Citibank Nigeria Limited

December 2017

Pillar III Disclosures

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1 Overview

The Central Bank of Nigeria (CBN) released revised guidelines in June 2015 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 May 2, 1984. It was granted a license by the Central Bank of Nigeria on September 14, 1984 to carry on the business of commercial banking and commenced business on September 14, 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 December 31, 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 December 31, 2017.

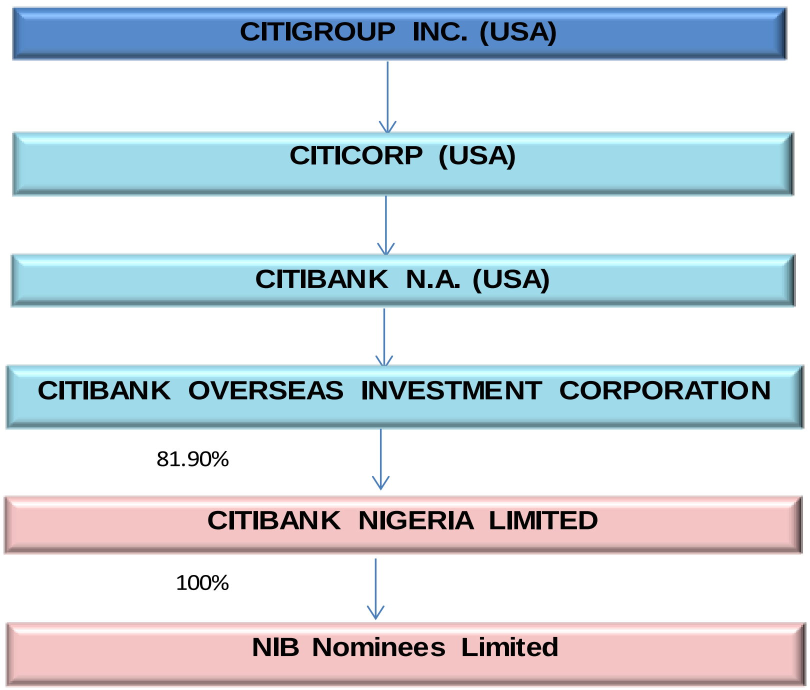
The following disclosures have been published in the company's website (http://www.citigroup.com/citi/about/countrypresence/nigeria.html) and have been prepared purely to explain the basis on which the bank has prepared and disclosed information about capital requirements and the management of certain risks and for no other purpose. They do not constitute any form of financial statements 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. Markets

- FX
- Equity
- Fixed Income
- Commodities
- Derivatives

II. Securities and Fund Services

- Custody
- Fund Administration
- Agency and Trust Services
- Securities Lending

III. Treasury and Trade Solutions

- Cash and Liquidity Management
- Trade and Post-trade Services

IV. Issuer Services

- Provides corporate trust, issuing and paying agent and escrow services

III. Corporate Portfolio Management

- Corporate Portfolio Management activity on CNL primarily caters to the borrowing needs of institutional clients across all tenros and focuses on its target market clients

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 December 31, 2017

Table 2: Regulatory capital resources as at December 31, 2017

Constituents of Capital	Amounts
TIER 1 Capital: Instruments & Reserves	**N'000**
Paid-up ordinary shares	2,793,777
Share premium	11,643,995
Retained profits	36,800,556
Statutory Reserve	29,206,621
SMEEIS Reserve	3,340,909
Tier 1 Sub-Total	**83,785,858**
Less:	
Investment in the capital of banking and financial institutions	199,010
Eligible Tier 1 Capital	**83,586,848**
TIER 2 Capital: Instruments & Reserves	
Other Comprehensive Income (OCI)	3,933,116
Tier 2 Sub-total	**3,933,116**
Less - Investment in the capital of banking and financial institutions	199,010
Eligible Tier 2 Capital	**3,734,106**
TOTAL QUALIFYING CAPITAL	**87,320,954**
Total Capital Ratio	29.54%
Minimum Internal Capital Requirement	12.00%
Surplus Capital over Minimum Capital Requirement	17.54%
Tier 1 Capital Resources	83,586,848
Risk Weighted Assets	295,620,126
Tier 1 Capital Ratio	28.28%

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. The bank conducts stress tests on its portfolio and assesses the possible negative impact on its capital ratios and 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 December 31, 2017 is mainly based on capital and reserves, total qualifying capital shown below reflects the impact of regulatory deductions and fair value adjustment from AFS portfolio.

