conditions so warrant. Unless otherwise stated, all disclosures are for Citibank Nigeria Limited and figures are as at 31 December 2014.

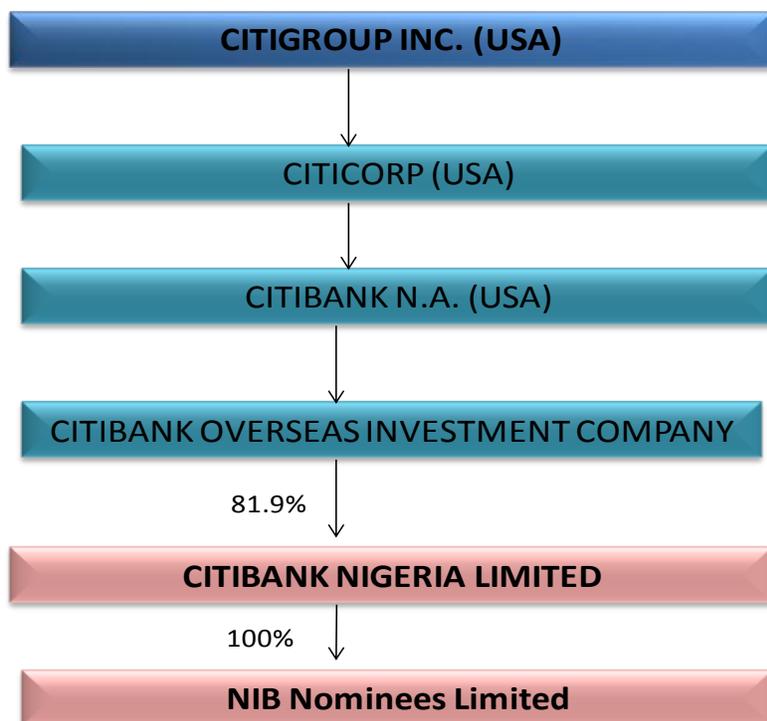
The following disclosures have been published in the company’s website (<http://www.citigroup.com/citi/about/countrypresence/nigeria.html>) and have been prepared purely for explaining the basis on which the bank has prepared and disclosed information about capital requirements and the management of certain risks and for no other purpose. They do not constitute any form of financial statement and must not be relied upon in making any investment or judgement on the bank.

## 1.1 Group Structure

CNL is a locally incorporated subsidiary regulated by the Central Bank of Nigeria and owned 81.9% by Citibank Overseas Investment Corporation. The ultimate parent of CNL is Citigroup Inc. which is incorporated in the United States of America. CNL has been doing business in Nigeria since 1984. The bank formerly operated under the name Nigeria International Bank Limited, but was renamed to Citibank Nigeria Limited in 2008 to fully align with Citi's global brand and identity.

Our Global Organisation structure by Legal vehicle is as follows:

Table 1: CNL Global structure



CNL operates as a commercial bank and has the following product offering

- i. Rates and currencies
- ii. Corporate Finance
- iii. Lending
- iv. Structured products
- v. Cash Management
- vi. Trade Services
- vii. Direct Custody and Clearing
- viii. Agency and Trust

## **1.2 Capital Transferability**

### **1.2.1 US Federal Reserve Bank**

Section 211.9 of U.S. Regulation K, issued by the Board of Governors of the Federal Reserve System, prevents investments in non-U.S. subsidiaries, such as CNL, of a U.S. national bank, such as Citibank, N.A., without screening by the Federal Reserve. Investments covered by this regulation include equity investments, contributions to capital or purchase of the subsidiary's subordinated debt. The process of applying for, and receiving, approval for additional capital contributions can take up to 6 months and considerable advanced planning is therefore essential.

### **1.2.2 Contingency capital plans**

The bank maintains a significant capital ratio and it is anticipated that this will continue into the future. In addition internal trigger limits on capital adequacy ratio have been approved by the Board to ensure appropriate management actions are taken to ensure sufficient capital for the level of risk carried by the bank at any time. Should a need for additional capital arise, we will manage the balance sheet, risk weighting and risk element to optimise existing capital which may include risk defeasance, netting or asset sales and any other action. If there is still a need for additional capital we will request a capital injection from the bank's parent company. This contingency plan has been actioned in the past, when the Central Bank of Nigeria in 2005 increased the minimum capital requirements.

## 2 Capital Resources

Under the Central Bank of Nigeria's minimum capital requirements, the bank maintains and measures capital resources in line with the regulatory guideline on Pillar I capital requirements.

The following table shows the regulatory capital resources of the bank as at 31 December 2014

**Table 2: Regulatory capital resources as at 31 December 2014**

<b>CONSTITUENTS OF CAPITAL</b>	<b>Amounts (N'000)</b>
<b>TIER 1 CAPITAL</b>	
Paid-up ordinary shares	2,793,777
Share premium	11,643,995
Retained profits	18,345,288
General reserves	5,078,601
Statutory Reserve	13,863,751
SMEEIS Reserve	3,340,909
<b>Tier 1 Sub-Total</b>	<b>55,066,321</b>
Less: Deferred Tax Assets	1,026,366
Less: 50% of investments in unconsolidated subsidiary/associate	199,510
<b>NET-TOTAL TIER 1 CAPITAL</b>	<b>53,840,445</b>
<b>TIER 2 CAPITAL</b>	
Fair Value Reserve	(3,011,838)
<b>Tier 2 Sub-total</b>	<b>(3,011,838)</b>
50% of investments in unconsolidated banking and financial subsidiary/associate companies	(199,510)
<b>NET-TOTAL TIER 2 CAPITAL</b>	<b>(3,211,348)</b>
<b>TOTAL QUALIFYING CAPITAL</b>	<b>50,629,097</b>

## 3 Capital Adequacy

Pillar 1 of Basel II sets out detailed rules for risk-weighting the various exposures held by an institution. The Central Bank of Nigeria requires that all deposit money banks maintain the minimum capital requirement at 10% for regional and national banks and 15% for internationally active and Domestic Systemically Important Banks (D-SIB). CNL being a national bank has a 10% minimum capital requirement

In assessing the adequacy of capital to support current and expected future activities, the bank produces quarterly capital forecasts, taking into account both normal business conditions and stress scenarios. As part of this process, the bank maintains an Internal Capital Adequacy Assessment Process (ICAAP)

### 3.1 Internal Assessment of capital

The Bank has a capital management process in place to measure, deploy and monitor its available capital and assess its adequacy. This framework includes a comprehensive internal capital adequacy assessment process (ICAAP) conducted annually which determines the adequate level of capitalisation for the bank to meet; regulatory requirements, current and future business needs, including under stress scenarios. The ICAAP encompasses capital planning for a period of 3 years and sets internal capital targets consistent with the banks' risk profile, business plans and operating environment.

The capital management process aims to achieve several objectives – exceed regulatory requirements and maintain a cost-effective capital structure that balances strong capital ratios with adequate returns to the Bank's shareholders. This process is complemented by the risk management framework, which includes a comprehensive assessment of material risks.

The Bank's ICAAP framework is based on quantitative capital goals to ensure that it has sufficient capital to meet its strategic goals and all stakeholders are adequately protected from stress events. Stress testing, which is a key aspect of the ICAAP and the risk management framework provides an insight on the impact of extreme but plausible scenarios on the bank's risk profile and capital position. Based on the board approved stress testing framework, the bank conducts stress tests on its various portfolios and assesses the impact on its capital ratios and adequacy of capital buffers for current and future periods. The bank periodically assesses and refines as well as reflects possible extreme market moves that could arise as a result of market conditions. The business and capital plans and the stress testing results of the bank are integrated into the ICAAP.

