Pillar III Disclosures

Citibank Nigeria Limited

31 December 2020

Table of contents

1 OVERVIEW 3

2 CAPITAL RESOURCES 6

3 CAPITAL ADEQUACY 8

4 GOVERNANCE AND MANAGEMENT 12

5 CREDIT RISK 18

6 MARKET RISK 34

7 OPERATIONAL RISK 39

8 BANKING BOOK EQUITY EXPOSURES 43

9 INTEREST RATE RISK POSITION – BANKING BOOK 44

10 FORWARD-LOOKING STATEMENTS 46

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, 2020.

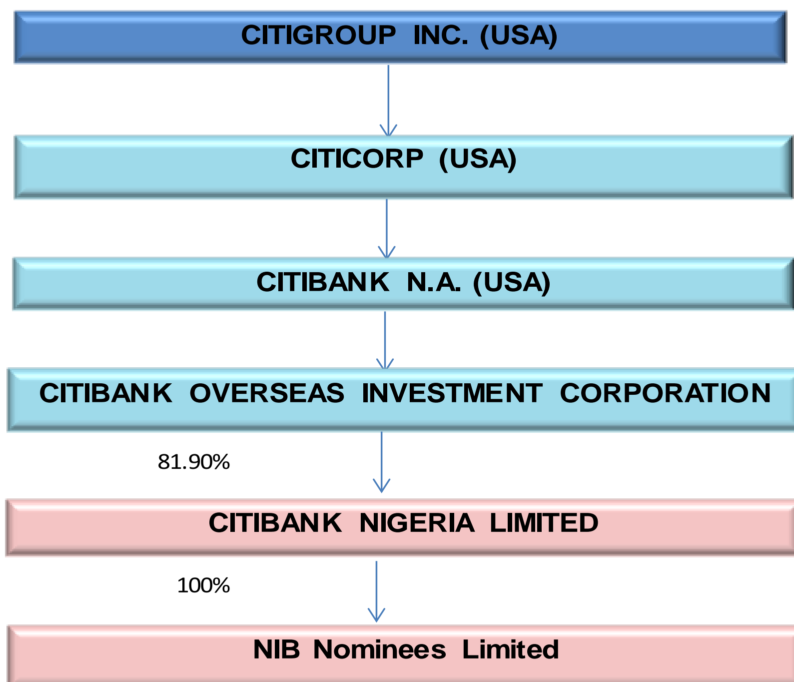
The following disclosures have been published in the company's website (http://www.citigroup.com/citi/about/countrypresence/nigeria.html) and have been prepared purely to explain the basis on which the bank has prepared and disclosed information about capital requirements and the management of certain 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

CNL's regulatory capital is held to ensure that sufficient loss-absorbing capital is available to meet unexpected losses and to meet minimum capital standards as set by the Central Bank of Nigeria (CBN). Under the CBN's minimum capital standards, the regulated legal vehicles are required to maintain an excess of total capital resources over their regulatory capital resources requirements. Capital resources are measured and reported in accordance with Capital Requirements Regulation. CNL is required to maintain a minimum total capital ratio of 10.0% as per CBN guidelines. CNLs total capital adequacy ratio as at Dec 2020 was 30.6% after adjusting for dividend payable.

Since the issuance of the last Pillar III disclosure document, the company's minimum regulatory capital requirements have been consistently covered by its available capital resources.

Table 2 shows the regulatory capital resources of the bank as at December 31, 2020.

Table 2: Regulatory capital resources as at December 31, 2020

Naira Million	Actual
	31-Dec-2020
Tier 1 Capital	
Opening Qualifying Tier 1 capital	107,714
Current Year Profit	42,150
Dividend paid	(24,265)
Regulatory Risk reserve	(2,781)
Sub-total Tier 1 capital	122,818
Less:	
a) 50% Investment in unconsolidated banking and financial subsidiary/associate companies	(123)
b) Deferred Tax Assets	-
Net Tier 1 capital	122,694
Tier 2 Capital Adjustments	
Additions:	
a) Impairment Provisions	
a) Fair value reserve	3,558
Deductions:	
b) 50% Investment in unconsolidated banking and financial subsidiary/associate companies	(123)
Other Comprehensive Income (OCI)	
Tier 2 capital	3,435
Total Qualifying Capital	126,129
Dividend payable	(27,398)
Total Qualifying Capital (Adjusted*)	98,732
Credit Risk	215,422
Market Risk	2,201
Operational Risk	104,987
Risk Weighted Assets	322,611
Tier 1 Capital Ratio	38.0%
Total Capital Ratio	39.1%
Total Capital Ratio - Adjusted for dividend payable	30.6%
Minimum Capital requirement **	32,261
Excess capital over Pillar 1 requirements	66,470

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 (in its circular BSD/DIR/CON/LAB/07/026) 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). In addition, SIBs in Nigeria would be required to set aside Higher Loss Absorency (HLA) or additional capital surcharge of 1% to their respective minimum required CAR. 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 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, 2020 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: Summary of Internal Capital Assessment as at December 31, 2020