Table 3: Total Risk Weighted Capital Ratio as at December 31, 2017

Amounts in N'000

NET-TOTAL TIER 1 CAPITAL	**83,586,848**
TOTAL QUALIFYING CAPITAL	**87,320,954**
COMPUTATION OF RISK-WEIGHTED ASSETS	
1.Credit Risk: Standardized Approach	
Risk-weighted Amount for Credit Risk	**202,868,798**
2.Market Risk: Standardized Approach	
Risk-weighted Amount for Market Risk	**21,958,398**
3.Operational Risk: Basic Indicator Approach	
Risk-weighted Amount for Operational Risk	**70,792,929**
AGGREGATE RISK-WEIGHTED ASSETS	**295,620,126**
Total Capital Ratio	**29.54%**
Tier 1 Capital Ratio	**28.28%**

Total risk weighted assets closed at N295.62Bn.

Table 4: Minimum Capital requirements in respect of credit risk, market risk and Operational risk as at December 31, 2017

Risk	2017
Credit Risk	20,286,880
Market Risk	2,195,840
Operational Risk	7,079,293
Minimum Capital Requirement	**29,562,013**

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 12%. A report is produced and distributed to ALCO and senior management, which 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.

STATUS KEY CITIBANK NIGERIA LIMITED	
Capital adequacy ratio less than 10%– Regulatory Breach	BLACK
Capital adequacy ratio greater than 10% but less than 11%	RED
Capital adequacy ratio greater than 11% but less than 12%	AMBER
Capital adequacy ratio greater than or equal to 12%	GREEN

Regulatory Capital Escalation Procedures

The following actions are necessary if CNL's Capital Adequacy Ratio falls below the internal trigger limit of 12%:

GREEN

No Action

AMBER

- Finance to investigate root cause for breach and check calculations to ensure that this is a 'real' breach
- Finance to send details to responsible department for explanation
- Finance to escalate by sending a separate email to relevant distribution list (ORM, ALCO, MANCOM,Cluster Reporting Lead at the regional office)
- ALCO to observe the situation and ensure that there is no further deterioration of Capital Adequacy Ratio

RED

- Finance to investigate root cause for breach and check calculations to ensure that this is a ‘real’ breach.
- Finance to send details to responsible department for explanation
- Finance to escalate by sending a separate email to relevant distribution list (ORM, ALCO, MANCOM, Cluster Reporting Lead at the regional office)
- Treasurer to call for special ALCO to discuss the situation and how to ensure that there is no further deterioration of Capital Adequacy Ratio
- Internal breach to be discussed at relevant governance committees and documented as part of minutes.

BLACK

- Regulator will be informed immediately. Management to immediately put in place action to ensure that share capital is restored to the required minimum level
- Finance to escalate by sending a separate email to relevant distribution list (ORM,ALCO, MANCOM, Cluster Reporting Lead at the regional office, Cluster CFO)
- Treasurer to call for special ALCO to discuss the situation and how to ensure that there is no further deterioration of capital adequacy ratio

In addition to above, the following further actions may 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 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 Nigeria Limited is committed to ensuring the implementation of good corporate governance principles in all its activities. Citibank Nigeria Limited adheres to the provisions of the Central Bank of Nigeria Code on Corporate Governance for Banks and Discount Houses 2014 ('the Code') and to Citigroup's corporate governance principles. Corporate governance compliance is monitored closely and a quarterly report on the Bank's compliance with the Code is submitted to the Central Bank of Nigeria on a quarterly basis. The Board of Directors also undergoes training in corporate governance best practices on a regular basis.

As at December 31, 2017 the Board of Directors consisted of thirteen members comprising the Chairman, the Managing Director, seven Non-Executive Directors and four Executive Directors. Two of the Non-Executive Directors are Independent Directors, and were appointed based on criteria laid down by the Central Bank of Nigeria. The

Independent Directors have no shareholding interest or other business relationship with the Bank. The Directors and their shareholdings are listed in the Directors' report

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 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.

In accordance with the provisions of the Code, the office and responsibilities of the Chairman and the Managing Director/Chief Executive are separate.