The bank's capital as at 31 December 2014 is mainly based on capital and reserves, lower total qualifying capital shown below reflect the impact of regulatory deductions and fair value adjustment from AFS portfolio.

**Table 3: Total Risk Weighted Capital Ratio as at 31 December 2014**

Amounts in N'000

<b>NET-TOTAL TIER 1 CAPITAL</b>	<b>53,840,445</b>
<b>TOTAL QUALIFYING CAPITAL</b>	<b>50,629,097</b>
<b>COMPUTATION OF RISK-WEIGHTED ASSETS</b>	
<b>1. Credit Risk: Standardised Approach</b>	
Total Risk-weighted Amount for Credit Risk	188,046,278
<b>2. Operational Risk</b>	
2(a). Basic Indicator Approach: Calibrated risk-weighted amount	45,142,296
	<b>45,142,296</b>
<b>3. Market risk: Standardised Approach</b>	
Risk-weighted Amount for Market Risk	429,207
<b>AGGREGATE RISK-WEIGHTED ASSETS</b>	<b>233,617,781</b>
<b>TOTAL RISK-WEIGHTED CAPITAL RATIO</b>	<b>21.67%</b>
<b>TIER 1 RISK-BASED CAPITAL RATIO</b>	<b>23.05%</b>

**Table 4: Minimum Capital requirements in respect of credit risk, market risk and Operational risk as at 31 December 2014**

	<b>N'000</b>
<b><u>Banking book</u></b>	
Credit risk	18,804,628
<b><u>Trading book</u></b>	
Interest rate risk	25,157
Equity Position risk	-
<b><u>All businesses</u></b>	
Foreign currency position risk	17,764
Operational risk capital requirement	4,514,230
<b>TOTAL</b>	<b>23,361,778</b>

## Daily Capital Adequacy Monitoring

CNL's capital planning arrangements are underpinned by a daily monitoring process to ensure that variations in the entity's capital adequacy position are fully understood and appropriately communicated.

On a daily basis the Capital Adequacy Ratio is calculated and compared with the 10% regulatory threshold and Internal trigger limit of 15%. A report is produced and distributed to ALCO and senior management, this is managed through a traffic light based early warning system as shown in the table below. Upon entering each zone below green, management action is required for necessary corrective measures to be taken. The zones are calibrated to give management enough time to take appropriate action to avoid a regulatory breach.

<b><u>STATUS KEY</u></b>	
<b>CITIBANK NIGERIA LIMITED</b>	
CAR is below internal minimum of 12%	<b>RED</b>
CAR is below Internal trigger limit of 15% but above internal minimum of 12%	<b>AMBER</b>
CAR is above Internal trigger limit of 15%	<b>GREEN</b>

## Regulatory Capital Escalation Procedures

The following actions are necessary if CNL's Capital Adequacy Ratio falls below the internal trigger limit of 15%:

### **AMBER**

CAR below 15% but above 12%

Communication to ALCO and senior management team regarding the causes of the decline and awareness to ensure that:

- appropriate actions are taken to return ratio above 15%.
- future demands on capital are identified and clearly understood.

### **RED**

CAR below 12%

Emergency ALCO to be called and immediate actions taken to identify available steps which have been or may be taken to restore the ratio to above 15%

In addition to above the following further action will be required;

1. Formal escalation of the current capital position to the Board of Citibank Nigeria and other senior officers in Citi.
2. Agreement on a capital remediation plan which may include:
  - injecting additional capital into the legal entity; and / or
  - reduction of business risk through closing out positions.

In practice the capital is actively monitored on a daily basis by the regulatory reporting team and internal trigger limit has been set to give management enough time to ensure appropriate steps are taken to mitigate or reduce the exposure.

## **4 Risk Management Framework**

The risk management framework has its foundation on a robust set of policies, procedures and processes covering covering broad categories of risk.

The risk management policies serve as the basis for risk identification and analysis inherent in the product offering as well as operating environment, setting of appropriate risk limits and controls and monitoring adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. Business managers and functional heads are accountable for the risks in their businesses and functions. The bank , through its training, management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

### **4.1 Enterprise risk review**

The diversity of customers, products, and business strategies at Citibank Nigeria Limited requires that we have a well-defined risk management framework to identify, analyze, originate, monitor and report on acceptable risk taking activities within pre-defined thresholds.

The bank's risk management function works with the business towards the goal of taking intelligent risk with shared responsibility, without forsaking individual accountability, and mitigating the potential of losses in risk activities under the broad categories: Credit risk, Liquidity, Market risk and Operational risk. Senior Business Management's objectives (budgets, portfolios and investments) must be prudent, reflecting their view of risks and rewards arising from market conditions and should dynamically adjust these strategies and budgets to fit changing environments.

### **4.2 Governance structure**

Citibank Nigerial Limited has a board of directors (the board) consisting of Executive, Non-Executive and Independent Director. The Board is responsible for the oversight of executive management, ensuring that the Bank's operations are conducted in accordance with legal and regulatory requirements, approving and reviewing corporate strategy and performance, and for ensuring that the rights of the shareholders are protected at all times. The members of the Board possess the necessary experience and expertise to exercise their oversight functions.

**Table 5: Board of Directors as at 31 December 2014**

<b>Name</b>	<b>Board Position</b>
Mr Olayemi Cardoso	Chairman
Mr Omar Hafeez	Managing Director
Mr Akinsowon Dawodu	Executive Director
Mr Fatai Karim	Executive Director
Mr Tariq Masaud	Executive Director
Mrs Funmi Ogunlesi	Executive Director
Mrs Nneka Enwereji	Executive Director
Mr Ade Ayeyemi	Non Executive Director
Mr Michael Murray-Bruce	Non Executive Director
Dr Hilary Onyiuke	Non Executive Director
Mrs Ireti Samuel-Ogbu	Non Executive Director
Chief Arthur Mbanefo CON	Independent Director
Prof. Yemi Osinbajo SAN	Independent Director

The Board has delegated some of its responsibilities to the following board committees: Risk Management Committee, Audit Committee, Credit Committee and the Board Governance and Nominations Committee. Each of these committees reports to the Board on its activities. The Chairman of the Board is not a member of any of the board committees. The membership of the Board Committees is in line with the requirements of the CBN Code of Corporate Governance for Banks and Discount Houses.

#### **4.3 Board Committees**

##### **The Risk Management Committee**

The Risk Management Committee consists of seven directors, two of whom, including the Chairman of the Committee, are Non- Executive Directors. The Committee is responsible for overseeing the Bank's Risk Management policies and procedures in the areas of franchise, operational, credit and market risk. The Committee meets quarterly and met five times during the year.

##### **The Credit Committee**

The Credit Committee consists of seven directors, two of whom, including the Chairman of the Committee are Non- Executive Directors. The Committee is responsible for approving credits above such limits as may be prescribed by the Board of Directors from time to time. The Committee meets quarterly and met four times during the year.