SUMMARY OF INTERNAL CAPITAL ASSESSMENT	
Total Capital Requirements and Ratios - Base Case	
Citibank Nigeria Limited	**Actual**
Naira in Millions	**2020**
Tier 1 Capital	122,694
Tier 2 Capital	3,435
Total Eligible Regulatory Capital	**98,732**
Total RWA	**322,611**
Credit Risk Capital Requirement	21,542
Market Risk Capital Requirement	220
Operational Risk Capital Requirement	10,499
Pillar 1 Capital Requirement	**32,261**
IRRBB	22,178
Market risk add on	5,024
Credit Risk - Concentration Risk	2,578
Pillar 2 Capital Requirement	**29,780**
Surplus Capital over Pillar 1	66,470
Surplus Capital over Pillar 1& 2	36,690
Pillar 1 Capital Adequacy Ratio	**30.6%**
Pillar 2 Capital Adequacy Ratio	**21.4%**
Total Regulatory Capital Requirement	**10.0%**
Internal Capital Requirement (green trigger)	**12.0%**
Surplus Capital over Pillar 1 (%)	20.6%
Surplus Capital over Pillar 1& 2 (%)	11.4%
Surplus Capital over Pillar 1& 2& Internal Buffer (%)	9.4%

Total risk weighted assets closed at N322.6Bn.

Table 4: Minimum Capital requirements in respect of credit risk, market risk and Operational risk as at December 31, 2020

Risk	2020 Naira Million
Credit Risk	21,542
Market Risk	220
Operational Risk	10,499
Minimum Capital Requirement	**32,261**

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.

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' decrease

- Finance to send details to responsible department for explanation
- Finance to escalate by sending a separate email to relevant distribution list (ORM, ALCO, MANCOM, MEA Reporting Lead)
- 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' decrease.
- Finance to send details to responsible department for explanation
- Finance to escalate by sending a separate email to relevant distribution list (ORM, ALCO,MANCOM, MEA Reporting Lead)
- Treasurer to call for special ALCO to discuss the situation and how to ensure that there is no further deterioration of Capital Adequacy Ratio.
- All internal breaches to be discussed in the RRGC meeting and documented as part of minutes.

BLACK

- Regulator to 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, MEA Reporting Lead, MEA 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.
- All internal breaches to be discussed in the RRGC meeting and documented as part of minutes.

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 Governance and Management

4.1 Governance Structure and Reporting Lines

Board of Directors

Profile and Experience of the Board

The Board of Citibank comprises of an appropriately diverse group of Directors which collectively possess the technical skills, competencies and experience to deliver the best outcomes for the Bank. The Non-Executive Directors provide a broad perspective from different backgrounds and also possess an in-depth knowledge of Citibank's operations and the various factors affecting the local and international business landscape. The Board has in place a charter which states the procedures and requirements for the appointment of Directors to the Board in line with regulatory stipulations.

The Board Charter clearly states the roles, functions and powers of the board, its members and committees in accordance with the law. The Board has the power to make any decision in respect of Citibank which has not been specifically reserved for decision making by the shareholders or the Managing Director. It has the authority to fill vacancies and oversee its committees and management. It is also responsible for the Bank's compliance with applicable laws and regulations of the CBN and principles of best practice in corporate governance.

Board Composition

As at 31 December, 2020 the Board of Directors consisted of eleven members comprising the Chairman, the Managing Director, six Non-Executive Directors and three Executive Directors. Two of the Non-Executive Directors are Independent Directors, appointed based on criteria laid down by the Central Bank of Nigeria. The Independent Directors have no

shareholding interest or business relationship with the Bank. The Directors and their shareholdings are listed in the Directors' report. The Board meets at least once every quarter and is chaired by Mr. Olayemi Cardoso.

The Board consist of the following individuals:

Non-Executive Directors: Mr Olayemi Cardoso – Chairman, Mr Oyesoji Oyeleke S.A.N, Prof Hilary Onyiuke and Mr Peter McCarthy.

Independent Non-Executive Directors – Dr. Daphne Dafinone and Dr. Shamsuddeen Usman.

Managing Director: Mrs Ireti Samuel-Ogbu

Executive Directors: Mrs Funmi Ogunlesi, Mrs Nneka Enwereji, Mr. Oluwole Awotundun and Mrs Ngozi Omoke-Enyi. Mr Akinsowon Dawodu formerly the Managing Director and Chief Executive Officer, resigned from the Board in September 2020.

The Board is supported by Mrs Olusola Fagbure, the Company Secretary.

Oversight of Management by the Board

The Board monitors the execution of the strategic objectives of the Bank on a continuous basis. The Board receives quarterly updates on the performance of the Bank against set quantitative and qualitative KPIs. Board members are updated with information about the Bank's regulatory and economic environment and these are taken into consideration when discussing opportunities and threats faced by the Bank. The Board charter provides that one of the responsibilities of the Board is the formulation of policies and oversight of Management. The Board has delegated the review of Executive Management performance to the Board Nomination and Governance Committee.