The Board meets quarterly and additional meetings are convened as required. The Board may take decisions between meetings by way of written resolution, as provided for in the Articles of Association of the Bank. In 2017 the Board met five times

Table 5: Board of Directors as at 31 December 2017

S/N	Name	Board Position
1	Mr Olayemi Cardoso	Chairman
2	Mr Akinsowon Dawodu	Managing Director
3	Mr Fatai Karim	Executive Director
4	Mrs Funmi Ogunlesi	Executive Director
5	Mrs Nneka Enwereji	Executive Director
6	Mr Oluwole Awotundun	Executive Director
7	Mr Peter McCarthy	Non Executive Director
8	Mr Oyesoji Oyeleke	Non Executive Director
9	Dr Hilary Onyiuke	Non Executive Director
10	Mrs Ireti Samuel-Ogbu	Non Executive Director
11	Dr Diane Evans	Non Executive Director
12	Dr Daphne Dafinone	Independent Director
13	Dr Shamsuddeen Usman	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

i. The Risk Management Committee

The Risk Management Committee consists of six 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.

ii. The Credit Committee

The Credit Committee consists of eight directors, four of whom, including the Chairman of the Committee are non- executive Directors. One of the members of the committee is an Independent Director. 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.

iii.The Audit Committee

The Audit committee consists of three non-executive directors. The Chairman of the Committee is an independent Director. 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. During the year, the committee approved the external auditors' terms of engagement and scope of work and also reviewed the internal auditors' audit plan. 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 Committee meets quarterly and met four times during the year.

iv. Board Governance and Nominations Committee

The Committee is made up of four non-executive directors. One of the members of the Committee is an Independent Director. 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 Committee is required to hold a minimum of two meetings in a year. The Committee met three times during the year.

4.4 Management Committees

The following are the key management committees: Country Co-Ordinating Committee, Business Risk and Compliance Committee, Assets and Liabilities Committee, Legal Entity Management Committee, Country Senior Human Resources Committee, Information Technology Steering Committee, Management Credit Committee, Local Regulatory Reporting Governance Committee and Third Party Management Committee.

The Asset and Liability Committee (ALCO) comprises senior executive management and provides important oversight and governance of the balance sheet of Citibank Nigeria Limited and is an integral part of the overall risk management framework. The central objective of the ALCO is to monitor and manage the balance sheet of legal vehicles within its jurisdiction; including capital, funding, liquidity, and the market risk of the trading and non-trading portfolios. In this regard, the ALCO functions as a forum for senior management to ensure adherence to regulatory requirements, corporate wide-policies and procedures, and to recommend and implement appropriate capital and funding plans. ALCO acts as a steering committee for the Basel II Working Committee and undertakes the on-going monitoring and risk assessment of capital

The 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.

4.5 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 Nigeria Limited 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.

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.

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.

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.
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; 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 2017.

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

Sovereign Rating	Guarantees received
31 Dec 2017	**N'000**
AA+	2,069,583
AA	2,135,295
A-	1,706,950
BBB-	1,613,839
Total	**7,525,667**

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 which restricts credit exposures to individual counterparts or groups of counterparts on the basis of derived internal risk ratings. At the same time, our Portfolio Management strategy 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 at 31 December 2017

Balances with Central Bank of Nigeria	135,628,891
Loans and advances to banks	189,341,149
Held for trading securities	
- Debt securities	44,951,937
Derivative financial instruments - assets	7,629,080
Assets pledged as collateral	13,044,799
Loans and advances to customers	98,188,739
Investment securities	
- Debt securities	70,963,692
Other assets	26,006,310
	585,754,597
Bonds and guarantees	18,609,746
Loan commitments	13,020,594
Other credit related obligations	24,171,158
	55,801,498
At 31 December 2017	641,556,095

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 risk exposure by Geography of counterparty domicile