## The Audit Committee

The Committee's responsibilities include the review of the integrity of the Bank's financial reporting, oversight of the independence and objectivity of the external auditors, the review of the reports of external auditors and regulatory agencies and management responses thereto, and the review of the effectiveness of the Bank's system of accounting and internal control. The Committee received regular internal audit reports from the Bank's internal auditor. Members of the Committee have unrestricted access to the Bank's external auditors. The Audit Committee and directors are also responsible for monitoring the preparation of CNL's financial statements and for reviewing and monitoring the independence of the statutory auditor, in particular the provision by the auditor of additional services to CNL. The Committee meets quarterly and met three times during the year.

## Board Governance and Nominations Committee

The Committee is made up of three non-executive directors. The Committee's responsibilities include recommending the criteria for the selection of new directors to serve on the Board, identifying and evaluating individuals qualified to be nominated as directors of the Bank, or any of the Board's committees, evaluating and making recommendations to the Board regarding compensation for non-executive directors, and considering and approving the remuneration of executive directors.

The directors of CNL receive regular reports on any risk matters that need to be brought to their attention via the framework outlined above. There are well established management reporting procedures in place and reports are presented regularly to the directors detailing business results and performance.

The effectiveness of CNL's internal control system is reviewed regularly by its directors and the Audit Committee, which receives reports of assessments undertaken by the Internal Audit function. Certain aspects of the internal controls system are also subject to regulatory supervision, the results of which are monitored closely by the directors and senior management. CNL have also established a Management Control Assessment (MCA) programme to help managers self-assess key operational risks and controls and identify and address weaknesses in the design and/or effectiveness of internal controls that mitigate significant operational risks.

## Management Committees

The following are the key management committees: Country Co-Ordinating Committee (CCC), Business Risk and Compliance Committee (BRCC), Assets and Liabilities Committee (ALCO), Legal and Compliance Committee (LCC), Legal Entity Management Committee (LEMC), Local Regulatory Reporting Governance Committee (LRRGC), Country Senior Human Resources Committee (CSHRC), Information Technology Steering Committee (ITSC), Management Credit Committee (MCC), Records and Files Committee, and Vendor Management Committee (VMC).

The Board Credit Committee has the responsibility for approval of credit facilities, delegation of approval limits and ratification of Management Credit committee limits as recommended by the Country Risk Manager. Board committees have both executive and non-executive members and report regularly to the Board of Directors on their activities.

The Asset and Liability Committee (ALCO) is responsible for the market risk management and oversight for the bank. The ALCO establishes and implements liquidity and price risk management policies; approves the annual liquidity and funding plans; approves and reviews the liquidity and price risk limits; monitors compliance with regulatory risk capital and the capital management process.

#### **4.4 Excessive risk concentration**

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographical region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the bank's performance to developments affecting a particular industry or geographical location. In order to avoid excessive concentrations of risk, the bank's policies and procedures include specific concentration limits based on the bank's overall risk capacity, capital considerations and evaluation of internal and external environments. Identified concentrations of credit risks are monitored, controlled and managed accordingly.

## 5 Credit Risk

The Credit Risk Culture of the bank is based on the following concept: the Citibank risk management function must work with the business groups with the goal of taking intelligent risk with shared responsibility, without forsaking individual accountability. Senior Business Management's objectives (budgets, portfolios and investments) must be prudent, reflecting their view of risks and rewards arising from market conditions and should dynamically adjust the strategies and budgets to fit changing environments. All credit related approvals are guided by the provisions of the Citigroup ICG Risk Manual.

### 5.1 Counterparty risk

The risk that a counterparty will not fulfil either present or future financial obligations is fundamental to the bank's management of counterparty credit risk. The process for approving a counterparty's risk exposure limits is two-fold: guided by the core credit policies, procedures and standards and the experience and judgment of credit risk professionals. These credit policies are applied across the firm's Institutional Client Group (ICG) businesses.

Credit Risk Principles, Policies and Procedures typically require a comprehensive analysis of the proposed credit exposure or transaction, financial and corporate due diligence including support, management profile and qualitative factors. The responsible credit officer completes a review of the financial condition of the counterparty to determine the client's business needs and compare that to the risk that Citi might be asked to extend. During consideration of a credit extension, the credit officer will assess ways to mitigate the risk through legal documentation, support or collateral.

Once the analysis is completed and the product limits are determined, anti-tying and franchise risk is reviewed, then the approval process takes place. The total facility amount, including direct, contingent and pre-settlement exposure, is aggregated and the credit officer reviews the approved tables within policy that appoints the appropriate level of authority that needs to review and approve the facility.

Credit Risk Monitoring analysts conduct daily exception monitoring versus limits and any resulting issues are escalated to credit officers, and potentially to business management.

### 5.2 Management of Credit Risk

The credit policy is the bedrock of the credit risk management and is predicated on the bank's business strategy and return objective through well pre-defined target market, risk acceptance criteria and stress testing. Based on Board approval, independent risk in conjunction with the business units set and monitor limits.

To manage the credit process with predictable results, the bank has a dynamic and interactive three phased approach:

i. Portfolio strategy and planning: Where the bank defines desired financial results and strategies required to achieve those results. Target market is part of the strategy that identifies the acceptable profile of customers and the products the bank propose to offer;

ii) Credit Origination and Maintenance: Where the bank creates and maintains transactions and portfolios with characteristics that are consistent with institutional strategies; and

iii) Performance Assessment and Reporting: Where the bank monitors the performance for continual improvement.

System capture of credit information and documentation review is another critical attribute of financial analysis which facilitates credit monitoring done both on obligor and portfolio basis.

### **5.3 Credit Risk Measurement**

The bank's credit facilities reflect the potential maximum credit exposure or loss to counter-party for a particular product and exposure type. In furtherance of this objective, we consistently ensure the bank's business strategy and exposure appetite are aligned. The key attributes of our credit policy are also consistent with the Citigroup Institutional Clients Group (ICG) Principles and Policy Framework. This policy framework dictates best international practices in Risk Management, including credit risk.

To enable consistent monitoring of exposure and risk:

- i) All credit exposures must be captured in the credit systems - irrespective of absolute size of exposure, duration, location, counterparty, authorization level obtained or perceived economic risk.
- ii) Credit facility amounts must capture exposure (the maximum potential for loss to an obligor or counterparty). Risk adjustments are reflected for obligor limits and in other reporting.
- iii) All potential credit relationships should have a proper account opened in the name of the obligor. For current credit system integration, the client should have a Global Finance Customer Identifier (GFCID) created.
- iv) Every business must maintain adequate controls to ensure compliance with all facility terms and conditions established in conjunction with risk.
- v) Single name triggers prevent excessive concentrations of loss to a single name, and together form the basis for compliance with regulatory rules such as legal lending limits.
- vi) Obligor limits are the basis for credit portfolio managers to prevent concentrations of loss to any one obligor or relationship. Businesses must escalate any potential breach of a limit as provided for in the Citigroup ICG Risk Manual.
- vii) Credit facilities and the ability to manage the exposure should be in place prior to executing any new business.
- viii) All credit relationships should be reviewed at a minimum annually, unless otherwise duly extended where appropriate.
- ix) Risk ratings must be established for all Obligors and Facilities using a Citi approved risk rating methodology.

Credit risk is measured by the total facilities and exposure to the obligor which consist of outstanding and unused committed facility amounts. Financial assets and other financial facilities constitute the primary offering of the bank. The offering is based on a detailed credit review process which involves analysis of both quantitative and qualitative factors. This includes risk rating of the obligor and matching of the obligor's qualitative and quantitative attributes to pre-defined Target Market and Risk Acceptance Criteria, to determine the optimal product and credit exposure.