Board Evaluation

The Board of Citibank is evaluated annually by an independent consultant in accordance with the provisions of Section 2.8.3 of the Central Bank of Nigeria (CBN) Revised Code of Corporate Governance (CCG) 2014.

The Code mandates an annual Evaluation of the Board and individual directors of Financial Institutions with specific focus on the Board structure and composition, responsibilities, processes, relationships, individual director's competences and respective roles in the performance of the Board.

The Board Evaluation for the year ended 31st December, 2020 was conducted by DCSL Corporate Service. DCSL's report confirmed that the Board of Citibank has complied with the requirements of the Central Bank of Nigeria (CBN) Revised Code of Corporate Governance (CCG) 2014 during the year ended 31st December, 2020. The report was presented at the Annual General Meeting of Citibank on March 25, 2021 and a copy sent to the CBN.

Board Committees

The Citibank Board has four (4) Board Committees which meet regularly. The Board has delegated some of its responsibilities to the Committees. All Committees have charters which guide their activities. These charters define the roles and responsibilities of Committee members, structure, obligations and proceedings. The charters of the committees have been approved by the Board and relevant regulators. The composition and mandate for all the Board Committees fulfil the requirements of the CBN Code of Corporate Governance. Committees are all chaired by Non-Executive Directors as specified by the Code. In accordance with the provisions of section 2.5.3 of the Code, the Chairman of the Board does not sit on any of the Board Committees.

The four Board Committees are as follows:

Risk Management Committee

Audit Committee

Credit Committee

Board Governance and Nominations Committee

Board Committees

I. The Risk Management Committee

The Risk Management Committee consists of six directors, three 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 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, are Non- Executive Directors. The Chairman 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 five 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 auditor's 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 met five times during the year.

IV. Board Governance and Nominations Committee

The Committee is made up of five non-executive directors. Two of the members of the Committee are Independent 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 Committee also reviews the charter of each board committee, succession plans and the Board performance evaluation report. The Committee met five times during the year.

General Overview

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 has also established a Global Risk and Control 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

CNL's management team consists of; Ogbu Ireti (CCO/Managing Director), Adaramola, Segun (TTS Head), Adeyemo, Adebayo (Country Treasurer and Markets Head), Muhammed, Sharafadeen (Chief Finance Officer), Enwereji, Nneka (Global Subsidiary Group Head), Fagbure, Olusola (Company Secretary), Ogunlesi, Funmi (TTS Public Sector Head, Africa) Awotundun Oluwole (Country Risk Manager), Masood Faisal (Corporate Bank Head) Oloyede, Gboyega (Country Human Resources Officer), Omoke-Enyi, Ngozi (Senior Country Operations Officer), Adetoro Aderonke (Securities Services Head), Adojutelegan Opeyemi (Country Chief Compliance Officer).

The following are the key management committees: Country Co-Ordinating Committee (CCC), Business Risk Compliance and Control Committee (BRCC), Assets and Liabilities Committee (ALCO), Legal Entity Management Committee (LEMC), Regulatory Reporting Governance Committee (RRGC), Country Senior Human Resources Committee (CSHRC), Information Technology Steering Committee (ITSC), Management Credit Committee (MCC), and Third Party Management Committee (TPMC).

4.2 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.

4.3 Risk and Controls

As CNL business strategy is inextricably linked to Citigroup's set strategy, CNL management leverages on Citigroup's global risk and control infrastructure which it supplements with local governance and risk management in the normal course of business.

In executing its strategy, CNL leverages a common framework with the rest of Citi, which ensures clear and transparent control and risk management structures and processes, whilst mapping between the whole group and its constituent parts. It also uses management information systems and governance structures designed for this purpose at a legal entity level. Its control structures have thresholds calibrated at a legal entity level to control risk in aggregate, with the use of transaction-level controls used in circumstances where:

- new activities are taking the legal entity into unfamiliar areas of risk, or
- the legal entity is approaching its resource limits in terms of risk management triggers, risk appetite, risk concentration or management span.

Amongst other risk and control infrastructure tools and governance committee used by CNL is the Managers Control Assessment (MCA), Business Risk, Compliance and Control (BRCC) Committee, Compliance and control unit, Internal Audit and Operational Risk Management.

4.4 Whistle Blowing Procedures

In line with the Bank's commitment to instill best corporate governance practices, the Bank has established a robust whistle blowing procedure that ensures anonymity for whistle-blowers. The procedures provide a clear framework for reporting suspected breaches of laws, regulations and the Bank's internal policies.