2017	Nigeria	USA	Europe/Other	Total
	N'000	N'000	N'000	N'000
Balances with Central Bank of Nigeria	135,628,891	-	-	135,628,891
Loans and advances to banks	506,883	153,895,889	34,938,377	189,341,149
Held for trading securities				
- Debt securities	44,951,937			44,951,937
Derivative financial instruments - assets	7,504,913	-	124,167	7,629,080
Assets pledged as collateral	13,044,799	-	-	13,044,799
Loans and advances to customers	98,188,739			98,188,739
Investment securities				
- Debt securities	70,963,692	-	-	70,963,692
Other assets	26,006,310	-	-	26,006,310
	396,796,164	153,895,889	35,062,544	585,754,597
Bonds and guarantees	18,609,746	-	-	18,609,746
Loan commitments	13,020,594	-	-	13,020,594
Other credit related obligations	24,171,158	-	-	24,171,158
	55,801,498	-	-	55,801,498
At 31 December 2017	452,597,662	153,895,889	35,062,544	641,556,095

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
Assets:						
Cash and cash equivalent less restricted cash	41,132,685	-	-	-	-	41,132,685
Loans and advances to banks	188,813,843	-	-	527,309	-	189,341,152
Derivative financial instruments-assets	1,380,031	447,453	5,801,596	-	-	7,629,080
Held for trading securities	57,498	9,680,027	27,721,642	1,238,284	6,254,347	44,951,798
Loans and advances to customers	97,904,251	30,928	-	69,845	183,718	98,188,742
Investment securities	588,920	343,255	12,477,269	55,594,323	1,959,924	70,963,691
Restricted balance	-	-	-	94,496,207	-	94,496,207
Assets pledged as collateral	-	-	-	13,044,799	-	13,044,799
Other assets	18,527,960	7,362,084	116,266	-	-	26,006,310
Total financial assets	348,405,188	17,863,747	46,116,773	164,970,767	8,397,989	585,754,464

Table 10

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

2017	**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
Balances with Central Bank of Nigeria	-	135,628,891	-	-	-	-	-	135,628,891
Loans and advances to banks	-	189,341,149	-	-	-	-	-	189,341,149
Loans and advances to customers	50,360,124	2,158,530	-	18,908,200	16,775,517	6,917,003	3,069,366	98,188,740
Held for trading securities								
- Debt securities	-	-	44,951,937	-	-	-	-	44,951,937
Derivative financial instruments-assets	5,926,831	1,405,129	-	121,903	-	170,555	4,662	7,629,080
Investment securities								
- Debt securities	-	-	70,963,692	-	-	-	-	70,963,692
Assets pledged as collateral	-	-	13,044,799	-	-	-	-	13,044,799
Other assets	415,704	23,956,040	-	7,614	11,161	1,615,789	-	26,006,309
	56,702,659	352,489,739	128,960,428	19,037,717	16,786,678	8,703,347	3,074,028	585,754,596
Bonds and guarantees	3,405,289	11,526,832	-	166,745	2,019,431	1,491,450	-	18,609,747
Loan commitments	1,666,863	123,857	-	3,812,781	700,614	6,659,035	57,444	13,020,594
Other credit related obligations	21,603,448	-	-	182,043	2,298,240	87,426	-	24,171,157
	33,230,994	9,713,174	-	3,071,588	2,860,333	2,921,451	3,188,080	55,801,498
At 31 December 2017	**89,933,653**	**362,202,913**	**128,960,428**	**22,109,305**	**19,647,011**	**11,624,798**	**6,262,108**	**641,556,095**

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

	N'000 Specific Allowance	N'000 Collective Allowance	N'000 Total Allowance
At 1 January	92,353	2,133,061	2,225,414
Charge in profits	1,402,092	(1,557,936)	(155,844)
At 31 December	**1,494,445**	**575,125**	**2,069,570**

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

	Loans and advances to customers	**Loans and advances to banks**
	N'000	N'000
Neither past due or impaired	98,405,503	189,341,150
Individually impaired	1,852,807	-
Gross	100,258,310	189,341,150
Less: Allowance for impairment	(2,069,570)	(3,354)
Net	98,188,740	189,337,796
Allowance for impairment:		
Individually impaired	1,494,445	-
Portfolio allowance	575,125	3,354
Total	2,069,570	3,354

5.9 Credit Risk Weighted Assets

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) namely, Fitch, S&P and Moody's.