Once the credit transactions have been approved, there is an established process for monitoring the risk exposure and maintaining it at acceptable levels. These risk management processes include:

- Annual review of facilities which will involve revalidation of exposure limits, review of risk ratings and general account performance during the review period;
- At a minimum, quarterly credit customer calls including approving credit officers;
- Review of the monthly and quarterly portfolio trends; and
- Documentation review to ensure all required documentation is in place.

#### **5.4 Credit Risk limit control and mitigation policies**

The bank as part of its portfolio monitoring functions routinely defines concentration limits, with the goal of establishing a well-diversified portfolio where expected return on risk capital should be commensurate with the inherent risk therein. Single name triggers prevent excessive concentrations of loss to a single name, and together form the basis for compliance with regulatory rules such as legal lending limits. Concentration limits are monitored on a monthly basis.

Other specific control and mitigation measures include i) Authorizing level approval limits in line with the ICG Risk Manual; ii) Collateral and iii) Master netting agreements

The bank focuses primarily on the cash-flows of the borrower for its repayments. The general principle is that repayment should come from the transactions financed or other operating cash-flows. The bank maintains a policy of not lending in an inferior position, without proper approvals (and only in exceptional circumstances), or where it is at a disadvantage to other lenders as regards seniority of claim in a default scenario.

During the annual credit review process, searches are conducted to verify that the bank is not lending in an inferior position. In instances where pre-existing charges exist on the customer's assets, the bank generally demands a pari-passu ranking with other lenders. However, based on the credit profile assessment on a case by case basis, the Board Credit Committee may also request for additional collateral for credit enhancement.

For term loans for the acquisition of specific assets, the bank generally takes a charge over the assets financed by the term loan. As a general principle, all credits are reviewed and approved based broadly on the under listed key factors:

- The operations of the Borrower/Obligor falling within the approved target market.
- Strong financial profile with emphasis on present and future cash flow which determines the capacity of the operations to meet debt obligations.
- Review and assessment of Borrower/Obligor management and sponsors.
- Credit history track record.
- Economic/industry trends.
- For an international company where the bank has recourse to branches or subsidiaries of Citibank outside Nigeria, or where the exposure is secured against guarantees, cash or other types of collateral, the bank may reserve the right not to insist on obtaining a local security ranking pari-passu with other local lenders, in view of the superior access it maintains through its global affiliates to the parent company seniors.

The bank implements the above guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types for loans and advances are:

- For secured lending and reverse repurchase transactions, cash or securities;
- For commercial lending, cash or charges over real estate properties, inventory and trade receivables;
- Charges over financial instruments such as debt securities.

The bank also obtains guarantees from parent companies for loans to their subsidiaries in Nigeria.

## **5.5 Guarantees**

The bank obtains credit enhancements in the form of guarantees from other Citi entities which can be classified as supervised institution under the Central Bank of Nigeria guidelines.

The following table shows the main type of guarantor and the sovereign's credit rating as at 31 December 2014.

**Table 6: Guarantees from supervised institutions and credit rating of the sovereign**

**31 December 2014**

		<b>N'000</b>
<b>Sovereign Rating</b>	<b>Guarantees received</b>	
AAA		1,343,140
AA+		17,564,041
AA		153,510
A+		183,000
A-		2,666,870
<b>TOTAL</b>		<b>21,910,561</b>

### **5.6 Master netting arrangements**

The bank restricts its exposure to credit losses by entering into Master netting arrangements with counterparties with which it undertakes a significant volume of transactions. Master netting arrangements do not generally result in an offset of balance sheet assets and liabilities, as transactions are usually settled on a gross basis. However, the credit risk associated with favourable contracts is reduced by a master netting arrangement to the extent that if a default occurs, all amounts with the counterparty are terminated and settled on a net basis.

### **5.7 Concentration Risk**

Concentration risk is the risk of material loss due to large exposures to individual counterparts or groups of counterparts whose likelihood of default is driven by common underlying factors, e.g. sector, economy, geographical location or instrument type.

There are established Obligor limits as defined by the Citigroup ICG Credit Policy which restricts credit exposures to individual counterpart of groups on the basis of the derived internal risk ratings. At the same time, our Portfolio Management Plan (approved on an annual basis) defines target market industries, our focus remains on robust sectors of the economy, comprising of industries that evidence financial resilience and long-term viability.

In addition, the Country Risk Manager (CRM) approves the portfolio concentration limits presented by Risk Managers or Business Managers based on the Bank's overall risk capacity, capital considerations, and evaluation of internal and external environments. By setting and adhering to limits, CNL will avoid unapproved concentrations that can result from seemingly unrelated activities and potentially harm the overall performance of the bank. Concentration limit will typically be by Industries. Additionally, factors like tenors and currency are also monitored.

The Portfolio Manager will monitor and report outstandings and ensure that portfolios are

kept within the approved limits while seeking approvals for any breach. Board Risk Committee will be provided regular update on key portfolio parameters.

Concentration risk is monitored against the limits (both internal and regulatory). The following regulatory limits are currently in place:

- Exposure to any one group of clients must not exceed 20% of shareholders funds.
- Large exposures of more than 10% of Capital must not, in aggregate, exceed 800% of shareholders funds.
- Total exposures to Government must not exceed 10% of shareholders funds.

Management is comfortable that the combination of the above internal and regulatory limits and suitable controls ensure that CNL does not subject itself to excessive concentration risk.

**Table 7: Credit risk exposures relating to financial assets as reflected in audited financial statements as at 31 December 2014**

	<b>N'000</b>
<b>On Balance Sheet</b>	
Cash and balances with Central Bank of Nigeria	
Loans and advances to banks	150,740,892
Trading securities	
- Debt securities	1,919,692
Derivative financial instruments	5,351,023
Assets pledged as collateral	3,787,423
Loans and advances to customers	92,364,499
Investment securities	
- Debt securities	106,255,745
Other assets	250,515
	<b>360,669,790</b>
<b>Off Balance Sheet</b>	
Bonds and guarantees	27,321,100
Loan commitments	35,204,970
Other credit related obligations	29,886,878
	<b>92,412,948</b>
<b>At 31 December 2014</b>	<b>453,082,737</b>

The following table analyses the bank's credit exposure (without taking into account any collateral held or other credit support) by geographical region based on the country of domicile of its counterparties.