The Bank has instituted a strong whistle blowing culture among staff and also published a copy of the whistleblowing policy on its website with the aim of ensuring that all cases of irregularities are made known and addressed by the Bank. The Bank has a dedicated whistle blowing hotline and e-mail address through which stakeholders can anonymously report suspected wrong-doing. The whistle blowing platforms are accessible to all. The Chief Compliance Officer forwards quarterly returns to the Central Bank of Nigeria on all all whistle-blowing reports. All whistleblowing reports are reported to the Board Audit Committee

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

Credit risk is one of the most significant risks Citi faces as an institution. As a result, Citi has a well-established framework in place for managing credit risk across all businesses. This includes defined risk appetite, credit limits and credit policies, both at the business level as well as at the firm-wide level. Citi’s credit risk management also includes processes and policies with respect to problem recognition, including “watch lists,” portfolio review, stress tests, updated risk ratings and classification triggers.

With respect to Citi's settlement and clearing activities, intra-day client usage of lines is closely monitored against limits, as well as against "normal" usage patterns. To the extent a problem develops, Citi typically moves the client to a secured (collateralized) operating model. Generally, Citi's intra-day settlement and clearing lines are uncommitted and cancellable at any time.

The three phases of the credit process:

- Portfolio strategy and Planning – where the Bank defines its desired financial results and the portfolio strategies to achieve these results
- Credit Origination and Maintenance – where the Bank creates and maintains transactions and portfolios with characteristics that are consistent with its strategies
- Performance Assessment and Reporting - where the Bank monitors its performance for continual improvement

To manage concentration of risk within credit risk, Citi has in place a concentration management framework consisting of industry limits, obligor limits and single-name triggers. Additionally, factors like tenors and currency are also monitored.

The Risk function reviews concentration risk in order to ensure independence and effective management of the bank's exposures.

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.

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 5: Credit risk exposures relating to financial assets as at 31 December 2020

On Balance Sheet	N'000
Balances with Central Bank of Nigeria	228,445,541
Loans and advances to banks	109,525,060
Financial assets at fair value through profit or loss	231,477,737
Derivative financial instruments	28,980,537
Assets pledged as collateral	51,012,000
Loans and advances to customers	123,945,298
Fair value through other comprehensive income	224,499,428
Other assets	35,397,075
	1,033,282,676
Credit risk exposures relating to other credit commitments at gross amounts are as follows:	
Bonds and guarantees	16,429,684
Loan commitments	26,270,346
Other credit related obligations	63,315,659
	106,015,689
As at 31 December 2020	**1,139,298,366**

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 6: Credit risk exposure by Geography of counterparty

2020	Nigeria N'000	USA N'000	Europe/Other N'000	Total N'000
Balances with Central Bank of Nigeria	228,445,541	-	-	228,445,541
Loans and advances to banks	12,835,249	78,331,968	18,357,843	109,525,060
Financial assets at fair value through profit or loss	231,477,737	-	-	231,477,737
Derivative financial instruments - assets	28,325,688	654,849	-	28,980,537
Assets pledged as collateral	51,012,000	-	-	51,012,000
Loans and advances to customers	123,945,298	-	-	123,945,298
Fair value through other comprehensive income	224,499,428	-	-	224,499,428
Other assets	35,397,075	-	-	35,397,075
	935,938,016	78,986,817	18,357,843	1,033,282,676
Bonds and guarantees	16,429,684	-	-	16,429,684
Loan commitments	26,270,346	-	-	26,270,346
Other credit related obligations	63,315,659	-	-	63,315,659
	106,015,689	-	-	106,015,689
At 31 December 2020	**1,041,953,705**	**78,986,817**	**18,357,843**	**1,139,298,365**
Collateral held as at 31 December 2020	-	-	-	-

Table 7: Analysis of financial assets and liabilities by remaining contractual maturities

31 December 2020	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	228,445,541	-	-	-	-	228,445,541
Loans and advances to banks	109,016,896	-	-	508,164	-	109,525,060
Loans and advances to customers	8,259,733	49,810,632	27,228,661	31,137,860	7,508,412	123,945,298
Financial assets at fair value through profit or loss	60,448,163	44,664,482	115,470,878	12,403	10,881,811	231,477,737
Derivative financial instruments-assets	15,668,181	6,421,474	6,890,882	-	-	28,980,537
Fair value through other comprehensive income	82,492,868	138,227,111	3,746,248	33,201	-	224,499,428
Assets pledged as collateral	-	51,012,000	-	-	-	51,012,000
Other assets	27,525,544	-	-	7,871,531	-	35,397,075
Total financial assets	**531,856,926**	**290,135,699**	**153,336,669**	**39,563,159**	**18,390,223**	**1,033,282,676**

Table 8 – 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.