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

Exposure class	Risk Weights	Exposures Before CRM	Amount Eligible for On-BS Netting	Total Exposure After Netting	Exposure Covered by CRM	Exposure After Treatment of CRM (guarantee & credit derivatives)	Cash on Deposit	Exposure after CRM	RWA of exposure after CRM	Total RWA
Central Governments and Central Banks		**257,089,318,465**	**0**	**257,089,318,465**	**0**	**257,089,318,465**	**0**	**257,089,318,465**	**0**	**0**
AAA - AA-	0%	257,089,318,465	0	257,089,318,465	0	257,089,318,465		257,089,318,465	0	0
A+ to A-	20%	0	0	0	0	0		0	0	0
BBB+ to BBB-	50%	0	0	0	0	0		0	0	0
BB+ to B-	100%	0	0	0	0	0		0	0	0
Below B-	150%	0	0	0	0	0		0	0	0
Unrated	100%	0	0	0	0	0		0	0	0
Supervised Institutions		**196,286,995,884**	**0**	**196,286,995,884**	**0**	**196,286,995,884**	**0**	**196,286,995,884**	**39,348,910,987**	**39,348,910,987**
AAA - AA-	20%	196,130,717,770	0	196,130,717,770	0	196,130,717,770		196,130,717,770	39,226,143,554	39,226,143,554
A+ to A-	50%	67,021,363	0	67,021,363	0	67,021,363		67,021,363	33,510,681	33,510,681
BBB+ to BBB-	100%	86,571,454	0	86,571,454	0	86,571,454		86,571,454	86,571,454	86,571,454
BB+ to B-	100%	0	0	0	0	0		0	0	0
Below B-	150%	0	0	0	0	0		0	0	0
Unrated	100%	2,685,297	0	2,685,297	0	2,685,297		2,685,297	2,685,297	2,685,297
Corporate and Other Persons		**101,074,432,322**	**677,204,077**	**100,397,228,245**	**779,061,059**	**99,618,167,185**	**21,601,246**	**99,596,565,940**	**99,596,565,940**	**99,596,565,940**
Unrated	100%	101,074,432,322	677,204,077	100,397,228,245	779,061,059	99,618,167,185	21,601,246	99,596,565,940	99,596,565,940	99,596,565,940
Regulatory Retail Portfolio		**251,747,321**	**0**	**251,747,321**	**0**	**251,747,321**	**0**	**251,747,321**	**188,810,491**	**188,810,491**
	75%	251,747,321	0	251,747,321	0	251,747,321		251,747,321	188,810,491	188,810,491
Past Due Exposures		**45,356,867**	**940,262,322**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Other than Qualifying Residential Real	150%	0	0	0	0	0		0	0	0
	100%	45,356,867	940,262,322	0	0	0		0	0	0
Qualifying Residential Real Estate	100%	0	0	0	0	0		0	0	0
	50%	0	0	0	0	0		0	0	0
Other Assets		**42,470,573,128**	**76,777,391**	**42,393,795,738**	**0**	**42,393,795,738**	**0**	**42,393,795,738**	**39,760,355,803**	**39,760,355,803**
	0%	2,633,439,935	0	2,633,439,935	0	2,633,439,935		2,633,439,935	0	0
	20%	0	0	0	0	0		0	0	0
	100%	39,837,133,193	76,777,391	39,760,355,803	0	39,760,355,803		39,760,355,803	39,760,355,803	39,760,355,803
Total		**597,218,423,988**	**1,694,243,790**	**596,419,085,653**	**779,061,059**	**595,640,024,594**	**21,601,246**	**595,618,423,348**	**178,894,643,220**	**178,894,643,220**