**Table 8: Credit exposure by Geography of counterparty domicile**

	<u>Nigeria</u> N'000	<u>USA</u> N'000	<u>Europe/Oth</u> <u>er</u> N'000	<u>Total</u> N'000
Cash and balances with Central Bank of Nigeria	33,289,043	-	-	33,289,043
Loans and advances to banks	2,645,464	136,636,612	11,458,817	150,740,893
Loans and advances to customers	92,364,180	-	320	92,364,499
Trading securities				
- Debt securities	1,919,692	-	-	1,919,692
Derivative financial instruments	5,349,425	296	1,303	5,351,023
Investment securities				
- Debt securities	106,255,745	-	-	106,255,745
Assets pledged as collateral	3,787,423	-	-	3,787,423
Other assets	250,515	-	-	250,515
	<hr/> 245,861,485	136,636,908	11,460,440	393,958,833 <hr/>
Bonds and guarantees	27,321,100	-	-	27,321,100
Loan commitments	35,204,970	-	-	35,204,970
Other credit related obligations	29,886,878	-	-	29,886,878
	<hr/> 92,412,948	-	-	92,412,948 <hr/>
<b>At 31 December 2014</b>	<hr/> <b>338,274,433</b>	<b>136,636,908</b>	<b>11,460,440</b>	<b>486,371,780</b> <hr/>

**Table 9: Analysis of financial assets (gross) by remaining contractual maturities**

	Up to 1 month N'000	1 – 3 months N'000	3 – 12 months N'000	1 – 5 years N'000	Over 5 years N'000	Total N'000
<b>Balance Sheet Assets:</b>						
Cash and balances with Central Bank of Nigeria	33,289,044	-	-	-	-	33,289,044
Loans and advances to banks	139,679,502	2,307,107	2,786,576	6,506,759	-	151,279,944
Loans and advances to customers	51,722,501	19,182,874	7,610,294	17,577,012	-	96,092,681
Trading securities	254,625	62,053	1,134,421	893,590	29,237	2,373,925
Derivative financial instruments	883,533	14,030	4,453,460	-	-	5,351,024
Investment securities	1,610,750	3,734,890	59,304,822	62,554,958	-	127,205,420
Assets pledged as collateral	1,140,000	-	2,750,000	-	-	3,890,000
Other assets	250,516	-	-	-	-	250,516
	<b>228,830,470</b>	<b>25,300,953</b>	<b>78,039,572</b>	<b>87,532,319</b>	<b>29,237</b>	<b>419,732,552</b>
<b>Of f Balance Sheet Assets:</b>						
Loan commitments	972,702	-	91,500	17,385,767	16,755,001	35,204,970
Guarantees, acceptances and other credit related obligations	12,496,236	6,968,488	12,898,399	2,308,265	22,536,589	57,207,977
	<b>13,468,938</b>	<b>6,968,488</b>	<b>12,989,899</b>	<b>19,694,032</b>	<b>39,291,590</b>	<b>92,412,947</b>
<b>At 31 December 2014</b>	<b>242,299,408</b>	<b>32,269,441</b>	<b>91,029,471</b>	<b>107,226,351</b>	<b>39,320,827</b>	<b>512,145,499</b>

**Table 10: Credit exposure by Industry of counterparty**

The following table analyses the bank's credit exposure (without taking into account any collateral held or other credit support), as categorised by industry sectors of the bank's counterparties.

	Manufacturing	Financial Institutions	Government	Transport and Communication	Oil and Gas	General commerce	Other	Total
	N'000	N'000	N'000	N'000	N'000	N'000	N'000	N'000
Cash and balances with Central Bank of Nigeria	-	33,289,043	-	-	-	-	-	33,289,043
Loans and advances to banks	-	150,740,893	-	-	-	-	-	150,740,893
Loans and advances to customers	39,284,760	1,828,311	-	18,189,253	25,855,473	6,735,014	471,690	92,364,499
Trading securities								
- Debt securities	-	-	1,919,692	-	-	-	-	1,919,692
Derivative financial instruments	704,022	206,658	4,440,344	-	-	-	-	5,351,024
Investment securities								
- Debt securities	-	-	106,255,745	-	-	-	-	106,255,745
Assets pledged as collateral	-	-	3,787,423	-	-	-	-	3,787,423
Other assets	-	-	11,888	-	-	238,627	-	250,515
	<b>39,988,782</b>	<b>186,064,904</b>	<b>116,415,091</b>	<b>18,189,253</b>	<b>25,855,473</b>	<b>6,973,641</b>	<b>471,690</b>	<b>393,958,833</b>
Bonds and guarantees	2,406,837	5,709,558	-	564,563	16,980,196	941,037	718,909	27,321,100
Loan commitments	13,114,961	4,941,000	-	651,001	16,378,500	-	119,508	35,204,970
Other credit related obligations	23,112,599	-	-	371,727	4,984,755	1,031,970	385,827	29,886,878
	<b>38,634,397</b>	<b>10,650,558</b>	<b>-</b>	<b>1,587,291</b>	<b>38,343,451</b>	<b>1,973,007</b>	<b>1,224,243</b>	<b>92,412,948</b>
<b>At 31 December 2014</b>	<b>78,623,179</b>	<b>196,715,462</b>	<b>116,415,091</b>	<b>19,776,544</b>	<b>64,198,924</b>	<b>8,946,648</b>	<b>1,695,933</b>	<b>486,371,780</b>

## 5.8 Impairment on Loans

The bank reviews its loan portfolios to assess impairment periodically. In determining whether an impairment loss should be recorded in statement of profit or loss, the bank makes judgements as to whether there is any observable data indicating an impairment trigger, followed by measurable decrease in the estimated future cash flows from the portfolio of loans, before the decrease can be identified with that portfolio. This evidence may include observable data that indicates significant financial difficulty, default on the facility or probability that the obligor will enter bankruptcy, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group. The bank uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio. The loan impairment provision was based on risk rating of obligor and loss norms attached to each risk rating. The loss norms are statistically derived from historical data.

At each reporting date the bank assesses whether there is objective evidence that financial assets are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows of the asset that can be estimated reliably.

The bank considers evidence of impairment at both a specific asset and collective asset level. All individually significant financial assets are assessed for specific impairment. All significant assets found not to be specifically impaired are then collectively assessed for any impairment that could be incurred but not yet identified. Assets that are not individually significant are then collectively assessed for impairment by grouping together financial assets (carried at amortised cost) with similar risk characteristics.

Objective evidence that financial assets (including equity securities) are impaired can include significant financial difficulty, default on the facility or probability that the obligor will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group.

In assessing collective impairment the bank uses statistical modelling of historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical modelling. The collective impairment is determined on a portfolio basis based on the historical loss experience for assets with credit risk characteristics similar to those in the bank. The loan impairment provision would be based on risk-rating of obligor and loss

norms attached to each risk-rating. The loss norm would have been statistically derived from historical data. Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial assets and the present value of estimated cash flows discounted at the assets' original effective interest rate. Losses are recognised in statement of profit or loss and reflected in an allowance account against loans

and advances. Interest on the impaired asset continues to be recognised through the unwinding of the discount.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the obligor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the statement of profit or loss.

The movement on credit allowance during the year is shown below;

**Table 11: movement in credit allowance during the year**

	<b>N'000</b>		<b>N'000</b>		<b>N'000</b>
	<b>Specific</b>		<b>Collective</b>		<b>Total</b>
	<b>Allowance</b>		<b>Allowance</b>		<b>Allowance</b>
At 1 January	39,375		1,471,777		1,511,152
Charge against profits	39,491	-	376,127	-	336,636
<b>At 31 December</b>	<b>78,866</b>		<b>1,095,650</b>		<b>1,174,516</b>

**Table 12: Analysis of Loans and Advances showing past due and impaired loans**

	<b>Loans and advances to customers</b>	<b>Loans and advances to banks</b>
	N'000	N'000
Neither past due or impaired	93,370,525	150,740,892
Individually impaired	78,866	-
<b>Gross Loans</b>	<b>93,449,391</b>	<b>150,740,892</b>
Less: Allowance for impairment	(1,084,892)	(89,624)
<b>Net</b>	<b>92,364,499</b>	<b>150,651,269</b>
<b>Allowance for impairment:</b>		
Individually impaired	78,866	-
Portfolio allowance	1,006,026	89,624
<b>Total</b>	<b>1,084,892</b>	<b>89,624</b>

## 5.9 Credit Quality Analysis

The Standardised Approach has been used in assessing the bank's capital requirement and all corporate exposures were classified as unrated in line with regulatory guidelines. Credit assessments applied to items in the banking book and trading book are assigned in accordance with the regulatory guidelines, including the use of credit quality assessment scale as applicable with External Credit Assessment Institutions (ECAIs).