Dec-2020	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	-	228,445,541	-	-	-	-	-	228,445,541
Loans and advances to banks	-	109,525,060	-	-	-	-	-	109,525,060
Loans and advances to customers	65,021,710	-	-	21,601,012	25,008,390	11,749,244	564,942	123,945,298
Financial assets at fair value through profit or loss	-	10,638,806	220,838,931	-	-	-	-	231,477,737
Derivative financial instruments-assets	4,026,536	24,737,198	-	-	9,872	206,931	-	28,980,537
Fair value through other comprehensive income	-	-	224,499,428	-	-	-	-	224,499,428
Assets pledged as collateral	-	-	51,012,000	-	-	-	-	51,012,000
Other assets	-	-	-	-	-	35,397,075	-	35,397,075
	69,048,246	373,346,604	496,350,359	21,601,012	25,018,262	47,353,250	564,942	1,033,282,676
Bonds and guarantees	2,306,497	11,146,676	-	399,707	2,443,181	130,623	3,000	16,429,684
Loan commitments	2,187,721	657,442	-	11,689,866	11,152,221	111,905	471,191	26,270,346
Other credit related obligations	52,591,455	-	-	253,955	613,433	9,062,826	793,990	63,315,659
	57,085,673	11,804,118	-	12,343,528	14,208,835	9,305,354	1,268,181	106,015,689
At 31 December 2020	**126,133,919**	**385,150,722**	**496,350,359**	**33,944,540**	**39,227,097**	**56,658,604**	**1,833,123**	**1,139,298,365**

5.8 Impairment on Loans

The IFRS 9 impairment standard applies to any debt instruments measured at amortised cost or at fair value through other comprehensive income and also to off balance sheet loan commitments and financial guarantees, including:

• Investments in debt instruments measured at amortized cost. Such investments will include:

- Corporate and commercial loans

- Deposits with banks; and

- Reverse repurchase agreements and securities borrowing transactions

• Investments in debt instruments measured at fair value through other comprehensive income (FVOCI)

• All irrevocable loan commitments that are not measured at FVTPL

• Written financial guarantee contracts to which IFRS 9 is applied and that are not accounted for at FVTPL

• Lease receivables recognized , acting as the lessor, that are within the scope of IAS 17 (Leases)

• Trade receivables in the scope of IFRS 15 (Revenue contracts with customers); and

• Any other receivables (e.g.brokerage receivables)The movement on credit allowance during the year is shown below;

Expected credit loss impairment model

Credit loss allowances will be measured on each reporting date according to a three-Stage expected credit loss impairment model under which each financial asset is classified in one of the stages below:

Stage 1 – From initial recognition of a financial asset to the date on which the asset has experienced a significant increase in credit risk relative to its initial recognition, a loss allowance is recognized equal to the credit losses expected to result from defaults expected over the next 12 months. Interest is calculated based on the gross carrying amount of the asset.

Stage 2 – Following a significant increase in credit risk relative to the risk at initial recognition of the financial asset, a loss allowance is recognized equal to the full credit losses expected

over the remaining life of the asset. Interest is calculated based on the gross carrying amount of the asset. The credit losses for financial assets in Stage 1 and Stage 2 are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive).

Stage 3 – When a financial asset is considered to be credit-impaired, a loss allowance equal to the full lifetime expected credit losses will be recognized. Interest revenue is calculated based on the carrying amount of the asset, net of the loss allowance, rather than on its gross carrying amount.

Evidence that a financial asset is impaired includes observable data that comes to the attention of the Company such as:

• Significant financial difficulty of the issuer or obligor;

• A breach of contract, such as a default or delinquency in interest or principal payments;

• It becomes probable that the borrower will enter bankruptcy or other financial reorganisation;

• The disappearance of an active market for that financial asset because of financial difficulties; or

• Observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:

- adverse changes in the payment status of borrowers in the portfolio;

- national or local economic conditions that correlate with defaults on the assets in the portfolio.

Loans are written off when there is no realistic probability of recovery.

The estimation of an expected credit loss (ECL) is required to be unbiased and probability weighted, including information about past events, current conditions and reasonable and supportable forecasts of future events and economic conditions at the reporting date. The estimate also considers the time value of money.

The measurement of an ECL is primarily determined by an assessment of the financial asset's probability of default (PD), loss given default (LGD) and exposure at default (EAD) where the cash shortfalls are discounted to the reporting date. For a financial asset in Stage 1, the Group will utilise a 12-month PD, whereas a financial asset within Stage 2 and Stage 3 will utilise a lifetime PD in order to estimate an impairment allowance.

Wholesale Classifiably Managed Exposures

An impairment allowance will be estimated for Corporate loans utilising sophisticated models depending on the relative size, quality and complexity of the portfolios.

Delinquency Managed Exposures

In particular, for Consumer loan portfolios, where the Group does not have access to detailed historical information and/or loss experience, the Group will adopt a simplified approach using backstops and other qualitative information specific to each portfolio.

Other Financial Assets Simplified Approaches

For other financial assets, being short term and simple in nature, the Group will apply a simplified measurement approach that may differ from what is described above. This approach leverages existing models currently used globally for stress-testing and regulatory capital reporting purposes, but incorporates specifically developed components to make the estimates compliant with IFRS 9.