Off - Balance Sheet Exposure - RWA

PART A: RISK-WEIGHTED AMOUNTS (OFF-BALANCE SHEET EXPOSURES)	Notional Amount	CCF	Credit Equivalent Amount (CEA) (Before Collateral)	Collateral Value (After Haircut)	Credit Equivalent Amount (CEA) (After Collateral)	Risk weight (%)	Risk Weighted Asset
	N'000		N'000	N'000	N'000		N'000
Commitments with original maturity of up to one year.	**2,946,411**		**589,282**	**0**	**589,282**		**589,282**
Corporate and Other Persons	2,946,411	**20%**	589,282	0	589,282	**100%**	589,282
Commitments with original maturity of more than one year.	**10,074,183**		**5,037,092**	**0**	**5,037,092**		**5,037,092**
Corporate and Other Persons	10,074,183	**50%**	5,037,092	0	5,037,092	**100%**	5,037,092
Short-term self-liquidating trade letters of credits.	**22,280,292**		**4,456,058**	**0**	**4,456,058**		**4,456,058**
Corporate and Other Persons	22,280,292	**20%**	4,456,058	0	4,456,058	**100%**	4,456,058
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.	**1,883,943**		**1,883,943**	**0**	**1,883,943**		**1,883,943**
Corporate and Other Persons	1,883,943	**100%**	1,883,943	0	1,883,943	**100%**	1,883,943
Sales and repurchase agreement and assets sale with recourse where the credit risk remain with the bank:	**0**		**0**	**0**	**0**		**0**
Certain transaction-related contigent items such as performance bonds, bid bonds, warrantees and stand by letters of credit related to particular transactions.	**18,609,746**		**9,304,873**	**27,419**	**9,277,454**		**9,277,454**
Supervised Institutions (DMBs, Discount Houses, etc)	7,525,667	**50%**	3,762,833	0	3,762,833	**100%**	3,762,833
Corporate and Other Persons	11,084,079	**50%**	5,542,040	27,419	5,514,621	**100%**	5,514,621
Note issuance facilities (NIFs) and revolvng underwriting facilities (RUFs).	**0**		**0**	**0**	**0**		**0**
Sub Total	**55,794,576**		**21,271,249**	**27,419**	**21,243,830**		**21,243,830**
TOTAL OFF-BALANCE SHEET RISK-WEIGHTED AMOUNT							**21,243,830**

PART B: OTC DERIVATIVE TRANSACTIONS	Notional Amount		Credit Equivalent Amount (CEA) (Before Collateral)	Collateral Value (After Haircut)	Credit Equivalent Amount (CEA) (After Collateral)	Risk weight (%)	Risk Weighted Asset
	N'000		N'000	N'000	N'000		N'000
Forwards	**161,351**		**3,227,030**	**0**	**3,227,030**		**2,730,326**
Supervised Institutions (DMBs, Discount Houses, etc)	31,044		620,880		620,880	**20%**	124,176
Corporate and Other Persons	130,307		2,606,150		2,606,150	**100%**	2,606,150
Swaps	**118,239**		**2,364,778**	**0**	**2,364,778**		**0**
Soverign and Central Banks	118,239		2,364,778		2,364,778	**0%**	0
Sub Total	**279,590**		**5,591,807**	**0**	**5,591,807**		**2,730,326**
TOTAL OTC RISK-WEIGHTED AMOUNT							**2,730,326**

Obligor type-wise Summary of all off-Balance Sheet Transactions including OTC derivative transactions	Credit Equivalent Amount (CEA) (Before Collateral)	Credit Equivalent Amount (CEA) (After Collateral)	Risk Weighted Asset
Soverign and Central Banks	2,364,778	2,364,778	0
Supervised Institutions (DMBs, Discount Houses, etc)	4,383,713	4,383,713	3,887,009
Corporate and Other Persons	20,114,565	20,087,146	20,087,146
Regulatory Retail Portfolios	0	0	0
Total	**26,863,056**	**26,835,637**	**23,974,155**

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

Summary of on-balance sheet and off-balance sheet exposure	Exposures before CRM			Risk weighted assets (RWA)		
	On-Balance Sheet	Off-Balance Sheet	Total	On-balance sheet	Off-Balance Sheet	Total RWA
	N'000	N'000	N'000	N'000	N'000	N'000
Sovereigns and Central Banks	257,089,318	2,364,778	259,454,096	0	0	0
State Govt and Local Authorities	0	0	0	0	0	0
Public Sector Entities (PSEs)	0	0	0	0	0	0
Multilateral Development Banks (MDB)	0	0	0	0	0	0
Supervised Institutions	196,286,996	4,383,713	200,670,709	39,348,911	3,887,009	43,235,920
Corporate and Other Persons	101,074,432	20,114,565	121,188,997	99,596,566	20,087,146	119,683,712
Regulatory Retail Portfolio	251,747	0	251,747	188,810	0	188,810
Secured by Mortgages on Residential Properties	0		0	0		0
Exposures Secured by Mortgages on Commercial Real Estates	0		0	0		0
Past Due Exposures	45,357		45,357	0		0
High Risk Exposures	0		0	0		0
Unsettled and Failed Transactions	0		0	0		0
Other Assets	42,470,573	0	42,470,573	39,760,356	0	39,760,356
Regulatory Adjustment						0
	597,218,424	26,863,056	624,081,480	178,894,643	23,974,155	202,868,798

6 Market Risk

Market Risk is the earnings risk from changes in interest rates, foreign exchange rates, and equity and commodity prices, and in their implied volatilities. Market Risk arises in IRRBB, as well as in Marked-to-Market portfolios. Market Risk Factors - The variable (i.e., a market price or rate, such as a spot FX rate or an interest rate) that can impact the economic valuation of a market position. The primary market risk factors used to form limits are:

- Equity risk, the valuation risk resulting directly or indirectly from stock price changes.