**Table 13a: Risk-weighted assets for credit risk: Standardized Approach**

<b>PART A: RISK-WEIGHTED AMOUNTS (ON-BALANCE SHEET EXPOSURES)</b>	<b>Credit Quality Step</b>	<b>Exposure Amounts (Net)</b>	<b>Exposure after CRM</b>
		<b>N'000</b>	<b>N'000</b>
<b>Exposures to Sovereigns</b>		<b>180,907,277</b>	<b>180,907,277</b>
Exposure to FGN & CBN	1	180,907,277	180,907,277
Inter-bank transactions guaranteed by FGN or CBN	1	0	0
<b>Exposures to Supervised Institutions (DMBs, Discount Houses, etc)</b>		<b>137,538,013</b>	<b>137,538,013</b>
Bank in Nigeria (Maturity not more than 3 months)	Unrated	2,369,896	2,369,896
Banks outside Nigeria (including Foreign Currencies)	Unrated	665	665
Banks outside Nigeria (including Foreign Currencies) 2	1	135,128,268	135,128,268
Banks outside Nigeria (including Foreign Currencies) 2	3	39,183	39,183
<b>Exposures to Corporates and Other Persons</b>		<b>106,749,796</b>	<b>92,518,089</b>
All Corporate Exposures	Unrated	106,749,796	92,518,089
<b>Exposures included in Regulatory Retail Portfolio</b>		<b>481,242</b>	<b>451,853</b>
Exposures included in regulatory retail portfolio	Unrated	451,853	451,853
Past Due Exposures where specific provisions $\geq$ 20%	Unrated	29,389	0
<b>Higher Risk Exposures (Excluding Securitization Exposures)</b>		<b>438,627</b>	<b>438,627</b>
Risk Weight 150% (as defined in par 3.11 of Credit Risk Guidance Notes)	Unrated	428,083	428,083
<b>Other Balance Sheet Exposures</b>		<b>10,185,523</b>	<b>10,185,523</b>
Cash in hand and equivalent cash items	Unrated	635,021	635,021
Cheque & Cash items in the course of collection	Unrated	262,059	262,059
Property, plant and equipment and other fixed assets	Unrated	2,775,107	2,775,107
Any Other Assets	Unrated	6,513,336	6,513,336
<b>Sub-total</b>		<b>436,300,477</b>	<b>422,039,381</b>
<b>Commitments with original maturity of up to one year.</b>		<b>1,484,553</b>	<b>1,484,553</b>
Corporates	Unrated	1,484,553	1,484,553
<b>Commitments with original maturity of more than one year.</b>		<b>32,226,831</b>	<b>32,226,831</b>
Corporates	Unrated	32,226,831	32,226,831
<b>Short-term self-liquidating trade letters of credits.</b>		<b>26,497,289</b>	<b>26,497,289</b>
Supervised Institutions (FX Spot)	Unrated	2,642,136	2,642,136
Corporates	Unrated	23,855,153	23,855,153
<b>Direct credit substitute</b>		<b>6,056,212</b>	<b>6,056,212</b>

Corporates	Unrated	6,056,212	6,056,212
<b>FX Forwards</b>		<b>78,040,286</b>	<b>78,040,286</b>
Sovereign or Central Banks		45,750,000	45,750,000
Supervised Institutions (DMBs, Discount Houses, etc)	Unrated	12,335,091	12,335,091
Corporates	Unrated	19,955,195	19,955,195
<b>Guarantees</b>		<b>27,321,100</b>	<b>27,239,158</b>
Supervised Institutions (DMBs, Discount Houses, etc)	1	19,060,691	19,060,691
Supervised Institutions (DMBs, Discount Houses, etc)	2	2,849,870	2,849,870
Corporates	Unrated	5,410,539	5,328,596
<b>Sub-total</b>		<b>171,626,270</b>	<b>171,544,328</b>
<b>TOTAL RISK-WEIGHTED AMOUNT</b>		<b>607,926,748</b>	<b>593,583,710</b>

**Table 13b: Computation of minimum capital requirement for credit risk**

RISK-WEIGHTED AMOUNTS (ON-BALANCE SHEET EXPOSURES)	Exposure Amounts (Net)	CRM	Exposure after CRM	RWA	Min Capital Requirement
Item	N'000	N'000	N'000	N'000	N'000
Exposures to Sovereigns	180,907,277	0	180,907,277	0	0
Exposures to Supervised Institutions (DMBs, Discount Houses, etc)	137,945,466	0	137,945,466	27,539,481	2,753,948
Exposures to Corporates and Other Persons	106,749,796	14,231,707	92,518,089	92,518,089	9,251,809
Exposures included in Regulatory Retail Portfolio	481,242	29,389	451,853	338,890	33,889
Higher Risk Exposures (Excluding Securitization Exposures)	428,083	0	428,083	642,124	64,212
Other Balance Sheet Exposures	10,185,523	0	10,185,523	9,340,855	934,085
Sub-total	436,697,386	14,261,096	422,436,290	130,379,439	13,037,944
<b>TOTAL ON-BALANCE SHEET RISK-WEIGHTED AMOUNT</b>				<b>130,379,439</b>	
RISK-WEIGHTED AMOUNTS (OFF-BALANCE SHEET EXPOSURES)	Exposure Amounts (Net)	CRM	Exposure after CRM	RWA	Min Capital Requirement
	N'000	N'000	N'000	N'000	N'000
Commitments with original maturity of up to one year.	1,484,553	0	1,484,553	296,911	29,691
Commitments with original maturity of more than one year.	32,226,831	0	32,226,831	16,113,415	1,611,342
Short-term self-liquidating trade letters of credits.	26,497,289	0	26,497,289	4,876,716	487,672
Direct credit substitute e.g. general guarantees of indebtedness (including stand-by letter of credit serving as financial guarantees for loans and securities) and acceptance.	6,056,212	0	6,056,212	6,056,212	605,621
Forward assets purchase, forward deposits and partly paid shares and securities which represent commitment with certain draw down:	78,040,286	0	78,040,286	22,422,213	2,242,221
Certain transaction-related contingent items such as performance bonds, bid bonds, warranties and stand by letters of credit related to particular transactions.	27,321,100	81,942	27,239,158	7,901,371	790,137
Sub-total	171,626,270	81,942	171,544,328	57,666,839	5,766,684
<b>TOTAL OFF-BALANCE SHEET RISK-WEIGHTED AMOUNT</b>				<b>57,666,839</b>	
<b>TOTAL RISK-WEIGHTED AMOUNT FOR CREDIT RISK</b>				<b>188,046,278</b>	<b>18,804,628</b>

## 6 Market Risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises both currency risk and price risk. Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Price risk is the earnings risk from changes in interest rates, foreign exchange rates, and equity and commodity prices. Price risk arises in non-trading portfolios, as well as in trading portfolios.