Table 9: Breakdown of Loans and Advances

2020	Stage 1 N'000	Stage 2 N'000	Stage 3 N'000	Total N'000
Loans and advances customers	124,303,530	22,313	1,997,443	126,323,286
Impairment allowance	(379,629)	(916)	(1,997,443)	(2,377,988)
Net Loans and advances	123,923,901	21,397	-	123,945,298

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 10a: Risk-weighted assets for credit risk: Standardized Approach

Figures are in millions

Exposure class	Risk Weights	Exposures Before CRM	Amount Eligible for On-BS Netting	Total Exposure After Netting	Substitution of Credit Risk Mitigation under Standardised Approach		Exposure After Treatment of CRM (guarantee & credit derivatives)		RWA of exposure after CRM	Total RWA
					Guarantees by Eligible Guarantor	Exposure Covered by CRM		Exposure after CRM		
Central Governments and Central Banks		**747,506**	**0**	**747,506**	**0**	**0**	**747,506**	**747,506**	**0**	**0**
AAA - AA-	0%	747,506	0	747,506	0	0	747,506	747,506	0	0
Supervised Institutions		**109,432**	**0**	**109,432**	**0**	**0**	**109,432**	**109,432**	**33,794**	**33,794**
AAA - AA-	20%	90,606	0	90,606	0	0	90,606	90,606	18,121	18,121
A+ to A-	50%	6,306	0	6,306	0	0	6,306	6,306	3,153	3,153
Unrated	100%	12,520	0	12,520	0	0	12,520	12,520	12,520	12,520
Corporate and Other Persons		**124,295**	**4,249**	**120,046**	**4,886**	**4,886**	**115,160**	**115,160**	**115,160**	**115,160**
Unrated	100%	124,295	4,249	120,046	4,886	4,886	115,160	115,160	115,160	115,160
Regulatory Retail Portfolio		**492**	**0**	**492**	**0**	**0**	**492**	**492**	**369**	**369**
Exposures satisfying specified conditions	75%	492	0	492	0	0	492	492	369	369
Past Due Exposures		**1,971**	**0**	**1,971**	**0**	**0**	**1,971**	**1,971**	**1,971**	**1,971**
Other than Qualifying Residential Real Estate	100%	1,971	0	1,971	0	0	1,971	1,971	1,971	1,971
Other Assets		**57,971**	**0**	**57,971**	**0**	**0**	**57,971**	**57,971**	**33,585**	**33,585**
Cash and gold bullion held in bank's own vault	0%	24,386	0	24,386	0	0	24,386	24,386	0	0
Any other assets not specified above	100%	33,585	0	33,585	0	0	33,585	33,585	33,585	33,585
Total		**1,041,667**	**4,249**	**1,037,419**	**4,886**	**4,886**	**1,032,533**	**1,032,533**	**184,879**	**184,879**

PART A: RISK-WEIGHTED AMOUNTS (OFF-BALANCE SHEET EXPOSURES)	Notional Amount	CCF	Credit Equivalent Amount (CEA) (Before Collateral)	Credit Equivalent Amount (CEA) (After Collateral)	Risk weight (%)	Risk Weighted Asset
Commitments with original maturity of up to one year.	**3,350**		**670**	**670**		**650**
Supervised Institutions (DMBs, Discount Houses, etc)	122	**20%**	24	24	**20%**	5
Corporate and Other Persons	3,227	**20%**	645	645	**100%**	645
Commitments with original maturity of more than one year.	**2,270**		**1,135**	**1,135**		**1,135**
Supervised Institutions (DMBs, Discount Houses, etc)	172	**50%**	86	86	**100%**	86
Corporate and Other Persons	2,098	**50%**	1,049	1,049	**100%**	1,049
Short-term self-liquidating trade letters of credits.	**60,440**		**12,088**	**12,088**		**12,088**
Supervised Institutions (DMBs, Discount Houses, etc)	326	**20%**	65	65	**100%**	65
Corporate and Other Persons	60,114	**20%**	12,023	12,023	**100%**	12,023
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.	**572**		**572**	**572**		**572**
Corporate and Other Persons	572	**100%**	572	572	**100%**	572
Certain transaction-related contigent items such as performance bonds, bid bonds, warrantees and stand by letters of credit related to particular transactions.	**16,433**		**8,217**	**8,217**		**8,217**
Supervised Institutions (DMBs, Discount Houses, etc)	11,166	**50%**	5,583	5,583	**100%**	5,583
Corporate and Other Persons	5,267	**50%**	2,633	2,633	**100%**	2,633
Sub Total	**83,065**		**22,682**	**22,682**		**22,662**
TOTAL OFF-BALANCE SHEET RISK-WEIGHTED AMOUNT						**22,662**