- Interest rate risk, the valuation risk resulting from direct or indirect interest rate changes

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 foreign currency trading position limit 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.

- 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): These 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 statistical estimation of the potential decline in value of a position or a portfolio under normal market conditions, within a defined confidence level and over a specific time period. VaR is used to establish internal limits representing the maximum loss that a position might exhibit resulting from a one-day loss measured on a historical basis with a determined confidence level. VaR is also used for external regulatory reporting purposes.

The parameters used in a statistical simulation of market risk include:

 The historical 'look-back' period used to calculate historical volatilities and correlations;

 The holding period, i.e., the number of days of changes in market risk factors the portfolio is subjected to; and

 A confidence interval to estimate the potential loss, which for Citi's risk management purposes, is chosen to be 99%

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

VAR Analysis	**2018**
	₦'000
Interest rate risk	425,412
Foreign currency risk	1,755
Overall portfolio risk	**424,683**

6.4 Stress testing

The Stress testing process can be classified into 2 key categories;

 Global Systemic Stress Testing (GSST)

 Business Specific Stress Testing (BSST)

Both categories of stress testing can be based upon either a range of historical periods of market stress or purely hypothetical future market events.

GSST are designed to quantify the potential impact of extreme market movements on a firm-wide basis and are performed at least on a monthly basis. The Stress Testing and Risk Capital Council is responsible for developing the stress scenarios and for reviewing them quarterly to ensure that they remain appropriate in light of current and anticipated market conditions. BSST is developed in response to business tailored or market-specific concerns. Such stress scenarios are usually idiosyncratic in nature eg position speicifc stress testing on illiquid or large or complex exposures

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, FX swaps and Forwards. This portfolio is marked to market on a daily basis.

Table 14: Market risk weighted equivalent: Standardised Approach

	N'000
Total Interest Rate Risk	2,177,142
Total Foreign Exchange Risk	18,697
Total Market Risk Capital (A)	**1,756,672**
Calibrated Risk-Weighted Equivalent Amount (A*12.5)	**21,958,398**

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 Citibank Nigeria Limited's business practices or market conduct. It also includes the risk of failing to comply with applicable laws, regulations, ethical standards or 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.

There are five Event Types (Categories) used by Citi for categorizing Operational Risk:

- Clients, Products and Business Practices;
- Execution, Delivery and Process Management;
- Fraud, Theft and Unauthorized Activity;
- Employment Practices and Workplace Environment; and
- Physical Asset and Infrastructure.

7.1 Operational Risk Governance Structure

Citibank Nigeria Limited maintains an Operational Risk Management Framework with a Governance Structure to ensure effective management of operational risk across the bank. The Governance Structure presents three lines of defense as stated below:

- **First Line of Defense**: The **Business** owns all risks arising from its activities, including its Operational Risk, and is responsible for its management. For example, the operational risks of new product strategies must be understood and addressed. Each Business Senior management, in partnership with the Independent Risk, must determine each Business' Key Operational Risks.

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

  The Business may rely on **Functional specialists** to implement certain responsibilities under the Operational Risk Management Framework. These Functional specialists may operate within and/or across managed businesses and may be 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 **Independent Control Functions** establish the second line of defense to oversee and challenge the effectiveness of controls and manage operational risks across Businesses and Functions. The Second Line of Defense Control Functions include Risk Management and its Operational Risk Management (ORM) organization, Compliance, Finance, Human Resources, and Legal. Legal and Compliance additionally advise on legal and regulatory issues that affect our risk and control environment and may provide information related to certain emerging risks.

Operational Risk Management (ORM) oversees the implementation of the Operational Risk Management Framework for the management of operational risk across Citibank Nigeria Limited.