### 6.1 Foreign Exchange Risk Management

Foreign Exchange risk is the exposure of the bank's financial condition to adverse movements in exchange rates. The bank is exposed to foreign exchange risk primarily through its assets, managing customers' deposits and through acting as an intermediary in foreign exchange transactions.

The bank has a robust risk management system that identifies, measures and mitigates the foreign currency exchange rate risk on its financial position and cash flows. Apart from regulatory imposed limits such as the net open position limit (OPL) that helps to limit these exposures, the bank has market risk limits such as:

- Individual overnight position limits for individual currency positions, which limits exchange rate risk in all currencies that the bank has exposures.
- Cross currency funding limits (CCFL) that restricts the proportion of local currency assets funded by foreign currency liabilities.
- Daily mark-to-market mechanism that revalues all currency positions daily, ensuring that foreign currency positions are valued at current market price and not at cost.
- Trading Management Action Trigger (MAT): This limits, on a realized or mark-to-market basis, the maximum loss that the total currency position can make before escalation is made to the Bank's management and the positions liquidated or effectively hedged.

Where there are available-for-sale securities denominated in currencies other than the local currency (Naira), the bank could mitigate the change in fair value attributable to foreign-exchange rate movements in those securities. Typically, the instrument employed is a forward foreign-exchange contract.

### 6.2 Price Risk Management

Price risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices, whether those changes are caused by factors specific to the individual financial instrument or its issuer or by factors affecting all similar

financial instruments traded in the market. The bank assess the potential impact that fluctuations of identified market risk factors would have on the bank's income and the value of its holdings of financial instruments.

### 6.3 Trading Portfolios

Price risk in trading portfolios is monitored using a series of measures, that include: Factor sensitivities, Value-at-Risk (VAR) and Stress testing

#### i) Factor sensitivities

Factor sensitivities are expressed as the change in the value of a position for a defined change in a market risk factor, such as a change in the price of a treasury bill for a one-basis-point change in interest rates. The bank's independent market risk management ensures that factor sensitivities are calculated, monitored and, in most cases, limited, for all relevant risks taken in a trading portfolio.

#### ii) Value-at-Risk (VAR)

The bank applies a Value at Risk (VAR) methodology to its trading portfolios to estimate the market risk of positions held and the maximum losses expected, based upon a number of assumptions for various changes in market conditions. VAR is a statistically based estimate of the potential loss on the current portfolio from adverse market movements. The VAR method incorporates the factor sensitivities of the trading portfolio with the volatilities and correlations of those factors and is expressed as the 'maximum' amount the bank might lose over a one-day holding period, at a 99% confidence level. The bank's VAR is based on the volatilities of and correlations among a multitude of market risk factors as well as factors that track the specific issuer risk in debt securities.

As VAR constitutes an integral part of the bank's market risk control regime, VAR limits are set by the bank's ALCO, after consultations with Citigroup Independent Risk Management. Actual exposure against limits, together with a bank-wide VAR, is reviewed daily by Treasury. The following table summarises trading price risk by disclosing the VaR exposure as at 31 December:

<b>VAR Analysis</b>	<b>2014</b>
	<b>N'000</b>
Interest rate risk	519,812
Foreign currency risk	2,471
<b>Overall portfolio risk</b>	<b>519,921</b>

### 6.4 Stress testing

Interest Rate Gap Analysis and Interest Rate Exposure (IRE) measures are employed in order to address the interest rate component of the market risk.

IRE measures the potential pre-tax earnings impact, over specified reporting periods, from a defined parallel shift in the yield curve. It is a forward-looking measure, analogous to Factor sensitivity on the trading portfolio. It is used to measure the interest rate sensitivity on accrual, rather than mark-to-market, portfolios. The sensitivity to +/-100bps parallel shifts in NGN and USD yield curves is considered.

The 12-Month Interest Rate Exposure is the un-discounted impact on the next 12 months earnings from a parallel shift across the yield curve.

Stress testing is based on Global stress scenario and measures the potential impact on accrual positions from severe changes in the level and/or shape of the interest rate curve and the VAR on the Trading portfolio.

Market risk arises through the FICC business although activities are restricted to a basic product set and tight limits. CNL proactively manages both its trading and non-trading market risk within its portfolio to reduce unacceptable risks to earnings. A strong market risk framework coupled with zero tolerance for limit breaches further minimises the impact of these activities. The bank's Trading portfolio is made up of Federal Government of Nigeria local currency securities, limiting the likelihood of default. This portfolio is marked to market on a daily basis.

**Table 14: Market risk weighted equivalent: Standardised Approach**

	N'000
<b>Total Interest Rate Risk</b>	20,126
<b>Total Equity Position Risk</b>	-
<b>Total Foreign Exchange Risk</b>	14,211
<b>Total Commodities Risk</b>	-
<b>TOTAL MARKET RISK CAPITAL CHARGE (A)</b>	<b>34,337</b>
<b>CALIBRATED RISK-WEIGHTED EQUIVALENT AMOUNT (A*12.5)</b>	<b>429,207</b>

## 7 Operational Risk

Operational Risk is the risk of loss resulting from inadequate or failed internal processes, systems, or human factors, or from external events. It includes reputation and franchise risks associated with Citi's business practices or market conduct. It also includes the risk of failing to comply with applicable laws, regulations, ethical standards, regulatory administrative actions and Citi policies.

Operational Risk does not encompass strategic risk or the risk of loss resulting solely from authorized judgments made with respect to taking credit, market, liquidity, or insurance risk.

### 7.1 Risk framework

The bank maintains an Operational Risk Management Framework with a Governance Structure to support its core operational risk management activities of anticipation, mitigation and recovery. To ensure effective management of operational risk across CNL, the Governance Structure presents three lines of defense highlighted below

- **First Line of Defense:** The **business** owns its risks, including its operational risk, and is responsible for its management. For example, the operational risks of new product strategies must be understood and addressed. The business heads, in partnership with the Risk Heads, determine Key Operational Risks for each business.

**In-Business Risk Management** is responsible for identifying and reporting of operational risks as they emerge, and communication of these risks to Independent Control Functions, who can create a comprehensive view of Citibank Nigeria Limited's risks across traditionally managed businesses.

The business may rely on **Functional specialists** (for example Global O&T) to implement certain responsibilities under the Operational Risk Management Framework. These specialists operating within and/or across managed businesses are responsible for advising on, contributing to, executing, and/or overseeing key controls in support of efficient and effective management of operational risk.

- **Second Line of Defense:** Citibank Nigeria Limited's **Control Functions** establish the second line of defense to enhance the effectiveness of controls and manage operational risks across products, business lines and regions. The Second Line of Defense Control Functions within Franchise Risk & Strategy includes Compliance, AML, Enterprise Risk Management and Risk Management. Oversight is also established in Global Functions in the Finance, Human Resources, and Legal independent Control Functions. Legal and Compliance additionally advise on legal and regulatory issues that affect our risk and control environment and provide certain information related to emerging risks.

**Enterprise Risk Management** oversees the management of operational risk through subject matter experts, Enterprise Risk Regional and Enterprise Risk Business Coverage, and a Business Management group that maintains the Operational Risk Management framework for Citibank Nigeria Limited. Roles and responsibilities related to operational risk management span the Franchise Risk and Strategy organization. Both Independent Risk Management and Enterprise Risk Management work proactively with businesses and global functions to embed a strong operational risk management culture and framework across Citibank Nigeria Limited. Enterprise Risk is responsible for identifying, anticipating and mitigating risks that could impact business objectives, and minimizing operational risk events and losses.