PART B: OTC DERIVATIVE TRANSACTIONS	Notional Amount	Credit Equivalent Amount (CEA) (Before Collateral)	Credit Equivalent Amount (CEA) (After Collateral)	Risk weight (%)	Risk Weighted Asset
Forwards	**637,632**	**12,753**	**12,753**		**11,383**
Supervised Institutions (DMBs, Discount Houses, etc)	85,611	1,712	1,712	**20%**	342
Corporate and Other Persons	552,020	11,040	11,040	**100%**	11,040
Swaps	**607,098**	**12,142**	**12,142**		**0**
Soverign and Central Banks	607,098	12,142	12,142	**0%**	0
Sub Total	**1,244,729**	**24,895**	**24,895**		**11,383**
TOTAL OTC RISK-WEIGHTED AMOUNT					**11,383**

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		12,142	12,142	0
Supervised Institutions (DMBs, Discount		7,471	7,471	6,082
Corporate and Other Persons		27,963	27,963	27,963
Total		**47,576**	**47,576**	**34,045**

Table 10b: Computation Risk Weighted Assets

Figures are in millions

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
	1	2	3 = 1 + 2	4	5	6 = 4 + 5
Sovereigns and Central Banks	747,506	12,142	759,648	0	0	0
Supervised Institutions	109,432	7,471	116,903	33,794	6,082	39,876
Corporate and Other Persons	124,295	27,963	152,258	115,160	27,963	143,123
Regulatory Retail Portfolio	492	0	492	369	0	369
Past Due Exposures	1,971	0	1,971	1,971	0	1,971
Other Assets	57,971	0	57,971	33,585	0	33,585
Regulatory Adjustment (Post IFRS 9 Impact Adjustment)						-2,781
	1,041,667	47,576	1,089,244	184,879	34,045	216,144

6 Market Risk

6.1 Definition and Scope for Capital Planning

Market risk is the risk to earnings or capital from adverse changes in market factors such as interest rates, foreign exchange rates, equity and commodity prices, as well as their implied volatilities and other higher order factors.

Market risk is measured through a complementary set of tools, including factor sensitivities, Value at Risk (VaR), and stress testing. Market risk is usually undertaken by the Markets and Corporate Portfolio Management divisions in CNL.

6.2 Citi Market Risk Management

Each business is required to establish, with approval from Citi's market risk management, a market risk limit framework for identified risk factors that clearly defines approved risk profiles and is within the parameters of Citi's overall risk tolerance. These limits are monitored by independent market risk. In all cases, the businesses are ultimately responsible for the market risks taken and for remaining within their defined limits.

Price risk losses arise from fluctuations in the market value of trading and non-trading positions resulting from changes in interest rates, credit spreads, foreign exchange rates, equity and commodity prices, and in their implied volatilities.

Price risks are measured in accordance with established standards to ensure consistency across businesses and the ability to aggregate risk. Price risk in Citi's trading portfolios is monitored using a series of measures, including but not limited to:

- Value at risk (VAR)
- Stress testing
- Factor sensitivity

Each trading portfolio across Citi's business segments (Citicorp, Citi Holdings and Corporate/Other) has its own market risk limit framework encompassing these measures and other controls, including trading mandates, permitted product lists and a new product approval process for complex products. All trading positions are marked to market, with the results reflected in earnings.

6.3 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 value of a Treasury bill for a one-basis-point change in interest rates. Citi's independent market risk management ensures that factor sensitivities are calculated, monitored, and in most cases, limited, for all material risks taken in a trading portfolio.

6.4 Stress Testing

Citi performs stress testing on a regular basis to estimate the impact of extreme market movements. It is performed on individual positions and trading portfolios, as well as in aggregate inclusive of multiple trading portfolios. Citi's independent market risk management organization, after consultations with the businesses, develops both systemic and specific stress scenarios, reviews the output of periodic stress testing exercises, and uses the information to assess the ongoing appropriateness of exposure levels and limits.

Systemic stresses are designed to quantify the potential impact of extreme market movements on a firm-wide basis, and are constructed using both historical periods of market stress and projections of adverse economic scenarios. Business specific stresses are designed to probe the risks of particular portfolios and market segments, especially those risks that are not fully captured in VaR and systemic stresses.

6.5 CNL - Market Risk Management

Pillar 1 Market Risk calculation covers risk of exposure in the trading portfolio and the exchange risk.

These risks pertain to interest rate related instruments in the trading book, commodities risk though out the bank, equities risk and foreign exchange risk both in the trading and banking book of financial institutions. For the purpose of this ICAAP, the risks subject to this requirement are;

- The risks pertaining to interest rate related instruments;
- Foreign Exchange Risk and commodities risk throughout the bank.

Conclusion

The Pillar 1 capital requirement for Market Risk calculated using standardized approach was NGN 220 million as at 31 December 2020 and is projected to remain flat for the forecast period.