ORM Managers engage with the Business and the Chief Risk Officer (CRO) to ensure effective implementation of the Operational Risk Management Framework by focusing on:

i) identification, analysis and assessment of operational risks;
ii) effective challenge of key control issues and operational risks; and
iii) anticipation and mitigation of operational risk events.

Operational Risk Management ensures that validation and verification is established for critical framework elements.

Operational Risk Management seeks to create lasting solutions for minimizing losses from failed internal processes, inadequate controls, and emerging risks, and drive actions to address the root causes that persistently lead to operational risk losses. Operational Risk Management executes against those objectives by:

- Independently assessing risk, challenging both our historical and proposed practices and working as independent partners with our colleagues to improve processes;
- Establishing and overseeing the application of operational risk policies and standards, technology and tools, and governance processes;
- Monitoring and assessing the effectiveness of risk mitigation tools including internal controls;
- Maintaining an enterprise-wide assessment of the most significant, current, and emerging operational risks to business activities, and ensuring appropriate actions are in place to mitigate these risks;
- Identifying, assessing, anticipating, measuring, reporting and mitigating Citibank Nigeria Limited’s operational risk exposure;
- Establishing the operational risk capital requirements and allocations; and
- Driving projects, as needed, aimed at strengthening controls to enable better decision making about products and service offerings.

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

7.2 Operational Risk Management (ORM) Framework

Citibank Nigeria Limited's ORM Framework establishes a foundation on which the activities of Businesses and Functions, the resulting operational risks, and the associated controls are identified, periodically assessed, subject to corrective action, appropriately documented, and communicated. Specifically, the ORM Framework establishes minimum standards for consistent identification, measurement, monitoring, reporting, and management of operational risk across Citibank Nigeria Limited.

The process established by the ORM Framework is expected to lead to effective anticipation and mitigation of operational risk and improved operational risk loss experience and includes the following steps:

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

7.3 Measurement and Basel II

The Basic Indicator Approach (BIA) has been adopted for calculation of operational risk capital. The bank assesses its capital requirements using the regulatory prescribed calculation method.

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

Line no.	Nature of item	Capital Charge Factor	First Year SUM	Second Year SUM	Third Year SUM	Aggregate Gross Income (years 1 to 3)	Capital Charges
1	**Basic Indicator Approach (BIA)**	**N'000**	**N'000**	**N'000**	**N'000**	**N'000**	**N'000**
2	Gross Income [see Note 1]	15%	**49,488,472**	**33,618,278**	**30,161,936**	113,268,686	16,990,303
3	Number of years with positive annual gross income						3
4	Mean Average of Aggregate Capital Charge						5,663,434
5	**Calibrated Risk-weighted Amount (BIA)**						**70,792,929**

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 2017

	N'000
Unlisted	5,084,633

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

There is a single set of Citi standards for defining, measuring, limiting and reporting of Interest Rate Risk in Banking Book (IRRBB) to ensure consistency across businesses, standardization of methodologies and transparency of 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

Market Risk is the earnings risk from changes in interest rates, foreign exchange rates, and equity and commodity prices, and in their implied volatilities. Market Risk arises in IRRBB, as well as in Marked-to-Market portfolios.

Interest Rate Exposure (IRE) measures the potential pre-tax impact on NIR for Banking Book positions, due to defined shifts in interest rates over a specified reporting period.

NIR is the difference between the accrued interest income earned on assets (e.g., customer loans) and the interest expense paid on the liabilities (e.g., customer deposits and company borrowings). NIR is affected by factors such as changes in the level of interest rates, volumes and customer rates.

IRE Measures: A 12-Month and 24-Month Interest Rate Exposure i.e., the un-discounted impact of accounting earnings from a shift in interest rates for the next 12-months and 24-months, using various simulations such as Plan Static

Valuation Metrics: Economic Value of Equity/ Economic Value Sensitivity (EVE/EVS)

In addition to measuring the impact of interest rate changes on accounting earnings for a specific period, Market Risk Managers will work with CNL to measure the impact of interest rate changes on the firm's capital. This impact can be measured using Stress Test and EVS risk metrics which are intended to supplement IRE measures and capture the impact of Interest Rate changes on the economic value of Assets and Liabilities.

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 2017 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 2017 Annual Report.