- **Third Line of Defense: Internal Audit** recommends enhancements on an ongoing basis and provides independent assessment and evaluation.

CNL has implemented the Operational Risk Management Framework and established a governance structure to ensure that Operational Risks are consistently **identified, measured, monitored, reported and managed**.

The Operational Risk Management Framework is intended to ensure management across CNL of the operational risks and ongoing exposures in the development and delivery of products and services to our clients.

The Operational Risk Management Framework includes the following minimum standards for consistent identification, measurement, monitoring and reporting, and management of operational risk across CNL. The process for operational risk management includes the following steps:

- Identify and assess Key Operational Risks;
- Design controls to mitigate identified risks;
- Establish Key Risk and Control Indicators;
- Implement a process for early problem recognition and timely escalation;
- Produce a comprehensive operational risk report; and
- Ensure that sufficient resources are available to actively improve the operational risk environment and mitigate emerging risks.

## **7.2 Measurement and Basel II**

The Basic Indicator Approach has been used for Operational risk, the bank assesses its capital requirements using the regulatory prescribed calculation method.

**Table 15: Risk-weighted amount for operational risk: Basic Indicator**

Nature of item	Capital Charge Factors (A)	Gross Income			Aggregate Gross Income (B)	Capital Charges (A*B)
		2012	2013	2014		
		N'000	N'000	N'000		
<b>Basic Indicator Approach (BIA)</b>						
Gross Income	15%	22,384,289	23,654,302	26,189,083	72,227,674	10,834,151
Number of years with positive annual gross income						3
Mean Average of Aggregate Capital Charge N'000						3,611,384
<b>Calibrated Risk-weighted Amount (BIA) N'000</b>						<b>45,142,296</b>

## 8 Banking Book Equity Exposures

The bank determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgement. In making this judgement, the bank evaluates among other factors, the deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

The fair value of financial instruments where no active market exists or where quoted prices are not otherwise available are determined by using valuation techniques. In these cases, the fair values are estimated from observable data in respect of similar financial instruments or using valuation models. Where market observable inputs are not available, they are estimated based on appropriate assumptions. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of those that sourced them. All models are certified before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data; however, areas such as credit risk (both own credit risk and counterparty risk), volatilities and correlations require management to make estimates.

**Table 16: Equity securities at fair values as at 31 December 2014**

	N'000
Listed	-
Unlisted	<u>377,612</u>
Total	<u><u>377,612</u></u>

## **9 Interest Rate Risk Position – Banking Book**

One of the bank's primary business functions is providing financial products that meet the needs of its customers. Loans and deposits are tailored to the customers' requirements with regard to tenor, index, and rate type. Net interest revenue (NIR) is the difference between the yield earned on the non-trading portfolio assets (including customer loans) and the rate paid on the liabilities (including customer deposits or wholesale borrowings). NIR is affected by changes in the level of interest rates.

NIR in the current period is the result of customer transactions and the related contractual rates originated in prior periods as well as new transactions in the current period. Those prior-period transactions will be impacted by changes in rates on floating-rate assets and liabilities in the current period.

Due to the long-term nature of the portfolios, NIR will vary from quarter to quarter even assuming no change in the shape or level of the yield curve as the assets and liabilities reprice. These repricings are a function of implied forward interest rates, which represent the overall market's unbiased estimate of future interest rates and incorporate possible changes in the overnight rate as well as the shape of the yield curve.

### **9.1 Interest Rate Risk Governance**

The risks in the bank's non-traded portfolios are estimated using a common set of standards that define, measure, limit and report the market risk. Each business is required to establish, with approval from independent market risk management, a market risk limit framework that clearly defines approved risk profiles and is within the parameters of the bank's overall risk appetite.

In all cases, the businesses are ultimately responsible for the market risks they take and for remaining within their defined limits. These limits are monitored by independent market risk, country and business ALCOs and financial control.

### **9.2 Interest Rate Risk Measurement**

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments because of a change in market interest rates. Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits. ALCO is the monitoring body for compliance with these limits and is assisted by Treasury in its day-to-day monitoring activities.

The bank's principal measure of risk to net interest revenue is interest rate exposure (IRE). IRE measures the change in expected net interest revenue in each currency resulting solely from unanticipated changes in interest rates. Factors such as changes in volumes, spreads, margins and the impact of prior-period pricing decisions are not captured by IRE. IRE

assumes that businesses make no additional changes in pricing or balances in response to the unanticipated rate changes.

IRE measures the potential impact on net interest revenue over a specified period, for the accrual positions, from a defined parallel shift in the yield curve. It is a forward-looking measure, analogous to factor sensitivity on the trading portfolios. The IRE measures the potential change of interest rate margin of the Bank for 100 basis points parallel change of interest rate curve in the horizon.

The impact of changing prepayment rates on loan portfolios is incorporated into the results. For example, in the declining interest rate scenarios, it is assumed that mortgage portfolios prepay faster and income is reduced. In addition, in a rising interest rate scenario, portions of the deposit portfolio are assumed to experience rate increases that may be less than the change in market interest rates.

### **9.3 Sensitivity analysis interest rate risk**

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the bank's financial assets and liabilities to specific interest rate scenarios. The sensitivity analysis is the effect of the assumed changes in interest rates on the profit or loss for the period, based on the floating rate non-trading financial assets and financial liabilities. The sensitivity analysis on the non-trading portfolio is measured by the change in DV01(Dollar value of 01) that measures the change in value of the non-trading accrual portfolio due to a 1 basis point parallel move in the interest rates.

### **9.4 Mitigation of Risk**

All financial institutions' financial performance is subject to some degree of risk due to changes in interest rates. In order to manage these risks effectively, the bank may modify pricing on new customer loans and deposits, enter into transactions with other institutions or enter into forward exchange contracts that have the opposite risk exposures. Therefore, the bank regularly assesses the viability of strategies to reduce unacceptable risks to earnings and implements such strategies when the bank believes those actions are prudent. As information becomes available, the bank formulates strategies aimed at protecting earnings from the potential negative effects of changes in interest rates.

The bank employs additional measurements, including stress testing on the impact of non-linear interest rate movements on the value of the balance sheet; the analysis of portfolio duration, volatility and the potential impact of the change in the spread between different market indices.

## 10 Forward-Looking Statements

This document contains certain forward-looking statements. The bank cautions readers that no forward-looking statement is a guarantee of future performance. CNL's actual results may differ materially from those included in any forward-looking statements, which are indicated by words such as "believe," "expect," "anticipate," "intend," "estimate," "may increase," "may fluctuate," and similar expressions, or future or conditional verbs such as "will," "should," "would," and "could."

Any forward looking statements are based on management's current expectations and involve external risks and uncertainties including, but not limited to: levels of activity and volatility in the capital markets, global economic and business conditions, including the level of interest rates and exchange rates, the credit environment, unemployment rates, and political and regulatory developments in Nigeria and around the world, as well as the outcome of legal, regulatory and other proceedings.

For a more detailed discussion of potential risk factors the reader is directed to Citibank Nigeria Limited's 2014 Annual Report. Except as required by any competent regulator or applicable law, CNL expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements contained in this document to reflect any change in Citibank's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based. The reader should, however, consult any additional disclosures made in Citibank Nigeria Limited's 2014 Annual Report.