6.6 Market Risk Pillar 2 Scope and Stress testing

Based on estimated regulatory risk appetite (10% of RWA) and internal risk appetite (12% of RWA), we have computed the required capital for Market Risk for CNL as follows:

N'million	2020 Actual
Market Risk Capital Allocation of Eligible Capital Resources	674
Market Risk Internal Capital Allocation - Market Risk Appetite	300
Market Risk minimum allocation - Regulatory	220
Excess capital over regulatory minimum	453
Excess capital over Internal CAR	374

6.8 Interest Rate Risk in the Banking Book (IRRBB)

Interest Rate Risk in the Banking Book (IRRBB) methodology looks at interest rate risk profile over the lifetime of the portfolio considering the mismatch between assets and liabilities. IRRBB has been assessed using an internal model approach, which is based on 200,000 scenarios of swap curves, calculating the 99.97th percentile. IRRBB risk capital calculation looks at all future cash flows throughout the lifetime of the portfolio and also assumes the balance sheet structure remains static over the forecast period.

Basis Risk occurs when risk mitigation transactions do not substantially match the risk profile of the underlying exposure. Basis Risk on accrual positions is the risk to earnings or capital arising from interest rates movement due to changing rate relationships between different yield curves. For example, the impact of relative changes in interest rates for financial instruments that have –

a) Either similar tenors but are priced using different interest rate reference curves (reference rate basis risk); or

b) Different tenors but the same reference curve (tenor basis risk or short-term non-parallel gap risk); or

c) Similar tenors and reference curves but in different currencies (currency basis risk).

CNL doesn't have material basis risk.

Different tenors are captured in our IRRBB model through interest rate gaps and the stress calculation uses money market curve for accrual portfolios and sovereign curve for AFS portfolios. As calculation is mapped to relevant curves, there is no material basis risk.

6.9 AFS Risk

Management has assessed that large, unexpected increases in a country's interest rates may lead to a negative impact on OCI via the AFS portfolio. AFS risk is included in IRRBB Pillar 2 Capital calculation above.

6.10 Liquidity Risk

The liquidity position of the Legal Vehicles is managed as a part of Citigroup's global liquidity risk management framework. Citigroup's Liquidity Risk Management Policy (the "Policy") establishes the standards for defining, measuring, limiting and reporting liquidity risk to ensure the transparency and comparability of liquidity risk taking activities and establishment of appropriate risk appetite. The Policy applies to Citigroup Inc., its consolidated subsidiaries and managed affiliates and was approved by both the Citigroup and Citibank N.A Chief Risk Officers and the Board of Directors. The Policy is supplemented by the Standards for Liquidity Risk Management Planning and Reporting ("The Standards") which provides guidance, templates and methodology to implement the Policy.

The Policy and the Standards are collectively referred to as the "Citi Global Framework". The Global Framework sets out the following key aspects of liquidity risk management:

- Liquidity risk appetite;
- Governance structure;
- Funding and liquidity plan;
- Stress testing;
- Contingency funding plan;
- Intra-day liquidity risk; and
- Key metrics (e.g. S2). The Highly Stressed Market Disruption scenario, also referred as S2, is Citi's primary long-term liquidity stress metric. Under S2, CNL must maintain sufficient liquidity to meet all maturing obligations within 12 months.

The Central Bank of Nigeria requires banks to maintain a statutory minimum liquidity ratio of 30% of liquid assets to all its deposit liabilities. For this purpose, liquid assets comprise cash and balances with Central Bank of Nigeria and other local banks, treasury bills, FGN Bonds, placement and money at call with other banks. Deposit liabilities comprise deposits from

customers, deposits from banks. In compliance with this directive, CNL ensures that this ratio is monitored on a daily basis.

Conclusion

As at 31 December 2020, CNL was in compliance with its internal S2 and US LCR liquidity requirements: S2 ratio was at 192%, while US LCR ratio with intercompany was at >173%.

Table 11: Market risk weighted equivalent: Standardised Approach

	N'000
Total Interest Rate Risk	125,966
Total Foreign Exchange Risk	50,110
Total Market Risk Capital	**176,076**
Calibrated Risk-weighted Equivalent Amount (A*12.5)	**2,200,949**

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. This definition of operational risk includes legal risk - which is the risk of loss (including litigation costs, settlements, and regulatory fines) resulting from the failure of the bank to comply with laws, regulations, prudent ethical standards, and contractual obligations in any aspect of the bank's business - but excludes strategic and reputation risks. Citi also recognizes the impact of Operational Risk on the reputation risk associated with Citi's business activities.

Operational risk is inherent in Citi's global business activities, as well as the internal processes that support those business activities, and can result in losses arising from events related to the following, among others:

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

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 12: 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)**						
2	Gross Income	15%	**58,773,853,258**	**51,707,899,757**	**57,498,194,143**	167,979,947,158	25,196,992,074
3	Number of years with positive annual gross income						3
4	Mean Average of Aggregate Capital Charge						8,398,997,358
5	**Calibrated Risk-weighted Amount (BIA)**						**104,987,466,974**

8 Banking Book Equity Exposures

The bank determines that financial assests fair value through other comprehensive income (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 13: Equity securities at fair values as at 31 December 2020

	N'000
Unlisted	10,638,806

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 2020 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 2020 Annual Report.